Environmental, Social, and Governance (ESG) Policy Statement

As active managers, we seek investment opportunities with the potential to create long-term value for our clients and fund shareholders. Through fundamental research, we evaluate many factors of a company or issuer—including environmental, social, and governance (ESG) factors—to determine whether they could materially impact the success of our investments. We believe evaluating financially material ESG factors helps us better understand a company or bond issuer's potential risks and opportunities.

Our Approach to ESG: Focus on Financial Materiality

At Dodge & Cox, we employ a disciplined value-investing approach to selecting investments characterized by intensive bottom-up research, strict price discipline, and team decision making. We generally evaluate potential equity or fixed income investments over a three- to five-year investment horizon. As part of our investment process, we consider ESG factors, along with other factors, to determine whether they are likely to have a financially material impact on a company or corporate issuer's risks and opportunities. We view ESG factors as financially material when they are likely to affect the long-term value of a company or an issuer's ability to fulfill its debt obligations. We refer to this approach as ESG integration.

Financially material ESG factors can differ for each company or bond issuer. In our analysis, we seek to understand how a company or issuer makes decisions, balances the interests of its stakeholders, and manages key risks. In doing so, we pay particular attention to governance structure and practices, as well as risks and opportunities associated with environmental and social factors, when financially relevant and sufficient information is available. In general, we believe governance factors have the potential to be financially material for every company, whereas financial materiality for environmental and social factors can vary by company, industry, and region.

As value-oriented investors, we invest for the long-term and seek opportunities that have attractive earnings and cash flow prospects that we believe are not reflected in a security's current valuation. We may invest in a company with financially material ESG-related risks if we believe that the company is making progress on those issues or if we conclude that it is still a compelling investment because of other considerations, like an attractive valuation.

To emphasize our commitment to ESG integration, we became a signatory to the Principles for Responsible Investment (PRI) in 2012. As a PRI signatory, Dodge & Cox has committed to considering the investment implications of ESG issues within our portfolio management and investment decision-making processes, where appropriate and consistent with our fiduciary duty.

How We Consider ESG Factors

As part of our bottom-up research process, we develop a well-rounded view of a company's fundamental strengths and weaknesses. Our analysis incorporates an assessment of how financially material ESG factors could affect a company's ability to generate long-term value.

Our global industry analysts conduct their own due diligence and analysis, which typically incorporates conversations with company management teams and boards, reviews of company reports, sell-side research, and information from third-party ESG data providers. Our analysts then summarize their research and provide a qualitative overview of the company-specific ESG risks and opportunities they have examined.

Within their reports, our analysts formulate an investment thesis that typically includes three-to-four opportunities and risks that appear most critical to the future success of the investment. When an analyst determines a financially material ESG factor could be a key driver of the investment thesis for the company, the analyst highlights it in the research report. The analysts then present their recommendation to our Investment Committees, which assess portfolio-level risks, including relevant ESG factors, and ultimately decide how to invest our portfolios.

After selecting an investment, our Investment Committees and analysts actively monitor the price and underlying fundamentals of companies we hold widely across our client and fund accounts. The analyst will recommend adds, trims, or a complete sale of a particular investment if material changes to our investment thesis occur. Consistent with the security selection process, Investment Committees consider a range of risk factors, including risks related to financially material ESG issues, as well as the return outlook for the portfolio's broader opportunity set. Generally, we intend to invest in a company for several years to allow time for our longer-term investment thesis to play out. As a result, our equity funds typically have low turnover, so our ongoing evaluation of our current investments is important.

Specific to our fixed income strategies, our credit research analysts typically work with the global industry analysts to evaluate ESG factors that we believe are likely to affect a company's ability to pay back its debt obligations. Our fixed income portfolios can invest in sovereign bonds, municipal bonds, and securitized products. These asset types present their own nuances and limitations in the context of ESG integration, which we take into consideration as a part of our research when relevant to our investment thesis and when sufficient information is available.

