Stewardship Report

2021

CORONATION

TRUST IS EARNED™

Contents

Foreword

KIRSHNI TOTARAM
GLOBAL HEAD OF INSTITUTIONAL BUSINESS

We genuinely believe that integrating sustainability factors into the investment process leads to better-informed investment decisions.

2021 marked a full calendar year of living with a pandemic that has dragged on much longer than many of us anticipated. We all had to adapt to our own "new normal" way of doing things, which looked different for each of us. Following on from 2020, most of our interactions were virtual until vaccinations enabled us to meet in person again – albeit in a more limited manner.

But 2021 was also another year of hard work and dedication to furthering our stewardship activities and improving our approach. Our efforts played out against a backdrop where societal pressures, accentuated by the pandemic, are continually increasing the materiality of environmental, social and governance (ESG) factors on the financial outcomes of many companies.

Taking a long-term approach to investing helps embed the interests of society alongside those of asset owners and to be sustainable in the long term, companies therefore need to consider the interests of all their stakeholders.

Prioritising sustainability often requires bold steps by a company's management to forego short-term profits. While remaining mindful of this reality, we strive to direct our focus on the ultimate aim of delivering greater long-term societal value and, hopefully, improved financial returns.

Stewardship is part of our DNA

For Coronation, this is not a new imperative, as it has long been part of our investment DNA. This is because we genuinely believe that integrating sustainability factors into the investment process leads to better informed investment decisions and, ultimately, better long-term, risk-adjusted returns for our clients.

As the role of stewardship has grown in importance, prominence and complexity, so too has our understanding and knowledge of the different aspects that can affect a company materially over the long term. Drawing on these insights, we have been active stewards of our clients' capital for almost 30 years. I am happy to report that we fully integrate ESG considerations into 100% of the assets we manage on behalf of our clients. This includes active engagement, voting and shareholder activism.

Our culture and values are critical success factors in delivering on our commitment to being the best possible stewards of our clients' assets. In doing so, we understand that we have been granted a social licence to operate in this space, which goes hand-in-hand with a responsibility to deliver positive outcomes for our clients. Tangible evidence of our ability to deliver attractive long-term financial outcomes for clients is the fact that in excess of 95% of our assets have outperformed their benchmarks since inception.

Over the years, in our quest to deepen our understanding of many of the complex issues that affect stewardship and sustainability and further integrate our learnings into our approach, we have introduced several improvements into our processes. These include posing more explicit questions to investee companies on ESG-related matters, making an explicit ESG-related adjustment to the multiple applied in our valuation process, measuring our portfolios against relevant ESG-related metrics and measuring the carbon exposure of our portfolios relative to their respective benchmarks. We have also responded positively to the increased disclosure requirements of our clients and regulators by enhancing our reporting and transparency on our stewardship activities.

Meaningful change requires a holistic approach

The integration of ESG into the Coronation investment process remains within the remit of the investment team as we believe that our portfolio managers and analysts are far better equipped than any external party to understand the nuances and implications of ESG factors on a particular company.

Our engagements often span multiple years and have, over time, delivered constructive outcomes for stakeholders. In this regard, our approach in making all engagement activities the responsibility of the investment team ensures that our experienced analysts are able to have informed dialogue with a company on the most relevant and pertinent issues whilst taking the local context and specific circumstances into account. This ensures the process is meaningful and encompasses the multi-faceted approach of balancing ESG elements.

ESG issues are extremely nuanced and require a holistic understanding of the company context in order to accurately assess a company's position and trajectory. It is important to consider the full scale of potential impacts with deliberate scrutiny of potential unintended consequences.

We believe ESG issues cannot be reduced to a single score or a few metrics. A misunderstanding of these issues can have severe real-world consequences. This is why we are careful to bring an informed perspective to every engagement and to focus on issues that most affect long-term shareholder value.

Likewise, we ensure our voting is careful and considered. We vote on all assets under management and provide feedback to clients on our voting record. Most votes are in fact standard company resolutions for which there is often very little controversy and the number of dissenting votes should always be seen in this context. In the last year, we voted against at least one resolution at 225 out of the 498 meetings at which we voted.

2022 and beyond

The challenges of 2021 again showed the critical importance of strong leadership, good governance and clear

ESG issues are extremely nuanced and require a holistic understanding of the company context in order to accurately assess a company's position and trajectory.

purpose. It also revealed the resilience of different companies and their ability to manoeuvre shocks and supply chain disruptions effectively. There are many themes that dominated the year. Collaboration again stood out as one of these – the coordinated global efforts to design, manufacture and distribute a Covid-19 vaccine so soon was a testament to the incredible power of collaboration.

But other themes continue to require attention into 2022 and beyond. These largely relate to the decreased – and, in many cases, broken – trust by the public in established institutions, the consequences of rapid digitisation brought on by the pandemic, and our approach to the climate conversation. Exploring aspects around climate change, e-governance and data privacy continue to be part of the dialogue we have with investee companies.

One of the biggest impacts of rapid digitisation has been around office-based work. Companies across the globe have adopted very different approaches to what the post-pandemic work model will look like. For us at Coronation, after over 500 days with approximately 80% of our employees working from home, we returned in full to the office on 2 November 2021.

Our employees are the heart of our company, and we rely on the effective collaboration and decisions that come from face-to-face engagement. We draw our inspiration and motivation from robust debate and water cooler encounters. It quite simply generates a different energy and, in many ways, has been a secret of our success. It has indeed been a joy to hear the laughter and experience the vibrancy of our people again.

One of the greatest anticipated events of last year was certainly the COP26 conference in Glasgow. While the overall outcome did not meet the broad commitments people were hoping for, there certainly was an increased focus on innovation and making green technologies more affordable and accessible. This is encouraging progress.

The truth is that none of us know for certain what the future holds. Climate change is a reality that we all have to deal with but the exact trajectory of the transition is unclear. As such, we need to ensure that we have more and more reliable data, and flexible approaches to deal with aspects as they emerge.

Committed to navigating a changing world

I must confess that I felt optimistic about the start of 2022, and my hope was that after two long years of dealing with the pandemic, we could move forward with some semblance of a settled, post-pandemic "new normal".

But as I write this, 2022 has already presented a number of significant challenges – including high inflation, low growth, supply chain disruptions and, of course, a horrific war. The tragic consequences and humanitarian crisis resulting from Russia's invasion of Ukraine have been devastating. The political, economic and social impact has already been significant and is likely to have long-lasting implications for the geopolitical landscape and for economic recovery around the world.

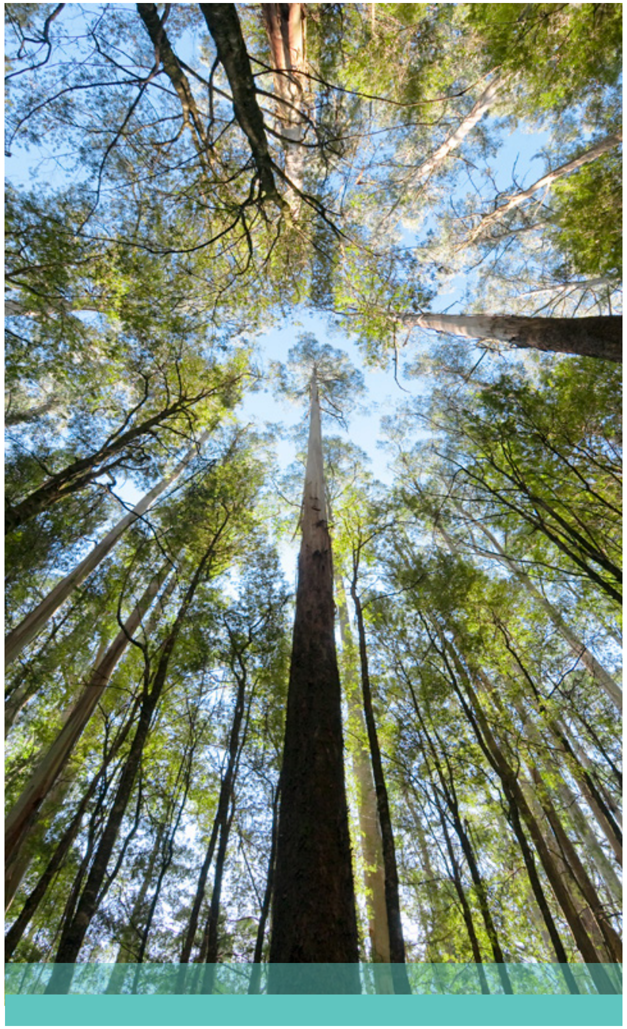
So again our task remains to navigate our client portfolios through these turbulent times, and we remain committed and focused in our endeavours to deliver superior long-term outcomes. I am reminded of a line written by Yuval Harari: "The single greatest constant of history is that everything changes."

With that in mind, I trust you will find the information in our report useful, and I wish you well in navigating these uncertain, challenging and ever-changing times.

Sincerely

Kirshni

Kirshni Totaram



About Coronation

About Coronation

A proud South African company

Coronation Fund Managers is a leading active investment manager based in Cape Town, South Africa with a clear and simple purpose of delivering superior long-term investment outcomes for our clients as responsible stewards of their capital. As one of the largest independent asset managers in the country, we invest the long-term savings of millions of South Africans. Our clients include individuals, retirement funds, medical schemes and financial institutions. We also manage assets for several leading international institutional clients.

Over the past 29 years, we have delivered world-class investment performance for our clients, with 95%[2] of our institutional portfolios outperforming their benchmarks since inception. In 2021, our industry-leading performance and world-class client experience have been recognised with the prestigious European Pensions Emerging Markets Manager of the Year Award and the Pensions Age Emerging Markets Manager of the Year Award.

Coronation is listed on the Johannesburg Stock Exchange, and we have used this listing to foster and entrench a culture of ownership within the business. We are owner managed, with 26% of the company owned by staff and 58% of all staff members owning Coronation shares. This includes 100% of the management team and 100% of the investment team. The rest of our shares are held by a wide array of global investors.

As active stewards of our clients' capital, we fully integrate ESG considerations into all aspects of the investment process. This approach leads to informed investment decisions and improves the long-term outcomes for our clients. In addition to taking ESG into account within our research and valuation processes, we also aim to influence positive change through meaningful engagement and collaboration.

Our investment offering

Our comprehensive range of investment products are designed to meet the needs of our South African and global clients. We offer specialist asset class mandates, such as equities and fixed interest, as well as a range of multi-asset portfolios, where we combine active asset allocation with stock selection through an integrated investment approach. Our global offering includes strategies investing in global developed markets, global emerging markets and global frontiers markets.

We apply a single long-term, valuation-driven investment philosophy and process consistently across all our strategies. Our goal is to generate superior risk-adjusted returns in line with our clients' objectives.

The success of our investment approach is demonstrated by our multi-decade track record of delivering outperformance to clients across a wide spectrum of equity, fixed income and multi-asset strategies both globally and in South Africa.

R662.18bn
$41.55bn
ASSETS UNDER MANAGEMENT[1]

95%
INSTITUTIONAL PORTFOLIOS[2]
outperformed their benchmarks since inception

Level 1
B-BBEE CONTRIBUTOR
as measured by the Financial Sector Code

26%
EMPLOYEE OWNED[1]

1 As at 31 December 2021
2 As at 31 December 2021; on an asset-weighted basis; since inception figure refers to strategies with a 10-year+ track record

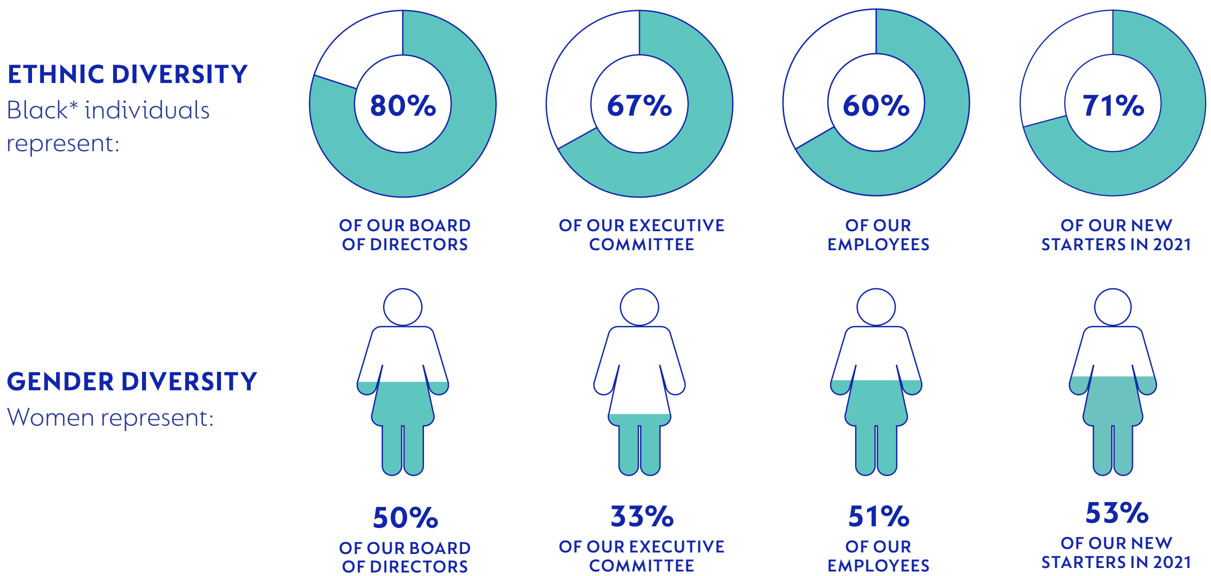
In our South African funds, our Houseview Equity Strategy, has outperformed its benchmark by 2.4% p.a. since inception in 1993, whilst our multi-asset Global Houseview Strategy has delivered real returns of 9.7% p.a., also since 1993. Our Global Absolute Strategy, which has a dual objective of delivering real returns while preserving capital over shorter time horizons, has outperformed inflation by 8.7% p.a. since 1999. In global markets, our Global Emerging Markets Strategy has outperformed its benchmark by 3.1% p.a. since 2008, and our Global Equity Strategy has outperformed US inflation by 3.7% p.a. since 2014. Our multi-asset Global Managed Strategy has delivered real returns of 3.2% p.a. to clients since inception in 2009.

A diverse and inclusive workplace

Founded at the genesis of post-apartheid South Africa, our history is rooted in an awareness of the deep need to nurture diversity, equality and inclusion at every level of government, society and business. Throughout our history, we have been committed to cultivating a diverse and inclusive workforce, and to driving industry-wide transformation.

