# SUSTAINABILITY REPORT

2024

SPRUCEGROVE
INVESTMENT MANAGEMENT

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# Letter From the ESG Team

To say that 2023 was an eventful year would be an understatement. Not only was 2023 the hottest year on record, but many parts of the world also experienced record-breaking heatwaves, floods and wildfires. There was increasing pressure on boards for both greater transparency and accountability around issues such as greenwashing and linking executive compensation to sustainability. We were confronted with the emergence of artificial intelligence in the form of large language models like ChatGPT, Bard and LLaMa that have the potential to disrupt the way we communicate, work and live.

It has been an eventful year for the ESG team at Sprucegrove as well. This year we communicated with every company across all our portfolios regarding our participation in the Net Zero Asset Managers ("NZAM") initiative and our commitment to work with them on their decarbonization goals. Included within this report is a timeline and roadmap of our NZAM journey; what we have achieved so far and what lies ahead. We also share an early snapshot of how the portfolio is aligned, which will provide an increasingly valuable point of comparison in the years ahead.

While climate change and the energy transition were the most frequently discussed themes, we regularly engage with our portfolio companies on a wide range of environmental, social and governance issues that impact their businesses. We included some notable examples of our engagements for your review.

For the last decade we have been aware of the UN's Sustainable Development Goals and how they apply to the companies we invest in. In 2023, we assessed our own organization through that same lens and we are pleased to share the goals with which Sprucegrove is aligned.

As we did last year, we provide insight in our proxy voting process, our ESG partnerships as well as our internal efforts around charitable initiatives, diversity and inclusion. It is our hope that clients, stakeholders and other readers will find value in this review of our sustainability efforts and a glimpse into where we hope to be in the years ahead.

For clarity, our commitment aims to ensure that an increasing proportion of our investments are aligning with net zero goals. We do not apply ESG by exclusion, nor do we divest a given asset based solely on net zero targets. Through engagement and stewardship, we actively communicate our views on desired change and long-term outcomes.
This may result in decisions not to allocate capital to high carbon investments.

# ESG Approach and Considerations

Since inception, our primary objective has been to generate superior long-term returns for clients by investing in quality businesses when they are trading at compelling valuations. Our assessment of a company's quality includes an analysis of its long-term record, its durable competitive advantages, its financial strength, growth opportunities and management team.  ESG considerations are also a part of our quality assessment.  We believe that evaluating attractive long-term investments should include identifying potential risks and opportunities related to ESG.  In our experience, companies with innovative and forward-thinking management teams tend to view changes to their business landscape as opportunities, whereas companies led by management teams lacking those qualities tend to view change as an obstacle.

Third-party service providers including, MSCI ESG®, Glass Lewis®, and ISS Governance®, supplement our internal research and we regularly evaluate new service providers to ensure we have the right tools and the best value for service. Additionally, we attend conferences and webinars, speak with subject matter experts and a number of team members have completed the CFA Institute® Certificate in ESG Investing.

While we are not activist investors, we do aim to promote positive change at the companies we invest in and encourage management teams to adopt and adhere to best practices. Engagement begins by communicating with management teams on ESG issues.  Our reputation as long-term investors and our practice of maintaining an ongoing dialogue has facilitated fruitful and meaningful discussions around a broad spectrum of issues.  Escalation, where necessary, is done through formal communication and proxy voting.

In the following section, we provide examples of engagements over the past year with company management on ESG issues.

# COMPANY ENGAGEMENTS

ENGAGEMENT CATEGORY

# Environment

We met with **SBM Offshore**, a supplier of floating oil and gas production platforms based in the Netherlands, to discuss their environmental initiatives. Topics included their carbon capture system (CCS), Near-zero Floating Production Storage and Offloading (FPSO) vessels, and new energy mix investments to reduce oil and gas production emissions.

In a meeting with **National Australia Bank's ("NAB")** Head of Sustainability Performance, we discussed their strategy for managing environmental risks in their loan portfolio, including thermal coal and gas exposures.

Additionally, we explored opportunities for NAB to benefit from Australia's climate transition, such as financing the growing renewable energy industry and new infrastructure supporting the transition from coal plants.

During a call with **Vietnam Dairy,** the largest dairy processor in Vietnam, we engaged with management on its commitment to achieve net zero by 2050. They laid out the early initiatives, including installing a biogas system and planting approximately a million trees as a part of an ongoing program to reduce and offset emissions.

ENGAGEMENT CATEGORY

# Social

We met with **Ryanair**, a low-cost European airline, to discuss their ESG initiatives. The discussion covered a range of issues including pilot hours, training, and compensation, along with feedback on the labour shortages faced by the airline industry. Key employee complaints and the implementation of their new whistleblower policy were also addressed.

In a meeting with the CEO of **North West Company**, a Canadian grocer operating in remote communities, we discussed media reports about alleged price gouging. We explored the significant cost pressures faced by these communities and the measures taken to mitigate these pressures.

It was also revealed that the CEO spoke with a Parliamentary Committee about affordability in its communities.

Social initiatives and priorities were the focus of our meeting with **Vopak**, the world's largest independent tank storage company specializing in the storage of oil and gas, chemicals, biofuels, and liquified natural gas ("LNG"). We concentrated on Vopak's safety record, their ambition for a zero-injury rate, and how safety is factored into management's compensation incentives.

ENGAGEMENT CATEGORY

# Governance

Governance issues were discussed during a meeting with **Fresenius Medical Care**, a leading global dialysis service provider. We provided feedback on and suggested changes to their proposed compensation structure.

Our recommendations included the inclusion of returns-based metrics in the compensation plan and more robust targets around share ownership by top executives.

An engagement with **Renishaw**, a U.K.-based precision engineering company, followed our vote against the company's founders in the latest proxy.

We shared our view that the formal voting agreement between the founders impaired the rights of minority shareholders. Discussions also covered skill gaps on the board, director engagement, and the influence of US remuneration on UK companies.

