M&G Investments

Stewardship Report

2020

Introduction

Due to the extraordinary nature of 2020 we opted to accelerate our second-half report and write one stewardship report for the entire year. To this end we may report on some of the later, more sensitive, engagements of 2020 in more detail at a later point and will likely revert to our biannual reporting.

In this report we touch on engagements at the end of the report, and cover more recent updates, developments, topics of interest and developing themes.

Details of our approach to responsible investing are further articulated in our Responsible Investing Policy, a copy of which can be found on our website. https://www.mandg.co.za/media/30428/responsible_investing_policy.pdf.

We do not repeat elements of that document here. Our stewardship report is a practical description of how M&G Investments approaches and implements this policy and our commitment to sustainable ESG practices. This being said, for the sake of interest, a longer piece on integration into the investment process is appended to this report. In our experience, this is a topic not often addressed by asset managers, and we hope this usefully explains the processes as well as the challenges related to ESG integration.

Covid-19 and Stewardship

We would be remiss not to lead with the biggest global social impact of the current century. In our last report we discussed the measures we had taken as a business to respond to the pandemic and the lockdowns. We also reviewed how our investment analysts were reviewing investee entities and their resilience to the pandemic and associated regulations. Finally, we detailed the pandemic- related engagements we had undertaken. These criteria have not changed much, but it is pertinent to step back and now look at the impact on the markets.

What was the impact

In the short term, global financial markets plummeted in March 2020. Markets remain emotionally driven and prone to reactions bordering on the irrational, even on ESG events. And while the immediate impact was difficult for investors, active and prudent investment managers like M&G Investments took advantage of badly priced assets for the benefit of their clients, though this may take more time to fully realise. Subsequent to this period we have seen some market rebounds, and clients are currently substantially benefiting from these opportunities.

The investment impact of Covid-19 has remained largely unknown given the unprecedented nature of the pandemic. As mentioned in our prior report, the 'social' aspects of ESG are relatively scarce, even though the impact can be immediate and far reaching. While some sectors of the markets quickly rebounded to less radically-low levels and ended 2020 in positive terms, the duration of the impact remains uncertain. Any sense of optimism only reflected in equity prices in November, boosted by bullish views on commodity prices. Markets reflected the collective views (whether consciously or not) on how the pandemic would play out, and whether it was worth remaining in the markets at all. The positive news of relatively cheap assets in March and April was rapidly tempered with the subsequent question: 'but…. for how long?'.

How long then and where to from here?

And 'how long' is precisely the question that needs an answer. Different entities have different capabilities to 'semi-hibernate' until the economy reverts to normality, and different governments have varying abilities to support the economy under conditions of reduced employment.

Analysts have had to balance the difference from the valuation in a 'normalised world', with the extent to which entities will financially survive to return to normality.

As mentioned in our prior report, the focus was on financial measures such as cash flows, debt and gearing levels, debt maturity profiles and, of course, the vulnerability of the underlying client to keep up demand for that product.

Not having had an ESG event of this sort of magnitude in over a century, precision in the analysis of entities is challenging, but we can gauge entities on their strength and relative strength to their peers, how they continue to operate under the current conditions or, even in some instances, innovate and gain advantage over competitors.

The market remains equally uncertain as to how to ascertain the pandemic's full duration and impact. Not agreeing on this is how we make money for our clients in the long term.

The disparity between short-term market reactions and the prospective long-term value through objective investment analysis is the space in which value managers extract value over the longer term, but in the short term our returns have suffered. We took some positions to take advantage of the market's overreaction, and also spurned stocks where the market was not yet convinced there would be a recovery. We further exercised caution in avoiding value traps where the opportunities may not have been as appealing as they first appeared, or where there was insufficient information to make a conviction call.

The volatile market demonstrated heightened levels of short-term opportunism and fear. While 2020 has not been a year for exceptional relative returns, we have seen some good recovery in early 2021 and we continue to look through and past the crisis for positioning our client portfolios, making considered adjustments where valuations are compelling relative to the risks, even if this might only be rewarded in time.

