

2022

Annual  
**ESG Report**

**Southeastern** / Asset  
Management

# WELCOME

As long-term, concentrated equity investors, our top priority has always been to seek superior investment results for our clients, consistent with our fiduciary duty to be responsible stewards of our clients' capital. We take this responsibility seriously, as reflected in our governing principles that define our aligned, partnership approach to managing our business and investment portfolios.

There has been much public debate in the last year over the potential benefits and drawbacks of considering Environmental, Social and Governance (ESG) as one factor within investing. Understanding the bottom-up fundamentals that drive our businesses' financial results over the long term is core to our approach. We have always viewed Governance to be one of the most pivotal factors in the long-term performance of a business, with "People" being one of our three core investment criteria. We also believe Environmental and Social factors materially impact the long-term value of businesses, and they remain important factors we consider as part of our fundamental analysis.

We have seen impressive progress across our portfolios with businesses producing more transparent reporting and taking proactive efforts to improve the long-term sustainability of their businesses and increase diversity, equity, and inclusion (DEI) from the top-down. We remain committed to integrating ESG considerations within our investment approach and to engaging with our companies on their efforts in these areas.

We remain focused on fostering a culture of DEI within our firm and the broader asset management community and are excited to share more details on the partnerships and initiatives we are undertaking within this report.

Looking ahead, we are closely monitoring the ever-developing market dialogue on ESG and particularly the regulatory landscape for potential changes in public company reporting requirements. We have long believed that businesses can play an important role in addressing many issues that now fall under the ESG acronym. We look forward to sharing more with you as we continue to learn and refine our approach as we strive to make a meaningful positive difference in our community and beyond.



A handwritten signature in black ink, appearing to read 'R. Glotzbach', written in a cursive style.

**Ross Glotzbach, CFA**  
**CEO and Head of Research**

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Southeastern was founded on our guiding principles that ensure we are aligned with our long-term, like-minded clients. Our Founder Mason Hawkins structured the business to ensure that we strive to *do the right thing for the right reasons* - for our clients, our employees and our community. Therefore, ESG considerations have long been engrained in the ethos of our firm.

# Overview

## WE EVALUATE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS FROM A FUNDAMENTAL, BOTTOM-UP PERSPECTIVE AND ENGAGE ON THE MOST IMPORTANT ISSUES TO PROMOTE POSITIVE CHANGE.

**ESG Integration** - We believe that ESG best practices are critical to running a business and to assessing the intrinsic value of any investment. Southeastern incorporates ESG considerations into our analysis of companies, vetting of management teams and disciplined valuation process. As long-term business owners, we evaluate ESG considerations from a fundamental, bottom-up perspective and engage with managements on the most important issues to promote positive change, rather than passively exclude broad sectors of the market. While ESG factors are integrated into our process, our main consideration is long term shareholder value creation and we do not offer “ESG Focused” or “ESG Impact” strategies, as defined in Section I.A.2. of SEC Release IA-6034 regarding Environmental, Social and Governance Investment Practices.

**Resources** - Our global research team is responsible for assessing ESG factors from a bottom-up perspective for every company we own or consider. We use MSCI ESG Ratings as a third-party data provider to help quantify ESG-specific metrics and regularly evaluate new providers. While we will never outsource research on a topic this important, we have found this to be a useful supplement to our in-house, bottom-up analysis that draws upon our extensive global resources and network to gain a more comprehensive picture. External ESG Ratings are a helpful starting point for deeper engagement with some of our companies on how they can improve their relevant practices. In our experience, most ratings agencies take a necessarily formulaic approach to determine a rating, but this often does not allow for a nuanced understanding of a company's true efforts. We do our own bottom-up analysis and use our network and access to engage with the ratings agencies, ISS, management and board members at our portfolio companies to understand the perceived issues and encourage long-term, sustainable improvement.

