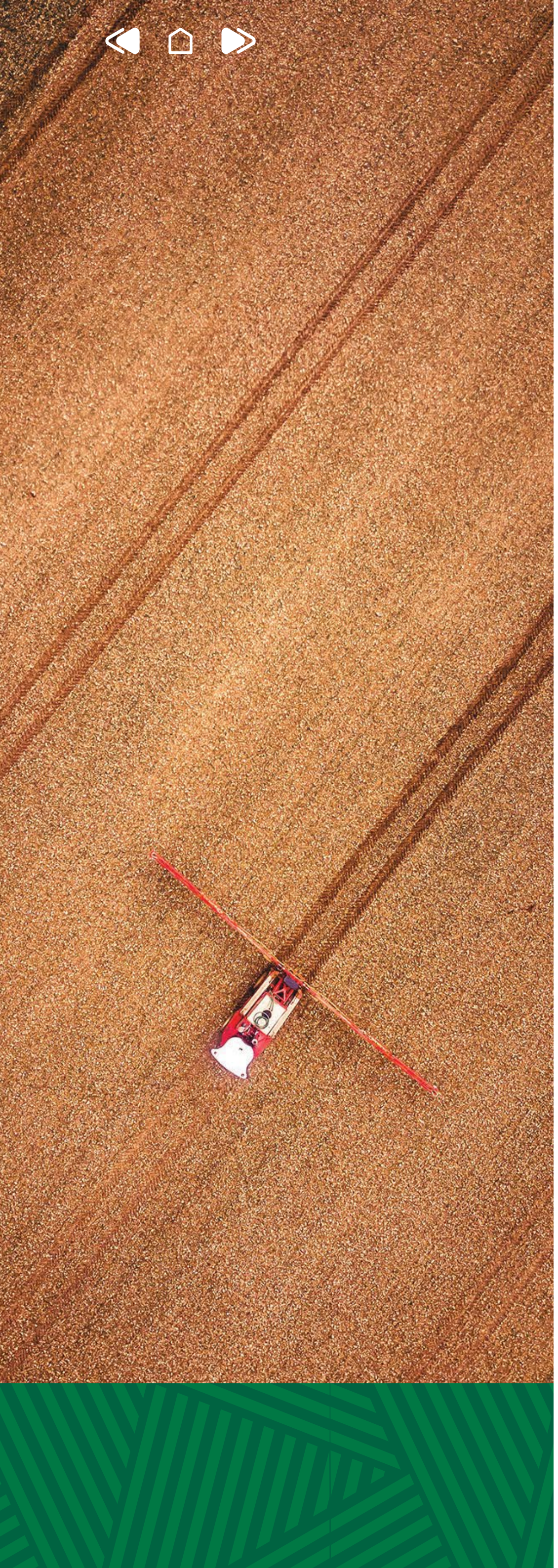
Responsible Investment Report 2023

see money differently



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Foreword

Iolanda Ruggiero
Group Managing Executive For Nedbank Wealth

I am delighted to present the foreword to Nedgroup Investments' 2023 Responsible Investment Report. The year has been a remarkable one for responsible investing, with investors increasingly focusing on companies that are making a positive impact on the environment and society. The trend has shifted from simply avoiding companies that are not performing their duties as responsible corporate citizens to actively seeking out those that are making a positive impact. This shift has been driven by a growing awareness of the impact of climate change and social inequality on the world around us.

Responsible Investing has not come without its challenges. We have seen the ramp-up of regulations in certain regions aimed at combating greenwashing and providing credibility to sustainable finance. While others have borne witness to the rise of the politicisation of ESG. What ultimately remains true is that leading in this dynamic space requires well-considered strategies alongside the willingness to be open and agile in your thinking.

2023 was also a significant year for progress in the broader field of sustainability. The world observed several key events and developments that will shape the future of our planet. Below are just some of the major sustainability headlines from the past 12 months.

For many reasons, a year to remember

The United Nations Climate Change Conference (COP28) closed with an agreement that signals the **"beginning of the end"** of the fossil fuel era by laying the ground for a swift, just and equitable transition, underpinned by deep emissions cuts and scaled-up finance. The global stocktake is considered the central outcome of COP28 – as it contains every element that was under negotiation and can now be used by countries to develop stronger climate action plans due by 2025. It calls on Parties to take actions towards achieving, at a global scale, a tripling of renewable energy capacity and doubling energy efficiency improvements by 2030. The list also includes accelerating efforts towards the phase-down of unabated coal power, phasing out inefficient fossil fuel subsidies, and other measures that drive the transition away from fossil fuels in energy systems, in an orderly and equitable manner.

2023 saw a growing awareness of the importance of **biodiversity conservation**. The Kunming-Montreal Global Biodiversity Framework was signed in late 2022, the goals of which include setting aside 30% of Earth's land and ocean as protected areas by 2030. The World Economic Forum's series of reports on Nature-Positive Industry Sector Transitions highlights what companies in different sectors can do to help reverse nature loss by 2030. Concerningly, the reports suggest that most of the world's top 500 companies have a climate target but just 5% have one for biodiversity. It is clear the private sector has some way to go to fully appreciating its role in the deterioration and restoration of nature.

In July 2023, ministers and high-level representatives from government, business and civil society from 140 countries pushed for integrated and accelerated action on the **Sustainable Development Goals** (SDGs) at a key event in New York City. The SDGs are a set of 17 goals adopted by the United Nations General Assembly in 2015 to achieve a better and more sustainable future for all. The event aimed to accelerate progress towards these goals by bringing together key stakeholders from around the world.

Looking forward

In 2023, we saw a significant increase in the number of listed companies that are committed to responsible investing, and we expect to see a growing focus on governance as investors push for leadership that ensures the long-term sustainability of their investments.

Environmentally, investors are increasingly understanding the risks associated with climate change and are seeking out companies that are taking steps to reduce their carbon footprint. We also anticipate growing focus on renewable energy, with investors acknowledging the potential for renewable energy to play a key role in the transition to a low-carbon economy.

In terms of social issues, the market is starting to exhibit a better understanding of the importance of people diversity and inclusion in driving innovation and improving business performance. There is also a growing focus on responsible executive remuneration, with investors seeking greater transparency and accountability in this area.

Our colleagues at Nedgroup Investments have evidently leaned into their Best of Breed™ structure. This has allowed them to facilitate sustainability knowledge-sharing and upskilling that goes beyond the four walls of our office. I mentioned at the start of this foreword that many of these themes are emergent in nature and require dynamic thinking, but they cannot be achieved without collectively moving forward - and bravely so.

In conclusion, responsible investing has become a critical aspect of the investment landscape, and we believe that this trend will continue into 2024. We hope that this report will provide valuable insights into the latest trends and developments and goes some way to helping investors make informed decisions about their investments.

Introduction

David Levinson
Head of Responsible Investment at Nedgroup Investments South Africa

I was fortunate to attend the 28th annual United Nations Conference of the Parties meeting (COP28) in Dubai last year. The unease of hosting the event in a petrostate was an ever-looming force, but upon further reflection, if we can get those with the most vested interest in the fossil fuel industry to make ambitious commitments, then surely that can be a good thing?

My economy flight from Cape Town contributed over two tons of carbon dioxide-equivalent, which raised the question I'm continually agonising over with my colleagues: How much impact can we have as individuals, and does it make a difference when public and private organisations are by far the largest emitters?

I try to limit my flight travel as much as possible, but I don't want to have to compromise when it could mean missing international conferences, holidaying or visiting family. I often speak of the "hope" I place in technology and the advancements it can foster, and this goes beyond green fuels. I have hope that technology can transform the way we produce energy, put food on the table and reverse environmental degradation.

At the end of each year, I like to take stock of some of the smaller, bigger and more meaningful numbers in the field of sustainability. Below are just some of those numbers. There are those that may lead to sleepless nights for the "glass-half-full" among us, but also some figures that should inspire hope. The annual COP meetings are potentially the largest multi-national collaboration gatherings we have in the world today, and the possibility to unlock climate-related capital provides the biggest investment opportunity of our generation. Although my Artificial Intelligence (AI) fanatic colleagues may beg to differ.

The economics of carbon

0.1	This is the percentage of carbon removal that currently comes from manmade technologies.
1	How many minutes the standing ovation lasted after the COP28 deal was gavelled in.
1.4	Global temperatures were about 1.4C above the pre-industrial average for the first 10 months of 2023.
6.4	This was the average degrees Celsius the Arctic experienced last summer, half a degree higher than the previous record set in 2016.
7	The percentage of EV's share of new car sales in the US for the first half of 2023, speeding past a critical tipping point for mass adoption.
10	The percent of Brazil's GDP that's at risk if the Amazon rainforest moves past a key tipping point.
14	The percentage probability the world has of keeping warming below 1.5C even in the most optimistic scenario where all net-zero pledges are met, according to the UN's environment program.
30	The percent of land and water that 195 nations have agreed to protect and restore by 2030.
50	The percent of the arabica bean's expected habitat loss over the next 70 years thanks to global warming.
75	The percentage of young people who think the future is frightening, according to a 2021 survey of 10,000 participants (aged 16–25 years) in ten countries.
75	The number of terawatts of solar power that needs to be installed worldwide by 2050 to meet decarbonization goals.
100	The dollar cost per ton of CO2 that the carbon-removal industry needs to reach in order to be competitive.
216	The average number of floods globally between 2019 and 2022, compared with an average of 160 over the previous four years.
2 456	The number of representatives of the fossil fuel industry that were given access to COP28, according to Kick Big Polluters Out. Compared with 200 senior managers from the world's big financial institutions.
400 000	The global move away from coal is expected to result in the loss of this many jobs by 2035. The idea of a "just transition" is to make sure these workers aren't left behind.
1M	Electric vehicles have been sold in the US this year.
32.6 Million	The number of people working in clean energy in 2023, which is 6 million more than 2019 and greater than the number of those employed by the fossil fuel industry, according to the IEA.
430 Million	The amount of plastic tons produced annually, according to the UN. The world is negotiating a plastic treaty in an attempt to turn the tide.
822 Million	How much greenhouse gases rainforests in the Democratic Republic of Congo capture each year. The nation's forests, rivers and minerals are key to the future of green development.
36 Billion	How much US$ voluntary carbon credit projects attracted between 2012 and 2022, according to data by Trove Research.
70 Billion	The amount of US dollars that invasive insects cost the global economy every year as they destroy food supply. There are fears the impacts will get worse with warmer temperatures.
4.5 Trillion	The amount of USD that needs to be put toward green investments globally every year for the world to achieve net zero by 2050, according to a report by the IEA.
170 Trillion	How many tiny plastic particles are floating on the surface of the ocean, and many of them got there after 2004, according to research.

Source: Bloomberg New Energy Finance

I have to believe that each individual can make a difference too. Whether it means small adjustments in our daily habits, driving change within our communities, or voting with our wallets when it comes to purchasing decisions. In one of the panel discussions during the COP28 conference, someone was asked, "If there is one area you could effect change, what would it be?" The speaker answered, "Ending consumerism." Humans continue to put strain on the Earth's resources, as we balance our growing ambitions with our wants and needs. However, human beings are an aspiring species, and I believe the definition of Sustainable Development as embraced by the UN encompasses the essence of stewardship that should inform the nature of progress we strive for:

> **"Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."**

I have given my fair share of presentations and hosted a number of workshops during 2023, but one of my toughest audiences was no doubt the class of fifth graders who gave me an entertaining grilling during our session. Although they have some way to go before reaching working age, the below infographic may nudge their career aspirations in the right direction.

I may have to cede to my AI-fanatic colleagues when it comes to the fastest-growing jobs, but instead of fighting it, I thought why not combine the two? We used AI a fair amount to devise a blueprint for our own climate strategy. These goal-oriented climate strategies can often feel like a moving target, and I admit to finding some solace in ChatGPT's parting comments shown below.

> Remember that the journey towards a net-zero asset managment strategy may take time, and it's important to stay committed to your goals while remaining flexible to adapt to evolving sustainability practices and market dynamics.
>
> **ChatGPT**

Which jobs have a future?

Jobs forecast to grow the most worldwide between 2023 and 2027*

Jobs with the largest employment gains*

1. Agricultural equipment operators
2. Heavy truck and bus drivers
3. Vocational education teachers
4. Mechanics and machinery repairers
5. Business development professionals
6. Building frame and related trades workers
7. University and higher education teachers
8. Electrotechnology engineers

* Based on absolute increase in jobs between 2023 and 2027

Fastest-growing jobs**

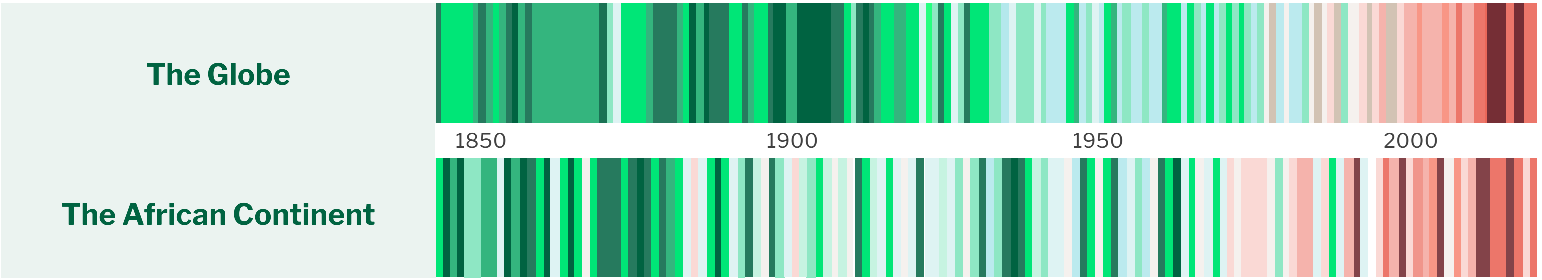
1. AI and Machine Learning specialists
2. Sustainability specialists
3. Business intelligence analysts
4. Information security analysts
5. FinTech engineers
6. Data analysts and scientists
7. Robotics engineers
8. Agricultural equipment operators

** Based on relative increase in number of jobs between 2023 and 2027

Source: WEF Future of Jobs Report 2023

Noteworthy climate and nature headlines of 2023

The BBC recently published a piece on some of the major headlines during the year, and below is a quick summary.



1 **Inflation Reduction Act (IRA)**
In the US, this act provides substantial funding for clean energy, greenhouse gas reduction, and electrification. It is the largest climate investment in US history, even though its name doesn't explicitly mention climate change.

2 **Power Sector Emissions**
The power sector's emissions are predicted to decrease for the first time due to renewable energy growth outpacing demand. This marks a crucial tipping point in the fight against climate change.

3 **Plastic Pollution Lawsuits**
There has been an increase in legal action taken against plastics manufacturers. Companies like Danone and PepsiCo face lawsuits for plastic pollution, highlighting the industry's overall environmental impact.

4 **Klamath Dam Removal**
Dams on the Klamath River in the US are being dismantled, benefiting salmon populations and tribal communities. The project aims to restore ecosystems and enhance resilience to climate change.

5 **High Seas Treaty**
Nations have agreed on a treaty to protect oceans beyond national boundaries, with the aim to establish marine protected areas and safeguard 30% of the world's oceans by 2030.

6 **EU Deforestation Regulation**
The EU now prohibits imports linked to deforestation, holding importers accountable for sustainable supply chains. This groundbreaking move targets commodities like soy, beef and palm oil.

7 **Amazon Rainforest Deforestation**
Brazil and Colombia have slowed deforestation rates, partly by returning to successful strategies used from 2004 - 2012. Regional collaboration and data tracking play key roles in this regard.

8 **Indigenous Land Rights**
Indigenous communities in Brazil have won land rights in a landmark ruling, setting a precedent for future claims. Efforts to protect ancestral territories are gaining momentum.

9 **Loss and Damage Funding**
COP28 established the first loss and damage fund for climate impacts, addressing the needs of vulnerable nations suffering from droughts, floods, and rising sea levels.

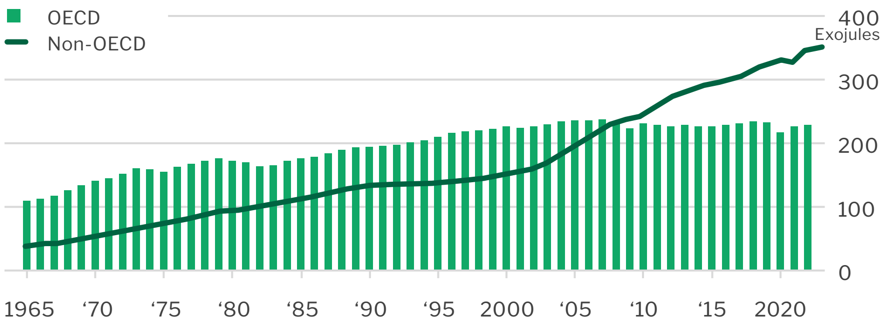
The decarbonisation conundrum

I have come to learn that these state-run entities control the majority of global oil exploration and supply, and only around a quarter sits with privately listed oil majors, although they now refer to themselves as Big Energy, an ode to their diversification. As investors, it is this latter group that interests us the most.

Companies such as Total, BP and Shell are directing around one-third of their capex to low carbon alternatives and, for the first time in history, the cash they are returning to investors is outstripping their overall capital expenditure. While the world's largest car manufacturers proudly advertise their Electrical Vehicle (EV) targets, research by the International Energy Agency (IEA) suggests that, at the same time, the two largest countries by population, India and China, are expected to increase their oil demand over the next decade.

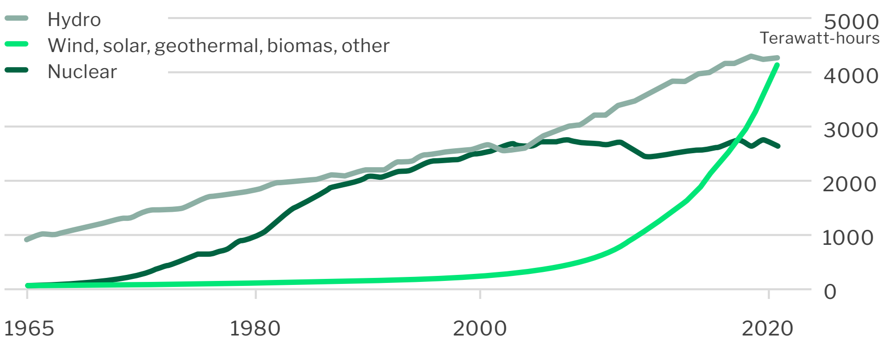
Primary energy consumption by economic bloc, 1965 - 2022

OECD energy demand peaked in 2007, and the rich world is now less than 40% of global primary energy consumption



Global renewable or zero-emissions power generation, 1965-2022*

Nuclear power has plateaued, and non-hydro renewables will soon overtake hydropower as a power generation group

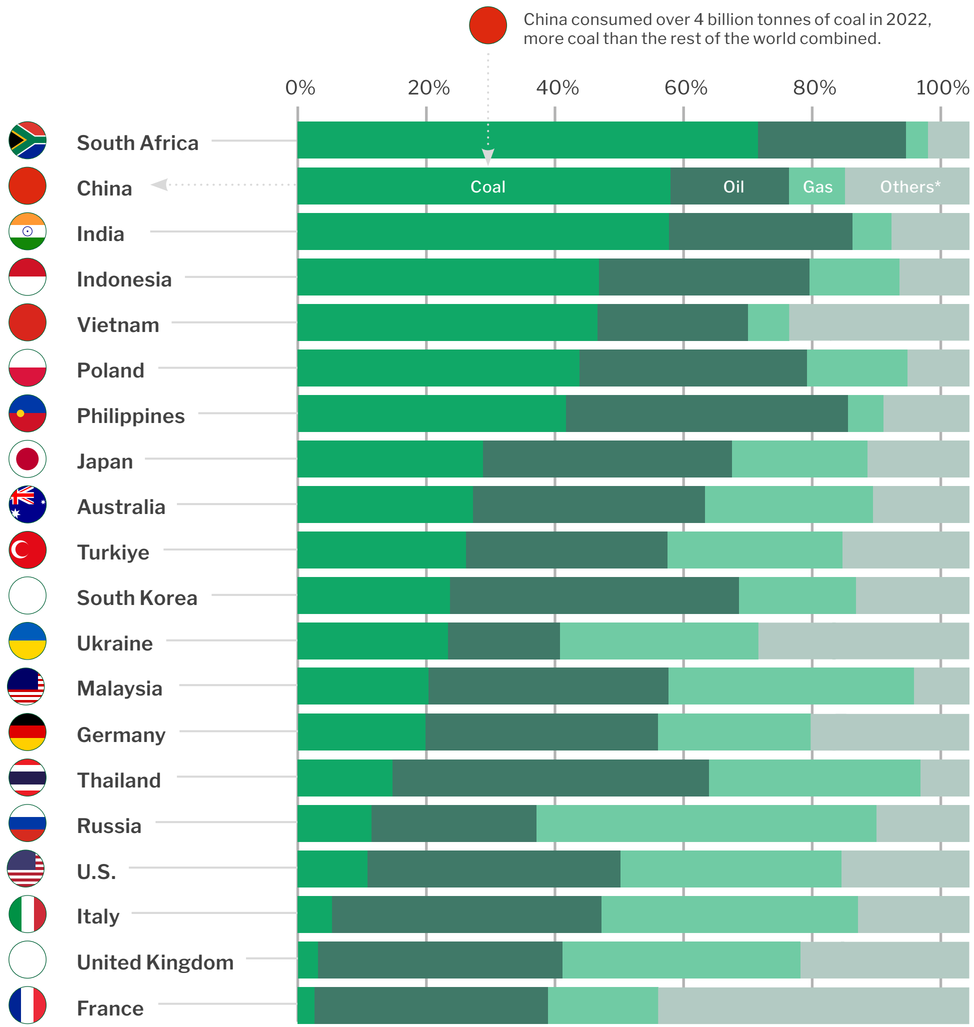


Source: BloombergNEF, The Economist, Energy Institute Statistical Review of World Energy 2023

Moving from oil to coal, the energy transition will have a profound impact on not just the future of the commodity itself, but on the people that have relied on it for so long. The social and employment impact will be profound and needs to be equitably managed. The transition also carries the expectation of being inflationary in the short- and medium-terms, as capex and infrastructure costs get passed through the system.

