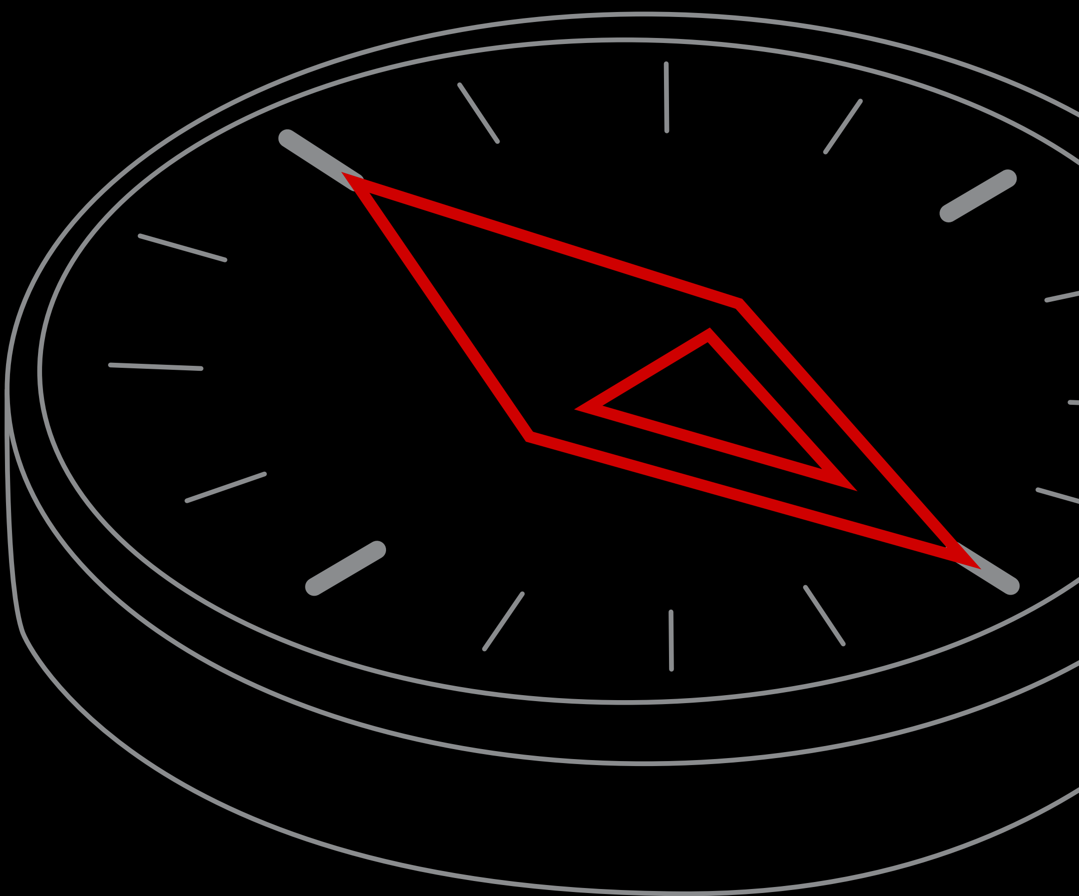
Allan Gray
CONTRARIAN INVESTING

# Stewardship report

For the period ended December 2022



## Introduction

Since the release of our first Stewardship Report in 2022, we have refined parts of our approach to responsible investment and enhanced our responsible investment resources. Importantly, however, our fundamental investment philosophy has not changed. We remain committed to always acting in a manner consistent with the long-term financial interests of our clients as a whole, and to investing in companies when we believe, because of our own assessment of their intrinsic value, that they are undervalued by the market. Consideration of ESG-related risks to a company's potential future cash flows plays an important part in our assessment of intrinsic value.

Proper evaluation of ESG risks is complex. Each company requires a nuanced approach in considering all other relevant circumstances. When making investment decisions, we focus on risks we assess to be material to the sustainability of a company's future cash flows. In accordance with our contrarian approach, this can result in us owning companies that are unfavourable from an ESG perspective alone. As explained on page 4, however, we nevertheless consider that these companies present good opportunities to achieve alpha.