**Oversight** - Southeastern's ESG Committee oversees the incorporation of ESG matters into our investment process, client engagement and day-to-day business operations. The committee also works with our Operations/Human Resources teams to help review and integrate DEI reporting, policies and training. The committee meets quarterly, with much more frequent direct communication as needed. The Committee Chair reports directly to our CEO and Head of Research on progress on a regular basis.

# Partnerships

We partner with organizations that are helping to drive positive change.

- We are a signatory to the United Nations-supported **Principles for Responsible Investment (PRI)**, a leading global network for investors who are committed to integrating ESG considerations into their investment practices and ownership policies.
- We are a signatory to **Climate Action 100+**, an investor-led initiative that is supported by PRI and focused on actively engaging with management teams that are in a position to help drive change.
- We are also a supporter of **Task Force on Climate-Related Financial Disclosures (TCFD)**, an initiative created by the Financial Stability Board to improve and increase reporting of climate-related financial information.



Southeastern became a signatory to the United Nations-supported Principles for Responsible Investment (PRI) in 2020 and received our inaugural rating of 4 stars in 2022.



**PRI Investment & Stewardship  
Policy Rating**

In 2021, we undertook our first round of PRI reporting and were pleased to receive our rating of 4 out of 5 possible stars. We feel that we have continued to improve and deepen our approach since we first reported. You can find our full [Assessment Report](#) on our website.

## Proxy Voting

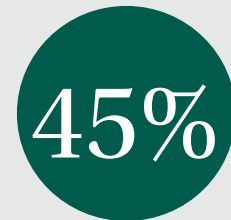
In 2022 we voted >950 agenda items across 76 meetings from >20 different countries.

We have a formal proxy voting policy that is designed to ensure that Southeastern votes all securities in the best long-term interest of clients. We believe that each vote is unique, and we do not rely upon management guidance and/or a proxy service consultant to determine how we will vote. Rather, we review each individual proxy on a case-by-case basis and make our own determination.

Our Manager of ESG Integration and Reporting reviews each proxy for ESG considerations and shares additional analysis with the research team to consider. We sometimes engage with proxy service consultants to encourage them to propose that shareholders vote in what we believe to be the most productive manner for the long-term shareholder value and sustainability of the business. We vote our proxies in support of strong and shareholder-friendly corporate governance agenda items that we believe will help each company create and realize long-term sustainable value for shareholders.

### 2022 Proxy Stats

WE SUPPORTED:



**SHAREHOLDER  
PROPOSALS**



**MANAGEMENT  
PROPOSALS**

## Engagement

Southeastern approaches every investment with a business-owner mindset, and we believe it is our fiduciary duty to encourage responsible corporate governance by keeping an engaged dialogue with our management teams and boards of directors. We constructively engage with our management partners to help drive successful, long-term investment outcomes, using our global network, reputation and expertise. In rare cases when our management teams are not acting on behalf of shareholders or the long-term sustainability of the business, we may publicly push for change. However, our preferred method is behind the scenes and out of the headlines.