Share of energy consumption by fuel in 2022

Despite efforts to reduce carbon emissions, fossil fuels still account for more than 82% of primary energy use globally



Source: Statistical Review of World Energy 2023 | *Others include nuclear energy, hydroelectric power and other renewables

By the start of 2023, almost a quarter of the world's emissions were covered by a carbon price, a significant jump from just a decade earlier. This is expected to gather further speed over the coming years as more countries realise the advantages of trading schemes and taxation mechanisms, or others expand on their current initiatives. Mechanisms such as the European Union's Carbon Border Adjustment Mechanisms, or CBAM, have had profound consequences for the companies that export there. This is designed to protect local companies but will consequently force exporters to the EU to green their own production and manufacturing processes.

In the Key Engagements section of this report, one of our asset manager partners highlights that initially, CBAM will cover high carbon emitting sectors including electricity, cement, fertilisers, iron and steel, aluminium and hydrogen sectors. According to economic research organisation, Trade and Industrial Policy Strategies, they estimate that based on these initial sectors alone, 2.2% of South Africa's exports are at risk. This amounts to approximately 0.8% of our country's GDP.

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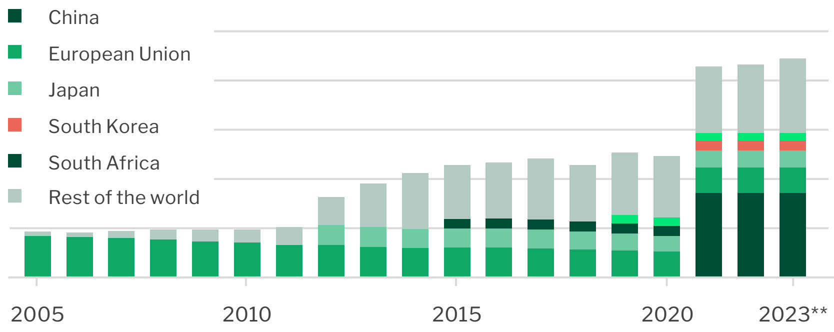
Carbon-pricing initiatives*

% of greenhouse-gas emissions covered



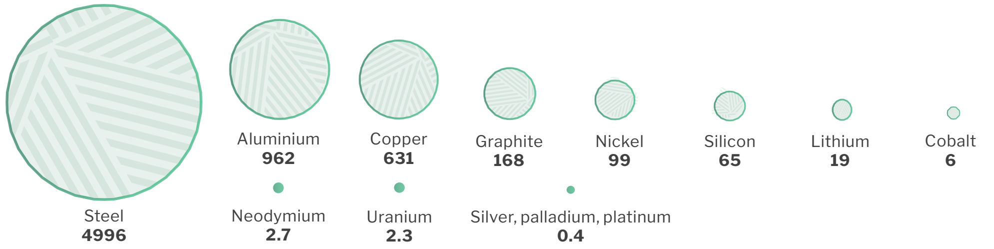
Source: The Economist, World Bank | Regional, national and subnational | **Forecast

Moving on to the environmental aspects of the just transition, much has been made of the resources and commodities required to meet demand for wind turbines, solar panels, new grid connections and battery technologies. There are many areas to this argument, including the pros and cons of renewables versus fossil fuel energy production, and The Economist has recently published a number of articles on this particular subject.

In order to reach the global target for net zero emissions by 2050, the world will require fifteen times more wind power than what is currently used today, twenty-five times more solar, a tripling of the grid's size, and a sixty-fold increase in the fleet of EVs. According to the Energy Transitions Commission, they estimate that by 2030, copper and nickel demand could rise by 50 - 70%, cobalt and neodymium by 150%, and graphite and lithium six- to seven-fold. The IEA has allocated an eye-opening number to this: 35 million tonnes of green metals are required per year to reach carbon neutrality. This number rises to 6.5 billion tonnes over the full period, if you include steel and aluminium. This is something that keeps policymakers awake at night.

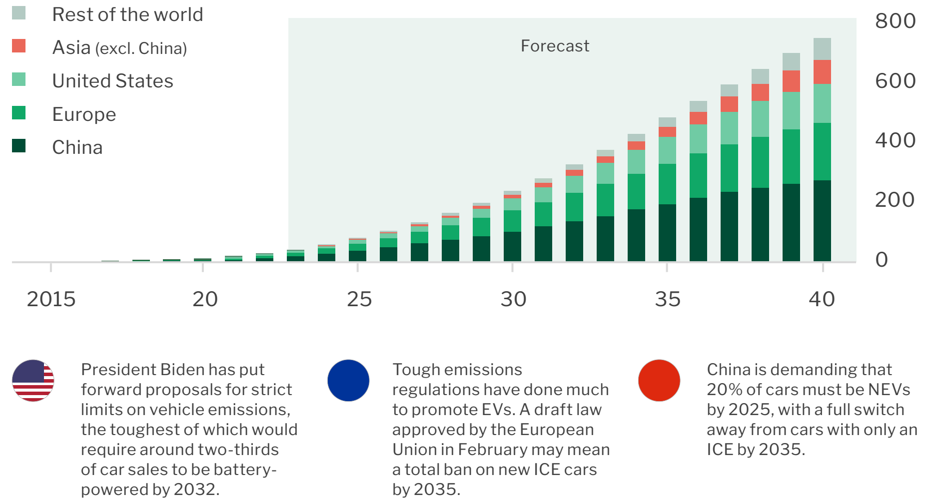
The Economist's article points to quick wins that could come from reusing and recycling more material and extracting more metal from reopened mines. However, according to them, the greatest hope lies in technologies that squeeze supply from deposits.

Forecast cumulative demand for global decarbonisation by 2025*, tonnes, m



Source: The Economist, BP, Energy Transitions Commission | From 2022

Global passenger electric-vehicle fleet by market, millions



Source: BloombergNEF, The Economist

Wind power has expanded dramatically in the US over the past 20 years, from 2.6 gigawatts of installed capacity on land in 2000 to 122 gigawatts in 2020. Along with this expansion, there were more stories in major US news outlets reporting that wind turbines have more of a negative effect on birds than the effects of oil-and-gas wells, which creates a distorted impression.

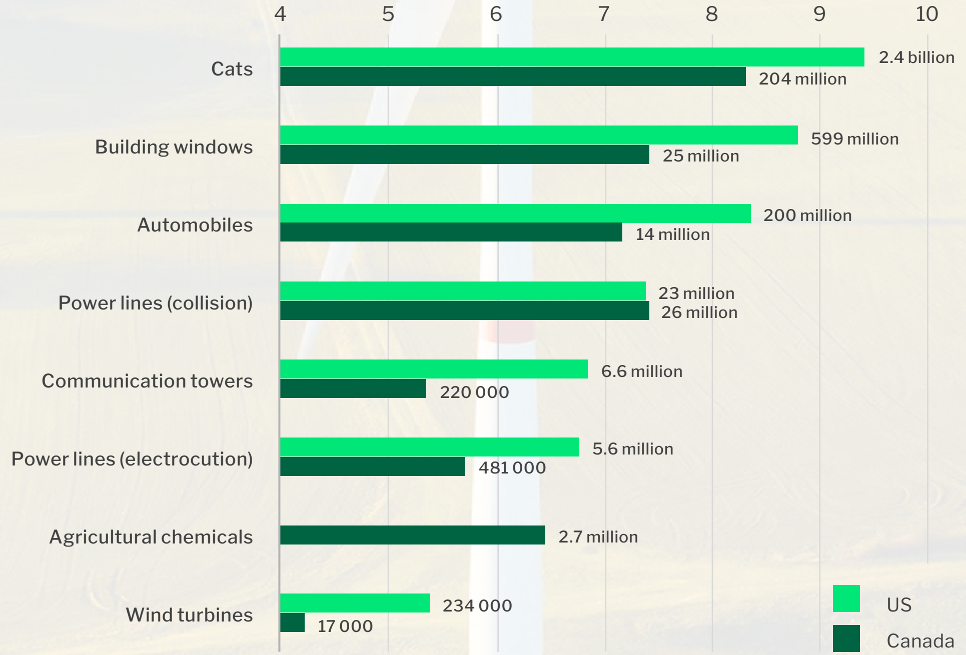
> **"A recent note from Just Share, a shareholder activism organisation, pointed to a 2016 study conducted by The Council for Scientific and Industrial Research (CSIR), where they estimated that for South Africa to meet its total electricity demand with wind power alone, we would require only 0.6% of the country's available land mass to be dedicated to wind farms."**

According to the research, an analysis of US data found that building wind turbines had no discernible effect on bird populations, even for large birds like hawks and eagles. Wind power not only produces far less greenhouse gases than fossil fuels, but also appears to be significantly less damaging to wildlife, contrary to what opponents of wind farms fear. The same research analysis found that drilling new oil-and-gas wells caused an average 15% drop in bird numbers, and a 25% drop in important bird areas due to noise, air pollution and habitat disturbance.

A recent note from Just Share, a shareholder activism organisation, pointed to a 2016 study conducted by The Council for Scientific and Industrial Research (CSIR), where they estimated that for South Africa to meet its total electricity demand with wind power alone, we would require only 0.6% of the country's available land mass to be dedicated to wind farms.

Where wind turbines and birds meet

Mortality estimate (Log-transformed)



Source: The Economist; Environmental Science & Technology; Annual Review of Ecology, Evolution, and Systematics (Vol. 46:99-120); Loss et al. 2015

Being part of the Nedbank Group

For the second consecutive year, banks are outpacing their earnings from fossil fuel companies by providing loans and underwriting bond sales for green-related projects, according to research by BloombergNEF. Collectively, these banks have generated approximately $2.5 billion in revenue from climate-focused financing in 2023, compared to $2.2 billion from their dealings with oil, gas and coal companies.

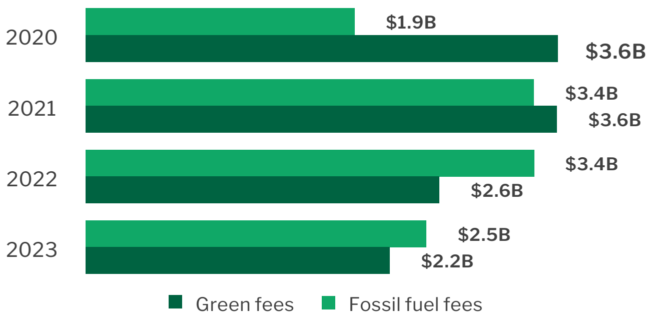
This shift represents a significant departure from what the situation was just a few years ago, in 2020, when lenders earned nearly twice as much from Big Oil than they did from supporting environmentally-friendly initiatives.

However, research suggests that despite this progress, the green-to-fossil fuel ratio remains narrow. BloombergNEF employ a metric that tracks investment in the energy supply system across various industries. They assert that the ratio of clean energy investment to fossil fuels must reach 4 to 1 by the end of this decade, if we are to avert the most severe impacts of climate change. As of the end of 2021, this ratio stood at a mere 0.8 to 1.

Green bond issuance provides a clearer picture of the banking sector's commitment to low-carbon projects. In this realm, BNP Paribas, Bank of America and Credit Agricole emerge as the leading green-bond underwriters, as per Bloomberg's data. Overall, approximately $475 billion in green bonds and loans have been arranged in 2023, surpassing the figure from the same period in the previous year, which was closer to $450 billion.

Banks are earning more from providing green financing

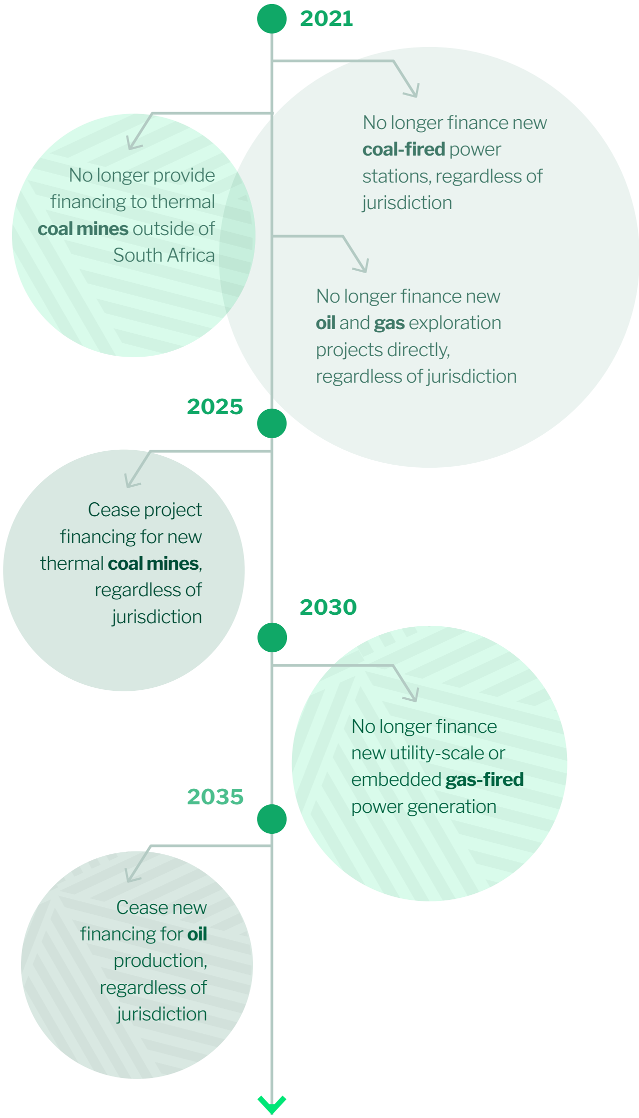
Industry now brings in proportionally less from fossil fuels



Source: Bloomberg | 2023 data is through Oct. 13

Nedbank's energy policy roadmap

We will report on our actual exposure to thermal coal, upstream oil, upstream gas and power generation financing as part of our annual results, to track the transition away from fossil fuel financing, in line with the goal of a zero-carbon energy system by 2050.



Our parent company, Nedbank Group Ltd, has made ambitious targets regarding decarbonisation and what is required from us to meet net zero by 2050. Their publicly available Energy Policy highlights firm timelines when it comes to lending into the coal, oil and gas industries.

Through the lens of Nedgroup Investments, this poses several complexities. For example, what does alignment with the Group's net zero position statement look like for us as equity holders, as opposed to lenders to the energy, resource and chemicals sectors? Our thinking is continuously evolving and, until now, we have not championed an exclusion approach, favouring instead to try and gain a sense of their respective decarbonisation strategies, and whether they too align with a net zero by 2050 scenario.

> **"Our parent company, Nedbank Group Ltd, has made ambitious targets regarding decarbonisation and what is required from us to meet net zero by 2050. Their publicly available Energy Policy highlights firm timelines when it comes to lending into the coal, oil and gas industries."**

This approach necessitates continual portfolio interrogation and a symbiotic relationship with the companies that we invest in. As shareholders, we should encourage and support the decarbonisation strategies of management, while managing the precarious balance of regional, economic and social contexts.

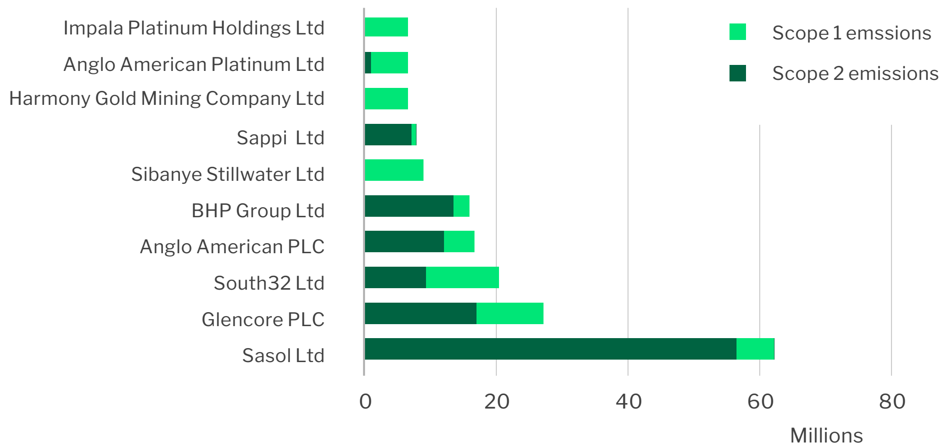
A key message from several impartial participants at COP28 drummed the message that **"If you pollute. You pay"**. Secondary to this was, as organisations, one needs to **"Invest and offset"**, as it pertains to clean technology and greenhouse gas emissions.

Below are some of the largest emitters on the Johannesburg Stock Exchange (JSE) that sit within our portfolios. Considering scope 1 and 2 emissions, it is understandable that Sasol, by some margin the largest emitter at 64 million tCO_{2e}, receives plenty of shareholder attention. A common data point for gaining an appreciation of relative carbon risk is looking at the emissions intensity per unit of enterprise value including cash (EVIC), and, here again, Sasol is highly exposed relative to its JSE peers.

Greenhouse gas emissions

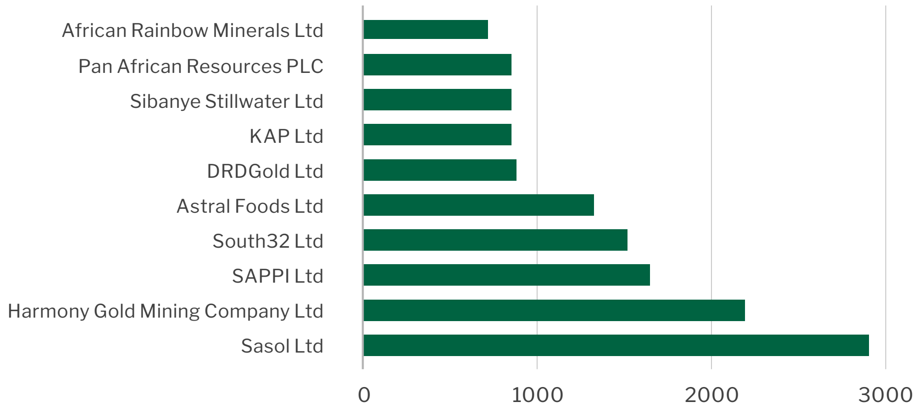
Who's having the largest footprint

Largest scope 1 + 2 emitters



Source: Nedgroup Investments, MSCI, Company data

Largest emissions intensity, t/USD million EVIC



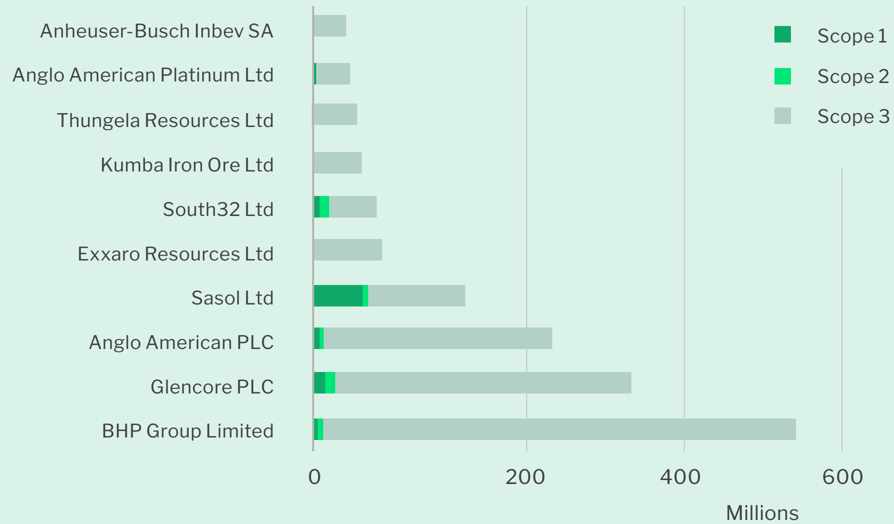
Source: Nedgroup Investments, MSCI, Company data

A large body of work in the Financial Services sector is focused on measuring Scope 3 emissions, such as those taking place both upstream and downstream in a company's value chain. By this assessment, Sasol is less exposed than the likes of Anglo American, Glencore and BHP Group, although still meaningful at 172 million tCO_{2e}.

