OP

Oldfield Partners

# Proxy voting, ESG and company engagement report

# Q4 2022

January 2023

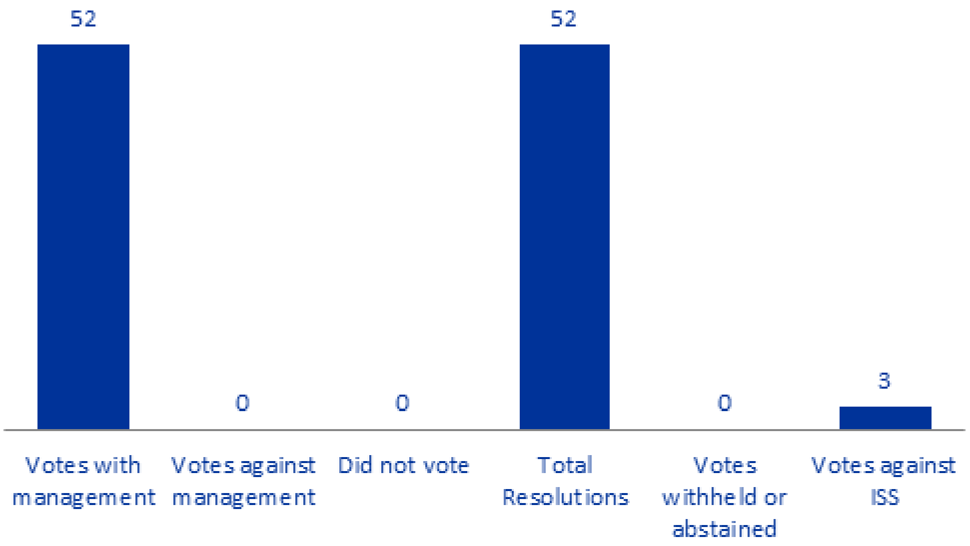
Breakdown of Votes Against Management and ISS

**Voting Summary ***

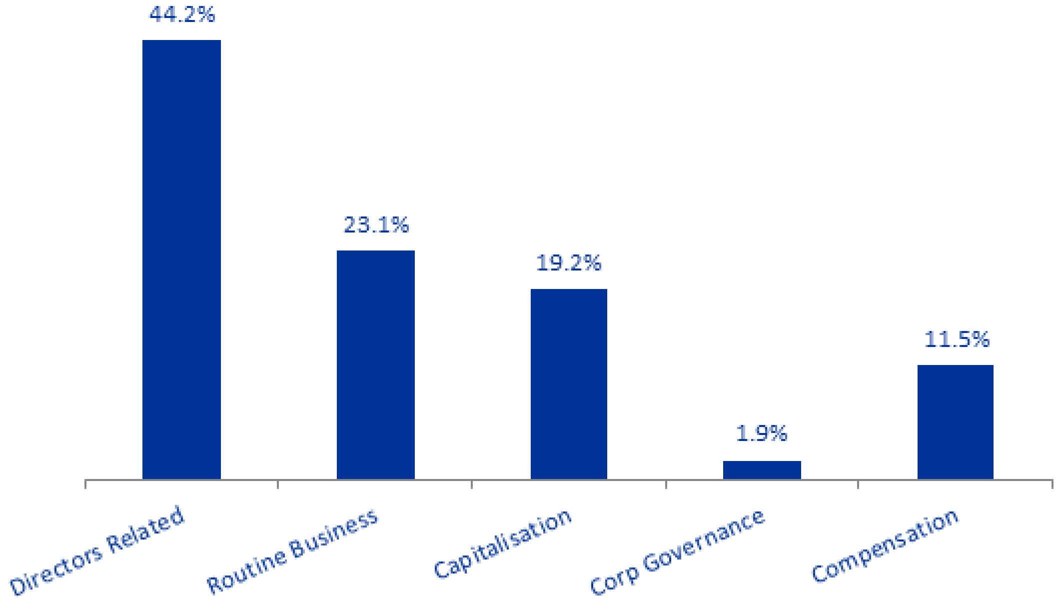
| | | |
|---|---|---|
| Total meetings available | = | 8 |
| Meetings instructed | = | 8 |
| Number of resolutions | = | 52 |
| Did not vote | = | 0 |

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

Vote Instructions




Breakdown of Resolutions



Breakdown of Votes Against Management and ISS

There were no votes against management in Q4 2022.

**Commentary on voting against ISS**

There were 3 votes against ISS in Q4 2022.