As ESG issues evolve, government policy changes, and companies' approaches to ESG risks develop, so too must our approach to ESG and responsible investing. In 2022, we hired a dedicated Responsible Investment Analyst. Our Responsible Investment Analyst's role is broad and includes developing processes to assist with better integration of ESG-risk analysis in our investment process, independently analysing ESG risks to specific companies, preparing submissions to Government consultations relating to ESG issues, conducting in-depth, thematic research on topical issues and providing training and development that supports our contrarian investment style. Our report on Australian Carbon Credit Units was released in 2022, and reports on various other ESG topics are forthcoming. In 2022, one of our analysts trialed the CFA Institute's Certificate in ESG Investing.

Our approach to ESG will continue to evolve in 2023. We expect that certain geopolitical and regulatory risks will become more prevalent in our portfolio companies over the course of the year, and we will continue to monitor those risks along with other ESG risks. Thematically, we will increase our knowledge of biodiversity risks, among other things. We continue to capitalise on the collective knowledge of our global responsible investment analysts between Allan Gray Australia and the wider Orbis and Allan Gray global group with further engagement in 2023, enhancing the quarterly meetings that already occur. We look forward to sharing our ESG-related work with you over the course of the year and in our next Stewardship Report.

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.

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## Key metrics

### Investment team

1 Chief Investment Officer

2 Portfolio Managers

9 Analysts

### Investment team engagements

Total number of engagements at which ESG issues were discussed: 60

Total companies with which ESG issues were discussed: 36

**Engagements relating to:**

Environmental matters: 11

Social matters: 17

Governance matters: 56

### Most common ESG-related engagement topics

Capital allocation: 36

Remuneration: 35

Climate-related risks: 11

Modern slavery: 7

### Proxy voting

300 votes

48 meetings

## ESG integration

Our approach to ESG issues and risks is reflective of our overall approach to all other types of material risks.

Our investment philosophy is to invest in companies when we believe they are trading at a discount to their intrinsic value and therefore undervalued by the market.

We conduct our own assessment of companies' intrinsic value by determining what we believe to be the present value of potential future cash flows. This includes consideration of the risks to a company's ability to generate future cash flows, including ESG-related risks. This could be positive or negative, short- or long-term in nature. We will not invest in a company if we believe the share price is insufficiently discounted to compensate our clients for all identified material risks. On the other hand, if the share price is sufficiently discounted, we may invest in companies in respect of which we have identified significant risks to their future cash flows, including ESG-related risks. The identification and assessment of material risks may also affect the position size we are prepared to hold in a particular investment.

Primary responsibility for ESG issues lies with the sponsoring analyst of each portfolio company. When submitting a new investment idea to a Policy Group Meeting (PGM), our analysts include an ESG review in their investment thesis reports and complete an ESG risk matrix in relation to the most common types of ESG risks. Our Responsible Investment Analyst also completes a separate report on more company-specific and nuanced ESG risks. This process is designed to ensure our investment decisions thoroughly integrate consideration of ESG risks.

In completing these risk assessments, analysts consider raw data from company databases, attendance at company meetings, other direct and indirect engagements, internally generated proprietary research, Sustainalytics and S&P ESG data, third-party reports and sources, media reports and company-provided sustainability reports.

Once we decide to invest in a company, we will engage with the company in relation to any material risks we identified during the research process or that we identify through our continual monitoring of material risks. We seek to ensure the companies are addressing and minimising those material risks. If necessary, we may exercise voting rights, use our public influence (e.g., speak to the media or propose shareholder resolutions in order to try to elicit change.

**Idea generation**
Our investment universe includes all ASX-listed securities

**Fundamental research**
ESG factors are considered when assessing our view of intrinsic value by the sponsoring analyst and our responsible investment analyst

**Best ideas**
All research includes a section on ESG factors for consideration at Policy Group Meetings where it is subject to thesis defence

**Ongoing review**
We are active shareholders and regularly engage with management and the board. We vote all our shares, when entitled, and agitate for change when we believe it is necessary

Our investment process and remuneration structure are designed to align with our clients' interest in generating long-term, sustainable financial returns.

A portion of our analysts' variable remuneration is based on the financial performance of the portfolio companies they propose as investment ideas. Our analysts are therefore incentivised to identify, monitor, and, where appropriate, engage with companies in relation to any risks to future cash flows, including ESG-related risks.