A major ESG event like the pandemic that shakes up the market requires asset managers to focus very specifically on governance in existing and potential investments. It also requires managers to look internally and be consistent. We do not believe this is a time to change our investment philosophy and attempt to time market behaviour under volatile conditions. This is, to our mind, a core element of being stewards of our clients' assets.

How have companies held up under Covid?

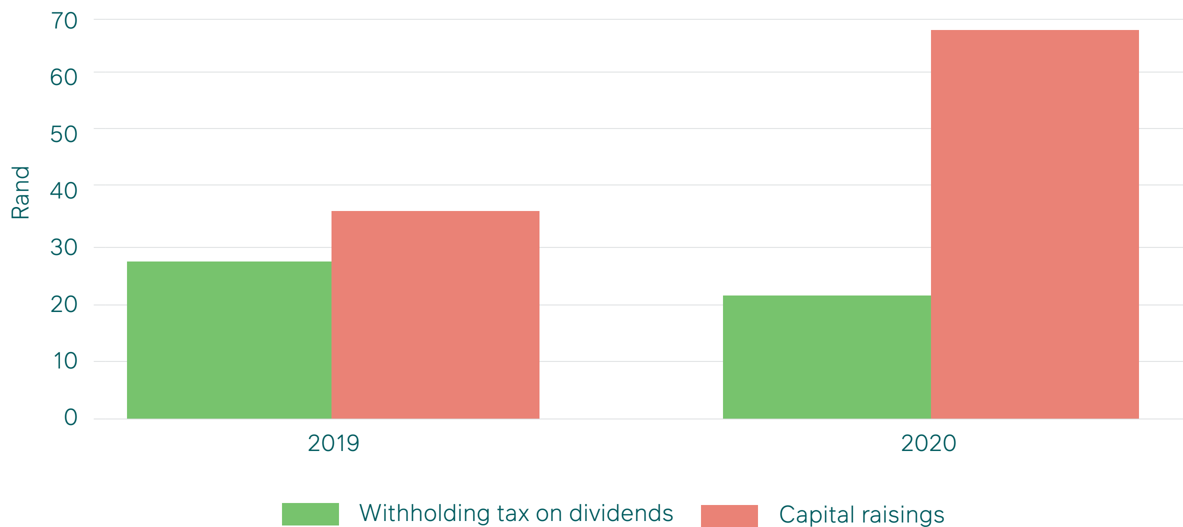
Key themes – cash is king...

The uncertainty of future impacts of lockdown regulation and their duration has been an opportunity for some companies to clean up their balance sheets and add leverage. Some of this has been through cutting dividends or, in more extreme cases, capital raises. The latter has not been the ideal time to raise capital, but most have met with success and, for the most part, somewhat understanding shareholders.

While this is more an investment aspect than an ESG theme, the graphic below is illustrative of this shift.

Market Dynamics

Tax from dividends in South Africa fell almost a quarter as capital raising surged



Source: National Treasury and JSE
Note: Withholding tax on dividends covers January through November

Traditional views are being challenged

For the first time many entities were forced to send their staff to work remotely from home. For some businesses the notion of an enterprise being a 'building' housing staff has been challenged. That entities are collectives of individuals adding value to a collective hive, albeit from very different locations, can be a challenge to the norm. The "work from home" challenges for entities with knowledge workers have been extensive and have introduced a new element to the "social" aspect of ESG. This "S" in ESG has traditionally been comprised largely of physical safety in industrial and mining operations, labour action, or a collective call to regulate an industry for society. The resilience of knowledge worker entities and associated sectors such as property remains to be seen. This could result in a stronger structural shift as we exit the pandemic. This could feed through to labour costs and overheads as some entities have sublet some of their office space, or in some cases, left some of their offices completely. The health and safety challenges for entities with on-site workers and public-facing workers is equally significant and, while entities so far seem to be reporting minimal financial impact, it is our view that the broader "social" impact is yet to be quantified or properly felt in the markets.

How have individual sectors coped so far and what has been our focus for engagement?

Miners

Strong commodity prices have helped support miners through the pandemic. We have seen strong demand for iron ore, and platinum and rhodium prices have seen strong support. This may appear counter-intuitive given the pandemic and its effects on restrictions of movement and industrial slowdowns. The driver of many commodity prices has, however, been the stimulus in China to counter the impact of Covid-19 and their temporary hard lockdown. In addition, there has been speculation in some precious metals.

