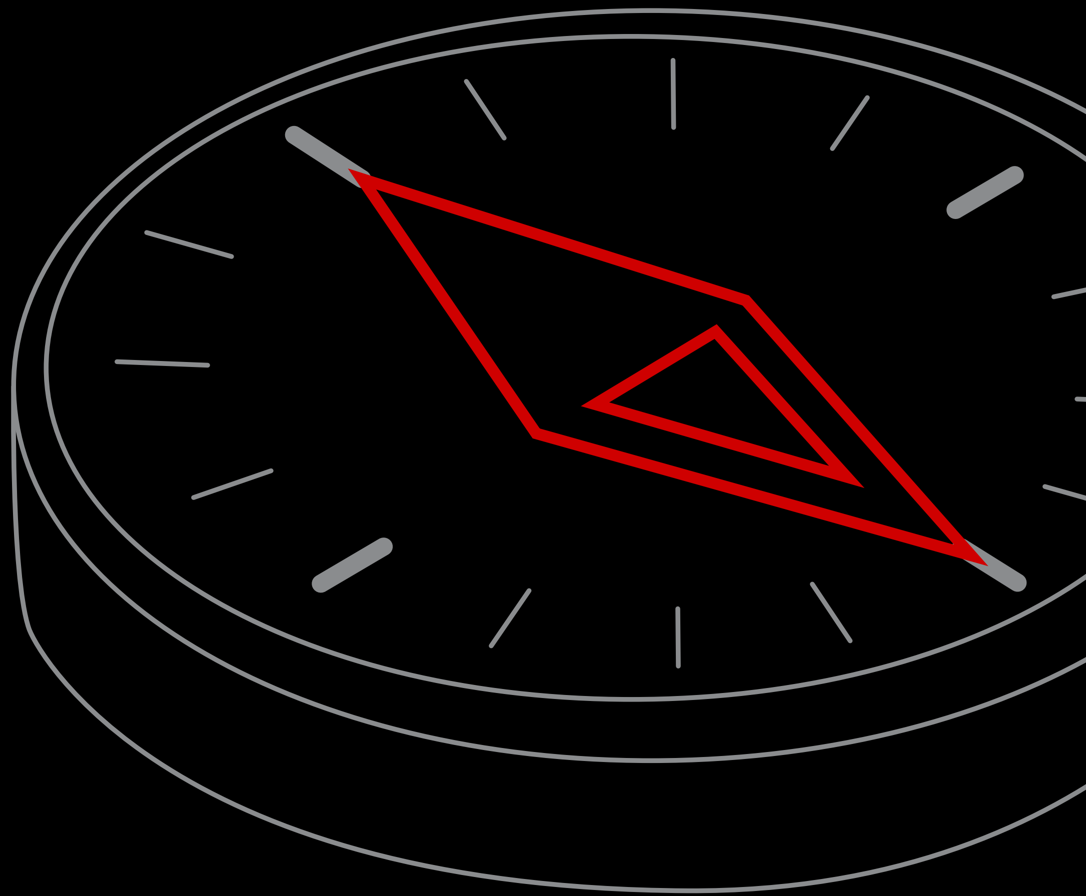
ALLANGRAY
CONTRARIAN INVESTING

Stewardship report

For the period ended December 2023



Introduction

For differing reasons, ESG issues and the way they are approached by listed companies became the subject of increased mainstream media attention. Business and politics continued to collide, and the ASX recorded a near record number of first strikes against remuneration reports in the September-November AGM season. New geopolitical crises emerged and concern about other macroeconomic factors continued to build. With so much noise, the importance of focusing on our fundamental investment philosophy and the materiality of risks to companies could not be more important.

Consideration of all risks to companies' potential future cash flows is an inherent part of our investment philosophy. Without identifying such risks and evaluating their materiality, we cannot make informed assessments of companies' intrinsic values or whether they are undervalued by the market. Moreover, monitoring companies' management of material risks and governance practices is an essential component of ensuring that our portfolio companies are acting consistently with the long-term financial interests of our clients. For these reasons, the consideration of ESG-related risks is necessarily embedded in every stage of our investment process.

In 2023, we continued to regularly engage with portfolio companies in relation to capital allocation and remuneration, being two topics that we consider to be essential to ensuring companies act in the interests of shareholders. Regulatory and legal risks, including climate transition-related risks, also proved to be significant and we expect this to be the case over the coming years. 2023 also saw the emergence of new geopolitical risks, some of which may be material to our investee companies. Given the potential widespread influence of geopolitical factors, this is also something we will continue to monitor.

