Investments

Stewardship report

Reporting from 2021/2022

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Responsible investing – part of our broader sustainability commitment

We are proud to be launching our inaugural stewardship report where we are showcasing our investment approach and considerations in relation to responsible investing, while also shedding light on responsible investing in the broader South African landscape. The report also includes our private markets environmental, social and governance (ESG) report that features the impact we have made through our private markets programme.

Both of these reports are testament that Alexforbes is a force for good in our communities, by way of what we do and the outcome of our inputs. We want to be comprehensive and thorough in regards to our stewardship efforts, both as a corporate citizen and custodian of your assets, and how we are exercising that role.

While we do have groupwide sustainability-related publications, we felt that these two reports could unpack our role differently.

In the spirit of streamlined sustainability-focused reporting, we recognise that integration and simplification are key towards creating value for stakeholders. We will, therefore, continue to seek ways to integrate and align our reporting over the different components addressing sustainability within the broader Alexforbes context, without compromising on the detail and importance of responsible investing and stewardship.

We hope that you enjoy reading this report and that the insights provide you with a better understanding of our stewardship efforts and how they fit within our broader groupwide sustainability objectives.

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Gyongyi King
Chief Investment Officer

Foreword

As the stewards of your capital, we acknowledge the increasing importance of fostering an integrated investment approach that creates and maintains long-term shared value for all our stakeholders.

We have been entrusted with managing your assets for over 25 years and this duty is one that we own with pride. As responsible investors, we have a strong commitment to active stewardship and environmental, social and governance (ESG) integration to continue our ambition to provide our clients with positive returns in the long term and to continue to identify and address our unique sustainability challenges.

The need for active stewardship has become increasingly important in light of the sustainability vulnerabilities being addressed across the globe. These include climate change and biodiversity loss, energy transition, resource scarcity, rising inequality and diversity and inclusion to mention a few. Vulnerabilities present risks to civil society, businesses and investors, given that economies reside within society at large, which is part of a broader ecosystem. Our commitment to active stewardship is evident in our engagement approach and our dedication to working with the industry to improve our collective impact through responsible investing.

Stewardship plays a central role in responsible investment accountability, and beyond that, toward corporate accountability as well. The need for greater stewardship has also emerged from identifying that previous investment approaches were only serving immediate beneficiaries with little regard for future generations and societies. This presented the need for engagements that could create sustainable, long-term value for investors and local communities. Asset owners and the asset management industry are seen as the custodians of savings pools within economies. As a result, the expectations for the industry are higher and so too is the pressure for transparency, accountability and engagement – and rightfully so.

Accordingly, the need for depth and rigour of ESG frameworks can assist in elevating transparency and accountability. They also help identify the catalysts for change – positive or negative. Where society places measurable value to an issue, it is in the best interest of a company to respond to it.

This could result in poor share price performance in the short term, regulatory restrictions in the medium term and, in extreme circumstances, business survival issues in the long term. This only strengthens the case for organisations to be able to swiftly identify and respond to sustainability challenges and for this ability to be analysed and verified.

As the largest multi-manager in South Africa, we recognise our responsibility to foster dialogue and the necessary change in the industry that is aligned with your expectations and that of our broader society. Sound corporate governance and corporate reporting have long been well-entrenched expectations of any market. With momentum building around ESG and sustainability issues, their relevance has risen. In short, there is an expanding list of stakeholders who require more transparency. As a result, our Framework for Responsible Investing clearly articulates our beliefs and our policy, and how they are integrated throughout our investment process and portfolio solutions. Our beliefs form the foundation for which, and how, responsible investing considerations are embedded in our investment approach. We believe that a broader and long-term perspective on ESG risks and opportunities can help realise long-term stakeholder value and preserve long-term investment capital against the uncertainty that the investment landscape can present.

It could be said that Covid-19 was the trigger that took the global economy and financial markets into a period of deeper reflection. We are never likely to predict the exact cyclical trigger, but the underlying imbalances in the global economy pointed towards the need for this correction, well before the pandemic ensued. The pandemic also served as a catalyst for exposing the pre-existing imbalances around ESG and sustainability. The current reality is a testament to the urgency of why good governance, ESG integration, and risk management and impact are crucial to ensure the preparedness and sustainability of investments, and ultimately, protect the welfare of investors and our societies.

Over the 2021/2022 period, we engaged with 267 asset managers as part of our purpose to adequately identify and assess the ability of asset managers to withstand economic shocks and navigate market uncertainty through effective engagement. This report aims to provide you with an overview of our beliefs regarding stewardship and engagement. We also include the findings of our engagements, what the key outcomes were and how we continuously integrate ESG considerations into our investment process.

A fundamental objective of this report is to foster transparency over the stewardship of your investments. As the custodians of your assets, we aim to create a clearer understanding of our mission of creating insights and inclusive impact that promotes investment practices which generate sustainable outcomes for you – financial and otherwise.

In the new world that we are building, we need to create an investment ecosystem that truly benefits our communities. It usually takes extreme disruption to be a catalyst for transformative change and to create something better. Through a dedicated pursuit of responsible investment practices, we believe that we can translate challenges into opportunities and be part of the change that we all need, today and in the future.

Gyongyi King
Chief Investment Officer

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Our approach to responsible investing

Lebo Thubisi
Deputy Chief Investment Officer: Alternative assets

Senzo Langa
Deputy Chief Investment Officer: Traditional assets

As a responsible fiduciary of our clients' assets, we acknowledge that responsible investing (RI) and active stewardship can successfully be integrated into our investment process to enhance long-term portfolio performance.

We do not view sustainable investing and superior portfolio performance as mutually exclusive. We believe that the integration of ESG factors into our investment process can capture investment opportunities and mitigate risk for our portfolio solutions, thus making ESG integration a focal element of our investment strategy. We have incorporated RI considerations into our multi-managed portfolios for more than a decade now as we have always believed that this approach is fundamental to sustainability and the creation of stakeholder value. We view it as an investment practice that integrates factors that may materially affect the sustainable performance of assets, including those of an ESG nature.

However, we also acknowledge that ESG considerations pose their own inherent risks and opportunities, that is why we prefer a sustainable investment approach which considers and manages all opportunities and risks adequately.

In the rapidly moving world of investments, no one can afford to stand still. We acknowledge the urgency to evolve towards a more focused, forward-thinking approach that is aligned with local and international best practice frameworks. That is why we have created our Investment Framework for Responsible Investing. The framework follows a transparent and practical four-pillar approach – **beliefs, policy, process** and **portfolio**, that allows clients invested in our multi-managed portfolios to understand and identify where responsible investment considerations sit within our investment approach. It also allows our clients to understand how these pillars are incorporated into our investment portfolios.

1. Beliefs

We believe investing should consider a wide range of risks and opportunities, including sustainability factors such as good governance, environmental and social impacts on assets, and the associated policy and regulatory implications.

Asset managers who incorporate these factors into their decision-making processes are better informed of underlying risks and opportunities. As a result, they are better positioned to make quality investment decisions that are more likely to mitigate risks and enhance the performance of their portfolios.

We believe this approach is more likely to create and preserve long-term investment capital.

2. Policy

Once beliefs regarding responsible investment are established, they should be distilled into a responsible investment policy.

Our policy informs how we implement our beliefs within the portfolios we manage on behalf of our clients. The implementation of the policy also considers and aligns with guiding global and local best practice frameworks and industry principles advocating for responsible investment, where appropriate.

3. Process

To incorporate the belief that responsible investment matters, our RI policy is expressed within each stage of our investment process, including investment analysis and decision making.

Our investment process, therefore, primarily focuses on:

- Assessing asset managers in their approach towards integrating ESG considerations into their investment decision-making process
- Monitoring asset managers' commitment to active stewardship through their proxy voting and engagement activities
- Encouraging asset managers to adopt a collaborative approach in promoting the development of responsible investment practices within the industry
- Promoting enhanced disclosure from asset managers on their RI activities

4. Portfolio

Incorporating responsible investment into an investment approach needs to be considered in the context of risk mitigation and proactive allocations aligned with our RI beliefs.

This may include engagement on sustainability issues, leveraging ESG research and rating criteria, and targeting broader sustainability issues such as:

- ESG integration
- Active stewardship
- Impact investing
- Thematic investing

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Our investment affiliations

United Nations Principles of Responsible Investment (UN PRI)

Code for Responsible Investing in South Africa (CRISA)

To further signify our commitment to RI practices, and the high levels of transparency and accountability we aim to employ, we are signatories to the following industry bodies that advocate for RI and sustainable business practices. Our application of their best practice guidelines strengthens both our promise and ability to balance the needs of society today with the needs of future societies. We are signatories to the following organisations:

Collaborative initiatives: better together

The PRI have lauded our RI efforts, which is evident in the recent scores that they have awarded us across a range of asset classes. For more on this, click here.

United Nations Global Compact (UNGC)

Association for Savings and Investment South Africa (ASISA)

Our approach to stewardship

Premal Ranchod
Head: ESG Research

As part of our role as stewards of our clients' assets, we have a demonstrated commitment to active stewardship and ESG integration as one of the ways that we create financial and non-financial value for our clients.

Today, it is as evident as ever that an all-encompassing approach that considers more than just financial value is key to efficient and sustainable investment decision making. In a challenging environment where we are witnessing sustainability issues such as environmental ruin, inequality and labour rights - issues that all span across the ESG spectrum - the investment community needs to continue to play a contributory role in identifying and creating solutions that mitigate the negative consequences these issues can have on investors and their communities.

The intention of investing has expanded to be inclusive of local and global challenges that could threaten the outcomes of investments and, naturally, our attention and efforts are increasingly being directed to how to manage these risks.

The PRI defines stewardship as 'the use of influence by institutional investors to maximise long-term value, including the value of common economic, social and environmental assets on which returns and clients' and beneficiaries' interests depend.'

As one of the largest multi-managers in the country, our influence cannot be understated in our ability to effect change by leveraging our position for the greater good. We do this through proxy voting and engaging with our appointed asset managers where we have a clearly stipulated mandate on how they should vote on our behalf. We expect them to assess and consider ESG opportunities and risks in stock selection and portfolio construction.

As one of the largest multi-managers in the country, our influence cannot be understated in our ability to effect change by leveraging our position for the greater good.

These are some of the examples of how we practice active ownership:

Share voting

- All shares to be voted on
- Quarterly reports on 'for', 'against' and 'abstained' votes with reasoning

Corporate engagement

We expect that our appointed asset managers engage on ESG issues noted, despite their respective size and perceived levels of influence

Transparency

- Voting and engagement activities of our underlying asset managers are reviewed regularly and reported on
- Reporting on voting with summary information from asset managers is used to inform our investment decision making

Public policy participation

Engagement with industry regulatory bodies, and global and local shareholder rights organisations to share our views for the benefit of our clients and our business

Effective stewardship is a fundamental part of our investment process because it plays a big role in investment performance due to how it can influence business operations and therefore, performance. To keep our clients on track to meet their investment goals, our proxy voting and engagement activities support our work of staying aligned with these objectives in the face of economic, social and environmental obstacles. Our guiding principles, in regard to stewardship, are sensitive to the critical considerations that investors have to be able to aptly respond to them and, where necessary, integrate them into our process.

Environmental and social considerations

Climate change: The E in ESG

Climate change already has a significant physical and financial impact on many aspects of various asset types and sectors. As a result, it impacts investment returns and asset allocations of asset owners.

There are a number of risks that climate change presents at both the industrial level and the national one. The rise of these risks are being met with a rise in focus from regulators that are prioritising ESG incorporation for fiduciary duty, and with good reason. Asset managers and asset owners will need to be more cognisant of investing in sectors and businesses that are able to adapt to shifting investor demand and regulations. Expectedly, climate change has led to consumer demands and societal expectations have created important considerations for asset owners to take into account in their investment policies. While climate risks will be impossible to avoid, it will remain critical to protect investors and society from their effects where possible.

Social, economic and inequality concerns are more pressing within the South African context. However, as a signatory to the 2015 Paris Climate Agreement, South Africa has a commitment to reduce greenhouse gas emissions by 2030. Considering this, we recognise South Africa's specific climate change risks and social concerns as importantly as governance concerns. Accordingly, we look to influence and encourage environmentally responsible change through the RI approach we have adopted.

Sustainable investing may not yet be as mainstream locally as it is globally, but it is gathering momentum.

Mercer Investments - a global investment services provider and our strategic global investment partner - published a report titled *Investing in a time of climate change*, which is aligned with the framework outlined in the Financial Stability Board's 2017 TCFD framework. As a signatory to the PRI, we have access to the research and practical approaches that their platform provides, which forms a strengthened foundation to build our policies and approaches on.

Asset classes

We recognise that climate change risks pose a longer-term (multi-decade) consequence, although its physical effects are evident already. As an investment multi-manager that manages a range of asset classes, we have identified that the time horizon for pension funds overlaps with that of the TCFD climate change timelines. Long-term asset class assumptions require a consideration of climate change modelling and scenario analysis to ensure that long-term returns remain on track for investors. Given the complexity of the topic from a scientific and economic point of view, we are at a stage where we need to consider how it might be applied in a local context, although it presents a challenge globally to model and to quantify the impact on returns. As climate change expertise continues to evolve, we will review and update this aspect of our process so that it remains relevant and appropriate.

Our approach to climate change considerations

Our RI framework
Our beliefs are defined and articulated into a policy and process document. The portfolio is managed and reviewed in accordance with the policy.

ESG integration
Climate change considerations are included in our assessment of ESG integration in an asset manager's process.

Active ownership and voting practices
We use our influence as shareholders to positively affect a company's conduct through engagement and proxy voting. The disclosure of voting outcomes provides improved consistency, and fosters transparency and objectivity.

Allocation to thematic investments
We invest in assets specifically related to sustainability, such as solar and wind energy, sustainable infrastructure, impact investing and green bonds that attract commercially sustainable returns and create social impact through our private markets portfolio. Additionally, it is important to ensure that there is a reporting framework in place that assists in monitoring and measuring the material impact these investments are making in society and the environment.

Transition risks

The next phase of identifying the effects of carbon intensity is to be able to transition to more sustainable forms of energy.

Managing these transitionary risks is critical to the investment process so that the objectives of the investment portfolio are not compromised. In our role as active stewards, we are currently engaging with asset managers and the industry on an adequate transition. We advocate for collaboration with industry bodies such as the PRI, the Financial Sector Conduct Authority (FSCA) and the asset managers through the ASISA RI sub-committee, rather than divestment strategies from locally concentrated markets as these do not foster the intended, real world change for the economies of tomorrow.

Asset managers have a duty to both mitigate the impact of climate change on investment portfolios, and drive the momentum towards addressing the crisis through effective engagement and capital deployment.

Leveraging existing mechanisms

While climate change and its impact might need tools outside of the ambit of asset management, there are skillsets and resources that position asset owners in good stead to tackle climate change. Some of these include:

- Active engagement with investee companies on their environmental practices
- Investor activism and proposals through proxy voting
- Strategic asset allocation through the inclusion of renewable energy investments and allocations to infrastructure investments
- Investing in organisations that have products and services that are creating positive environmental outcomes or mitigating negative ones
- Advancing climate-related disclosures through accredited reporting frameworks such as the TCFD and the Carbon Disclosure Project (CDP)
- Signing up to global and local RI codes such as the UN PRI and CRISA to promote environmental considerations in investment practices. Principles such as those presented in the PRI are able to provide investors with guidance on how to best achieve climate change objectives, such as remaining invested in industries that are carbon-heavy and actively engaging with them to support them in transitioning to low carbon outcomes.

By applying our climate change approach and actively engaging with asset managers - who, in turn, engage with investee companies - we are able to leverage our influence to create meaningful change that supports the growth of our economy and the achievement of development objectives, without compromising the environment.

Social considerations: The S in ESG

It can be argued that most of the focus on ESG has been on environmental and governance factors. The importance of considering social factors, particularly in the South African context, cannot be understated.

Themes that fall under the social umbrella can be either relative to an organisation or an entire country. Company-specific issues include employee relations and safety, diversity and inclusion, and living wages. Country-specific issues can include the products and services' effects on wider society, human rights, gender equality and inclusion, and infrastructure maintenance and development.

There is often more focus on environmental issues, and much of this is owing to the ease of which they can be tracked and measured. Social issues are harder to measure, however, they have been gaining prominence in light of the pandemic and heightened inequality.

Essentially, RI is about investing in a way that meets investor objectives while protecting the natural, social and economic environment of current and future generations. Because ESG considerations are ultimately for the benefit of people, social factors are at the centre of RI.

A safe and cohesive social environment leads to more stable conditions for businesses to operate in, which could lead to better investment returns. For example, if fair labour practices are not adhered to, workers could strike, which could cause reputational and financial damage. If social unrest threatens a country, investor confidence could be dampened, creating a less stable market environment.

Demonstrating our positive impact: **The private markets ESG report**

We analyse and engage on a range of social issues with our underlying asset managers, particularly with our underlying alternative investment providers in private markets. Social risks and opportunities, and the respective downsides and advantages they present, need to be carefully managed and integrated into portfolios.

The Alexander Forbes Investments South Africa Private Markets (AFISAPM) portfolio is an actively managed, multi-managed, multi-strategy fund of fund. Our alternative investments experts manage the portfolio through partnerships with established and experienced providers in this space. We believe that alternative investments, such as private markets, can offer fiduciaries an additional source of meaningful returns for members. However, their benefits do not stop there. They also have real, tangible real-world outcomes that have a positive impact on our environment and societies.

Our private markets ESG report aims to demonstrate the impact that our business creates through the AFISAPM portfolio, relating to key targeted focus areas that are underpinned by both local and global development goals. The impact created can be categorised into three key indicators of responsible investment – ESG factors.

The targeted impact areas of the programme are:

- **Green transition**
- **Job creation**
- **Diversity and financial inclusion**
- **Education**
- **Health and safety**

These focus areas present a clear direction on where to steer our efforts to create maximum, intentional impact on social and environmental development initiatives.

Through our AFISAPM portfolio, we examine the impact that we can make in the corporate environment and our societies. This ensures that we have a focused effort to address the issues that need the most consideration for the benefit of our communities and our clients.

You can access our 2022 Private Markets ESG report **here.**

Engaging the industry: asset manager evaluation

Premal Ranchod
Head: ESG Research

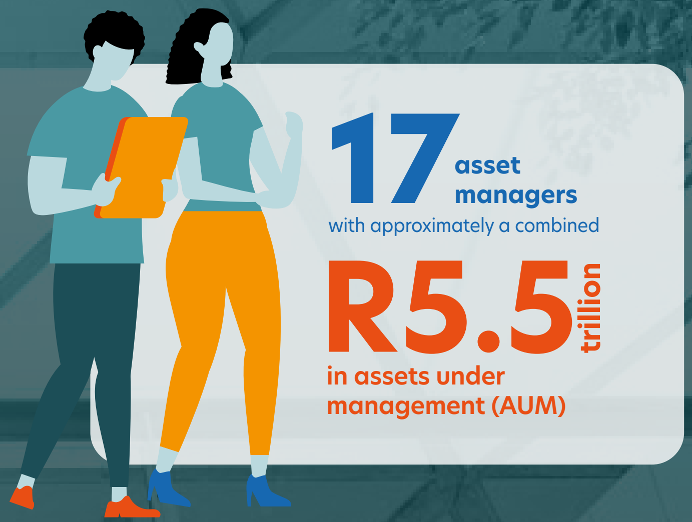
In recent times, we have and continue to see heightened awareness around ESG and sustainability.

This could be the result of a flow of assets toward ESG funds on a global scale, activism for climate justice and social change, or increased corporate transparency and greenwashing* issues. The content that is in constant circulation can be hard to keep up with, particularly against the backdrop of regulatory developments, locally and globally.

In order for us to evaluate how asset managers evaluate ESG factors and how they incorporate them in their investment processes, we engage with asset managers through due diligence meetings. This allows us to better understand their approach to RI, how they have implemented their investment strategy and aligned it with RI practices, and what their high-level outcomes have been. We also use these engagements to improve ESG-related engagements and improve managers' ESG integration over time. Through the feedback we receive, we construct a holistic overview of how ESG integration is practiced from the research phase through to the portfolio construction stage, as well as the stewardship efforts that follow from these investments. Meaningful, constructive engagements have assisted us in assessing the value-add of ESG integration, while gauging transparency around adequate measurement and reporting.

