

# Responsible Investment Policy



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## Introduction

M&G Investments Southern Africa is entrusted with the stewardship of our clients assets and this is a responsibility that we take very seriously as responsible, considered investment professionals.

This Policy sets out the approach of M&G Investments Southern Africa to responsible investing.

It should be noted that this policy is complemented by other documents, which, whilst not forming part of this policy, provide further guidance on aspects related to responsible investing. Examples include our Proxy Voting Guidelines, and Position Statements that might be developed to clarify our position on specific ESG issues.

## Scope, oversight and accountability

### Oversight

This Policy is subject to oversight by the following:

- 1 Investment risk Oversight Committee
- 2 Social Ethics and Transformation sub-committee of the Board of Directors

### Scope

This policy applies to all staff and companies within the M&G Investments Southern Africa Group:

#### As asset manager:

- MandG Investment Managers (Pty) Ltd (M&G Investment Managers");

Many aspects of this policy are delegated to M&G Investment Managers which has also been delegated the investment decision making and execution process. The expertise in Responsible Investment also rests primarily in the investment teams and the Governance Risk and Compliance Departments. The latter have oversight of this policy, and play a role in execution and advisory on Responsible Investment, and related aspects such as shareholder activism.

#### As asset owner:

- 1 MandG Investments Southern Africa (Pty) Ltd ("M&G SA");
- 2 MandG Investments Life South Africa (RF) Ltd ("M&G Life");
- 3 MandG Investments (Namibia) (Pty) Ltd ("M&G Nam");
- 4 MandG Investments Unit Trusts South Africa (RF) Ltd ("M&G Unit Trusts"); and
- 5 MandG Investments Unit Trusts (Namibia) Ltd ("M&G Unit Trusts Nam").

Irrespective of delegations of aspects of Responsible Investing (as outlined above) within the group, the asset owners carry ultimate responsibility for their, and their client assets, being managed in a responsible manner and in accordance with this policy. They may withdraw this delegation where so required or deemed necessary.

M&G SA is the ultimate holding company of the entities listed above and is a signatory to the United Nations Principles for Responsible Investing on behalf of the underlying entities.

This policy purely relates to responsible investment in respect of assets managed on behalf of clients, and not socially conscious investing undertaken by M&G Investments Southern Africa, nor ESG considerations within the company structures, or activities of the companies within M&G Investments Southern Africa.

## Accountability

For certainty, "staff" includes full time employees, fixed term contractors, temporary staff and executive directors. Specific sections of this policy are identified as also applying to non-executive directors and company officers.

**Staff** are accountable for reading, understanding and complying with the standards and processes contained in this policy.

**Management** are accountable for ensuring that, where applicable, relevant staff are aware of and act in terms of this policy, in particular within the investment teams and those members of the compliance teams responsible for executing proxy voting.

**Governance, Risk and Compliance (“GRC”)** has oversight of this policy and the ESG Specialists and is accountable for:

- a Guiding the Investment team on the application of the policy
- b Assessing operational and investment risks and reporting the relevant forums or people for consideration and action

**Investment Analysts** are accountable for incorporating ESG factors into the investment analysis of stocks, raising these at investment meetings, and engaging entities on pertinent and material ESG issues, subject to the criteria listed further in this policy statement, and in line with engagement principles contained in this policy document. They are also accountable for the voting decisions on their stocks or issues where applicable and where they are the lead analyst on that entity or issuer.

**Portfolio Managers** are accountable for incorporating and balancing ESG factors, including investment risk and investment opportunities, into their investment portfolios.

**Investment Administration Operations** are accountable for the processing and reconciling of voting instructions as issued by the investment analysts.

**Investment Team Department Heads & Chief Investment Officer** are accountable for ensuring the portfolio managers under their supervision incorporate ESG into their investment processes, and are active responsible investment stewards in terms of this policy.

**ESG Specialist** is accountable for supporting the investment analysts, portfolio managers, investment team department heads in recommending action in line with this policy document where requested. The ESG Specialist is accountable for reporting on actions taken in line with this investment policy by reporting on applicable matters to the Investment Risk Oversight Committee and the Social and Economic Transformation Committee, and through the compilation of Stewardship reports.

**Executive Management** are accountable for approving this policy.

### Training and Awareness

Training and awareness of this policy and the obligations in it is provided to staff as required. Such training may be directly or in writing.