This Report provides further details of our investment philosophy and the integration of ESG risk analysis into our investment process, including in respect of our engagement activities and exercise of our proxy voting rights. The Report also sets out examples of other ESG-related work and initiatives undertaken by our investment team and Allan Gray Australia more generally.

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.

ALLAN GRAY
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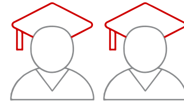
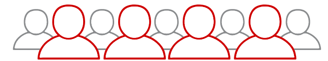
At a glance

Investment team

1 Chief Investment Officer



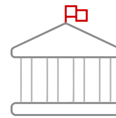
2 Portfolio Managers



9 Analysts

Investment team engagements

Total number of engagements at which ESG issues were discussed: 79



Total companies with which ESG issues were discussed: 41

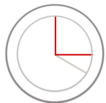
Engagements relating to:

Environmental matters: 17

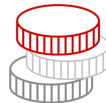
Social matters: 18

Governance matters: 65

Most common ESG-related engagement topics

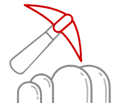


Capital allocation: 38



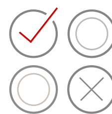
Remuneration: 31

Board of directors: 24

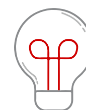


Modern slavery and labour: 12

Proxy voting



330 votes



51 meetings

Our investment philosophy

We consider that responsible investing plays an important role in our ability to generate long-term returns and maximise the value of the portfolios we manage on behalf of our clients. As long-term investors with a focus on intrinsic value, assessing the sustainability of a company's earnings is a crucial part of our investment approach.

Our investment philosophy is to invest in companies when we believe that they are trading at a discount to our assessment of their intrinsic value. In other words, we invest in companies we consider to be undervalued by the market. We assess companies' intrinsic value with reference to our calculation of the present value of their potential future cash flows. Companies' potential future cash flows may be affected, both positively and negatively, by any number of factors, including environmental, social, and governance (**ESG**) factors. We consider all risks to companies' future cash flows in the same way; by first considering materiality, and then assessing whether all identified material risks are adequately reflected in the relevant company's share price. We will not invest in a company if we do not consider that the share price is sufficiently discounted to reflect all identified material risks. If our analysis suggests that a particular company's share price is sufficiently discounted, we may invest in that company notwithstanding the identification of material risks to its future earnings, including ESG-related risks. This assessment is also the basis for whether we elect to invest in the corporate bonds of an issuer. The identification and assessment of material risks, including whether and how those risks may eventuate and how they might be managed by a company, may affect the position size we are prepared to hold in a particular investment.

Once we have invested in a company, we strive to exercise our stewardship obligations by exercising our voting rights and engaging actively with companies where we believe our efforts will best contribute to generating positive returns.

ESG considerations are not applied in respect of money market instruments and government bonds. The Orbis Group employ a similar integration process in respect of the international investments that arise in the Allan Gray Australia Balanced Fund.

ESG integration overview

ESG integration

When submitting a new investment idea to a Policy Group Meeting (**PGM**), our analysts prepare investment thesis reports (**PGM Reports**). Among other things, PGM Reports include an overview of the proposed company and the markets in which it operates, details of its past financial performance, estimates of its future earnings and financial performance, peer comparisons, broker ratings for the company, a section on material ESG-related risks, and a valuation. The consideration of material risks to a proposed company, including material ESG-related risks, is integrated throughout PGM Reports (e.g., in the discussion of the relevant markets and in estimates of future

earnings), though material ESG-risks will also be noted in the ESG section. As they fall under the "Governance" component of ESG, remuneration structure and matters relating to boards and management teams are discussed in the ESG section of PGM Reports. Alongside their PGM Reports, our analysts also complete an ESG Risk Matrix, on which they rate, using a traffic light system, the severity of common ESG-related risks to the particular company. Use of the ESG Risk Matrix enables us to ensure some level of uniformity in the ESG-related risks that are considered across different companies, similar to the way in which we generally consider the same financial metrics across different companies. Prior to PGMs, our Responsible Investment Analyst also prepares a separate report (an **ESG PGM Report**) on more company-specific or nuanced ESG-related risks. Each of these documents will be reviewed by all of our analysts prior to attending the relevant PGM, at which the investment hypothesis will be subject to scrutiny and debate. Depending on the company, nature of other material risks, and what our analysts deem most important to the relevant investment hypothesis, material ESG-related risks may be discussed at PGMs.