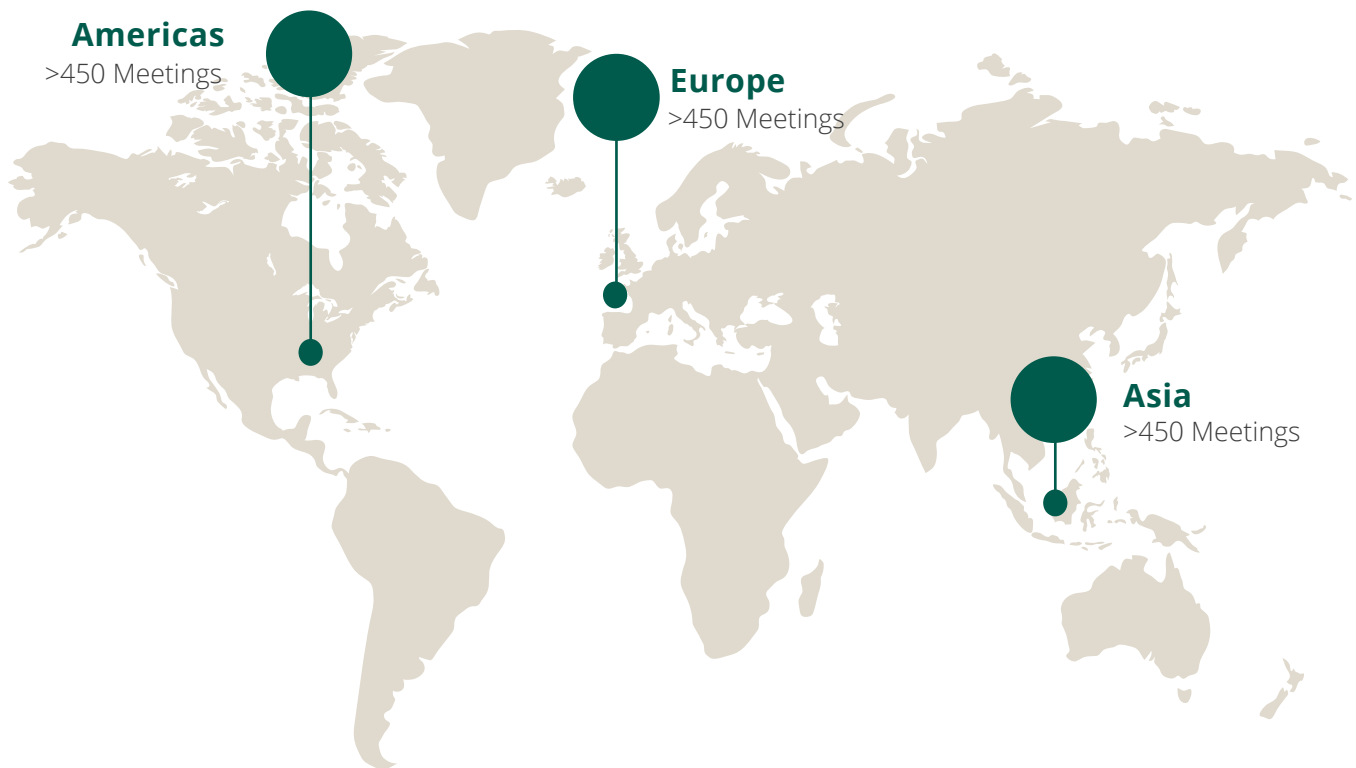
Our extensive global network, built over nearly five decades, is a unique competitive advantage that allows us to evaluate businesses and management from multiple perspectives. The primary focus of our engagement is long-term shareholder value creation, which covers a broad range of topics, including ESG considerations. We tailor our

engagement based on our on-the-ground experience and understanding of what factors are most important to each business and what approach is most effective in each region.

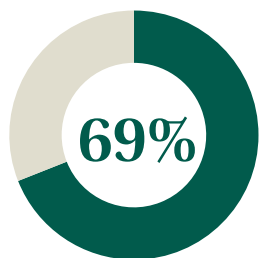
We take a two-pronged approach to ESG engagement, pairing a near-term focus on attainable steps to improve a company's independent ESG Rating and a longer-term focus on the most important topics that we believe can drive sustainable positive outcomes that are unique to each individual business. Our engagement efforts on ESG issues in 2022 spanned a broad range of topics, tailored to each individual company's needs.

## 2022 Engagement Stats

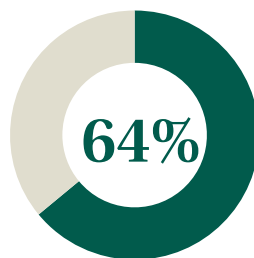
In 2022, we invested in **88** companies and had **over 1,350 meetings** with our partners and prospective partners.



