

*Doing good while
doing well...*

ESG Highlights Report

December 2023



LetkoBrosseau

Gestion de placements globale Global Investment Management

EMERGING MARKETS

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Introduction

Founded in 1987, **Letko Brosseau & Associates** is one of Canada's largest independent investment managers.

The firm manages CA\$16.4 billion as of December 31, 2023, on behalf of institutions and private clients.

We offer several broad investment strategies including:

- Global Balanced,
- Global Equity,
- Canadian Equity,
- EAFE (Europe, Australasia and the Far East) Equity,
- Emerging Markets Equity,
- China Equity,
- ESG Fossil Fuel Free Equity,
- Infrastructure Equity,
- ESG Canadian Equity Plus Income,
- Fixed Income.

We believe we can add value through our disciplined investment process.



Investment Approach



Strategy

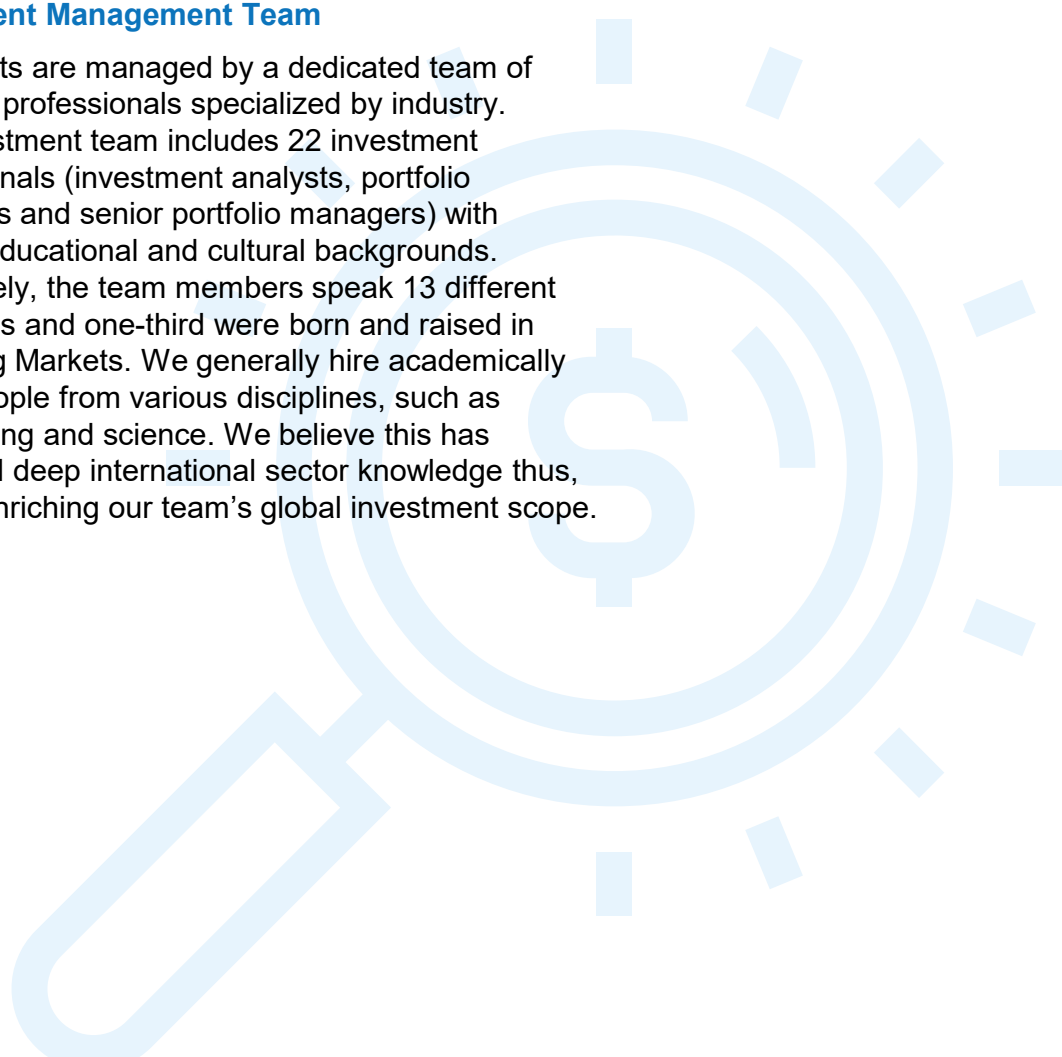
Our portfolios are managed using a rigorous knowledge-based fundamental approach. We invest solely in public companies with favourable growth prospects trading at reasonable prices.

We are patient shareholders, true to our belief that value is created over time. We also believe that it is possible to do good while doing well and that companies with sound ESG practices will generally perform better in the long run.



