Responsible
Investment Report

2024

NEDGROUP INVESTMENTS

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Foreword

Daniel Mminele
Chairman of Nedbank Group Ltd

Today, we stand at a pivotal moment in history, one that demands leadership, unwavering commitment, and transformative action. The choices we make today will shape the world for generations to come

Despite the daunting picture, this is a call to action. The transition to a low-carbon economy presents a massive opportunity to create positive impact while generating significant economic value. Sustainability is a commitment against which all our actions must be measured. As leaders, we must recognise the urgency of the polycrisis we live in and commit to finding lasting solutions.

> "We must remember that we do not inherit the earth from our ancestors; we borrow it from our children."

The nations of the world gathered at COP29 to firm up financing commitments for the transition to a sustainable future and to establish strong mechanisms for accountability. Our history is marked by lofty commitments that have often fallen short, and time is not on our side. The journey to net-zero is multifaceted. It involves reducing emissions, ensuring affordable energy for all, and bridging the global North-South divide. Over three billion people, many in our region, still lack access to electricity.

Our mission is to address energy availability, power growth and development, and tackle emission challenges. Innovation and agility are key. We must invest in sustainable technologies, renewable energy, and digital solutions. This can mean many things across the different Nedbank clusters, and in asset management this is a key feature of our responsible investment effort.

How our investment portfolios are aligned with global climate goals is a factor of our strategic direction, but also the ability of the broader economy to decarbonise. Already we can see the interconnectedness between our commercial banking, investment banking, and asset management businesses. In this instance, a rising tide certainly lifts all boats.

> "We must think in decades and implement in quarters."

While we have made significant progress through our Purpose Programme, we still have much work to do. As leaders, we are dedicated to aligning our operations, financing, and investing with the United Nations Sustainable Development Goals.

This Responsible Investment Report gives the reader an important insight into the workings of an asset manager, and in particular highlights the powerful tool that corporate engagement offers. As stewards of client capital, the ability to incorporate Environmental, Social, and Governance (ESG) factors into the investment process and engage with listed companies on real world outcomes is an important lever for change.

As the 2024 asset manager review showcases, responsible investing is not solely about managing risk, the transition to a green economy creates opportunities for new investment. Banks and asset managers are uniquely positioned to support financial inclusion by developing products and services that ensure our communities and clients have the financial resources needed to participate in the green economy.

> "We recognise that the cost of the transition is an investment, and the real cost is inaction."

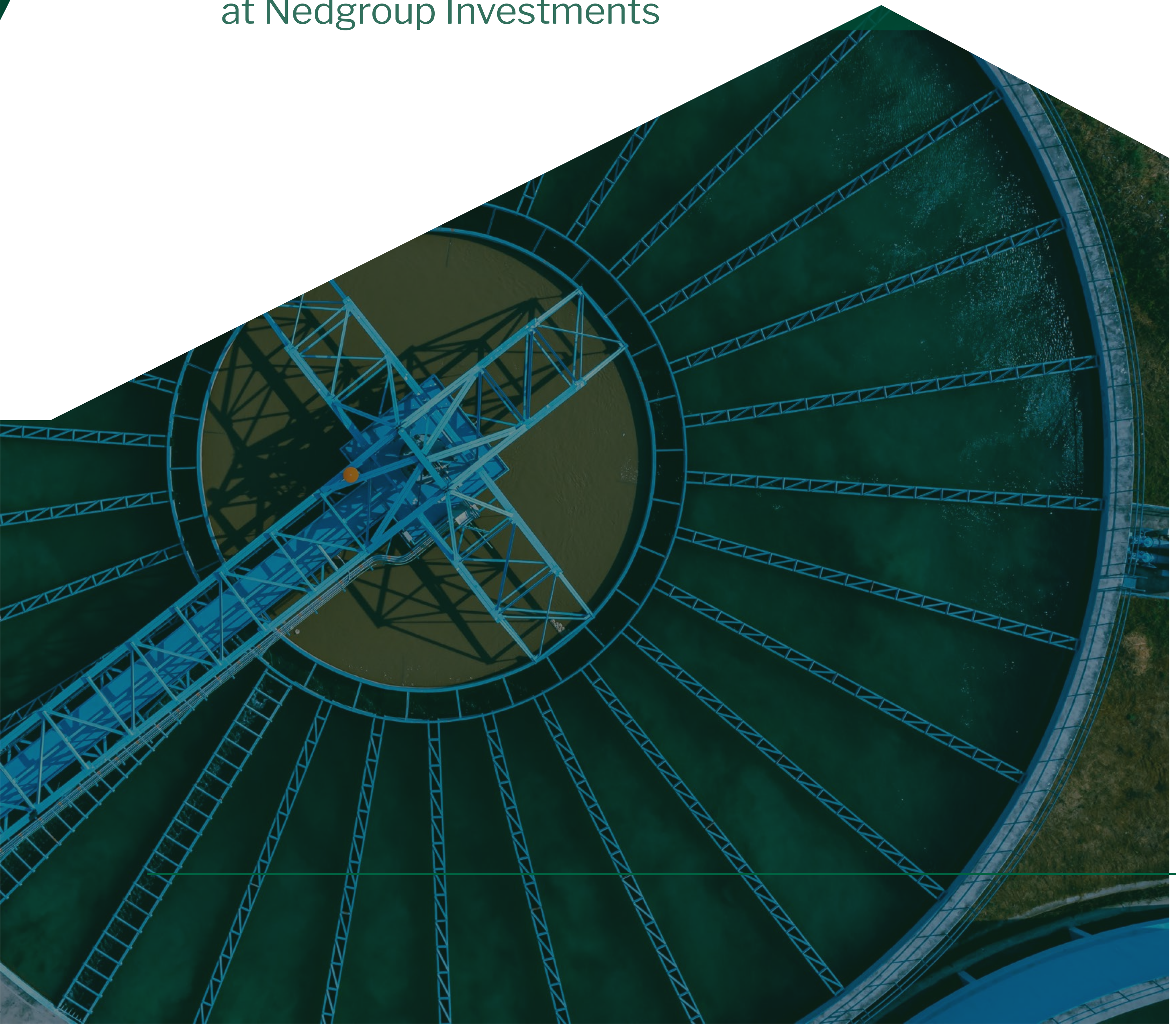
Let us set audacious goals, our legacy will be measured not only in profits but in the lives we improve, the ecosystems we protect, and the future we secure. Our ESG credentials are not just for show, we must integrate purpose into our core business strategy, both in the short- and long-term. The future belongs to those who embrace these changes and position themselves at the centre of the sustainability agenda.

True leadership means shifting our focus beyond short-term performance to more transformative goals. As we borrow the future from our children, there is no greater motivation to put purpose into practice.

Daniel Mminele
Chairman, Nedbank Group Ltd.

Introduction

David Levinson
Head of Responsible Investment
at Nedgroup Investments



Sustainability at a crossroads

2024 has certainly been a mixed year for sustainability. Top-down forces have undoubtedly been altered as the US voted in a conservative government determined to push the anti-ESG movement. At the other end of the spectrum, the bottom-up forces continue to push the agenda on that side of the Atlantic. Most of the state-level and private sector drive for climate and social progress has, to some degree, been galvanised by the contrary agenda being pushed at national level.

Despite this noise we have seen steadfast commitment from leaders in regions such as the UK and South Africa, with our very own Nedbank leadership pledging a continued vigour for addressing the sustainability challenge.

> “This is a central feature in our effort to be a purpose-led banking group.”

The annual World Economic Forum (WEF) Risk Report appears to echo this sentiment as policymakers, business leaders, academics, and civil society representatives continue to voice the medium- and long-term risks associated with a deteriorating natural world. The infographics to the right illustrate the 2-year and 10-year risks from the latest survey.

It is interesting to note that misinformation and disinformation feature as the most cited short-term risks for the second year running. The longer-term, however, paints a somewhat different picture. Here the effects of climate change and environmental degradation start to feature more prominently.

Fourth on the list is ‘natural resource depletion’, and nothing speaks truer to this than the state of global fresh water. My colleague, Madhushree Agarwal, has contributed a piece to this report on the outlook for global water security and which regions are most exposed to demand and availability shortfalls.

As a portfolio manager in our London office, Madhushree notes how their Sustainable range of funds can play an active role in addressing the global water crisis.

Global risks ranked by severity over the short- and long-term

Risk categories
- Economic
- Environmental
- Geopolitical
- Societal
- Technological

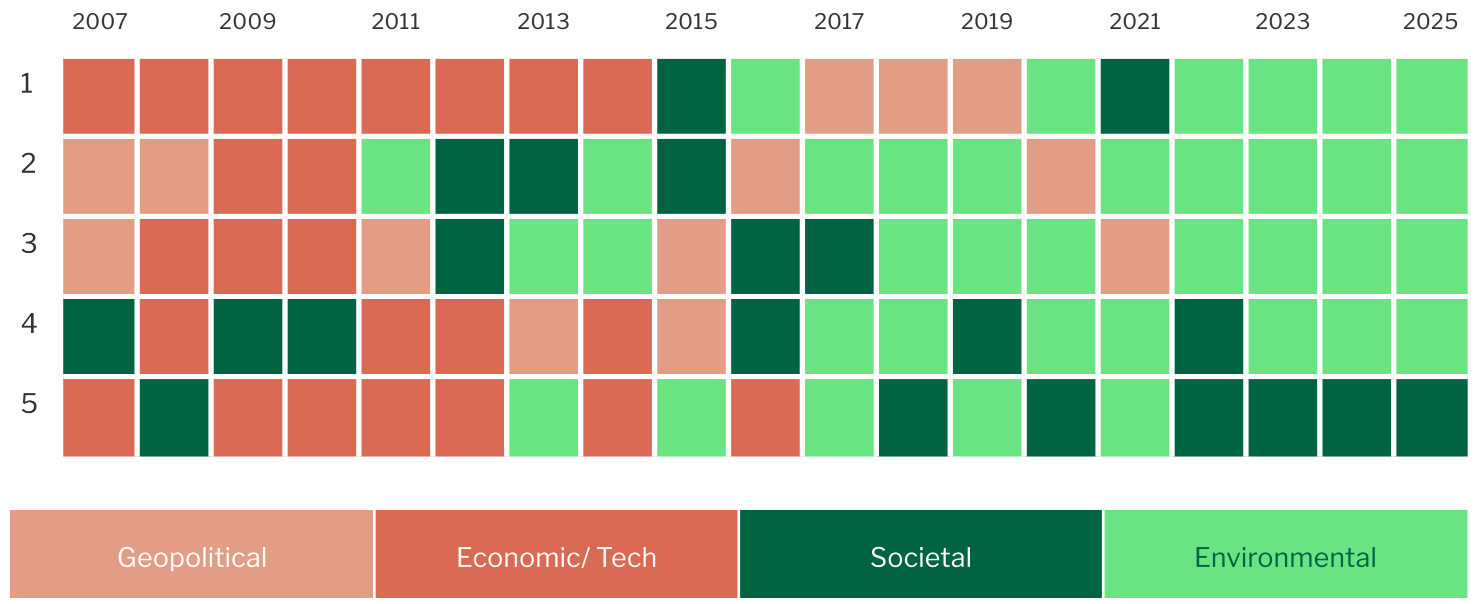
	2 years		10 years
1st	Misinformation and disinformation	1st	Extreme weather events
2nd	Extreme weather events	2nd	Biodiversity loss and ecosystem collapse
3rd	State-based armed confict	3rd	Critical change to Earth systems
4th	Societal polarization	4th	Natural resource shortages
5th	Cyber esplonage and warfare	5th	Misinformation and disinformation
6th	Pollution	6th	Adverse outcomes of AI technologies
7th	Inequality	7th	Inequality
8th	involuntary migration or displacement	8th	Societal polarization
9th	Geoeconomic confrontation	9th	Cyber espionage and warfare
10th	Erosion of human rights and/or civic freedoms	10th	Pollution

Source: World Economic Forum Global Risks Perception Survey 2024-2025.

Looking at the top five cited 10-year risks, the below chart highlights the evolving landscape as revealed by the WEF survey over the past 18 years. The trend suggests a pivot from economic and technological risks into those closely related to a degrading natural world.

World Economic Forum global risk report

The changing risk landscape



Source: World Economic Forum Global Risk Report

The economics of climate-related events

In a recent presentation by Johan Rockström, the leading author on the Planetary Boundaries framework, he noted that "the climate crisis manifests itself first and foremost in floods and droughts." This was most certainly evident in 2024 as the world came to terms with several economic costs attributable to a warming world.

In a record-breaking event, the eastern region of Spain received nearly 772 millimetres of rain in just 14 hours, leading to severe flooding and the deaths of 224 people. According to a study published in Advances in Atmospheric Sciences, scientists found that climate change made events like this twice as likely and 12% more intense compared to pre-industrial times.

Dubai experienced its heaviest rainfall in 75 years over a 24-hour period, causing widespread flooding and infrastructure damage. While closer to home, persistent droughts affected large parts of Southern Africa, severely impacting agriculture and water supplies.

As oceans heat up, the probability of more frequent, and often out-of-season, hurricanes increases. Hurricane Helene struck in late September 2024, causing extensive damage and resulting in 219 deaths. It was one of the costliest disasters of the year, with the National Oceanic and Atmosphere Association (NOAA) estimating damages in the vicinity of $80billion.

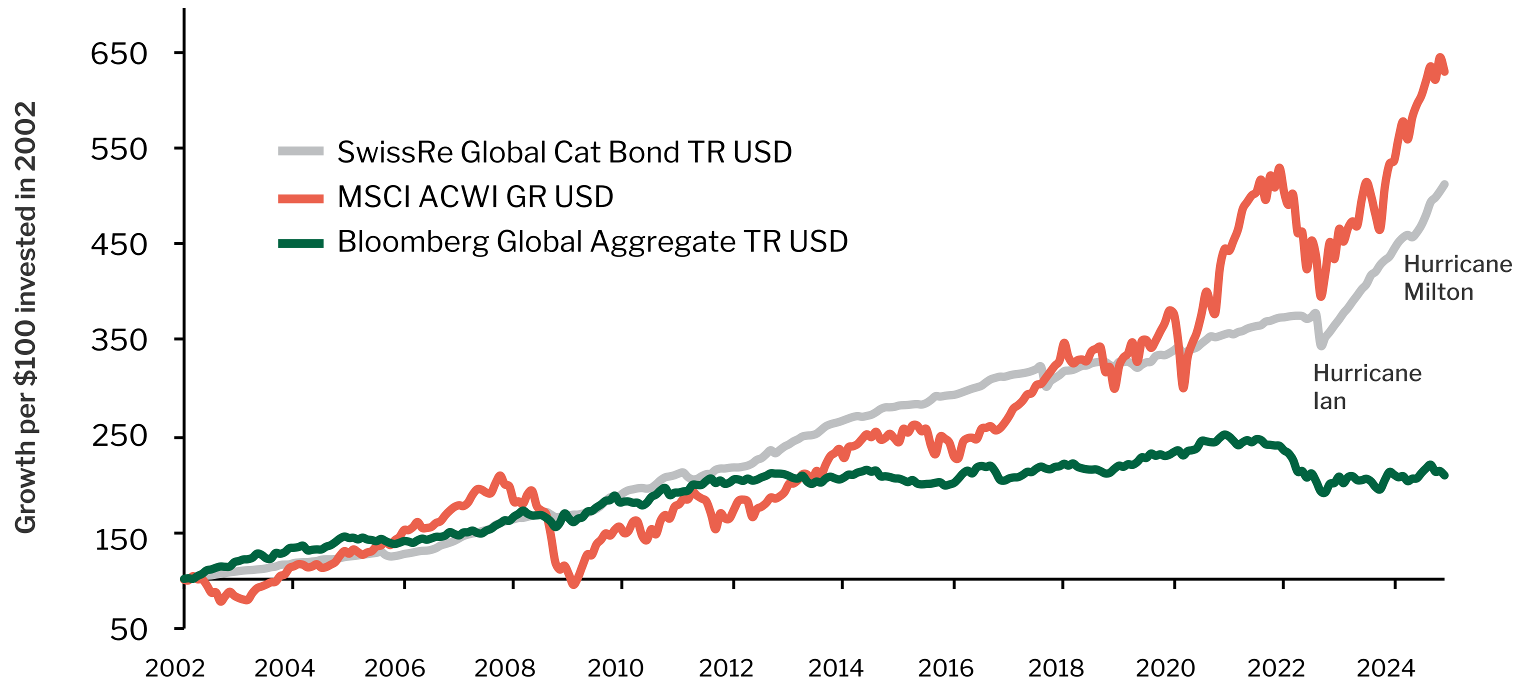
There are obvious and more obscure ways that investors can hedge themselves against such risks or even look to participate in these events in a manner that supports portfolio resilience. One area that has received significant attention over the past two years is that of catastrophe bonds, also known as 'cat bonds.'

Cat bonds are high-yield debt instruments designed to help insurance and reinsurance companies manage the financial risks associated with natural disasters like hurricanes, earthquakes, and floods. These bonds allow insurers to transfer some of their risk to investors in the capital markets.

If a catastrophic event occurs, principal and interest on the bond may be deferred or forgiven to provide funds for claims. Investors in cat bonds earn higher interest rates but risk losing their principal if the event happens. The typical maturity of cat bonds is around 3-5 years.

A bumper period for cat bonds

Diversification benefits attracting new investors

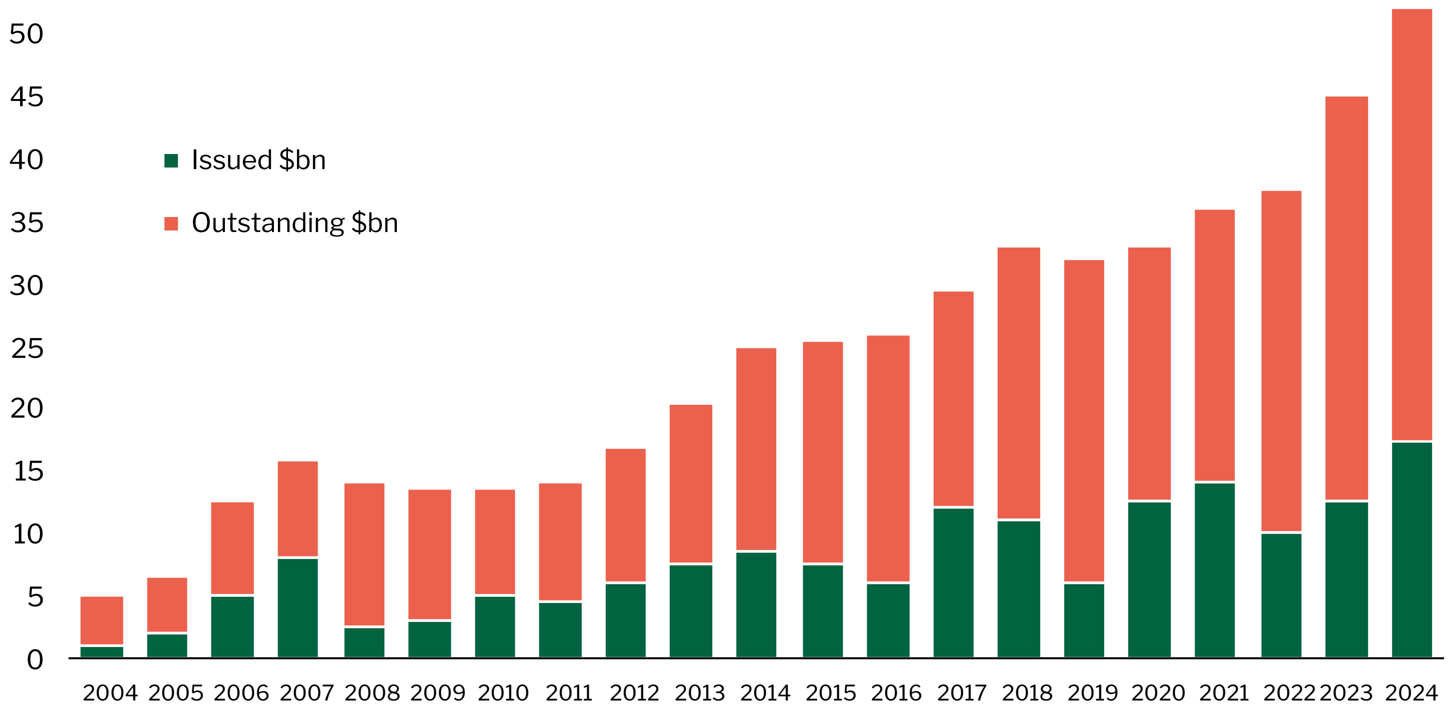


Source: Nedgroup Investments, Morningstar data.

According to research by Artemis, in 2024 there were 93 transactions, nearly matching last year's record of 95. As per the chart below, this activity boosted the cat bond market to $49.5billion, a 10% increase from 2023. The market has grown by an average of 8% annually over the past decade, except for a slight dip in 2019. It has nearly doubled since 2014, when the market was $25.3billion.

Category bonds on the rise

Accumulative global cat bond issuance, US$bn



Source: Artemis Fund Managers

Energy, commodities, and the road to net-zero

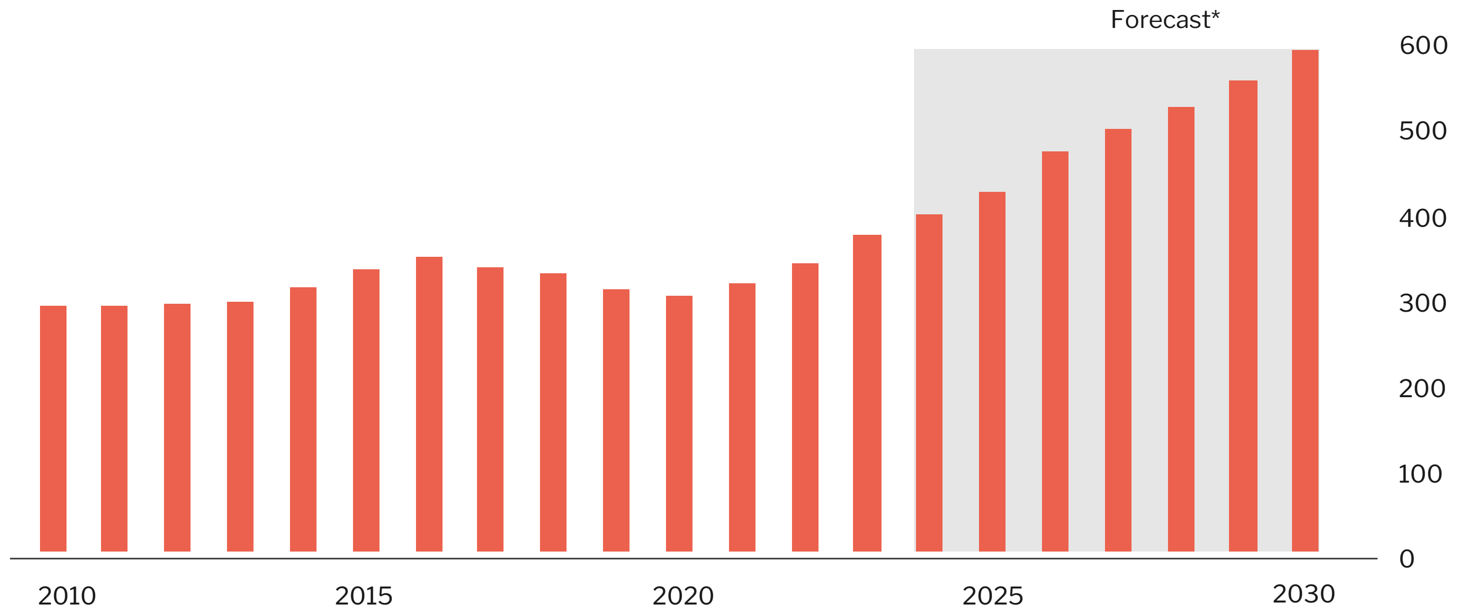
Historically, higher electricity consumption has been associated with higher GDP per capita, and ultimately social well-being. This correlation is often attributed to the fact that electricity is a critical input for various economic activities, including industrial production, services, and household consumption.

As economies grow and develop, their energy needs increase, leading to higher electricity consumption. To avoid the low-income trap, developing economies target investment in grid infrastructure that ensures energy access for all and meets their national decarbonisation goals.

In a recent article by The Economist, they highlighted that global investment in grid infrastructure reached nearly $400billion in 2024, with projections for it to rise to $600billion annually by 2030. Some of the key drivers behind this investment trend include:

- Decarbonisation: Adding wind and solar power requires extensive grid upgrades
- Electricity demand: Increasing use of electric vehicles, home-heating systems, and industrial processes
- Economic growth: Rising energy needs in developing countries, especially India and China
- Artificial Intelligence and data centres: Significant energy consumption by data centres, leading to increased infrastructure investment
- Grid fortification: Enhancing resilience against extreme weather events

Global electricity grid infrastructure investment, $bn, 2023 prices



Source: The International Energy Agency.

*Stated policies scenario

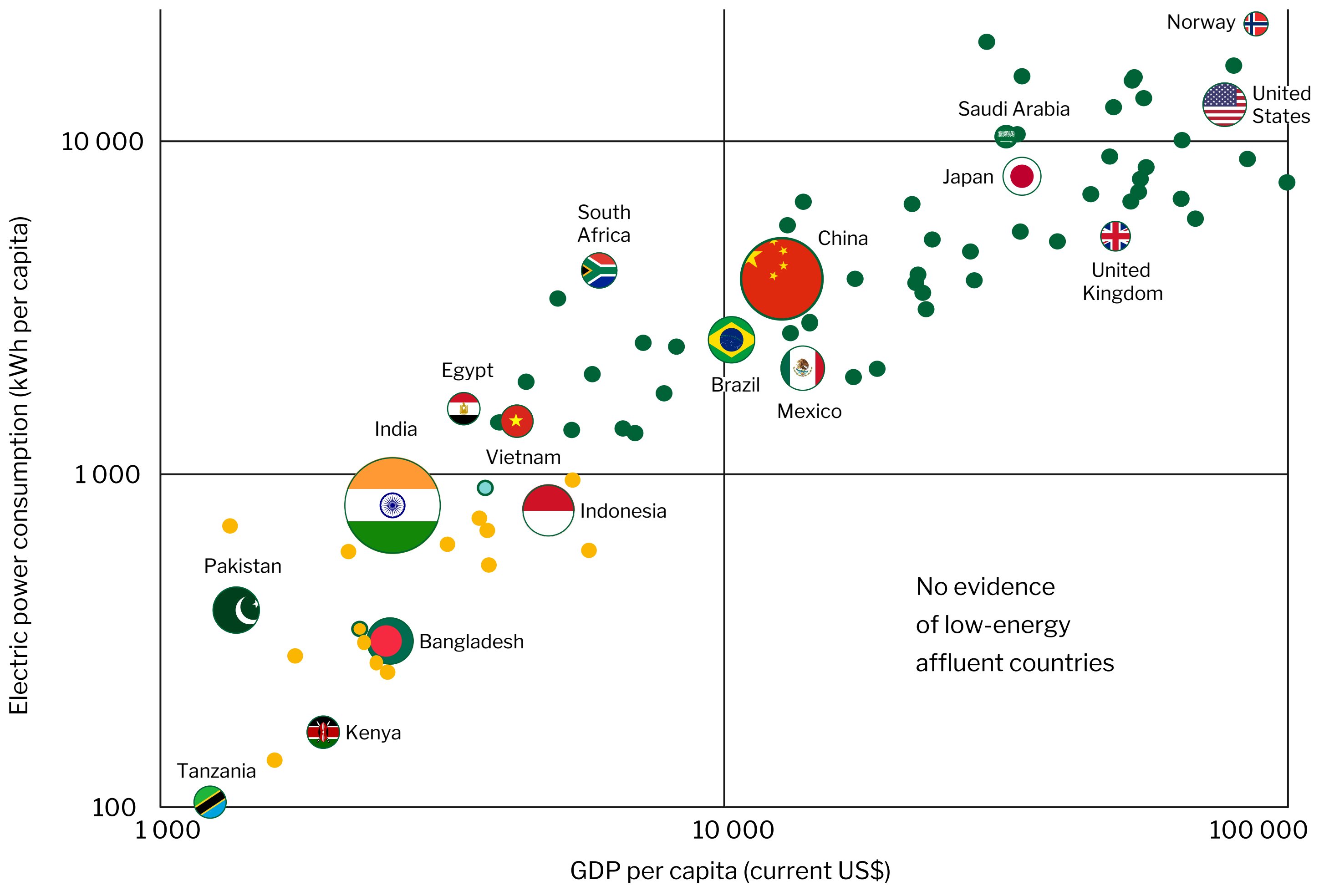
The relationship between electricity consumption and income is not purely linear and can vary based on factors such as energy efficiency, economic structure, and technological innovation (see chart below). A key objective for many countries is to attain high GDP per capita while realising improved energy efficiencies.

Advancements in renewable energy and energy-saving technologies have the ability to decouple economic growth from energy consumption to some extent. This relationship highlights the importance of sustainable energy policies that balance economic growth with environmental considerations.

Madhushree Agarwal also contributed a section to this report on the hidden costs of AI and how the major tech companies are seeking to balance innovation with environmental responsibility.

Income and electricity consumption, select countries

(Bubble size representative of population size)

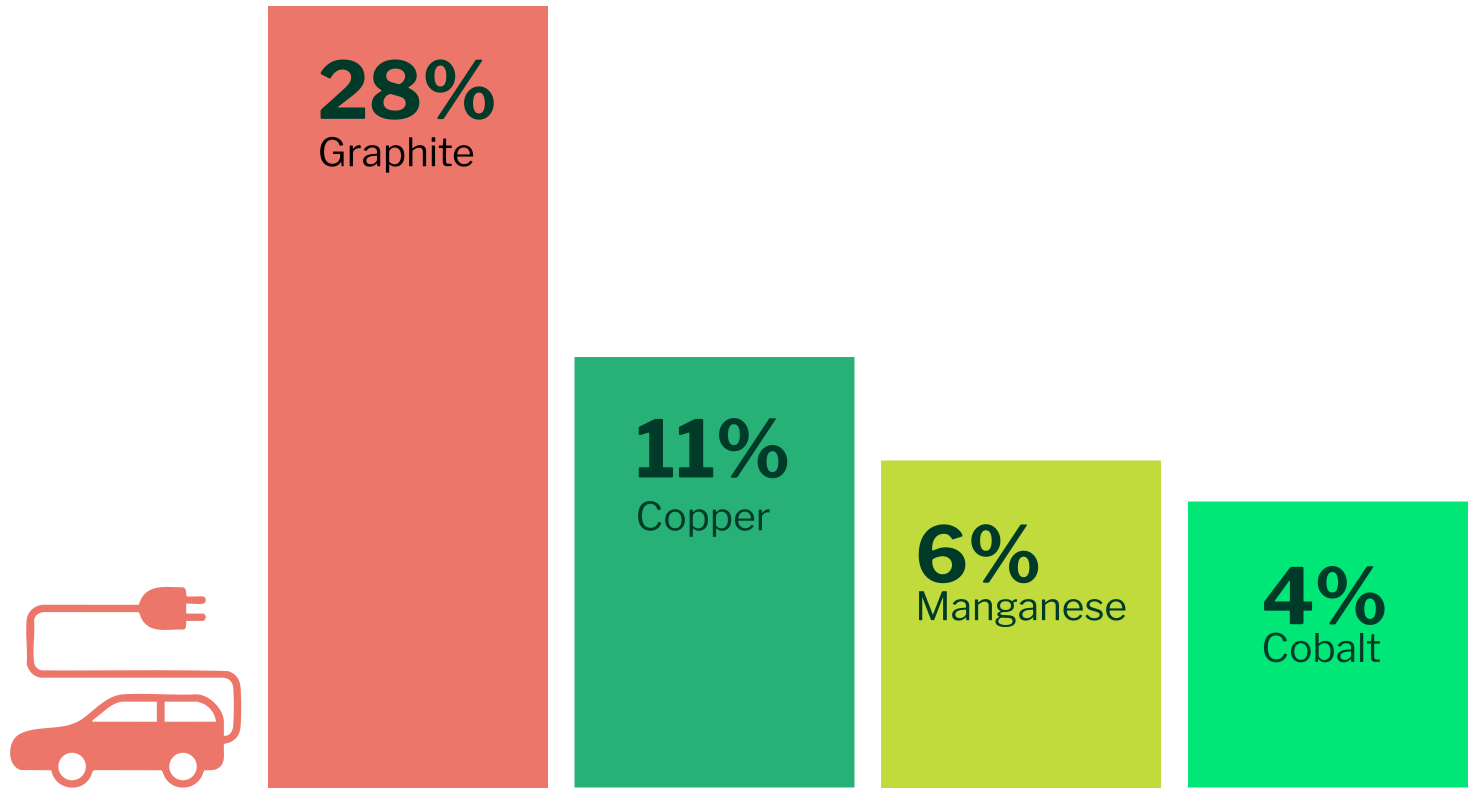


Source: The World Bank, The International Energy Agency.