As investors with a conscious eye on credible carbon targets and an authentic strategy, it remains paramount to continually track, measure and assess investee companies against their publicly-stated targets.

The full picture, upstream and downstream

Scope 1 + 2 + 3 emissions



Source: Nedgroup Investments, MSCI, Company data

Specialist Contributions

Renewable Surge: Aligning Investments for a Greener Future

Madhushree Agarwal
Portfolio Manager at Nedgroup Investments UK

In the midst of our daily lives, climate change can often feel distant and elusive, however, 2023 proved climate change is undeniably real, with its impact alarmingly deadly. From wildfires ravaging woodlands from Greece to Canada, heatwaves sweeping across continents, flooding in India, Cameroon and Libya, the list goes on, climate change impacts the lives of millions. In fact, 2023 was the warmest ever year on record (according to data records dating back to 1850). The chilling realisation (pardon the pun) that such events are self-inflicted by humanity is difficult to bear, but is there time to reverse this course?

> **“2023 was the warmest year ever on record (according to data records dating back to 1850).”**

The evidence is clear that the consequences of climate change are unfolding faster than we may appreciate, and we should not be naive as to assume that any impact is beyond our investment time horizon. Aside from the aforementioned real and disastrous physical impacts, the financial impact is also becoming apparent and may bite sooner than many may have anticipated. A warmer climate leads to lower productivity and raises inflation. During the year, India banned its rice exports due to drought fears, causing prices to rise to new highs and cause turmoil in the global food markets. According to Absolute Strategy Research (ASR), climate impacts could lower annual global GDP growth by 30 - 40 basis points and raise inflation by around the same amount each year over the next decade. High temperatures would directly impact agriculture, construction, and the infrastructure sectors.

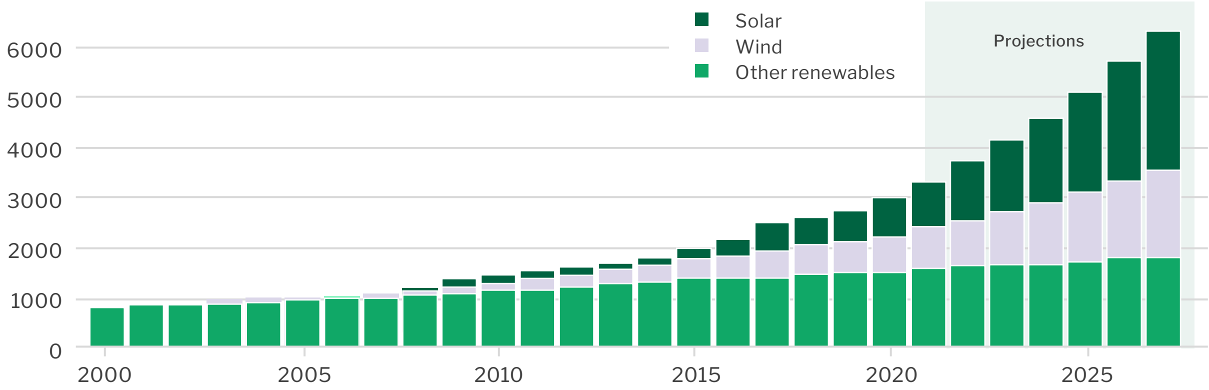
The urgency to address climate change is clear, not only for the preservation of our environment and ecosystems, but also for safeguarding our economies and societies from the far-reaching consequences it poses. Enter the 2023 UN Climate Change Conference, or COP28, in December 2023 - a gathering that echoed this very sentiment. For the first time ever, the role of fossil fuel emissions was recognised as a driver of rising temperatures. It marked a groundbreaking milestone: countries came together, acknowledging the need to “transition away from fossil fuels in energy systems,” representing the most significant leap forward on climate action since the Paris Agreement in 2015. The agreement includes global targets to triple the capacity of renewable energy like wind and solar power, and to double the rate of energy efficiency improvements, both by 2030, a commitment deemed “vital to keep the 1.5°C goal within reach” by the International Energy Agency (IEA).

> **“The urgency to address climate change is clear, not only for the preservation of our environment and ecosystems, but also for safeguarding our economies and societies from the far-reaching consequences it poses.”**

In a positive turn of events, renewable energy has gained significant momentum in recent years. By 2022, solar generation had surged to five times its 2015 levels, while wind generation had increased by two-and-a-half times. Looking ahead, the RMI, a US research organisation, projects that by 2030, wind and solar could collectively supply over a third of all electricity, an encouraging increase from the current 12%.

Renewables are increasing rapidly

Recent and projected total global capacity, gigawatts



Source: International Energy Agency *Projected capacity is for 2022 - 2027 and is the International Energy Agency’s accelerated case. Other renewables include hydropower and bioenergy.

At Nedgroup Investments, we are proud to say our Sustainable portfolios are actively contributing to this global movement. We are directly invested in a diversified range of environmental infrastructure projects that contribute towards a net zero carbon future. This includes The Renewables Infrastructure Group (TRIG) which predominantly consists of operational wind farms, solar parks and battery storage projects in the UK and Europe. In 2022, they generated 5.4TWh of clean energy, an amount sufficient to power the equivalent of 1.6 million homes annually. To put this into perspective, it equals the energy required to power all the homes in Wales for over a year, and it is the amount of energy needed to drive an electric car around the world over 700,000 times. Thanks to the clean energy generated, the portfolio also avoided 1.9 million tonnes of carbon emissions, that's equal to eliminating the use of over 900,000 tonnes of coal or avoiding emissions equivalent to over six million passengers flying from London to New York.

Another environmental infrastructure investment fund that we are supporting is the JLEN Environmental Assets Group (JLEN). This is a diversified portfolio of wind farms, waste management and bioenergy, anaerobic digestion, solar and hydro plants, as well as exposure to energy storage - which is critical for efficiently and cheaply storing clean energy for round-the-clock use. All these assets support the drive towards decarbonisation, resource efficiency and environmental sustainability. In addition, JLEN is a big advocate of the United Nations 17 Sustainable Development Goals (UN SDGs). To be achieved by 2030, the UN SDGs recognise that ending poverty must go hand in hand with strategies that build economic growth and address a range of social needs including education, health, social protection and job opportunities, while tackling climate change and environmental challenges.

The table below shows JLEN's 2022/23 portfolio performance against the UN SDGs:

SDG	Target	JLENS's performance 2022/2023
3 Good health and well-being	3.9 Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.	Avoidance of: 932 tonnes NOx (Nitrogen Oxides) 684 tonnes SOx (Sulphur Dioxide) 16 tonnes PM10 (µm10 Particulate Matter) 7 tonnes PM2.5 (µm2.5 Particulate Matter
6 Clean water and sanitation	6.3 Improve water quality by reducing pollution, eliminating dumping and minimising release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.	35.6 billion litres of wastewater treated. substantially increasing recycling and safe reuse globally.
7 Affordable and clean energy	7.2 Increase substantially the share of renewable energy in the global energy mix.	731GWh renewable electricity and 594GWh renewable heat produced enough to power 252,025 homes for a year (homes powered excludes AD portfolio)
8 Decent work and economic growth	8.4 Improve progressively global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead. 8.5 Achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.	JLEN's portfolio is optimised to make the most of naturally available resources such as wind power. By maximising the power produced by each turbine, JLEN ensures that its assets are operating as efficiently as they can. 347 FTE jobs supported by JLEN's portfolio.
9 Industry, innovation and infracstructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human wellbeing, with a focus on affordable and equitable access for all.	359.5MW renewable generation capacity added to the electricity grid.
12 Responsible consumption & Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.	684,181 tonnes of waste diverted from landfill. 129,114 tonnes of waste recycled.
13 Climate action	13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.	Emissions avoidance of 212,263 tonnes CO2e.
15 Life on land	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.	Avoiding an annual oil equivalent of 113,941 TOE ("Tonnes of Oil Equivalent"), contributing to the avoidance of fossil fuel use. 42% of JLEN's portfolio has active biodiversity management plans in place.

These direct holdings in renewables are not only aligned towards the greater good, but also provide stable, attractive cash flows that are linked to inflation, and benefit from strong tailwinds and favourable regulatory policies. Looking at other parts of the portfolio, we also have exposure to renewable energy within our equity holdings which invest in companies that play essential roles across the clean energy ecosystem, while consciously limiting those that derive their revenues from fossil fuels. And within our fixed income holdings, we have exposure to green bonds, which finance environmentally friendly initiatives like wind farms or solar installations, clean transportation, and sustainable agriculture. In aggregate, this means our portfolios are strongly aligned to SDG 7: Affordable and Clean Energy and SDG 13: Climate Action, both in absolute terms and relative to mainstream indices.

"In aggregate, this means our portfolios are strongly aligned to SDG 7: Affordable and Clean Energy and SDG 13: Climate Action, both in absolute terms and relative to mainstream indices."

The recent milestone achieved at COP28, calling for a transition away from fossil fuels, aligns seamlessly with our portfolios' various exposures to renewable energy. These policies serve as a powerful force for the sector, with renewable energy poised to grow by over $100 billion annually in the coming decade. As we confront the realities of a changing climate, we take comfort knowing our Sustainable Portfolios are strategically positioned to navigate the challenges and opportunities presented by the evolving climate landscape. Our investments play a pivotal role in paving the way towards a net-zero carbon future. While the journey may be long, our commitment remains steadfast as we continue making strides towards a sustainable and resilient future.

"Diversity is being invited to the party; inclusion is being asked to dance."

Natalie Helmbold
Investment Analyst at Nedgroup Investments South Africa

Verna Myers, an American diversity consultant, author, speaker, lawyer, and corporate executive in her role as the Vice President of Inclusion Strategy at Netflix, used this quote to illustrate the difference between diversity and inclusion, and to urge people to challenge their biases and stereotypes by engaging with people who are different from them.

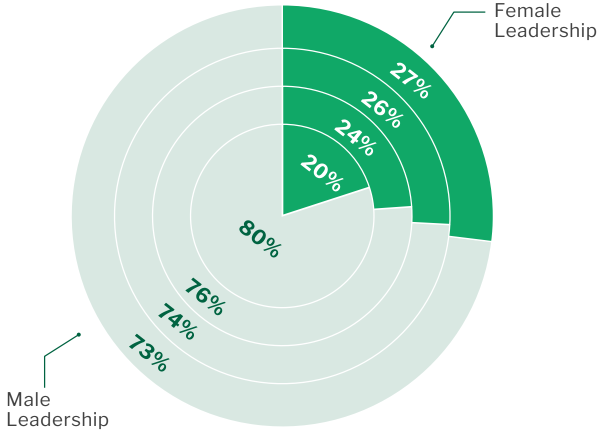
The quote suggests that diversity is not enough to create a fair and respectful environment for all people. Diversity means recognising the differences among people, such as race, gender, ethnicity, sexual orientation, age, disability, religion, culture, education and socio-economic status. However, diversity alone does not guarantee that everyone feels valued, respected and included. Inclusion is more impactful and involves creating a culture and environment where everyone can participate, contribute and belong. Inclusion requires active and intentional efforts to involve and empower diverse people, and to listen and learn from their voices and perspectives.

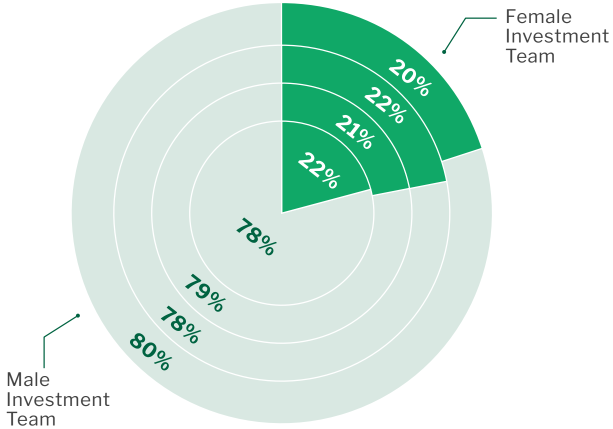
Diversity, Equity and Inclusion (DEI) is not only a moral imperative, but also a strategic advantage for the asset management industry. There are proven benefits to various domains, such as performance, innovation, customer satisfaction, employee engagement, social impact and brand reputation. Research shows that a workforce of people with different backgrounds, experiences and perspectives are more innovative, productive, profitable and resilient. For example, a study by Boston Consulting Group found that companies with more diverse management teams have 19% higher revenues due to innovation, and a study by Deloitte found that inclusive companies are six times more likely to be agile and resilient in the face of change. Moreover, diverse and inclusive teams and workplaces can better understand, serve and connect with diverse and global customers, markets and communities. For example, a study conducted by McKinsey found that companies with more diverse boards are 43% more likely to have higher customer satisfaction, and another study by Accenture found that inclusive companies are four times more likely to have a strong brand and reputation.

"A study by Boston Consulting Group found that companies with more diverse management teams have 19% higher revenues due to innovation, and a study by Deloitte found that inclusive companies are six times more likely to be agile and resilient in the face of change"

Nedgroup Investments conducted a survey with our local and global Best of Breed™ asset managers to better understand their views, practices and progress on DEI. The results show that our managers value diversity and want to make sure that their work environment reflects the diversity of the country and communities they serve. This involves the deliberate integration of DEI principles into various aspects of their business operations, including how they make strategic decisions, hire and develop employees, and support communities through corporate social responsibility programmes. It is clear that significant conscious effort is required in creating environments that are inclusive and it is encouraging to see that our asset manager partners are doing so.

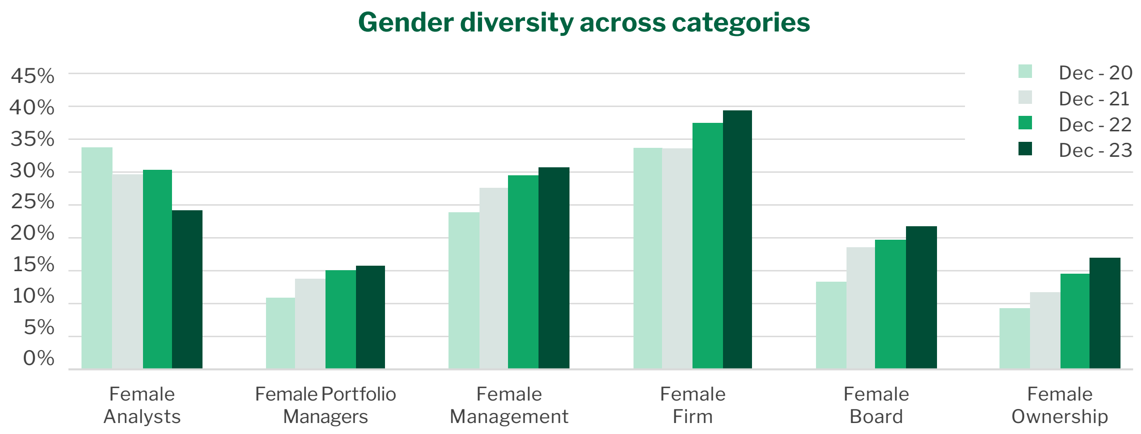
In the survey, we collected data on different categories, such as the gender and race of the analysts and portfolio managers in the investment team, the management team, the board, firm ownership, and the overall firm. Our survey revealed that as of December 2023, only about 20% of the people in the investment teams (analysts and portfolio managers) were women, and only about 27% of the people in leadership positions (management and board) were women. The trend over time can be seen on the chart on the right, where the inner circle of the pie reflects December 2020 and moves out per year to December 2023. Unfortunately, gender diversity in investment teams remains low with almost no progress over the years. Women in leadership positions also remains low but has increased marginally over the years, which does provide some hope.



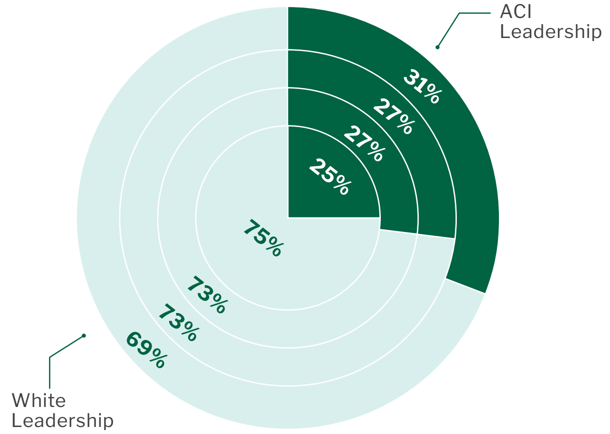


Source: Nedgroup Investments

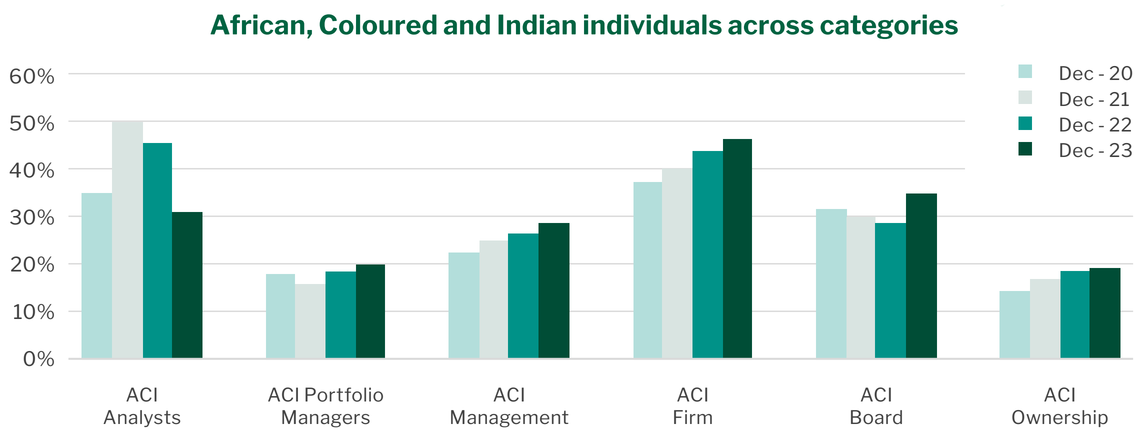
"Interestingly, the largest percentage of women sit in the firm wide category (almost 40%), implying there are many women in the industry in support roles like operations, finance and marketing, but less so in investment teams and leadership roles."



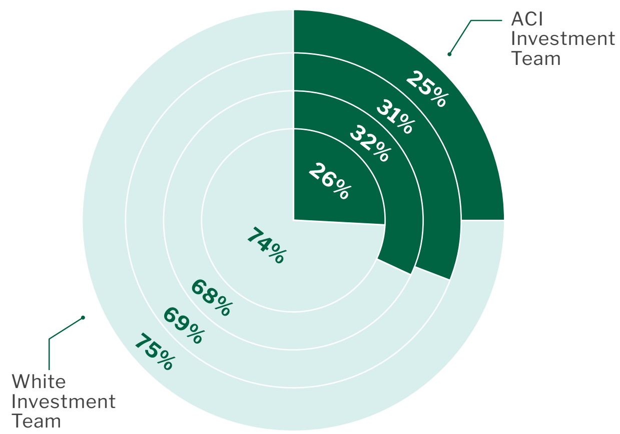
Source: Nedgroup Investments



The statistics for employee transformation among our local asset manager partners follow the same trend as the gender statistics, with both being low. As of December 2023, the number of African, Coloured and Indian (ACI) investment team members was c.25%, and the ACI leadership proportion was c.31%. However, the leadership category is slowly growing over time.