Approach

In the most recent set of due diligence meetings, we embarked on a set of responsible investment meetings with a broad range of asset managers in the industry. Our engagement scope extended beyond specific asset classes in order to facilitate open discussions that allowed us to get broad discussions that touched on a wide spectrum of themes, ESG and other topics. Accordingly, we engaged 17 asset managers with approximately a combined R5.5 trillion in assets under management (AUM). This represents the diverse businesses in the industry to make our due diligence inclusive, incorporating a variety of perspectives. We wanted to ensure that our survey findings provided a holistic perspective of the industry's overall views on responsible investing and ESG factors and on their collaborative affiliations.



* Greenwashing is the act of providing the public or investors with misleading or outright false information about the environmental impact of a company's products or operations.

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Engaging the industry

Highlights:

Coverage

AUM **R5.5** trillion | **17** managers | **30+** total strategies | **8** asset classes

Our coverage includes:

- larger, well-established asset managers
- mid-sized boutiques
- traditional asset managers
- alternative investment providers (hedge funds and private markets)
- managers with an entrenched competency in ESG integration, and
- those that have recently begun the journey.

When we are conducting due diligences with our asset managers, we engage with a range of key stakeholders in the investment business such as:

- Chief investment officers
- Chief executive officers
- Portfolio managers
- Investment analysts

Manager affiliations 13

Engaging the industry

Highlights:

What is the industry thinking?

6 Core focus areas

- Measurement & Reporting
- Stewardship
- Staff Development
- Data Management
- Leadership
- Product

Top 3 themes discussed

- Climate risk
- Social change
- Remuneration & Board KPI

Risks tabled

- E 15%
- S 9%
- G 76%

254 Active portfolio company engagements*

Key engagements

54	24	23	20	18
Remuneration & KPI	Social change	Carbon exposure	Climate strategy	Just transitions social & environment

Note: The above data is based on responses received through our due diligence effort of managers

*ESG engagements conducted by asset managers with investee companies

Through our most recent set of engagements, we have identified a set of themes that are the most critical and material, which will assist us in identifying the most essential ESG risks and value-creation opportunities. We believe that by focusing on the below eight topics, we can identify target areas that can deliver investment outcomes for clients and sustainability outcomes for our society. These themes can also assist in rating asset managers, using our rating framework.

While we conducted RI-specific engagements during our standard due diligences to collect this data, RI-related engagements are continuous throughout our reportbacks with our appointed asset managers.

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Engaging the industry
Meeting insights

1 Strategy and leadership

An evaluation of how ESG features on the strategy of asset managers and investee companies

2 Philosophy and process

The consideration of the beliefs and application of ESG within the investment process

3 ESG research coverage

A discussion about ESG research content and consumption

4 Materiality and measurement

The evaluation of risk/return, materiality, scoring and reporting frameworks

5 Stewardship (Engagement & Voting)

Testing the effectiveness of stewardship within equities and fixed interest asset classes

6 Transparency

Exploring the elements of elevating transparency within asset manager and investee companies

7 Regulatory landscape

A review of the regulatory landscape, affiliations and the contributions made by the asset manager

8 Evolution of investment management

Assessing the longevity of ESG and willingness to invest into teams and systems in asset management and investee companies

Meeting insights: themes of interest

In our engagements with participating asset managers, we sought to understand their **business strategy**, and their incorporation of RI practices and ESG factors. We extended our scope to include the understanding of the **leadership** teams at the asset manager as well as their assessments of the executive and boards of investee companies. This helped us understand how they are dealing with the elevated need and demand for a clear response on ESG risks and opportunities.

On the theme of **philosophy** and **process**, managers highlighted the updates they would need to consider to be able to address an increasingly complex and changing ESG investment landscape. On ESG **research coverage**, we were interested in how data is compiled and used by individuals that interact with it regularly: analysts, portfolio managers and chief investment officers, and beyond that to the more senior leadership level.

Materiality and measurement are critical in evidencing efforts of unlocking investment value and meeting fiduciary duty. We assessed whether traditional benchmarks for measurement of risk and return are suitable for the measurement of ESG and impact. We attempted to test their depth of understanding on corporate reporting concepts such as **double materiality, ESG ratings and various reporting frameworks**.

On the aspect of **stewardship** (voting and engagement), managers shared their efforts on engagement and how its outcomes translate to portfolio actions for both equities and fixed interest.

We have found that **transparency** remains a factor that is important for accountability. Asset managers and investment professionals need to actively engage and vote on issues of governance, disclosure, climate risk reporting progress, amongst an increasing list of requirements. We tested the asset managers' knowledge of the **regulatory environment** and how it is changing their internal policies and processes. There are times when efforts like public policy discourse and regulation need consideration, although it is difficult to evaluate their direct impact on an investment portfolio and its performance.

A key question that our engagements aimed to answer is "Is there an evolution of investment management in South Africa?"

Asset manager evaluation

We designed several assessments based on the eight discussion points above. This assisted the participating asset managers to demonstrate the application of ESG within their investment processes regarding:

- research
- ESG risk evaluation
- valuation
- position sizing
- measuring portfolio actions
- engagement on positions held.

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Meeting insights

1 Strategy and leadership

Strategic investment goals

The investment and ESG goals that managers respectively set differ depending on how long the manager has considered ESG factors or integrated them into their investment approach. Managers have created structured guidelines around voting, monitoring and reporting for the purpose of either providing an elaborate stewardship report or providing basic ESG reporting for more meaningful client reporting. More advanced investors are considering frameworks such as the TCFD to guide their engagements and reporting on their respective climate-related investment objectives and how they accommodate this in their investment process.

ESG-related employee training

There is a general consensus that ESG matters cannot be ignored owing to their evolving complexity and growing importance.

Because of this, specialist training in ESG investing and RI approaches is needed. This is a growing need, as was also evidenced in the recent launch of CRISA 2, where Principle 3 refers to an improved capacity-building requirement for both the individual organisation and the industry. While investment professionals do require immediate training in this regard, it should not be limited to a once-off course. It should rather be a continuous endeavour that includes sector-specific training that allows for depth and appropriate context.

Growing and creating relevant skillsets

A dedicated ESG skillset is needed within investment teams to ensure that nuances and implications are understood. This ESG-specific skill is needed at various levels, namely for:

- Analysts and portfolio managers for execution
- ESG working groups or committees for setting an ESG strategy
- Chief investment officers for ultimate responsibility
- Board of directors for formulating strategic direction
- Client service professionals to convey the relevant information simply to trustees and clients.

Responsibility for ESG views

In larger, structured entities, the board of directors of the entity - together with the executive committee - have ultimate accountability for setting the strategy for ESG considerations, the direction the organisation wants to go in regarding ESG integration and what the outcomes should be. However, most asset managers believe that, at stock level, the investment analyst and portfolio manager responsible for the share should own the ESG view along with the respective performance it yields.

Remuneration and key performance indicators

Most asset managers have opted for holistic compensation packages that include ESG-aligned targets. Advanced investors have ESG key performance indicators (KPI) being set from the chief executive officer and the executives, down to individuals responsible for investment processes outcomes.

Corporate and audit

Clear sector leaders do exist in companies that have an explicit incorporation of ESG factors into the business strategy, which can be evidenced in their superior reporting. There is recognition that there is room for improvement for building ESG-specific skillsets at the senior leadership, board and non-executive levels to ensure that ESG factors are understood and responded to through the corporate strategy.

Managers expect that reporting will improve, given that financial reporting standards are evolving to include ESG and sustainability considerations.

Meeting insights

2 Philosophy and process

1. Philosophy

At this stage of the industry-wide ESG journey, there are no managers that have openly stated that they have not constructed an ESG belief system or investment approach. The real question is whether the asset manager (traditional, boutique, hedge fund, private market or other) is honest about embarking on the journey or if ESG is being addressed to appease institutional investors.

2. Process

Generally, we have identified a 3 – 4 stage process of ESG integration:

1. Research
2. Portfolio construction
3. Stewardship
4. Collaboration

These different stages provide a robust structure for efficiently integrating ESG factors. They include a careful consideration of external elements such as regulation, industry guidelines, investor demand and internal elements such as available skillsets in the workplace and other capabilities.

3. Policies and disclosure

Regarding reports and policies relating to ESG or responsible investing, we saw that most asset managers had the below documents or policies to guide their RI operations:

- Proxy voting guidelines and reporting
- ESG or stewardship policy frameworks
- Climate policy
- Treating customers fairly (TCF) and Conflict of Interest policies
- Stewardship reports and other ESG-aligned communications

4. Timeline

The pace at which asset managers consolidate RI into their investment philosophy differs between respective managers, their track records and their specific niches.

Progress should also be considered in light of responsible investing practices, codes, regulatory improvements and asset class application simultaneously evolving over the decade.

Affiliations are also one way in which we can assess the ESG maturity of the company by finding out when they became affiliated with a particular RI body – if they have – and how they integrate the principles it proposed. We have noted that some managers signed up to the PRI in 2007, followed by CRISA in 2012. Additionally, in 2015 they demonstrated their climate reporting ambitions through the Climate Action 100+, an investor-led initiative on actions against climate change, the CDP, and finally the TCFD in 2021.

Meeting insights

3 ESG research coverage

1. The 'ESG unicorn'

In the quest for data superiority and standardisation, the question that investors and consumers are asking is whether anyone has identified the 'ESG unicorn' – the one service provider who incorporates ESG factors with a high standard of efficiency, and achieves all investment and RI outcomes due to the right use of data, research and ESG themes, and is aptly called a 'unicorn' because of the rarity of one.

Research is an input and the value of it remains in the interpretation of it, and how it can be linked and applied to investment management.

Research is generally available in the form of stock-specific coverage, proxy voting, sector or thematic content, and it can be scientific or social in nature.

2. Local, global or both?

Asset managers have acknowledged that on the topic of ESG, learning remains to be an ongoing process and that markets can still present challenges to managers that have extensive experience in managing ESG risks and leveraging ESG opportunities. To supplement the limitations they are facing, they use both local and global service providers to provide them with international perspectives of best practice, and case studies and research that can be applied to the local context.

A global provider may have the benefit of broader coverage and leading methodology from global markets that are more advanced relative to South Africa, but local managers have noted some drawbacks in the use of this data. Some of these include its suitability for local markets, the depth of coverage, and the timelines of the information. Ratings or scores, therefore, serve as an input evaluation for the asset managers rather than serving as an indication of their final ESG view on a share.

3. Use of data and new technology

The use of artificial intelligence has a role in combing through databases to gather uniformity and patterns in data, which can support effective decision making in the investment process. The benefit in any data is in its interpretative value and how it can be used to inform the responsible management of capital. This is dependent on the depth of insight, quality and local coverage of the data, for which there is no substitute.

4. Data consumption

At a time when data is ample and at times, unchecked, its value requires reflection by those who consume it, presenting a very real risk. Most senior decision makers assume that specialists have assessed and interpreted the data in order for business as usual to continue.

The issue is that we have evolved to "business as unusual" with Covid-19 disruptions, the heightened risk in the geopolitical landscape and market volatility. Managers have responded that the flow of ESG information and data, and how it is used across the different roles in their teams, is as follows:

- ESG analyst – technical subject-related insight into specific ESG themes
- Analyst and portfolio manager – stock or sector-specific considerations
- Investment team – trends that are driving the investment agenda
- Chief investment officer – effective oversight into the investment process
- Executive level – organisation-wide ESG strategy setting and employee development.

(Order is based on the primary source of ESG information)

Meeting insights

4 Materiality and measurement

Risk and return

There remains a long-held view that the natural application of ESG integration to portfolio management is synonymous with risk mitigation. But it goes beyond that.

Ultimately, managers still believe that ESG integration assists in creating the best environment for a business' longevity and its long-term growth potential. They have cited research papers that provide evidence that suggests a combination of the below occur, but with variability in outcomes in the short, medium and long term:

- long-term improved financial performance
- downside protection during social or economic crises
- managing a low-carbon economy improves long-term financial performance
- improved disclosure, however, with little benefit when in isolation.

The combination of a clear strategy, value proposition and the articulation of all the factors that affect capital markets can enable managers to protect assets against market risks and yield returns for clients.

In practice, the impact of ESG factors on a company's intrinsic value is usually dynamic and requires diligent, continuous analysis. ESG considerations therefore have an impact on performance expectations as well as on position sizing in investment portfolios in the context of risk management.

Managers with experienced and established teams have cited detailed risk management frameworks to evaluate the dynamism of ESG risk and portfolio positioning, impact of cash flows, scenario and sensitivity analysis, and climate risk evaluation, further encouraging evidence of the mainstreaming of ESG.

Materiality

Most managers have reported that they use a qualitative materiality approach to provide context to the quantitative data available. Qualitative factors consider a range of business-specific cases of compliance and regulation, to broader societal factors such as socio-economic trends.

Analysts consider materiality in their evaluations, but the objective for considering it is ultimately to maximise opportunity without unduly taking on excessive risk.

The double materiality concept acknowledges the fact that risks and opportunities can be material from both a financial and non-financial perspective. On the concept of double materiality, managers have demonstrated that ESG issues and financial risk are connected and cannot be separated.

This is evidenced by the application of climate risk in the pricing of shares and bonds in the market. A company that is more carbon intensive will be considered riskier and hence the cost of borrowing capital costs more for them.

Reporting frameworks

With a wide range of sustainability reporting frameworks that investors have access to, it is worth investigating the ones that asset managers believe provide superior disclosure guidance.

The Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) frameworks are suggested as essential and complementary given that the former addresses externalities and the latter addresses financial materiality. The TCFD for climate risk disclosure is also helpful. The Johannesburg Stock Exchange (JSE) Sustainability and Climate Disclosure Guidance followed by the International Sustainability Standards Board (ISSB) are expected to be the next foundation in improving disclosure and identifying greenwashing practices. This also provides much needed environmental and social disclosure for how investors plan to both absorb and support just transition plans as well as addressing the exploitation of workers and society.

ESG scoring and ratings

ESG rating frameworks for individual shares are less preferred. The use of numeric or alphabet scoring serves as a primary indicator of risk or opportunity. A no-scoring methodology can capture the nuances when considering the risks and trade-offs of these complex issues.

ESG analyses and considerations are getting increasingly critical as they lead to an enhanced understanding of companies and the extent to which they make a sound long-term investment opportunity. It is the analysis that contributes to better value creation over time. Managers believe that it is appropriate in identifying and pricing for risk in all investment opportunities.

Meeting insights

5 Stewardship

Engagement

On these themes, some observations listed by asset managers that they believe require extended engagement include:

- a lack of data consistency in companies' sustainability reporting
- sustainability reports that have more information on a company's achievements compared to their sustainability limitations or detailed risk analysis
- the amount of information against the actual value of reporting and insights deduced
- encouraging companies to increase their ESG disclosures.

Engagement is often not well understood, and as a result it is underestimated by many stakeholders. The point raised by the dissenting audience is whether or not an asset manager can attribute outperformance of their fund to effective engagement with investee companies.

We like to think that while performance is a necessary condition of managing assets, it alone is not a sufficient condition. The element of fiduciary duty in protecting investor assets has a substantial role to play in maintaining the integrity of the industry.

The important point to consider is how we measure effectiveness. We suggest using an 'objective and outcomes' approach where effectiveness is monitored throughout the investment life cycle. It can allow for a business to reduce its long-term risk profile.

Voting

While all management teams recommend that asset managers should support their vote recommendations, being an active manager requires active decisions. Voting 'against' the recommendation, where managers believe that investors' best interests are not supported, should be done when necessary.

Voting is a lever that can be used to unlock value within a company, but it is the context of ongoing engagements with the company that decides whether the asset manager ultimately votes against/for a recommendation.

While prescriptive methods of voting can be a strong voice of stewardship from the investor, we recognise that there can – at times – be binary choices with unintended consequences in practice. These often result in the detriment of investment outcomes.

The overriding principle is that engagement and resolutions that are constructive, continuous and proactive are preferred over routine voting at general meetings, which might lead to little or no positive and meaningful outcome.

Useful approach on stewardship and engaging asset managers:

- **Identify** – an issue or trigger for engagement
- **Analyse** – understanding materiality and prioritising engagement
- **Plan** – engagement strategy and approach
- **Engage** – ongoing dialogue, not once-off
- **Vote** – on all proxy resolutions, not just engagement matters
- **Report** – on voting and progress of engagements

Fixed interest

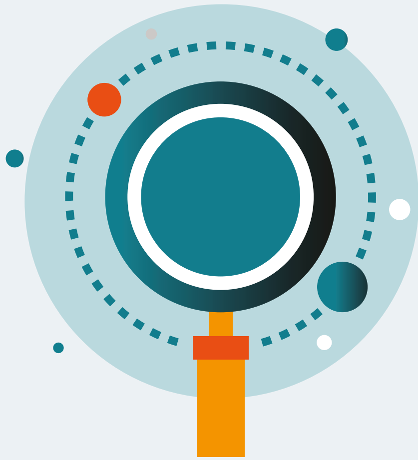
Fixed income represents a fundamentally different asset class to equities. Bondholders have different rights and responsibilities, leading to different stewardship expectations and opportunities. We separate fixed interest expectations into pre- and post investment activities. Post-investment, bondholder rights are limited as they do not have the right to vote at the company's annual general meetings (AGM), unlike most equity investors.

The objective of stewardship in fixed income is to ensure that:

- A manager is suitably skilled to evaluate the credit risk and implicit ESG considerations as part of the pre-investment evaluation.
- Engagement prior to the issuance provides investors with an opportunity to engage on covenants or on the structure of the issuance.
- The manager conducts rigorous research and analysis prior to any agreement and ensures that the bond prospectus and covenants provide sufficient protection to bondholders.
- Post-investment, the manager is continuously aware of the issuer's financial position and ability to meet debt repayments as they become due.

Engagement in fixed interest is more complex as issuers are often state or parastatal entities. In the case of corporates, they can engage through their equity teams at AGMs where they also hold the share.

To ensure fairness in engagements, managers have noted that while the JSE debt-listing rules have improved to appoint a debt officer to protect bondholder interest, there is much more work to be done around the responsibility and independence of such an officer.



Meeting insights

6 Transparency

Being transparent about ESG-related activities serves to elevate accountability and to promote RI practices. We engaged about what facets of ESG require transparency.

Asset managers have responded by stating that they remain transparent by disclosing their:

- RI policies and approach
- Engagements (how many take place, their outcomes, and so on)
- Proxy voting reporting and guidelines
- Adherence to stewardship principles through adequate reporting

Corporate sector

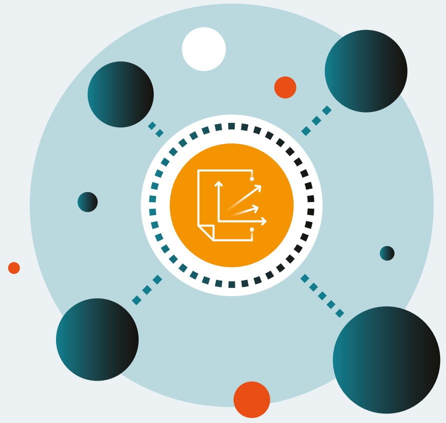
Companies acknowledge the need for climate-related disclosures and social metrics. Improved disclosure caters for further engagement, improved management and better performance.

We also found that asset managers have been accurate in highlighting sector-specific materiality matters when interpreting data. Relying on data with little context is not beneficial. The measurement of risk and the resultant engagement strategy within the company is necessary.

For an asset manager to achieve the investment objectives of their fund, a confluence of factors needs to be considered: share research, risk associated with their valuation, the position sizing within the fund together with stewardship considerations that result in generating value for their fund, and ultimately, investors.

Benchmarks

The notion that traditional benchmarks are suitable for measuring various impact-related expectations is a basic, but misguided, one. Managers have suggested that when advocating for bespoke metrics or imposing mandate restrictions of any kind (societal or environmental outcomes for example), the same is required for the traditional benchmarks that they are being measured against.



Meeting insights

7 Regulatory landscape

The need for balance

Regulation serves as the rules and laws that govern the conduct of investment management and ensures that trust is at the center of managing assets. We are seeing an ever-increasing regulatory environment as market complexity increases, and as society holds organisations more accountable for creating and contributing to a world that is struggling with socio-environmental ills.

While some market players use regulation as a tool to police participants into compliance, we think over-regulation is disabling. Incentives – to mitigate harmful outcomes and encourage positive ones – are needed if we are to make any progress. For example, climate finance needs incentives to attract capital that can both support the just transition and meet policy objectives.

