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Oldfield Partners

Proxy voting and company engagement report

Q3 2023

October 2023

Engagement Report

This quarter our climate related engagements focused on airlines in both developed and emerging markets. In addition to the company specific engagements listed below, we spoke to the Aviation Environment Federation who campaign for aviation's impacts on people and the environment to be brought within sustainable limits. Historically, the industry has been heavily unified, and our objective was to better understand the interaction with global bodies such as the UN ICAO (International Civil Aviation Organization) and IATA (International Air Transport Association), that strongly influence the industry's direction.

Copa Holdings

In August we engaged with Copa Holdings, a leading Latin American airline operating out of Panama. They shared with us that they have set a target for net zero by 2050 and we discussed how they might achieve that. Their Boeing 737 aircrafts give them a fuel efficiency and cost advantage versus peers. They highlighted that the transition to sustainable aviation fuel is even more problematic in Latin America given the lack of supply but remains critical to the industry's transition. This aligns with feedback from other discussions. Encouragingly however, the firm has already completed a successful test flight using SAF in California. Encouragingly, Copa's main regional competition have also committed to net zero. We continue to monitor this space, particularly in relation to any legal requirements on SAF blend (the UK for example has outlined a 10% blend requirement by 2030).

Embraer

In September we engaged with Embraer, a Brazilian domiciled aircraft manufacturer. The objective was to further establish the financial challenges and opportunities facing the firm as airlines set targets to decarbonise their operations. Embraer's approach to support the industry's transition incorporates several elements, including all aircraft that are enabled to use biofuel, the firms' E2 generation of commercial aircraft which are materially more efficient, and the firm is developing hydrogen fuel enabled aircraft through the Energia Program. Its exposure to Eve, a US listed electric vertical take-off and land (eVTOL) firm, will likely benefit from the energy transition. We have been invited to their 2023 strategy day, where they will provide a more comprehensive outline.

Southwest Airlines

Our previous discussion with Southwest Airlines in November 2022 was constructive, however we emphasised the need to formalise net zero transition targets and to work with a third party to verify their science-based alignment. We were pleased to note progress when we spoke to the team again this August, with a 2035 carbon intensity reduction target pending submission to the Transition Pathway Initiative (TPI). They shared that they had felt more confident to commit to a formal target based on the support given to sustainable aviation fuel (SAF) in the Inflation Reduction Act. They consider SAF to be the most impactful lever to support decarbonisation and continue to engage with government, largely through their trade association of Airlines for America (A4A) and are investing in a number of SAF start-ups, to support its production. With productive dialogue, we will continue our annual updates with the team.

<u>Biodiversity</u>

Attention continued to build on biodiversity in September with the launch of The Taskforce on Nature-related Financial Disclosures (TNFD) and Nature Action 100, a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. This quarter we include examples of early stage engagements as we begin to explore the topic with investee companies.

Bayer

Bayer are a corporate member and contributor to the TNFD. During an engagement with them in August, our objective was to better understand the EPA's investigation into the impact of glyphosate on endangered species. In 2021 the EPA (Environmental Protection Agency) published findings that suggest that glyphosate is "likely to adversely affect" 93% of endangered species and 96% of designated critical habitat. Bayer informed us that the results had been referred to the Fish and Wildlife Service and he National Marine Fisheries Service and that the timelines for completion of the Biological Opinion for glyphosate is estimated to be a couple years from now. This is an ongoing engagement as we continue to explore the details with them, including application and run-off rates. We look to our recent commitment to Nature Action 100 as a potential avenue for collaboration with other investors.

Buenaventura
In September we spoke to Buenaventura, a Peruvian mining firm extracting gold, silver and copper. The objective was to encourage greater disclosure around key environmental and social metrics. Mining as a sector has historically been fraught with accidents, creating long-tail economic liabilities even once a mine is closed. The firm is improving disclosure including the commitment to setting near-term carbon reduction targets for 2025. They noted that they have a long track-record of positive community relations which is evidenced by the ongoing approval of their work. Regarding the impact on biodiversity, management note that they operate in areas that are typically at high-altitude, and therefore far less biodiverse than mines in other areas of Latin America (notably Brazil). No immediate follow-up, although we await details of the firm's carbon reduction plan.

MUFG
In a bi-annual meeting with the CFO, amongst other topics we covered the ongoing issue of cross-shareholdings, an update on their target setting for scope 3 emissions and introduced the subject of financing for palm oil. Having written to inform them in Q2, we re-iterated that we had voted against the Chairman and President to signal our disapproval of the level of cross-shareholdings still held (26.4% of net assets). Elsewhere, their target setting for financed emissions continues in line with their commitment to NZBA with finalisation of all sectors by June 2024. They emphasised that the key to making progress on targets would be through dialogue and evolution with their clients. Finally, we raised the topic of the introduction of criteria to certify sustainable sourcing of palm oil, in order for clients to achieve financing. Mr Yonehana confirmed that they are involved in discussions to establish guidelines with more global alignment and are navigating the balance between an ideal and the reality. They are looking to formalise their approach here and we look forward to our continued dialogue with MUFG's senior management on the topic.