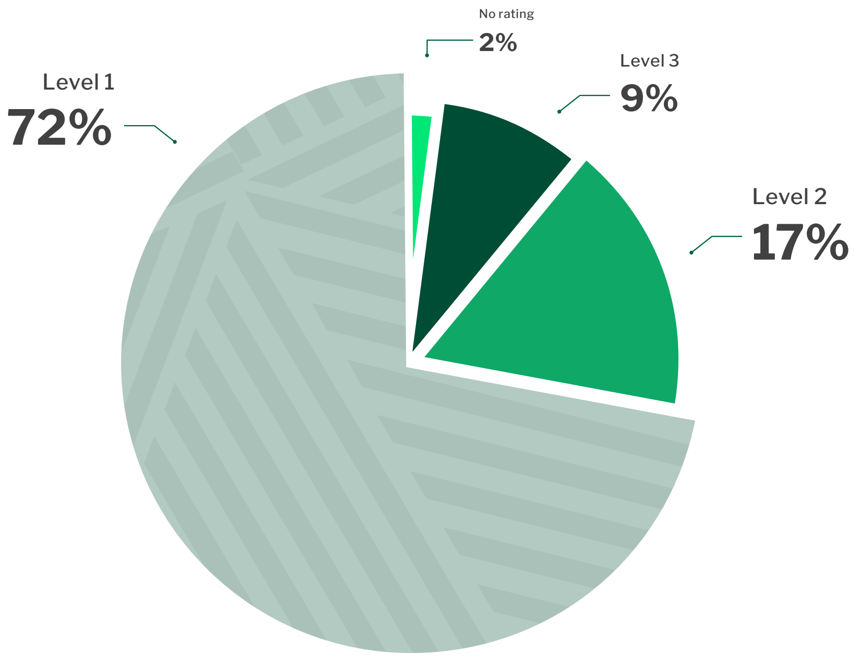
Source: Nedgroup Investments



Source: Nedgroup Investments

In terms of B-BBEE statuses, we are proud to say that approximately 44.4% of our Best of Breed™ asset manager partners have obtained a Level 1 status. At an asset-weighted level, approximately 72% of our Best of Breed™ assets are managed by asset managers with a Level 1 status. Additionally, approximately 98% of our assets are managed by asset managers with either a Level 1, Level 2 or Level 3 status. This is a significant improvement from December 2018, where 67% of our managers had no rating at all or were non-compliant.

Local Best of Breed™ asset-weighted B-BBEE level



Source: Nedgroup Investments

While there may be weak points, we need to understand that there are many possible challenges companies may face in their efforts to achieve diversity. Our asset manager partners recognise that DEI is important for their performance, innovation, customer satisfaction and reputation, but it takes time and conscious effort to achieve.

The best way to start is to take a holistic and strategic approach that involves acknowledging the current state of DEI, identifying the gaps and opportunities for improvement, setting clear and measurable goals for DEI, and aligning them with the vision and mission of the firm. Firms should ensure accountability and transparency when implementing DEI practices and educate leaders and employees on its importance and benefits, as well as how to overcome biases and barriers. Lastly, we should celebrate and communicate the achievements and impact, and recognise and reward the champions and allies of DEI.

Nedgroup Investments values and promotes diversity, equity and inclusion, and we will continue to challenge the industry and our Best of Breed™ asset manager partners to prioritise DEI.

Cultivating an environment for DEI to thrive is a continuous journey and a competitive advantage for the asset management industry, and can create a more inclusive and sustainable future for our clients, employees and society. We are committed to being a leader and a catalyst for change in this regard, and we invite you to join us on this journey.

“The best way to start is to take a holistic and strategic approach that involves acknowledging the current state of DEI, identifying the gaps and opportunities for improvement, setting clear and measurable goals for DEI, and aligning them with the vision and mission of the firm.”

ESG: Let's Hear it From The "G"

Julie Quayle
Sustainability Officer at Nedgroup Investments Isle of Man

Sustainability is the umbrella term that covers ESG and their many sub-categories. Sustainability is the wellbeing of People, Planet and Economy, the wellbeing for all now and in the future. The Environmental aspects of sustainability attract the majority of the attention for many organisations, with Social, in the guise of corporate social responsibility, coming in at a close second. Is it time the "G" got its share of the publicity?

The G, which stands for Governance, has historically been overlooked in favour of the Environment and Social categories. What are the reasons for this? Is it because the control of G by regulators, legislation and regulation in many jurisdictions has developed over decades and this one is "in the bag"? Is it because businesses that "work" have got this one covered? Or, is it because, unless there is a crisis, such as the 2008 Global Financial Crisis (caused by lack of good governance) this area does not get the attention because it isn't causing us an issue, all is good, and our business models just do their job?

Interviewer:
Welcome, would you please tell us a little about yourself?

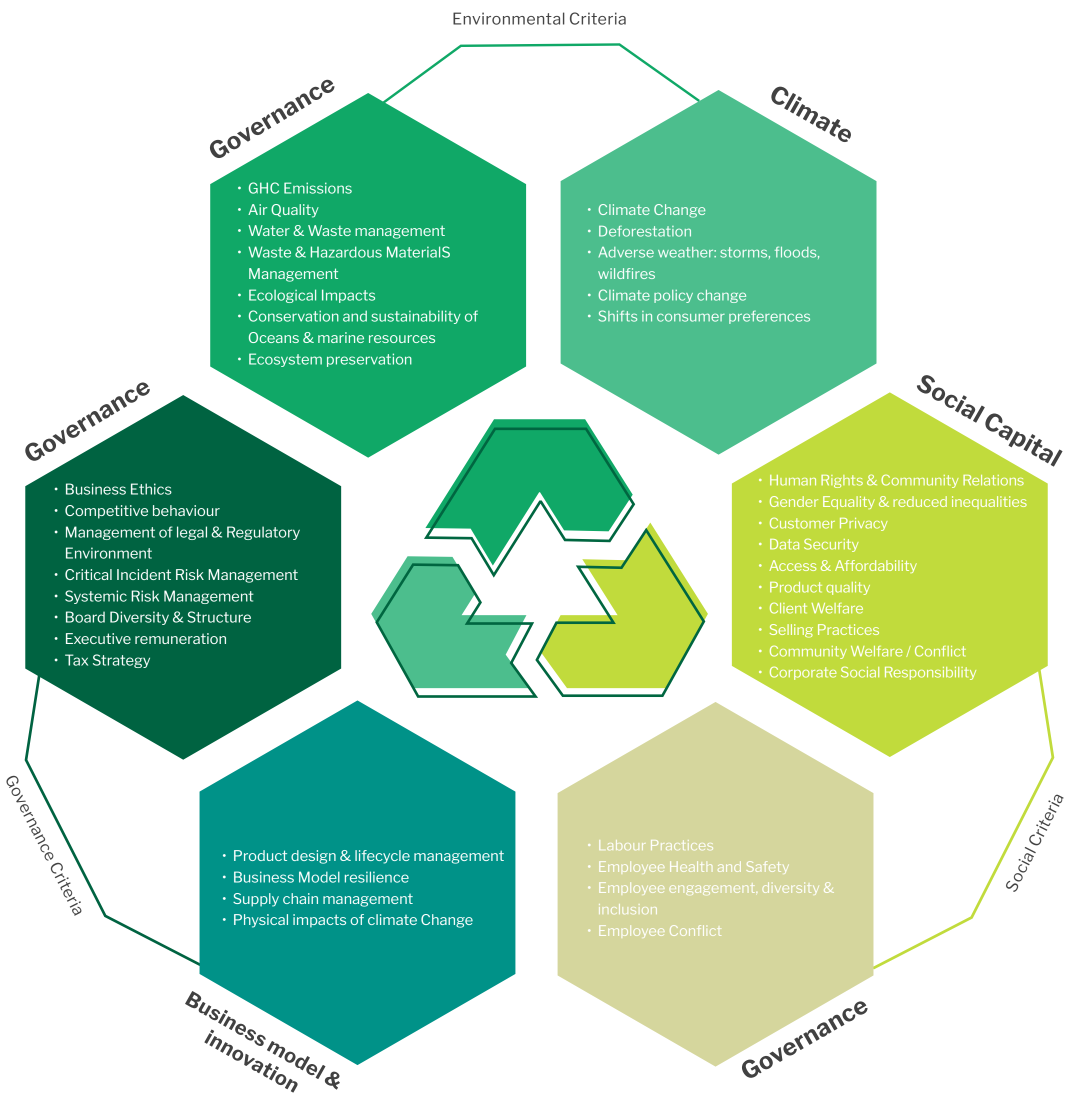
"G":
We are Governance, part of the Sustainability universe. The Sustainability universe consists of three main categories: "E", "S" and "G". These main categories are then split down into smaller sub-categories with their subsequent categories. These all work together and often overlap between each category. Ultimately, they all depend on one another to produce successful sustainable results. The Sustainability universe could be described as colonies of organisms that work together as one animal in order to survive, a siphonophore.

Interviewer:
Which colonies make up "G"?

"G":
In this diagram we can see those that make up the "E", "S" and "G".

Sustainability issues universe

The breakdown: ESG and their sub-categories



Interviewer:
Which of these colonies are the most important?

"G":
They are all equally important. It is a delicate balance between each of us, they form a system, a society of rules, practices, and procedures or processes, that other colonies/communities or businesses, as you call them, are directed and controlled by. We provide a service to your businesses that balance their interests with those of other colonies that, in turn, rely on them. You refer to them as stakeholders, such as shareholders, management, clients, governments, regulators, suppliers, financiers and communities. "G" provides an opportunity for balancing and fulfilling the needs of all communities and stakeholders.

Interviewer:
Is G the Diplomat of the Sustainability Universe?

"G":
No, we don't believe so. Although we provide a balance between an organisation's internal needs and the needs of external influential organisations and stakeholders, we prefer to consider G as a building block, or a starting point, that others use as a foundation for enhancing their own particular purpose. We provide a crucial and universal blueprint that allows an organisation to set and pursue their own objectives, and add substance from environments such as market, social and regulatory, to our proven, effective structure.

Interviewer:
You mention that you provide a crucial and universal blueprint? Is it really crucial? Can an organisation not devise its own foundation rules?

"G":
A good G structure is necessary for sustainable management. It is essential for evaluating a business's impact on its environment and on the wider the world. We, by way of utilising all areas in G, have created a structure for any organisation that will strive to identify areas of higher risk alongside opportunities and will take action. The implementation of a good G structure allows for swift action, both proactive and reactive, and is essential for the successful, profitable longevity of any organisation. We promote transparency, compliance and ethical behaviour, and actively complete risk management and informed decision making.

Interviewer:
You refer to your structure lending itself to the long-term success of any organisation, can you give a specific explanation as to why your colony framework applies to the asset management industry, specifically asset managers who may be more interested in "E" and "S"?

"G":
We understand that "E" receives a lot of interest for their natural good looks, biodiversity and unequalled generosity. Despite the constant take from their lodgers, "E" is keeping us all around, but they will admit that they need risk management and other areas from "G" in order to sustain resources. "S" works alongside "E", with most organisations paying attention to them both as they need society to work well to maintain a sustainable resource and economy. For asset managers, it is absolutely correct that they are concerned with ratings, fairness, equality, diversity, social and human capital and sustainable natural resources, as we all move towards an essential circular economy, investors will undoubtedly be looking at ratings in these areas. However, "G", is also incredibly important for asset managers, by rating how well an organisation has implemented the "G" foundation, asset managers can identify organisations that are more likely to perform well over the long-term. By analysing an organisation's "G", asset managers will find the organisations with strong foundation structures, and these will be more likely to attract and retain skilled resources, essential for long-term success. Regular assessment of "G's" performance can serve as an organisational early warning system for their approach to sustainability. Asset managers should ensure that they are investing in companies that have good and strong governance practices, this is due to the long-term sustainability of a company resulting in its ability to create value for shareholders. We will say, it is imperative that asset managers give equal consideration to "ESG" policies and practices, because they have equally important roles to play in sustainable long-term wealth creation.

Not all organisations that have good "G" may commit to other sustainable practices, or have the correct ethical substance built around their foundational "G".

Interviewer:
Thank you G, this brings us to Responsible Investing, given that you are the foundation on which ESG is built, is it fair to say that Responsible Investing and good governance are actually two halves of one concept?

"G":
Governance and investing may be two distinct concepts, but they can be related in several ways. Governance is important to Responsible Investing due to its promotion of transparency, accountability and ethical behaviour, and its assistance in managing risk. Analysis of governance can help investors avoid businesses with poor governance practices, and in turn reduce the exposure to negative events, such as environmental disasters, scandals, lawsuits, mistreatment of human resources, fraud, corruption, modern slavery and other unethical actions, all of which can cause losses. Good governance can, therefore, increase investor confidence and attract further investments. In order to establish the relationship between good governance and Responsible Investing, it is appropriate to begin by taking a look at a few of the pros and cons associated with each concept.

Concept	Pros	Cons
Responsible Investing	Social Impact: Socially responsible investing allows investors to support companies that align or complement their values and beliefs, leading to positive social change and impact.	Limited investment options: Responsible Investing limits the investment options available to investors, potentially resulting in a portfolio that is difficult to diversify.
	Long-term returns: Socially responsible investing can provide long-term returns that are comparable to traditional investments, and some studies suggest that investment in businesses with strong ESG practices may be more profitable in the long run.	Subjectivity: Responsible Investing is subjective and this can sometimes result in it being difficult to define, due to differing expectations from investors. One investor has slightly differing ethics, morals, social and cultural expectations from another investor. Standardisation deficiency: It can be difficult to compare different investment options due to lack of a standardised definition.
	Risk management: Responsible Investing can help investors manage risk by avoiding companies that don't have practices, values and beliefs that reduce the risk of negative events, and instead seek out opportunities that allow for long-term sustainability. Responsible investment strategies use ESG as a risk framework to assess businesses.	Impact measuring: It can be difficult to measure and evaluate the impact of ESG factors on financial performance, as well as the effectiveness of responsible investments.
Good Governance	Transparency: Transparency helps prevent unethical practices. Good governance promotes long-term financial viability and opportunity, including the raising of capital.	Cost: Implementing good governance processes and practices can be costly, possibly making it difficult for small businesses to compete on an equal scale.
	Stakeholder value: Good governance, as we have seen above, creates value for stakeholders.	Complexity: Corporate governance can be complex and difficult to implement, and this can make it challenging to meet regulatory and stakeholder expectations.
	Investor confidence: Good corporate governance increases investor confidence and attracts more investment.	Ethics: Good governance does not always lead to a business incorporating good ethics.
	Accountability: Good governance helps ensure that senior management teams are accountable to stakeholders, and ensures stakeholders have a clear understanding of the business' objectives, ethics and integrity.	
	Information: Good governance facilitates informed decision making.	

"G":
As we can see in the table on the left, the pros and cons of each concept can complement each other by promoting long-term financial stability, increasing returns and viability. The promotion of a business's social, environmental responsibility and sustainability can result in businesses, regulators and governments developing solutions for the cons that are indicated on the table.

We can also see that a quick look at the simple advantages and disadvantages of both concepts will confirm the need for good governance, and provides validity to the statements made earlier in this report that the "G" is the cornerstone for the "E" and the "S". Therefore, the analysis of the "E", the "S" and the "G" are vital for true Responsible Investing, and the industry should ensure that the disunity between the three categories is resolved and ultimately consider all areas in their investment decision making processes.

Interviewer:
Given everything that we have now discussed surrounding your importance, why do you think you haven't historically been given the same attention as the "E" and "S" in the Sustainability universe?

"G":
This is a good question. Perhaps we are not as visible to the general population or as tangible as the other two, but this does not mean we are any less important. As we have already discussed, we enable the management of risk and opportunity. Regulated entities follow our framework as a baseline. We expect that we, the 'G', will become more visible now as we become a requirement in allowing organisations to be classified as "sustainable investments."

Nedgroup Investments South Africa Corporate Social Investment Programme

> **"The guiding principles for the selection of charities are education, community development and health."**

Nedgroup Investments initiated a Corporate Social Investment (CSI) programme in 2018, with the aim of giving back to communities and making a lasting and positive impact. The programme encouraged staff to nominate charities that they felt strongly about, or are connected with, and ones that deliver value to their communities. All nominated charities went through a rigorous due diligence process and those selected had an opportunity to present their value proposition to staff, who subsequently voted for the ones they believed in.

The guiding principles for the selection of charities are education, community development and health.

In the area of education, Nedgroup Investments prefers projects that enhance the capabilities and capacity of both trainers/educators and learners. Special emphasis is placed on financial literacy projects. For community development, the focus is on projects that enhance the livelihoods and sustainability of communities, with a preference for initiatives that benefit women and children. In the health sector, the aim is to assist with the provision of health facilities and services to communities, specifically with the purpose of sustainably improving the quality of life for women and children in the long-term.

Funds are allocated to the selected charities twice a year. Firstly from a portion of our asset management fees of one of our unit trust portfolios and secondly from our cash solutions charity day, where we donate our net fees on all assets based on the close of day market value.

In addition to our formal CSI programme, the staff at Nedgroup Investments are also very active within their communities and many have applied for, and been awarded, donations from the broader Nedbank Group. They conduct very successful internal clothing drives for rural communities. Our commitment to CSI echoes the commitment we consistently make to our clients and our people, and correctly demonstrates Nedgroup Investments' values of being people-centred and respectful despite our differences.

We support the following charities

Heartlands Baby Sanctuary
This temporary residential safe care facility aligns with the health principle by providing care for vulnerable children.

Great Girls
This charity aims to bridge the gap between high school education and full-time employment for disadvantaged girls, aligning with the education principle.

Royal Drakensberg
This independent school for rural children aligns with the education principle by providing access to education for underprivileged children.

9Mile Project
This project provides mentorship and support to at-risk youth, aligning with the community development principle.

Co Active
This charity promotes and creates new experiences for underprivileged youth, aligning with the community development principle.

The House Group
This charity serves vulnerable girl children on the streets of Johannesburg, aligning with the health and community development principles.

NEDGROUP INVESTMENTS

Asset Manager Review

Asset Manager Review

David Levinson
Head of Responsible Investment at Nedgroup Investments South Africa

The World Economic Forum's (WEF) Global Risks Report is an annual publication that examines some of the most severe risks facing the world over the next decade. The survey includes a wide range of stakeholders, including policymakers, business leaders, academics and civil society representatives. In the diagram below, are the two-year and ten-year risks from the latest review. It is interesting to note that the most concerning risk over the short-term is "Misinformation and disinformation", as the world enters a "super election year", with more than half of the world's population, which is over four billion people, going to the polls.

The longer-term however, paints a significantly different picture. Here the effects of climate change start to feature more prominently, and it is understandable why many asset managers are citing ESG as a key risk tool in their portfolio construction and management.

Top 10 risks

World economic forum global risk report highlights environmental concerns

Rank	2 years	Rank	10 years
1st	Misinformation and disinformation	1st	Extreme weather events
2nd	Extreme weather events	2nd	Clinical change to Earth systems
3rd	Societal polarization	3rd	Biodiversity loss and ecosyste
4th	Cyber insecurity	4th	Natural resource shortages
5th	Interstate armed conflict	5th	Misinformation and disinformation
6th	Lack of economic opportunity	6th	Adverse outcomes of AI technologies
7th	Inflation	7th	Involuntary migration
8th	Involuntary migration	8th	Cyber insecurity
9th	Economic downturn	9th	Societal polarization
10th	Pollution	10th	Pollution

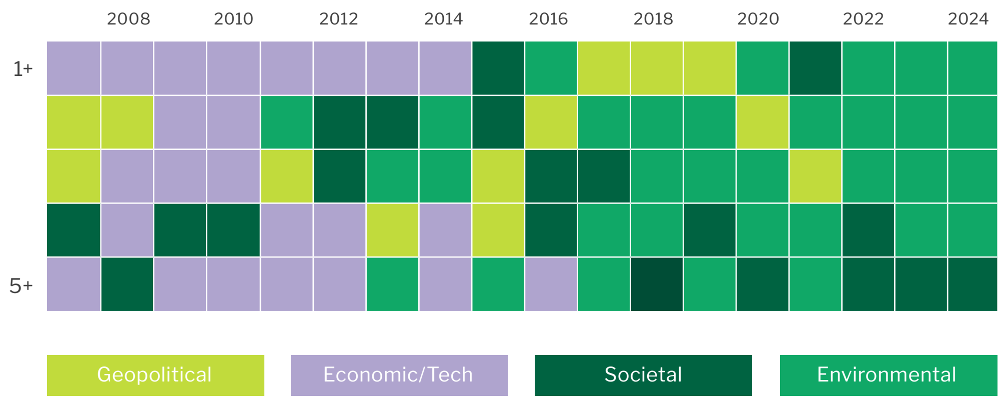
Risk categories: Economic, Environmental, Geopolitical, Societal, Technological

Source: World Economic Forum Global Risks Perception Survey 2023-2024

> **"It is interesting to note that the most concerning risk over the short-term is "Misinformation and disinformation", as the world enters a "super election year", with more than half of the world's population, which is over four billion people, going to the polls."**

World economic forum global risk report

The changing risk landscape



Source: World Economic Forum Global Risk Report, Schroders International.