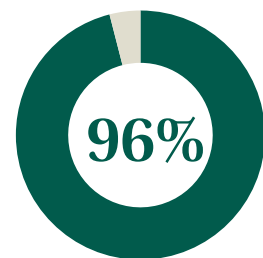
## Engagement Breakdown by Topic



Environmental



Social



Governance



# Case Studies

The Oscar logo consists of the word "oscar" in a bold, blue, lowercase sans-serif font.

## COMPANY DESCRIPTION

Oscar Health, Inc. operates as a health insurance company which serves its customers through a technology platform.

Oscar Health is in the business of helping provide affordable healthcare options to those that might not be able to access it otherwise. We engaged with the company on its lack of ESG reporting and subsequent low external ESG rating. In our discussions, we encouraged Oscar to develop an ESG report and engage with the ratings agencies to improve transparency on the good work the company was already doing. In early 2023, Oscar issued its inaugural report. The report highlights Oscar's strong firm mission, commitment to members and community, human capital development and corporate governance. It includes transparent reporting on diversity across multiple levels in the business and member base and outlines Oscar's approach to cyber security, an area of focus for ESG ratings agencies. We believe there is still room to provide more transparency on Oscar's Environmental footprint, and integration of ESG issues within its investment and underwriting practices.

In addition to engaging with the business on ESG topics, we increased our engagement dialogue to focus on getting the value recognized at the business over the course of the year. As part of our detailed review of the business, we changed internal analyst coverage, assigning a new "Devil's Advocate" to reevaluate our investment case. The review confirmed our original analysis that the business was differentiated and had significant upside. This investment decision was rewarded in early 2023 with the announcement of a new CEO, Mark Bertolini, driving a 150%+ share price return within a single quarter and bolstering our outlook for Governance at the company. Bertolini had a fantastic track record as the long-time CEO of Aetna, which he shifted to be a more consumer-oriented plan and ultimately sold to CVS for an over 675% return for shareholders while he was CEO. He has served as a strategic advisor to Oscar throughout the last year, and his compensation package uniquely aligns him in creating

# Case Studies (Continued)

shareholder value. *While the ratings agencies flag Oscar's Governance rating due to its dual-share class structure and controlling ownership by Thrive, we believe the Governance, particularly under Bertolini's leadership, is very strong. We remain highly engaged and look forward to monitoring the continued progress at Oscar.*

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Corn and flour tortilla manufacturing company Gruma was a strong performer in our Non-US and Small-Cap portfolios in 2022. This Mexican-based consumer packaged goods company is a great, stable business that is headquartered in Mexico but derives over 75% of its value from a dominant position in US tortillas and corn flour – the Mission and Maseca brands in particular. Gruma governance is solid with an owner-operator management team that has a strong history of growing value per share, and they have delivered steady returns even in a challenging market environment.

## COMPANY DESCRIPTION

Gruma SAB de CV engages in the production and sale of corn flour, raw materials for producing tortillas, and other corn-based products

Gruma historically has had no ESG, corporate responsibility or carbon footprint reporting, and we have encouraged the company to improve its reporting transparency and to engage with the ESG ratings agencies to increase awareness of some of the good practices already in place. Gruma issued its first comprehensive ESG report in October 2022. The company made important ethical and environmental commitments, adopting scope 1 and 2 reporting, supported by a materiality analysis, measurable goals linked to the UN Sustainable Development Goals (SDGs) and actionable next steps to achieve them. Gruma's MSCI ESG rating improved from a BB to a BBB following the new report. We believe the next natural area of focus for the business is to continue to improve its solid Governance, including expanding the diversity of the board. *We applaud the strong progress made at Gruma, remain engaged with the team and look forward to seeing how the company's efforts develop from here.*

# Case Studies (Continued)



## COMPANY DESCRIPTION

Hyatt Hotels Corp. engages in the development and management of resort and hotel chains.