### M&G Investments Southern Africa's relationship with international and south african bodies or codes established to further responsible investment

M&G Investments Southern Africa is:

- an endorser of the principles in CRISA (Code for Responsible Investing in South Africa) and its stated objective of encouraging socially responsible investing in SA. It is M&G Investments Southern Africa's intention to comply with CRISA, but in situations where it does not shall explain non-compliance, in accordance with CRISA's “comply or explain” principles;
- signatory to the UN PRI (Principles for Responsible Investment) in 2007; and
- a member on the ASISA Responsible Investing Standing Committee.

### M&G Investments Southern Africa policy

M&G Investments believes that Environmental, Social and Governance (ESG) factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, ESG issues are integrated into our investment processes, and are incorporated into investment decisions wherever they have a meaningful impact on risk or return. We apply this integrated approach to ESG analysis across all asset classes and sectors in which we

invest. In addition M&G Investments believes it has a role to play as a responsible global citizen for a sustainable future.

At M&G Investments being a responsible investor means being proactive in considering ESG factors in our investment research, in our engagements with management of listed companies or issuers of debt, as well as using our rights as shareholders to encourage companies to improve ESG issues.

### Integration of responsible investment into our investment process

M&G Investments Southern Africa's approach to responsible investing may be described as integrated fundamental analysis and active ownership. Active ownership is described in a separate section; the section below describes how ESG is incorporated into the investment process.

## Screening

Whilst including ESG issues into the investment analysis is essential, broad "include/exclude screens" based on subjective viewpoints are not applied, as this can contrast with the fiduciary duties of active management across a client's chosen investment universe (refer section below on "Socially Conscious Investing") and may also reduce the opportunity set where ESG factors have been mispriced in the market. Rather, investment decisions are made after giving appropriate consideration to all factors, including ESG factors that can influence an investment's risk or return.

Circumstances may however exist where ESG concerns are sufficient to warrant either not investing the entity or its issuance, or to hold a maximum underweight position relative to its benchmark position in the client's index.

Defined client requirements for exclusionary ESG screening can be accommodated for segregated mandates.

## Integration into the ESG Process

ESG has not been reduced into a specific stand-alone quantifiable element in the investment process.

The investment decision making process takes into account the prospects of a company, in particular a substantive view of factors potentially affecting its sustainability, and this is where ESG issues plays a material role.

### 1 Research

Research is conducted by the equity analyst on the stock or the credit analyst on the issuer. As socially responsible investors, the Analyst seeks to understand, inter alia, the ESG risks facing the financial health and sustainability of these entities, confirmation that management are aware of these risks, their magnitude and impact on the business and broader society, and is seeking to mitigate them. Analysts also seek assurance that management is sound and has an established practise of good governance with the correct degree of expertise, not only in the business, but also in respect of ESG issues.

This research primarily rests with the analyst with where necessary, assistance from the in-house ESG specialist, or peer analysts. In addition ESG specialist research complements internal research.

### 2 Interrogation (and further research)

The stock/issuer research, including ESG factors, is presented to the relevant investment decision-making team for discussion and interrogation. The investment team may request further investigation into the ESG factors or a further adjustment to the model to account for these.

### 3 Voting

The investment decision-making team then votes on the stock or issue to determine its position on a buy or sell list, and material ESG factors can be accounted for at this stage.

### 4 Portfolio Construction

ESG factors are also integrated at the portfolio construction stage, especially as many ESG factors are not easily accounted for 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

ESG factors, as with any other material factor that influences a company or issue's valuation, are monitored.

### ESG presents both Investment opportunities and opportunity for risk mitigation

Positive or negative ESG effects will ultimately reflect in asset prices. As active, value managers M&G Investments Southern Africa typically invest in assets that it believes are mispriced because the market is overly pessimistic on their future prospects. This pessimism might well stem from misconceptions around ESG issues. By way of example, exploiting situations where the market prices in a permanent reduction in a company's cash flows due to ESG concerns that are temporary in nature - and where the company's long-run prospects are not compromised to the extent implied by the market price, or where the company is taking steps to rectify its impacts and long term sustainability, but the market is not yet giving this recognition.

### Voting

Where the assets are managed by M&G Investments Southern Africa under a fully discretionary mandate, this includes, exercising the voting rights on behalf of our clients. Voting records are made available quarterly to the asset owners.