Investment Management Team

Our assets are managed by a dedicated team of research professionals specialized by industry. Our investment team includes 22 investment professionals (investment analysts, portfolio managers and senior portfolio managers) with diverse educational and cultural backgrounds. Collectively, the team members speak 13 different languages and one-third were born and raised in Emerging Markets. We generally hire academically gifted people from various disciplines, such as engineering and science. We believe this has cultivated deep international sector knowledge thus, greatly enriching our team's global investment scope.



Research Process

ESG integration



At Letko Brosseau, fundamental, in-house research drives our investment decisions. This work combines a macro-economic approach with thoughtful analysis of trends in major industry groups and detailed evaluation of companies. The investment team gives careful attention to the price paid for all investments, both on an absolute basis and relative to other opportunities.

The scope of our work is global. Our team seeks and evaluates attractive industries and companies around the world and measures them against their international competitors. This global perspective provides valuable insight into industry trends and company dynamics.

We believe in investing in publicly traded securities that provide the benefits of liquidity, low cost, greater transparency and good governance. Environmental, social and governance (ESG) issues are fully integrated in our investment process.



How are ESG considerations integrated into our investment research process?

Since the beginning, we have been committed to evaluating material ESG considerations through our research process and seamlessly integrating these throughout our fundamental research process. The process includes ongoing engagement with companies concerning a broad range of topics, including ESG risks and opportunities. We believe that companies with sound business practices, including strong corporate governance and responsible management of material environmental and social issues, have better success and deliver stronger financial performance over time. Conversely, we believe companies that have poor environmental, social or corporate governance practices present risks and controversies that may hinder their financial performance.

Our approach to ESG integration is unique in that we do not layer on ESG analysis after the company or industry research is complete. In fact, each of our research analysts has ESG responsibilities within their coverage areas on an ongoing basis. To encourage and assure that our team is fully capable of this, each analyst is required to earn their FSA (Fundamentals of Sustainability Accounting) Credential.

Our framework for ESG research and integration is based on the Sustainability Accounting Standards Board's (SASB) Materiality Map, which identifies a set of sustainability issues most likely to impact the operating performance or financial condition of a typical company in an industry, regardless of geography. To support the identification of material ESG issues for a company, we review the appropriate industry report(s) prepared by SASB, which has published 77 industry reports focused on material ESG issues.

Once our research of a company is complete, our analyst will write a detailed thesis outlining the company's growth potential, including ESG risks and opportunities, and present it to the entire investment team for peer review. Meanwhile, our ESG Lead conducts his own independent review of the material ESG issues facing the company using

Sustainalytics and Glass Lewis (external service providers who support and complement our ESG analysis and proxy voting efforts). When the analyst is presenting their thesis to the investment team, our ESG Lead facilitates a group discussion of the material ESG issues with the goal of cross-checking and leveraging the entire team's knowledge and expertise.

If the final decision is to include the company in our portfolio(s), ongoing monitoring, including semi-annual ESG screening by Sustainalytics, is performed. Additionally, each analyst regularly engages with the companies under their coverage, for all matters pertinent to the investment, ESG and otherwise. The analysts continually evaluate the risks and opportunities related to ESG in their industries, subindustries and for each company being assessed.

We apply the same ESG framework and process to both equities and corporate bonds. Our ESG and fossil fuel free investment options use the same fundamental investment process for ESG analysis, with additional ESG filters to screen across the investable universe.

Proxy Voting

Our investment professionals make all voting decisions for the companies under their coverage in accordance with our Proxy Voting Policy, ["Proxy Voting Guidelines and Corporate Governance Principles"](#), following a thorough review of proxy materials and insights from Glass Lewis, a leading independent provider of global governance services. All proxy voting decisions are reviewed by our ESG Lead.