Examples of ESG-related risks considered in PGM Reports, ESG PGM Reports, and discussed at PGMs in 2023 (alongside other risks) include:

- In respect of a number of companies, the risks associated with certain majority shareholders, particularly when they, or their associates, are in management positions or on the board.
- The risk of poor risk management and potential legal liability resulting from a failure to comply with undertakings given to different regulators in relation to risk management practices and processes.
- The effect of recently introduced and proposed regulatory changes relating to electronic gambling machines.
- The effect of a casino operator not holding the relevant casino licences and the risk that those licences are cancelled or not handed back.
- The risk that changing societal views as to liquor consumption and gambling will create headwinds for liquor and gaming companies.
- The risk of exploitation (or the perception of it) when payment is made to socioeconomically disadvantaged groups in exchange for plasma.
- The potential legal liability of a company that may have previously used PFAS chemicals.
- The risks associated with poor cyber security management in the context of a company holding a significant amount of sensitive personal information.
- The risk of biosecurity threats to an agricultural company.
- In respect of a number of companies, the effect of the then-proposed industrial relations reforms (some of which have since been introduced).
- In respect of a number of companies, the risk of supply chain disruptions from different geopolitical events.

Two examples of when ESG risks (together with other material risks and relevant factors) influenced our investment decisions and portfolio construction in 2023 relate to **Endeavour Group** and **Bank of Queensland**.

Endeavour Group was proposed as a potential investment idea. During the research and pre-investment process, a number of ESG concerns were raised, specifically in relation to legal and regulatory matters. Among other things, we considered the effect of new and proposed regulations relating to pokies machines in different states, possible tax increases, and the consequences of potentially increased scrutiny by AUSTRAC of pubs and hotels. We also had some concerns about the focus of the Board, potential Board instability, and changing societal views towards liquor

consumption and gambling. Collectively, these factors presented some risk to the future earnings of Endeavour Group. We were of the view that all of the risks to Endeavour Group (both ESG and non-ESG related) were not sufficiently reflected in the share price and that the shares were not trading at a sufficient discount to our assessment of the company's intrinsic value, and so we did not invest in the company at the time.

On the other hand, despite also identifying a number of legal and regulatory risks to **Bank of Queensland's** future earnings, we considered that its shares were trading at a sufficient discount to our assessment of the company's intrinsic value and did invest in the company. The risks identified in relation to Bank of Queensland related to the enforceable undertakings the Bank had been required to give to both AUSTRAC and APRA, the possibility of its non-compliance with those undertakings, the then uncertainty about who would be appointed as CEO, and a perceived lack of accountability on the part of the Board in relation to past governance and legal issues.

Once we decide to invest in a company, we may engage with the company in relation to material risks we identified during the research process or that we identify through our continual monitoring of the company. 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). Details of engagements in 2023 are set out in the section below.

Other ESG work

In addition to work directly relevant to our investments, members of our investment team also carried out other work and activities relating to ESG over the course of 2023. This included:

- The investment team undertaking modern slavery training. The training was led by our Responsible Investment Analyst and legal team. The training related to identifying and evaluating key indicators of modern slavery risk.
- Making submissions to Treasury's consultations on climate-related disclosure and monitoring the progress and content of other Government consultations.
- Conducting in-depth research into CCS, including in relation to its viability and the extent to which it may contribute to any meaningful reduction of global carbon dioxide emissions.
- Undertaking a review of the geographical risk of modern slavery across our portfolio companies in accordance with our own methodology designed to overcome some of the flaws that arise from using only one index to make such assessments.
- Monitoring proposed regulatory reforms in both Australia and overseas and considering the effect thereof on different industries and companies.
- Our Responsible Investment Analyst attending an offsite with the Responsible Investment teams from Orbis and Allan Gray. Given our shared investment philosophy, this was an opportunity for Responsible Investment Analysts from each company to collaborate on ways to embed the consideration of ESG factors into investment decisions, as well as to share knowledge on discrete topics and plan for future collaborative work for the benefit of all our investment teams and clients.

