# Stewardship Report

## 2022

CORONATION

TRUST IS EARNED™

# Contents



# Foreword

## Dear Stakeholders

It is with great pleasure and a sense of responsibility that we present to you our Stewardship Report for 2022.

As we reflect on the past year, we are reminded of the extraordinary challenges that our world faces and how businesses and their supply chains are not immune to major developments in their environment. The need for collective action to build a sustainable future is clear.

At Coronation, we believe that the investment industry can play a powerful role in creating sustainable wealth for investors, and as such, we firmly believe in the power of stewardship. Our commitment to stewardship extends not only to our internal operations but also to the communities we serve and the planet we call home. This report outlines our ongoing efforts to fulfil our commitment.

We also clarify Coronation's approach to investment stewardship and the issues that, in our experience, could impact a company's ability to deliver better long-term returns. As part of our fiduciary responsibilities to our clients, we assess how companies respond to material ESG-related risks, as well as the opportunities, and try to unpack the potential effect on their financial performance. And while we mainly highlight activities in the 2022 calendar year, our work benefits from decades of experience.

We take an ongoing and long-term approach to engagement activities. We meet with companies throughout each year, and our more complex engagements span multiple years. As investors, these conversations help us understand companies better and in turn, have more constructive dialogue with management teams.

Importantly, in the face of global challenges, we recognise that we cannot act alone. Collaboration is a key component of addressing complex issues and achieving widespread and lasting impact. We are proud to have partnered with numerous organisations to help drive change, exchange knowledge and collectively tackle shared goals. By working together, we hope to amplify our efforts and create change that extends beyond our immediate sphere of influence.

We invite you to explore this report and learn more about our accomplishments, challenges and future commitments. We recognise there is always work to be done, and we remain committed to pushing the boundaries of what is possible. We are not afraid of tackling hard issues. As we move forward, we will continue to set ambitious goals, measure our progress and adapt our strategies to meet evolving challenges.

We extend our thanks to our staff, clients and other stakeholders who have been instrumental in our journey towards responsible stewardship. Your support and feedback have inspired us to do better and have reinforced our commitment to making a positive difference. Together, we believe we can create a world that thrives sustainably for generations to come.

**KIRSHNI TOTARAM**
**GLOBAL HEAD OF INSTITUTIONAL BUSINESS**

**We recognise there is always work to be done, and we remain committed to pushing the boundaries of what is possible.**

Sincerely,

Kirshni

Kirshni Totaram


# About Coronation

## Celebrating 30 years as a proud South African firm

Coronation Fund Managers is a leading active investment manager based in Cape Town, South Africa. As responsible stewards of our clients' capital for the past 30 years, our purpose is clear and simple: To deliver superior long-term investment outcomes for our clients. We are one of the largest independent asset managers in the country and invest the long-term savings of millions of South Africans. Our clients include individuals, retirement funds, medical schemes and financial institutions. We also manage assets for several leading international retirement funds, endowments, and family offices.

Over the past 30 years, we have delivered world-class investment performance for our clients, with 97%[2] of our institutional portfolios outperforming their benchmarks since inception. Our organisational structure reflects our strong culture of ownership, with 27% of the company owned by staff through our listing on the Johannesburg Stock Exchange. Furthermore, 57% of staff members own Coronation shares, underscoring our commitment to aligning the interests of our employees with those of our clients and shareholders. This includes 100% of the management team and 91% of the investment team. The rest of our shares are held by a wide array of global investors.

As active stewards of our clients' capital, we fully integrate ESG considerations into all aspects of the investment process. This approach leads to informed investment decisions and improves the long-term outcomes for our clients.

## Our investment offering

Our comprehensive range of investment products are designed to meet the needs of our South African and global clients. We offer specialist asset class mandates, such as equities and fixed interest, as well as a range of multi-asset portfolios, where we combine active asset allocation with stock selection through an integrated investment approach. Our global offering includes strategies investing in developed, emerging and frontier markets.

We apply a single long-term, valuation-driven investment philosophy and process consistently across all our strategies. Our multi-decade track record of outperformance across our fund range is evidence of the success of our investment approach.

In our South African funds, our compelling performance is demonstrated by[3]:

- Our Houseview Equity Strategy outperforming its benchmark by a cumulative 3 475.2% since inception in 1993 (2.3% p.a.).

**R623bn**
**$35bn**
**ASSETS UNDER MANAGEMENT**[1]

**97%**
**OF INSTITUTIONAL CLIENT ASSETS**[2]
outperformed benchmark since inception

**Level 1**
**B-BBEE CONTRIBUTOR**
as measured by the Financial Sector Code

**27%**
**EMPLOYEE OWNED**

[1] *Assets under management as at 31 March 2023*
[2] *On an asset-weighted basis; since inception figure refers to strategies with a 10-year+ track record*
[3] *All figures as at 31 March 2023*

- Our multi-asset Global Houseview Strategy outperforming its benchmark by a cumulative 1 592.7%, also since 1993 (delivering real returns of 9.1% p.a.).
- Our Global Absolute Strategy, which has a dual objective of delivering real returns while preserving capital over shorter time horizons, outperforming inflation by 8.5% p.a. since 1999.

In global markets:

- Our Global Emerging Markets Strategy has outperformed its benchmark by a cumulative 51% since inception in 2008 (2.2% p.a.).
- Our multi-asset Global Managed Strategy has outperformed its benchmark by a cumulative 19.8% to clients since 2009 (delivering real returns of 4.1% p.a.).

## Our culture and values

Our people are key to delivering on our promise of outperformance, and we have cultivated a culture that supports our goal of excellent performance over meaningful periods. Six shared values define our culture:

### Ownership

Coronation is 27% employee owned, and staff are encouraged to act and think like owners, resulting in accountability to each other for delivering their best work.

### Performance-driven meritocracy

We encourage and reward exceptional performance, creating an environment where people are motivated to grow and contribute to the success of the business.

### Integrity matters

We have a duty to our clients to act with uncompromising integrity and apply the highest ethical standards to everything that we do.

### Team-based

Employees are encouraged to work together in order to achieve greater outcomes as part of a well-functioning team than would be possible as individuals.

### Clients first

As an independent third-party manager without tied assets, we know that our own prospects are more secure if we place clients first in everything we do. We view success in terms of the value we create for clients over time, the quality of our client relationships and the longevity of our clients.

### Long-term thinking

In every investment and business decision we make, we consider the long-term outcome.

## Cultivating diversity and inclusion

Our South African roots have given us a deep appreciation of the need to cultivate a culture of diversity, equality and inclusion not only in our business, but also in the broader industry and society. Throughout our 30-year history, we have been committed to nurturing a diverse workforce and to driving industry-wide transformation.

For us, diversity is not simply a human resources target. Instead, it is entrenched in our culture. We believe that diverse collaborators are better equipped to face the challenges in competitive and uncertain environments and that fostering an inclusive work environment is critical to unlocking the diversity dividend. Our ability to leverage diverse views is a source of competitive advantage and has been a key contributor to our success.

The structure and organisation of our investment team have helped promote inclusivity over time. Portfolio managers and research analysts form one integrated team, allowing them to interact, engage and learn from each other in an open-plan office setting. We are cognisant of the need to avoid "group-think" and promote a culture where opposing views can be expressed without fear. Listening to and interrogating discordant perspectives result in richer and deeper analysis and, ultimately, better outcomes for our clients.

# *2022 Highlights*

## A year of accolades

**Winner of the Emerging Markets Manager of the Year Award**

**Winner of the International Corporate Governance Network's Global Stewardship Disclosure Award for asset managers under £60 billion**

**Ranked 1st for Gender Reporting by JSE-listed companies at the Accenture Gender Mainstreaming Awards**

**Camradata Top 50**

Classified as a Camradata Top 50 Manager

## We remain committed to being a diverse and inclusive company

**51%** OF OUR EMPLOYEES ARE FEMALE[4]

**50%** OF OUR BOARD DIRECTORS ARE FEMALE

**57%** OF THE 23 INTERNS WHO JOINED OUR INTERNSHIP PROGRAMME OVER THE PAST TWO YEARS ARE FEMALE

**57%** OF THE 23 BURSARY STUDENTS WE SPONSORED IN 2022 ARE FEMALE

## Client portfolios benefit from our vast experience

**367** YEARS

Cumulative Coronation experience of senior investment professionals

**11** YEARS

Average tenure of investment team

**361** EMPLOYEES

In offices in Cape Town, Johannesburg, Durban, Pretoria, Dublin and London

## We put clients first in everything we do

**99%** OF CLIENTS ARE SATISFIED WITH THE OVERALL SERVICE WE PROVIDE

**>90%** OF CLIENTS ARE VERY SATISFIED WITH THE QUALITY OF OUR PRESENTATIONS

**>90%** OF CLIENTS SAY OUR REPORTING MEETS OR EXCEEDS THEIR NEEDS

[4] *Employee numbers are for South African employees as at 30 September 2022*

Our commitment to diversity is demonstrated by our diverse staff complement across every level of business, from our board of directors to our interns. While our gender and ethnic diversity statistics are outcomes of our culture and approach and not goals in themselves, they provide a lens into the extent of diversity within our workforce. Our employees span gender, ethnic, language, religious and socioeconomic backgrounds across a wide range of academic and professional qualifications. In order to sustain and enhance the diverse nature of the business, we focus on providing opportunities to top young talent (Figure 1).

Coronation's commitment spans beyond the company and includes a commitment to contribute to improved diversity, equity and inclusion in the broader industry and in our communities.

Our most recent initiative is the Coronation Catapult Programme, introduced at the end of 2022. The Catapult Programme is a work readiness programme that aims to hire unemployed university graduates and provide them with training and work experience. This programme increases the number of talented individuals in the financial markets industry. To create this programme, we have partnered with stockbrokers, with Coronation responsible for the graduates' salaries and training costs, and our partners providing hands-on mentorship and on-the-job training. The first nine graduates started the programme in 2023. Four of the graduates on the programme are women and 50% of the stockbrokers are black owned.

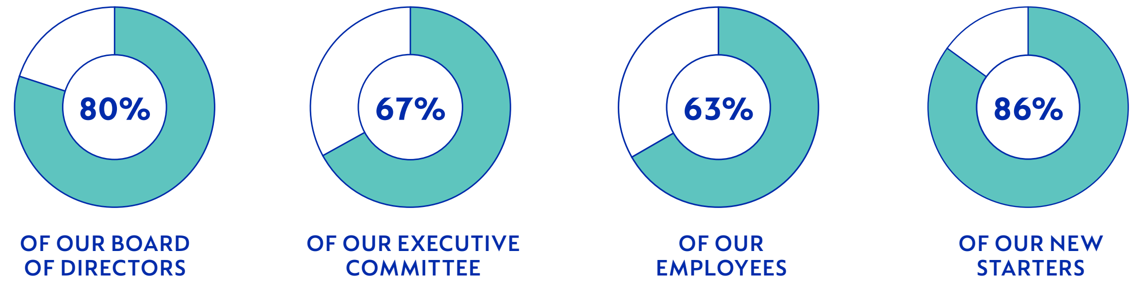
## Promoting industry-wide transformation

Throughout our history, we have actively driven industry-wide transformation, across a range of initiatives, including:

- Supporting the establishment of three black-owned investment managers – Namibia Asset Management (1996), African Harvest Asset Management (1999) and Kagiso Asset Management, now Camissa (2001).
- Creating the Imvula Trust to provide 182 black employees with meaningful and direct ownership in Coronation by transferring ownership of 10% of Coronation's shares, equating to R872.4 million at today's market capitalisation[5] (2005).
- Establishing and running a programme to facilitate the growth of emerging black stockbrokers (2006).
- Co-sponsoring ASISA's Independent Financial Adviser (IFA) Development Programme, which provides business development support and skills training to black IFAs (2016). Since inception, it has trained 203 black IFA businesses and created internship opportunities for 181 individuals, 116 of whom have been absorbed into the practices.
- Creating Intembeko Investment Administrators, the first black-owned transfer agency in South Africa (2017).

**FIGURE 1:** DIVERSITY AT CORONATION

Black* individuals represent:




* *African, Asian and mixed-race ethnicity; South African-based employees as at 30 September 2022*

**Our employees span gender, ethnic, language, religious and socioeconomic backgrounds across a wide range of academic and professional qualifications.**

[5] *As at 24 March 2023*

## Meaningful social impact

Coronation is committed to the upliftment of the communities in which we operate, and we do this through various projects that are designed to achieve change over the long term. Because education lies at the heart of breaking the cycle of poverty in South Africa, our initiatives are largely focused on improving the quality of and access to education. We have developed a holistic approach aimed at supporting children, educators, parents and entrepreneurs.

### *Cradle to entrepreneur*

#### Pre-school

**EARLY CHILDHOOD DEVELOPMENT**

Early Learning Resource Unit: Building the capacity of primary caregivers, expanding the skills of educators and improving early nutrition.

**PROVIDING LEARNING RESOURCES**

South African Education Project: Ensuring young learners at early childhood development centres have access to adequate facilities and resources.

#### Primary School

**NUMERACY**

Counting with Coronation: Providing mathematics training to teachers in impoverished communities.

**LITERACY**

Coronation Reading Adventure Rooms: Equipping schools with reading rooms and books and facilitating teacher and learner interaction to improve reading skills.

**SUPPORT FOR HEARING-IMPAIRED LEARNERS**

Carel du Toit Centre provides quality education and health services for children with hearing loss. The teachers use specialised skills to help the children hear, listen and talk.

#### Supporting Educators & Parents

**PRINCIPALS ACADEMY TRUST**

Coaching and mentoring: Providing school principals in underprivileged areas with weekly coaching and mentoring by retired school principals.

**CONSUMER FINANCIAL EDUCATION**

Empowering South African adults, including parents, teachers and principals, with financial skills and knowledge to enable them to make informed decisions.

**COMMUNITY ACTION PARTNERSHIP**

Workshops to provide parents with the skills they need to support their children with their school work, and build parent-teacher relationships.

#### Tertiary Education

**STUDENT BURSARIES**

Coronation Exceptional Students Programme: Full tertiary bursaries to study at any recognised university in South Africa.

**IKUSASA STUDENT FINANCIAL AID PROGRAMME**

We supported the second pilot of this public-private partnership that will fund students studying towards occupations in high demand.

#### Developing Entrepreneurs

**GROWING ENTREPRENEURS**

Training emerging farmers across South Africa in good governance, financial management, the practical and legal aspects of farm operations and record keeping.

**Through our dedicated initiatives over the past three decades, we have reached:**

**>8 400** Educators benefited from training

**5 702** Small-scale farmers were equipped with business skills[6]

**103 462** Adults received consumer financial education training

**>250** Students were awarded study opportunities

**>280 000** Learners

**>500** Schools

[6] *Includes beneficiaries of Coronation funding and partner funding*

## Getting involved at a grassroots level

We understand providing children with quality education cannot be done in isolation and follow a holistic approach in responding to the needs of the communities in which we operate.

With millions of South Africans being affected by food insecurity, the lack of adequate nutrition is having a detrimental impact on the ability of many young children to reach their full potential. Because of the strong correlation between childhood hunger and stunted education outcomes, we are committed to the support of sustainable feeding schemes in partnership with established hunger relief agencies, such as Ladles of Love and FoodForwardSA.

**Ladles of Love** enables enterprising people to provide food for themselves and their families, with dignity.

**FoodForwardSA** connects a world of excess to a world of need by recovering quality edible surplus food from the consumer goods supply chain and distributing it to community organisations that serve the poor.

## Disaster relief

In April 2022, days of heavy rain across KwaZulu-Natal in South Africa led to severe flooding and mudslides. More than 400 people lost their lives and several thousand homes were damaged or destroyed by this disaster.

The adverse weather disrupted operations at the Port of Durban, one of the continent's busiest ports, and damaged critical infrastructure, including major roads, electricity networks and water services. In the wake of major damage, a national state of disaster was declared.

Considering the scale of the disaster and the relief effort required, we recognised the need to extend support to those in need. We decided to contribute by making a donation to the non-governmental disaster relief group Gift of the Givers to help those affected by the disaster to rebuild their lives.

## Responding to the war in Ukraine

More than 13 million people have been displaced since Russia invaded Ukraine in February 2022, according to the UN refugee agency. Of that, more than five million are internally displaced, while over eight million are refugees living in neighbouring countries. More than 8 000 civilians have been confirmed dead, including more than 450 children, and more than 13 000 have been injured.

We recognised the need to provide aid to those impacted by the war and made donations to two charitable organisations that provide critical assistance.

The first organisation is World Central Kitchen (WCK), which has been serving meals to people affected by the attacks since the war started. WCK focus their efforts on communities on the frontline and those who have most recently been hit by missile attacks, as these communities lack basic infrastructure and struggle with access to food.

*From finance to food prep, we supported FoodForwardSA's cook-off challenge.*

*Floods caused damage to infrastructure across the province of KwaZulu-Natal in South Africa in April 2022.*

The second is Disaster Emergency Committee (DEC), a charity that supports local aid organisations in Ukraine and the neighbouring countries of Poland, Romania, Moldova and Hungary. The support these local aid organisations provide include cash assistance, food, healthcare, clean water and shelter. +

**WINNER OF THE ICGN GLOBAL STEWARDSHIP DISCLOSURE AWARD**

**FIRST PLACE FOR GENDER REPORTING**

**89%**
**PRI RATING FOR INVESTMENT AND STEWARDSHIP**

**251**
**ENGAGEMENTS WITH 144 COMPANIES ACROSS 24 THEMES**

# The year in review

2022 was marked by relentless challenges as global markets faced the largest European land war since World War II, continued inflationary pressures, intense monetary tightening, and heightened geopolitical tensions. All of this happened while economies were still recovering from the aftermath of the Covid-19 crisis.

The year began with rising levels of inflation caused by supply and demand shocks resulting largely from pandemic lockdowns and many years of loose monetary policy. As inflation rates continued to surge, central banks started raising interest rates and tightening monetary policy.

In February, the Russian invasion of Ukraine triggered a set of interconnected crises. Commodity prices, particularly energy and food, soared, exacerbating global inflation. Europe faced significant challenges due to its proximity to the war, an influx of Ukrainian refugees, and its dependence on Russian energy.

China's sustained zero-Covid policy had a significant impact on the global economy, which saw severe restrictions on human activity, disruption of supply chains, the resultant slowdown of economic growth, and a material increase in the prices for goods and services.

Globally, many people started to experience a cost-of-living crisis, with the rising cost of housing, food and energy, putting a strain on household budgets and making it difficult for people to make ends meet.

These challenges were intensified by significant weakness in investment markets over the course of 2022.

In South Africa, the economy continued to struggle under the weight of endemic corruption, crippling power cuts, ageing and poorly maintained infrastructure, and mismanaged state entities. This was compounded by a series of catastrophic floods that hit the KwaZulu-Natal province in April 2022 causing widespread damage, including the destruction of homes, businesses, and critical infrastructure.

Against this background, 2022 was a year that highlighted the complexity of the transition towards sustainable investing. With the rise in energy and commodity prices, companies that were not regarded as "green" outperformed stocks traditionally considered to have strong sustainability characteristics. Furthermore, with Europe facing the possibility of winter power shortages, several countries increased their reliance on fossil fuel-based energy sources to prevent the social and economic consequences of blackouts. This highlighted the complex trade-offs and difficulties in the transition towards sustainable energy sources.

Despite these challenges, the general trend towards a greater awareness of the importance of sustainability in investing continued in 2022, driven by ongoing regulatory reform, progress in the development of global sustainability standards, and an increased availability of sustainability-related investment products.

## Scope of this report

This report offers a comprehensive overview of our stewardship approach and activities throughout 2022. We demonstrate our commitment to active ownership by providing examples of engagement, integration, and proxy voting. Our aim is to transparently demonstrate how we exercise our responsibilities as stewards of our clients' investments.

## Highlights for the year

In 2022 our stewardship practices continued to evolve whilst remaining true to our overarching investment philosophy and approach. We remained focused on bottom-up analysis of the companies in our investment universe and fully integrated each company's individual sustainability profile into our valuations. Where we identified material ESG issues, we engaged with companies to understand these better and, where appropriate, to drive genuine on-the-ground change.

While the majority of our engagements were based on specific issues identified at each company, we also continued to prioritise systemic issues that require collective action. One of our main thematic focus areas was mining safety (which we outline on page 54), and we also continued to advocate strongly for the adoption of the recommendations of the Task Force for Climate-Related Financial Disclosures (TCFD) by investee companies.

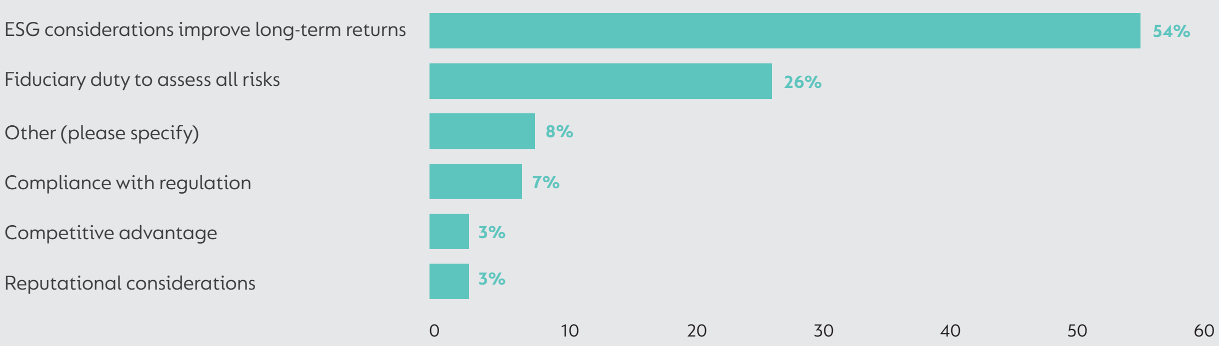
Some of the notable developments during the year included:

- We established a dedicated **Sustainability Committee** to enhance formal governance and oversight of sustainability practices within our organisation. This committee ensures that sustainability considerations are integrated into all our decision-making processes.
- We conducted our inaugural **ESG client survey** to better understand the engagement priorities of our institutional clients. This valuable feedback helps us to align our engagement agenda more effectively with the needs and expectations of our clients.
- We received excellent **ratings from the PRI** (Principles for Responsible Investment) as part of its annual reporting and assessment review, with ratings of between four and five stars across all categories. This reflects our commitment to ensuring that we champion global best practices across our stewarship activities.
- We revised our **Stewardship and Sustainability Policy**, strengthening our commitment to responsible investment and integrating sustainable practices into our operations.

*ESG survey insight*

### Why do you incorporate ESG considerations in your investment policy?

**FIGURE 2:** CLIENTS' REASONS FOR INCORPORATING ESG CONSIDERATIONS IN INVESTMENT POLICY (%)



- As part of our ongoing efforts to address climate change risks, we **joined the CDP** (formerly Carbon Disclosure Project) as an investor signatory. This grants us increased access to reliable climate-related data and enables us to make better informed investment decisions that consider climate-related risks and opportunities. In addition, the CDP informs us of their investor collaboration campaigns, which we may participate in where our areas of focus align.
- We were honoured to be recognised as the **winner** of the International Corporate Governance Network's (ICGN) 2021 Global Stewardship Disclosure Award for asset managers under £60 billion.

As an investment manager that holds our investee companies to high standards of accountability, we recognise that we must also demonstrate our own commitment to sustainable practices as an organisation. In 2022 we published our first Corporate Sustainability Report, demonstrating our commitment to improving our sustainability-related reporting. The report provides details of our business activities and the impact that we have on society, the economy as well as the environment. In compiling the report, we took guidance from the Global Reporting Initiative (GRI) reporting principles and the Task Force on Climate-Related Financial Disclosures (TCFD). We also reviewed and considered the United Nations Sustainable Development Goals (SDGs) that are relevant to our purpose and identified those SDGs to which we meaningfully contribute.

## Regulatory developments in 2022

ESG investing has gained significant momentum in recent years, as investors increasingly seek to align their investment decisions with broader objectives and values and to address systemic risks like climate change and social inequality. As demand for ESG-related investment options has increased, more investment products have emerged, claiming to have ESG or sustainability credentials of one form or another.

The rise of ESG investing has also led to an increase in the number of ESG ratings and data providers. These providers use different methodologies to evaluate investment products and the underlying companies in which they invest, resulting in different sets of ratings and scores.

The proliferation of investment products and data providers has led to difficulty in understanding and differentiating between investment products that claim to have ESG attributes or incorporate ESG considerations. This is exacerbated by the fact that there are various approaches to ESG investing, such as negative screening, positive screening, impact investing, and thematic investing, among others. Additionally, even within a specific ESG investing approach, the decision-making approaches followed by investment managers will differ.

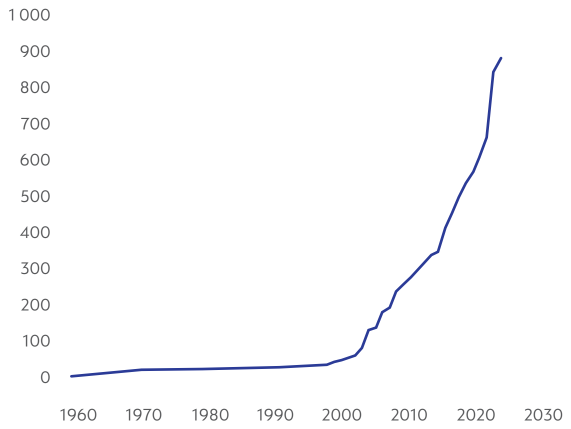
The lack of a common language about what constitutes an ESG investment can make it challenging to compare and evaluate different ESG investment options, especially when taking into account that investors from different regions will have different medium-term realities to contend with and differing points of departure. At the extreme, product providers may be accused of "greenwashing", which takes place when product providers make exaggerated or misleading

**Our aim is to transparently demonstrate how we exercise our responsibilities as stewards of our clients' investments.**

claims about the environmental and social impact of their particular investment product.

The risk of greenwashing has become a growing concern amongst investors and regulators in recent years. This concern, coupled with a desire by policymakers to reorient capital towards more sustainable businesses, has resulted in a host of new regulations being introduced (Figure 3) or in the process of being introduced across the globe – most notably in the UK, US and Europe. Through these regulations, regulators hope to promote transparency and establish clear standards and guidelines that enable investors to make informed decisions about the types of products in which they are investing. However, the highly prescriptive nature of some regulations makes real-world implementation problematic and, in the worst case, has many unintended negative consequences.

**FIGURE 3:** CUMULATIVE NUMBER OF POLICY INTERVENTIONS




*Source: PRI responsible investment regulation database*

## Global disclosure standards

A key global challenge in sustainable investment relates to the need for a set of uniform reporting standards that would enable companies to report sustainability-related information in a consistent and transparent manner. This would help to improve the quality and comparability of sustainability disclosures across jurisdictions and to ultimately promote greater accountability within the corporate sector over time.

The IFRS Sustainability Disclosure Standards are a set of standards developed by the International Sustainability Standards Board (ISSB) to provide a global baseline for sustainability disclosures. The standards are intended to meet the information needs of investors and other stakeholders by providing comprehensive and consistent information on companies' sustainability-related risks and opportunities. The ISSB published two exposure drafts for the IFRS Sustainability Disclosure Standards in March 2022. The first exposure draft sets out general sustainability-related disclosure requirements, whilst the second exposure draft specifies climate-related disclosure requirements. The standards build on existing globally accepted practices, including the recommendations of the TCFD, as well as industry-related disclosure metrics developed by the Sustainability Accounting Standards Board (SASB).

By improving the quality and comparability of sustainability-related disclosure, the standards should ultimately help investors to make more informed decisions, including the ability to manage portfolios towards sustainability-related objectives.

The disclosure standards are still under development, with the ISSB expected to finalise them in 2023.

## European Union

In March 2021, the European Union introduced the Sustainable Finance Disclosure Regulation (SFDR). The SFDR applies to both investment managers and financial advisers and requires them to disclose information about the sustainability profile of their investment products. This includes pre-contractual and periodic disclosure of the ESG factors that are relevant to the investment product, as well as, when applicable, the product's environmental objectives and any negative impacts on

sustainability. Investment managers and advisers must also disclose how they integrate sustainability risks into their investment decision-making processes.

SFDR Level 1 disclosure requirements came into effect in March 2021, requiring asset managers to classify their EU funds into Article 6, Article 8 or Article 9 funds, alongside high-level disclosure requirements relevant to each categorisation.

The Taxonomy Regulation, which establishes criteria for determining whether an economic activity qualifies as environmentally sustainable and the degree to which it is environmentally sustainable, came into effect on 1 January 2022.

Level 2 disclosure requirements, which introduce more detailed Regulatory Technical Standards (RTS), came into effect on 1 January 2023. These disclosure requirements set out granular specifications for the content, methodology and presentation of the disclosures outlined in SFDR Level 1 and the Taxonomy Regulation, including pre-contractual (prospectus), periodic (annual report), and website disclosures that must adhere to prescribed template formats.

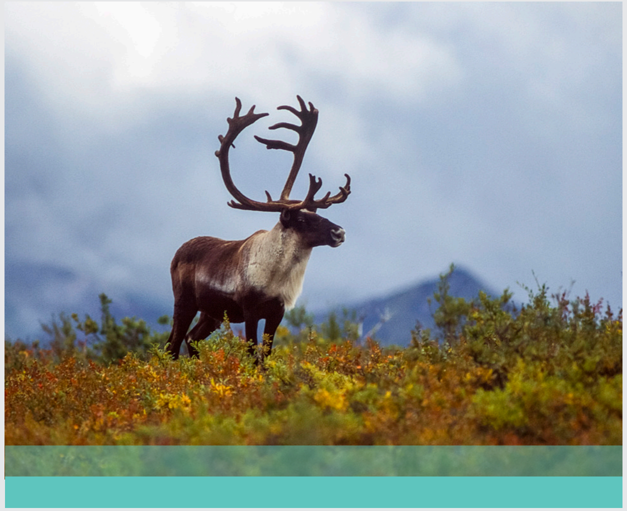
### *Classification of EU funds*

- **Article 6 funds:** These are funds that do not promote environmental or social characteristics as part of their investment strategy or do not have a sustainable investment objective.
- **Article 8 funds:** These are funds that promote environmental or social characteristics as part of their investment strategy and invest in companies that follow good governance practices but do not have a sustainable investment objective.
- **Article 9 funds:** These are funds with a sustainable investment objective, which means they invest in companies that contribute to environmental or social objectives. Article 9 funds are subject to the most stringent disclosure requirements under SFDR, including detailed information on how the investments contribute to the sustainability objectives.

## United States

In March 2021, the Securities and Exchange Commission (SEC) announced that it would be increasing its focus on climate-related issues and that it would be requiring companies to disclose more information about their climate-related risks and opportunities. This includes investment managers, who will be required to provide more detailed information about how they incorporate climate-related risks and opportunities into their investment strategies.

In May 2022, the SEC proposed three rules to address the problem. These proposals comprise the following:



- The introduction of enhanced disclosure requirements for registered funds that use ESG factors in their investment strategies, including "ESG-impact" funds that seek specific ESG impacts, "ESG-focused" funds that consider ESG factors as significant or main considerations, and "ESG-integrated" funds that consider ESG factors alongside other non-ESG factors. This would also generally require ESG-focused and ESG-impact funds to disclose greenhouse gas emissions associated with their portfolio company investments.
- The expansion of the scope of the Investment Company Act's Names Rule, which requires funds whose names suggest a certain focus to invest at least 80% of their assets accordingly. The expanded Names Rule would cover funds with names that suggest their investment decisions incorporate ESG factors.

- A Climate Disclosure Rule, which would require public companies to disclose information about their greenhouse gas emissions, their climate-related risks and opportunities, and their governance of climate-related risks. The rule would also require public companies to disclose information about their transition plans to a low-carbon economy.

The SEC has invited public comments on these proposed rules to inform their finalisation and implementation.

## United Kingdom

The UK's Financial Conduct Authority (FCA) released its Sustainability Disclosure Requirements (SDR) Consultation Paper in October 2022. The aim of the SDR is to increase transparency and reduce greenwashing in sustainable investing. The FCA has developed a package of measures to address greenwashing, including sustainable investment labels, disclosure requirements, an anti-greenwashing rule, and restrictions on using sustainability-related terms in product naming and marketing. The proposals aim to enable the flow of comparable and decision-useful information to the extent to which economic activities are sustainable.