## Our ESG risk matrix

A de-identified example of a completed ESG risk matrix is below. The categories of risk included on the matrix are intended to represent the most common types of ESG risk that we believe are material to portfolio companies and potential portfolio companies. **The ESG risk matrix does not include every type of ESG risk that may be material to a company's future cash flows, nor does completion of it constitute the analysts' entire consideration of ESG risks for a particular company.**

**Environment**

| GHG Emissions | | | Climate-related targets | | | | Climate-related risk | Other emissions and resources | | Green-washing |
|---|---|---|---|---|---|---|---|---|---|---|
| GHG emissions/ unit of output | WACI/ sector average | Use of offsets | Appropriate targets | Adverse consequences | Progress | Review | Exposure and preparedness | Deleterious by-products and other emissions | Water consumptions/ unit of output | Green-washing |

**Social**

| Supply chain and modern slavery | | Employees | | | Community | |
|---|---|---|---|---|---|---|
| Modern slavery | Management and audits | Employee relations and corporate culture | Employment conditions and salaries | Safety | Community relations | Charitable donations |

**Governance**

| Board | | | Senior executives/management | | Service providers | General governance | | |
|---|---|---|---|---|---|---|---|---|
| Remuneration and share ownership | Constitution | Capital allocation and prioritisation of long-term value | Remuneration | Identity of key staff | Auditor | Approach to employee transgressions | Legal and regulatory compliance | Whistleblowers |

**Note:** The size of the boxes in the matrix is not indicative of the perceived importance or magnitude of any risk. The relevant information is the colour of the boxes reflecting our assessment of the risk areas present for the company in question, with green indicating low-risk, orange indicating medium-risk and red indicating high-risk.

The ESG risk matrix will change from time to time to reflect changing circumstances.

## Examples of ESG risks raised at PGMs in 2022

ESG risks are discussed as part of broader PGM discussions. Examples of specific ESG risks we discussed in 2022 include the following:

- The relationship between a company's Chairman / CEO and key suppliers.
- The physical location of different board members, including the fact that one company's Chairman did not reside in Australia.
- The exposure of various companies to geopolitical risks relating to China (e.g., the ability to export products, supply chain disruptions).
- In relation to a materials company, whether low-emissions production is technically possible.
- Predicted future demand for office buildings with high environmental credentials.

In none of the instances mentioned above were ESG risks the only or determinative factor in the relevant investment decision.

## Other ESG-related research and submissions

In addition to considering the ESG risks specific to our portfolio companies, we carry out broader ESG-related research and monitoring activities to enhance our investment team's and clients' understanding of important issues and trends. Where appropriate, we also make submissions to Government consultations relating to ESG issues. Examples of work we carried out in 2022 includes:

- Making a submission to the Government's consultation regarding gas price caps.
- Conducting research and preparing reports on the integrity of Australian Carbon Credit Units.
- Conducting research into the economics and feasibility of carbon capture and storage. We expect our external report on carbon capture and storage to be published in early 2023.
- Conducting research into the economics and feasibility of green ammonia and fertiliser.
- Preparing a report on governance issues relating to corporate philanthropy.
- Conducting research into the usefulness and reliability of third-party, voluntary verification standards as indicators of modern slavery risk and sustainability. Findings will be used as part of our internal modern slavery training in 2023.
- Considering the potential consequences of the changes to the Fair Work Act on our portfolio companies and the broader economy.

## Key theme: Climate-related risks

### Integration in investment process

Our assessment of climate-related risks is embedded in every stage of the investment process (see the diagram on page 4). When making investment decisions, our analysts consider the extent to which identified climate-related risks may affect a company's long-term earnings potential and whether those risks are appropriately priced into the company's share price. In this way, like all other risks, our assessment of climate-related risks feeds into our assessment of a company's intrinsic value. Assessment of climate-related risks is not always straightforward and requires substantial judgment. We assess climate-related risks in light of all other relevant circumstances and facts, including counterfactual scenarios (e.g., whether the company operates a necessary service in society, emissions avoided, the role the company plays in the transition economy, what the position would be if the relevant company did not exist).

If we believe that a company's share price is not sufficiently discounted to reflect identified climate-related risks, we may reject an investment idea. If we believe a company's share price is sufficiently discounted given the identified risks, we may invest and engage with management on paths to decarbonise subject to available technologies and cost considerations.

