

Protecting Shareholder Interests Through Governance Frameworks

As part of its ESG integration strategy, Harris | Oakmark incorporates corporate governance considerations into the investment process and applies country-level exclusions where governance practices are deemed insufficient to protect shareholder interests.

WHY GOVERNANCE MATTERS

Harris | Oakmark views governance as a consistently material factor when evaluating listed companies and bond issuers. The investment process includes a thorough assessment of country-based governance factors, as well as corporate governance including ownership structure, executive compensation, board composition, and the alignment of interests between minority and controlling shareholders. These elements help to determine whether a company operates within a framework that upholds shareholder rights.

THE EXCLUSION FRAMEWORK

Harris | Oakmark excludes stocks from its investment universe domiciled in countries that, in our view, lack the legal, regulatory, and investment infrastructure necessary to protect passive shareholders. This screen currently eliminates companies based in Argentina, Venezuela, and Russia*. These jurisdictions have been identified as failing to meet the firm's governance threshold for shareholder protection, transparency, and laws.

This exclusion framework is part of a broader commitment to fiduciary responsibility. By avoiding markets where governance risks are deemed unacceptably high, Harris | Oakmark aims to mitigate potential threats to long-term value creation.

ESG INTEGRATION IN PRACTICE

Harris | Oakmark integrates ESG considerations, especially governance, throughout the investment process. The firm employs tools such as the internally derived ESG risk flag and external ESG ratings to

identify and monitor potential concerns. Where material, these factors may be incorporated into our assessment of the company through financial modeling, valuation, risk assessment and in stock selection discussions.

One method of accounting for a country's governance risk is through discount rate adjustments. For example:

- A mining company with cash flows from high-risk regions such as the Democratic Republic of Congo may face risks including child labor, unsafe working conditions, and deforestation. These risks are reflected with a higher discount rate.
- An oil and gas company operating in Egypt is evaluated with an elevated discount rate due to geopolitical risk.
- Chinese-headquartered companies are assigned higher discount rates to reflect uncertainty stemming from a centralized government which could result in rapid policy shifts ([see further information in this article](#)).

These adjustments ensure governance risks are appropriately reflected in intrinsic value assessments.

STEWARDSHIP AND ENGAGEMENT

Harris | Oakmark exercises active stewardship through proxy voting and engagement. When governance issues arise, the firm may escalate issues through direct engagement with management and boards, voting against board members or divesting from the company if necessary.

Examples include:

- Analysts engaged with a Japan-based IT consulting firm to improve shareholder value through enhanced communication, capital allocation, and board composition. Management responded positively and implemented several recommendations.

- At a Japan-based human resources company, analysts sent a shareholder letter and met with executive management to address concerns around operational execution and capital allocation. The company subsequently announced a market buyback and improved cost controls.

Harris | Oakmark is also a member of the Asia Corporate Governance Association (ACGA), which promotes governance reform across the Asia-Pacific region. Additionally, in early 2025, Eric Liu, CFA, Partner, Portfolio Manager and Sr. International Investment Analyst, joined the ACGA's Japan Working Group (JWG) to support corporate governance improvements in Japan through advocacy, engagement, and tailored governance recommendations.

CONCLUSION

Harris | Oakmark's approach to governance reinforces the firm's commitment to responsible ownership and long-term value creation.

**as at 30 June 2025*

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All information provided is as of 06/30/2025 unless otherwise specified.

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