Stewardship Report

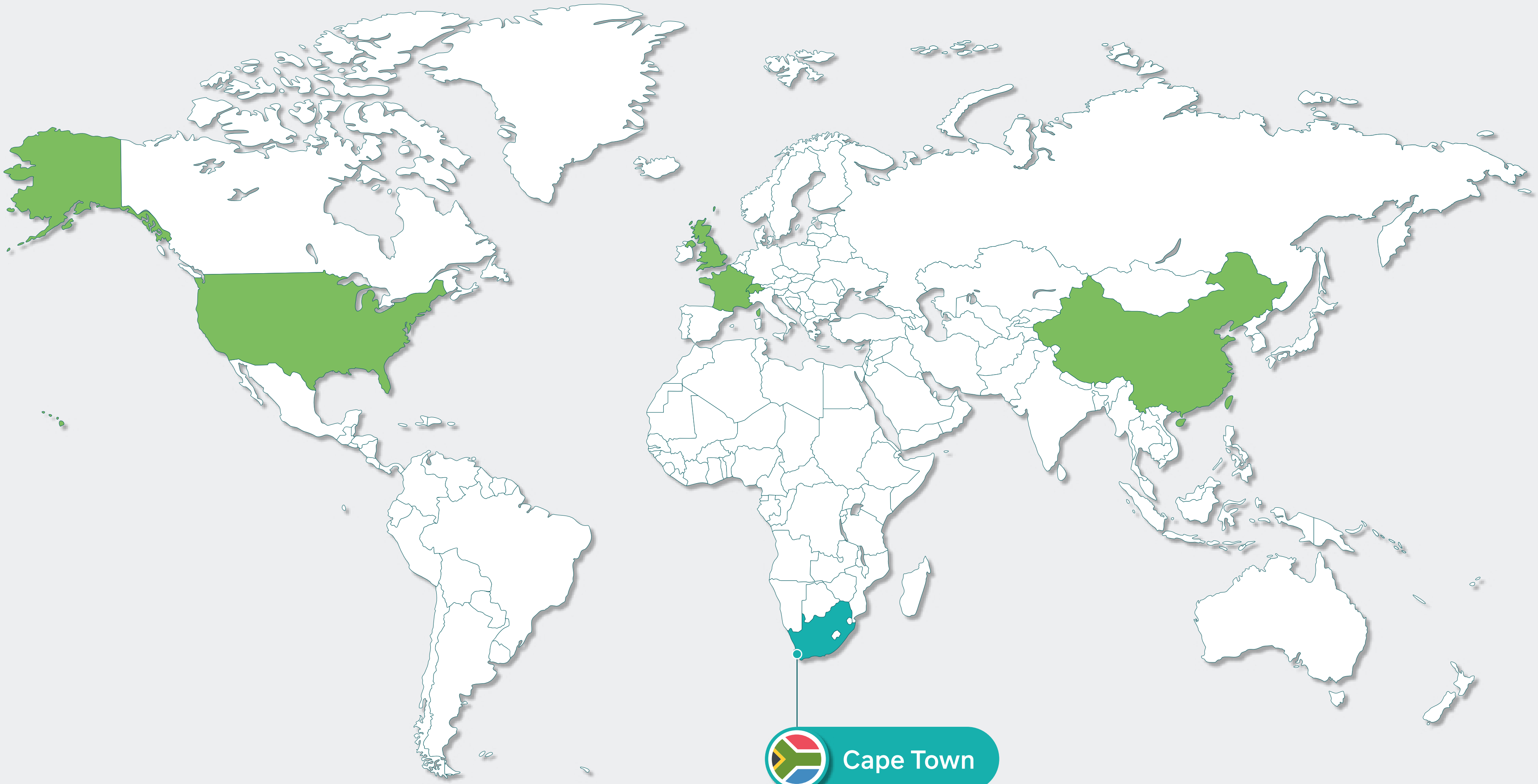
2021

M&G Investments

Invest in **consistency**

Contents

M&G Investments Southern Africa



Introduction from the CEO

Chris Sickle
Chief Executive Officer

We are proud to present this 2021 Stewardship Report as M&G Investments Southern Africa, as we continue to report on our approach, priorities, activities and accomplishments regarding the responsible stewardship of our clients' capital for the past year. Now, as a subsidiary of global investment group M&G plc, we are able to take full advantage of our colleagues' global expertise and advanced information systems to help us both further improve our own data collection and deepen our understanding of the global environment in which our investee companies operate. We are confident that this, in turn, will lead to enhanced outcomes for all our stakeholders.

We have never underestimated the importance of being custodians of our clients' hard-earned savings and the meaningful role we can play in helping guide the policies and actions of our investee companies in order to better the lives of our clients and their families, our staff, our suppliers, our communities, the financial services industry and the wider Southern African region. We have been even more active in 2021 than in previous years -- the following is an account of our investment activities and company engagements that highlights our key efforts in a year that was traumatic and turbulent for many individuals, families and companies in Southern Africa.

In face of the serious ongoing socio-economic challenges exacerbated by the Coronavirus pandemic, such as poverty, unemployment and inequality, as well as the urgency of combatting environmental challenges, Environmental, Social and Governance (ESG) factors and other sustainability considerations are playing an even more impactful role in our investment process and active portfolio management, as we outline in this report.

We are also very pleased to be releasing soon our first independent Taskforce on Climate-related and Financial Disclosures (TCFD) Report. Although we have been disclosing key TCFD-related information for our Southern African operations in the aggregated global M&G plc TCFD Report for several years now, this will be first year that we have presented a stand-alone report for our stakeholders.

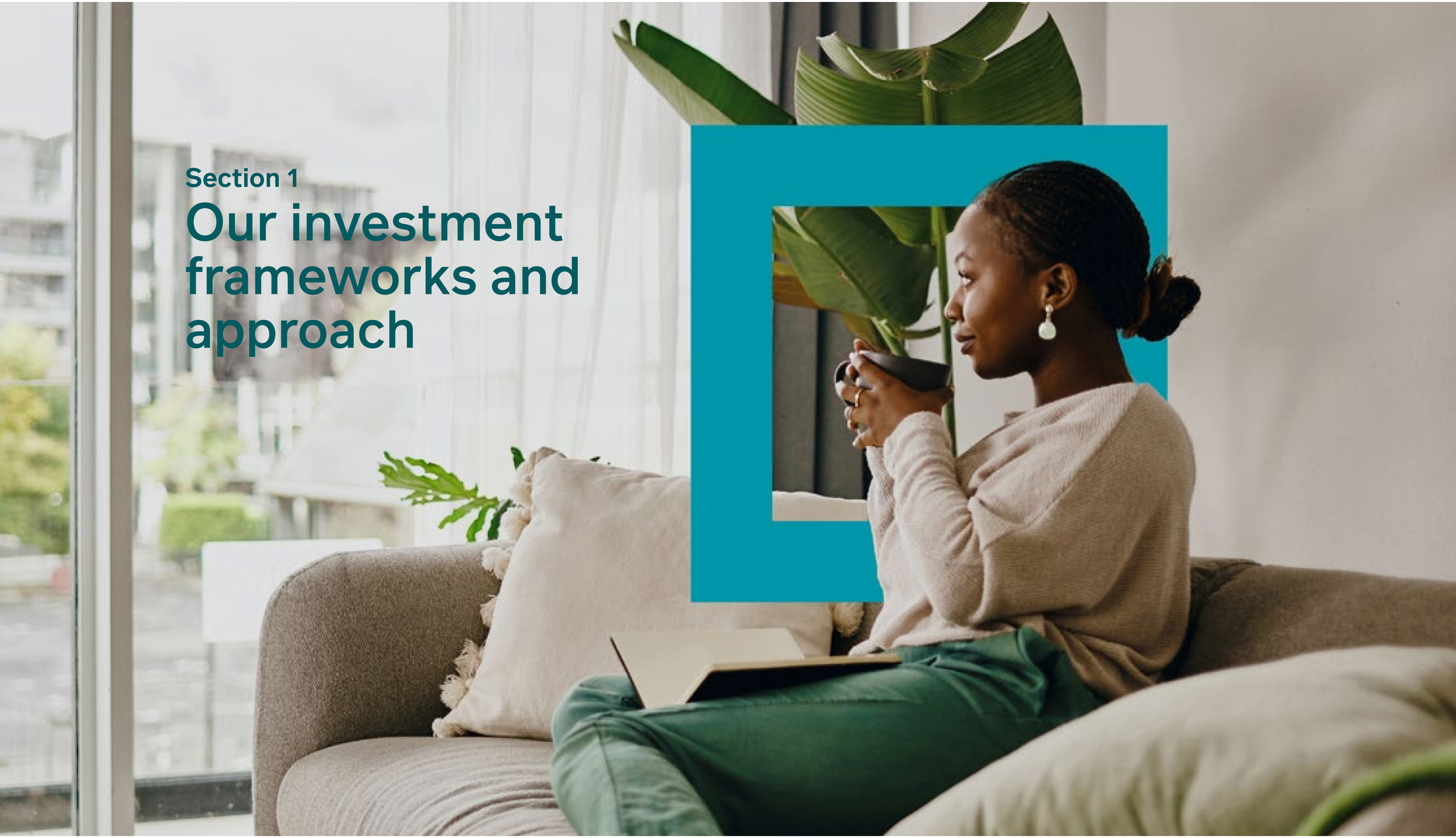
In addition, we plan to publish a 2021-22 Sustainability Report building on both this Stewardship Report and our TCFD Report. It will provide more comprehensive and in-depth information, setting out our plans to improve our own operational sustainability and the initiatives we are taking to have an even more positive longer-term impact on the lives of our clients, staff, suppliers and communities, and all of our other Southern African stakeholders.

By sharing this additional information and more of our future plans, we hope not only to emphasise our ongoing commitment to sustainability in our multiple roles as a Southern African business, but also the positive impact we can make toward achieving sustainable outcomes as a large global investment manager.

Chris Sickle

Section 1

Our investment frameworks and approach



Introduction

We employ a fundamental, valuation-based investment philosophy and process, and construct our portfolios on a long-term, risk-conscious basis. We have used this same approach since we started investing in South Africa over 25 years ago, building a consistently strong long-term track record for our clients. Its resilience has been proven over time, so that we can call it a truly sustainable process. And within this process we have always integrated material sustainability and governance considerations as part of our evaluation of the risks, costs and opportunities facing a company. This was even before "ESG" became a formal term in investing.

We also have a strong team-based approach: all our buy and sell decisions are thoroughly debated and taken collectively, and each of our portfolios is managed by more than one portfolio manager. Our teams are diverse, highly experienced and qualified, and in South Africa have been working together for many years. As such, our clients benefit from the team's continuity, with the added benefit of the frequent input and collaboration of other investment teams across the global M&G Investments business.

Global and local frameworks

Our approach to sustainable investing takes account of both global and local frameworks as guided by international agreements such as the UN Sustainable Development Goals, the UN Principles for Responsible Investment and the Paris Climate Agreement. Locally we also adhere to the Code for Responsible Investing in South Africa, all of which help inform how we integrate ESG factors into our fundamental investment analysis, our investment decisions, and ongoing portfolio management and monitoring.