Our efforts since 1993 culminated in the achievement of B-BBEE[3] Level 1 status at the end of the 2021 financial year. Achieving a Level 1 rating is the product of years of dedication to real and significant broad-based transformation. Our commitment to diversity is demonstrated by our diverse staff complement across every level of business, from our board of directors to our interns. As a business that focuses on the wellbeing of each employee, we understand that the strength that an organisation derives from its diversity cannot only be reduced to a few metrics. Our gender and ethnic diversity statistics are outcomes of our culture and approach and not goals in themselves. Nevertheless, they provide a lens into the extent of diversity within our workforce. Our employees span gender, ethnic, language, religious and socioeconomic backgrounds across a wide range of academic and professional qualifications. In order to sustain and enhance the diverse nature of the business, we focus on providing opportunities to top young talent (Figure 1).

FIGURE 1: DIVERSITY AT CORONATION



* *African, Asian and mixed-race ethnicity, South African-based employees as at 31 December 2021*

For us, however, diversity is not simply a human resources target. Instead, it is entrenched in our culture. We believe that diverse collaborators are better equipped to face the challenges in competitive and uncertain environments and that fostering an inclusive work environment is critical to unlocking the diversity dividend. We are cognisant of the need to avoid “groupthink” and promote a culture where opposing views can be expressed without fear. Listening to and interrogating discordant perspectives result in richer and deeper analysis and, ultimately, better outcomes for our clients.

[3] *The Financial Sector Code in South Africa provides a benchmark against which Broad-Based Black Economic Empowerment (B-BBEE) is determined. B-BBEE legislation was introduced in 2003 to facilitate broad participation in the economy by black people in order to redress inequalities.*

The structure and organisation of our investment team have helped promote inclusivity over time. Portfolio managers and research analysts form one integrated team, allowing them to interact, engage and learn from each other in an open-plan office setting.

Our culture and values

Coronation has developed a culture of excellence and entrepreneurial flair that continues to be a vital ingredient of our DNA today. Six shared values define our culture:

Ownership entrenches long-term thinking across all areas of our business. Coronation is 26% employee owned and staff are encouraged to act and think like owners. Over time we have seen that this has resulted in greater accountability and commitment to the company.

Long-term thinking is reflected in every investment and business decision we make. The long-term performance outcome for our clients is what drives and motivates our people and what determines the success of our organisation.

Integrity matters at Coronation and, as such, employees are expected to maintain the highest ethical standards in everything they do. We have a fiduciary responsibility to our clients to act with uncompromising integrity.

As a **performance-driven meritocracy**, we encourage and reward exceptional performance and have created an environment where people can grow and contribute to the success of the business. We reward exceptional performance, which has helped us attract and retain exceptional talent.

As a **team-based** organisation, teamwork and individual contributions to the team are emphasised. People are encouraged to work together in order to generate far greater output as part of a well-functioning team, than would be possible as individuals.

Client centricity informs and drives our work. We view success in terms of the value we create for clients over time, our client relationships and tenure of our clients.

Our South African roots have given us a deep appreciation not only of the importance of driving diversity from within, but also of our broader responsibility to drive industry-wide transformation. We have actively supported this across a range of initiatives, including:

- Supporting the establishment of three black-owned investment managers – Namibia Asset Management (1996), African Harvest Asset Management (1999) and Kagiso Asset Management (2001).
- Creating the Imvula Trust to provide 182 black employees with meaningful and direct ownership in Coronation by transferring ownership of 10% of Coronation's shares, equating to R1.6 billion at today's market capitalisation (2005).
- Establishing and running a programme to facilitate the growth of emerging black stockbrokers (2006).
- Co-sponsoring ASISA's Independent Financial Adviser (IFA) Development Programme, which provides business development support and skills training to black IFAs (2016). Since inception, 176 black IFA businesses have been trained and 181 internship opportunities have been created, 116 of whom have been absorbed into the businesses.
- Creating Intembeko Investment Administrators, the first black-owned transfer agency, in South Africa (2017).

Meaningful social impact

Coronation is committed to the upliftment of the communities in which we operate, and we do this through various projects that are designed to achieve change over the long term. Because education lies at the heart of breaking the cycle of poverty in South Africa, our initiatives are largely focused on improving the quality of and access to education. We have developed a holistic approach aimed at supporting children, educators, parents and entrepreneurs.

Cradle to entrepreneur

Pre-school

EARLY CHILDHOOD DEVELOPMENT

Early Learning Resource Unit: Equipping primary caregivers with tools and skills to support the growth and development of their young children.

Primary School

NUMERACY

Counting with Coronation: Providing mathematics training to teachers in impoverished communities.

LIFE SKILLS

Coronation Schools Garden Programme: Teaching learners to grow produce in school gardens.

LITERACY

Coronation Reading Adventure Rooms: Training educators to improve literacy and equipping schools with reading rooms.

Supporting Educators

PRINCIPALS ACADEMY TRUST

Providing school principals in underprivileged areas with weekly coaching and mentoring by retired school principals.

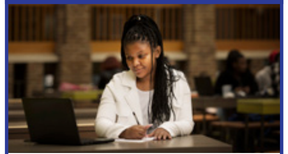
Funding student teachers to work at schools during their studies to gain experience.

Supporting Parents

CONSUMER FINANCIAL EDUCATION

Empowering parents, teachers and principals with financial skills and knowledge to enable them to make informed decisions.

Tertiary Education



STUDENT BURSARIES

Providing full tertiary bursaries for students to study at any recognised university in South Africa.

Developing Entrepreneurs

CORONATION GROWING ENTREPRENEURS PROGRAMME

Training emerging farmers across South Africa in good governance, financial management, the practical and legal aspects of farm operations and recordkeeping.

Through these programmes and various initiatives over the years, we have reached[4]:

- **>7 500** Educators
- **>500** Schools
- **>240 000** Learners
- **>200** Students
- **>5 450** Small-scale farmers[5]
- **>85 540** Participants via consumer financial education workshops

[4] *Cumulative, including 2021*

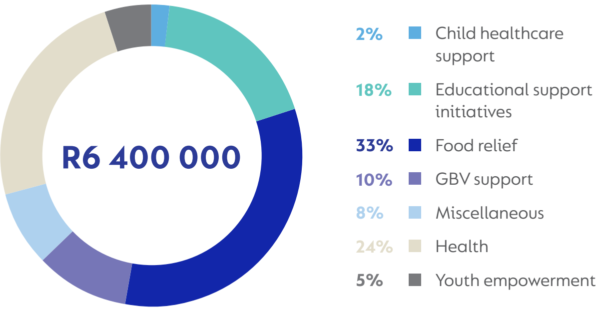
[5] *Includes beneficiaries of Coronation funding and partner funding*

Supporting communities during the pandemic

To address the immediate needs that arose from the Covid-19 pandemic, over and above our interventions in 2020, we put in place an additional R6.4 million Covid-19 relief budget to support a wide range of initiatives.

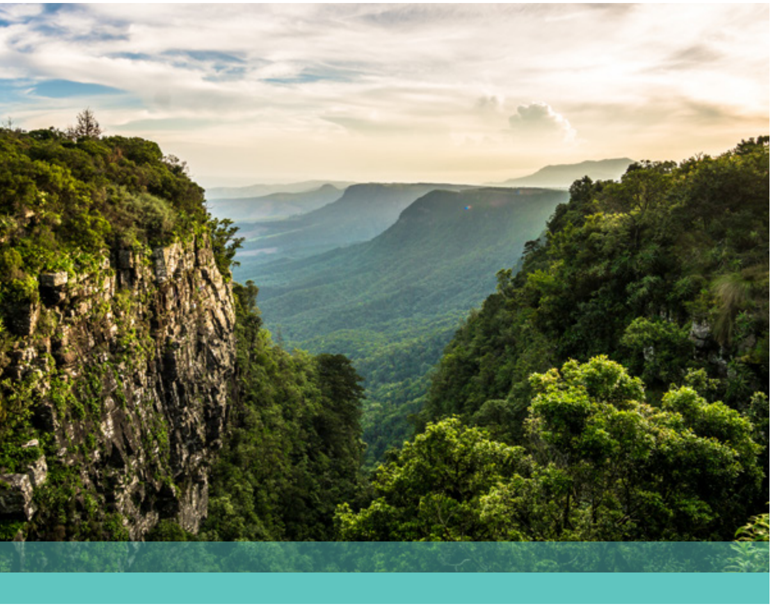
Over a third of this budget was dedicated to feeding schemes and the major recipients were the South African non-profit organisations FoodForwardSA and Ladles of Love. Our support of Ladles of Love included sponsorship of their initiative to use 90 000 food cans to form a record-breaking line of 6.7 kilometres at the V&A Waterfront in Cape Town. +

FIGURE 2: COVID-19 RELIEF EFFORTS IN 2021



Coronation sponsored food cans for Ladles of Love's initiative to form a record-breaking line of 6.7 kilometres with 90 000 food cans at the V&A Waterfront in Cape Town.

Year in review



The year in review

100%
ASSETS WE ENGAGED IN CLIENT PORTFOLIOS

54%
INCREASE IN TOTAL NUMBER OF ENGAGEMENTS

82%
INCREASE IN ENGAGEMENTS ON ENVIRONMENTAL MATTERS

45%
NUMBER OF MEETINGS WITH AT LEAST ONE DISSENTING VOTE

Covid-19 continued to spread across the planet and dominate the global zeitgeist in 2021. While the initial measures in 2020 were in response to uncertainty about the infectiousness and severity of the virus, in 2021, the emphasis shifted towards vaccinations and variants. We continued to see waves emerge in different regions across the globe, with countries adopting different approaches to lockdowns and other mitigation measures in response. This has, once again, made the operating environment very challenging for investee companies, and many have had to make tough choices in the face of ongoing uncertainty.

The pandemic fundamentally changed the operating environment for many sectors and accelerated the digitisation of many services. As in 2020, we continued to monitor the progress of the pandemic, focusing on its impact on the global economy, supply chains, and the individual businesses in which we invest. We aimed to understand the impact of the pandemic response on the ability of our investee companies to survive this period of uncertainty, act as responsible corporate citizens, and be able to thrive sustainably over the long term.

During the year, investor attention also shifted towards the challenges posed by other systemic global risks, most notably the need to ensure a coordinated global response to climate change. 2021 was thus a year in which investment managers, companies and regulators accelerated efforts to embed sustainability into corporate strategies, enhance disclosure and reporting, and take meaningful action toward achieving sustainable objectives.

Scope of this report

This report aims to provide insight into our stewardship approach as well as our activities during 2021. Throughout this report, we aim to demonstrate active ownership through examples of engagement, integration and proxy voting.

Our approach in 2021

In 2021 we focussed again on understanding the key systemic and stock-specific ESG issues, integrated these into our valuations and engaged with investee companies to drive meaningful on-the-ground change.

This included understanding the risks and opportunities present for each of the stocks within our investment universe, and engagement on these issues where needed. It also included a focus on important systemic issues that required action across groups of companies or sectors, based on the nature of their business activities and the impact they are having on the external environment.

We remained dedicated to improving our stewardship practices whilst ensuring that our approach remains active, engaged, and aligned to our long-term investment philosophy. As signatories to multiple responsible investing codes such as the Principles for Responsible Investment (PRI) and the Code for Responsible Investing in South Africa (CRISA), we worked hard to ensure that we championed their tenets and principles.

Over the past few years, a key part of our journey has been an increasing focus on encouraging responsible environmental and social practices. This continued in 2021, with engagements on these topics continuing to increase. However, the importance of driving good corporate governance remained paramount, ensuring that the companies in which we invest have proper oversight, governed by transparency, accountability, and effective stakeholder management. Good corporate governance is a key enabler of sustainable business practices, ensuring that companies incorporate the evaluation, disclosure, and management of material ESG risks into their business strategies.

Influencing through active ownership

Active ownership is a core part of our stewardship approach, which we apply consistently across the entire range of investment products that we offer to our clients. We aim to influence positive change through meaningful engagement on important ESG issues. We firmly believe that active engagement conducted in an informed, responsible, and robust manner enables us to drive tangible, positive corporate change over the long term by improving sustainability and governance practices. We take a long-term approach in our stewardship efforts – aligned with our long-term investment approach. In our experience, many of the engagements which have resulted in constructive outcomes for shareholders have occurred over a multi-year period.

Over the past year, we continued to engage with investee companies on material ESG issues and enforced our rights as shareholders through proxy voting at shareholder meetings. Our approach has been effective and has brought positive change to many of our investee companies, as illustrated by the case studies in this report.

In 2021, we held 395 engagements with 175 companies on a wide range of ESG issues. We once again engaged across a spread of environmental, social, and governance-related matters. Our activity levels increased across all categories, with a notable 82% increase in the number of environmental engagements. This increase was largely driven by our efforts to encourage companies to adopt reporting in line with the recommendations of the Taskforce for Climate-Related Financial Disclosures (TCFD).

We also voted on 6 459 resolutions across 498 shareholder meetings. While we always aim to resolve issues through prior engagement rather than voting against proposals, we apply our proxy voting principles strictly and, as a result, cast at least one dissenting vote at 225 (45%) of the meetings at which we voted.

Industry developments

The sustainable investment landscape has evolved rapidly in recent years, and we have carefully monitored developments in this space, including the plethora of codes, standards, regulations, and collaborative initiatives that have emerged in recent years. We have adapted our processes and participated in initiatives where they are aligned with our stewardship approach.

2021 CALENDAR YEAR

R662bn ASSETS UNDER MANAGEMENT

395 NUMBER OF ENGAGEMENTS

175 NUMBER OF COMPANIES

20 NUMBER OF THEMES

47% ENGAGEMENTS WITH POSITIVE OUTCOMES

6 459 VOTING RESOLUTIONS

498 SHAREHOLDER MEETINGS

We have continued to upskill our team to ensure that we meet globally improving best practice, while at the same time ensuring that we stay relevant to local perspectives and needs.

In 2021, companies increasingly accepted the responsibility to identify the ESG risks affecting their businesses and adopt explicit strategies to manage or mitigate them. This progress was largely owing to the pressure exerted by shareholders, regulators, and activists in recent years, as well as expectations that many of these requirements will become mandatory in due course.

This rapid pace of change has resulted in a tension between the need for, and proliferation of, new initiatives and the need for convergence toward a common set of industry standards and regulations. The fragmentation of regulations and practices across different jurisdictions remains a key challenge that, if not adequately managed, will result in higher costs and complexity for companies and investors.