Governance

LG H&H
During a discussion with LG H&H, we reiterated our disappointment with their capital allocation strategy, maintaining a significant cash balance with limited interest in repurchasing preferred shares which trade at a significant discount. We had also noted sizeable cost allocated to donations in 2021 and asked them to provide further clarity on both where this had been allocated and their expectation of this going forward. They explained that LG H&H donates cash as well as the company's products. In 2021, with an excess inventory of face masks, they decided to donate these which took them above the upper limit of what they would typically expect. They stated that donations include those for ESG purposes from multiple subsidiaries. This is something that we will continue to monitor.

Southwest Airlines
In August we followed up with the company on the topic of female representation on the Board which we had raised last year and again around the AGM. We wanted to understand why the company had set diversity targets for 2025 throughout the organisation but not at the Board level.
The company repeated that they remain focused on this, despite not committing to a target. Having paused Board refreshment during COVID this is now a priority. They look at diversity in many forms, including diversity of industry, function etc. With the recent appointment of 2 female Board members, increasing female representation to 21%, we reiterated the optimal target of 30% but are encouraged by their consistent message and look to see further evidence of this in their near-term appointments.

Additional Emerging Market Engagements

Orbia

This quarter we engaged with Orbia, a Mexican multinational chemical company producing products along the PVC supply-chain. The objective was to better understand its environmental impact relative to competition (namely China) and any financial risk to the firm in the transition. PVC production is an energy intensive process requiring a range of raw material inputs and the firm argue they are substantially less carbon intensive than the majority of global supply. While most of the industry use coal as a feedstock when producing PVC, Orbia use gas which has a far lower environmental impact. The firm is seeking to be net zero carbon scope 1 and 2 by 2050 with a reduction target to halve GHG emissions by 2030. This does not impact the firm's economics, and indeed there is some opportunity as the far less efficient supply out of China is shuttered on environmental grounds. No immediate actions at this point.

Ternium

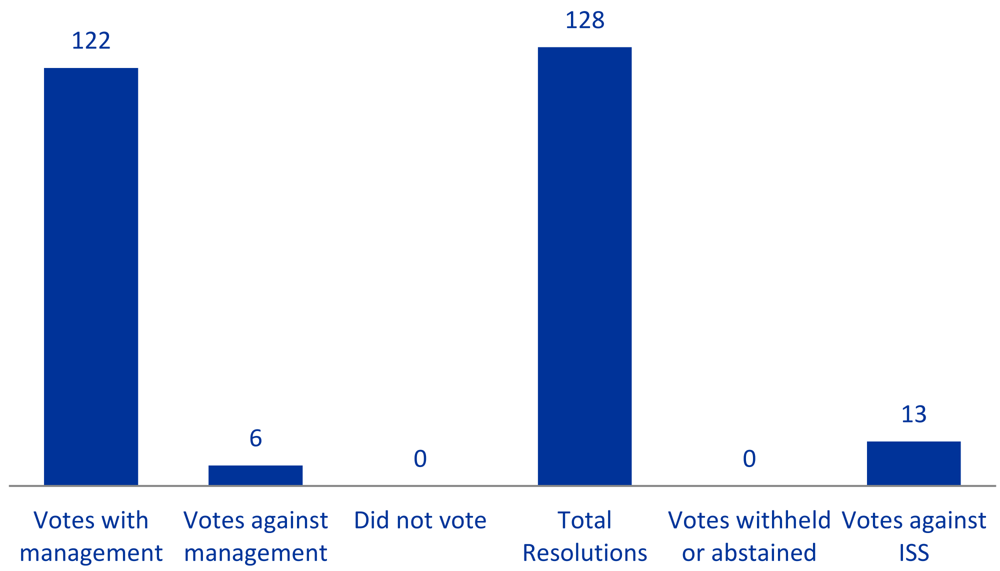
We engaged with Ternium, a Mexican based steel production company. The objective was to understand how the carbon intensity of production would evolve given the current investment program. Steel production is a highly carbon intensive process, and tightening policy in certain geographies is likely going to affect industry economics. The firm has a higher level of electric arc furnace production relative to blast furnace when compared to the industry, and all new planned investment is for electric arch. The distinction here is important, as electric arch production is materially more environmentally friendly. We will continue to monitor policy and both the risk from carbon taxes, and the opportunity from potential premium of green steel.