Voting is not outsourced nor is a proxy voting services utilised for any assets under full discretionary mandate.

Voting records are published quarterly. For more information please refer to our Shareholder Activism and Proxy Voting Guidelines as published on the M&G Investments Southern Africa website.

### Responsible investing and active ownership

Engagements with companies on ESG issues can unlock value for shareholders through a better understanding of the entity, and effecting change where so required. It can also offer opportunities to drive broader sustainability goals as responsible asset owners, asset managers and corporate citizens.

### Engagements:

A constructive dialogue with the management of investee companies is maintained through regular meetings with executive and non-executive directors. Such meetings are central to the investment approach and are focused on identifying whether a company's strategy is aligned with the interests of long-term shareholders. These engagements are important across all asset classes and are monitored within equity, fixed income and listed property categories.

#### Engagement Principle

Ideally, M&G Investments Southern Africa would only invest in companies whose management and non-executives are skilled and experienced experts in that industry and that company. It is not the function of the asset manager to supplant those roles. There are times, however, where this ideal is not met and where engagement or intervention is required. These situations can be fluid but are guided by clear principles.

It should be noted that many engagements will also be to simply to acquire further information from the entity in order to better evaluate and ESG matters impact and the companies response, or to stimulate clearer reporting from an entity in a particular area.

#### Types of engagements:

- Individual engagements

Individual engagements are with specific entities on matters that require engagements peculiar to that entity.

- Thematic Engagement

Thematic engagements allow engagements to be broader in application, pro-active, and eliminate singling out individual companies when the matter is preferably addressed on an industry-wide basis.

#### Reasons for engagement

- gain more information or a better understanding of ESG factors related to the company;
- provide a shareholder perspective on the company or a specific strategy or transaction;
- protect shareholder value;
- further a theme where we believe the industry, or part of the industry, is potentially ignoring a structural or systemic ESG matter; and
- to give voice on behalf of clients or society.

#### Which companies

In order to maximise and optimise our engagements, it is preferable to engage:

- thematically within and across sectors;
- with companies where M&G Investments Southern Africa has invested clients' assets, less frequently where portfolios may have a potential future holding);
- where the ownership, either alone or in lawful collaboration with other shareholders, is sufficient to have an impact; and,
- where the holding is material in client portfolios.

#### How do we engage?

The method for engagement varies depending on the nature of the issue and the company. Methods range from face-to-face discussions to more formal recordings of the position, to the exercise of voting rights. Shareholder rights including the calling of special meetings, nominating directors or actively participating in company meetings may also be used. In rare situations, engagement may include contributing to media coverage.

In extreme situations M&G Investments Southern Africa may consider litigation to either defend or assert our client's rights. This is not our preferred method of engagement, and careful consideration of the inevitable and concomitant disadvantages is required, recognising that not all clients may have the same appetite for litigation.

#### Reporting on engagements

Engagements are reported bi-annually in a stewardship report that is publicly available. For clients, a quarterly summary is also available shortly following end of that calendar quarter. It should be noted that some engagements are sensitive in terms of information or may display aspects of our investment thesis in a developing portfolio positioning, and so not all engagements or their contents may be reflected in these reports.

#### **Responsible investing versus socially conscious investing**

It is M&G Investments Southern Africa's view that socially responsible investing should be distinguished from socially conscious investing. The M&G Investments Southern Africa's prudent value investment philosophy is consistent with socially responsible investing.

Socially conscious investing, on the other hand, varies depending on the group or individual convictions of investors. Such measures for segregated portfolios can be accommodated, provided the client's mandate is sufficiently specific that such convictions can be incorporated without uncertainty. Examples of such mandates include Shariah compliant mandates, or mandates that exclude investments in tobacco, alcohol or gambling. A negative screening approach to portfolio construction can therefore only apply once granted a specific mandate to do so by a client, and to the extent that investment operations can accommodate any unique benchmarks or restrictions.

## Amendment log

Date	Materiality	Page	Amendment
November 2016	Material	All	Initial draft
April 2020	Material	All	Further detail on Oversight, Relationship with external bodies, Incorporation into the Investment Process, Voting, Engagements
November 2021	Immaterial	All	Layout to new template. Amending to reflect name changes and changes in shareholding