## High-emitting companies in our portfolio

### Woodside Energy

Woodside is an oil and gas producer. Its main product is liquefied natural gas (LNG) which is mainly sold in East Asia. Over 80% of the gas sold by Woodside is sold on long-term volume contracts, with prices that generally vary with the price of
oil. Woodside is investing in some new hydrocarbon assets, as well as investigating and developing assets in new products and markets linked to the energy transition (e.g., hydrogen projects).

Despite its exposure to hydrocarbon production, we consider Woodside's stranded asset risk to be low. Woodside's hydrocarbon reserves will be depleted before 2050, around the time at which the International Energy Agency predicts demand for gas will fall off. We consider Woodside's management and board to have above average capital allocation discipline and expect the company to invest wisely as it transitions to a less hydrocarbon intensive production stream.

### Newcrest Mining

Newcrest Mining is predominantly a gold producer (with some copper by-product production). It mines approximately 2.2 million ounces of gold each year from a geographically diversified portfolio of mines. Approximately half of its production comes from its Cadia mine in NSW, Australia and its Lihir mine in Papua New Guinea.

Respect for the environment is a key pillar of Newcrest's sustainability approach. It has comprehensive targets and monitoring of its water usage, tailings and waste rock management, biodiversity impact and land rehabilitation. Newcrest has set a net zero target for its scope 1 and 2 emissions by 2050 and supports the Paris Agreement goals. Its emissions intensity (kg CO2 equivalent per tonne of ore milled) has fallen modestly since 2018 and is targeting a 30% reduction in intensity (relative to a 2018 baseline) by 2030.

### Sims

Sims, a current investee company, is a metal recycler and reasonably significant GHG emitter. However, for each tonne of steel it recycles, up to 1.8mt of GHG are avoided. This is because steel manufactured using electric arc furnaces using recycled scrap steel emits significantly less than blast furnaces that use virgin iron ore and coking coal. Despite its volume of emissions, its place in our portfolio demonstrates the importance of our counterfactual analysis: if Sims did not exist, global emissions would be greater.

### Origin Energy

Origin Energy has two main businesses: electricity and gas retailing, and an interest in Australia Pacific LNG, a producer of gas. Its electricity and gas retailing arm owns Eraring, a large coal-fired power station. Out of the 14.5mt of equity Scope 1 and 2 emissions in FY22, Eraring accounted for 10.5mt. We have been asking questions about the (financial) viability of Eraring beyond its legacy coal contracts for a number of years and have questioned whether the previously stated 2032 closure date should be brought forward. With Origin's announcement of a 2025 closure of Eraring (in the absence of some government intervention to keep it open), Origin will far exceed its target of a 40% reduction in emissions by 2030, and will be well on its way to its net zero ambition across Scopes 1, 2 and 3 by 2050.

**Santos**

Santos is an oil and gas producer. In 2022, it produced 103 million barrels of oil equivalent from its producing assets in Australia, Papua New Guinea and Timor-Leste. Santos is targeting net zero Scope 1 and 2 emissions by 2040 and a reduction in Scope 1 and 2 emission intensity of 40% by 2030. It is seeking to achieve these ambitious targets from a range of initiatives from operational efficiencies to carbon capture and storage (CCS) and direct air capture (DAC). Its Moomba CCS project is under development and use of the now depleted Bayu-Undan (Timor-Leste) field for similar initiatives is well advanced from a planning perspective. Santos is collaborating with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) on DAC.

**Alumina Limited**

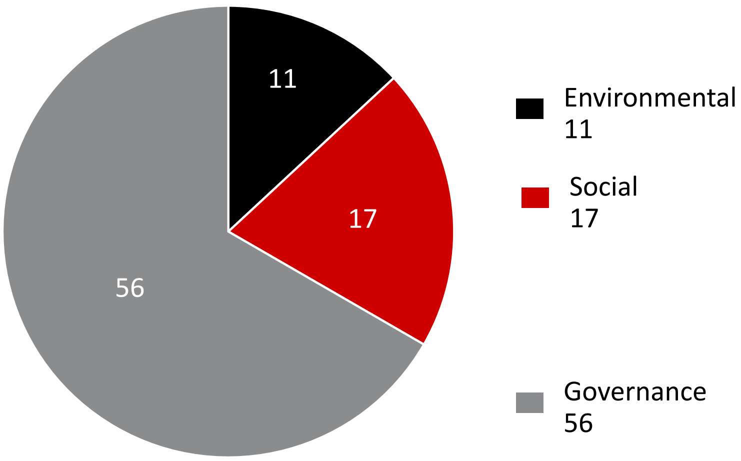
Alumina is an aluminium producer. Aluminium is an essential material for the technologies and infrastructure required for a lower carbon emissions economy. Unlike most other aluminium producers, Alumina produces aluminium using gas in its refining process, rather than oil. This, together with the colocation of its refineries with the bauxite deposits, makes the environmental footprint of the joint venture in which Alumina holds a 40% interest attractive, compared to other producers. Alumina's emissions per tonne of aluminium produced are approximately half the world average. Again, this demonstrates the importance of our counterfactual analysis.

