OP

Oldfield Partners

Environmental, Social, Governance Q&A

ESG statement

In assessing companies for investment purposes, OP takes into account ethical considerations and the extent to which ethical factors may affect prospective returns. We avoid companies about which we have serious governance concerns, and companies in which we have concerns about business being conducted in an unethical manner unless it is clear that such concerns have been or are being dealt with by management and any shortcomings have been addressed. Such concerns may relate to social and environmental matters as well as to other ethical practices. We do not have a prohibition on any particular sectors or countries. To view our statement of compliance with the UK Stewardship Code, please click here.

1. Is your organisation a signatory of the UN Principles of Responsible Investment? Has your organisation issued a Statement of Commitment to the FRC Stewardship Code? Please list any other relevant codes / organisations that your firm is a signatory of or affiliated to.

   We are not currently a UN PRI signatory, as we are not yet comfortable that Principle 5 (working together to enhance effectiveness in implementing the Principles) has the necessary infrastructure and protections we think necessary. We have held numerous conversations with the Financial Reporting Council in the UK on this issue and have made clear our concerns about engaging or collaborating with other managers when it is not clear whether they have long or short positions. However, we have recently joined the Investor Forum, hoping this can provide the platform for the kind of collective efforts the PRI promotes.

   We publish a statement of commitment to the UK Stewardship Code on our website: https://www.oldfieldpartners.com/investment-philosophy

2. Do you recognize that ESG issues can impact long term shareholder returns for companies?

   Yes, which is why as a long term investor we believe ESG should form part of our research process. OP takes into account ethical considerations and the extent to which ethical factors may affect prospective returns, but our focus remains on the prospective returns, which drive our decision-making.

3. Do you incorporate ESG issues into investment research and decision-making processes, including proxy-voting?

   Yes. ESG issues are considered routinely in our research on companies, and where appropriate we engage with companies regarding such issues. We also employ the services of specialist consultants such as GES (Global Ethical Standards), to help highlight key ESG issues and give us the ability through them to influence the large number of institutional investors they support in this area. However, we do not seek necessarily to avoid companies with ESG issues: in such circumstances, provided that we think that prospective investment returns justify our involvement, we may seek to engage with management in order to influence policy.

OP also employs the services of governance expert Institutional Shareholder Services Inc. (ISS) to manage the voting of proxies and assist our decision-making. ISS provide analysis and voting recommendations for each proposal which we thoroughly review. We instruct them to vote the proxies for all clients where we have permission to and to vote in line with ISS unless we have a conflicting opinion about a particular issue, in which case we will intervene to instruct as we see fit, or if we feel it is not in our clients' best interests to vote (due to share blocking for example).

Where a client has specific proxy voting guidelines which differ from ISS, we work with ISS to ensure we vote in line with the guidance prescribed by the client.

4. Do you have a separate ESG Committee?

   No, ESG is the responsibility of the investment team and is integrated into the research process.

5. Do you seek appropriate disclosure on ESG issues that can impact long term shareholder returns, from the companies in which you invest?

   Yes. Through our own research and that provided by consultants, we are able to raise concerns relating to significant issues with companies and then engage with them over a period of time to encourage change and improvement.

6. Who are your ESG research providers?

   We use research and data from Bloomberg, GES and ISS. We are also a member of the Investor Forum in the UK which allows shareholders a collective voice in engaging with companies on issues which may include ESG concerns, although to date this has focused on UK companies.

7. Briefly discuss how you incorporate ESG into the investment process, with an example, keeping in mind issues like:

   a) Identification of ESG risk and opportunity; and

   The investment team is responsible for identifying ESG issues but we use the services of Bloomberg, GES, ISS and other sources to assist us in this process. Significant issues are considered as part of the research process and discussed as necessary. This may lead to engagement with the company in question, particularly if it is an existing, rather than potential, holding.