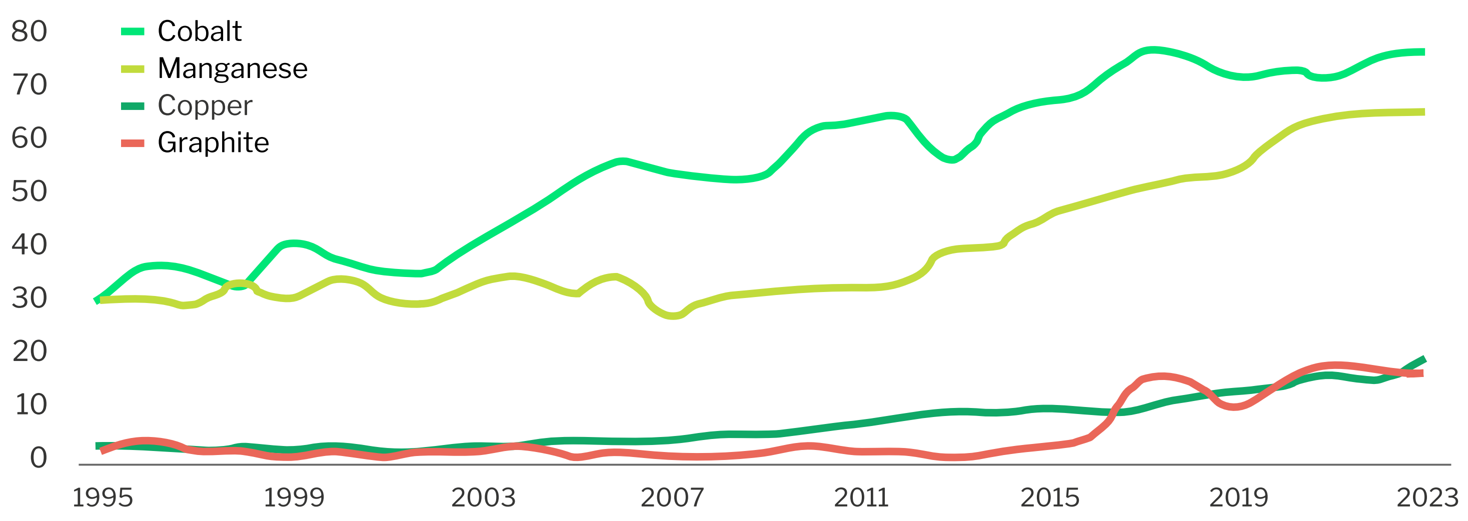
I often get asked how investors in the South African market can gain access to the green transition. The listed exchange here is fairly limited in terms of the technology opportunity set, however via our resource sector there is the possibility to gain exposure to the critical minerals that are central to grid, battery, and vehicle electrification.

EV battery requirements

Africa is well resourced



African metals production as % of global production



Source: ASR Ltd, USGS

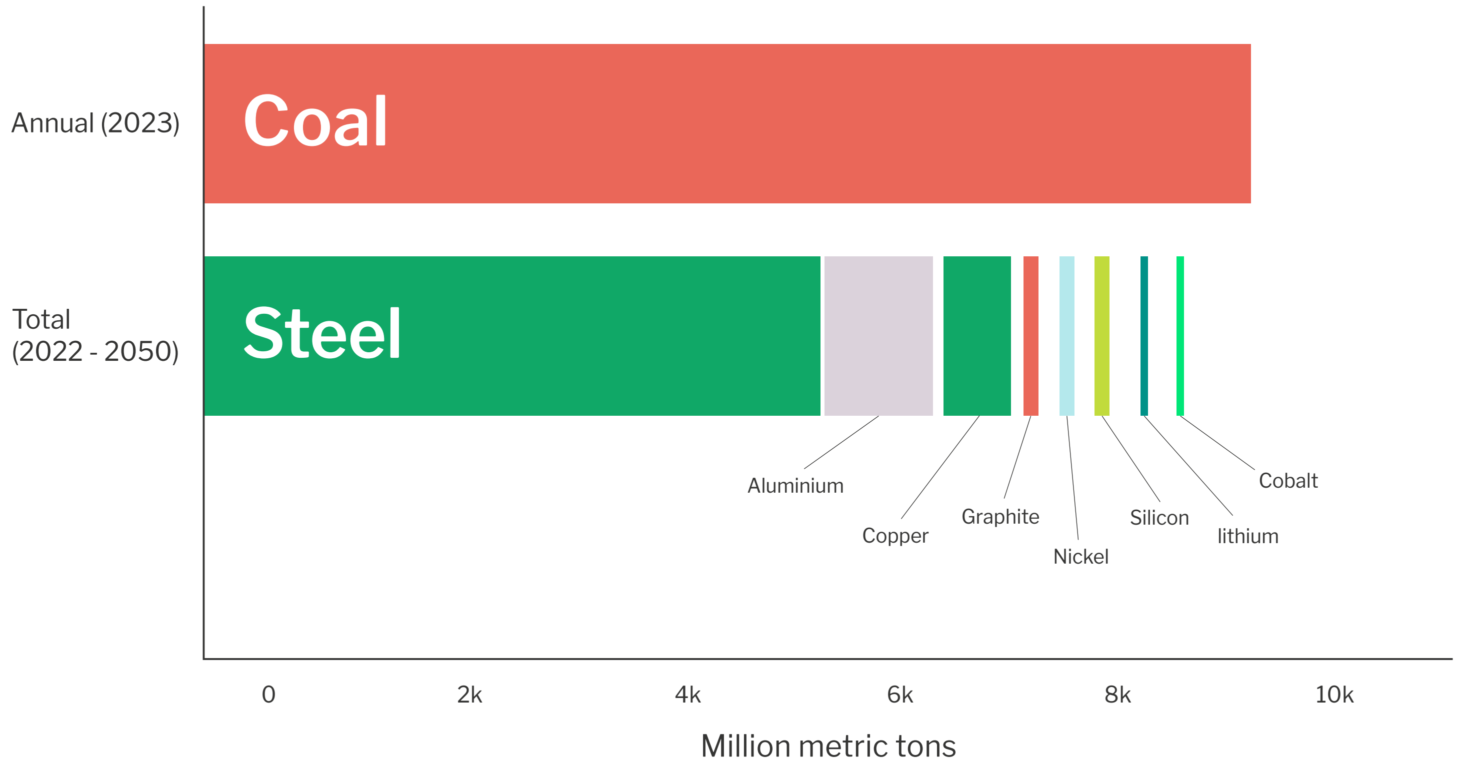
The natural line of questioning then moves to the cost and impact of this greener alternative to traditional fossil fuel-based systems. Like many things in life, there are trade-offs. Yes, the transition will not come without its negative environmental effects. Yes, there is massive employment risk for those who rely on the coal and oil value chains. However, the consequences of not acting are more far-reaching and dire than maintaining business as usual, and the employment opportunity provided by the transition has been highlighted as a key area for job creation. As our Chairman so wonderfully put it in his foreword, “we recognise that the cost of the transition is an investment, and the real cost is inaction.”

We love numbers in our industry, and the International Energy Agency’s research suggests that the world requires circa 9 million metric tons of coal per year, exceeding the total mass of steel, aluminium, copper, graphite, nickel, silicon, lithium and cobalt that they believe is needed to meet our needs between now and the middle of the century.

Ultimately, reaching net-zero emissions by 2050 will need more refined metals, but a decline in the total amount of extraction from the earth.

Materials required to reach net-zero by 2050

More, but less



Source: The International Energy Agency, Energy Transition Committee, Bloomberg NEF

- Reaching net-zero emissions by 2050 will need more refined metals, but a decline in the total amount of extraction from the earth.
- Demand for energy-transition metals is expected to grow, but overall material extraction will decrease, especially for coal.
- Mining industry must improve efficiency to help reduce emissions.
- Recycling and technological advances are reducing the need for new metal

Climate change, employment, and food security

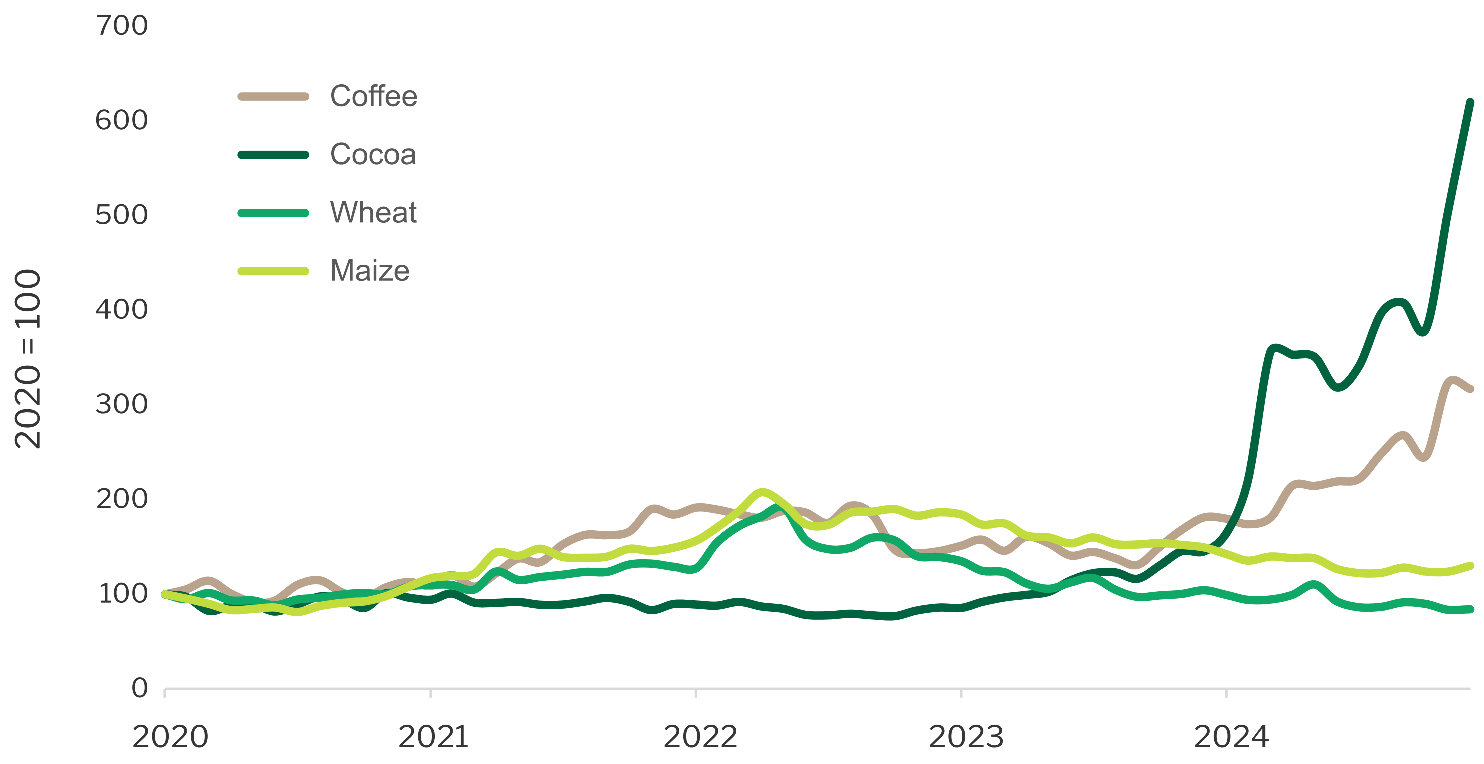
We joined a workshop with our Nedbank Insurance colleagues earlier in the year where the WITS Global Change Institute put forward that South Africa's agriculture sector stands to lose more jobs because of climate change than what the energy transition will enact on the fossil fuel sector.

As Southern Africa warms, droughts become more frequent, absolute annual rainfall decreases and the ability for crops to produce consistent yield becomes an emergent risk. One of the fiercest areas that climate change affects people directly is via food security and, more specifically, soft commodity prices.

2024 was hotter than even scientists had forecasted, boosted in part by the El Niño event that occurred. Whether a mild La Niña in 2025 will result in cooler temperatures remains to be seen, but given the trendline since the turn of the century, it would be remiss the assume the trajectory would be altogether altered.

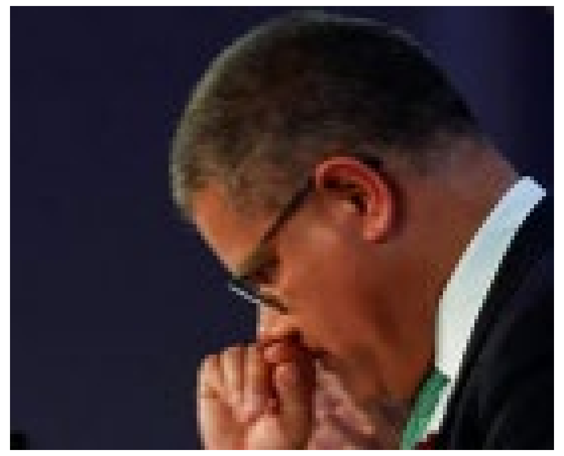
My colleague, Matt Cornwell, has touched on this later in the report, the price of cocoa forcing the Palomar team to exit their investment position. Through the years I have learnt that it is those commodities with specialised areas of production, such as cocoa and coffee, that experience the greatest price effects of a strong El Niño. Conversely, commodities with diverse geographic footprints, such as maize and wheat, are largely cushioned against global-level weather events.

Select Soft commodity prices, US$



Source: Morningstar data

Summary of the Past Four Climate COP Meetings,
...and what to expect in 2025



COP26 - Glasgow Climate Pact (2021)

COP26, held in Glasgow, Scotland, was critical for accelerating global climate action. The Glasgow Climate Pact was adopted, emphasising the need to reduce carbon emissions and limit the global temperature rise to 1.5 degrees Celsius. After several countries protested, notably India and China, the commitment was amended from the ‘phasing out’ to the ‘phasing down’ of coal, alongside reducing deforestation and increasing funding for climate adaptation.

COP27 - The Implementation Summit (2022)

COP27, known as the Implementation Summit, took place in Sharm El-Sheikh, Egypt. This conference aimed to turn previous commitments into actionable plans. Major outcomes included the establishment of a loss and damage fund to support vulnerable nations, enhanced transparency frameworks, and increased pledges for climate finance from developed countries.

COP28 - The UAE Climate Summit (2023)

The latest COP meeting, COP28, was held in Dubai, United Arab Emirates. It focused on scaling up mitigation efforts and enhancing global cooperation. Key results were the adoption of a global stocktake to assess progress toward goals, significant investments in renewable energy, and agreements to bolster resilience against climate impacts.

These meetings mark significant steps on the global agenda to tackle climate change, highlighting the ongoing need for international collaboration and concrete action to mitigate the adverse effects of climate change.

COP29 – The Finance COP (2024)

At COP29 in Baku, Azerbaijan, major strides were made in climate finance to ensure resources for stronger climate action.

Known as the New Collective Quantified Goal on Climate Finance (NCQG), developed countries pledged to increase annual climate finance to $300billion by 2030, with the aim to reach $1.3 trillion per year by 2035. This is intended to aid developing nations in transitioning to clean energy and enhancing resilience.

Summary of the Past Four Climate COP Meetings,
...and what to expect in 2025

Upcoming COP30 – The Global Stocktake (2025)

COP30 will be held in Belém, Brazil, in November 2025. Expectations are high, with a focus on accelerating climate action to meet the goals of the Paris Agreement. The meeting will feature a significant event known as the Global Stocktake. This process, which occurs every 5 years, is designed to assess the collective progress towards achieving the long-term goals of the Paris Agreement. The Global Stocktake will evaluate the effectiveness of current climate actions, identify gaps, and provide guidance for enhancing future efforts. It aims to ensure that countries are on track to limit global warming to well below 2 degrees Celsius, with efforts to keep it within 1.5 degrees Celsius.

Climate finance: Mind the gap

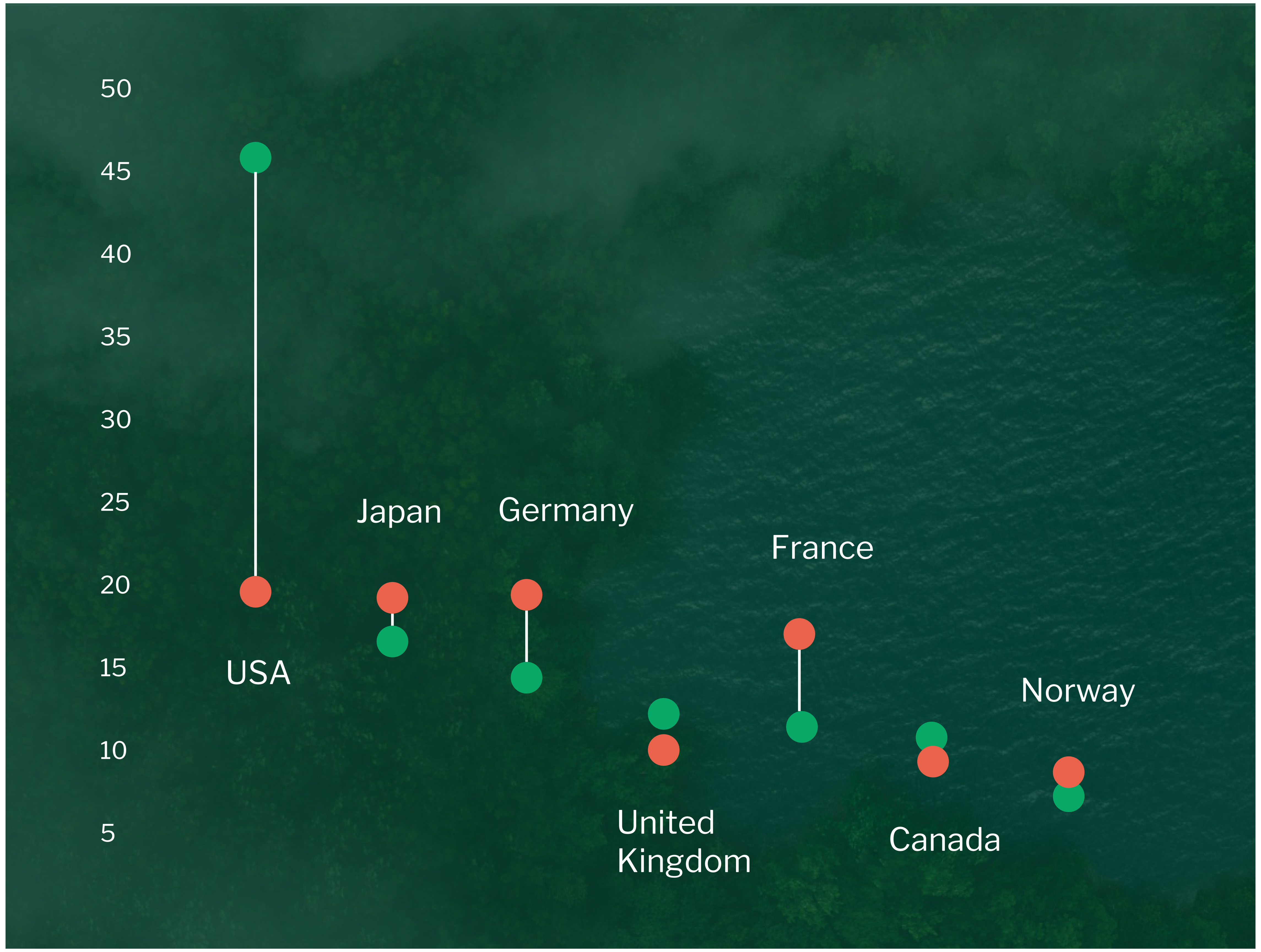
The Trump administration will likely make a swift exit from the Paris Agreement, withdraw the US' financial contribution to global climate funds, and halt the deployment of federal money into the domestic green economy, as actioned under the Biden administration's Inflation Reduction Act.

At the COP discussion tables, there has been a growing frustration among developing countries regarding the insufficient climate finance contributions from the world's largest emitters. The Overseas Development Institute has assessed each country's fair share based on historical emissions, GDP, and population (see right-hand chart).

Despite this backdrop, many developed nations believe that some of the increasingly affluent developing countries should also contribute to the new climate finance goals. The US' exit from the agreement will leave a noticeable gap, and it will be fascinating to see which countries step up to fill that void.

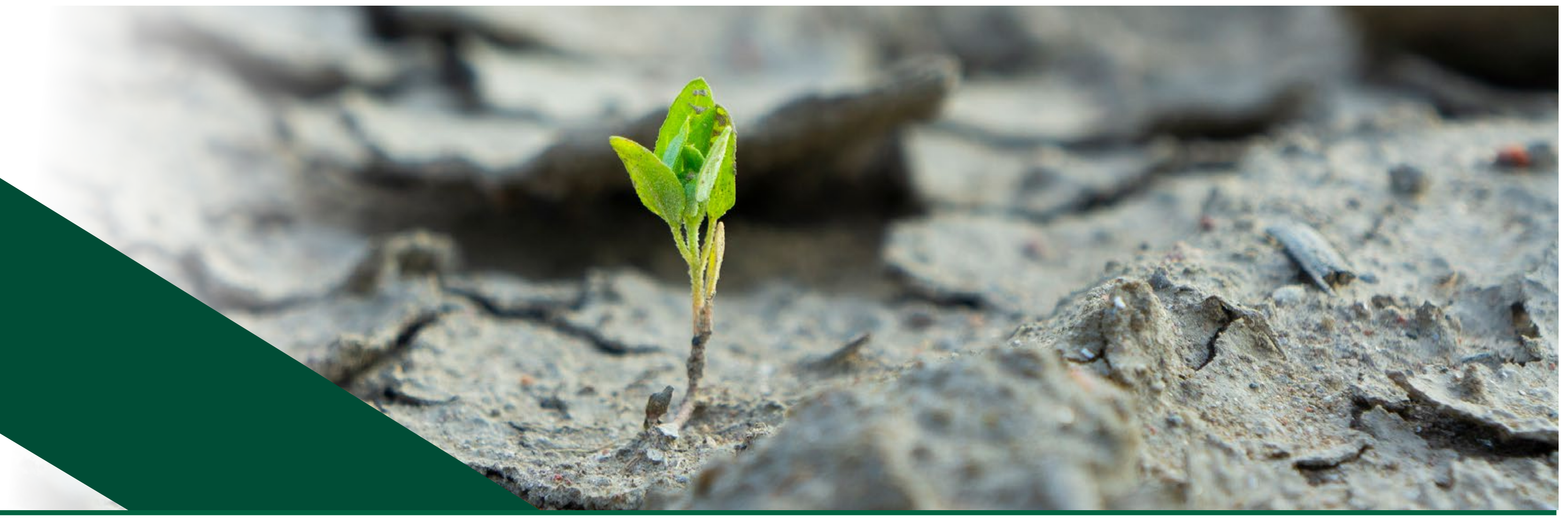
While the challenges in climate finance and international cooperation are formidable, the strides made at COP29 and the forthcoming efforts at COP30 highlight a commitment from certain corners of the globe to address climate change. The New Collective Quantified Goal on Climate Finance and the Global Stocktake are pivotal steps towards ensuring that financial resources and climate actions are aligned with the objectives of the Paris Agreement.

Despite the setbacks and political shifts, the efforts to bridge the finance gap and the push for more ambitious climate plans underscore the potential for transformative change. Sustainability is not just a necessity, it is a shared vision for a healthier, more equitable planet. As we move forward, collaboration and innovation at the international, domestic, and company-level will be key to forging a sustainable future.



Source: Overseas Development Institute (2022 data), Miriam Quick, Yun Sun Park, The BBC.

Sustainability in 2024
A year in numbers



1.5°C 2024 confirmed as the first year to breach 1.5°C warming limit. Scientists warn efforts to limit the long-term temperature rise to 1.5°C will fail as data confirms 2024 was the hottest year in human history

5% Clean energy researcher BloombergNEF estimates that by 2030 there'll be enough capacity to meet about 5% of global jet fuel demand with sustainable aviation fuel

25% In 2024, electric vehicle range anxiety was alleviated for many drivers in the US. In the first nine months of the year, the number of fast-charging stations in the country surged by 35%

35% This is coal's share of the world's power generation in 2023, making it the biggest source of electricity, according to climate think tank Ember

73% According to the WWF's 2024 Living Planet Report, there has been an average decline of 73% in wildlife populations since 1970

81% The UK needs to slash its emissions by 81%, compared with 1990 levels, in the next 10 years to meet new climate targets submitted to the United Nations

599 This is about how many gigawatts of new solar capacity were added globally in 2024, according to BloombergNEF. The researcher expects new build to reach 662 gigawatts in 2025

$6, 100 Capgemini has been offering a company-backed interest-free loan of up to £5, 000 ($6, 100) on technology like heat pumps, batteries, solar panels and insulation to its employees since 2023

$350, 000 A California programme launched last year that offered up to $350, 000 in loans to those affected by fires in 2018 and 2020 to shift to safer places fully allocated its funds within weeks

6.4 million This is how many hectares of forests were lost in 2023, 45% higher than the rate required to put the world on a pathway to meet the 2030 target, according to the Forest Declaration Assessment

155.3 million This is how many tons of CO_{2e} equivalent the UK wants to reduce its annual emissions to in 2035. This is a big drop from 1990 when that figure was 817.1 million tons

$14.7 billion Barclays has arranged $14.7 billion of fossil-fuel bonds and loans in 2024

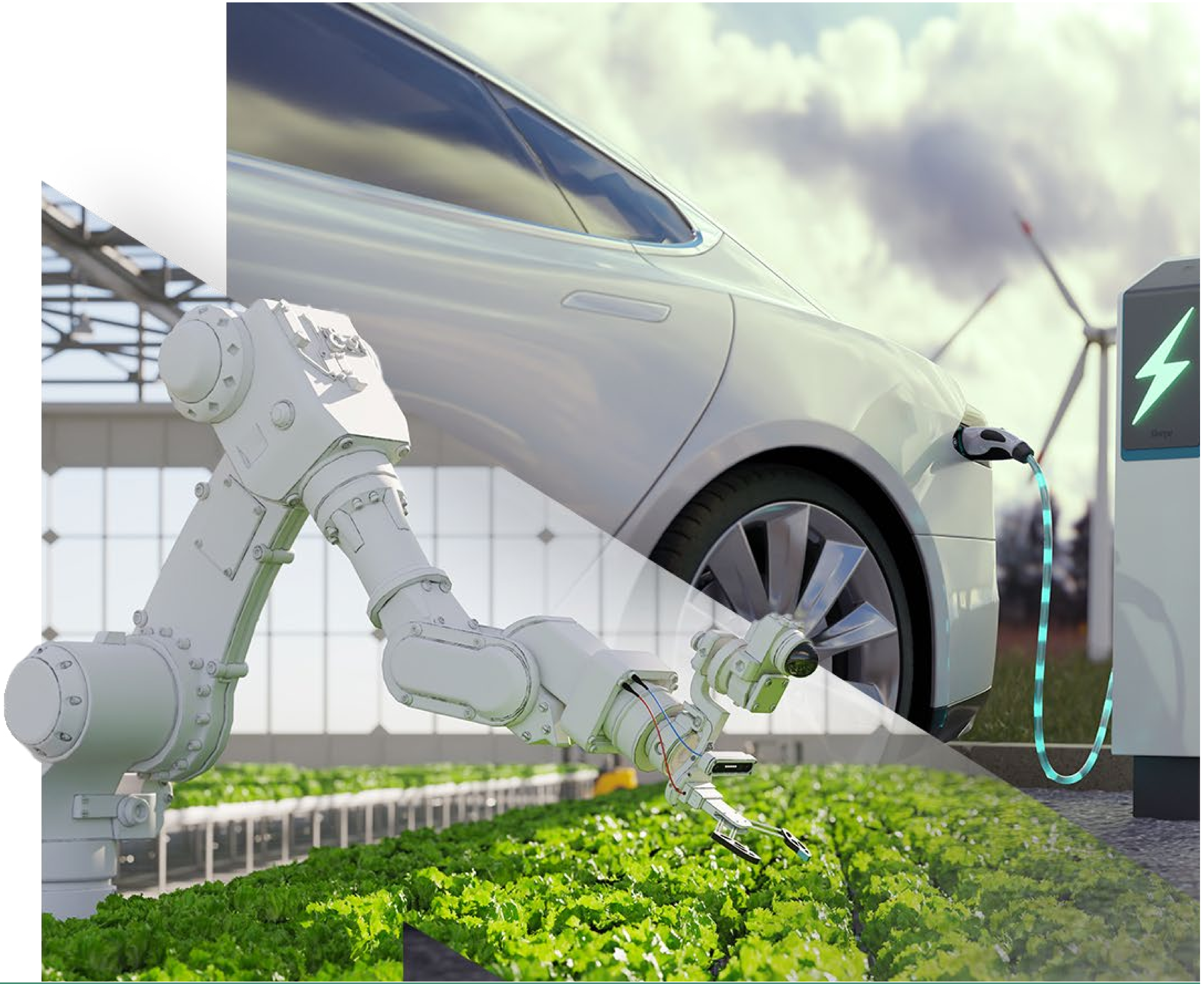
$20 to $30 billion Moody's RMS Event Response estimates that insured losses from the Los Angeles wildfires will range from $20 billion to $30 billion

$132 billion The amount of wildfire losses that insurers paid out globally over the last decade

$300 billion At COP29 in Azerbaijan last November, delegates fought before reaching a deal to triple climate finance to $300 billion by 2030

$179 trillion The economic value of nature is immense. According to estimates from the Boston Consulting Group (BCG), nature provides ecosystem services valued at approximately $179 trillion annually

Specialist Contributions



The hidden costs of AI
Balancing innovation with environmental responsibility

Madhushree Agarwal
Portfolio Manager at Nedgroup Investments UK

Artificial Intelligence (AI) has become an integral part of modern life, revolutionising industries from healthcare and finance to transportation. Hailed as a game-changer, AI's transformative potential is undeniable. But as you ask Chat-GPT to plan your perfect holiday, have you considered the hidden cost? Beneath its brilliance lies a pressing concern - the significant environmental impact of AI, particularly in terms of energy consumption and carbon emissions.

