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# Jupiter Value Equities Team: 2022 Stewardship Report - Global Value

***In their second annual stewardship report, the Global Value Equities team provide an insight into how they have engaged with the companies in which they invest.***

Ben Whitmore
Investment Manager, Value Equities

Brian McCormick
Investment Manager, Value Equities

Claudia Ripley
Investment Director

Dermot Murphy
Investment Manager, Value Equities

Ellen Mann
Investment Analyst, Value Equities


On the Jupiter Value Equities team, we are in the privileged position of being stewards of our client's assets and believe that direct active company engagement is crucial to be able to understand issues and help drive positive change. We think it's impossible to disaggregate Environmental, Social and Governance (ESG) factors and financial analysis, which is why we conduct the ESG analysis ourselves as part of our integrated investment process. We are aided by our dedicated in-house stewardship team who run analysis in parallel to us, as an effective form of crosschecking.

## Record of Engagement

| | 2021 | 2022 |
|---|---|---|
| **Shareholder Meetings** | 48 | 53 |
| **Voted Against/Abstained[1]** | 9 meetings (19%) | 28 meetings (53%) |

In this, our second dedicated Global Value annual stewardship document, we review:

- ESG Laggards: What's our approach
- Carbon Emissions: the evolution of reporting and data
- The importance of Health and Safety

## ESG Laggards: Our approach

As value investors, when we invest in a company something has typically gone wrong to make the valuation so low. It is not unusual for there to be serious issues regarding ESG, however we believe that we can have a positive impact by actively engaging with company management and holding them to account. As value investors we believe that companies have the ability to change, therefore we don't tend to like exclusions or backward-looking ratings. Instead, for us, the direction of travel is crucial. Companies don't have to be the finished article for us to invest, but they do have to actively and openly engage with us and demonstrate progression. We believe that we can have a more meaningful and direct impact on a company by being part of the conversation and being a shareholder gives us this ability. As a team, we often own a reasonable stake in a company and therefore have the opportunity to push for positive change, however, if after multiple engagements we feel there is no sign of improvement we will reassess and on occasion choose to walk away.

We are often asked about where our 'limits' lie regarding ESG. What would cause us to avoid a potential investment or to disinvest? Badly run companies tend to have both higher ESG risk and a higher probability of a low valuation. We firmly believe that ESG record, valuation, and propensity to change must be considered in combination when deciding whether to own a contentious company. Bayer and Nippon Television Holdings are two contrasting examples of this approach in practice.

## Bayer

In 2021 we initiated a position in Bayer, the German listed pharmaceutical and agricultural sciences company. Following its 2018 acquisition of Monsanto, Bayer faces ongoing litigation over potential cancer risks from the Monsanto fertiliser 'Round Up'. The company has also received criticism from environmental organisations and the EU for manufacturing neonicotinoid insecticides that are harmful to bee populations. For shareholders, the lack of change in the management team despite the poor outcomes of the Monsanto acquisition has been a further grievance.

The Round Up litigation was what depressed the Bayer share price significantly enough that it entered our investment screens. While the legal cases are ongoing, any mismanagement of Round Up is a historical infraction, and in our view – provided the company can survive the financial and reputational impact – even clear malpractice can be moved past provided a company's executive management and Board are replaced. We were disappointed that the CEO of Bayer had yet to be replaced, alongside several other key personnel. Ultimately, we felt that the probability of incremental business outlook and ESG improvements was strong enough in the context of the valuation to warrant an investment.

Since investing in the company, we have made clear our views on the leadership by voting against the management, supervisory boards and remuneration report. On meeting the Bayer ESG team, we reiterated these concerns and had a productive conversation about the company's response to the neonicotinoid controversy, efforts to improve transparency, and decarbonisation. We are also pleased to note the CEO has agreed to step down once a successor is found in 2023. While Bayer has much further to go on improving its ESG credentials, we are satisfied that progress thus far is sufficient given the context of the valuation.