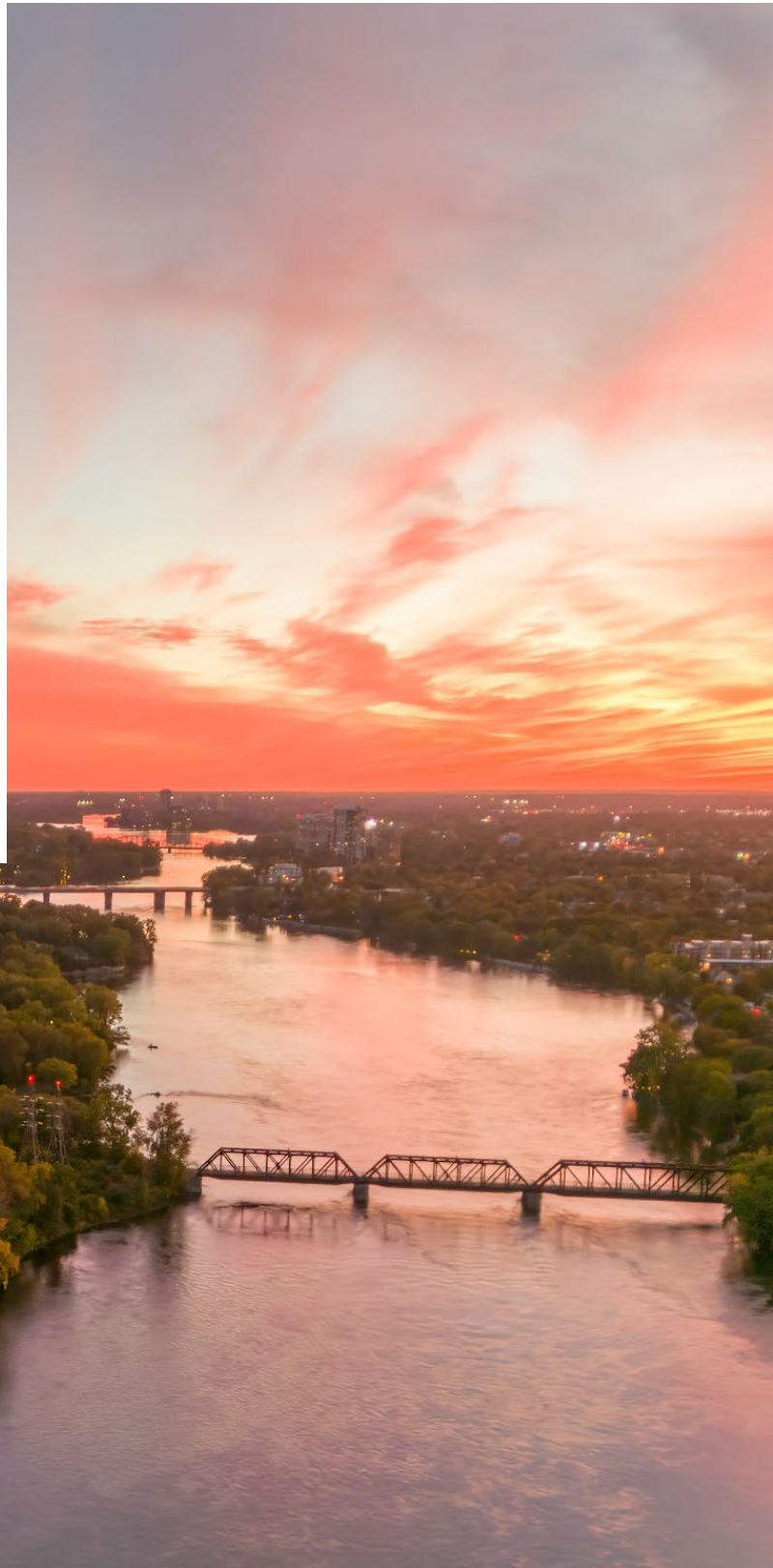
In addition, any proxy vote contrary to the management's recommendation requires written justification. Before voting contrary to the management's recommendation, we will often engage with the company to express our point of view on issues of concern and inform of our voting intentions. Proxy voting activity reports are provided to clients upon request.

Exclusion Criteria

Generally, rather than relying on exclusionary screens we prefer to actively engage with companies. We believe that you are more likely to effect change if you have a seat at the table. Our process does not assign a specific weight to ESG factors. Rather, we view ESG as a specific set of risks, not unlike the many other risks a company faces, such as competition, geopolitics, economic, or supply chain-related risks. Where we do feel global investment exclusion is necessary are in the areas of tobacco, mining of thermal coal, and gambling.

A buying decision is based on many factors, including a complete analysis of the competitive environment, financial information, market valuation and the investment's sustainability. Thus, ESG attributes alone will not entice us to buy a security. Meanwhile, depending on the materiality of the factor, it can justify a decision to pass on an investment opportunity or lead to the complete divestment of a position in a company.

We have “passed” on companies for ESG reasons, notably Exxon Mobil. From time to time, we have sold holdings because of a company's demonstrated inability to effectively manage ESG risks, such as Norilsk Nickel.



Firm Activity

Portfolio Carbon Measurement

We subscribe to Sustainalytics' database of climate data from over 13,000 companies. This facilitates our evaluation of performance toward reduction of greenhouse gas (GHG) emissions across industries and over time. We are committed to providing portfolio carbon reporting for client portfolios. We are happy to share that portfolio carbon scores improved in 2023. For the Letko Brosseau Global Balanced Fund, the weighted average carbon intensity of the portfolio was reduced from 189 tonnes CO₂/US\$million Sales as of December 31, 2022 to 165.2 tonnes CO₂/US\$million Sales as of December 31, 2023. We continue to engage with portfolio companies to encourage setting goals and measuring progress towards meeting emissions reduction targets.