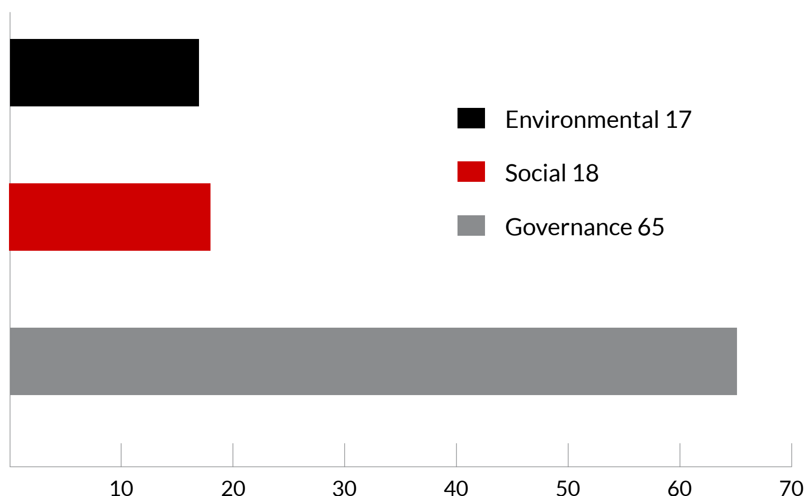
Engagement

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 issues we consider are material, and where engagement is an effective use of our time.

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.

Engagements by ESG type



Breakdowns*

Emissions and carbon tax	9
Pollution	5
Other	1
Occupational health and safety	5
Modern slavery and labour	12
Workplace diversity	4
Other	7
Board/director related engagements	24
Capital	38
Renumeration	31
Legal and Regulatory	4
Other	5

*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.

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Example of ESG topics on which we engaged with companies in 2023. This is not an exhaustive list of the topics discussed with each company in 2023 nor is it reflective of all of our engagements.

Investee Companies	ESG topic discussed with Investee Companies								
	Capital allocation	Remunera-tion	Modern slavery and labour	Emissions and carbon tax	Board-related engagement	Pollution	Diversity	OH&S	Legal and regulatory
Ainsworth Game Technology	✓								✓
Alumina									✓
AMP	✓	✓							
Ansell	✓		✓	✓				✓	
ANZ	✓	✓	✓						
ARN Media	✓								
Bank of Queensland	✓	✓							
Capral	✓								✓
Challenger	✓	✓			✓				
Charter Hall Group	✓								
Coles Group	✓								
Collins Foods Group			✓					✓	
Downer	✓	✓			✓				
Elders	✓								
Fletcher Building	✓	✓			✓				
G8 Capital Management	✓	✓							
Harvey Norman		✓			✓				
IAG	✓	✓			✓				
Incitec Pivot	✓	✓			✓				
Inghams		✓							
Jupiter Mines	✓	✓		✓					
KMD Brands	✓		✓						
Lendlease	✓	✓	✓		✓				
Link Administration Holdings	✓	✓		✓	✓	✓			
Metcash		✓							
NAB	✓			✓					
Newcrest	✓					✓			
Nufarm	✓	✓			✓				
Origin Energy	✓								
Peet	✓								
QBE		✓							

Investee Companies	ESG topic discussed with Investee Companies								
	Capital allocation	Remunera-tion	Modern slavery and labour	Emissions and carbon tax	Board-related engagement	Pollution	Diversity	OH&S	Legal and regulatory
Santos	✓	✓		✓	✓	✓	✓		
Service Stream		✓	✓		✓			✓	
Skycity		✓	✓		✓				
Southern Cross	✓	✓	✓		✓				
Star Entertainment Group									✓
Starpharma	✓				✓				
TPG		✓	✓		✓	✓	✓	✓	
Virgin Money UK			✓						
Westpac	✓	✓		✓					
Woodside		✓		✓	✓	✓			

Board and director-related engagement

Strong corporate governance is key to ensuring that companies act in the interests of their shareholders. For this reason, we consider the skills and actions of board members to be of the utmost importance. The nature of our board and director-related engagements differs depending on the relevant circumstances at play. Sometimes our engagement may simply be an information-gathering exercise in respect of new and proposed directors or the chair's views on the future of the board as a whole. For example, this year we engaged with Chairman of **Nufarm** in relation to the appointment of new directors and the Nufarm Board's investment in induction for those directors. We may also seek the views of board members in relation to matters involving other directors and executives, such as when we engaged with a director of **Harvey Norman** in relation to his non-independent status. We also often engage directly with board members in relation to matters of concern with a company (e.g., capital allocation). Other times, however, our engagement will be far more active and may involve us calling for directors to step down and, where necessary, speaking publicly or exercising our voting rights to bring about board renewal. An example of this is our engagement in relation to **Downer EDI**.