The proposals include three sustainable investment labels: sustainable focus, sustainable improvers, and sustainable impact. Each label will be underpinned by a set of criteria that an investment product will need to meet in order to qualify for the label. These criteria include the product's sustainability objective, the investment policy and strategy (which must align with the sustainability objective) and the use of key performance indicators to monitor performance against sustainability objectives. Firms will also need to ensure that their stewardship approaches are aligned to their products' sustainability objectives and that they have appropriate resources, governance and operational practices to meet their sustainability commitments.

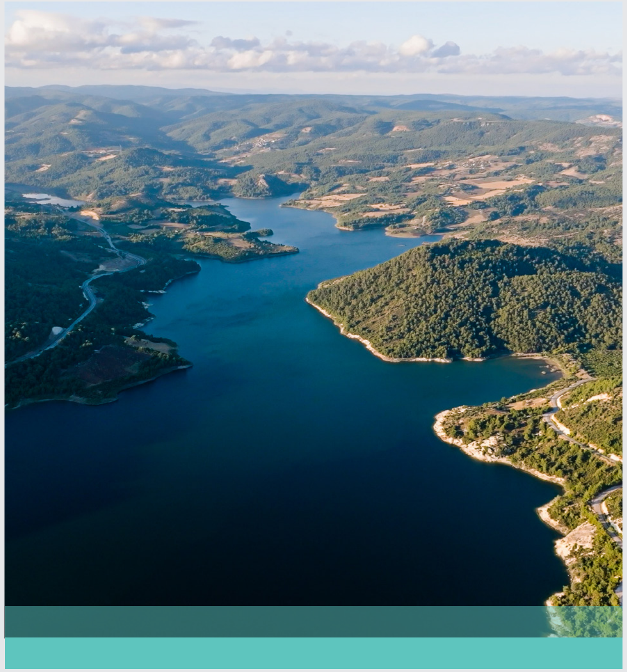
Investment labels will also be voluntary and should only be used by firms for products that meet the prerequisite criteria. However, firms choosing not to use them will still have to produce detailed sustainability disclosures at product and entity levels, in accordance with the FCA's proposal for a general anti-greenwashing rule.

Restrictions will apply to all products and only labelled funds will be allowed to use designated words and phrases, such as "sustainable", "ESG", "impact", "responsible", "green", "SDG" and "Paris-aligned".

While there will be some divergences, the FCA has sought to achieve international coherence with other regimes as much as possible, namely the European Commission's SFDR and the approach taken by the US SEC.

## South Africa

The South African financial services industry is also embracing the need for a set of clear sustainability-related disclosure standards. The South African Green Finance Taxonomy is a classification system that is intended to provide clarity to investors and other stakeholders about the types of investments that are considered to be green. The Taxonomy was developed by South Africa's National Treasury in collaboration with the private sector and other stakeholders, with the final version published in 2022.



**At Coronation, we are guided by the core principle that transparency and clear communication is the best way to ensure that our clients understand the way in which we manage the products in which they are invested.**

In addition, in 2022, the Johannesburg Stock Exchange (JSE) released its Sustainability and Climate Disclosure Guidance, which is a voluntary standard that aims to improve the quality and consistency of sustainability reporting by JSE-listed companies.

See page 88 for more detail on our engagements with policymakers in respect of these developments.

**TABLE 1:** CORONATION'S ARTICLE 8 FUNDS

| |
|---|
| Coronation Global Emerging Markets Fund |
| Coronation Global Equity Select Fund |
| Coronation Global Emerging Markets Equity Fund |
| Coronation Active Global Equity Fund |

## Our perspective

At Coronation, we are guided by the core principle that transparency and clear communication is the best way to ensure that our clients understand the way in which we manage the products in which they are invested. From a sustainability perspective, it is critical that what we say about our approach must match the way in which our portfolios are managed.

Our approach is pragmatic and takes into account the varying objectives of our clients across the globe. Our aim is to ensure that improved and increased

disclosure by underlying companies gives us a much better set of data from which to engage with companies and promote improvements in managing ESG-related risks.

At the time of writing, the primary disclosure regulation to which we are subject is the EU's SFDR. We have carefully reviewed the requirements of the regulation and adjusted our disclosures to ensure that we are meeting the Level 2 requirements which are now in force.

### Article 8 funds

After a careful review of the relevant legislation, we have concluded that the funds in Table 1 are appropriately classified as Article 8 in line with the requirements of the SFDR, as they promote environmental or social characteristics as part of their investment strategy and only invest in companies with good governance practices. Central to this is the application of our Exclusion Policy, through which we apply a set of sector-based and conduct-based exclusions to ensure that the funds promote desired environmental and social characteristics. The Exclusion Policy requires the exclusion of investment into companies that derive a material part of their annual revenue in the mining, extraction, production and/or distribution of a set of defined activities that are generally regarded as causing material environmental or societal harm. Our Exclusion Policy provides details about the types of activities that are excluded

and how we apply these exclusions to the management of our portfolios.

We have further updated our disclosures to meet the templated requirements set out within the Level 2 SFDR requirements. We will also ensure that we continue to review our range of products to ensure that they remain appropriately classified according to these regulations.

## Conclusion

New regulations, such as the EU's SFDR, the SEC's proposed rules, and the UK's proposed SDR, have been introduced globally to promote transparency, establish clear standards and guidelines, and increase investor confidence in products labelled as ESG-focused investments. These regulations aim to enable the flow of comparable and decision-useful information on the extent to which economic activities are sustainable, ultimately reducing the risk of greenwashing and increasing transparency in sustainable investing.

At Coronation, we are committed to providing our clients with accurate, clear and transparent information about our approach to sustainable investment management. We will continuously monitor developing regulations and adjust our practices to ensure that we remain aligned with evolving regulatory requirements, industry standards and best practices.

## Driving change through active ownership

Active ownership is an integral part of our stewardship approach, which we consistently apply across our entire range of investment products. Our goal is to effect positive change by engaging meaningfully on crucial ESG issues. Through informed, responsible, and robust engagement, we believe we can drive tangible positive improvements in sustainability and governance practices over the long term. Our approach aligns with our long-term investment strategy, recognising that constructive outcomes often arise from engagements conducted over multiple years.

Throughout the past year, we continued to engage with investee companies and exercised our rights as shareholders through proxy voting at shareholder meetings. Our approach has yielded positive results, as evidenced by the case studies presented in this report.

### 2022 CALENDAR YEAR

| | | | | | | |
|---|---|---|---|---|---|---|
| **R623bn** | **251** | **144** | **24** | **70%** | **6 902** | **559** |
| Assets under management | Number of engagements | Number of companies | Number of themes | Completed engagements with positive outcomes | Voting resolutions | Shareholder meetings |

In 2022, we held 251 engagements with 144 companies on a wide range of ESG issues. Furthermore, we cast votes on 6 902 resolutions at 559 shareholder meetings. While our preference is to resolve issues through prior engagement rather than resorting to voting against proposals, we will use voting as an escalation mechanism, where appropriate, and adhere strictly to our proxy voting principles. Consequently, we dissented on at least one vote in 256 (46%) of the meetings where we exercised our voting rights.

**Looking forward, we remain committed to applying our stewardship approach throughout our investment process.**

## Governance and strategic matters

It was yet another year with a strong emphasis on corporate governance, with more than 44% of our engagements with investee companies addressing governance-related issues. A further 33% of our engagements focused on matters related to business strategy.

We believe that companies need to exercise proper oversight through transparency, accountability, and effective stakeholder management. Whilst each business faces its own unique set of environmental and social circumstances, appropriate governance is relevant to all. We believe that good governance often serves as a vital catalyst for sustainable business practices, ensuring that companies incorporate the measurement and management of material ESG risks into their business strategies. Accordingly, we spend a significant amount of time studying the governance of the companies in which we invest.

We continued to focus on the areas that we believed would have the most meaningful impact on the quality of governance within each organisation. As with prior years, some of the most important governance-related engagements were focused on board composition and remuneration.

We once again focused on ensuring that the boards of investee companies were appropriately constituted to ensure that they were able to provide proper oversight in the fulfilment of their responsibilities.

We also prioritised discussions with companies where we felt that their remuneration policies required better alignment between management incentives and long-term stakeholder value. We advocated for stringent targets that drive desired corporate outcomes without excessive risk-taking.

In addition, we tackled various governance- and strategy-related concerns on specific stocks in our investment universe. These encompassed a wide range of areas, including CEO performance, succession planning, business strategy, capital structure as well as financial and sustainability reporting. Our engagements with companies aimed to address specific issues and ensure that they were aligned with the best interests of shareholders. We made recommendations and provided guidance on improving these aspects to optimise shareholder value and drive sustainable growth.

## Social issues addressed

In 2022, we increased our focus on a few social issues as part of our engagement efforts. Our key thematic project centred around mining safety, where we engaged with South African mining companies and reviewed global mining firms to understand the factors influencing safety outcomes and the potential link between safety and remuneration. This led to a 44% increase in our engagements on social issues compared to the previous year.

The promotion of diversity, inclusion, and positive corporate cultures remained important focus areas. Ethical practices and conflicts of interest were also addressed, as were issues relating to cybersecurity, community rights and product safety.

Engagements on many of these topics revealed the complexity and inter-connectedness involved in addressing environmental and social matters, emphasising the need for comprehensive analyses and the holistic consideration of unintended consequences.

## Environmental highlights

Over the past few years, we have focused on promoting consistent and comparable climate-related disclosure by companies through the adoption of the Taskforce for Climate-Related Financial Disclosures (TCFD) recommendations. In 2022 we continued to monitor the adoption of TCFD by investee companies, including expanding the scope of our engagements to include companies in our Global Emerging Markets portfolio.

We also discussed companies' plans to increase procurement of clean energy to reduce carbon emissions and improve energy security, particularly in South Africa, which has been affected by severe power outages. The energy crisis in South Africa serves as a stark reminder of how the challenges of climate change cannot be separated from the socioeconomic consequences caused by an unstable power grid.

We also engaged with companies on a range of other concerns, including the percentage of plastics in the food-retail value chain, problems caused by overfishing, efficient water consumption, food waste reduction, and recycling initiatives.

## Advocating for a sustainable industry

We remained committed to advocating for policies and regulations that promote the long-term interests of asset owners and are of benefit to the broader society. In 2022 we continued to collaborate with industry partners and regulators, actively participating in industry bodies and initiatives to address systemic risks such as financial market stability, climate change, and social stability. We were involved in various advocacy efforts, including promoting transformation in the financial industry, supporting infrastructure investment, supporting well-functioning financial markets, and fighting for action on climate change. We engaged with industry organisations, policymakers, and government officials to drive change and create a sustainable investment industry.

## The road ahead

Looking forward, we remain committed to applying our stewardship approach throughout our investment process. We will continue to integrate sustainability factors into our company valuations, actively engaging with companies and other relevant stakeholders on significant ESG issues, exercising our voting rights to ensure businesses are responsibly managed and collaborating with other investors where relevant.

Our thematic engagement plan in 2023 includes:

- A project looking at water scarcity, where we aim to research and engage with companies that are significant water consumers, encouraging them to set appropriate targets and strategies.
- An expansion of previous work into the extent to which plastics are used in the food-retail value chain to unpack the key areas where plastic reduction can still occur.
- Assessing companies' data security protocols and policies in order to understand the risks related to the collection and processing of personal data.

We actively participate in collaborative initiatives, where applicable, to promote a more sustainable industry. In 2023 this includes participating in the UN PRI and Thinking Ahead Institute's joint Stewardship Resourcing Technical Working Group.

Effective stewardship of our clients' assets remains integral to our mission of delivering enduring long-term benefits to our clients and stakeholders. Each year, we continue to evolve and improve our practices to ensure that we deliver meaningful change in our capacity as fiduciaries of our clients.

# The sustainability revolution: Experts weigh in

***At Coronation's annual thought leadership conference, Talking Investments, a renowned panel of experts delved into the complexities of incorporating ESG considerations into investment decisions. The discussion unpacked issues including engagement, exclusions, greenwashing and the potential risk of unintended consequences. The following is an edited summary of the key highlights from this thought-provoking session.***

## *Moderator*

**Kirshni Totaram**
Global Head of Institutional Business

## *Panelists*

**Angela Docherty**
Owner and Director at Wilton Associates

**Glenn Silverman**
Investment Strategist and Director at RisCura

**Premal Ranchod**
Head of ESG Research at Alexforbes

**Neville Chester**
Senior Portfolio Manager and Executive at Coronation

***Visit our website to watch a recording of "The Sustainability Revolution"***

**1**

**Kirshni: Over the past two decades, the concept of ESG as a factor in the investment process has grown astronomically. More recently, it has been dogged with doubts, and several commentaries suggested it could be in retreat. What is your take on the current state of ESG?**

**Neville:** Firstly, I find it peculiar that the listed investment industry has somehow been solely tasked with curing the world's ills.

Secondly, while more people want you to be active ESG investors, the majority of funds are going passive. It is very difficult for that money to be driving any kind of meaningful change.

Lastly, we need to ask whether we are focusing on the right things or just the easy things. For example, one can argue that tech companies brought us Brexit, Trump and massacres in Myanmar. There are many issues that are not obvious, yet they have had a very significant impact on the world.

**Angela:** One of the issues is that the focus seems to be only on climate change. We have to remember that ESG is more than just climate change and we have to be looking at other issues as well.

Also, managers can produce a set of statistics on a portfolio, but what does that really mean to us as asset owners when our stakeholders are asking questions about ESG? What you need is not the statistics but the journey because change will not happen immediately.

We also have issues with the composition of our indices. China is a huge part of the Emerging Markets index and we know their governance is poor. You wonder why they are in the index.

As asset owners, we have the responsibility to challenge our managers all the time and make sure they are engaged with the companies they own and trying to make real change.

We have to invest in stocks that will be here in 20 years' time and will continue to deliver long-term, consistent returns. That means that asset owners need to change the timeframe at which they look at performance. If you want to run proper sustainability mandates, you'll have to look at a 30-year perspective.

**Glenn:** In our survey called "Moving the Needle" we asked asset managers three questions. Firstly, what progress have you made in the last 10 years in terms of ESG? The second question was on governance. There are so many bad actors in the system – how are you dealing with them? And third, is the proxy voting system working?

My assessment of the past 10 years is that, firstly, it is not becoming easier. Complexities, such as coal shares rising, have real implications for returns and what we need to do. Secondly, we need to think about unintended consequences. We put regulation in place, and we think we are going to end up with outcome A, but we end up with outcome B.

**Premal:** Firstly, the definitions of sustainability and stewardship are well understood in the investment community, but those who are less connected to the investment decision-making process add different connotations to those words. We need to close this gap.

More importantly, we need to ask whether we are here to maximise societal good, or investment returns, or both.

The next point is separating morality from investment decisions. We tend to attach personal views to matters such as diversity and, in SA, BEE or transformation.

The fourth point is that we should not have a simplistic view of ESG matters as these matters are complex. ESG can become mechanistic if we are not careful. This topic must be integrated with all the analysis that you would ordinarily take into account in making a decision for your retirement outcome.

Finally, there is a tendency to slice the timeframes in order to justify a view for or against ESG.


**"We are in a position of power, and with power comes responsibility, so I think we have no choice but to do a lot more." – Glenn Silverman, RisCura**

**2** **Kirshni: Is it fair to place this moral obligation on the investment community? And how does it align with the fiduciary obligation to the pensioner who expects her inflationary increase this year or who wants to ensure a proper retirement in five years' time?**

**Glenn:** We are in a position of power, and with power comes responsibility, so I think we have no choice but to do a lot more, and I think it is fair. But there are challenges. Clients want to know about returns, and they are also increasingly asking about matters relating to ESG. And when these conflict, you have a challenge.

**Angela:** Personal beliefs should be removed from the debate. It should be about investing in companies that will thrive in the future, the behaviour of companies that will thrive and being patient if a company has to invest in order to thrive.

**“Shutting down the company will have an incredibly good environmental outcome but a horrendous social outcome.” – Neville Chester, Coronation**

3

**Kirshni: Developed market countries are often critical of what is perceived as being non-compliant standards in developing countries, where circumstances are completely different. What is your view on the conflict between environmental and social matters?**

**Neville:** The easiest way to reduce emissions in South Africa would be to shut down Eskom but the reality is there will be massive social consequences. A less extreme example is Sasol. Shutting down the company will have an incredibly good environmental outcome but a horrendous social outcome.

We are managing money for various people. Some people might feel very strongly about environmental issues. We also manage money for mineworkers’ pension funds, who feel very strongly about continued employment and being able to feed their families. Ultimately, the asset owner needs to carefully consider their desired approach. And unfortunately, issues in the headlines receive the most attention. Clients need to understand the unintended consequences.

4

**Kirshni: An integrated approach to ESG is critical if you want to avoid unintended consequences. With the rise of passive investing, however, voting is outsourced to specialist voting providers, which materially disconnects the investment decision from the voting decision. Does that not reduce your ability to avoid unintended consequences?**

**Glenn:** Passive investors recognise that they own every stock in the index and therefore need to know a lot more. In order to know more, they have to outsource voting. Depending on who they outsource to, I don’t really have a problem. If it is a box-ticking exercise, it is problematic. The distinction between active and passive is an active manager holds fewer shares and focuses on more detail. Passive guys are going to take a much wider approach and, therefore, it is much more sectoral or industry focused rather than stock-specific. I can live with that.

5

**Kirshni: The raft of regulations that have come out over the course of the last two years introduce at least two challenges. One, it does not translate into measuring whether there has been any real-world impact and two, the regulators have now given us boxes to tick. Ticking these boxes introduce the risk of elements of greenwashing. What is your view?**

**Premal:** More information is always good because for markets to price risk, you need information. We learned that through Steinhoff, where there was fraudulent deception. If you extend that to companies that are saying they are doing more for the benefit of society, you are back at the question of whose morals are superior. More specificity around reporting requirements, for example, is always going to be beneficial in order to price for these risks.

**Glenn:** In my view, greenwashing is the word of the decade. It is a big, complex issue. It is going to be used and abused. I see enormous responsibility for us, the consultants, the asset allocators and the multi-managers to do a good job. Getting it right will not be easy at all. +

# Our approach to stewardship

Our approach to stewardship derives from our purpose of delivering superior long-term investment outcomes for our clients as responsible stewards of their capital. We recognise that companies that are managed on a sustainable basis are more likely to create value over the long term. Our analysis of the ability of each investment to create, sustain and protect value is, therefore, an integral part of our long-term valuation-driven investment philosophy.

This includes understanding the key ESG risks and opportunities facing each investment, how an entity is responding to these challenges, and driving meaningful change where required. Driving change is only possible through rigorous, company-specific research, which provides a thorough understanding of the issues and trade-offs. Our research informs our engagements and, as active managers, these engagements are key to our process.

## Effective active management

We believe that active engagement on material ESG issues is the most effective way to encourage companies to improve their practices and drive positive change. This approach aims to achieve a win-win outcome, where more responsible corporate behaviour leads to improved sustainability and, ultimately, higher long-term returns for our clients.

Conversely, we are not in favour of automatic divestment, which we believe is a short-term solution that removes our ability to significantly influence corporate behaviour, and potentially transfers ownership to less accountable parties. In a South African context, eliminating entire categories of potential investments would also exclude a large part of the investable market, including many businesses that contribute significantly to employment in the country.

Notwithstanding our view that active ownership has a greater positive impact on a company's practices than divestment, we have always excluded companies that appear on the OFAC and EU sanctions lists. In addition, we also apply a set of product- and conduct-based exclusions to a number of our global strategies to meet the needs of our clients.

## Our three-pronged approach

Our stewardship activities are underpinned by three core pillars: integration, engagement and collaboration. This three-pronged approach allows us to gain a holistic understanding of the underlying issues facing each company, how companies are responding to these issues, and advocating for change in a proactive and responsible manner.

**We believe that active engagement on material ESG issues is the most effective way to encourage companies to improve their practices and drive positive change.**

## THREE-PRONGED APPROACH TO ESG

### 1 INTEGRATION

**We integrate material ESG-related risks and opportunities into our investment decision-making process in order to account for these factors in assessing the long-term value of each of the companies in which we invest.**

All our analysts identify and explicitly model the impact of material ESG issues on long-term earnings where it is possible to do so, such as with carbon taxes. Where the impact cannot be explicitly modelled, it is incorporated into the multiple with which we value a company's earnings and/or margin of safety we require before purchasing a security. The result is that each fair-value estimate takes into account the long-term opportunities, costs and risks associated with the specific ESG challenges that a company is facing.

Analysts also identify key areas of concern to be addressed through further engagement.

### 2 ENGAGEMENT

**We engage with investee companies through informed dialogue about the environmental and social impact of its everyday operations and appropriate governance to drive long-term business success.**

Our analysts build and maintain constructive relationships with board members and management teams and regularly engage on a full range of issues. We develop specific engagement strategies for broad themes affecting an entire industry, as well as for individual companies based on a holistic knowledge of the key issues affecting that company and the industry and jurisdiction in which it operates.

Engagements help us to assess a company's response to its challenges and the degree to which the response will protect long-term value. These factors are integrated into our fair-value estimates. Meaningful engagement is therefore key to our stewardship approach as it informs integration of ESG issues and because it is an effective way of driving positive change.

### 3 COLLABORATION

**We collaborate with industry bodies and like-minded organisations to advocate for better policies and ESG-related practices.**

Collaborative engagements are critically important when addressing systemic issues, such as climate change. We also collaborate as a form of escalation where we believe that a combined effort will be more effective than individual engagement has been.

We also collaborate with industry bodies and like-minded organisations to advocate for better policies and to encourage improved ESG-related practices. We believe in proactively participating in shaping an operating environment that protects the long-term interests of asset owners and in support of a sustainable and diverse investment industry serving the best interests of the societies of which we are a part. We engage actively with key role players and policymakers to further these objectives. Our report on collaboration efforts during the year is on page 92.

Integration and engagement are mutually reinforcing in that company analysis drives engagement and engagement outcomes influence the analysis, with the goal of ultimately enhancing long-term shareholder value.

## How we integrate

The mining industry serves as a useful illustration of how we integrate ESG considerations into our company valuations, underscoring the nuances involved in forming a holistic view of a company.

As an extractive industry, mining companies have significant environmental and social impacts on the communities in which they operate. We believe that mining companies can contribute substantial value for society, not only in economic terms but also with regard to ESG considerations. Furthermore, we have found that listed miners are often amongst the better citizens in the South African market from an ESG perspective.

There is a tendency to paint the entire mining industry with a negative broad brush, whereas we believe they need to be assessed holistically. Miners are large employers offering above-average wages, primarily in small towns where employment options are scarce. These regions not only suffer from limited opportunities, but also face inadequate municipal service provisions and institutional instability. Mines are the primary employers in these regions and often shoulder responsibilities that should be fulfilled by the government. Some of the large miners in SA are funding accommodation and food for local police, and others have taken over management of municipal water management. Without these companies, many small- to medium-sized towns would face significant challenges.

**Reducing reliability on Eskom and local water should ultimately lead to a more sustainable business.**

Local procurement is also a huge focus, and increasingly, mining companies are investing in skills development in the communities where they operate to ensure a vibrant region beyond the life of the mine. On the environmental front, mining companies are at the forefront of renewable self-provision. They have the capability to not only reduce their own emissions but also alleviate the strain on the Eskom grid. In the publicly listed space, rehabilitation is strictly enforced, and many companies go above and beyond in maintaining large tracts of land to promote biodiversity.

Safety incidents and fatalities unfortunately persist as a concern in the mining industry, particularly in South Africa, where the deep-level nature of certain assets inherently creates a less safe environment than an open-pit mine. While the industry's safety record has, in the aggregate, improved meaningfully over time, there is still a long way to "zero harm". Importantly, there exists a variation in company performance, which is where our engagements are crucial.

In our view, Anglo American Platinum stands out as an exemplary performer from an ESG perspective, both within the mining sector and the market as a whole. They are aggressively pursuing a net zero strategy by 2040 with tangible milestones to be achieved by 2030. On top of this, they have established themselves as safety leaders, as is evident from their progress over time as well as the absolute number of safety incidents. While many companies are now following a similar trajectory, Anglo American Platinum is known as a pioneer in the South African market.

Amplats has embarked on advancing its net zero strategy alongside the greater Anglo American Group. In the medium term, several large-scale solar PV farms are moving through the project phase, and longer term, the group is considering a pumped hydro storage system and other measures. On the mines, Amplats is pushing a green agenda by developing, with a partner, a hydrogen fuel cell mining truck that runs off solar powered electricity. As they demonstrate the feasibility of this technology, they intend to implement it across the group and which should help further reduce emissions. In addition to emission reduction, Amplats also has a water reduction programme that aims to reduce the withdrawal of freshwater by 50% by 2030. Shareholders will benefit financially from these investments by having greater continuity of electricity supply as well as reduced electricity costs. Reducing reliability on Eskom and local water should ultimately lead to a more sustainable business. For these reasons, we apply an ESG premium to our fair value assessment of Amplats.

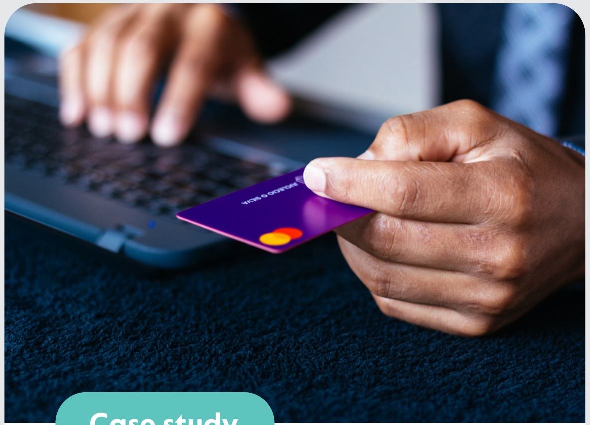
Conversely, we apply an ESG discount to Sibanye's valuation. Their safety record is a key contributor to the discount as the company has been a consistently poor performer on safety standards over time both in absolute terms and relative to industry peers, especially regarding fatalities.

A poor safety record can manifest itself in two primary manners, both of which warrant a valuation discount. Firstly, a poor safety record is a leading indicator of fatalities which come at a high cost of human life. The second is that safety incidents often lead to production stoppages which have an economic impact on the mine. As part of our ongoing assessment of miners' safety metrics, Sibanye has consistently been amongst the worst performers and thus, in our view, warrants a discount. (See our case study on mining safety on page 54.)

## Finding opportunities

ESG considerations do not only present risks but also offer investment opportunities, and the United Nations Sustainable Development Goals (SDGs) can be a powerful way to identify and map impactful companies.

The Brazilian digital bank **Nubank** is an example of a company with a strong investment case that is making a meaningful difference in addressing a number of the SDGs.



Case study

### *Nubank's impact on Latin America's banking sector*

| COMPANY | REGION |
|---|---|
| NUBANK | BRAZIL |
| **ACTION** | **OUTCOME** |
| INTEGRATION | POSITIVE SOCIAL IMPACT |

The Brazilian digital bank Nubank is an example of a bank that offers financial services to its customers through a mobile app and website. It was founded in 2013 with the goal of ending complexity in the financial system and giving people control of their finances. In Latin America, the banking sector is dominated by a small group of established financial institutions in each country, resulting in high concentration. According to the respective Central Banks, the five largest banks in each of Brazil, Mexico and Colombia control between 70% and 80% of all loans, deposits and overall banking revenue in their respective markets. These shares are significantly higher than those of most developed markets.

Given its highly concentrated nature, the Latin American banking sector has suffered from a lack of competition. This has resulted in less innovation, a more limited selection of products and services, higher fees and higher interest rates than in the more open and competitive markets of the United States and Europe.

Furthermore, incumbent banks have expansive and expensive branch distribution networks supported by large workforces and legacy systems. For example, each of the five incumbents in Brazil are reported to have between 2 000 and 5 000 branches and around 80 000 employees each. This has translated into a higher cost to serve, which has incentivised the banks to promote high-margin products and resulted in the exclusion of a large segment of the population from the financial system.

According to a study from the International Development Bank, one of the most cited reasons for not having a bank account is that opening and maintaining accounts are too expensive. The World Bank reported that in 2017, 30% of the Brazilian population aged 15 and above, amounting to 169 million people, did not possess a bank account. In Colombia and Mexico, the unbanked population in 2017 stood at 55% and 65% of the 40 million and 96 million people aged 15 and above, respectively. Together, these three countries account for 134 million unbanked adults. Nubank is rapidly changing this.

## Changing the financial services landscape

Given the fertile environment for disruption and a recently more supportive regulatory environment that fosters competition, we have seen a number of challenger banks emerge.

In Brazil, 44% of the adult population is now a Nubank customer. Colombia and Mexico are much newer markets but are trending at an even higher rate of adoption than Brazil. Nubank owes its success to its lower cost business model and an obsession with customer centricity.

Nubank's low-cost business model can be attributed to four factors. Firstly, they have a low cost of customer acquisition, as they prioritise providing strong customer experiences, which has resulted in an ability to acquire customers primarily through viral word-of-mouth and direct customer referrals. Secondly, by operating in a fully digital environment and by consistently eliminating and simplifying processes, their cost to serve customers is 85% lower than incumbent banks, according to their own estimates. Thirdly, by leveraging their advanced technology and proprietary data science to assess and reduce credit risk, they have been able to operate and scale efficiently and offer more competitive pricing to their customers. Lastly, their large and growing base of local currency deposits, originated 100% organically, has enabled them to extend increasing amounts of credit to their customers, creating a highly resilient, diversified and low-cost funding model that they can scale efficiently.

**According to a study from the International Development Bank, one of the most cited reasons for not having a bank account is that opening and maintaining accounts are too expensive.**

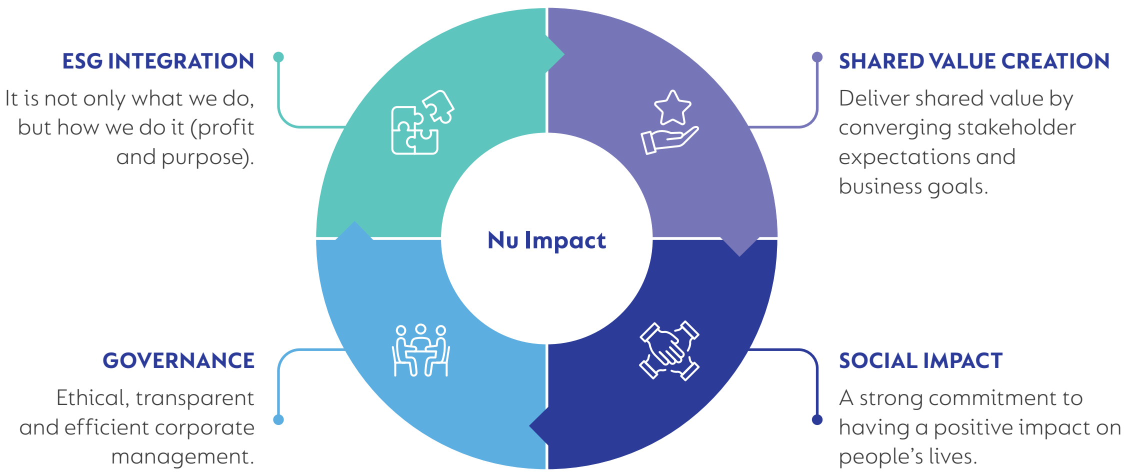
## Making a difference

Nubank strives to create shared value, especially for those who have traditionally been underserved or lacked access to financial services. The company operates in a virtuous circle, offering competitive fees and interest rates, resulting in superior products and customer experiences. This, in turn, attracts more customers to Nubank, generating additional scale and data insights that enable the company to lower its operational costs even further (Figure 4).

Nubank has an explicit focus on ESG and aims to integrate ESG into their decision-making processes. One of Nubank's stated objectives is to improve how financial services companies serve people. By the end of 2021, Nubank estimated that they provided the first credit card or bank account to approximately five million people. They also estimated that they had saved their customers over 113 million hours waiting in lines inside a bank branch or on hold with call centres and saved them over US$4.8 billion in banking fees.

**FIGURE 4:** CREATING SHARED VALUE

Connecting profit and purpose as a result of a high degree of ESG integration in all our decision-making processes.