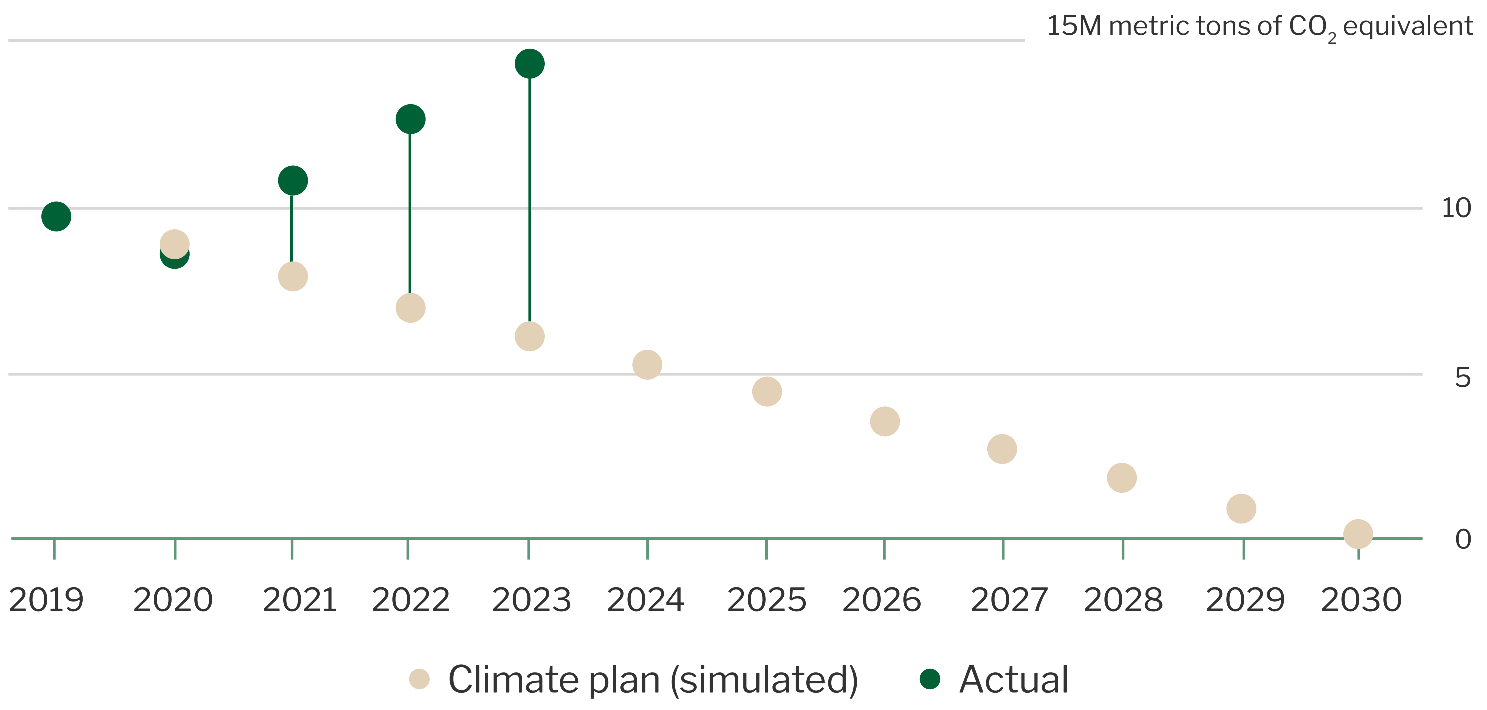
Supporting AI requires substantial infrastructure, primarily vast data centres housing thousands of servers. As AI utilisation has grown, so has the number of data centres. Globally, there are now more than 7 000 data centres built or in various stages of development, almost double the 3 600 in 2015. This increase has led to a corresponding rise in energy demand, which primarily relies on electricity, much of it still generated from fossil fuels. Additionally, the cooling systems required to prevent servers from overheating further contribute to energy consumption. To put some colour on this, a study conducted by researchers at the University of Massachusetts found that training certain popular and large AI models can produce about 626 000 pounds of carbon dioxide, equivalent to around 300 round-trip flights between New York and San Francisco, nearly 5 times the lifetime emissions of the average car.

> "AI is complicating the net-zero goals of major tech firms."

Clearly, the energy-intensive processes that power AI come with a staggering carbon footprint, affecting greenhouse gas emissions and aggravating climate change. AI is complicating the net-zero goals of major tech firms. For example, Google's greenhouse gas emissions increased by almost 50% over 5 years as the company infused AI throughout many of its core products. This increase makes it harder for Google to meet its goal of eliminating carbon emissions by 2030. It's a similar story for Microsoft, which has seen primarily its AI activities cause emissions to rise by 30% relative to 2020, even as it still aims to be carbon negative by 2030.

Google's Emissions

Artificial intelligence is putting the tech giant's climate goals in peril.



Source: Bloomberg Green, Company Reports, Google Sustainability Report 2023

Efforts to mitigate the environmental impact of AI are underway. One approach is to develop more energy-efficient algorithms. Researchers are focusing on optimising AI models to reduce the amount of computational power required without compromising performance. Innovations in cooling technologies, such as using ambient air or liquid cooling, also help reduce energy consumption.

Additionally, green data centres are essential in minimising the carbon footprint of AI. To achieve this, many companies are investing in renewable energy sources like solar and wind to power their facilities. In fact, the largest cloud service providers, namely Amazon, Microsoft, and Google, have set ambitious goals to operate their data centres entirely on green energy. Amazon by 2025, and Google and Microsoft by 2030.

Another trend among tech giants to diversify their energy sources, seeking reliable and sustainable solutions to support their ambitious growth and decarbonisation goals, is the shift towards nuclear energy. Recently, Google made headlines by signing an agreement to purchase power from small modular nuclear reactors (SMRs) developed by Kairos Power, marking a significant step in this direction. This initiative aims to deliver up to 500 megawatts of carbon-free power to US electricity grids, with the first reactor expected to be operational by 2030 and additional deployments planned through 2035. Similarly, Amazon has partnered with Energy Northwest to develop SMRs capable of generating over 5 gigawatts of nuclear power by 2039, while Microsoft is reviving the decommissioned Three Mile Island plant in Pennsylvania to supply electricity for its data centres.

These companies are also developing technological methods to reduce power consumption and balance grid demand more efficiently. This includes improving chip and server efficiency, arranging equipment to require less cooling, and shifting loads to different areas based on the availability of green energy. Policy and regulation are also likely to have a significant focus and will be essential in guiding the tech industry towards sustainability. Governments and international organisations are starting to implement policies that promote energy efficiency and the use of renewable energy in data centres. Future regulations may further incentivise the development and adoption of environmentally-friendly AI technologies.

> "The environmental impact of AI is a complex and pressing issue."

While AI offers tremendous benefits, its energy consumption and carbon footprint are significant concerns that need to be addressed. Through technological innovation, corporate responsibility, and supportive policies, it is possible to mitigate the environmental impact of AI. At Nedgroup Investments, our sustainable portfolios are invested in clean energy projects, including direct investments in renewable technology such as wind farms and solar parks, all of which will benefit from the increased demand by AI. Balancing the benefits of AI with sustainable practices will ensure that we can continue to harness the power of AI while protecting our planet for future generations.

Sources: AI's Insatiable Need for Energy Is Straining Global Power Grids (bloomberg.com). Google Is No Longer Claiming to Be Carbon Neutral - Bloomberg. The Real Environmental Impact of AI | Earth.Org. Google joins Big Tech's move into nuclear power, and other top energy stories | World Economic Forum

Championing responsible investing
New ground for South African investors

Leandra Temmers
Multi-Management Investment Analyst at Nedgroup Investments South Africa

In an era where the global investment landscape is increasingly shaped and challenged by Environmental, Social and Governance (ESG) considerations, the imminent launch of our Nedgroup Investments Multi-Managed Future Focus Equity Fund is a significant milestone for us at Nedgroup Investments. The fund comprises of bespoke segregated mandates managed by three different fund managers and is designed to align with the principles of responsible investing and transformation.

> At the heart of our fund is a commitment to transformation."

All three underlying fund managers have a proven history of embracing transformation at their own businesses. This commitment is not merely a tick-box exercise but a fundamental aspect of their organisational cultures. The fund's chosen alignment with the United Nations Sustainable Development Goals (SDGs) 5, 10 and 13 is indicative of our ambition to align investments with these same principles.

Collaborating on climate change

A lengthy collaboration between us and the fund managers leading up to the launch of the fund sought to fine-tune the unique way each of them will be incorporating climate considerations into their analysis, investment process, and portfolio construction.

> The overarching objective is to align the investment portfolio with Nedbank Group's goal to be net-zero by 2050."

This posed a wonderful challenge with many key learnings along the way. The main problem we were trying to solve for was how to adapt and clearly articulate net-zero strategies for three different fund managers with very different investment styles. The fund managers were guided through Nedbank's climate change position statement and energy policy, both are bold public documents that draw on global goals for exiting fossil fuels and decarbonising the economy.

The fund managers were then given agency to determine how their portion of the fund would be tilted towards climate-friendly outcomes, whether it be allocating overweight position sizes to companies targeting net-zero, or companies that are successfully decoupling growth from carbon intensity, or even the rate at which future cashflows are discounted for stronger ESG performers.

The table below provides a snapshot of the three SDGs, their applicability to an investment portfolio, and what we view as the benefits to both clients and the broader society.

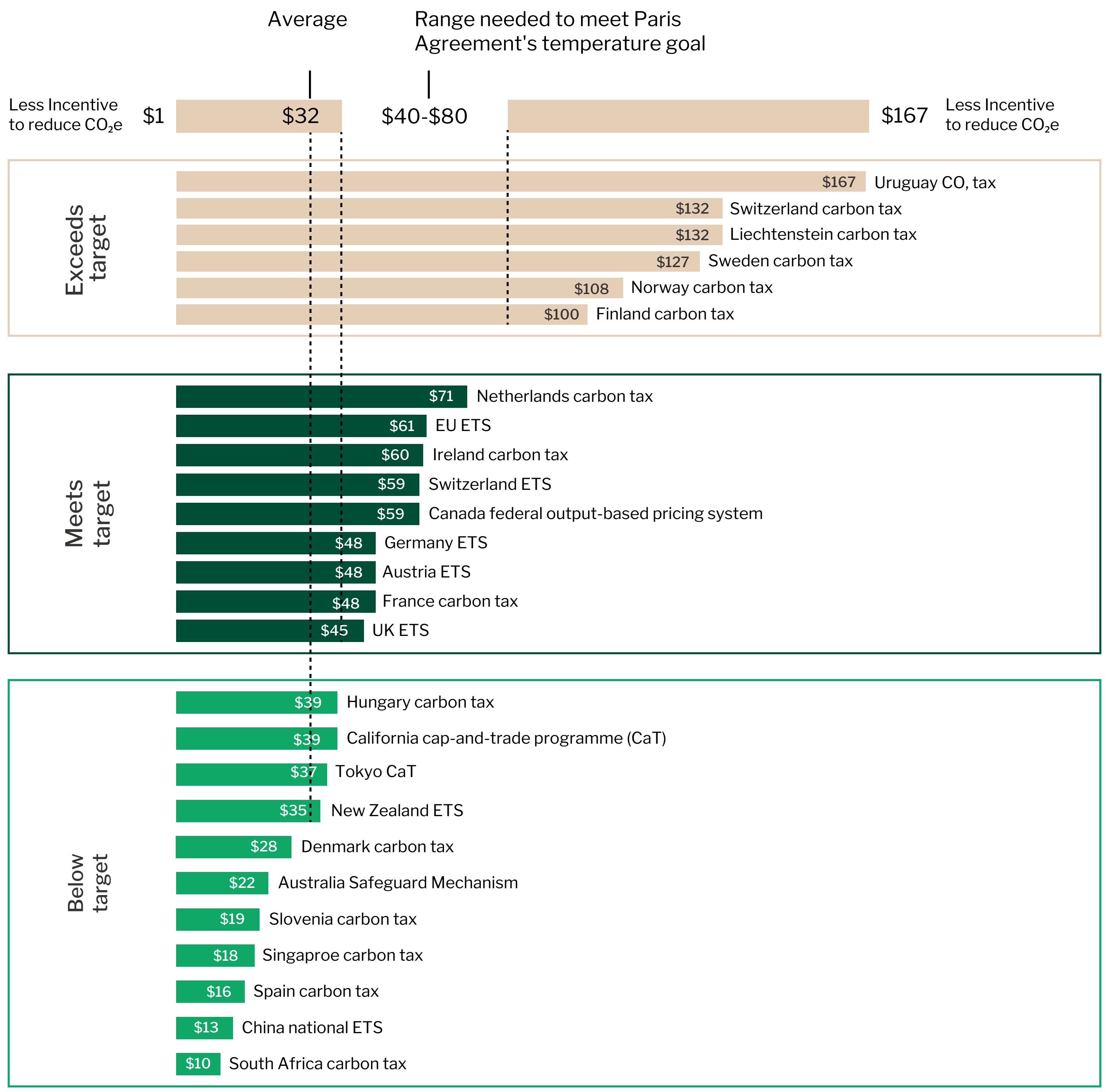
SDG	Focus	Key sub-targets	Investments	Benefits
SDG 5	Gender equality and empowering women and girls	Ensuring equal opportunities for leadership at all levels	Promote social equity and better workplace environments	Supports the 2030 Agenda, benefits society, and fosters a stable economic environments
SDG 10	Reduce inequality within and among countries	Eliminating discriminatory laws and practices, while enforcing fiscal, wage, and social protection policies	Contribute to stable societies and long-term returns	Mitigates risks and promotes sustainable practices
SDG 13	Combat climate change	Integrating climate measures into policies and strategies, improving awareness and capacity for climate action	Businesses addressing climate change	More resilient and adaptable, attracts sustainability-focused investors

Future focused companies for a changing landscape

Using SDG 13 as an example, if we were to consider trends in global carbon regulation, the need for investee companies to display resilience and adaptability becomes paramount under such market conditions. In 2024, South Africa introduced its Climate Change Act, which empowers the Minister of Forestry, Fisheries, and the Environment to allocate carbon budgets to entities based on their greenhouse gas emissions.

In the chart below we illustrate those countries currently employing a carbon tax or emissions trading scheme, as well as the dollar-equivalent price per ton.

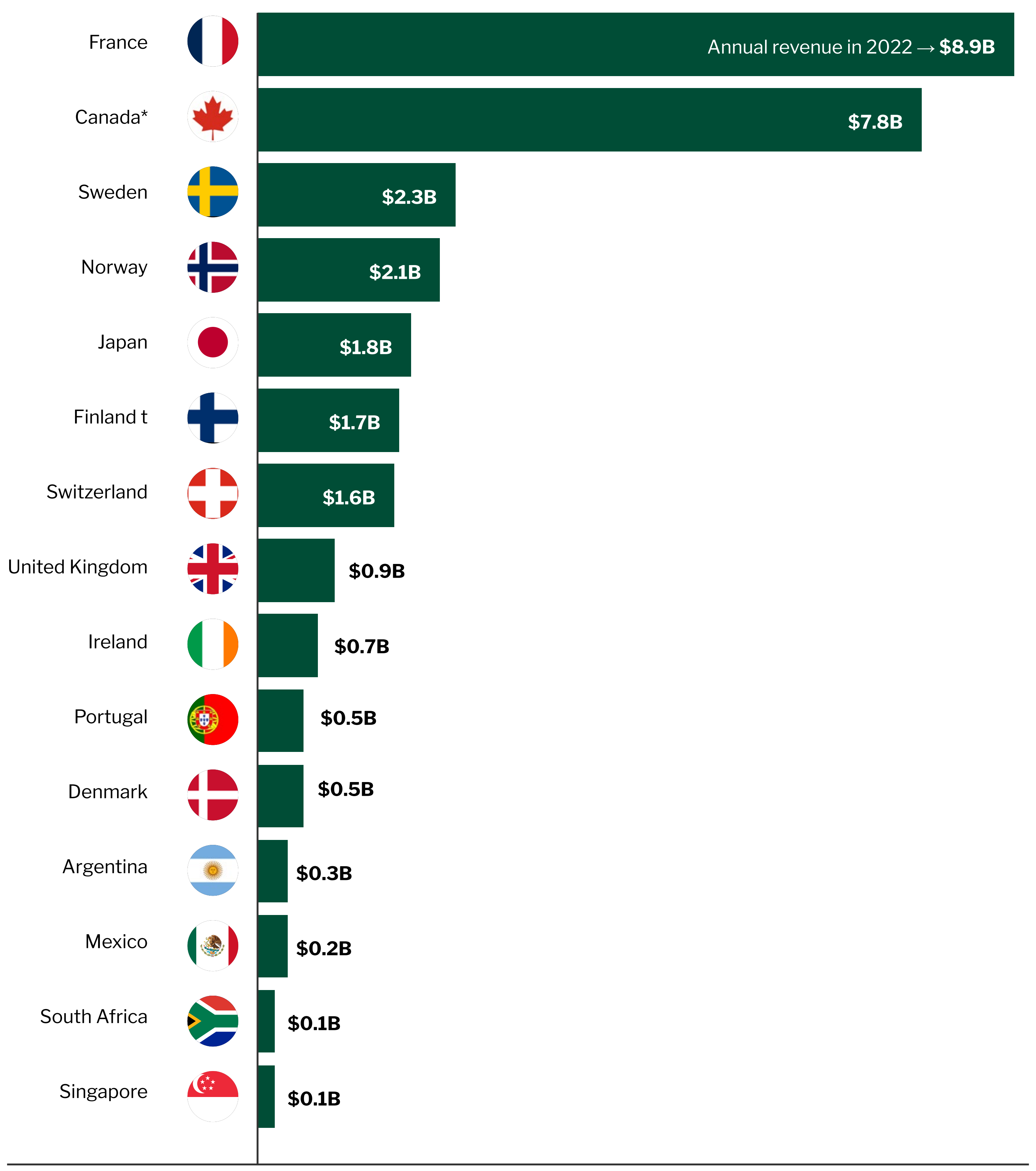
2024 Price Per Metric Ton of CO_2 Equivalent



Source: The World Bank, Carbon Markets Watch

Another component of the South African Climate Change Act is around the national carbon tax, where policymakers look to build on the current mechanism based on $10 per ton, with the goal to nudge large polluters towards more meaningful progress when it comes to greening their operations. The Act will penalise companies that overshoot their carbon budgets with an additional layer of carbon tax, with the exact number unknown and still to be bedded down.

Top 15 countries by carbon tax revenue



Source: World Bank (2023) 'Canada includes national and provincial carbon taxes

In conclusion, investing responsibly presents both significant challenges and promising opportunities. Navigating the intricate landscape of global carbon regulations demands that companies showcase resilience and adaptability, particularly in light of Europe's Carbon Border Adjustment Mechanism and South Africa's Climate Change Act.

Investors must balance the financial implications of carbon budgets and taxes with the potential for long-term returns and societal stability. Those who embrace sustainable practices and climate measures are not only better positioned to mitigate risks, but also to attract a growing segment of sustainability-focused investors.

The asset management industry cannot underestimate its role in progressing social equity both internally and in the companies that we invest in. The Nedgroup Investments Multi-Managed Future Focus Equity Fund appreciates the benefits of diverse investment teams and how this has the potential to support long-term investment performance. Responsible investing, therefore, is not merely an ethical imperative but a strategic advantage in a world increasingly cognisant of social and environmental concerns.

The water paradox

Madhushree Agarwal
Portfolio Manager at Nedgroup Investments UK

As I take a sip of water at my desk, I realise how fortunate I am. The privilege in such a simple act and often a habit rather than true thirst, yet essential to life itself. Comprising 60% of our bodies, water supports everything around us: our food, our environment, and the cleanliness that protects us from disease. Flowing through every corner of life, water quietly sustains people, plants, animals, and entire ecosystems.

> “Comprising 60% of our bodies, water supports everything around us.”

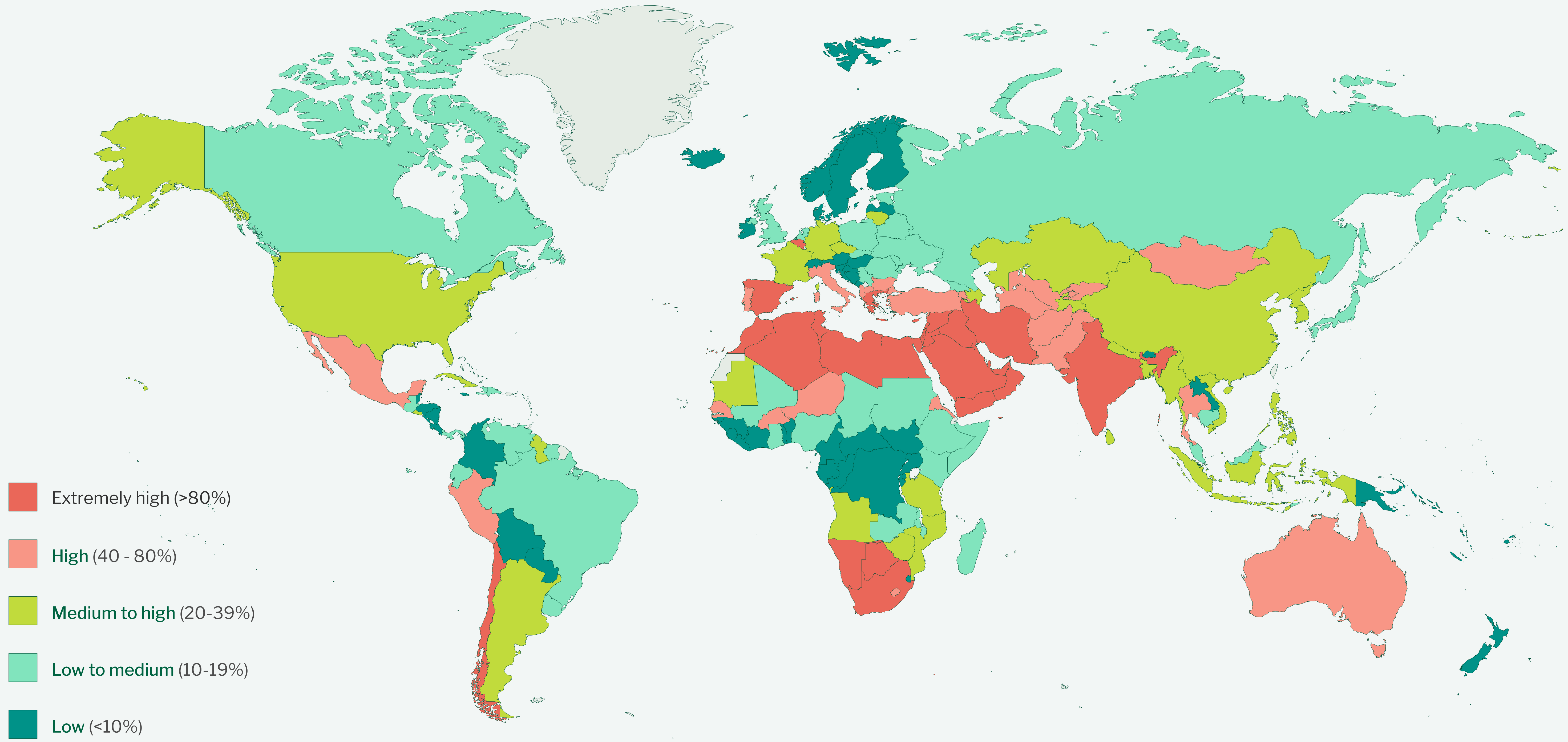
Yet, for billions of people, this basic necessity remains out of reach. According to the United Nations, 2 billion people, which is nearly a quarter of the global population, lack access to safe drinking water. Even more shocking, almost half of the world's population lacks adequate sanitation, a critical element of health and hygiene.

The devastating impact of water scarcity is tragically clear: every 90 seconds, a child dies from a water-related disease. Unsafe water and poor sanitation fuel the spread of infectious diseases, stunting human development and trapping communities in cycles of poverty. During the Covid-19 pandemic, we were reminded just how essential something as simple as handwashing is in preventing illness. The burden also falls disproportionately on women and girls, who spend a staggering 200 million hours every day collecting water. This is time that could be spent on education, work, or rest. Water, once considered abundant, is rapidly becoming one of the planet's most precious commodities.

The demand for water is soaring and driven by rapid population growth, urbanisation, and rising living standards. In fact, in just 70 years, the global population has tripled. As people adopt wealthier lifestyles, water consumption increases, whether it's for water-intensive products like cotton clothing, high-demand crops, or electricity, much of which relies on water for cooling. Agriculture alone consumes 70% of the world's freshwater supply and often uses outdated, inefficient irrigation systems. With demand set to rise by another 20-30% by 2050, the pressure on this vital resource is only intensifying.

Where water stress will be highest by 2050

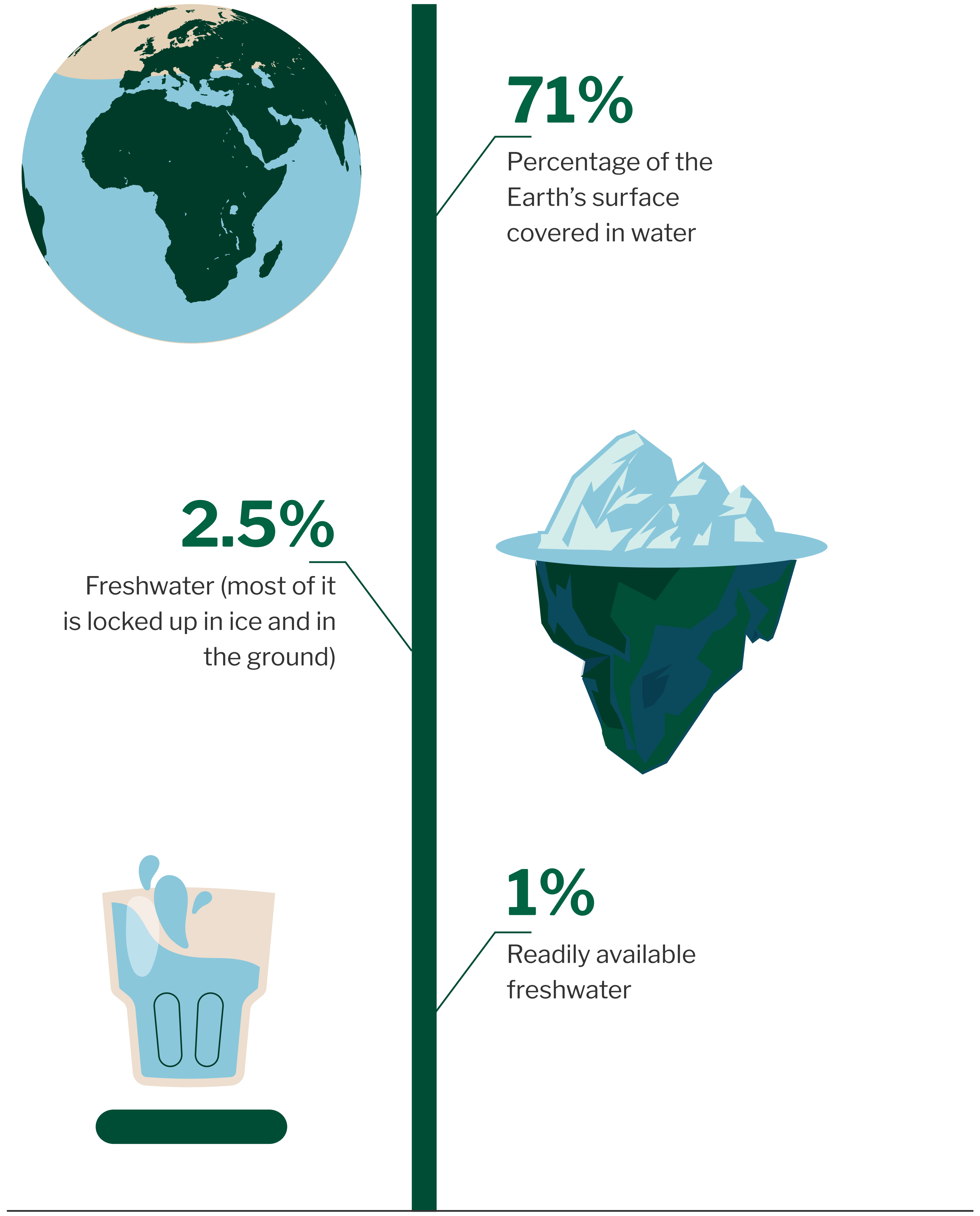
Projected ratio of human water demand to water availability (water stress level) in 2050



Source: World Resources Institute

On the supply side, while 70% of the planet is covered in water, the vast majority is saltwater, with only 3% being freshwater. Of that, most is locked in glaciers and ice caps, leaving a mere 0.3% accessible for human use.

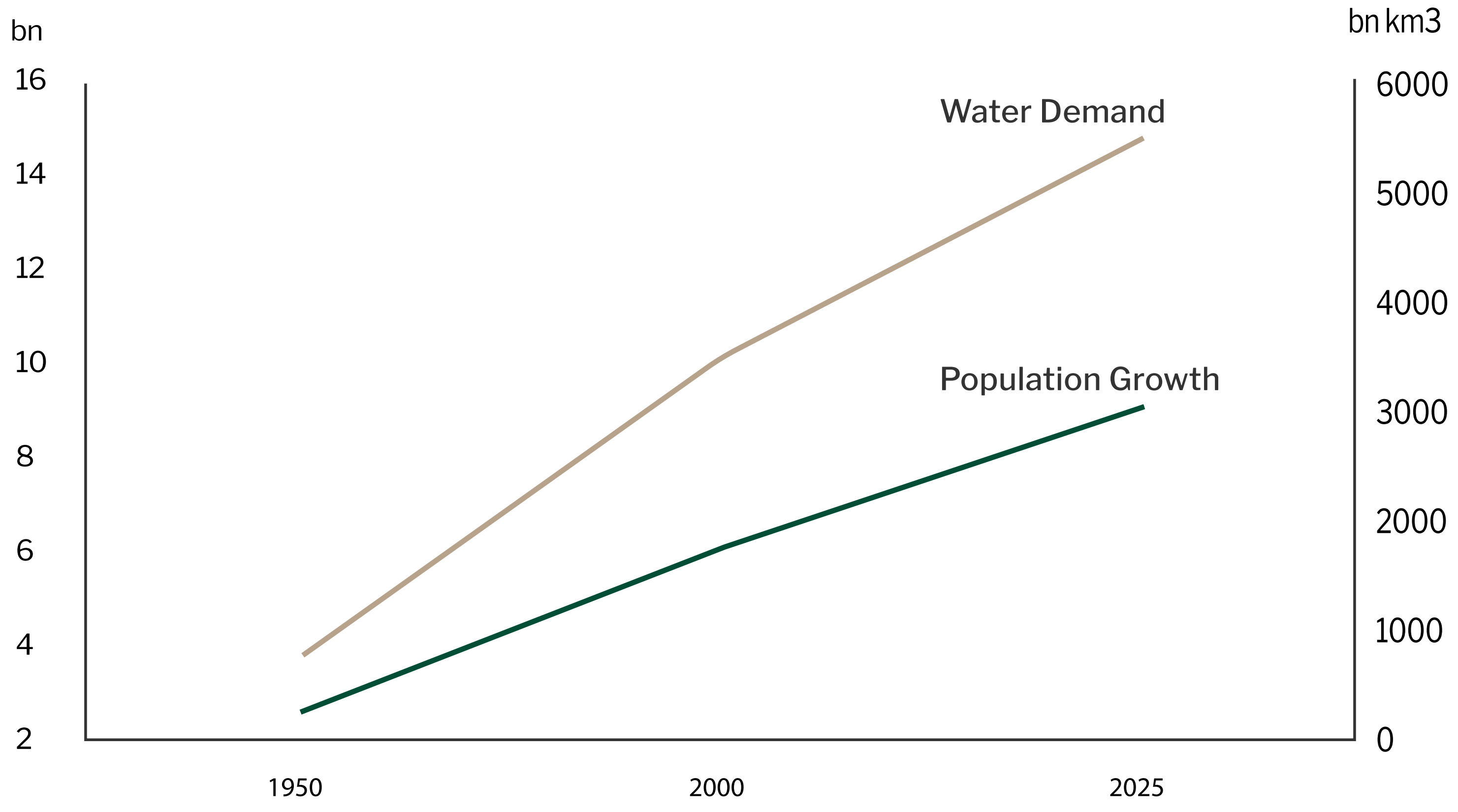
Freshwater makes up a very small fraction of the Earth's water



Source: USGS

To make matters worse, climate change is disrupting global water cycles. Glaciers are melting, droughts and floods are becoming more frequent, and rainfall patterns are shifting. Regions that once relied on predictable rainfall now face severe water shortages, while others endure devastating floods. Poor governance and inadequate investment in water management systems only exacerbate the crisis. In fact, aging infrastructure in the US alone causes around 16% of treated water to be lost through leaks before it even reaches consumers.