Public policy participation

Participating in public policy can go a long way in producing policies that are well-informed by relevant perspectives, but it requires resources and bandwidth. The asset managers have cited that it is in their interest to be proactive about ESG-related frameworks and initiatives such as CRISA Code 2, sustainable finance taxonomies or the RI sub-committee inputs of ASISA. Smaller managers, despite their competencies, will eventually be swamped by the demands that mandatory and voluntary principles present, and they will be forced to be selective about their respective participation.

What is coming?

Overwhelming responses suggest that climate change will increasingly feature, both locally and globally, in ESG taxonomies on corporate reporting frameworks. The JSE Sustainability and Climate Disclosure Guidance has been released as an issuer guidance to assist companies in navigating ESG and sustainability reporting.

Effective January 2024, IFRS Exposure Drafts on Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2) will be applicable to all companies.

On biodiversity-related and social-related frameworks, the Task Force on Nature-related Financial Disclosures (TNFD) and the Task Force on Inequality-related Financial Disclosures (TIFD) respectively will become more topical in the future.

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Meeting insights

8 The evolution of investment management

The ESG competency

- ESG and niche skills will be required to discern the growing landscape by asset managers and investee companies
- Data and systems are required to capture and report ESG inputs and outcomes

ESG reporting in the financial reporting suite or separately disclosed?

- Placement of the ESG-related material is irrelevant. The material risk and its potential impact must be clear in disclosure
- Meaningful information is needed whether metric-based or qualitative

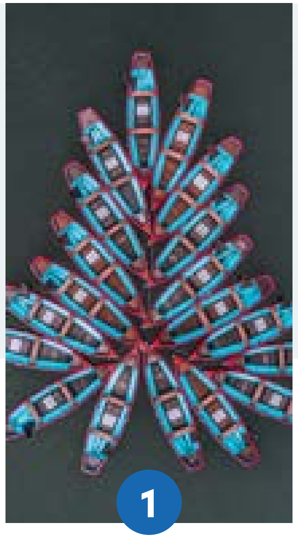
Elevated expectations

- Company practices will continue to be under increased scrutiny
- Company responsibility is elevated when society places increased demand on businesses

ESG becomes traditional finance

- An increased focus on ESG in company analysis
- Long-dated events affecting asset class return assumptions
- Market cap-weighted benchmarks have to evolve for impact measurements

The next section will comprise of a quantitative and qualitative review of each of the five segments:



1

Industry affiliations

The goal of collaborative affiliations in the investment industry – as with others – is to achieve a mutually beneficial outcome for all interested parties.

2

Strategic focus areas

The next phase of our asset manager evaluation was to understand their strategic focus areas around the ESG practices and investment processes that considered them – or not.

3

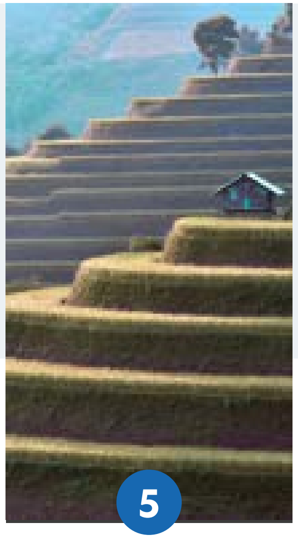
Structural ESG themes

ESG themes are growing in prominence in the investment industry – and beyond – and there is still ample space for this prominence to grow.

4

Evaluation of top ESG risks

ESG risk assessments by asset managers – of the companies they intend to invest in or are invested in already – are considered when they value the companies within their portfolios.



5

Asset manager engagement action plan

Engagement with companies represents a strong lever in the stewardship effort by the asset manager. It is necessary in terms of fulfilling the fiduciary responsibilities of clients, but also seen as a way to manage ESG risks and identify opportunities within portfolios.

1 Industry affiliations

The goal of collaboration

The goal of collaborative affiliations in the investment industry – as with others – is to achieve a mutually beneficial outcome for all interested parties. Within the financial services industry, institutional investors use their collective influence with companies and other decision makers to drive positive outcomes for the environment, investors and civil society. This is commonly referred to as **active ownership**, and it is aligned with local and global responsible investing best practice. When a collaboration combines the diverse and complimentary knowledge and skills of different companies, the collective group is better able to overcome their individual limitations in confronting common problems. This can lead to a strengthened potential for large-scale problem solving, solutions and impact.

The PRI defines stewardship as "the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend."

Collaboration in current stewardship codes in practice:

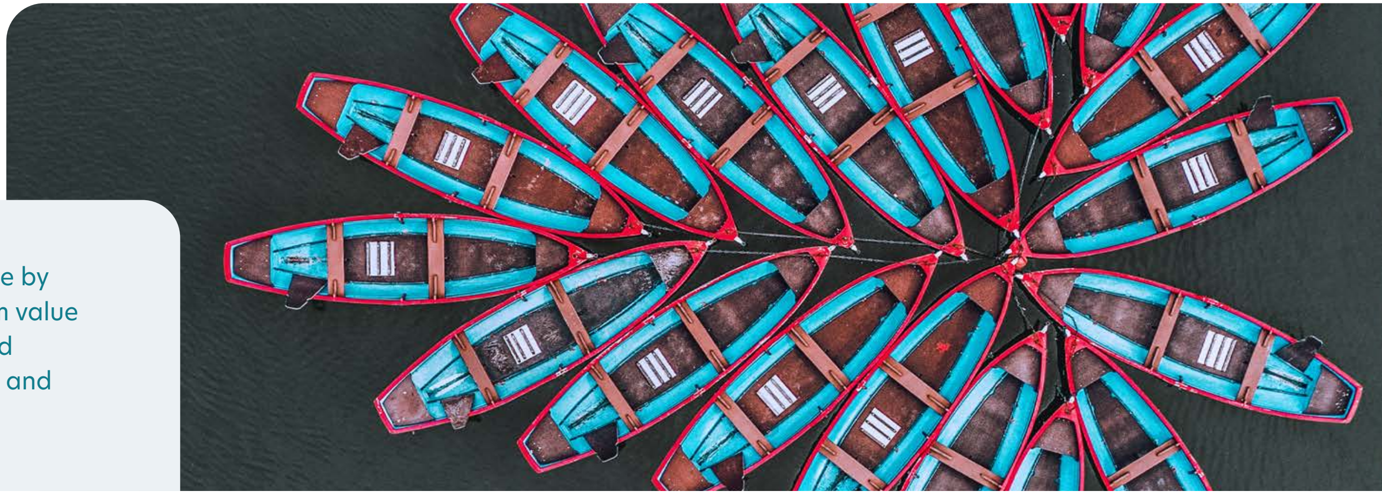
PRI Principal 5

We will work together to enhance our effectiveness in implementing the Principles.

CRISA Principal 3

Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

Note: At the time of the due diligence, CRISA 2 had not yet been launched. At the time of distribution of this document, most of the industry has yet to analyse and make their respective endorsements of CRISA 2.



A snapshot of affiliations in the South African investment industry

Using due diligence and AUM as a proxy for the South African (SA) market, we have attempted to evaluate which of the below responsible investing affiliations receive support and the extent of it, i.e., the quantity of assets that have been committed to that specific organisation, by using a representative sample.

Most of the industry affiliations are voluntary, however, numerous asset managers have expressed that they are affiliated with one or more of these bodies. They have either formally endorsed a code or have become signatories. While the list is not an exhaustive one, we believe it to be relatively comprehensive and inclusive of the most popular bodies that have the greatest proportion of assets.

The figures indicate the total sum of AUM by the group of asset managers that we have engaged with for each given collaborative body. It is important to note that this data is a representation from our due diligence outputs.

Organisations for collaboration

Organisation	Committed AUM
Code for Responsible Investing in South Africa (CRISA)	R5.1trn
Principles for Responsible Investment (PRI)	R4.8trn
Task Force on Climate-related Financial Disclosures (TCFD)	R4.4trn
Climate Action 100+	R4.4trn
Association for Savings and Investment South Africa (ASISA)	R4.2trn
Carbon Disclosure Project (CDP)	R3.7trn
King Code IV	R1.8trn
Sustainability Accounting Standards Board (SASB)	R1.8trn
Global Reporting Initiative (GRI)	R1trn
International Integrated Reporting Council (IIRC)	R1trn
Global Impact Investing Network (GIIN)	R647bn
Southern Africa Venture Capital and Private Equity Association (SAVCA)	R280bn
United Nations Global Compact (UN GC)	R280bn

All figures have been rounded

?

We asked asset managers to provide the following information:

- Remarks on their respective affiliations and affiliations in general
- Their respective contributions
- What, if any, the consequences are for inaction

General comments

In collaborative actions, there is an argument that the bigger the invested assets are, the greater the influence is in investee companies.

However, we think that effective collaborations should have clear and understood consequences for inaction so that they are used as more than just a marketing exercise for signatories.

Observations

From the outcomes from our engagements, we can identify four distinct patterns:

1. **Compliance** – ongoing participation toward any affiliation can become a compliance exercise, with the pledges used to show the credibility of a manager or their ESG competency.
2. **Balance** – asset managers are considering the practicality of being affiliated to an industry body and balancing the responsibility that it requires. The push to sign up to more affiliations and implementing their required principles could bear the consequence of comprised outcomes or returns. When lengthy, repetitive, annual submissions only have global relevance - with little local relevance - or when the time spent on submissions outweighs the practical outcomes of the research content it produces, then the affiliation yields little benefit for the signatory and its beneficiaries.
3. **Research** – organisations that are well-funded or have a subscription model that provides them with access to a global investor client base tend to produce relevant, applicable responsible finance research for their signatories to use. This includes organisations such as the PRI, but also extending to GIIN, GRI and SASB.
4. **Size** – AUM is a strong indicator of the number of affiliations an asset manager can endorse. Larger, established managers have the budgets, teams and ability to dedicate to responsible investment activities. Smaller managers with less AUM are more concise with their conduct and more selective with their affiliations.

Meeting insights: industry collaborations

From the due-diligence submissions, we are able to gauge the following from a range of asset managers:

Large asset managers

Large investment teams have the benefit of dispersing ESG-related responsibilities such as engagements, technical committee representations, writing letters to the management teams of 90 listed companies on causes such as the adoption of the TCFD, among others.

The issues that are tabled may not always be stock-specific ESG factors, but they could also be asset class or sector-specific. As a result, the ability to attribute the ESG value-add is less precise, but it is still an all-encompassing benefit for the overall investment proposition.

Being a large investor, however, does not automatically equate to superior skill at ESG integration. Within the universe of large managers, there are still varying levels of progress across life insurance houses and companies in the listed and unlisted sector.

Asset managers that started integrating ESG factors in their investment process earlier on have the benefit of a head start if they were consistently a supporter of responsible investment practices. Those with a global presence, especially with a larger United Kingdom or Europe client base, have benefitted from global sustainability and ESG market and regulatory developments, which are perhaps advancing the cause ahead of South Africa.

Boutique asset managers

We found a varied submission of data by smaller managers. These are relatively well-established independent managers who have been very selective in what affiliations they endorse. This is also evident in which asset classes benefit from the affiliation, driven mainly by the assets that they manage.

For example, if the majority of the assets are equities, then they submit this asset class for evaluation to the PRI while they build out ESG practices within their fixed interest process.

Outliers do exist in the boutique, with a select few punching significantly above their weight. This is evident not only in their formal endorsements, but also in their investment process, its detail and ability to provide data and reporting of all affairs being monitored.

Hedge fund managers

These managers have typically been slower in the adoption of formalised ESG processes and endorsements, however, this is not to say that ESG does not feature in their management of risk or idea generation in long or short positions at all.

We believe that businesses who respond to ESG integration beyond compliance requirements will be better placed to manage ESG-related risks and to leverage ESG-related opportunities. Signing up or endorsing to affiliations often comes with responsibilities for the signatory. Because the affiliation is a sign of the asset manager's commitment to submit their progress on ESG efforts, targets or milestones set, they stand to be evaluated by the affiliation body to ensure or establish high standards. These require deeper teams, decision-making and long-term planning which at times cannot be attributed immediately to shares held in a portfolio.

Many have yet to sign up to the PRI, but they have endorsed CRISA as a minimum. They continue to consider research from the TCFD and others, using it for analysis within shares held and for company engagement.

The consideration of ESG and affiliations begins to evolve when hedge fund managers secure institutional assets.

We have also found that levels of engagement by asset owners drives positive behavior, additional disclosure of asset manager processes and reporting enhancements.

Private markets managers

These asset managers have benefitted from international allocations from development finance institutions (DFI) who have ESG and impact as a primary investment objective. Organisations such as GIIN, the United Nations Development Programme (UNDP), SAVCA and the TCFD have promoted their support for private managers in their respective quests for superior ESG and impact reporting.

Most recently, unlisted managers are also conducting the measurement of climate risk in the form of carbon exposure and carbon intensity. Affiliations become less of a compliance case in these asset classes as the managers use ESG as a strategic operational lever in streamlining their businesses (such as solar energy to reduce electricity costs) or to deliver on tangible, positive outcomes.

Opportunities for collaboration for unlisted assets

As an introduction, the investor in unlisted markets is otherwise known as a limited partner (LP) and the company or private equity entity is known as a general partner (GP).

In the unlisted (private markets) environment, where risk features are over longer time horizons due to illiquidity, collaboration looks different. One such example is the role of the LP to use an advisory committee (LPAC) as a vehicle to lobby or be heard.

It is predominantly a standard practice to have an advisory and consultative function to the GP. When a decision is required, the GP typically consults with LPAC members for their views and thereafter, seeks their approval through a vote.

LPs and GPs should consider carefully which, if any, decisions of the GP should be subject to the LPAC's consent and which should be subject to a full vote. This ensures that the LPAC's function continues to be that of serving as a sounding board for the GP, and does not become involved in the management of the fund itself.

Another superior option for multi-strategy private markets programmes, where significant sums of capital are deployed by a single investor, is to establish a governance committee between the LP and the GP with a formal mandate and terms of reference. This structure can foster closer ties with the GP, assisting them in deploying capital prudently within pre-determined risk and governance parameters.

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Laying the foundation for successful collaboration

While the aforementioned organisations are endorsed for their potential in tackling an issue more effectively, it is important to be aware of both the benefits and challenges they can present. While partnerships allow stakeholders to focus on major issues – issues that might be beyond the scope of influence of any single organisation – being able to leverage their opportunities and navigate their challenges are key features to consider for the full benefits of partnerships to be realised. The below illustrates both the benefits and the challenges that having an affiliation with an industry body can present:

We believe that these factors are important to consider when affiliating with a particular industry body to reap the benefits of the association and ensure successful collaboration:

On the other hand, there are obstacles that could affect the momentum and progress of achieving the initial objectives set for the affiliation:

There are notable benefits to working with like-minded organisations, benefits of which outweigh the challenges in the long term. Having a collective mission that everyone in the practice of responsible investment is working towards is a necessary condition of effective investment management practice.

However, it is important to remain wary of the number of organisations that investors endorse or become affiliated with. Individually, each of these organisations might have noble objectives, but once endorsed, they collectively require more time and effort which might not be fulfilled from their endorsers.

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2 Strategic focus areas

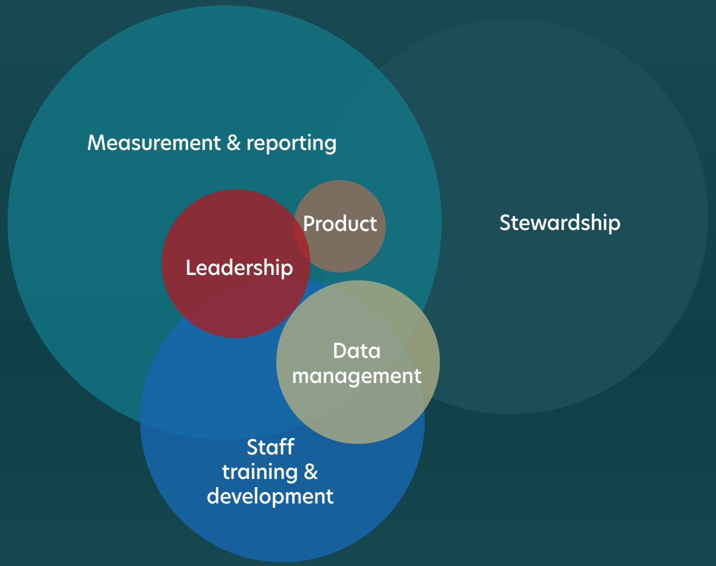
The next phase of our asset manager evaluation was to understand the strategic focus areas in their investment processes that considered ESG practices – or not.

The market is evolving and we are beginning to see evidence of collaborative actions becoming a more formidable influence in driving the momentum of ESG integration and responsible investing. Accordingly, we believe that there is merit in engaging with a significant number of key players in the market in matters relating to ESG as global frameworks such as the PRI promote.

Through evaluating strategic focus areas of the range of asset managers we engaged with, we were able to:

- Get access to primary research that is informative and specific to the actual priorities set by managers against prevailing perceptions in the market.
- Be relevant and fair about assessing the business management aspects of the manager.
- Identify the prime concerns of responsible investing practices and how they are being managed.
- Gain insight into the size of assets, depth of skills and expertise of the respective investment teams, budgets to further commit to ESG resolutions and the timeline of their responsible investing journey.

Strategic focus areas
- overlap analysis



The above graphic displays six overlapping circles in varying sizes that are proportional to the number of responses per category, therefore indicating their relative importance, where measurement and reporting are the primary priorities, and product the least one.

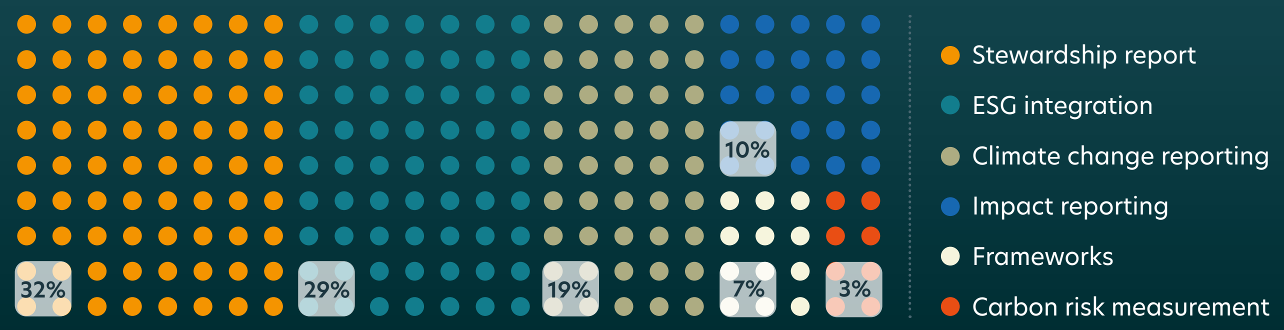
Given that the responses from managers could relate to one or more categories, we have measured the extent to which focus areas are related - i.e, where they overlap.

An overlap analysis is helpful in showing the similiarities between two or more sets of data. The percentage of overlap between categories is determined by the extent to which one or more categories relate to each other and how resources are shared amongst them.

Example

- Data management can overlap with staff training and development given that staff need training to use systems or intepret data.

Measurement and reporting (30%)



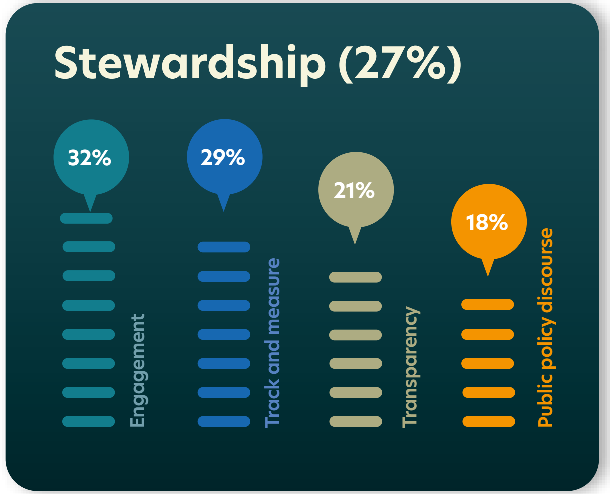
Responses where asset managers had suggestions relating to evaluation frameworks, reporting or stewardship were categorized under measurement and reporting. Given the importance of this topic, we further evaluated and sub-categorised the responses into the main themes in the chart.

