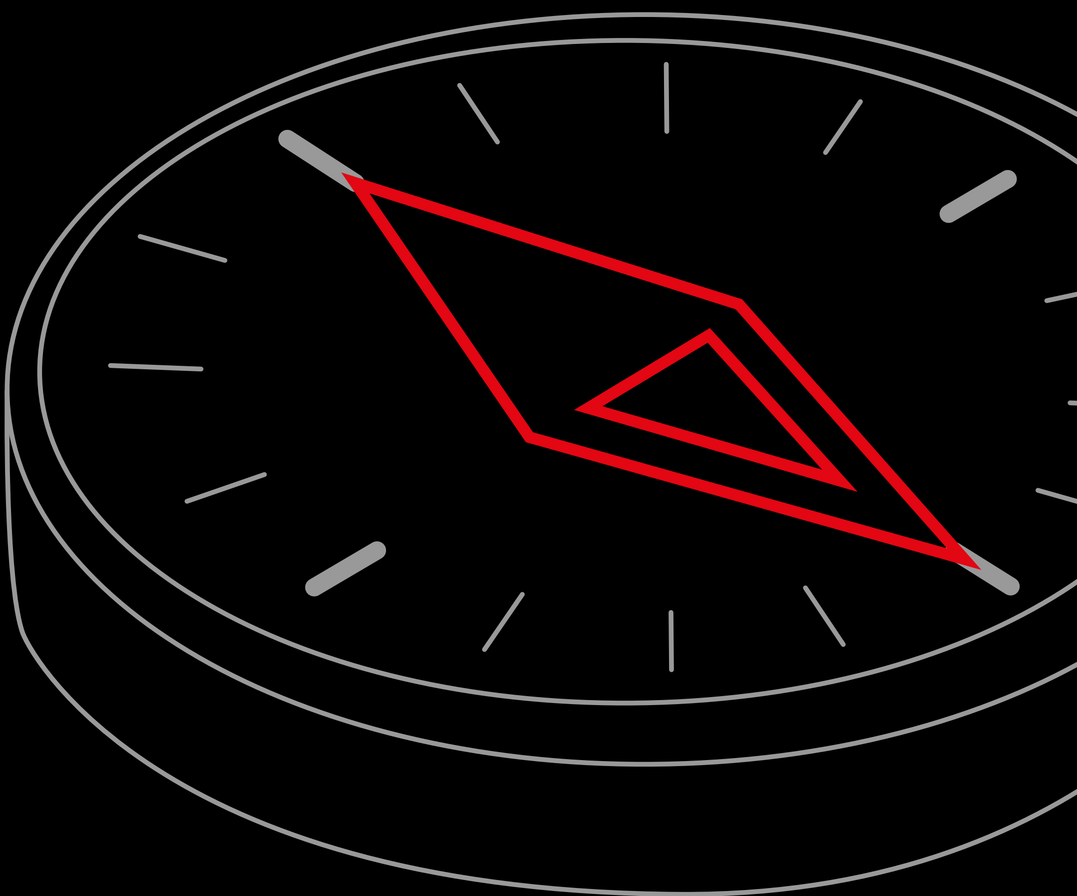
ALLANGRAY
CONTRARIAN INVESTING

STEWARDSHIP REPORT

For the period ended December 2021



ALLAN GRAY STEWARDSHIP REPORT

As a steward of our clients' capital, we recognise the importance of responsible investing. Throughout 2021, we received a significant increase in engagement from our clients seeking more information on our approach to responsible investing. This has provided us with valuable feedback on our investment activities and has helped to enhance our analysis.

Recognising that responsible investing means different things to different people, we describe Allan Gray Australia's general investment and stewardship approach, including how we consider integration, climate-related risks, modern slavery and governance issues in our Statement of Responsible Investing which can be found on our website at allangray.com.au.

This Stewardship Report outlines our stewardship activities during 2021, in order to provide a deeper understanding of our actions and our pathway forward. We have disclosed our stewardship activities across three sections:

1. integration of environmental, social and governance (ESG) factors into the investment decision
2. engagement
3. proxy voting.