Sustainability means being viable for the long-term, taking action to address long-term challenges to ensure we can continue to help current and future generations to live the lives they want.

United Nations Principles for Responsible Investment (UNPRI)

We are a signatory to the UNPRI. We subscribe to the UNPRI-endorsed definition of ESG integration as being the explicit and systematic inclusion of ESG factors in investment analysis and decisions.

The UNPRI works to achieve a sustainable global financial system by encouraging adoption of six ESG principles and collaboration on their implementation; fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

Our implementation of the UNPRI principles rests on three pillars:

1. Integration of ESG issues into investment research;
2. Integration of ESG issues into investment decision-making and portfolio construction; and
3. Periodic portfolio review of ESG issues.

United Nations Sustainable Development Goals (SDGs)

In 2015, the United Nations set 17 Sustainable Development Goals (SDGs) designed to end poverty, protect the planet and ensure all people enjoy peace and prosperity by 2030. Governments around the world are implementing policies aligned to the SDGs, including action to secure clean water and energy, improve gender equality, education and health, provide more work opportunities, and use land and ocean resources more sustainably. We fully support the SDGs, recognising that the regulations and policies implemented under the initiative's auspices will ultimately result in more sustainable, value-creating businesses and more prosperous lives and communities globally.

"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole."

– UNPRI

According to our Impact Investing Team, the COVID-19 pandemic disrupted progress toward achieving these goals, with only five now on track and 12 well behind schedule. With less than 10 years to go now, there is more need, and opportunity, than ever before for investors to collaborate to direct capital towards sustainable and socio-economically positive investments that help address these challenges.

Based on our priorities in Southern Africa, we have chosen to focus on the three SDGs related to water, climate change and biodiversity. Some of the relevant investment case studies are detailed in this Report.

Paris Climate Agreement

We're firmly committed to supporting the success of the 2015 Paris Climate Agreement, in which 197 nations committed to restricting their carbon emissions to limit global warming to 1.5 degrees Celsius by 2100, relative to pre-industrial times. Effectively, this means that the world should be adding to the atmosphere no more emissions than it is removing (called "net zero"). The route that the world follows to net zero emissions will have major implications for the risks we need to plan for as a business, as well as for our investee companies, communities and the local and global economies. This includes, for example, the risk that investors could be left with stranded assets with declining value, such as those in higher carbon-emitting industries.

Just Transition: Being a positive part of the solution

Because of the large amount of capital investment required to transition to cleaner energy sources and increasing energy efficiency, the burden of this transition will be felt heavily by emerging market countries such as ours, which have higher investor risks, higher costs and less sophisticated economies. And with South Africa getting 90% of its energy requirements from coal and being highly dependent on mining activity for jobs, tax revenues and growth, the risks are very high.

This is one of the primary reasons why we have embraced a "Just Transition" approach. To rush headlong into a sharp, disruptive transition that avoids or divests from carbon-emitting companies would be devasting for the South African economy and people. Equally, it would give us no influence on the companies most in need of help. Instead, we prefer to influence a company's path to net zero by driving positive change through active engagement, helping guide them in their transition plans in areas such as capital investment, for example.

Association for Savings and Investment South Africa (ASISA)

We are a member of ASISA, through which we collaborate on a number of initiatives with our fellow investment managers in South Africa. This includes responsible investing. Our ESG Specialist is our representative on the ASISA Responsible Investing Committee.

Code for Responsible Investing in South Africa (CRISA)

We subscribe to the principles of the Code for Responsible Investing in South Africa (CRISA). In fact, we actively participated in drafting CRISA, which was launched in 2011. Our investment process and practices incorporate the five CRISA principles. These include environmental, social and governance (ESG) factors, proxy voting disclosure, and communicating with clients on our policies. We also look to collaborate within the industry where possible.

King Code of Governance Principles (King IV)

In South Africa we adhere to the code of corporate governance principles as stated in King IV, which sets out best practice recommendations to achieve good corporate governance. It also recommends integrated sustainability performance and reports to assist investors in assessing true economic value. In addition, one of its supplements for retirement funds requires pension funds to be responsible corporate citizens by taking account of sustainability issues, including ESG factors.

Internal framework

The M&G Investments (Southern Africa) Board and Executive Committee (Exco) are responsible for setting our business strategy, including purpose, values, culture and our strategic approach to sustainability and ESG risks.

Much of the executive functions are established in our policies, guidelines and other reports, but for a brief summary, the key structures ensuring ESG integration of stewardship and sustainability function are shown in the below organogram and explained as follows.

1. The Social, Ethics and Transformation Committee:

This committee takes responsibility for the board's broader sustainability objectives and direction, themes, and regulatory functions (for example, Climate Risk – which is detailed in our TCFD report).

2. The Investment team:

The team Is responsible for integration of ESG and sustainability, and is detailed further in this report in terms of process.

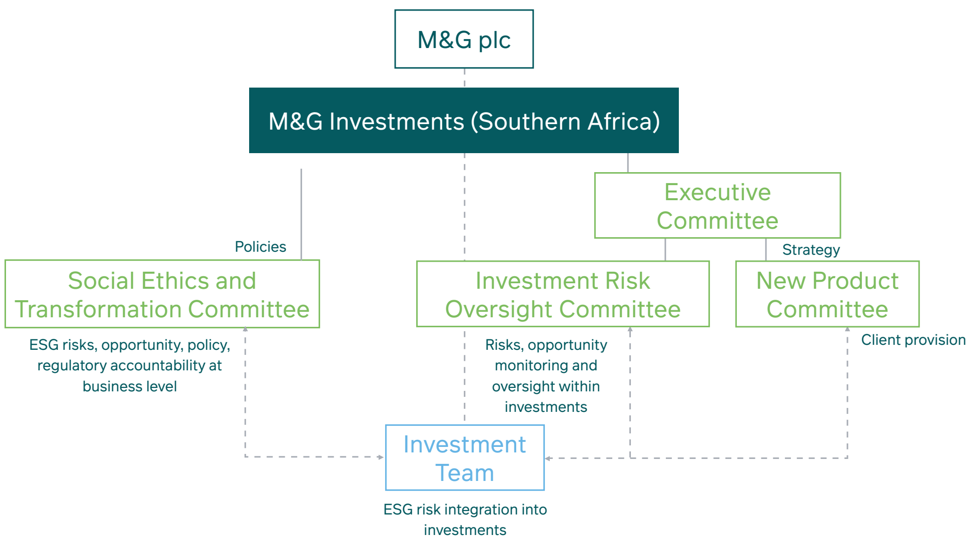
3. The Investment Risk Oversight Committee:

This committee receives reports three to four times per year concerning the ESG-related risks facing individual stocks and thematic risks to portfolios. It ensures that a committee chaired independently from the investment team, and with risk analysts and the ESG team, has independent oversight of ESG-related risks.

4. The New Product Committee:

This committee reviews our product offerings to ensure they are meeting the sustainability and ESG needs of our client base.

Key Committees and Functions



Integrating ESG considerations into our fundamental investment process

At M&G, we integrate ESG because we believe in holistic, fundamental, forward-looking analysis

Holistic research

By integrating financial and non-financial factors, we aim to drive informed investment decision-making and better outcomes

Better outcomes

We believe that well-governed businesses, run in a sustainable way, can deliver more resilient returns for investors

Resilient returns

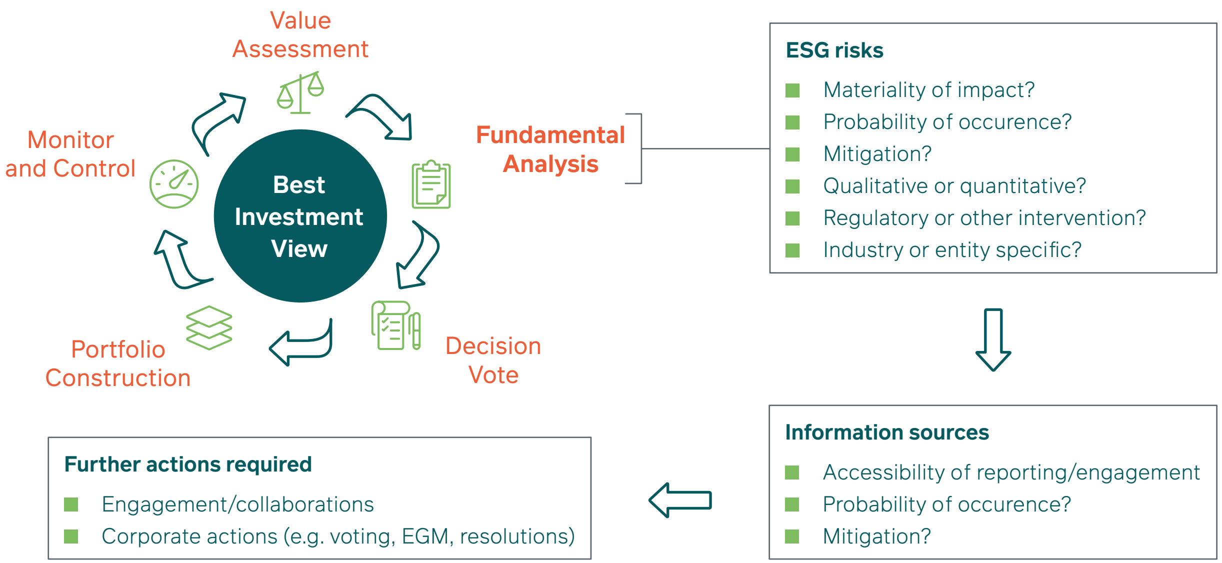
We believe in engagement to enact change - harnessing our strong relationships to influence decision-making and foster best practice

Driving change

We believe that ESG integration drives sustainable and financial outcomes

How we add value through ESG integration

Fundamental analysis: ESG risk



Following is an overview of the steps M&G Investments takes to integrate ESG factors into our investment process.

1. Value Assessment
2. Fundamental Analysis
3. Interrogation/Further Research/Voting
4. Portfolio Construction
5. Monitoring and Engagement

1. Value assessment

Our first step involves determining the universe of securities that meet the basic requirements for including in our portfolios. As a valuation-based investment manager, this means at the most basic level that they must be considered cheap on several measures, on both an absolute and relative basis.

A note on screening: We believe that in a limited investment universe such as the listed financial markets in South Africa, conducting an initial screening to rule out or rule in certain stocks or credit issues based on ESG risk is not necessary, nor is it helpful. By having excellent knowledge of listed companies, our analysts are able to exclude or include them at a later stage in the process, rather than up front, where there could be a risk of not inviting opportunity.

However, for clients that want certain companies or types of activities excluded from their portfolios, we do have a long track record for managing such segregated mandates.

2. Fundamental analysis

This is the key step in our process. Our analysts take ultimate accountability for, and ownership of, determining the ESG risks and benefits associated with an investment. This is the same as with any other factors that impact that investment's valuation, although some may be unquantifiable. We believe our analysts are best placed to make recommendations as our experts on the companies or issuers they analyse, also having built up direct relationships with management and a deep understanding of the industries in which they operate. The importance of this approach is acknowledged by it being written into our Responsible Investing policy.