The data from our evaluation shows the following:

- 30% of the responses relate to measurement and reporting, making it the category with the most responses identified as a key focus area.
- 32%* of the responses referenced a stewardship report or an active ownership report as an active workstream that supports transparency and accountability efforts.
- 29%* of the responses mention ESG integration, specifically in how it is being managed to fortify the managers' investment processes, which we view as a positive outcome in the drive for increased integration of ESG factors. This includes the evaluation of ESG risks, the assessment of vote outcomes, updating policies to include ESG considerations and the addition of measurement metrics to the existing ESG assessments of investee companies.

*of the 30% of the responses related to measurement and reporting

- For climate change reporting, TCFD was used for climate-related reporting on investment portfolios.
- Carbon risk measurement refers to the measurement of high emitters as part of a risk-based evaluation.
- Frameworks are related to the managers' measuring, monitoring and reporting of ESG risks and the associated engagements with companies that they are invested in.
- Impact reporting refers to the identification of outcomes from managers, and the resultant intentionality about setting impact policies and targets.
- The equity asset class generally has more channels for reporting, however through our engagements with fixed interest managers, we were able to explore how reporting can evolve in fixed interest as well. It is interesting to note that a fixed income provider mentioned that they measure progress made on impact outcomes with investee company issuances with a survey they conduct with issuers. The survey by the asset manager aims to elevate stewardship. It also serves to notify the issuer of cash, income and bond instruments that investors have important expectations in addition to credit risk, such as the company's impact on society and the environment using the SDGs as a considered framework. Specifically, the company's impact is evaluated using SDGs.



Because nearly a third of the responses speak to stewardship, this indicates the proven importance of this topic. In an effort to further break down stewardship, we sub-categorised asset managers' feedback into four active ownership practices.

The data from our evaluation demonstrates the following:

- The majority of engagement practices include:
  - issuing letters to the top 100 listed companies,
  - reporting shortcomings related to climate,
  - improving disclosure related to ESG issues,
  - setting clear sustainability or ESG-related objectives at board level,
  - addressing ESG skillsets at board level, and
  - promoting considerations of social risks facing companies.
- Tracking and measurement in listed companies relates to measuring ESG gaps in small and mid-cap* companies, incentive structures for senior management, standard governance disclosures and record keeping through an engagement tracker**. It is worth noting that in the unlisted environment, one manager mentioned that they prioritise gathering meaningful impact data – regardless of scale – as opposed to gathering a higher volume of data.
- Transparency refers to efforts to report and disclose a managers' responsible investing framework, ESG policy, and voting records through a stewardship report, other ESG reporting mechanisms or their website.
- Public policy discourse refers to managers using their affiliations or signatory status to help engage on national or industry-specific policy development. For example, a manager or asset owner might be requested by the regulator (the Financial Sector Conduct Authority or the South African Reserve Bank) to respond to technical papers or policies that can result in regulation for financial service providers. One such specific example that took place in the past year included a response to National Treasury on a taxonomy that they created on the financing of a sustainable economy.

Notes:

*According to the JSE, mid-cap companies are those that are reputable and function in an industry projected to experience quick growth. As large-cap companies are those that are part of the top 40 largest companies on the JSE, mid-caps fall within the 41-100 range. Small-cap companies are considered higher risk given the market that these companies serve, their size, supply and demand of the share and tradability of the share.

**Typically, an asset manager has a list of companies that are part of their research scope, particularly if they have that company in their investment portfolio. An engagement tracker serves to record the engagement with a said investee company, at what level of seniority the engagement was held at, what the actual ESG issue being engaged upon was, and to maintain an updated record of progress on the engagements.

Staff training and development

17%

We categorised responses under staff training and development where asset managers communicated the varying level of skillsets across their investment team and the training that would be needed to fill in any skill gaps that are apparent.

The data from our evaluation shows that:

- Overlap of staff training and development occurs when data management, measurement and reporting, and leadership are in equal overlap with a 33% split across each of the three named overlapping areas of focus, indicating the need for increased skills development amongst them.
- Given the rapidly evolving ESG dynamic globally, having an investment competency alone is no longer enough to navigate the way forward. It is therefore expected that asset managers, asset owners and company leadership are having to skill up to be able to understand and manage ESG data, meaningfully report on it and make strategic decisions using its insights. This is an expected finding given that the specific responses refer to the training of teams, the upgrading of skillsets at all levels and the increased use of tools for ESG risk mapping.

Data management

11%

We categorised responses under data management under: ESG data, data interpretation, metrics, data tools or systems required.

The data from our evaluation shows that:

- Data management relates to the development of tools, analysis of sector-specific ESG risks, comprehensive carbon reporting and overall ESG integration in the manager's responsible investing framework.
- There is a 50% overlap of data management with staff training and development due to matters relating to skills training associated with gathering and understanding data and deriving insights from it as mentioned in the section above.

Leadership

10%

We categorised responses under leadership where asset managers displayed suggestions related to their business' direction with respect to ESG, such as management's key performance indicators (KPI) and signing up to investor coalitions such as the Net Zero Coalition.

The data from our evaluation shows that:

- ESG or sustainability decision-making has moved beyond only remaining with ESG analysts to being a primary focus for senior management, board members and parent entity or holding companies.
- Given the significance of leadership in a business, responses to the evaluation in this regard relate to the direction of the respective investment efforts toward ESG incorporation.
- Examples of adequate ESG leadership that the asset managers provided include creating a culture of embracing ESG factors, proactive climate change responses, setting goals and KPIs that represent a balanced incentive structure, among others.

Product

5%

As managers pursue opportunities for revenue generation, fees and margin, they naturally gravitate to the creation of improved products and services. Globally, we do see evidence of a healthy flow of assets towards ESG product creation, particularly in Europe and the United Kingdom, but less so in the United States and other regions.

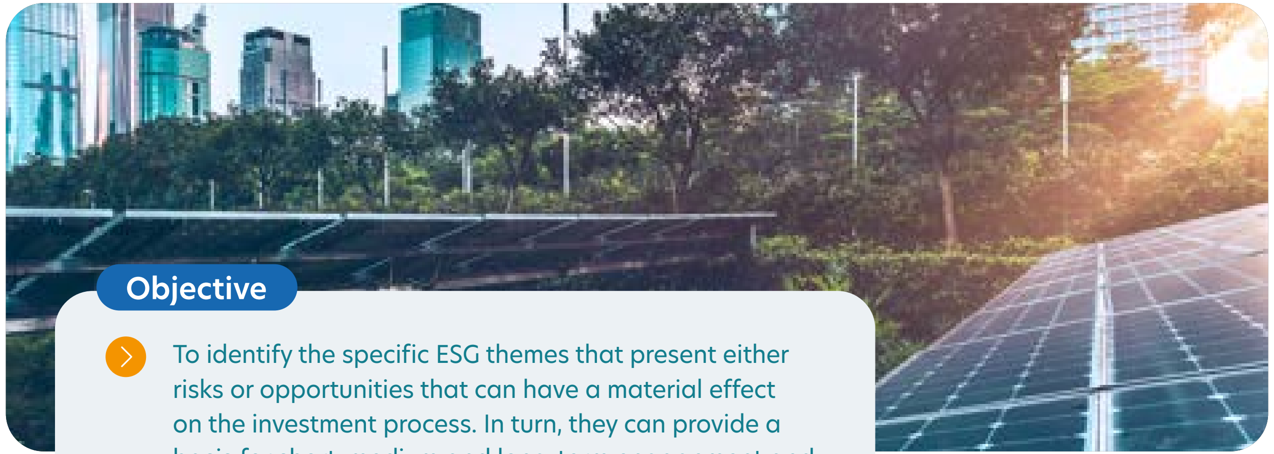
The data from our evaluation shows that:

- Product development is mainly informed by client demand, specifically, the creation of sustainable quantitative or indexation solutions.
- The findings are not surprising given that the opportunity set available to South African listed fund managers in SA is not extensive enough for exclusionary practices.
- The responses also extended to the participation of shares or fixed interest instruments that are expressly addressing sustainability issues such as socio-economic challenges like job creation and infrastructure in SA.

We believe that there is a marketplace for quality product creation when they are meeting a client need. Where fund managers have already created a product, they have done so in an effort to provide investors with more choice with sound investment criteria. These happen to be mainly global indexation and actively managed ESG solutions with an enhanced stewardship value proposition.

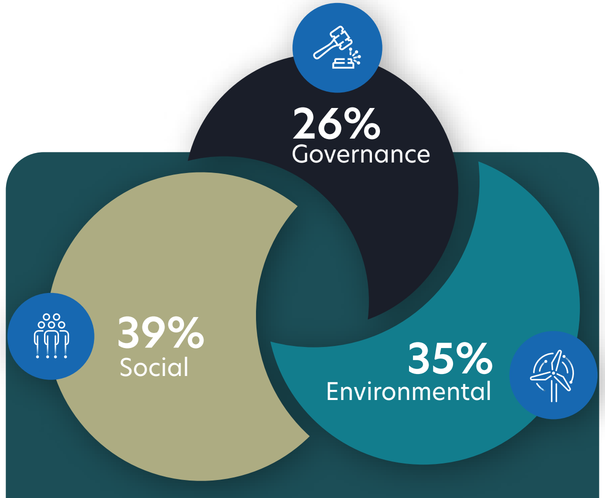
3 Structural ESG themes - an analysis of key ESG issues

ESG themes are growing in prominence in the investment industry – and beyond – and there is still an opportunity for this prominence to grow. They are, however, broad in nature due to their inclusion of a range of sub-themes. To better understand the specific themes and sub-themes that asset managers view as being material, we explore the ESG themes that asset managers have categorised as a priority. We attempted to differentiate between general themes that asset managers comment on occasionally, to specific themes that are relevant and significant to portfolio management and asset allocation decision making. A manager could be a thematic investor, therefore macro sustainability themes inform their respective asset allocation decisions. For example, if their thematic focus is the green transition, that could result in a focus in investing in renewable energy infrastructure. Governance themes could also be related to poor corporate governance in certain sectors of the market, hence they remain as important considerations in the management of a portfolio.



Objective

To identify the specific ESG themes that present either risks or opportunities that can have a material effect on the investment process. In turn, they can provide a basis for short, medium and long-term engagement and enhanced stewardship.



Responses appear to show a surprising balance of E, S & G considerations. It is important to note that it does not suggest, at this stage, how themes relate to the magnitude of risks that may arise from them.

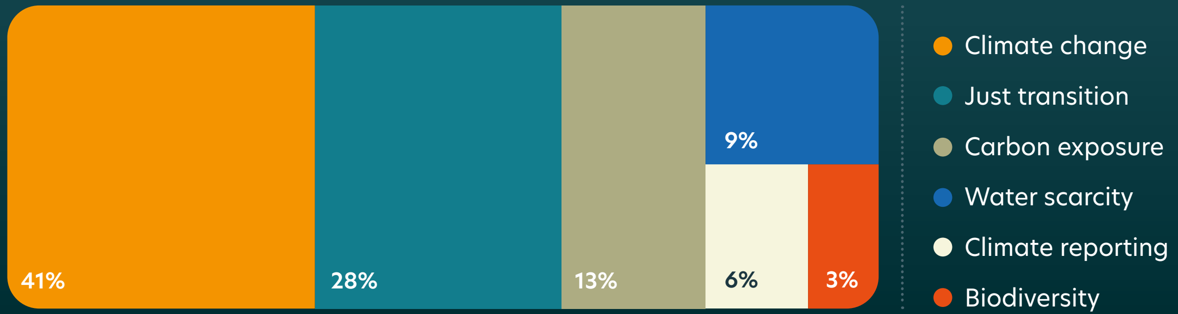
In understanding the progression of ESG as an investment consideration or theme being explored, governance featured strongly. It formed part of a listing required on various share exchanges around the world. Apart from compliance, it was thought to be an important consideration in the creation of value in companies by academics and service professionals based on the idea that well-governed businesses are managed better and hence, sustainable businesses can perform better in the long run. Accordingly, environmental and social themes featured lower in comparison to governance.

However, we have evidenced over recent years that economies across the world are enduring shocks due to environmental or social occurrences such as climate change effects, strike action, civil unrest and more. Accordingly, we find that the themes have evolved to increasingly include environmental and social themes, albeit in smaller percentages to governance but showing importance nonetheless.

One might ask how themes relate to the risks that unfold. In our engagements with asset managers, they have revealed that markets are short-cited and therefore price the most pressing risks in the shorter term. Long-term risks such as socio-economic and environmental ones require events or data to be reported and only then will the market price for such information be factored in.

In the collective drive to mitigate the impact of climate change, asset managers have a role to play through their investment process, such as their deployment of capital. Due to its global focus from both public and private sectors, climate change encompasses a substantial portion of environmental considerations, however there were other environmental sub-categories that were identified as concerns in regard to stock valuations and considerations:

Environmental

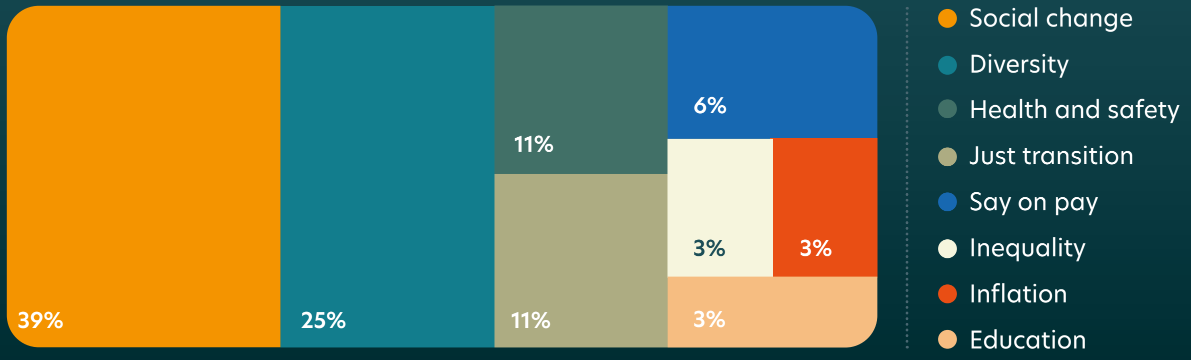


Key insights:

- Climate change, the just transition, carbon exposure and water scarcity have dominated the environmental category responses.
- The themes stated within these categories include net-zero emissions data, SDGs, biodiversity and the looming shift to cleaner energy generation.

Social considerations received the highest numbers of responses. This is an expected outcome, considering the myriad of social challenges that SA faces, and how they implicate businesses and investors.

Social



Say on pay

A say on pay vote is a term used to describe how investors assess the compensation of top executives.

Inflation

Managers have expressed inflation as a social theme given that the effect of inflation has the worst impacts on the poor. As the cost of living rises, vulnerable societies are likely to be pressured. Locally, strike action or civil unrest events could be the result.

Key insights:

- Social change, diversity, the just transition (and its social implications in the form of job losses in the carbon intensive sectors of the economy), and health and safety accrued a significant response. The specific responses under these categories relate to transformation or B-BBEE, socio-economic upliftment of lower income communities, achieving the targets set out in the SDGs and the National Development Plan (NDP), diversity and inclusion and gender equality.
- We recognise that social change can be considered too broad a category and hence requires further dissection.
- Two of the most pressing issues we face - inequality and education - received low responses. This is a surprising finding which could indicate that they do not have a significant bearing on investment outcomes and processes.
- In analysing the responses and use of language, we believe that the significant responses tabled above are not specifically disregarding other important, focal social issues that require capital and a strong influence in order to address them. Rather, the data is also showing the current social priorities - such as transformation from a local perspective and diversity from a global one - as indications of greater inequality and heightened social change.

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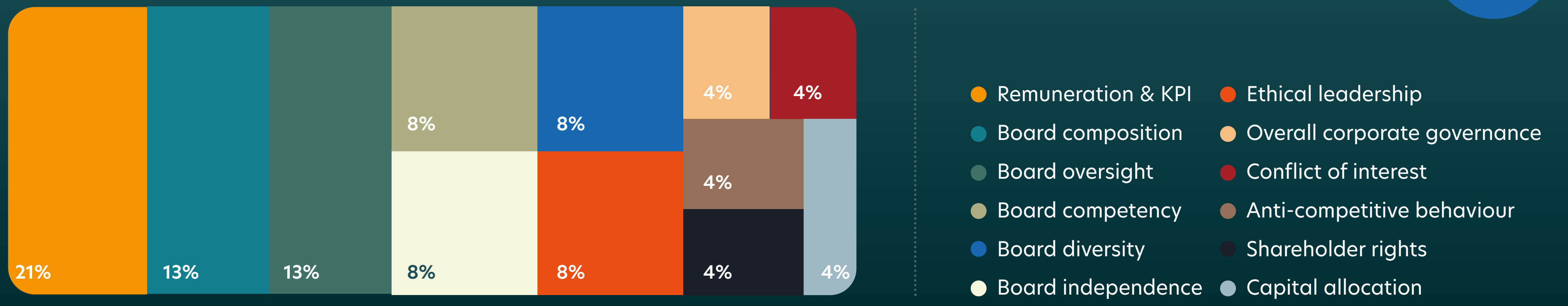
The composition of boards, their responsibilities and their fulfilment are important factors in a companies' corporate governance structures and business performance. High-profile governance issues have, understandably, emerged in our assessment. These include issues such as remuneration, board diversity, competency and oversight, which are among the highest ranked. These are particularly fundamental as where the strategy is incoherent and inadequately tied to the incentive structures of senior management (for short- and long-term incentive plans), stakeholders stand to be negatively implicated.

Governance



Key insights:

- Remuneration and KPIs and the combination of the board-related factors (composition, oversight, competency, diversity and independence) comprised majority of the responses. This finding is expected as it can be verified through the voting activity of the asset managers.
- Through our engagements with asset managers, we have found that there is a belief that value creation for investors is closely associated with how the board is composed as well as how the executive members are evaluated and compensated.
- As a result, asset managers are also greatly concerned with the overcompensation of the executive and if it is proportional to their performance and output.

Note:

Anti-competitive behavior relates to instances where companies collude with one another to control the price of goods and services within a sector. For example, where monopolies exist in the steel, bread or beverages sectors, few companies control the market and hence where price fixing practices exist, they ought to be held accountable as the consumer is at a disadvantage.

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A summary of ESG themes through an asset manager's lens

Climate control

Climate change and the just transition is already showing signs of being increasingly topical in investing and the role investors play in its mitigation and success, respectively. This will require a concerted effort in utilising the tools of carbon exposure and using stewardship principles such as reporting and engagement to adequately assess and manage climate risk.

Social licence to operate

Against the backdrop of the pandemic, we find an increasing interest in social-related issues. Societal pressures mount as they hold the corporate sector accountable, wanting redress for any form of discrimination and inequality that continues to negatively impact marginalised groups.

Engage for change

Quality governance remains the hallmark of well-run businesses who link corporate strategy to executive remuneration and their key performance indicators. Effectiveness, skill and balance of the board will continue to be key themes in engagements going forward.

4 Evaluation of top ESG risks

ESG risk assessments by asset managers – of the companies they intend to invest in or are invested in already – are considered when they value the companies within their portfolios. They consider the impact that ESG factors could have on company cash flows – both positive (as opportunities) and negative (with the risk of losing money when the risks are not managed).