Allan Gray Australia will release a stewardship report annually.

This Stewardship Report is approved by the Chief Investment Officer and Managing Director of Allan Gray Australia, who has overall oversight of, and responsibility for, the implementation of responsible investing.

"OUR ROLE AS A FUND MANAGER IS TO SEEK THE HIGHEST RISK-ADJUSTED RETURN FOR OUR CLIENTS, AND DOING SO IS INEXTRICABLY LINKED WITH ASSESSING THE SUSTAINABILITY OF THE EARNINGS OF THE COMPANIES WE INVEST IN."

– SIMON MAWHINNEY, MANAGING DIRECTOR AND CHIEF INVESTMENT OFFICER.

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OUR APPROACH TO RESPONSIBLE INVESTING IS EMBEDDED IN OUR BOTTOM-UP RESEARCH APPROACH.

OVERVIEW

OUR APPROACH TO RESPONSIBLE INVESTING

As an investment manager, we apply our contrarian, long-term and fundamental investment strategy to maximise the interests of the portfolios we manage on behalf of our clients. Our approach to responsible investing is embedded in our bottom-up research approach.

We believe that companies need to have sustainable practices across ESG factors to maintain their social licence to operate, which ensures their long-term profitability.

The importance of sustainability is clear. But assessing ESG factors is complex and rarely black or white. It can't be done without considering a range of stakeholder needs and it requires substantial judgement. As such, we strongly believe independent research is important as every company's place in society is more than the sum of its reported statistics. Like all other aspects of investing, unfortunately, best efforts and a well-guided moral compass do not yield perfect results and we continue to learn from, and adapt to, changing societal expectations.

We take our responsibilities as stewards of capital seriously and are in a fortunate position to be able to make a positive difference. Behind each of our investment decisions is comprehensive research performed by a considered analyst.

ESG assessments are integrated in our investment process from the genesis of the investment idea until we sell our last share. We take our voting rights seriously and vote on all our shares when entitled to. We are active stakeholders of our investee companies and regularly engage with management and the boards of these companies. We agitate for change where we believe it is necessary. We treat problems as our problems, not just to be passed on to a new set of shareholders. We recognise, however, that engagement can also have its limitations and, although rare, sometimes walking away is the most responsible thing to do.

As investors, we have always insisted on thinking for ourselves, taking a long-term perspective and acting in accordance with our values. Our approach to responsible investing is no different. We aspire to deliver on behalf of clients who share our belief that investing responsibly is an integral part of investing well.

IDEA GENERATION
Our investment universe includes all ASX listed securities

FUNDAMENTAL RESEARCH
ECG factors are considered when assessing our view of intrinsic value

BEST IDEAS
All research includes a section on ESG factors for consideration at Portfolio Group Meetings

PORTFOLIO REVIEWS
We are active shareholders and regularly engage with management. We vote all our shares, when entitled, and agitate for change when we believe it is necessary

INTERNAL INITIATIVES

CARBON FOOTPRINT

Allan Gray Australia is committed to being carbon neutral.

We believe that Allan Gray Australia has a responsibility to ourselves and future generations to act on climate change now. There are ways to mitigate the adverse effects of CO_2 emissions – starting with being aware of our own carbon footprint.

During 2020, Allan Gray Australia initiated a project to determine (as best we could) our CO_2 footprint based on direct (scope 1) emissions from our operations. Once identified, we worked together with South Pole – a specialist in corporate decarbonisation – to purchase carbon credits for certified emission reduction projects to cover our scope 1 estimated carbon footprint.

We are pleased to confirm that we have offset our estimated carbon footprint for 2020, and are committed to remaining carbon neutral in the years to come.

We are currently in the process of estimating our CO_2 footprint based on direct (scope 1) emissions from our operations for 2021 and we will work with South Pole again to purchase certified carbon credits to cover our estimated carbon footprint.

RELEVANT POLICIES

In implementing our ESG approach to investment research and in exercising shareholder rights, Allan Gray Australia ensures that it complies with the wider group's Code of Conduct policies, including Conflicts of Interest and Bribery and Corruption policies. The Conflicts of Interest Policy can be found **on our sister company's website**. It 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.