Our analysts receive assistance from their peer analysts, our South African ESG specialist, and in cases of dual-listed companies and key sectors, they benefit from the expertise of ESG experts within the broader global company. If necessary, they can also call on third-party ESG specialist research which complements internal research.

They fully integrate ESG factors into the process from the beginning so that these considerations are part of our DNA – it is not a "bolt on" step that comes later, conducted by outside experts.

As responsible investors, we seek to understand, among others, the ESG risks facing the financial health and sustainability of these entities, confirmation that management is aware of these risks, their magnitude and impact on the business and broader society, and that management is seeking to mitigate them. We also seek assurance that company management and boards are sound and have an established practise of good governance with the correct degree of expertise, not only in the business, but also in respect of ESG issues.

3. Interrogation, further research and decision vote

Our analysts present the stock or issuer research, including ESG factors, to the relevant investment decision-making team, which includes senior portfolio managers, for discussion and interrogation. At this point in the process, the investment team may request further investigation into the ESG factors or a further adjustment to the valuation model to account for these.

The investment decision-making team then votes on the investment to determine its ranking on a buy or sell list. Material ESG factors can also be accounted for at this stage. They influence the strength of voting conviction and ranking on the list, and this can result in a call to activism.

4. Portfolio Construction

ESG factors are also integrated at the portfolio construction stage, especially as many ESG factors are not easily quantifiable in the valuation process. As an example, governance is not easily accounted for in a future earnings valuation. However, adjustments can be made to the weighting during portfolio construction where, taking two equally valued stocks, one may receive a higher allocation on the basis that it has stronger governance processes and structures, and is more likely to be a sustainable business.

5. Monitoring, control and engagement

All ESG factors are monitored on an ongoing basis by our analysts and M&G's Investment Risk Oversight Committee. In constantly changing market conditions, risk controls are strictly implemented. Where necessary, we engage directly with investee companies, and all of these engagements and concerns are recorded and tracked.

We've long been a champion of active shareholder involvement and on a number of levels, from directly engaging company management to challenging takeover bids. Our approach to engagement rests on building a strong, constructive relationship with the management teams and Board members of our investee companies.

Why do we integrate ESG at M&G Investments?

- To gain more information or a better understanding of issues related to the company;
- To better value a company and detect where there may be shortfalls or additional risks for shareholders and/or creditors;
- To provide a well-informed shareholder perspective to the investee company;
- To act to protect shareholder value;
- To further a theme where we believe the industry, or part of the industry, is potentially ignoring a structural or systemic ESG matter; and
- In instances where we believe we have a responsibility to give voice on behalf of clients or society.

How do we engage?

Our preferred method for engagement varies, depending on the nature of the issue and the company. Methods range from face-to-face discussions to more formal written recording of our position, to the exercise of voting rights. We can, and have, utilised shareholder rights with regard to calling special meetings, nominating directors or actively participating in company meetings. We will also collaborate with other stakeholders like fellow shareholders or industry regulators (on issues of minority shareholder protection, for example). In very rare situations, we will contribute to media coverage on an issue.

In which instances will we engage?

In order to maximise and optimise our engagements, we prefer to engage:

- Thematically within and across sectors;
- With companies where we have invested our clients' assets (although we may also engage where portfolios may have a potential future holding);
- Where ownership, either alone or in collaboration with other shareholders, is sufficient to have an impact; and
- Generally, where the holding is material in client portfolios, to give voice on behalf of clients or society.

Role of our ESG Specialists

M&G Investments' Cape Town-based ESG Specialist participates in most stages of our investment process as necessary, including sitting in on analyst research meetings and voting meetings (although not voting), and assisting in the monitoring process. They are also active in engaging with investee companies, and track these engagements while helping decide whether and when to escalate any issues that arise. They are additionally responsible for collaborating with our global specialist ESG colleagues on dual-listed companies and those industries and companies where we have particular interest. Finally, they may bring in outside experts to help in further educating analysists and portfolio managers where required.

Separately, they assist in running educational sessions for trustees, government advisers and other clients to help them better understand changes in the global and local environments, including ESG-related regulations, requirements, taxes, policies and investment-related considerations.

Our ESG Specialist is part of the global specialist team, liaising with their counterparts in other regions within M&G Investments globally, sharing expertise and information, and coordinating and shaping the company's global policies and engagements. We also have access to specialist tools for tracking company progress over time – on reducing coal emissions, for example – and for measuring compliance with standards in different jurisdictions.

Proxy voting

Regarding proxy voting, we vote on all corporate resolutions on behalf of our clients, unless our clients instruct otherwise. We vote according to our strict proxy voting policy, or according to the client's recommendation for the client's specific shareholding. We disclose our voting record to clients quarterly on our website.

Trends in ESG investing: More impact from environmental considerations

While historically most investors have paid more attention to the governance side of ESG, in recent years the others – especially environmental – have been playing a more impactful role in some of our investment decisions. Here we explain why this is, and look at some of the specific environmental factors we analyse in building our client portfolios.

In the past it was relatively difficult to quantify the future earnings impact of both government and corporate environmental policies (if the latter even existed). While this remains a complex area, these days we have many more sources of data, with much more detailed information to analyse regarding environmental risks and future costs for many entities.

"We vote according to our strict proxy voting policy, or according to the client's recommendation for the client's specific shareholding. We disclose our voting record to clients quarterly on our website."

These stem from clearer and more numerous government regulations – including carbon taxes – and companies' own business plans to reduce their impact on the environment, as well as their greater transparency with stakeholders.

The environmental cost of companies' operations has not been taken into account accurately for decades, meaning that the damage that is being done to the planet as a result of carbon emissions and high water usage (among other unsustainable practices) is much higher than the financial cost companies have actually reflected in their financial statements. The result is that future generations will have to pay for the cost of past mistakes, which governments are becoming increasingly aware of. In turn, governments are trying to drive company behaviour towards adopting new models, and to "price" for the damage being done to the planet through different taxes, restrictions and regulations.

In the future, therefore, there will be a real cost to companies based on currently "intangible costs" like tons of carbon emitted. Some companies may so far have saved millions of rands in capital expenditure, which is a real cash cost, by having avoided converting their assets to more carbon-efficient methods, and managed to remain competitive with peers that have decarbonised to some extent. In a world of high carbon taxes, however, the cost to the environment will be reflected in the financials of carbon-emitters. The result? Companies that are more carbon-efficient will gain a major cost advantage over companies that are not, potentially putting high carbon-emitters out of business.

Environmental factors in our analysis

Climate change, carbon emissions, and water and energy usage are all on our list of factors we use to assess whether a company's earnings will be sustainable going into the future, and how they impact its current valuation. Companies have been getting consistently better about improving their disclosure around ESG, with many publishing their maiden Task Force on Climate-related Financial Disclosures Report (TCFD Report), in which companies detail their climate change strategy and outline different scenarios around greenhouse gas reduction ambitions. Part of our job as investors is to analyse a company's strategy and attempt to answer such questions as:

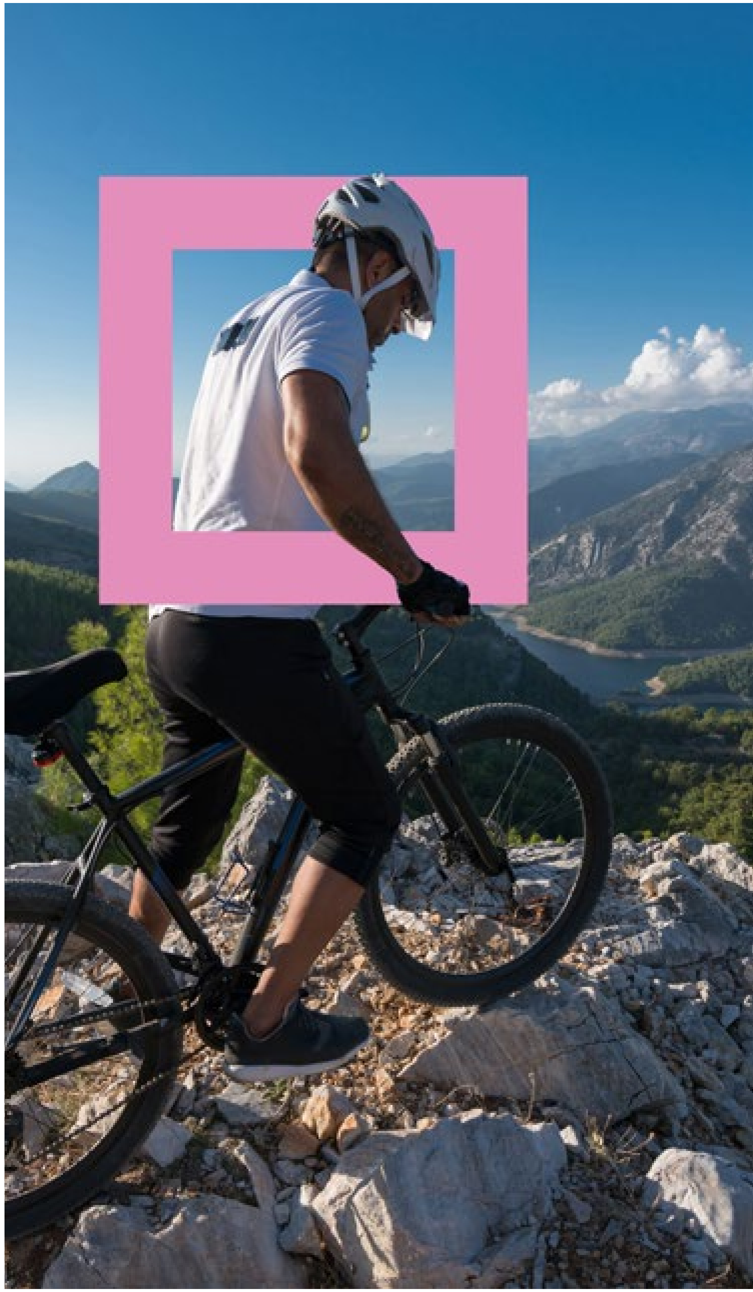
- Whether the strategy is ambitious enough to remain competitive;
- What capital expenditure (capex) will be needed in the coming years to implement the strategy;
- Whether the company's balance sheet strength (cash) will be able to carry out such capex plans without needing to raise more capital; and
- What the cash cost of carbon emissions would be for the company if carbon taxes were to be raised to levels in line with developed markets.

Banks and capital markets are also becoming more stringent in terms of lending money to companies that have a poor ESG rating, which may drive up the cost of borrowing disproportionately for different players. Certain industries will always be heavier carbon emitters than others, and therefore the key consideration is whether the company will remain competitive within its peer group if it doesn't reduce emissions sufficiently and within a reasonable amount of time. This is not a linear progression, however, given sudden shifts in taxation and the long-term nature of capital projects. Insufficient planning can place a company under significant pressure at short notice.

In reality, the ability of a company to reduce its carbon emissions is certainly not an easy task – sometimes alternatives are just not viable for different reasons, and the landscape for these options is shifting as more investments are made. Constant engagement with management teams to learn about how they are considering transitioning their businesses, learning about their challenges and engaging with them on the importance of ESG is an ongoing part of the analysis.