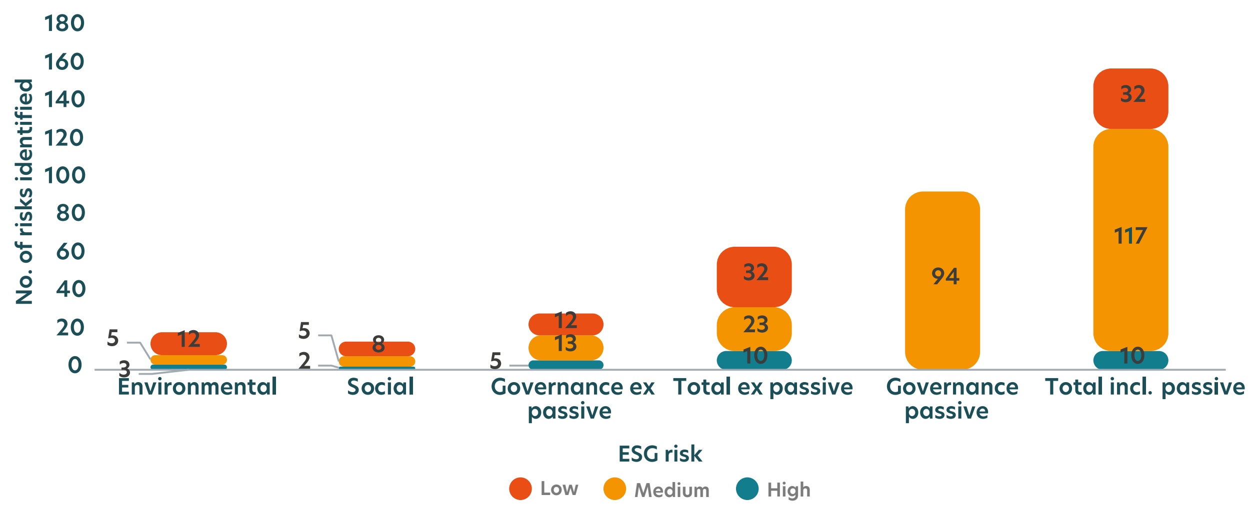
In evaluating the ESG integration aspects of asset managers' process, we requested them to table their top ESG risks, categorising them for materiality and valuation.

Risk and its materiality is measured according to low, medium and high scale. It is important to note that in the process of investments, risk is certain. We might not be able to predict with certainty the outcome or timing, but the first measure of managing ESG risk is awareness.

Results

We have gathered a total of 159 ESG risks that we have categorised from low, medium and high risk, expressed as percentages (%).

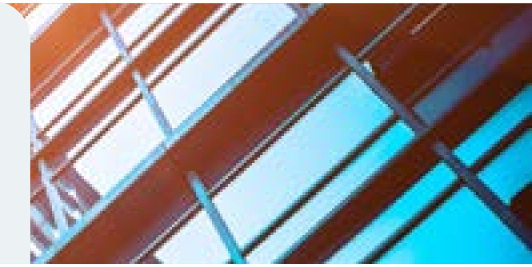
We have separated the ESG risks between active and passive portfolio management, given that stewardship efforts and the resultant portfolio actions for them will differ.



Rationale:

A common criticism aimed at the practice of ESG integration is that it remains in the domain of an ESG specialist and it is not assimilated across the investment process. To address this, we have evaluated the spread of ESG risks and their materiality by asset managers, and how they are addressed and mitigated within their respective portfolio management processes.

Senzo Langa
Deputy Chief Investment Officer: Traditional assets



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Key insights:

- The medium-risk category comprises of a larger component of the total risks given a significant component of passive governance-related risks stated by an asset manager.
- Stewardship is expected in the form of voting and engagement in managing the governance risks in passively managed portfolios. We do not expect portfolio actions to occur given that the strategy is managed as a passive strategy, which tracks a benchmark and does not involve taking any active decisions.
- We can also illustrate that governance risks tend to feature strongly within all the risk categories – high, low and medium. This is dependent on the specific governance risk and the risk it poses to both the business and investment outcomes.
- Within the high-risk category, environmental and governance risks constitute of 38% of them, and social risks comprise of the remaining 25%.

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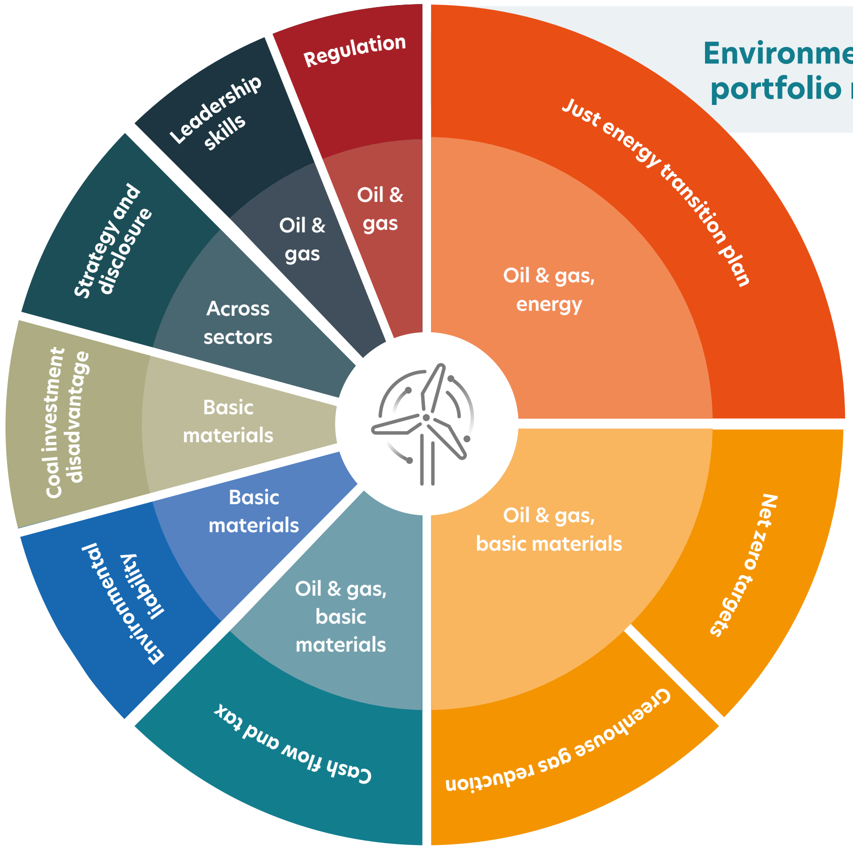
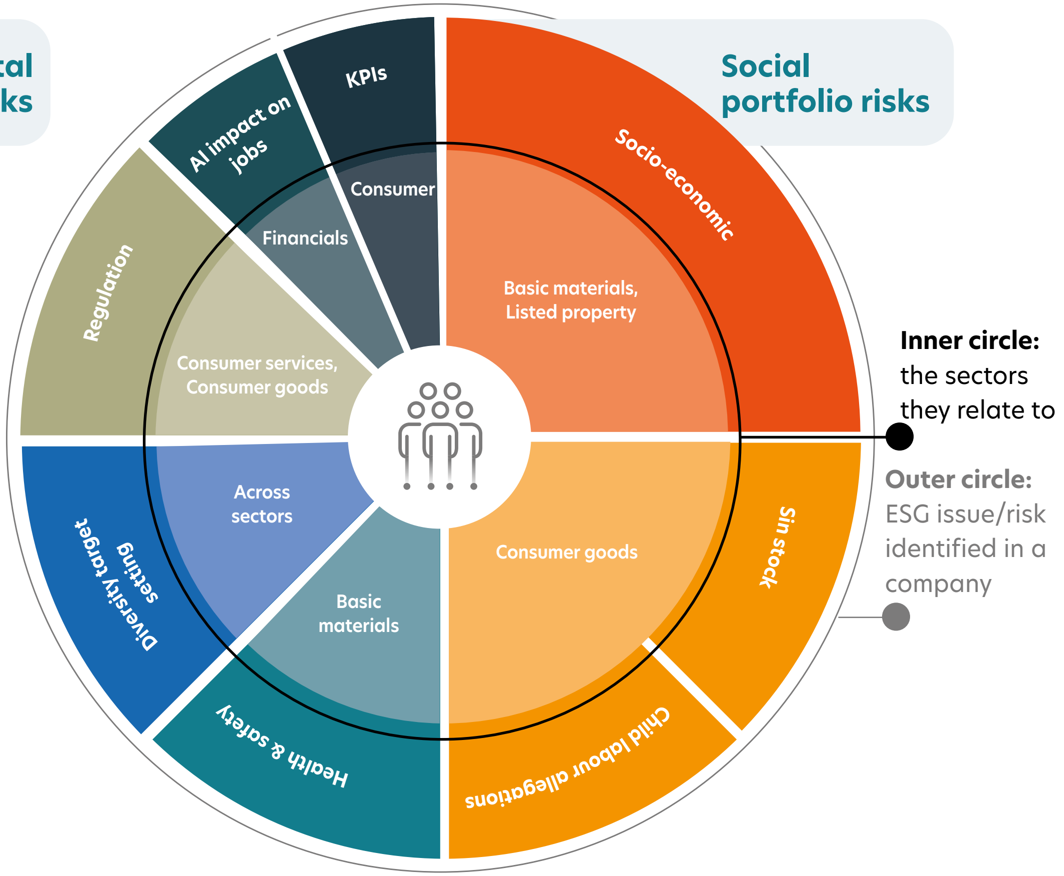
Based on dominant themes discussed, we tabled the environmental and social risks across different sectors as identified by asset managers within their portfolios:





The data suggests that governance risks are a dominant feature within the E, S and G lens. Over our responsible investing journey, we have evidenced improvements in the appreciation of environmental and social risks as ESG disclosure and adoption has entered the mainstream practice of investing.

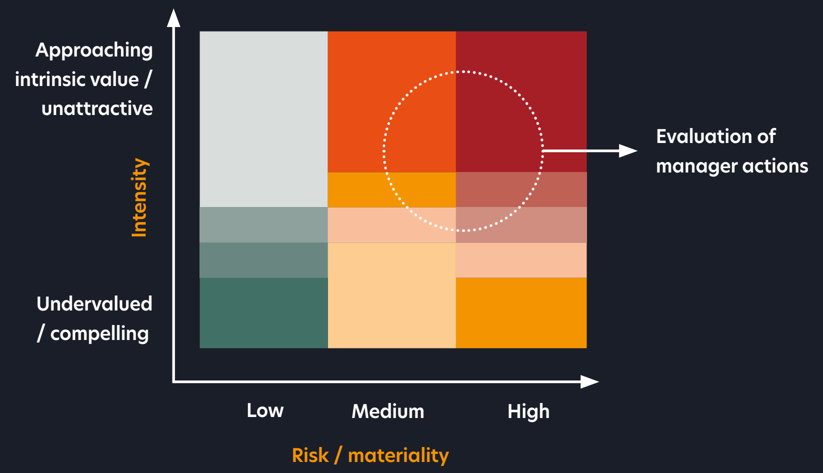
We can credit progress to:

1. Elevated societal pressures
2. Asset owner or manager engagement in response to pressures
3. Regulatory developments.

Important to note:

The market is unbiased in its view, and it prices the share by considering material ESG risks, but not all of them. It also considers the company or leadership's responses in addressing those material issues, which affect the business' performance.

Materiality view



In addition to asset managers presenting the ESG risks according to how they perceive their severity within their portfolios, we also wanted to understand how they perceived shares – and their holding of businesses – that would be affected by the ESG risks that they deemed as material. We asked them to indicate whether they viewed the share as an undervalued and attractive opportunity that was compelling for long-term outlooks, or if the share was approaching intrinsic or fair value and thereby reducing in appeal for future investments.

Intrinsic or fair value is defined as the asset manager's measure of a share or investment's value using a financial model. At this value, a manager deems a share to have lower probability of outperforming in future.

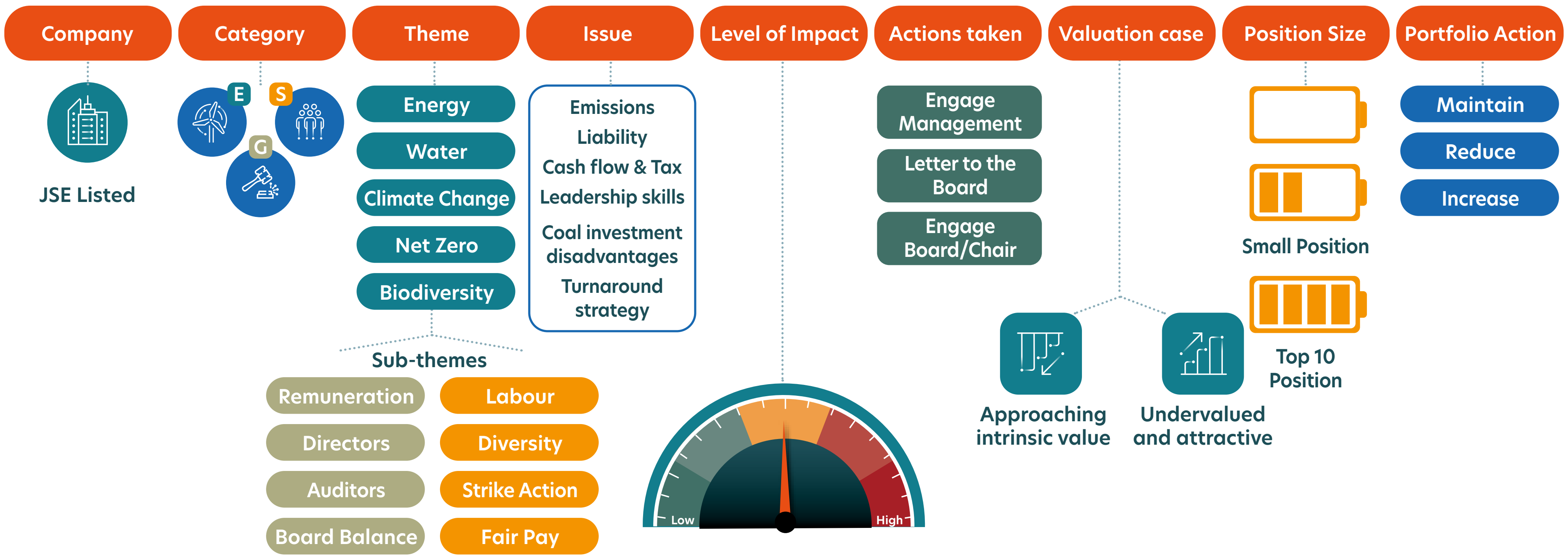
Undervalued or attractive value refers to a stock whose price is valued at less than its fair value. It is viewed as attractive because it presents a buying opportunity as a result of being undervalued.

Top 10 specific ESG risks in investee companies by asset manager valuation

	Risk	Category	Materiality
1	Share issuances affecting minority shareholders	G	Medium
2	Implementation risk of a board's turnaround plan	G	High
3	Labour union impact from restructuring	S	High
4	Negative premium on coal assets	E	Low
5	Inherent risk around separation of company divisions	G	Low
6	Unfunded environmental closure costs or liabilities (Mines are expected to ensure they disclose how they intend to restore the land after a mine's closure. With poor disclosure, it could appear that they will not be able to do so.)	E&S	High
7	Cross-holding or complex structures (A situation where two companies hold shares in each other creating complexity for investment consideration and disclosure)	G	Medium
8	Systemic political and economic risks	G	High
9	Coal assets presenting environmental risk	E	High
10	Remuneration and KPI alignment of executive team	G	High

Note: Risks in shares are shown in order of their reducing attractiveness for portfolios, i.e. becoming more expensive.

Evaluation framework: How asset managers manage ESG risks and how this affects their ESG integration



The graphic above categorises ESG factors and illustrates how they are linked to specific issues that affect investee companies. It also follows the stages of evaluating the level of impact of the ESG risk and what the consequent portfolio actions are.

Managers have categorised the level of impact the ESG risks would have and provided their action plans to manage the impact along with their assessment of intrinsic or fair value of the stock with their respective portfolio position sizes as a result of combined ESG and valuation assessments.

5/10 risks tabled were part of the shares in the asset managers' top 10 holdings (through the shares they held in their investment portfolios).

4/10 risks tabled were not held in their invested shares – they had a zero holding.

1/10 risk tabled was prevalent in a small holding in their investment portfolios.

Using the top 10 ESG risks tabled previously, we evaluated the manager portfolio actions to manage these risks using the evaluation framework:

- Where the asset manager was prepared to maintain the top 10 holding, the ESG risk and stock valuation has already been considered. They have engaged the board and other relevant parties to address the issue as well.
- Where the asset manager held a small holding or zero position, they have opted to maintain this position and not add any additional ESG risk to the portfolio, other than what is currently there. However, they have engaged the board of directors and the chairperson of the board in an effort to address ESG or systemic market risk.

Through analysing the overall data, we were able to conclude that asset managers were able to integrate ESG into their investment process by:

- Linking ESG factors to themes discussed by showing that the themes were informative, but that they needed to be linked to how material they are to the shares held
- Isolating the stock-specific risks and categorising them according to materiality
- Pivoting portfolio actions in light of both ESG risks and valuation
- Engaging with the leadership of investee companies for improved management of ESG risks.

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5 Asset manager engagement action plans

Open engagements

In addition to data representation of the ESG risks, we tested the hypothesis – is ESG incorporation integrated throughout the investment process? We focused on medium and high-risk shares with an under and over-valued status against the engagement and portfolio actions taken by the managers.

We evaluate:

- dates of engagement per stock
- actions taken
- intended outcome
- progress made (indicating the effectiveness of the engagement)
- next steps taken by the manager.

Asset manager engagement action plan

Engagement is necessary to fulfil the fiduciary responsibilities that asset managers have, but it is also seen as a way to manage ESG risks and identify ESG opportunities within portfolios. Ultimately, it must be a part of the beliefs of an asset manager and should form part of their investment process to generate long-term value.

For asset owners like us, it is important that we collaborate with asset managers who share the same beliefs as us and engage with market participants so that we can have extensive influence across the industry. As part of our fiduciary duty, we engage, evaluate and report on the asset managers' progress on stewardship.

The next section will detail the actions taken to conduct our engagements and what their outcomes were.

Elevating transparency helps to show what ESG issues are being tabled by asset managers, at which levels of seniority of the investee company and what the resultant portfolio actions could be.

Asset manager engagement action plans

Date of the engagement (per stock)

Action taken
- Engage management
- Letter to the Board
- Engage Board/ Chairperson

Intended outcome
- Board or committee changes
- Table issue at AGM
- Improved disclosure
- Strategy & KPI alignment

Progress
1. Outcome achieved
2. Partial progress
3. Little or no progress
4. Confidential

Next steps
- Divest
- Involve media
- Collaborate
- Escalate
- Monitor

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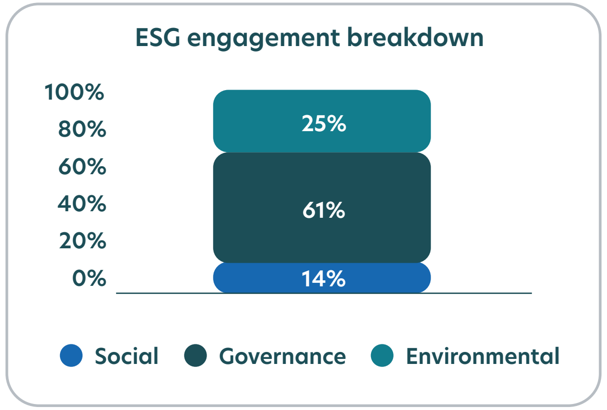
Total asset manager engagements with investee companies



We have categorised the engagements according to each ESG category to emphasise the greater focus on governance relative to social and environmental factors. We think that this is a result of:

- The maturity of disclosure by listed companies on governance risks. It could be that they have more experience in disclosing them due to the period of time they have done it for, and less experience on reporting on social and environmental risks.
- Governance disclosure on all companies is a regulatory requirement in some respects, and it is relatively better understood by investors.
- Governance affects all companies, in that environmental and social issues are not as uniform and they have different levels of impact on companies in different sectors of the market.
- Reporting on environmental and social risks is improving and the appreciation on business models will be understood and engaged with in time.

Top focus areas in each category

Environmental coverage	Social coverage	Governance coverage
Climate change strategy	Social change	Remuneration and KPI
Carbon exposure	Just transition	Overall corporate governance
Just transition		Board balance and related shareholder rights

- In the above table, the coverage percentage represents the majority of the engagement areas in those respective categories. For example, 80% of the 25% environmental engagements dealt with climate change strategy, carbon exposure and the just transition.
- As evidenced in the themes and risks sections of our evaluation, climate change, social change and remuneration all feature in the top engagements.

Environmental

- Carbon exposure or emissions, being quantitative, enable investors to compare and understand what financial risks they present.
- Climate strategy and the just transition are critical components of discussions with companies to gauge their role in the transition to cleaner energy in a measured manner.
- Linking the climate change strategy and its implementation to remuneration and KPI targets is critical in ensuring accountability.

Social

- Issues such as the impact on businesses from strikes and civil unrest propose the need for a fair labour transition to mitigate societal backlash on the corporate sector.