Population growth (lhs) and water demand (rhs)



Source: Organisation for Economic Co-operation and Development (OECD)

So, what can be done? Tackling the global water crisis requires a multifaceted approach that integrates infrastructure development, technological innovation, governance reforms, and community engagement. First, modernising water distribution systems, sewage treatment plants, dams, and irrigation methods is essential to improving supply reliability and reducing waste. Desalination, the process of removing salt from seawater, is also crucial and particularly for water-scarce regions. While recent advances have made desalination more energy-efficient and affordable, challenges like brine disposal and high energy consumption still need to be addressed.

Water reuse and recycling offer another promising solution. Treating wastewater for use in the agriculture industry can significantly reduce reliance on freshwater. Investment in water recycling technologies is vital to help close the gap between supply and demand. Governance reforms are equally important. Transparent policies that reduce corruption and ensure fair distribution can transform water management. Lastly, community-based initiatives that empower local stakeholders to manage water resources foster long-term sustainability. For example, projects that teach water conservation techniques or establish local governance structures can boost resilience to scarcity. By combining these efforts, we can move toward a more sustainable global water system, one that benefits consumers, businesses, and governments alike.

At Nedgroup Investments, we are proud to play an active role in addressing the global water crisis through our Sustainable Portfolios. By investing in the clean water theme, we support companies developing innovative solutions to the world's water management challenges. These businesses, whether in technology, engineering, utilities, or other sectors, are leading the way toward a more sustainable water future. Our investments provide direct exposure to a diverse range of companies that are essential to the purification, treatment, and responsible management of water resources. By backing these solutions, we are contributing to a future where access to clean water is safeguarded for generations to come.

Sources: The Water Crisis: Shortage, Problems & Solutions | Water.org. Water scarcity and health (essentialneed.org). The global water crisis, explained (concernusa.org). L&G Clean Water UCITS ETF | LGIM Fund Centre. Chart: Where Water Stress Will Be Highest by 2050 | Statista 3.4.2 Water Resources - GEOGRAPHY FOR 2025 & BEYOND. Is Our Blue Planet Really Running Out of Freshwater? | RainWater Harvesting Filters, Products & Consultancy Services

Doubling down on our effort

Prioritising a transformative and sustainable investment approach in South Africa's pension and retirement fund industry

Andile Hlanti
Institutional Consultant at Nedgroup Investments South Africa

The South African retirement sector is undergoing a significant evolution, marked by the increasing integration of Environmental, Social, and Governance (ESG) principles in investment strategies. Traditional financial returns remain a core objective, but the focus has broadened to include sustainable and socially impactful outcomes. This evolution is not only a response to global trends but also a proactive measure aimed at addressing South Africa's unique socio-economic challenges. One example of this shift is the **Nedgroup Investments Multi-Managed Future Focus Equity Fund** (see previous section), a bold initiative that combines the pursuit of long-term capital growth with a strong commitment to sustainability. This fund exemplifies how responsible investing can contribute to South Africa's long-term prosperity while aligning with the United Nations Sustainable Development Goals (SDGs).

> "One example of this shift is the Nedgroup Investments Multi-Managed Future Focus Equity Fund"

Global trends and South Africa's unique opportunity

As the global geopolitical landscape evolves, there is a noticeable trend among some of the world's most influential regions and companies reducing their focus on responsible investing, Sustainable Development Goals (SDGs), and gender-based initiatives. In contrast, South Africa stands at a critical juncture where its pension and retirement funds have a unique opportunity to drive change and continue to promote ESG integration. While the global trend seems to pivot away from these principles in some regions, South African funds have an even greater responsibility to champion ESG and gender equity, areas where the country faces pressing challenges.

Companies tempering their DEI ambitions since Trump's election victory

TARGET	Discontinued its "Belonging at the Bullseye" strategy and the Racial Equity Action and Change (REAaCH) programme
WELLS FARGO	Scaled back its DEI initiatives, including reducing funding for employee resource groups and diversity training programmes
Walmart	Scaled back several DEI initiatives
BANK OF AMERICA	Reduced its commitments to DEI, including cutting back on diversity hiring goals and mentorship programmes
McDonald's	Reduced its DEI commitments
JPMorganChase	Pulled back on several DEI initiatives, including scaling down its supplier diversity programme
Google	Rescinded a goal to increase representation of underrepresented groups among its leadership team by 30% within five years
citi	Decreased its focus on DEI, including reducing the scope of its diversity recruitment efforts
Meta	Cut back on DEI initiatives prior to Trump's executive order
Goldman Sachs	Rolled back some of its DEI commitments, including scaling down its diversity training programmes

Source: Fortune

The role of the Nedgroup Investments Multi-Managed Future Focus Equity Fund

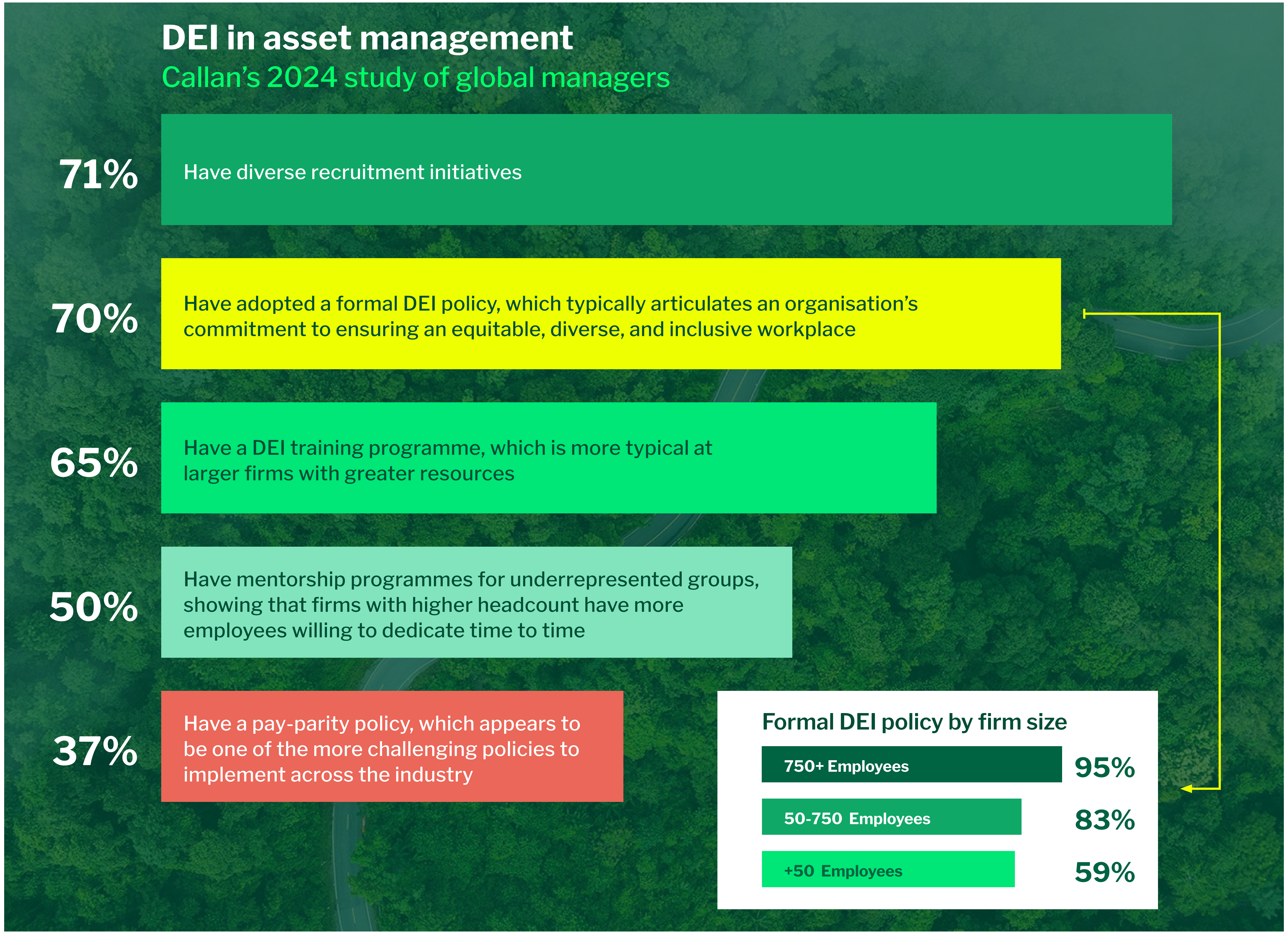
The Nedgroup Investments Multi-Managed Future Focus Equity Fund not only responds to these challenges but also leads the way in demonstrating that responsible investing is not just ethically sound but financially prudent. Despite recent shifts in the focus on ESG and SDG principles in various markets, this fund underscores the importance of maintaining a commitment to transformation and responsible investing. The evolving economic and political landscapes in some areas have seen a reduction in emphasis on ESG factors, with certain regions rolling back climate-related regulations and weakening policies aimed at fostering social equity. However, the empirical evidence remains clear: responsible investing continues to deliver robust financial returns and long-term benefits, proving that integrating ESG principles is a strategic choice for enduring retirement fund success.

Why incorporating ESG in equity investing makes sense

Integrating ESG factors into investment strategies isn't just about feeling good, it's smart investing. Over time, studies have shown that companies committed to strong ESG practices tend to outperform their competitors. They are better at managing risks, bouncing back from economic setbacks, and keeping clients happy. So, even though some parts of the world are dialling back on sustainable practices, the global market still recognises their importance. According to the Global Sustainable Investment Alliance (GSIA), over $35 trillion is now invested in sustainable assets worldwide, and the number continues to increase.

A unique opportunity for South Africa

While some countries may be stepping away from incorporating ESG principles, South Africa cannot afford to. The nation's unique socio-economic challenges, such as extreme inequality, high unemployment, and environmental issues, make it imperative to keep championing sustainable and equitable solutions. South African pension and retirement funds, like the Nedgroup Investments Multi-Managed Future Focus Equity Fund, are impactful and can make a real difference. The fund's investment philosophy to deliver market-beating returns while prioritising transformation and responsible investing can drive meaningful change that benefits not just investors, but the entire country.



Source: Callan's 2024 Asset Manager DEI Study

Addressing social inequalities and gender equity

South Africa remains one of the most unequal societies in the world, with the Gini coefficient ranking it among the top countries for income inequality. According to the World Bank, South Africa's Gini coefficient stood at 0.63 in 2020 (see map on the right), a clear indication of the disparity between the rich and the poor. Simultaneously, the country faces the urgent need for transformation, including gender equity within the investment industry.

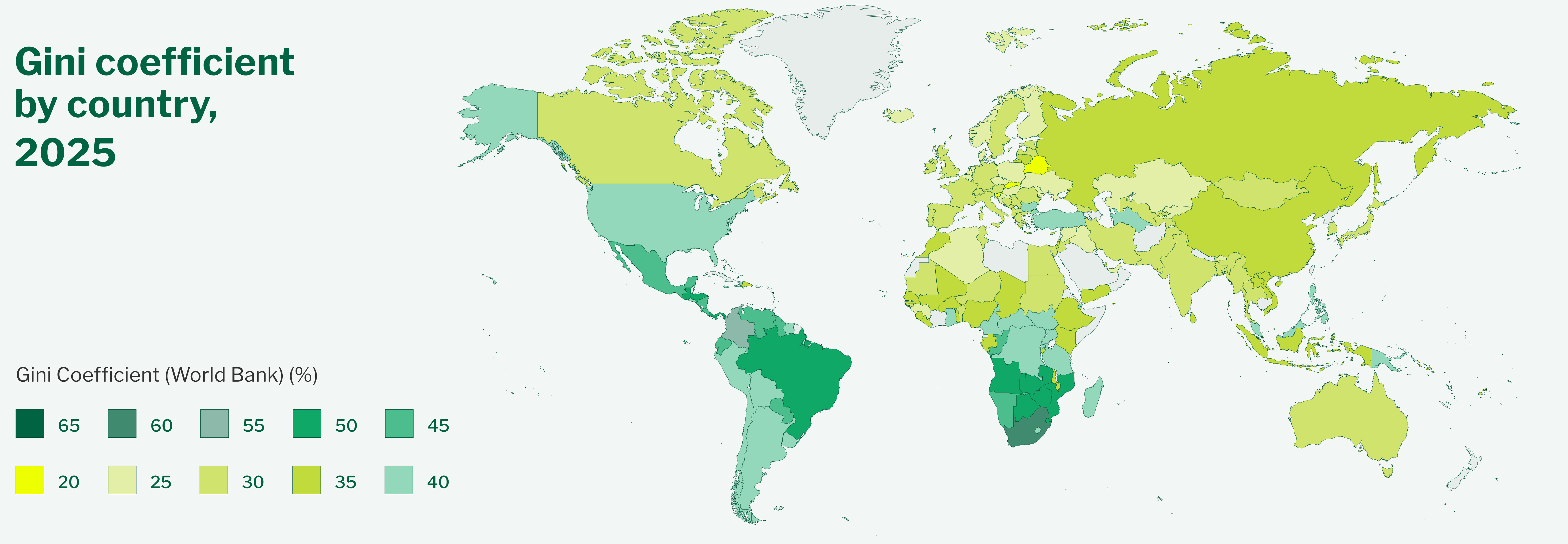
As of 2022, the South African Institute of Race Relations (SAIRR) reported that the unemployment rate for women was over 40%, compared to approximately 35% for men. In this context, pension funds and retirement funds that focus on ESG and gender equity can contribute significantly to addressing these challenges. By prioritising investments in companies and asset managers that embrace diversity, gender equality, and social transformation, South African funds can play a pivotal role and bridge the gap. This is why the Nedgroup Investments Multi-Manager team has partnered with three black-owned asset managers with diverse boards and investment teams to manage the Multi-Managed Future Focus Equity Fund.

> "As of 2022, the South African Institute of Race Relations (SAIRR) reported that the unemployment rate for women was over 40%, compared to approximately 35% for men."

The role of pension fund trustees and investment committees

As South Africa faces ongoing challenges related to climate change, income inequality, and governance transparency, funds that prioritise ESG principles help mitigate these risks and align financial returns with national development goals. The role of pension fund trustees and investment committee members in South Africa plays a critical role in shaping the future of the country's retirement sector. Given the strong empirical evidence supporting the financial and social benefits of ESG investing, it is essential that trustees and committees continue to embrace these principles. The importance of aligning investments with the SDGs and ensuring that retirement funds contribute to the transformation of the South African economy cannot be overstated.

Gini coefficient by country, 2025



Source: The World Bank, World Population Review

Here are some reasons why pension fund trustees should prioritise funds like the Nedgroup Investments Multi-Managed Future Focus Equity Fund:

1. **Long-term financial returns:** As shown in global and local studies, funds that integrate ESG factors into their investment processes tend to outperform their peers in the long-term, providing strong returns for retirees.
2. **Social and economic transformation:** By investing in companies committed to transformation, gender equity, and sustainability, trustees can play an active role in shaping a more equitable and inclusive South Africa. This is in line with the national goals outlined in the National Development Plan (NDP).
3. **Risk management:** The world is changing rapidly, and geopolitical instability, environmental challenges, and social unrest present significant risks. Funds that prioritise ESG in their investment processes are better positioned to navigate these risks and provide stability for retirement portfolios.
4. **Regulatory compliance and accountability:** The South African government has placed increasing emphasis on responsible investing through initiatives like the Code for Responsible Investing in South Africa (CRISA). Pension funds that adopt ESG principles within their investment process are better positioned to meet regulatory requirements and demonstrate accountability to their stakeholders.

Conclusion

As South Africa navigates its economic challenges and opportunities, the focus on responsible investing is more critical than ever. The Nedgroup Investments Multi-Managed Future Focus Equity Fund is a leading example of how South African pension and retirement funds can contribute to both financial growth and social change. By prioritising ESG integration, gender equity, and sustainability, this fund aligns with both global trends and the unique needs of the South African context. While some global markets may be retreating from ESG principles, South Africa's pension funds have an essential role to play in fostering a more sustainable, equitable, and resilient society. For trustees and investment committees, investing in funds that have ESG engraved in their process is not just a sound financial decision, but a strategic choice that contributes to the long-term success and well-being of the country's economy and its citizens.

Engagement Case Studies

Health and safety in SA's gold mining sector

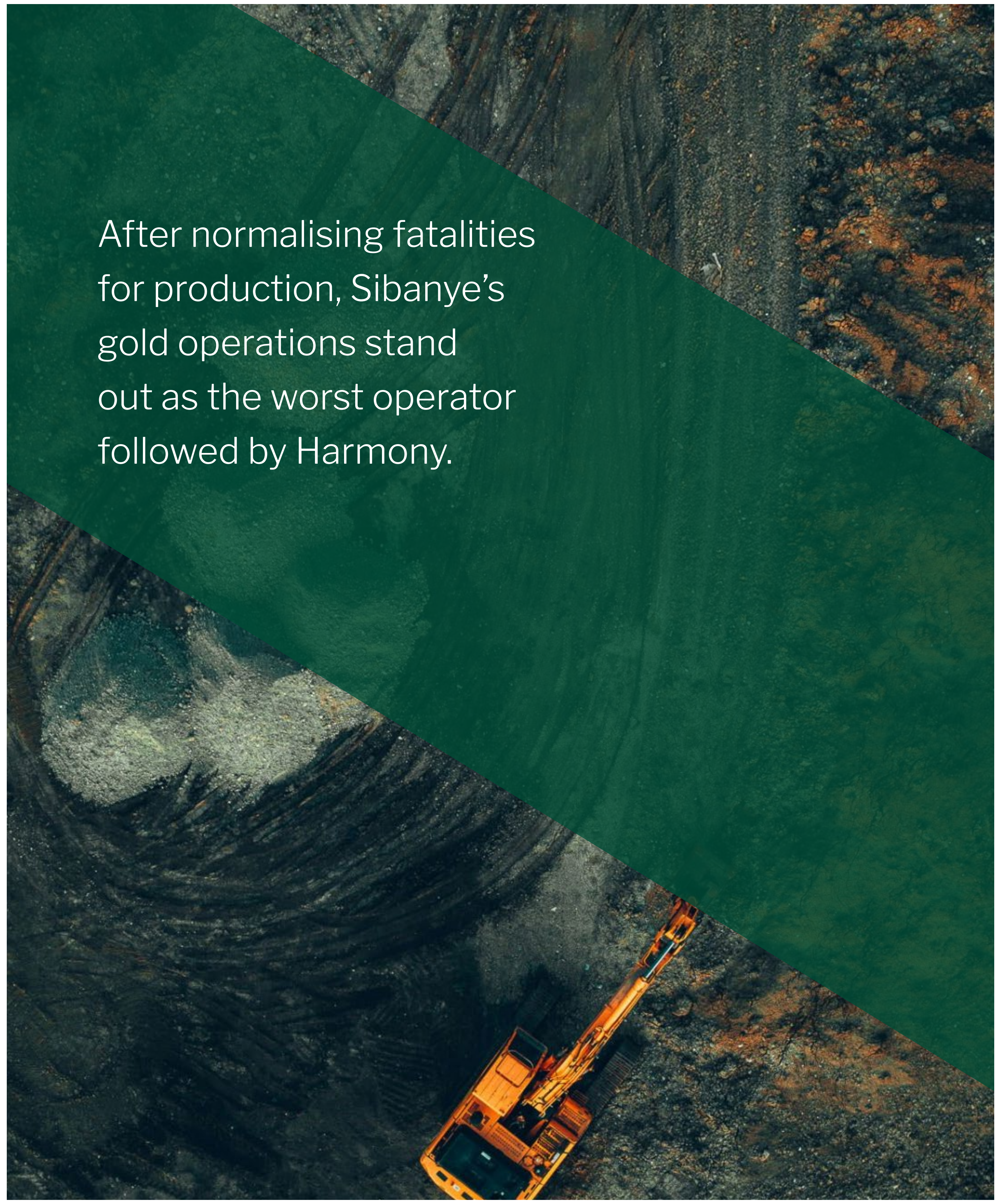
At Abax Investments, there are standards we expect from the boards and management of companies we invest in regarding how to address environmental, social and governance (ESG) challenges.

All companies have a responsibility to respect human rights. They may impact human rights in several ways through their business operations and supply chains, their community interactions and the marketing and use of their products and services. Respecting human rights is an inherent part of good business practice, risk management and for long-term value creation. Our responsibility to identify and respect human rights is captured in our policies (we are committed), investment process (we assess and proactively identify risks) and engagement activities (we take action).

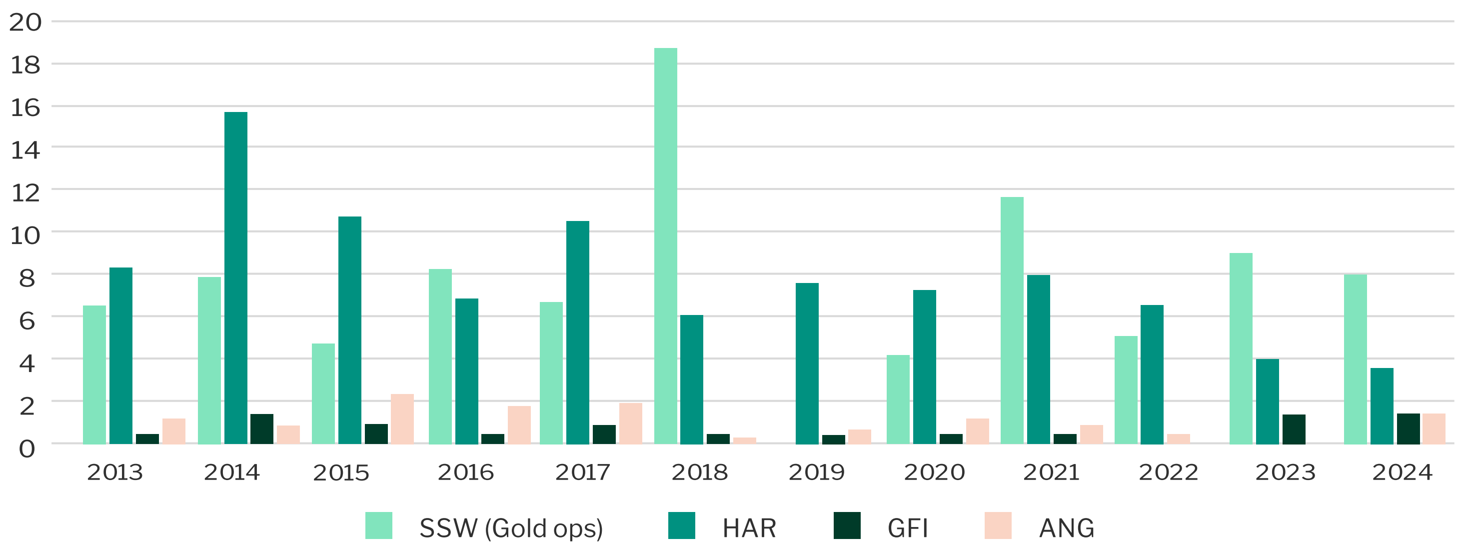
Pre-investment, we perform a comprehensive evaluation of a company's ESG profile, during which we identify high risk companies. Post-investment, we proactively monitor changes in risks. Our analysis helps inform our investment case and ultimately our investment decision. With respect to human rights, we view the South African mining sector as high risk.

With the gold price rallying to all-time highs in 2024, the South African gold miners have been in sharp focus. The valuation of Harmony and Sibanye-Stillwater, like all mining companies, is exposed to (uncontrollable) commodity, country, and currency risk, but also significant concerns around (more controllable) operational risks, that for the two companies mentioned are relatively more pronounced due to their portfolios of lower-quality assets versus their peers.

Both companies operate some of the deepest gold mines globally, with complex geology making it labour intensive (i.e. non-mechanised) with a high risk of seismic activity. Due to these factors Harmony and Sibanye have the poorest safety records in the gold industry, suffering numerous fatalities on a regular basis. Besides the unacceptably high rate of fatalities, when safety incidents occur, they bring mining operations to a standstill, negatively impacting the businesses' ability to generate profits, cash flow, and pay dividends.



Fatalities per moz produced



Source: Company reports, SBG Securities analysis

From a valuation perspective we incorporate the probability of this (discrete) safety risk from occurring and determine the impact it would have on Harmony's cash flows, growth, and balance sheet. In isolation if we ignore the safety-related risks, Harmony's valuation would be reasonable relative to other JSE-listed gold equities, but after building these risks into our valuation, our assessment changes materially.

We regularly engage with the management of all the major listed gold mining companies to voice our concerns regarding workplace safety as well as better understand their internal initiatives to improve safety. Encouragingly, fatal injuries in South Africa's mining industry have been decreasing over the last two decades, but Harmony and Sibanye still rank poorly relative to peers.

Gold can play an important role in building resilient portfolios as it serves as an attractive hedge against both geopolitical risk and uncertainty around sovereign debt. Within our portfolios, we have a clear preference for gold mining companies that have better safety records such as AngloGold and Goldfields. These businesses are less likely to face production stoppages (impacting earnings and cashflows) as well as reputational damage. Ethical considerations also inform our preference. We don't own Harmony or Sibanye.

Pre-investment considerations in the Financials sector

DENKER
CAPITAL

As part of its research process, the Denker Financials team arranges an annual visit to the large financial institutions across South Africa. The purpose of these meetings is to question management teams beyond just the numbers and understand softer, more qualitative aspects of each business. We also meet with various key individuals who may have previously been executives at these businesses to gain additional perspectives.

Given that Denker Capital has managed both local and global equity funds for many years, we believe that one of our key competitive advantages is the perspective that is provided when meeting investment teams across the globe. Secondly, the combined experience of the team spans many years and therefore, covers generational change among management teams. This means that we have a deep understanding of the evolution of the financial sector in South Africa and abroad and have gained mutual respect from the management teams as a result.

From our experience we can vouch for the quality and ability of the management teams of the South African financial institutions who are ably supported by a very proactive and extremely credible regulatory system.

During our most recent visit, we gained additional valuable insights into:

- Organisational culture and how management teams ensure this is filtered throughout the company
- Succession planning and the importance of ensuring the business is prepared for any eventuality
- The relationship between the board of directors (BOD's) and the executive management teams
- The evolution of the skills needed on Boards and how the importance of Information Technology related knowledge has increased over time

These are all important topics that we have consistently addressed in our meetings with management teams particularly as it relates to the Governance component of our responsible investing framework. However, we noted that management teams indicated that the investment community often do not focus on the right questions regarding the BOD's. We commend the large banks in particular as they have improved access to their BOD's in recent years.

As stewards of our clients' capital, it is vital that we understand risk holistically. Therefore, considering the recent management changes at Absa, we dedicated even more time to interrogating the various management teams on the above topics and issues. Despite the high quality of South Africa's financial institutions, not all companies are created equal and therefore we distinguish between them based on their Environmental, Social and corporate Governance (ESG) scores (see table below).

A low ESG score may not necessarily preclude us from investing in a business. It is important that we understand why a company receives a low rating as in some cases this could simply be as a result of some media headlines that portray the business in a negative light without substantiation. However, if justified, a low ESG score would imply a larger margin of safety is needed when considering an investment decision. The table below shows the ESG ratings as at December 2024 for the top 10 holdings in the Nedgroup Investments Financials Fund and how the scores have changed from December 2023.

As shown, Outsurance scores low (BB rating). This is primarily based on a data availability rating being "low" compared to peers. Outsurance remains committed to ESG principles as part of its business operations, aiming to create value beyond economic gains to benefit all shareholders. So, while we continue to rate the business and management team highly and believe that over time it should continue to compound value for shareholders (and society) at a very attractive rate, we do believe there is potentially some room for ESG-related data to improve external assessments (e.g. MSCI and S&P) and align more closely with industry best practices.

ESG will remain an important component of our responsible investing framework at Denker Capital. The above should provide some insight into this process especially as it relates to our engagements with the management teams. These conversations are ongoing, and we are constantly learning and adapting to new trends while providing our views to management where we see fit. This is part of our commitment to continuously improve and ensure we protect and grow our investors' wealth.