Investment into funds labelled as sustainable continued to accelerate, as shown in Figure 3. This meant that greenwashing remained a key area of concern, given the differing approaches toward sustainable investing and the risk of funds being misrepresented or of sustainability strategies not being properly understood by investors.

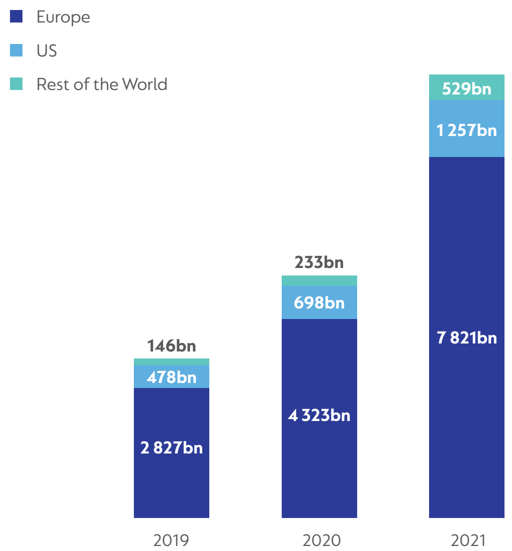
In the EU, the Sustainable Finance Disclosure Regulations (SFDR) were introduced to combat potential greenwashing in the region. The SFDR requires fund managers to classify their funds in terms of their ESG characteristics and provide disclosure in line with these classifications. The first set of disclosures came into effect in March 2021. In addition, a set of draft regulatory standards were published in 2021, which set out more detailed SFDR disclosure requirements that are to be phased in over time. These technical standards were subsequently adopted by the European Commission in 2022. The EU also proposed a voluntary standard in 2021 aimed at regulating the growing green bond industry.

In 2021, the UK's Financial Conduct Authority announced that it would develop a classification and disclosure regime for sustainable investment products. A separate classification regime for UK products risks investor confusion, particularly to the extent that UK fund managers offer their funds both within the UK and across the European continent.

We also witnessed a significant shift in the US' stance toward sustainable investing. The US Securities and Exchange Commission (SEC) launched a range of initiatives aimed at identifying ESG-related misconduct and improving the disclosure of climate-related risks. It further established a regulatory agenda to address issues such as climate disclosure and diversity within boards and workplaces. The SEC is also looking at introducing a set of mandatory rules that would require public companies to disclose their carbon emissions.

South Africa has also been on a journey toward a more sustainable approach to investment. Pension funds are required to consider the sustainability of the assets in which it invests, with the conduct regulator issuing guidance in 2019 to assist funds to give effect to this requirement. This shift towards sustainable investment practices was further underscored in 2021 by the release of a draft Green Finance Taxonomy by the National Treasury, and draft guidance issued by the JSE on a Sustainability and Climate Disclosure Standard. Asset owners, asset managers and the broader financial services sector is increasingly accepting and appreciating the importance of sustainability.

FIGURE 3: ANNUAL GLOBAL SUSTAINABLE FUND FLOWS (US$bn)



Source: Morningstar

Ensuring our global offering remains future fit

In 2019 and 2020, we launched global equity funds with product- and conduct-based exclusions. These funds exclude investments in certain companies or sectors, such as tobacco companies, companies that manufacture or distribute controversial weapons, and companies involved in the mining and extraction of thermal coal or the production of coal-based power and/or the extraction of oil from tar sands. These funds also exclude companies that we find to engage in practices that cause or could result in material harm to the environment or have a negative societal impact.

In 2021, we decided to apply these exclusions to our existing global equity offering, including our Global Equity, Global Emerging Market, International Equity and Global Equity Income strategies. This aligns our approach across our global equity product offering and meets the growing demand from clients and regulators.

We continue to follow the same approach to active engagement within these funds that we apply across our business by actively encouraging responsible business practices by investee companies.

Governance matters

Governance remained a key focus area for our investment team in 2021, with over 38% of our investee company engagements linked to governance concerns.

Remuneration remains a key topic of engagement, given its importance in aligning long-term incentives and driving responsible corporate behaviour. We continued to focus on ensuring that remuneration policies were fair, well balanced and incorporated key performance indicators that were appropriate and sufficiently long-term in nature.

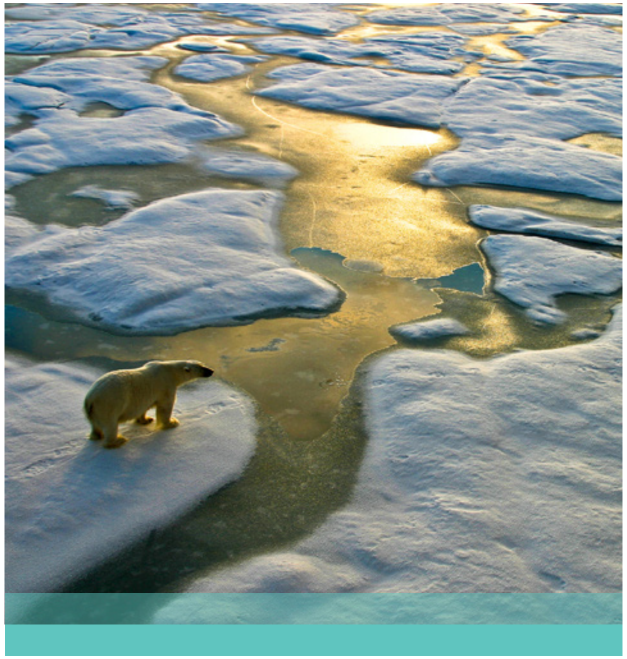
We also engaged extensively with companies on board-related matters by advocating for appropriate board structures. We looked for boards with the right mix of skills and diversity, genuinely independent representation, and with directors that have the competence and availability to commit the time necessary to perform their duties.

We also addressed a variety of stock-specific concerns about shareholder value, addressing issues that ranged from business strategy, capital structure and capital allocation to corporate actions and regulatory matters.

Social considerations

We addressed several important social matters in 2021, covering a range of topics, including labour practices, product safety and the need for greater diversity and inclusion within boards and workplaces.

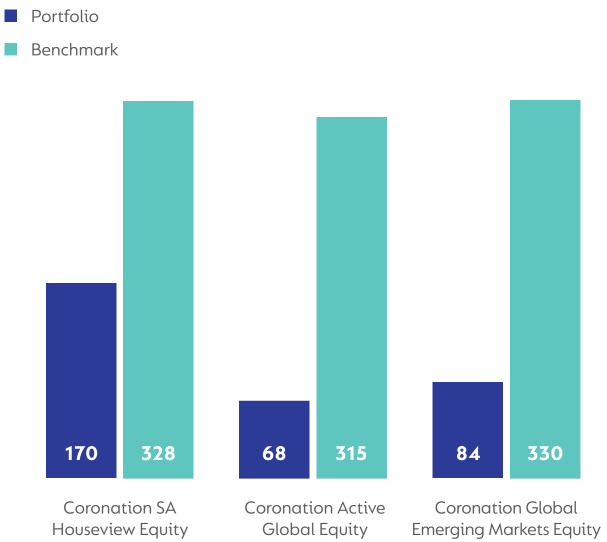
We engaged extensively with companies following a violent wave of civil unrest that erupted in parts of South Africa in July 2021. This event had a devastating impact on the lives and livelihoods of people that were affected by the riots. We reached out to over 30 companies that were affected by the riots to discuss the impact of the riots on the companies and on their employees.



Climate change

The UN Climate Change Conference (COP26) was the most anticipated climate-related event of 2021, having been delayed for a year due to the Covid-19 pandemic. The Glasgow Climate Pact, which was adopted at the conference, was the first to explicitly acknowledge the need to reduce the use of unabated coal, albeit with some disagreement on the overall objective. The Pact also called on countries to revisit and strengthen the 2030 targets in their nationally determined contributions as necessary to align with the 2015 Paris Agreement (signed at COP21), which set the goal of limiting global warming to 1.5°C.

FIGURE 4: MSCI WEIGHTED AVERAGE CARBON INTENSITY (T CO_2E/$M SALES)



The net zero movement continued to gain traction, with over 140 countries having long-term emissions reduction commitments and with companies increasingly adopting net zero as part of their corporate sustainability strategies.

Given that the lack of consistency in company-reported sustainability data is one of the most pressing challenges facing the industry in relation to its response to climate change, we have persisted with endeavours to encourage investee companies to disclose in terms of the Task Force on Climate-Related Financial Disclosures (TCFD). In 2020, we sent letters to listed South African companies to urge them to adopt the recommendations of the TCFD. In 2021, we had several follow-up interactions with companies on this matter.

In 2021, TCFD was increasingly adopted as a global reporting standard, with various developed market countries including TCFD-aligned disclosures in official reporting requirements. The UK formally announced plans to require mandatory climate-related disclosure by companies in line with the recommendations of the TCFD, to commence in 2022. In South Africa, the National Treasury released a discussion paper on Financing a Sustainable Economy, in which it recommended TCFD as a disclosure framework, and the JSE issued a draft Climate Change Disclosure Guidance which built on the TCFD recommendations.

Collaborating with others

Institutional investors continued to work collaboratively to affect positive change at investee companies. As a member of Climate Action 100+ (CA100+), we participated in engagements with the two South African companies that are on the CA100+ list of high emitters. We were a collaborating investor on Eskom (the state-owned electricity provider) and an individual engager on Sasol. We also continued to engage proactively with industry bodies and policymakers on sustainability-related initiatives as well as, more generally, to shape a financial services sector that improves investor outcomes through a well-run and regulated long-term savings industry.

The road ahead

In 2022, we continue to apply our stewardship approach across our investment process, including ongoing integration of ESG into our company valuations, engagement with companies on material ESG issues, and collaboration with like-minded investors where necessary. We also aim to improve our stewardship practices as information and regulation in this area evolve.

This year we have prioritised an increased focus on social objectives. Employee safety at mining companies will be a key focus this year as we undertake an analysis to understand the causes of the recent deterioration in safety incidents across the mining industry. We also continue to drive other thematic objectives, including the need for improved climate-related disclosure by investee companies, as well as ensuring that companies have clear and credible plans for emissions reduction.

As always, stewardship is integral to achieving our goal of delivering significant and sustainable long-term benefits to our clients, our stakeholders and to the communities in which we operate. +

Stewardship at Coronation

Our approach to stewardship

Introduction

Our approach to stewardship derives from our purpose of delivering superior long-term investment outcomes for our clients as responsible stewards of their capital. We recognise that companies that are managed on a sustainable basis are more likely to create value over the long term. Our analysis of the ability of each investment to create, sustain and protect value is, therefore, an integral part of our long-term valuation-driven investment philosophy, which aims to generate superior risk-adjusted returns in line with our clients' objectives.

Our stewardship activities focus on the drivers of long-term value. This includes understanding the key ESG risks and opportunities facing each investment, how an entity is responding to these challenges, and driving meaningful change where required. Driving change is only possible through rigorous, company-specific research, which provides a thorough understanding of the issues and trade-offs. We understand that factors may vary by company, industry and country and that a solution to one sustainability issue may have a negative impact on another. Our research on these issues informs our engagements with companies, and, as an active manager, these engagements are key to our process.

Identifying material ESG considerations

We aim to drive meaningful change by identifying and addressing issues that we believe are material to a business and can have an impact on its long-term sustainability and value. It is our responsibility to understand the implications of all issues that may affect the ability of a business to create long-term value, including ESG challenges. These factors can have clear and direct impacts on a company's profitability, for example, through tighter regulation leading to higher operating costs. They can also influence customer loyalty, brand equity, the ability to attract talent and a company's "licence to operate".

The concept of ESG is vast, and we are continually identifying opportunities to improve and refine our approach as information on these matters improves.

Environmental

Environmental and climate-related concerns have become more urgent in recent years, and we continue to increase our stewardship efforts on this front. Through our research, we aim to understand the impact that companies are having on the environment and to identify the material issues that can affect the long-term value of a business. Over time we have added to the number of different factors we consider, which include, amongst others, those relating to carbon emissions, energy efficiency, pollution, waste management, water security, and biodiversity.

Many of our efforts focus on those companies where the external impacts of their activities are large and

We aim to drive meaningful change by identifying and addressing issues that we believe are material to a business.

known. For example, fossil fuel producers are exposed to a range of climate change-related risks, including shifting demand, replacement technologies, policy and regulatory risk, and other transition risks.

One of the most pressing challenges facing the investment industry is the lack of consistency in company reported sustainability data. Robust, comparable and reliable climate-related disclosure is needed to assist with fundamental company analysis and to provide comprehensive portfolio level views of climate-related risks and exposures. In 2021, we continued to encourage investee companies to adopt disclosure practices that are in line with the recommendations of the TCFD so that investors can better assess the robustness of a company's strategies.

A full report on our climate-related activities, including an update on our TCFD project, is on page 59 of this report.

Governance

Ensuring that the companies in which we invest maintain high standards of corporate governance has always been an important part of our investment process. Good corporate governance is at the heart of ensuring that organisations have the skills, structures, and incentives to drive long-term business success.

We evaluate companies across a wide array of matters relating to corporate governance. These include the composition, strength and independence of the board, executive compensation and alignment of interests, as well as ethical conduct, anti-corruption practices and the management of conflicts of interest. We further evaluate practices relating to capital allocation, the protection of shareholder rights and third-party assurance and reporting.

As a well-functioning board is a prerequisite for proper governance, many of our stewardship activities focus on ensuring that boards function effectively. We aim to ensure that companies are headed by effective boards that set the strategic direction of the company, establish its risk appetite, and implement appropriate oversight and control.

We do not believe that standardised data metrics and good governance "box-ticking" can provide genuine insight into the true functioning and effectiveness of a board. As fundamental investors, we consider the individual dynamics within the boards of investee companies and advocate for change, where required, with the company concerned. Most often these discussions take place away from public scrutiny.

Executive remuneration is another important area of focus. We endeavour to assess a company's remuneration

We believe that boards should comprise of directors with the right balance of independence, diversity, competence and capacity.

Independence	The independence of directors is paramount to ensure that no conflict of interest will hamper the board's ability to direct the affairs of the company fairly and objectively. An independent chairperson is pivotal in creating conditions for overall board and individual board director effectiveness.
Diversity	In addition to demographic diversity, we aim to ensure that boards comprise a diverse range of competencies, knowledge, perspectives and experience, as cognitive diversity enables non-executive directors to add a unique perspective to the operations of businesses.
Competence	We advocate for a strong mix of financial, technical and commercial skills and experience to meet the individual needs of each business.
Capacity	Directors must have sufficient capacity to commit the time necessary to perform their duties. This means that individuals must not overcommit to multiple directorships or other obligations that could detract from their ability to be effective in their roles.