Our meeting with the CEO of **Zee Entertainment**, a leading Indian broadcaster and content creator, focused on corporate governance. The CEO outlined several initiatives aimed at improving transparency across the organization and enhancing internal and external audit practices.

SOURCE: SBM OFFSHORE, NATIONAL AUSTRALIA BANK, VIETNAM DAIRY, NORTH WEST COMPANY, VOPAK, FRESENIUS MEDICAL CARE, RENISHAW, ZEE ENTERTAINMENT , SPRUCEGROVE, FACTSET | AS OF DECEMBER 31, 2023
SEE IMPORTANT INFORMATION

COMPANY NAME

# Anglo American

SECTOR

Materials

COUNTRY

United Kingdom

ENGAGEMENT CATEGORY

Environment

## SPRUCEGROVE ENGAGEMENT

As part of our ongoing monitoring, we regularly meet with the management team of Anglo American ("Anglo"), including its CEO, and discuss ESG-related issues that impact the company, particularly environmental considerations.

## ESG SUMMARY & CONSIDERATIONS

Anglo is one of the largest mining companies in the world and the global leader in the production of platinum group metals and diamonds. It is also a top five producer in iron ore, metallurgical coal, and copper. The company runs vertically integrated operations with ownership of mining assets, mine infrastructure, logistics systems, and marketing networks with a major presence in South Africa, South America, and Australia.

Mining entails the extraction of valuable mineral resources from an ore body, which are often found in remote areas of the world and can involve digging hundreds of feet below the Earth's surface. These are energy intensive operations and involve techniques such as blasting, which can cause elevated levels of emissions and wastage of natural resources including deforestation and water usage. These operations tend to generate large quantities of toxic waste materials, which need to be stored in man-made dams ("tailing dams"), failure of which can cause spillage and severe damage to the local ecosystem.

The company has put in place several sustainability measures such as use of renewable energy, liquified natural gas for shipping charters and fuel-cell technology to achieve its sustainability targets. In 2022, Anglo's Chile and Brazil operations ran on 100% renewables. The company is also currently in the process of conducting trials of the world's first hydrogen fuel-cell based haulage truck at its mines in South Africa, which if successful can drastically reduce diesel emissions from mines all over the world. Anglo has developed innovative mining techniques such as bulk ore sorting and coarse particle recovery, which can produce energy savings of up to 30% while increasing productivity. A particular focus is investing in new integrated water solutions, such as putting in place several innovative, water-saving approaches and technologies including: the separation of water streams to avoid contact with wastewater and discharging less water to tailing dams while also remote monitoring the water flows and levels in conjunction with piloting passive water treatment technologies.

## CONCLUSION

Anglo is a global diversified mining company, ranked in the top 15% for ESG rankings (MSCI), among all metal and mining companies in the world and leads its peers in adopting emissions abatement schemes such as methane capture, diesel replacement, and the use of renewables. Further, Anglo exited its thermal coal business and has been actively investing in transforming its product portfolio towards future facing green commodities such as cobalt, nickel, and crop nutrients. Anglo has a special focus on safety and inclusion, having taken concrete steps to reduce fatality incidents and foster better working culture for its women employees. Anglo targets a 30% reduction in absolute greenhouse gas emissions by 2030 (from a 2016 baseline) and is committed to achieving net zero by 2040, if not sooner.

Due to the inherent nature of the mining industry, Anglo is exposed to key ESG risks which makes assessment of these risks an integral part of our investment analysis and monitoring. We are encouraged by the various ESG initiatives taken by the company including its long-term commitment to net zero and transforming its portfolio towards greener, future-facing commodities. Based on our research and interactions with Management, we feel confident that Anglo's strong commitment and innovative approach will help it set new ESG standards in the industry.

***UPDATE: May 31, 2024:** we have divested our position in Anglo following the failed takeover bid by BHP.*

COMPANY NAME

# Adani Ports

SECTOR

Industrials

COUNTRY

India

ENGAGEMENT CATEGORY

Governance

## SPRUCEGROVE ENGAGEMENT

We hold a position in Adani Ports & SEZ ("Adani Ports"), which is part of the Adani Group of companies. Adani Ports is the largest port operator in India with more than 25% market share of the overall cargo market. The company has a portfolio of thirteen ports spread across the coast of India and covers 95% of the country's hinterland. Its ports are all-weather, deep draft, and multi-purpose and can handle a diverse range of cargo, bulk, crude, gas, and containers. On Wednesday, January 25, 2023, short-seller Hindenburg Research released a report where they made several allegations against the Adani Group. This put downward pressure on the share price of all the publicly listed Adani Group stocks, including Adani Ports. The issues raised in the report were discussed with Adani Port's CEO in a call in February and an on-site visit in May 2023.

## ESG SUMMARY & CONSIDERATIONS

The Hindenburg Research report was released just as one of the Adani Group companies (Adani Enterprises) was seeking to raise additional equity through a secondary offering of $2.5 billion. It raised concerns about governance practices by the Adani Group. The report mentioned that all of Adani Group's listed companies are highly overvalued and alleged that in addition to already high insider (family) ownership in several Adani companies, the family also controlled significant amounts of publicly traded stock through offshore shell companies which meaningfully reduced the free float and opened the stock to price manipulation. This issue has been raised before and the practice of foreign direct investment (FDI) in India through tax haven jurisdictions is common. The report also raised the risk that the elevated levels of leverage used by the group to fuel its growth could lead to potential credit crunch/solvency issues.

The other entities within the Adani Group are more levered than Adani Ports which has a financial position (Net Debt/ Equity ~90%) that is tolerable given the nature of their business (specifically because of the "sticky" long term nature of their contracts). This latitude is not the norm but has been in place due to the consistent cashflows of the Ports business which is aided by modest maintenance capex requirements.