*Source: Nubank*

Over 67% of Nubank's customers say they've gained more financial independence due to the use of the company's financial services. Additionally, 80% reported that they were able to overcome unforeseen financial issues as a result of access to Nubank's credit products. 77% of Nubank's customers state that Nubank has positively impacted their financial lives. Since 2018, 112 million users have consumed financial education content through their blog channel.

Nubank also aims to recruit and retain the best talent by hiring diverse teams. In 2021, 44% of Nubank's employees were female, and 61% of employees in leadership positions were part of underrepresented groups.

Furthermore, Nubank is committed to being a carbon neutral company, with all of its carbon emissions in 2020 offset through investments in social and environmental projects in Brazil and Mexico. Nubank's activities and objectives also align with several of the SDGs as defined by the United Nations, which are illustrated in Figure 5.

Nubank 's ambition is to transform the present and build a better future. The company has the potential to change the landscape in Latin America by offering both low-cost and high-quality financial services to large portions of the region's adult population, materially increasing overall socioeconomic development and the addressable market of financial services in the region.

**FIGURE 5:** MAPPING NUBANK'S ACTIVITIES WITH THE SDGs

| | |
|---|---|
| **Carbon neutral** | Nubank has committed to being carbon neutral since 2020. |
| **Financial services and literacy** | Nubank is committed to democratising acccess to financial services and literacy. |
| **Lasting impact** | Nubank wants to have a lasting, meaningful and positive impact on people's lives. |
| **Team diversity** | Nubank is committed to hiring diverse teams. |
| **Stakeholder value creation** | Nubank is committed to shared value creation between all stakeholders – shareholders, customers, employees and communities. |

*Source: Coronation*

## Shaping our sustainable impact: crafting the engagement agenda

Our engagement agenda is determined through a few key processes. Firstly, we adopt a stock level, bottom-up approach where our analysts evaluate a company's ESG standing and identify key areas of concern. Our objective is to drive meaningful change that we believe will benefit shareholders over the long term. Secondly, we actively engage with clients, both through direct interactions and surveys, in order to remain well-informed about key themes and priorities our underlying clients emphasise. Lastly, our membership of many working groups on ESG-related matters allows us access to the most recent developments and thinking in this regard. Based on a comprehensive understanding of the key issues affecting each company, as well as the industry and jurisdiction in which it operates, we then develop tailored engagement strategies.

### Integration of client feedback into priorities for the year

One of our key differentiators is our client-led approach. We have many touchpoints for clients to provide their input and influence our engagement agenda and our established formal feedback loops include:

- **An annual survey on client service and communications:** We ask clients to complete this survey, which looks at the communications, reporting, emails and events that we offer, and solicits feedback on our service, asking clients to assign priorities on their greatest external pressures.
- **Annual ESG survey:** We strongly encourage our clients to complete this annual survey where we seek views on the content of our engagement priorities for the year ahead.
- **Client meetings:** At our regular client meetings, we always welcome feedback and engagement to understand client needs and priorities at the time.

We asked clients to indicate their key ESG engagement priorities in our inaugural ESG survey at the end of 2022. Water security arose as the most concerning environmental issue for our clients, with 82% of respondents indicating that this should be prioritised by investors in 2023 (see Figure 6). Carbon emissions and energy efficiency (77%) and pollution and waste (82%) are other key concerns.

With regard to social matters, social unrest (74% of clients), health and safety (69%) and cyber security and data privacy (68%) are top of mind for our clients (Figure 7). The most pressing governance issue is shareholder rights (85%), which includes voting rights and entitlement to dividends (Figure 8).

An overview of our plans to address these and other issues that have been identified through our survey and rigorous research process are available on page 94. We believe that we have the responsibility to understand the implications of all issues that may affect the ability of a business to create long-term value, including ESG challenges, and we aim to drive meaningful change by addressing issues that we believe are material to a business.

## *ESG survey insight:*

### Which of the following topics do you think should be prioritised by investors in 2023?

**FIGURE 6:** ENGAGEMENT PRIORITIES: ENVIRONMENT (%)

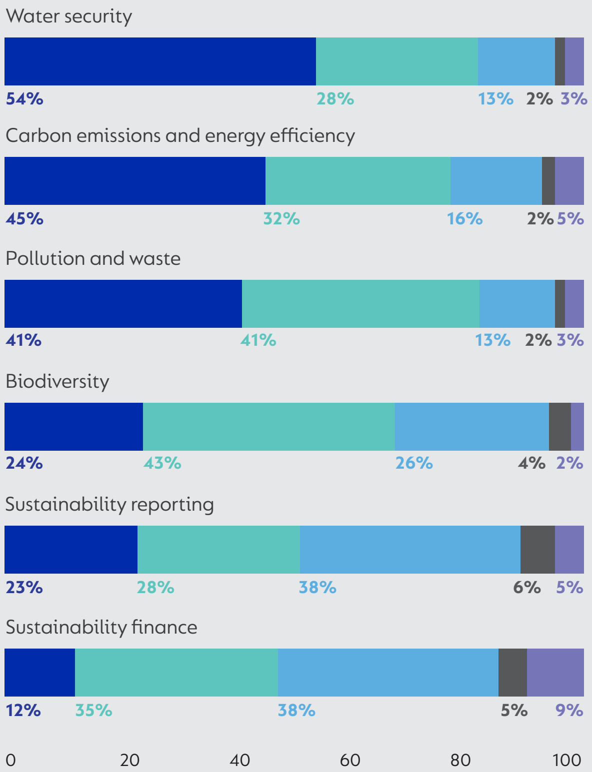



**FIGURE 7:** ENGAGEMENT PRIORITIES: SOCIAL (%)

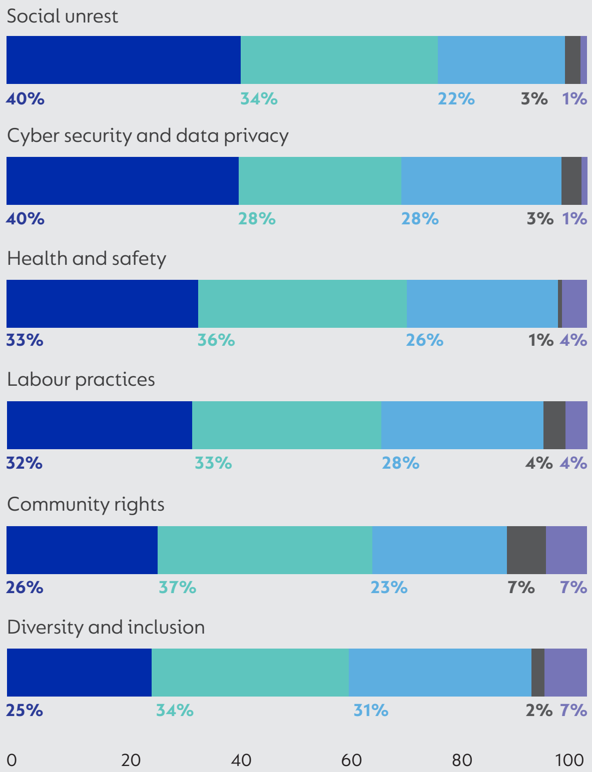
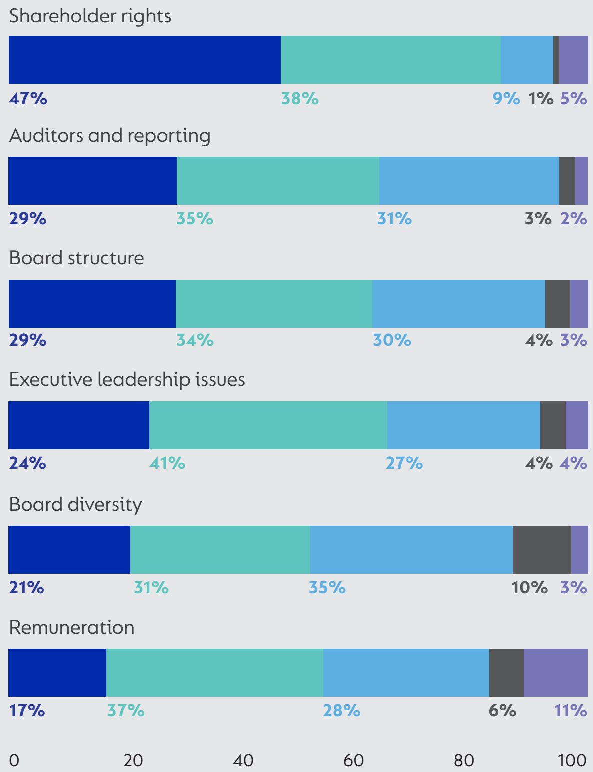



**FIGURE 8:** ENGAGEMENT PRIORITIES: GOVERNANCE (%)




■ Highest priority ■ Higher priority ■ Average priority ■ Lower priority ■ Lowest priority

## Stewardship resources

***We believe it is imperative that ESG analysis remains within the remit of the investment team, as our analysts and portfolio managers are best placed to understand the nuances and implications of company-specific ESG factors and how they affect each individual company. By choosing not to establish a separate sustainability-focused team, we ensure that sustainability considerations are fully integrated and aligned to our fundamental, research-driven investment process. Coronation has a large and well-resourced investment team which executes on our stewardship activities. Senior staff members and executives are responsible for directing our sustainability work.***

**CIO and senior portfolio managers:** Our CIO and senior portfolio managers are responsible for setting our sustainability agenda and for guiding and overseeing all ESG activities. They are directly involved in all the thematic projects that we undertake, as well as the overall sustainability-related research agenda. They also oversee all proxy voting decisions especially ones that may be considered contentious.

**Analysts:** All Coronation analysts are responsible for identifying and integrating ESG factors into their investment analysis and assessments of a company's long-term fair value. They are further responsible, alongside senior team members, for driving engagement with companies on material issues and for making their recommendations on proxy votes. All initiation reports include key ESG considerations, and analysts update their valuations as new information becomes available.

**ESG analyst:** Our dedicated ESG analyst supports the investment team's integration, engagement and collaboration efforts by assisting with in-depth research where additional assistance is required. Our analyst conducts research on the latest ESG topics and ensures that our investment team is aligned with the latest developments. Furthermore, our analyst participates in industry activities and brings industry initiatives to the attention of senior decision-makers.

**Sustainability Committee (SusCom):** The SusCom comprises of the Chief Investment Officer, Global Head of Institutional Business, Global Head of Risk and Compliance, Company General Counsel and a senior portfolio managers. The SusCom is responsible for formal governance and oversight of the design, implementation, monitoring and reporting of Coronation's approach to the integration of ESG factors into its investment process, as well as associated alignment with codes, standards, disclosure obligations and regulatory requirements.

**Global Head of Institutional Business:** Our Global Head of Institutional Business ensures that the business stays informed and responsive to the ever-evolving sustainable investment landscape. This is accomplished through active engagement with clients to understand their changing needs and adapt our processes accordingly. Additionally, we are active participants in global sustainability initiatives that we believe are meaningful and aligned to our overall sustainability approach. Furthermore, we emphasise clear and effective communication with clients to ensure they understand our sustainability approach and related activities.

**Product development actuary:** Coronation's product development actuary is responsible for ensuring that our product offering meets the needs of our clients on an ongoing basis. This includes ensuring that product design and mandate limits are aligned to Coronation's sustainability approach and applicable regulations.

**Global Head of Risk and Compliance:** Our Global Head of Risk and Compliance is responsible for monitoring local and international regulatory developments and ensuring that we adopt and comply with all relevant legislation.

**Global Head of Operations:** Our Global Head of Operations is responsible for supporting the investment and client-facing teams by ensuring that we have the operational capability to execute on our sustainability strategy.

## *How we engage*

### Who

We engage with management, board members and industry experts of the companies in which we invest, as well as those we do not invest in where we believe that appropriate action will improve the attractiveness of the company as an investment.

### How

We engage during in-person or virtual meetings, emails, formal letters and telephone calls. As a general principle, we find that constructive, behind-the-scenes engagement is far more productive than debating issues at a public AGM or through the press.

### Topics

Our engagements focus on the most material business strategy and ESG practices that need to be addressed. We often address a number of issues per engagement.

### Nature of discussion

We engage through informed dialogue. Our role is not to get involved in the day-to-day management of the business.

### Frequency

We are not driven by the need to demonstrate activity on every issue. Instead, frequency is determined by the nature and importance of the issue.

### Measure of success

We measure success by the extent to which our activities drive meaningful change. Depending on the situation and context, an effective company response could be providing us with more information or clarification on an issue, accepting the validity of our concerns, agreeing to make modifications to its business or policies, or making other commitments to address the issue.

### Timeframe

In general, engagements on specific issues are multi-year endeavours. Our engagement journey with the container lessor **Textainer**, which started in 2019, serves as a compelling illustration of how engagements often span several years and how objectives are achieved with incremental progress.


Case study

## *Steady pressure results in incremental progress*

| COMPANY | REGION |
|---|---|
| TEXTAINER | SOUTH AFRICA |

| ACTION | OUTCOME |
|---|---|
| LETTERS AND MEETINGS | POSITIVE AND ONGOING |

Textainer, one of the world's largest container lessors, is inwardly listed on the JSE, but subject to less onerous disclosure and governance requirements than the typical South African company as it is incorporated in Bermuda and registered as a foreign issuer on the New York Stock Exchange (NYSE). Together with the board and management, we have come a long way towards implementing global best practice, even though the company is not strictly obliged to apply it.

A good relationship has helped in aligning all parties to work towards steady progress in the right direction. As reported last year, the company has improved its disclosure practices around issues such as remuneration and climate impact. Significant progress has also been made towards board renewal, with three new independent directors having been appointed in 2020 and 2021, and another two independent directors elected in 2022.

The anti-takeover provisions in Textainer's by-laws remain an important outstanding issue. These provisions, colloquially known as the "poison pill", would make it difficult for prospective acquirers to make an offer for the company by placing a disproportionate degree of power in the hands of the board. We believe shareholders should have the right to decide whether to accept or reject an offer for their shares should such an offer be made.

### Action

In last year's report, we detailed the progress made towards getting the anti-takeover provisions removed from Textainer's by-laws. As a result of our interactions over time, the board approved the removal of the by-law and a resolution to remove the offending clauses was duly tabled at the AGM in May 2022.

To our surprise and that of the company, shareholder votes did not reach the super-majority required for the removal of the provisions. A post-mortem conducted with the company suggested that there had been considerable movement in the shareholder base, and recently joined shareholders did not fully understand the implications of the resolution on which they were asked to vote. In a company with a diverse shareholder base, comprising a significant component of retail investors, educating shareholders and communicating with them will remain ongoing challenges.

In a subsequent interaction with the chair and management, they confirmed that the removal of the provisions will again be tabled at the AGM in May 2023.

### Outcome

Textainer has made significant strides towards global best practice on a range of ESG factors. Further progress is still required, but the company has demonstrated a commitment to remain on this journey. Board renewal has been one of our previous focus areas and it is pleasing that the changes for which we have been advocating have now substantially been achieved, with several credible new appointments. The company continues to engage extensively with us and with other shareholders.

The removal of the anti-takeover provisions will remain on the engagement agenda and progress in this regard is encouraging.

**A good relationship has helped in aligning all parties to work towards steady progress in the right direction.**

## Proxy voting

Voting is an important way in which we exercise our ownership rights. Coronation's Proxy Voting Policy outlines the principles that determine how we will vote on company resolutions. We consider and vote on all proxies for all companies in which we hold shares on behalf of our clients, regardless of the size of these holdings.

As a result of our engagement approach, we often engage extensively with boards and management teams well ahead of any votes, as we want to ensure that our concerns are dealt with before the vote. We believe that exercising a proxy without prior engagement or forewarning to the company is contrary to the company's and, therefore, our investors' best interests. Only when a company fails to consider or acknowledge our suggestions, do we vote against resolutions. When we vote against or abstain from voting on a particular resolution, the vote is followed up by a letter or telephone call to management explaining our reasons.

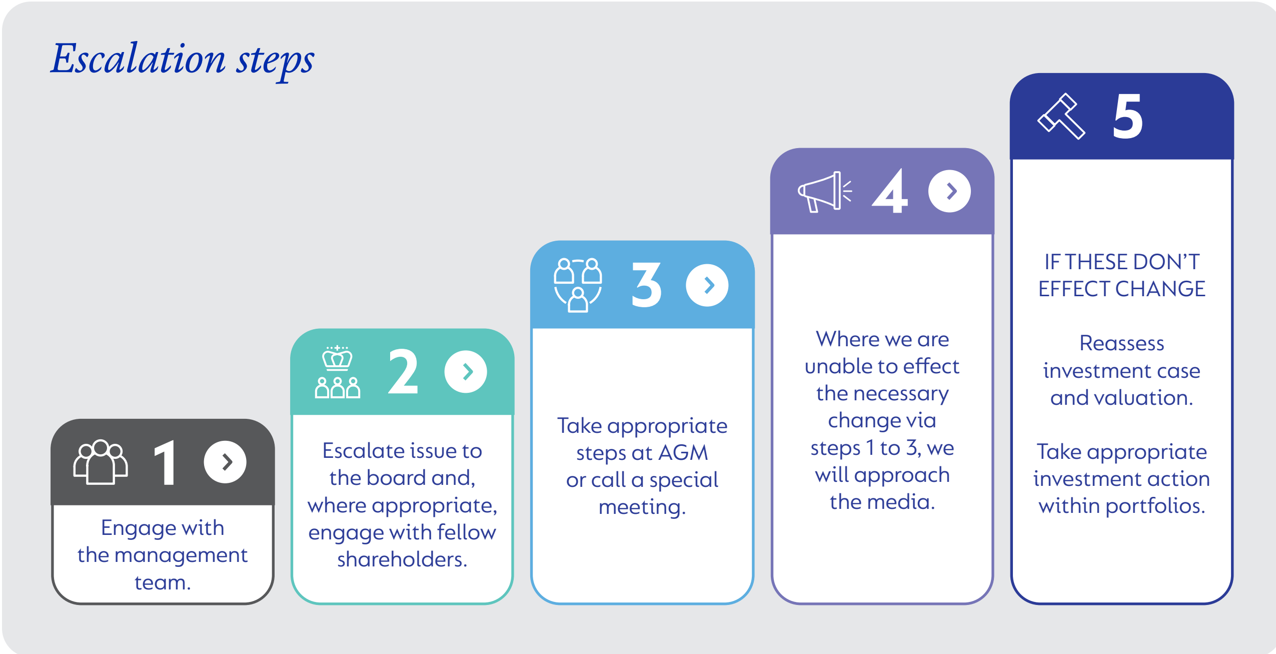
Unusual or contentious issues, such as hostile takeovers or proposals not considered to be in the interests of shareholders, must be discussed with the CIO and other senior investment managers. In addition to the proprietary research by our analysts, we also access the research and voting recommendations provided by a large third-party proxy voting advisor. Our analysts review this data to gain additional information on complex votes so that we are aware when we are taking views that are not in line with the broader market and are comfortable with the rationale for doing so.

**Securities lending**

When stocks are on loan, the voting rights for those shares are also transferred as part of the lending arrangement. Securities lending thus limits our ability to exercise proper long-term stewardship of these investments. We do not engage in securities lending on the portfolios that we manage, but we do permit segregated clients to engage in securities lending on their own behalf subject to reasonable restrictions such as setting a threshold on how many shares can be on loan at a given time. This allows us to exercise their shareholder voting rights in relation to that portion of the shares that may not be lent out. In certain circumstances, clients reserve the right to recall securities on loan prior to AGMs, enabling us to include the recalled shares in our voting.

**Client-specific voting policies**

We apply bespoke voting policies for segregated clients who prefer this. These clients either provide us with their own proxy voting guidelines to which we adhere, or they outsource their voting to a specialist company. However, given our active management approach, we prefer to retain the voting rights of shares held on behalf of clients, as it allows us to apply the full weight of our ownership to our voting powers, with the goal of enhancing long-term value for our clients.




**Shareholder proposals for a company to table a resolution**

There are instances where an individual shareholder or groups of shareholders propose that a company table a resolution for approval by its shareholders. We consider such shareholder proposals and generally support those that are likely to materially enhance long-term company value, reduce financial and/or ESG risks or improve disclosure practices. However, active engagement and the growing propensity of corporate directors to seek input from large shareholders have reduced the need for such proposals to be put forward.

## Escalation

Our preference is to drive meaningful change through constructive dialogue informed by rigorous research. However, when we are not able to achieve the desired results on important issues, we recognise our responsibility to escalate our engagement efforts in order to achieve better alignment with shareholders and other stakeholders. Our approach to escalation may differ across markets as our access to management teams and boards differ across geographies. Depending on the context, we will use all means available to us, such as meeting with board members, collaborating with other shareholders, exercising our voting powers at AGMs, calling special meetings, and, if need be, escalating issues into the public arena via the media. If our best efforts are unsuccessful, we will reassess our investment case and take the appropriate investment action in our portfolios.

Our engagements with Naspers/Prosus (case study on page 47) is an example of escalation, where our meetings with board members as well as our votes against their remuneration policy eventually contributed to positive change at the company.

## Governance and oversight

In order to ensure that our stewardship approach is implemented effectively, we have adopted a set of internal policies that establish our approach, required processes and oversight responsibilities. Our Stewardship and Sustainable Investing Policy sets the guiding principles behind our stewardship approach, and our Proxy Voting Policy outlines the principles that we apply when voting on company resolutions. Coronation's Chief Investment Officer is responsible for implementation of these policies. Policies are reviewed periodically, and our Board of Directors is responsible for final review and approval.

Our proxy voting process includes controls that provide assurance that corporate events and proxy voting are actioned, processed and recorded in an accurate and timely manner. These controls are subject to external assurance by our Service Auditor.

Our Sustainability Committee (SusCom) is responsible for formal governance and oversight. While ESG considerations are well-established and incorporated into the investment process, increasing ESG-related regulations, industry and market developments necessitated the establishment of a formal SusCom to consolidate and provide oversight over ESG processes and decisions. At the SusCom meeting in November 2022, the SusCom charter was adopted and additional topics discussed included the periodic review of Coronation's Stewardship and Sustainable Investing and Proxy Voting policies, a review of the results of our ESG client survey as well as a regulatory review of matters affecting our global and local product range. +

# Fixed income stewardship

Our stewardship responsibilities extend to all the asset classes that we manage on behalf of our clients and, as such, we follow the same three-pronged approach of integration, engagement and collaboration within our fixed income investment process. While the risk/return profiles of these assets differ from more growth-oriented asset classes such as equities, the principles that underpin our stewardship approach are universally applicable across all asset classes.

## Integration

Investment in fixed income instruments is anchored by our expectations of having our capital returned and interest payments made timeously. Hence, we focus our research efforts on understanding the primary factors that could result in permanent capital loss associated with these instruments. Our goal is to ensure that the credit spread adequately compensates us for the risks involved with the specific investment.

Similar to equities, our detailed proprietary research on the issuer and structure of fixed income instruments enables us to gain a complete understanding of the material ESG risks, which in turn helps us determine an appropriate risk-adjusted fair value for the instrument.

Our research entails rigorous interrogation and analysis of company, sector-specific and material ESG factors. Engagement with companies also helps to identify material risks or opportunities, and we assess the potential impact of these risks on an issuer's cash flow and balance sheet. Additionally, we consider an issuer's willingness to engage on various issues and to address material concerns where identified. This process allows us to determine a fair value for all instruments in our investment universe. We maintain ongoing analysis throughout the life of an instrument, allowing us to appropriately manage our portfolios at all times. Additional risk management is embedded into the construction of fixed income portfolios through diversification and by limiting exposures to individual issuers.

Corporate governance failures have historically contributed to the bulk of defaults in the South African market. Conversely, while environmental and social risks are lower-probability events, their effects can be severe, and single events can affect the creditworthiness of multiple issuers simultaneously.

It is also important to recognise that many ESG-related risks that are expected to be long-term risks could materialise during the shorter term of an investment. These risks need to be considered when assessing the predictability and certainty of an issuer's ability to generate sufficient future cash flow to meet its debt obligations.

ESG-related risks can also impact the duration and yield curve considerations for fixed income portfolios.

**Engagement with companies also helps to identify material risks or opportunities, and we assess the potential impact of these risks on an issuer's cash flow and balance sheet.**

Systemic events can have significant macro-economic implications, including the need for government intervention. The monetary and fiscal response to these events affects the level of interest rates and hence the level of government bond pricing.

## *Investing in alternative energy solutions*

Extensive power cuts in South Africa significantly impacted economic growth and corporate profitability over the past year. While some businesses have managed to mitigate the impact of the crisis by investing in alternative forms of energy generation, others have struggled with this. As a result, higher levels of corporate credit risk have emerged. However, the impact on corporates has not been uniform, and we have dedicated substantial time to understanding the varying degrees to which industries have been affected. This allows us to better assess the impact on specific credit names that we analyse.

Furthermore, it is important to note that while in the short term there will be financial stress, this crisis will also catalyse long-term benefits. Many corporates have already started investing in alternative energy solutions, the vast majority of which are renewable in nature. Over the long term, this will undoubtedly have a positive impact on their environmental footprints, as well as force a greater awareness on their level of energy intensity.

## Engagement

Engagement has been a long-standing part of our fixed income investment process. We have large ownership stakes in many companies and, over the years, have developed relationships with company management and directors. We use these relationships to proactively address ESG issues that arise and that we feel may be relevant to the creditworthiness of an issuer. These engagements with issuers allow us to evaluate the strategic direction of the company and give us an understanding of how it will likely address future risks.

For any new issuance, we need to carefully evaluate the terms of potential transactions. In addition to our in-house legal expertise, we retain an external legal advisory firm for in-depth analysis where needed. This means that we can play a constructive role in helping shape some of the contractual agreements by, for example, ensuring that covenants include the metrics that we deem to be necessary, and setting disclosure obligations.

Given the asymmetric return profile of investing in fixed income assets, credit selection is primarily focused on mitigating downside risk, and our engagement efforts are aimed at reducing these risks and influencing positive impact where possible. As fixed income investors, our ability to effect material changes is limited by the lack of voting rights associated with fixed income instruments. Our options are thus to limit the horizon of our investment or exit the investment if we perceive the underlying risks to have materially increased.

In South Africa, owing to our size, we continue to engage with large issuers even if we do not hold exposure to their debt. One reason for this is that ESG factors can affect other investment returns indirectly. This was recently evidenced by the Eskom debt solution which was announced in the February 2023 Budget. After years of balance sheet stress, it became necessary for the government to inject R264 billion into the entity (in various formats) to stabilise the balance sheet. While positive for Eskom, this has significant implications for the country's fiscal trajectory.

## Green bonds and SLBs

Coronation was instrumental in structuring the first green bond issuance on the JSE in 2017, which was issued by Growthpoint Properties after the JSE opened a green bond section on the exchange. We assisted Growthpoint in defining how the proceeds would be used, establishing the required assurances from the Green Building Council of South Africa and the auditors for the required property management system, and setting the annual reporting commitments on the various green components of the buildings for which the proceeds were being used.

In 2022, we were involved when Netcare structured a sustainability-linked bond (SLB). The difference between green bonds and sustainability-linked bonds are that green bonds are designed to finance environmentally friendly projects and the proceeds raised from green bonds are earmarked for these specific projects. Sustainability-linked bonds are not tied to specific green projects but linked to broader sustainability objectives of the issuer, and the use of the proceeds is not limited to green projects. The issuer commits to achieving predetermined sustainability targets within a certain timeframe. If the issuer fails to meet the targets, the interest payable on the bond increases.


As part of a select group of investors, we worked with Netcare to develop a set of targets that would allow them to finance their energy and water reduction ambitions on more favourable terms (should their targets be met). Our direct involvement in the process and constructive feedback meant that we were able to anchor R250 million of the R1 billion placement. Targets were set for total electricity consumption by source, additional renewable energy procured, reduction of scope 2 GHG emissions and total volume of greywater recycled. Netcare met their first set of sustainability targets within the specified period, and hence the spread stepped down by 10 basis points in March 2023.

Unfortunately, the SLB market has not been immune to the slowdown in credit issuance on the back of lower economic growth in South Africa. However, over the last year we were still involved in the limited activity, with our investment into an SLB issued by Pan African Resources. +

# Engagement and proxy voting

**70%**
**ENGAGEMENTS THAT REACHED RESOLUTION RESULTED IN A POSITIVE OUTCOME**

**24**
**ENGAGEMENT THEMES**

**6 902**
**TOTAL NUMBER OF PROXY VOTES CAST**

**251**
**TOTAL NUMBER OF ENGAGEMENTS**

Our commitment to responsible stewardship of our clients' assets once again guided our engagement agenda and voting activities in 2022. Rigorous bottom-up research and careful consideration of relevant issues for all our stakeholders informed our engagement priorities. As our investment process fully integrates ESG considerations, each analyst was responsible for identifying key areas of concern at an individual company and sector basis and for driving the change we believe would be most beneficial for all stakeholders in the long run. We developed specific engagement strategies based on an understanding of the key issues affecting each company or issuer.

Our voting data reflects our belief that proactive engagement is preferable to formulaic voting at annual general meetings (AGMs). We engaged with boards and management teams well ahead of any votes and because, in some cases, our concerns were addressed before the vote, this affected the number of opposing votes at AGMs. We believe that this is a far more constructive approach over the long term.

We continuously refine our stewardship reporting to improve the quality of information provided. We aim to provide meaningful information that will assist readers in better understanding and disaggregating our engagements over the period. We have therefore enhanced our disclosure by refining the categories used to classify the different types of engagements we undertake. In this report, we now classify engagements into the following categories:

- Engagement for change: a purposeful, targeted engagement with a specific company with the goal of encouraging change (Figure 12). The outcomes of these engagements for change are further classified as positive, ongoing and negative (Figure 13).
- Information gathering: when the purpose of the engagement was to collect information to aid our understanding of the company's ESG risks and opportunities.
- Voting engagements: discussion with an investee company on a proposed voting decision.

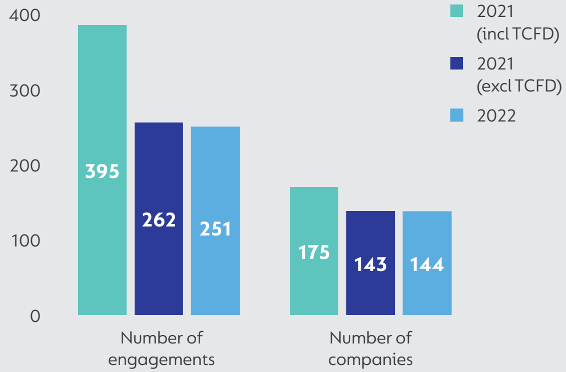
Furthermore, we continue to adopt emerging industry practices where relevant and have therefore introduced a separate engagement category relating to "Strategy, risk management and reporting" matters (Figure 10), in line with the recommendations of the Investment Consultants Sustainability Working Group.

## Our engagements in 2022

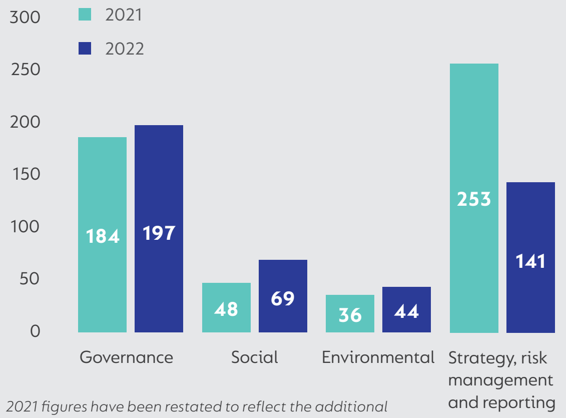
In 2022, we held 251 engagements with 144 companies covering over 24 themes (Figure 9). Our engagements spanned a broad spread of topics across environmental (10%), social (15%), governance (44%) and strategy-related matters (31%), as shown in Figure 11.