Our engagement with miners has included a focus on health and safety, union engagements and, more recently, community relationships. We expect to see more developments in community work in the coming period.

Banks

South African banks have weathered Covid relatively well, albeit their share prices initially fell hard and have yet recover and reflect their underlying resilience.

Net asset values and capital reserves have been robust and none of the big four banks reported losses. All have had NAV growth despite taking large provisions. The largest risk they face is around impairments and, while these could still be on the relatively high side, the operating environment has recovered sufficiently that the impairment risk is reducing as the cycle progresses.

Banking activity levels have also picked up in the second half of the year relative to the lows and we do anticipate a decline in impairments and a robust recovery in earnings during the course of 2021 year.

Digital adoption has been accelerated by Covid

Earlier in the year, as concerns set in as to how rapidly the virus was spreading, many among the banks' customer bases were forced out of branches and onto digital channels. While this transition was already in progress, its pace was dependent on the willingness and digital enablement of clients. Particularly marked accelerations were noted among the older population, where digital adoption was historically slow. While this will not result in overnight cost savings for the banks, the higher level of online engagement does improve their ability to cross-sell products. It is also linked to lower costs; however, the banks still have physical infrastructure in the form of branches that need to be serviced. As the branch leases are renewed, the banks can reduce their cost bases, either with complete closures of certain branches or a reduction in floor space. These benefits will filter in over the next few years.

An initial view may be that this gives new (digitally advanced) entrants substantial advantage, but that would discount the huge strides already made by the big incumbents. Most of the existing banks' online branches are already by far their largest contributors to new business. With the cost of the existing physical infrastructure already in the base, there is substantial opportunity for savings for them into the future.

In terms of the impact of Covid-19, engagement has (aside from the usual primary data) primarily focused on governance aspects and understanding how individual divisions of banks are managing. Risk management has been a key governance feature, and we have seen two banks falter around derivatives: one in lacking oversight and controls on traders, and the other on structured products that simply assumed markets would not fall to the extent they have. The latter bank has a long list of legacy losses amounting to some 20% of profits over the tenure of the longest board members, and this is the subject of significant engagement.

We have also had concerns with one of the bank's approach to executive remuneration under Covid-19, and this is discussed elsewhere in this report.

Telecoms and Media

Our primary exposure in this sector has been through MTN, where we hold an overweight position. Its earnings were, as one might expect, relatively defensive through the Covid-19 crisis as clients perceived mobile communications and media access as essential items. This was particularly evidenced in data usage, as many people started to work from home, or needed to be in isolation, and still keep up both social and work contact and access.

While initially cash sales waivered, increasing digitisation of purchases through phone applications have made online 'top ups' of data and voice minutes the norm.

In a similar vein, MultiChoice, in which we also hold an overweight position, also held strong. Satellite TV could typically be seen as a luxury item in times of financial constraint but, despite the lack of sporting events, Multichoice data shows an increased uptake in lower- end packages, demonstrating it is seen by many as an essential service.

Property

The share prices of South African listed property companies were hit particularly hard by Covid-19. Many entities already had high debt levels at the top of the cycle. Additionally, many had offshore debt, and the need to continue to service the debt under rand depreciation left them vulnerable. Covid-19 particularly affected those listed entities with material exposures to vulnerable customers who would have battled to make rental payments in the face of temporarily closing their businesses in H1 due to the lockdown restrictions.

In addition, some offices have been begun sub-letting additional space left vacant from staff now working at home and are likely to continue doing so. Such entities are usually happy to do so at low cost simply to cover costs. This brings additional low-cost office space onto the market, pushing rentals still lower.

There have been perceptions in the market that these listed entities can simply convert office space into residential spaces. In most cases, fairly extensive structural changes would need to be made and these costs then recouped. This would result in many cases in expensive residential units in commercial locations, and there is little appetite in the market for this at present.

As debt levels of property stocks rose, unwinding the balance sheet involved one of two difficult choices – to sell assets or cease paying dividends. Selling assets in the current conditions was naturally far from ideal, so the cheaper option was to cut dividends.