## Nippon Television Holdings

Nippon Television Holdings is the holding company for Nippon TV, Japan's leading private broadcasting network. In our previous report, we wrote about our first engagement with Nippon TV. Despite receiving a 'Low' ESG Risk Score on Sustainalytics, Nippon TV has weak governance structures and we had engaged in the hope that board composition, transparency, and capital allocation would improve.

With no evidence of positive change forthcoming, this year we sold the position. There were several layers to this decision. Like many overseas shareholders, for us the potential for unlocking value from an overcapitalised balance sheet was key to the Nippon TV investment thesis. After consistent votes against, a letter to the company, and a meeting, we felt dismayed by the lack of progress. In 4.5 years as shareholders the company did not conduct any buybacks, raised the low dividend by only 3yen (9%) and was a net buyer of shares in other listed Japanese companies (including 'cross-holdings'). Their largest shareholder has strengthened its grip over the board and company which we view as unfavourable for minority shareholders. The final critical factor was that we had other attractive investment opportunities.

Although there is still immense value sitting in the Nippon TV balance sheet, the prospects for shareholders seeing that value, even in the context of a low valuation, no longer seemed sufficient to earn a place in the strategy over other names.

## Carbon Emissions: the evolution of reporting and data

Decarbonisation has become an ever-increasing area of focus, both for the overall portfolio and the companies we invest in. In last year's report we wrote about the difficulties in determining a fair way to assess and present the emissions data and improvement trajectory of our portfolios. The nature of value investing means when the companies we invest in improve, we will look to recycle the capital into companies who are not as advanced. Therefore, whilst we will be able to speak to individual improvers, the overall portfolio may not "improve", but be in a constant state of improvement.

Jupiter was named among the first tranche of asset managers to disclose a group level 2030 decarbonisation target, and our in-house stewardship team produced methodology to assess the alignment of our holdings to net zero. By 2030, our Global Value Equity strategy aims to be entirely either aligned, aligning or committed to align with the group level decarbonisation target.

At a Strategy level, our preference is to emphasise the direction of change for the companies we hold shares in. This is more difficult for the Global Value strategy than our UK Value strategy, despite 87% of our current Global Value strategy holdings disclosing Scope 1 and 2 emissions. This is because:

- There are lags of many months for new reported data to be incorporated into the MSCI dataset – the delay appears worst for smaller and emerging market companies
- At the time of writing, for 20% of our companies that do report emissions MSCI instead publishes their own estimates with minimal explanation
- Adjusting the dataset for the most recent company reports and restatements, as well as replacing estimated with reported numbers, is a laborious manual task where we inevitably assume risk regarding the consistency of company methodologies and human error

For the 65% of current holdings that have reported data for Scope 1 and 2 emissions in 2019, 2020, and 2021, the average reductions data according to company disclosures is as follows[2] :

| | 2020 vs 2019 | 2021 vs 2020 | 2019 - 2021 |
|---|---|---|---|
| **Absolute emissions** | | | |
| **Average holding** | -9% | -7% | -14% |
| **Total** | -8% | -5% | -13% |
| **Intensity (t/$m sales)** | | | |
| **Average holding** | -0% | -3% | -3% |
| **Total*** | +3% | -13% | -10% |

*The portfolio holdings in the above data set are as at December 2022. We have looked at how they performed over the preceding 3 years, though some holdings may not have been held in the portfolio for the whole period. This has been done to show the trajectory of the current portfolio. We have ensured the data is as up to date as possible and have adjusted the MSCI dataset to reflect the most recent company reports where appropriate and have then used the company restated numbers where applicable. Restating numbers is a manual task where we inevitably assume risk regarding the consistency of company methodologies and the potential for human error.

The total is the overall strategy total emissions change and the average holding looks at the underlying companies change (equally weighted).

As always, there are some important caveats to consider here. The pandemic substantially impacted absolute business activity and output in 2020 and 2021. Intensity measures are affected by a strong US dollar, as well as business cycles. We would also expect companies are tackling the 'low hanging fruit' first, such as buying renewable energy, which may make for large year-over-year improvements after which the pace of change is more moderate.