# *2022 Engagement record*

## **FIGURE 9:** TOTAL ENGAGEMENTS IN 2022

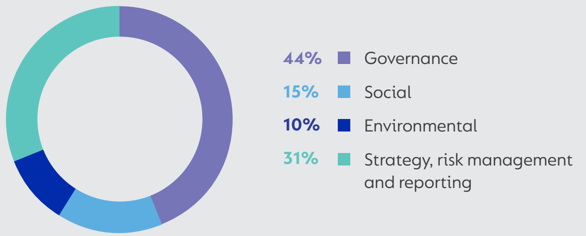



## **FIGURE 10:** ENGAGEMENT LEVELS PER TOPIC[7]

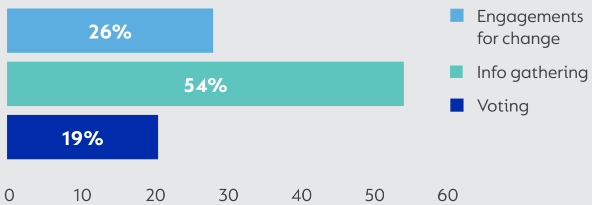



*2021 figures have been restated to reflect the additional category of Strategy, risk management and reporting*

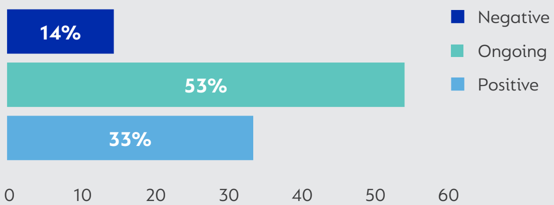
## **FIGURE 11:** CATEGORY OF ENGAGEMENTS IN 2022




## **FIGURE 12:** ALL ENGAGEMENTS

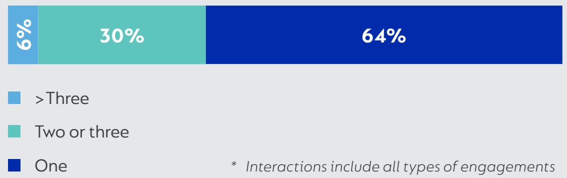



## **FIGURE 13:** ENGAGEMENTS FOR CHANGE



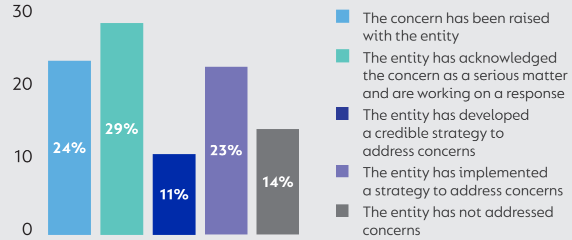

*These relate to the outcomes of engagements that had specific change objectives and were therefore classified as "Engagements for change"*

## **FIGURE 14:** NUMBER OF INTERACTIONS* WITH A COMPANY

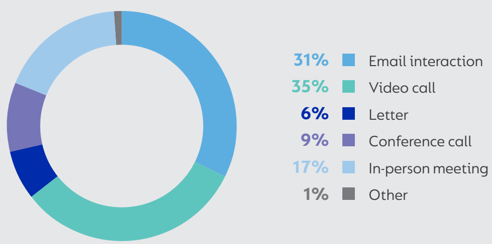



** Interactions include all types of engagements*

## **FIGURE 15:** ENGAGEMENT PROGRESS




## **FIGURE 16:** ENGAGEMENT CHANNEL




[7] *In line with the Investment Consultants Sustainability Working Group, a global collaborative effort by leading consultants, we have improved our reporting by including Strategy, risk management and reporting as a new engagement category. Capital structure, business strategy and risk management, which were previously reported in the Governance category, as well as sustainable finance and sustainability reporting (previously reported in the Environmental category) are now reported in this new category*

Our engagements include both stock-specific matters as well as thematic engagements. Stock-specific engagements are based on detailed research on an issue that concerns an individual company and, in these cases, our engagement strategies are tailored to address the specific concerns with the company in question. When an issue affects multiple sectors, companies and/or regions, thematic engagements are powerful tools to affect change at scale. Our thematic engagement strategies are built on in-depth research on the specific theme.

In 2022, our primary thematic priority was our South African mining safety project. Mining safety was identified as a potentially significant issue affecting several companies when we noticed that fatality rates in South African mines had increased by a considerable 45% over the period 2019 to 2021. A full description of the project and outcomes are discussed in the case study on page 54.

Thematic engagements can affect the total number of engagements drastically year-on-year, depending on the sector or market targeted. While mining is a significant sector in the South African listed space and mining safety incidents have far-reaching consequences, this theme involved only one sector of the South African market. In comparison, in 2021, our thematic project involved encouraging investee companies to adopt reporting in line with the requirements of the TCFD. This covered a large number of JSE-listed companies, spanning 133 engagements in 2021 and therefore driving a large volume of engagements in that year.

Overall activity levels in 2022 were lower than in 2021, primarily due to a large volume of TCFD-related engagements that took place in 2021 (Figure 9). Importantly, we measure success by the relevance and quality of our engagements as well as the extent to which our activities drive meaningful change, and not by the number of engagements held.

As our interactions with companies typically involve complex matters, our engagements are often multi-year endeavors that require ongoing dialogue. 53% of our engagements with change objectives are ongoing (Figure 13) and we are committed to driving these matters to resolution. For 29% of these engagements, the entity has acknowledged the concern as a serious matter that needs to be addressed (Figure 15). For those engagements that did reach a resolution in 2022, 70% resulted in positive outcomes.

For each of our engagements, we consider and engage with companies through the channel that we believe to be most effective given the purpose of the engagement and the desired outcome. In 2022, these included emails, formal letters, virtual and in-person meetings, and conference calls (Figure 16).

## Our voting record in 2022

In 2022 we voted on 6 902 resolutions at 559 meetings (Figure 17). Being a meaningful manager in South Africa means we cast a significant number of votes in this market (Figure 22).

In our experience, constructive, pre-emptive engagement is preferable to formulaic voting, as this allows for the matter to be dealt with and possibly resolved before the vote. However, where matters are unresolved or not resolved to satisfaction, we will cast a dissenting vote. Of the 559 meetings at which we voted, we cast at least one dissenting vote at 256 (46%) of these meetings (Figure 17). The number of meetings at which we cast dissenting votes varied by region, with the largest percentage of dissenting votes cast in respect of South African companies (50% of meetings).

Most dissenting votes were cast on matters relating to board structure (36%), followed by capital structure (32%) (Figure 19).

Analysing the percentage of dissenting votes for each category can provide valuable insights into the areas that required our attention over the year. For instance, business strategy and risk management only received 3% of total dissenting votes (as shown in Figure 19).

## *2022 Proxy voting record*

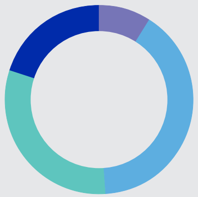
### **FIGURE 17:** 2022 PROXY VOTING RECORDS

**DURING THE YEAR, WE VOTED ON**

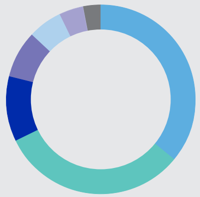
**6 902** Resolutions **at** **559** Meetings

**HOW WE VOTED:**

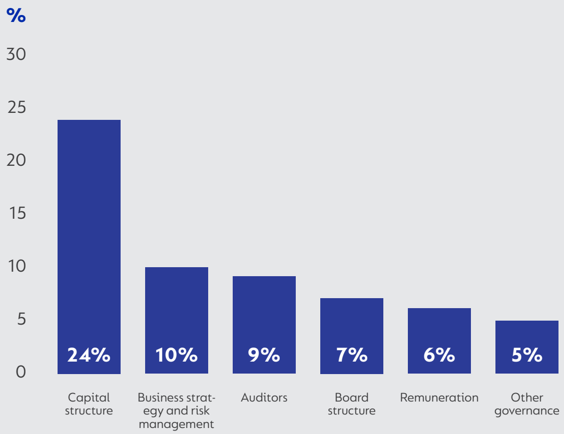

### **FIGURE 18:** RESOLUTIONS BY REGION



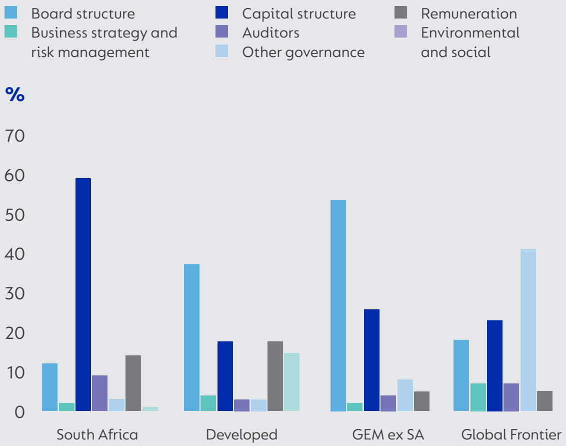

### **FIGURE 19:** BREAKDOWN OF DISSENTING VOTES




### **FIGURE 20:** DISSENTING VOTES AS A PERCENTAGE OF TOTAL VOTES PER TOPIC




### **FIGURE 21:** DISSENTING VOTES ON A PER RESOLUTION BASIS BY REGION




However, it is important to note that the number of resolutions on business strategy is typically low in any given year. When considering the percentage of dissenting votes in relation to all votes cast on business strategy, it amounted to 10%, the second highest of all categories (as illustrated in Figure 20). Similarly, while only 9% of dissenting votes were audit-related, it was the third highest in terms of the percentage of dissenting votes. The topic that garnered the most dissenting votes as a percentage of total votes cast was issues relating to capital structure.

The topics that received the most dissenting votes varied across regions. In South Africa, issues relating to capital structure received the most dissenting votes. As in prior years, a large proportion of these related to requests by boards for blanket authorities to issue shares generally and unconditionally (Figure 22).

In other emerging markets, the bulk of dissenting votes were against board-related proposals, particularly in Russia and Brazil, where the specific workings of each of these countries' voting systems result in a large number of dissenting votes being cast when candidates are elected to the board.

In our Frontier Market portfolios, a large proportion of our dissenting votes were generally in respect of matters where the company provided insufficient information in relation to an issue to enable us to make an informed vote. In addition, a large number of votes were against requests for blanket authority to approve any additional matters that may only be raised at an AGM.

# *Voting statistics per region*

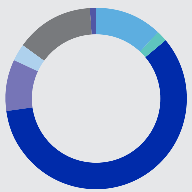
## **FIGURE 22:** SOUTH AFRICA

In 2022, we made voting recommendations on 2 729 resolutions at 180 meetings.

**HOW WE VOTED:**

| Meetings with dissenting votes | Meetings voted FOR all resolutions |
|---|---|
| 51% | 49% |

**BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS**



- 59% Capital structure
- 14% Remuneration
- 12% Board structure
- 9% Auditors
- 3% Other governance
- 2% Business strategy and risk management
- 1% Environmental and Social

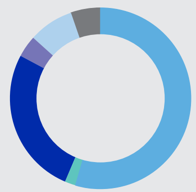
## **FIGURE 23:** EMERGING MARKETS (EX SOUTH AFRICA)

In 2022, we made voting recommendations on 1 411 resolutions at 151 meetings.

**HOW WE VOTED:**

| Meetings with dissenting votes | Meetings voted FOR all resolutions |
|---|---|
| 44% | 56% |

**BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS**



- 54% Board structure
- 26% Capital structure
- 8% Other governance
- 5% Auditors
- 5% Remuneration
- 2% Business strategy and risk management

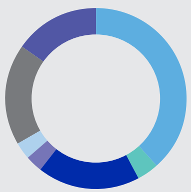
## **FIGURE 24:** DEVELOPED MARKETS

In 2022, we made voting recommendations on 2 123 resolutions at 155 meetings.

**HOW WE VOTED:**

| Meetings with dissenting votes | Meetings voted FOR all resolutions |
|---|---|
| 43% | 57% |

**BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS**



- 38% Board structure
- 18% Capital structure
- 18% Remuneration
- 15% Environmental and social
- 5% Business strategy and risk management
- 3% Auditors
- 3% Other governance

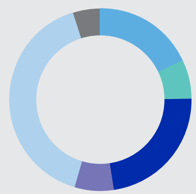
## **FIGURE 25:** GLOBAL FRONTIER MARKETS

In 2022, we made voting recommendations on 639 resolutions at 73 meetings.

**HOW WE VOTED:**

| Meetings with dissenting votes | Meetings voted FOR all resolutions |
|---|---|
| 43% | 57% |

**BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS**



- 41% Other governance
- 23% Capital structure
- 18% Board structure
- 7% Auditors
- 6% Business strategy and risk management
- 5% Remuneration

## *Identifying most significant votes*

While we ensure that all proxy votes are appropriately considered and cast in line with our proxy voting principles and policies, in any particular year there will be votes that we consider to be significant.

For example, a significant vote may be one which is part of a broader escalation strategy with a company, driven by either an internal thematic objective, or regarding an issue that has attracted significant levels of shareholder and/or public interest. In addition, there may be material matters where we decide to vote against the recommendations of proxy advisors or management after carefully considering the facts at our disposal.

### Africa Oil Corporation

**Proposal:** Approval of Auditors
**Our vote:** Against

Africa Oil Corporation is a holding within our Frontier Markets portfolio. Our audit firm rotation policy requires that we do not support audit firms serving a term longer than 10 years, and accordingly, we voted against the resolution. This was a significant vote because it went against the recommendations of a large third-party proxy voting advisor, albeit consistent with our audit rotation policy.

### Naspers Ltd and Prosus

**Proposal:** Approve Remuneration Policy
**Our vote:** For

Naspers/Prosus are significant holdings across a number of our client portfolios. The case study on page 47 sets out the engagement strategy that we have followed with these companies over multiple years and the progress that has been made. This includes the previous concerns that we had in relation to their remuneration policy (which have been addressed over time), such as their use of long-dated incentive options and a lack of performance targets for non-Tencent assets. As a result of the improvements that were made to the remuneration policy, we supported the 2023 remuneration vote.

### Anglo American PLC

**Proposal:** Approve Climate Change Report
**Our vote:** For

One of our main priorities for engagement is sustainability reporting, which involves assessing the quality of companies' disclosures, the credibility of their plans to reduce emissions, and their progress in this regard. Anglo American's Climate Change Report sets out clear pathways to carbon neutral operations by 2040 and the company's ambition to reduce scope 3 emissions by 50%, also by 2040. The company has further committed to submitting its Climate Change Report for shareholder approval every three years. Having reviewed the report, we felt that support was warranted and accordingly voted in favour of the resolution.

### Seplat Petroleum Company

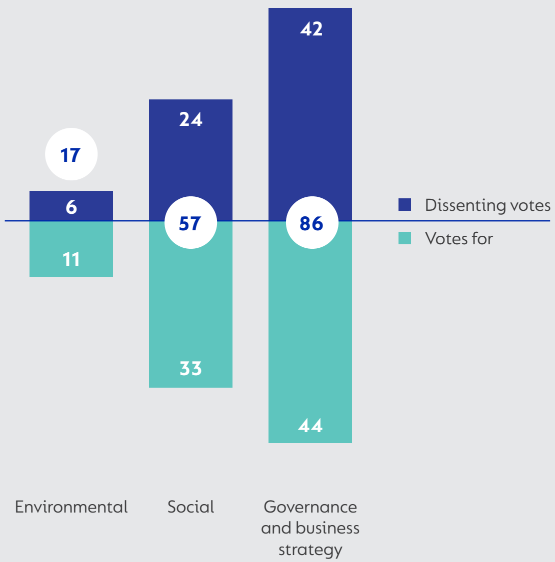
**Proposal:** Election of Directors
**Our vote:** Against

We voted against the re-election of two directors who had previously approved a transaction that we felt was inappropriate. While we generally caution against the practice of using the directors' re-election vote as an escalation tool without careful consideration of the potential consequences, we felt that it was appropriate in this instance.

## Shareholder proposals

In 2022 we voted on 160 shareholder proposals, for which we voted in favour of 88 and against 72 (Figure 26). Shareholders raised various issues during the year, with a general increase in activity levels across environmental, social and governance factors. We saw a large increase in the number of shareholder proposals aimed at addressing social concerns, spread across a wide range of topics including corporate lobbying activities and political contributions, human rights concerns and the promotion of diversity, equity and inclusion within the workplace.

**FIGURE 26**




## Governance

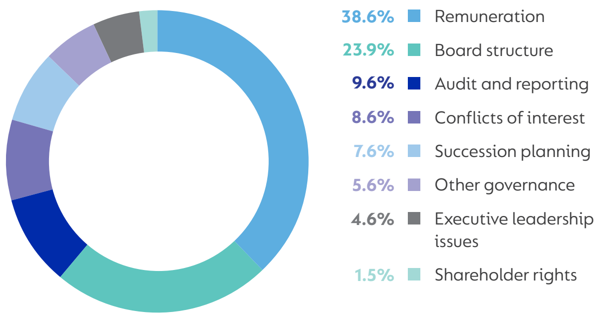
**Board diversity and effectiveness**

Ensuring appropriate board composition is critically important to the governance of a company as the board sets the overall tone and strategic direction of the company. Achieving the ideal board composition is challenging in many countries but in particular in South Africa, given the current shortage of experienced non-executive directors. Coupled with this, we are cognisant of the imperative to ensure diverse and transformed boards of companies from both a race and gender perspective. Proposed directors can therefore often have other directorships, and we adopt a balanced approach to ensure there are no real conflicts and that directors are not overextended.

Given the impact of board composition on company value, we engaged with a large number of companies on various issues relating to board structure, comprising almost 24% of governance-related engagements (Figure 27).

These engagements included addressing the size or composition of the board, independence of board members, and the diversity and competence of directors. Upon identifying a gap in the board structure and being aware of an appropriate candidate whose expertise would complement the group, we recommended directors for election at the AGM. For example, we proposed a suitable candidate for the Advtech board, who was subsequently successfully elected at the following AGM.

**FIGURE 27:** ENGAGEMENTS ON GOVERNANCE MATTERS




Where we had concerns about the mix of financial, technical, and commercial skills and the appropriateness thereof to meet the individual needs of each business, we engaged with the companies where we felt particular skills could be bolstered to improve company value. For example, an assessment of the Spar board revealed an underrepresentation of retail skills compared to the needs of the business. We raised this with the company and suggested potential names. Subsequently, two new independent directors were appointed, which addressed this need for stronger retail skills while simultaneously improving board independence.

Furthermore, we had several discussions concerning board turnover, taking a pragmatic approach to long tenure, which may compromise a director's independence. Our stance is not to have a mechanistic fixed time period cutoff which is applicable regardless of individual circumstances. Given the skills shortage we often encounter, we believe that a skilled and knowledgeable director that has been on the board for many years is still often a valuable asset that should not be discarded on a pure mechanistic basis. During the year, when board positions became vacant, we sought to understand the reasons for directors' departures, as well as the process for the appointment of new directors. Where we felt directors' tenures were no longer independent, we voted against their re-election and communicated our stance to the relevant companies. The issue of tenure is nuanced and requires a thorough assessment of the dynamics within each individual company in order to assess whether long tenure compromises independence. In accordance with our voting policy, we assess the independence of directors who have served on the board for more than nine years.

## *Reasons for voting against the election of board directors*

- Lack of board diversity
- Lack of independence
- Skills-related
- Inadequate rationale for nominations
- Excessive tenure
- Too many other responsibilities

Two examples where we reached different conclusions based on our assessment are our engagements with the container lessor, Textainer, and the investment holding company, Remgro, both of which had long-serving directors on their boards. We engaged with both companies in order to understand the reasons for this. In Remgro's case, we came away with sufficient evidence that the directors were still appropriate appointments and we therefore voted in favour of re-election. However, due to residual concerns with a Textainer director, we took the decision to vote against his re-election.

We continued to advocate strongly for appropriate independent oversight within investee companies. We raised concerns where directors had material conflicts of interest that could influence their ability to make objective decisions. For example, the luxury company Richemont proposed a director for election that we believed had a material conflict of interest relating to a competitor of the company. This fact, coupled with his skillset already being represented on the board and the need for more female representation, resulted in us voting against his election. In keeping with our approach, we explained our position to the company prior to voting. During the year, we also engaged with companies where we felt that the number of independent directors on a board was insufficient or where we disagreed with the classification of certain directors as independent. An example of engagement on board independence is the interactions with Spar related to the chairman (refer to page 57).

Whenever our discussions failed to produce satisfactory results, we informed companies about our plan to vote against their related proposals and exercised our voting rights accordingly. In 2022, we voted on


**We continued to advocate strongly for appropriate independent oversight within investee companies.**

3 112 board-related resolutions, of which 254 (7%) were dissenting votes (Figure 20). The number of dissenting votes was largely driven by the complex voting systems that are used in Russia and Brazil, as explained on page 41.

**Remuneration**

Remuneration policies and practices that ensure alignment between management and other stakeholders are always a key priority in our engagement programme. As such, remuneration represented almost 40% of our governance-related engagements in 2022. We carefully evaluated remuneration policies and practices to ensure that management teams were appropriately incentivised to deliver long-term value to shareholders. This included evaluating the suitability of the key performance indicators used to measure management performance (including ESG targets) as well as ensuring that the targets were sufficiently stringent to drive the desired corporate outcomes without encouraging excessive risk taking. This included requesting improvement to disclosure practices where we were not satisfied with the quality of remuneration-related disclosure.

ESG is increasingly becoming included in executive remuneration scorecards. An example of where we engaged on ESG metrics within a remuneration policy is with the South African bank, FirstRand. We noted the inclusion of a climate target within their short-term incentive plan. Given their stated goals on climate we encouraged an upweighting of the climate target within the short-term scheme and, given the long-term nature of the change required, we also advocated for the inclusion of a climate target within the long-term incentive scheme. This engagement is ongoing. We are mindful to guard against this metric being used as an easy method to potentially manipulate remuneration schemes. Where ESG-related metrics are included, we endeavour to ensure that it has an appropriate weighting and target in order to drive meaningful and appropriate change.

As part of our mining safety thematic project for 2022, we engaged on safety targets in the remuneration policy of a number of the South African listed mining companies (see case study on page 54).

We also engaged with companies where we felt that performance targets were not sufficiently stringent or where we deemed them inappropriate to promote alignment between management and other stakeholders. For example, we engaged with Aspen Pharmacare where we believed one of their key performance indicators was too easy to achieve. In our discussions with the company, we explained why we took this view and recommended a higher percentage threshold. However, on the whole, we believed that the remuneration package was fair and did not result in enrichment, and therefore voted in favour. The company agreed to relay the feedback to the remuneration committee, and we will continue to engage with the company on this particular KPI.

We also engaged on minimum shareholding requirements for executives. Minimum shareholding requirements aid alignment between key executives and shareholders by incentivising them to act in the best interests of shareholders. However, it is important to assess the terms of the shareholding agreement to ensure that they are sufficiently large to properly incentivise the desired behaviour and that the terms under which the shares are acquired are appropriate. Companies we engaged with on this topic include Spur, Growthpoint and Advtech. For example, with Advtech we highlighted that we believe that their current minimum shareholding requirements were too light to achieve the intended purpose. The company informed us that this is being reviewed and we will follow up on this during future engagements.

Where the outcomes of the engagements were unsatisfactory, we voted against the resolutions. Additionally, where we felt there was poor disclosure, which may have resulted in an inability to fully assess the merits of the incentive plan, we engaged with the company and did not vote in favour of the remuneration policy and/or its implementation. Companies where we did not vote in favour as a result of poor remuneration disclosure include ICICI Bank, Saudi Telecom and Apollo Hospitals. In 2022, we voted against 6% of resolutions linked to remuneration (Figure 20).

## *Main reasons for voting against remuneration policies*

- Policies were too short term in nature
- Insufficient disclosure to enable informed decisions
- Remuneration not satisfactorily aligned to value creation
- Inappropriate adjustments to compensate for Covid-19 impact
- Failure to consider prior recommendations

### Audit and financial reporting

In accordance with our audit firm rotation policy, we do not support audit firms serving a term longer than 10 years. After explaining our rationale to companies who have used the services of one audit firm for more than a decade, we voted against their re-appointment at AGMs. In 2022 we voted on 414 resolutions relating to the approval of auditors, with 39 (9%) dissenting votes (Figure 20).

We also engaged with certain companies where we wanted to see improvements to their financial reporting. These were largely driven by the need for improved quality or greater transparency.

**Executive leadership**
We believe that effective leadership is key to delivering sustainable long-term value to stakeholders. A company's culture, strategy and ability to successfully execute plans are all influenced by the quality of a company's leadership. Over the past year, we engaged companies on the performance of CEOs, succession plans, and wider leadership within the organisation. For example, we engaged with property company Growthpoint on their notice periods for key leadership positions. We communicated that we felt that the current contractual periods were too short to adequately protect the company.

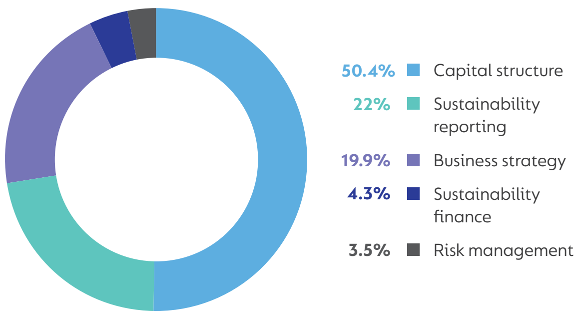
## Strategy, risk management and reporting

**Enhancing shareholder value**
Driving enhanced shareholder value is a critical objective for companies as it directly affects the financial success and long-term sustainability of the organisation. Companies that prioritise shareholder value often have a strong focus on strategic decision-making, financial management, and corporate governance to ensure the long-term success of the organisation.

We shared our views on dividend distribution policies, share buybacks as well as on specific corporate actions that took place during the year, such as mergers, acquisitions and delistings. We believe that share buybacks are an opportunity to invest in an entity that the management team and the board know and understand better than any potential external capital allocation opportunity. While buybacks do not fundamentally alter the business, they increase value per share and return cash that investors can allocate elsewhere. We therefore encourage management and boards to pursue share buybacks where we believe the shares to be undervalued. For example, in 2022 we engaged with Teck Resources to request that they consider a share buyback given the attractive share price at the time. They have subsequently announced a small buyback.

A further example of engagement on company capital structure is with **Naspers**, where we engaged to both obtain further detail and propose potential solutions to narrow the company discount that has persisted for many years.

**FIGURE 28:** ENGAGEMENTS ON STRATEGY, RISK MANAGEMENT AND REPORTING




NASPERS

Case study

*Creating value through consistent engagement*

| COMPANY | REGION |
|---|---|
| NASPERS/PROSUS | GLOBAL |

| ACTION | OUTCOME |
|---|---|
| LETTERS, IN-PERSON MEETINGS, VIDEO CALLS AND TELEPHONE CALLS | POSITIVE AND ONGOING |

Our engagements with the board and management of the technology investors Naspers and Prosus demonstrate how consistent engagement over a multi-year period can lead to fundamental change and value creation for shareholders.

Naspers is a global internet, technology and multimedia holding company and the biggest company on the Johannesburg Stock Exchange (JSE). As an early investor in the Chinese technology and media giant Tencent, the growth in Tencent's valuation has contributed significantly to Naspers' growth over the past decade, and Naspers has contributed significantly to the performance of our portfolios. Naspers remains the largest equity position across our portfolios.

In September 2019, Naspers' international assets were listed on Euronext Amsterdam as a separate entity called Prosus, with the goal of unlocking value by bringing it into play for a wider European and global investor base. Prosus also has a secondary listing on the JSE, and the companies share a single board of directors.

However both Naspers and Prosus have been trading at a large discount to the value of their underlying assets for a number of years. We believe that while a small discount is justifiable due to the frictional costs inherent in the structure, it is important to remember that the management team has proved their ability to identify and capitalise on major media and technological trends.

In August 2021, the group concluded a transaction in which Prosus bought 45% of Naspers' shares via a share exchange, bringing its ownership in Naspers to 49%. Under the cross-holding arrangement, Naspers owns around 57% of Prosus and has voting control due to the creation of a special class of "B shares" that enable the company to retain voting rights, but with negligible economic rights. This share exchange intended to reduce the weight of Naspers in the JSE index, which management identified as one of the causes of the discount. We did not agree with this reasoning.

In addition, while Tencent has been the main contributor to Naspers' growth over the past decade, we believe that, going forward, the non-Tencent assets will be significant drivers of long-term value creation.

Correspondingly, we have engaged extensively with the Naspers/Prosus board and management on its capital allocation strategy and executive remuneration policy over the past three years.

## Executive remuneration

**Issue**

Our concerns regarding executive remuneration related to the use of long-dated options, which we believed could result in misalignment with shareholder interests. The options were denominated in South African Rands, while nearly all the underlying assets were hard currency denominated. This could result in a "free carry" scenario with executives benefiting from Rand currency depreciation. We were also concerned about the lack of performance targets for the non-Tencent assets. The management team has invested around $20bn in non-Tencent assets and thus it is imperative that they are held accountable for its subsequent performance to ensure they create shareholder value.

**Action**

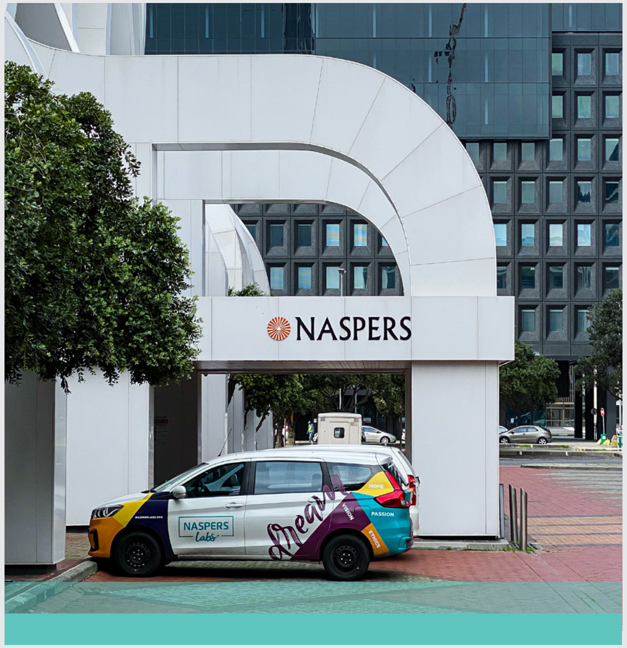
Between 2019 and 2022, we addressed our concerns with regard to long-dated options in a series of meetings with the chair of the Remuneration Committee. We also voted


against the remuneration policy in 2020, 2021 and 2022 and proposed recommendations for the improvement of the policy so that we could support it.

**Outcome**

The long-dated options have reduced gradually to the extent that there are no long-dated options in the 2023 remuneration plan.

Performance criteria for non-Tencent assets have also improved. In 2019, almost 50% of incentives were linked




to Tencent's share appreciation. By 2022, this has been reduced to only 8%. Furthermore, no performance conditions had previously been attached to long-term incentives, which we felt was unsuitable due to a misalignment with shareholders' interests. Significant improvement has been made in this regard, with 60% of the 2022 long-term incentives having explicit performance conditions attached and a commitment from management that this percentage will continue to increase.

**Next steps**

We recognise the significance of this development and are dedicated to continued discussions to ensure that incentives are tied to performance targets. After due consideration we therefore backed the 2023 remuneration vote, considering that long-term incentives were proposed to be zero, and no other concerns were identified regarding remuneration for the year.

## Capital allocation

**Issue**

We believe the share exchange transaction in 2021 created complexity with a limited impact on shareholder value.

**Action**

In June 2021, we sent a letter expressing our views to the board, followed by a video call with management. Management acknowledged our concerns and reiterated that the eventual simplification of this complex structure was a high priority for them but required various stakeholder approvals. This transaction therefore served as a preliminary step towards achieving a permanent solution to address the discount.

In April 2022, as the discount to net asset value continued to widen, we sent another letter to the board expressing our view that the complex cross-holding structure should be collapsed and recommending that they begin an open-ended buyback programme, which should be funded by selling a portion of their Tencent shareholding. This would create significant shareholder value as you would effectively be selling one asset (Tencent) at market value and concurrently buying another asset (Tencent and the remaining unlisted assets owned by Naspers/Prosus) at a significant discount. We subsequently engaged with the chairman of the board and the CEO to reiterate the message.