All these considerations may have a material impact on a company's free cash flows, its future dividends, and the valuation multiple the market will therefore assign to the company. So not only is their environmental impact an important ethical consideration for companies, but it is a key factor for investors in determining what the long-term fair value of a company is. Our ultimate goal is to determine whether the company's current market valuation makes sense in light of these additional risks, and consequently whether it is a good candidate to add to our client portfolios.

View our Responsible Investing Policy



Section 2
The year in review

Introduction

In the past year, our activities were impacted by the ongoing challenges presented by the Covid-19 pandemic, which extended well into 2022 as a result of the emergence late in the year of the Omicron variant of the virus. Other significant events included the May 2021 social unrest, looting and rioting that erupted in Durban and Gauteng, which represented a serious blow to the country's socioeconomic development, and the COP26 Climate Conference. Internally, M&G plc's assumption of a majority shareholding in our South African operations allowed us to embrace the valuable experience and expertise of our parent, and necessitated some alignment of our existing Responsible Investing and Voting policies.

Covid-19 Challenges

In 2021, the Covid-19 crisis continued to impact negatively on people, markets, economic growth and companies around the world through ongoing periodic lockdowns. As in 2020, such a major ESG event required us to focus on governance in our underlying and potential investments. However, with most underlying investee companies having largely adapted successfully to the altered environment, our analysts and other ESG staff did not need to spend as much time focussing on specific Covid-related factors as in 2020.

As such, we were able to devote more time to studying developments in the environmental arena such as new regulations, standards and policies around the world, as well as new corporate environmental strategies developed by a number of JSE-listed entities such as Exxaro and Sasol. These companies were among the most noteworthy in formulating plans towards achieving Net Zero by 2050, with contrasting approaches and effectiveness that we outline in this Report

Climate change is a very real risk. We are acutely aware that in South Africa we sit at the tip of the spear regarding "Just Transition", and we must balance the social impacts of the laudable environmental goals embraced by many entities against the medium- and long-term needs of not only South African society, but globally. Read more about our approach to this in our Investment Approach.

We also dedicated more of our efforts to social issues in the past year. The uneven impact of the Covid-19 pandemic highlighted the necessity of much greater action in this area, exposing still-grave inequalities in South African society as the poor were left further behind in terms of joblessness and healthcare services despite special government interventions. In our voting and engagements we stressed progress in BEE and transformation, as shown in examples in this Report.

The May 2021 social unrest, looting and rioting that erupted in Durban and Gauteng was a truly low point in our country's post-apartheid history. We monitored these events closely, and describe some of our responses in our engagements in this Report.

Finally, we continued to place major emphasis on governance concerns -- an area in which we have traditionally been strong. Our voting record details our governance themes, and our clients can read more about some of our top governance engagements in examples covering Steinhoff, Multichoice, and Investec in this Report.

Enhancing simple, direct client communications and access

Throughout the Covid-19 pandemic, we communicated regularly with our clients to reassure them of our ability to continue to operate smoothly and seamlessly, always having the growth and safety of their assets as our top priority. We have been proactive in providing our latest investment views, keeping them informed and helping to allay their concerns about the financial impact of the crisis on their investments. More numerous online client presentations and interactions during the pandemic have enabled us to reach far larger numbers of clients than in previous years, promoting greater investment understanding among our client base.

Additionally, during the year we continued to enhance our online functionality, security, services and tools to give clients quicker, easier and more secure access to their information, to conduct transactions, and to exchange information securely with us. Far more of our clients have chosen to go paperless, helping to reduce our paper usage and carbon footprint.

Staff training

During COVID we ran Resilience workshops with staff, as this was a key theme identified out of the LEAD programme. The result was that we could help more staff with coping skills, not just at work but at home, too.

COP26 and Astral

We were approached during 2021 by our London colleagues to assist with practical investment examples of how water access and availability, or rather the lack thereof, can impact on a business in such a material manner that it affects their viability. This was shared in a video broadcast at the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow in November 2021.

Having been aware, and actively supported, the management of Astral Foods in their struggle to access sufficiently clean water supplies for their chicken farming, we used their water project as an example of where entities have to take their own initiatives where government is failing them. Portfolio Manager Sandile Malinga filmed their challenges and solutions on-site at their farms, and this footage was presented at COP26.

This presentation gave a global stage to a real-world example of water crises impacts in developing countries. At the same time, our ability to work with Astral was a result of strong relationships we have developed with the entity over the years.

It is not always possible to build strong relationships with the management and boards of entities. But with the right boards in place, constructive relationships based on trust can allow collaboration not only between asset managers, but with the industries into which they invest.

View our COP-26 video

Revising our voting guidelines

A longer-term project that we started in 2021 involved a material revision of our internal proxy voting guidelines, partially as a result of our increased focus on ESG factors. This has allowed for:

- Better alignment with M&G plc;
- Enhanced adherence to international best practise;
- More focused articulation on common recurrent voting themes in South Africa;
- Revision and better explanation of our existing ESG practices and guidelines internally, in light of the growth in our dedicated ESG resources in recent years; and
- Improved articulation and communication of our ESG practices and guidelines for clients, given their increasing awareness of and focus on this area.

In addition, the roles and responsibilities of analysts around voting have been better articulated, as have the governance structures in which voting takes place.

As a result, our revised internal voting guidelines are now more comprehensive, up to date and clear for all participants in the voting process. Equally, we have restructured the document to make it easier for all stakeholders to understand and reference when required. Given the extensive technical nature of guidance for voting on director remuneration, this remains in a separate guidance document, as does another section dealing with the broad principles around remuneration.

Changes in our Responsible Investing Policy

In late 2021 and into 2022 we further amended our Responsible Investing Policy in order to be fully aligned with our group (M&G plc)'s Sustainable Investing Policies. These underly our goals to be a business that is sustainable and develops products and environments that target long-term sustainability. The Policy also includes a set of ESG Investment Principles, which further affirm our commitment to integrating ESG into our investment process, our approach and our belief set. These are also aligned with our group's global best practice principles.

While we have long maintained an ESG policy, the incorporation of broad principle sets provides both an anchor point in the complexity of ESG, and a lodestar for directing our broader sustainability development.

Proprietary ESG Database trials and improved ESG modelling

During the year we started trials on a proprietary ESG database. While ESG is well integrated into our investment processes, the rising number of related engagements and data, and ever-increasing ESG history on individual companies, is better tracked and recorded in a formal database.

Additionally, we started the process of overlaying international best-practice ESG risk models onto our portfolios, similar to those used at a global group level, but modified slightly to include the South African context. This not only allows outside confirmation of consistency in application, but a common language and reference point as we further integrate our research and findings with our global group. Finally, it also allows rapid access to common areas of ESG across the global investment and reporting teams on ESG issues facing sectors and stocks, and for risk reporting functions.

"The uneven impact of the Covid-19 pandemic highlighted the necessity of much greater action in this area, exposing still-grave inequalities in South African society as the poor were left further behind in terms of joblessness and healthcare services despite special government interventions."

Section 3

Engagements: case studies

Introduction

When it comes to engaging with clients, it's important for clients to note that we measure success not by the number of engagements we hold, but rather by the relevance and quality thereof, and the extent to which our activities drive meaningful change.

In 2021 we held dozens of sustainability- or ESG-related engagements with listed companies, parastatals and other entities in which our funds are invested on behalf of our clients. We have chosen a handful of these to share in each of the "E", "S" and "G" categories that provide perspective into their wide-ranging nature, as well as highlight the complexities and nuances of the challenges that arise in exercising our duties as stewards of our clients' hard-earned savings.

Environmental issues - climate change and decarbonisation

Eskom: Constructive engagement and securing assistance

Eskom is without doubt dysfunctional in many areas of its operations, hampered by decades of government neglect, and internally troubled by corruption. It is also one of the designated Climate 100+ companies, which means it is one of the world's largest polluters. Its role in South Africa makes it too important to fail: everyone has an interest in helping it to turn around successfully and to transition away from coal. However, it is not able to begin pivoting away from its reliance on coal towards a "Just Transition" of its own accord. Importantly, much of its debt is government-guaranteed, lowering some of the risk to investors.

In our view, rather that treat it as a pariah and deprive it of capital, investors should seek to assist those areas of the business that are seeking funding for cleaner energy assets. We believe that at present, despite its many acknowledged shortcomings, there is strong promise and areas of 'excellence' in their climate team and JET (Just Economic Transition) plan.

This was evidenced by one of its senior staff, Ms Mandy Rhambarosa, attending COP-26 and playing a pivotal role in two key areas. The first was assisting in resolving key outstanding differences between nations and economic blocks that were residual from the original Paris Agreement. The second was the securing of US$8.5 billion for South Africa for green energy-related projects. The latter was achieved on the second day of the Conference, indicating enormous upfront preparation by South Africa's climate team and Eskom.

In our engagements with Eskom over the past year, we have noted shortfalls between the funding Eskom has actually achieved and its plans, as it copes with political influences around government policy and resistance. We are engaging to create more awareness and support, to set up potential funding collaborations, and to create a constructive space for dialogue with the SOE.

To this end, during the year we participated as a collaborating investor in engagements with Eskom through the CA100+ Initiative, where the group began discussions on possible uses for the concessional funding pledged to South Africa at COP-26, the de-commissioning of coal power stations and addressing base-load power needs.

Our 2021 engagements with Eskom have been successful, and during 2022 we are drawing in asset managers who have not had access to this information so that they can possibly lend financial support and an ear to successful projects being rolled out in the green energy space.

Observation

We see our role as being a constructive player in the market, driving helpful and supportive dialogue, and creating shared information. It is easy to be vocal and continually criticise a state-owned entity that is failing. This would, however, make us just another party pointing at the problems. We recognise that we are part of a larger "ecosystem" in the financial markets, and can utilise this for greater good. This does not mean asset managers should be blind to the risks SOEs pose to investors, including those who invest in their debt, and simply the broader economic infrastructure on which we all depend. But at some point where we find areas of excellence, these should be supported.

Sasol and Exxaro: Two paths to Net Zero

During their Capital Markets days in September 2021, both Sasol and Exxaro unveiled their plans for achieving net zero carbon emissions by 2050. This was a radical target for both, given that the first has coal as a key input in its business, and the other is primarily a coal miner. Both are keystones to the SA economy, with Sasol being a major fuel and chemical provider and Exxaro helping Eskom keep the lights on.

In our view, the difference in the level of detail in these plans was quite marked. Exxaro, being aware of its capital allocation difficulties in the past, laid out in tremendous detail how this transition (or pivot) could be achieved, encompassing part learnings, fundamental principles, minimum requirements for projects, and timelines for current and future projects, along with risks to these. Some of these have shifted in the past period, but the level of detailed planning and scope remains impressive.

By contrast, Sasol provided far less detail in its strategy, setting targets (5% green hydrogen) by 2030, but nothing beyond this. The company painted a picture of being a global leading green hydrogen manufacturer of the future, incorporating carbon capture into its process, but this was more a “glimpse into the potential future” than a concrete road map.