## The importance of Health & Safety

Working in a desk-based job in London it is easy to take safety in the workplace for granted, but for many thousands of workers around the world a safe workplace is not guaranteed. The reason given is often that some industries are inherently dangerous. This argument has some merit but it does not absolve a company's responsibility to their employees, and is also diluted by the significant improvements some companies have made to their safety track record. This is particularly noticeable in industries where a fatality free year was once seen as impossible. For example, in 2019 Rio Tinto, a global mining conglomerate with a workforce of more than 40k employees, reported their first fatality free year in 147 years. 2020 and 2021 were also fatality free and it is probably not a coincidence that Rio Tinto is one of the most profitable mining companies.

We strongly believe that each of the companies in our portfolio should target zero workplace related fatalities for two reasons. Firstly, we think the companies we invest in have an ethical duty to provide a safe working environment for their employees. Secondly, we believe that safety provides a broad indication of how well the company is being run. A poor safety track record is often symptomatic of poor working practices and lack of management control. We believe that a focus on improving safety can have a much broader positive impact on worker morale, productivity and ultimately a company's share price.

We have recently been engaging on safety with our holding in Nokia. They reported one employee fatality over the past 8 years, but when you increase the scope of reported fatalities to include contractors and subcontractors the number grows to 41. We were shocked by the quantum of workplace related deaths and decided to engage with the company to see what was happening.

**NOKIA**

| Fatalities | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Fatalities involving employees** | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| **Fatalities involving contractors / subcontractors** | 8 | 6 | 7 | 5 | 1 | 6 | 3 | 4 | 40 |
| | 8 | 6 | 7 | 5 | 1 | 7 | 3 | 4 | 41 |

*Source: Bloomberg

Nokia's answer is that these fatalities are primarily contractors falling from height while installing and maintaining Nokia equipment in Emerging Markets. They agree with us that the level of fatalities is unacceptably high. Nokia's management introduced a set of non-negotiable rules called the 'Nokia Life Saving Rules' in 2015 but these don't seem to be having the desired effect because many contractors are not adhering to the rules properly. Our view is that more needs to be done. Improving compliance may not be easy but as has been seen in the mining industry positive change is possible. This is another company where unless we see a sustained improvement we will have to consider voting against management at the next AGM.

We think safety is extremely important and spend a lot of time engaging with the companies in our portfolio on this topic. Our hope is that over time the companies will improve and this process will be positive for both employees and shareholders alike.

## Conclusion

On the Jupiter Value Equities team when we invest in a company something has typically gone wrong to make the valuation so low. It is not unusual for there to be serious issues regarding ESG, however we believe that we can have a positive impact by actively engaging with company management and holding them to account. As value investors we believe that companies have the ability to change, therefore we don't tend to like exclusions or backward looking ratings. Instead, for us, the direction of travel is crucial. Companies don't have to be the finished article for us to invest, but they do have to actively and openly engage with us and demonstrate progression.

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Stewardship is embedded into our process and something we take very seriously. This document is designed to highlight any areas of particular interest that we have engaged on over the year and that often means it may be slightly controversial as it focuses on where we are actively pursuing changes. With the regulatory landscape evolving and the implementation of the UK Sustainable Disclosure Requirements (SDR), further reporting on ESG will undoubtedly progress and change and we look forward to updating you in due course.

[1]Voted against or abstained from voting for a minimum of one resolution at a given meeting.

[2]Includes data scraped from MSCI and data verified directly with company accounts. Methodologies between companies may be inconsistent, most notably regarding location- and market-based Scope 2 measurement.

## The value of active minds: independent thinking

*A key feature of Jupiter's investment approach is that we eschew the adoption of a house view, instead preferring to allow our specialist fund managers to formulate their own opinions on their asset class. As a result, it should be noted that any views expressed – including on matters relating to environmental, social and governance considerations – are those of the author(s), and may differ from views held by other Jupiter investment professionals.*

## Important information

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