**Outcome**

In June 2022, as part of the group's results announcement, they announced the commitment to begin selling Tencent and buying back their own stock with the proceeds. This action was entirely aligned with what we had requested in our extensive engagements. On the day of this announcement the share price increased around 20%, thereby immediately creating shareholder value, which is being compounded daily as they deliver on their promises and continue to buy back shares at a material discount to net asset value, funded by the selling of their shareholding in Tencent.

**Next steps**

The collapse and simplification of the cross-holding structure remain outstanding. At their investor day in December 2022, management reiterated that this process remains high priority but is dependent on regulatory approvals which they are currently working towards. We have also engaged further on this matter to reiterate that any measures to simplify the structure should not unduly benefit either Prosus or Naspers minority shareholders at the expense of the other.

This journey is not over, and we continue our engagements with the company to ensure the buyback remains open ended while a significant discount exists, as this creates long lasting shareholder value. We are encouraged by what we deem to be a fundamental change in capital allocation and remuneration structures, driven partly by our extensive engagement, which we feel has and should continue to create material shareholder value.

In line with our Proxy Voting Policy, we continued to vote against granting authority to directors to issue shares generally and unconditionally, and we continued to engage with companies on this matter. We generally discourage resolutions that grant blanket authorities, because these have the potential to result in value dilution, and we believe that shareholders should be able to vote on all issues of share capital. We take a similar view on the general authority to issue shares for cash.

Over the past year we voted on 920 resolutions relating to capital structure, of which 225 (24%) (Figure 20) were dissenting votes. While the spread of these varied depending on the specific proposal put forward by each company, a significant volume of dissenting votes related to requests by companies for authority to issue shares without the need for prior shareholder approval.

As strategic matters relevant to a business are company-specific, information gathering engagements are often imperative for our analysts to construct a complete picture of the operating context and the strategic direction in order to assess the intrinsic value of a business. For example, we engaged with the packaging and paper group Mondi regarding the impact on their business of the energy crisis in Europe and their planned response. They provided comfort that they derive the bulk of their energy from biomass but are also actively looking to mitigate against any gas disruptions that may arise.

Many of our frontier market companies require improved governance and better sustainability disclosure, as well as the opportunity for active investors to improve long-term value through effective engagement. We have engaged with a number of these companies to advocate for progress on company governance as well as more granularity in sustainability reports. An example is East African Breweries, where we requested more ESG data and better disclosure. This included data on carbon emissions, water usage and waste generation statistics, which the company has subsequently provided.

**Sustainable finance**

With the significant growth in green and sustainability-linked bonds globally, we have engaged on a number of related issues to better understand the proposed targets. In some cases we have requested more measurable targets, challenged whether the penalties are sufficient to induce change and to understand the use of proceeds. One of our engagements was with the South African bank FirstRand, who has, following our engagements, committed to adding a margin penalty should these targets not be met by a set deadline.

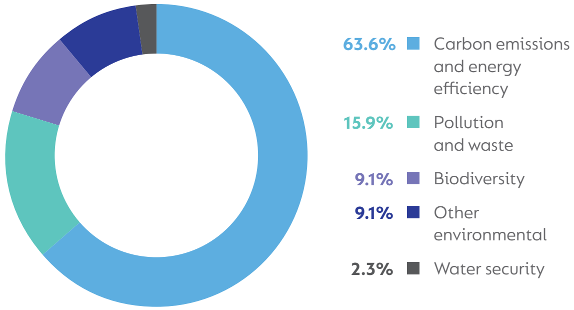
A total of 4.3% of our engagements on strategy, risk management and reporting related to sustainable finance (Figure 28).

## Environmental

**Carbon emissions and disclosures**

Over the past few years, we have placed particular emphasis on encouraging consistent and comparable climate-related disclosure by companies through the adoption of the recommendations of the TCFD.

**FIGURE 29:** ENGAGEMENTS ON ENVIRONMENTAL MATTERS




In 2022 we continued to monitor the engagement targets from our 2020 and 2021 TCFD project. Additionally, we expanded the scope to include some companies in our Global Emerging Markets portfolios.

Disclosure is an iterative process which requires improvement over time. An example where we requested more granular detail on a company's climate change disclosure is our letter to Amazon (see our case study on page 76).

We also had specific discussions with companies on their plans to increase their procurement of clean energy to reduce carbon emissions and improve energy security during power cuts. This is of particular relevance to South African companies, where the state electricity utility, Eskom, is unable to provide sufficient electricity to meet demand and currently implements regular power cuts to artificially reduce demand. (More details on South Africa's energy crisis on page 63.)

As we transition to a decarbonised economy, we recognise the imperative for a revised global commodity mix, along with the gradual phase out of fossil fuels. We also recognise that while some commodities will need to be phased out over time, others will be required to accelerate the transition to a net zero economy. A detailed understanding of the nuances is therefore necessary in order to engage effectively (see case study on page 69).

As active investors, we engage with those fossil fuel companies in which we are invested to make sure their fossil fuel assets are run down in a responsible manner. For example, we engaged with Glencore to confirm their commitment to a coal run-down strategy. They confirmed that they remain committed to the strategy according to their 2021 Climate Change Report, where they have illustrated no planned expansionary energy capital expenditure, only sustaining capital expenditure. We also met with the chairperson of Exxaro and reiterated our stance that we did not believe further greenfields coal investment was appropriate. The chairman noted our view and confirmed that he is aligned. Furthermore, we engaged with Thungela to express our preference that they do not commit to any greenfields coal investment.

**Other engagements**

The loss of biodiversity, concerns surrounding water security, and issues related to waste and pollution are receiving greater attention, especially for companies that have a substantial environmental impact. Our engagements covered a variety of issues, such as plastics in the value chain, overfishing, water consumption, food waste reduction initiatives and recycling initiatives.

**Our engagements covered a variety of issues, such as plastics in the value chain, overfishing, water consumption, food waste reduction initiatives and recycling initiatives.**

We addressed biodiversity concerns related to overfishing in specific regions of operation with the fishing companies Oceana and Sea Harvest. We aimed to understand their approach to responsible fishing and ensure the biomass is kept healthy and community relations are maintained.

Food waste contributes to global hunger and exacerbates the impacts of climate change. In 2022, we engaged with Woolworths and Oceana to improve our understanding of the challenges surrounding food waste tracking and reduction initiatives. We are currently researching this topic and will continue to engage on these matters where appropriate.

**Climate proposals**

Shareholders continue to place pressure on companies to put their climate change strategies to a vote, and many have done so. These strategies commonly address concerns like emission disclosure reports, climate change commitments and the approval of targets, and environmental transition plans. The trend towards putting climate strategies to a shareholder vote indicates that company management recognises the significance of transparent, comprehensive climate strategies.

In 2022, we voted on 30 climate proposals, 14 of which were put forward by shareholders, and 16 put forward

by management. We voted in favour of all of these management proposals and eight of the shareholder resolutions, with general support for credible initiatives to mitigate environmental risks, which are expected to enhance long-term company sustainability and performance.

We voted against the two climate-related resolutions put forward at BHP's AGM by a shareholder, the Australasian Centre for Corporate Responsibility.

The first resolution we opposed requested that BHP actively advocate for Australian policy settings that align with the Paris Agreement's objective of limiting global warming to 1.5°C.

The second resolution we did not support was a request for accounting notes in BHP's audited financial statements to contain a sensitivity analysis that includes a scenario aligned with limiting warming to 1.5°C, presenting the quantitative estimates and judgements for all scenarios used and covering all commodities.

In an engagement with management at BHP, they outlined their reasons why they recommended voting against the first resolution. Management felt it would interfere unnecessarily with the board's and management's ability to assess and respond to future public policy developments while taking into account all considerations relevant at that time and acting in the best interests of the company. The resolution's broad and ambiguous nature would require BHP to make a commitment that goes beyond what they believe is appropriate. BHP noted that they already advocate for good climate policy where it aligns with their Global Climate Policy Standards and intend to continue these efforts. They believe they can best support climate policy development by meeting their own climate targets, goals and commitments rather than becoming actively involved in broad public policy.

Management's reasoning for voting against the second resolution outlined that the request for information to be included in the audited financials conflicts with the accounting standards applicable to BHP and believed that the significant uncertainty in the forecasts could be misleading to readers of the Annual Financial Statements (AFS). BHP already provide scenarios in their climate change report which had limited assurance from the auditors and addressed many of the requests made in this resolution. They believed that including a similar but fully audited version in their AFS would be problematic, given the speculative nature of the predictions involved. Instead, BHP confirmed their support of the International Sustainability Standards Board (ISSB) in developing IFRS Sustainability Disclosure Standards which are expected to provide a comprehensive global baseline of sustainability disclosures. BHP indicated that they prefer to align with these standards once they have been finalised.

We agreed with the company's rationale on the above and voted accordingly.

In many cases, putting measures in place to address climate concerns takes a number of years, as frameworks for disclosure, risk mitigation and monitoring of progress have to be established and these take time. These engagements are therefore often multi-year endeavours, as illustrated by our ongoing engagements with the chemicals and energy company Sasol.

According to its 2022 Sustainability Report, Sasol emits 63 million tonnes of scope 1 and scope 2 GHGs per annum and a further 38 million tonnes of scope 3 emissions. As such, the company's approach to addressing its emissions profile would have a significant impact on its long-term value and the sustainability of the organisation.

Sasol has made significant progress in recent years, including the announcement of significant climate commitments in their 2021 Climate Change Report. In 2022, we had several engagements with the company, including a meeting where Sasol presented their 2022 climate change resolution to us and looked for our feedback.

During the meeting, we discussed the company's plans to use gas as transition feedstock from coal and green hydrogen as their long-term sustainable feedstock. We noted that the gas transition will be a material change for the business in the next five to 10 years and that an understanding of the financial implications would therefore be useful. As the plans for green hydrogen are still conceptual at this stage, we requested improved disclosure on timelines and the financial implications. We also requested more information on carbon tax, as well as more disclosure on the "just" element of the transition.

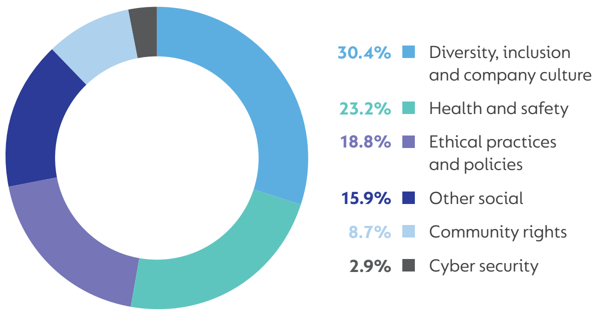
Sasol indicated that they are working on these issues and that we should see a more clearly defined roadmap from 2023 onward. We voted in favour of a non-binding resolution to endorse Sasol's climate change report but we would need greater detail to support the resolution from 2023 onward.

## Social

Our key thematic focus for the year was our **mining safety project**, where we engaged with prominent listed South African mining companies and reviewed global mining companies to understand the key drivers of good safety outcomes and any potential link between safety and remuneration. The number of social issues we engaged on in 2022 increased by 44% compared with 2021.

In 2022, our engagements on social issues highlighted the complexity involved in dealing with many environmental and social matters and the need for a balanced and comprehensive analysis to properly engage on these, including assessing unintended consequences. Social issues are often impacted by multiple factors, with the implication that many drivers have to be considered and addressed in order to effect meaningful change. Therefore we have found that it may take considerable time and involve extensive research in order to effectively manage these issues.

**FIGURE 30:** ENGAGEMENTS ON SOCIAL MATTERS



Case study

*Engaging on measures to improve mining safety outcomes*

**INDUSTRY**

**MINING**

**REGION**

**SOUTH AFRICA**

**ACTION**

**MEETINGS**

**OUTCOME**

**ONGOING**

The mining industry plays an important role in the South African economy and represents a significant portion of the JSE-listed universe. Given our South African footprint, we have been monitoring and engaging with the South African listed mining companies on various environmental and social issues for many years. Within this context, mine safety represents an important social issue in this industry because mining activity is inherently dangerous, with workers exposed to various physical and chemical hazards.

## Issue identified

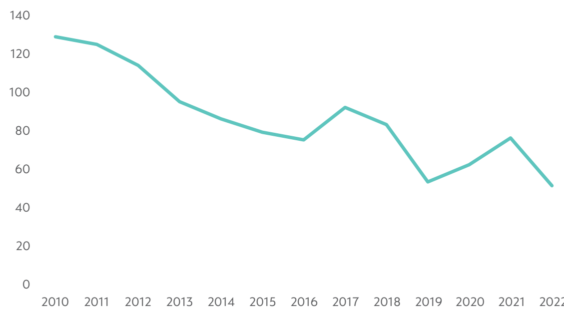
At the end of 2021, we noted a considerable increase in total fatalities in South African mines, indicating a departure from the declining trend observed over the past decade.

## Action we took

Our concern over the increase in fatalities prompted us to conduct a deep-dive analysis into mining safety across the sector. We aimed to identify the key drivers of safety outcomes. A potential relationship we considered included determining if there was any correlation between executive remuneration and better safety outcomes. If such a relationship existed, we could encourage mining companies to structure remuneration schemes accordingly.

The key drivers of mining safety are incredibly complex and require both a quantitative and informed qualitative assessment of various factors. A detailed understanding of mining assets is required to interpret the data correctly and to inform our engagement with the various companies. Mining method, age of mine, nature of orebody and employee density are among the factors worth considering on a mine-by-mine basis. At a high level, we then examined the inclusion of safety-linked key performance indicators in the remuneration schemes of both global and local mining companies.

**FIGURE 31:** FATALITIES IN SOUTH AFRICAN MINES




*Source: Minerals Council of South Africa*

For the local mining companies, we performed a further analysis considering a number of factors:

- Best and worst safety outcomes for latest reported year.
- Relative performance based on a three-year rolling average from 2017 to 2021.
- Best and worst performers relative to their specific context as discussed above. In order to best compare on a like for like basis, we stratified the mining operations according to "safety risk factors". Because coal mining, for example, is fundamentally safer than other commodities, we examined company-specific

outcomes relative to the South African coal sector as a whole. Similarly, since underground mining activity poses higher safety risks than open-pit mining, we assessed safety outcomes in relation to a company's level of exposure to underground mining activities.

- Companies have the scope to set various key performance indicators to incentivise different behaviours through remuneration. During our analysis, we also examined those companies that had incorporated safety targets in their remuneration structures but whose targets did not appear to be sufficiently stringent to drive meaningful improvements in safety outcomes.
- We examined a resource compiled by the Mine Health and Safety Council, the Culture Transformation Framework (CTF), which provides recommendations for mining companies to improve the culture of health and safety across the mining industry. We assessed the companies' remuneration policies against the CTF remuneration recommendations.

After completing the preliminary research phase, we held meetings with companies that demonstrated positive and negative safety outcomes, along with union representatives and members from the Minerals Council. The purpose of these meetings was to share our findings and to discuss any remaining issues in more detail.

Many companies concurred with our conclusions and were of the view that remuneration was not one of the most important drivers of improvement in safety outcomes. Their view was also that remuneration should not be used to incentivise better outcomes but could be used to penalise poor outcomes.

General feedback from all our meetings indicated that a focus on tracking leading indicators, as well as improvements in technology, safety culture, promoting incident reporting, strong leadership and collaboration were more likely to lead to improvements in safety outcomes.

The general findings of our analysis included the following:

- The balance between production and safety is an important and complex indicator to explore. Miners emphasise safe production given the impact on human life but also the outsized impact safety incidents can have on continuous production.
- Although safety incidents have negative impacts on production, the implications on human life are severe. Consequently, production bonuses should incorporate a safety penalty such that shortcuts are not taken to achieve production at the expense of safety.
- There is significant complexity in the underlying drivers of safety outcomes. It is important to consider the qualitative factors in combination with the historic safety data. These factors include the relative dangers of differing ore bodies, differing geographic locations and the lead times for safety initiatives to take effect.
- A culture of safety and incentivising for it needs to permeate the organisation from the CEO down to the lowest level employee.

**Our in-depth understanding of the key drivers of safety outcomes enables us to engage constructively with companies.**

- Leading indicators were highlighted as a key driver of better safety outcomes. These are the measures that are in place to prevent adverse safety outcomes before they occur, rather than relying on historic figures such as the number of fatalities or injuries. These indicators enable companies to detect potential risks and hazards and take steps to prevent their occurrence.

- While some companies included safety indicators in both their long-term and short-term incentive plans, several companies did not include safety at all within their long-term incentive plans. In addition, it was noted that global practice was to not include safety in long-term incentive plans, so South African mining companies were not less punitive than their global counterparts.
- We could not identify a strong correlation between different aspects of safety in remuneration KPIs and the achievement of better safety outcomes.

## Outcome of this initiative

As a result of this initiative, we have developed a comprehensive database of safety outcomes which enhances our ability to analyse and engage with company management teams on safety matters. It is encouraging to note a subsequent reduction in fatalities in 2022 and we commend these companies for their commitment to working toward the ultimate goal of zero harm.

We continue to monitor the safety outcomes of individual companies, and we believe that we are in a good position to engage effectively and respond appropriately to any negative trends that may arise. We will continue to encourage companies to disclose more detail on leading indicators so that we can further improve our understanding of their links with safety outcomes. Our in-depth understanding of the key drivers of safety outcomes enables us to engage constructively with companies and provide valuable insights to help them improve their safety practices.

In addition to this project, we also engaged on various other matters. We engaged with the industrial processing, distribution and services company Barloworld to understand the level of their lost-time injury frequency rate (an industry measure indicating the severity of an injury) and to ensure that this receives the appropriate attention to achieve the ideal of zero harm.

We also engaged with British American Tobacco on the expansion of their next-generation product range in order to reduce the negative health implications of their existing business. This was a continuation of engagements which commenced in 2021. In addition, we engaged with Eastern Tobacco to understand their plans to transition towards reduced-harm products.

### Diversity, inclusion and company culture

We had a number of engagements to ensure gender and racial diversity at a board and senior leadership level and voted on resolutions to give effect to these. An example of this was our vote against a director of the Russian search engine Yandex to encourage more gender diversity at a board level. In addition, we engaged with companies to understand their strategy regarding diversity within the firm. An example of such, is our discussions with the communications company Telkom, where we encouraged the firm to set clear targets for achieving diversity at all levels in the organisation.

### Ethical practices and conflicts of interest

Potential instances of unethical behaviour can have big impacts on company value. Where we identified potential risks, we held discussions with companies to better understand their practices and policies and suggested meaningful improvements. For example, we engaged with the retailer **Spar** on allegations of strained relationships and suspicious transactions with franchisees, as well as the allegation of unequal treatment of the different franchisees.

### Other engagements

Cybersecurity was another issue we engaged on (Figure 30). Where we identified potential risks, we engaged with the relevant companies to better understand the scope of this potential risk and any mitigation in place to reduce the potential threat. Additionally, we continued to engage on community rights with investee companies in the mining sector, as these companies play a meaningful role in the communities in which they operate and thus can have significant impact on them.

We also engaged with companies to understand the extent of Russian exposure and related impacts from the war, as well as information on product recalls with food producers to ensure appropriate management of food safety (engagements classified as "Other" in Figure 30).

In 2022, we voted on a total of 90 proposals relating to social issues across 54 meetings and objected to 24 (27%) of these.


Case study

# *Addressing corporate governance, operational irregularities and board skills*

| | |
|---|---|
| COMPANY | REGION |
| SPAR | SOUTH AFRICA |
| ACTION | OUTCOME |
| LETTERS AND MEETINGS | POSITIVE |

The Spar Group occupies a unique position in South Africa's food retail landscape. Unlike its major listed peers, the group has not adopted a corporatised, integrated model.

Since its inception in 1963, the group has operated on a cooperative and collaborative model, forming a partnership between a wholesaler (Spar, the licence holder) and a network of hundreds of independent retailers – its franchisees. The group has expanded by acquisition, and today includes operations in three European countries.

As longstanding shareholders on behalf of our clients, we have consistently supported Spar's franchised model, in particular because it means that driven entrepreneurs from their communities are trading for their livelihoods each day. This is in contrast to a store manager who simply draws a paycheck each month.

While close-knit relationships and agility in decision-making have been strengths over time, these have also brought about certain complexities and weaknesses that have become detrimental to the business. Over the past four years, we have addressed a number of issues pertaining to the company's operations. Each issue demanded careful consideration and engagement with the most appropriate individuals in order to achieve the best possible outcomes.

## Actions

### Chairman succession

Having been approached by the outgoing chairman with the proposal for the incumbent CEO to succeed him, we highlighted at the start of 2020 that best practice was for the chairman to be independent. We noted that if an appropriate external successor was not available, we would consider supporting the proposal on the condition a strong lead independent director is elected and that this arrangement was temporary.

### CEO conflict of interest

In the first half of 2020, we became aware of related party arrangements involving the CEO that had not been disclosed. We brought this to the attention of the chairman and recommended that the information be clearly and appropriately disclosed in all future integrated reports, beginning with the 2020 report. We also recommended a comprehensive investigation to identify any potential conflicts of interest involving either the executive or a board member.

### Media allegations

In response to serious allegations in the press towards the end of 2022, including questions about the chairman's lack of independence, we enquired regarding the claims in writing and requested a meeting with the lead independent director. We recommended commissioning an independent investigation into allegations of fraudulent and fictitious loan-granting and unequal treatment of franchisees, with the findings to be disclosed to the public once they are available.

### Independent chairman

In the same meeting with the lead independent director, we stressed the importance of electing an independent chairman and conveyed that we would not support a resolution to have the current chairman re-elected. We put forward Mike Bosman, the current chairman of the restaurant group Spur, as potentially being appropriate for the role, given the success he had at Spur. Spur also operates on a franchise model and has been subject to similar challenges. In addition, he has valuable turn-around experience as a board member of the technology group EOH.

**Retail skills on the board**

After conducting a review of the board, we concluded that there was insufficient retail expertise to compete as a world-class player in a rapidly changing landscape, which has been further accelerated by the Covid-19 pandemic. During the meeting with the lead independent director, we recommended one or two independent directors with retail experience to be added to the board. We also provided names of potential candidates.

## Outcomes

**Chairman succession**

Despite an extensive search, the board was unable to find an appropriate independent successor and proposed the current CEO. In line with our recommendation, a lead independent director was appointed.

**CEO conflict of interest**

The 2020 integrated report disclosed the incumbent CEO's related party interests, and these have been included in all subsequent integrated reports.

**Media allegations**

On 19 January 2023, the company published the findings of the independent investigation into the allegations. Harris Nupen Molebatsi, the law firm that conducted the investigation, concluded that allegations of discrimination towards retailers were unfounded. However, they highlighted areas of improvement at Spar's regional distribution centres, which the company had already been working on. With respect to the alleged fraudulent loan, the group's auditors, PricewaterhouseCoopers, concluded that the loan was a "reportable irregularity" which should have been reported to the Independent Regulatory Board of Auditors (IRBA). Subsequently, the company's board engaged a legal team and an accounting expert to conduct a thorough investigation. This investigation found that two similar incidents occurred five years prior, and that this was not normal practice at Spar.

**Independent chairman**

Three days after we met with the lead independent director, the company announced that the chairman would vacate the position, remaining on the board as a non-executive director, with the lead independent director acting as chair until a permanent replacement could be found. Another six days later, the group announced Mike Bosman as the new permanent and independent chairman of Spar, effective immediately. The lead independent director stepped down to resume his former responsibilities.

**Retail skills on the board**

The incumbent CEO resigned, and the former chairman did not make himself available for re-election, while a board member with 17 years of tenure chose not to stand for re-election either. Two new board members were announced: Dr Shirley Anne Zinn (former lead independent at Shoprite) and Pedro Manuel Pereira da Silva (former MD of Pick n Pay Retail, and former COO of Jeronimo Martins, the parent company of the Polish supermarket giant Biedronka). These appointments directly addressed the need for stronger retail skills while also adding to independence.

**In a meeting with the lead independent director, we stressed the importance of electing an independent chairman.**

Although these changes were challenging to effect and disruptive to the ordinary course of business, they demonstrate Spar's desire to be, and be seen to be, a good corporate citizen. We believe that the addition of new directors with strong retail experience will assist the company in navigating its key strategic challenges.

## *SDG alignment: Percentage of engagements by goal*

The Sustainable Development Goals (SDGs) are a set of 17 interconnected goals adopted by the United Nations in 2015. The SDGs encompass a wide range of social, economic, and environmental issues, aiming to tackle poverty, inequality, climate change, environmental degradation and promote peace and prosperity for all. We believe the long-term prosperity of businesses and the achievement of SDGs are closely interconnected. The chart below demonstrates the percentage of issues and objectives engaged on in 2022 that are directly linked to an SDG. +

| | |
|---|---|
| 16 Peace and Justice | 29.4% |
| 8 Decent work & economic growth | 6.5% |
| 11 Sustainable cities and communities | 3.0% |
| 14 Life below water | 2.3% |
| 13 Climate action | 20.1% |
| 10 Reduced inequalities | 5.3% |
| 6 Clean water and sanitation | 3.0% |
| 15 Life on land | 2.0% |
| 7 Affordable & clean energy | 7.0% |
| 12 Responsible consumption and production | 4.3% |
| 2 Zero hunger | 3.0% |
| 9 Industry, innovation and infrastructure | 0.5% |
| 3 Good health & well-being | 6.8% |
| 5 Gender equality | 3.8% |
| 17 Partnerships for the goals | 3.0% |

# Tackling climate change

We aim to create value for our clients while fostering a more sustainable future. We are committed to ensuring that individuals are saving for a future that is worth living in.

Climate change poses one of the greatest challenges to the global population and has significant implications for economic decision-making. The effects of climate change are already visible through extreme weather events, rising sea levels, and other impacts that are expected to intensify in the coming decades.

These effects are expected to have far-reaching financial implications for economies, asset classes, industries, and companies worldwide. As asset managers and capital allocators, we have a fiduciary responsibility to be part of the solution in addressing these challenges and mitigating their impacts.

With our long history of engaging with companies, we believe we are well-positioned to act as meaningful change agents. We believe that driving change requires the integration of climate risk into our decision-making processes. This integration is essential to ensure that the risks and opportunities stemming from climate change are appropriately factored into our investment decisions.

At our core, we aim to create value for our clients while fostering a more sustainable future. We are committed to ensuring that individuals are saving for a future that is worth living in. By engaging with companies to understand their carbon footprint, identifying climate risks, and developing sustainable solutions, we hope to achieve a positive impact on society and the planet. We firmly believe that addressing climate change will not only help mitigate the risks associated with it but also create opportunities for sustainable growth, creating value for our clients and contributing to a more resilient and equitable global economy.

The scale and complexity of climate change make it a unique challenge in the context of economic decision-making. We recognise that the complexity of these challenges requires a careful, well-considered, and long-term approach taking into account appropriate solutions for the different geographies in which we operate.

## Our approach to managing climate risk

Climate change presents a significant investment risk that we incorporate into our investment process. To address this risk, we apply the same three-pronged approach of integration, engagement, and collaboration that we apply to our other stewardship activities. We recognise that integration and engagement on climate-related issues are mutually reinforcing, with integration driving engagement and vice versa. Ultimately, our goal is to enhance long-term shareholder value.

**Applying our three-pronged approach**

Integrating climate change into our investment process involves a detailed assessment of material climate-related risks and opportunities. We aim to consider the physical risks of climate change, such as extreme weather events, as well as transition risks associated with moving toward a greener economy, recognising that climate risks manifest differently across industries.

We believe that climate risk is a systemic risk that cannot be diversified away. We look to manage this risk by balancing exposures through geographic and sectoral allocations, focusing on investing in undervalued securities, and by actively engaging with portfolio companies on key climate-related risks.

Our analysts, who have in-depth knowledge of the stocks and sectors they cover, are responsible for integrating ESG considerations into our investment process and engaging with companies to encourage improved performance.

Company analysis reflects our fair-value estimates, which incorporate long-term opportunities, costs, and risks associated with companies' climate impact and risk mitigation strategies. By incorporating the risks and costs associated with climate change, our valuation approach enables a thorough comparison of the return potential of different companies while considering their climate impacts.

As allocators of capital, we believe we can play a critical role in helping drive companies to improve their climate-related practices and mitigate the impacts of climate change. Our analysis highlights climate risks that companies are not adequately addressing and identifies areas where further engagement can create long-term value.

We find that collaborative engagements are particularly essential when addressing systemic issues because these are complex, multifaceted problems that require the involvement of various stakeholders to find solutions. Some of the largest emitters tend to be large companies, and collaborative engagements help to exert influence to encourage these companies to apply their resources to reduce their climate impact and help mitigate the effects of climate change. Through collaboration, stakeholders can identify shared goals and work together towards achieving them. By working together, stakeholders can leverage their resources, expertise, and influence to create a more significant impact. A good example of this is the Climate Action 100+. Since December 2017, this collaborative engagement initiative has been striving to bring the world's biggest corporate emitters into line with international ambitions for a 1.5°C world and adopt more sustainable practices.

A thorough examination of potential unintended consequences is a crucial part of our process. We believe that a misunderstanding of these issues or a narrow perspective can have severe real-world consequences and, therefore, we do not believe they should be outsourced or reduced to a few standard metrics.

The impact of these engagements may not be immediate, as companies need to understand the impact of their operations on the environment and establish a path toward ensuring that the transition approach is properly embedded in their corporate

**Climate Action 100+ is an investor-led initiative to ensure that the world's largest corporate greenhouse gas emitters take action on climate change**

**166**
Focus companies

**>700**
Number of signatories (up from 615 in December 2021)

**92%**
Of focus companies have some level of board oversight (up from 87% in March 2021)

**91%**
Of focus companies have aligned with TCFD recommendations (up from 72% in March 2021)

**75%**
Of focus companies[8] have net zero commitments (up from 50% in March 2021)

**>$68tn**
Assets under management represented by the signatories (up from $65 trillion in December 2021)

[8] *Source: CA 100+ Progress Update 2022, CA-100-Progress-Update-2022-FINAL-2.pdf (climateaction100.org)*

strategies. This includes the time taken to establish disclosure frameworks, risk mitigation strategies and targets, as well as procedures to monitor progress. One cannot ignore the profound potential social impact that curtailment of emissions may involve and how long-term planning needs to factor risk mitigation of potential negative social consequences that may accompany climate-friendly actions.

## *Example: Physical and transition risks*

Table 2 below provides an overview of the key physical and transition risks faced by one of our large carbon-emitting investee companies, Sasol, and how we factor these risks into our investment decision-making.

**TABLE 2:** SASOL'S PHYSICAL AND TRANSITION RISKS

| Type of risk | Risk | Severity assessment | Coronation response |
|---|---|---|---|
| Physical | Increase in extreme weather events (including hurricanes/ cyclones at North American and Mozambican operations) | Low | No material impact on valuation, continue to monitor. |
| Physical | Changes in precipitation in areas of operation (impacts water security and operating costs) | Low | 1. We engaged with Sasol during a meeting with their sustainability team to understand the challenges with water inefficiencies and water quality risk.<br>2. No material impact on valuation, continue to monitor. |
| Physical | Changes in temperature patterns in areas of operation (impacts operating costs through increased cooling requirements) | Low | No material impact on valuation, continue to monitor. |
| Transition | Current regulation – including EU ETS, South African Carbon Tax | High | 1. We raised the potential implications of changes in carbon pricing during our engagement meetings.<br>2. We included a forecast of carbon tax within our valuation model. |
| Transition | Emerging regulation – including South African Climate Change Bill | High | |
| Transition | Technology – planned transition is highly dependent on emerging technology options | High | 1. We engaged with the company to request more disclosure on technology required for the transition (particularly on the hydrogen opportunity and gas as an alternative feedstock). This will better enable us to understand the risk and integrate any financial implications into our investment case.<br>2. We encouraged Sasol to prioritise capital allocation toward environmental transition projects necessary to reduce emissions in a letter to the chairman of the board of directors.<br>3. We included a forecast of planned transition-related capex into our valuation model. |
| Transition | Legal risk – risk of litigation related to climate change | Medium | |
| Transition | Market risk – risk of market moving away from fossil fuel-based energy sources | High | 1. We engaged with Sasol to understand how the company will shift away from fossil fuel to use more gas and renewables as energy sources. |
| Transition | Reputation – maintaining social licence to operate by being a responsible corporate citizen | Medium | 1. We requested more disclosure on the social aspect of their just transition plan during our engagement meetings. |

## South Africa's energy crisis

South Africa is currently experiencing a severe power crisis that highlights the complexity of balancing sustainability objectives against the specific needs of a country or region. As a country that is heavily dependent on coal for its electricity generation, there is a strong sustainability imperative for South Africa to decarbonise its electricity sector. However, at the same time, the country is suffering from rolling blackouts as a result of a lack of energy supply – meaning that there is a socio-economic imperative to "keep the lights on" using all available means of supply to maintain job and income security.