Fraser Group – Approve Remuneration Report
ISS recommended voting against the remuneration report due to the potential high pay-out to Michael Murray which would be received if the current share price of £6.40 reaches £15 by October 2025. Frasers Group has always had an unconventional approach to remuneration focused on performance, which we support. Michael Murray's current pay packet of £1m seems reasonable when compared to peers and in relation to the size of the business. We therefore voted in support of this resolution.

JD Wetherspoon – Re-elect Tim Martin as Director
Against ISS's recommendation, we voted for Tim Martin because we consider him an (if not the most) important factor in Wetherspoon's success and a major asset in its future success. We addressed highlighted concerns on gender diversity at the AGM in November with more detail in the following engagement report.

JD Wetherspoon – Re-elect Debra Van Gene as Director
We voted for Debra Van Gene because we think her experience is an important asset to the board and to the company. The above comments related to gender diversity also apply.

**Engagement Report**

**Climate Engagement**
Across our engagements, we continued to prioritise companies with a high impact on real world emissions and during the quarter coupled this with a sector approach, with a focus on airlines.

**Airlines**
Under the guidance of SBTi, alignment with the Paris agreement requires the aviation sector to reduce average carbon intensity by around 35-40% between 2019-2035, or 65% from 2019-2050. With technologies to support this still in the early stages, the roadmap for meeting this is not prescriptive. Instead, a broad outline includes improving carbon intensity through fleet renewal, improved operational efficiency, and the adoption of Sustainable Aviation Fuels (SAF) or other solutions. Our engagements explored each airline's approach to these in their progress on target setting.

**easyJet**
During the quarter, easyJet outlined an emissions reduction target of 78% by 2050 with the remaining 22% captured through CCUS. Alongside this target, which has achieved SBTi verification, easyJet announced a shift in their strategy which saw the focus move from carbon offsetting to investment in technology. In December we met with their management team with an agenda item to better understand the detail behind what appears to be an ambitious target relative to peers. They explained that their nearer term reduction target to 2035 relies purely on fleet renewal, which is consistent with what we hear from others. They are however more optimistic on the role of hydrogen longer-term and through partnerships such as those with Rolls Royce and Airbus, are investing in several exploratory projects, to address their longer-term targets and reduction in emissions. We are encouraged by SBTi's oversight of easyJet's targets and their position on the working group. As the evolution and results of their investments will take time, we will continue to discuss any progress or changes, in the normal course of our engagements with the company.

**Southwest Airlines**

Our engagement with Southwest Airlines in November highlighted a pragmatic but more pessimistic view. In discussion with a sustainability employee and the head of IR, they explained that the optimisation of their fleet was a key driver of their near-term decarbonisation strategy. Whilst they appear to have made progress on strategy in recent years, they could not get comfortable with the targets outlined by SBTi, arguing that the intensity reduction expectations were unrealistic. Their view around the scalability of new technologies was more sceptical and their focus is on the procurement of SAF which they suggest will require significant shifts in policy in order to scale to the levels required. They are working closely with the government and local states, as well as key industry bodies such as Airlines for America. With productive open dialogue with the company, we will continue to engage on their strategy as they look to make progress on areas where they believe they have greater control.

**Allegiant**

As a low-cost airline with a strategy that includes the purchasing of used aircraft carriers, Allegiant are at an earlier stage of their process, engaging third party Schneider Electric to support them on their initial disclosure of emissions and setting related goals. As they move to set a reduction goal it will likely be based around fuel burn savings, with newer models procured from Boeing expected to burn up to 20% less fuel than the company's existing fleet. Their views on the use of SAF are cautious, and although they have a team monitoring it, they don't believe that it logistically or economically makes sense for their business at this stage. We understood from our engagement that we are unlikely to see an immediate commitment to net zero but expect to have more transparency on next steps following the pending publication of their inaugural sustainability report. We will re-engage with the company after this.

**Toyota**

One objective during a discussion with IR in November, was to better understand Toyota's position in the electric vehicle (EV) market. Toyota seemed to be experiencing some constraints related to the design of its battery electric vehicles due to the structure of the e-TNGA platform. The company acknowledged some issues and we expect a significant increase in CAPEX will be required to support improvements. For the next few years therefore, we think that Toyota will struggle relative to competitors in the EV market and with the shares trading at close to our view of fair value we decided to sell the remaining position in the company.