Companies must manage the impact that their activities have on the communities in which they operate.

policy in a holistic and balanced manner in order to ensure that incentives are aligned to the long-term value created. While we always evaluate key issues, such as the key performance indicators used to determine executive pay and evaluation time horizons, we do not focus myopically on any single aspect or metric.

However, we do not support any policy that does not include malus and clawback mechanisms that allow a company to reclaim performance-related compensation under specific circumstances and, in this way, protect the company from fraud or other material misrepresentation by executives. Having considered a company's policy in its entirety, we actively engage with the company where we feel improvements are required and vote in favour of remuneration policies that we deem to be fair, appropriate and where a company has shown willingness to substantially improve such policies over time.

Social

The way in which companies manage social issues has a critical impact on their "licence to operate" and ultimately on their long-term sustainability. We consider issues such as employee working conditions, health and safety standards, the prevention of child labour, and strategies to promote diversity and inclusion. Companies must also manage the impact that their activities have on the communities in which they operate and take care of their broader societal responsibilities, such as the role they play in providing employment, the need to protect against corruption and the increasing importance of data privacy.

The issues on which we engage are often complex, requiring difficult trade-off decisions. Social demands often compete with other considerations, such as the environment. For example, South Africa's high unemployment rate and reliance on coal for power generation have to be balanced against the environmental need for a just transition to a low-carbon economy. By considering issues on an individual company basis, we look to drive the change that we feel will be most beneficial for shareholders in the long run. We have due regard to the materiality of the issues identified, the company's approach to dealing with the issues, and how they find a balance between competing objectives.

An active approach

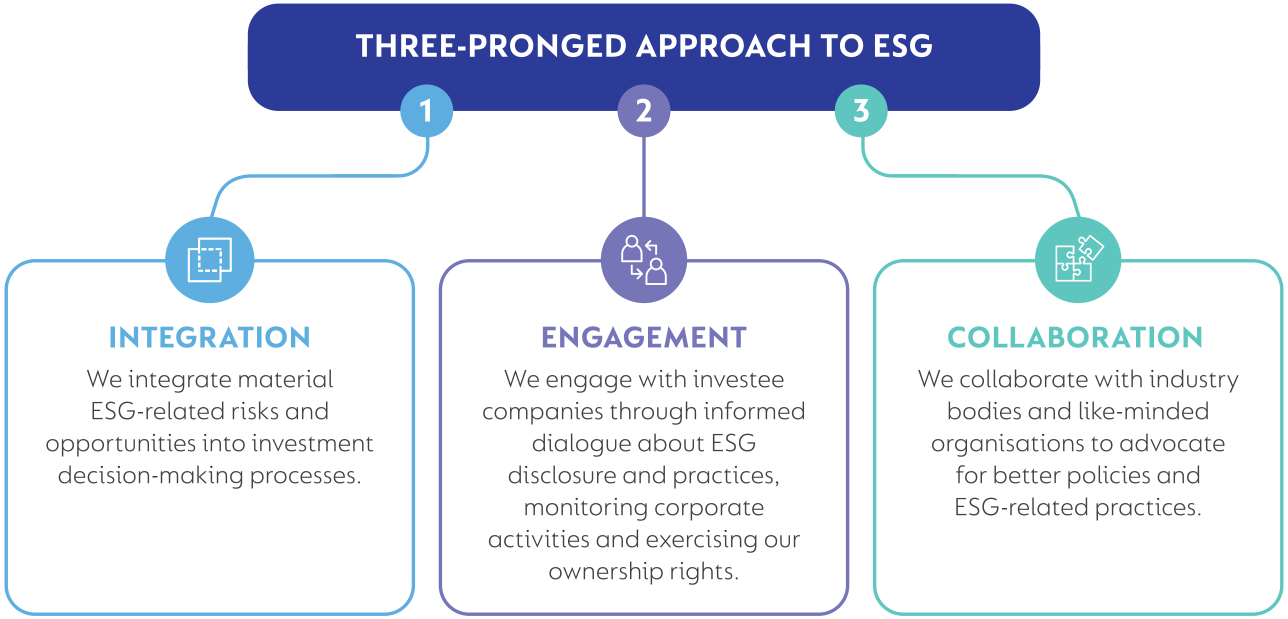
We believe that active engagement on material ESG issues is the most effective way to encourage companies to improve their practices and drive positive change. This approach aims to achieve a win-win outcome, where more responsible corporate behaviour leads to improved sustainability and, ultimately, higher long-term returns for our clients.

Conversely, divestment is a short-term solution that removes our ability to influence corporate behaviour and potentially transfers ownership to less accountable parties. In a South African context, eliminating entire categories of potential investments would exclude a large part of the investable market, including businesses that contribute significantly to employment in the country.

Notwithstanding our view that active ownership has a greater positive impact on a company's practices than divestment, we have always excluded companies that appear on the OFAC and EU sanctions lists. In addition, since 2021, we have applied a set of product- and conduct-based exclusions to a number of our global equity strategies to meet the growing needs of our clients.

Our three-pronged approach to ESG

Our stewardship activities are underpinned by three core pillars: integration, engagement, and collaboration. This three-pronged approach allows us to gain a holistic understanding of the underlying issues facing each company, how companies are responding to these issues, and advocating for change in a proactive and responsible manner.



Integration

The long-term nature of our approach requires our investment analysts to fully incorporate all material ESG factors into our investment decisions in order to ensure that we account for these factors in assessing the long-term value of a business.

Our analysts conduct detailed research to assess the long-term value of each individual business in our investment universe. ESG issues form an intrinsic part of this research, as it provides us with insight into the long-term fair values of the companies we assess. We identify and explicitly model the impact of material ESG issues on long-term earnings where it is possible to do so, such as with carbon taxes. Where the impact cannot be explicitly modelled, it is incorporated into the multiple with which we value a company's earnings and/or margin of safety we require before purchasing a security. The result is that each fair-value estimate takes into account the long-term opportunities, costs and risks associated with the specific ESG challenges that a company is facing.

The analyst's assessment of the company's ESG standing also identifies key areas of concern to be addressed through further engagement. Integration and engagement are mutually reinforcing in that company analysis drives engagement and engagement outcomes influence the analysis, with the goal of ultimately enhancing long-term shareholder value.

China's regulatory crackdown

Recent events in China illustrate the value of integrating ESG risks into the fair-value estimates and relative weights of individual stocks held within our portfolios. Starting at the end of 2020 and continuing into 2021, the Chinese government announced several regulatory interventions and investigations into companies and industries through its various state organs. These interventions included the highly publicised blocking of the Ant Group's IPO, the regulation of anti-competitive practices across some ecommerce and food delivery sectors, and the banning of some exclusivity practices. The Chinese technology sector experienced a rapid sell-off in shares, as regulatory interventions raised the alarm amongst investors, with questions being asked about what could be targeted next and whether this was indicative of a broader attack on capital markets and foreign ownership therein.

Standing back and assessing, it was evident that many of the regulations announced are similar to those seen elsewhere in the developed world. The protection of privacy and the promotion of competition, for example, are regulated and debated in many countries. The announcements were also motivated by social considerations, with the new regulations intended to provide protection to gig economy workers through the provision of social benefits and insurance against injury. China has an estimated 200 million workers in this sector (almost a quarter of its workforce).

The Chinese government had, until then, largely allowed the technology sector to develop and self-regulate without significant impediments, with government intervention only occurring to correct for any negative externalities.

In integrating relevant ESG-risks into our investment approach, we understood that Chinese technology companies were exposed to the risks of regulatory intervention and factored these into our valuations on a stock-by-stock basis. We explicitly modelled the impact of material ESG issues on the long-term earnings potential of businesses where these were quantifiable. We also applied ESG discounts to our fair value assessment of stocks that were materially exposed to ESG risks.

Our flagship Global Emerging Market Strategy was exposed to a selection of Chinese technology stocks. By integrating ESG factors into our investment process on an individual company basis, we were able to reach a more informed assessment of each company's risk-adjusted upside potential relative to their intrinsic value. This process informed which stocks we decided to include in the strategy and the weights at which they were held.

The strategy did not own or was significantly underweight a number of stocks that were affected by the regulations that were announced. For example, the strategy benefitted from a relatively lower exposure to Alibaba throughout the year. Our valuation of Alibaba

applied a large ESG discount due to concerns around culture and governance at the company. This included the company becoming embroiled in a government crackdown on its ecommerce platform, where it was found to be engaging in anti-competitive behaviour and preventing merchants on its ecommerce platform from listing on other platforms.

Meituan, an online shopping platform, was another company heavily impacted and where we had relatively low exposure within the strategy. Concerns around social insurance collection had been considered a key risk even before the regulatory crackdown and had been part

In integrating relevant ESG-risks into our investment approach, we understood that Chinese technology companies were exposed to the risks of regulatory intervention.

of the decision to apply an ESG discount to the stock. China had previously enacted regulations to improve the collection of social insurance for riders, however, it seemed as if not all of Meituan's riders were compliant and the impact of the prior regulations was unclear for new categories of workers in the gig economy. When the government clarified the regulations, we explicitly modelled the impact that this would have on margins, applied this to our valuation, and ultimately decided to sell our remaining holding in the share.

On the other hand, we were overweight NetEase, which contributed positively to performance over the year. We believe that governance at NetEase is strong, as is evidenced in various ways. For example, the company had returned $7bn to shareholders via dividends and buybacks over the prior four years, which is a significant return of capital for a Chinese company. In addition, five of the six board members are independent, with the sixth being the founder, CEO and significant shareholder. NetEase had also made a conscious effort to improve its ESG ratings at prominent third-party rating agencies. Our comfort with the ESG risk profile of the company contributed positively to our assessment of its fair value and ultimately our decision to invest in the company.

As a result of our process, our exposure to Chinese internet stocks during 2021 consisted of individual names that were less affected by the regulations than those held within the broader index.

Engagement

Meaningful engagement is key to our stewardship approach as it informs integration of ESG issues and because it is an effective way of driving positive change. Engagements help us to assess whether a company has coherent strategies to deal with the environmental and social impact of its everyday operations, and if it has appropriate governance in place to drive long-term business success. A company's awareness of the challenges and its willingness to address them indicate whether the business is committed to being a good corporate citizen and protecting its long-term value. Our engagements help us to understand all these factors before integrating them into our fair-value estimates (Table 1).

TABLE 1: KEY ENGAGEMENT DRIVERS

ENGAGEMENT DRIVER	AIM	EXAMPLE
Understanding and integrating	To identify, understand and quantify material issues affecting the long-term fair value of a business.	Carbon tax legislation, outstanding legal claims relating to health and safety risks, and changing environmental regulations.
Advocating for change	To advocate for changes that will reduce risks and improve the long-term business prospects.	Recommending changes to remuneration policies to improve alignment of interests of senior management and long-term interests of shareholders.
Addressing specific corporate activities	To engage on corporate activities that require shareholder approval as and when they arise.	Shareholder approval may be required for corporate transactions such as: • schemes of arrangement; • the sale of a material portion of the business; and • share repurchases.

We have found that engagement is more effective when we engage directly and constructively with company representatives. Our analysts build and maintain constructive relationships with board members and management teams in the process of their research and regularly engage on a full range of issues, such as business strategy, operational performance, risk management and corporate governance. As active shareholders, we engage with management and boards in executing our fiduciary responsibilities, including through calls, in-person (or virtual) meetings, letters and written statements expressing our views. We often address a number of issues per engagement. We also engage with companies in which we do not currently invest where we believe that appropriate action will improve the attractiveness of the company as an investment.

The benefit of our integrated approach is that when we engage with companies, we have an informed dialogue about ESG disclosures and practices. We develop specific engagement strategies for broad themes affecting an entire industry and for each company based on a holistic knowledge of the key issues affecting that company and the industry and jurisdiction in which it operates. We do not believe that our role is to get involved in the day-to-day management of a business. We are also not driven by the need to demonstrate activity on every issue. Instead, our engagements focus on the most material business strategy and ESG practices that need to be addressed.

All formal company engagements are stored in a central database that records the details of who participated, the event or issue that led to the engagement, our concerns or objectives, the company's response, and how the issue was resolved. Depending on the situation and context, an effective company response could be providing us with more information or clarification on an issue, accepting the validity of our concerns, agreeing to make modifications to its business or policies, or making other commitments to address the issue.

Proxy voting

Voting is an important way in which we are able to exercise our ownership rights. Coronation's Proxy Voting Policy outlines the principles that determine how we will vote on company resolutions. We consider and vote on all proxies for all companies in which we hold shares on behalf of our clients, regardless of the size of these holdings.

As a result of our engagement approach, we often engage extensively with boards and management teams well ahead of any votes, as we want to ensure that our concerns are dealt with before the vote. We believe that exercising a proxy without prior engagement or forewarning to the company is contrary to the company's and, therefore, our investors' best interests. Only when a company fails to consider or act on our suggestions, do we vote against resolutions. When we vote against or abstain from voting on a particular resolution, the vote is followed up by a letter or telephone call to management explaining our reasons.

Unusual or contentious issues, such as hostile takeovers or proposals not considered to be in the interests of shareholders, must be discussed with the CIO and other senior investment managers. In addition to the proprietary research by our analysts, we also access the research and voting recommendations provided by a large third-party proxy voting advisor. Our analysts review this data to gain additional information on complex votes so that we are aware when we are taking views that are not in line with the broader market and are comfortable with the rationale for doing so.

Securities lending

When stocks are on loan, the voting rights for those shares are also transferred as part of the lending arrangement. Securities lending thus limits our ability to exercise proper long-term stewardship of these investments. We do not engage in securities lending on the portfolios that we manage, but we do permit segregated clients to engage in securities lending on their own behalf subject to reasonable restrictions such as setting a threshold on how many shares can be on loan at a given time. This allows us to exercise their shareholder voting rights in relation to that portion of the shares that may not be lent out. In certain circumstances, clients reserve the right to recall securities on loan prior to AGMs, enabling us to include the recalled shares in our voting.

Client-specific voting policies

We apply bespoke voting policies for segregated clients who prefer this. These clients either provide us with their own proxy voting guidelines to which we adhere, or they outsource their voting to a specialist company. However, given our active management approach, we prefer to retain the voting rights of shares held on behalf of clients, as it allows us to apply the full weight of our ownership to our voting powers, with the goal of enhancing long-term value for our clients.