A similar situation was experienced in Europe in 2022, when European countries were faced with the prospect of winter power shortages as a result of the Russo-Ukrainian War. A number of these countries were forced to increase their use of "dirty" sources of energy (such as coal-fired power) in order to stave off the social and economic fallout that would have resulted from blackouts. These situations underscore the need to consider not just the environmental impact but also the social and economic ramifications of the sustainability challenges presented by the energy crisis.

The case study on **South Africa's energy crisis** demonstrates the impact that the energy crisis has had on companies within our investment universe, revealing how the challenges of climate change cannot be viewed in isolation from the socio-economic fallout resulting from an unreliable power grid.

Case study

### *'Loadshedding' – Looking at South Africa's energy crisis*

The country's ongoing electricity crisis intensified sharply in 2022 and in the first few months of 2023, with South Africans now experiencing daily power cuts of anywhere between two to eight hours. Eskom, the state power utility, is struggling with regular breakdowns in its ageing fleet of mostly coal-fired power stations – a problem exacerbated by decades of poor maintenance.

In addition, the two new coal-fired power stations, Medupi and Kusile, have been plagued with design and operational defects, limiting their ability to meaningfully contribute to available energy capacity.

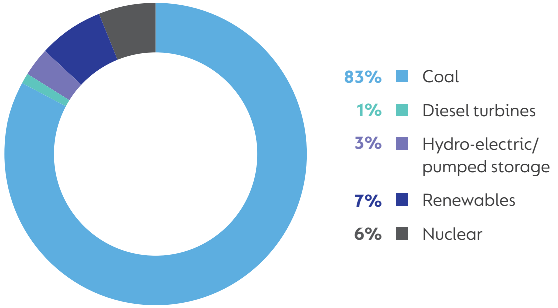
In July 2022, President Cyril Ramaphosa announced significant measures intending to limit power cuts. The reforms included initiatives to add generation capacity from renewable sources in the medium term. It was estimated that approximately 13 800MW of renewable power could be brought online over the medium term, according to this ambitious plan.

This is a sizeable estimate considering that South Africa's average peak energy demand is around 30 000MW. Eskom has installed capacity of 48 000MW, of which, on average, only 59% is available due to breakdowns and scheduled outages to perform ongoing maintenance.

Approximately 83% of the electricity produced by Eskom is generated from coal (Figure 32). With an average of 224 million tonnes of coal produced annually by South Africa, it is the fifth largest coal producing country in the world and the third largest coal exporting country in the world[9]. The country's coal reserves, thus, have a key role in the economy at present. As such, the switch to cleaner sources of power will have a significant impact on employment at mines and power plants – which is an important matter given that the country has an official unemployment rate of approximately 33%.

[9] *CO-0007-Coal-in-SA-Rev-16.pdf (eskom.co.za)*

**FIGURE 32:** ESKOM'S SOURCES OF ENERGY PRODUCTION




*Source: Eskom Integrated Annual Report*

The transition to renewables must therefore be balanced with the social and economic impact of not having reliable access to electricity, and the employment and community impact of reducing coal production over time.

Against this background, developed nations pledged $8.5 billion at COP26 to help finance a just approach to South Africa's transition away from coal. In November 2022, the South African government announced that 90% of these funds would be used to decommission coal-fired power plants in tandem with developing renewable energy generation, strengthening the transmission grid and modernising the electricity distribution system. The balance will look to fund the development of green hydrogen and electric vehicle industries as well as skills development and municipal capacity[10].

While the direction of travel is clearly to a renewable future, we are cognisant that the worldwide transition away from coal comes at a time when every kilowatt of power is critical to energy security in South Africa. Climate risks cannot be viewed in isolation from the consequential social and economic risks of an unreliable power grid.

## Research to inform engagements

As responsible stewards of our clients' capital, we need to understand the implications of frequent and persistent power cuts – which in South Africa is called "loadshedding" – on business and society. We prefer to engage with investee companies after extensive research so that we are able to engage from a more informed perspective. It has been our experience that more informed engagements are more likely to effect real-world change. Evaluating the impact of the power crisis on individual companies as well as their response to this crisis is key to understanding the ability of a company to sustain and protect value over the medium to long term – an integral part of our valuation-driven investment approach.

Over the year, we embarked on an extensive research project to establish a view on, firstly, when we can reasonably expect loadshedding to end and secondly, what the likely short- to medium-term impact could be on the underlying companies in which we invest.

We are of the view that the announcements made by President Ramaphosa were directionally positive and, at face value, had the ability to significantly ease the energy crisis. However, the level of complexity in bringing these initiatives to fruition meant that it would still be a number of years before loadshedding could be reduced meaningfully.

Our research included trying to understand the cause of loadshedding, the technical and legal processes involved with enacting the presidential announcements and whether corporates and banks would actually build and finance the private power projects envisaged by these amendments.

Importantly, the type of analysis required could not be done using financial and reported information alone. We had to undertake an extensive interview process with various industry experts to understand the opportunities and challenges at each stage of the process. This included speaking to specialist energy academics, legal and technical specialists, as well as potential private sector participants who were considering investing. Finally, with the availability of finance being critical to mobilising some of these projects, our research would not have been complete without understanding exactly how banks were assessing project credit risk.

Many energy experts believe that additional regulation would be required in order to allow for electricity trading, which would be necessary to allow some projects to become economically feasible. In addition, technical experts are of the view that the transmission grid is only able to handle additional generation to a certain level (which includes the current pipeline of private generation that we have been able to identify). Beyond this, however, heavy investment in the grid would be required

10 *South Africa's Just Energy Transition Investment Plan (JET IP) 2023-2027 FINAL.pdf*

to accommodate the additional load. The implication of this is that the grid will likely remain constrained for longer, meaning that there is no short-term fix for loadshedding, in our view. Legal experts advise that the standard process of promulgating new legislation is around 12 months, and hence it is expected that a number of projects would need to wait for this before being able to finalise project feasibility assessments and then commence with construction.

From our discussions with the various corporates, we were able to get an indication of where in their power planning/security strategies they were and, aside from legislation, what hurdles remained. As an example, many corporates found that dealing directly with municipalities was still difficult when finalising arrangements to transfer their excess electricity through transmission lines in the municipality's area of jurisdiction. And there was little incentive to supply private power to their other sites when these would still be impacted by loadshedding.

Our engagements with the banks indicated an extensive amount of work being done to better understand the risks of private generation even before the presidential announcement. We are confident that many of the banks will be in a position to finance a total of at least 3 000MW of new private projects.

## Impact of power cuts

After confirming that loadshedding would be a longer-term issue in SA, we sought to understand the impact of this on various industries. Fortunately, the integrated nature of Coronation's investment team assisted greatly in this process. Our equity and fixed income analysts were able to ask all the companies in our investment universe what the current and expected impact of loadshedding would be if our forecasts were to play out. It is not possible to outline all these findings in detail. We have, however, outlined below the general trends that were prevalent across industries.

Most companies within the resource sector have generally managed the situation well, with miners either having exempt operations or running dynamic curtailment programmes where they are proactively reducing demand during times of system stress. Food retailers, producers and restaurants have been able to keep their operations going; however, this has incurred significant additional costs for diesel to run generators which are particularly necessary for refrigeration. The main concern with industrial companies is in the manufacturing sector, where productivity is largely impacted by loadshedding despite backup power.

The banking system, at first glance, seemed the least impacted. However, we suspect the effects here will be felt longer term as the burden on SMEs is likely to be greater than for the large corporates. This could likely lead to higher write-offs and non-performing loan balances. We have yet to see the full impact on the REIT sector, which has been burdened with providing backup to their buildings, the cost of which is not always fully recovered. As a general point, however, it is probable that whatever impact we see reported now will become aggravated with longer and/or more severe stages of loadshedding.

Our engagements had additional benefits. Firstly, because we now understand exactly how various corporates are being impacted by loadshedding, and the mitigation strategies they have in place, we can better model their earnings projections which provide us with a narrower forecast band around our valuations. Secondly, because we are now more aware of the consequences and likely duration of loadshedding, the detail and granularity of our questions have improved. As an example, asking a company whether they have backup power is insufficient. The type of backup power relative to the nature of their operations is also critical to understand due to the different cost profiles and ability to supply power at different times of day (i.e diesel generators versus solar PV).

While South Africa's future energy security remains a concern, we continue to engage with all parties concerned to enhance our understanding of the crisis and what is being done to address it.

# *The net zero ambition*

The global drive towards net zero has gained significant traction over the last few years. Reaching this goal, however, is not without its challenges.

## THE ORIGINS OF THE RACE TO NET ZERO

### Paris Agreement

The Paris Agreement is a legally binding international **treaty on climate change** that was adopted at the United Nations Climate Change Conference (COP21) in Paris in 2015.

The Paris Agreement included a commitment to **limit global warming** to no more than

**2°C** above pre-industrial levels,

while pursuing efforts to limit the increase to **1.5°C**.

### Net zero

In 2018, the Intergovernmental Panel on Climate Change (IPCC) – the leading body for pronouncements on climate change – released a report stating that in order for global warming to be limited to

**1.5°C** emissions would need to decline by

**45%** by 2030 from 2010 levels and would need to reach **net zero[11] by 2050**.

## THE GLOBAL RESPONSE

### Country commitments

Individual countries set out their plans to reach net zero in their **nationally determined contributions** (NDCs), which are updated, at a minimum, every five years.

### Investment industry response

The **Net-Zero Asset Owner Alliance** and the **Net Zero Asset Managers Initiative** are two examples of collaborative efforts in the investment industry that are trying to develop viable approaches supporting net zero ambitions. Some of the levers at their disposal are:

- engagements;
- investing in decarbonisation opportunities;
- setting portfolio and sectoral targets.

## THE IMPLICATIONS OF NET ZERO TARGETS

### Decarbonisation and emerging markets

Energy from fossil fuels is an important underpin of the **development plans** of many developing countries and terminating financing opportunities for these technologies can put their development at risk. A withdrawal of funding may also not necessarily lead to carbon emission reductions, as developing countries may source funding from partners who do not prioritise environmental impacts.

COP27 SHARM EL-SHEIKH EGYPT 2022

At COP27, an agreement was reached to establish a **loss and damage fund**, intended to provide financial assistance to developing countries, recognising that they are disproportionately affected by climate change, and require financial assistance to cope with its impacts.

### A just transition

The shift to sustainable economies will **impact workers and communities** and managing this transition equitably is known as a just transition. It should aim to address the implications for affected individuals as well as to distribute climate change responsibilities fairly, accounting for each country's historical emissions and climate change exposure.

### Factors to consider

Setting a net zero target requires consideration of various factors, including:

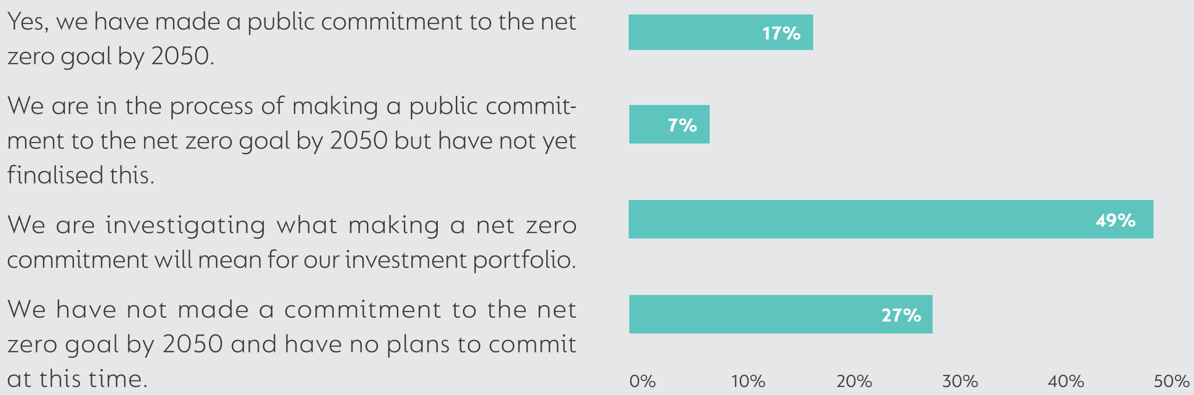
- Inclusion of $CO_2$ emissions or a wider **range of greenhouse gases**;
- **Scope** of emissions covered;
- **Proportion of total emissions** included in the target;
- Required **investment and timeline** for achieving the target;
- How to **measure** emissions and monitor progress.

[11] *Net zero emissions are achieved when emissions of GHGs resulting from human activities are balanced by the deliberate removal of GHGs from the atmosphere over a specified period*

**What do our clients say about net zero?**
In 2022, as part of our engagement strategy with our clients, we surveyed the extent to which our clients were considering or committed to achieving net zero within their portfolios. As shown in Figure 33, 50% of our clients surveyed are exploring the implications of committing to net zero to understand whether it is feasible for them and their members. Only slightly over 20% of clients had either already made a public commitment to net zero or were in the process of doing so. This is to be expected since the consequences for such a declaration are different to entities operating in the constrained developing market context when compared to global developed nations.

**FIGURE 33:** SURVEY RESULTS: CLIENTS' RESPONSE TO NET ZERO

**Has your organisation made a public commitment to achieving net zero greenhouse gas emissions from its investment portfolio by 2050?**




**The South African context**
The Nationally Determined Contribution (NDC) is a key component of a country's climate policy and outlines its commitment to reduce greenhouse gas emissions and related targets.

As a South African company with a significant local client base, a large portion of our investments are domiciled in the country and as such, determines the policy and regulatory framework within which South African companies must operate. It also serves as a signal to companies regarding the level of emissions reduction required to align with the country's climate goals.

South Africa updated its NDC in September 2021, enhancing its 2030 emissions reduction target range and introducing a 2050 net zero target as part of its Low Emissions Development Strategy.

However, the country's climate policies and commitments still require further enhancement to align with the temperature threshold outlined in the Paris Agreement. This means that the policy environment in which South African companies operate is unlikely to be sufficient to achieve the Paris objectives, and hence must be factored into any net zero considerations.

## The hurdles to meeting net zero targets

Transitioning from fossil fuels to sustainable energy sources requires significant investment and credible plans to be implemented by governments, companies, and society as a whole, as fossil fuels still account for over 80% of global energy consumption. However, the feasibility of net zero commitments is questionable without evidence of practical implementation plans, and there is often insufficient funding to execute the strategies. The assumption that necessary technologies will be available and commercially viable in time to meet commitments is also uncertain, and accurate carbon footprint measurements are contested due to the lack of verifiable data.

Additionally, the transition to sustainable energy sources can present nuanced challenges that involve trade-offs between different ESG elements. For instance, while closing environmentally harmful operations can benefit the environment, it may have negative social impacts

**By embarking on a journey to help a company decarbonise its operations, we can systematically manage and reduce exposure to fossil fuel assets and production in a manner that is both orderly and environmentally conscious.**

on the affected communities. Therefore, potential solutions need to be considered carefully to avoid any unintended consequences.

## Our perspective on net zero

As an organisation, we are aligned with the goals of the Paris Agreement, and therefore the goal of achieving net zero where it forms part of a coherent and credible strategy for meeting the Paris objectives. We have made commitments to initiatives such as TCFD, Climate Action 100+, and PRI which are aligned to our stewardship approach and support our corporate climate objectives. Where we have made these commitments, we have only done so when we are confident that targets are clear and achievable and will lead to significant change. We take our commitments very seriously and will only make specific commitments that we believe are realistic and achievable.

From a net zero perspective, we are mindful of the following challenges:

- It will be difficult to measure the effectiveness of net zero strategies until there has been meaningful progress in climate-related disclosures.
- As a company with the majority of assets invested in South African domiciled companies, the ability of our portfolio companies to decarbonise will depend on the strength of the country's NDC. Given that South Africa's NDC is not currently viewed as Paris-aligned, it is unrealistic to commit to portfolio-level decarbonisation when the policy environment does not support this.
- Ultimately, a blanket commitment to achieving portfolio-level net zero, without consideration of the wider context, may force investment companies to divest from companies that are unable to meet requirements in the interim, even if they are making good progress toward decarbonisation.

We will therefore continue to focus on engaging with investee companies, with the ultimate goal of achieving a fair share in reduction in emissions consistent with a goal of 1.5°C, while being cognisant of the national circumstances of the jurisdictions in which we invest.

## Divestment and decarbonisation

As active managers and advocates for real, on-the-ground change, we prefer to actively engage with companies to drive long-term, sustainable transformation rather than simply divesting from them. By embarking on a journey to help a company decarbonise its operations, we can systematically manage and reduce exposure to fossil fuel assets and production in a manner that is both orderly and environmentally conscious. This approach entails companies setting credible emission targets and committing to clear plans outlining how they will achieve these goals. To hold companies accountable for their commitments, robust and ongoing engagement is essential.

Although divestment may seem like an easy way to decarbonise a portfolio, it does not necessarily lead to real-world change. A portfolio can be underweight or fully divested from high-carbon stocks. Divestment advocates argue that it is a quick and visible way to send a strong political signal. However, a focus solely on portfolio-level carbon intensity can lead to investors artificially demonstrating that their portfolios are reducing emissions in line with decarbonisation targets, without reflecting any actual real-world reduction in emissions. In doing so, it may risk losing sight of the larger objective of driving genuine, on-the-ground decarbonisation efforts. Furthermore, divestment can hurt companies that need the capital and incentives to transition.

The theoretical rationale behind divestment is that it can create incentives for companies to change their ways. For example, divestment can incentivise companies to reduce their carbon emissions if it raises their cost of capital. However, the cost of capital also depends on the extent to which other investors are willing to fund companies without considering their carbon emissions. Moreover, many carbon emitters generate excess cash and do not rely on investment markets for further funding.

The role of commodities in an investment portfolio offers a clear example of the complexity involved in considering sustainability issues, and why we prefer an approach of understanding and engagement over divestment. As such, it highlights the importance of understanding the dynamics within individual companies and the industries in which they operate, and how these affect real world emissions. Our case study on the **commodity companies** that are held within our Frontier Market portfolios shows how we think about these investments from a sustainability perspective.

**Although divestment may seem like an easy way to decarbonise a portfolio, it does not necessarily lead to real-world change.**

Case study

## *Sustainability and commodity companies in Africa*

Various tensions often arise when considering sustainability factors in a commodity company's investment case. Coal companies, for example, are huge carbon emitters, while oil spills are environmental disasters and, sadly, mining fatalities occur far too frequently. Incredibly challenging working conditions, the destruction of natural vegetation to make way for mines and, at times, the contamination of groundwater supplies are further concerns.

Based on sustainability considerations, it is easy to make a case for avoiding ownership of the sector altogether. While the above challenges are serious, they need to be balanced with two current realities. Firstly, commodities play a vital role in the decarbonisation of the global economy. Secondly, during the transition to a more renewable and greener future, the world remains heavily reliant on a variety of sources of power.

Effectively navigating the tension between the negative externalities and the legitimate need for the industry requires more than a simple divestment or box-ticking approach to sustainability. Detailed, fundamental research is needed to understand how individual businesses operate and how the associated sustainability risks affect the investment case. By understanding more than just the financial aspects of the investment case, our risk management improves, and we gain insights into factors that could ultimately affect the company's financial performance over the long term. While it is natural to yearn for clear-cut distinctions between black and white, or good and bad, the reality is that choices often require a nuanced approach. The commodity sector is a prime example of this.

Our Global Frontiers Strategy invests in several commodity companies. These investments provide access to very attractive businesses at compelling valuations that provide valuable diversification benefits to the portfolio. Unlike many of the other portfolio holdings, commodity companies are hard currency earners, are often listed on international exchanges (with the attendant governances) and are an important part of the investment universe. Platinum group metals (PGMs) and copper are two examples of commodities that can play a key role in the energy transition.

## Platinum group metals

The transition towards electric vehicles is expected to take several years with the International Energy Agency (IEA) setting milestones for 60% of global car sales to be electric by 2030 and for no new internal combustion engine vehicles to be sold by 2035. The sales of vehicles with internal combustion engines still exceed the sales of electric vehicles by an order of magnitude. Statista estimates that 66 million cars were sold in 2022, of which only about eight million were electric vehicles. The transition to electric heavy-duty vehicles is projected to take even longer, with electric vehicles accounting for a mere 2% of the total vehicles sold.

As the transition towards electric vehicles is happening gradually, the use of platinum group metals (PGMs) in auto catalysts is still significant for curbing harmful emissions from internal combustion engines in the short run. PGM miners therefore have a crucial role to play in reducing emissions.

One example of a PGM business we hold on behalf of our clients is Zimplats, the Zimbabwean subsidiary of Impala Platinum. Zimplats is a high-quality asset with low production costs and a projected mine life of 40 years. Although any mining operation will inevitably have some carbon footprint, Zimplats is making significant strides towards becoming a global leader in ESG standards. The company has an excellent safety record as this is a shallow, mechanised mine and they have undertaken numerous social projects such as food aid, hospital refurbishments and a cattle and dairy community project. Furthermore, the company recently announced a $1.8bn investment plan, which includes environmentally-focused investments, such as a 185MW solar power plant and a $SO_2$ abatement plant that will make the company world-class in terms of emissions.

These investments will not just improve the company from an ESG perspective but also its overall business fundamentals. For instance, the solar power plant is expected to enhance energy security and reduce electricity costs. We also believe that over time PGMs produced according to the highest ESG standards may command a premium, given the increasing focus on carbon footprint reduction. We anticipate that in the future, customers will be willing to pay a premium for PGMs that were produced with a lower environmental impact.

## Copper

Copper is perhaps the most important metal needed for a decarbonised future. It is second only after silver in terms of electrical conductivity and, importantly, much more affordable. Copper is used extensively in solar panels, wind turbines, electricity lines and in most forms of batteries. The anticipated renewable energy revolution and transition from internal combustion engine vehicles to electric vehicles would simply not be possible without copper. Copper is increasingly known as a green metal. The world will need to mine significantly more copper to achieve its goals. According to Wood Mackenzie, copper demand is expected to increase by almost 10mt or 40% over the coming decade, driven by clean energy and electric vehicles.

**The anticipated renewable energy revolution and transition from internal combustion engine vehicles to electric vehicles would simply not be possible without copper.**

One example of a copper mine that we own in the strategy is Ivanhoe Mines, a Canadian-listed mining company with a stake in several assets in Southern Africa, including the Kamoa-Kakula Mining Complex (KKMC). KKMC is a truly tier 1 asset in the Democratic Republic of Congo (DRC). The complex is one of the largest in the world, has the highest copper grades, is incredibly low cost and has an expected mine life of 40 years. The mine was commissioned in 2021 and is ramping up very well. It will play a key role in providing the much-needed copper for the world's energy transition.

Importantly, the mine also has one of the lowest carbon footprints in the world as it is powered mainly by hydroelectricity. Since 2015, Ivanhoe and partners at Kamoa-Kakula, have financed improvements in power generation and transmission infrastructure across the country, including the upgrade of the Mwadingusha power station completed in 2021. A further refurbishment of a unit at the Inga II facility is expected to be completed in late 2024. Together, these facilities will generate over 250MW of clean electricity, which will be fed directly into the DRC grid.

As expected from any good corporate citizen, Ivanhoe's sustainability approach is underpinned by the Global Reporting Initiative's Core Option Guidelines and aligned with the SDGs. The company has implemented various social, environmental and governance initiatives such as providing clean water for 12 000 people through 35 solar powered boreholes, constructing a clinic for improved healthcare, and establishing an agriculture garden focused on maize, vegetables, fruit, aquaculture, poultry and honey for the benefit of 900 farmers in the community.

Clean energy projects do not only make environmental sense, but also good business sense as each project, whether solar power or hydro, must have a positive internal rate of return. Renewable energy sources also provide more security of supply than the national grid. Finally, in a world where all companies are looking to reduce carbon emissions, sourcing lower carbon inputs makes sense. It is expected that in the future, companies will be willing to pay a premium for lower carbon or more sustainable copper sources.

## Conclusion

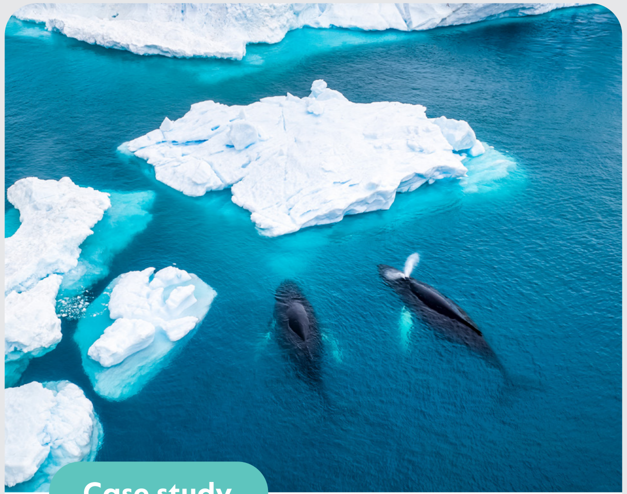
The role of commodity companies in the energy transition is a complex issue that requires a holistic understanding of each investee company and the context in which it operates in order to achieve on-the-ground progress. Our investment process therefore involves a detailed consideration of the risks and opportunities available to companies in the context of the environment within which they operate, as well as how companies are responding to these factors. The results of our research are reflected in our fair value estimates and risk assessments and ensure that capital is directed towards those companies that are playing an important role in aiding the transition.

## Disclosure of climate data

When it comes to tackling climate change, one of the most critical challenges remains the lack of consistency in company-reported sustainability data. Without robust, comparable, and reliable climate-related disclosure, it is difficult to conduct fundamental company analysis and integrate transition risks, physical risks, and liability risks into our investment process. High-quality data is also essential to provide comprehensive portfolio-level views of climate-related risks and exposures.

A good understanding of each company's greenhouse gas emissions, historical actions, and future plans is necessary to drive change. Moreover, clients and regulators are increasingly demanding improved disclosure of investment fund's exposure to climate risk. Therefore, it is imperative to address the challenge of inconsistent sustainability data to allow all stakeholders to make informed investment decisions and meet evolving expectations.

To address these challenges, we have embarked on a multi-year project to **improve the quality of climate-related disclosure** by our investee companies. We started in 2020 by evaluating different sustainability frameworks and chose the TCFD as the best one to encourage companies to adopt.



Case study

*Advocating for improved disclosure by emerging markets companies*

INDUSTRY

ACROSS INDUSTRIES

REGION

EMERGING MARKETS

ACTION

LETTERS AND MEETINGS

OUTCOME

POSITIVE AND ONGOING

Toward the end of 2020, we embarked on a process to encourage 90 JSE-listed companies to disclose information in line with the TCFD recommendations. This began with sending initial letters and emails requesting disclosure and was followed by various engagements with companies.

Furthermore, an important part of this process included Coronation Fund Managers, our listed holding company, signing up as an official TCFD supporter. We began reporting in line with this framework in our 2021 Integrated Report.

## Progress to date

We have been closely monitoring the progress of the companies that were included in the initial cycle of our engagement project. Table 3 provides a summary of the responses received from the 90 companies engaged during this project. It is encouraging to see an increase in the number of companies committing to TCFD reporting.

## Additional action items

In 2022, we expanded the project to include companies in our emerging markets universe. We began by analysing the sustainability reporting practices of companies in our Global Emerging Markets portfolio. This involved identifying which companies were already aligned with sustainability frameworks and the specific frameworks they were using. We compiled a shortlist of companies that did not comply with TCFD or did not commit to TCFD alignment in the future. In addition,

**TABLE 3:** RESULTS OF ENGAGEMENTS ON TCFD

| | 2021 | 2022 |
|---|---|---|
| Committed to implementing/already reporting in line with TCFD | 55 | 65 |
| Committed to partial TCFD disclosure | 11 | 7 |
| Assessing how to improve their sustainability disclosure | 7 | 4 |
| Our request is still under discussion | 4 | 2 |
| No communication of a tangible plan | 8 | 6 |
| Not looking to implement TCFD at this stage | 5 | 6 |

we excluded companies that disclosed a CDP Climate Change response, as this submission contains TCFD-aligned information.

## Current status

It is encouraging to see that many companies in our universe have already started a TCFD or CDP disclosure journey. The increasing adoption of these sustainability standards suggests a growing global consensus, potentially influenced by mandatory TCFD disclosure requirements being introduced in a growing number of jurisdictions around the world.

We have reached out to 13 companies from the shortlist that we compiled, using various communication methods such as emails, meetings and letters. We are awaiting a formal response from five of the companies with which we engaged, while four companies are still in the process of evaluating our request. Three companies have stated their plans for future adoption of TCFD, while one company has confirmed their adoption of TCFD.

We continue to engage with companies within our investment universe to promote widespread, consistent and comparable disclosure, so as to improve our ability to assess climate risk at a portfolio level.

### *Why TCFD?*

The TCFD includes all the key tenets that we believe are necessary for our analysis of climate-related risk, without being unduly burdensome on the issuer. It is not overly prescriptive and allows the issuer some discretion in the form and content of information disclosed, which should ease widespread adoption.

The TCFD provides an overarching four-part framework, applicable regardless of sector, to help investors understand a firm's governance and business practices in relation to the specific topic of climate risk.

It is structured around four thematic areas – governance, strategy, risk management, and metrics and targets (see Table 4).

As the TCFD marked its fifth year in 2022 since releasing its final recommendations in 2017, an increasing number of companies have continued to adopt TCFD-aligned reporting. The TCFD's requirements are increasingly becoming a global standard, with regulatory and other reporting standards converging around it through the inclusion into laws, rules or other forms of guidance. This has further bolstered the TCFD's acceptance and adoption worldwide. Some of the developments that have taken place in recent years include:

- In South Africa, the JSE released its "Sustainability and Climate Disclosure Guidance", which builds on the recommendations of the TCFD.
- In 2020, the UK government produced a roadmap to making TCFD-aligned disclosures mandatory across the economy by 2025. TCFD disclosures became mandatory for large pension schemes, authorised master trusts and CDC schemes in 2021, with smaller schemes having to comply from October 2022. In addition, large UK-registered companies that meet certain criteria have been required to report in terms of the TCFD since April 2022.
- In January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force in the EU. This increases the scope of mandatory disclosures to almost 50 000 large listed and unlisted companies.

- In 2021, the International Financial Reporting Standards (IFRS) Foundation formed the International Sustainability Standards Board (ISSB). In March 2022, the ISSB published a sustainability-related disclosure standard and a specific climate-related disclosure standard for consultation. Both drafts build upon the TCFD recommendations. The ISSB expects to issue an IFRS Sustainability Disclosure Standard around the end of Q2 2023.
- The US Securities and Exchange Commission (SEC) proposed changes to its regulations in March 2022. The amendments would mandate that companies include climate-related information consistent with the TCFD recommendations in their annual reports and registration statements.
- Other jurisdictions have proposed mandatory climate disclosures aligned with TCFD, including New Zealand, Switzerland and Hong Kong.
- The UN Sustainable Stock Exchange Initiative constructed a database which shows activities being undertaken by 78 stock exchanges to enhance the TCFD recommendations in their respective markets.

**TABLE 4:** TCFD RECOMMENDATIONS AND SUPPORTING RECOMMENDED DISCLOSURES[12]

| Governance | Strategy | Risk management | Metrics and targets |
|---|---|---|---|
| Disclose the company's governance around climate-related risks and opportunities. | Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material. | Disclose how the company identifies, assesses, and manages climate-related risks. | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. |
| Describe the board's oversight of climate-related risks and opportunities. | Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. | Describe the company's processes for identifying and assessing climate-related risks. | Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. |
| Describe management's role in assessing and managing climate-related risks and opportunities. | Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. | Describe the company's processes for managing climate-related risks. | Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas emissions, and the related risks. |
| | Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management. | Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. |

[12] *Sources: Task Force on Climate-Related Financial Disclosures, available at 2021-TCFD-Implementing_Guidance.pdf (bbhub.io); and TCFD 2021 Status Report, available at 2021-TCFD-Status_Report.pdf (bbhub.io)*

## Measuring carbon emissions

It is only possible to judge the success of decarbonisation efforts if we can properly measure and report on the extent to which companies are lowering their carbon emission intensity. Climate-related reporting is an area that is changing rapidly, with the industry mainly focused on quantifying a company's or a portfolio's carbon footprint through metrics like total carbon emissions or the carbon intensity of emissions.