In late 2022, Downer EDI disclosed that it had become aware of accounting irregularities and issued revised earnings and guidance. The accounting irregularities meant that Downer had overstated its earnings by approximately $40 million over four years. Following these announcements, the stock price fell more than 20%.

We were of the view that these issues sat alongside broader issues within the business that had been destroying shareholder value and had serious concerns that there was no accountability on the part of the Board or management. In our opinion, the Board did not take appropriate steps to indicate that it took these matters seriously or that there would be a proper cultural re-set within the company to avoid similar issues in the future. Accordingly, at the same time as other investors, we agitated for significant change on the Board. This included meeting with Board members to express our views and speaking publicly about the issue. Ultimately, the Chairman, CFO, and one non-executive director resigned. We believe that we played a role in driving a culture of accountability within the company.

Capital allocation

As in 2022, capital allocation was again one of the topics in respect of which we had the most engagements in 2023. This is not coincidental. 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:

- Restructuring plans.
- Proposed buybacks and dividends.
- Proposed capital expenditure on specific projects (e.g., on ESG-related initiatives).
- Cost reduction plans.
- Debt levels.
- Potential mergers and acquisitions.

Remuneration

Like capital allocation, we consider that good remuneration policies are essential for maintaining and creating shareholder value. Not only do well structured remuneration policies help companies attract and retain 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. Examples of when we voted against remuneration reports in 2023 are set out in the 'Proxy Voting' section below. On the other hand, if our concerns are resolved through engagement with management, we may vote for remuneration reports in respect of which we initially had some reservations. For example, we engaged with the Chairman of **Woodside** following the Board's decision to increase the CEO's remuneration. We were told that the increase was the result of the Board considering that the CEO was performing well and being concerned that she may be poached by other companies. When meeting with the Chairman,

we expressed some displeasure about EBITDA being used as a performance metric due to the capital intensive nature of the company. In the context of Woodside, our preference would be for per share metrics and return on capital employed to be used as performance metrics in respect of incentive payments. However, some of our concerns were allayed by the fact that 80% of the CEO's variable incentive is deferred into shares, which means that the outcome is very much aligned with the interests of shareholders regardless of the poor metric. Of further comfort to us was the fact that the vesting of incentives had been lengthened by a year, meaning even more alignment of the outcome with the interests of shareholders.

Environmental and climate-related risks

Our engagements on climate-related risks in 2023 largely related to transition risks, particularly the risk to company's future earnings posed by regulatory changes and reforms, and legal risk surrounding environmental approvals.

Changes to the Safeguard Mechanism were particularly relevant for high emitting companies such as **Santos** and **Woodside**, and we engaged with each of those companies in relation to how they will meet their new obligations. In relation to **Woodside**, we discussed with the company the need for it to develop a solution for managing the carbon dioxide emissions from its Browse development and its proposed carbon capture and storage (**CCS**) project at Angel. We discussed the cost and feasibility of the project and the potential for carbon dioxide storage capacity to be sold to other entities. We also engaged with Woodside in relation to its new energy projects, and the relevant transition risks and opportunities, including as a result of regulatory changes overseas (e.g., the USA Inflation Reduction Act). We also engaged with **Santos** in relation to its CCS projects at Moomba and Bayu-Undan. We discussed with Santos its obligations under the Safeguard Mechanism, how it intends to use its CCS projects to meet those obligations, the expected costs of the projects, and the risks associated with the projects.

Both Santos and Woodside are heavily exposed to legal risk in respect of environmental approvals for new projects, both at the application stage and once approvals have been granted. In 2023, both companies faced legal challenges in respect of approvals for new project works which had been granted by the National Offshore Petroleum Safety and Environmental Management Authority (**NOPSEMA**), some of which are ongoing. Over the course of the year, we engaged with both companies in relation to how they were managing this risk including, in light of the decision of the Full Court of the Federal Court of Australia in late 2022 in *Santos NA Barossa Pty Ltd v Tipakalippa*, each company's consultation processes and their own ongoing engagement with NOPSEMA in that regard.