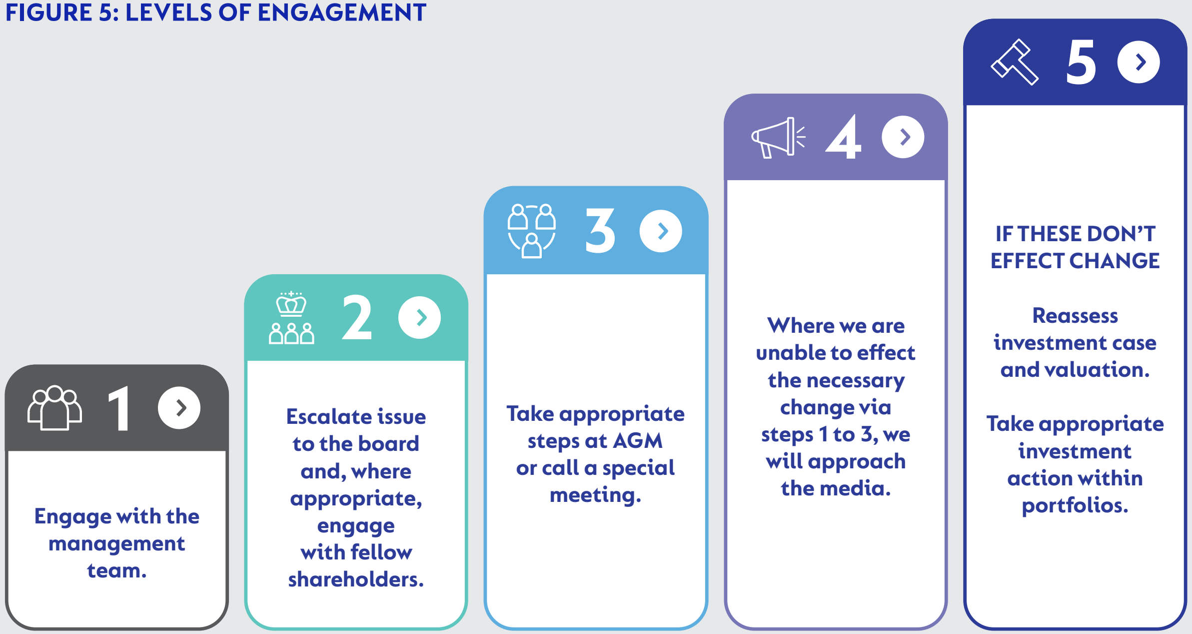
Shareholder proposals for a company to table a resolution

There are instances where an individual shareholder or group of shareholders propose that a company table a resolution for approval by its shareholders. We consider such shareholder proposals and generally support those that are likely to materially enhance long-term company value, reduce financial and/or ESG risks or improve disclosure practices. However, active engagement and the growing propensity of corporate directors to seek input from large shareholders have reduced the need for such proposals to be put forward.

Escalation process

As a general principle, we find that a strategy of constructive, behind-the-scenes engagement is far more productive than debating issues at a public AGM or through the press. However, when we are not able to achieve the desired results on important issues, we will use other means available to us, such as exercising our voting powers at AGMs, calling special meetings, collaborating with other stakeholders, and, if need be, escalating issues into the public arena via the media. If our best efforts are unsuccessful, we will reassess our investment case and take the appropriate investment action in our portfolios (Figure 5).

FIGURE 5: LEVELS OF ENGAGEMENT



Collaboration

While we usually engage independently, we collaborate with other like-minded investors when we believe that a combined effort will be more effective. Collaborative engagements are critically important when addressing systemic issues, such as climate change. Whether we engage individually or collaboratively, we typically prefer non-public engagements in order to ensure we don't negatively impact dialogue and potentially jeopardise the desired outcome, as well as future engagements with the target company.

We collaborate with industry bodies and like-minded organisations to advocate for better policies and to encourage better ESG-related practices. We believe in proactively participating in shaping an operating environment that protects the long-term interests of asset owners and promotes collaboration in support of a sustainable and diverse investment industry serving the best interests of the societies of which we are a part. We engage actively with key role players and policymakers to further these objectives. Our report on collaboration efforts during the year is on page 64.

Stewardship responsibilities

We believe it is imperative that ESG analysis remains within the remit of the investment team, as they are best placed to understand the nuances and implications of ESG factors and how they affect each company. All analysts within Coronation are responsible for identifying and integrating ESG factors into their investment analysis and assessments of a company's long-term fair value. They are further responsible, alongside senior team members, for driving engagement with companies on material issues and for making recommendations on proxy votes.

For each company for which a proxy vote is required, the analyst responsible for the research coverage is also responsible for Coronation's vote. Unusual or contentious issues, such as hostile takeovers or proposals not considered to be in the interests of shareholders, must be discussed with the CIO and other senior investment managers. Furthermore, we access the research and voting recommendations provided by a large third-party proxy voting advisor. Our analysts review this data to gain additional information on complex votes so that we are aware when we are taking views that are not in line with the broader market.

This ensures that we follow a holistic approach to active ownership, given the link between the general interactions required to understand a business, formal engagements on material issues and the way in which we exercise our shareholder rights, through proxy voting or otherwise.

Review and assurance

In order to ensure that our stewardship approach is implemented effectively, we have adopted a set of internal policies that establish our approach, required processes and oversight responsibilities. Our ESG Policy sets the guiding principles behind our stewardship approach, and our Proxy Voting Policy outlines the principles that we apply when voting on company resolutions. Coronation's Chief Investment Officer is responsible for implementation of these policies. Policies are reviewed periodically, and our Board of Directors is responsible for final review and approval.

Our proxy voting process include controls that provide reasonable assurance that corporate events and proxy voting are actioned, processed and recorded in an accurate and timely manner. These controls are subject to external assurance by our Service Auditor.

To add formal governance and oversight, we are establishing a Sustainability Committee (comprising the Chief Investment Officer, Global Head of Institutional Business, Global Head of Risk and Compliance, Company General Counsel and a number of senior portfolio managers), which is responsible for overseeing the implementation, monitoring and reporting of our stewardship activities in accordance with our policies and regulatory obligations. +

All analysts within Coronation are responsible for identifying and integrating ESG factors into their investment analysis and assessments of a company's long-term fair value.

Fixed income stewardship

Our stewardship responsibilities extend to all the asset classes that we manage on behalf of our clients and, as such, we follow the same three-pronged approach of integration, engagement and collaboration within our fixed income investment process. While the risk/return profiles of these assets differ from more growth-oriented asset classes such as equities, the principles that underpin our stewardship approach are equally applicable across all asset classes.

Integration

Investment in fixed income instruments is anchored by our expectations of having our capital returned and interest payments made timeously. Hence, we focus our research on understanding the key drivers of permanent capital loss associated with these instruments. Our goal is to ensure that any credit spread adequately compensates us for the risks associated with the specific investment.

For fixed income instruments, just as for equities, our detailed proprietary research on the issuer and structure enables us to gain a complete understanding of the material ESG risks in order to determine an appropriate risk-adjusted fair value for the instrument.

Our research entails rigorous interrogation and analysis of company, sector-specific and material ESG factors. Engagement with companies also helps to identify material risks or opportunities, and we assess the potential impact of these risks on an issuer's cash flow and balance sheet. We also factor in an issuer's willingness to engage on various issues and to address material concerns where identified. This process allows us to determine a fair value for all instruments in our investment universe. Our analysis is ongoing throughout the life of an instrument allowing us to appropriately manage our portfolios at all times. Additional risk management is embedded into the construction of fixed income portfolios through diversification and by limiting exposures to individual issuers.

Corporate governance failures have historically contributed to the bulk of defaults in the South African market. Conversely, while environmental and social risks are lower-probability events, their effects can be severe, and single events can affect the creditworthiness of multiple issuers simultaneously. The Covid-19 pandemic is an example of an extreme event which has had major social and economic implications. The market response to this pandemic had a significant impact on the pricing, volatility, and liquidity in fixed income markets. The increased credit risks, including risks of covenant breaches, highlight how events of this nature can affect creditworthiness – especially for issuers that were disproportionately affected by the crisis or were overly indebted leading into the crisis.

We proactively address ESG issues that arise and that we feel may be relevant to the creditworthiness of an issuer.

It is also important to recognise that many ESG-related risks that are identified to be long-term risks could materialise during the shorter term of an investment. These risks need to be considered when assessing the predictability and certainty of an issuer's ability to generate sufficient future cash flow to meet its debt obligations.

ESG-related risks can also impact the duration and yield curve considerations for fixed income portfolios. Systemic events can have significant macro-economic implications, including the need for government intervention. The monetary and fiscal response to these events affects the level of interest rates and hence the level of government bond pricing.

Engagement

Engagement has been a long-standing part of our fixed income investment process. We have large ownership stakes in many companies and, over the years, have developed relationships with company management and directors. We use these relationships to proactively address ESG issues that arise and that we feel may be relevant to the creditworthiness of an issuer. These engagements with issuers allow us to evaluate the strategic direction of the company and give us an understanding of how it will likely address future risks.

For any new issuance, we need to carefully evaluate the terms of potential transactions. In addition to our in-house legal expertise, we retain an external legal advisory firm for in-depth analysis where needed. This means that we can play a constructive role in helping shape some of the contractual agreements by, for example, ensuring that covenants include the metrics that we deem to be necessary, and setting disclosure obligations.

Given the asymmetric return profile of investing in fixed income assets, credit selection is primarily focused on mitigating downside risk, and our engagement efforts are aimed at reducing these risks and influencing positive impact where possible. As fixed income investors, our ability to effect material changes is limited by the lack of voting rights associated with fixed income instruments. Our options are thus to limit the horizon of our investment or exit the investment if we perceive the underlying risks to have materially increased.

In South Africa, owing to our size, we continue to engage with large issuers even if we do not hold exposure to their debt. One reason for this is that ESG factors can affect other investment returns indirectly. For example, while we have no direct exposure to Eskom (the state-owned electricity provider) debt, we continue to engage with the entity wherever possible, as Eskom's ability to service its debt has economy-wide implications.

In recent years we have witnessed an increasing number of sustainability-related debt issuances in the South African market. We played an instrumental role in structuring the first green bond, which was issued by Growthpoint Properties after the JSE opened a green bond section on the exchange in 2017. We assisted Growthpoint in defining how the proceeds would be used, establishing the required assurances from the Green Building Council of South Africa and the auditors for the required property management system, and setting the annual reporting commitments on the various green components of the buildings for which the proceeds were being used.

In 2021, the South African debt capital markets took another step forward in sustainable financing with the introduction of **sustainability-linked bonds (SLBs)**.

Case study

Pioneering sustainability-linked bonds to reduce carbon emissions

The South African market is by no means a stranger to green financing. Coronation was instrumental in structuring Growthpoint's green bond programme, which was the first green bond issuance on the JSE. The simplicity and benefits of these instruments have subsequently garnered strong support from asset managers, which has resulted in just over R10bn of issuance to date. The success of the green bond market, we believe, has laid a strong foundation for the development of SLBs.

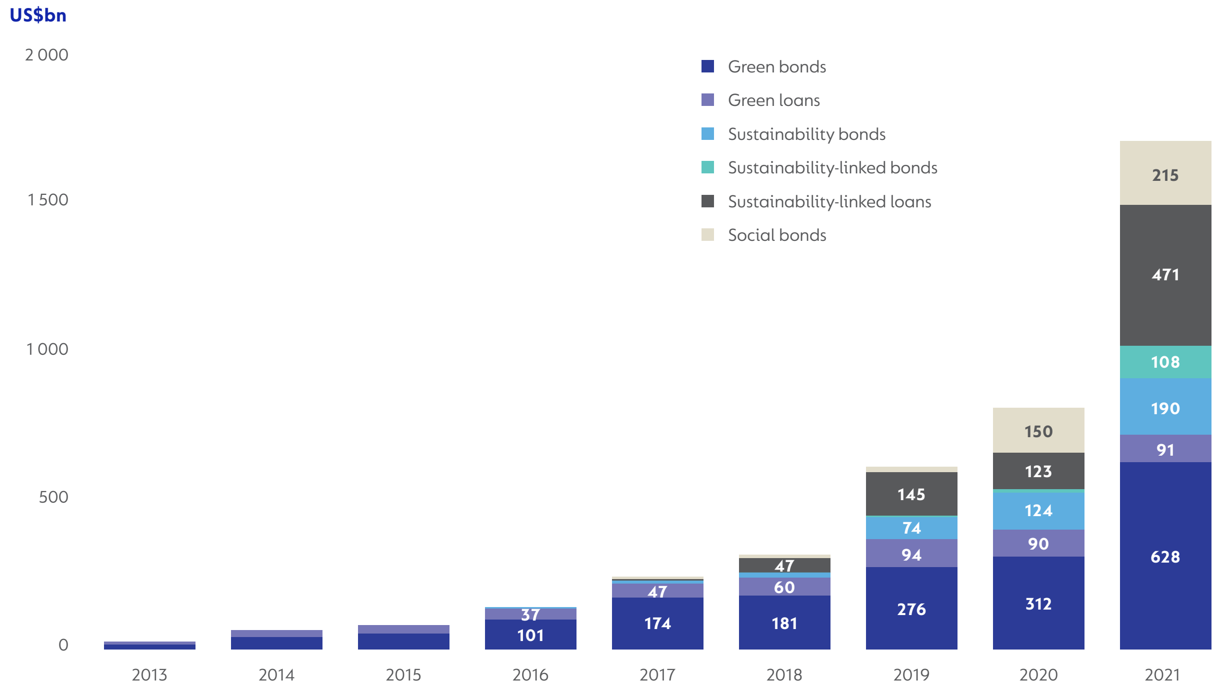
The difference between green bonds and SLBs is that with green bonds, the capital raised is used exclusively to finance projects with clear environmental benefits. In contrast, SLBs do not limit the use of proceeds. Instead, the interest payable on the bond decreases or increases depending on whether or not the issuers achieve pre-defined ESG objectives within a pre-defined timeline.

Globally, the market for SLBs is still nascent compared to green bonds, but issuance picked up considerably in recent years (Figure 6). We were acutely aware of this trend. Because we spent a considerable amount of time understanding these types of instruments, we were well placed to assist local corporates when they were ready to issue their first SLBs.

Fortunately, we were able to draw on learnings from international markets. The International Capital Market Association developed SLB Principles, which provided a strong framework for issuers and investors in South Africa to understand the over-arching principles that had to apply to our local market conditions. In addition, we looked at internationally issued SLBs with respect to their pricing mechanisms and specific targets. Finally, through our global fixed income funds, we learnt about the relative pricing of these instruments compared to vanilla issuance.