Published Research Report

In December 2023, we published a second report in our Net-Zero Research Series which explores topics surrounding climate change, sources of emissions, and pathways towards transitioning towards a reduction in or elimination of greenhouse gas emissions. "Electricity Generation, Net-Zero Research Series – Part 2" provides commentary on the main sources of emissions from electricity generation, existing technologies that can help reduce emissions, and solutions that are required to achieve Net Zero by 2050.

Responsible Investment Policy

As an update to our previous ESG policy, we recently developed a Responsible Investment Policy, found [here](#). This policy adds a formal clause on climate change and outlines our commitments to transparently reporting on Responsible Investment matters to our clients.

Public Policy Engagement: Invest in Canada

In 2023, Letko Brosseau continued a very important public policy engagement campaign concerning a worrying trend towards less investment in Canadian public companies by domestic pension funds. In the last two decades, Canada's pension plans have collectively reduced their allocation to Canadian publicly traded equities from 80% in 1990 to barely 10% in 2020¹.

We believe this development is not healthy for Canada's economic well-being and we are pleased to have found support for this view in several quarters, including from over 90 business and union leaders who joined us in signing an open letter to the Minister of Finance of Canada and Provincial Finance Ministers. For more information, please read our research paper and our presentation [here](#).

1. Pension Investment Association of Canada. (n.d.) Pension investment association of Canada. PIAC 2022. <http://piacweb.org/>



We are supporters of the following organizations

Signatory of:



Letko Brosseau is a signatory of the United Nations-supported Principles for Responsible Investment (PRI) since April 2019. In December 2023, we filed our 2023 Public Transparency Report with the PRI and have made this available to view on our website.



We are a member of and are actively involved with the Canadian Coalition for Good Governance (CCGG)¹. Peter Letko has been a Director of the Board since June 2019. Through CCGG's corporate engagement program, we have participated in meetings with boards in Canada.



Letko Brosseau is a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The Financial Stability Board (FSB) created the TCFD to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks related to climate change².

1. CCGG. <https://cgg.ca/>

2. Task Force on Climate related Financial Disclosures. <https://www.fsb-tcf.org/about/>

Spotlight on Governance

Resolutions voted in 2023

596 Number of resolutions where we voted against recommendation of management

1,850 Number of resolutions for election of directors

391 Number of resolutions for election of directors that we did not support

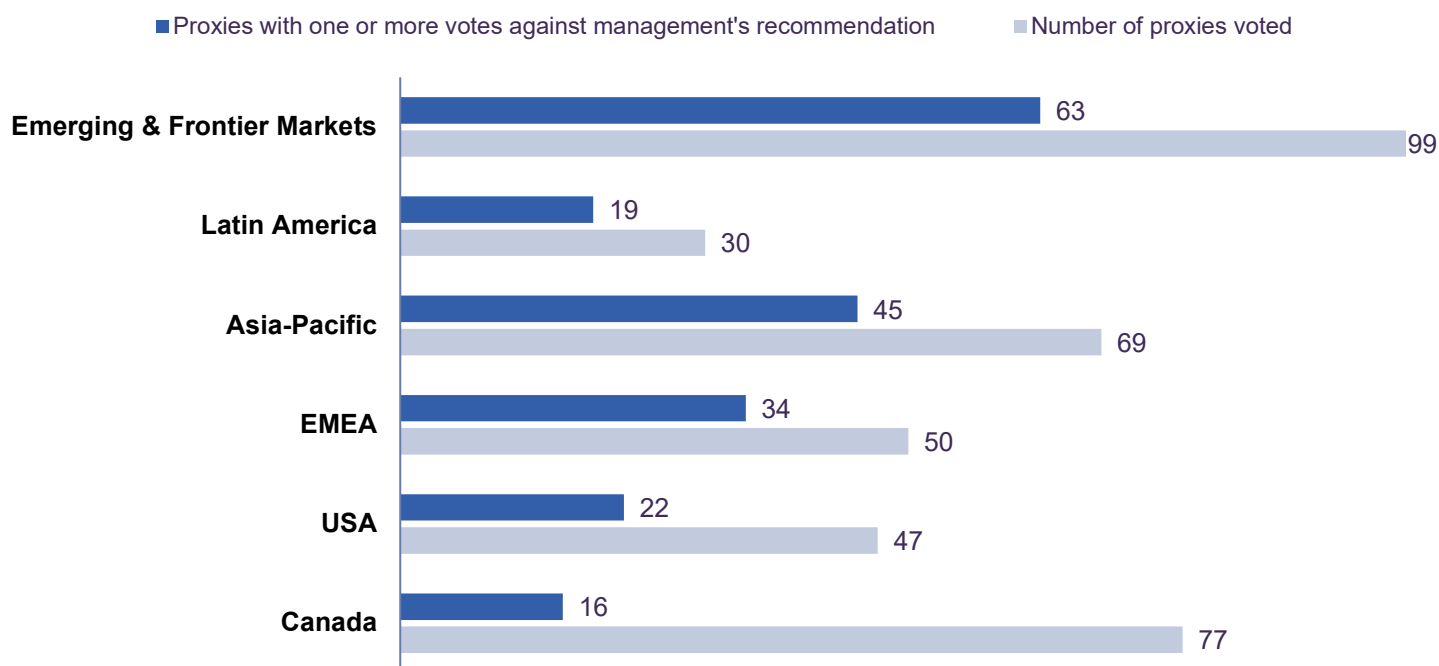
165 Other resolutions where we voted against recommendation of management