Another transition risk that will become increasingly relevant to portfolio companies is the risk associated with new climate-related disclosure obligations. In 2023, we had high level discussions with **Southern Cross Media** in relation to its plans to comply with IFRS Scope 2 disclosure guidelines. Given the size of the company and potential additional costs involved with such disclosure, we asked whether the company had to provide such disclosure in 2024-25, or whether it could be deferred (to avoid unnecessary additional costs). Southern Cross Media told us that it did not intend to utilise additional resources to provide such disclosures at this stage.

We also engaged with companies in relation to broader environmental-related risks. For example, we engaged with **Newcrest Mining** (a company which has subsequently been acquired by Newmont) in relation to its management of potential pollution issues at its Cadia mine and compliance notices it had received from the New South Wales Environment Protection Authority.

Consideration of climate-related risks in our investment process

As discussed above, we consider all ESG-related risks, including climate-related risks, in the same way as we consider all other risks to companies' future cash flows. When making investment decisions our paramount consideration is whether the price is sufficiently discounted to reflect all identified material risks. We therefore consider climate-related matters in the context of the potential risk they may pose to companies' earnings. Drawing from an example above, prior to the finalisation of the reforms to the Safeguard Mechanism, this involved, for companies subject to that regulation, considering whether the risk of more onerous emissions reduction obligations (in terms of cost) was reflected in the share price.

When discussing our approach to climate-related risks, we have previously discussed a counterfactual analysis (i.e., considering whether the company operates a necessary service in society, emissions avoided as a result of the company's operations, the role the company plays in the transition economy, and the like). Whilst a counterfactual analysis will be relevant to some considerations of climate-related risks (e.g., whether there is a risk of a certain industry ceasing to exist during the course of our usual investment horizon), it does not form part of every consideration of climate-related risks. In respect of some companies, a counterfactual analysis may not be relevant or necessary to our consideration and analysis of climate-related risk.

Modern slavery

As in past years, our engagement in relation to modern slavery risk was focussed on companies' monitoring and management of that risk. As demonstrated by the examples below, appropriate monitoring and management of modern slavery risk will differ by company and be informed by the specific circumstances of the risk.

Ansell

We have previously engaged with Ansell in relation to modern slavery issues identified in their supply chain, particularly in relation to forced labour in the factories of Malaysian suppliers.

In November 2023, one of our analysts visited some of Ansell's third-party supplier sites in Malaysia to get a firsthand view of the operations and the conditions of the works. Our analyst was able to see that Ansell's hostels were safe, clean, comfortable, well-maintained and not overcrowded and that its manufacturing facilities had implemented processes and safety protocols similar to what we would expect of manufacturing plants in Australia and New Zealand. Our analyst made similar observations at the manufacturing sites of Ansell's two largest suppliers of finished goods, save for the fact that workers at one facility were bare handed – an issue quickly picked up on by the Ansell representatives in attendance and reported as a safety hazard to the manufacturer.

All three suppliers told our analyst that they are on a drive to increase automation. This is because, although they believe they are currently compliant, the compliance requirements with regard to foreign workers have introduced uncertainty and risk that they would rather not deal with (e.g., the risk that future compliance requirements might introduce additional costs). However, automation will lead to job losses, the scale of which could be significant.

Overall, our analyst was of the view that Ansell has made good progress on the modern slavery issue within their supply chain and continues to improve. Whilst there are still some suppliers who are contravening Ansell's supplier management framework) Ansell told our analyst that the non-compliance suppliers are a small proportion of the overall supplier base, and that the transgression seem to be of the less egregious kind (mostly relating to overtime hours). Nonetheless, Ansell also said that it has decided to take a stricter stance and will not work with suppliers who are slow to remediate issues identified by auditors or who (based on Ansell's conversations with them) are not demonstrating seriousness in addressing potential modern slavery issues.

Collins Foods Group

We identified a possible modern slavery issue within Collins Foods' supply chain. The company had disclosed that it had identified a high-risk supplier to its European restaurants and that the SMETA audit of that supplier had identified issues relating to safety and hygiene, overtime hour limits, and a lack of an appropriate grievance procedure. The company had not, however, disclosed whether actual modern slavery had been identified.