This prompted a call with Karan Adani, CEO, where we discussed the issues raised in the report. We were able to reaffirm that Adani Ports was appropriately ring-fenced should one or more of the other entities within the group find themselves financially challenged. We obtained a commitment to further reduce the Adani family's level of share-pledging activity (shares used as collateral for loans) and that no members of the immediate family were to use any offshore entities to hold or control shares. Mr. Adani is also committed to reducing leverage both at Adani Ports and at the Group level to restore stakeholder confidence by providing ample evidence that there is no fraudulent activity and that the company has the financial wherewithal to deal with the matters at hand. In addition, assurances were provided that no further M&A activity will take place over the next 12-month period until the company has reduced debt levels.

## CONCLUSION

It appears that most of the findings in the Hindenburg report were known issues in the public domain. We took this opportunity to engage with the company and encouraged them to improve some governance elements. Subsequently, the company repaid $1.1bn against share pledges (reduced from 17% to 4%) and announced its intention to prepay a $600mn bond maturing in 2024 related to the Adani Ports business. We believe that Adani Ports remains a best-in-class operator with strategic locations reinforced via modern infrastructure and long-term contracts. It has the only integrated port business in India that allows it to provide a full range of services to its customers. Adani Ports continues to meet our quality criteria to be included in our portfolios.



SOURCE: ADANI PORTS , SPRUCEGROVE, FACTSET | AS OF DECEMBER 31, 2023

COMPANY NAME

# TotalEnergies

SECTOR

Energy

COUNTRY

France

ENGAGEMENT CATEGORY

Environment

## SPRUCEGROVE ENGAGEMENT

TotalEnergies SE ("Total") is one of the longest-held investments, as we owned the two antecedent companies – Elf Aquitaine and Total Fina – that merged in 2000. The company acknowledges that the combustion of fossil fuels is contributing to global warming and has articulated a strategy to achieve net zero by 2050.

In April 2023, we hosted the Chair and CEO in a continuation of our annual update meetings with the company to learn more and question its longer-term strategies to decarbonize and participate in the energy transition. The meeting affirmed the objectives that we have discussed. Some of the more important objectives are to achieve a 40% reduction in Scope 1 and 2 emissions by 2030 vis-à-vis a 2015 baseline; improve its assets' operating efficiency through emissions-reduction projects, zero routine flaring of natural gas and purchase of 'green' electricity in the EU and USA; reducing by 80% its methane emissions vis-à-vis a 2020 baseline; developing 10 million tonnes per annum of Carbon Capture and Sequestration ("CCS") projects; investing up to $100 million per annum in nature-based solutions.

The company has articulated the goal of being a 'multi-energy' company in its quest to achieve net zero by 2050. The four pillars of this address its oil, natural gas, electricity, and low-carbon energy business. Concerning oil production, Total is focusing on projects with low emissions and low operating costs. Its natural gas strategy aims to maintain its global top three LNG production standing while working to reduce methane emissions across the production chain. The company's electricity ambition is to be in the top five producers of renewable electricity while its low-carbon energy vision is to produce one million tonnes of clean hydrogen and achieve a 10% share of the synthetic aviation fuels ("SAF") market in 2030.

## ESG SUMMARY & CONSIDERATIONS

Total's core oil and gas business will continue to underpin market demand for oil and natural gas both of which are still growing. Total's oil business is focused on maximising production from onshore fields in the Middle East, large deepwater fields in offshore Brazil and West Africa while engaging in high-impact exploration offshore South America and South Africa. Current plans call for oil production to be a relatively consistent proportion of the company's energy production at 40% through 2030. LNG expansion and new project sanctions should see it comprise 40% of the company's production by 2030; natural gas growth is predicated on displacing coal with its more unfavourable carbon emissions profile in addition to providing dispatchable power to electricity grids in the EU and North America which are absorbing increasing amounts of intermittent renewable electricity. Its electricity and low-carbon molecules ambitions are predicated on investing in and taking electricity from renewable energy projects in conjunction with investing in biogas, SAF, and CCS in addition to reducing the use of hydrogen produced from natural gas in its refineries and substituting green hydrogen in its stead.

## CONCLUSION

We believe the company is responsible for looking to invest in the energy transition by focusing on the most prolific oil discoveries to maintain its oil production while simultaneously increasing its natural gas and LNG production for baseload and backup power generation. Total should gradually emerge with a meaningful presence in the renewable electricity and low-carbon molecules business fields as it invests in large-scale renewables projects, CCS, green hydrogen, bio-methane, and SAF.



SOURCE: TOTALENERGIES , SPRUCEGROVE, FACTSET | AS OF DECEMBER 31, 2023

SEE IMPORTANT INFORMATION

COMPANY NAME
# Sembcorp Industries

SECTOR
## Utilities

COUNTRY
## Singapore

ENGAGEMENT CATEGORY
## Environment

## SPRUCEGROVE ENGAGEMENT

At a meeting in September 2019, Sembcorp Industries ("Sembcorp") former management team first communicated the group's intention to dispose of its two super-critical coal-fired power plants in India, one of which had struggled to sign long-term agreements for its production capacity. If completed at a "fair value," something the CEO was prepared to wait for, divesting the coal assets could help reduce leverage while significantly improving the emissions profile of the portfolio. Follow-up meetings with the new CEO in November 2020 and September 2021 reiterated the company's intention to dispose of these assets for the reasons noted above. In September 2022, Sembcorp announced it had reached an agreement to dispose of its Indian coal-fired powered plants. We were supportive of the transaction as it helped the company to dramatically lower its emissions intensity without negatively impacting shareholder value.

## ESG SUMMARY & CONSIDERATIONS

Sembcorp is a global integrated energy player headquartered in Singapore. As a leading energy provider in Southeast Asia, Sembcorp faces challenges in producing a necessity with a low-carbon footprint. As the energy generation sector contributes to over one-third of global emissions, decarbonization of the sector is critical to reducing Greenhouse Gas ("GHG") emissions and limiting global warming.