However, as it is our view that portfolio decarbonisation alone does not necessarily lead to real-world emission reductions, our portfolio reporting does not attempt to portray a decarbonisation trend. Rather, we seek to offer an understanding of how our portfolios fare relative to the investment universe, which stocks pose the highest climate-related risks and how these risks are being addressed.

### How we measure carbon emissions

Our approach to measuring carbon emissions enables us to identify companies that are most exposed to climate-related risks. To achieve this, we currently focus primarily on scope 1 and 2 emissions, which are the emissions produced directly by a company's activities, or related to the electricity it consumes. By comparing total emissions against total revenues and/or market capitalisation, we can get a sense of the emissions intensity of each business in order to identify which companies are big emitters. Although these direct measures may not provide a comprehensive indication of which companies will emerge as winners or losers in the future, they serve as a valuable initial screening tool for identifying the extent of exposure to major emitters.

Scope 3 emissions refer to indirect emissions that occur in a company's value chain, including the emissions from raw material extraction, product manufacturing, transportation, product use, and end-of-life disposal. The measurement and management of scope 3 emissions is critical to achieving a low-carbon economy, as these emissions can account for the majority of a company's carbon footprint. As the price of carbon increases, companies may face pressure to reduce their scope 3 emissions and transition to a more sustainable business model. However, this may impact margins across the value chain, depending on the ability of companies to pass on costs to consumers. Therefore, it is essential to understand the impact of carbon emissions on our investments, including the potential for margin expansion or contraction.

The use of scope 3 emissions data poses several challenges and may not give a complete and accurate picture of emissions at a portfolio level. This is mainly because scope 3 disclosures are not yet standardised. For instance, companies may differ in how they define and report scope 3 emissions, with some including the supply chain while others focus on customer usage. In addition, some companies report carbon emissions only, while others include all greenhouse gases; and some reporting is based on observed emissions, while others rely on third-party systems.

Scope 3 emissions reporting can also introduce the risk of double counting because multiple companies along the same supply chain may include the same emissions in their reporting, leading to an overestimation of the total emissions produced.

Furthermore, it is important to be mindful that not all companies disclose scope 1, 2 and 3 emissions. As shown in Table 5, the percentage of stocks reporting emissions data varies across the benchmarks. The data reveals that developed markets have significantly higher coverage than emerging markets, particularly for scope 3 emissions. While overall coverage levels need to improve significantly, it is encouraging to see coverage increasing over time.

**TABLE 5:** % OF COMPANIES THAT REPORT EMISSIONS DATA

| | Emerging Markets | | Developed Markets | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Scope 1 & 2 | 53% | 41% | 78% | 74% |
| Scope 3 | 27% | 20% | 66% | 63% |

*Source: MSCI*

Our case study on **Amazon** provides a clear illustration of the challenges that arise when analysing climate disclosures, particularly when working with scope 3 data.


Case study

# *Interrogating Amazon e-commerce emissions disclosures*

| COMPANY | REGION |
|---|---|
| AMAZON | UNITED STATES |
| **ACTION** | **OUTCOME** |
| LETTERS | NEGATIVE TO DATE |

Amazon is one of the world's largest e-commerce companies, commanding about 35% of the e-commerce market. In 2022, an estimated \$591bn worth of products were sold through its platform and around 19 billion products were packed and shipped globally[13].

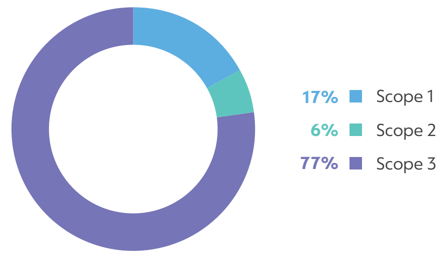
Just over half of the sales on Amazon's platform come from products sold by third-party vendors who use Amazon as a marketplace. The remaining sales are from Amazon's own products, which include products without the Amazon brand, as well as products with the Amazon brand, like the Kindle, Fire tablet, Fire TV, Echo, and Ring. In addition, around 270 million Prime members spent approximately \$35bn on subscription services, including free shipping for online purchases.

Amazon and the businesses in its value chain have a profound impact on the environment. The company operates a massive network of warehouses, data centres, and delivery trucks that consume enormous amounts of energy and generate large volumes of greenhouse gas emissions. Additionally, packaging materials, including cardboard and plastic, generate significant waste that can take years to decompose.

Against this background, Amazon co-founded and signed The Climate Pledge in 2019, an ambitious commitment to reach net zero by 2040 – 10 years ahead of the Paris Agreement. Given the extent of Amazon's value chain, most of Amazon's emissions are in scope 3 (indirect emissions produced by other stakeholders in their value chain, see Figure 34). Measuring and reporting on scope 3 emissions would therefore be an important part of its efforts to reach the commitments of The Climate Pledge.

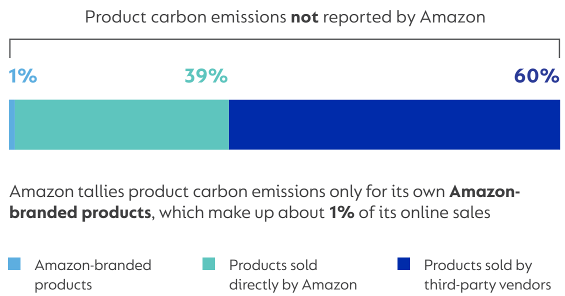
While Amazon's Climate Pledge is a strong positive signal about its intent to manage its environmental impact, according to recent reports and our own estimates, Amazon is excluding a significant proportion

**FIGURE 34:** AMAZON'S REPORTED EMISSIONS IN 2021




*Source: Amazon Sustainability Report 2021*

**FIGURE 35:** SHARE OF AMAZON'S ONLINE SALES BY PRODUCT TYPE




*Source: Reveal reporting*

[13] *Morgan Stanley*

of its emissions from reporting. Amazon is using the GHG Protocol to account for their emissions, which states that a company should not exclude any activity that is expected to contribute significantly to emissions, and if any activity is excluded, to justify the exclusion.

**DEFINING SCOPE 1, 2 AND 3 EMISSIONS**

**SCOPE 1:**
Direct greenhouse gas emissions from sources controlled or owned by an organisation. For a retail or e-commerce company, this would typically include transport in vehicles that the company owns as well as emissions from products the company manufactures.

**SCOPE 2:**
Indirect emissions from the production of purchased energy.

**SCOPE 3:**
Indirect emissions produced by other stakeholders in their value chain. For a retailer, this should include all emissions from suppliers, such as their emissions from manufacturing products and transportation, as well as purchased energy.

## Issue identification

In the first half of 2022, it came to our attention that Amazon was not reporting all of its scope 3 emissions[14]. An article published by Reveal, a publication of the Center for Investigative Reporting, pointed out that Amazon only reports scope 3 carbon emissions for its Amazon-branded products, which only make up about 1% of its online sales (Figure 35).

To effectively and authentically measure and manage progress towards the 2040 goal of carbon neutrality, it is essential that Amazon reports accurately on its entire value chain, including indirect emissions from third-party manufacturers and merchants using Amazon's platform. Without a complete understanding of the baseline emissions, tracking progress towards the goal would be challenging and potentially even meaningless, as they may have met their goal per their defined boundary, but the boundary excludes a significant part of their total footprint. Additionally, given the scale, reducing emissions from third-party sources is crucial to achieving carbon neutrality.

**FIGURE 36:** SCOPE 1 EMISSIONS (t/$m)

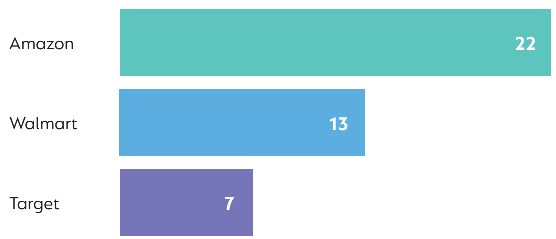



**FIGURE 37:** SCOPE 2 EMISSIONS (t/$m)


**FIGURE 38:** SCOPE 3 EMISSIONS (t/$m)

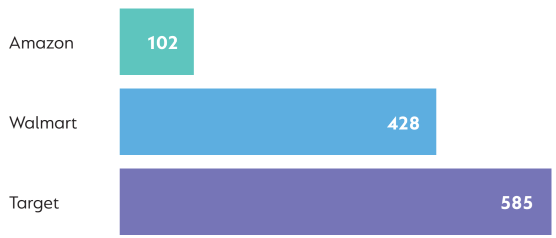
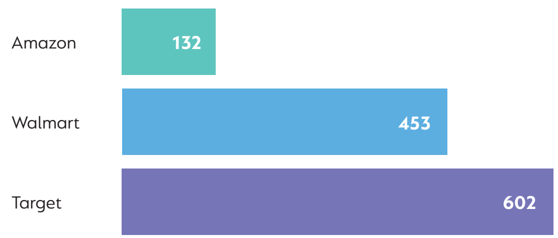



**FIGURE 39:** TOTAL EMISSIONS/REVENUE (t/$m)




[14] *Joely Crichard, "Into the Greenwash", ESG Bulletin, Atlantic Equities, 3 May 2022 and Will Evans, "Private Report" Shows How Amazon Drastically Undercounts Its Carbon Footprint, Reveal, 25 February 2022*

We analysed Amazon's emissions to verify these claims and evaluate potential risks for the company if they were accurate. In addition, we assessed any necessary actions that should be taken in response to the findings.

## Analysis

As a starting point, we benchmarked Amazon against other US-based general merchandise peers to better understand industry reporting.

**Benchmarking disclosures**

We selected the three largest general merchandise retailers in the US, outside of Amazon, for the comparison – Walmart, Costco and Target – and retrieved their CDP submissions. As Costco did not disclose scope 3 emissions, they were omitted from the analysis.

We graphed total scope 1, 2 and 3 emissions, normalised by the revenue or gross merchandise value (value of products sold on an e-commerce platform) to be able to compare the companies given their differing sizes and different methods of reporting[15] (see Figures 36 to 39).

The first noteworthy observation was that Amazon's total emissions intensity is 22% of Target's, despite Amazon having a gross merchandise value of roughly five times Target's revenue. Furthermore, Amazon's total emissions intensity is 29% of Walmart's , a similarly sized retail business. These findings are even more surprising when considering that Amazon ships items directly to the consumer, with the last mile requiring more transport than predominantly brick-and-mortar retailers, who ship items to stores.

While disclosed scope 1 emissions, as reflected in Table 6, looked broadly plausible, scope 2 disclosures looked less plausible and scope 3 emissions looked highly unlikely.

**Deepdive into scope 3 disclosures**

We drilled into the components of scope 3 emissions and noted four areas where Amazon may not have reported all their emissions (Table 6).

**TABLE 6:** NORMALISED EMISSIONS FOR AMAZON, WALMART AND TARGET

| SCOPE | AMAZON 2020 | AMAZON 2021 | WALMART 2021 | TARGET 2021 |
|---|---|---|---|---|
| 1 | 21 | 22 | 13 | 7 |
| 2 | 11 | 8 | 11 | 10 |
| 3 | 95 | 69 | 403 | 569 |
| **BREAKDOWN OF SCOPE 3 EMISSIONS** | | | | |
| Downstream transportation and distribution | 6 | 5 | 4 | 48 |
| Purchased goods and services | 36 | 35 | 326 | 296 |
| Use of sold products | 3 | – | 56 | 188 |
| Employee commuting | 1 | – | 4 | 4 |
| Capital goods | 28 | 28 | 2 | 10 |
| Non-scope 1 or 2 fuel and energy-related activities | 3 | – | 7 | 6 |
| Upstream transportation and distribution | 18 | – | 4 | 17 |
| Other | – | – | – | – |
| **Emissions (t/$m)** | **128** | **99** | **427** | **586** |

[15] *E-commerce firms only report the fees they earn on third-party sales, which does not provide a good proxy for the value of goods sold through the platform*

**Downstream transportation and distribution** refer to emissions from transporting products to customers. Given that Amazon fulfils and ships products directly to consumers, it seems very unlikely that all emissions from these services are included in Amazon's reporting. One would expect Walmart and Target to report figures much lower than Amazon's given that they distributed to fewer endpoints. It is surprising that Walmart's figure is roughly in line with that of Amazon, and that Target's is higher. We believe that increased clarity on this discrepancy would be helpful.

**Purchased goods and services** include all upstream emissions from the production of products and services that are purchased or acquired by the reporting company.

Amazon's reported emissions/$ million in this category is 12% of Target's (Table 6). In its submission, Target included emissions from all purchased goods and services.


While third-party sales through Amazon's site are technically not sold by Amazon, there are significant emissions produced from the sale of these products, and these sales are enabled by Amazon. In our view, these should be included in Amazon's emission disclosures. This would increase the responsibility of Amazon to properly evaluate the carbon emissions profiles of its third-party sellers, and to encourage these sellers to reduce emissions. This would ultimately provide a fairer baseline for calculating their progress toward net zero emissions.

**Use of sold products** accounts for emissions from the consumption of products by end users. Given that all three retailers are general merchandise retailers, Amazon's emissions appear surprisingly low. It is improbable that consumers use Amazon's goods in a fundamentally different manner than those sold by other retailers.

**Employee commuting** includes emissions from the transportation of employees between their homes and their worksites. While small in the overall context of the company's scope 3 emissions, a comparison to its peers suggests that Amazon is under-reporting the emissions relating to employee commuting.

Moreover, it is disappointing that Amazon's 2021 Sustainability Report and CDP report on 2021 emissions data provide less granular information on scope 3 emissions than its CDP report on 2020 emissions data.

## Action

On 18 November 2022, we sent a letter addressed to the chairman of the board, Jeff Bezos.

We shared our findings and recommended the following steps be taken by Amazon to improve the quality of their emissions disclosure:

1. Capture the full middle- and last-mile emissions in their reporting of downstream transportation and distribution emissions, even where these emissions are produced by third parties or outsourced service providers.
2. Develop a plan to include more products and services in the reporting of emissions from purchased goods and services and use of sold products categories.
3. Provide clarity on why emissions from employee commuting are so much lower than peers, whether this properly reflects the state of employee commuting emissions and if not, a plan to correct this.
4. Improve disclosure of scope 3 emissions and confirm that they are following best practice as well as the spirit of the CDP guidelines.

This letter was followed by another on 6 February 2023, requesting an engagement with a representative responsible for sustainability at the company.

On 25 April 2023, we received a high-level response from Amazon's Head of ESG Engagement. Disappointingly, the response was insufficient in addressing many of our concerns. The response stated that third-party sellers control their own carbon emissions and accounting, thereby delegating all responsibility for emissions from products sold by vendors on their platform to those vendors. It failed to address any of our concerns regarding non-Amazon branded products sold directly by Amazon.

The response referenced the methodology used to calculate emissions from transportation, clarifying that emissions from third parties and outsourced service providers are included in their emissions disclosure. However, the letter failed to provide an explanation for Amazon's comparatively low reported figures for transport in Table 6.

## Recent developments

In December 2022, two Amazon shareholders filed a resolution urging the company to measure and disclose the total amount of emissions generated by its entire value chain, including emissions from all products they sell directly as well as those sold by third-party vendors. Amazon responded by requesting permission from the US Securities and Exchange Commission (SEC) to exclude this shareholder proposal from its 2023 AGM, claiming that it seeks to micromanage the company. The SEC declined the shareholders' request.

## Next steps

As a smaller shareholder, it can be challenging to influence change at a company as large as Amazon. While we have a vested interest in improving their carbon emissions reporting and reducing their overall impact on the environment, our influence as a single shareholder is limited. As members of the Principles for Responsible Investment (PRI), we have a platform to engage with other investors and push for change collectively. Our next logical step is to use this platform to collaborate with other shareholders to encourage Amazon to improve its CDP submissions and emissions reporting.

In addition, we will aim to arrange a meeting with Amazon's Head of ESG Engagement and address these issues in that meeting.

Despite the challenges, we remain committed to advocating for responsible and sustainable business practices at Amazon and across our investment portfolio.


## Portfolio carbon metrics

We follow the TCFD framework and report the weighted average carbon intensity of selected investment portfolios. The carbon intensity of a portfolio is calculated as the estimated number of tonnes of carbon emitted for every $1 million in revenue generated by the weighted average of the portfolio's underlying holdings.

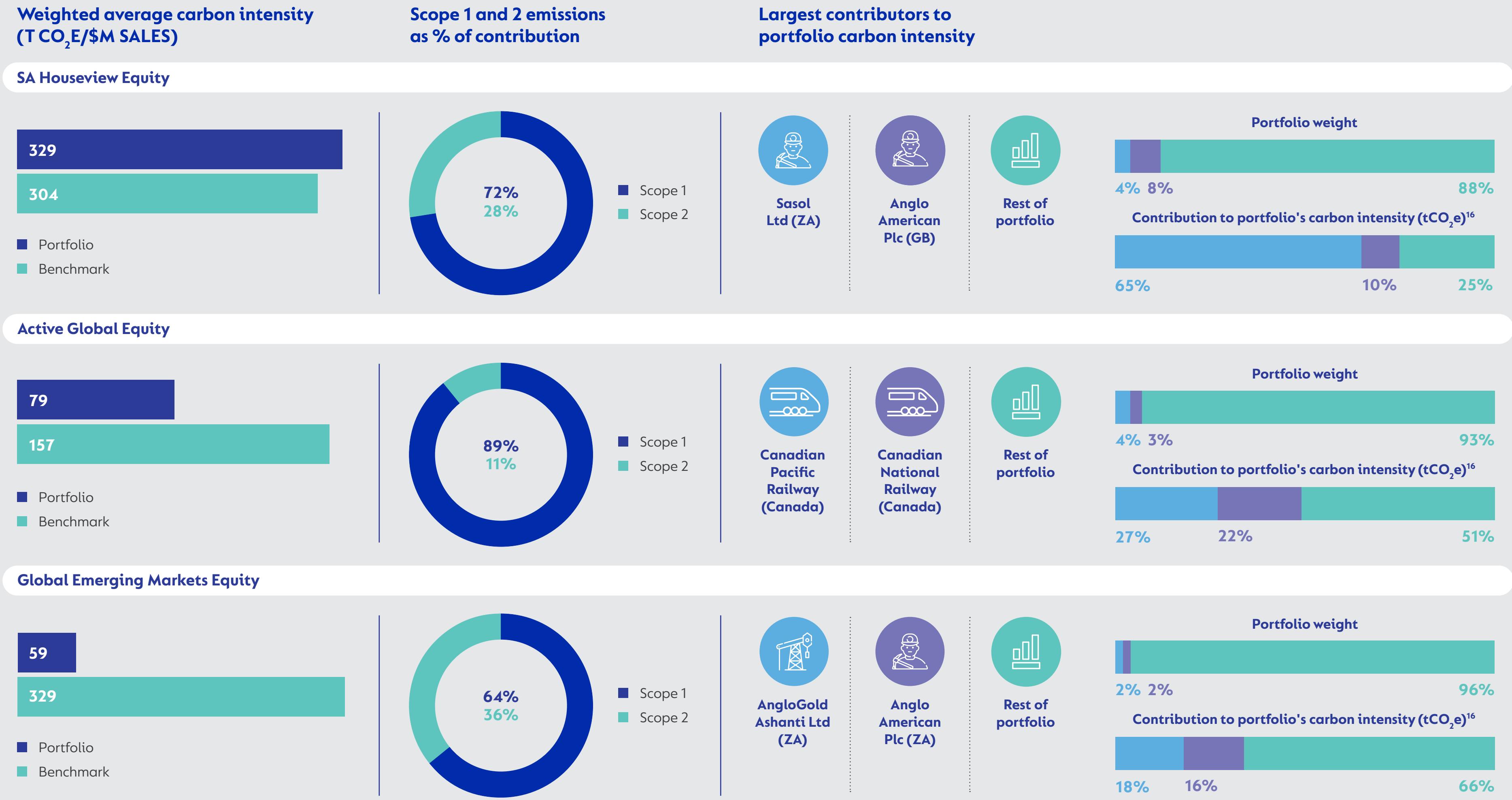
However, it is important to be mindful of the limitations of compiling portfolio-level carbon emission statistics. Firstly, these statistics only provide a backward-looking measure of the carbon footprint of a portfolio at a single point in time, and do not indicate how investee companies are decarbonising their operations. Secondly, a portfolio's carbon footprint is determined by its holdings, which can change over time and are not necessarily comparable year-on-year. Lastly, the lack of robust and comparable climate-related disclosures by companies is a concern that we expect will improve over time as more companies begin to adopt industry-wide reporting frameworks, such as TCFD.

## Contributors to portfolio carbon intensity

In order to identify priorities for our stewardship activities, it is instructive to understand which companies are contributing most to carbon emissions. It is evident that the majority of emissions are driven by a few companies with large emissions (Figure 40).

# *Portfolio-level carbon emissions*

**FIGURE 40**




*Sources: MSCI, Coronation*

[16] *Carbon dioxide equivalent or $CO_2e$ is the number of metric tonnes of carbon dioxide emissions with the same global warming potential as one metric tonne of another greenhouse gas*

The emissions profile of each portfolio is clearly skewed towards a small number of securities, as the majority of carbon emissions are driven by certain companies and sectors. While it remains important to engage with investee companies across the board on their emissions profiles, this analysis helps to ensure that attention is directed to those companies that can make the most meaningful impact on lowering aggregate real-world carbon emissions.

Sasol is the largest contributor to carbon emissions in our South African Houseview Equity portfolio and was introduced into the portfolio during 2022. Sasol's high emissions profile is primarily due to the nature of its business, which is heavily dependent on the use of fossil fuels, particularly coal, to produce its products. As a result, Sasol's scope 1 and scope 2 emissions, which are direct emissions from its own operations and indirect emissions from the electricity it purchases, are very high.

We have engaged extensively with Sasol over many years to ensure that they have credible plans in place to decarbonise their operations, as set out on page 53. Therefore, even though the inclusion of Sasol in our Houseview Equity portfolio has resulted in the portfolio's carbon intensity exceeding that of its benchmark, we are confident that we are proactively engaging with the company to achieve tangible reductions in carbon emissions. We believe that this approach will ultimately have a much more positive impact on real-world decarbonisation instead of simply excluding the security from the portfolio. Given its high emissions profile it remains a portfolio holding where we engage regularly on its emissions and closely monitor its progress towards reducing the intensity of its emissions.

Two of our holdings in Canadian railways provide the highest contribution to carbon emissions in our Global Equity portfolios. While these holdings provide the highest contribution to carbon emissions in our Global Equity portfolios due to the use of diesel to power locomotives, they are a much more fuel-efficient means of transport than the major alternative which is trucking. Rails emit 75% less carbon per tonne-mile transported than truck on average. While blunt total emissions calculations suggest that rail is negative from an environmental perspective, each tonne of volume moved from truck to rail lowers overall emissions. In our view it is part of the solution to reducing carbon emissions. In addition, Canadian railways are implementing measures to reduce their carbon footprint, such as hybrid locomotives, and more fuel-efficient technologies.

Anglo American is a significant contributor to carbon emissions in both our South African Equity and Global Emerging Markets portfolios. Some of the companies with the highest carbon intensity are those in the commodity sector, which are expected to play a crucial role in the decarbonisation of the transportation and electricity industries (see our case study on commodities and sustainability in Africa on page 69). Given its exposure to copper, nickel, and PGMs, Anglo American is well-positioned to contribute to the decarbonisation journey. The company has also invested significantly in technologies aimed at reducing its energy and water consumption.


**While blunt total emissions calculations suggest that rail is negative from an environmental perspective, each tonne of volume moved from truck to rail lowers overall emissions.**

Finally, AngloGold Ashanti features within our Global Emerging Markets portfolio. AngloGold Ashanti extracts gold from open-pit and underground mines. The gold mining process is energy-intensive and requires large amounts of electricity to power mining equipment, ventilation systems, and water pumps, among other things.

**Science Based Targets**

Science Based Targets are emissions reduction targets that companies set to reduce greenhouse gas (GHG) emissions and align their business strategies with the Paris Agreement's goal of limiting global warming to well below 2°C above pre-industrial levels. The Science Based Target initiative (SBTi) provides a framework for companies to set science-based targets, with the aim of aligning corporate emissions reduction targets with the latest climate science. This initiative is supported by a growing number of businesses worldwide, who recognise the urgent need to take action to combat climate change.

Companies work with the SBTi to set science-based targets, have their targets validated and report on their progress. The SBTi distinguishes between near-term and long-term targets. Near-term targets are those that are set for periods of five to 15 years and long-term targets are for periods of 15 to 30 years. The SBTi assesses each company's near-term and long-term target against the goal of limiting global temperature increases to 1.5°C by 2100, and currently classifies them into one of three temperature-alignment categories (1.5°C, 2°C or well below 2°C), reflecting the extent to which their targets align with this long-term objective.

In this context, Table 7 provides a breakdown of the extent to which our portfolios are exposed to companies that have near-term science-based targets, based on the three temperature-alignment categories as well as companies who have committed to setting a science-based target. Once committed, companies have 24 months to submit their targets to the SBTi.

**TABLE 7:** % OF PORTFOLIO EXPOSED TO COMPANIES WITH COMMITMENTS OR VERIFIED SBTi TARGETS

| Science Based Targets | SA Houseview Equity | Global Emerging Market Equity | Active Global Equity |
|---|---|---|---|
| Well below 2°C | 0.0% | 0.4% | 10.8% |
| 2°C | 0.5% | 0.0% | 0.0% |
| 1.5°C | 15.0% | 8.9% | 28.0% |
| Committed | 3.4% | 14.3% | 20.7% |
| **TOTAL** | **18.9%** | **23.6%** | **59.5%** |

This is a valuable tool for tracking progress, verifying alignment and comparing the efforts of different companies. By regularly assessing the SBTi's of our investments and monitoring their progress, we are able to pinpoint areas for improvement and engage with investee companies accordingly.

## Conclusion

Asset managers and allocators can play a meaningful role in addressing the significant challenges posed to businesses by climate change. We aim to leverage our influence to help mitigate the impacts of climate change, while enhancing shareholder value and the sustainability of the companies with which we engage. However, climate change is a complex issue that requires a comprehensive and nuanced approach. Oversimplifying the issue may result in unintended consequences and fail to bring about meaningful change.

Our three-pronged stewardship approach is well-suited to respond to these challenges. Through our in-house research, we develop a holistic understanding of each company and its context, allowing us to engage from an informed perspective. While the impact of our engagements may not be immediate, we believe that our efforts today will benefit our clients and future generations in the long term. +

# Advocacy

We are committed to playing an active role in promoting an investment industry that safeguards the long-term interests of asset owners and benefits the societies in which we operate. Our approach is centred around collaboration with industry partners and regulators through active participation in industry bodies and other collaborative initiatives where we advocate for policies and regulations that support these objectives.

Advocacy is an essential tool in addressing systemic risks such as financial market stability, climate change and social stability. By advocating for changes in policies, regulations and market practices, industry participants can shape the operating environment to address the underlying causes of systemic risks. Through advocacy, participants can identify and highlight the impact of systemic risks on the industry, on society and on the environment and help to create solutions that mitigate or eliminate these risks.

## How we advocate for change

We are key contributors to the activities of the Association for Savings and Investment in South Africa (ASISA), whose role is to ensure the sustainability and relevance of the investment industry for the benefit of the country and its citizens. Our CEO is currently the chairman of ASISA and we are well represented across ASISA's activities, with 29 of our employees serving on 8 technical board committees, 17 standing committees and 32 working groups. In 2022, we actively participated in 131 ASISA meetings where we advocated across a broad range of matters affecting the South African savings market.

Our organisation, through our CEO, is also an active member of Business Leadership South Africa (BLSA), which is an independent business association comprising the heads of some of the country's largest and most influential businesses. Its aim is to build an economy that is fair and inclusive and where globally competitive businesses can thrive. BLSA actively engages with the Presidency and National Treasury on structural economic reforms via the Operation Vulindlela initiative. Additional key areas of focus include the state of infrastructure in the country, energy reform and the need for a Just Energy Transition, professionalisation of the public service and tackling corruption and crime.

Through our involvement in ASISA, our membership of BLSA and Business Unity South Africa (BUSA), as well as engagements with civil society and industry regulators, we strive to create a sustainable investment industry that supports our clients' long-term interests.

**Through advocacy, participants can identify and highlight the impact of systemic risks on the industry, on society and on the environment and help to create solutions that mitigate or eliminate these risks.**

To better serve the interests of our international clients, and to ensure that we continue to apply global best practice, we are a member of the Investment Company Institute (US), comply with the requirements of the Irish Funds Industry Association, and support the principles of the UK Stewardship Code (refer the Appendix on page 98 for a description of how our current approach aligns to the Code).

## Promoting sustainable economic growth

### Transformation

In 2022, we participated in various initiatives aimed at promoting transformation in the South African financial industry and the broader economy. We worked with our industry partners and the broader business community via ASISA, BLSA and BUSA to advocate for policies and strategies that promote transformation and diversity, as well as fair and sustainable economic development in South Africa. This included providing comments on the Financial Sector Conduct Authority's (FSCA) draft Financial Sector Transformation Strategy. The objective of the strategy is to oversee transformation in the financial services sector in a way that fosters uniformity in interpretation, rulemaking, monitoring, and sanctions within a legal framework that assigns various authorities with oversight over different aspects of transformation.

We also engaged with policymakers at the Financial Services Transformation Council (FSTC) on revisions to the Financial Sector Scorecard and provided input into the Employment Equity Amendment Bill.

ASISA's support for industry-wide transformation culminated in the release of an inaugural ASISA Transformation Report in 2022, which provided an overview of the transformation activities undertaken by ASISA members over the period 2018 to 2020.

### Infrastructure investment

Infrastructure development is a key priority of the current administration as a means of promoting economic growth and development. There has been significant engagement between the government and the private sector over a number of years around the potential crowding-in of private sector funding and skills in order to create an enabling environment for private sector investment in infrastructure projects.

National Treasury recently amended Regulation 28 of the Pension Funds Act in order to regulate exposure and to encourage more detailed reporting by retirement funds on their investments into infrastructure. We actively engaged in the regulatory process by providing comments on the proposed amendments during multiple feedback rounds. The final set of regulations was promulgated in 2022, reflecting some of our input and contributions.

In addition to regulatory reform, we actively engaged with policymakers to promote an investment environment that is conducive to investable infrastructure projects. This involved working closely with government officials to provide input and feedback on policy proposals and regulatory changes that impact

### Infrastructure development is a key priority of the current administration as a means of promoting economic growth and development.

infrastructure investment. Through these efforts, we aim to promote an investment environment that is attractive to both local and international investors, with the goal of driving economic growth and development through investable infrastructure projects.

### Improving retirement outcomes for South Africans

The South African retirement system currently allows employees to cash in their retirement savings on resignation. Lack of preservation is one of the main drivers behind poor retirement outcomes for South Africans. However, the Covid-related lockdowns also highlighted the fact that there will be times when individuals require emergency access to their retirement savings to cover short-term funding needs. This issue was highlighted worldwide during the pandemic, with retirement systems in various countries overriding preservation rules in order to provide individuals with short-term relief from economic hardship.

In South Africa, National Treasury consequently proposed a "two-pot" system under which members will be allowed to access up to a third of their net retirement fund contributions (and associated investment returns) on an annual basis to provide short-term financial relief. The remaining or two thirds of net contributions and returns must be preserved over the long term and will only be accessible at retirement.

In June 2022, National Treasury published draft legislation for the two-pot system. We worked with industry partners to provide constructive feedback on the proposed legislation. Following stakeholder consultation, National Treasury indicated that they would make further changes to some aspects of the system design. The industry is awaiting further guidance from National Treasury, and we will respond accordingly.

## Supporting well-functioning financial markets

**Monetary and fiscal policy**

The South African Reserve Bank's Monetary Policy Committee (MPC) is responsible for formulating and implementing monetary policy in South Africa. The committee meets six times per annum to assess economic conditions and decide on the appropriate level of interest rates and hosts a post-meeting briefing with the investment community. This post-meeting briefing is usually attended by the full MPC. Every year we engage in these forums to debate interest rate decisions, modelling assumptions, the MPC's interpretation of data, and its mandate and the outlook for future policy actions.

