STATEMENT ON RESPONSIBLE INVESTING

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This document explains Allan Gray Australia's approach to environmental, social and governance (ESG) issues in investing, and how we exercise shareholder responsibilities and voting. We review this document annually.

The Principles for Responsible Investment (PRI) initiative is the world's leading proponent of responsible investment which works to understand the investment implications of environmental, social and governance (ESG) factors. It is supported by the United Nations and is governed by six leading principles, with the objective of developing and maintaining a more sustainable global financial system.

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

You can find out more about the Principles for Responsible Investment initiative at www.unpri.org
For any further information about our approach to responsible investing, please call our Client Services team on 1300 604 604.

OUR ESG INVESTMENT APPROACH

As an investment manager, we apply our contrarian, long-term and fundamental investment strategy to maximise the interests of the portfolios we manage on behalf of our clients.

To succeed, we know we must invest responsibly. As long-term investors with a focus on intrinsic value, assessing the sustainability of a company's practices, and therefore a company's earnings, is at the core of our philosophy. Once invested, we continuously review each company's activities and strategy, actively engage with management and the Board and exercise our voting rights with a view to having a positive impact and driving long-lasting change.

Recognising that responsible investing means different things to different people, we describe below Allan Gray's general investment and stewardship approach, and how we consider climate-related risks, modern slavery and governance issues. We then provide specific examples of our responsible investing activities during the 2020 calendar year.

Investment

As part of our bottom-up investment research process, our analysts consider a range of factors that might affect a company's intrinsic value. We are long-term investors and assess intrinsic value with regard to each company's future sustainable earnings potential. This involves incorporating ESG factors into our analysis. A company that acts in a morally or socially irresponsible way will eventually undermine its earnings potential and therefore its intrinsic value. For example, if a company makes money in a manner that is not sustainable from an environmental or social perspective, it is unlikely that our research process will establish conviction as to the sustainability of its current profitability. Similarly, the consideration of governance issues, such as excessive or poorly-structured executive remuneration, is a critical part of our assessment of a company's intrinsic value, particularly given their effect on corporate culture and behavioural incentives.

However, that is not to say that we will avoid at all cost companies that reflect less-than-ideal ESG practices or are the subject of ESG concerns; there is a spectrum of actions that can be taken. For example, depending on the nature and magnitude of the issues at hand, as well as the prevailing share prices, we could (among other options) (a) reject an investment idea, (b) invest only when we consider the share price is sufficiently discounted so as to protect against the risk, or (c) wait to see if management's proposals to address the ESG concerns play out.

Our ESG approach is formally embedded in our bottom-up research process through the investment reports our analysts submit for peer review before any investment is possible. Through this research process, our analysts determine which sustainability risks and other relevant ESG matters may be material to their assessment of a security's intrinsic value, and apply investment judgment when analysing them. Any ESG concerns are discussed with the CIO and peers. The analysts regularly communicate with the wider company and clients on their ESG process detailing outlook and risk through published commentaries and articles.

Because analysts proposing a company for inclusion in the portfolio are directly responsible for the subsequent performance of that company, consideration of sustainability is inextricably a part of analyst incentives.

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

We track our ESG engagements as part of our continuous assessment and monitoring of companies. These engagements are recorded in an ESG Register, allowing us to track the status of the engagements and ultimately measure their impact. You can read further information about our recent ESG engagements in Appendices 2 and 3.

You can see examples of where ESG issues influenced our investment decisions in Appendix 1.

Screening

Allan Gray's approach to ESG in investing is one of integration. We do not typically apply negative screens as part of our process. However, some of our institutional clients request screens prohibiting investment in particular stocks or sectors (for example tobacco, thermal coal or weapons) in line with their own ESG policies. Where clients have individual mandates with Allan Gray, we seek to accommodate these requests where we feel our ability to generate strong long-term returns for the clients is not significantly affected. We also work with these clients to understand the reasoning behind screening requests, to ensure that the proposed screening is targeted to their area of concern and (to the extent possible) does not affect the potential for sustainable long-term change through shareholder engagement.

In addition to specific screens requested by clients, our portfolios will naturally screen out any investments that are prohibited by applicable laws or regulations (for example, as a result of sanctions). All screening is enforced by in-house proprietary compliance systems.

Stewardship

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

Active engagement

We believe active engagement with a company is crucial. Not only can it protect our investment returns, but it can also enhance them.