We understand the reason for this: Green hydrogen manufacturing has yet to be undertaken at scale, transportation is complex, and the touted use of carbon capture is not emissions-free – instead, it releases carbon already captured, and is little different to using other captured carbon in the form of coal.

It would be easy to critique Sasol for falling short of the detail provided by Exxaro. The reality, however, is that Exxaro can move to green energy by using already-proven products and incorporating tried-and-trusted methods, and entering into joint venture relationships with sufficiently established partners. Meanwhile, Sasol faces a more complex challenge, and readily admits to relying on technologies not yet developed to succeed. Nonetheless, it is being bold enough to claim to be reaching for these goals.

With these considerations in mind, we voted in favour of a non-binding resolution to endorse Sasol’s climate change report. It has improved its climate-related disclosure, set more ambitious emission- reduction targets and been more transparent about its plans.

For Exxaro, our stewardship role will primarily come in the form of monitoring progress on their existing commitments, understanding and helping to overcome unexpected challenges that arise, and understanding their use of cashflows, which are critical to moving green projects forward.

For Sasol, the interim step of transitioning away from coal to natural (not bio) gas as a temporary feedstock and energy creator is extremely important, and is a more tangible issue for shareholders to help address in the near-term compared to green hydrogen as technology progresses. Our analysts must balance scepticism over the long-term achievement of Net Zero with the changing reality and technologies as these develop, and potentially enable full implementation. Analysts also need to realise the entity will need to balance cash requirements for capital investment for the transition against its need to pay increasing carbon taxes: in short, determining the impact of funding the transition they actually need, Additionally, there is cognizance of the key role Sasol plays not only in the broader economy, but in regional employment, and in provision of products that are essential to South Africa but not always easily imported.

We engage in regular dialogue with both companies. Both tend to be sporadic in sharing information on their environmental strategies, so engagement and communication as new developments or milestones creep closer will be key, as will measuring the maturity of each entity's plans. Both operate in a landscape that is shifting faster than ever before in terms of carbon taxes and emissions, as well as potential long-term product demand. It is no longer "business as usual" after the better part of two centuries of coal mining and use -- we are entering a crucial phase of the South African economy's evolution, balancing climate change imperatives with the need to maintain a functioning economy and society.

PPC: Technological progress a key to de-carbonisation

PPC, one of the largest cement producers in southern Africa, is one company we hold which has large carbon emissions. Cement producers by their nature emit high levels of carbon, around half of which result from the energy-intensive nature of the process and the other half from the chemical reaction that takes place in producing the clinker (called the calcination process, where the limestone is heated to extract the calcium oxide but releases carbon dioxide as a by-product). For this reason the industry is considered hard to abate.

The company has been de-carbonising since 1990, having already cut its CO2 emissions across its power generation system nearly 30% since then. PPC has a plan to cut its emissions from current levels by 10% by 2025 and by 27% by 2030, and has an ambition to reach Net Zero by 2050. It has set aside a budget of some R664 million to achieve its 2025 target in several ways: investing in renewable energies such as wind and solar power to add to its mix of energy sources; using alternative fuels to coal; and making its plants more efficient, among other initiatives. These initiatives contribute positively to the reduction of PPC's carbon footprint, reducing the CO2 intensity in cement while at the same time lowering production costs and therefore improving shareholder returns.

An area where much of the reduction in emissions can be achieved over time is from shifting the company's energy sources away from coal, but the calcination process is very difficult to adjust: the carbon dioxide emissions from this process cannot yet be viably captured on such a large scale, but using extenders, which leads to less clinker per bag of cement, will play an important role in the shorter to medium term. In the longer term, however, PPC needs global technological advances to make large inroads into reducing its emissions. The success with which it manages and meets it short-term targets is an element we regularly assess, since this gauges management's commitment to, and sincerity in, achieving their long-term goals.

Environmental issues - water

Water accessibility, usage and conservation has been one of our primary areas of focus since 2019, and it remained so in 2021. This aligns with Goal #6 of the UN's Sustainable Development Goals: Ensure access to water and sanitation for all.

In fact, water issues are also of special importance to the wider M&G plc group. We were very pleased to have played an active role at the global COP-26 meeting during the year by sharing a video presentation highlighting South African listed group Astral as an example of the complexities of water supply and the supporting roles companies can play in communities.

"Sustainable Development Goal 6 goes beyond drinking water, sanitation and hygiene to also address the quality and sustainability of water resources, which are critical to the survival of people and the planet. The 2030 Agenda recognizes the centrality of water resources to sustainable development and the vital role that improved drinking water, sanitation and hygiene play in progress in other areas, including health, education and poverty reduction."

– UN Environment Programme

Astral: Local realities, global goals

Chicken farming group Astral Foods is an excellent example of how water access and availability, or the lack thereof, can impact a business in such a material manner that it affects its future viability. In 2021 we actively supported Astral's struggle to access sufficiently clean water supplies from local government, which ultimately resulted in the company building its own water infrastructure, as well as that for local communities.

This presentation gave a global stage to a real world example of water crises impacts in developing countries.

Observations

Our ability to work with Astral in bringing a "live" example to the world stage of the impacts of local government failure to deliver adequate water supplies was a result of the strong relationships we have built with the company over the years. Although this is not always possible with every investee, with the right boards in place, constructive relationships based on trust can allow collaboration not only between asset managers, but with the industries into which they invest.

Umgeni Water: Operational challenges take priority

Our holding in Umgeni Water is very small, largely because of historical (and current) corporate governance concerns around its frequent board member changes, which add to its investment risk. However, we believe it is worthwhile pursuing constructive discussions regarding operational issues at this SOE (and certain others) due to: 1) its critical social mandate in KwaZulu Natal (KZN); and 2) gaining timely information on its ability to repay its debt.

During 2021 we felt engagement was necessary to follow up on our view that Board changes and committee shifts, as well as ongoing governance investigations, had not been effective in improving water delivery to poor communities. We were additionally concerned that revenue collections had been insufficient to keep the entity financially viable, and about reports of infrastructure problems at critical water supply points, such as its Durban Heights plant.

In late November we engaged initially with management, and subsequently with senior operational staff in the field in 2022, seeking comfort on specific concerns at the Durban Heights plant regarding levels of maintenance, how the issues arose, the company's plan of action, the staff involved, and their resolution timeline. This also allowed an opportunity for broader information-gathering on management's views on the degree of stress on water sources in the region, its future projects, and balancing it costs to supply water versus the ability of municipalities to pay, while still providing basic needs to both communities and major clients.

The establishment of relationships and a level of trust with Umgeni Water gave us the right contacts and deeper understanding necessary to quickly ascertain the impact of the May 2022 floods in KZN on its operations and revenues. It also gave us greater insight into the utility's major clients like Astral. The impact of the floods will be discussed in our 2022 Sustainability Report.

Observations

Frustration with SOEs at the top Board level should not prevent our constructive support at an operational level, especially when it comes to critical social services understanding complex social impacts and nuances. Apart from engaging on governance issues at the Board and management levels which can prove difficult to resolve for political reasons, responsible investing also requires engagement at the operational level of an SOE. This is for two reasons: We can benefit from shorter-term assurances that the entity can continue to operate and generate revenues, ensuring the safety of its debt repayments. This also helps ensure that it can continue to deliver critical water services and support the city of Durban. We prefer not to choose the easy option of simply walking away due to poor governance issues, but rather to recognise the need for us to play a positive role in improving the sustainability of our wider communities.

"Frustration with SOEs at the top Board level should not prevent our constructive support at an operational level, especially when it comes to critical social services understanding complex social impacts and nuances."

Social (and Transformation) issues

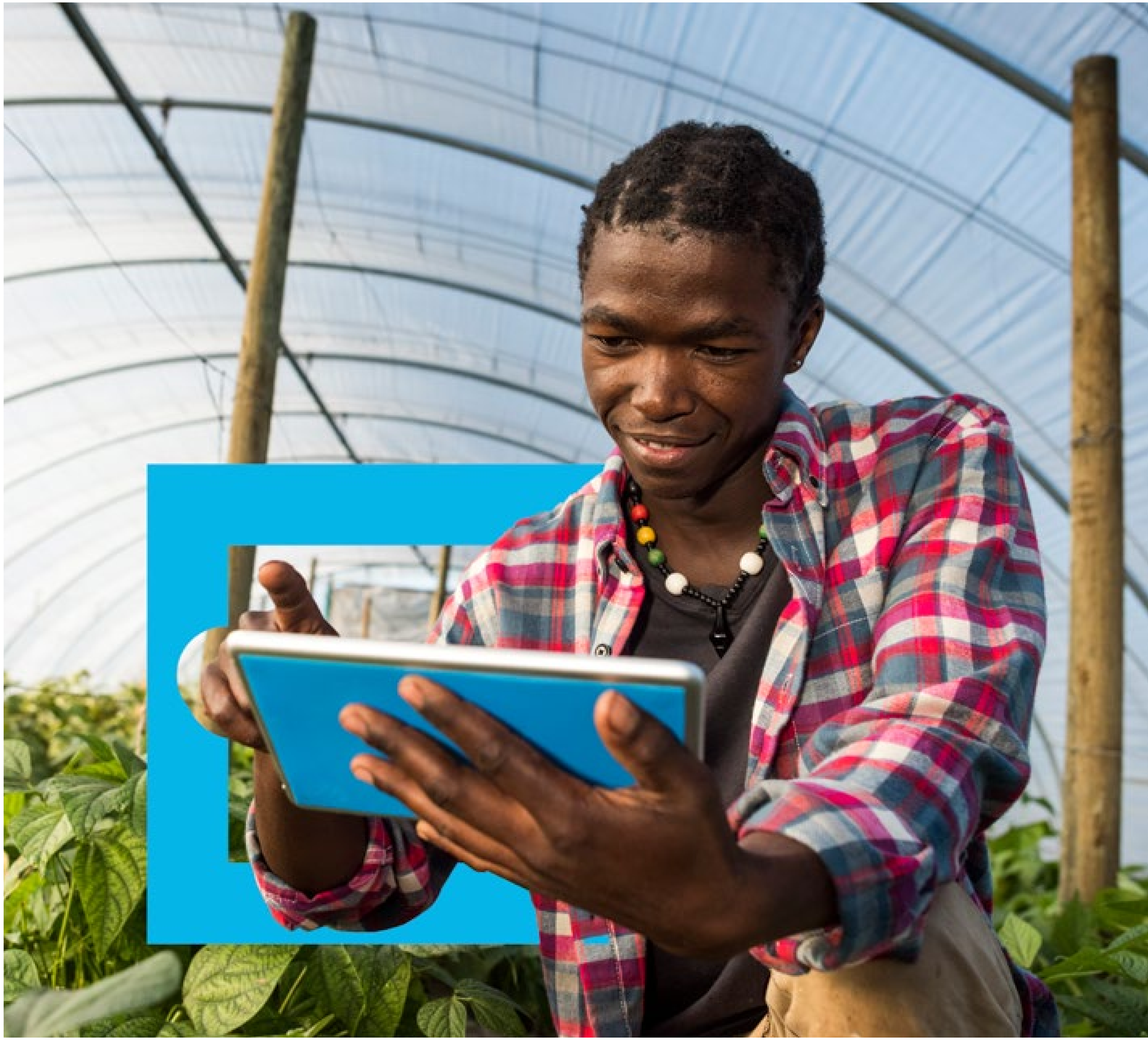
Responding to social unrest

July of 2021 saw the emergence of significant social unrest in South Africa involving extensive looting and violence. While this flared up in many areas of the country, KwaZulu Natal was particularly hard hit. From an investment perspective, the damage suffered by listed companies in the retail and property sectors, although large as measured by absolute costs, was ultimately limited by the existence of insurance and the companies' operational diversification. However, the impact on the regional economy and smaller businesses was severe: many shops may never reopen, and the victims of the violence will suffer long-term consequences on a number of levels.