Global hotel franchisor and owner Hyatt was another solid performer in 2022. We have been engaged with the company on its Environmental efforts and carbon footprint reporting, and in 2022, Hyatt began reporting on Scope 1, 2, and 3 emissions. ***Hyatt's MSCI ESG rating was updated from BB to BBB, reflecting improved disclosures on data security measures, the establishment of an executive committee for oversight on ESG issues, including water usage and GHG emissions.***

We interviewed CEO Mark Hoplamazian on the [Price-to-Value Podcast](#) in February 2022, where we discussed the global optimization of Hyatt as a brand under Mark's leadership, the transition to a more asset-light strategy, the impact on Covid on the hospitality industry, capital allocation, and the importance of "caring for people so they can do their best." We encourage you to listen to the podcast to hear more about Hyatt's Social initiatives and commitment to DEI.

## Update on Previous Case Studies

Because our engagement develops throughout the life of our investments, we felt it was worth revisiting some of the case studies laid out in 2020 and 2021 for a progress report. Four of the six companies (CK Hutchison, CNX Resources, Fairfax Financial Holdings and General Electric) saw their MSCI ESG Rating improve in the subsequent two years, while the other two (Domino's Pizza group and Millicom) already were rated A and AA, respectively. We highlight a few below that have seen meaningful updates.



**Domino's**



**General Electric:** Under the leadership of world-class operator Larry Culp, GE has dramatically transformed its business and is delivering on its promise to separate the company into three separate business lines, with GE HealthCare spun out in January 2023 and GE Vernova, the Energy business, set to spin out in early 2024. The strong Governance at the business is enabling the transformational restructuring that we believe will allow the market to properly value each underlying business. Additionally, GE has materially increased its Sustainability Reporting transparency, reporting Scope 1, 2, and 3 emissions by division, committing to Net Zero (Scope 1 and 2) by 2030 and Net Zero (Scope 3) by 2050, and establishing and reporting on clear interim goals that are Paris-aligned and linked to SDGs. GE also reports transparently on its board diversity, with 40% of board members and two out of four leadership positions held by women, 10% of board members racially/ethnically diverse and 30% of board members born outside the US.

**Domino's Pizza Group (UK):** Since our 2020 report, DPG has made significant additional progress in its Governance evolution, with new CEO Andrew Rennie in place as of 2023. Rennie, together with the now completely overhauled board, represent best-in-class Governance with appropriate compensation aligning management to creating value for shareholders. Additionally, DPG hired a Chief of ESG and committed to setting Science-Based Targets and developing a more robust environmental strategy and climate roadmap. DPG set goals for 20% emissions reduction by 2050 and for the electricity supply to all stores to be carbon neutral by 2050. The company has also implemented initiatives to reduce packaging in its supply chain, reducing food transport-related emissions and freight mileage and increase sustainable and ethical sourcing practices throughout the supply chain, with PETA and CIWF recognizing its animal welfare initiatives. DPG set a goal for 40% of leadership across all regions to be women by 2030.

**CNX Resources:** CNX was among the top stock performers across our portfolios in 2022, as it benefitted from higher energy prices. The Board, led by Chairman Will Thorndike, authorized a share buyback program for ~30% of discounted shares with an eye towards creating shareholder value. CNX has continued to deliver more transparent and ambitious corporate responsibility reporting, highlighting its Sustainable Business Model and Appalachia First Vision, which includes a strategy to drive further reduction in carbon intensity through process and product innovation and partnership. CNX's New Technology Group is pursuing alternative fuel markets, developing oilfield services technologies that are lower cost and reduce emissions and attaining value recognition for the environmental attributes tied to waste methane abatement operations. CNX's 2022 CSR highlights clear progress on its emission and methane intensity reduction goals, continued charitable community support and improved workforce diversity, with a goal of 33% women by 2024 and 40% by 2026.