At its May 2021 investor day, Sembcorp announced a "brown-to-green" transformation that would see the group pivot to supporting the energy transition sustainably. The brown-to-green transformation provided targets to grow the gross installed renewable capacity to 10GW by 2025 (from 2.6GW in 2020) and reduce Sembcorp's GHG emissions intensity by 25% to 0.40 tCO2e/MWh by 2025 (from 0.54 tCO2e/MWh in 2020). The group also committed to halving GHG emissions by 2030 (from a 2010 baseline of 5.4m tCO2e) and delivering net zero emissions by 2050.

Following the completion of the sale of the two Indian coal-fired power plants in January 2023, Sembcorp has exceeded its initial emissions intensity target set out at its 2021 investor day. On a pro-forma basis, GHG emissions intensity declined to 0.31 tCO2e/MWh, which is below the 2025 target of 0.40 tCO2e/MWh. At a March 2023 meeting with the company, management confirmed Sembcorp expects to exceed its gross installed renewable capacity target of 10.0 GW ahead of the 2025 target date. It currently has 10.3GW of production capacity either operational or in production.

While the company has made significant strides in reducing its total GHG emissions, approximately 95% of the energy produced in Singapore is derived from natural gas. To achieve its longer-term environmental objectives, management has been leveraging Sembcorp's unique position in its home country as both an importer and a power generation company which has allowed the company to sign long-term agreements with customers to commit to the production of power. As the contracts do not stipulate a fuel source, Sembcorp expects to substitute brown power with green power as its renewable portfolio in Singapore continues to grow.

In addition to pivoting to lower carbon energy production, Sembcorp is a leading developer and manager of industrial parks across Southeast Asia. As governments in the region look to attract foreign development to grow their economies, they rely on Sembcorp to plan, design, build, and manage the infrastructure in these parks. Once the land in these parks has been sold and developed, Sembcorp has an opportunity to further enhance its green ambitions by offering to supply customers with renewable power in the form of rooftop solar and/or battery storage.

## CONCLUSION

Since announcing the brown-to-green transition, Sembcorp management has done a particularly respectable job in growing the company's gross installed renewable capacity while lowering GHG emissions, which has largely been the result of the sale of its coal-fired power plants. The company continues to strive to meet all the targets laid out at its 2021 investor day. Management is incentivized to meet or exceed the targets, as no performance shares will be awarded if the threshold targets are not met by 2025.



SOURCE: SEMBCORP INDUSTRIES , SPRUCEGROVE, FACTSET | AS OF DECEMBER 31, 2023

# PROXY VOTING

# Proxy Voting

We are proud of our role as stewards of our clients' funds and while generating favorable long-term investment performance is our paramount objective, the discharge of our fiduciary duty includes voting our clients' proxies in their best interests. We are cognizant of the importance of this responsibility and strive to apply our proxy voting policies as consistently as possible regardless of the geography in which a company is domiciled. Our internal analysis also utilizes proxy research from third party providers – ISS and Glass Lewis - however, all decisions rest with us.

Our guidelines are reviewed and updated annually, as required, to take into account evolving expectations as to good corporate governance in addition to applying lessons learned from prior years' voting. A good example of the latter is that a member of the company's executive management should be assigned the responsibilities of Chief Sustainability Officer to demonstrate their commitment to ESG matters.

### Recent changes to our proxy voting guidelines:

## BOARD OF DIRECTORS:

We consider any directors up for re-election with tenures of less than twenty years as appropriate. Any directors up for re-election with tenures of twenty years and above we will consider as insiders. Directors on the board with such long tenures raise questions as to their ability to exercise objective judgement and opinion. However, we also factor in the overall board independence, the director's attendance, experience, and contributions to the board.

We revised the number of years that is acceptable for someone to be on the board because we feel long-tenured directors provide invaluable expertise, experience, continuity, and stability to the board.

A historical perspective can be useful in determining a company's strategy. During the 2022 proxy season, the board tenure of fifteen years put us into a one-size-fits-all thinking in corporate governance, as we often came across board tenures of fifteen or sixteen years. We wanted to ensure greater flexibility during the 2023 proxy season to factor in board members who may have a tenure of eighteen years but checks the boxes in all other areas (i.e., brings quality performance, skills, and expertise). If only one or two board members have long-tenures, we prefer not to exclude them and will look at the overall board independence.

## MANAGEMENT & DIRECTOR COMPENSATION:

For directors, holdings equal to at least one year's worth of salary is generally appropriate to be built within three years of joining the board. However, we encourage directors that are also executives to own such an amount of shares within one year of joining the board.

We encourage executives to own underlying shares in the company within one year of joining the board, equivalent to a minimum of one year's worth of their base salary.

The above was amended to have clearer language, as we like to see incentives that promote long-term success. Compensation should be linked with the best interests of the shareholders, and we review it on a case-by-case basis.

In those circumstances where we have either opposed or abstained on management proposals, we communicate the rationale for our voting with the company. This is increasingly fostering a stronger dialogue with our portfolio holdings encompassing not only our traditional financial review but also regarding their corporate governance, environment and social policies. Gaining insights from company boards and management responses is essential as it can impact our risk-adjusted return expectations.

## IN-PERSON OR MIX OF IN-PERSON AND VIRTUAL SHAREHOLDER MEETINGS:

We prefer in-person or a mix of in-person and virtual general meetings, instead of virtual-only meetings, as they provide greater protection of shareholder rights. With virtual-only, there is concern with company-favourable filtering of meeting issues as management has greater ability to control the meeting agenda. For companies requesting virtual-only meetings with adequate notice, we will take into consideration the rationale provided, if any. As well as any disclosed safeguards, ensuring that shareholders would have the same participation rights as they have at an in-person meeting.

# Proxy Voting Continued...

### POLITICAL DONATIONS:

We are against political donations. In the past we have given some discretion to companies that make either nominal political donations or which had no history of political donations.  However, in the interest of simplifying our guidelines we now consistently oppose political donations.