Company	Overall Rating	ESG Score Dec 2024	ESG Score Dec 2023
Denker Global Financial Fund	A	6.84	6.74
FirstRand	AA	8.40	8.50
Sanlam	AAA	9.70	8.30
Capitec Bank	AA	7.30	7.10
Standard Bank	AA	7.70	8.10
Momentum	AAA	9.10	8.00
Nedbank	AAA	9.50	9.00
Absa	AA	8.20	8.30
Investec	AAA	10.00	8.80
Outsurance	BB	3.40	4.00
Average		**8.01**	**7.68**

Source: MSCI

Full steam ahead:

Rail reform in South Africa – An ESG perspective

FOORD

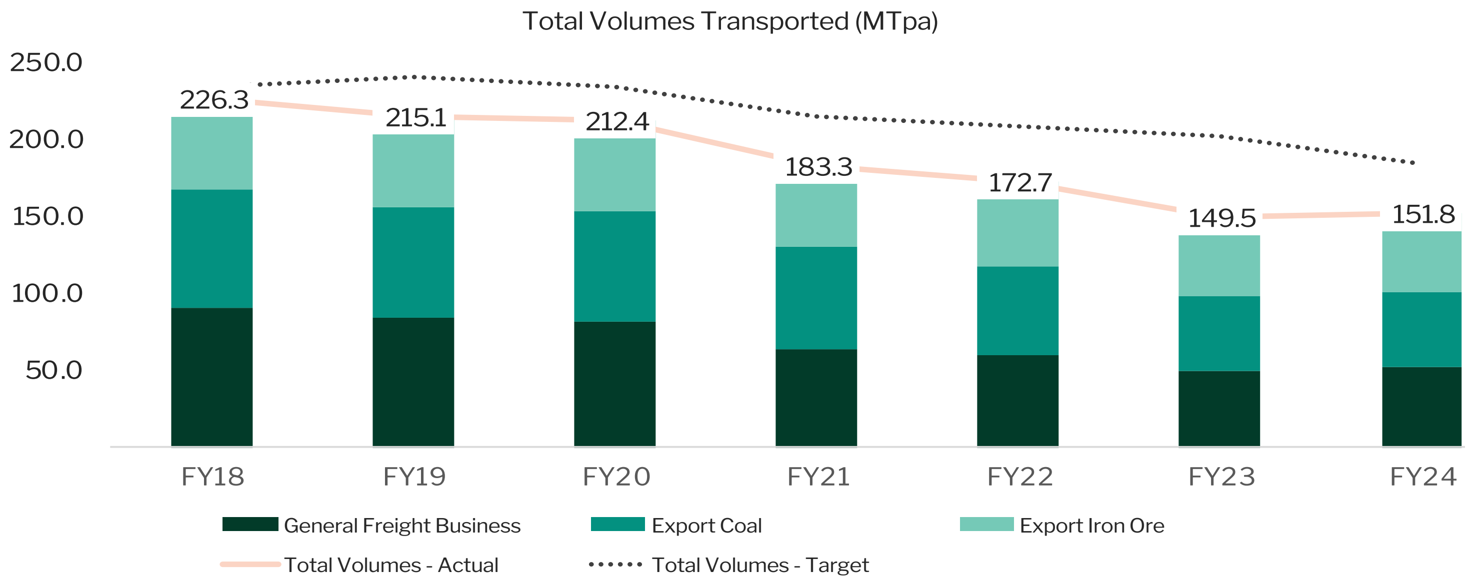
South African rail today: A crisis with deep Social and Governance implications

The decline of Transnet Freight Rail represents one of South Africa's most pressing socio-economic and governance failures. Once a pillar of the country's economic ecosystem, years of mismanagement, corruption, and chronic underinvestment in infrastructure and rolling stock have left the network in a state of dysfunction.

Sectors reliant on rail, such as mining, agriculture, and manufacturing, have suffered severe setbacks, leading to job losses, business closures, and a widening economic divide. The fiscal impact has been staggering, with recent research estimating that inefficiencies in rail logistics have cost the South African economy more than R1 trillion since 2019, which is an average of approximately 3.5% of GDP per year .

The reduction in freight volumes transported across the rail network has been stark, declining from approximately 225 million tons per annum (Mtpa) in 2018 to 150Mtpa in 2024 (see Chart 1).

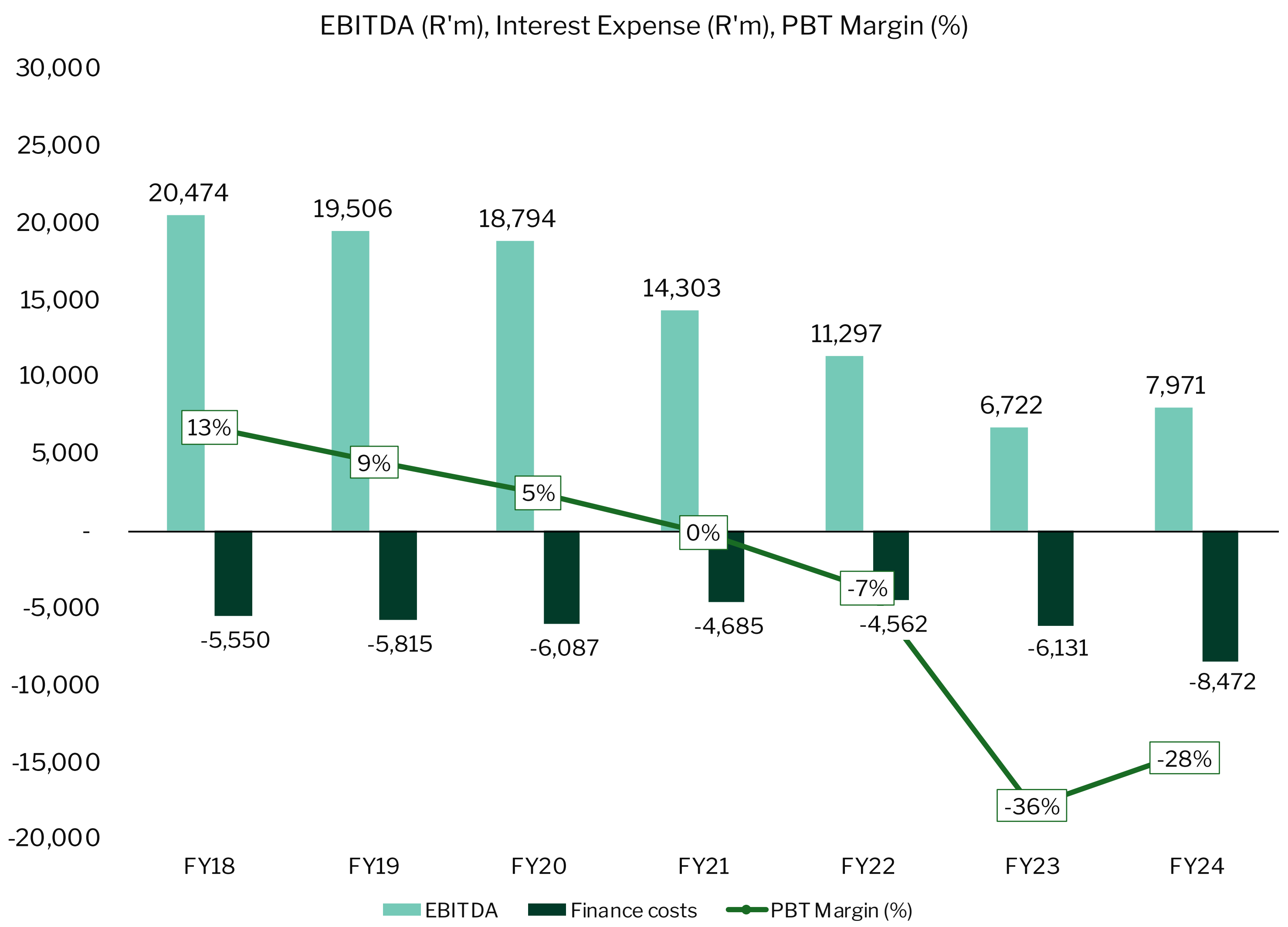
Chart 1: Transnet Freight Rail: Achieved Volumes



Source: Transnet annual financial statements

In addition to the economic cost, the collapse of Transnet's operations has had severe social repercussions. The failure to move freight efficiently has led to a surge in heavy truck traffic on South African roads, worsening congestion, increasing road fatalities, and contributing to higher carbon emissions. Communities that rely on rail infrastructure for employment and regional development have been disproportionately affected, with stagnant growth in rural and underdeveloped areas exacerbating poverty and unemployment. The ongoing financial strain of Transnet Freight Rail, including declining revenues and a heavily geared balance sheet, has resulted in persistent losses (see Chart 2).

Chart 2: Transnet Freight Rail: Profit before Tax Losses

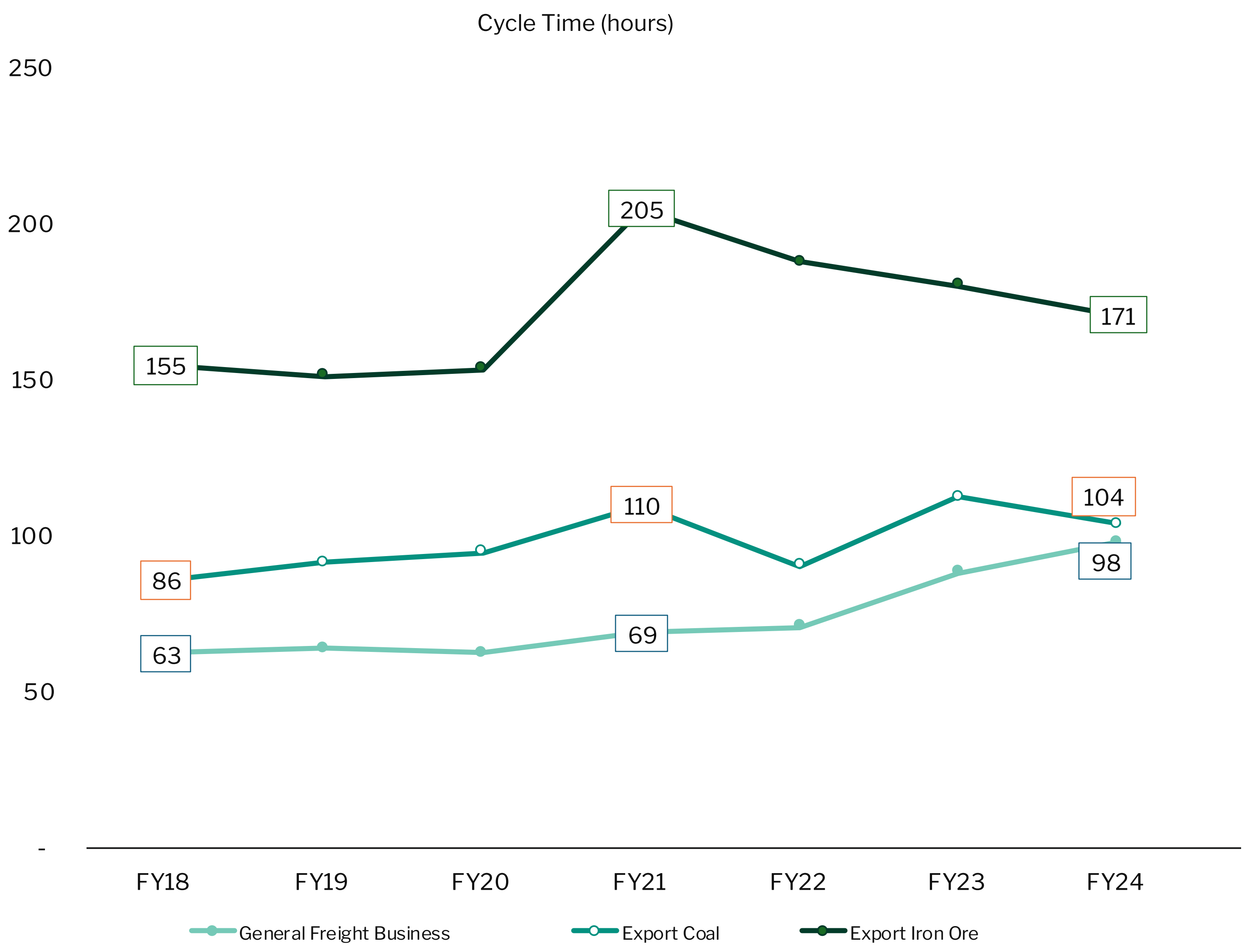


Source: Transnet annual financial statements

Governance failures and the need for reform

At the core of Transnet's decline lies poor governance. Decades of mismanagement, excessive debt, and failure to reinvest capital have resulted in operational inefficiencies and mounting financial distress. Misallocation of resources has further strained Transnet's capacity. These inefficiencies have led to increased cycle times, reducing Transnet's ability to invoice and book revenue (see Chart 3).

Chart 3: Transnet Freight Rail: Achieved Cycle Times



Source: Transnet annual financial statements

Recognising the dire state of the rail network, the government has begun the process of reform. The White Paper on National Rail Policy, introduced in 2022, outlined a roadmap for restructuring Transnet Freight Rail by introducing private sector participation and establishing an independent Rail Economic Regulator. The roadmap calls for:

- The vertical separation of Transnet Freight Rail into independent entities managing infrastructure, operations, and rolling stock
- The introduction of open access to allow private players to operate freight services, fostering competition and efficiency
- The establishment of transparent regulatory oversight to prevent monopolistic practices and ensure fair access to rail infrastructure

Social and Environmental trade-offs: The case for a strategic approach

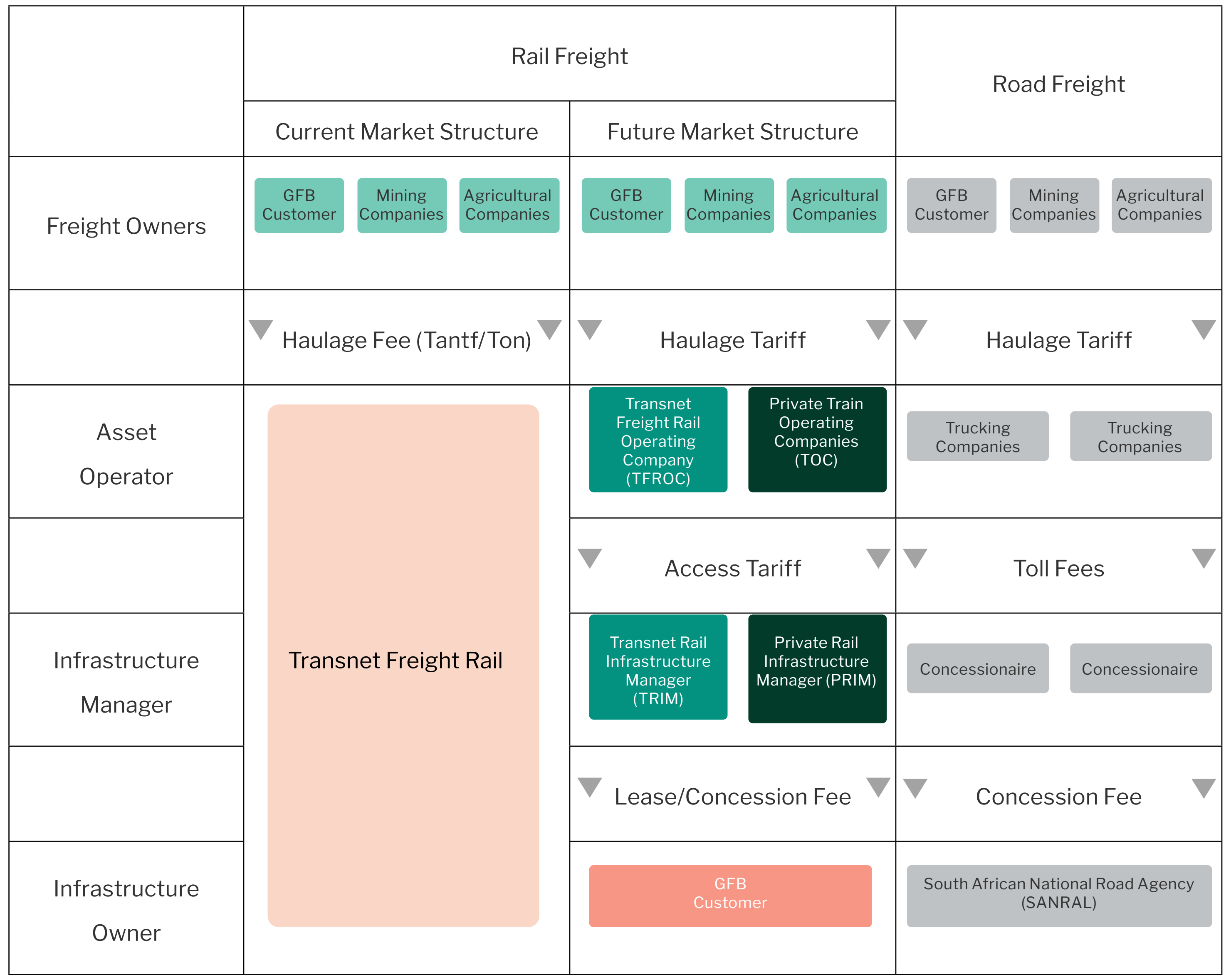
While reform is necessary, it will not come without difficult social trade-offs. Transnet currently employs thousands of workers on non-operational lines, sustaining employment despite a lack of economic productivity. The rationalisation of low-density routes is a necessary step to improving network efficiency, but it must be managed carefully to minimise the socio-economic fallout. Redeploying displaced workers into maintenance, upgrading, and future rail expansion projects could mitigate job losses while ensuring that skills are retained within the industry.

From an environmental standpoint, a well-functioning rail network is critical to South Africa's sustainability goals. Rail transport is significantly more energy-efficient than road freight, with lower carbon emissions per ton-kilometre. The dysfunction of Transnet has forced businesses to shift to road transport, increasing emissions, road degradation, and safety risks. A revitalised rail network would not only alleviate pressure on roads but would also contribute meaningfully to South Africa's climate commitments.

Public-Private partnerships: The key to reviving rail infrastructure

With Transnet unable to fund the full cost of rehabilitation. estimated at approximately R65 billion, private sector participation is essential. Strategic investment in bulk freight corridors (coal, iron ore, manganese, and chrome) is a logical starting point, given their higher utilisation and economic viability. Partnerships with mining and logistics companies can fast-track improvements in these corridors while ensuring that Transnet retains oversight over critical infrastructure. The government's restructuring plan outlines the separation of infrastructure and operations into independent entities to encourage private investment from listed players such as Grindrod. (see Chart 4).

Chart 4: Transnet Freight Rail Vertical Separation



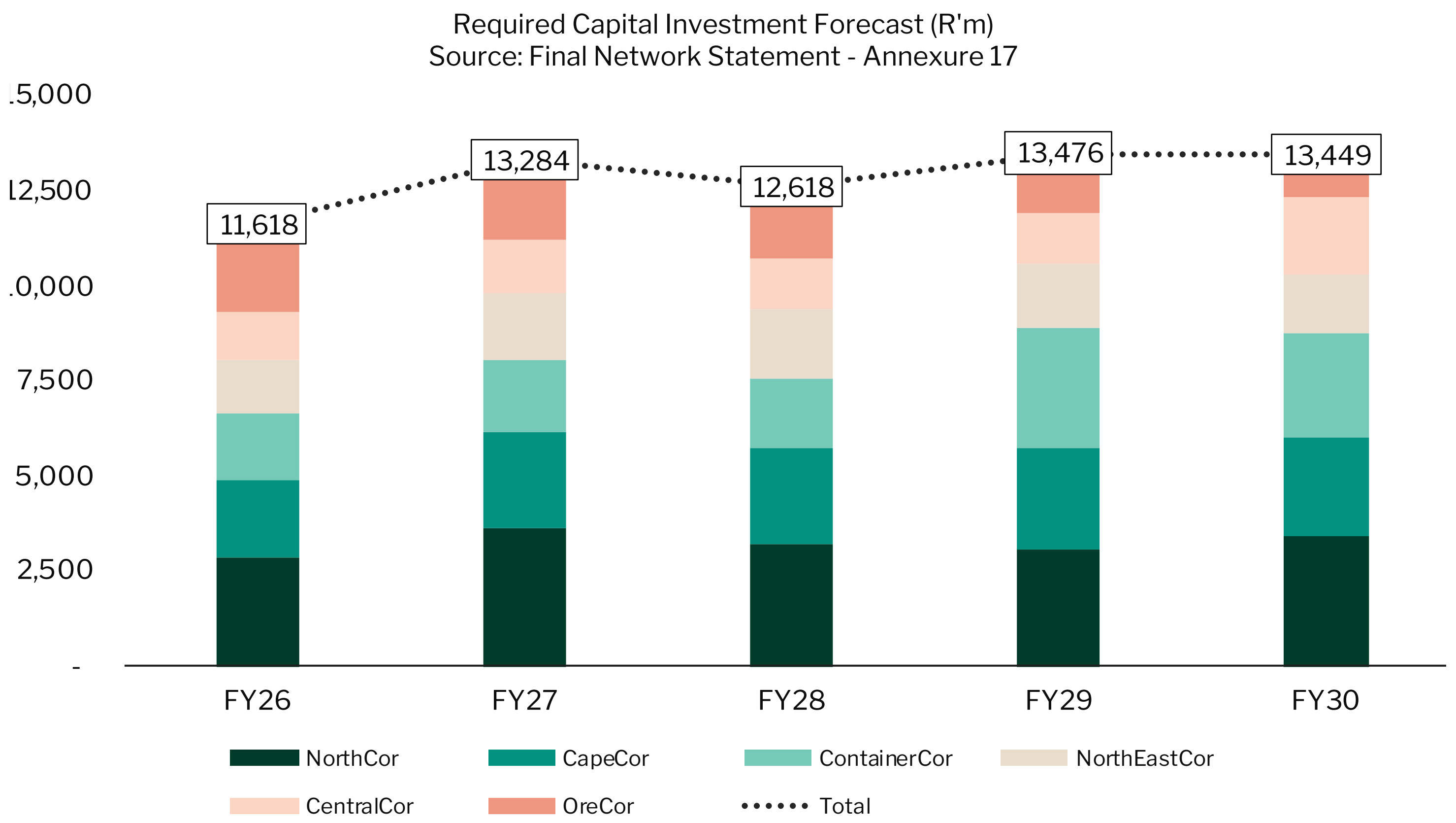
Source: Transnet annual financial statements

Publicly listed companies such as Kumba Iron Ore, Exxaro Resources, Thungela Resources, and African Rainbow Minerals stand to benefit from an improved rail network, reducing reliance on costly road transport and enhancing efficiency. This aligns with previous mentions of impacted businesses, reinforcing the economic rationale for reform. A revitalised rail system would drive efficiency, reduce transport costs, and support job creation in affected communities, reinforcing economic sustainability.

The future of South African rail

While the National Rail Bill and Rail Master Plan are expected to provide further clarity, the near-term benefits of reform will likely be incremental. Transnet has guided to approximately 30Mtpa of privately transported freight by 2030, a far smaller share of the 250Mtpa target than initially expected. The next 5 years will be crucial in establishing the foundation for long-term investment and public-private collaboration, requiring significant investment, both from the state and private players. (see Chart 5).

Chart 5: Final Network Statement: Annexure 17 – Required Capital Investment



Source: Final Network Statement – Annexure 17

We will likely look back on 2025 as the inflection point in South African rail reform, where policy is met with 'early adopter' execution, albeit at a small scale. Through time, a revitalised rail sector has the potential to ease pressure on road infrastructure, reduce total transport emissions, introduce private investment and expertise while repositioning Transnet and driving much needed real GDP growth.

South Africa stands at a crossroads. If the lessons of the past are heeded, and reform is executed, the country can transform its rail network into a driver of inclusive economic growth, sustainability, and long-term prosperity. The path ahead will require bold leadership, strategic prioritisation, and genuine collaboration between the public and private sectors. The next decade will determine whether South Africa's rail system remains a burden or becomes a powerful catalyst for economic transformation. We will continue to track ongoing developments, participate in public-forum discussions and seek out favourable risk-adjusted investment opportunities as and when they emerge.

Sappi's approach to sustainability and climate change mitigation

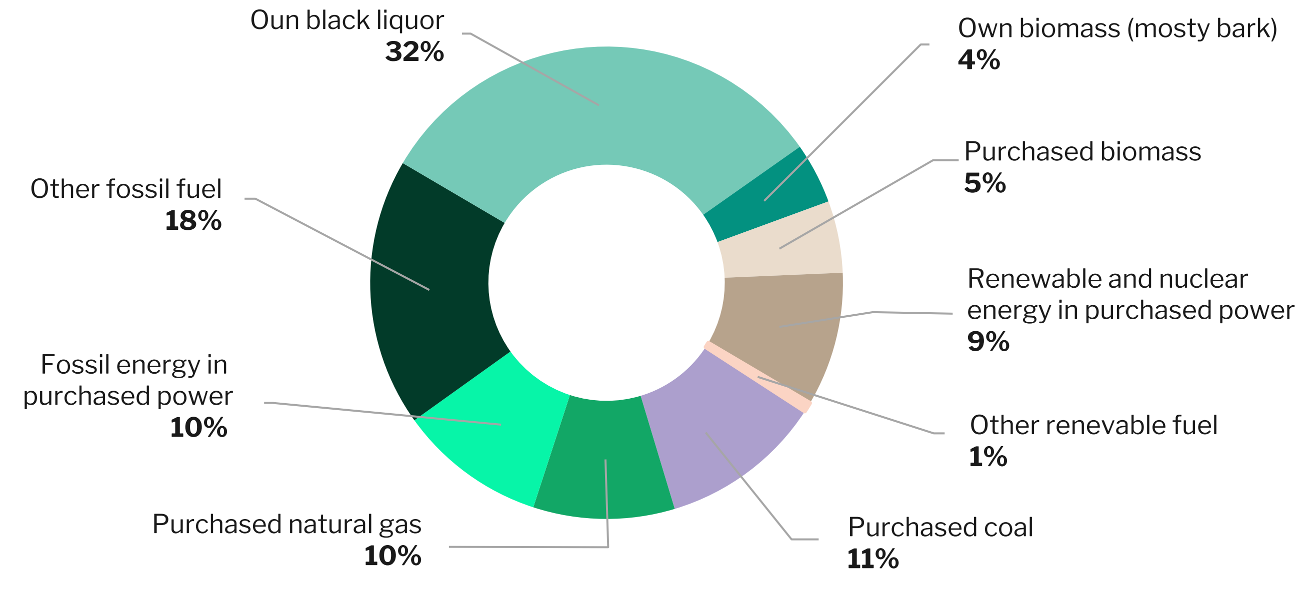
M&G Investments

Sappi, a South African pulp and paper company, is a noteworthy example of an organisation actively engaged in the challenge of mitigating climate change. The company has taken significant steps toward renewable energy adoption and sustainability, yet, like many companies operating in resource-intensive industries, it is encountering obstacles in committing to long-term, net-zero emissions targets. The complexity of South Africa's energy sector, heavily reliant on coal-generated electricity, plays a significant role in the challenges Sappi faces.

Commitment to sustainability

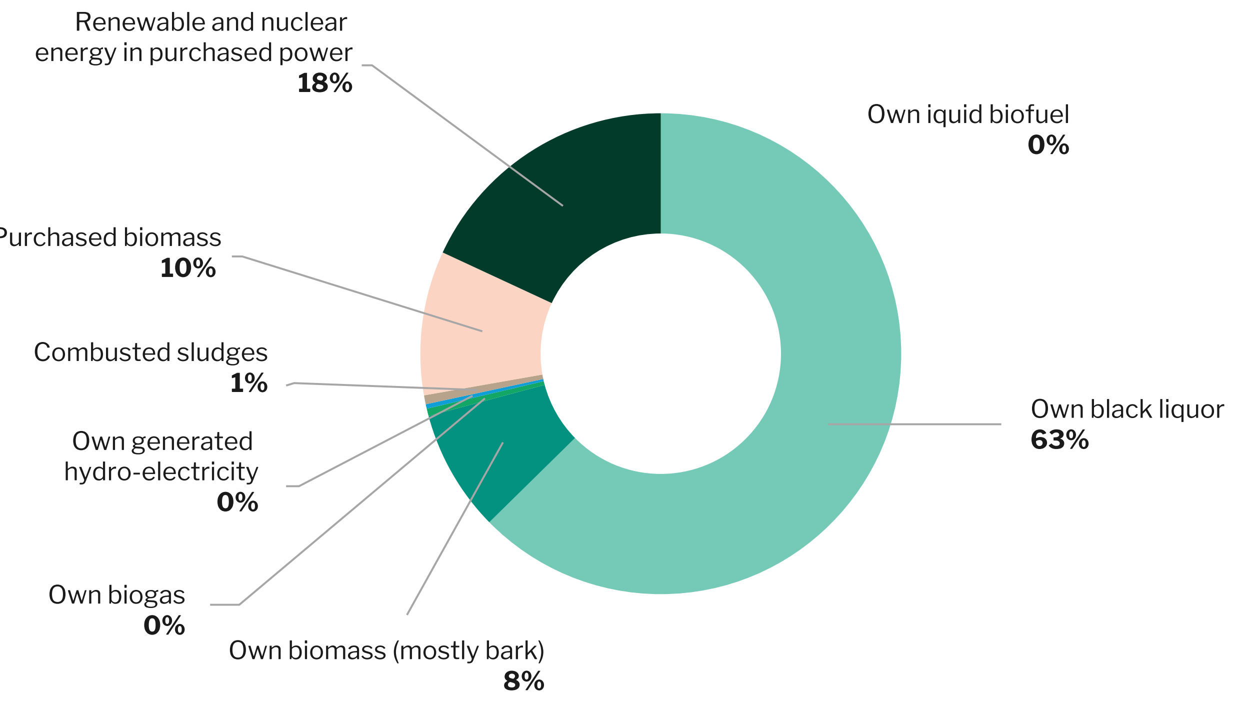
Sappi's approach to sustainability is genuine and sincere, with significant efforts focused on deploying renewable energy solutions and reducing its carbon footprint. Globally, 63.3% of the energy Sappi generates comes from renewable sources, such as black liquor, bark, sludges, and purchased biomass. The company has made sustained progress in enhancing energy self-sufficiency, improving energy efficiency, and decreasing its reliance on fossil fuels, further lowering its carbon footprint. Sappi has committed to reducing scope 1 and 2 GHG emissions by 41.5% per ton of product by 2030 (from 2019 base year)*.

Fuel sources (%)



Source: Company annual report

Renewable and clean energy breakdown (%)



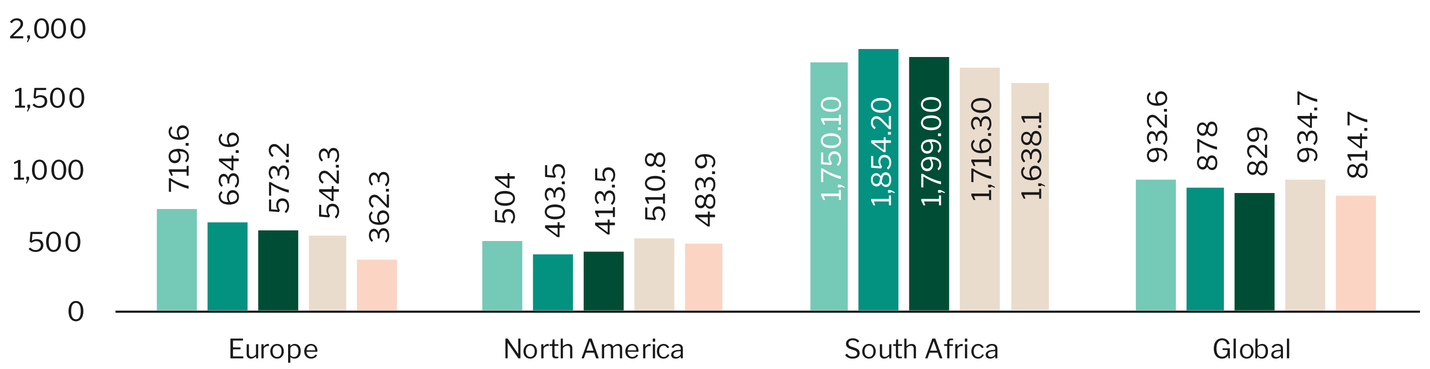
Source: Company annual report

The company's Environmental, Social, and Governance (ESG) initiatives have been consistently observed by M&G Investments' ESG team, who acknowledge the strides the company has made in renewable energy efforts. However, the company remains cautious in making long-term, firm commitments to net-zero targets, particularly in the absence of a clear resolution to South Africa's coal dependency, which poses a significant challenge to realising such goals.