Not all listed property companies have been equally badly affected. Entities with exposure to low-income malls with non-discretionary spending are faring better than those with office exposure or high-end retail malls.

Equites Property Fund has been an interesting example of a stand-out. Equites operates primarily in the logistics space, including 40% of its portfolio in the UK, counting Amazon among its tenants. With the surge in online purchases, companies such as these have financially robust tenants.

Tobacco

Although cigarette sales were banned in South Africa for a considerable period, BTI is a dual-listed stock and its South African component is but a small part of a very large global operation. Covid-19 has not impacted much on its overall global operations or sales.

Retailers

Retail stocks illustrate starkly the different impact Covid-19 regulations have had on different business models.

Apparel and alcohol retailers were heavily impacted in the first half of 2020, with strict lockdowns and prohibition of sales of some of their items and, in some instances, complete closures of stores for long periods.

Many apparel stores had already placed their winter orders, but were able to curtail their summer ordering. As a result, they went into the Christmas sales period with cleaner inventory positions, resulting in fewer 'discount sales' and thereby increasing gross profit margins. Additionally, we saw increasing cash positions as store builds were more muted. Gross profit margins have therefore surprised the market to the upside in late 2020, especially given the nature of the gearing in this segment of market. Nonetheless, they remain down overall on 2020.

Many food and home goods retailers have actually benefited from the lockdown, as South African consumers, who do not have culture of saving, rather re-allocated their spending. This was also a combination of the overall wage level not dropping dramatically, with cost savings from not eating out, not spending money on alcohol and lower transport expenses. Much of this was channelled into retailers where online growth has come through all, but especially food retailers. The latter have continued to experience good sales volumes as many people remain, understandably, unwilling to go out to restaurants.

Homeware and home building sales have also seen huge growth in H2 2020, up to 10% more than H2 2019. What may have started as a 'desk and a chair' to work from home has been sustained as people settle into working from home more long term.

An example was Cashbuild, which saw a 22% rise in its year-on-year revenue, defying expectations that all consumers were in difficulty.

Retailers with offshore operations also fared well, as foreign government stimulus packages provided the necessary financial support.

Remuneration

One specifically disappointing element during the generally trying Covid-19 pandemic has been the continuation of aggressive remuneration plans being put forward by certain remuneration consulting houses. We have seen a few entities resist these suggestions and their Remuneration Committees speak candidly to us about their own concerns.

Nonetheless, a few of these plans have made it through, including 'Covid bonuses' issued to executives. We have engaged assertively with proposed remuneration packages that provide for executives (who, in one specific case, receive up to 500 times what their frontline staff are earning, with the latter facing queues of customers), receiving special bonuses at this time. We are particularly unsupportive in the industries where regulators have called for restraint. In some instances, executives have the additional potential to receive the Covid bonus or the higher of their normal bonuses and possibly both in the third year. We have noted that some of these entities have justified these proposals by reference to executives taking three months' salary holidays in Q1 2021. What is omitted in the public statements is the context of their total package, where the sacrificed salaries amounted to a 2% reduction in their total pay.

We have further noted a trend where Share Appreciation Rights Schemes are being proposed to entities (essentially executives gather rights to shares) where there are no conditions attached and inappropriately short vesting periods. Our own view is to forcefully resist such schemes and, fortunately, some of these entities have likewise rejected such recommendations.

We are not opposed to high remuneration for executives where they are generating high shareholder returns through their actions, strategy, and balancing of complex risk decisions. We do not seek to supplant the skill, expertise or decision making of remuneration committees. This said, we do engage when remuneration schemes do not align shareholder and executive interest. We do also insist that the Remuneration Committee fulfil their responsibilities as a committee of the Board of Directors. We note a few Remuneration Committees delegating engagement with shareholders to executive managers or functionaries in human resource departments. We are engaging these entities to ensure that our engagements remain directly with the Remuneration Committees.

There is also concern that Remuneration Committees are abdicating their roles to the Human Resource departments, and we find some Remuneration Committee Chairs are unable to hold discussions on the policy without their HR (often the actual compilers) present.