### SOCIAL & ENVIRONMENTAL GUIDELINES:

In addition to the Sprucegrove Proxy Voting Guidelines, we developed the Sprucegrove ESG guidelines. An essential part of our investment process is ESG, and we are dedicated to providing transparency with respect to our proxy voting. The purpose of the ESG Guidelines is to serve as a guide for voting proxies and engaging with management.

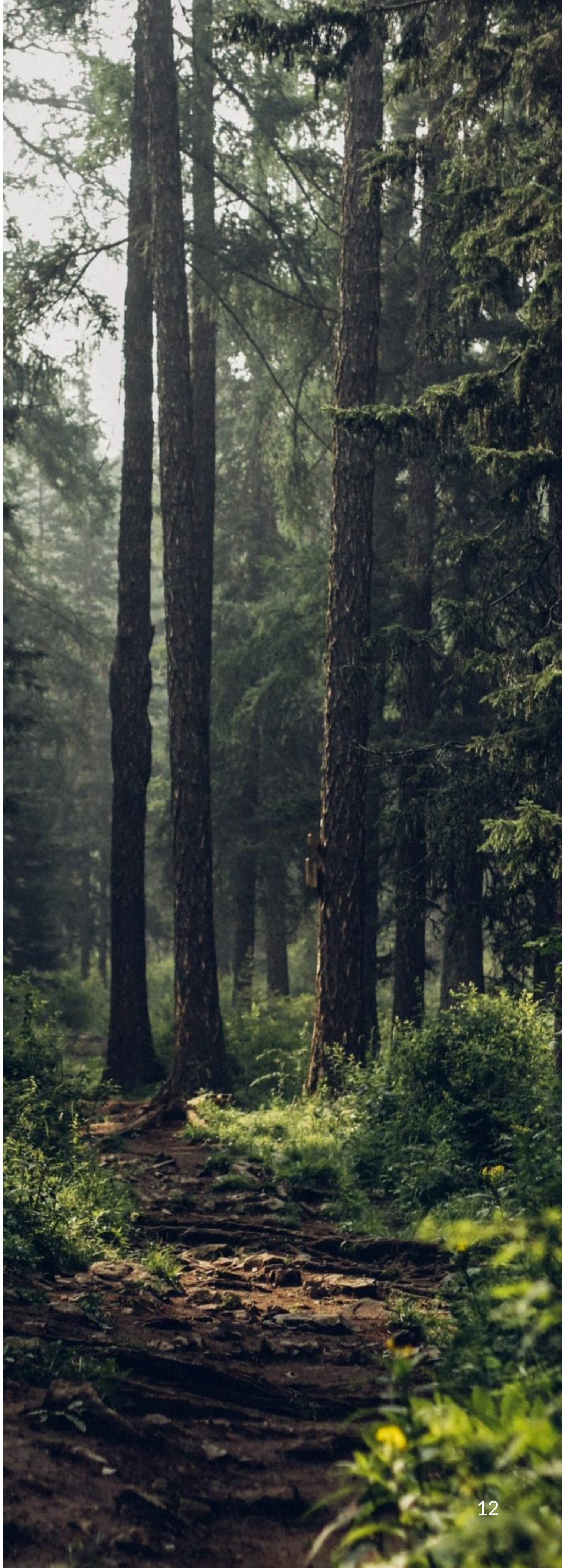
### CLIMATE-RELATED PROXIES:

We recognize that climate change has emerged as a significant environmental threat to the planet to date. Scientists agree that gases released by chemical reactions including the burning of fossil fuels contribute to a "greenhouse effect" that traps the planet's heat and that in turn is leading to more extreme weather events due to atmospheric and oceanic warming. Companies are increasingly expected to adapt their business models to a lower carbon economy.

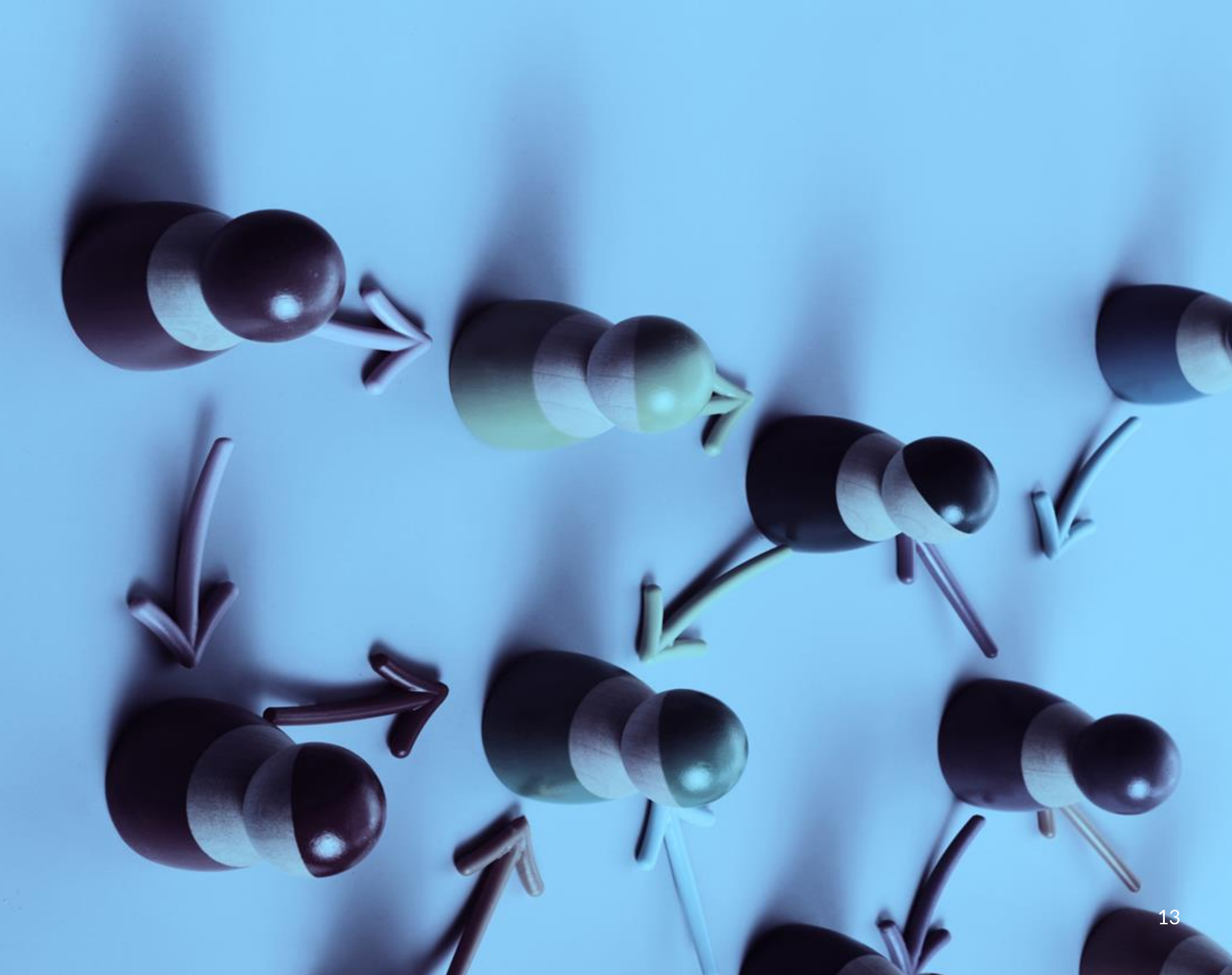
In 2022, we added a set of guidelines specifically for voting climate related proxies. Some of the new considerations include supporting shareholder proposals seeking information on the financial, physical, or regulatory risks a company faces related to climate change with respect to its operations and investments, and/or how the company identifies, measures, and manages such risks.