Fortress: People vs property

In the course of our engagements with affected companies, listed property group Fortress stood out as complex example of the role commercial entities play in surrounding communities, and how the latter can become dependent on the former in the absence of adequate local government services.

During the riots, a tenant of Fortress was fire-bombed, and water used to extinguish the blaze leaked into the Mhlanga River tributaries, carrying toxic chemicals and closing beaches for some time. This had several root causes, but buildings seldom have full fire-fighting capabilities – they focus on suppression of the fire until fully equipped fire services can arrive. However, the riots physically prevented the fire services from reaching the



destination timeously, causing more damage than would otherwise have been expected. The same violent crowds also caused the police to withdraw from the scene.

Observations

Aside from interesting liability questions stemming from the pollution and damage, this unprecedented incident was a good illustration of how little companies can do to prevent damage to their property in the absence of fire and police services. Fortress' security teams were standing alone against large crowds, and the company (rightly) took the decision that it was not prepared to risk human lives in the defense of property. Companies, when employing rapid response teams, should carefully consider the consequences and instruct the appropriate type of behaviour under different sets of circumstances.

Asset managers need to understand how certain companies react under extreme social pressures. A security guard may pull the trigger, but it will be under a mandate from the client, who in turn may be under shareholder pressure to protect assets. This brings quite an onerous obligation on shareholders in our particular socio-economic and political dynamic.

Vukile Property Fund: Community support vs dependency

Another interesting engagement arising from the unrest was with Vukile Property Fund. The group has operations in KwaZulu Natal that suffered damage, notably its small shopping centre in Hammarsdale, a town with a long and complex history of political and industrial actions. A consequence of this history has been that Vukile, along with other retail and property operators in the area, has been focusing on preventing, or at least mitigating, these incidents by engaging more actively with communities. Here the emphasis is less on intermittent security and threat response issues and more on long-term community upliftment and general social, crime prevention and safety issues.

Observations

Given that communities often mobilise at the behest of their leaders, corporate relationships with communities can be complex. Companies need to be aware that there is a real risk that companies become beholden to community leaders who leverage their position for their own gains: then one has inadvertently created a protection racket.

To avoid this, support should be provided at both the leadership and broader community levels.

In our view, certain listed property companies such as Vukile appear to be finding the correct level of sincere support and synergies with the communities in which they operate, without creating a dependency relationship. Nevertheless, such relationships in no way guarantee the safety of property or staff – for now, until the longer-term socioeconomic issues are resolved, there is no substitute for insurance and appropriate safeguards.

BEE transactions

BEE transactions are effective tools to distribute economic wealth more equitably between racial groups and rebalance the detrimental effects of apartheid on the ability of the vast majority of the population to effectively participate in the economy and wealth creation. These transactions, while furthering an important social construct and agenda, may have the potential to dilute existing shareholder ownership in order to give formerly disadvantaged communities access to share ownership on an affordable basis.

Asset managers must delicately balance the longer-terms goals of economic empowerment against the potential shorter-term loss in value for their clients through dilutionary effects. The latter is particularly impactful in cases where stocks are not guaranteed to be appropriately priced once the longer-term positive social and economic effects of the transaction are realised. Our basic guiding principle when analysing these transactions is the need for BEE transactions to be effective, not too dilutionary, and most of all fit for purpose to meet the correct long-term transformation requirements and imperatives.

In reality, navigating BEE transactions is highly complex. The legislation is effected by regulations that are at times unclear, under legal challenge, or do not adequately reflect the spirit and intention of the legislation. In addition, each sector may apply its own regulations, which can equally be unclear, ambiguous, open to interpretation and untested in law. Finally, the forums under which such transactions might be challenged lend their own interpretations.

Observations

It is impossible for asset managers to strive for complete expertise in all areas of BEE legislation, regulation and sectoral regulation. We have recognised that this is an area where, although we can have a degree of knowledge to navigate the principles, we require outside expertise on the finer details of a transaction's compliance and fitness for purpose.

The result is that we engage with consultants to government to understand the founding principles and spirit with which new legislation and regulation is being drafted, and how it might be amended in the future. Equally, we have engaged leading BEE transaction attorneys to understand the nuances and latest development in these transactions.

ABSA's BEE transaction

ABSA bank provides a good example of how we have approached a proposed BEE transaction.

As background, while ABSA was the first bank to complete a large-scale BEE transaction many years ago, its timing was such that, unlike subsequent BEE transactions by other banks, it missed an effective "once empowered, always empowered" status. As such, ABSA's existing empowerment scheme is expiring, and a new transaction needs to be competed to continue its transformation journey.

Our attempts to engage the bank on the scope of its transaction have been difficult; however, we respect that at times these discussions were at a sensitive stage. One aspect we have focused on is whether a new transaction is necessary from the point of view of the impact for existing shareholders. As we believe there is legal uncertainty surrounding its requirement, we engaged both experienced attorneys and regulators on the matter.

Complicating the proposal was that, prior to engaging major shareholders such as ourselves, ABSA announced that staff would be strong beneficiaries. We are not averse to staff ownership; to the contrary, staff ownership is generally proven, if properly implemented, to incentivise staff and benefit the entity as a whole. However, our concern lay in that we wanted any transaction to be truly transformative at the desired level -- we did not want to see the enrichment of already well- remunerated staff for whom this would not offer major economic upliftment.

Going into 2022, we remain short of information and have continued to engage with the outgoing Chair, lead independent director (LID), and new Chair on diversity and appointments, and the consultation process.

"In reality, navigating BEE transactions is highly complex. The legislation is effected by regulations that are at times unclear, under legal challenge, or do not adequately reflect the spirit and intention of the legislation. In addition, each sector may apply its own regulations, which can equally be unclear, ambiguous, open to interpretation and untested in law."

View our B-BBEEE certificate

Governance issues

Steinhoff: Wrapping up the class actions

In 2021 we saw considerable progress in finalising the class action suits spurred by the collapse of Steinhoff, and we were happily proved correct in our choice of joining a suit led by the Dutch non-profit legal group VEB, as well as having been successful stewards of our clients' assets.

Class actions in reality are more complex and conflicted than they appear. They are often run by law firms who specialise in this type of procedure, which may not be the traditional class action suit – rather they tend to be ceded claims into a special purpose vehicle (SPV). The law firms are often then backed by a financial group that specialises in funding these claims for a cut of the fee.

It is not hard to imagine the conflicts that can arise with these: claimants have ceded their claims, and the lawyers driving the claims do so under direction of a financial backer. To make matters more complex, some of these do not even file legal papers, but seek to ride on the coattails of other claims, finding a seat at the table once other firms have lodged legal papers.

While our exposure to Steinhoff was considerably smaller than most, we were the only investment manager who chose VEB. This was due to its exceptional track record in this area and its status as an NGO -- it pursues claims not based on profit, but in the interests of furthering justice through class actions. Not only are its fees lower, but they are used to fund future claims. In fact, VEB waived its fees in the case of Steinhoff despite its extensive work bringing the matter to a head. It proved to be the legal firm taking the most constructive approach to the class action, by balancing the importance of remedial payments for shareholders with the need to keep Steinhoff financially viable for remaining shareholders and the welfare of its many employees. VEB was the only firm to file legal papers, while driving the key settlement and achieving a graceful exit, resulting in a favourable solution in an unusually short period of time.

Observations

Class actions need more careful thought than simply the idea of achieving a potential payout at no cost, given the presence of external funders and contingency fees. A class action settlement can have long-term implications for existing or remaining shareholders, and for the economic structure in which that entity operates. Often times the entity can be destroyed in the process, leaving little value to be reclaimed. Additionally, if clients are ceding their claims to SPV entities, they may potentially lose the ability to shift to another representative.

MultiChoice: A lack of independent directors

MultiChoice was spun out of Naspers in March 2019, a transaction that happened relatively quickly and, in retrospect, without the amount of time necessary for it to put in place sound governance structures. This resulted in the rapid appointment of Board directors, particularly non-executive directors (NEDs), including a former executive as lead independent director (LID). This was not ideal, and the individual was replaced in April 2020. However, his successor unfortunately passed away in June 2021. This in turn resulted in the current LID appointment also being a former company executive, leaving this position "compromised" under sound governance guidelines. Together with the current Chairman of MultiChoice being a former CEO, this left governance at MultiChoice lead by NEDs with very close ties to management.

MultiChoice shareholders collectively have a dim view of governance at the company, demonstrated by the Board having failed in its remuneration vote with possibly one of the lowest levels of support seen on the JSE. Our stance against the 2021 remuneration vote was based partly on insufficient disclosure and an excessive fee arrangement with the current Chairman/former CEO, who was paid R58 million in FY2021 and R17 million in FY2022 under a five-year restraint of trade agreement.

Observations

Important governance fundamentals are clearly not yet in place at MultiChoice, making it very difficult to see the Board as being truly independent. This has been exacerbated by the complexity of the Chair and the CEO both residing in Dubai, a city with no corporate operations. These issues raise questions as to whether the Chair is not essentially remaining as an executive. With governance discussions ongoing into 2022, these developments have resulted in extensive remuneration changes at the company, to be covered in our 2022 Sustainability Report.

The complexity of being a steward of our clients' investments arises in this case in that, although It would be easy to oppose directors who are deemed not sufficiently independent, MultiChoice's NEDs do offer years of very critical experience unique to both the entity and the industry in which it operates, and have played a role in its ongoing success. Responsible investors must sometimes balance requirements of independence against taking actions that could harm shareholder value in the short term, deciding where exceptions to guiding principles can be made and closely monitor them.

We addressed these issues along with other governance concerns in formal correspondence to MultiChoice in late 2021, in conjunction with meetings with Board in early 2022. While being one of their most outspoken critics on the lack of independence, we sought a compromise with the Board. This was after having received undertakings that new additional NED's would be appointed to balance the Board, and the LID would relinquish his position as LID (though not as an NED) within the next 24 months. We also received sufficient information to temper our shorter-term governance concerns around the impact on strategy, This, in our view, enables an appropriate transition to better governance, while leaving sufficient support for the executives in the interim.

"Responsible investors must sometimes balance requirements of independence against taking actions that could harm shareholder value in the short term, deciding where exceptions to guiding principles can be made and closely monitor them."