The latest Companies Act Amendment Bill proposes negative consequences for entities which fail to achieve the required 75% shareholder support for remuneration proposals. We do support these amendments while questioning the extent of the consequences.

Directorships

During 2020 we were very active in proposing directors for election by shareholders to the Boards of Directors of entities invested in on behalf of clients. The directors we propose for nomination are not partisan and do not act as representatives of the shareholders who proposed them. They work for the benefit of the company and all shareholders. To this end, following their appointment, we as far as possible cease contact with these directors outside of formal shareholder meetings.

We have collaborated on a few of these, sometimes making submissions in conjunction with other managers. This is done prudently and never on appointments that could cause a change in control of the entity. Rather this is to bring diversity of views to board where strategies may be stale, or to install governance checks with further independence.

In most instances entities are quite receptive and have accepted the candidates. Many boards can recognise that this can be helpful where tenures are long, dynamics need shifting, or perceptions of independence need to be actively managed whether the concerns are genuine or simply optical.

This is an area where we are pleased to see better and increasing collaboration between managers and recognition that better governance is in the interests of all shareholders.

We have equally continued to oppose several existing directorship appointments.

This is unfortunately necessary. Directors continue in some instances to 'overboard' themselves. By way of a more extreme example, one director we reviewed (and opposed) in early 2020 was meant to be attending a minimum of 98 meetings per year between board, committees, country boards, NGO positions and their own work.

We have seen recent appointments where appointees are from entities with failed track records, carry significant conflicts of interest or who cannot be truly independent by nature of their shareholdings. In some instances, proposed appointees have been implicated in state capture and apparently attempting to frustrate the Zondo Commission investigations. We also note some proposals where proposed independent directors have tenures of close to 20 years but with a "reset" of term when their role changed from independent director to independent Chair.

We have also noted that some Boards could improve their pre nomination due diligence and to improve the nominations process to rely more on formal processes as opposed to peer or business network referrals. It is, in our opinion, preferable for Boards to avoid nomination processes that result only in 'echo chambers'.

Sadly, opposition to such directors is often limited to registering our opposition in how we vote. In our view, there is a role for asset owners to work together and possibly with global proxy voting service providers to establish more relevant and more public information on Directors with poor track records or conflicted positions.

This theme is likely to be ongoing.

Thematic and Key Engagements for 2020

In prior periods we have identified thematic engagements to address across sectors and made this a prominent part of our engagement process, irrespective of whether the matter would have had a material impact on the earnings or risk profile of the entity. This enables us to be part of driving greater positive change holistically, constructively, and across a sector without singling out entities.

As we noted in our previous report, our main engagement theme in 2020 was the ability of issuers and entities to respond to the specific challenges of the Covid-19 pandemic. Those engagements on themes from previous quarters continued and a few examples that are not covered elsewhere in this report are included below.

Environmental

> Engagements: Banks
Standard Bank

A key environmental engagement during H2 was with Standard Bank on their potential funding of pipelines in both Mozambique and Uganda.

News reports have noted the displacement of communities and potential environmental damage in the Great Lakes region from the East African Crude Oil Pipeline. Senior Standard Bank executives arranged for us to discuss the matter with the divisional head, which was both productive and informative. We have encouraged continued open dialogue on the projects with the parties who are preparing the sites. We have noted that Standard Bank's financing roles are very minor and both projects are still at the early stages. Nonetheless, we have emphasised the need for Standard Bank to only be party to sponsoring projects with debt covenants that offer some protection to local communities and the environment.

> Engagements: Oil and Gas
SASOL

Engagement with Sasol on emission mitigation continues. As noted in our previous report, absolutely key to a strong reduction across the entity would be the conversion of the Secunda plant to have gas feedstock as opposed to coal, and to have cleaner energy inputs into the plant. (Close to 90% of Sasol's global emissions stem from this one site.) This would require pipelines (an approximately 10-year project) and capital, or capital partners. We have noted they have struck an emissions reduction objective for 2050, but we would encourage realistic short-term goals in short periods, for example three-year stages, and for their ultimate targets to be more ambitious.