## Diversity, Equity and Inclusion (DEI)

We believe that incorporating diverse perspectives and insights help us to make better, more informed investment decisions and achieve better outcomes for our clients, business and community. Enhancing diversity at Southeastern and within the broader asset management industry is a key initiative, as we continually seek to deepen our global view with new and varied perspectives.

Given the small, lean nature of the firm, we do not frequently hire new team members. However, we are committed to taking active steps to improve diversity and inclusion wherever possible, and our long-term goal is to increase our diverse employee representation over time. Additionally, we support and partner with industry leaders, such as Girls Who Invest, IDiF and City Leadership, along with local investors, such as the Shelby County Retirement Plan, to help drive change in the industry.

### Southeastern's Workplace Diversity

#### % of Minorities



#### % of Women



#### % of Women on the Board



## Our DEI Partnerships



In 2021 we partnered with Girls Who Invest (GWI), an organization that is helping transform the asset management industry by bringing more women into portfolio management and leadership through an inclusive program that provides education, mentoring, internships and a supportive community. We established a structured internship program, and our first intern joined us this summer. She set the bar very high for the future.

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In 2021, Southeastern served as an Inaugural Champion for The Center of Innovation for Diversity, Equity, and Inclusion in Finance (IDiF), which seeks to advance representation, create a culture of capital that embraces diversity and accelerates economic justice, power, and influence for all. IDiF provides a trusted hub for collaboration, amplification, and education for over 100 initiatives, communities, and reports to address the barriers to entry and access for talent in asset management. We continued our partnership in 2022 as a Seeding Leader.

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## CFA Institute

In 2022, we became a signatory to the CFA DEI Code, a voluntary code for institutional investors and asset managers that aims to provide guidance and practical ways for the investment industry to embrace and drive greater diversity, equity and inclusion efforts in a meaningful and measurable way.

# GREENWOOD P I N E

In August 2021, we launched an exciting new initiative, Greenwood Pine Partners, a mission-driven, minority-owned investment management firm with initial funding from the Shelby County Retirement System in Tennessee. Greenwood Pine is 51% owned by Southeastern Senior Analyst and Principal Brandon Arrindell, who is African American and from Memphis. Brandon serves as both majority owner and portfolio manager for this US-focused, all-cap strategy employing Southeastern's long-term, concentrated, engaged approach. The goal of the structure and partnership with Shelby County is to produce strong risk-adjusted returns while also working to address the issue of minority underrepresentation in asset management. Where possible, Greenwood Pine seeks to partner with minority-owned, local service providers. Southeastern has pledged the proceeds derived from its 49% stake in the LLC to organizations that uplift and provide services to underserved communities. In 2022, we selected our first two non-profits to support through Greenwood Pine and Southeastern, The Collective Blueprint and REACH Memphis, as discussed in more detail in the Community section below.

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City Leadership is an organization that is focused on maximizing the leadership capital and potential of our hometown city of Memphis by recruiting talented individuals, developing local leaders and organizations and catalyzing collaborative projects for the benefit of the city. City Leadership works with organizations and leaders across every field, including businesses, nonprofit groups, government entities, schools, teachers, artists and social entrepreneurs. In addition to supporting the important work of this organization financially, we involve City Leadership and their related campaign #Choose901 to assist us in sourcing diverse candidates for potential career opportunities and internship positions. Ashley Lopez was our first City Leadership-sourced intern joining us in summer 2022.

# Our Internship Program

Building off our 2021 success, we have expanded our partnerships with several key organizations across multiple initiatives. After a year of supporting Girls Who Invest as a supporting partner and working with them to establish a best-in-class internship structure, we hosted our first research intern in Summer 2022. We were paired with Nasim Mohammadzadeh, an impressive young woman from Brown University, who had just completed her sophomore year in Business Economics and Behavioral Decision Sciences. Additionally, through City Leadership, we hired Ashley Lopez, a native Memphian into our Summer 2022 internship program in a rotational placement, working with and learning about all departments across the business. She joined us after completing her sophomore year at Columbia University and is a graduate of The Collegiate School of Memphis, a non-profit charter school focused on preparing a diverse base of students (100% of which qualify for financial aid) for college and professional careers that is supported by Southeastern's affiliated foundations.

