

Complex shareholder and board composition proposals were two of the issues we faced in the 2024 proxy season. We illustrate our voting thought process and our ongoing engagement with corporate boards and management teams.

We take the opportunity in the third quarter every year to profile some of the more significant proxy votes from the season. As a fundamental active manager, we have a deep understanding of the businesses in which we invest. We deliberate as a team and take our time to reach vote decisions that reflect what we believe is in the best long-term interest of shareholders. Sometimes, this means voting against shareholder proposals or management when we believe a different outcome is preferable. Below, we highlight three such examples from the 2024 proxy season.

EXAMPLE 1: TYSON FOODS, A U.S MEAT PROCESSOR

In September 2023, the New York Times published an article detailing serious allegations of child labor at a Tyson Foods plant in Virginia. We take allegations of child labor seriously; it is one of two social issues (the other being human trafficking) that we consistently identify as issues to address, regardless of financial materiality. Tyson, along with peers, substantially outsources cleaning services to sanitation firms, which have allegedly employed underage workers. Tyson does not permit anyone aged under 18 years to work at their facilities and performs audits and spot checks to ensure compliance. The allegations raise questions about the effectiveness and compliance of these policies. Our investment team has maintained a robust dialogue with Tyson on the issue for the last year, albeit limited by the ongoing Department of Justice (DOJ) investigation, which has yet to determine Tyson's culpability.

Our ongoing engagement with Tyson included discussion of a related shareholder proposal to commission and publish the results of a third-party audit assessing the effectiveness of policies preventing child labor. At first glance, this proposal appeared to be one we would be inclined to support. However, after careful diligence and deliberation, we decided to vote against the specific proposal.

Our rationale was that although an independent audit of Tyson's internal policies and procedures could be beneficial, it was not the right time to

conduct one. Tyson was in the middle of complying with an active DOJ investigation and considering changes to its workforce management oversight. An audit now would not yield the desired benefit of measuring the effectiveness of ongoing business practices. It would be more appropriate to pursue an independent audit once Tyson formalizes an updated set of internal policies and procedures. Despite voting against the shareholder proposal, we did encourage Tyson to better engage with proponents of shareholder resolutions in the future to share any differing views more directly.

We continue to discuss allegations of child labor with Tyson as part of our Opportunity List¹ and will monitor the outcome of the DOJ investigation to determine if we can conclude—or need to deepen—our engagement. Tyson's latest update was that they were working towards bringing a higher percentage of cleaners in-house to reduce the risk of problems in their supply chain.

EXAMPLE 2: SHELL, A GLOBAL OIL & GAS MAJOR

Under a relatively new CEO, Shell has made some changes to its business and energy transition strategy, which, in our view, better reflect underlying market realities. Shell lowered the ambition of one of its Scope 3 targets to reduce the carbon intensity of energy products sold, citing increased uncertainty in the trajectory and pace of policies to support the energy transition. Conversely, Shell also introduced a new 2030 Scope 3 emissions target to reduce customer emissions from the use of oil products by 15%–20% (2021 baseline).

Adjustments to the energy transition strategy were still interpreted by some as a weakening of Shell's climate targets and net zero commitment. It is therefore not surprising that a shareholder proposal resurfaced, asking Shell to align its emissions reduction targets with the Paris Agreement.

1. The Opportunity List is a portfolio-specific set of names that seeks to systematically identify opportunities where material ESG issues exist and engagement could have a positive impact and improve financial outcomes for investors. Details of the Opportunity List can be found [here](#)

STEWARDSHIP INSIGHTS CONT.

The proposal specifically asked for the inclusion of medium-term Scope 3 emissions targets, consistent with the effort to limit global warming to 1.5 degrees above preindustrial levels. This proposal was very similar to one submitted in 2023, which had been rejected by approximately 80% of shareholders. Shell management again recommended voting against the proposal on the basis that targets and ambitions are already in line with the Paris Agreement, and the business is making good progress towards these goals. We ultimately decided to vote against the proposal, as we did in 2023, for the following reasons:

1. Shell's transition plan remains realistic and, therefore, credible. Recent changes to some of the specifics better reflect new market realities, which have moved beyond pure energy transition to include affordability and energy security. Shell's unique advantage in liquefied natural gas allows it to play a key role in affordability/energy security. Shell continues to make investments in the energy transition, where it has a competitive advantage (carbon capture and storage, biofuels, etc.).
2. Scope 3 emissions targets cannot be the sole responsibility of Shell, given they are tied to customer demand.
3. There is no real authority on what constitutes alignment with the Paris Agreement; it is a judgment call.
4. Shell's responsibility to shareholders means there needs to be a balance between meeting emissions reduction targets and maintaining capital discipline, including returning cash to shareholders that can then be reinvested in the transition (if so desired).

EXAMPLE 3: TRAVIS PERKINS, A UK BUILDING PRODUCTS DISTRIBUTOR

One of the more important votes we cast for companies every year is for the individuals that comprise the board of directors. The board, unlike company management, is primarily elected directly by shareholders to help protect their interests and oversee company management. Therefore, it is important that the individuals on the board possess the right combination of skills and experience to play this role effectively.

In the case of Travis Perkins, we believed the board had not been effective in its execution of management oversight and decided to vote against the chair. We were concerned with opaque decision-making related to poor capital allocation and abrupt management change in response to operational underperformance (the former CEO left abruptly without an identified successor in place). Additionally, we believed the business would benefit from a chair with more relevant industry experience to help the company navigate through a challenging period. We appreciated the chair's decision to step down following the vote after 23.6% of shareholders opposed their re-election.

So far, we are pleased with our engagement with the new board chair, who has relevant experience in the building products industry. It is important that during this period of underperformance, the board can identify areas for improvement as well as sources of competitive advantage. We believe the new board chair is better positioned to do this effectively.

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