**Berkshire Hathaway**

As a significant contributor to our GHG emissions and with engagement challenged due to the company's lightly resourced HQ, during the quarter we took the decision to join the collaborative engagement for Berkshire Hathaway through Climate Action 100+. Although we have seen encouraging progress with its railroad and energy businesses setting emission reduction targets, our concerns relate to the lack of transparency into the governance and oversight of climate risks, particularly relative to peers. Having long been admirers of Warren Buffett and with an investment approach influenced by his style, we hope to bring a constructive voice to the discussion whilst acknowledging the urgency of change.

**Thirty percent female representation on Boards**

Encouragingly, during the quarter, we saw an increase in female diversity on the boards of several of our companies, with easyJet, Samsung and Tesco adding an additional female to their board. Average female representation across the global portfolio has now reached approximately 32%, although this masks several outliers. Maintaining our approach of collaborative engagement, we detail conversations across our portfolios below.

**Philip Morris International (PMI)**
In November we initiated a new engagement with PMI regarding the levels of gender diversity on their board. Having made a longer-term public commitment to achieving gender balance at all levels of the company, we were keen to highlight the importance of including better female board representation within their objectives. We referred to recent research highlighting that increasing diversity of the board does impact the composition of an organisation, with evidence suggesting that managerial and staff diversity increases in the years following a diverse director's appointment. In support of progress therefore we asked them to expand on their plans to increase board diversity from the current levels of 21%. We await their response.

**LG H&H**
In July we sent a letter to the company highlighting the particular importance of 30% female board representation based on the significant female make-up of their customer base, alongside growing female purchasing power. In November we had the opportunity to discuss this as part of a broader update call with IR. We learnt that on a relatively small board of 7 members, 1 female had joined as an outside director in March 2022. Their expectation is that this member will remain in place for the typical duration of 3 years, maintaining female representation at 14%. With a workforce that is currently 52% female, we were encouraged to learn of initiatives within the company to support the advancement of female talent. Our expectations and timeframes for change are moderated by the broader context in South Korea but we will continue to raise the issue in our ongoing engagements with the company.

**Southwest Airlines**
During an engagement in November, we discussed the changes made to Southwest's Board in 2022. The retirement of a female board member alongside the appointment of 3 male board members took their female representation down from 30% to 15%. Following correspondence this summer, we reiterated the expectation for this to be addressed and were reassured that the board is committed to adding to its diversity after the most recent reshuffle. We are comforted that the nominating Committee is in the process of evaluating near and longer-term Board composition and look to see the steps taken in 2023 to readdress the balance.

**JD Wetherspoon Plc**
During an investor day in November, we spoke to the CFO Ben Whitley regarding the composition of the Wetherspoon's board. Whitley recognized the need for greater board diversity, with levels falling from a high of 40% in 2018 to 25% today. Although no commitments were made, Whitley noted that two board members had just retired, and this created the opportunity for a review of new appointments. We await to see their next steps.

**Broader Governance Issues**

**Alibaba**
In December we spoke to IR at Alibaba to better understand the termination of a female employee after alleging sexual assault by her manager. This refers to a case that was concluded in court earlier in 2022 and our objective was to clarify actions taken by the company in response. Actions included the formulation of the Alibaba Group Sexual Harassment Prevention Code of Conduct, and the establishment of the Alibaba Group Committee on Workplace Environment. Further, CEO Daniel Zhang had acknowledged that leadership must be held accountable, and that change must start from the top. We see this as a positive shift to addressing what the company identify as a systemic issue and we emphasised that we expect to see transparent reporting on the impact of these commitments, as well as insights into company culture going forward. We suggested that these should be reported at a minimum of once a year in the annual ESG report and were pleased to understand that social issues would be central to 2023's ESG publication. We await to see the result.

**Nomura**

During a discussion in December, we raised several governance concerns with Mr Kitamura, the CFO of Nomura. The first covered our disappointment at an adjustment to the KPIs in the Retail division which we believe reflected aggressive and inconsistent targets. The second addressed further fines related to staff using WhatsApp for business purposes, despite previous efforts to improve risk management procedures and company culture. The third emphasised the need for an independent Chair of the Board. However, we understood from Mr Kitamura that there is no plan to achieve this, arguing that Board meetings are run smoothly and successfully. We are dissatisfied with the outcome and reflect on this as part of our broader investment thesis.

**Executive Compensation**

As a team, we find ourselves voting against both management and proxy advisors on compensation related issues almost three times as often as we do for other governance topics. Ahead of 2023 voting activity, in Heads I win, Tails I don’t lose: Executive Compensation and the Pursuit of Fairness, we start to explore why.