Investec: How improving governance can unlock value

One of the keys to Investec's successful growth has been its entrepreneurial approach to business, led by strong individuals playing a key driving role and taking on risks that competitors may have shied away from. As such entities mature and expand into different, more traditional, market segments, investors would expect to see more risk mitigation and the culture become increasingly corporatised and formal. So when the market does not detect this maturity, they will often continue to place a heavy risk premium on such companies, regardless of their success or how long they have operated.

Such has been the case with Investec, whose history has been characterized by risky behaviour including a number of allegations over the years involving senior investment staff; the "Fishrot" scandal of 2019; the close association and shared business interests of one of its executive and Marcus Jooste; the JCI/Rand Gold/Kebble matters of 2014 and other press reports of the past.

Although none of these incidents caused specific material losses, coupled with strategic failures such as the ill-timed purchase of Kensington (the sub-prime UK lender), losses suffered via Tiahne Chemicals (an IPO out of Hong Kong), and more recent structured product losses, etc... it is hard not to conclude that until recently, the company's governance and risk oversight have been poor.

The most recent example of Investec's risky behaviour concerns the "Cum-Ex" tax fraud scandal in Europe, where it allegedly offered funding of up to Euro 250 million to those responsible for the schemes that facilitated this fraud. Although this case occurred several years ago, Investec did not adequately disclose it to shareholders until they were implicated in the media.

The German Federal Court noted that the targeted cum-ex transactions were not "the mere exploitation of a loophole in the law because the legal regulation was clear. It was much more a matter of getting a smooth grip on the till which all taxpayers normally pay into, as is the case with normal sales tax fraud".

The "Cum-Ex" transaction is of course very concerning to us. It is worth noting, however, that other banks were involved. We have singled it out because it illustrates yet another example of Investec operating in markets and industries where it does not adequately understand the risks. That is, in and of itself, part of the governance process that we seek to address. From an engagement point of view, we continue to push for independent third-party investigations into the matter. We do not appreciate the backward-looking nature of past scandals where the bank waits for government to investigate and/or prosecute individuals. We think a proactive attitude will go far in addressing any lingering governance concerns.

Observations

We are a shareholder in Investec despite these shortcomings because it offers an attractive valuation with adequate compensation for shareholders for these risks, and some of its core businesses are of high quality. However, it continues to trade at a discount to its peers. As such, we have been engaging management around fundamental ways for it to improve its risk-related processes. The company requires a fundamental shift in culture to one of good governance and checks and balances, while also avoiding concentrating unchecked decision-making power with key executives. Should it be successful in achieving these, we believe the market would find the entity a more credible investment case, allowing for a higher rating and unlocking value for our client's investments.

To this end we have been actively engaging Investec during the past few years. We have assisted in the placement of a non-executive director on the board (who also furthers diversity of gender and race), and we are developing strong relationships with the new Chairman. We continue to push for placement of further truly independent non-executive directors with strong banking and regulatory experience, and have been pleased with other appointments it has made of late. Additionally, we have met with the group's new non-executive directors in Europe, and have built a stronger relationship with the Chairman based on an "open-door invitation."

Our engagements have borne fruit for both sides. We are seeing positive changes at the bank, and there has been internal reflection at Investec. The share has also experienced a partial re-rating that we believe is related to these efforts. However, if we can assist in driving even better governance and risk oversight, and this reflects in the market rating, then, as mentioned above, this will result in even stronger value unlock for our clients.

Board Oversight: Checking Directors' backgrounds

In 2021 we found ourselves devoting more time than usual to conducting background fact-checks on newly appointed non-executive directors (NEDs), using publicly available information. At times we even interviewed their former peers and fellow Board members.

On occasion we have found some Board appointees with highly questionable backgrounds that raise very strong questions around their potential suitability.

In one example, at **Company A**, a newly appointed NED had been a significantly senior individual on the state energy board, and his private company had been one of the three largest beneficiaries of the highly controversial 2016 sale of oil reserves. In addition, in a prior capacity, the individual had issued a cheque to the benefit of the dominant political party from another state entity at which he worked a few years prior under the previous presidential regime.

On raising these issues with the entity, the Chairman claimed he had no knowledge of them, and we understand on engagement that the sole recourse taken was for the Chairman to interview the candidate for an explanation. Despite receiving assurances that the conflicts of interest were managed, this is remains an example of where we have information that raises strong doubts on the candidate's appropriateness at an entity that, at the time of appointment, was battling to secure government contracts.

In a second example, the former CEO of a parastatal had been appointed as an NED of a resource company **(Company B)**. During the individual's tenure at the helm of the parastatal, the entity ceased

to be one of the world's sole providers of crucial components for cancer treatment. Equally, while heading up another component of the parastatal, the failure to issue certificates of compliance cost industrial companies an estimated R4 billion as they could not sell new products, nor export existing products. The parastatal also lost its international accreditation as certifier of a number of key products from our markets. The inability to obtain certification could have been the death knell for a multitude of our local industries, particularly those providing manufacturing for overseas markets, and at best cost well into the billions of rands. Parliamentary minutes suggest that the parastatal's loss of capacity was a result of deliberate actions of the individual.

"Shareholders should do their best in exercising their power to create boards that represent them adequately, have sufficient expertise, and employ appropriate and honest business practices."

For instance, the parastatal was unable to test the strength of concrete and cement imports into South Africa from the rest of Africa, which subsequently were shown through independent testing to at times be significantly (73% weaker) structurally inferior, putting people at risk. In short, this failure put infrastructure and lives at risk. The SOE was also failing to audit the local content of products supplied in government contracts as stipulated in government's Industrial Policy Action Plan, opening the door to abuse of government contracts.

To exacerbate matters, the individual was implicated in circumstances surrounding state capture, where the SOE of which he was CEO allegedly obstructed investigations by the DTI and Treasury, and retained false documentation, while also refusing to cooperate with Parliamentary oversight committees.

Similar to Company A, the Board of Company B simply stated they had interviewed their peer non-executive director, and they had adequately addressed all the concerns. Again, there was no evidence that they sought independent investigation, in spite of damning evidence on the above points. The NED received support from shareholders, raising questions on how well these shareholders research the directors that are appointed to represent them. Clearly, in many cases it has proved dangerous to simply assume that the appointees have been adequately vetted by incumbent boards; deeper shareholder investigation has been required.

We can offer only one example of an NED leaving an entity upon revelation of their prior track record. A director at a major bank, where they were previously employed as its parent, had been founding wanting in UK High Court in respect of revealing whistleblowers to management; the court found the individual had served as a poor role model at that entity. In a twist or irony, they were promoted to a head of governance role, and later appointed to a South African bank board to represent that entity. The SA board was unaware of this UK High Court tribunal finding, despite it being public record, with a full transcript of the judgement being available and easily located on the internet. After we raised these facts publicly at an AGM, the executive departed, though alternative reasons were provided.

Observations

This shows the importance of thoroughly investigating the background of individuals, but care is required before applying a broad brush to individuals purely based on their association with their previous employers. In one case we received a request to avoid supporting a particular director who had a history with state capture at an entity. On conducting our own 'deep dive' investigation, we built a timeline and discovered they were appointed well after the issues took place. Not only this, but they were also reported to have been successful in resolving some of the broken processes at the entity and weeding out those connected to state capture. Consequently, rather than opposing the appointment, we supported it.

In our view, shareholders should do their best in exercising their power to create boards that represent them adequately, have sufficient expertise, and employ appropriate and honest business practices. Our ultimate duty is to our clients, and Boards serve shareholders, while those shareholders seek the best candidates. Shareholders are entitled to reject those that are potentially not well-suited to the position. Finally, Boards must not only be above reproach, but must be seen to be above reproach.

Section 4

Voting themes and record

Voting highlights and themes

Proxy Voting summary

	12 months to 31 Dec 21
Number of resolutions	2090
Number of resolutions voted for	1809
Number of resolutions voted against	280
Number of abstentions	1
Number of intentional abstentions	0
Number of non-intentional abstentions	0

In 2021, in South Africa we cast approximately 2,090 votes on company resolutions during the year. This high proportion is due to our large representation in our local market and therefore the large number of South African stocks held in our portfolios.

We also cast a large percentage of dissenting votes at meetings compared to other regions in the group. Most of the dissenting votes were cast on governance-related matters, with a large majority of these regarding **capital structure**, as boards requested blanket authority to issue shares generally and unconditionally. In line with our policy, we continue to oppose overly broad resolutions that empower directors to raise excessive capital without shareholder consultation.

Another area where we opposed resolutions was centred on **director appointments**. This would be where, based on our investigations, the director was not sufficiently qualified or experienced for the entity or a specific sub-committee, had conflicts of interest, was 'over-boarded', or we did not believe they were sufficiently independent for such an appointment or categorisation.

Remuneration remains a hot topic, and we have opposed a few remuneration policies and/or the implantation resolutions. Our approach is to work with entities where they are not matching basic requirements, or these are not sufficiently aligned with shareholder interests, and should there not be adequate progress we tend to oppose these resolutions. Overall, we continue to see general improvement in remuneration policies, although there have been a few stand-out disappointments.

A final topic of dissent has involved **audit rotation resolutions**, which for some entities we feel is simply being left too long, with some entities having appointed the same audit firm for over half a century.

On the approvals side, a highlight of our voting this year involved approving a set of proposals implementing **new B-BBEE transactions** for both Oceana Group and Northam Platinum. In the latter case, we supported the early winding-up of its 2015 B-BBBEE deal to crystalise material value for the incumbent empowerment partners, which transferred R13 billion of value to shareholders and allowed Northam to buy back a portion of its shares at a discount. As part of this, a new B-BBEE deal was proposed that would see Northam's employees and communities become the primary beneficiaries, the finalisation of which is ongoing.

As a final highlight, encouraging progress was seen in companies planning for a greener, more sustainable future: we voted in favour of **more ambitious and aggressive corporate strategies for carbon emissions reductions** – notably those proposed by Sasol, Exxaro, Glencore and Northam. Read more about the first two cases in this report.

"On the approvals side, a highlight of our voting this year involved approving a set of proposals implementing new B-BBEE transactions for both Oceana Group and Northam Platinum. "

All of the details on our proxy voting record for 2021 and the first two quarters of 2022 can be found on our **website**.

In addition, we have included information on what we consider to be our most important engagements for the year in the Appendix to this report, to give readers more insight into our stewardship activities. This complements the Case Studies we have chosen to include in more depth here in **Section 3**.

View our latest proxy voting records

Q1 2021
Q2 2021
Q3 2021
Q4 2021
Q1 2022
Q2 2022

Appendix

Overview of selected engagements

This Appendix contains a selection of engagements M&G Investments held during the year. This is not an exhaustive list, including only interactions involving shareholder activism on our part. It excludes all company engagements that were a routine part of each analyst's normal information-gathering on ESG topics to inform our investment modelling or views. Additionally, it excludes certain engagements sensitive to our investment case, and those deemed inappropriate for public disclosure.