EXTERNAL INITIATIVES

SIGNATORY TO THE PRI

The Principles for Responsible Investment (PRI) initiative is the world's leading proponent of responsible investment which works to understand the investment implications of 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 PRI.

We are rated 'A' by the PRI for ESG incorporation and active ownership of listed equities. This relates to the 2020 reporting period, which is the latest period assessed. To read more about our approach you can download a copy of our 2020 Public Transparency Report. Future Public Transparency Reports will be made available on our website.

You can find out more about the Principles for Responsible Investing initiative, including information about the PRI assessment methodology, at www.unpri.org.

OTHER EXTERNAL INITIATIVES

We are also a member of ESG Research Australia, a not-for-profit industry working group committed to, amongst other things, encouraging broker research to account for ESG issues and raising the profile of ESG-inclusive research in the Australian investment industry.

We are wholly supportive of the goals of the Task Force on Climate-related Financial Disclosures (TCFD) and the Paris Agreement. We believe these global initiatives increase market transparency and awareness.

PRIORITIES FOR 2022

Moving into 2022, we will focus on the release of an evergreen Statement of Responsible Investing that will sit separately to this Stewardship Report. The Statement of Responsible Investing will set out our overarching policies and approach to key elements of responsible investing. We will also publish a Modern Slavery Policy, which will set out Allan Gray Australia's key approach to modern slavery and the key steps we will implement to manage the risks of modern slavery within our organisation, within our supply chain and in respect of investee companies.

Additionally, we are seeking to hire a dedicated ESG analyst, who will take primary responsibility for generating our independent ESG research which will feed into our decision making, engagements, proxy voting and ongoing consideration of investee companies.

We have accounted for the emissions of investee companies within the Allan Gray managed funds for over a decade and will continue to monitor emissions for the year ahead. This key data feeds into our decision-making process and provides us with measurable data when we are considering purchasing a stock and assessing the ongoing performance. It also allows us to accurately engage and vote based on fact.

ESG INTEGRATION

OUR APPROACH

As long-term value investors, we strive to understand the material drivers of company performance, and we have a healthy respect for the role that ESG plays in this. Our analysts must consider and integrate ESG factors into every assessment of intrinsic value.

The investment team uses a variety of traditional tools to assess ESG matters, both at the time of initial investment and on an ongoing basis during our stewardship. These include raw data from company databases, attendance at company meetings, other direct and indirect engagements and company-provided sustainability reports.

Investment thesis reports generated during the research process are submitted for robust debate and peer review.

A number of options exist where ESG concerns are unveiled during our research process. For example, we could

- reject an investment idea
- invest only when we consider the share price is sufficiently discounted so as to protect against the risk
- use a platform of ownership to proactively engage with the board and management team so as to effect change and bring about tangible societal benefits
- wait to see if management's proposals to address the ESG concerns play out.

EXAMPLES OF ESG INFLUENCING INVESTMENT DECISIONS

Tassal Group Limited

In 2021, we analysed Tassal Group Limited, a producer of farmed salmon. The environmental footprint of their salmon production, particularly with respect to waste in the ocean, suggested that a greater discount to the then prevailing share price was needed. As a result, we did not invest in the company.

An unnamed mining services company

We had concerns over capital management at one mining services company in which we are invested. In particular, the company seemed to overestimate their returns at project level because those returns never seemed to eventuate at group level. We engaged with management and board to structure better incentives and also presented to their Executive Leadership Team about our views on capital.

HOW WE THINK ABOUT ESG RISKS FACING SIGNIFICANT POSITIONS

Worley Limited

As a company that employs around 50,000 people in countries all around the world, Worley Limited's business is labour-intensive. The majority of their workforce are professionals (e.g. engineers) but there is also a large 'craft' component in some locations. Worley's projects also regularly employ contractors. As a result, the company is exposed to labour risks like modern slavery. In our interactions with the board, we came to understand that the company has procedures in place (e.g. internal audit site visits and whistle blowing) to identify any such risks, but it is a difficult endeavour. While the risk is hard to quantify, we do consider it in our valuation of the company.