Our annual Responsible Investment Review looks to assess the progress made among asset managers and across six main pillars:

1. **Commitment to responsible investing**
2. **Integration into internal processes**
3. **Corporate engagement**
4. **Proxy voting**
5. **Transparency and disclosure**
6. **Broader industry participation regarding responsible investing**

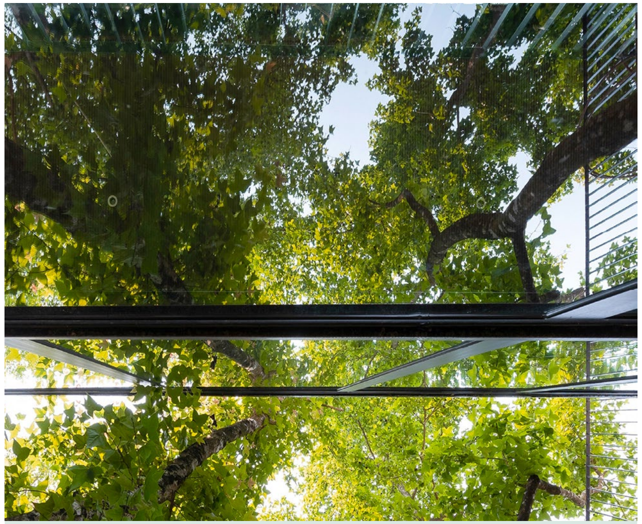
As one can imagine, the data we are looking to gather is both broad and deep. For the sake of this report, we will lean into **Bing Copilot** to bring to light some of our key findings.

A synopsis of the survey and report:

The common themes and differences among the firms:
The firms share some common themes in their responsible investment approaches, such as integrating ESG factors into their investment analysis and decision making, engaging with investee companies on ESG issues, and disclosing their ESG policies and activities to stakeholders. However, the firms also differ in other aspects, such as the degree of ESG incorporation, the use of dedicated ESG analysts or data providers, the adoption of specific ESG standards or codes, and the management of ESG products or themes.

The examples of ESG integration and engagement:
The survey provides several examples of how the firms incorporate ESG factors into their valuation, risk assessment and portfolio construction, as well as how they engage with investee companies on ESG issues. Some of the examples showcased are how a manager reduced its position and size in a company due to governance concerns, and another used ESG momentum to identify investment opportunities and risks. One of the respondents avoids investing in companies with poor safety records, while another focuses on companies with improving ESG scores and practices. There were a number of examples where engagement was focused on responsible and appropriate executive remuneration.

The challenges and limitations of Responsible Investment:
The survey responses also acknowledge some of the challenges and limitations of responsible investments, such as the lack of consistent and reliable ESG data, the varying materiality and relevance of ESG factors across sectors and regions, the trade-offs between ESG performance and financial returns, and the difficulty of measuring the impact and outcomes of ESG integration and engagement. The firms express their commitment to overcome these challenges and improve their responsible investment practices over time.



Do the asset managers place greater emphasis on any of the ESG factors over the others in their investment decision making?

Equal or different emphasis on ESG factors:
Some managers place equal emphasis on all ESG factors, while others prioritise governance as the most important factor.

ESG research and scoring sources:
Some managers rely on external sources like Refinitiv to provide ESG research and scoring, while others use their own internal analysis and frameworks.

ESG momentum and materiality:
Some managers consider the momentum and improvement in ESG practices and scores as a value creation opportunity, while others focus on the materiality and relevance of ESG factors for different sectors and companies.

ESG and governance quality:
All managers agree that good and sustainable governance leads to positive outcomes across all ESG factors and reduces the risk of corporate failures and value destruction.

Do the asset managers have plans to develop, and continually advance, their approach and implementation toward the management of ESG factors?

ESG improvement plans:
All the respondents, except one, have plans to develop and advance their approach and implementation toward the management of ESG factors.

ESG risk scores:
One manager commits to incrementally improving the individual and aggregate ESG risk scores for portfolio investments, while another provides training to the investment team on ESG evaluation.

ESG policy evolution:
A number of managers acknowledge that their ESG policies and practices will evolve as investee companies' reporting and ESG data sources improve over time.

ESG integration process:
Two of the managers state that they will continue to adapt and improve their ESG integration process to suit market conditions and their team's needs.

ESG factors importance:
One respondent claims that ESG factors have always been important and are core to their investment process.

Do the respondents have a dedicated Responsible Investment or ESG analyst accountable for assessing company/sector specific ESG risks and opportunities? And if not, who holds responsibility for ESG incorporation? Lastly, is training provided to analysts/portfolio managers?

ESG analyst roles and responsibilities:
The findings show how different investment firms assign ESG analyst roles and responsibilities to their staff. Some firms have dedicated ESG analysts, while others expect all analysts and portfolio managers to incorporate ESG factors into their research and valuation.

ESG training and education:
The survey also mentions the training and education provided to the analysts and portfolio managers on ESG issues. Some firms have senior members of the investment team or ESG champions who provide internal training, while others rely on external sources such as conferences, webinars, third-party research and data providers.

ESG materiality and ranking:
The document indicates that the materiality of ESG factors varies depending on the industry and company context. Some firms use third-party research to score and rank the ESG performance of the companies they invest in, while others use their own criteria and judgment. The direction of travel and the engagement with the management are also important aspects of ESG analysis.

Is the incorporation of Responsible Investment linked to investment team performance targets and incentives?

Link between RI principles and incentives:
Most of the respondents do not have a specific link between the incorporation of RI principles and the investment teams' performance targets and incentives.

RI principles as part of investment process:
Some of the respondents state that RI principles are part of their overall investment process and research standards, and that they evaluate the ESG performance of the companies they analyse.

ESG objectives and incentive pay:
Only one respondent mentions that their S&E team's incentive pay is tied to the achievement of ESG objectives.

Where do the respondents source their ESG information from? Are third Party ESG data providers used, and if so, which names feature most broadly?

ESG data sources:
The survey reports the different sources of ESG information used by various investment firms, such as MSCI, Bloomberg, Refinitiv, and third-party research providers.

ESG integration:
The responses also describe how ESG data is integrated into the investment process and risk management of the firms, such as using proprietary scoring systems, relative ranking tools, portfolio analytics and SWOT analysis.

ESG research quality:
The document mentions that some firms rate the quality of the ESG research provided by brokers or third-party providers, and that they do not rely solely on external data or ratings, but also conduct their own in-house research and analysis.

ESG challenges:
The document implies that there are some challenges in using ESG data, such as the low correlation between different providers' scores, the lack of conclusive evidence, and the need to adapt to different client needs and expectations.

Do the asset manager respondents subscribe to any local or international RI codes or standards, if so, which feature most prominently?

UNPRI signatories:
Most of the firms are signatories to the UN Principles for Responsible Investment (UNPRI), which is a global network of investors committed to integrating environmental, social and governance (ESG) factors into their investment decisions.

CRISA code:
Some of the firms also adhere to the Code for Responsible Investing in South Africa (CRISA), which provides guidance on how institutional investors should promote sound governance, sustainability and ethical practices.

Other initiatives:
Other collaborative initiatives, such as the International Corporate Governance Network (ICGN), Climate Action 100+ and the Task Force on Climate-Related Financial Disclosures (TCFD), were also mentioned.

Case Studies

The Energy Transition

ARDEVORA

"One of our Environmental, Social and Governance (ESG) beliefs is that climate change and biodiversity loss are currently the key challenges to address."

One of our Environmental, Social and Governance (ESG) beliefs is that climate change and biodiversity loss are currently the key challenges to address. In addition to posing existential societal risks, climate change poses a significant investment risk for businesses that fail to acknowledge and plan for changes in government regulation and consumer preferences. Fossil fuel extractive industries have been in the crosshairs, given their contribution to C02 emissions and their history of denial and obfuscation around the issue. However, these companies have significantly evolved their response to climate change risk: it is now unusual to find an extractive fossil fuel business that does not openly discuss climate change risk and their role in mitigating it. While this has been a step in the right direction, management plans have room for improvement. This is where we believe engagement work can help.

In the second half of 2023, we have engaged with several companies within the oil and gas sector to learn more about their plans to mitigate climate change risk. We have engaged directly with Shell, TotalEnergies, Cheniere and Williams. The general response from management supported our assessment that these companies acknowledged the risks associated with climate change and that, currently, the investment risk (such as stranded assets and litigation) appeared low, even if areas for improvement in their plans remained. The key purpose of our engagement calls with companies was to start a dialogue with management – we recognise that meaningful engagement is long-term in nature and gradually builds through ongoing discussions.

Our discussions with management centred on their thinking around:

1. **How and when the energy transition challenges start to become material, and what scenarios they see playing out**
2. **What key indicators were being used to monitor whether there was a need to accelerate energy transition plans**

Our one-on-one call with Williams was a particularly interesting piece of engagement work. Management had a clear vision for the critical role of natural gas in the energy transition: supporting the growth of renewables by solving the intermittency problems of solar and wind, while simultaneously supporting broader societal aims of ensuring energy affordability and security, given that natural gas is cheap, reliable, and abundant. To mitigate longer term risks, management is investing behind hydrogen and Carbon Capture Use Storage (CCUS), as well as starting to convert existing pipelines to handle the blending of hydrogen and natural gas.

This call confirmed our view that there was low investment risk: with a long runway from traditional demand, additional growth from renewables and population growth in regions where their pipes are located (sunbelt states), a business underpinned by attractive contract structures (long-term capacity not volume, based on take or pay conditions) and an unusually difficult to replicate asset base (Transco). As such, Williams should be well positioned to benefit from the energy transition given the enabling role they can play.

Unlike close peer Kinder Morgan, Williams is also more insulated from regulatory risks tied to requirements to upgrade infrastructure under the Good Neighbour Plan. This confirmed a risk highlighted when Kinder Morgan was put through an ESG hold-sell review cycle. Williams' stronger relative position was a product of its corporate history, having gone through business restructuring in the late 1990s/early 2000s which forced management to undertake the costs of upgrading of facilities earlier, as well as realise the benefits of greater operational efficiency.

Calls with management also helped reveal issues we had not highlighted in the ESG risk assessment. For example, TotalEnergies highlighted in their call with us that the concept of Just Transition – integrating workers and communities into transition planning to ensure no one is left behind - was factored into their energy transition planning, unlike their close peers, BP and Shell. This was seen as an important means to manage human capital risks (such as hiring and retention) facing energy companies as the world moves away from its dependence on extractives.

Additionally, while TotalEnergies has adopted a consistent approach to the energy transition, Shell are re-thinking their approach. The apparent reversal by Shell was noted during our engagement call with them as raising challenges within their workforce, with employees disgruntled by the changes. We will seek to engage further with Shell during this period where they are revising their plans and encourage them to adopt Just Transition as a key element going forward, given it can help alleviate human capital risks.

This is an area we are already involved in, seeking to advocate for a Just Transition to other investee companies in the fossil fuel industry, via the World Benchmarking Alliance's Just Transition campaign. In this campaign, we have been appointed lead investor for Occidental Petroleum and Devon Energy, and a support investor for ExxonMobil and Shell.

Good governance

Outside of the energy transition, we have also engaged with companies on a range of other issues. Of interest was our work with Rio Tinto. Following our engagement with them we were reassured that management were taking adequate steps to repair the damage following the Juukan Gorge disaster, with a clear acknowledgment that corporate change was required to maintain their social license to operate. We are monitoring for the announcement of more details on management's risk mitigation planning here, especially around the issue of biodiversity loss, and will update our view accordingly.

Where greater improvement from management is needed, is with their plans to mitigate the sexual harassment risks. Plans were notably weaker than their peer BHP, with only vague commitments in place and no hard metrics to track. BHP, by contrast, had put in place strong policies, controls and training programmes, and progress on this issue linked to executive and senior leadership compensation. We will continue to engage with Rio on these issues in 2024, maintaining a dialogue with management to encourage the necessary improvements, as well as use proxy voting to nudge management forward.

Mitigating public health impacts

Another interesting engagement case study was with British American Tobacco. Our investment case rested on management moving out of denial, acknowledging the need to transform their business model via a portfolio transition away from combustibles

> **"Although they are not risk-free for consumers, next-generation products (if responsibly marketed) could play a role in supporting better health outcomes for society, given lower exposure to toxins that can cause cancer, lung diseases of the heart and circulation like heart attacks and strokes."**

and towards risk-reduced next-generation products, such as vapes and heated tobacco devices. Growth from these new segments would offset the gradual decline in the legacy cigarette business.

Although they are not risk-free for consumers, next-generation products (if responsibly marketed) could play a role in supporting better health outcomes for society, given lower exposure to toxins that can cause cancer, lung diseases of the heart and circulation like heart attacks and strokes. However, an ESG hold-sell review highlighted increasing risk around management's strategy. With more stringent regulation and increased competition impacting their vaping business and share losses in their legacy combustibles business, management were struggling to deliver on their portfolio transformation plan (controlling the decline of combustibles, while growing next-generation products).

While management plans looked to be under strain, analysts and investors were relaxed, seeing downside already in the price. We wrote to management and set up a meeting to discuss the risks and concerns raised in our ESG risk assessment. This call was useful in confirming our view that management had moved out of denial, acknowledging the need to reduce the health impacts of their business through a portfolio transformation. Management was very clear in detailing the specific plans they had put in place to ensure responsible marketing and selling practices for next-generation products. The call also confirmed our view that management was over-optimistic about their ability to navigate the current challenges to their portfolio transformation plan, sticking to a forecast of steady-state declines in combustibles and confident that the impacts from regulation and competition to their vaping products should wash through. These findings fed back into our assessment of the stock. Following this review and engagement call, we sold the stock.

Engaging on the Financial Impact of Rising Environmental Regulation

Truffle Asset Management

Carbon Border Adjustment Mechanism (CBAM) is an attempt to equalise carbon tax paid in European Union (EU) for products produced outside the EU

According to Climate Action Tracker, less than 5% of global emissions have carbon pricing at or above the \$40–\$80/tCO2e range that is estimated to be consistent with a 2°C global temperature reduction pathway ("State of Climate Action", November 2023). Europe is one jurisdiction that has regulated carbon pricing to fall within this range, meaning the cost of production for certain goods and services in the EU is higher than other countries. The EU has therefore established CBAM to equalise the production cost across imported and homegrown products. Through CBAM, an EU carbon tax is imposed on large importers based on the exact carbon emissions embedded in imported products. These importers may claim back any carbon tax paid to the EU in the country of origin, where applicable.

CBAM will initially impact a limited number of sectors and products

Initially, CBAM will cover high carbon emitting sectors including electricity, cement, fertilisers, iron and steel, aluminium, and hydrogen sectors. By 2030, additional sectors such as oil refining, all metals, pulp & paper, glass & ceramics, acids & organic chemicals will be included with a broad timeline as follows:

Admin Phase	Transitional phase	Fully implemented
01 October 2023 - 31 December 2025	01 January 2026 - 31 December 2033	01 January 2034
No Financial impact, but building out systems and processes	Increasing financial impact as carbon allowances are phased out for different sectors Other sectors to be added as well	

Source: Nedgroup Investments

> "Trade and Industrial Policy Strategies, an economic research organisation, estimates that based on the initial number of sectors impacted, 2.2% of South Africa's exports are at risk. This amounts to approximately 0.8% of our GDP."

Engagements with company management to date highlight limited impact for companies in which Truffle Asset Management invests

Given the significant impact CBAM will have on the sectors outlined above and the potential operational and financial impact, Truffle Asset Management undertook to engage larger companies to understand how they are preparing for potentially higher tax on products exported to the EU. These engagements are highlighted below:

- **Iron and steel sector**

  Kumba Iron Ore and African Rainbow Minerals both confirmed that their products are excluded from the CBAM because "lump and fine" products will not release additional carbon, given that no further processing is required.

  This is unlike similar minerals, sinter and pellets. Kumba indicated that this presents a potential opportunity for more lump usage relative to pellets.

- **Aluminium sector**

  South 32 has two smelters that export to Europe: Hillside Aluminium in South Africa (uses the Eskom grid) and Mozal Aluminum in Mozambique (uses renewable hydropower). The source of power poses a risk for South 32, due to importers' changing preference for low carbon aluminium, given the carbon tax. We will continue to engage on their plans to secure renewable power, and to understand the quantum of the impact.

Environmental regulation and CBAM is a theme we will continue monitoring and engaging on going forward

We have spoken to companies potentially impacted by the implementation of the initial phase of CBAM and will continue to engage the management of companies to be impacted once CBAM is fully implemented. During initial engagements with Sasol, we have established that the business is in the process of mapping out alternative customers, outside of the EU, for impacted products. We will continue to engage Sasol's management on this topic and related issues in 2024.

> "At Truffle, we critically evaluate the introduction of new regulations, which enables us to consider the financial and operational impact on the companies in which we invest."

The EU's carbon tax on imports may just be the start. Other countries, such as Japan, are also considering the implementation of their own version of a carbon border adjustment mechanism. The pressure on high carbon emitting countries in developed markets to reduce carbon emissions and support the path to net zero is increasing. The regulatory environment is also evolving quickly as countries establish new ways to reduce emissions. At Truffle, we critically evaluate the introduction of new regulations, which enables us to consider the financial and operational impact on the companies in which we invest. Importantly, this informs our engagement agenda with company management and ensures we remain aware of the implications of environmental regulations for each business and sector.

Investing in Sustainable Bonds Issued by South African Banks

Taquanta

The Nedgroup Investments Core Income Fund is managed by Taquanta Asset Management and valuing transformation and inclusive growth in responsible investing is central to the fund manager's approach. They maintain that embracing transformation and inclusive growth can help to build more sustainable and prosperous societies and organisations.

"The exposure to sustainable bonds in the Nedgroup Investments Core Income Fund is split 32% towards green bonds and 68% towards social bonds. The proceeds from these bonds were used for financing renewable energy assets (primarily solar and wind) and mortgage loans for affordable housing, that was directed at women whose monthly household income was below R26 100."

In this case study, the fund manager has invested R2.2bn towards sustainable bonds through the Nedgroup Investments Core Income Fund. The fund has invested in the bonds issued by South African banks, namely; ABSA, Nedbank and Standard Bank. The exposure to sustainable bonds in the Nedgroup Investments Core Income Fund, is split 32% towards green bonds and 68% towards social bonds. The proceeds from these bonds were used for financing renewable energy assets (primarily solar and wind) and mortgage loans for affordable housing, that was directed at women whose monthly household income was below R26 100.

The cumulative value of sustainable bonds issued by the aforementioned banks exceeds R16.7 billion, with the bonds held by the Nedgroup Investments Core Income Fund representing 13.1% of this total. These sustainable bonds have contributed considerably towards inclusive transformation and sustainable growth.

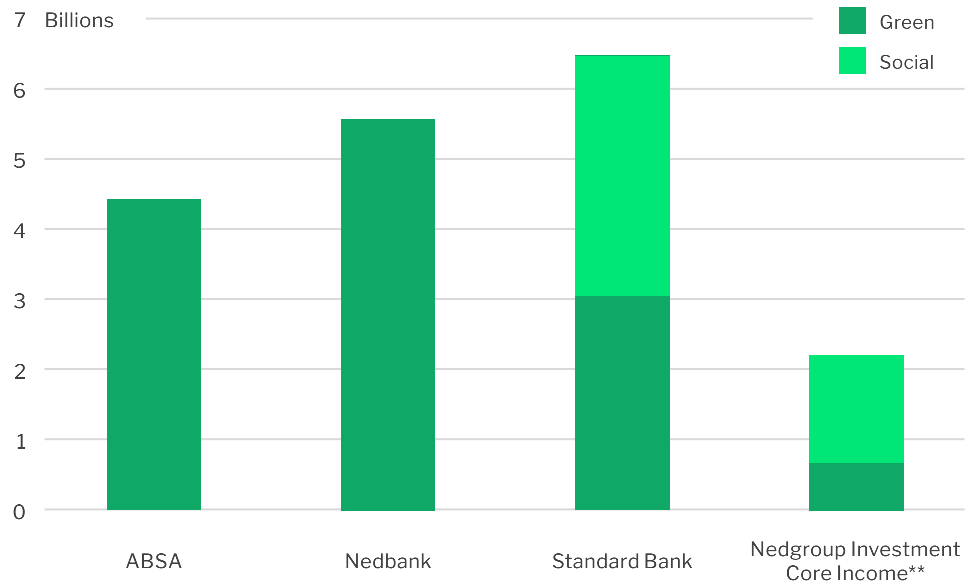
More specifically, the bank-issued green bonds held in the Nedgroup Investments Core Income Fund have contributed towards the development of 12 renewable energy projects in wind and solar across South Africa. These projects boast a collective installed capacity of 1 355 MW - leading to an annual reduction of 3 million tons of CO2 emissions (the equivalent of the average CO2 annual emissions of roughly 650 thousand people.)*

The bank-issued social bonds invested have also made a meaningful impact, resulting in 5 787 home loans in the affordable housing segment. Notably, 59.4% of these loans have been extended to female borrowers, illustrating a significant and positive contribution to improving housing accessibility for 3 438 women.

"59.4% of these loans have been extended to female borrowers, illustrating a significant and positive contribution to improving housing accessibility for 3 438 women."