155 Shareholder Proposals Voted

40 Shareholder Proposals Supported

273
proxies voted

3,436
resolutions



Spotlight on Governance in Emerging Markets



- A particular area of focus in **Emerging Markets** is good governance. Voting rights are one of the most important rights inherent to shareholding. Letko Brosseau undertakes this duty with the utmost diligence to ensure that proxies are voted and that the decisions taken represent shareholders' long-term interests.
- We vote all our proxies ourselves following in-depth review of the proxy materials. Our votes reflect the guidelines described in our [Proxy Voting Guidelines and Corporate Governance Principles](#), and consider the research provided by Glass Lewis, a leading independent proxy advisory firm.



Firm Level Engagement Themes



Our **ESG approach** considers engagement in both the narrow and broad views, ensuring that we are able to understand the challenges and opportunities these issues may have, not only on individual businesses and industries, but more broadly speaking on the portfolios we manage.

Our definition of engagement includes not only direct communication with the companies and their representatives but all forms of communication that allow us to garner additional insights and draw conclusions related to how the ESG factors under consideration may impact the investments and portfolio.

We frequently engage with portfolio companies and prospective investments on ESG-related issues.



ESG Themes

The following ESG themes represent what we believe to be the most significant topics across the ESG spectrum due to their perceived risk or opportunity over our investment horizon. Each theme may incorporate any or all aspects of environmental, social and governance concerns. A combination of factors is used for their determination:



Bottom-up analysis – This includes ESG risks and opportunities we see from our company and sector analysis. These factors are determined by our investment team members. Each theme aligns with one or more relevant dimensions of the Sustainability Accounting Standards Board (SASB) Materiality Map.

Top-down guidance – These factors include Letko Brosseau’s ESG principles, guidance from reputable organizations, such as the Canadian Coalition for Good Governance (CCGG), the Task Force on Climate-related Financial Disclosures (TCFD), Principles for Responsible Investing (PRI), and SASB, as well as influence from the United Nations Sustainable Development Goals (UN SDGs).



ESG Themes

Energy Transition



Supporting strategies for a transition towards a lower carbon world and understanding how companies intend to succeed efficiently and sustainably.

Topic Examples:

- Climate Change
- Electric Vehicles
- Carbon Capture and Sequestration
- Carbon taxes and trading
- Renewable Energy
- Greenhouse Gas (GHG) Emissions
- Energy Management Systems
- Transition technologies

Recognition of Climate Change as a significant global threat is growing. Governments, scientists, corporations, and the general populace are pressing for a shift towards a lower-carbon world. This pressure is driving changes across industries, policy, and consumer behaviour.

The Energy Transition theme includes a thorough analysis of climate change and the impact of global physical changes. It also includes ways that companies and governments are working to reduce emissions through new or alternative processes and technologies, and the impact of government policies put in place to accelerate this transition. It also covers an outlook on the energy framework that is required to replace fossil fuels as a primary energy source, and the associated industries, technologies, and raw material requirements.



ESG Themes

Sustainable Living



Encouraging healthy economic activity, which includes improving the quality of life for people around the globe, while integrating sustainability solutions, improved labour practices and minimizing environmental impacts.

Topic Examples:

- Environmental impact and protection
 - Water, Air, Land
- Water and food sustainability
- Proper waste and hazardous materials management, waste reduction
- Employee health and safety
- Sustainable labour practices
- Supply chain risk management



This theme addresses the challenge of balancing continuous healthy economic activity, including improving the quality of life for people across the globe, with sustainability and ecosystem conservation. Humanity already puts considerable pressure on the Earth's resources and ecosystems and, with an increasing global population, continued growth in developing countries and high resource intensity of developed nations, a focus on sustainability is vital. Government policies and investor engagement are putting pressure on corporations to do better.

There is a continued push towards clean water and air, waste reduction, conservation of resources and protection of forests and other fragile ecosystems. Proposed solutions include increased recycling, development of a circular economy, improving resource efficiency and construction of green infrastructure. This must all be accomplished while providing quality education, jobs, healthcare, and security of food supply.