We engaged with the company, which confirmed that there were no actual or suspected modern slavery breaches or practices by the supplier. The company explained why the supplier was categorised as high-risk, how that triggered the company's internal requirement for a SMETA audit, and how the company had performed further due diligence in relation to the supplier. We were told that the audit found no instances of actual modern slavery. The audit, which focused on reviewing the supplier's processes and controls around labour standards, workplace health and safety, environmental impact, and business ethics did, however, find that certain improvements were needed in the supplier's policies or processes. We were told that the supplier has implemented appropriate corrective actions which have been verified in a follow-up audit. We do not have details of which specific policies or processes the audit found to need remediation, but do not consider this material in light of the information we have been provided.

As a result of this engagement, we could be satisfied that there are currently no known instances of modern slavery within Collins Foods' supply chain and that the company has good processes in place for addressing potential modern slavery issues as and when they arise and making appropriate disclosures to shareholders.

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 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 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 prepared to exercise our voting rights accordingly. We tend not to vote against management unless we have had an opportunity to engage with the company in relation to our concerns. If we have not had such an opportunity before the time comes to lodge proxy votes, we will usually abstain from voting on the particular resolution. However, there may be circumstances in which we consider a resolution so likely to be destructive of shareholder value that we will vote against it without first discussing our concerns with management.

Period	Number of meetings	Votes for	Votes against	Abstentions*	Votes with management recommendation	Votes against management recommendation	% against management recommendation***
Quarter 1	4	38	6	0	38	6	14%
Quarter 2	13	85	12	8	86	17	14%
Quarter 3	2	3	0	6	3	6	33%
Quarter 4	32	140	12	20	135	32	19%
Total for 2023	51	266	30	34	262	61	19%

Voting record in respect of the Allan Gray Australia Equity Fund

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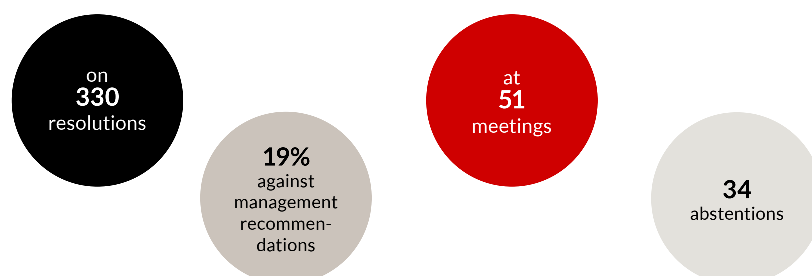
Allan Gray Australia Equity Fund: voting record in 2023

During the year, we voted:



Category	Votes with management recommendation	Votes against management recommendation	% against management recommendation***
Audit/Financials	16	1	6%
Board Related	118	19	14%
Capital Management	17	9	35%
Changes to Company Statutes	2	0	0%
Compensation	93	30	24%
M&A	2	1	33%
Meeting Administration	1	0	0%
Other	7	1	13%
SHP: Environment**	3	0	0%
SHP: Governance**	3	0	0%
2023	**262**	**61**	**19%**

* Abstentions are considered votes against management recommendations.
** 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 recommendation

Below we provide details of some of the instances in which we voted against management recommendations in 2023.

AMP

We voted against the AMP Remuneration Plan at this year's AGM. We were of the view that the plan was too heavily weighted towards non-financial metrics and that it did not have explicit targets for addressing the company's cost base. We provided this feedback to the Board of AMP.

At the release of their first half 2023 results, AMP announced that they would be changing their FY23 STI scorecard in their Remuneration Plan. The changes addressed the concerns we had previously raised. We do not take full credit for bringing about these changes, but we do consider that our vote against the company's previous Remuneration Plan and the feedback we provided to the Board played some role in the changes being introduced.

Unibal-Rodmaco-Westfield

We voted against Unibal-Rodmaco-Westfield's remuneration report. We were of the view that performance conditions should have a higher weighting to financial performance measures that are directly within the control of management. For example, 35% of the Long Term Incentive award (**LTI award**) was linked to relative Total Shareholder Return. This is a metric we view unfavourably, as it is impacted by too many factors over which management has no influence. We also considered the 20% weighting of emissions and equality targets in the LTI award to be too high. Finally, the LTI award included the issue of a significant number of options, which give management very different economic exposure to ordinary shareholders. These concerns were exacerbated by Unibal-Rodmaco-Westfield's high level of gearing, which we considered likely to increase the volatility of its share price. For these reasons, we did not consider that the Unibal-Rodmaco-Westfield's remuneration structure aligned the interests of key management personnel with the interests of shareholders, and so we voted against the report.