Nominal amount of sustainable bonds issued by the South African banks

(**and the sustainable bonds held in the Nedgroup Investments Core Income Fund)



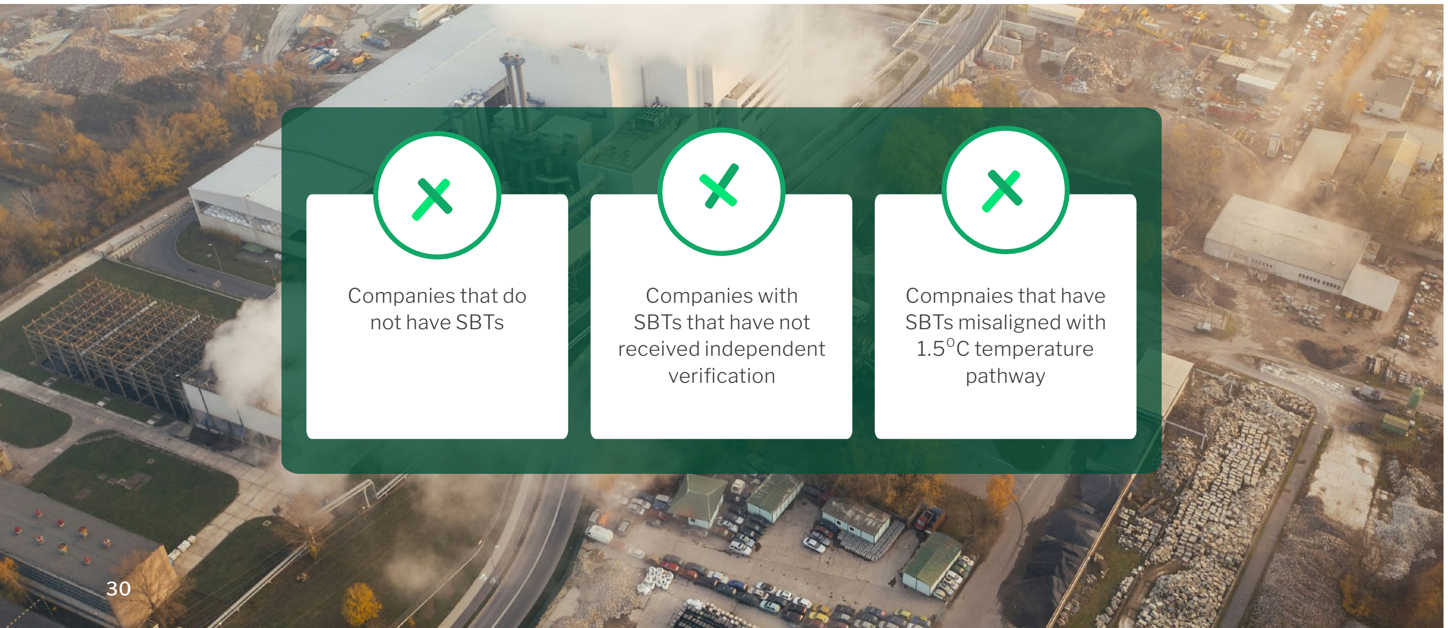
Source: Based on the last 10 years of available data provided by the World Bank. ** All figures are for the year ending 2022.

Science Based Target Engagement Initiative

Veritas Asset Management

Veritas Asset Management joined the Net Zero Asset Managers (NZAM) initiative in October 2021, and has committed 100% of its assets under management (AUM) to achieve Net Zero by 2050. We are also a signatory of the Science Based Target initiative (SBTi), as we believe any targets set by companies should be independently verified. We have made several commitments to support the climate transition. One of these is setting an interim target, within 1 year of joining NZAM, that is consistent with the SBTi methodology. The target ensures that any engagement with companies is meaningful and measurable. The initial NZAM target is an interim target for 2030 that was submitted in October 2022. We engaged the Carbon Trust to calculate the implied temperature of all portfolios, which enabled us to calculate our base year implied temperature rate (ITR) and pathway to Net Zero. Carbon Trust is a respected advisor to organisations and governments on climate transition pathways, and they use an SBTi approved methodology. In the model used to calculate the Net Zero pathway, Carbon Trust only recognises targets reported to the CDP, preferably science-based targets with SBTi verification. Any companies that have proposed targets or are committed to SBTi but are awaiting verification, or have not set targets, are assigned a default ITR of 3.2°C. For example, the Carbon Trust assigns Sonic Healthcare an ITR of 3.2°C. Unilever has a 1.5°C target that is verified by the SBTi, meaning that in the model, the business is assigned an ITR of 1.5°C. A weighted average temperature is calculated across all portfolios.

Our aim is to lower the overall temperature of all funds that we manage, by encouraging companies to have their decarbonisation targets verified by the SBTi. Veritas reviews all investee companies to identify shortfalls in their Net Zero transition strategies. The review is aligned with the four pillars of the Task Force on Climate-related Financial Disclosures (TCFD). Ideally, all transition strategies should incorporate science-based targets aligned with a 1.5°C warming scenario that encompass the entire value chain and have received verification by an independent body like the SBTi. We identified 19 companies across our Global Funds with transition strategies that are inconsistent with the ideal scenario outlined above. Each company was categorised under one of the three buckets listed below.



Letters that outlined our concerns were sent to 19 companies, from which we received 13 responses. Some companies addressed the issues raised and offered an acceptable solution over a specific timeframe, enabling ongoing dialogue and monitoring. In other instances, we only received confirmation that the letter had been received. Together with those companies that have not responded, these companies have been subject to our escalation strategy. For example, at the 2023 Annual General Meeting (AGM) of Charter Communications, Veritas voted against the re-election of Tom Rutledge, the Chairman, primarily due to the lack of leadership on emissions. In a few cases, there is a valid reason for a company not to commit to science-based targets at this point in time. However, in many cases, we will use both voting and engagement to encourage management to make commitments, and thus lower the overall ITR of the business.

Positive responses

Safran S.A.
Company has received SBTi verification

Alphabet

Alphabet Inc.
Company has submitted targets to SBTi for verification.

CP

Canadian Pacific Railway
Recognise the standard has changed from Well-below 2°C to 1.5°C and work is underway to increase the ambition of targets.

Financed Emissions: 1.5°C Transition Pathway (Scope 1 and 2)

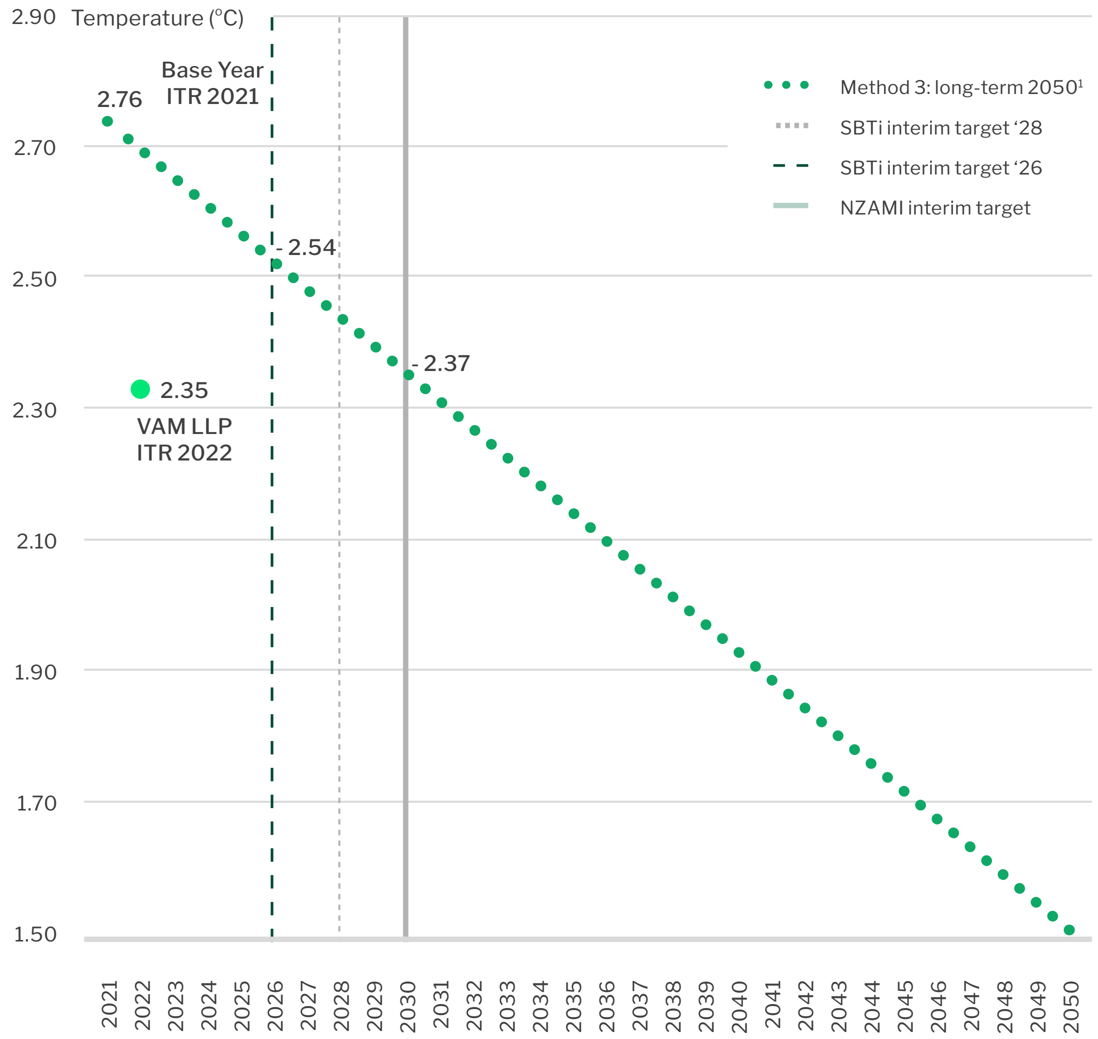
The chart below illustrates the transition pathway that is consistent with the SBTi Financial Institutions Target Methodology, which incorporates the IPCC pathway to 1.5°C and 100% of the firm's AUM. The Temperature Rating methodology is used to determine our targets for financed emissions. The base year is 2021, with an initial temperature rating of 2.76°C. Two interim targets have been established, in line with our commitments to the SBTi and the NZAM, with targets of 2.54°C by 2026 and 2.37°C by 2030, respectively.

An annual assessment of progress ensures accountability to our commitments, offering the most effective means to gauge the performance of our assets and the influence of our stewardship initiatives. Each year, the Carbon Trust conducts a review of the progress achieved. In the 12-month period ending on 31 December 2022, we achieved a reduction of -14.8% (Scope 1 and 2), resulting in a temperature rating of 2.35°C, surpassing both interim targets.

Progress: 2021 vs 2022	
Companies with a 3.2°C ITR	△ 2022
Removed	25%
Added	23%
For example: Canadian Pacific Railway, Airbus, Woolworths, Inditex and Illumina	

Companies temperature rating	Corresponding to x% in	
	2021	2022
Unchanged ITR (52 Companies)	37%	38%
Improved ITR (21 Companies)	31%	27%
27% of the portfolio improved their TR from an **average of 2.7°C in 2021 to an average of 1.9°C.** **For example:** Alphabet, Safran and Becton Dickinson		

Transition Pathway to 1.5°C



Base year temperature includes 100% of financed emissions for VAM LLP as of 31 December 2021. The weighting method used is the portfolio weighting approach, the weighting is the invested value in a company divided by the total value of the portfolio. Source: Carbon Trust. Data as of 31 December 2022. For further information on sustainability related aspects please visit https://www.vamllp.com/sustainability

Oceana Fishing

Oceana Fishing derives its revenue and profits from multiple wild fish species caught and sold in a variety of countries which encompass:

Pilchards:
Caught in SA, imported from Mauritania and sold as canned product

Horse Mackerel:
Caught in SA and Namibia, and sold via informal markets in Africa as whole and frozen fish Hake: Caught in SA and exported whole and frozen to Europe, or processed and sold in SA

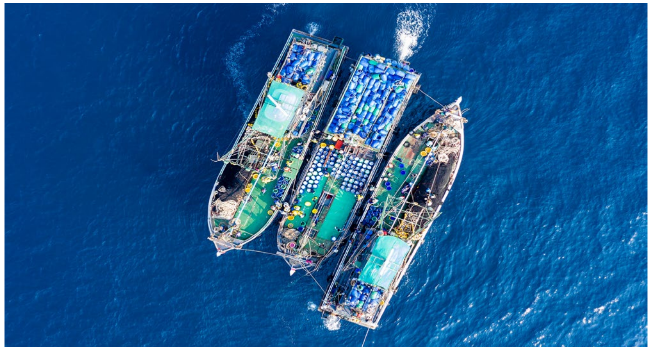
Anchovy:
Caught in SA and Namibia, and sold as fishmeal and fish oil Gulf Menhaden: Caught in USA (Gulf of Mexico) and sold as fishmeal and fish oil

West Coast Rock lobster:
Caught in SA and exported as fresh or frozen to Far East.

Squid:
Caught in SA and exported as frozen

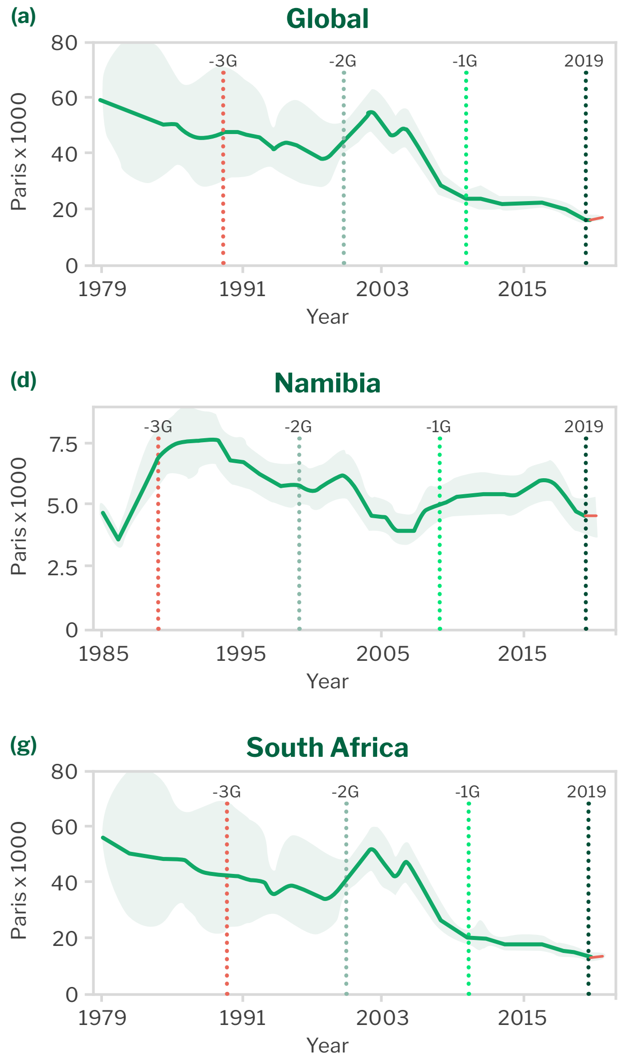
> **“The small size of the remaining colonies means that all now face a substantial probability of extinction. It is anticipated that a further seven colonies will become extinct in the near future (Coetzee et al., 2021a).”**

Through the work of the Abax Foundation (annual grant award made to SANCCOB since 2014), as well as our own internal environmental research, we have become increasingly concerned about the decreasing numbers of African penguins. The African penguin is the only penguin which nests and breeds on the African continent and islands offshore South Africa and Namibia.



In the 1920s, the African penguin may have had an estimated breeding population as large as between ~500 000 and ~1 000 000 pairs. The population subsequently decreased and almost a century later, less than ~20 000 pairs remained, ~25% of which were in Namibia and ~75% in South Africa (Coetzee et al., 2021a). As a consequence of the marked population declines across both these range states, the species was classified in 2010 as Endangered on the Red List of the International Union for Conservation of Nature (IUCN, 2018). As recently as 2004, ~52 000 pairs of African penguins could be found at 19 breedinglocations in South Africa, but by 2019 the population had fallen to ~13 200 pairs, with five colonies becoming extinct (Coetzee et al., 2021a). The latest counts from 2022 show a continuous decline, with an estimated breeding population of ~10 000 pairs (Masotla et al., 2023).

Furthermore, the small size of the remaining colonies means that all now face a substantial probability of extinction. It is anticipated that a further seven colonies will become extinct in the near future (Coetzee et al., 2021a).



Source: The conservation status and population decline of the African penguin deconstructed in space and time. Richard B. Sherley, Robert J. M. Crawford, Andrew D. de Blocq, Bruce M. Dyer, Deon Geldenhuys, Christina Hagen, Jessica Kemper, Azwianewi B. Makhado, Lorien Pichegru, Desmond Tom, Leshia Upfold, Johan Visagie, Lauren J. Waller, Henning Winker 2020

While the reasons for the ongoing collapse in breeding pairs is not definitively known, one of the reasons put forward by scientists has been reduced availability of food due to industrial fishing activity within their natural foraging ranges close to breeding sites. The creation of an exclusion zone around the breeding colonies has been pushed by informed conservation scientists and has proven to be effective, during an experimental period, as a way of countering the collapse. Unfortunately, and with great disappointment, this approach has been strongly resisted by the fishing industry.

We have urged Oceana Fishing to voluntarily commit and implement an exclusion zone around the islands for the following reasons:

1. To set the highest environmental example for smaller firms to follow and win popular support for doing so.
2. To protect the firm's reputation and branded product, Lucky Star.
3. To make a positive effort to save an iconic African species from extinction.
4. To put conservation before profit.
5. To show concern for the huge tourist sector reliant on visitors viewing the birds.
6. To protect their long-term access to the sustainable fishing resource before more draconian regulatory actions are taken against them and the industry.

Despite our urging, the company has to date not responded positively to our pleas. In August 2023, the SA Minister of Environment, Forestry and Fisheries, after receiving a report from an independent panel, enforced closures around all breeding colonies for 10 years and rejected the fishing industry's report on the economic impact as an exaggeration.

This is a poor reflection on the SA fishing industry and Oceana itself, although they have not contested the decision and have agreed to be bound by the terms of the exclusion zones. In addition, in their 67-page 2023 Sustainability Report, the company devotes only half a page to the matter in, what we consider in our opinion, to be wholly insufficient and practically dismissive.

We will continue to engage with the firm on this matter and look forward to a resolution.

Navigating ESG Complexities in the Real World: South Africa's Looming Gas Crisis

FOORD

"In August 2023, Sasol confirmed its commitment to fully internalise its gas supply by 2027. This strategic decision, a commendable dedication to their Net Zero 2050 ESG sustainability strategy and the need to manage their declining gas production profile, is expected to exert a multifaceted impact on downstream industries."

In August 2023, Sasol confirmed its commitment to fully internalise its gas supply by 2027. This strategic decision, a commendable dedication to their Net Zero 2050 ESG sustainability strategy and the need to manage their declining gas production profile, is expected to exert a multifaceted impact on downstream industries. This article underscores the importance of understanding both the complexity and impact of ESG decisions on the broader ecosystem.

Sasol currently receives approximately 170 petajoules (PJ) of natural gas annually from its Pande and Temane gas fields in Mozambique through the ROMPCO pipeline. Around 40PJ of this is externally sold to local industrial gas users (refer to Chart 1). Forecasts predict a steady production from these gas fields until 2028, with a subsequent decline and expected depletion by 2034. Despite continuous exploration, Sasol has not identified significant additional reserves.

"As investors in Italtile, it was imperative that we assessed the potential impact of this looming gas crisis to best navigate the risks on behalf of our investors."

The industrial gas users, many of whom form part of the Industrial Gas Users of South Africa (IGUASA), have been placed on 6-month rolling supply contracts and will need to secure alternative supply agreements from 2027 onwards. Due to historical pricing regulations by the National Energy Regulator of South Africa (NERSA), these alternative supply agreements are expected to be concluded at significantly higher prices, which will drive up the costs of production for many businesses, with a downstream impact on consumers.

One of the businesses that stands to be impacted is Italtile Limited, whose ceramic business, Ceramic Industries, uses gas as an energy source. Natural gas is essential to ceramic businesses as it offers consistent and controllable temperatures, production efficiency, and lower emissions (in comparison to traditional coal-fired kilns). According to Italtile's Integrated Annual Report 2023, Ceramic Industries recorded an annual direct energy consumption of ~3.2PJ, where approximately 70% of this energy requirement was supplied by gas, highlighting the importance of this commodity to the business.

As investors in Italtile, it was imperative that we assessed the potential impact of this looming gas crisis to best navigate the risks on behalf of our investors. The most shovel-ready of the solutions to replace the gas supply is a Floating Storage and Regasification Units (FSRU) located in Matola, Mozambique. There is also a possibility that a similar FSRU could supply industrial gas users from Richards Bay, KwaZulu-Natal (refer to Chart 3). It is estimated that when combined, these FSRUs could supply ~65% of South Africa's gas demand in 2028. To understand whether Matola FSRU would be able to supply gas by the 2026 deadline, we contacted the Gigajoule Group, the leading clean energy player responsible for the project, for more information. To be economically feasible, the project needs to consume ~90PJ of gas. This requires around half of that gas to be consumed by a gas-fired power station close to the port and for that, an offtake partner such as Eskom is required. To date, Eskom has yet to commit. According to the operator, they will require 30 months to bring the project online. Given the tight deadline, the extensive permitting process and construction time required for these projects, final investment decisions are needed imminently, as the risk of severe gas supply disruptions in the near term is becoming increasingly probable (refer to Chart 3).