In addition, consistent with our net zero commitment, shareholder proposals calling for the reduction of greenhouse gas emissions and to commit to net zero by 2050 with an interim target of 50% reduction in Scopes 1 and 2 will be supported.

Management proposals that request shareholders to approve the company's climate transition action plan, will be considered on a case by case based on the completeness and rigor of the plan.



# PARTNERSHIPS AND INITIATIVES



# Net Zero Asset Managers Initiative

The Net Zero Asset Managers ("NZAM") initiative comprises a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit global warming to 1.5 degrees Celsius, and to supporting investing aligned with net zero emissions. The initiative will be managed globally by six Founding Partner investor networks, namely:

- Asia Investor Group on Climate Change
- CDP
- Ceres
- Institutional Investors Group on Climate Change
- Investor Group on Climate Change
- Principles for Responsible Investment

The initiative is also endorsed by The Investor Agenda, of which the investor networks are all founding partners.

Over the next 12 months, our team will perform a complete evaluation of our strategies with the intention of setting our own specific targets to align our portfolios with net zero by 2050 or sooner.

For more information on the Net Zero Asset Managers Initiative and the commitments made by signatories, please visit [www.netzeroassetmanagers.org](http://www.netzeroassetmanagers.org).

## NZAM TARGETS AND STRATEGIC PRIORITIES:

**2016** Sprucegrove became a signatory of the Principals for Responsible Investment ("PRI").

**2019** We have set our baseline year for the NZAM initiative as 2019[1]. At the time of target setting in 2022, this was the most recent year uninterrupted by the COVID-19 pandemic.

**2021** Sprucegrove became a signatory of NZAM and joined The Responsible Investment Association ("RIA").

**2022** We developed our methodology and measurement tools to assess our assets under management to fully align with the Paris Aligned Investment Initiative's net zero Investment Framework.

We set and disclosed interim and long-term climate targets for our assets under management in line with the Paris Climate Agreement's goal of holding the increase in the global average temperature rise to well below 2°C above pre-industrial levels and to pursue efforts to limit warming to 1.5°C.

**2023** We prioritized engagement, as part of our NZAM initiative, facilitating corporate engagements with all our portfolio companies to support their goals of reducing emissions in the short term and working towards zero emissions in the long term. We communicated our NZAM commitment to our portfolio companies and encouraged alignment.

**2024** Continued progression of alignment action by focusing our engagement stewardship first and foremost where it is needed. This includes the most carbon-intensive companies in our portfolio, as they will have the greatest impact on the decarbonization of our portfolio. As well as engaging with the laggards of our portfolio companies to emphasize the importance of embracing environmental best practices and having a tangible, detailed decarbonization plan.

We use Clarity AI's[2] net zero solution to assist us with tracking our portfolio alignment to net zero and identifying the 'top/worst contributors' for company engagement. A percentage breakdown of our portfolio's net zero alignment can be provided upon request.

We will evaluate incorporating an engagement threshold into our NZAM disclosure.

**2030** Our interim portfolio coverage target is to have 50% of AUM in material sectors[3] considered net zero, aligned, or aligning by 2030.

**2040** Our long-term portfolio coverage target is 100% of AUM in material sectors considered net zero or aligned by 2040. The 2040 date to reach 100% recognizes that, in order to be consistent with net zero by 2050, companies will have to have set targets and execute on plans to achieve the transition well in advance of the 2050 date.

[1] We do not yet have sufficient information to fully evaluate the percentage of AUM managed in line with net zero at our baseline year.

[2] Clarity AI's net zero solution supports Financial Institutions reporting their net zero alignment, in line with the net zero Investment Framework developed by the Paris Aligned Investment Initiative (PAII).

[3] Material sectors are defined as those in NACE code categories A-H and J-L. Currently, we do not have a mapping of NACE to the sectors in which our portfolio companies are categorized under.