ESG Themes

Diversity and Equality



Promoting diversity and equality of people at all levels within an organization. Urging companies to maintain strong social licences to operate by ensuring respect for communities, human rights and land rights.

Topic Examples:

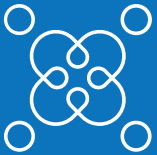
- Human rights and community relations
- Employee engagement, diversity and inclusion
- Equitable pay
- Indigenous lands and rights
- Diversity at the board, management and employee levels



This theme focuses on the importance of diversity and equality of people, thought, perspectives and experience, both inside and outside the organization. There is a growing body of evidence showing that increasing the gender, ethnic and cultural diversity of an organization, particularly at the executive level, leads to improved financial performance¹.

In addition, companies need to maintain a strong social licence to operate by ensuring respect for communities, human rights and land rights in order to build sustainable operations.

¹ [Hunt, Vivian., et al. Diversity Wins: How Inclusion Matters. McKinsey & Company. Mai 2020, How diversity, equity, and inclusion \(DE&I\) matter | McKinsey.](#)



ESG Themes

Responsible Innovation



Encouraging innovation while limiting adverse effects to society, safety, and the environment. Understanding the full life cycle of new products and technologies to limit environmental damage and negative impact to communities.

Topic Examples:

- Artificial Intelligence
- Privacy
- Data collection and accessibility
- Autonomous vehicles
- Product life cycle and long-term impact
 - EVs, batteries
- New forms of currency

As companies continue to innovate, we want to ensure that they are doing so in a responsible way, limiting the adverse effects on society, safety and the environment.

This is especially important in areas such as information technology, where innovation can sometimes be too fast for regulation to keep pace, or society to understand the long-term impacts. In addition, the importance of understanding the full life cycle of a new product can help limit environmental damage.



ESG Themes

Principled Governance



Ensuring that all proxy vote decisions taken represent the long-term interests of shareholders. Engage with management as well as the board of directors and challenge them when we believe their governance structure or actions are not in the long-term interest of all shareholders.



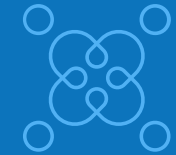
Topic Examples:

- Business Ethics
- Management of the legal and regulatory environment
- Critical incident risk management
- Systemic risk management
- Competitive behaviour
- Executive compensation
- Addressing corruption

Strong governance is something that Letko Brosseau has always supported. We believe the voting right is one of the most important rights inherent to shareholding. We take very seriously our responsibility of ensuring that proxies received are voted and that the decisions taken represent the long-term interests of shareholders.

In general, we promote equal treatment of all shareholders and vote against restricting the composition or conduct of the board of directors. We also seek to ensure that executive compensation and option plans are fair, reasonable, and do not result in excessive shareholder dilution.

Engagement with company management and the board of directors is a key part of our investment approach, and we will challenge them when we believe their actions are not in the best interest of shareholders.



Our engagement activities through the lens of ESG

From our holdings in over **240 portfolio companies**, we have selected the following companies, with which we have been engaged in significant and meaningful discussions related to ESG.

We take pride in featuring these companies that have shown positive evolution, partly as a result of our ongoing engagements with their senior management and boards of directors.



Within Canada

- Celestica Inc.
- Capital Power Corporation
- Sun Life Financial Inc.



Other Developed Countries

- Aegon N.V.
- Veolia Environnement S.A.
- Energias de Portugal, S.A.



Emerging Markets

- PT Semen Indonesia (Persero) Tbk
- IMAX China Holding, Inc.
- First Pacific Company Limited
- Ferreycorp S.A.A.

Semen Indonesia

Emerging Markets Equities

Semen Indonesia is one of the largest cement manufacturers and distributors in the ASEAN region with installed capacity of approximately 50 million tons. They have a 51% market share in Indonesia and export cement to China, Bangladesh, Australia and other parts of the world. The company operates at all levels of the supply chain, including limestone and clay mining, cement bag manufacturing and transportation logistics, as well as industrial real estate construction and development.

Company Name

**PT Semen Indonesia
(Persero) Tbk**

Industry

Construction Materials

Established

1957

Headquarters

Jakarta, Indonesia

ESG Themes

Energy Transition



ESG Risk

Energy Transition

Cement production contributes significant amounts of CO₂ emissions into the atmosphere and the industry is responsible for approximately 8% of global CO₂ emissions each year.

These emissions are an ongoing concern due to their contribution to climate change, which can have widespread implications across the globe in the long term. In addition, companies with high emissions can be exposed to the implementation of carbon taxes or restrictive regulations if they do not strive to transition. This presents both financial and operational risks in the short- to medium-term and should be closely monitored by investors.