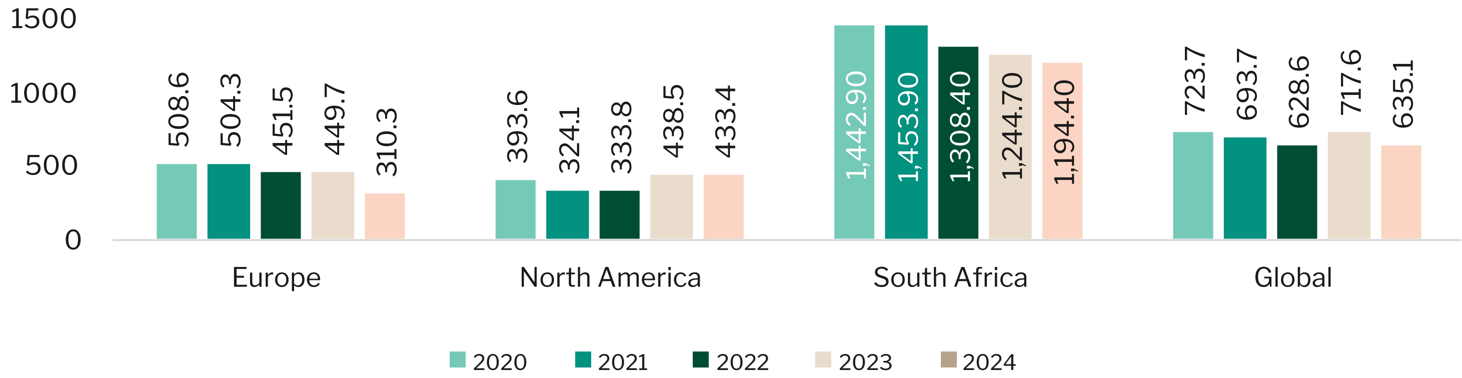
Sappi's focus has been on setting medium-term plans for reducing carbon emissions, a strategy that aligns with their culture of integrity and commitment to meeting feasible targets. While this cautious approach has led to recognition of the company's sustainability progress, it has also prompted a dilemma: how to manage shareholder expectations and global scrutiny, especially from foreign investors with specific sustainability benchmarks.

> We have committed to reducing Scope 1 and 2 GHG emissions by **41.5%** per ton of product by 2030 from 2019 base year. We have also committed that **44%** of our suppliers (by spend) will have science-based targets by 2026.

Specific GHG emissions (Scope 1 and 2) (kg CO_2 e/adt)



Direct emissions (Scope 1) (kg CO_2e/adt)



Source: Company annual report

The dilemma of setting net-zero targets

The question of whether Sappi can commit to a net-zero future, particularly by the year 2050, is complicated by both the nature of its operations and external dependencies. While the company has made strides in renewable energy, it recognises the importance of external factors in achieving net-zero emissions. The reliance on coal-generated electricity and the unpredictable pace of energy transition in South Africa complicates the ability to set ambitious long-term sustainability targets.

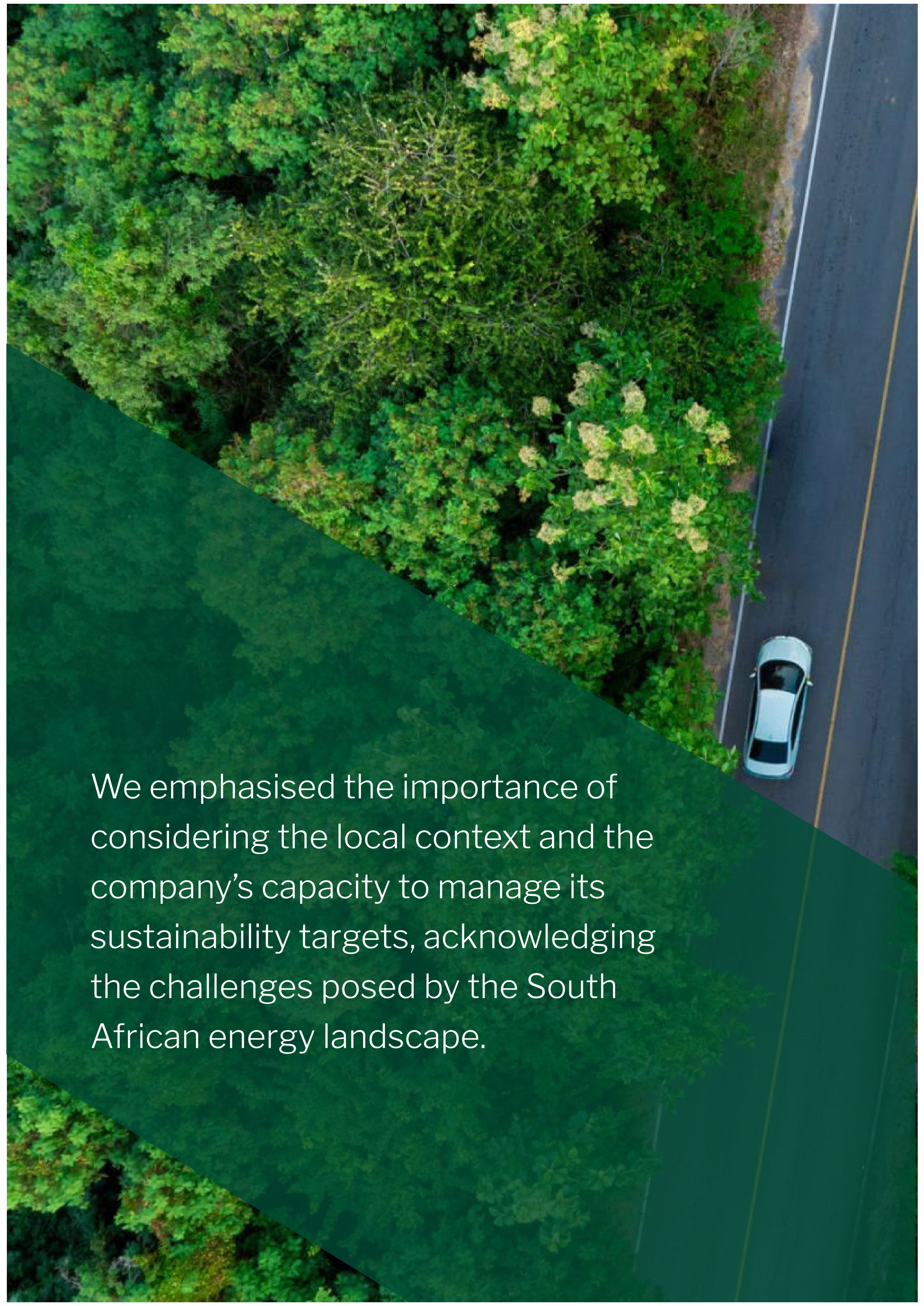
Some companies, particularly in resource-intensive sectors, face great challenges when setting net-zero targets. In these industries, such ambitions may seem almost impossible, especially when relying on renewable resources that are not easily replenished. Therefore, setting a firm net-zero target without addressing these fundamental constraints can sometimes appear unrealistic.

Conservative approach

Sappi has embraced a conservative approach to sustainability, which emphasises caution in making ambitious commitments unless there is a high degree of certainty regarding the company's ability to achieve them. This conservative approach is reflective of the company's culture of integrity, where promises are made only when they are believed to be achievable. While this approach is laudable from a credibility standpoint, it has consequences for shareholder engagement and investor relations. Sappi's shareholder base is predominantly local, with few foreign investors. This dynamic becomes particularly important because investors, especially those in European markets, often have strict sustainability and net-zero targets as part of their investment criteria. As such, Sappi risks being excluded from certain investment portfolios due to the absence of a firm net-zero commitment, despite its sincere sustainability efforts.

The role of shareholders

While shareholders are understandably concerned about sustainability, it is crucial that they take a balanced approach when engaging with the company. Shareholders should refrain from pressuring boards to commit to long-term targets without fully understanding the challenges and uncertainties involved in achieving them. Instead, shareholders should work collaboratively with companies to explore interim ambitions and create pragmatic solutions that allow for progress without unrealistic expectations. M&G Investments has had constructive engagement with Sappi's investor relations team. Instead of pushing for immediate commitment to net-zero targets, we opted for a measured approach: engaging in discussions with the team to understand their perspective and sharing ideas on how best to encourage the board to set a net-zero ambition for the future.



Collaborative dialogue: Engaging Sappi's board

Leading up to the 3rd quarter of 2024, M&G Investments had been exploring this aspect with Sappi's investor relations team. This dialogue paved the way for a formal request to be presented to the board for consideration at the November 2024 meeting. The request focused on exploring net-zero emissions as a future ambition, acknowledging that the target would be subject to local challenges and uncertainties. At the same time, M&G Investments commended the company for its ongoing efforts and strong medium-term targets, which reflect a credible and sincere approach to climate change mitigation.

By taking this measured approach, we hoped to achieve alignment with Sappi's leadership, ensuring that the board felt comfortable considering net-zero emissions as a long-term goal while recognising the practical challenges of achieving such an ambition.

As we move into 2025, we plan to continue our engagement with Sappi's board and management. We hope to review the company's 2024 results and provide further feedback on their sustainability progress. This ongoing dialogue is key to ensuring that Sappi continues to make meaningful progress in sustainability, while balancing ambition with the realities of the operating environment.

Conclusion

Sappi's case highlights the complexity of setting sustainability targets in an environment that is constrained by external factors. While the company has shown sincere commitment to reducing its carbon footprint, its cautious approach to setting long-term, firm targets reflects its commitment to integrity and its understanding of the challenges at hand. Shareholders, too, must approach such issues with empathy, balancing the desire for ambitious goals with the practicalities of achieving them. Through continued dialogue and a collaborative approach, Sappi can move closer to its long-term sustainability objectives without compromising its credibility.

Vukile Property Fund: Building on ESG

Merchant West

Vukile Property Fund, a JSE-listed Real Estate Investment Trust (REIT), invests in retail properties across South Africa, Spain, and, more recently, Portugal. Its portfolio comprises shopping centers, malls, and retail parks. Vukile's South African portfolio is well-positioned, diversified, and focused on township, rural, and value retail assets. These assets have consistently outperformed the broader South African retail market in recent years, demonstrating impressive trading figures.

Vukile has embedded Environmental, Social and Governance (ESG) principles into its core business model, ensuring its operations contribute to strategic goals while considering the impact on people, planet, and prosperity. The Board and executive management team are committed to the long-term sustainability of the business and its stakeholders. Vukile is a leader in ESG integration and reporting within the South African REIT market, adhering to guidelines from the World Economic Forum Stakeholder Capitalism Metrics, the JSE Sustainability Disclosure Guidance, and King IV. The company focuses on 12 of the 17 United Nations Sustainable Development Goals (SDGs) where it believes it can make the most significant impact.

Following the release of its strong 2024 financial year-end results, Vukile held its second annual ESG investor roadshow in August 2024 to engage with key stakeholders. Distributable earnings per share grew by 6.7% year-on-year, and dividend per share increased by 10.5% year-on-year. The company also achieved significant ESG milestones.

Environmental performance

Vukile has installed 21.6 megawatts-peak (MWp) of solar photovoltaic (PV) capacity in South Africa, generating approximately 20% of the electricity consumed by its local portfolio in FY24. Plans are in place to add another 11 MWp in the current financial year, targeting a total capacity of 32.6 MWp by March 2025. All South African malls now have backup water storage, and 98% have borehole water supply. Water consumption has been reduced through upgrades to more water-efficient toilet systems. In Spain, fossil fuel consumption has decreased by 88%, and water usage in common mall areas has fallen by 6% in 2024.

Social initiatives

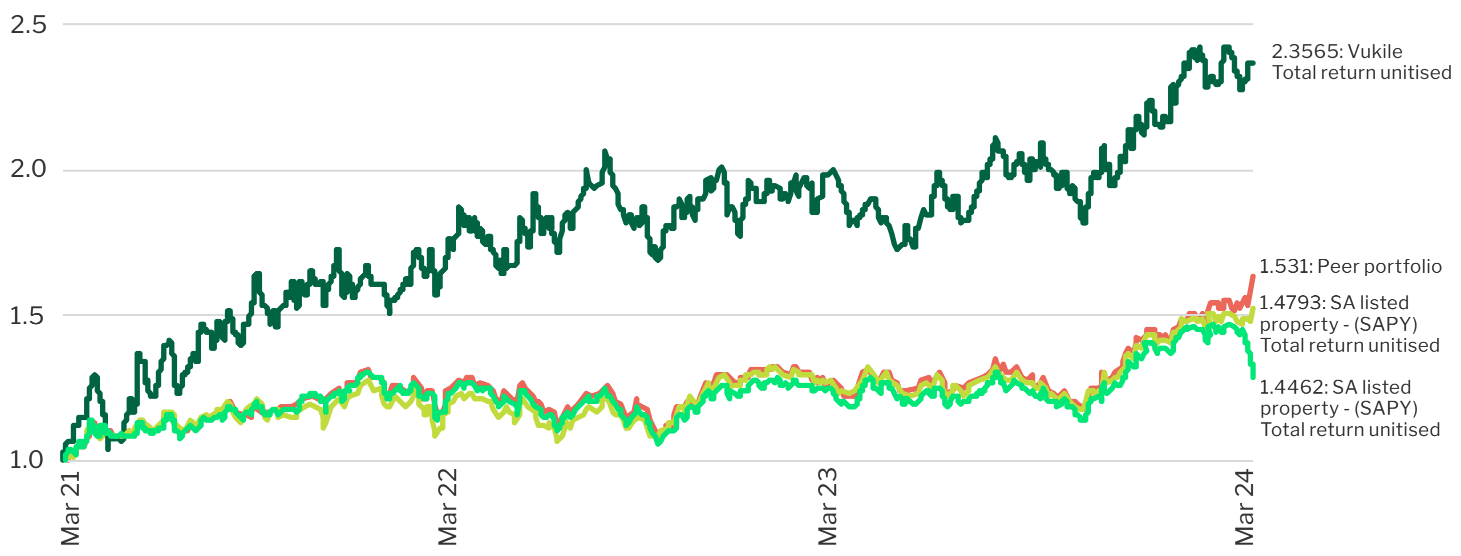
From Vukile's 2023 Academy class, 7 interns secured formal employment and 52 scholarships were awarded for property studies in the 2024 academic year. The Vukile Academy, a key community impact initiative, focuses on career development in the local real estate sector for previously disadvantaged students. The company aims to support at least 50 students annually through funding and mentorship over the next 3 years. Vukile's B-BBEE rating improved from Level 3 to Level 2 in the current financial year.

Governance advancements

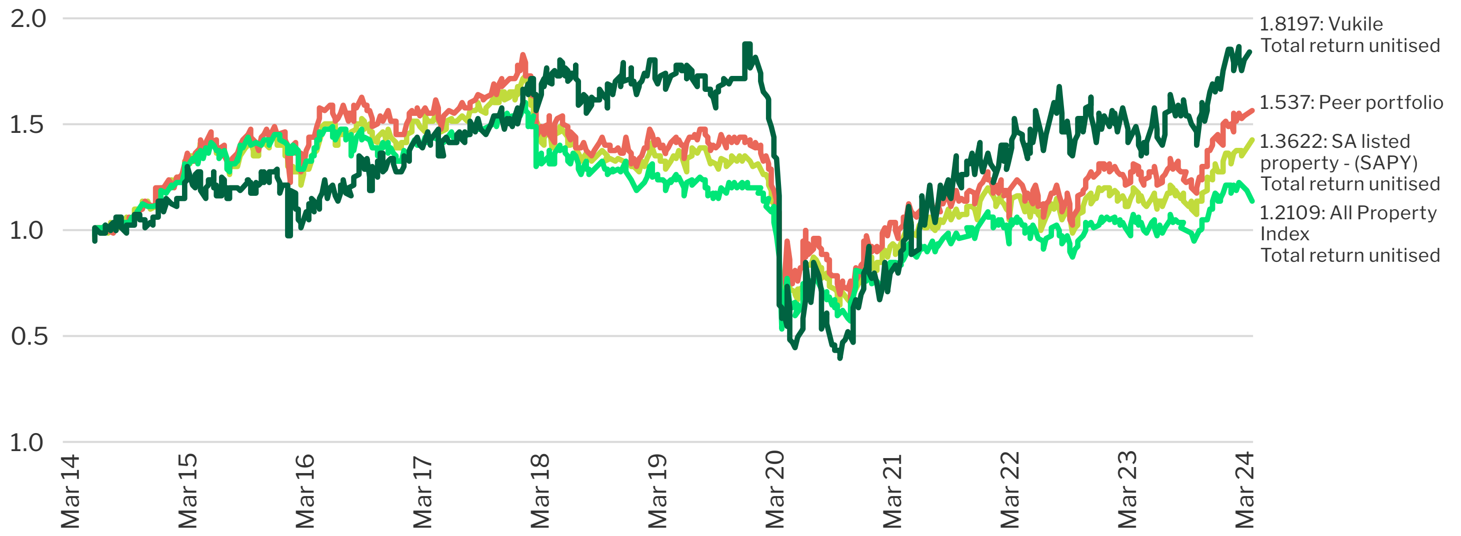
Vukile made progress on its board succession plan in FY24, appointing 3 new members and replacing retiring long-serving members. The average tenure of non-executive directors is now approximately 5 years, with 60% of the board comprising black non-executive directors, 30% of whom are black females.

Following the ESG roadshow, we engaged directly with the Company Secretary to discuss executive remuneration, a critical aspect of our corporate governance assessment. We focused on the significant increase in total pay awarded to the executive team, particularly the CEO, for FY24. We believe the structure and management of executive remuneration have a substantial impact on management's actions and performance. This discussion allowed us to better understand the rationale behind the compensation decisions and assess their alignment with long-term shareholder value creation.

Vukile versus peers and property indices (three years)



Vukile versus peers and property indices (ten years)

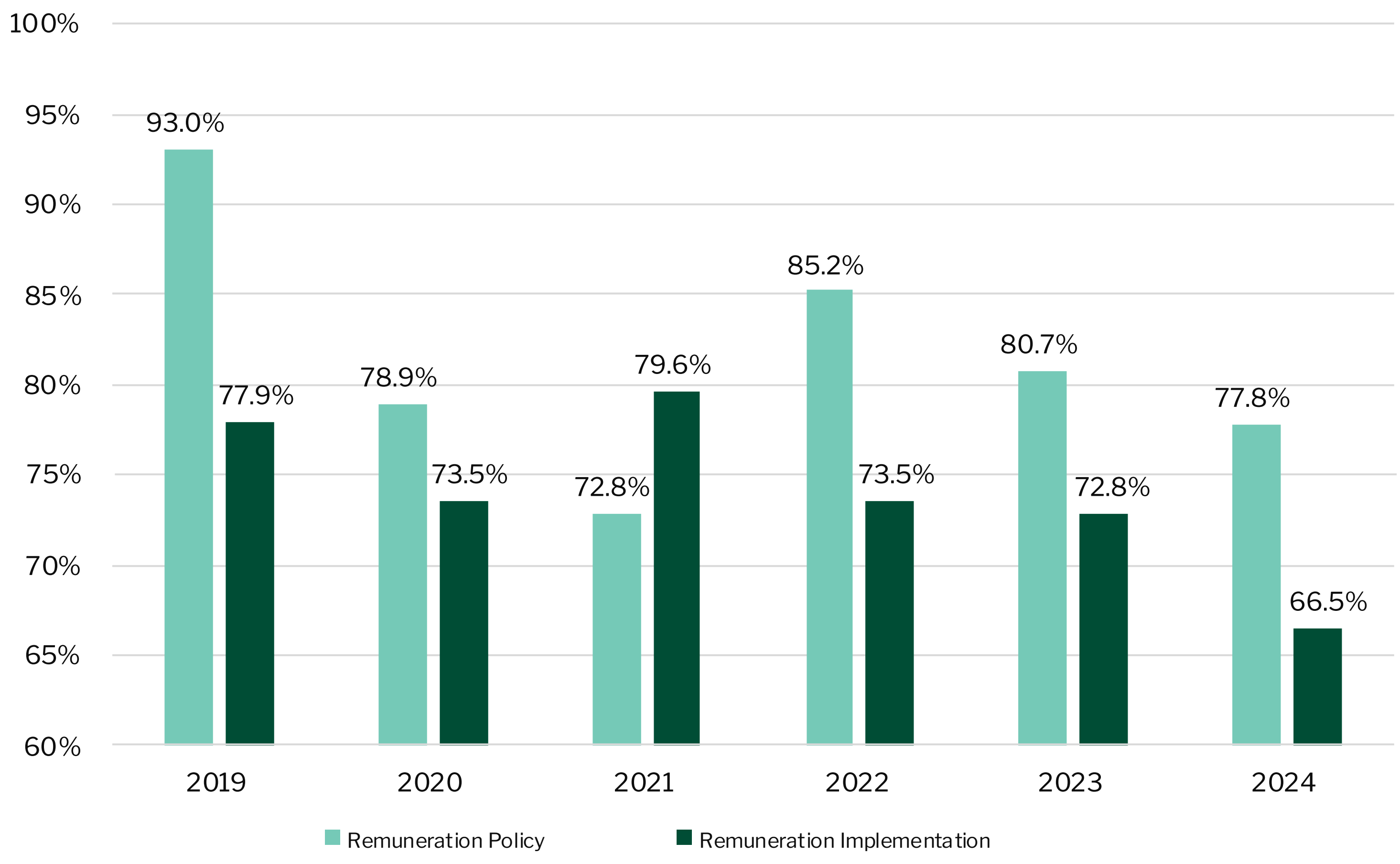


Source: Extracted from Vukile Remuneration Report – IAR 2024 (pg 157 and 158)

Vukile's remuneration report highlighted the company's outperformance of its peer group and property indices over the past 3, 5, 7, and 10 years to 31 March 2024. We acknowledge the executive management team's significant contribution to this outperformance through successful execution of key strategic initiatives, including non-core asset disposals, balance sheet restructuring, and strategic investments that generated strong internal rates of return (IRR), net asset value (NAV) growth, and a strengthened core property portfolio.

However, we expressed concern to the company secretary regarding the apparent excessiveness of short-term cash incentives (STI) and long-term deferred share incentives (LTI) awarded to the executive team compared to the total returns received by Vukile shareholders over the past few years. While we recognise that the significant share price recovery post the 2020 Covid-19 downturn contributed to the increased value of long-term deferred shares between grant and vesting dates, the overall growth in executive compensation over the past few years appears misaligned with the returns experienced by Vukile's long-term shareholders.

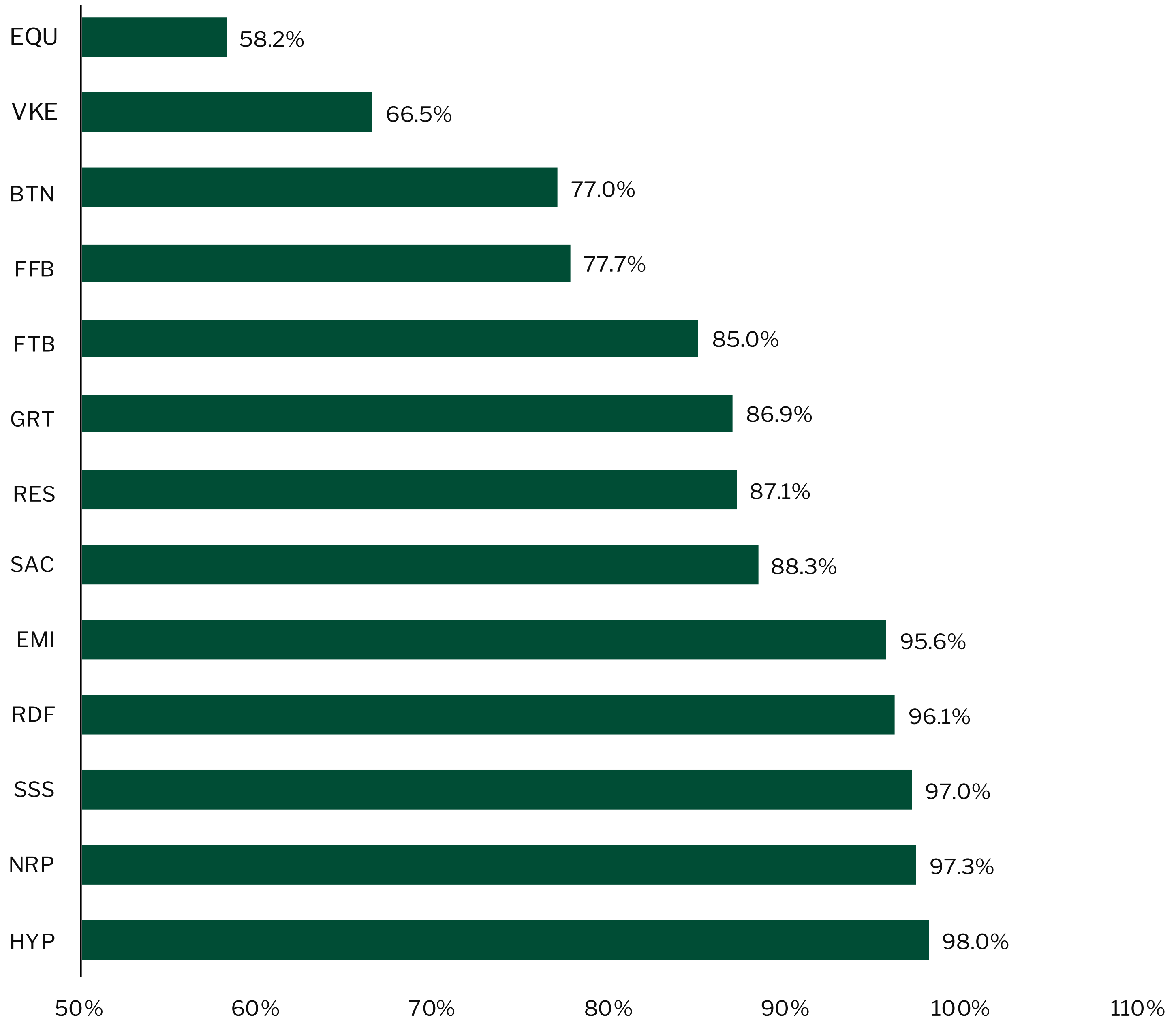
Vukile's AGM Remuneration Results Since 2019



Source: Extracted from Vukile Remuneration Report – IAR 2024

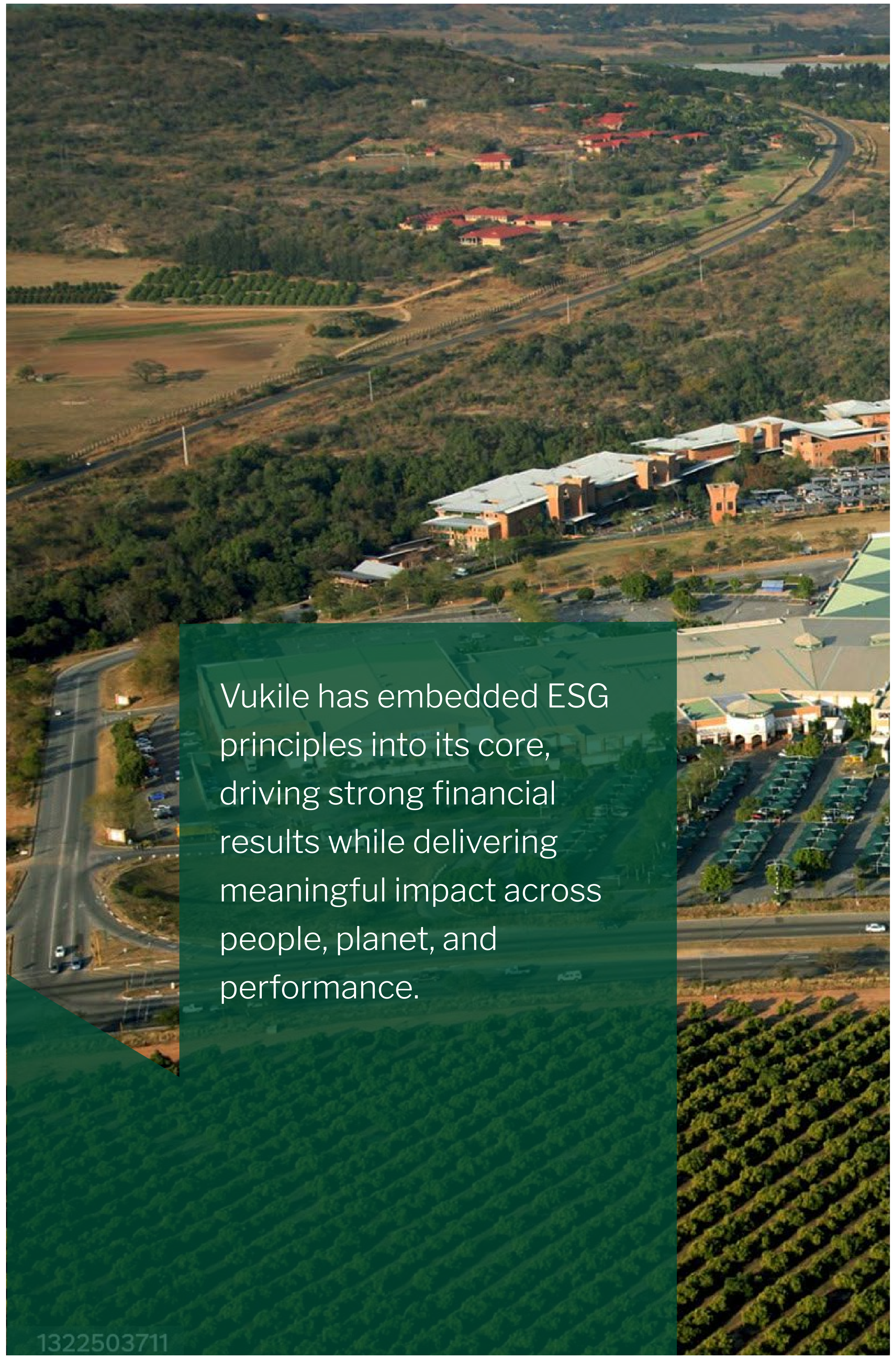
Our views on the overall level of executive compensation for FY24 and our decision to vote against remuneration at Vukile's 2024 AGM appear to be shared by many fellow shareholders. Vukile's non-binding remuneration policy resolution received 77.8% support, and the non-binding remuneration implementation resolution received only 66.5% support, falling below the 75% threshold recommended by King IV and the JSE Listings Requirements.

SA REIT Large & Mid Cap Remuneration Implementation, voting results in 2024



Source: Company data

This level of support was significantly lower than that received by many of Vukile's large and mid-cap SA REIT peers in 2024, with only Equites Property Fund receiving less support (58.2%) for its remuneration implementation. Following the AGM, the company indicated its willingness to further engage with shareholders. We plan to actively engage with Vukile's Company Secretary and Remuneration Committee again this year to emphasise the discrepancy between long-term shareholder returns and the growth in executive compensation. Our suggestions include implementing a tighter cap on the maximum amount of STIs and LTIs relative to executives' base salary and raising the performance criteria required to achieve these awards.



The importance of Governance as water management goes private

Brazil's SABESP (Companhia de Saneamento Básico do Estado de São Paulo) is one of the largest water and sewage service providers in the world. Headquartered in São Paulo, SABESP is committed to providing comprehensive water and sewage management services across a state of 28 million people.

Established in 1973, SABESP's primary mission is to provide high-quality water and sewage services, ensuring that the basic sanitation needs of the state's population are met. Over the years, SABESP has expanded its operations to cover 375 municipalities in the state of São Paulo.

We were able to buy into the company at an attractive 20% discount to the market price via a follow-on offering as part of a privatisation process for state-owned assets. The company exemplifies the value on offer for quality and growing companies in unloved Brazilian equities, trading at only 10 times the price-to-earnings ratio (P/E) when we made the purchase and at a significant discount to peers.