We also met directly with National Treasury after both the February Budget and the Medium-Term Budget Policy Statement in October. These meetings offered the opportunity to not only question assumptions in the fiscal baseline but also to engage with policymakers on areas of concern. In 2022, this included matters related to the public sector wage bill, views on the proposed basic income grant, and possible funding strategies for the fiscus.

**Review of JSE listing requirements**

The JSE issued a consultation paper in May 2022, seeking public input on various proposals regarding the JSE listing framework. One of the aspects tested was whether the JSE should relax its rules to allow companies to list with a dual-class structure (DCSS) in certain circumstances. In our experience, cases where companies operate with a DCSS, have the potential to cause significant prejudice to shareholder rights. We, therefore, raised our concerns with respect to this proposed amendment. Our views were, however, in the minority, and the paper proceeded to the next round of public comment. We have once again expressed our concerns in relation to DCSS.

## Fighting for action on climate change

### Climate Action 100+

Climate Action 100+ (CA 100+) is an investor-driven effort that seeks to promote more effective engagement with the world's largest emitters to address climate change by advocating for better climate change governance, disclosure, and emissions reduction. Through our participation in CA 100+ we engage with two South African companies, Eskom and Sasol, on matters related to climate change. Through our collaborative efforts, we aim to encourage these companies to take actions that mitigate their impact on the environment and contribute to building a more sustainable future.

In June 2022, we submitted our annual CA 100+ Survey as part of our responsibility as an Individual Engager for Sasol. This submission provided an overview of our engagement activity with Sasol over the past year. This included engagements on Sasol's transition projects and capital allocation strategy as well as on their sustainability KPI and what percentage of this KPI is linked to emissions reduction.

### CA 100+ Net Zero Company Benchmark Initiative

The CA 100+ initiative introduced the Net Zero Company Benchmark in March 2021 to evaluate the performance of focus companies on forward-looking climate metrics and to inform investor engagement. The benchmark evaluates companies across a range of indicators, including net zero ambition by 2050 and interim targets, TCFD reporting and just transition, decarbonisation strategies and capital allocation.

In 2022, we participated in the initiative's public consultation on the next version of the Benchmark, the aim of which is to improve the indicators used by the Benchmark.

### Carbon Disclosure Project

In 2022, we joined the Carbon Disclosure Project (CDP) as an investor signatory. The CDP is a global non-profit organisation that works to encourage companies and governments to measure, disclose, manage, and reduce their environmental impact. As an investor signatory, we are part of a network of investors that use the data collected by the CDP to make informed decisions about their investments, with a focus on climate risk and opportunity. By joining the CDP, we have access to valuable data on companies' climate, water and forestry performance, which will help us to assess and engage with our investee companies on their environmental risks and opportunities. The climate disclosure is also aligned with the TCFD principles and therefore complements our TCFD disclosure project (refer to page 72) and will assist with our future focus of assessing and engaging on climate change (refer to page 95). The CDP also acts as a platform which notifies us about collaborative initiatives in which we may choose to participate.

We believe that our membership is yet another means of demonstrating our commitment to addressing climate change and promoting sustainability in our investments.

### Institutional Shareholder Services 2022 Global Benchmark Policy Survey

Institutional Shareholder Services (ISS) is a large third-party proxy voting advisory company that influences a large portion of shareholder voting actions globally. We participated in the ISS 2022 Global Benchmark Policy Survey as part of ISS' annual global policy development process and provided feedback on areas of potential policy changes. Our feedback covered various aspects relating to climate change, including board accountability, the role of auditors in monitoring climate impact, the need for large companies in the banking and insurance sectors to disclose and manage financed emissions, and the expectations of investors in relation to climate disclosures. We also provided feedback on other matters, such as DEI, executive pay, and issues relating to shareholder rights and capital structure.

**The JSE's Sustainability and Climate Disclosure Guidance allows companies to consider the materiality of each sustainability metric when deciding which ones they choose to disclose, provided they provide a clear motivation for any exclusions.**

### National Climate Risk Scenarios for the South African financial sector

National Treasury released a Technical Paper in 2021 on Financing a Sustainable Economy in which it recommended that climate risk scenarios for use by the SA financial sector should be developed. A benchmark scenario working group was established under the Climate Risk Forum, which forms part of the South African Sustainable Finance Initiative. The working group responded to this recommendation by developing draft scenarios.

These draft scenarios were issued for stakeholder consultation with a request to provide feedback under the following areas:

- The general usability and level of detail of climate risk scenarios.
- An initial focus on a limited number of physical and transition risks.
- The application of the scenarios (once finalised) in their business to identify, monitor, and manage risks.
- Any practical or potential structural barriers identified by industry stakeholders.
- Whether any alternative scenarios should be included or used in substitution with the proposed scenarios.

We received the draft scenarios through our participation in the ASISA Responsible Investing Standing Committee. We reviewed the document and provided our feedback to the working group on each of the above categories.

### JSE Sustainability and Climate Disclosure Guidance

The Johannesburg Stock Exchange (JSE) released its Sustainability and Climate Disclosure Guidance in June 2022, the objective of which is to promote transparency and good governance, and guide listed companies on best practice in ESG disclosure. We provided feedback on a draft version of the Guidance in early 2022, where we set out our concerns related to the sustainability metrics that were proposed. Although this is a voluntary guidance document, we believe that there is the risk of an unintended consequence that the market may take this as a checklist of disclosure metrics that all companies must adhere to in order to not be seen to be an ESG laggard. As collecting this data and reporting on the metrics requires a significant time and resource investment, we would not want to put companies in a position where they are dedicating resources to metrics which are not relevant to their sector and will not be relevant to many of the users of their sustainability reports. While some of our suggestions were incorporated into the final version, there remains a risk that companies could end up publishing sustainability metrics that are not entirely relevant to their sector or operations if this guidance becomes a standard market practice. However, the guidance does allow companies to consider the materiality of each sustainability metric when deciding which ones they choose to disclose, provided they provide a clear motivation for any exclusions. We were further generally supportive of the Climate Disclosure Guidance, which builds on the principles of TCFD and is therefore aligned to our ongoing climate disclosure drive.

### International Sustainability Standards Board Exposure Drafts

At COP26, the trustees of the IFRS Foundation announced the formation of the International Sustainability Standards Board (ISSB). The ISSB was formed to develop sustainability disclosure standards which are high-quality and globally comparable. In 2022, the ISSB released two Exposure Drafts – on general sustainability disclosures and a climate-specific disclosure standard. We reviewed the drafts and provided comprehensive feedback through the public consultation process. In addition, we attended a South African Institute of Chartered Accountants (SAICA) organised consultation meeting in June 2022 where we sought out feedback from a wider grouping of market participants and, in turn, shared our own feedback with the forum.

**National Treasury Green Taxonomy**

In 2021 a consortium, including National Treasury released the Green Finance Taxonomy Beta Draft. We opted to participate during 2021 in the Beta Test, whereby we ran a simulated portfolio through the taxonomy requirements to provide feedback on some of the issues the market may encounter when classifying investments as green in accordance with the Taxonomy guidelines. We provided this feedback in 2021. In 2022, an updated draft was released, incorporating the comments they received in the previous round of consultations. Through our relationship with ASISA, we were notified of National Treasury requesting a fatal flaw review, to provide any comments before the final version was released. We shared our comments regarding some of the data challenges with ASISA to be included in their collated commentary. The final version was published in April 2022.

## *Addressing inequality through a just transition*

In 2022, we participated in the Thinking Ahead Initiative's "Investing for Tomorrow" society working group. The working group's main aim was to delve into the following key societal issues in the context of the investment industry throughout the year: inequality, just transition, and moving from interest to action. The members shared the belief that the "S" in ESG had not, to date, received the necessary attention and priority. The aim was to uncover compelling reasons for addressing the historical lack of attention to this area and to identify practical actions that could be taken to rectify this.

The study revealed significant interconnection between multiple issues. Climate and societal issues, while different, overlap and affect each other. The group concluded that a just transition and inequality intersect and that a transition will not occur if it is not equitable. Furthermore, the group concluded that the developed world's transition to clean energy alone will not protect against climate risk if emerging market countries cannot afford the transition. The climate problem requires a human-centred response, with inequality and justice intrinsically linked to climate, necessitating a holistic solution – which remains a challenge.

**The climate problem requires a human-centred response, with inequality and justice intrinsically linked to climate, necessitating a holistic solution – which remains a challenge.**

## Codes of conduct/governance

**Principles for Responsible Investment reporting and assessment**

We participate in the PRI's (Principles for Responsible Investment) annual reporting and assessment review, which requires signatories to report on their responsible investment activities and how ESG considerations are integrated into their investment process. This is an important benchmark against which we can assess our progress against global best practice, as well as identify areas where we can improve our process. The PRI released the results of our 2021 assessment during 2022, having altered its rating methodology from prior years. Figure 41 provides a summary of our performance across the various rating categories. We were once again very pleased with the results, having received either four or five stars across all the categories in which we participated and scoring well above the median in all. The assessment also provided valuable feedback regarding ongoing improvements that we could make to our responsible investment practices.

As a signatory to the PRI, we participated in a public consultation in 2022 on the future of responsible investment in South Africa. This initiative is part of the PRI's global signatory consultation, "PRI in a Changing World", which seeks to examine the significant concerns that impact the future of responsible investing. The consultation is ongoing and will continue until 2023, and we plan to provide feedback as an engaged participant in this initiative.

**FIGURE 41:** CORONATION'S LATEST PRI ASSESSMENT

| % OF AUM* | CATEGORY | CORONATION'S STAR RATING | CORONATION'S SCORE VS THE MEDIAN SCORE |
|---|---|---|---|
| | Investment and stewardship | ★★★★☆ | Policy 89% |
| >50% | Listed equity – active fundamental | ★★★★☆<br>★★★★☆ | Incorporation 89%<br>Voting 86% |
| <10% | Listed equity – investment trusts | ★★★★☆ | Incorporation 89%<br>Voting 86% |
| >10% <50% | Fixed income | ★★★★★<br>★★★★★ | SSA** 91%<br>Corporate 91% |
| <10% | Hedged fund – long/short equity | ★★★★★<br>★★★★☆ | Incorporation 92%<br>Voting 71% |
| <10% | Hedged fund – long/short credit | ★★★★★ | Incorporation 92% |
| <10% | Hedged fund – multi-strategy | ★★★★★ | Incorporation 92% |

Coronation Score — Median Score

* % of asset class of total Coronation AUM

** Sovereign, supranational and agency debt

*Sources: PRI Assesment Report 2021; Coronation*

**The Code for Responsible Investing South Africa 2**

CRISA (Code for Responsible Investing South Africa) is a voluntary code encouraging institutional investors and service providers to integrate sustainability issues, including ESG factors, into their investment decisions. CRISA applies to asset owners as well as service providers, such as asset managers and consultants. CRISA encourages investment companies to discharge their stewardship duties diligently, with the concept of stewardship aligned with the UK Stewardship Code 2020.

In 2020, the CRISA committee released a draft revision of the Code (CRISA 2) for public comment. The intention is to align the Code with global best practice in the regulation and governance of ESG issues. We commented on the proposed amendments in 2021.

CRISA 2 was formally launched in 2022, with an effective date for applying the disclosure requirements starting in 2023. The revised Code introduces five core principles, namely: ESG integration, Stewardship, Capacity building and collaboration, Governance, and Transparency.

We continue to support CRISA and reflect how we comply with the adjusted principles in our Sustainability and Stewardship Policy.

**ASISA Responsible Investing Standing Committee**

As an ongoing member of the Responsible Investing Standing Committee we participated in the three meetings held during 2022. The committee aims to enhance responsible investing practices in South Africa. The meetings cover a range of topics, including updates on various sustainability-linked working groups, responsible investing initiatives and relevant developments in sustainability disclosure frameworks. During 2022, various updates were provided, including on the JSE Sustainability and Climate Disclosure Guidance, CRISA 2, PRI assessment results, the National Treasury Green Finance Taxonomy and updates from the Presidential Climate Commission.

The Committee also provides a platform for sharing information on industry developments, collaborations and consultations to ensure members are engaged in the relevant processes.

**CRISA encourages investment companies to discharge their stewardship duties diligently, with the concept of stewardship aligned with the UK Stewardship Code 2020.**

## Looking ahead

We will continue to engage on these and other matters as they arise.

**Invited to Thinking Ahead Institute and UN PRI Stewardship Resourcing Technical Working Group**

Our participation in the UN PRI's Stewardship Resourcing Technical Working Group is an exciting opportunity for us in 2023. The PRI has tasked the Thinking Ahead Institute (TAI) with researching and evaluating the appropriate level of resources that institutional investors should allocate to stewardship activities to address systemic sustainability issues that can affect portfolio value and overall returns. We consider this an essential question that needs to be answered as the financial industry's role in mitigating systemic risk becomes more recognised, and the industry needs to have sufficient resources to perform this critical function effectively.

**Joined the National Business Initiative**

In 2022, we were approached by the National Business Initiative (NBI) to join as members. The NBI is an independent body that aims to work with their members to build capacity and solve societal issues in South Africa through collective action and knowledge sharing. They have four focal areas under which they execute their work programmes, including the environment, economic inclusion, social cohesion and equality, and institutional and government capacity.

In 2023, we signed on as a member. We believe that this will assist us in both capacity building within our organisation, as well as providing an additional platform for us to get involved in various collaborations where we are able to advocate for solutions to various societal problems through collective action.

## Active participation

Coronation is a signatory to and member of multiple responsible investing and stewardship codes and organisations, including the Principles for Responsible Investment (PRI), the Code for Responsible Investing in South Africa (CRISA), the International Corporate Governance Network (IGCN), the TCFD and Climate Action 100+ (CA 100+). The ICGN is a leading authority on global standards of corporate governance and investor stewardship and, as a member, we are committed to and advocate for the highest standards of corporate governance. In addition, we support the principles of the UK Stewardship Code, which are designed to foster the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society. We work hard to ensure we continue to take cognisance of and champion their tenets and principles.

### The Association for Savings and Investment South Africa

Status: Member and participant on boards and working groups

The Association for Savings and Investment South Africa (ASISA) plays a significant role in the development of the social, economic and regulatory framework in which its members operate. Members include financial services companies that provide products and services to the personal investment sector. ASISA is the primary channel through which Coronation engages with policymakers and regulators.

### Task Force on Climate-Related Financial Disclosure

Status: Member

The Task Force on Climate-Related Financial Disclosure (TCFD) was established by the Financial Stability Board to develop voluntary, consistent climate-related financial disclosures by companies in order to provide useful decision-making information to investors, lenders, insurers and other stakeholders.

### The Investment Company Institute

Status: Member

The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors and advisers. ICI's members manage total assets of US$29 trillion in the United States, serving more than 100 million US shareholders, and US$8 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Brussels, Hong Kong, and Washington DC.

### Principles for Responsible Investment

Status: Signatory and participant in Stewardship Technical Working Group

The Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

### Carbon Disclosure Project

Status: Investor signatory

The Carbon Disclosure Project (CDP) is a global non-profit organisation that works to encourage companies and governments to measure, disclose, manage, and reduce their environmental impact.

### Climate Action 100+

Status: Signatory

The Climate Action 100+(CA 100+) coalition aims to engage and work with companies and industry members to communicate the need for greater disclosure around climate change risk and for the alignment of company strategies with the 2015 Paris Agreement.

### Code for Responsible Investing in South Africa

Status: Supporter

Coronation is a supporter of the Code for Responsible Investing in South Africa (CRISA) and endorses the five principles which emphasise the significance of integrating sustainability considerations, including environmental, social and governance (ESG) factors, into long-term investment approaches. The principles also provide guidance on how institutional investors should undertake investment analysis, investment activities and exercise their rights to promote effective governance.

### Business Leadership South Africa

Status: Member

Business Leadership South Africa (BLSA) is an independent association whose members include the leaders of some of South Africa's largest businesses. Its main strategic objectives include promoting inclusive growth and protecting and strengthening South Africa's core institutions. Coronation has committed itself to BLSA's integrity pledge, which is a public declaration of our commitment to combat corrupt practices by, inter alia, not acting anti-competitively and by protecting the anonymity of whistle blowers.

### Thinking Ahead Institute

Status: Member and working group participant

We are members and active participants in the Thinking Ahead Institute (TAI), a global not-for-profit research and innovation hub, connecting members from across the investment world to harness the power of collective thought leadership. The objective of the TAI is to influence for change in the investment arena for the better by improving the provision of savings and investment services.

Since its establishment in 2015, over 60 investment organisations have collaborated to bring this vision to light through designing fit-for-purpose investment strategies, better organisational effectiveness and strengthened stakeholder legitimacy.

### The UK Stewardship Code

Status: Supporter and aligned to principles

We support the UK Stewardship Code, which seeks to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

### International Corporate Governance Network

Status: Member

The International Corporate Governance Network (ICGN) is a global organisation that works to establish global standards of corporate governance and investor stewardship that promote long-term value creation, and contribute to economic, societal, and environment sustainability. These standards serve as a reference for many of the organisation's members when determining their voting policies and when engaging with companies. Membership includes investors responsible for assets of US$70 trillion from more than 40 countries.

### Irish Funds Industry Association

Status: Member

The objective of the Irish Funds Industry Association is to support, complement and develop the retirement fund industry in Ireland. It represents the industry in discussions with government, its departments and agencies, and the Central Bank of Ireland to ensure that the environment and infrastructure are supportive of the continued development and growth of the industry. We participate in the asset manager forum.

### United Nations Women's Empowerment Principles

Status: Signatory

The United Nations Women's Empowerment Principles provide guidance to businesses on how to promote gender equality and women empowerment in the workplace, marketplace and community. This emphasises our commitment to diversity and to ensuring that women, who make up almost half our workforce, are strongly represented in senior roles and on our board. +

# Looking ahead

## Our future areas of focus

As responsible stewards of our clients' capital, we remain committed to integrating sustainability factors into the investment process, as well as engaging actively with investee companies and collaborating with others in order to drive meaningful change. Companies that are managed on a sustainable basis are more likely to create value over the long term.

It is encouraging to observe a growing recognition of the importance of understanding the nuances and implications of ESG factors and how they affect each company. We believe that active managers can play a significant role in probing potential unintended consequences and driving progress based on a holistic understanding of a company and its context.

An important component of our engagement programme is our thematic engagements. Thematic engagements often prove especially pertinent when we identify a need for change across multiple companies. We have identified a number of important projects to focus on in the near term. These include water security, reduction of plastic use by retailers and enhancing digital rights.

In our experience, thematic projects expand our knowledge and build our capacity to engage constructively with companies on issues that will continue to be relevant and important over the medium term, and we believe that these engagements contribute significantly to driving change over time.

### Tackling water scarcity

An environmental challenge which is already significant and is projected to be exacerbated by climate disasters is water scarcity. A number of companies within our portfolios are significant users of water, and as such, they are at risk from the deteriorating impacts of water scarcity. They also run the risk of negatively impacting surrounding communities when they utilise drinking water from water-scarce communities.

An engagement focus area for 2023 pertains to in-depth research regarding the water consumption and related impacts of the companies that are the most significant consumers of water, as well as potential strategies in place to reduce these negative impacts. Through our process, we aim to engage with any laggards identified to encourage more stringent targets and strategies.

### Advancing plastic reduction

In 2019, in collaboration with other South African asset managers, we wrote a letter to the management of large South African retailers to express our concerns regarding single-use plastics, recommending that management consider accelerating the reduction, or

**An engagement focus area for 2023 pertains to in-depth research regarding the water consumption and related impacts of the companies that are the most significant consumers of water.**

even total elimination, of single-use plastic shopping bags in their stores. In this letter, we noted that we are aware that this is a complex topic and of the potential bottom-line impact. However, as shareholders or potential shareholders, we believe that we also accept some reasonable level of financial cost in support of a sustainable environment over the long term.

This was the start of a constructive engagement process. We received responses from some companies and had follow-up engagements with others at a later stage to understand the progress made to date and the various initiatives in place to reduce plastic waste.

We are now expanding this project and engagements with the food retailers to unpack the key areas where plastic reduction still needs to occur and what best practice is in terms of targets and strategies. This includes analysing what global best practice is and identifying what may be practically and justly implemented in developing countries.

**Enhancing digital rights**

Companies operating in the financial services and technology sectors collect and process large volumes of personal data. Improper management of the security risk associated with the collection and use of data can result in a number of severe consequences, including negative effects on a company's reputation, significant fines as a result of non-compliance with relevant laws and regulations, potential costs of litigation as well as the social impact on the individuals affected in the unfortunate event of a breach.

In addition, our Global Emerging Markets portfolios have reasonable exposure to the financial services and technology sectors. As such, it is important for us to understand and incorporate these risks into our overall ESG assessment of the company.

We aim to undertake a comprehensive project to assess both the regulatory environment of the affected companies within our portfolios and the relevant additional measures that the companies have in place to mitigate this risk. In cases where there are notable gaps in disclosure or relevant protocols, we will communicate with the companies to gain insight into their procedures or urge them to enhance their disclosure. We note that the companies in the emerging market universe tend to have more nascent ESG disclosures than their developed market counterparts. This project may therefore run for a longer time and involve requesting better disclosure initially, with increased sophistication and continued engagement over time.

## Stewardship resourcing

We have been selected to participate in the UN PRI and TAI's joint Stewardship Resourcing Technical Working Group. The Working Group will research and evaluate the appropriate level of resources that institutional investors should allocate to stewardship activities to address systemic sustainability issues that can affect portfolio value and overall returns.

## *Ongoing engagement priorities*

We have further identified the themes below as key engagement priorities.

| | |
|---|---|
| **Diversity and inclusion** | We will continue to advocate for diverse workforces and inclusive policies and practices, recognising that these qualities not only enhance long-term company success, but can also serve as a source of competitive advantage. |
| **Climate change** | Climate change is a systemic issue, impacting all companies in our investment universe. We started our journey engaging with companies who are significant emitters. Since 2020, we have incorporated this as an engagement theme by encouraging all investee companies to report in line with TCFD requirements. The aim of this exercise was to better understand the scope of the impact of climate change within our portfolios, which should enable better management of this over time. (See page 72 for our progress on this.)<br><br>Going forward, we will engage with those companies in our South African universe who are still not achieving adequate climate-related disclosure levels or companies who have insufficient targets and future strategies relative to their climate risk levels. The aim would be to encourage the appropriate disclosures and commitments to accelerate the just transition to a decarbonised economy. |

**Improper management of the security risk associated with the collection and use of data can result in a number of severe consequences.**

| | |
|---|---|
| **Sustainability reporting** | We will continue to engage with companies on the availability and quality of their sustainability reports, including the disclosure of material ESG risks and the strategies that are in place to address associated risks. |
| **Sustainable finance** | We expect the sustainable finance industry to continue to grow, with new sustainability-linked instruments, such as green and sustainability-linked bonds, coming to market over time. We continue to engage with issuers to promote issuances that have acceptable targets, and payoff profiles that are appropriately linked to the achievement of these targets. |
| **Board diversity and effectiveness** | Promoting board diversity and effectiveness remains a key engagement priority. We will engage with each company individually to understand board dynamics and to advocate for changes where necessary. |
| **Shareholder value** | We will continue to focus on areas where we see opportunities to unlock or enhance shareholder value, or to avoid activities that undermine value creation. These engagements will be tailored to each company's unique circumstances and the specific actions needed to enhance long-term shareholder value.<br>These engagements will span the full spectrum of issues that affect shareholder value, ranging from business strategy, capital structure and capital allocation to corporate actions and regulatory matters. |
| **Executive remuneration** | Remuneration policies and related compensation plans will continue to be assessed on a holistic basis. We will continue to focus on ensuring that these policies support the business strategy and substantively align the interests of executive management with key company stakeholders. We will engage with companies where we identify the need for changes, with the ultimate goal of ensuring that company executives are remunerated fairly and reasonably for long-term value creation. |

## Making a difference

Our discussions with investee companies often address many of the UN's Sustainable Development Goals (SDGs) that have been developed in order to encourage a comprehensive approach to the achievement of global sustainability objectives. The table below provides an overview of the extent to which our priorities for 2022 are expected to address each of the SDGs.

| | No poverty | Zero hunger | Good health and well-being | Quality education | Gender equality | Clean water and sanitation | Affordable and clean energy | Decent work and economic growth | Industry, innovation and infrastructure | Reduced inequalities | Sustainable cities and communities | Responsible consumption and productions | Action climate | Life below water | Life on land | Peace and justice | Partnerships for the goals | Other |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Water** | | | | | | ● | | | | | | | ● | | | | | |
| **Plastic bags** | | | | | | | | | | | | ● | ● | | | | | |
| **Digital rights**[17] | | | | | | | | | | | | | | | | | | ● |
| **Climate change** | | | | | | | ● | | | | | | ● | | | | | |
| **Sustainability reporting** | | | | | ● | ● | ● | | | ● | ● | ● | ● | ● | ● | | ● | |
| **Sustainable finance** | | | | | | ● | ● | | ● | | ● | ● | | | | | ● | |
| **Board diversity and effectiveness** | | | | | ● | | | | | | | | | | | | | |
| **Shareholder value** | | | | | | | | ● | | | | | | | | | | |
| **Remuneration** | | | | | | | | ● | | | | | | | | | | |
| **Diversity and inclusion** | | | | | ● | | | | | ● | | | | | | ● | | |

[17] *Data security has only risen to prominence after the UN SDGs were identified in 2015 and is therefore not included in the list of goals*
*Our digital rights project aims to protect and enhance consumer rights*

# Appendix

## Evidence of alignment with the UK Stewardship Code

The table below sets out how our stewardship approach aligns with the 12 principles of the UK Stewardship Code with reference to the information published in this report and other reference materials:

| Principles for asset owners and asset managers | Evidence of alignment in this report (section/s) | Other reference material |
|---|---|---|
| **Purpose and governance** | | |
| 1. Purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society | **About Coronation:** our purpose, our culture and values, our investment offering, creating a meaningful social impact | **Integrated Annual Report:** our purpose, strategy, values and how we create value for stakeholders<br>**Stewardship and Sustainable Investing Policy:** our beliefs and approach |
| 2. Governance, resources and incentives support stewardship | **Our approach to stewardship:** governance and oversight, stewardship responsibilities | **Stewardship and Sustainable Investing Policy:** ownership and governance<br>**Proxy Voting Policy:** ownership and governance<br>**Integrated Annual Report:** combined assurance model, remuneration report |
| 3. Manage conflicts of interest to put the best interests of clients and beneficiaries first | **Our approach to stewardship:** governance and oversight | **Conflicts of Interest Policy:** how we identify and manage conflicts within the business |

| Principles for asset owners and asset managers | Evidence of alignment in this report (section/s) | Other reference material |
|---|---|---|
| 4. Identify and respond to market-wide and systemic risks to promote a well-functioning financial system | **Advocacy:** shaping a sustainable industry | **Integrated Annual Report:** active corporate citizenship |
| 5. Review policies, assure processes and assess the effectiveness of activities | **Our approach to stewardship:** governance and oversight | **Stewardship and Sustainable Investing Policy:** ownership and governance<br>**Integrated Annual Report:** combined assurance model |
| **Investment approach** | | |
| 6. Take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them | **Our approach to stewardship:** shaping our sustainable impact<br>**Engagement and proxy voting**<br>**Tackling climate change**<br>**Case studies** | **Integrated Annual Report:** about us, how we create value for stakeholders<br>**Stewardship and Sustainable Investing Policy:** reporting |
| 7. Systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities | **Our approach to stewardship**<br>**Tackling climate change**<br>**Fixed income stewardship**<br>**Case studies** | **Stewardship and Sustainable Investing Policy:** ESG incorporation |
| 8. Monitor and hold to account managers and/or service providers | **Our approach to stewardship** | **Stewardship and Sustainable Investing Policy:** engagement with investee companies |

| Principles for asset owners and asset managers | Evidence of alignment in this report (section/s) | Other reference material |
|---|---|---|
| **Engagement** | | |
| 9. Engage with issuers to maintain or enhance the value of assets | **Our approach to stewardship**<br>**Engagement and proxy voting:** our engagements in 2022<br>**Tackling climate change**<br>**Fixed income stewardship**<br>**Case studies** | **Stewardship and Sustainable Investing Policy:** engagement with investee companies |
| 10. Where necessary, participate in collaborative engagement to influence issuers | **Our approach to stewardship:** collaboration<br>**Advocacy**<br>**Case studies** | **Stewardship and Sustainable Investing Policy:** engagement with other stakeholders |
| 11. Where necessary, escalate stewardship activities to influence issuers | **Our approach to stewardship:** escalation<br>**Engagement and proxy voting:** our voting record in 2022<br>**Case studies** | **Stewardship and Sustainable Investing Policy:** engagement with investee companies |
| **Exercising rights and responsibilities** | | |
| 12. Actively exercise their rights and responsibilities | **Engagement and proxy voting:** our voting record in 2022<br>**Our approach to stewardship:** proxy voting | **Stewardship and Sustainable Investing Policy:** voting<br>**Proxy Voting Policy:** proxy voting guidelines |

## Alignment with CRISA

The following table sets out how our stewardship policies and approach are aligned to the principles of the Code for Responsible Investing in South Africa 2 (CRISA 2):

| Principle | Evidence |
|---|---|
| **Purpose and governance** | |
| 1. Investment arrangements and activities should reflect a systematic approach to integrating material environmental, social and governance (ESG) factors | **Our approach to stewardship** (page 22) sets out how we incorporate sustainability considerations into our investment process and provides examples of the nuances in forming a holistic view and integrating into company valuations.<br>Our **Stewardship and Sustainable Investing Policy** sets the guiding principles behind our approach and describes how we incorporate ESG factors into investment analysis and decision-making. |
| 2. Investment arrangements and activities should demonstrate the acceptance of ownership rights and responsibilities diligently enabling effective stewardship | **Our approach to stewardship** (page 22) explains how we implement our ownership responsibility through engagement and proxy voting.<br>**Engagement and voting** (page 38) provides an overview of our activity during the year, including quantitative information to communicate the scale of activities and case studies illustrating engagements, escalations, their progress and outcomes, as well as how we exercised our voting rights. In addition, we provide an indication of the real-world impact of our engagements by mapping them to the SDGs.<br>Our **Stewardship and Sustainable Investing Policy** sets out our engagement and voting policies.<br>Our **Proxy Voting Policy** outlines the principles that we apply when voting. |
| 3. Acceptance and implementation of the principles of CRISA 2 and other applicable codes and standards should be promoted through collaborative approaches (as appropriate) and targeted capacity building throughout the investment industry | **Our approach to stewardship** (page 22) sets out how we collaborate.<br>**Advocacy** (page 84) describes the collaborative initiatives in which we participate and how we contributed to a better functioning financial market and systemic risks during the year.<br>Our **Stewardship and Sustainable Investing Policy** outlines how we work in collaboration with the wider investment community to achieve good outcomes for investors. |

| Principle | Evidence |
|---|---|
| **Purpose and governance** | |
| 4. Sound governance structures and processes should be in place (including at all levels of the organisation) to enable investment arrangements and activities that reflect and promote responsible investment and diligent stewardship, including proactively managing conflicts of interest | Our **approach to stewardship** (page 22) describes our approach to governance and oversight. Our case study on Spar (page 57) describes our approach to managing conflicts of interest.<br>Our **Conflicts of Interest Management Policy** establishes how we identify and manage conflicts within our business. |
| 5. Investment organisations should ensure disclosures are meaningful, timeous and accessible to enable stakeholders to make informed assessments of progress towards the achievement of positive outcomes | We are committed to being transparent in our reporting of activities and implementation of our policies. We regularly report to clients on how we fulfil our responsibilities, in line with our status as a signatory to the PRI, and our support for CRISA and the principles of the UK Stewardship Code.<br>We communicate the results of our activities in our client interactions, regular client reporting and through our annual Stewardship Report.<br>Our voting activities are disclosed on our website and updated on a monthly basis.<br>All relevant policies and reports are available on our website, including our annual Stewardship Report.<br>As a PRI signatory, we report publicly on our responsible investment activities each year. + |

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