OUR APPROACH TO CLIMATE CHANGE

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. As such, climate-related risks and opportunities are considered as part of Allan Gray Australia's bottom-up research process. Such risks will not always be material to our assessment of a company's intrinsic value, but where they are, for example in emissions-intensive companies we research and consider for our portfolios, we will push to understand the long-term sustainability of these companies' practices. For this reason, we have previously conducted research in several areas including: the future consumption of gas and its role in the displacement of coal; the transition risk associated with potential investments in thermal coal; and long-term trends in primary production of base metals versus recycling. Decisions to own or not own a particular company are not a function of climate change risk itself, but our assessment of price relative to value and whether we are adequately compensated for those risks.

We have long felt that share ownership is one of the best avenues of change through consultation and agitation. The 'not in my backyard' (divestment) approach often shifts responsibility towards different shareholders, some of whom, in our view, are less likely to have goals that are compatible with long-term sustainability. We believe this slows or reverses much needed change.

UNDERSTANDING OUR CLIMATE-RELATED EXPOSURES

Woodside Petroleum Limited

Woodside is an oil and gas producer and its main product is liquified natural gas sold in East Asia. Gas has half the Scope 3 emissions of thermal coal, and thermal coal is a significant source of energy in Woodside's target markets. Over 80% of the gas they sell is on long-term volume contracts with prices that generally vary with the price of oil. Like many companies in the sector, new investments in hydrocarbon assets will be heavily scrutinised. This capital discipline is likely to make existing assets ever more valuable. Woodside is also investigating and developing assets in new products and markets which are likely to help in the energy transition. For example, they are considering a number of hydrogen projects.

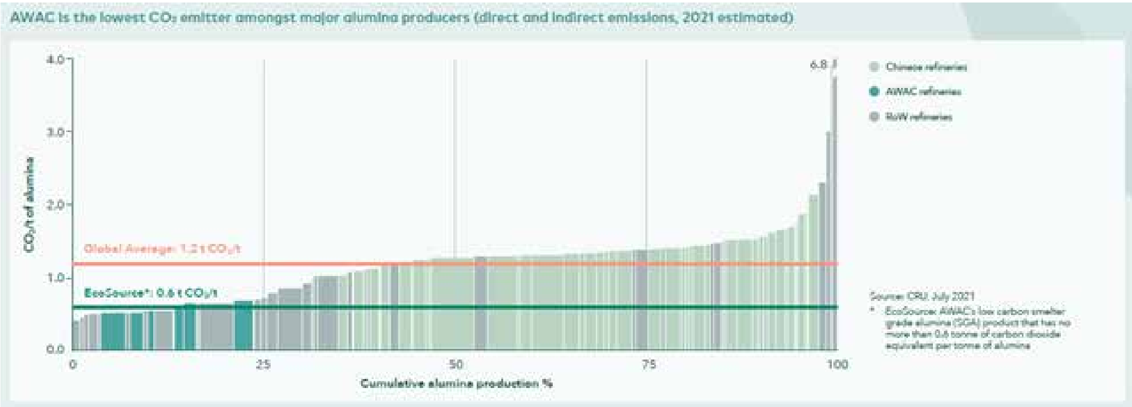
Incitec Pivot

As a significant ammonia producer, Incitec's production provides a critical input into the sustainability of the world's food bowl as well as in the mining of new age minerals necessary for a lower-carbon world. It's 2020 emission intensity of 1.9t per tonne of ammonia is lower than estimates of global average intensity of 2.5t to 2.9t per tonne of ammonia production. There are unavoidable chemical properties / outcomes that drive these outcomes under the current economic envelope in which they operate (the use of hydrogen as a feedstock would reduce this but would also significantly increase the cost of ammonia production to levels not currently affordable). Not only is Incitec currently well below the industry average, they are also proactive in their efforts to improve further: they are capturing more of the CO2 they produce, proactively investigating the use of clean hydrogen and investing in nitrous oxide abatement. They are targeting a 5% reduction in CO2 by 2026 (baseline 2020).