## Engagement

Where we elect to invest in an entity, one of our key stewardship tools is company engagement. Much of our time is spent revisiting our investment theses and as a result, 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 investment returns, but it can also enhance them. To hold companies to account and to properly engage with management and/or boards on the above, we must first ensure we have a thorough understanding of each company and its practices.

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




**Breakdowns***

| | |
|---|---|
| Climate change and resilience | 11 |

| | |
|---|---|
| Occupational health and safety | 2 |
| Modern slavery | 7 |
| Workplace diversity | 1 |
| Other | 9 |

| | |
|---|---|
| Board/director related engagements | 12 |
| Capital | 36 |
| Renumeration | 35 |
| Other | 9 |

*At some meetings we discussed more than one ESG issue, so figures will not total.
Numerous other meetings with company management or boards were also held as part of our initial and ongoing investment research process, not reflected above.

Example of ESG topics that we engaged on with companies in 2022. This is not an exhaustive list of the topics discussed with each company in 2022 nor is it reflective of all of our engagements.

| Investee Companies | Key ESG Topics Discussed | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital allocation | Remunera-tion | Modern slavery | Climate and pollution | Board-related engagement | Labour | Legal and regulatory compliance | Diversity | Culture and leadership | OH&S |
| AMP | ✓ | ✓ | | | | | | | | |
| Ansell | ✓ | | ✓ | | | | | | | |
| ANZ | ✓ | ✓ | | ✓ | | | | | | |
| Challenger | ✓ | ✓ | | | ✓ | | | | | |
| Downer | | ✓ | | | | | | | | |
| Fletcher Building | ✓ | ✓ | ✓ | | | ✓ | | | | |
| G8 Capital Management | ✓ | ✓ | | | | | | | | |
| HT&E | | ✓ | | | | | | | | |
| Incitec Pivot | ✓ | | | | | | | | | |
| Inghams | ✓ | ✓ | | ✓ | | | | | | |
| Lendlease | ✓ | ✓ | | | | | | | | |
| Link Administration Holdings | ✓ | ✓ | | | | | | | | |
| Monadelphous | | ✓ | | | | | | | | |
| Monash IVF | ✓ | | | | | | ✓ | | | |
| NAB | ✓ | | | ✓ | | | | | | |
| Newcrest | ✓ | ✓ | | | ✓ | ✓ | | ✓ | ✓ | |
| Nufarm | ✓ | ✓ | | | ✓ | | | | | |
| Origin | ✓ | ✓ | | ✓ | | | | | | |
| Peet | ✓ | | | | | | | | | |
| QBE | | ✓ | | ✓ | | | | | | |
| Service Stream | | ✓ | | | | | | | | |
| Sims | ✓ | ✓ | | | ✓ | | | | | |
| Skycity | ✓ | | | | ✓ | | ✓ | | | |
| South32 | | | ✓ | | | | | | | |
| Southern Cross | ✓ | ✓ | | | ✓ | | | | | |
| Starpharma | ✓ | ✓ | | | ✓ | | | | | |
| Suncorp | | ✓ | | | | | | | | |
| TPG | ✓ | ✓ | | ✓ | ✓ | ✓ | | | | ✓ |
| Viva Energy | | ✓ | ✓ | ✓ | | ✓ | | | | ✓ |
| Virgin Money UK | | ✓ | | | | | | | | |
| Westpac | | ✓ | | | ✓ | | | | | |
| Woodside | ✓ | ✓ | ✓ | ✓ | | ✓ | | | | |
| Worley | | ✓ | ✓ | | | ✓ | | | | |

## Key theme: Capital allocation

Capital allocation was the ESG topic in respect of which we had the most engagements in 2022. We believe a board's approach to capital allocation is one of the most fundamental risks to a company's potential future cash flows. Poor capital allocation decisions and mismanagement of capital can quickly (or slowly) destroy shareholder value and we therefore monitor each portfolio company's capital allocation closely. Capital allocation is a broad topic, and our relevant engagements included:

- Capital expenditure, including proposed timing and allocation.
- Demerger and merger plans.
- The need to maintain a strong balance sheet to protect against specific future contingencies (e.g., litigation risks).
- Proposals for companies to undertake share buybacks.