While the theory can be quite daunting, there are two broad principles to consider when structuring an SLB. First, are the targets meaningful and relevant for the issuer? And second, is the financial benefit or penalty a sufficient incentive for the issuer to meet its targets?

FIGURE 6: GLOBAL SUSTAINABLE DEBT ISSUANCE 2013-2021



Source: Bloomberg NEF, RMB Markets

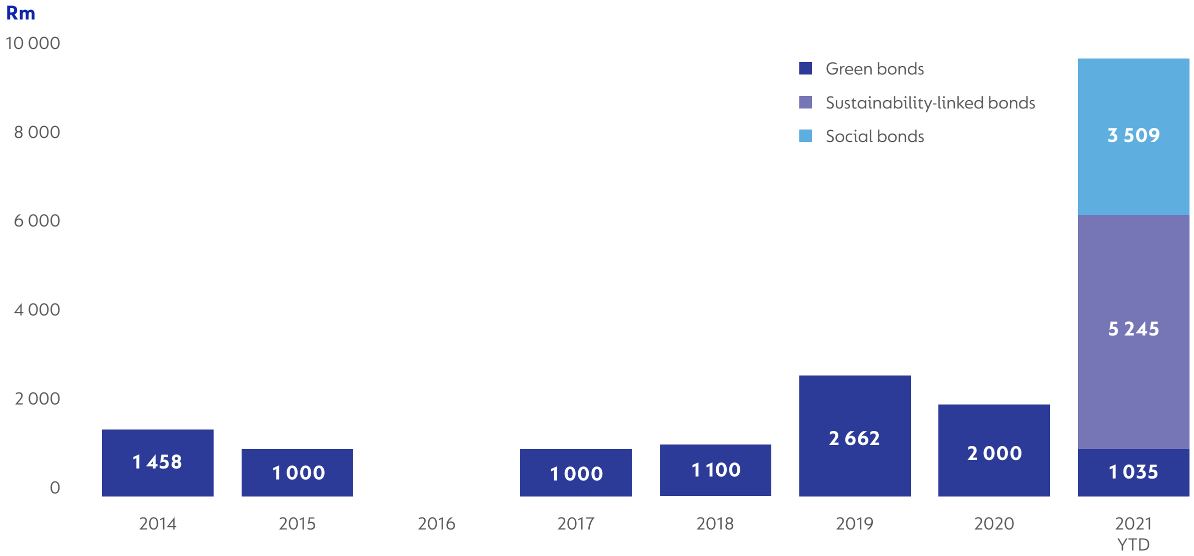
While we believe we have researched these principles extensively, we acknowledge that the market is still maturing, and lessons that we learn along the way will allow us to finesse both targets and pricing in future transactions.

It is important to highlight that there is no "cookie-cutter" model for SLBs. Each issuer will likely require investors to be flexible in how their specific requirements are addressed while adhering to the principles of sustainability-linked financing.

Our involvement with the hospital group Netcare's SLBs was our first opportunity to apply what we had learnt. Energy is a major contributor to Netcare's emissions and costs. They set a target to reduce energy intensity by between 22% and 25% by FY2023 and are currently on track to reach their stretch target of 30%. As part of a select group of private investors, we worked with Netcare to develop a set of targets that would allow them to finance their energy and water reduction ambitions on more favourable terms (should their targets be met). Targets were set for total electricity consumption by source, additional renewable energy procured, reduction of scope 2 GHG emissions and total volume of greywater recycled. On meeting these targets within a specified period, the spread on the Netcare SLB would reduce by 10bps. Our direct involvement in the process and constructive feedback meant that we were able to anchor R250m in the R1bn placement.

This transaction was followed by discussions with Investec Property Fund, Redefine Limited and Fortress REIT. The sustainability-linked market is a natural fit for property companies. The nature of their business means they can quickly integrate renewable energy projects into their existing infrastructure. With the Investec Property Fund, we agreed on the installation of additional renewable energy capacity as well as additional buildings for which they committed to obtaining green building certification. Redefine had a wider range of targets relating to additional renewable energy installation, GHG emission reduction and water use reduction. What was interesting about the Redefine transaction is that there was a coupon reduction linked to each target being met individually, rather than a requirement to meet all the conditions collectively. Fortress, being predominantly an industrial landlord, was well suited to install solar PV on their large industrial facilities and use the SLB market to finance this. This represents one of the longest-dated transactions

FIGURE 7: JSE-LISTED ESG BONDS – A BUOYANT 2021



Source: JSE, RMB Markets (as at September 2021)

that we have helped structure, with targets being set at multiple time periods.

Again, our direct involvement in these transactions allowed us to anchor 44%, 50% and 74% of the Investec Property, Redefine and Fortress issues respectively. Another benefit of having been involved in these transactions is that we improved our ability to benchmark targets and commensurate financial benefits. This will not only help us to structure future transactions but also to provide more relevant feedback to future issuers. Our involvement in this market has not been limited to issuers. We have also engaged with the JSE, who have looked at formalising listing criteria for SLBs on the exchange, much like what was done with green bonds.

These initial placements have led to discussions with a variety of companies that have witnessed the potential benefits of SLBs and are looking to come to market with their own issues. While overall issuance in the SLB market remains comparatively low, the growth over the past year has been pleasing to witness (Figure 7), and we are optimistic that we will continue to see the market grow over the coming years. +

Our activities in 2021

54%
INCREASE IN TOTAL NUMBER OF ENGAGEMENTS

45%
INCREASE IN NUMBER OF COMPANIES ENGAGED

40%
INCREASE IN TOTAL NUMBER OF ISSUES ADDRESSED

395
TOTAL NUMBER OF ENGAGEMENTS

Engagement and proxy voting

As a fundamental manager, we regularly interact with the companies in our investment universe. This is a core part of our research process, which improves our understanding of the prospects and risks for each of the companies we analyse. We increase our level of engagement with companies when we have concerns about issues can affect the long-term sustainability and value of the business, and always attempt to engage in a manner that is respectful, constructive and outcomes driven. Our fundamental research process enables us to develop specific engagement strategies for each company based on a holistic knowledge of the key issues affecting that company, and the industry and jurisdiction in which it operates. In general, engagements on specific issues are usually multi-year endeavours.

We often engage extensively with boards and management teams well ahead of any votes, as we want to ensure that our concerns are dealt with before the vote. As a result, we do not typically record a huge number of opposing votes at annual general meetings (AGMs). Our overriding principle is that constructive, pre-emptive engagement and resolution are preferable to formulaic voting at general meetings and public discourse.

Our engagements in 2021

In 2021, we held 395 engagements with 175 companies covering over 20 themes (Figure 8). Our interactions with companies typically involve complex matters that often require time, effort and ongoing dialogue. 40% of our current engagements are ongoing (Figure 11) and will require committed follow-through to drive resolution. For those engagements that did reach resolution in 2021, almost 80% resulted in positive outcomes.

We once again had a broad spread of engagements across environmental (55.7%), social (6.7%) and governance (37.6%) matters (Figure 10), with a wide range of issues addressed within each of these categories. Many of these engagements were company specific, where we sought information or raised concerns based on material issues affecting that company. Engagements on stock-specific matters are powerful tools to address concerns relating to an individual company, whereas thematic engagements on material issues play an important role where we see a need for change across multiple companies in certain sectors or regions. By their very nature, thematic engagements tend to account for a significant proportion of activity in our engagement statistics.

Activity levels increased across the board, with a notable 82% increase in the number of environmental engagements. This was largely as a result of our engagements with companies to encourage the adoption of reporting in line with the TCFD.

It is worth noting that we measure success not by the number of engagements held, but rather by the relevance and quality thereof, and the extent to which our activities drive meaningful change. Aside from regular interactions with a company, specific

2021 Engagement record

FIGURE 8: TOTAL ENGAGEMENTS IN 2021

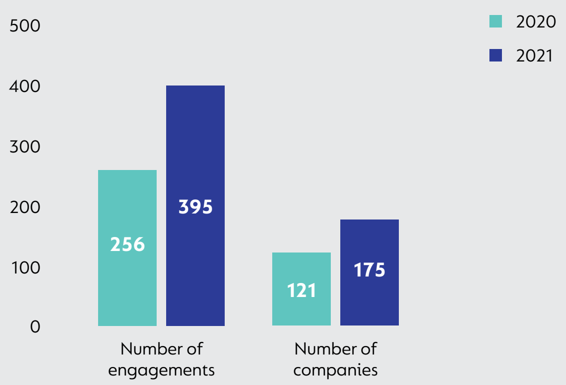


FIGURE 9: ACTIVITY LEVELS PER TOPIC

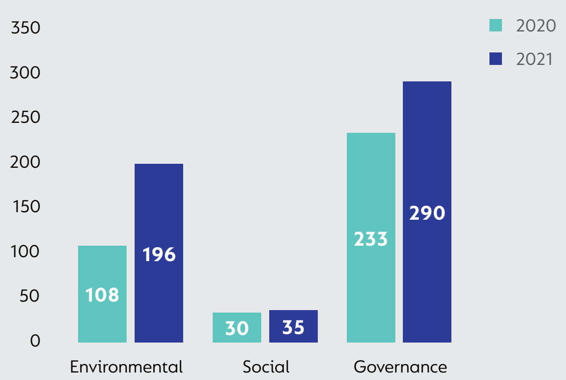


FIGURE 10: CATEGORY OF ENGAGEMENTS IN 2021

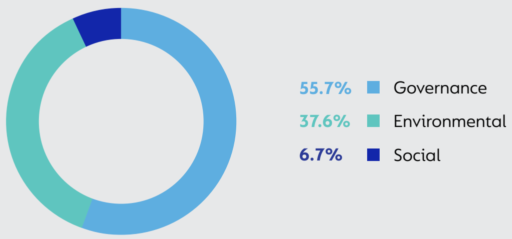


FIGURE 11: ENGAGEMENT OUTCOMES

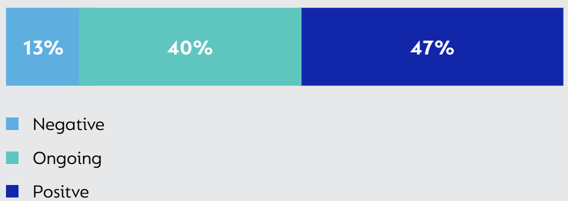
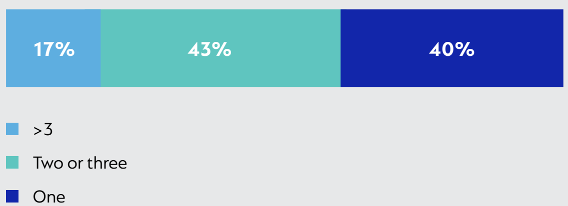


FIGURE 12: NUMBER OF INTERACTIONS WITH A COMPANY



engagements may be to gain understanding on an ESG-related matter, to advocate for change, or where we are conducting a thematic review.

Our voting record in 2021

In 2021, we voted on 6 459 resolutions at 498 meetings (Figure 13). We voted across all of the regions in which we invest. The largest number of votes were cast within South Africa (Figure 14) due to our large representation in this market and, therefore, the large number of South African stocks held in our portfolios.

Our preference is to always try and resolve issues through constructive prior engagement rather than voting against proposals. However, we will exercise a dissenting vote when required. Of the 498 meetings at which we voted, we cast at least one dissenting vote at 225 (45%) of these meetings (Figure 13). The number of meetings at which we cast dissenting votes varied by region, with the largest percentage of dissenting votes cast in respect of South African companies (53% of meetings).

Most dissenting votes were cast on governance related matters, with votes relating to board structure, remuneration and capital structure accounting for over three quarters of total dissenting votes (Figure 15). This is to be expected, given that the bulk of resolutions put forward to vote are generally governance related. These include votes in respect of the election/re-election of directors to the board, approval of remuneration policies and other matters affecting the capital structure of a business.

Exploring the topics which attracted the highest percentage of dissenting votes provides further insight into our areas of focus during the year. Business strategy and risk management, for example, attracted only 4% of total dissenting votes (Figure 15). This seems like a relatively small figure, but one needs to be cognisant of the fact that there are typically only a small number of total votes on a business strategy put forward. When viewed as a percentage of all votes relating to business strategy votes, the percentage of dissenting votes recorded in this regard was 20% (Figure 16) – the second highest of any category. Issues relating to capital structure attracted the most dissenting votes as a percentage of votes cast.

As with prior years, the types of dissenting votes that were cast varied across regions. In South Africa the bulk of dissenting votes were in respect of issues relating to capital structure (Figure 17), with a large proportion of these relating to requests by boards for blanket authorities to issue shares generally and unconditionally. In other emerging markets, the bulk of dissenting votes were against board-related proposals, particularly in Russia which runs a cumulative voting system. This system allows shareholders to cast a number of votes equal to the shares they hold multiplied by the number of directors to be elected. Each shareholder can then allocate all their votes to one or more of their preferred candidates and do not need to vote on each individual nominee. We tend to direct our cumulative vote allocation to our most preferred candidates. This approach results in dissenting votes for the other nominees regardless of our views on their appropriateness for the position. In our Frontier Market portfolios, a large proportion of our dissenting votes were against requests for blanket authority to approve any additional matters that may only be raised at an AGM.