Alumina Limited

Like copper, nickel and lithium, aluminium is a much-needed material to help achieve the world's ambitions of a transition towards a lower carbon footprint. Alumina Limited, via its 40% interest in the AWAC joint venture, uses predominantly gas in its refining process. This is in stark contrast to the alumina refined in China and other parts of the world that is skewed towards coal and oil. This, together with the colocation of its refineries with its bauxite deposits, makes AWAC's environmental footprint attractive relative to other alumina producers. At 0.51t CO2 per tonne of alumina produced, it is amongst the lowest emitters in the world on a per unit basis, approximately half the world average and well below China's emissions. Under a scenario where Alumina Limited was divested or in some way starved of capital, which ultimately forced its closure, it is likely that this needed production would be sourced from China at a far greater cost to society in terms of emissions.

Notwithstanding the above, AWAC is dedicating resources to even greater fuel substitution. In time, increasing electricity grid renewables intensity should also assist them in achieving their stated goal of a 50% reduction in emissions by 2030 (relative to a 2010 baseline).



MODERN SLAVERY

We are strongly opposed to slavery and human trafficking and will, as part of our investment process, consider modern slavery risks that affect a company and its future earnings. Allan Gray Australia invests overwhelmingly in companies with Australian operations, although we do acknowledge that some companies may operate in high-risk jurisdictions and/or deal with high-risk industries or vulnerable populations through their supply chains. On a quarterly basis, we document the possible exposures in riskier geographies, as well as continuously engage with companies to understand what they do to mitigate risks.

The Allan Gray Australia Equity Fund has reported under the Modern Slavery Act 2018 (Cth) for the first time in 2021, however Allan Gray Australia is not required to report on its modern slavery risks under the legislation as the company's annual consolidated revenue has not met the threshold to date. As annual consolidated revenue will fluctuate from year to year, this may change in respect of future reporting periods.

The Allan Gray Australia Equity Fund modern slavery statement outlines our approach to modern slavery, which includes a risk-based assessment of our direct suppliers, independent and disciplined research in relation to investments and ongoing engagement if we identify risks.

WE BELIEVE ACTIVE ENGAGEMENT WITH A COMPANY IS CRUCIAL. NOT ONLY CAN IT PROTECT OUR INVESTMENT RETURNS, BUT IT CAN ALSO ENHANCE THEM.

OUR ENGAGEMENTS

OUR APPROACH

For us, responsible investing extends beyond the investment decision to how we behave as stewards of capital. Much of our time is spent revisiting our investment theses, actively engaging with companies on important issues and appropriately exercising our voting rights.

We believe active engagement with a company is crucial. Not only can it protect our investment returns, but it can also enhance them. To hold companies to account and to properly engage with management on the above, we must first ensure we have a thorough understanding of the company and its practices.

We track our ESG engagements as part of our continuous assessment and monitoring of companies. These engagements are recorded in our ESG Register, allowing us to track the status of the engagements and ultimately measure their impact.

ESG COMPANY MEETINGS

	Investee companies*
Total number of meetings where ESG factors were discussed	59
Environmental	9
Social	11
Governance	55

*Stocks held in the Allan Gray Australia Funds in 2021. At some meetings we discussed more than one ESG issue.

Numerous other meetings with company management or boards were also held as part of our initial and ongoing investment research process.

ENGAGEMENT EXAMPLES

Challenger Limited

As an APRA regulated insurer, Challenger's annuity business is required to maintain adequate capital levels to ensure its annuitant liabilities are met irrespective of the business cycle. This capital is invested across the asset class spectrum.

During extreme market dislocations, capital buffers can fall significantly. This is exactly what happened following the onset of Covid. To partly counteract this, Challenger sold some of its riskier and more regulatory capital-intensive investments (equities) and invested in less risky and less capital-intensive assets (very high-grade credit). This pro-cyclical approach to managing the business necessarily results in poor returns for shareholders through the cycle, as assets are sold at depressed prices and bought at inflated prices.