   When we purchased Chesapeake in Q3 2012, it had previously been at the centre of a corporate governance scandal. The scandal revolved around the actions and compensation of the CEO, Aubrey McLendon, who at the time of the scandal was also Chairman of the board of directors. The main problem was that he participated in a Founders Well Participation Programme which allowed him to decide at the start of each year whether he wished to take a 2.5% stake in all of the wells the company drilled that year. When the company was first formed in 1989 this was a generous but perhaps appropriate incentive but as the firm grew to become very large, this was no longer appropriate. Once these issues came to light, it was clear that the board did not have sufficient control and oversight of what McLendon was doing. However, this scandal resulted in a dramatic fall in Chesapeake's share price and left the valuation of the company at very low levels, hence offering an opportunity.

However, before we could invest, we had first to be comfortable with the new corporate governance arrangements as a hurdle to considering investment. The replacement of nearly the whole board, with a powerful chairman and directors including Lou Simpson, and the end of the chief executive's programme of participation in Chesapeake's production, satisfied us that the inappropriate governance belonged to the past, and therefore provided an opportunity.

b) Management and monitoring of ESG risks and opportunities

In addition to the processes already noted, ongoing ESG issues and engagement are logged centrally and reviewed by senior investors regularly, with progress reports and action points recorded and discussed as necessary.

8. Please describe your research and engagement policy on each of the topics below, using examples where helpful:

a) Climate change and stranded carbon assets;

In managing our equity portfolios and engaging with company managements, there are both negative and positive aspects to our assessment of the risks and opportunities created by climate change. In analysing resource companies, we have not hitherto adopted a "stranded assets" approach to our assessment of reserves in which a large proportion of reserves might be discounted as unlikely ever to reach production. However, we are strongly conscious of the need to discriminate between different types of resource. In particular, we are sceptical about the valuation multiples which should be attributed to coal resources because of the environmental impact of coal and the possibility that thermal coal becomes obsolete in developed markets. We view positively, in our projections and valuation, businesses which are likely to mitigate climate change and more broadly pollution, and we therefore favour businesses which lead to lower energy usage. In the auto sector, for example, in which we have recently had substantial holdings, we focus, when engaging with management and when studying the company's business, on fuel efficiency, and on the long term displacement of gasoline dependent vehicles by vehicles dependent on other sources of energy. Within the energy sector, we favour natural gas as a resource which is at least relatively climate-friendly, and we have also, from time to time including currently, invested in utilities with a nuclear activity.

The result of these emphases takes both a quantitative and a qualitative form: quantitative, in our valuation process; and qualitative, in our textual commentary within our research notes.

We have not actively engaged with a company specifically on the issues of climate change and stranded assets.

b) Executive pay

ISS research with regards to proxy voting is a good starting point for considering executive pay. We vote on all remuneration items and where we feel remuneration is egregious or significantly mis-aligned with shareholders we may engage with management. This is considered on a case-by-case basis. In the past we have engaged with Staples and Barrick Gold.

With Staples, we noted a number of areas of weakness in the executive compensation plans including the metrics – both the actual metrics and the hurdle rates - being used to assess performance. We also discussed vesting periods and claw-back provisions. We welcomed the move away from time-based restricted stock and options.

Our comments were passed on to the board and compensation committee.

c) Boardroom roles and diversity

Again, ISS research is helpful and we vote on all agenda items. However, we have not set specific policy goals for diversity, instead we consider issues on a case-by-case basis.

We had a discussion with Staples with respect to the combined CEO/Chairman role and the recent executive compensation awards. We expressed our view that it would be better to have an independent Chairman but, given the reinvention plan that had been recently announced, it made sense to keep the focus on executing the turnaround plan rather than focusing on whether there should be an independent Chairman. Furthermore, there was good oversight from the rest of the board. Nevertheless, in time, we would rather the CEO and Chairman roles were split.

A key incident of engagement in early 2015 was a meeting with the management of Nintendo, when the company's request to vote in favour of the re-election of directors signalled their anxiety about this. The meeting was helpful in postponing any further sale by us of shares in the company; and was then followed by Nintendo's important announcement of a change in strategy, which we had written to them about previously.