Governance

- These engagements are not unique in that they all advocate for improved disclosure, support leadership accountability on ESG targets and question exorbitant remuneration where the leadership has not delivered on its intended strategy or enhanced company performance.
- The appointment of directors to the board is also a topical engagement matter. The asset managers have cited that the selection of candidates with a skillset to govern the company is a challenge. Balancing the view that directors could have multiple seats on boards, with the available talent pool of directors available in South Africa, is an important part of their thinking in dealing with conflicts of interest.

Stewardship action taken	%
Engage management or investor relations	70
Engage the board or chairperson	27
Formal letter to the board	2
Total	**100**

- Engagement happens at different levels of seniority in the investee company.
- The above data suggests that most of the engagements have occurred within the management and investor relations division of investee companies.
- Some managers have cited that, depending on the size of assets invested, and the relationships and size of the company, investors may have different avenues of communicating the issue they are trying to resolve.
- Letters to the board is also an avenue of formal engagement to let the company know about material issues. They are used to present pressing ESG long-term engagement priorities of the asset manager.
- It may also be a joint letter from industry participants to collaboratively express a common shareholder grievance.

In the pursuit to achieve their clients' investment objectives, asset managers will have an intended outcome for engaging company management. The below categories represent four potential intended outcomes of engagement:

Intended outcome	%
Board or committee changes	15
Improved disclosure	50
Strategy and KPI alignment	35
Table various issues at AGM	0.4
Total	**100**

Board or committee changes

- They may want board or committee changes, in line with regulatory stipulations. This is aligned with companies' appointment or removal of directors based on Companies Act requirements.
- Generally, directors are appointed for a three-year cycle and hence engaging the board is reserved for when material improvement is needed or if governance weakness is present at the board.

Improve disclosure

- Improved disclosure is expected to carry a significant weight for investors when measuring improvement in the financial reporting suite. This will create greater transparency in reporting and increased information for investors to better value companies.

- **Strategy and KPI alignment**
- Strategy and KPI alignment is an important consideration in holding the executive to account on the ESG strategy. Without alignment:
  - the executive is not incentivised to address ESG issues or take advantage of opportunities
  - the executive lacks accountability
  - the ESG ambition of a company can be seen as an exercise in marketing, also known as 'greenwashing'
  - over-payment of the executive can lead to value destruction.

Table various issues at AGM

- Tabling issues at the AGM is often believed to be the best route for shareholders to express dissent because of its public nature.
  - Institutional investors have the ability to engage the company at various levels of seniority outside of the AGMs.
  - In our engagements with asset managers in the past, we have been privy to evidencing their own engagements with investee companies.
  - In other instances, engagement is addressed within the management of the company and not the board itself during the year.

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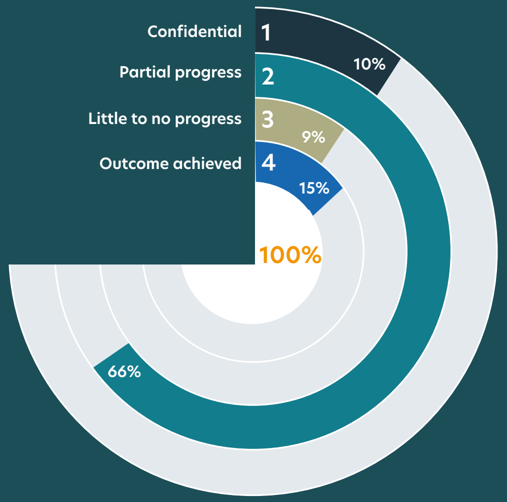
We attached a progress score and the scale is shown in the table regarding evaluating asset manager's progress on ESG issues they engage on.

Following the managers' intended outcomes, as per the table on the previous page, we are measuring the progress of engagements, the actions taken post the engagement and their intended outcomes. Instead of merely stating whether they are effective or not, we attempt to quantify progress using an objective scale.



Evaluating asset manager progress on issues they engage on, we attempted to attach a progress score, with the scale shown in the table above.

- We scored confidential a 1 (10%), as ineffective. Some might argue that it should not be scored as it is non-public information or market sensitive. We recognise that, but have applied a strict view for the benefit of investors.
- Little to no progress scored a 2 (9%). Manager portfolio actions include divesting, collaboration and continued monitoring.
- The rationale to monitor is due to the advanced stage of the process of engagement, with the board or chairperson already underway.
- Therefore, the manager's actions could be viewed as an escalation of an otherwise routine engagement strategy with company management.
- Partial progress and outcome collectively achieved is scored as a 3 (81%) and is seen as a step toward achieving the intended outcome set by the asset manager.
- This results in a 'monitoring' portfolio action, which is sensible.

Stewardship in context

- Measuring progress is complex and is perhaps less understood by market participants.
- We think the reasons for this are due to a combination of the following:
  - knowledge deficit from stakeholders and shareholders
  - lower levels of transparency by governments and companies
  - recency bias – where examples of failure and poor governance remain strong in people's minds.
- It is worth noting that given that ESG issues are long term in nature, depending on how material they are, they are not always solved with one engagement or within one annual reporting cycle. Examples:
  - lobbying a company to publish its climate change policy could be a 1-2-year industry lobbying effort
  - the implementation of policy and the monitoring of the targets set by the company can be a multi-year exercise with continuous engagement by the institutional investor given the period of review.

ESG reporting

ESG reporting – the practice of disclosing information related to how ESG factors are managed – is becoming increasingly important as investors, regulators and businesses acknowledge the significant risks and opportunities associated with ESG issues. ESG reporting builds trust and transparency in the market and supports the ability of asset owners and asset managers to effectively identify and manage these risks and capture opportunities. Considering this, the following section demonstrates the ESG outcomes of material ESG themes in some of our portfolio solutions.

We believe that climate change not only poses a risk for society, but it also poses a systemic risk for financial markets with implications that could be far-reaching, worsening existing vulnerabilities. This is why investors should consider its financial impact on investments across various asset classes. We see these risks manifesting in two ways:

- the negative impact of rising temperatures on the environment and on society, and
- the transitional risks that arise in moving towards a low-carbon economy.

Each of these changes present both risks and opportunities to investors. As a multi-manager, we are invested with managers whose ESG exposure will vary in accordance with their respective investment philosophies. The first step is to evaluate their respective exposures and the intensity of the emissions in their portfolios.

This will further shape our ability to engage the market on material ESG issues pertaining to investment portfolios and to continue encouraging transparency and disclosure.

We use the following three metrics to measure certain elements of ESG performance:

Climate change (Carbon metrics)

Gender diversity

ESG integration

For more information on the metrics, you can access our ESG reporting methodology document here.

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Climate change

We have adopted the Weighted Average Carbon Intensity (WACI) metric to report the carbon intensity of the most widely used portfolios across our multi-managed solutions offering. The WACI metric is recommended by the Task Force on Climate-related Financial Disclosure (TCFD) and must be disclosed by both asset owners and companies. WACI measures the investment portfolio's exposure to potential carbon-intensive companies, expressed in tons of greenhouse gas converted to carbon dioxide emissions using the greenhouse gas protocol per million sales, written as:

tCO_2e/\$M Sales

The higher the WACI number is relative to a comparable equity index, the more vulnerable a portfolio is to carbon-related market and regulatory risks. It helps to gauge a companies' impact on the planet, allowing us to compare companies, markets and regions against each other.

The numbers below indicate the WACI of global and local indices as at 31 December 2022:

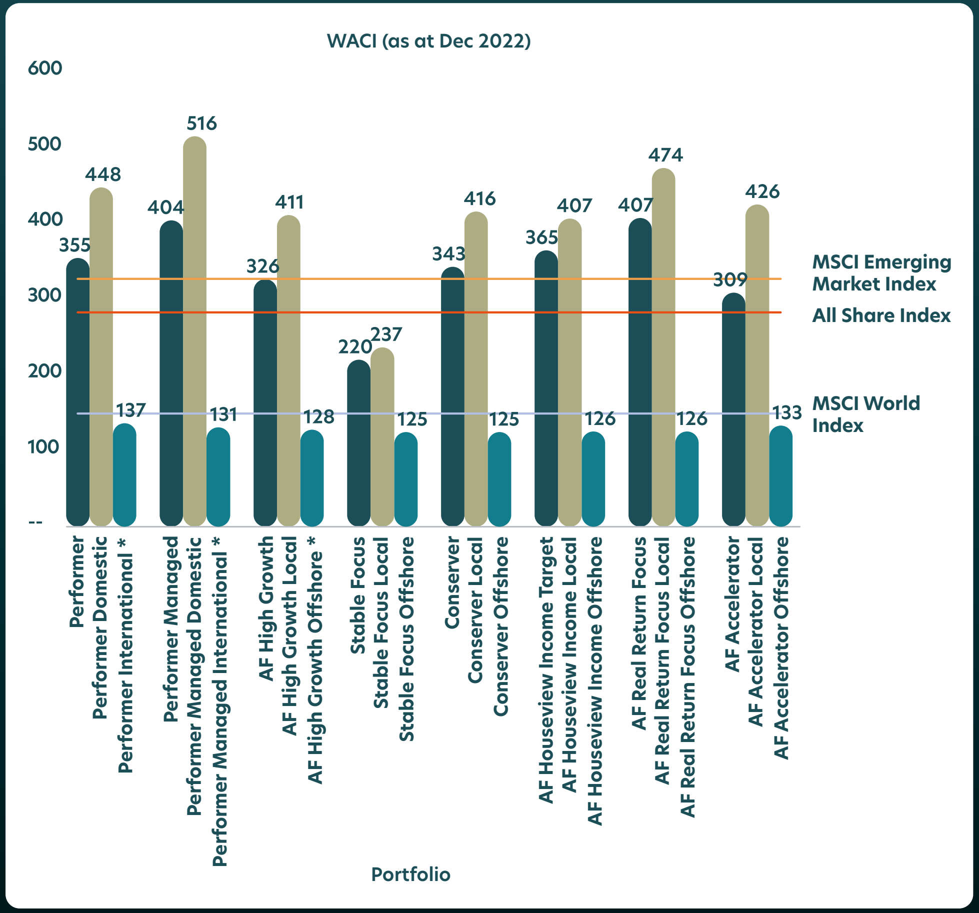
FTSE/JSE ALSI - 269

MSCI World Index - 141

MSCI Emerging Market - 323

The Task Force for Climate-related Financial Disclosure has not reported a scale for measuring WACI. However, to provide an example for comparison, we have found that a WACI measure of around 450 means a portfolio is highly vulnerable to carbon-related risks and a measure of around 90 indicates that it is relatively protected from carbon-related risks.

The graph below shows the WACI metric of our flagship portfolio solutions, as well as their respective domestic and global components:



*Note that the carbon intensity calculations for both domestic and offshore components have used tCO_2e / \$M sales

Portfolio commentary

Introduction

The equity component of our domestic portfolios reflects a WACI range of around 220 – 450. The equity component of our global portfolios can be split into a developed market allocation which reflects a range of 90 – 160 and an emerging markets allocation which reflects a range of 260 – 340.

There are a number of reasons for higher emissions in local markets:

- The South African market is fairly concentrated, resulting in several high-emitting assets having a sizable weight in their respective listed equity indices.
- The MSCI World Index has a relatively lower weight allocated to high-emitting assets.
- MSCI Emerging Markets (MSCI EM) has a sizeable exposure to high emitters given its regional exposure to China and India, however it is offset by a significantly reduced Russian exposure.
- South Africa has a concentrated market structure, with the top 10 shares (by market capitalisation) occupying 78% of the carbon intensity within the FTSE ALSI Index.
- This is expected, given that the local market has a higher weight - by market capitalisation and emissions - in the resources, chemicals and construction sectors within the index.
- Outside of equities, it is worth highlighting that the local market is predisposed to higher emissions, relative to the rest of the world, given that electricity is predominantly generated from fossil fuels.
- SA companies are likely to state that majority of their emissions are generated through their electricity consumption (produced with coal).

WACI local vs. global

Over the past six months, we note that domestic WACI across all our solutions has marginally weakened. This is due to our appointed managers increasing their exposure to the resources, construction and chemicals sectors relative to the FTSE JSE ALSI and the FTSE JSE Capped SWIX Index due to the heightened demand for platinum and fossil fuels such as coal because of the Russia/Ukraine conflict.

These exposures have contributed to positive portfolio performance over the period, but have undoubtedly contributed negatively to the portfolio WACI ratings in the short term. The higher carbon intensity metric has partially been offset due to an improvement in reported carbon intensity numbers by banks, retailers and listed property entities.

Globally, our portfolios have a measurably better carbon intensity relative to the respective indices stated above (MSCI World and MSCI EM). This is driven by overweighting quality and growth stocks and mainly underweighting resources/materials. Over the past quarter, we have increased our offshore allocation, which has helped our overall portfolio carbon intensity metrics.

WACI metrics for our portfolio solutions

Performer, Performer Managed, AF High Growth, AF Houseview Income Target, Conserver, AF Real Return Focus and AF Accelerator have a combination of managers who have a larger resources exposure relative to the FTSE/JSE ALSI Index and hence, they reflect WACI closer to that of the emerging market index (the MSCI EM). Stable Focus has exposure to a manager with the quality style and a lower exposure to resources and chemicals and hence, it reflects a lower WACI score.

Using carbon intensity in context

A higher emerging market carbon intensity (relative to global counterparts) lends itself to critique. Another valuable observation in the usage of the WACI metric is that absolute emissions could remain unchanged, but revenue (for the entity) could increase for any given reason. The resultant carbon intensity would reflect an improvement, even if the company has not made an improvement in reducing its absolute emissions. Therefore, we believe that it is important to not blindly accept data but to report and engage with the companies and the asset managers to improve the data over time.

Simultaneously, there is a need for nuance in the approach to reduce absolute carbon emissions. The pressure exhibited in global developed markets to decarbonise portfolios dramatically would be difficult to apply in the domestic or emerging market. This is because the economies in the latter are tied to using fossil fuel for electricity generation. The socio-economic implications of decarbonisation – such as job losses - are important to consider in emerging markets where high unemployment and inequality exist.

Domestically, gradually transitioning to decarbonisation is a more appropriate strategy in balancing the expectations of both society and investors. Our market structure, concentration of shares and intended socio-economic outcomes still requires investment in these high-emitting entities so that they can stay in business to provide much needed jobs. Simultaneously, institutional investors and asset managers should continue to work towards establishing a strong stewardship strategy for conducting a phased transition towards a low-carbon economic model to effect change.

Ongoing efforts

We intend to continue to engage with the industry and to monitor absolute emissions and intensity whilst advocating for the just transition to take place in South Africa. In this way, we can mitigate the social risks of climate change, i.e. protecting jobs at risk and transitioning to cleaner forms of energy. We currently monitor proxy voting outcomes on carbon-related reporting and we engage asset managers, corporates and industry bodies as well.

Gender Diversity

With social inequality getting more attention, investors and other stakeholders are getting increasingly vocal about the need for greater diversity in corporate boardrooms. In the quest to enhance transparency and disclosure, identifying quantitative ESG metrics that are consistently being measured and reported by companies is helpful.

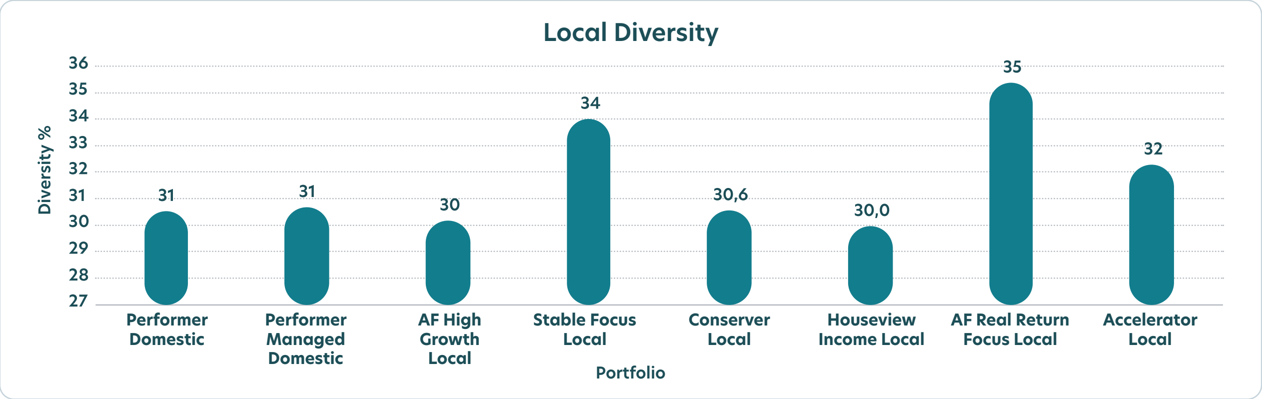
Measurement metrics

Accordingly, global providers have preceded on reporting on gender diversity as one of these metrics, aiming for 30% or more female representation at board level. We find that local companies have since followed suit, suggesting a concerted effort in working towards an improvement in this regard locally.

Portfolio metrics: local vs global

We are pleased to note that South African companies have embraced female representation on boards and our portfolios reflect this positive outcome. Locally, our portfolios are in line with female board representation being close to the 30 - 35% range, broadly in line with the FTSI JSE All Share Index.

Both our local and global portfolios are in line with their respective benchmarks. Globally, the diversity metric being reported by Mercer is approximately 50 – 55%. This is the percentage of companies



that meet the 30% or more diversity target. In our conversations with Mercer, we understand that the global investment manager universe and investable companies have a long journey ahead in improving diversity.

It is worth monitoring the metric, however it is important to be pragmatic in engagement around the matter. Ultimately, a merit-based approach to investments will allow for improved results in the long term.

In improving the global aspect of our portfolios, we note that the vast scale of the challenge given that the investment universe is significantly wider. Accordingly, Mercer have made commitments to improve their investment process by 2030. At present, portfolio metrics on our offshore portfolios are in line with the respective benchmarks. Engagement on diversity is a top priority for us and for Mercer. We will continue to engage on the matter so that meaningful diversity and inclusivity is achieved.

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ESG integration

Our investment process

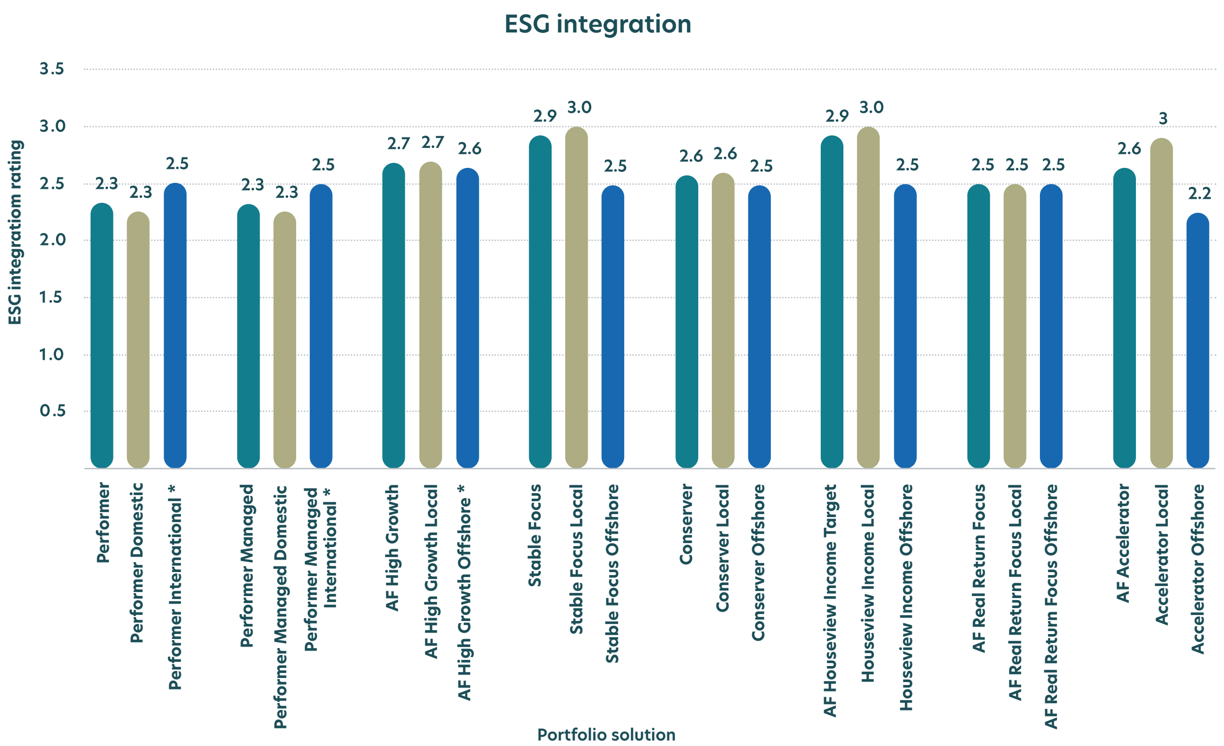
We select and combine top-rated asset managers across asset classes, styles, and philosophies into our multi-managed portfolios. However, as most shares are held directly in the name of Alexander Forbes Investments, we have ownership responsibilities that we have a responsibility to fulfil. Our investment process is therefore primarily focused on assessing asset managers on their approach towards integrating ESG considerations into their respective investment decision-making processes. These ratings apply to the full scope of the investment strategy and its underlying assets, not solely to equities.