# ESG Partnerships:

## PRI PRINCIPLES FOR RESPONSIBLE INVESTMENT

Sprucegrove has been a signatory of the PRI since 2016. The PRI is the world's leading proponent of Responsible Investment ("RI"). It works to understand the investment implications of ESG factors, and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

## RIA RESPONSIBLE INVESTMENT ASSOCIATION

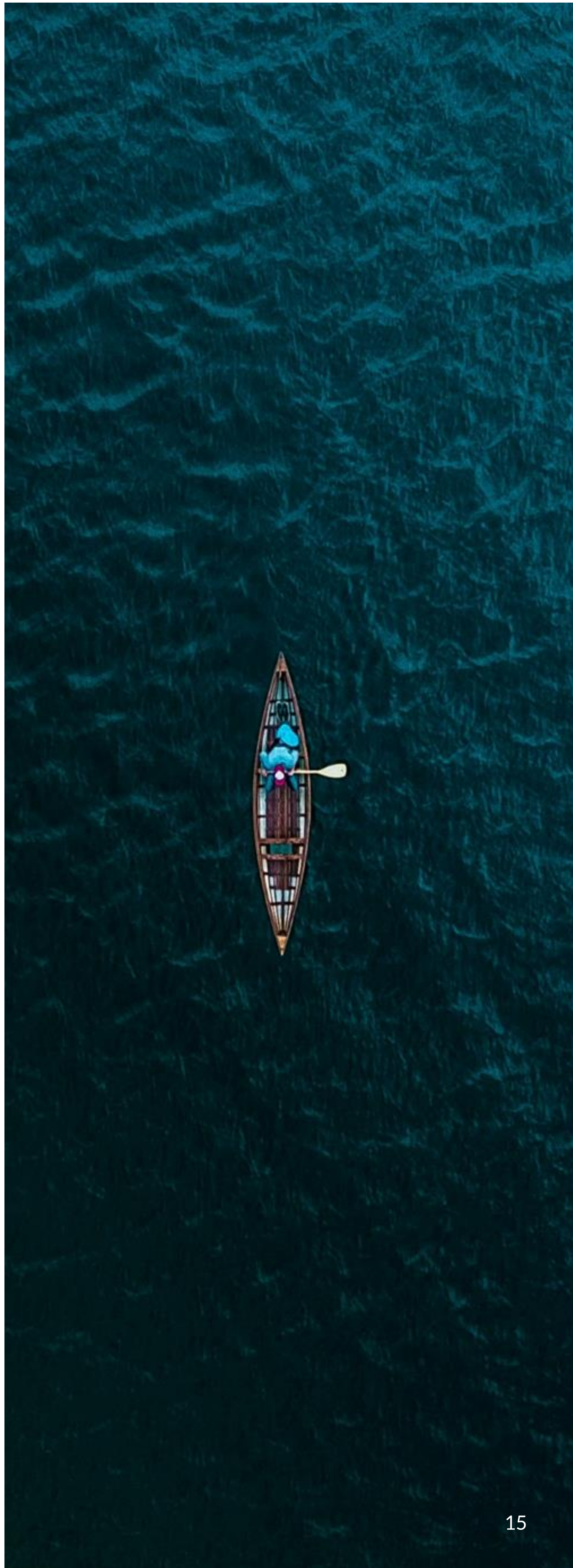
In 2021, Sprucegrove joined the RIA to support the goal of increased responsible investing in Canada's institutional markets. Our partnership with RIA is one further step in the direction of positioning ourselves as a leader in RI and ESG investing in Canada. We look forward to engaging with peers and industry leaders to discuss the future of Canada's marketplace and to utilize the expertise and resources RIA offers to deliver the very best to our clients.

# Alignment with:

## SUSTAINABLE DEVELOPMENT GOALS

In 2023, we evaluated our alignment with the Sustainable Development Goals ("SDGs") and found that our business practices align with five SDGs. We financially support our employees' pursuit of continuing education and provide comprehensive pathways for career development. Additionally, we have implemented workplace flexibility initiatives. We strive to promote equality and foster an inclusive environment. Sprucegrove was ranked the second largest minority and women-owned active non-U.S. equity manager by Pensions & Investments in 2023.[1]

Our commitment to sustainability extends to our business activities through the management of carbon-related operational efficiencies (i.e., transition to energy-efficient equipment) and our partnership with a carbon credit corporation to neutralize our overall carbon footprint.

[1] Pension & Investments. Sprucegrove is the 2nd largest minority & women-owned active non-U.S. equity manager for internally managed U.S. institutional, tax-exempt assets, as of December 31st, 2022.

# Charitable Initiatives

We are privileged to have enjoyed success over the years and the ethos of 'Giving back to our community' was strongly encouraged by our founders. We have supported our employees in contributing their time – through paid days – at numerous charities and organizations. Some of the numerous organizations that have benefitted from our employees' involvement are Habitat for Humanity, Fred Victor, Bloorview Children's Hospital, Food Share, Dixon Hall, and Meals-on-Wheels, amongst others.

An exciting development occurred in November 2021 when the Sprucegrove Foundation[1], was approved by the Canada Revenue Agency as a charitable organization. The Foundation works closely with a limited number of local charities that 'fly below the radar' and are in need of funding and that can also benefit from our staff volunteering. The task of identifying and selecting the charities is being spearheaded by the Sprucegrove Foundation Charitable Committee which elicits the input of the entire company.

[1] Sprucegrove Foundation is not legally affiliated with Sprucegrove Investment Management Ltd., but such entities may be under common control as they may have shared board members from time to time.

# Carbon Offsets

The Earth's climate remains a pressing global challenge. We are witnessing new extremes in terms of drought, forest fires (recently dubbed 'forever' fires), weather-related events, extreme temperatures, tropical storms and hurricanes. There is a broad-based acceptance that meaningful action needs to be taken and most industrialized and developing nations have agreed to some form of net zero target, whether that be in 2040 or 2050. Furthermore, over 100 nations have agreed to The Global Methane Pledge under which methane emissions will be reduced 30% by 2030 compared to a 2020 base.

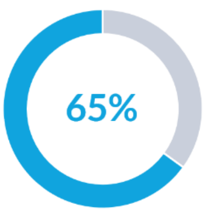
Sprucegrove neutralizes its business travel emissions by investing in carbon offsets through Ostrom Climate, one of North America's leading providers of carbon management solution. We have partnered with Ostrom Climate to help protect the Great Bear Rainforest in British Columbia, home to the largest intact coastal temperate rainforest remaining in the world.