An example of a successful capital allocation engagement relates to Incitec Pivot Limited. Incitec Pivot had announced plans to demerge its business into two separate explosives and fertiliser businesses. We do not think the proposed demerger is in the interests of shareholders and made public statements to that effect. We also engaged directly with the company, including with the Chairman of the board. In May 2022 we told the Chairman that we would vote against the demerger proposal. We also said it was our strong preference for the company to return capital to shareholders by way of a share buyback and by selling one of its ammonia plants and delivering the proceeds to shareholders.

In its FY22 earnings report released in November 2022, Incitec Pivot announced that it would delay its demerger decision, return AUD400m to investors in the form of a share buyback, and conduct a strategic review of one of its ammonia plants with a view to selling the asset, or at least a stake in the asset.

We are not the only investors that do not support the demerger plan and do not take full credit for the company's changed approach. However, we do believe that our strong stance against the demerger played some role in the board's decision to delay the demerger and return capital to shareholders.

## Key theme: Remuneration

Remuneration was also a key ESG engagement theme in 2022.

Not only do well structured remuneration policies help companies attract talented individuals, they also ensure that key executives (and other staff) act in the interests of shareholders. For this reason, we scrutinise companies' remuneration policies at all stages in the investment process. Factors we consider include:

- Overall pay mix (e.g., cash and shares; fixed and variable)
- Shareholding requirements
- Financial metrics
- Whether non-financial metrics actually capture behaviour not covered by financial metrics (i.e., are non-financial metrics required)
- Long-term and short-term incentives, including deferral of incentives
- The appropriateness of using external ratings for short-term incentives and long-term incentives
- Disclosure of performance

Whilst there is generally accepted 'best practice' for remuneration policies, we understand that the ideal remuneration policy likely varies between companies. For this reason, where we have concerns about the structure of a company's remuneration policy, we will first engage with the company to understand why they believe the policy is appropriate. If we are not convinced that the policy is likely to properly incentivise key individuals, we may exercise our voting rights to vote against remuneration reports.

## Key theme: Climate-related risks

### Engagement

Where we have identified material climate-related risks to a portfolio company, we will engage with that company in order to ensure that the company is taking satisfactory steps to address those risks. If, following engagement with a company, we do not believe that it is taking sufficient steps in respect of relevant climate-related risks, we may use our voting rights or make public statements in an attempt to elicit change.

We regularly interrogate the climate-related claims and targets made and set by portfolio companies, particularly where we have concerns about potential greenwashing or where we consider that some targets may not align with shareholder interests. Our assessment is pragmatic and includes evaluating, among other things, the role or service provided by the company to society (i.e., gas, electricity) and whether specific emissions reduction efforts will result in a net reduction in emissions (e.g., whether particular efforts may result in carbon leakage).

## Key theme: Modern slavery

Like climate-risks and all other ESG-related risks, our assessment of modern slavery risks is embedded at every stage of the investment process.

Although we invest overwhelmingly in companies with Australian operations, we recognise that modern slavery risks may still exist within companies' supply chains. We are particularly cognisant of the modern slavery risks that arise when companies' supply chains are in high-risk jurisdictions, involve high-risk industries, or include potentially vulnerable workers. On a quarterly basis, we document our portfolio's possible exposure in high-risk jurisdictions. We also engage with companies we consider to have a higher-than-normal modern slavery risk in order to ensure they are taking appropriate steps to monitor and respond to that risk.