Our measurement of ESG integration

The portfolio ratings represent a weighted average of the ESG ratings of individual managers within a given portfolio as determined through our due diligence processes. This process informs our appointment of suitable asset managers for our portfolio solutions. ESG 1 signifies a leader in the integration of ESG factors and it goes down to ESG 4, indicating little integration of ESG considerations. You can find more information on our ratings **here**.

Our approach to continuous improvement

Overall, most of our portfolios have higher-rated portfolio ratings relative to their respective benchmarks. The goal is to continuously improve the ratings of all managers across asset classes rather than chase absolute scores or attaining a score of ESG 1 at the expense of meaningful change. Progress being made by a manager is measured on a relative basis to the peer universe and how they keep up with the rapidly developing ESG landscape.



Note:

- Carbon intensity is measured on the equity component of our portfolio solutions according to the TCFD metric of WACI, normalised in USD. Domestic calculations are conducted from Bloomberg data. Global metrics are sourced from Mercer/MSCI ESG.
- Diversity is measured across the equity component of our portfolio solutions. Local diversity percentages are sourced from Bloomberg. Global diversity metrics are sourced from Mercer.
- ESG integration ratings are measured across the entire portfolio solution being managed by managers. Ratings reflect the weighted average of ESG integration ratings across the managers within each solution shown locally through our manager research process and globally through Mercer's manager research process.

We will continue to assess these metrics and targets as they relate to ESG risks and opportunities and what they mean for investors. We believe that by identifying and monitoring these factors, we can use them to achieve better long-term financial value in our pursuit for a better alignment with global and local ESG priorities.

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Proxy voting analysis

In 2021, we voted over 20 000 resolutions through our appointed asset managers across locally-managed equities. Our preference has been to provide the mandate to our appointed asset managers to engage with and vote on the companies that they have selected within their portfolios. We believe that the asset manager is well placed to conduct these aspects of stewardship given that stock selection is one of their core competencies, while we evaluate their adopted practices to ensure that it is aligned to our philosophy and process.

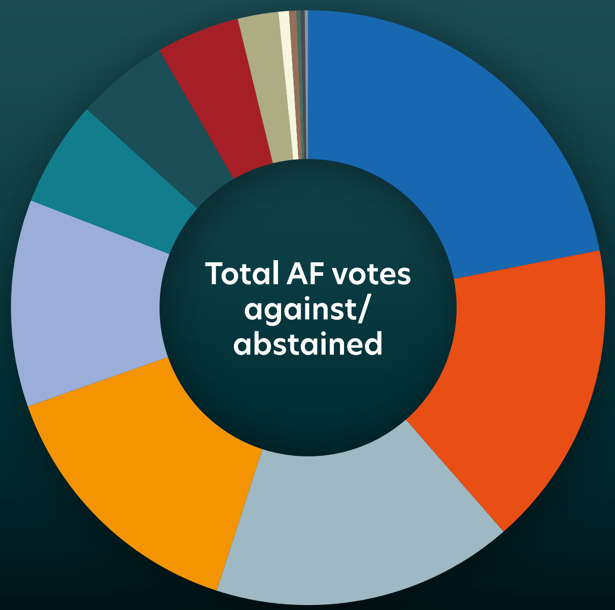
As part of our role as active stewards, we have ensured that our appointed asset managers maintain a sound governance approach to proxy voting. Accordingly, we provide proxy-voting guidelines that are part of the investment management agreements with managers. They disclose the outcomes of their engagements to us periodically through submissions, report back meetings and through ad-hoc meetings that we use to engage on ESG matters within our portfolios.

No of resolutions	20 408
No of resolutions voted *for*	17 738
No of resolutions voted *against*	2 670

From our evaluation of their engagements and the subsequent data they provide, we have found that most of the dissenting votes relate to:

- remuneration & remuneration implementation policy,
- election of directors,
- appointment of auditors, and
- the capital structure aspects of South African companies.

The graph below highlights the main categories of resolutions that asset managers either have voted against or abstained from voting:



As part of our strategic intent, we are in the process of updating our proxy voting guidelines to strengthen our approach to proxy voting; it will be available once concluded.

Evaluation

Remuneration

From the total number of proxies voted upon by the appointed asset managers on our behalf, remuneration policy received a substantial number of all *against* votes. In combination with directors' remuneration, it constituted 33% of all our proxy votes. Through our engagements with asset managers, remuneration structures of the executive and senior management teams are linked to both KPIs and company strategy, making them key material considerations for engagement.

Examples from our interactions with managers and interrogation of the issues noted on specific shares include:

- An imbalance between the variable and guaranteed compensation elements of executive compensation
- Narrow metrics being used for short and long-term incentives
- A lack of adequate disclosure related to remuneration
- Poor or no benchmarking of compensation disclosure (although companies often disclose that they have conducted such benchmarking)
- A difficulty in measuring whether remuneration practices are being followed in line with the remuneration policy.

Say on pay

Say on pay is a sensitive topic, not just locally but across the world. Organisations have adopted measures to mitigate the agency problem (the conflict in interest that arises when one person or entity takes actions on behalf of another person or entity) that happens between directors and shareholders and the potential conflict of interest in directors determining the remuneration of executives.

What does the King IV Code™ recommend?

The Code recommends that separate non-binding advisory votes should be cast annually on the remuneration policy and implementation report of companies. The Code further stipulates the recommended components of the remuneration policy that shareholders need to vote on.

In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the respective voting rights exercised, King IV proposes that the relevant company must disclose with whom have they engaged, reasons for dissenting votes and the steps taken to address legitimate objections.

Whilst South Africa does not yet cater for a binding vote policy on remuneration, its significant exposure to global market and active shareholder voice suggests that changes can be expected.

Remuneration abroad

In the United Kingdom, the director's remuneration report must be tabled every three years for a binding shareholders vote, according to analysis by Cliffe Dekker Hofmeyer. If the vote fails, a company can either continue to remunerate in accordance with the most recently approved remuneration report or call a new meeting to table a new remuneration report. The majority of the *against* votes aimed to reject the proposed company remuneration policies and reports.

Other

In this category, we have bundled the range of smaller resolutions including, but not limited to, matters concerning:

- audit,
- risk,
- social,
- ethics,
- transformation,
- property and investment,
- human resource and sustainability committees.

In some instances, we have found that managers have lost confidence in the various committees' ability to function independently, due to a board member having a long tenure on the committee or a member being in too many committees. The combined percentage of votes against certain resolutions is significant and we continue to monitor the rationale for *against* votes in this respect.

Election of directors

Many of these votes were used to vote *against* the re-election of directors that are not independent or are members on a number of other boards. These factors impede the director's ability to discharge their duty or fulfil the functions of their role adequately. When we engaged asset managers on how they balance their voting *for* or *against* director appointments, they have cited the lack of suitably skilled directors available for appointments. Accordingly, they have attempted to balance the weight of corporate governance issues at hand and vote thoughtfully at AGMs. They also continue to engage with the company with the goal of enhanced shareholder value creation.

Issuance of shares and control

A base view by managers on this category is to vote *against* in an effort to prevent the dilution of shareholder capital. A company might seek complete approval to have the control for unissued shares and general issuance of shares for cash within their control, but shareholders might still wish to evaluate the need to issue on a case-by-case basis. The burden of proof to provide evidence that the issuance will be value accretive rests on the company.

Loans and financial assistance

The votes against these resolutions relate to the provision of financial assistance to the company in terms of **sections 44 and 45 of the Companies Act** where a loan is provided to directors or inter-related companies of the group.

Companies Act

Section 44

Section 44 of the new Companies Act 71 of 2008 permits a company to provide financial assistance for the acquisition of or subscription of company's securities, not only in the holding company but also in the subsidiary (or related company).

Section 45

Section 45 of the Companies Act lays down guidelines that financial assistance must be given to (i) a specific party or a certain category of parties, (ii) in specific circumstances, (iii) for specified purposes and (iv) which prior shareholder authorisation does not extend past a two-year period.

Managers have cited that the companies they vote *against* on this resolution generally do not provide adequate rationale for the financial assistance provided. Section 45 of the Companies Act does not require the company to disclose all the details as to the amount, reason, terms and conditions of the financial assistance but the view on sound governance suggests that these disclosures are an important precursor to the evaluation of the fairness to group shareholders and the potential for conflicts of interest. The board of the company will therefore still have to obtain shareholder approval. It would also need to resolve that it is satisfied that immediately after providing the financial assistance, the company is solvent and liquid and satisfied that the terms of the loan are fair and reasonable.

Share buybacks and share option schemes

In general, the repurchasing of shares is seen as a relatively tax-efficient mechanism of providing capital back to shareholders. Share schemes are generally favoured to provide staff with equity and hence, have them vested in the affairs of the company alongside shareholders. Managers have voted against these transactions when the terms of transaction, quantity or limit is not provided.

Climate policy and disclosure

Whilst these votes do not appear to be significant compared to other resolutions, it is a relatively new category of resolutions added to traditional governance-related ones. Given the importance of climate change to the South African economy, the carbon exposure of companies within the corporate sector, the just transition and 2030 climate targets are consistent themes being tabled by companies. The assessment of votes *for* and *against* suggests that views around progress made by companies vary. Our engagement with managers has shown that they do not want to impede the initial climate policy and disclosure from companies as that alone has been an improvement on recent engagements with them. This is a long-term matter that will need continuous engagement to hold the management of companies accountable on targets set for strategy, disclosure and progress on the just transition.

The element of proxy voting is an important lever alongside engagement of companies. Whilst the actual resolutions that end up being tabled as a proxy voting resolution at the AGM are finite in number, the actual ESG issues behind them are complex and require long-term engagement with the company. Accordingly, we think that engagement and voting are linked and therefore necessary to consider alongside the full investment case made by the asset manager rather than in isolation.

Another point worth mentioning is that no issue can be dealt with in isolation. For example, addressing climate or any other issue on a standalone basis fails to consider the entire investment case and associated ESG issues holistically. As a result, asset managers have tended to engage accordingly on matters that they believe are material to investment portfolios.

Global stewardship: Mercer's approach on engagement

Global stewardship

We have a strategic relationship with Mercer Global Investments Management Limited (Mercer).

Through Mercer, we have access to a full global opportunity set of Mercer's global building block portfolios, including those portfolios with access to asset classes not available locally. We determine the appropriate offshore asset allocations across our respective multi-managed solutions and invest in a range of Mercer Global Investment Funds PLC portfolios managed by Mercer. Different Mercer global building block portfolios are used at different stages to implement our views and manage risk in line with clients' investment objectives.

As part of our holistic stewardship work, we think it is valuable to highlight the efforts undertaken by Mercer. In elevating transparency and building on our reporting effort, the data that follows represents the evidence of work done.

Mercer's approach

Mercer Investment Solutions Europe (Mercer ISE) believes that stewardship helps the (or active ownership) realisation of long-term value by providing investors with an opportunity to enhance the value of companies and markets in a manner consistent with long-term investor timeframes.

- They are committed to industry standards of good governance and stewardship, and have set the approach to stewardship in their engagement policy and sustainability policy.
- They are a signatory to the UK Stewardship Code which provides details of their approach in relation to the 12 principles of the code.
- Mercer appoints third party asset managers who invest in securities on their clients' behalf.
- The asset managers are best placed to decide on the engagement priorities at security level.
- Mercer engages with these asset managers on the stewardship work they have undertaken over the year.

Main approaches to engagement

Clients	Sub-investment managers	Collaborative initiatives
Regular feedback from clients on what matters most to them and their beneficiaries **Client Engagement Survey** Highlighted general alignment of client engagement priorities with that of Mercer ISE while identifying future engagement areas for prioritisation e.g. biodiversity, pollution and natural resources, living wage, inequity, population health	**Manager level engagements** • Assessment of and engagement on policies, processes and portfolios to promote industry best practice while focusing on engagement priority areas • **Manager dashboards** to prioritise engagements with managers with a particular focus on those who appear to have the most room for improvement. • **Manager engagement trackers to track**, monitor and facilitate escalation of goal-orientated engagements **Security specific engagements** • Monitoring and reporting on security level voting activity and engagements linked to engagement priorities	**Supporting industry best practice** • Principles for Responsible Investment (PRI) • UK Stewardship Code • Institutional Investors Group on Climate Change (IIGCC) • Task Force on Climate-Related Financial Disclosures (TCFD) • *Task Force on Nature-Related Financial Disclosures (TNFD) • *Climate Action 100+ (CA100+) • *UK Sustainable Investment and Finance Association (UKSIF) • *Carbon Disclosure Project (CDP) • *Transition Pathway Initiative (TPI) • *Global Impact Investing Initiative (GIIN)

*Participation primarily via Mercer's Sustainable Investment team, which provides advice to Mercer ISE

Source: Mercer ISE 2021 Stewardship Report

Proxy voting

Proxy Voting

Introduction

As a shareholder of publicly listed companies, Mercer ISE has the right to vote at shareholder meetings. We regard voting our shares as important to our fiduciary responsibility. Consistent with our investment model, we outsource proxy voting responsibility to appointed listed equity investment managers and expect all shares to be voted in a manner deemed most likely to protect and enhance long-term value. We carefully evaluate each manager's capability in proxy voting as part of the manager selection process.

Use of proxy voting advisors

Mercer ISE accepts that managers may have detailed knowledge of both the governance and the operations of investee companies and has therefore enabled managers to vote based on their own proxy-voting execution policy. As we do not vote shares directly, we do not use the policy services of a proxy voting advisor. We do however monitor the use of proxy voting advisors by underlying managers and also have access to research and reporting and disclosure services.

Majority of managers use a proxy advisor (85%), with two key players dominating this space namely, ISS and Glass Lewis.

Source: Mercer ISE 2021 Stewardship Report

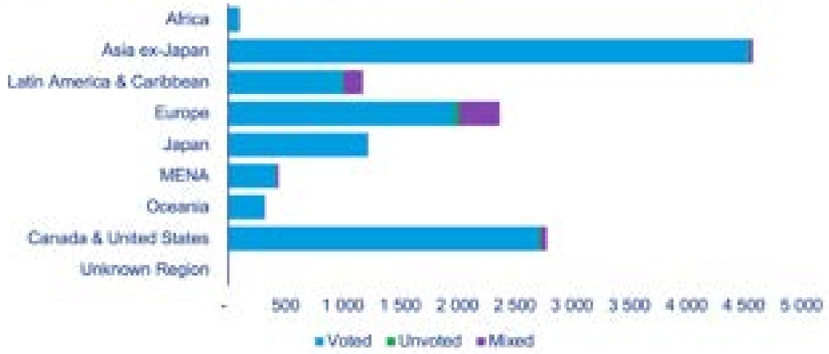
2021 Proxy Voting Highlights

The statistics below represent the aggregated results of voting activities across all segregated mandates, with voting rights attached, which are managed on behalf of Mercer ISE by its managers. Fund specific statistics are available to investors in multi-client and bespoke funds on request.

Summary statistics across all segregated equity funds

509,109	99.3%
Total Proposals Available	% Proposals Voted On
12,967	76
Total unique meetings voted at	Total countries voted across

Regional breakdown of meetings



*Mixed: where managers actions have differed across a specific meeting e.g. where one manager may have exercised their voting rights, while another may have opted to not vote at a meeting.

Source: Mercer ISE 2021 Stewardship Report

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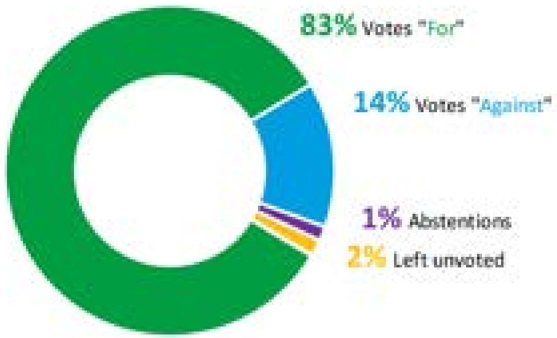
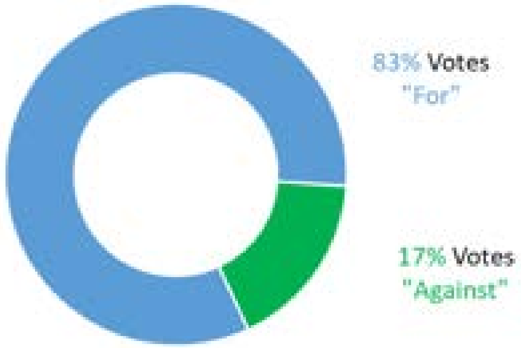
Proxy voting

Summary of voting activity across both management and shareholder proposals

*Only a small percentage of votes where not actioned, which largely relate to circumstances where managers have explicitly opted to not vote a meeting due to share-blocking or power of attorney markets, or where conflicts of interest may be present.



Summary of voting activity relating to management proposals

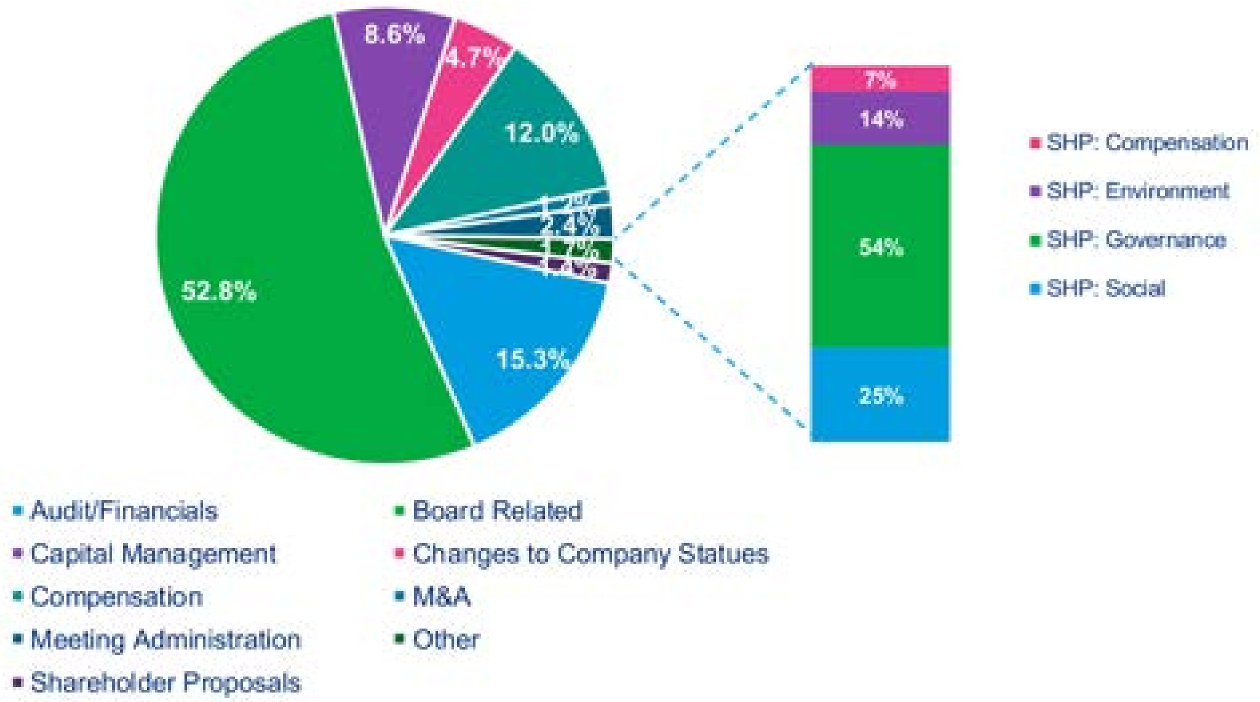


Source: Mercer ISE 2021 Stewardship Report

Proxy voting

Proposals by topic

Board related proposals represent over half of all proposals voted on with shareholder proposals only making up 1% of all proposals.