We partnered with our inspirational local Memphis company, St. Jude Children's Research Hospital – ALSAC, to host events for local Memphis organizations' interns and mentors to deepen the interns experience and help promote networking and learning.

Both Nasim and Ashley exceeded our expectations, and we are excited to continue supporting the missions of Girls Who Invest and City Leadership.



*Southeastern Asset Management* partnered with the *ALSAC/St. Jude Investment Department* and *CFA Society Memphis* to gather investment interns around Memphis for networking and discussions this summer. Brandon Arrindell presented to this group.



We were thrilled to have *Nasim Mohammadzadeh* (left) and *Ashley Lopez* (right) intern for us during the summer of 2022.





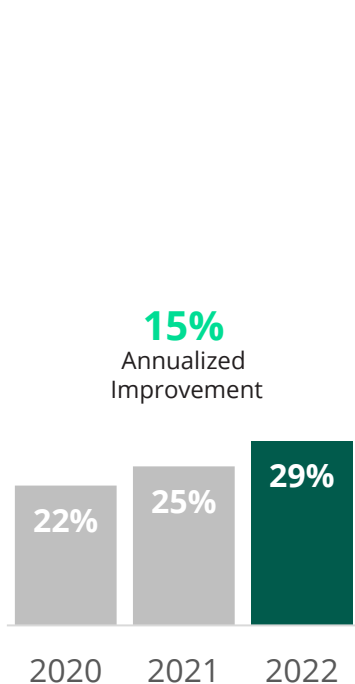
# Diversity, Equity and Inclusion at Our Investments

A key part of our “People” engagement is often to help companies re-evaluate the composition of their boards to ensure that people with relevant experience and expertise that are not yet represented on the board or at the company are added. In 2021, we set a target of 100% of portfolio companies having at least one woman as a board member and a longer-term goal of a portfolio average of 30% women as board members. We have seen consistent improvement in these numbers and recognize there is still significant room for continued improvement in these statistics. We are engaging directly with our companies on this important topic. We are an advocate for greater transparency, as well as much-needed progress on these broader diversity measures.

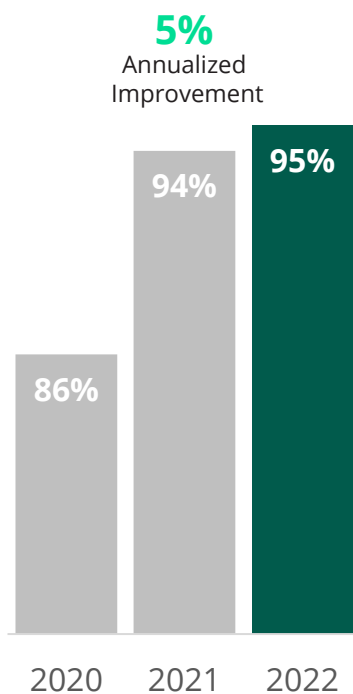
Today, 29% of the companies that we own across our portfolios have a woman in at least one of the top three management positions (Chair, CEO, CFO), while 95% have at least one woman on the board. On average, 28% of board members at our companies are women.