On this note we have seen several entities target net-zero carbon goals for 2050. This is a laudable goal. Such a goal can be more difficult to achieve for an asset manager in South Africa given the nature of our relatively limited investment universes, but we can encourage companies to set targets. Our preference, however, is for listed entities in South Africa to set a runway of shorter-term targets to achieve stronger reductions over time and to establish credible milestones. Achieving these would be a good means of demonstrating sincerity towards meaningful change.

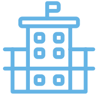
Social

> Engagements: Tobacco

BTI

We have continued to engage BTI on its development of next generation products (NGPs), including products that are nicotine-derived and contain no tobacco. US regulation remains a key focus. On a side note, BTI is continuing to take market share from JUUL in the US in the NGP area.

The recent listing of Philip Morris on the Dow Jones Sustainability North America Index shows growing recognition of tobacco entities transitioning to less harmful products.



Governance

> AGMs

With the rise (and return wave) of Covid-19, almost all entities are resorting to virtual AGMs.

We do not necessarily attend all AGMs, having presented any concerns and held discussions with management throughout the period. We attend AGMs where our aims would be better served by public engagement with management. The move to virtual AGMs driven by the pandemic is, in our view, an excellent development in the democratisation across shareholders of attendance at AGMs and access to the Board.

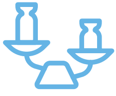
In some instances, entities have not transitioned to remote AGMs in the way we would expect. Unfortunately, the remote platform has enabled some entities to reduce engagement with shareholders rather than improve it. The platform has seemed to enable those Boards preferring to silence shareholders to do so and to run the AGM such that form wins over substance.

We have also noted with disappointment some entities being unwilling or unable to provide updates to shareholders on the progress and sustainability of the entity in the current pandemic.

One retail entity is, in early 2021, refusing to host a remote AGM, citing a belief in a lack of interest in AGMs. The AGM will be held in person, which, in the current Covid-19 pandemic will result in many shareholders being unable to participate. Given the entity's international footprint in countries with high governance standards, this is an astonishing dismissal of the owners of the entity by its paid custodians.

We have addressed these entities and they are aware of our views.

A few entities, however, have risen to the challenge and allowed open engagement and debate. The Chair of ABSA, Wendy Lucas Bull, faced tough questions from us, the meeting was well managed and unmoderated. The FirstRand AGM was also well managed. Sasol also agreed to a very open forum and took questions for a good portion of an afternoon. In all these cases the entities came under criticism on ESG matters, but their willingness to be available and open to shareholders should be welcomed.



SOEs and Fixed Income

> Land Bank

Given the importance of the default of Land Bank and the potential impact on how implied government guarantees are viewed at other SOEs, it is important to cover this issue in some detail.

On 22 April 2020, Land Bank defaulted on debt worth R50 billion, with approximately R740 million in debt repayments that needed deferral. At the heart of the issue was the debt maturity profile, in other words the timing of when the principal amount of the debts became due.

Despite the timing, the default was not Covid related. The Bank's funding had been sourced through debt funding for some time, it did not believe it had enough capital to continue, and had been engaging government regarding its inability to continue to assist farmers. M&G Investments started to pull back funding when we saw leverage was, on our analysis, too high. Land Bank tried experimenting with different types of instruments, but this didn't work. The CEO left, followed by subsequent interim CEOs and staff who also left to join competitors in the private sector. The Bank's skill set was weakening, its high leverage was increasing, and credit rating downgrades followed. The new team at Land Bank tried to negotiate to extend the debt, but breached covenants and downgrades followed. This halted the extension of the maturity of its debt, resulting in a default.

The Bank received a R3bn equity injection approved from June, with the final payment of this sum being made at the end of September 2020.

A debt restructure programme has yet to be resolved. And from a governance and risk management point of view, we, as debt holders, are at a critical juncture. While not having explicit government guarantees, the market belief was that this has always been implied. The proposition is that government will not let its state-owned enterprises easily fail.

However, negotiations between government departments and debt holders are not proceeding smoothly. Late in 2020, the proposal was for instruments to follow a "stepped maturities" model along with partial government guarantee (60%). At the beginning of this year, the proposal changed such that all debt holders or all durations would move to five-year unrated unlisted notes without the partial government guarantee. Finally, the financial results for year-end 2020 have been issued with a disclaimer of opinion and a re-statement of prior numbers.