OSTROM CLIMATE

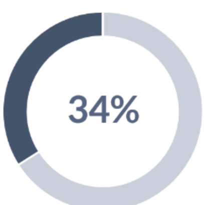
# Diversity

Our firm is based in the province of Ontario, Canada. We are governed under provincial legislation and comply with the Ontario Human Rights Code. We are located in one of the world's most cosmopolitan cities, Toronto, which provides a diverse talent pool, and which is reflected in our employee population. While we recruit and select our people based on skills, knowledge and abilities rather than cultural or ethnic background, we are proud of our diversity.

Sprucegrove has been certified as a minority-owned business by the Canadian Aboriginal and Minority Supplier Council ("CAMSC") and in the United States by various regional affiliates of the National Minority Supplier Development Council ("NMSDC"). Our company is also an Employer Partner with the Canadian Center for Diversity & Inclusion ("CCDI").




Visible Minorites[1]




Women

APPROXIMATELY 74% OF THE FIRM'S OUTSTANDING SHARES ARE HELD BY WOMEN, MINORITIES OR BOTH.

# Inclusion

We have engaged with Diversio, a women owned, diversity, equity and inclusion company that collects and analyzes qualitative data through their inclusion survey questions to improve diversity and inclusion in the workplace. Information is collected through Diversio's data collection tools and is based on employee self-identification submissions which is voluntary, anonymous, and confidential. Diversity and Inclusion data can be provided upon request.

Inclusion metrics are measured through Diversio's annual survey and focuses on five key factors: Inclusive Culture, Fair Management, Career Development, Workplace Flexibility and Workplace Safety. Inclusion efforts are measured based on progress made based on employee feedback.

| Inclusion Factors | Sprucegrove | Industry Score [5] |
|---|---|---|
| Inclusive Culture | 7.8 | 7.6 |
| Fair Management | 7.3 | 6.4 |
| Career Development | 7.2 | 6.4 |
| Workplace Flexibility | 8.0 | 6.8 |
| Workplace Safety | 8.7 | 8.6 |

With an average inclusion score of 7.8, Sprucegrove ranks higher than the industry average.

Based on key performance indicators (KPI), Sprucegrove ranks higher than the industry score in every listed category.

CAMSC Certified [1]

NMSDC MBE Certified [2]

CCDI EMPLOYER PARTNER [3]

Pensions&Investments
2ND LARGEST MINORITY & WOMEN OWNED [4]
ACTIVE NON US MONEY MANAGER 2023
RANKED BY AUM
SPRUCEGROVE INVESTMENT MANAGEMENT LTD.

[1] In accordance with its procedures, CAMSC independently verified and certified that 51% or more of the outstanding shares of Sprucegrove are held by Aboriginal peoples and/or visible minorities. For the purpose of CAMSC certification, visible minority status is based on ethnic origin and not gender.
[2] The NMSDC defines a minority business enterprise as at least 51% minority-owned, managed and controlled.
[3] The CCDI is a registered not for profit organization that focuses on diversity and inclusion, and human rights and equity,
[4] Sprucegrove is the second largest minority and women-owned active equity manager for U.S. institutional, tax-exempt assets, as of December 31, 2022.
[5] Industry average comprises of Diversio global clients in the asset management industry. This may include, but is not limited to, investors in private markets, banks, FinTech companies, as well as data from Private Equity Industry Research.
All figures presented above are based on self-identification and tabulated by Diversio. All data as of June 30, 2023.
SEE IMPORTANT INFORMATION

# Important Information

ESG considerations are part of Sprucegrove's investment process, however we do not address ESG by exclusion nor do we mandate specific ESG restrictions through established investment guidelines.

Scope 1 Emissions: Covers direct emissions from owned or controlled sources.

Scope 2 Emissions: Covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.

The opinions and views expressed are on behalf of Sprucegrove as of the date of this document (unless otherwise stated) and constitute Sprucegrove's best judgement and are subject to change at any time. Sprucegrove does not guarantee the accuracy, adequacy or completeness of any third-party data. Any predictions, opinions, and other information contained in this report are subject to change and without notice of any kind and may no longer be true and accurate after the date this report was first completed and disseminated.

Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. In addition, any forecasts are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place or may never do so. While the information set out in this document has been prepared in good faith, no representation or warranty is given, and no responsibility is accepted, by Sprucegrove in relation to its accuracy or completeness.

The information provided herein should not be considered a recommendation to purchase or sell any particular security. The securities discussed herein are examples of Sprucegrove's ESG approach but do not represent an entire portfolio or the performance of a fund or strategy and in the aggregate may represent only a small percentage of portfolio holdings. It should not be assumed that any of the securities discussed herein were or will prove to be profitable, or that the decisions made by Sprucegrove in the future will be profitable.

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The examples of engagements contained in this report are selected by Sprucegrove's investment team among a list of engagements/meetings held in the past year, based on materiality of ESG issues and what are believed to reflect the best representation of our approach to incorporating ESG in the research process.

In accordance with its procedures, CAMSC independently verified and certified that 51% or more of the outstanding shares of Sprucegrove are held by Aboriginal peoples and/or visible minorities. For the purpose of CAMSC certification, visible minority status is based on ethnic origin and not gender.

The NMSDC defines a minority business enterprise as at least 51% minority-owned, managed and controlled.

The CCDI is a registered not for profit organization that focuses on diversity and inclusion, and human rights and equity, specifically in Canada's workplaces and schools.

Sprucegrove is the 2nd largest minority & women-owned active equity manager for internally managed U.S. institutional, tax-exempt assets, as of December 31, 2022.

All diversity and inclusion figures presented are based on self-identification and tabulated by Diversio as of June 30, 2023. Percentages are approximate.

SPRUCEGROVE
INVESTMENT MANAGEMENT

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