Initial estimates suggest that gas costs from the Matola FSRU will be double that of gas supplied by Sasol. For Ceramic Industries, supply from Renergen's Phase 2 operation (where costs are forecast to be triple current Sasol rates) could be supplemented by the Matola FSRU, or alternatively, a biogas or coal-syngas inhouse project, with a coal-syngas power project being the worst-case scenario in terms of a detrimental environmental impact. To manage the looming risk to gas supply, the company may be forced to switch some of their production to this energy source or stop production all together, which comes with a detrimental social impact. Unfortunately, due to a lack of political will to address this infrastructure challenge and instigate solutions, companies in South Africa may have to ultimately regress on environmental initiatives to balance nuanced social implications. Beyond input cost inflation, there is also a significant capital expenditure required to reconfigure the Ceramic business toward new feedstock. Furthermore, the risk of higher future emissions attracts additional financial implications due to carbon taxes.

> **“To manage the looming risk to gas supply, the company may be forced to switch some of their production to this energy source or stop production all together, which comes with a detrimental social impact. Unfortunately, due to a lack of political will to address this infrastructure challenge and instigate solutions, companies in South Africa may have to ultimately regress on environmental initiatives to balance nuanced social implications.”**

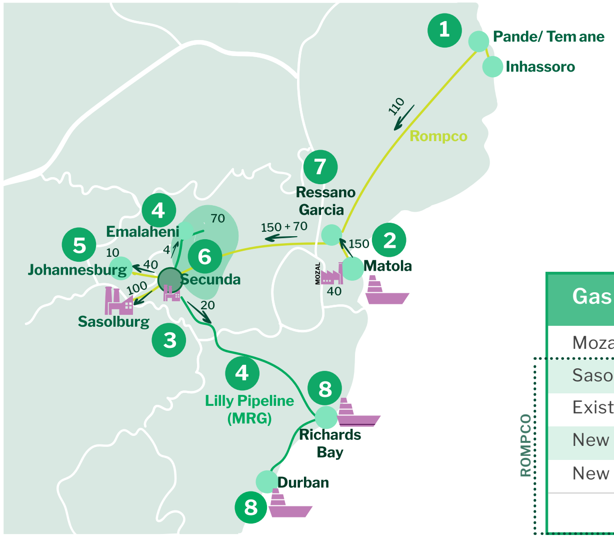
Despite the efforts of the industry, the lack of direct response from government is of major concern. We have approached both the Department of Mineral Resources and Energy (DMRE) and the Ministry of Electricity to gauge their responses to these issues. To date, we have received no response from the DMRE and have been unable to secure a meeting with the Ministry of Electricity. The scale and uncertainty surrounding these projects, together with the potential impact on Ceramic Industries' cost of doing business, raised concerns for us as investors and promped decisive action. We updated our valuation of Italtile to include both the quantitative and qualitive impacts and concluded that there has been material impairment to the underlying value within the business. As a result, we reduced our positions to mitigate the risk of potential capital loss.

We continue to actively engage with all parties to ascertain whether alternative supply arrangements can be made, and the implications thereof. These developments, prompted by pressure on Sasol to reduce their own carbon footprint, present a material national energy security risk with numerous associated implications, including supply chain disruptions, job losses and a potentially adverse economic impact for South Africa at large. Consequently, the cost of Sasol's efforts to decrease their emissions will effectively be borne by the industrial gas users they have historically supplied, their consumers and even their employees. IGUASA members estimate that as many as 600 000 jobs may be placed at risk. This issue highlights the complexity of solving for ESG risk in one business, the increase in ESG risk this may cause for other businesses, and the need for investors to ensure they have integrated these risks into their financial analysis and size their positions accordingly.

Chart 1: Industrial gas users of South Africa - current members

Source: https://igua-sa.org/members/

Chart 2: Gas supply in South Africa – SBGS 2028 Scenario

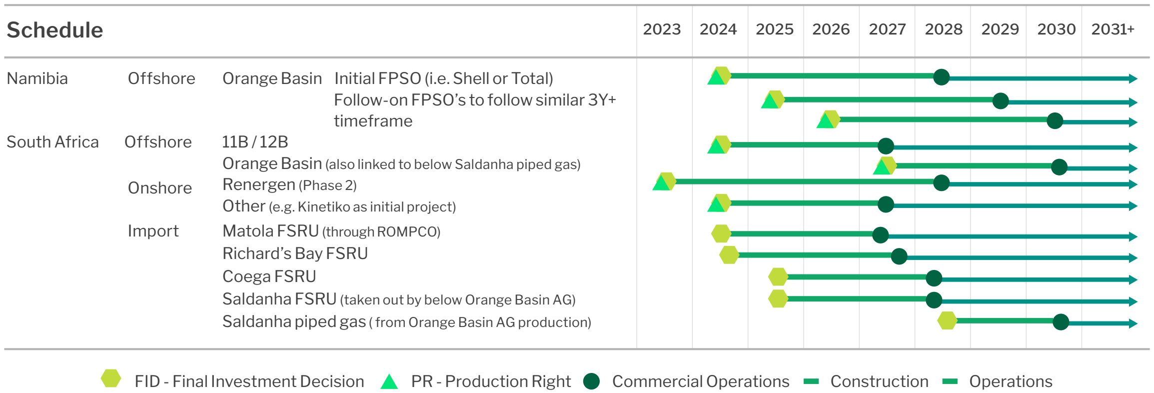


Gas use (2028) MGJA		Gas source (2028) MGJA	
Mozambique	40	Pande & Temane	110
Sasol demand	100	Motoia FSRU	150
Existing non-Sasol	40	Renergen	8
New Power	128	Richards Bay FSRU	100
New industrial demand	60		
	368		368

ROMPCO

Source: SBGS, “South African Gas Optionality - Strategic Discussion Document”, November 2023

Chart 3: Gas supply timeline – SBGS Estimates



Source: SBGS, “South African Gas Optionality - Strategic Discussion Document”, November 2023

Exxaro: The Case For a Strategy Shift

Exxaro is a coal mining company that has been shifting to green energy and mining for green minerals since formally introducing its transition goals in 2019. It will, however, remain a key supplier of coal to South Africa's power generation operations, mainly Eskom, for quite some time. Without this supply, the national electricity grid, already unable to meet current demand, would fail further.

Key to Exxaro's commitments is utilising cash flows, not otherwise used for capital maintenance, to be channelled into renewable energy, as well as seeking opportunities for investment into green minerals required for the just transitionsuch as iron ore, bauxite, copper and manganese.

Exxaro has already signed a Memorandum of Understanding (MOU) with Eskom to develop renewable energy projects to power their Eskom-tied operations. They are starting in Mpumalanga, the province likely to be most affected by the energy transition, where they are developing up to 200MW of potential wind and solar projects.

Exxaro's wholly owned subsidiary, Cennergi, currently contributes 229MW of renewable energy to the national power grid and through 9 smaller distributed solar facilities, building up to 1.6GW by 2030. In 2021, they began developing their first large-scale distributed solar project, Lephalale Solar Project, at their flagship coal mining operation, Grootegeluk, in the Limpopo Province (where 70MW commences operations in 2024). They are also developing a wind solution for Grootegeluk.

> **"Exxaro's wholly owned subsidiary, Cennergi, currently contributes 229MW of renewable energy to the national power grid and through 9 smaller distributed solar facilities, building up to 1.6GW by 2030."**

Objectives

Exxaro has proven to be a good communicator in terms of signalling its policy and strategy with its intentions and projects since 2019. However, balancing the use of its excess cash flows from coal operations to green minerals and renewable energy is going to be complex. Energy regulation is only just being relaxed in South Africa, but transmission capability remains in question. Mining regulation continues to develop and commodities operate in cycles, which means finding well-priced projects and joint ventures in green mineral mining operations, in which they can participate and invest, will require prudence. Much of our engagement objectives are therefore centred around monitoring progress and understanding any changes, pivots and risks to their current strategy.

Engagement Objectives	Detail	Rationale
Renewable impacts at coal mines	Reasonable quantification of the expected impact of the renewable energy implementation plan on carbon emission reductions of scope 1 and 2 emissions at coal mines. Monitoring of the regulatory challenges will be critical for projects that they want to build.	While this does not stop coal mining operations, this will at least render the operations themselves carbon-neutral or offset. Exxaro is currently undertaking a project to build renewables at their Grootegeluk operations.
Renewable energy ex coal mines	Monitoring the development and achievement of renewable energy plans outside of coal plants and whether the timelines set remain feasible and viable. Monitoring of the regulatory challenges will be critical.	The practical achievement of goals and their viability will indicate the chances of success, as will the company's commitment to pivoting away from being a coal miner to a provider of renewable energy and green minerals.
Coal mine life of mine plans, extension projects, commitments, policies and practical considerations	Monitor commitments to no greenfield mining, applicability of expected life of mine periods, expected 'flex' in production given Eskom's dependence on the mine.	To ensure ongoing credibility and viability of the entity moving away from thermal coal by 2040, and potential dependencies by Eskom further out from this timeline.

Action

Our engagements with Exxaro during 2022 and early 2023 consisted of email-based clarifications on the data applicable to their activities, as well as one-on-one offsite personal meetings with the board of directors around their strategy, board oversight, and risks and impediments to implementation.

Outcome

Our engagements with Exxaro continue to be productive, with both parties gaining insight and information. Our view is that they have a well-placed and experienced team, and are as open as possible on the challenges they face, and provide adequate disclosures and information in a timely manner.

Engagement Summary Mining 2023

> **"Our engagements focused on ascertaining and confirming exposure and plans for winding down, if possible, entities' coal mining operations or exposures by 2040, or as close to this date as possible."**

Quantifying the glide path away from thermal coal of the Asset Managers' mining positions was a key focus of engagements for 2023.

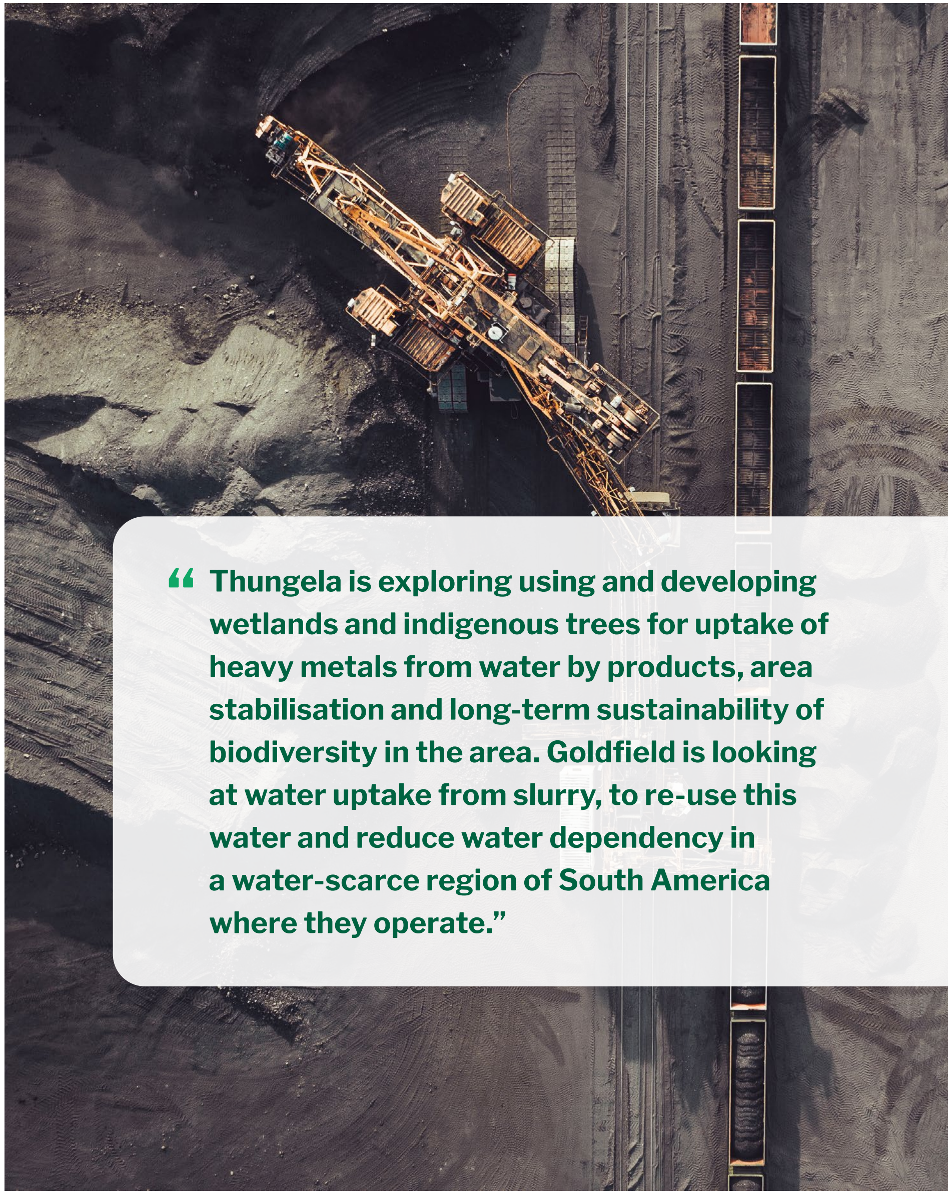
Our engagements focused on ascertaining and confirming exposure and plans for winding down, if possible, entities' coal mining operations or exposures by 2040, or as close to this date as possible. The Asset Manager had created a global Climate Committee to specifically review stocks or issuers with thermal coal exposure and agreed with the South African manager engagement targets and objectives for entities on coal mining.

Engagements with these entities were held both virtually and in person, with finer details confirmed by email correspondence.

In terms of an example of such a specific engagement, the asset manager engaged Glencore quite extensively on its intentions and options on its coal assets, and understanding how they see coal as part of their global and future business strategy. The acquisition of steel-making coal assets from Tech (a Canadian listed entity) brings an interesting angle, as the intention could be an amalgamation of the current and new coal assets and then to potentially unbundle this into the market as a separate entity. This would remove Glencore's thermal coal exposure, and also unlock value for shareholders. It does, however, place the coal assets, and the responsible wind down thereof, into external hands. We have also had various engagements with Glencore on its Climate Plans and related projects. Their focus on metals recycling is of particular interest.

Another interesting insight these engagements have revealed is in terms of water management in mines. The asset manager opened engagements with both Thungela and Goldfields in late 2023,continuing into 2024, around their re-use or disposal of water. Thungela is exploring using and developing wetlands and indigenous trees for uptake of heavy metals from water by products, area stabilisation and long-term sustainability of biodiversity in the area. Goldfield is looking at water uptake from slurry, to re-use this water and reduce water dependency in a water-scarce region of South America where they operate. The potential additional benefits of this are leaving tailings dams with much more solid waste and reducing the risks of the impact of tailings dams wall breaches, which consistently remain a serious long-term concern for downstream communities.

Understanding the viability of transferring these technologies and practices is of interest and important for engaging with other miners.



> **"Thungela is exploring using and developing wetlands and indigenous trees for uptake of heavy metals from water by products, area stabilisation and long-term sustainability of biodiversity in the area. Goldfield is looking at water uptake from slurry, to re-use this water and reduce water dependency in a water-scarce region of South America where they operate."**

Sumitomo Rubber: Brenntag Group

Pyrford

"Following the successful introduction of tighter exhaust emission controls, regulators are now focusing on other sources of small particles which may impact health or the environment. More specifically, Euro 7 is expected to seek to address particulate matter from brakes and tyres, with an expectation to phase in by 2025."

Sumitomo Rubber Industries (SRI) is a Japan based manufacturer of vehicle tyres and various rubber products. The company sells under the Dunlop and Falken brands. Following the successful introduction of tighter exhaust emission controls, regulators are now focusing on other sources of small particles which may impact health or the environment. More specifically, Euro 7 is expected to seek to address particulate matter from brakes and tyres, with an expectation to phase in by 2025.

Tighter regulations on tyre particulate matter (TPM) could have a direct impact on SRI's product appeal or the cost of manufacture. The purpose of this engagement was to discuss the company's approach to the issue, and ascertain to what extent product design is already looking to reduce the level of tyre particulate matter.

We discussed the emergence of TPM as a future challenge given regulators likely focus on this issue, and brought investor materials from Michelin to the company's attention, who promote a survey indicating their superior tyre wear.

SRI indicated that one of their tyres, Falken FK510, was the top performer in the survey for tyre abrasion but also acknowledge that there was much more work to be done in this area. A particular challenge is the move to Electric Vehicles (EVs), which in general are heavier and generate greater torque, resulting in substantially higher particle emissions than tailpipe emissions. The environmental/health impact is complicated and continues to be studied, however, and in general, the size of tyre particles are too large to directly impact human health. Nevertheless, larger tyre particles do enter the environment and preservatives used in type manufacture are entering water sources and potentially contaminating soil.

SRI have several products aimed at reducing the reliance upon fossil fuels, including a 100% fossil fuel free tyre.

"SRI have several products aimed at reducing the reliance upon fossil fuels, including a 100% fossil fuel free tyre."

This is the first engagement on this area. Regulatory changes are likely to occur, and discussions are ongoing. Solutions will take time and we will continue to engage with the company to understand how they can reduce the environmental impact of their products.

Brenntag Group

Brenntag is a global leader in third-party chemical distribution.

Two of its shareholders, Primestone Capital and Engine, have been advocating for a break-up of the company into two parts: a 'commodity' chemicals part and a 'specialty' chemicals part. They have argued that the company requires a better governance model in order to close the gap with its main competitors.

As one way to close the gap, they proposed two new candidates for the Supervisory Board, who they believe are better suited to provide the robust governance required to take Brenntag forward.The voting rights advisor, ISS, also spoke out against the election of the Brenntag candidates and recommended the two candidates proposed by Primestone.

We had a video call with Brenntag CEO, Dr Christian Kohlpaintner, on 30 May 2023. He explained that they are committed to separating the divisions and making them independent entities, but only once sufficiently robust operating protocols have been put in place. Before committing to an exact timeframe, Dr Kohlpaintner wants to ensure that the Specialties division is capable of being a standalone entity (he mentioned the tax implications and 'mixed site' issues that need to be resolved first).

We tend to agree with Dr Kohlpaintner that ISS have unfairly lumped his performance with that of Brenntag's previous CEO, Steven Holland.

We also agreed that Richard Ridinger did an excellent job as CEO of Lonza, only joined Brenntag's Board in the recent past, and has exemplary experience in the Life Sciences sector, which should prove beneficial to Brenntag's shareholders. As such, we believe Richard is the right candidate to lead the Board, and we will continue to monitor his performance over the coming year.

Dr Kohlpaintner was appointed in January 2020, the Supervisory Board appointed him to address the exact issues that Primestone and Engine have identified, and we feel he deserves more time to execute his vision (especially since the Covid-19 pandemic blighted his first two years in charge).

As a result of the engagement, we decided to vote against the ISS recommendation to remove Richard Ridinger as Chairman of the Supervisory Board.

However, we will continue to monitor the progress Brenntag makes in improving the operating metrics of its Specialities division, and will hold management to account if it were to veer off its stated course.

Shenzhen Envicool Technology (China): Playing a Central Role in Reducing Emissions in Data Centres

NS PARTNERS

Envicool is a first mover in thermal cooling solutions in China, dominating market share with data centres at 14% and Energy Storage Solutions (ESS) at 30% in China. Management are former Emerson (no.1 player in thermal cooling globally) and Huawei veterans, with a clear vision to focus on cooling solutions, delivering stable growth (25-30% top line in the past 10 years) and a gross margin of around 30%.

Emissions reduction in data centres

Energy consumption by thermal management system accounts for c.24% of total data centre energy consumption. Electricity costs account for 60 - 70% of total operating expenses (OPEX) for data centres. As a result, local governments have been pushing data centre operators to adopt more efficient ways of thermal management. Liquid cooling can reduce power usage effectiveness (PUE) significantly, and the government aims to significantly reduce the emissions of these companies.

Envicool has been able to customise cooling system design for different customers, combining different cooling technologies, deployment modes and delivering projects at a fast pace. The company spends around 7% of revenue in Research and Development (R&D), the highest among its domestic peers. One-third of the company's employees (2600 in total) are in R&D. They have a strong market reputation, long-standing existing customer relationships and branding in China. Tencent, Alibaba and Chinadata (Tiktok's China main IDC operator) are amongst Envicool's key customers.