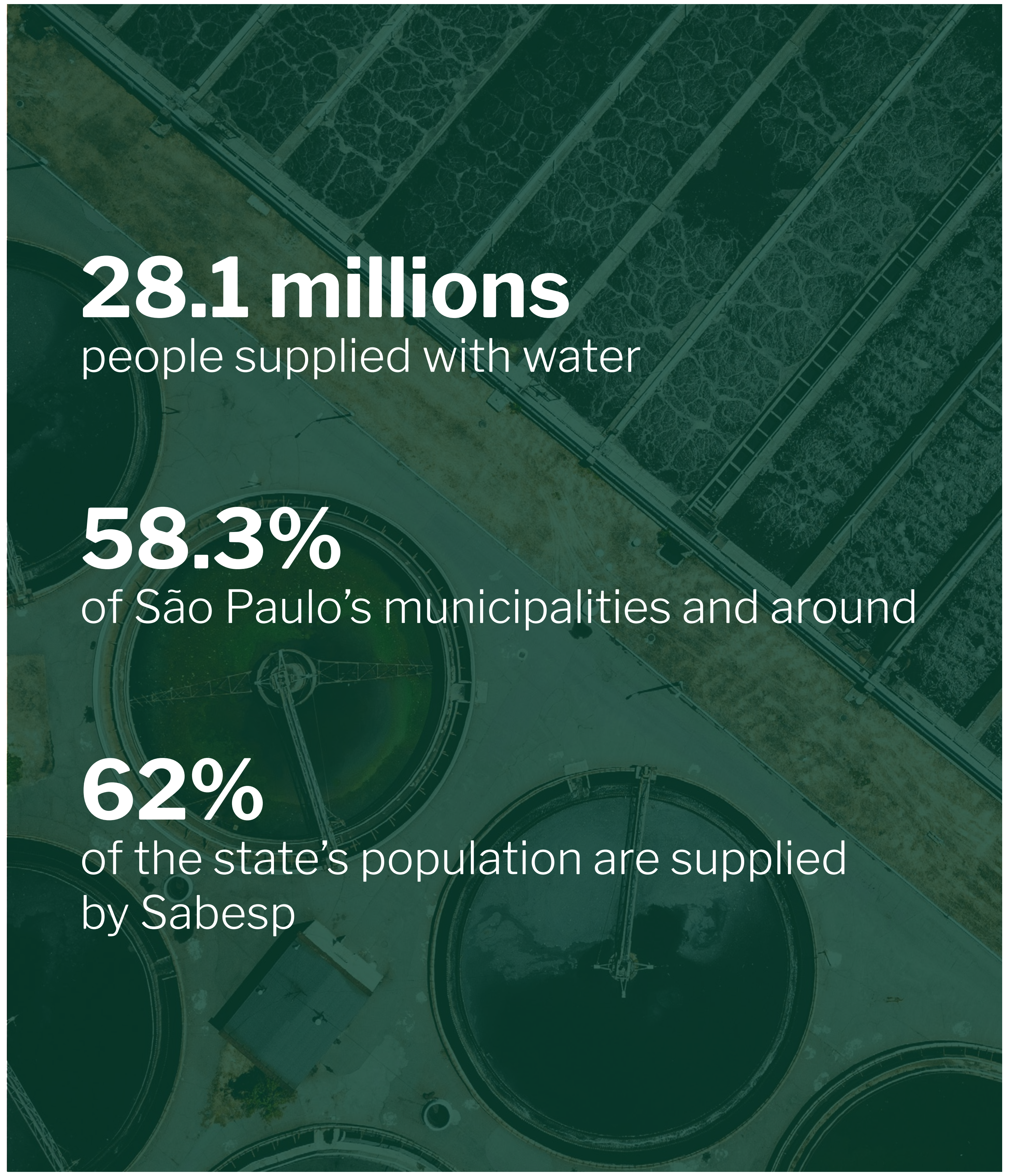
It combines the social good of enabling sewage universalisation across the state with exposure to an increasingly market-friendly political backdrop that is unlocking a growth runway for the company's sanitation and auxiliary services. Federal sanitation reform could open up new opportunities to expand into other regions outside Sao Paolo.

Part of SABESP's discount to peers is down to its status as a state-owned entity (SOE), and it is true that historically the business has been poorly managed with misaligned incentives and lacklustre returns. This is changing, the catalyst being the election of economically liberal governor, Tarcísio Gomes de Freitas, in 2022. One of his key campaign policies was the privatisation of SABESP and acceleration of the sanitation universalisation process.

The other element to this uplift in governance is the participation of key investor Equatorial, a Brazilian energy giant which bought a 15% stake in the company from the state (which retains 20% ownership). Equatorial has a history of value creation and turnarounds in businesses like SABESP. It will support company management in the deployment of a huge investment programme which we expect to fuel an earnings per share compound annual growth rate (EPS CAGR) of around 20% for at least the next 2-3 years.

Investments will double the SABESP's asset base within 4 years, along with supporting the upgrade of existing systems to enhance capacity and efficiency and expand auxiliary revenues in areas like energy generation. The state will use the proceeds of the sale to deploy cash into other sanitation assets and subsidise water tariffs, meaning users will feel the benefit of the investment but not the costs of it.

Overall, understanding the evolution of SABESP's governance is at the heart of this story. Equatorial's history as a value creator, capable of restructuring inefficient companies to sweat assets harder to drive profitability higher while scaling up, will be the key to unlocking attractive shareholder returns.



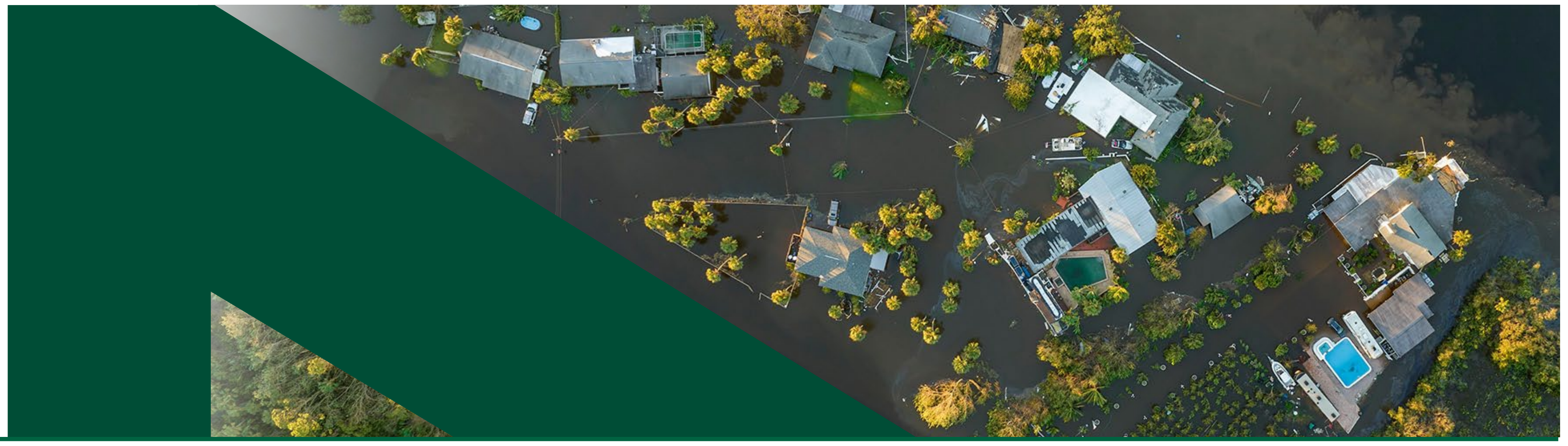
Source: Company annual reports

Where water stress will be highest by 2050

Final draft of Sabesp's 11 material topics in 2023/2024 cycle	3 GOOD HEALTH AND WELL-BEING	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
Access to water and basic sanitation	●	●			●						
Legal and regulatory compliance		●		●				●		●	
Economic and financial performance						●					●
Human capital development	●			●							
Circular economy, waste, and effluents		●			●	●	●		●		
Energy and operational efficiency						●	●				
Ethics, transparency, and integrity			●							●	●
Socioenvironmental impacts	●	●	●	●	●	●	●	●	●		
Water resources and system resilience		●			●	●		●			
Stakeholder relationship	●			●	●	●				●	●
Dam risks, crises, and safety						●				●	

Source: Company annual reports

The physical and transition risks of climate change



Palomar Fixed-Income

A simple search on Google Trends for 'ESG' tells you a significant part of the Environmental, Social and Governance (ESG) story over the last few years as interest has declined and governments continue to deliberate and adjust policies. The re-election of Donald Trump in November has accelerated this trend as he has abandoned renewable energy projects as well as disbanding diversity, equity and inclusion (DEI) programmes.

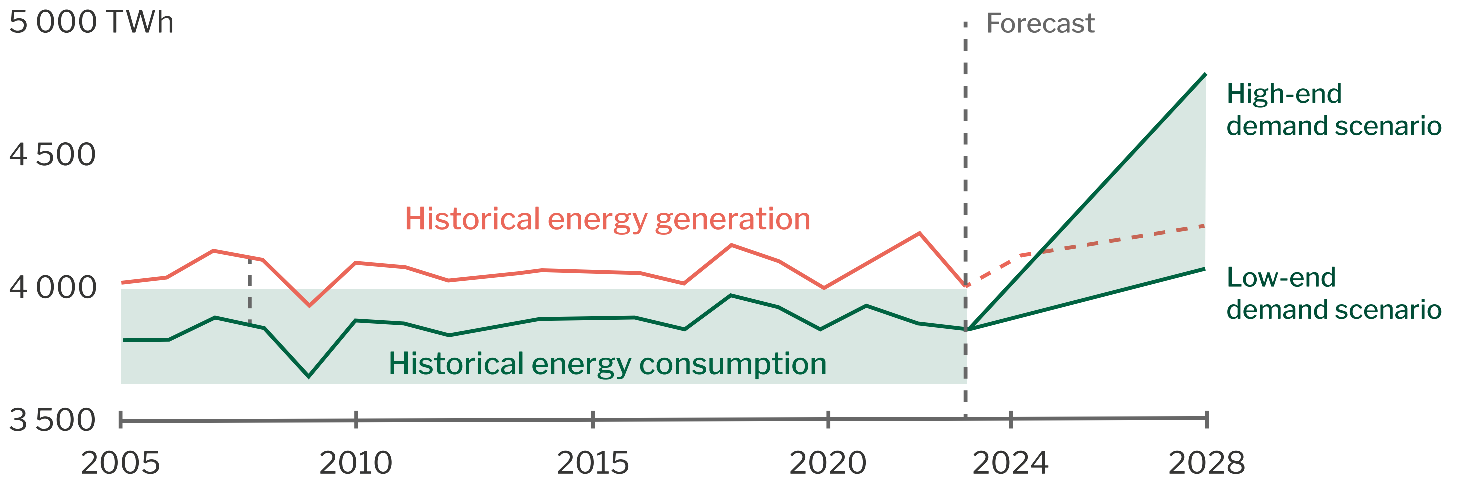
We saw over 100 environmental regulations that were rolled back under President Trump's first term as he focused on targeting emission limits and resource protections. Of course, expanding oil production in the short-term is positive for jobs and US economic growth but Trump's policies have typically failed to address the long-term sustainability of the US economy, and as credit investors we need to be proactive and understand the impacts of policy as well as looking through the noise to ensure the ESG process remains robust.

The US leadership aside, there are many other areas in the sector to consider that impacts credit selection. Firstly, environmental risk was on the rise, following record-breaking global temperatures during one of the most significant years to date in terms of extreme weather events, coupled with record-breaking rainfalls that caused a significant amount of damage. The biggest events in the US were Hurricane Helene, where nearly $80billion of damages were recorded, and more recently the California Wildfires, where damages could exceed $20billion, after 8 months without rainfall in Southern California and powerful Santa Ana winds caused the fire to devastate the local area.

With the latter, we were directly impacted through our holding of Californian regulated utility Edison, who were rumoured to have caused the fire. Credit spreads widened as a result and we exited the position, both on a short-term risk management view but also a long-term view with the increased risk of wildfires and increased political noise.

Secondly, the rapid development of Large Language Models (LLMs) has been fascinating but the extent to which this growth will continue is ultimately dependent on the ability to dramatically increase the supply of energy. Artificial Intelligence (AI) can make companies more efficient with energy use, as evidenced when Google purchased Deepmind in 2014 and recouped a significant portion of the cost through using Deepmind's machine learning algorithms to reduce energy used to cool its data centres. But in the US, utilities will need to increase generation by as much as 26% from 2023 levels by 2028, with nearly half of this demand being a function of data centres and the demand for computing. As mentioned above, Trump is limiting the supply of the fastest growing (and cheapest in some regions) source of energy which is putting pressure on carbon related metrics.

US electricity demand vs. generation (terawatt hours)



Source: Bain, EIA

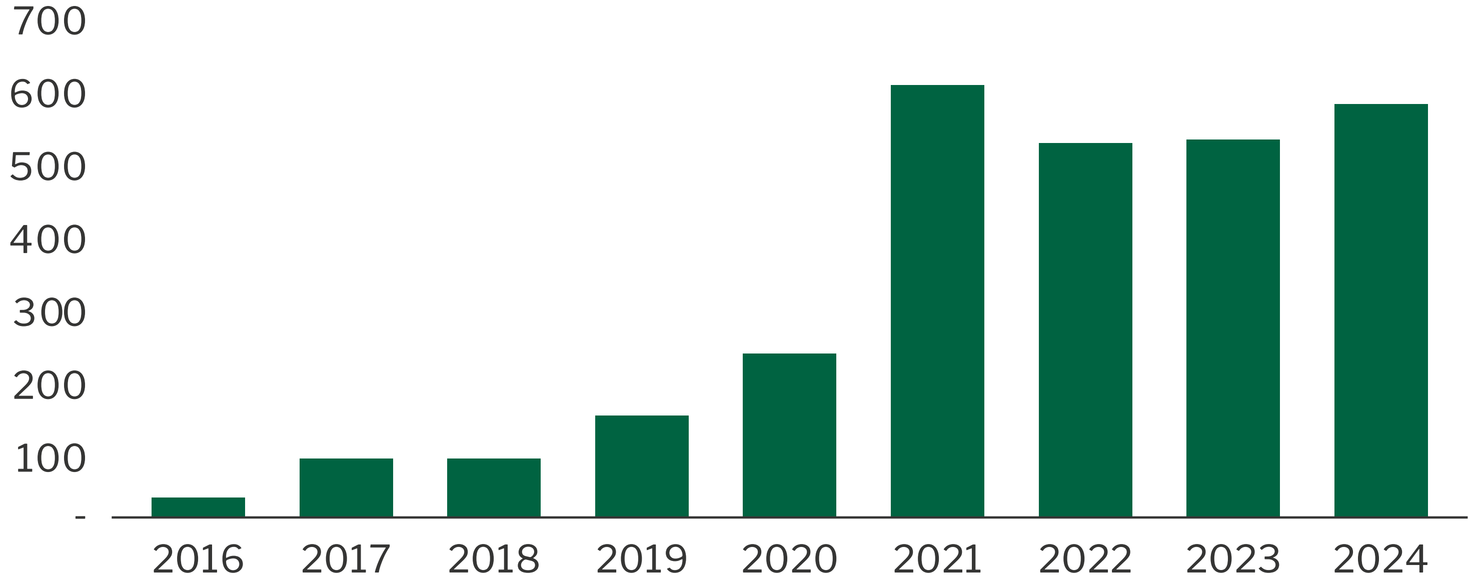
We look to invest in improving ESG-related credits and we were previously invested in Georgia Power, whose investment in nuclear and renewables was rapidly decreasing the amount of coal used. Despite the volume of coal decreasing, the total volume decreased further resulting in a higher coal mix in 2023 and we subsequently exited the portfolio as a result.

More recently, however, Georgia Power announced proposals to delay the retirement of multiple large coal plans by as long as 6 years and we expect this trend to continue across US utilities as Trump's more favourable regulatory stance will support burning coal for longer.

The final theme to touch on is ESG-linked bond issuance, which was up double digits to €315billion in Europe in 2024, while the global market grew 9% to just under $600million. Green issuance is likely to keep on ticking up, as utilities fund renewable projects and data centre growth, while demand is expected to improve in the EU with regulatory headwinds being reduced.

While we have participated in green bonds, we do not subscribe to the idea that companies can run two balance sheets and firmly believe that the credit should be viewed as a whole. As such our positions in green bonds are a function of the value on offer, versus a non-green bond, as well as the ESG credentials.

Green Bond Issuance ($m)



Source: Bloomberg

For example, a sustainability issued by European travel company, Tui, in 2024 included a coupon step-up in relation to emissions, and we liked the fundamental story at the company with earnings improving and leverage decreasing while the emission target demonstrated an ambitious commitment to ESG. Of course, it is important not to forget the 'S' and the 'G' which were not part of the SLB offering. Governance has always been a key pillar of credit investing, as strong governance often correlates with better capital allocation decisions and ultimately increasing the company's ability to commit to sustainable programmes and policies.

ComfortDelGro: Sustainability targets in a changing regulatory landscape

Pyrford

ComfortDelGro (CD) is one of Asia's largest land transport operators offering public transport and taxi services across its key markets of Singapore, Australia, the UK, and China. The nature of the business means that CD ranks within the top quartile of our portfolios for greenhouse gas intensity.

As environmental regulations and sentiment have evolved over time, we have periodically engaged with ComfortDelGro to ascertain the impact on the company's operations and the adequacy of its own sustainability targets against this backdrop.

Purpose of engagement

The objective of the engagement can be distilled into two key points:

- Understand the implications of regulatory developments
- Assess CD's progress towards achieving its environmental targets (such as reducing its GHG emissions)

First Southeast Asia land transport operator with carbon emission reduction targets approved by Science Based Targets initiative (SBTi).

54.6% reduction in absolute Scope 1 and Scope 2 GH emissions from our operations by 2032 from a baseline year of 2019.

61.2% reduction in absolute Scope 3 GHG emissions from fuel and energy-related activities by 2032 from a baseline year of 2019.

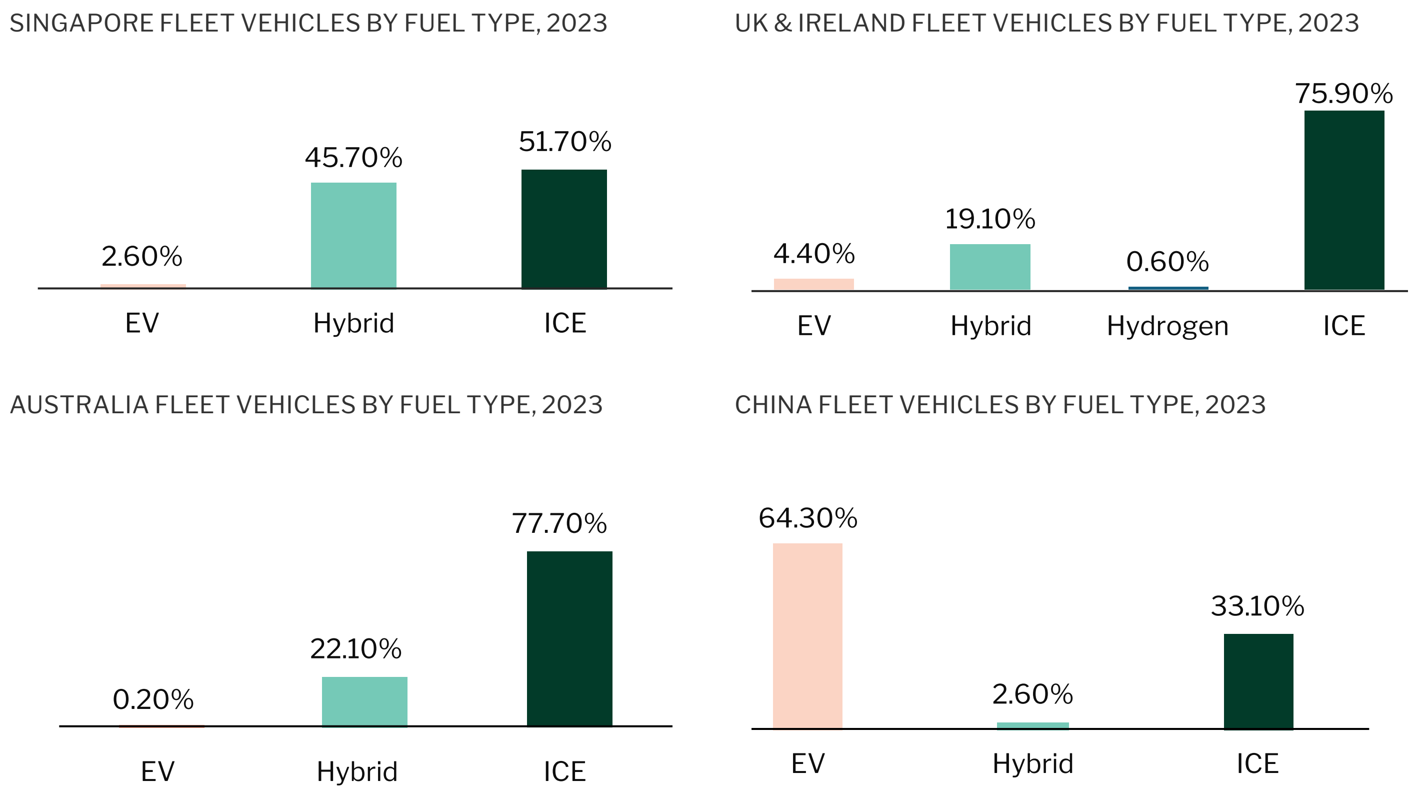
Outcome of engagement

Our conversation began with a recap of changes to regulation over the last year. CD noted its disclosure is already well ahead of the expected minimum, so the additional workload from these changes will be quite limited. When questioned about the impact of the recent political change in the UK, the outcome was also muted and if anything, surprised to the upside.

The new Labour government has sought to dissolve centralised power such that local authorities will have a greater say in managing their own public transport operations. CD has already won a new bus contract in Manchester as a result. Expanding bus operations in the UK is a positive for CD's sustainability credentials given that the UK leads the way in electric bus adoption.

On the topic of carbon taxes, CD reiterated that there had also been no change to the targeted sectors (e.g. manufacturing, refineries) in Singapore. As such, the company remains only indirectly impacted via the resultant higher electricity prices. Within the public transport operations, CD has embedded indexation clauses so it can pass through these elevated costs anyway.

Fleet composition by fuel type, per region



Source: ComfortDelGro 2023 Sustainability Report

Our discussion then turned to CD's own sustainability targets. Although some progress towards these targets has been made, the majority will be back-ended due to the timing of government commitments. For example, the Singaporean government has committed to transitioning 50% of the bus fleet to electric vehicles (EVs) by 2030. CD also submitted these targets when some of the taxi fleet had over 8 years remaining of its useful economic life, so transitioning to clean energy vehicles ahead of this did not make financial sense. We gained confidence that all of these reduction goals would be achieved by 2032.

At the same time, the company did admit there were challenges that it needed to overcome. Firstly, capacity constraints on the supply of electric buses may become more acute as we approach 2030. Secondly, another barrier to change comes from the taxi drivers themselves. In Singapore, the average driver is aged over 65 and is accustomed to filling up their vehicle quickly at a petrol station, they are often unwilling to get their head around a new technology and factor in additional time for electric charging. To tackle this, CD is looking to educate drivers of the benefits and offer subsidised charging. In China, over 70% of CD's taxi fleet are already EVs, so transformation is clearly achievable.

The company was cognisant that longer-term aspirations, such as net-zero by 2050, do depend on the development of new technologies. As a result, CD has taken a proactive stance by investing in a nascent battery recycling company.

CD is very much awake to the adverse environmental impacts of its operations and the potential for more stringent regulation. It has taken an active stance in managing these risks by setting its own sustainability targets and investing in next generation technologies. We are confident that ComfortDelGro remains committed to addressing this matter.

Equity Lifestyle Properties: Climate change and decarbonisation

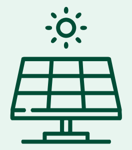
RESOLUTION CAPITAL

As part of our ongoing climate change and decarbonisation focused engagements, we engaged with Equity Lifestyle Properties (ELS), a US-based residential Real Estate Investment Trust (REIT) that focuses on manufactured homes in communities predominantly located in Florida, Texas, Arizona and California.

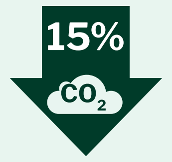
We met with the company's sustainability team to discuss updates and progress on their decarbonisation strategy, any climate resilience projects they are undertaking, as well as potential impacts from rising insurance costs.

Strong progress on energy efficiency and onsite renewable energy generation projects

The company has made notable progress in the last year on improving the energy efficiency of their manufactured homes and rolling out onsite renewable energy generation. They have prioritised working with manufactured home suppliers to improve the energy performance of the homes they purchase.

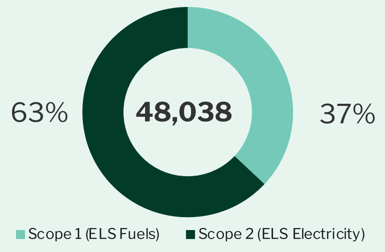


Produced over 2 million kilowatt-hours (kWh) of renewable energy from on-site solar systems



Reduced Scope 1 & 2 GHG emissions by 15% from 2019

*Based on like-for-like metrics for Core 2018 properties as defined in Environmental Metrics Methodology



ELS Scope 1 & 2 Greenhouse Gas (GHG) Emissions

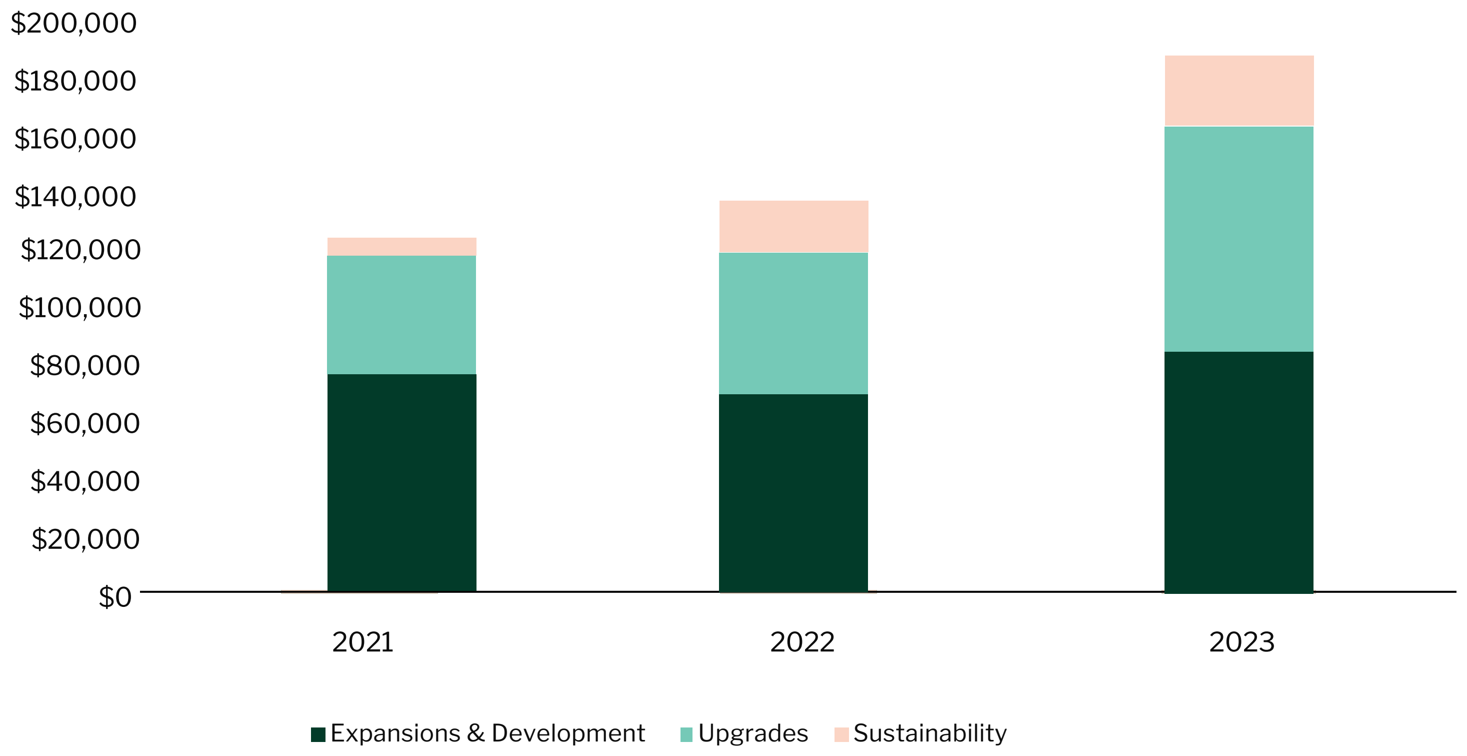
Metric tons of carbon dioxide equivalent (MT CO_2e)

Source: Equity Lifestyle Properties 2023-24 Sustainability Report

In 2023, 58% of homes were EnergyStar-certified, making them more energy-efficient than 75% of similar buildings in the US. However, further adoption remains constrained by the limited availability of certified homes, as not all manufacturers across all locations offer them. Additionally, ELS has actively advocated for more manufacturers to produce certified homes, highlighting their commitment to raising industry standards.

Although still in very early stages, ELS has a pilot project to investigate integration of solar panels into manufactured homes during the production process. To date, only five homes have been purchased for this project. This project is an encouraging development, given that we have asked ELS a number of times over recent years about integrating solar panels in their homes and have been underwhelmed by their responses in the past.

Expansions, Upgrades & Sustainability Capex (in thousands)



Source: Equity Lifestyle Properties 2023-24 Sustainability Report

ELS has also significantly expanded its onsite renewable energy generation, producing 2,300 megawatt-hour (MWh) of solar energy in 2023, up from just 405 MWh in 2022. ELS has focused on constructing parking shelters with solar-panel canopies, which optimise space while generating clean energy. The company has 5.5 megawatt (MW) of solar projects currently under construction, underscoring their commitment to renewable energy expansion. Solar power currently accounts for just over 2.7% of overall electricity consumption, so there is significant scope to increase this to further drive decarbonisation.

Source: Equity Lifestyle Properties 2023-24 Sustainability Report

An asset held by ELS that is unique among REITs is its significant forestry and wetland holdings, totalling approximately 10 200 acres. These assets allow the company to sequester carbon, which they estimate offsets about 18% of their Scope 1 and 2 emissions and roughly 3.6% of their total Scope 1, 2, and 3 emissions. This serves as a valuable complement to the decarbonisation of their manufactured home communities.

Increasing communities' climate resilience another area of improvement

Climate resilience considerations are being embedded into their capital investment programmes. The company is aligning its building activities with increasingly stringent building codes, ensuring that new manufactured homes are better equipped to withstand severe weather conditions, such as higher wind ratings.

After storm events, they have incorporated innovative rebuilding practices, such as burying overhead wires, raising electrical equipment pedestals, and using moisture-resistant wall materials. Other initiatives, like raising sea walls and installing permeable pavers to improve stormwater retention, demonstrate their commitment to enhancing site resilience against flooding and other climate-related challenges.
Changing property insurance environment

The company is also addressing rising costs but has yet to fully capitalise on alternative strategies. After a 58% premium increase in 2023, their premiums increased by only 8% this year, reflecting some stabilisation. However, rather than exploring options like self-insurance or activating their existing captive insurance company, they have primarily focused on increasing deductibles. While this approach manages immediate costs, it does leave potential long-term opportunities for better risk management untapped.