To hold companies to account and to properly engage with management on the above, we must first ensure we have a thorough understanding of the company and its practices.

This will include engaging with the company's Board/senior management to discuss various matters, including the company's:

- structure;
- prospects, including strategic and sustainability concerns;
- performance and financial health; and
- remuneration and corporate governance policies/framework.

We also review the company's financial statements, broker/analyst research reports and other public data or information that could be relevant.

In terms of prioritising company engagements, first and foremost we meet with companies in which we are invested. In each calendar year we typically meet with senior management twice (as part of the Australian half-yearly reporting seasons), and the Board once. Occasionally, we hold out-of-cycle meetings to address unexpected issues, sometimes of an ESG nature (see Appendix 3 for examples). Meetings with management teams of companies in which we are interested in investing, or who may provide valuable insight into a portfolio-owned company, are necessarily second priority.

When evaluating any concerns raised through these engagements, we rely on our internal assessments of what is in our clients' best interests in any given engagement. If issues are not addressed or resolved in meetings, we will follow up with management or the Board. When escalation is unsuccessful, we will look to alternatives, which include discussing our objections openly or trying to attract media coverage of the issue, voting against directors who are up for re-election, or exercising other shareholder rights.

Previously we have also engaged and collaborated with other asset managers, industry consultants and stakeholders to agitate for change on topical matters. For example, we conducted a roundtable discussion on what we believe is an appropriate remuneration framework considering the long-term interests of shareholders and the company. Where necessary, we will agitate for change from regulators and governments by presenting and making written submissions to government. We have done so with some success previously.

With respect to corporate fixed income securities, Allan Gray typically acquires these where extensive research on a company has already been undertaken as part of our fundamental equity research process. Any engagement with the Board or management of a portfolio company will benefit Allan Gray Australia in its capacity as a holder of fixed income securities as well as a shareholder. Thus, the principles expressed in connection with ESG integration in stock picking and continuous monitoring also apply to corporate fixed income.

Allan Gray purchases short-duration government bonds issued primarily by the Australian government. We do not engage with the issuer of these securities in these matters.

Compliance with the law

We are conscious that through our active engagement with companies we may:

- speak to the company's institutional or major shareholders. If so, we will always act independently from these shareholders and have regard to regulatory guidance regarding collective shareholder action; and
- come into possession of materially price sensitive information. If so, we ensure strict compliance/adherence to Australia's insider trading and market manipulation laws.

Voting

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

Our voting approach is based on the principle of considered investigation and transparency. It can be broken up into three stages:

Investigate and communicate

We consider all resolutions on an individual basis. Our instructions could be in the form of supporting, opposing or abstaining from voting on resolutions.

As such, we cast our vote based on what we consider to be justifiable and reasonable, in light of the present facts and circumstances surrounding the resolution and what is in the interest of our clients as a whole. We do not analyse how our voting decision may be preferred by, or will provide a benefit to, a particular client.

Our approach may mean supporting or opposing a resolution, even if it is contrary to the communicate recommendation by the company's Board. We do not 'blindly' follow the voting recommendations by a company's Board or any proxy adviser. Where we are inclined to vote contrary to the Board's recommendation, we may contact the company's management to advise them of the proposed view and engage in a discussion regarding why we are proposing to vote in a particular way ahead of the vote. If our view remains unchanged after such discussion, we may elect to attend the meeting to give voice to our view.

You can see proxy voting statistics and examples in Appendix 3.

Submit vote

We support the principle of 'one share, one vote' and do not engage in borrowing or lending stock to change our voting rights/power in any proposed resolution. We also actively engage with the external voting service providers to ensure that we meet the custodial cut-off voting timelines and our votes are not disenfranchised due to such cut-off procedures.

Report to clients

Clients can send us bespoke requests for information and we always try to meet these requests. We can provide a voting summary and reasons on how we voted as requested. In cases where we vote against a Board recommendation or against the prevailing proxy adviser sentiment, we would typically provide our clients with our rationale.

Quarterly voting summaries for the Allan Gray Australia managed funds can be found on our website: https://www.allangray.com.au/b/product-update/

A copy of the broader group's Proxy Voting Policy can be found here:
https://www.orbis.com/au/institutional/resources/policies-and-forms

This Statement on Responsible Investing is approved by the CIO and Managing Director of Allan Gray Australia, who has primary responsibility for ensuring its consistent application.