2021 Proxy voting record

FIGURE 13: 2021 PROXY VOTING RECORDS

DURING THE YEAR, WE VOTED ON

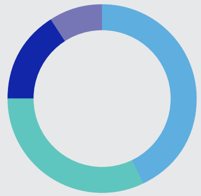
6 459 Resolutions **at** **498** Meetings

HOW WE VOTED:

45% | 55%

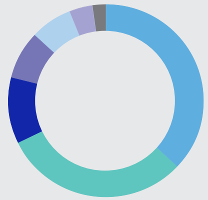
- Meetings with dissenting votes (45%)
- Meetings voted FOR all resolutions (55%)

FIGURE 14: RESOLUTIONS BY REGION



- 43% South Africa
- 32% Developed
- 16% GEM ex SA
- 9% Global Frontier

FIGURE 15: BREAKDOWN OF DISSENTING VOTES



- 37% Capital structure
- 31% Board structure
- 11% Remuneration
- 8% Auditors
- 7% Other governance
- 4% Business strategy and risk management
- 2% Environmental and social

FIGURE 16: DISSENTING VOTES AS A PERCENTAGE OF TOTAL VOTES PER TOPIC

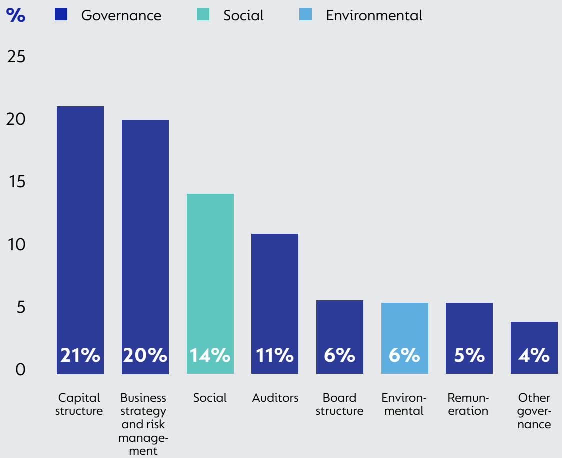
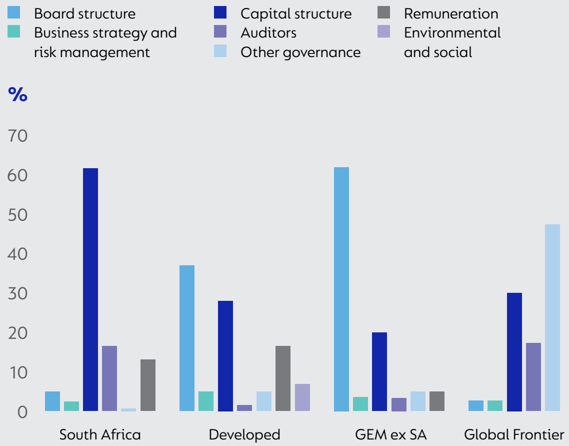


FIGURE 17: DISSENTING VOTES ON A PER RESOLUTION BASIS BY REGION



Voting stats per region

FIGURE 18: SOUTH AFRICA

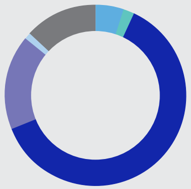
In 2021, we made voting recommendations on 2 796 resolutions at 167 meetings, of which 89 meetings contained dissenting votes.

HOW WE VOTED:

53% | 47%

- Meetings with dissenting votes
- Meetings voted FOR all resolutions

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS



- 5% Board structure
- 2% Business strategy and risk management
- 62% Capital structure
- 17% Auditors
- 1% Other governance
- 13% Remuneration

FIGURE 19: EMERGING MARKETS (EX SOUTH AFRICA)

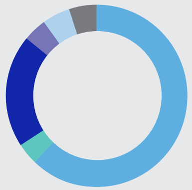
In 2021, we made voting recommendations on 1 007 resolutions at 115 meetings, of which 38 meetings contained dissenting votes.

HOW WE VOTED:

33% | 67%

- Meetings with dissenting votes
- Meetings voted FOR all resolutions

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS



- 62% Board structure
- 4% Business strategy and risk management
- 20% Capital structure
- 4% Auditors
- 5% Other governance
- 5% Remuneration

FIGURE 20: DEVELOPED MARKETS

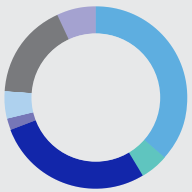
In 2021, we made voting recommendations on 2 069 resolutions at 149 meetings, of which 69 meetings contained dissenting votes.

HOW WE VOTED:

46% | 54%

- Meetings with dissenting votes
- Meetings voted FOR all resolutions

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS



- 37% Board structure
- 5% Business strategy and risk management
- 28% Capital structure
- 2% Auditors
- 5% Other governance
- 17% Remuneration
- 7% Environmental and social

FIGURE 21: GLOBAL FRONTIER MARKETS

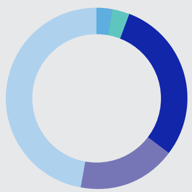
In 2021, we made voting recommendations on 587 resolutions at 67 meetings, of which 29 meetings contained dissenting votes.

HOW WE VOTED:

43% | 57%

- Meetings with dissenting votes
- Meetings voted FOR all resolutions

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS

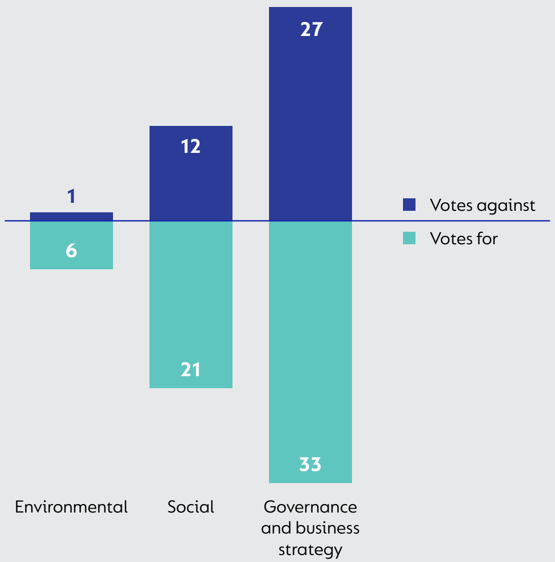


- 3% Board structure
- 3% Business strategy and risk management
- 30% Capital structure
- 18% Auditors
- 48% Other governance

Shareholder proposals

In 2021 we voted on a total of 100 shareholder proposals, for which we voted in favour of 60 and against 40 (Figure 22). There were a vast range of issues raised by shareholders during the year across environmental, social and governance dimensions. A number of these proposals related to policies and disclosure on diversity, equity and inclusion (DEI), climate change, the election of directors, as well as pay disparity. In addition, shareholders in developed markets are increasingly requesting improved disclosure on political contributions and lobbying activity.

FIGURE 22



Governance

Board diversity and effectiveness

The consideration of board diversity and effectiveness is always a priority. In 2021, almost 15% of our governance-related engagements were on issues related to the board (Figure 23).

Our engagements on this topic spanned a wide variety of issues. We engaged with companies where we were not satisfied with the size or composition of the board, including where we had concerns around independence of the chair and other board members, the diversity and competence of directors, and the availability of directors to commit the time necessary to perform their duties.

We continued to advocate for a strong mix of financial, technical, and commercial skills that meet the individual needs of each business. We encouraged boards to include directors with ESG-related skills where we felt this was required.

Engagements where we express our concerns about the skill levels of board members tend to be difficult discussions. However, we have found that, as we persisted in voicing our concerns through constructive and respectful engagements, companies have increasingly understood our perspective, and we have started to see what we believe to be positive changes coming through.

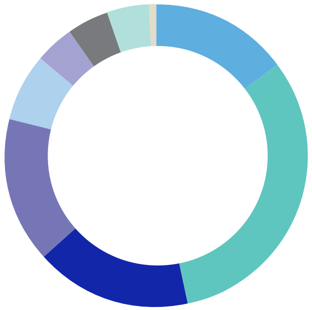
We held discussions with companies on various matters relating to board turnover. This included discussions around hiring practices, succession plans and areas where we felt that the tenure of certain directors on boards was excessive. We also sought additional information to understand the reasons for the departure of certain directors and/or the criteria used for the appointment of new directors. In some instances, we shared our views with companies on the appropriateness of nominations for directorships.

Included in these engagements are concerns we have had about the independence of certain board members, and we continued to advocate strongly for appropriate independent oversight within investee companies. Other areas of concern that required further engagement included companies where we felt that the number of independent directors on a board were insufficient, where we disagreed with the classification of certain directors as independent, or where we felt that directors had material conflicts of interest that could influence their ability to make objective decisions.

Where our discussions did not reach satisfactory outcomes, we notified companies of our intentions to vote against related proposals and exercised our voting rights accordingly.

In 2021, we voted on 2 875 board-related resolutions, of which 165 (6%) were dissenting votes (Figure 16). A large proportion of these dissenting votes came from our Emerging Market and Developed Market portfolios. The number of dissenting votes was influenced by the cumulative voting system that is used in Russia, as also mentioned on page 34.

FIGURE 23: ENGAGEMENTS ON GOVERNANCE MATTERS



Achieving the ideal board composition is challenging in South Africa, given the current shortage of experienced non-executive directors. Non-executive directors with the appropriate competencies have become scarce and are in high demand. Coupled with this, we are cognisant of the imperative to ensure diverse and transformed boards of companies from both a race and gender perspective. Proposed directors, therefore, often have other directorships and we adopt a balanced approach to ensure there are no real conflicts on boards, as well as diversity and good governance.

Audit and financial reporting

Our audit firm rotation policy requires that we do not support audit firms serving a term longer than ten years. We discussed this issue with companies, explained our rationale, and voted against the reappointment of auditors where this was tabled at AGMs. In general, we have made good progress engaging on this issue, with many companies either making the requisite changes, or committing to address the issue of proper audit rotation. In 2021, we voted on 406 resolutions relating to the approval of auditors, with 44 (11%) dissenting votes (Figure 9).

We also engaged with certain companies where we wanted to see improvements to their financial reporting. These were largely driven by the need for improved quality or greater transparency.

Executive leadership

Effective leadership is key to delivering sustainable long-term value to stakeholders. A company's culture, strategy and ability to successfully execute plans are all influenced by the quality of a company's leadership. Over the past year, we engaged companies on the performance of CEOs, succession plans, and wider leadership within the organisation.

Ethical practices and conflicts of interest

We held discussions with companies to better understand their practices and policies for managing ethical conduct and to raise areas of concern. For example, we engaged with the Nigerian oil and gas company **Seplat** about a related party transaction. Our engagements ultimately led to the chairman announcing that he would step down at the next AGM in 2022.

Case study

Addressing related party transactions

COMPANY	REGION
SEPLAT ENERGY	NIGERIA

ACTION	OUTCOME
LETTERS AND MEETINGS	POSITIVE

Over the years, Seplat transitioned from being an oil business to a company that now generates a large portion of its earnings from gas after investing heavily in gas processing plants. Over the past few years, we had several engagements with Seplat's management team where related party transactions (RPTs) were discussed.

Prior to Seplat's listing in 2014, the company had many RPTs. Most notably was Cardinal – a company where Seplat's chairman is a large shareholder – that provided drilling services for Seplat. As part of Seplat's London listing process in 2014, the RPTs were independently reviewed, and since then, a key KPI for Seplat's management has been to reduce the number of RPTs. The engagements on RPTs had positive results, with total RPTs reducing from more than $100m in 2014 to just $8m in 2020. Seplat's management team also committed to completely eliminating RPTs by the end of 2021.

However, in October 2021, a transaction was announced where Seplat paid $36m to acquire rigs from Cardinal. Cardinal had large outstanding obligations to a bank in Nigeria, and the bank initiated legal proceedings against Cardinal to recover the loans. Given the close relationship between Seplat and Cardinal, the bank also initiated proceedings against Seplat, even though Seplat did not guarantee the loans. The transaction where Seplat bought Cardinal's rigs was a settlement with the bank, with the parties agreeing that the proceeds would be used to settle Cardinal's debt. We did not believe that the transaction made commercial sense for Seplat and, in our view, Seplat effectively stepped in to settle the debt of a company owned by its chairman.

Action

We sent a list of detailed questions to Seplat to better understand the transaction, including the merits of the legal case and the board's process when they decided to settle. Based on the response received, we believe that they had decided to settle even though the bank had a weak case against Seplat. We had calls with the CEO, CFO and a non-executive director to communicate that the transaction was inappropriate and that it would not be appropriate for the chairman to remain in his role. We also had calls with other shareholders, who requested that the chairman step down.

Outcome

In November 2021, the chairman announced that he would step down at the AGM in May 2022 and one of the independent non-executive directors resigned. In December 2021, the Seplat board also removed the former CEO from his position as a non-executive director.

Following these changes and management's renewed commitment to zero RPTs going forward, we are optimistic that the conflicts of interests we have seen at Seplat will be a thing of the past.

Seplat has quality assets, and their gas business is particularly attractive. While many oil companies in Nigeria simply flare gas, Seplat invested in gas processing plants. They supply a large portion of the gas for Nigeria's gas-fired power plants, making Seplat one of the leaders in transitioning Nigeria's energy mix away from oil. However, with Seplat trading on a low single-digit PE multiple, there is clearly a significant ESG discount embedded in the share price. We believe that by stewarding the company to better ESG practices, this discount will close and consequently add value to our client portfolios.

Enhancing shareholder value

We continued to engage with companies on matters relating to the unlock or enhancement of shareholder value. We addressed a wide range of issues, all of which were stock specific and required informed dialogue based on a fundamental understanding of the company and its value drivers. These were largely discussions on strategic matters, such as business strategy and capital allocation policies.

Over time we have seen an increased appreciation by companies of the need to properly manage their ESG risks and to ensure that ESG matters are incorporated into their wider business strategies. We had discussions with various companies on this topic with many very interested in our perspective on what was required by capital markets and constituted best global practice.

We held several discussions with companies on their capital structure, where we shared our views on dividend distribution policies and share buybacks, as well as on specific corporate actions that took place during the year, such as mergers, unbundlings, delistings and take-overs. This included discussions where we felt that the rights of minority shareholders were not being adequately protected. An example is the container lessor **Textainer,** who has agreed to change the anti-takeover provisions from its by-laws which, we believed, could disadvantage minority stakeholders.

We continued to vote against granting authority to directors to issue shares generally and unconditionally, and to engage with companies on this basis. We generally discourage resolutions that grant blanket authorities, because these can result in value dilution, and we believe that shareholders should be able to vote on all issues of share capital. We take a similar view on the general authority to issue shares for cash.

Once again, we found that many of our engagements in this regard were with companies in our Frontier Market portfolios. This highlights the need for improved governance in these markets, as well as the opportunity for active investors to improve long-term value through effective engagement. We have found that management in frontier markets are generally receptive to these discussions and willing to make necessary changes.

Over the past year, we voted on 947 resolutions relating to capital structure, of which 199 (21%, Figure 9) were dissenting votes. While the spread of these varied depending on the specific proposal put forward by each company, a significant volume of dissenting votes related to requests by companies for authority to issue shares without the need for prior shareholder approval.

947
NUMBER OF RESOLUTIONS RELATING TO CAPITAL STRUCTURE

21%
DISSENTING VOTES ON CAPITAL STRUCTURE

Case study

Delivering change through multi-year engagements

COMPANY
TEXTAINER

REGION
US AND SOUTH AFRICA

ACTION
LETTERS AND MEETINGS

OUTCOME
POSITIVE AND ONGOING

Textainer is an example of a company with which we have had many constructive engagements over a number of years that have contributed to meaningfully positive changes to governance practices within the business. We have previously reported on our multi-year engagements with Trencor and Textainer in our 2019 and 2020 stewardship reports. With Trencor having since become a passive investment holding company, our engagement efforts during 2021 were focused on Textainer.