Voting Summary *

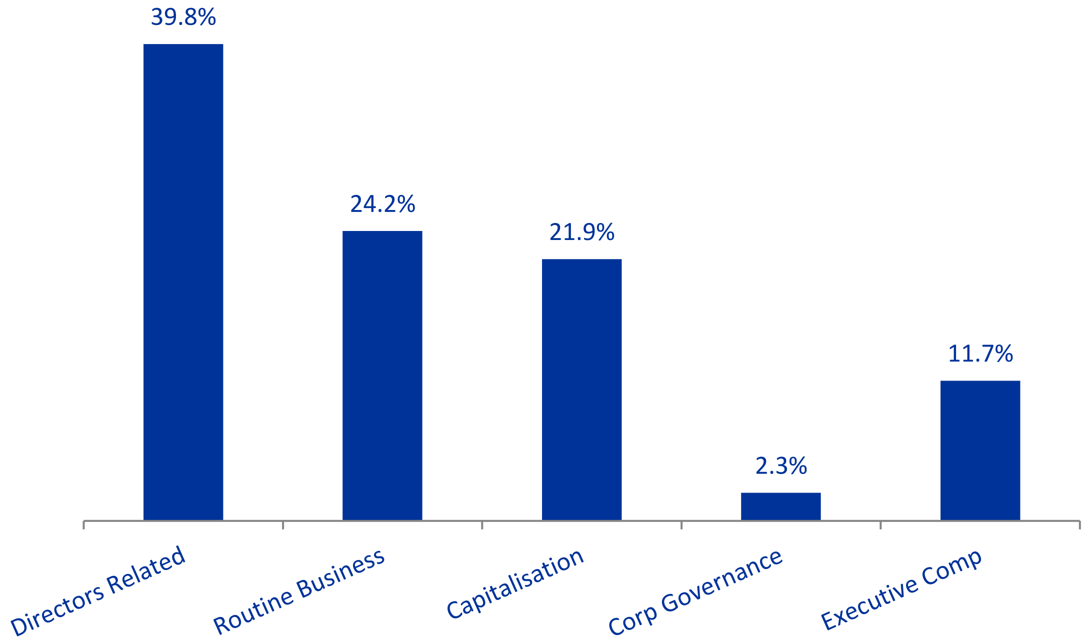
Total meetings available	=	10
Meetings instructed	=	10
Number of resolutions	=	128
Did not vote	=	0

**For clients who have delegated voting authority to Oldfield Partners.*

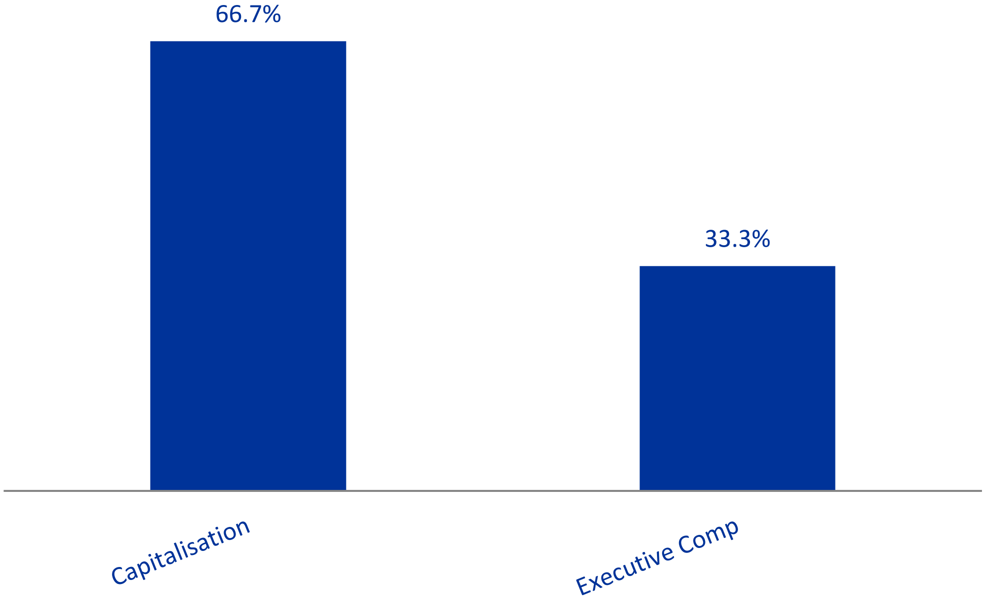
<u>Vote Instructions</u>



<u>Breakdown of Resolutions</u>



Breakdown of Votes Against Management



Commentary on votes against management

There were 6 votes against management in Q3 2023, 5 of which relate to BT Group and 1 of which relates to Alpha Services. We classify the former as a meaningful vote and include further detail below.

- Approve Remuneration Report
- Approve Remuneration Policy
- Authorise Issue Equity
- Authorise Issue of Equity without Pre-emptive Rights
- Authorise Issue of Equity without Pre-emptive Rights in Connection with an Acquisition or Other Capital Investment

We have noted on many occasions previously that BT's compensation structure is not aligned with shareholders. The financial characteristics focus on Adjusted EBITDA and Normalised Free cash flow with heavy adjustment for expenses which we deem to be ongoing.

In addition to poor alignment of the compensation structure and general concerns about alignment of the board and management, we also voted against allowing the company to issue equity. Although we recognise this is within recommended limits, lack of alignment gives us cause for concern as to when management would use this right.

We have been voicing our concerns to the company consistently over a number of years now, including earlier in 2023 during a discussion with the Chair of the Remuneration Committee as part of their triennial review of the Remuneration Policy. We consider this to be an ongoing engagement and will continue to advocate for a policy that creates what we perceive to be stronger alignment with shareholders.