OTHER RELEVANT POLICIES

In implementing our ESG approach to investment research and in exercising shareholder rights, Allan Gray Australia ensures that it complies with the group's Code of Conduct policies, including Conflicts of Interest, and Bribery and Corruption policies. The Conflicts of Interest Policy can be found here: https://www.orbis.com/au/institutional/resources/policies-and-forms. It governs the way in which we engage with company Boards and senior management and ensures that any conflicts arising in connection with such engagement or the exercise of proxy votes are appropriately disclosed and managed.

ENVIRONMENTAL: CLIMATE-RELATED RISKS

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

We also believe that the deployment of additional capital into emissions-intensive resources requires further engagement, which we actively pursue. An effective way to expedite the transition to a low carbon footprint might be to assign a very high price to carbon emissions. This should quickly flow through to the cost of end products consumed and, where possible, shift consumption towards more sustainable lower-carbon-intensive substitutes. This is a useful lens that we use to assess a company's transition risk and its long-term sustainability.

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

We feel that huge behavioural changes are needed across all facets of society to tackle climate change and we support efforts to expedite this change. However, we are wary of the at times superficial analysis that goes into channelling capital from one carbon intensive activity towards a seemingly less carbon intensive activity without regard for the upfront carbon sunk into the latter's assets. We also believe not enough attention has been applied to activities that may result in carbon emissions, but whose removal from supply chains would probably result in greater emissions. While this may not be directly measurable, and therefore difficult to take account of, ignoring it is also detrimental.

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

Allan Gray Australia – Carbon footprint

As a company, Allan Gray Australia strongly believes we should be proactive in mitigating the adverse effects of CO2 emissions. To address this, we have estimated our CO2 footprint for the 2020 calendar year (focusing on direct emissions at this stage) and have sought to purchase carbon credits for certified emission reduction projects to offset our entire footprint. We will continue to enhance and monitor our approach to addressing our firm's carbon footprint in the coming years.

SOCIAL: MODERN SLAVERY RISKS

We are strongly opposed to slavery and human trafficking and will, as part of our investment process, take into account modern slavery risks that affect a company and its future earnings. Allan Gray Australia invests overwhelmingly in companies with Australian operations, although we do acknowledge that some companies may operate in high-risk jurisdictions and/or deal with high-risk industries or vulnerable populations. On a quarterly basis, we document the possible exposures in riskier geographies and engage with companies to understand what they do to mitigate risks. Currently Allan Gray Australia has not reported on its modern slavery risks under the recently-legislated Modern Slavery Act 2018 (Cth), or on the modern slavery risks present in the Australian equity portfolio (represented through Allan Gray's flagship fund, the Allan Gray Australia Equity Fund), because neither the company's nor the Fund's annual consolidated revenue has met the AUD 100 million threshold to date. As annual consolidated revenue will fluctuate from year to year, this may change in respect of future reporting periods.

GOVERNANCE

We cannot stress enough how important corporate governance is to us. Understanding how a company is structured and governed allows us to properly value the company and ascertain its worth. Communication with a company's senior management and/or Board helps us to understand how a company is managed and deploys its capital.

Shareholders' interests

We want senior management and Boards to make decisions that are aligned with shareholders' long-term interests. Where we feel that the Board's/senior management's views are not aligned with shareholders' views, we will take action to ensure that shareholders' interests are not marginalised or disregarded.

When we research a company and engage with senior management, we pay particular attention to their skills and conduct as well as ownership/personal investment in the company and management remuneration. We recognise that every company is different and that there may be many corporate governance issues which may be relevant. This includes whether the presence of independent directors would be beneficial, whether the Board has the appropriate skills and whether the company has appropriate employee relations.

APPENDIX 1: EXAMPLES OF WHEN ESG ISSUES INFLUENCED OUR INVESTMENT DECISIONS IN 2020

In 2020, we took a small position in a thermal coal producer when its share price became so attractive as to compensate for our assessment of its ESG risk, particularly in relation to stranded asset risk. Through our engagement with the company, we came to the conclusion that the free cash flow that the company generated would very likely be invested back into further development of its coal assets. As a result, further investment in the company could not be justified at its prevailing share price given our assessment of the increasing level of stranded asset risk. As at the end of 2020, we were actively reviewing our holding in the company.