Additional matters

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.

Climate-related disclosures

We have been monitoring the regulatory developments relating to mandatory climate-related disclosures. In 2023, we made submissions to two Treasury consultations in relation to the proposed introduction of mandatory climate-related disclosure laws. Our position, which was set out in our submission to the first consultation, is as follows:

- We do not agree that mandatory climate-related disclosure rules are necessary to maintain or increase Australian companies' access to capital. Australia's existing continuous disclosure laws ensure investors have access to the information they require to make informed investment decisions.
- Even if it is not accepted that the continuous disclosure obligations are sufficient, the climate-related information voluntarily disclosed by most companies is preferable and more useful to investors than what would be required under a mandatory, standardised regime.
- There are significant costs and risks associated with the proposed climate-related disclosure regime which we consider are not outweighed by correspondent benefits to investors.
- If, notwithstanding such concerns, a mandatory climate-related disclosure framework is introduced in Australia, it should be introduced on a comply or explain basis in order to minimise the associated risks and costs.

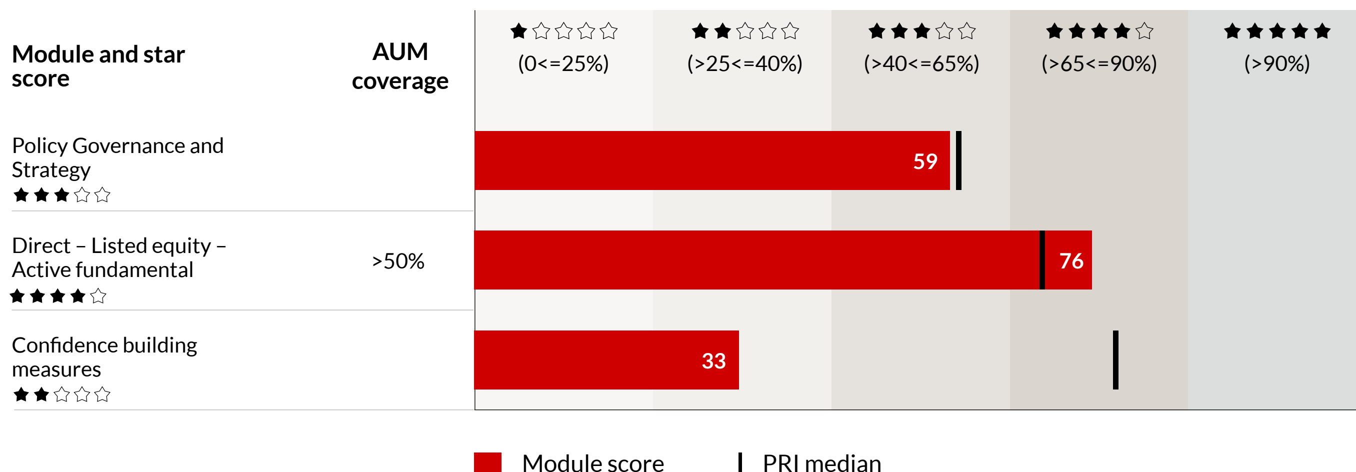
Our submission to the second consultation was narrower and related only to our concerns with applying the civil penalty regime to the proposed climate-related disclosure obligations.

At the time of writing this Report, consultation regarding the draft exposure legislation is ongoing. Based on that draft, and other consultation materials, we do not presently expect that the Allan Gray Australia Equity Fund will fall within the first group of companies required to comply with those obligations. We are aware that we may need to respond to requests for information to assist client reporting entities from the 2024-2025 financial year. Despite the likelihood that Allan Gray Australia Equity Fund's reporting obligations will not commence immediately, considerable work will be necessary to ensure we are able to comply with the relevant obligations when required.

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 2022



To read more about our approach you can download a copy of our Public Transparency report and our Summary Scorecard. Future Public Transparency Reports will be made available on our website.

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

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 2023 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 which is due for annual review in 2024.

The Allan Gray Australia Equity Fund has reported under the Modern Slavery Act 2018 (Cth) for the third time in 2023. 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.

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