An example of an investment in respect of which modern slavery risks exist is **Ansell Limited**. We invested in Ansell in late 2021. In the pre-investment research phase, the sponsoring analyst noted potential modern slavery risks within Ansell's supply chain. These issues had been identified by the company, which was already undertaking supply chain audits and implementing remediation plans. To ensure we were satisfied that the company was taking appropriate steps in relation to this issue, we engaged with Ansell's CEO and CFO prior to investing in the company. We have continued to engage regularly with Ansell's management team to ensure the modern slavery issue is being appropriately managed. For example, we have engaged on the suitability and reliability of the third-party audits used by Ansell to monitor its supply chain, and to understand how such audits were conducted during the COVID-19 pandemic.

The Allan Gray Australia Equity Fund has reported under the Modern Slavery Act 2018 (Cth) for the second time in 2022. The Allan Gray Australia Equity Fund modern slavery statement outlines the Fund's approach to modern slavery, which includes a risk-based assessment of the Fund's direct suppliers, independent and disciplined research in relation to investments and ongoing engagement regarding identified risks.

# Proxy voting

The exercise of our proxy voting rights is not only a useful engagement tool but is also essential to our role as responsible stewards of clients' capital.

When exercising our voting rights, our guiding principle is to strive to act in a manner consistent with the long-term financial interests of our clients as a whole. We consider all aspects of proposals being put to vote. This includes broader social and political ramifications, but aways 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 ability to act in a manner consistent with the long-term financial interests of our clients as a whole.

Proxy voting recommendations are the responsibility of the sponsoring analyst of each portfolio company. The alignment of part of our analysts' remuneration with the performance of their companies incentivises them to approach proxy voting recommendations in accordance with the long-term financial interests of our clients. Our analysts have access to proxy voting adviser reports, but we do not have a policy of always following the advice in those reports.

## Voting record

Many votes cover routine matters in respect of which we would usually expect to support management's recommendation. That said, there are points on which we disagree with management, and we are always prepared to exercise our voting rights accordingly, especially where we consider that a proposal is likely to destroy shareholder value.

| Period | Number of meetings | Votes for | Votes against | Abstentions | Votes with management recommendation | Votes against management recommendation | % against management recommendation* |
|---|---|---|---|---|---|---|---|
| **Quarter 1** | 2 | 26 | 5 | 0 | 25 | 4 | 14% |
| **Quarter 2** | 11 | 62 | 17 | 0 | 67 | 8 | 11% |
| **Quarter 3** | 4 | 17 | 1 | 0 | 15 | 1 | 6% |
| **Quarter 4** | 31 | 148 | 18 | 6 | 149 | 19 | 11% |
| **Total for 2022** | 48 | 253 | 41 | 6 | 256 | 32 | 11% |

Voting record in respect of the Allan Gray Australia Equity Fund

### Allan Gray Australia Equity Fund: voting record in 2022

During the year, we voted:

on **300** resolutions

**11%** against management recommen-dations

at **48** meetings

**6** abstentions

for **48** companies

| Category | Votes with management recommendation | Votes against management recommendation | % against management recommendation** |
|---|---|---|---|
| **Audit/Financials** | 10 | 0 | 0% |
| **Board Related** | 114 | 6 | 5% |
| **Capital Management** | 9 | 3 | 25% |
| **Changes to Company Statutes** | 10 | 0 | 0% |
| **Compensation** | 77 | 20 | 21% |
| **M&A** | 2 | 0 | 0% |
| **Other** | 15 | 1 | 6% |
| **SHP: Environment*** | 10 | 1 | 9% |
| **SHP: Social*** | 2 | 0 | 0% |
| **SHP: Governance*** | 7 | 1 | 13% |
| **2022** | **256** | **32** | **11%** |

*SHP refers to Shareholder Proposals.
**'% against management recommendation' refers to those votes for which management made a recommendation (i.e. not all votes).
Source: Glass Lewis, Allan Gray Australia Equity Fund. Excludes meetings where the Allan Gray Australia Equity Fund sold its shares before the meeting record date.

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

## Votes against management recommendations

### TPG Telecom

We voted against TPG Telecom's remuneration report. The 'Operating Free Cash Flow' definition (operating cash flow less capex, finance lease repayments and finance lease interest) used in the short-term and long-term incentives excludes important economic factors such as spectrum, share issuance and acquisitions. This could, to some degree, encourage TPG Telecom's management to behave sub optimally from a company perspective; and we prefer longer vesting periods overall across the deferred short-term (one-two years) and long-term (three years) incentives to encourage long-term decision-making. Our engagement regarding this was ultimately a successful one.