We held a stock where more than 30% of the company's revenue came from transporting thermal coal. Our clients raised concerns with us about this company's ESG risk. We ultimately decided to divest not only due to our clients' agitation, but also because we concluded that the share price discount needed to be higher to account for ESG risk for us to continue to hold our position.

In 2020, governance concerns, particularly around diversity and inclusion, came to the fore in one of our portfolio companies (see Appendix 3). We actively voiced our concerns with the Board, which resulted in the resignation of Board members. Through this process, we did not add substantively to our position in the company. As the company's main assets were its people, we felt that the governance and reputational risks were not adequately discounted in the share price to deploy a meaningful amount of additional capital at the time.

APPENDIX 2: ESG COMPANY MEETINGS IN 2020

	Investee companies*
Total number of meetings where ESG factors were discussed	**43**
Environmental	8
Social	13
Governance	38

**Stocks held in the Allan Gray Australia Funds in 2020. At some meetings we discussed more than one ESG issue.*

Numerous other meetings with company management or Boards were also held as part of our usual investment research process.

APPENDIX 3: ENGAGEMENT AND PROXY VOTING EXAMPLES FROM 2020

Examples of when Allan Gray engaged with companies during 2020

We actively engaged with the Board and management of an Australian financial services company on a number of occasions throughout July and August 2020, following sexual harassment allegations against the CEO of a subsidiary company. Our view was that the CEO of the subsidiary's position had become untenable and the current set-up was damaging our investment in the company. We issued an ultimatum and this resulted in the resignation of two Board members and demotion of the subsidiary company's CEO.

We engaged with a banking and financial services company based in the United Kingdom in regard to its lending activities. The company did not disclose its lending to hydrocarbon industries. We requested this information (which has now been provided to us) and the company has now set sustainability targets for their lending book.

We engaged with an industrial company on its carbon footprint. While its activities resulted in carbon emissions, it provided a net benefit to society as a recycler of material. Not only did this recycling prevent deterioration of our natural environment through the avoidance of waste, it also removed the need for society to produce its end-product from raw materials. We actively engaged with the company to ensure it calculated and communicated this so that any capital allocation by investors could take this real benefit into account.

We met with an Australian conglomerate company to express our dissatisfaction with its appointment of a CFO who we felt had a poor track record with capital management. Similar feedback was provided to an industrial company, which the company then acted upon.

Allan Gray Australia Equity Fund: summary of votes in 2020

Many votes cover routine matters and we would usually expect to support management's recommendation. But, as with any long-term relationship, at times there will be disagreement. In 2020, 15% of all votes cast were against management recommendations.

Period	Number of meetings	Votes for	Votes against	Abstentions	Votes with management recommendation	Votes against management recommendation	% against management recommendation
Quarter 1	4	27	4	0	27	4	13%
Quarter 2	16	55	18	7	62	18	23%
Quarter 3	4	16	0	0	16	0	0%
Quarter 4	32	150	24	13	162	162	13%
2020	**56**	**248**	**46**	**20**	**267**	**47**	**15%**

Votes are also summarised by proposal type below:

Category	Votes with management recommendation	Votes against management recommendation	% against management recommendation
Audit/Financials	6	0	0%
Board Related	115	18	14%
Capital Management	19	7	27%
Changes to Company Statutes	13	1	7%
Compensation	84	19	18%
M&A	2	0	0%
Meeting Administration	2	0	0%
Other	7	1	13%
SHP: Environment*	6	0	0%
SHP: Social*	4	0	0%
SHP: Governance*	9	1	10%
2020	**267**	**47**	**15%**

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

Examples of when Allan Gray voted against management's recommendation at a shareholder meeting

We did not support a number of proposals to approve executive compensation. Examples include an Australian childhood education provider, where we felt the proposed remuneration schemes did not align with the long-term interests of shareholders, and a multinational construction company, where we felt that the Board was too big and did not lead to better governance or outcomes for shareholders. Our preference is for small, engaged, accountable boards.

We voted against a number of director appointments, including a company involved in oil and gas exploration and development, where we felt the proposed candidates had a poor track record of capital stewardship at the company.

We are also mindful of unnecessary capital raisings which are dilutive and not in shareholders' interests. Several companies undertook such raisings during the year, including a biotech firm, and a retail asset firm. We also voted against a resolution granting a company the right to make political donations, which we felt very strongly was an improper use of company funds.

ALLAN GRAY
CONTRARIAN INVESTING

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