Emissions intensity has been an issue for Semen Indonesia for numerous years. Not only does the company emit CO₂ in the production of cement, but also from the coal that is used to generate energy for its operations.

Our Engagement

Letko Brosseau has an ongoing engagement with Semen Indonesia due to the high CO₂ emissions intensity of their operations.

Since 2021, we have been engaging more closely with the company on this issue. We have spoken with the management and sustainability teams and expressed our concerns over the high emissions intensity and potential negative impacts to the company's operations.

In response to our concerns, the company outlined their emissions reduction plan as part of their “Sustainability Journey” strategy. The company targets a 15% reduction in Scope 1 CO₂ emissions intensity by 2030 compared to 2020 levels. This is in line with leading global peers. They plan to achieve this reduction by altering the cement production process to use more recycled raw materials and by changing the energy mix used to power operations by replacing coal with alternate and lower-emission fuels, such as biomass. These initiatives will have an added financial benefit as the expensive raw materials will be replaced by recycled content and coal is replaced by biomass

waste, reducing operating costs. In addition, the company plans to reduce its Scope 2 emissions by 19% by 2030 from their 2019 baseline year, through the addition of renewable energy to the operations.

Despite the challenges that the company has with emissions, we believe Semen Indonesia has a positive future and we continue to be a shareholder. There is no viable replacement to cement and it is a key component in infrastructure and housing for growing emerging market economies. In addition, Semen Indonesia is making solid progress towards emissions reduction, with Scope 1 intensity down 17% since 2010, and has a feasible plan in place to continue down this path.

We will continue to track the Scope 1 and Scope 2 CO₂ emissions intensity closely and will continue to engage with the company on a quarterly basis to receive updates.

Going forward, in addition to evaluating progress towards the interim 2030 targets, we would like to see the details of their plan to achieve net-zero emissions within an appropriate timeframe.



IMAX China

Emerging Markets Equities

IMAX China is an investment holding company which provides digital and film-based motion picture technologies in the People's Republic of China, Hong Kong, Macau and Taiwan. The company engages in the digital re-mastering of Hollywood, Chinese language, and other films into the IMAX format through a proprietary IMAX DMR conversion process and the exhibition of these films in the IMAX theatre network and provides digital theatre systems at its exhibitor partners' movie theatres. In addition, the company provides technical research and development, consulting, service, training and marketing services for theatre systems and multimedia technology, and photographic equipment, virtual reality display equipment and related software and hardware as well as any necessary repairs to equipment.

Company Name

IMAX China Holding, Inc.

Industry

Movies & Entertainment

Established

2011

Headquarters

Shanghai, China

ESG Themes

**Principled Governance
(Privatization)**



ESG Risk

Principled Governance (Privatization)

On July 13, 2023, minority shareholders received an offer from majority shareholder, IMAX Corporation, which owned 71.6% of the outstanding shares of IMAX China, to acquire all remaining equity of IMAX China for a price of HK\$10.00 per share. Based on our analysis, the proposed offer significantly undervalued IMAX China and unjustifiably benefited IMAX Corporation at the expense of its minority investors.

Our Engagement

Following the offer from IMAX Corporation to purchase all shares held by minority shareholders of IMAX China for HK\$10.00 per share, we engaged in a call with the management of IMAX Corp. on August 28, 2023, to discuss their low offer. This call subsequently led to an in-person meeting with IMAX Corporation's management on October 5, 2023. Following the meeting, our team were still unconvinced that the privatization offer was anywhere near adequate. Letko Brosseau then issued a press release urging all other minority shareholders to carefully consider the merits of this offer.

Letko Brosseau, which owned 1.7% of IMAX China, voted against the privatization proposal.

Approximately 61% of minority shareholders voted on the proxy and slightly more than 18% rejected the offer from IMAX Corporation. The proxy voting standards were not met and so, on October 10, 2023, IMAX Corporation issued a press release confirming that the company's proposal to acquire IMAX China's outstanding shares would not proceed following a vote by IMAX China's shareholders.

We are expecting IMAX China to create additional shareholder value by focusing on its core operations in Greater China and taking advantage of the post-COVID recovery in China. The recent reopening of all theatres should drive significant recovery in revenue and adjusted profit at IMAX China.



First Pacific

Emerging Markets Equities

First Pacific, an investment holding company, engages in telecommunications, the consumer food industry as well as infrastructure and natural resources businesses in the Philippines, Indonesia, Singapore, the Middle East, Africa and internationally. The company offers a range of telecommunications and digital services, including a fiber optic backbone and fixed line and mobile networks. It also manufactures and distributes a range of food products, including noodles, dairy products, snack foods, and related consumer goods. In addition, the company explores for mines and produces gold, copper and silver and produces sugar and bioethanol. Through its subsidiaries, it is involved in the operation of a gas-fired power plant and provides water distribution, sewage and sanitation services. Additionally, the company engages in the distribution of renewable energy-related activities.