Equity

Date	Super Sector	Stock	Engagement Activity	ESG Classification (E, S, G)
Q1 2021	Chemicals	Sasol	Discussions and email correspondence on remuneration aspects, withdrawal of proposed shareholder resolution, and ESG metrics, including green energy.	E G
Q1 2021	Financials	Quilter	Engagement at one-on-one management meeting at Quilter governance roadshow.	G
Q1 2021	Financials	Coronation	Governance call on remuneration policy.	G
Q1 2021	Technology	Prosus	Governance call on remuneration policy.	G
Q1 2021	Property	SA Corporate Real Estate	Special meeting with Non-executive directors on broader governance matters, strategy, potential concerns of shareholders.	G
Q1 2021	Healthcare	MediClinic	Engagement facilitated with the new Chairlady at MediClinc, and Investor relations - discussion on aspects of corporate governace, structures, reporting, risk management, and social and ethics considerations. Also touched on Environmental aspects and reporting.	E S G
Q1 2021	Banks	FirstRand	Subsequent engagements with both the Chairman of the Board and the Chairman of the Remuneration Committee, and HR representatives.	G
Q1 2021	Banks	ABSA	Discussion on remuneration and governance aspects.	G
Q1 2021	Banks	Investec	Discussions with Non-Executive directors on governance matters, with a focus on governance structures, processes, director appointmens and succession plans, and additionally discussion on remuneration. Brief discussion on funding of gas and coal power. Additional formal correspondence pre-ceded these discussions around ambit of areas of concern / interest.	E G
Q1 2021	Retail	Truworths	Discussion on environmental metrics specfically, and potential industry providers and ratings on the procument / store side.	E
Q2 2021	Chemicals	Sasol	Discussion on energy mix, renewable energy targets, potential conversion to natural gas and use of green hydrogen. Further separate discussions on remuneration aspects.	E G
Q2 2021	Basic Materials	Glencore	Discussion and engagement with Chairman on general governance aspects including inter alia succession planning, new CEO and governance controls, and region specific changes on governance and process aspects.	G
Q2 2021	Industrial Goods and Services	Mpact	Governance call with focus on remuneration policy .	G
Q2 2021	Banks	Nedbank	Annual one-on-one governance meeting with Chairman, CEO Investor Relations.	G
Q2 2021	Banks	Std Bank	Governance and pre-AGM meeting with Chairman, CEO, Investor Relations, also discussed progress on environmental targets and policy, relationships with NGOs. Highlighted governance concerns, succession planning concerns, audit rotation, and remuneration concerns.	E G

Date	Super Sector	Stock	Engagement Activity	ESG Classification (E, S, G)
Q2 2021	Telecommunications	MTN	Engagement with Chairman of the board - various discussions on governance and governance structures and oversight, operations in sensitive geographies.	S G
Q2 2021	Banks	ABSA	Discussion with Chair on aspects of governance and oversight of strategy by the board, aspects of social empowerment, and departure of CEO following non-alignment with Board. Followed by separate discussion with Mr Sipho Pityana as lead independent director.	G
Q2 2021	Banks	First Rand	Engagement with Chairman of the board, IR and Chairman on Remco on concerns around remuneration outcomes and policy, and future implementation.	G
Q2 2021	Financial Services	Investec	Further discussions (following Q1) with Non-Executive directors on governance matters, with a focus on governance structures, processes, director appointments and succession plans.	G
Q2 2021	Insurance	Old Mutual	Annual one-on-one governance meeting with Chairman, remuneration consultant, Investor Relations.	G
Q2 2021	Consumer Discretionary	TFG	Remuneration discussion, and discussion on staff and Covid impacts. Additional discussion on new CEO, hand over and board governance.	S G
Q2 2021	Consumer Staples	Pick 'n Pay	Remuneration discussion, and discussion on staff and Covid impacts. Additional discussion on new CEO, hand over and board governance.	S G
Q2 2021	Basic Materials	Royal Bafokeng Platinum, Impala Platinum, Amplats, and Sibanye-Stillwater	Discussions on the impact of the 3rd covid-19 wave on the operations and discussions were also held on the vaccination drives that the mines were embarking on.	S
Q3 2021	Chemicals	Sasol	Discussion on 2050 targets, energy mix, renewable energy targets, potential conversion to natural gas and use of green hydrogen. Further separate discussions on remuneration aspects of NEDs.	E G
Q3 2021	Basic Materials	Exxaro	Capital markets day - transition from coal to green energy, potential net carbon neutral targets, green mineral mining, risk oversight of new projects and potential partnerships and EM opportunities.	E G
Q3 2021	Travel and Leisure	Famous Brands	Discussions with Remuneration Committee on remuneration policy.	G
Q3 2021	Travel and Leisure	Spur	Discussions with Remuneration Committee on remuneration policy.	G
Q3 2021	Industrial Goods and Services	Mpact	Governance call with directors.	G
Q3 2021	Banks	Std Bank	Governance and related meeting with independent director Trix Kenneally on governance issues including remuneration, climate tabled resolution, succession planning, audit rotation.	E G
Q3 2021	Construction and Materials	PPC	Remuneration discussion.	G
Q3 2021	Telecommunications	Vodacom	Facilitated engagement and 'roadshow' with Vodacom lead independent, Chairman and IR on various ESG related matters, with a focus on independence of board.	G

Date	Super Sector	Stock	Engagement Activity	ESG Classification (E, S, G)
Q3 2021	Financial Services	Investec	Further discussions (following Q1 and Q2) with UK directors and CEO on governance matters, with a focus on governance structures, processes, director appointments and succession plans.	G
Q3 2021	Consumer Discretionary	TFG	Remuneration discussion, and board discussion, AGM votes.	G
Q3 2021	Telecommunications	MultiChoice	Pre- AGM meeting - discussion on remuneration, domicile of CEO and Chair, succession plans, board independence, audit rotation.	G
Q3 2021	Food, Beverage and Tobacco	British American Tobacco	Discussions and engagement on next generation products, and moving away from combustible tobacco, and impact of market regulation.	S
Q3 2021	Real Estate	Vukile	ESG meeting; discussion on impact of social unrest, community relationships, water usage, implementation of solar and future potential projects, and integrating European reporting into the business from Spanish operations. Governance aspects discussed locally and abroad, including aspects touching on risk management, management etc.	E S G
Q3 2021	Real Estate	Growthpoint	Engagement on new NED appointments.	G
Q3 2021	Real Estate	Redefine	ESG roadshow meeting - discussion of ESG targets, metrics, developments and reporting.	E S
Q4 2021	Chemicals	Sasol	Remuneration discussions with RemCo chair.	G
Q4 2021	Basic Materials	Glencore	Discussions with Chair and CEO on corporate shifts, governance processes, environmental reporting.	E G
Q4 2022	Basic Materials	Northham Platinum	Discussion with CEO and FD on remuneration matters, and touching on environmental reporting and labour relations.	E S G
Q4 2021	Travel and Leisure	Spur	Further discussions with Remuneration Committee on remuneration policy, and subsequent emailed suggested changes.	G
Q4 2021	Travel and Leisure	Sun International	Discussions on remuneration, impact of covid on staff.	G S
Q4 2021	Technology	Datatec	Discussion with management around remuneration, brief touch point on environmental reporting.	G
Q4 2021	Construction and Materials	PPC	Call with management - decarbonisation reporting and progress.	E
Q4 2021	Banks	Std Bank	Remuneration discussion with outgoing and incoming remuneration head in HR.	G
Q4 2022	Banks	FirstRand	FirstRand AGM - concerns raised on remuneration and subsequent engagement on AGM access, ability to vote. Additional governance concerns raised in the quarter during a governance call with the Chairman following written engagement.	G
Q4 2023	Banks	RMB	Governance Roadshow engagements.	G
Q4 2021	Financial Services	Investec	Further discussion with Chair on governance concerns following allegations of significant tax fraud in Ireland and Germany.	G

Fixed Income

Date	Sovereign, Municipal, SOE, Corporate, Other	Issuer	Engagement Activity	ESG Classification (E, S, G)
Q1 2021	SOE	DBSA	Engagement via teleconference and video call in connection with press allegations around loan processes and write-offs, and resulting comment by DBSA.	G
Q1 2021	SOE	Land Bank	Ongoing discusions with the entity and government ministries in respect of debt default	G
Q1 2022	SOE	Eskom	Engagement on green energy projects, scope, decommissioning of particular power stations, community usage of land	E S
Q2 2021	SOE	Land Bank	Ongoing discussions with the entity and government ministries in respect of debt default	G
Q2 2022	SOE	Umgeni Water	Comprehensive call on aspects of governance, social delivery, and environmental aspects, including amongst others, board succession, relationship with treasury, investigations into past corruption, financial aspects and strategy, service and social delivery, organisational and governance oversight, environmental impacts and sustainability and community relationships.	E S G
Q3 2021	SOE	Land Bank	Ongoing discussions with the entity and government ministries in respect of debt default	G
Q3 2022	SOE	Eskom	Comprehensive call, in collaboration with M&G plc, on projects to decarbonization, future energy mixes including natural and biogas, use of green hydrogen, solar, “glide path” to 2050 – viability of conversion of coal plants and upgrades, pilot projects, funding, role of government policy, and funding opportunities and methodologies.	E
Q4 2021	SOE	Eskom	Further comprehensive call in Dec, in collaboration with RMB and other asset managers, on projects to decarbonization, future energy mixes including natural and biogas, use of green hydrogen, solar, “glide path” to 2050 – viability of conversion of coal plants and upgrades, pilot projects, funding, role of government policy, and funding opportunities and methodologies.	E
Q4 2021	SOE	Umgeni Water	Call, followed up by formal correspondence and arrangements for engagements in Jan 2022 around governance, board structures, operations of committees, press articles on infrastructure failures and affected communities, investigations into corruption.	S G

Fixed Income

Date	Regulator/Industry Body	Approached via/ Collaboration through	Engagement Activity	ESG Classification (E, S, G)
Q1 2021	CRISA Committee	ASISA RI Committee	Engagement both at ASISA RI, independent engagement with members of the industry, and formal correspondence to CRISA Committee highlight support for, as well as concerns around the proposed "CRISA 2.0" code and its development, purpose, enforcement and compliance, and engagement with broad stakeholders prior to drafting, and raising concerns on potential future conflicts of interest.	E S G
Q1 2021	DTI	ASISA	Submissions in relation to the Companies Act proposed amendments in relation to governance issues.	G
Q1 2021	National Treasury	Carbon Trust /NTI sub-committee members	Discussion and engagement on experiences, progress, and considerations around taxonomies, carbon dislosure report, sustainable finance, impacts and regulation.	E
Q2 2021	ASISA RI Committee	NA	Participating committee membership, discussion on and updates from working groups, legislative developments locally and abroad and developments in research and data.	E S G
Q2 2021	South African Reserve Bank	NA	Discussion on South African Banks with Reserve Bank staff.	G
Q3 2021	ASISA RI Committee	NA	Participating committee membership, discussion on and updates from working groups, legislative developments locally and abroad and developments in research and data.	E S G
Q3 2021	Remuneration Collective	NA	Inaugural meeting of remuneration collective of asset managers, discussion of principles of collaboration around remuneration.	G
Q4 2021	ASISA RI Committee/ Department of Trade and industry	NA	Lodged with DTI and ASISA our comments on the proposed amendments to the Companies Act as it related to governance matters.	G

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