Our funds are governed by their respective fund documentation, which does not preclude investments in companies based on ESG criteria. For separately managed accounts, Dodge & Cox will adhere to specific ESG-driven exclusionary screens or restrictions when directed by the client.

How We Approach Engagement and Proxy Voting

We believe that our role as an active manager extends beyond selecting securities for our portfolios. Maintaining a dialogue with company management teams and boards helps us build our understanding of their priorities and strategies over time. When we believe a certain issue is significant to our investment thesis, we look for opportunities to engage directly with the issuer. With respect to ESG, we typically engage on governance factors, but if we view an environmental or social issue as financially material, we may choose to engage and share our views on those issues as well. Conversely, management teams, investor relations, and company boards may also seek our input on various topics, including ESG issues.

We seek to build constructive, long-term relationships with company management teams and boards. We prefer to have ongoing conversations and do not typically file shareholder resolutions or join public campaigns. We may also express our views through our proxy votes. Our Proxy Voting Policy guides these votes and may take into account ESG-related issues that we view as financially material. We view our proxy voting and engagement efforts as an important part of our investment stewardship.

How We Structure ESG in Our Team Decision Making

Our governance structure guides our ESG integration and stewardship efforts. Our Director of Research oversees and sets the direction for our ESG integration approach, in collaboration with our Research Policy Council (RPC). Our RPC is a group of senior investment leaders—including our Chief Executive Officer (CEO) and Chief Investment Officer (CIO)—who support the firm's investment team and long-term resource needs. Analysts across our investment team are responsible for incorporating financially material ESG factors into their ongoing research and analysis, as well as engaging with companies when we believe an issue may be material to our investment thesis. Our collective investment decision-making process enables us to incorporate a range of perspectives on ESG considerations.

At the firm level, our Business Strategy Committee (BSC) monitors and evaluates opportunities and challenges facing our overall business. The Committee includes all members of Dodge & Cox's Board of Directors and RPC, as well as other senior business leaders. Overall, the BSC is responsible for establishing the direction of our ESG practices with support and guidance from our ESG Research Steering, ESG Integration, and Proxy Policy Committees.

Our ESG Research Steering Committee works to formalize and further develop the ways in which we integrate ESG factors into our investment process. We established this Committee in 2021 because we recognized that ESG data, analytical tools, and best practices are evolving and cut across sectors. Its members evaluate new data sources, build analytical tools, and suggest process improvements to help our investment team evaluate ESG factors and examine how they may be priced into valuations. Our Director of Research leads this Committee, which includes our CEO, senior analysts, Head of ESG Integration and ESG Integration Analyst, and Head of Investment Stewardship and Proxy Officer. The Committee reports into our RPC, which approves significant decisions related to our investment process.

Our ESG Integration Committee evaluates how clients' expectations and asset management industry trends regarding ESG continue to evolve. This Committee began as a working group in 2017 and was formalized in 2021. Its members collaborate across departments to advance firmwide ESG initiatives, guide our client communication efforts on our ESG integration approach, analyze ESG industry and regulatory trends, and advocate for business enhancements as needed. Our Head of ESG Integration and ESG Integration Analyst leads this Committee, which includes senior leaders on our Client Services team, as well as our ESG Client Portfolio Analyst and Head of Investment Stewardship and Proxy Officer. This Committee reports into our BSC and Joint Client Service Committee.

As part of our investment stewardship, our Proxy Policy Committee oversees our proxy voting process and policy. Our Head of Investment Stewardship and Proxy Officer leads this Committee, which includes global industry analysts, members from Investment Committees, our Director of Research, and representatives from our Legal and Compliance teams.

In Closing

At Dodge & Cox, our mission is helping our clients achieve their investment goals by producing attractive long-term returns across a range of economic and market scenarios. To deliver on that mission, we conduct thorough research across factors that could materially impact the long-term value of a company or debt security. We believe identifying and monitoring financially material ESG considerations helps us assess the full picture of risks and opportunities of a particular investment.