The above is made worse by the remuneration framework which rewards 'normalised earnings' rather than statutory earnings. Normalised earnings assume a constant return from various asset classes (e.g. equity returns of 7% p.a.) so there is no penalty for management misallocating capital at various points of the business cycle.

We have engaged extensively with the board to firstly have the company maintain higher capital buffers to negate the need for pro-cyclical capital misallocations during market dislocations, and secondly to have remuneration frameworks changed to capture actual investment returns, not theoretical constructs.

At its investor day in May 2021, Challenger announced its intention to maintain higher capital buffers, in line with our advice. We await developments on remuneration outcomes.

Sims Limited

Post their 30 June 2021 annual result and the ensuing share price weakness, we held discussions with the management team and board of Sims Limited regarding capital management and the benefit existing shareholders would derive from a share buyback. The company later announced its intention to conduct an on-market share buyback and repurchased over 2% of its then outstanding shares at an attractive price.

COLLABORATIVE ENGAGEMENTS

FAR Limited

FAR Limited, an oil and gas exploration and development company, was wrongfooted by the onset of COVID-19 and the ensuing low oil price. As a result, it found itself in the unenviable position of not being able to fund its joint venture (JV) capital calls on its sole oil development project, Sangomar, in Senegal. As a result, it ultimately sold its JV interest to Woodside Petroleum, the JV operator. The board and management were intent on using these sale proceeds to further their high-risk exploration ambitions, a significant change to FAR's corporate strategy.

We took exception to this on a number of levels. The initial purpose of the fund raising, in which Allan Gray participated, could not be pursued and it seemed reasonable to return the sale proceeds to shareholders. Their exploration strategy was incredibly risky, had limited track record of success and warranted seeking shareholder approval for this significant strategic shift. In addition, even if successful in their exploration endeavours, this would have had long dated and very uncertain payoffs with an elevated risk of becoming stranded assets. The risk of significant value destruction was too great.

The board disagreed. Allan Gray discussed this with the board and other large shareholders which ultimately saw a complete board renewal (except for MD and CEO) and the return of a significant portion of the sale proceeds. Unfortunately some funds were retained and have been invested in a now unsuccessful 'wild-cat' exploration well. Allan Gray decided to divest of its stake shortly after the capital return.

PROXY VOTING

OUR APPROACH

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

SUMMARY OF VOTES

Many votes cover routine matters and we would usually expect to support management's recommendation. But, as with any long-term relationship, at times there will be disagreement. In 2021, 14% of all votes cast were against management recommendations.

Period	Number of meetings	Votes for	Votes against	Abstentions	Votes with management recommendation	Votes against management recommendation	% against management recommendation^
Quarter 1	3	24	6	1	24	7	23%
Quarter 2	20	100	24	9	99	29	22%
Quarter 3	5	21	0	0	19	0	0%
Quarter 4	32	142	30	2	154	15	9%
2021	60	248	60	12	296	47	14%

Category	Votes with management recommendation	Votes against management recommendation	% against management recommendation^
Audit/Financials	11	0	0%
Board Related	141	13	8%
Capital Management	19	9	32%
Changes to Company Statutes	12	0	0%
Compensation	81	27	25%
M&A	2	1	33%
Meeting Administration	1	0	0%
Other	6	1	14%
SHP: Environment*	12	0	0%
SHP: Social*	9	0	0%
SHP: Governance*	2	0	0%
2021	**296**	**51**	**15%**

*SHP refers to Shareholder Proposals.

Source: Glass Lewis, Allan Gray Australia. Excludes meetings where the Allan Gray Australia Equity 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).

VOTING AGAINST MANAGEMENT RECOMMENDATIONS

Oil Search Limited

Management and the board of Oil Search Limited strongly endorsed a takeover proposal from Santos Limited which we felt significantly undervalued the company. An independent expert reached a similar conclusion on valuation grounds, but then recommended the deal on funding grounds (we disagreed with the latter issue as Oil Search Limited had a number of options). We voted against the takeover, but we were unsuccessful in thwarting it.

The proxy voting records for each of the Allan Gray Australia Funds for each quarter are accessible through our website.

Visit allangray.com.au

Call us on 1300 604 604