As stewards of clients' assets, investment managers now have a quandary – is the government willing to risk much higher debt costs for all its SOEs by failing to protect debt holders? As mentioned above, we began pulling back funding as the leverage levels rose, but we still retain some exposure.

The more concerning implication of this default is that a precedent is being set. Other SOEs have informed us they are watching the situation with some apprehension. While there was little initial contagion to other SOEs in terms of debt issuance levels, and reception and recognition in the investment community that the circumstances were unique to Land Bank, this could begin to shift as investors begin to price in the risk that government may allow SOEs to fail, or bring terms to investors that demonstrate a power balance rather than a constructive solution.

> Umgeni Water

During August 2020, all Non-Executive Directors were removed from the board of Umgeni Water by the cabinet minister in oversight. Subsequently, the CEO resigned with immediate effect in October 2020.

We have been unable to ascertain if any of these changes related to the SIU investigations, by presidential proclamation, into Umgeni Water on "unauthorised, irregular, fruitless and wasteful expenditure and loss incurred by the Umgeni board or the state."

We have again formally corresponded with the board in the latter half of 2020, but, as with our correspondence from 2019, this correspondence remains unanswered.

> Development Bank of South Africa ("DBSA")

In 2020, the DBSA was the subject of negative news regarding allegations made by a prominent politician relating to governance at the bank and the past handling of loans. Our engagements included two letters containing questions in late 2020 and a discussion with senior staff in early 2021.

Although we are reluctant to divulge details of so recent an engagement, noting the matters still need to be resolved, we were pleased with the transparency and detail with which senior staff engaged us, their candour and their willingness to give us time to address all our queries as best they could. Some comfort was also obtained around investigations in process and controls for recovery of bad debts and the involvement of external parties.

> IDC

During early 2021 we had engagements with the IDC's resigning Chief Financial Officer, Ms Nonkululeko Dlamini and Head of Treasury, to understand the role the former will be playing as she transitions out of the business.

We also engaged on the delays in the annual financial statements stemming from Covid-19-related issues.

Voting

Voting is an important aspect of shareholder activism and a means of expressing shareholder views on governance aspects such as appointments, remuneration, auditors, etc.

Our full voting records are somewhat extensive. A detailed voting report, listing all resolutions and how we voted, is available to clients quarterly and is published on our website. For ease of reference though, a summary of our voting activities is shown below.

Proxy Voting summary	1 January 2020 - 31 Dec 2020
Number of resolutions	2245
Number of resolutions voted for	1932
Number of resolutions voted against	312
Number of intentional abstentions	1

Conclusion

M&G Investments is proud to be an active shareholder and steward since our inception 25 years ago. We remain of the firm conviction that correctly understanding and incorporating ESG issues into our investment process, whether this being quantified at the modelling stage, or accounted for in the investment voting or construction processes, has added value for our clients.

For over a decade we have also catered for clients who wish to not only have ESG and shareholder activism embedded into our investment process, but also desire a specific socially conscious overlay or screen on their segregated portfolio.

It is our hope that this report gives some flavour of the nature of our process and our engagements. Given the sensitivity of some engagements, not all engagements have been reflected in this report.

Should you have any questions about the contents of our report or our ESG process, you are invited to engage with your Client Services or Institutional Business Representative.

Postscript Note: Integration into ESG

It is tempting to view stewardship exclusively as the engagement of entities to drive change in their behaviours or to understand their true culture and values. Engagement is, however, only one side of the ESG coin.

Effective stewardship also involves taking appropriate cognisance of ESG risks, integrating ESG factors into the investment process and feeding information received from engagements into that process.

This seems to be an area managers shy away from addressing with clients. Perhaps for fear that clients will realise this is an area that is subjective at times and actually very hard to quantify. In our experience there is often not a lot of mathematics in many ESG issues. This is contrary to the impression many have that such issues can be tabulated, ranked, weighted and inserted into some quantifiable process to account for valuation impact.

To break this impression, we decided to host a webinar on this topic, which can be found here

https://www.mandg.co.za/insights/articlesreleases/video-esg-investing-putting-philosophy-and-process-into-practice/

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