Company Name

First Pacific Company Limited

Industry

**Telecommunications,
Consumer Food, Infrastructure,
Natural Resources**

Established

1981

Headquarters

Hong Kong SAR

ESG Themes

**Energy Transition,
Principled Governance**



ESG Risk

Energy Transition

Metro Pacific, a company controlled by First Pacific, derives more than 50% of its profit from Meralco, one of its subsidiaries. Meralco is the largest private electric distribution utility in the Philippines. It purchases almost 40% of the electricity generated in the country and redistributes it. Meralco's purchases were dominated by fossil fuels, making up 70 to 100% of the total purchased electricity. Roughly half of these purchases come from fossil gas and coal, while oil-based sources cover most of the balance of the energy mix. Renewables from power supply agreements contribute a relatively small share of the energy mix at between 1% and 2%.

Principled Governance

Corporate governance concerns, at the holding company level, centered on questionable management remuneration and sparse shareholder returns due, in part, to the issuance of too many shares and payment of minimal dividends.

Our Engagement

Energy Transition

Due to the extremely high level of fossil fuels used by Meralco, in 2021, we initiated a detailed discussion with First Pacific to delve deeply into their strategic plans to deal with this important issue.

First Pacific informed us that they would work closely with Metro Pacific on its long-term net-zero strategy and that it intended to publish its first ESG report in the near future. First Pacific also provided us with details on the progress that Metro Pacific was making in the conversion of their power business, by adding at least 1,500 megawatts of renewable power plants over the next five to seven years and plans to source 1,750 megawatts of additional renewable energy by 2030; this compares to the 2021 installed capacity of only 50 megawatts.

Following our encouraging conversations, Meralco published its first sustainability report in 2022. Electricity generated from coal declined from 60% in 2020 to 56% in 2022. Meralco also reiterated its goal towards low-carbon emissions through to 2030, adopting new and green technologies by 2040 and preparing for deep decarbonization with the goal of becoming coal-free before 2050. We will keep watching the company's progress in its impressive but necessary carbon strategy.

Principled Governance

Given the underperformance of First Pacific's stock price, we have talked to the management regularly since 2019 on how they should modify the remuneration mechanism of top management to be better aligned with shareholder returns.

We also recommended that the company repurchase shares and increase the dividend. We felt this would demonstrate management's confidence in and commitment to the company's future potential.

As a result of our repeated requests, in March 2021, First Pacific Company launched a three-year US\$100 million share repurchase program targeting 7.8% of total shares outstanding. In terms of the dividend, the company has steadily increased the amount and the frequency.

We will continue to engage with the company on the improvement of the management remuneration mechanism.



Ferreycorp

Emerging Markets Equities

Ferreycorp is a Peruvian corporation that sells and services heavy mining and construction equipment in Peru, Guatemala, El Salvador, Belize, Nicaragua, Ecuador and Colombia. The company is the sole dealer and distributor of Caterpillar products in these geographies. It also sells a diverse assortment of other leading equipment brands such as Paus, Terex, Metso, Landini, Civemasa and Spra-Coupe. Ferreycorp imports and sells machinery, engines, automotive equipment and spare parts and operates through the following segments: Heavy Equipment, Automotive, Vehicle Rental, Agricultural Equipment and others.

Company Name

Ferreycorp S.A.A.

Industry

**Heavy Equipment
Distribution**

Established

1922

Headquarters

Lima, Peru

ESG Themes

Principled Governance



ESG Risk

Principled Governance

The risk we feel needs to be addressed concerns board governance and committee independence. This is a company-specific concern but is quite common in many countries in the region, where it is a prevailing and acceptable practice.

We had concerns with the governance structure at Ferreycorp. The members of the board of directors are currently only subjected to elections every three years which is not in line with international standards of annual elections. We prefer annual election of individual directors, a move that we felt would encourage greater accountability.

In addition, key board committees, which are meant to advise the board on specific areas of operations like audit, compensation, nominations and governance, included non-independent directors. This, in our opinion, could negatively impact their ability to effectively undertake their critical responsibilities.



Our Engagement

In February and March of 2023, we expressed our concerns over the firm's board governance and committee independence to the CEO, who is also a board member and sits on some key committees. We communicated our preference for the annual election of individual directors and for the independence of key board committees.

The CEO notified us that the board would consider our position on annual election of directors. In addition, we were also informed that non-independent directors planned to step down from certain key committees and continue in a role of providing information, only.

Despite these concerns, Ferreycorp has proven to have a strong governance structure in place and acts as a consistently responsible corporation. We continue to hold shares of the company and will work with them as they transition towards international best practices. We are looking for continued progress on the implementation of these important changes.

End Notes

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