## Diversity Progression at Our Investments

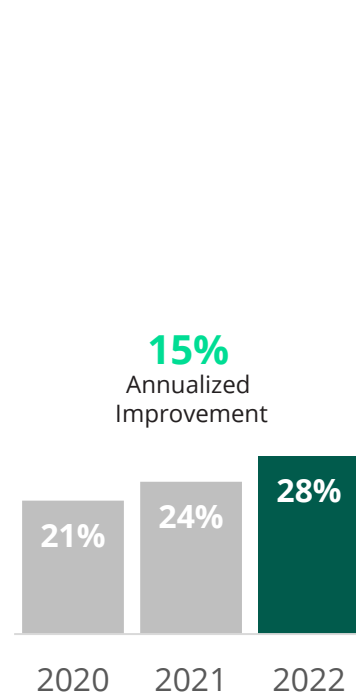
**% with a Woman as a CEO, CFO and/or Chair**



**% with at Least One Woman Board Member**



**% of All Board Members that are Women**



# Supporting Our Local Communities

AN EQUAL PASSION FOR HOW WE INVEST AND FOR GIVING BACK TO THE COMMUNITY IS THE MOST IMPORTANT COMMON THREAD ACROSS OUR EMPLOYEES.

Last year, we highlighted organizations supported by Southeastern and its affiliated foundations in the last two reports. This year we are highlighting two organizations that were beneficiaries of the charitable giving structure of the Greenwood Pine Partners and Southeastern Asset Management partnership. As a reminder, Greenwood Pine Partners is a minority-owned, mission-driven equities investment firm that launched in August 2021. In addition to our fiduciary role, Greenwood Pine is dedicated to promoting diversity in the asset management industry and contributing to wealth creation in minority communities. The first two non-profits to receive support through Greenwood Pine and Southeastern are ***The Collective Blueprint*** and ***REACH Memphis***. We provide a summary of the great work by these organizations and encourage you to check out their websites ([www.changeiscollective.org](http://www.changeiscollective.org) and [www.reachmemphis.org](http://www.reachmemphis.org)) if you are interested in learning more about these organizations.



You want to pursue a career in investing for the intellectual challenge, for the reward of being correct about your investment decisions and for the *opportunity to help others.*

Mason Hawkins, CFA  
Chairman





# Greenwood Pine's Non-Profit Support

Southeastern has pledged the dividends and proceeds from its 49% ownership stake to organizations that uplift and provide services to under resourced communities.



The Collective Blueprint increases socioeconomic mobility for people ages 18-30 who are neither enrolled in school nor participating in the labor market by building pathways to thriving careers. The organization has produced incredible results under the leadership of CEO and founder Sarah Lockridge-Steckel. Across all cohorts over the last three years, participants have seen impressive employment and wage growth. Overall, 60% of participants increased their level of employment (unemployed to part-time, unemployed to full-time, or part-time to full-time). Full-time employment grew from 8% pre-program to 59% post-program, and full-time average annual earnings increased 41% from \$27k to \$38k.



REACH Memphis prepares high-performing students from public high schools for college and careers through mentoring, exposure to summer academic and leadership experiences, intensive college counseling, and career planning. The program takes students who often have never left the 10-mile radius surrounding their home and affords them the opportunity to spend a summer at leading universities and boarding schools across the country. This year's summer programs include Yale University, Brown University Phillips Exeter Academy, and Choate Rosemary Hall amongst others. The exposure and confidence gained through these experiences are invaluable and serve to broaden each student's perception of what they can achieve.

*ESG is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or judgment exercised, by Southeastern Asset Management will reflect the beliefs or values of any particular investor. Information regarding responsible practices may be obtained through voluntary or third-party reporting, which may not be accurate or complete, and Southeastern Asset Management may be dependent on such information to evaluate a company's commitment to, or implementation of, responsible practices. Socially responsible norms differ by region. Past performance is not a guarantee or reliable indicator of future results. This material contains the current opinions of Southeastern Asset Management and such opinions are subject to change without notice. This material is distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. While Southeastern integrates ESG considerations into its assessment of a business's value, and engages to promote progress on ESG matters as discussed in this report, we do not view our advisory services or funds as "ESG products" and we do not claim to be seeking "ESG securities" for investment. Please see our ADV Part 2 for a discussion of our investment approach.*