> **"Envicool has been able to customise cooling system design for different customers, combining different cooling technologies, deployment modes and delivering projects at a fast pace."**

> **"It is expected that global ESS installations will experience an 85% Compound Annual Growth Rate (CAGR) to 180GWh from 2023-2025, of which 67GWh will be in China."**

Energy storage solutions

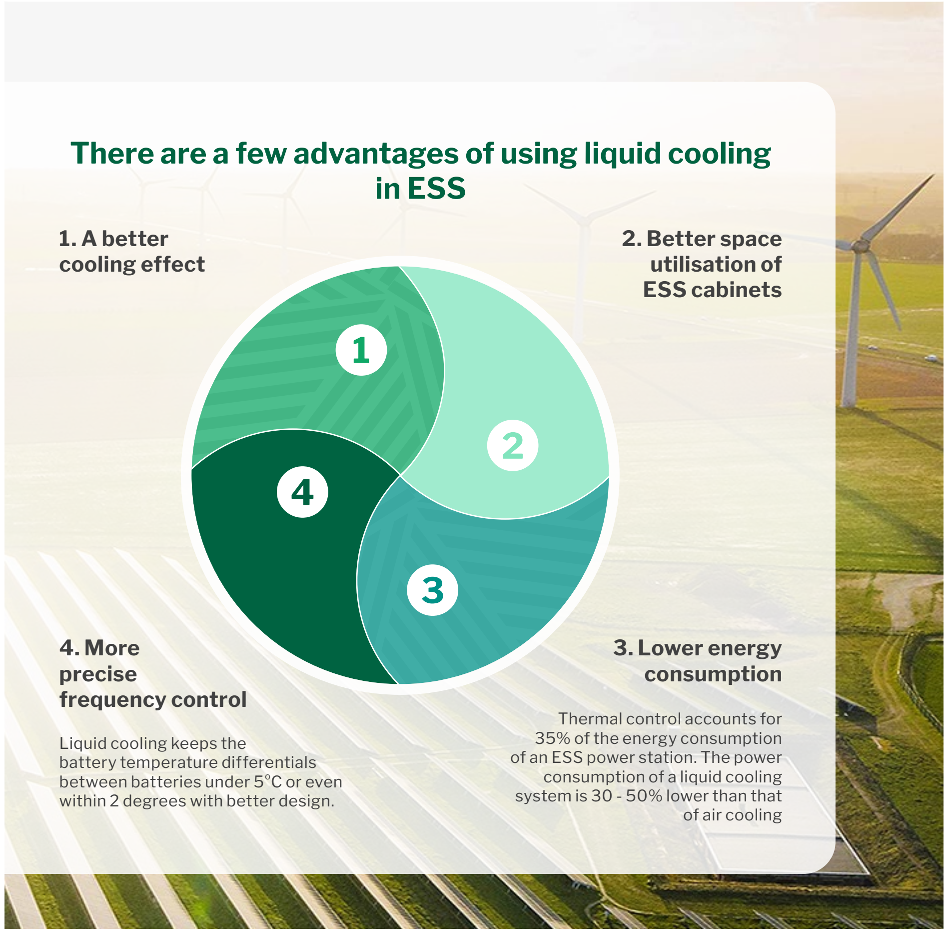
Due to the mismatch between renewable energy generation and consumption, ESS is essential to solve the intermittency issues with renewable energy, storing the excess energy during periods of low demand and high renewable energy production and releasing energy during periods of high demand and low renewable energy production. It is expected that global ESS installations will experience an 85% Compound Annual Growth Rate (CAGR) to 180GWh from 2023 - 2025, of which 67GWh will be in China. Driven by lower battery costs, it is estimated that solar and ESS will reach grid parity by the end of 2023, and ESS installations should experience stronger growth from this point on.

Why do we need thermal control in ESS?

It is particularly relevant for ESS with high battery capacity. The latest generation of ESS products focus on long lifecycles and large capacity, with a CATL ESS product claiming 15 thousand charges over a cycle. In addition, utility scale ESS power stations bring together a large number of high capacity batteries in an integrated cabinet, where effective cooling solutions are critical to preventing energy leakage and accidents such as fires.

Summary

Envicool has two drivers: 1). Although data centre growth has decelerated in the past few years, the adoption of liquid cooling solutions will boost Envicool's top line as ASP is four times higher than air cooling, and 2). ESS installation remains very strong considering government's power management guidance in China, and US IRA incentives. Looking ahead, the company should be on track to achieve its 2023 growth expectation, with some upside risk coming from accelerated liquid cooling adoption in data centres.



Supply Chain Modern Slavery Engagement with Equinix

RESOLUTION CAPITAL

This year we initiated a series of engagements focused on the risks of modern slavery and forced labour occurring in supply chains, to understand how our investee companies may be identifying and mitigating these risks.

We believed that the 10 principles of the UN Global Compact programme, particularly those focusing on human and labour rights, were an excellent foundation on which to focus:

P1	Businesses should support and respect the protection of internationally proclaimed human rights; and
P2	Make sure that they are not complicit in human rights abuses.
P3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
P4	The elimination of all forms of forced and compulsory labour; and
P5	The effective abolition of child labour.

More specifically, we were interested in how companies are working with their suppliers in relation to outsourcing and the use of third-party service providers, and how they ensure that there are adequate processes in place to check for contraventions of human rights principles in these companies.

As part of these engagements, we have been asking companies the following questions:

1. How are you addressing modern slavery, or forced labour, risks through your procurement of goods and services?
2. Do you engage or collaborate with your suppliers beyond requiring compliance with a vendor code of conduct, or similar document?
3. Do you have any training or capacity building programmes for employees, suppliers, and subcontractors to raise awareness of forced labour risks, and promote responsible business practices?
4. Have you developed accessible whistleblower / grievance mechanisms to address human rights issues raised by workers or other affected stakeholders?
5. Are you taking any other steps to minimise these risks in your supply chains?

One company we engaged with as part of this programme was Equinix, a US based Data Centre Real Estate Investment Trust (REIT). We chose them for engagement due to their multinational footprint, particularly their locations in Africa, which can represent higher levels of modern slavery related risks than the developed markets that some of our other holdings operate in.

Upon assessment, we believe that Equinix had a strong response to our engagement questions and did not think that they required any follow-up calls for clarification at this point. The highlights from their response are reflected in a short analysis below.

Analysis of Equinix's responses to our engagement questions

They have senior management level oversight of their Human Rights programme with the Senior Director of Supply Chain ESG, reporting to the Chief Procurement Officer, being responsible for this programme. Their Human Rights programme has six key focus areas: Assessment, Strategy, Policy, Supplier Selection and Contracting, Supplier Risk Assessment and Monitoring, and Reporting, Investigation and Remediation.

“The company has also established whistleblower and ethics and compliance hotlines to assist in the reporting of Code of Conduct violations, which includes modern slavery matters. Access to these hotlines is offered to all the company's stakeholders and is accessible in 20 languages with 24/7 availability.”

In addition to the requirements of their suppliers, contractual obligations, and the Equinix Business Partner Code of Conduct (that includes requirements to comply with their labour and anti-modern slavery requirements), Equinix's Supplier Risk Management programme identifies higher risk suppliers based on their location in high-risk areas that may have weak human rights laws. These higher risk suppliers are then engaged to collect more information and those that are subsequently found to have elevated levels of risk can be subject to corrective action plans and regular follow-ups to ensure compliance.

Equinix also provides annual training on its Code of Conduct and Anti-Bribery and Corruption policies to its direct employees. The modern slavery and human rights components of its Supplier Code of Conduct are communicated to suppliers, their sub-contractors and other agents that act on Equinix's behalf. This is done during the onboarding of a supplier and included as part of the monitoring and evaluation of a supplier's ongoing performance.

The company has also established whistleblower and ethics and compliance hotlines to assist in the reporting of Code of Conduct violations, which includes modern slavery matters. Access to these hotlines is offered to all the company's stakeholders and is accessible in 20 languages with 24/7 availability.

Investec Bank Remuneration

During 2023, we had the opportunity to engage with the Chairman and Chair of the Remuneration Committee of Investec before voting on the remuneration policy at the AGM. This is an annual meeting held with shareholders. However, in this particular engagement, the issue of remuneration was discussed at length given that the executives of the bank received what was considered, at face value, to be abnormally high levels of remuneration (a combination of fixed and variable pay). It was clear from our discussions with the Board that considerable thought was given to the merits of such high levels of remuneration, and the perception this would create from an ESG perspective.

During the meeting the following points were made:

1. The targets and the awards were approved by shareholders three years prior
2. A considerable portion of the CEO's total remuneration was due to share price appreciation linked to the awarding of long-term incentives
3. At grant value (excluding share price increase), the number is not out of line with a peer group comparison
4. The company did materially outperform the targets provided three years ago
5. There has been considerable shareholder value created over the time period
6. Looking at the performance of Investec relative to its peers (see share price charts), the Remcom was comfortable that the outperformance was due to management's actions
7. Remcom did consider the impact of tailwinds, over which the executive has no control, but could not find any and did not propose any curtailment
8. The Board was mindful of the fact that curtailing bonuses on targets approved by shareholders could lead to a breakdown of trust with management

In our view, we highlighted that higher interest rates did play a significant role in achieving targets and this assisted in creating shareholder value. The Board could have considered this an external force not within the control of the management team. We also suggested that the Board look into using economic value added (ROE over the cost of capital) as a performance indicator to measure management's actions.

Another shareholder also raised the point that the outperformance of the share was partly due to a low base created by the structured book failure in 2020, a clear management induced event.

Based on our initial assessment, we highlighted that the quantum of remuneration appeared abnormally high and raised the issues detailed above. However, after due consideration, we were comfortable with the Board's responses and the prudency they applied in ultimately assessing the executive's remuneration levels.

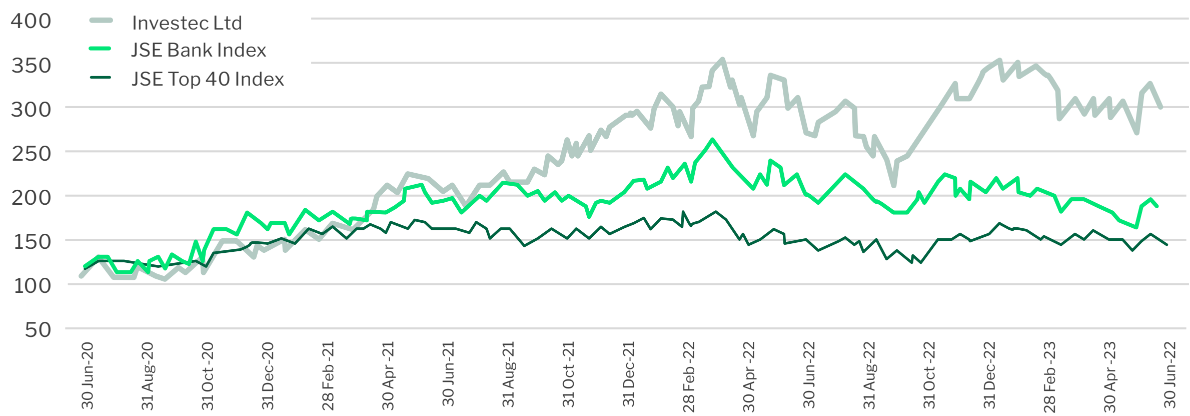
Furthermore, a review of the remuneration report and the presentation from the board to shareholders made it clear that discretion was applied to both the short-term (STI) and long-term (LTI) portions of remuneration. In the case of the STI, this was adjusted downward by 10% due to a staff performance issue. However, the committee decided that there was no windfall gain from the 2020 LTI although it was reduced by 10% at grant and capped at 135% of the on-target number (a 7.7% reduction).

There was a robust discussion around the level of the Group Executive's remuneration, as well as whether it was justified through management's own performance or whether external factors (e.g. higher interest rates) contributed. A large portion of the LTI is due to share price appreciation and benchmarking Investec versus both UK and SA peers clearly illustrates how the Investec share price (both Plc and Ltd) significantly outperformed peers.

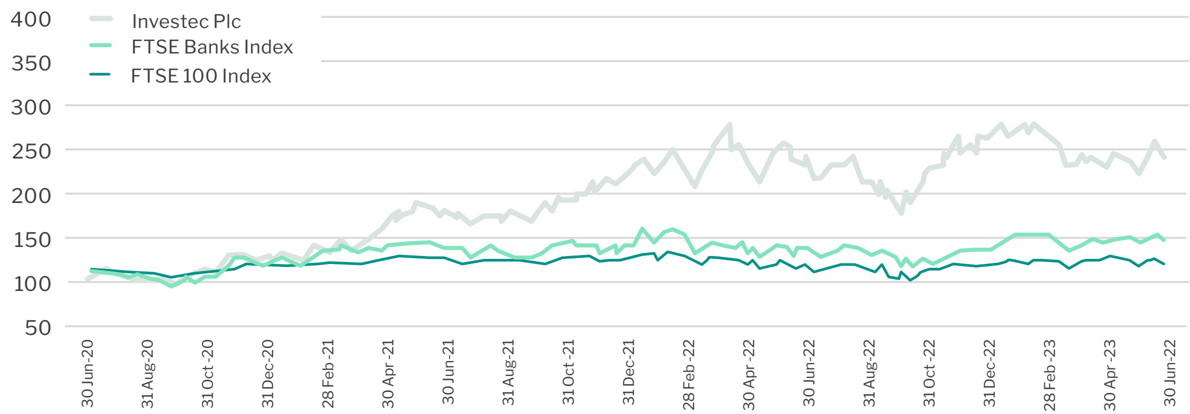
Shareholders around the table were generally in agreement that when shareholder value is created, management should be rewarded and that it is problematic to adjust targets after the event. Finding an appropriate balance is key.

A key part of our consideration was ensuring consistency from our voting when the 2020 remuneration was considered. We voted in favour at the time. Therefore, after due consideration, we decided that it would be appropriate to vote in favour of the remuneration policy at the AGM.

Share price outperformance - Investec Ltd vs SA Indices

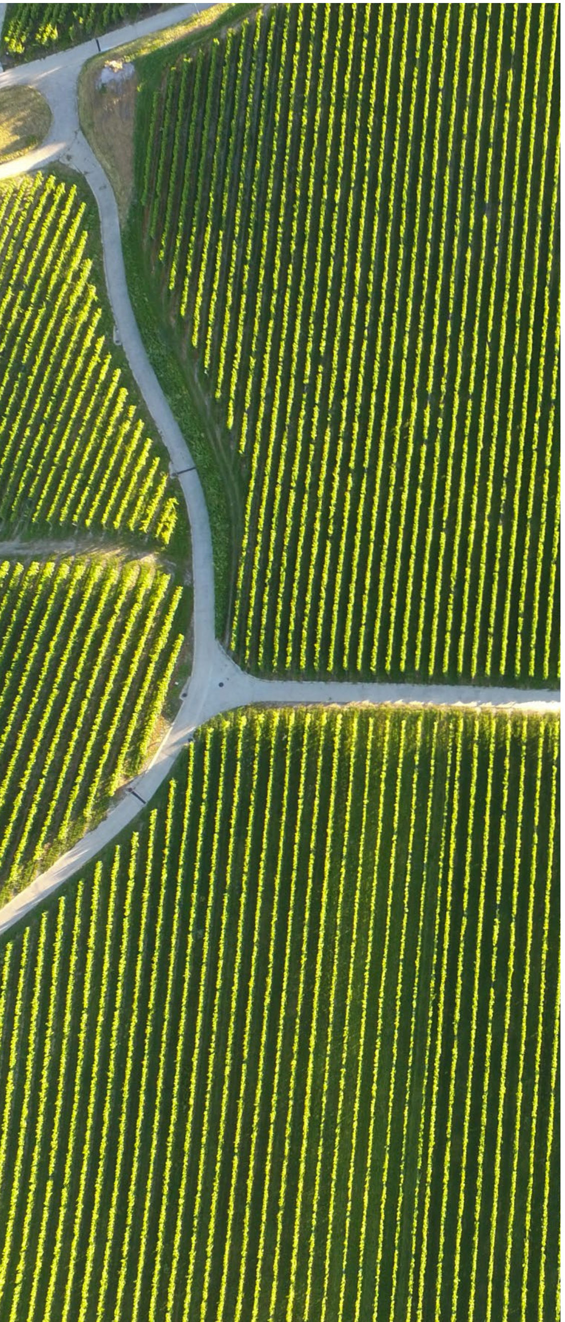


Share price outperformance - Investec Plc vs UK Indices



Source: Bloomberg


ENVIRONMENTAL REGULATION
GOVERNANCE
BIODIVERSITY
RESPONSIBILITY
NATURE
CLEAN ENERGY
GREEN
GOVERNANCE
COLLABORATION
SUSTAINABILITY
CLIMATE CHANGE
EQUITY
RENEWABLE
CONSERVATION
DEVELOPMENT
GLOBAL
ETHICAL



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NEDGROUP INVESTMENTS

Nedgroup Investments Income Fund Disclaimer

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Our Trustee:
The Standard Bank of South Africa Limited is the registered trustee. Contact details: Standard Bank, Po Box 54, Cape Town 8000. Email: Trustee-compliance@standardbank.co.za, Tel: 021 401 2002

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Nedgroup Investments Money Market Fund Disclaimer

Who we are:
Nedgroup Collective Investments (RF) Proprietary Limited is an authorised Collective Investment Scheme Manger and the representative of Nedgroup Investments Funds PLC in terms of the Collective Investment Schemes Control Act 45 of 2002. It is also a member of the Association of Savings & Investment South Africa (ASISA).

Our Trustee:
The Standard Bank of South Africa Limited is the registered trustee. Contact details: Standard Bank, Po Box 54, Cape Town 8000. Email: Trustee-compliance@standardbank.co.za, Tel: 021 401 2002

Performance:
Collective Investments Schemes are generally medium to long term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital.

Pricing:
Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers.

Disclaimer:
Our funds are traded at ruling prices and can engage in borrowing and scrip lending. Some portfolios may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks, which could include, foreign exchange risks, macro-economic risks and potential constraints on liquidity and the repatriation of funds, etc. Nedgroup Investments has the right to close funds to new investors in order to manage it more efficiently.

Money Market Fund:
The Nedgroup Investments Money Market Fund offering aims to maintain a constant price of 100 cents per unit. A money market fund is not a bank deposit. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument held. In most cases the return will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of a capital loss. Excessive withdrawals from the fund may place the fund under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The yield is calculated using an annualised seven day rolling average as at the relevant dates provided for in the fund fact sheet.

Disclaimer

This is a marketing communication. Please refer to the Prospectus of the UCITS Funds and the KIID before making any final investment decisions. The Prospectus of the Funds, the Supplement of its Sub-Funds and the KIIDS are available from the Investment Manager and the Distributor or from its website www.nedgroupinvestments.com This document is not intended for distribution to any person or entity who is a citizen or resident of any country or other jurisdiction where such distribution, publication or use would be contrary to law or regulation. Nedgroup Investment (IOM) Limited (reg no 57917C), the Investment Manager and Distributor of the Fund, is licensed by the Isle of Man Financial Services Authority. This document is of a general nature and intended for information purposes only. Whilst we have taken all reasonable steps to ensure that the information in this document is accurate and current on an ongoing basis, Nedgroup Investments shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this document. Funds are generally medium to long-term investments. The value of your investment may go down as well as up. International investments may be subject to currency fluctuations due to exchange rate movements. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital and not getting back the value of the original investment. Nedgroup Collective Investments (RF) Proprietary Limited is an authorised Collective Investment Scheme Manger and the representative of Nedgroup Investments Funds PLC in terms of the Collective Investment Schemes Control Act 45 of 2002. It is also a member of the Association of Savings & Investment South Africa (ASISA).

The Standard Bank of South Africa Limited is the registered trustee. Contact details: Standard Bank, Po Box 54, Cape Town 8000. Email: Trustee-compliance@standardbank.co.za, Tel: 021 401 2002 Collective Investments Schemes are generally medium to long term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers. Our funds are traded at ruling prices and can engage in borrowing and scrip lending. Some portfolios may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks, which could include, foreign exchange risks, macro-economic risks and potential constraints on liquidity and the repatriation of funds, etc. Nedgroup Investments has the right to close funds to new investors in order to manage it more efficiently.

Tel: 0860 123 263 (RSA only) Tel: +27 21 416 6011 (Outside RSA) Email: info@nedgroupinvestments.co.za For further information on the fund please visit: www.nedgroupinvestments.co.za A fund of funds may only invest in other funds and a feeder fund may only invest in another single fund. Both will have funds that levy their own charges, which could result in a higher fee structure. Certain portfolios in our range derive income primarily from interest-bearing instruments. Details on how the yield is calculated for each of these portfolios can be obtained from our client services team. The Nedgroup Investments Money Market Fund offering aims to maintain a constant price of 100 cents per unit. A money market fund is not a bank deposit. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument held. In most cases the return will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of a capital loss. Excessive withdrawals from the fund may place the fund under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The yield is calculated using an annualised seven day rolling average as at the relevant dates provided for in the fund fact sheet.

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For further information on the fund please visit: www.nedgroupinvestments.co.za