Conclusion

Overall, we were encouraged by the progress that ELS has made in improving the energy efficiency of the manufactured homes they purchase, expansion of site solar energy generation, and the climate resilience projects in its communities. However, the company lags behind industry peers in some areas, notably the lack of a net-zero target and relatively slow decarbonisation progress despite a 15% reduction in carbon emissions from 2019 to 2023, suggesting that their efforts, while methodical, may lack the urgency and ambition needed to lead the sector. Further expanding purchases of EnergyStar homes, renewable energy generation capacity and setting robust emissions targets could help to position them as a stronger sustainability leader in the future. We will be following up with Equity Lifestyle Properties to monitor their progress.

We were encouraged by the progress that ELS has made in improving the energy efficiency of the manufactured homes they purchase, expansion of site solar energy generation, and the climate resilience projects in its communities.

Money Market and Income Funds: ESG and impact

Taquanta

Introduction

Most investors view money market and income funds primarily as tools for efficiently managing short-term liquidity needs, diversifying risk, and enhancing returns on working capital or strategic cash holdings. These funds are not typically seen as vehicles for making a substantial positive impact on environmental sustainability, social upliftment, or ethical governance.

While the investment industry has rightly placed significant emphasis on responsible investing and Environmental, Social and Governance (ESG) criteria, much of this focus has been directed towards equity investments, with extensive research into "green scoring" listed corporations. However, the ESG impact of money market and income funds has been largely overlooked.

In the portfolios managed by Taquanta Asset Managers on behalf of Nedgroup Investments' Money Market and Core Income Funds, as well as for its own cash and income clients, debt exposure to major South African banks consistently represents more than 85% of the market value of these funds.

In the following analysis, we highlight the real, positive impact that Taquanta's funding of these banks has on the economy, society, and environment, leveraging the power of our clients' capital in the portfolios we manage.

Bank-led responsible investing driving positive impact in South Africa

Banks play a crucial role in society by facilitating the flow of funds between savers and borrowers and providing a range of other financial services. In doing so, they loan vast amounts of capital to individuals, businesses and government for various investments and projects. Through these processes of lending and financial intermediation, they have the ability to influence these clients.

More so than ever, questions are being asked both within the banking sector and by external stakeholders about the contribution that banks could and should make to economic, social and environmental sustainability.
In today's investment landscape, responsible investing is no longer a niche but a mainstream approach. Asset managers, such as Taquanta, play a crucial role in channelling funds toward initiatives that align with ESG principles. One significant way we achieve this is by lending to South Africa's major banks, which are at the forefront of deploying capital in ways that drive meaningful and positive societal change.

Environmental impact

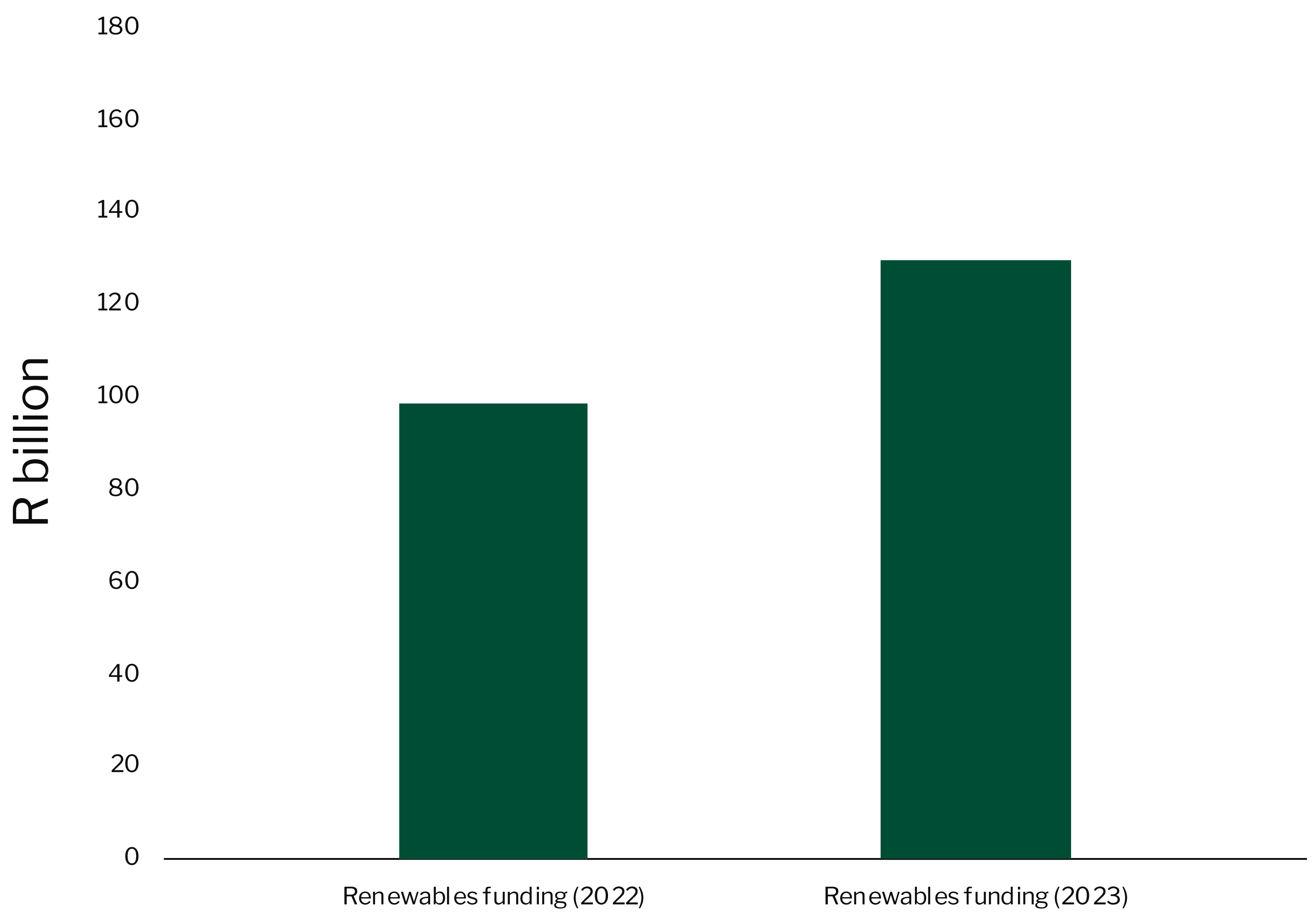
As of the latest figures, South Africa's four largest banks - Nedbank, FirstRand, ABSA, and Standard Bank - have a combined total of R26.9billion in outstanding sustainable bonds (this is in addition to the existing traditional funding of renewable energy projects, in excess of R100billion). Of this, 79% consists of Green Bonds, which are specifically allocated for environmentally responsible or climate-related initiatives. These bonds support projects ranging from pollution control and sustainable agriculture to energy efficiency and green transportation systems.

In the South African context, Green Bonds are primarily directed toward funding renewable energy initiatives, such as solar, wind, and other clean energy sources. These projects not only reduce greenhouse gas emissions but also contribute to diversifying the country's energy portfolio, making it more resilient and sustainable.

The current Green Bonds issued by the banks are financing over 25 large renewable energy projects, including concentrated solar power, solar photovoltaic (PV), and onshore wind. When fully operational, these projects will have a combined installed capacity of 3 gigawatts (GW), generating more than 6 terawatt-hour (TWh) of clean energy annually, accounting for approximately 2.64% of South Africa's annual power consumption. This is a critical contribution in addressing the country's ongoing energy crisis, as it helps diversify the power supply and accelerates the deployment of clean energy solutions, especially given that renewables currently represent only 7-8% of the national energy mix.

According to Eskom, South Africa's state-owned energy utility, the country's electricity grid has an emission factor of 1.06 kg carbon dioxide equivalent (CO_2e) per kWh. Based on this calculation, the renewable energy projects financed by these Green Bonds will avoid approximately 7 million tons of CO_2e emissions annually, the equivalent of the carbon footprint of over 2 million people each year. This demonstrates the crucial role that Green Bonds are playing in South Africa's transition toward a more sustainable energy future.

SA bank renewables funding 2022 / 2023



Source: Taquanta Asset Managers

This data highlights a notable increase in the funding allocated by South Africa's major banks toward renewable energy projects, reflecting their growing commitment to sustainability. This shift marks a significant step forward when compared to 2022, signalling the banking sector's alignment with global efforts to combat climate change. However, while the trend is encouraging, there remains considerable ground to cover before renewable energy financing surpasses that of non-renewable resources. The transition will likely accelerate over the coming years, as banks work towards achieving their ambitious climate targets, driven by newly implemented climate policies.

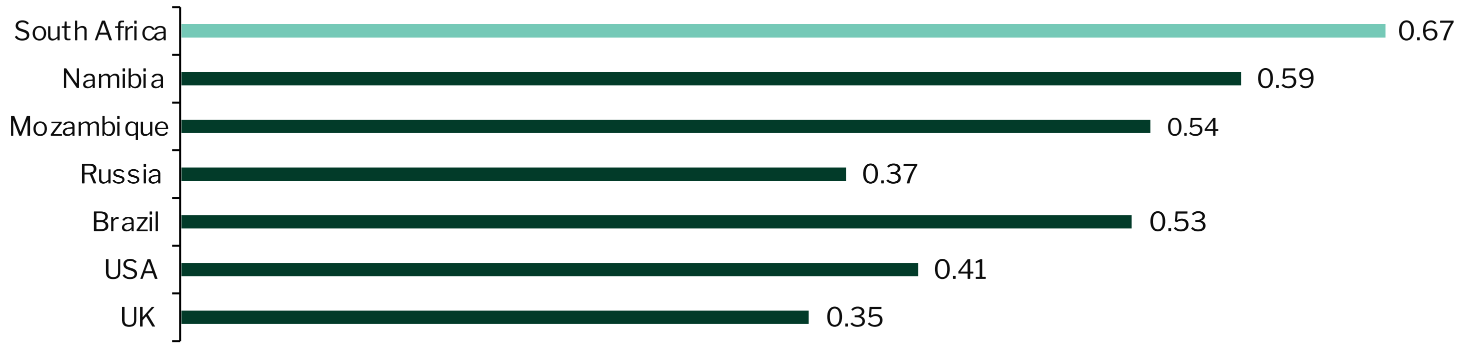
For instance, Nedbank has committed to eliminating fossil fuel exposure by 2045, a bold step in the path to a greener future with an additional target to have 100% of its lending and investing supporting a net-zero carbon economy by 2050. Banks also provide substantial amounts of rooftop solar related loans to individuals and corporates, further enhancing the country's energy resilience by reducing the reliance on Eskom and also reducing energy costs.

Social impact

The banks also play a pivotal role in addressing social challenges through the issuance of social bonds and other socially responsible lending such as lending to SME's. This funds essential projects such as affordable housing and education and helps to fuel job creation through supporting small businesses. By focusing on these areas, the banks help to uplift communities, reduce inequality, and improve the quality of life for many South Africans.

The 4 largest South African banks dispensed in the region of R280billion to small businesses in 2023. This capital is a key enabler of development, fostering entrepreneurship, infrastructure growth, and access to essential services, sorely lacking in many areas of our unequal society. In the South African context, where unemployment, inequality, and poverty remain significant challenges, this level of lending is vital.

Gini Coeficient - Inequality Comparison



Source: The World Bank

By enabling access to finance, the banks empower SMEs to expand operations, stimulate economic activity, and create sustainable employment opportunities. This is crucial in a country where unemployment rates are high and inclusive economic growth is a national priority.

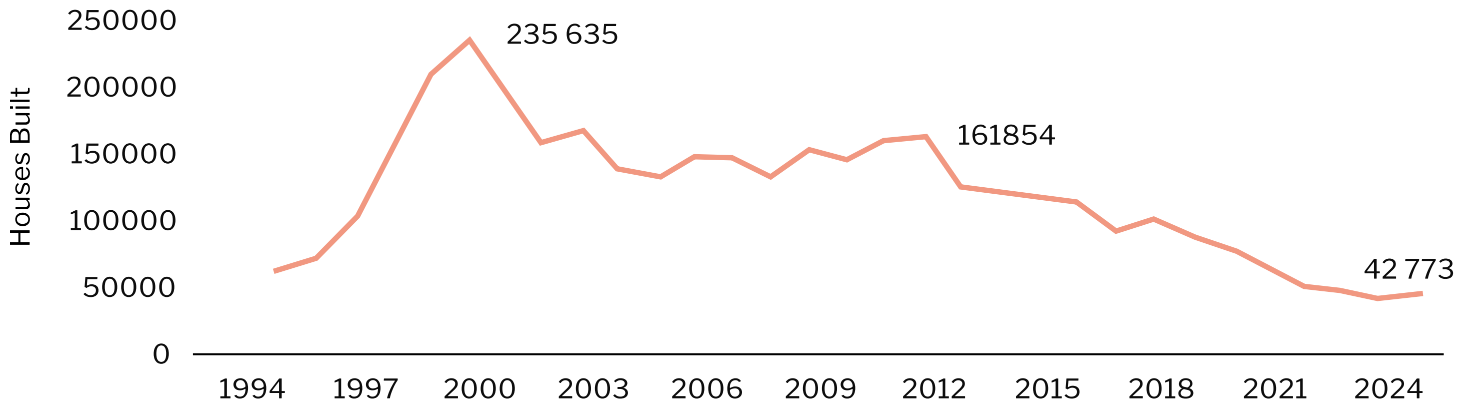
Another critical challenge in South Africa is our frightening housing shortage.

SA Government Housing Stats Since 1994

Source: Stats SA

Since 1994, according to Stats SA, the South African government has built approximately 3 million low-cost homes. However, the housing crisis persists, with an estimated backlog of over 2 million homes still needed. Compounding the problem is the declining rate of delivery, which peaked in 1999 but has steadily fallen, with just over 100 000 homes being delivered annually in recent years.

RDP/BNG Houses Built in South Africa - 1994 to 2023



Source: Department of Human Settlements

In this context, the role of South Africa's banks in supporting affordable housing has become increasingly critical. In addition to these basic low-cost homes, there is further demand for affordable housing across all lower to medium income categories.
In 2023 alone, the major banks disbursed more than R16billion towards affordable housing projects. Additionally, bank issued social bonds, valued at R4.5billion, have already funded the construction of 8 445 affordable homes. These homes are largely being taken up by young families, with women accounting for 40% of new homeowners, an important step in promoting gender equality and empowerment in the housing sector.

The banks' support for affordable housing is crucial for several reasons. Funding from the banks helps bridge the substantial gap between the demand for housing and the government's capacity to deliver. With the state's annual delivery rate falling short of what is required, private sector involvement is essential in scaling up housing solutions. Importantly, by targeting young families and first-time homeowners, these housing initiatives are helping to create generational wealth and promote financial inclusion, which is particularly important in a country grappling with inequality.

Conclusion

Lending to South African banks is not just a financial transaction, it's a strategic decision that supports responsible investment practices in a material way.
We believe that responsible investing is about more than just returns, it's about contributing to a sustainable and equitable future. By lending to South African banks that are committed to the highest levels of ESG principles, we are confident that our money market and income fund investments are driving positive change. Whether it's through financing renewable energy and infrastructure projects, supporting social housing, or upholding high governance standards, our partnership with these banks and all our issuers, exemplifies the power of responsible investing.

SA company policies: Key to addressing social risks in supply chains

Truffle Asset Management

A Stanford study found that investors in North America and Europe tend to focus more on environmental (E) and governance (G) factors in Environmental, Social and Governance (ESG) investing, often overlooking the social (S) risks. However, the "S" factors are becoming increasingly important, particularly given the increased focus on a number of social issues in 2024. These include:

- The Just Transition aspect of climate change, balancing environmental goals with economic reality including energy security
- Significant minimum wage increases in certain countries
- The EU's introduction of social regulations including human rights due diligence in supply chains
- The formation of globally recognised Task Force on Inequality and Social-related Financial Disclosures (TISFD)

In South Africa, where the unemployment rate is high, social issues receive greater attention. Truffle Asset Management's ESG approach aims to consider specific social factors or issues that have a material impact on valuations and earnings. This comes in the form of:

- Systemic issues inherent in a company or the industry given the environment and operating models
- Incident-specific issues that occur at a company that typically highlight or exacerbate the existing systemic issues

Issue type	Research approach	Engagement approach
Systemic issues	Evaluate long-term risks and how these impact value.	Continuous engagement with company management and monitoring for improvements.
Incident specific issues	Assess controversies or news flow relating to the risk and understand where there may be contagion.	One-time engagement to evaluate exposure to the risk.

Investigating systemic issues

Truffle's systematic approach was used to evaluate human rights risks in supply chains, with a focus on industries more prone to labour exploitation. These included Mining, Fashion, Luxury Goods, and Agricultural products (including tobacco).

Our evaluation included a review of each company's human rights policy and considered any controversies around human rights abuses in the past 3 years. The results of the analysis on Truffle's equity positions mandate are shown in the charts below:

Chart 1: Companies with Human Rights policies

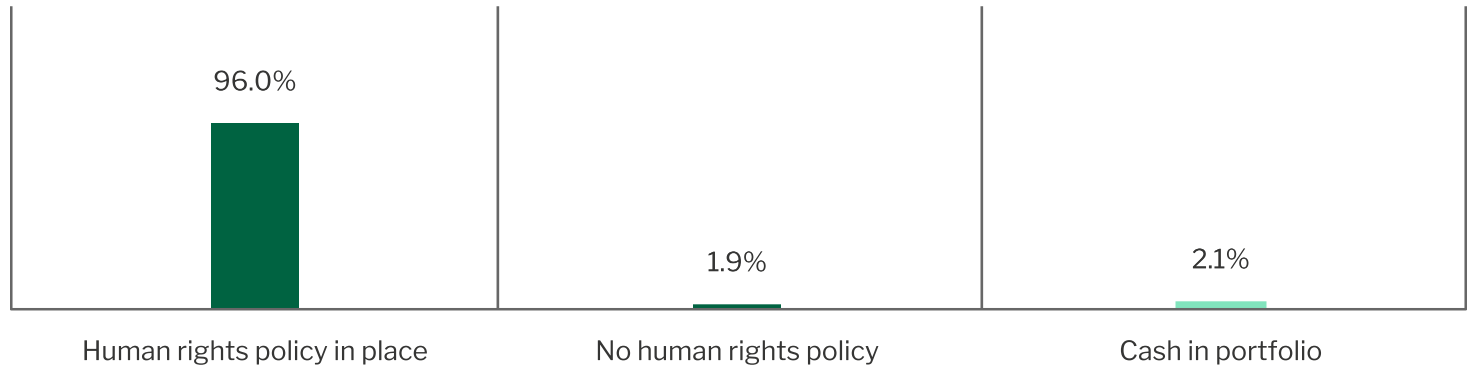
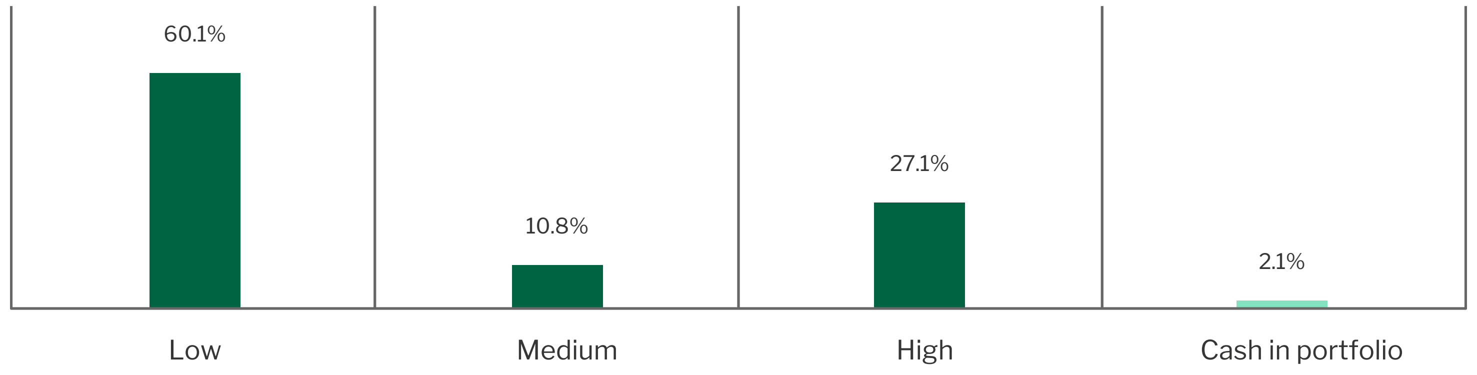


Chart 2: Risk of Human Rights issue



Source: Truffle, RMB ESG platform

Our findings revealed that most companies in the portfolio have a human rights policy in place, however some companies are at higher risk of a human rights issue given the nature of the business or operating model. These findings informed ongoing engagements with high-risk companies.

Delving into a specific incident

In April 2024, a key incident highlighted human rights risks and prompted engagement with a subset of investee companies. A subset of Giorgio Armani's operations was placed under judicial administration for exploiting migrant workers in their Italian supply chain. We engaged with companies in the fashion and luxury sector to assess their exposure and their supply chain management around human rights abuses.

The following table outlines our findings

Company	Child and forced labour policy	Forced labour controversies	Exposure to Italy	Regular audits
MRP	Yes	No	1 supplier	Yes
TFG	Yes	No	1% for TFG London	Yes
CFR	Yes	Yes (minor)	Number of suppliers	Yes
WHL	Yes	No	Some	Yes
TRU	Yes	No		Yes

Source: Truffle, RMB ESG platform

In follow-up discussions with company management, we questioned the process should human rights policy violations occur, and gained comfort that overall, our local fashion companies are undertaking consistent monitoring.

Conclusion

Truffle's approach to investigating ESG issues in our research process remains consistent. We prioritise systemic ESG risks in a particular industry and engage with high-risk companies, in this case those companies are more likely to have a human rights violation. Where a specific incident occurs, we investigate similar companies at risk. Our approach ensures consistent monitoring and response to industry-wide and company specific social risks.

Compagnie Financiere Richemont: An ESG assessment

Veritas — Asset Management

Over the past 12 months, we have implemented a proprietary ESG Rating Model, ensuring a consistent approach across both investment desks. This initiative stems from two key drivers: Our lack of conviction in 3rd-party ESG ratings due to inconsistencies and limited meaningful insights, and our commitment to formally demonstrating how ESG is integrated into our investment process. The model leverages primary data from Bloomberg LLP, MSCI Research LLC, and additional sources such as Glassdoor, covering over 100 ESG data points. It benchmarks a company's ESG performance against its most relevant peer group, identifying strengths, weaknesses, and potential red flags requiring further analysis. Designed to enhance standard ESG analysis, which has been integral to our strategy since inception, the model evolves continuously to ensure consistency and value-add.

ESG rating scale

Poor	Average	Excellent
1	2	3

RICHEMONT

The framework includes a combined Quality and Management Rating, generating an overall company score out of 10, which informs the expected internal rate of return. The ESG rating is binary (1–3):

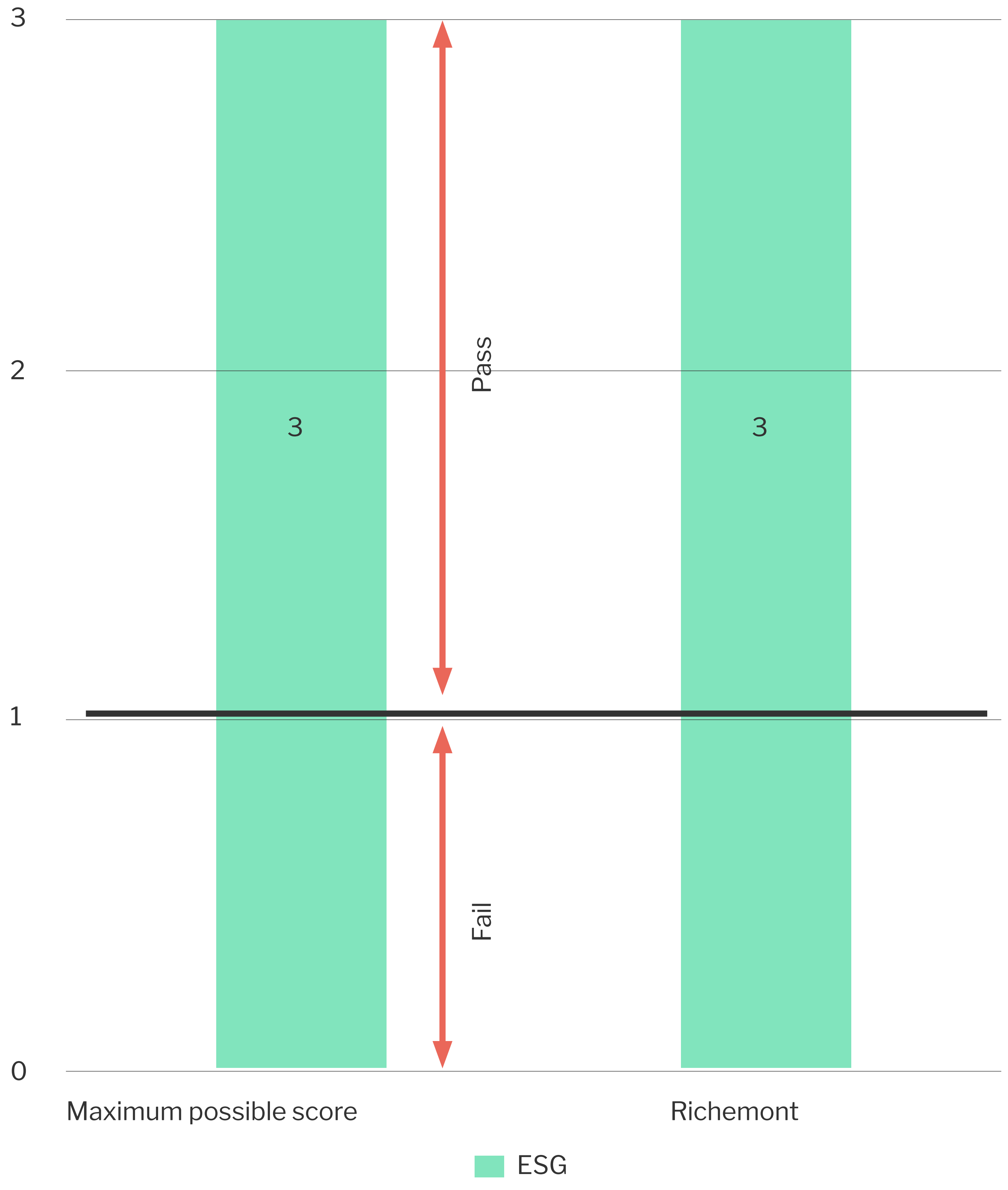
1 = Unacceptable for investment
2 & 3 = Acceptable for investment

If a rating of 2 or 3 falls to 1, the investment undergoes a review, which may lead to engagement or divestment. An example of the ESG component is illustrated in the table below for Richemont SA.

Category	Weight	Rating	Key Considerations
Environmental	20%	3	Richemont earned an "A" CDP rating for climate change, outperforming peers in emissions and water intensity per revenue. While lacking a net-zero goal, it has SBTi-validated targets to cut Scope 1 and 2 emissions by 46% and Scope 3 by 55% by 2030. In 2023, 97% of its electricity came from renewables, targeting 100% by 2025 via RE100. For, waste recycling (37%), the company lags peers, though 41% is incinerated with energy recovery. The company is phasing out PVC and enhancing sustainable packaging. Sustainability now holds a stronger strategic role, with the Chief Sustainability Officer (CSO) joining the senior executive committee in 2023. It also completed its first biodiversity risk assessment, aligning with global frameworks like SBTN.
Social	30%	3	Richemont scores 3.9 on Glassdoor, slightly above peers, with 58% female employees and 25% female senior executives, though D&I data remains limited. In 2021 the supplier review led to a Supplier Code of Conduct, signed by 79% of suppliers, targeting 80% by 2025. Since 2014, it has sourced only RJC-certified diamonds, but procurement challenges persist, particularly with Russian origin materials. Richemont exited the RJC in early 2022 over governance concerns but rejoined in June, contributing to internal reforms. Gold procurement is managed via Varinor, sourcing only RJC-certified gold, while diamond sourcing aligns with SSCC and KPCS guidelines, with strengthened audits to avoid Russian origin supplies.
Governance	50%	2	The Rupert family retains control, with Johann Rupert actively involved. While family dominance raises governance concerns, Richemont's 14% USD TSR since 1990 suggests stability. The board has strong expertise, including former Hermès and Palo Alto Networks CEOs, but only 6 out of the 18 members are women - below our internal guidance but above the Swiss threshold. CEO pay (CHF 5–8million) is reasonable, but a 2022 CFO award raised governance concerns, and undisclosed incentive targets led to a 2024 vote against the compensation plan. The 18-member board is set to reduce to 16, yet some independence claims are weak. PwC has been the auditor since 1993, and rotation is recommended for stronger oversight. The audit and remuneration chairs lack independence, prompting an AGM vote against management.
Overall ESG Score			3

As shown in the chart, the company received an overall ESG score of 3. However, the assessment highlighted several areas for improvement. Notably, the company does not fully adhere to the requirements outlined in our ESG Redline Proxy Voting Guidelines. Given these shortcomings and the issues identified in the initial assessment, we engaged with the business and took appropriate action based on the discussions.

ESG RATING



Topic	Governance - Board Independence and Oversight
Engagement objective	Engage with the company regarding our intention to vote against management at the AGM due to breaches of our ESG Red Lines Voting Policy.
Rationale for engagement	The company was informed of the intention to vote against management on several AGM items. In response, the Head of Investor Relations arranged a call, acknowledged the concerns, and provided the company's perspective. Key issues centred on diversity, board composition, and executive compensation.
Summary of interaction	The company's board composition is under scrutiny for female representation and committee independence. Currently, 33% of board members are women, but this will decline to 31% following the resignations of Maria Ramos and Clay Brendish. While this remains above the 30% threshold required by Swiss law, it falls short of the 40% target set within the VAM LLP ESG Voting Policy. Despite a lack of women in key leadership roles, the long-term trend appears positive, with recent appointments such as Catherine Renier as CEO of Van Cleef & Arpels. Governance concerns extend to committee independence and board size. Following Maria Ramos' departure, the compensation committee will consist solely of independent members, aligning with best practices. However, the inclusion of Josua Malherbe and Gary Saage on the audit committee remains contentious, with ISS disputing their independence. The company defends its 18-member board, that is considered large, citing the need for diverse expertise across 36 countries and the growing complexity of ESG issues. On executive remuneration transparency, its rationale for withholding targets due to competitive concerns is unconvincing, warranting a vote against management on this issue.
Outcome	The company expressed disappointment in our initial plan to vote against the re-election of founder and Chair, Johann Rupert, due to the concerns raised and as recommended by our ESG Voting Policy. While this vote was intended to signal concerns on key AGM issues, it was acknowledged as a stronger measure than preferred. After considering the company's arguments, 6 votes against management were maintained. However, given the reasonable justifications on certain Red Lines, supporting Mr. Rupert's re-election was deemed the best outcome for clients. The vote was amended accordingly, with a focus on continued engagement with the company on Red Line issues.

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