### Virgin Money UK PLC

We voted against Virgin's resolution seeking authority to make political donations. Although a standard resolution proposed annually by Virgin, political donations can create legal risks which may be disproportionate to any rewards gained. Our expectation is that management run the company well within the rule of law and advocate transparently through submissions and Government engagement where they consider the rule of law does not serve the company's economic interests, as opposed to sponsoring political parties with a potential to influence a party. We are opposed to any resolution that gives the authority to make political donations and the resolution was contrary to public statements made by Virgin Money.

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# Other initiatives

This Report has focused on the work we do with portfolio companies, as stewards of our clients' capital. As well as assessing the sustainability of portfolio companies' future earnings, we assess our own operations to ensure we are acting in a responsible manner. In this section, we provide an overview of other initiatives we have undertaken in relation to ESG matters.

**Carbon footprint**

Allan Gray Australia continues its commitment to being carbon neutral from a Scope 1 perspective. Since 2020, we have assessed our Scope 1 emissions on an annual basis as best we can. Additionally, where possible, we have estimated our Scope 2 emissions and our Scope 3 emissions from flights and other staff travel. As in previous years, we have offset our 2022 emissions by purchasing offsets.

In 2022, we conducted in-depth research into the integrity of the Australian Carbon Credit Units Scheme. This research also involved investigating the integrity of other carbon credit providers, the findings of which assisted in our selection of carbon credits in 2022 (to offset our 2021 carbon emissions).

**Relevant policies**

Allan Gray Australia continues to comply with the wider groups' Code of Conduct which includes policies relating to Conflicts of Interest and Bribery and Corruption. The Conflict of Interests Policy 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.

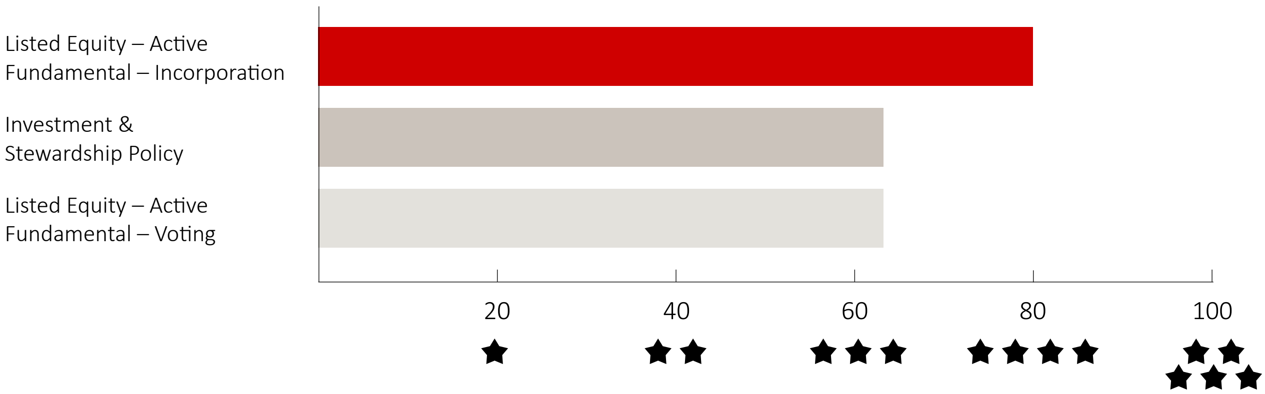
**Modern slavery**

Allan Gray Australia's annual consolidated revenue in 2022 did not meet the threshold for reporting under the Modern Slavery Act 2018 (Cth). Nevertheless, we have implemented a Modern Slavery Policy in Q1 2023.

**Principles for Responsible Investment**

The Principles for Responsible Investment (PRI) initiative is a UN-supported network of investors which works to promote sustainable investment through the incorporation of ESG factors. Allan Gray Australia became a signatory to the PRI in 2018.

**PRI rating achieved for the year ending 31 December 2021**



To read more about our approach you can download a copy of our 2021 Public Transparency report and our 2021 Public Assessment report. Future Public Transparency Reports will be made available on our website. Please note, the PRI did not conduct assessments covering the 2022 period.

You can find out more information about the PRI, including information about the PRI assessment methodology, at www.unpri.org.

**Other external initiatives**

We support the goals of the Task Force on Climate-related Financial Disclosures (TCFD) and the Paris Agreement.

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