Source: Mercer ISE 2021 Stewardship Report

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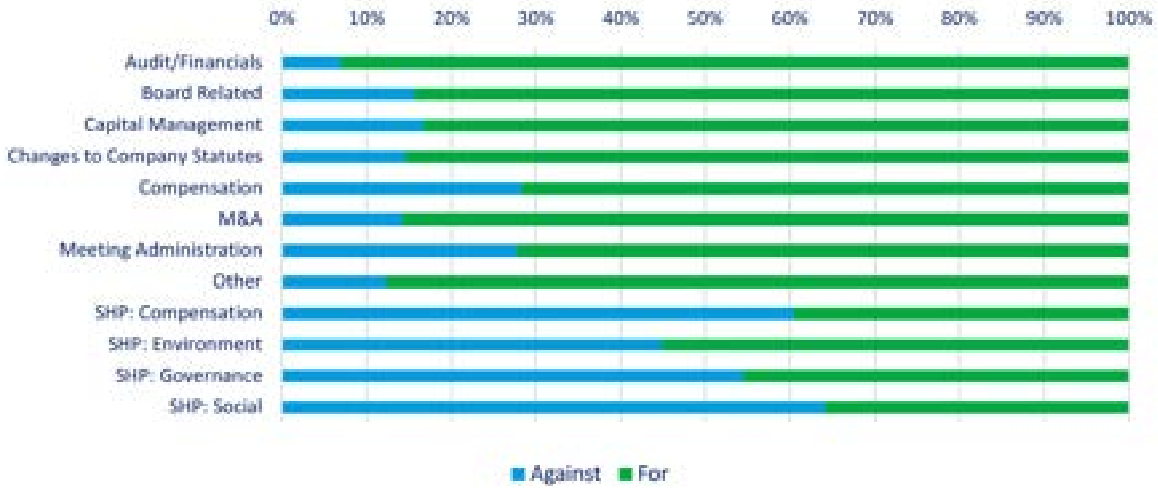
Proxy voting

Votes against management according to topic

Approximately 17% of votes are against management, with the majority of these related to shareholder proposals where managers voted in favour of socially related shareholder proposals, followed by compensation and governance related shareholder proposals, and finally environmental related shareholder proposals.

We have observed that a range of between 5% and 20% of votes against management can be expected, with 17% demonstrating that managers are actively consideration their position and using this tool as a way of encouraging improved alignment between management and long-term shareholder value.



As part monitoring of managers' approaches to voting, Mercer ISE assesses how active managers are in voting against management particularly on areas relating to Mercer's engagement priorities and seeks to obtain the rationale behind voting activities. Mercer ISE portfolio managers will use these results to inform their engagements with managers on their voting activities.

Source: Mercer ISE 2021 Stewardship Report

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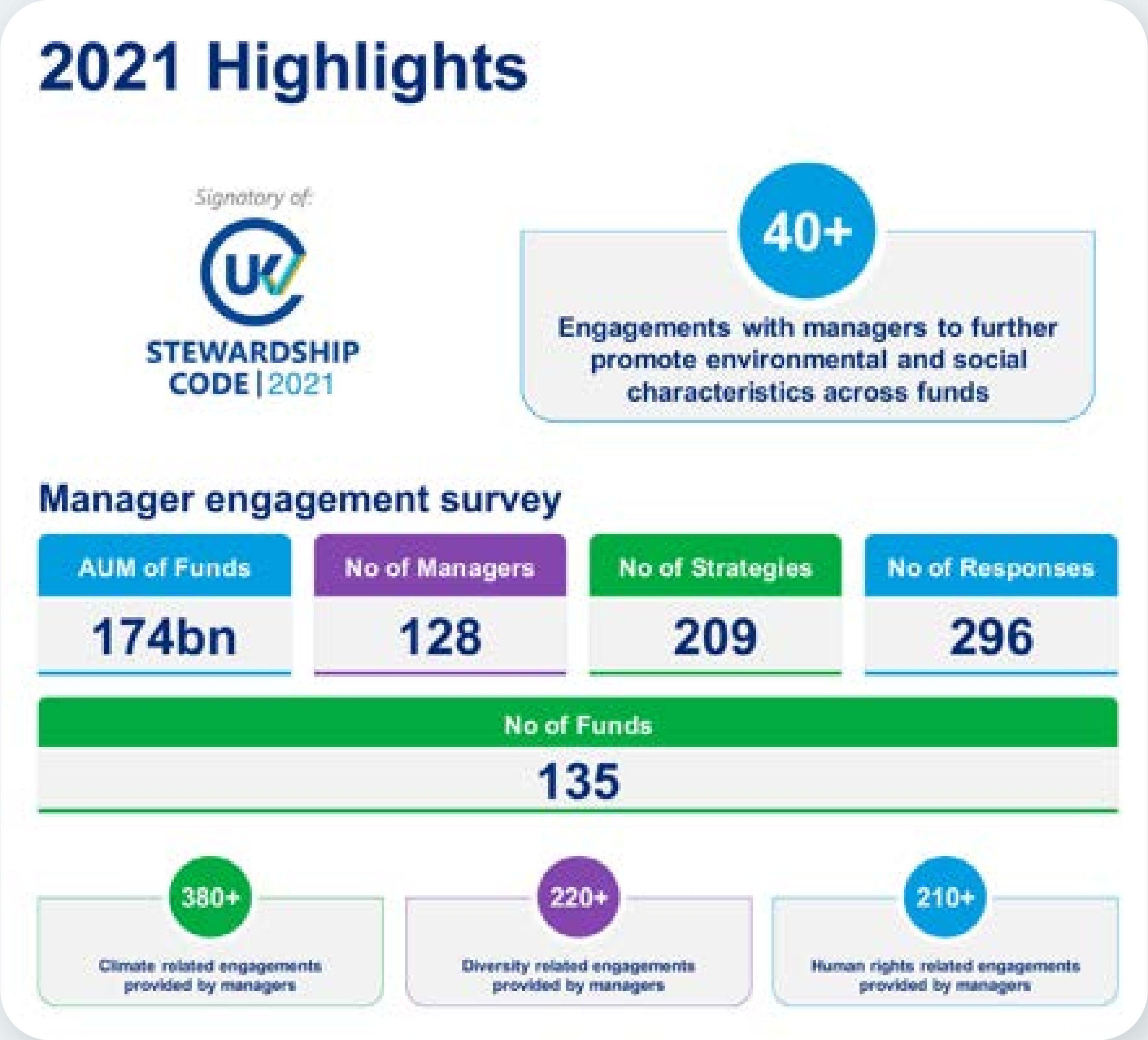
Global stewardship highlights



Source: Mercer ISE 2021 Stewardship Report

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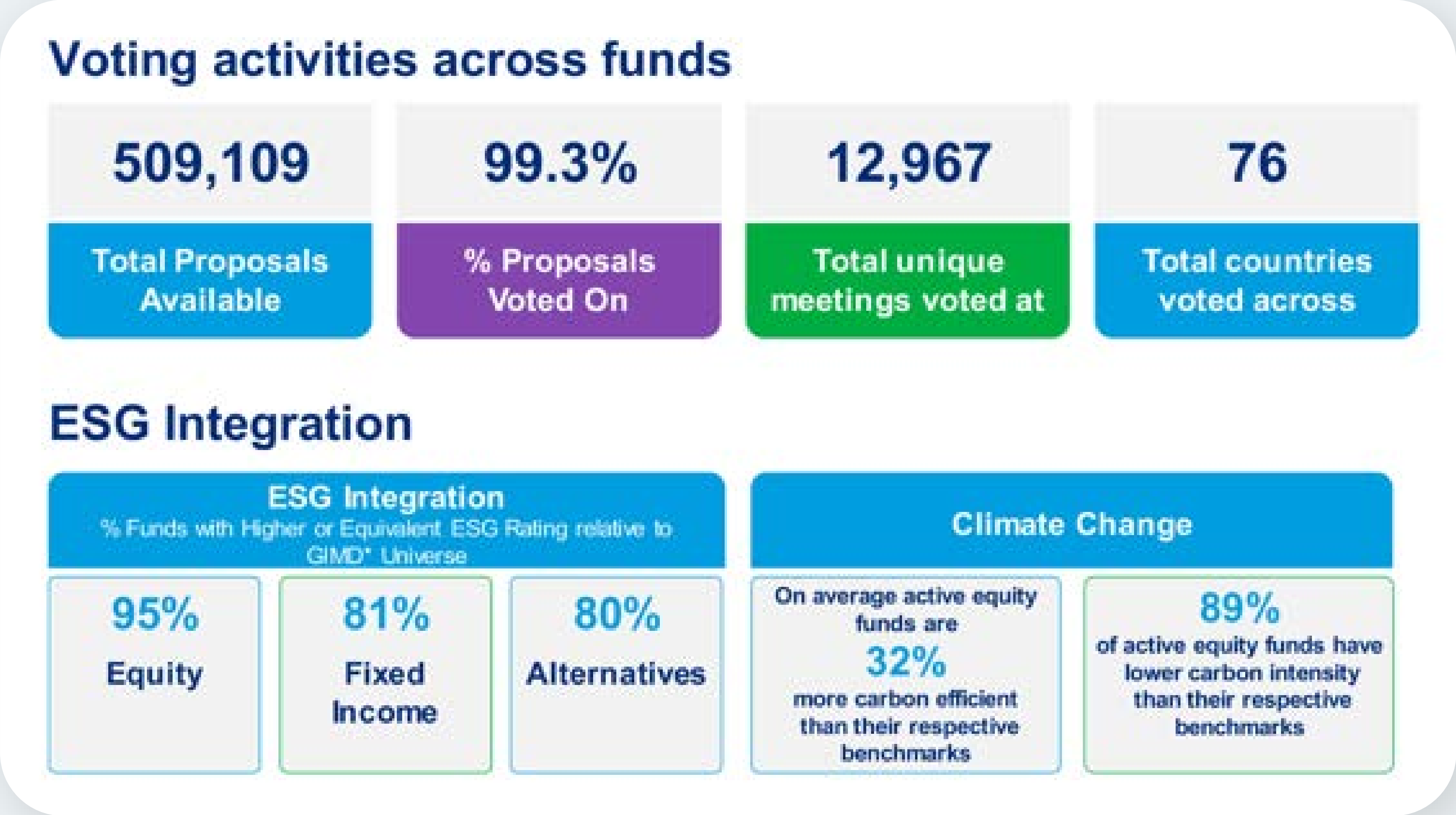
Global stewardship highlights



Source: Mercer ISE 2021 Stewardship Report

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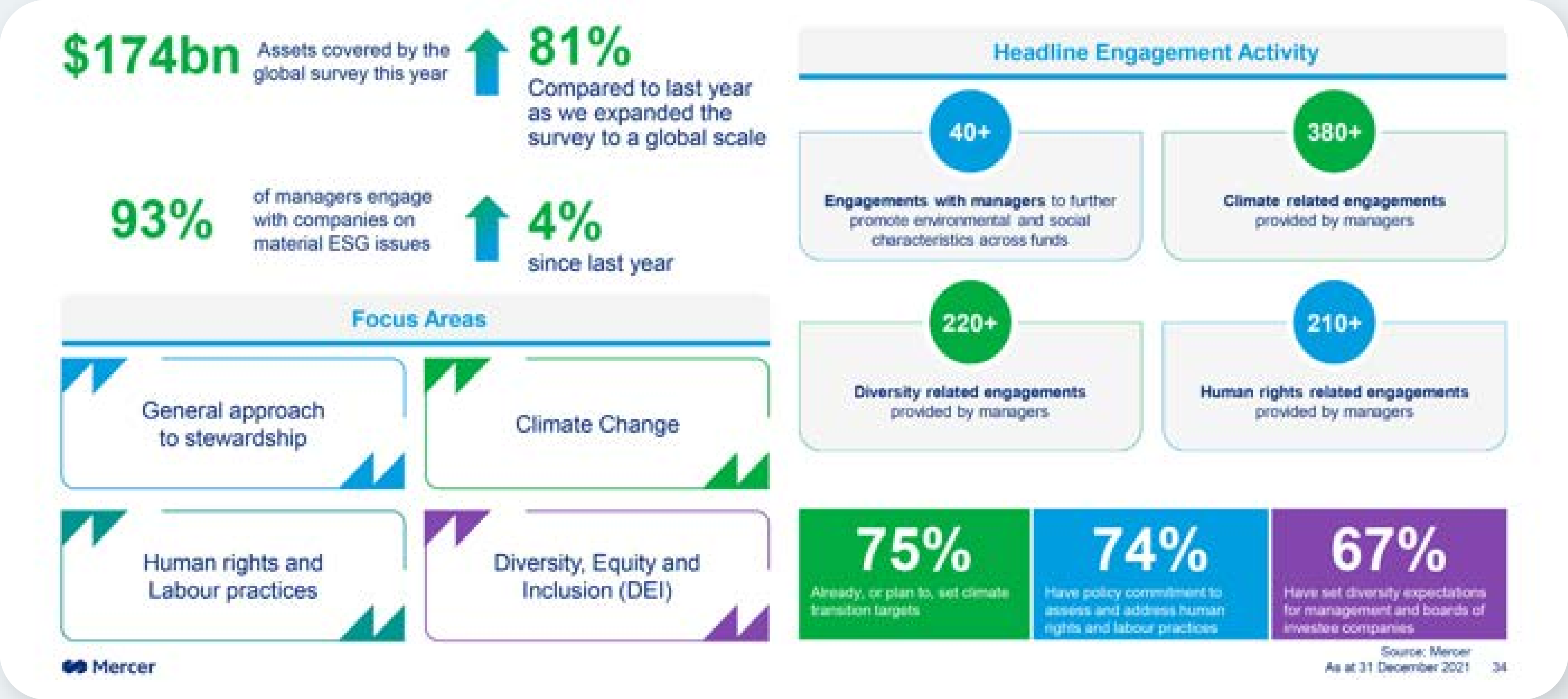
Engagement survey highlights



Source: Mercer ISE 2021 Stewardship Report

Engagement survey highlights

Climate Change		Human Rights & Labour Practices		Diversity, Equity & Inclusion	
77%	of managers have engaged specifically on climate change with company management.	53%	of managers have undertaken human rights and labour practices related risk assessments.	88%	of managers have a diversity policy in place, the vast majority of which include metrics and targets.
42%	of managers have voted against management on climate change resolutions.	56%	of managers have conducted engagements specifically regarding labour practices and human rights.	70%	of managers have conducted engagements specifically regarding diversity practices.

	Engagement Example Climate Change	Engagement Example Human Rights & Labour Practices	Engagement Example Diversity, Equity & Inclusion
Sector	Downstream oil sector	Technology	Multiple
Issue	Company was not disclosing any carbon metrics or providing any indication of their ESG initiatives	Potential infringements on labour rights laws	Identified a sub-set of 50 portfolio holdings with male-only board members.
Action	Manager wrote a letter to the company as part of the CDP's Non-Disclosure Campaign Project encouraging them to disclose in line with the CDP questionnaire.	Manager held face-to-face and video meetings with management to understand the issues and legal situation further.	Manager wrote multiple letters to the boards on the matter over a number of years.
Outcome	Company has agreed to start disclosing in line with CDP and manager will continue to monitor progress and engage.	Manager is satisfied that the company followed relevant laws. They acknowledge that the issues are complex and will continue the engagement.	Subsequently, more than 30 of those identified companies have since appointed a woman director.

Where managers are not meeting our minimum expectation on engagements across our priority topics, our portfolio management tams will raise this with them during the year with a view to positively influence their stewardship practices. For example, where climate transition plans have not been set now do the manager intend to set them, our portfolio management team will encourage the manager to set strategy-level climate goals in line with Mercer's own net zero target.

Mercer

Source: Mercer
As at 31 December 2021 35

Source: Mercer ISE 2021 Stewardship Report

Providing meaningful insights for meaningful impact

As local and global uncertainty remains a key feature of our financial markets, stewardship plays a significant role in the creation of long-term, sustainable investor value.

In light of this growing importance, we have set out to establish this stewardship report so that we can provide insights that give a comprehensive view on different factors relating to responsible investing, ESG integration and active ownership. We believe that we need to leverage the position that we hold in the industry to change and improve it over the long term, for the ultimate objective of providing value to our clients and to our society. Active ownership is a critical component that falls part of our role as fiduciaries and as corporate citizens. By exercising it, we are able to influence investors that work alongside us to work better, do better and create better. In a very real manner, we seek to use our stewardship responsibilities to connect the decisions made today to positively impact tomorrow.

Our responsible investing journey is one that we have established and refined over time, being sensitive to changes in our environment and in our communities so that we can respond to them appropriately. Accordingly, we have identified key areas in our business to establish and improve, based on the insights that we have received and on the priorities that our clients have expressed. These areas include enhanced ESG reporting and engagement strategies and the establishment of a climate policy.

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Glossary

Active ownership

Active ownership means using voting rights and engagement with investees to influence a company's decisions based on their expected ESG impact. Voting for or against company policies allows investors to take an active interest in improving ESG practices.

Double materiality

The concept of double materiality describes how corporate information can be important both for its implications about a firm's financial value, and about a firm's impact on the world at large, particularly with regard to climate change and other environmental impacts.

Due diligence

Due diligence is defined as an investigation, audit or review of a potential investment, product or company to confirm all facts or details under consideration. These facts can include items as reviewing all financial records, past company performance, leadership structure and anything else deemed material.

ESG integration

ESG integration incorporates environmental, social and governance criteria into investment decision making. It aims to identify, evaluate and price social, environmental and economic risks and opportunities over the long term. It considers factors other than assessments of short-term financial performance and commercial risks to performance, and instead incorporates a risk assessment of long-term ESG challenges and developments as well.

Materiality

Materiality is a concept that defines why and how certain issues are important for a company or a business sector. A material issue can have a major impact on the financial, economic, reputational and legal aspects of a company, as well as on the system of internal and external stakeholders of that company. Such issues can, in turn, have an impact on the underlying performance of investment returns derived from a company or business.

Financially material ESG factors are factors that could have a significant impact – both positive and negative – on a company's business model and value drivers such as revenue growth, margins, required capital and risk. The material factors differ from one sector to another. Examples of factors that can be material are supply chain management, environmental policy, worker health and safety and corporate governance.

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Glossary

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Proxy voting

A proxy vote is a delegation of voting authority to a representative on behalf of the original vote holder. The party who receives the authority to vote is known as the proxy and the original vote holder is known as the principal. It allows groups of shareholders to amass greater influence by pooling their votes together.

Responsible investing

Responsible investing (RI) is the umbrella term for the various ways that investors can consider security selection and portfolio construction. The Principles for Responsible Investment define RI as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership. It complements traditional financial analysis and portfolio construction techniques.

Stewardship

The Financial Reporting Council defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, environment and society. Stewardship gives ESG issues and financial issues equal footing when building a portfolio so investors can be sure they are investing responsibly as well as profitably.

Sustainability

In the broadest sense, sustainability refers to the ability to maintain or support a process continuously over time. In business and policy contexts, sustainability seeks to prevent the depletion of natural or physical resources so that they remain available for the long term.

Sustainable investing

Sustainable investing combines traditional investing (using investment opportunities to provide expected returns) with ESG factors to improve investment decisions and long-term outcomes. Sustainable investing is supplementary to investment management – it does not mean a diversion from traditional investment concepts – and it also uses ESG considerations for value creation and deeper insight.

Alexander Forbes Investments Limited FAIS Disclaimer

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The value of a portfolio can go down, as well as up, as a result of changes in the value of the underlying investments, or of currency movement. An investor may not recoup the full amount invested.

All policies issued or underwritten by us are linked policies, under which no guarantees are issued. The policy benefits are determined solely on the value of the assets, or categories of assets, to which the policies are linked.

Past performance is not necessarily an indication of future performance. Forecasts and examples are for illustrative purposes only and are not guaranteed to occur. Any projections contained in the information are estimates only and are not guaranteed to occur. Such projections are subject to market influences and contingent upon matters outside our control, so may not be realised in the future.

Please be advised that there may be supervised representatives.

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The complaints handling procedure and conflict of interest management policy can be found on the Alexander Forbes Investments website:
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