Textainer is one of the world's largest container lessors. It is incorporated under the laws of Bermuda and listed as a foreign issuer on the New York Stock Exchange (NYSE). Given that it is domiciled in Bermuda, the company is subject to less onerous disclosure and corporate governance requirements than apply to US-based companies. Textainer is also inwardly listed on the JSE. Inward-listed companies are required to comply with the listing requirements that apply to their primary listing. In the case of Textainer, this means that the company is subject to the listing requirements of the NYSE and effectively enjoys the same dispensation in South Africa as it does in the US.

We believe it would be in the interest of all stakeholders to implement global best practice relating to disclosure and corporate governance, regardless of the laws to which it is subject in its countries of incorporation and/or listing.

Action

We wrote a letter to the board in 2020 in which we suggested a roadmap for our engagements during 2021. In the letter, we listed the areas where we believed that governance and disclosure were not in line with best practice. In our view, the most important areas that needed to be addressed were:

- Textainer's by-laws contain anti-takeover provisions, which make it difficult for prospective acquirers to make an offer for the company and which place a disproportionate degree of power in the hands of the board. Such provisions can disadvantage minority shareholders and we have lobbied for some years for the removal of these provisions, colloquially known as the "poison pill". We believe that shareholders should have the right to decide whether to accept or reject an offer for their shares should such an offer be made.
- The company did not report on or have specific initiatives relating to social or environmental matters.
- Better disclosure and practices, particularly around remuneration, are required. The company does not put its remuneration policy to shareholders for a vote, and, in our view, the company does not provide sufficient information.
- Textainer has a legacy board of long-serving incumbents, almost all of whom are associated in some way or another with the former ownership structure. We see generational board renewal as a big opportunity for the company to bring in necessary new skills and ideas.

We engaged with the company regularly throughout the course of the year. By placing ESG matters on the agenda for each engagement and by checking in on progress every few months, we were able to push for change in a steady way while remaining respectful and constructive. We had to find a balance between furthering shareholder objectives and appreciating that there is no legislative or regulatory requirement for the company to implement the proposed changes. In addition to our interactions with management, we also had several discussions directly with the chairman of the board during the year.

Our main area of focus was the "poison pill" provision. Early in 2021, there were indications that a number of individual directors were not in favour of adjusting the provisions. We inquired whether these directors would be prepared to disclose their identities to allow us to discuss the issue with them individually. In addition, we felt that it was important to understand their stance on this matter, as this would inform our voting decisions when they next came up for re-election.

Textainer is committed to change and firmly on the journey to continued improvement on ESG matters.

Outcome

We were invited to a meeting with management in late 2021 to explore the nub of our objection to the "poison pill" provision. The discussion was constructive and resulted in an indication by management that they would recommend to the governance committee of the board that the high voting threshold be changed to a simple majority in case of a take-over offer. In addition, the board's role on receipt of a take-over offer would be limited to an advisory declaration, with a recommendation to accept or reject the proposed transaction, but with shareholders entitled to vote on the matter. A subsequent interaction with the chair raised the prospect that the required resolutions to give effect to this change would, in all likelihood, be put to shareholders at the AGM in May 2022. We have since been informed in writing that the board has indeed approved the removal of the by-law and that shareholders would vote on the matter at the AGM. This is a very positive outcome of a multi-year engagement.

Other outcomes

Board renewal has been on the agenda for many months but was frustrated by Covid-19 during which time the board was unable to meet prospective candidates face to face. However, three new independent directors have been appointed since 2020. These three directors bring necessary skills in accounting and finance, operational and commercial expertise, and, encouragingly, corporate governance. In the coming year, more long-serving directors will retire by rotation, creating further opportunities for new blood. The board is also becoming smaller, positively changing the balance between incumbent and new directors. Two new directors are being proposed for election at the May 2022 AGM.

Although progress on the environmental and social front was initially slow, there was significant progress at the start of 2022. Textainer is not significantly exposed to environmental factors, and given that its operations are largely limited to the high seas, it has little direct impact on communities. A discussion to explore the company's environmental and social impact was held early in 2022. Subsequently, by engaging a consultant, the company has compiled data on its carbon emissions, publishing it in an inaugural sustainability report on its website. The report also documents specific environmental and social initiatives which are in progress.

Textainer has also been upgrading its accounting and reporting software over a number of months and indicated that this would also enable improved disclosure in some of our areas of interest. We expect this to manifest in the 2022 annual report.

Modest progress has been made with regard to remuneration. Textainer's 2020 annual report indicated improvements to remuneration disclosure, including detail on the extent to which incentive remuneration was performance related. However, remuneration is still disclosed only on an aggregate and not an individual basis. Targets are also stated in general terms, and there is no specific disclosure yet on which targets management has to reach in order to qualify for incentives. Subsequent discussions indicated that the 2021 annual report would show more demonstrable progress. The company is also more open than previously to a vote on remuneration.

Textainer is clearly committed to change and firmly on the journey to continued improvement on ESG matters. Our relationship is an excellent example of demonstrable change delivered through ongoing engagements.

In our remuneration discussions with the chemicals and energy company Sasol, we covered the extent to which their KPIs were linked to emission reduction targets and to employee fatalities.

Remuneration

Remuneration was once again a key governance concern, representing one third of our governance-related engagements. We carefully evaluated remuneration policies and practices to ensure that they provided for a holistic assessment of the balance between various factors that are used to ultimately determine the amount and timing of payments to executives. The bulk of our remuneration-related engagements were to ensure alignment between the interests of management and shareholders. This included the appropriateness of key performance indicators, the adequacy of stretch targets, the balance between short-term and long-term incentives and the periods over which deferred remuneration vested.

We increasingly discussed the need for companies to include relevant ESG metrics, such as the need to reduce climate emissions or to meet social objectives, into their remuneration strategies. For example, in our remuneration discussions with the chemicals and energy company Sasol, we covered the extent to which their KPIs were linked to emission reduction targets and to employee fatalities. Similarly, we continued to encourage British American Tobacco to provide an explicit link between remuneration and the company's performance in new generation products (NGPs), given the strategic importance of NGPs to the future prospects of the company. More generally, we had discussions with among others Richemont, Goldfields, Royal Bafokeng Platinum and Transaction Capital on the extent to which they were linking sustainability objectives to remuneration.

Due to the significant impact of the Covid-19 pandemic on the financial performance of investee companies many executive compensation schemes that were linked to company performance fell below their performance hurdles largely due to events outside of management control. Companies needed to consider whether it was fair and appropriate to make in-flight adjustments to the targets used for determining compensation. In 2021, we discussed this issue with a range of companies, based on the guiding principle that we would consider a company's specific circumstances, and would support adjustments that were well considered, balanced, not overly generous and designed with the goal of retaining key personnel and ensuring that they remained incentivised to drive long-term value creation in the business.

We also continued our discussions with South African companies that had not adequately incorporated malus and clawback mechanisms in their remuneration policies. This mechanism protects companies from fraud or other material misrepresentation by executives and we do not support any policy that lacks this.

Where the outcomes of our engagements were unresolved or unsatisfactory, we did not support the policy and voted against the resolutions. In 2021, we voted against 5% of resolutions linked to remuneration (Figure 16).

For example, as a large Naspers shareholder, we have engaged extensively with management and the board on a number of ESG-related issues in recent years. A particular area of focus was engaging with the board to improve remuneration structures, and transparency and disclosures around the remuneration policy. Significant improvements have been made to date:

- Management incentivisation is now more balanced between the value created within Tencent and the value created within the rest of the investment portfolio.
- Significant improvements have been made with respect to disclosure and providing a clearer link between strategy, performance, and remuneration.
- A share buyback programme has been implemented to neutralise the shareholder dilution of share options granted to management.

However, one outstanding issue is that Naspers continues to use long-dated options as incentives. We believe such long-dated options are significantly more expensive for shareholders than shorter-dated options, and therefore continue to encourage the board to shorten the tenure of such instruments. Even though we were comfortable with the direction in which Naspers' remuneration policy was headed, we voted against approval of the remuneration policy and implementation thereof given that management had not adequately addressed our concerns over the years.

Main reasons why we voted against remuneration policies:

Policies were too short-term in nature.

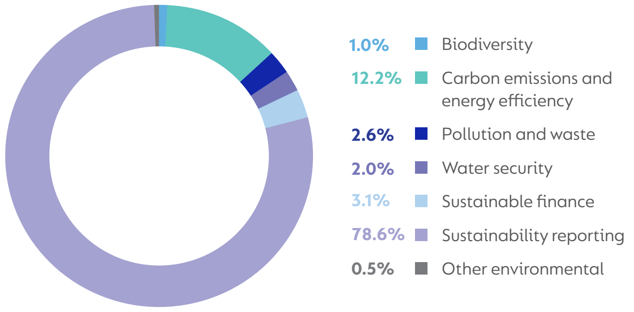
Insufficient disclosure to enable informed decisions.

Remuneration not satisfactorily aligned to value creation.

Inappropriate adjustments to compensate for Covid-19 impact.

Failure to consider prior recommendations.

FIGURE 24: ENGAGEMENTS ON ENVIRONMENTAL MATTERS



Environmental

Sustainable finance

We recognise the importance of driving positive environmental change through our interactions with entities that finance activities that can be harmful to the environment. This is particularly relevant in the banking sector, where we encourage climate-related disclosures on their lending books and credible policies on fossil fuel-based lending. In 2021, we engaged with Investec, Firstrand and Nedbank to understand and discuss their climate policies and related disclosures.

133
ENGAGEMENTS ON TCFD REPORTING

80
COMPANIES ENGAGED ON TCFD REPORTING

We had specific discussions with companies on their plans to increase their procurement of clean energy through renewable energy projects and other means.

In addition, a key area of focus during the year were our engagements with Netcare, Investec Property, Redefine and Fortress on SLBs. A description of the SLB market and the details of these engagements is set out on page 28.

3.1% of our engagements on the environment related to sustainable finance (Figure 17).

Carbon emissions and disclosures

The number of engagements with companies on environmental matters continued to increase (Figure 9), with a particular emphasis on encouraging consistent and comparable climate-related disclosure by companies through the adoption of the recommendations of the TCFD. TCFD engagements comprised a material proportion of the environmental-related engagement activities over the year. In 2021, we had a total of 133 engagements with 80 companies on this topic.

In addition to initial letters, we had several follow up interactions with companies that needed further clarity. These engagements ranged from us substantiating our position and providing context for TCFD disclosure, as well as providing an explanation of our preference for TCFD over other sustainability frameworks. In addition, we had a number of constructive discussions with companies who have already begun their sustainability disclosure journey.

We also had specific discussions with companies on their plans to increase their procurement of clean energy through renewable energy projects and other means. A number of these discussions were with South African mining companies, where the use of renewable energy would not only reduce carbon emissions, but also provide a source of stable electricity supply so that they can continue to operate during periods of “loadshedding”, where Eskom (the state electricity utility) is unable to provide sufficient electricity to meet demand.

We discussed carbon emission reduction targets with companies across a range of industries. This was part of the objective to ensure that companies not only disclose their carbon emissions, but also have science-based emission reduction targets against which progress can be measured. In South Africa, some companies are considering whether to adopt net zero emissions targets, and we expect engagement on this topic to accelerate in the years ahead.

Other engagements

Biodiversity loss, water security, waste and pollution continue to receive increased focus and attention, particularly in respect of companies whose operations have a material impact on the environment. Our engagements covered a variety of issues, such as palm oil consumption, overfishing, water consumption and reuse. We also had follow-up discussions on the use of single-use plastics, following a collaborative engagement on this matter in 2019.

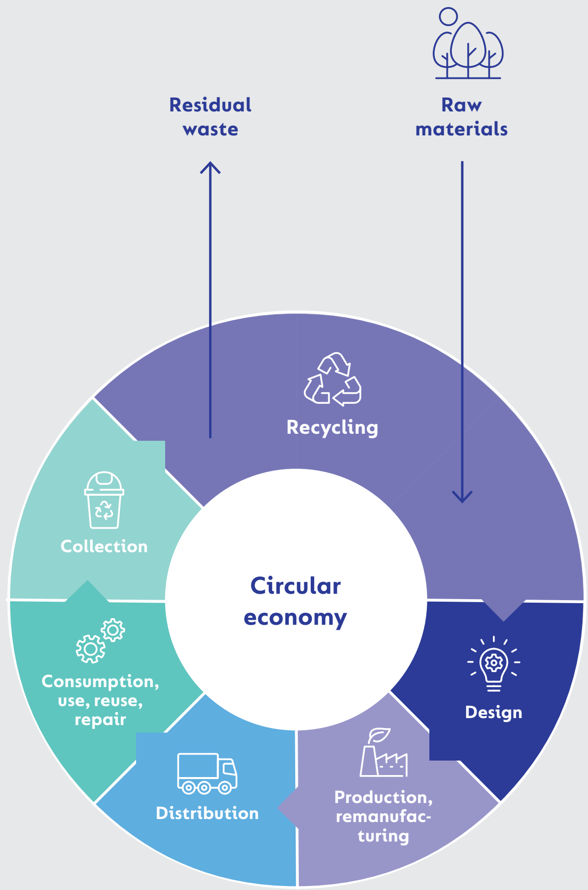
In 2019, we were co-signatories to a letter addressed to a number of the South African retailers regarding their use of single-use plastic carrier bags. The letter recommended that management consider accelerating the reduction, or even total elimination, of single-use plastic shopping bags in their stores. While we appreciate the challenges and complexity surrounding this topic and recognise there may be a bottom-line impact, as shareholders or potential shareholders of the companies we believe that we have to accept some reasonable level of financial cost, in support of a sustainable environment.

What is the circular economy?

The circular economy is an economic system that aims to minimise the production of pollution and waste using techniques that maximise reuse and extend the life cycle of products. This is achieved by sharing, leasing, reusing, repairing, refurbishing and recycling materials and products for as long as possible.

In contrast, the linear economy is based on the take-make-consume-throw away system of extracting raw materials, producing products, using them and disposing of them.

A circular economy could have both environmental and economic benefits. GHG emissions could reduce through better waste management and reduced use of resources such as energy, water, land and materials. Economic benefits include savings to businesses and consumers through improved resource efficiency, as well as the introduction of new revenue streams through innovative approaches to reuse and sharing.



Source: European Parliament

In 2021, we followed up with companies on this. Our aim was to get an update and understand how their thinking on this topic has evolved. A good example was the insight and understanding we gained from the South African food retailer Shoprite on their research and journey in this regard. At the meeting they emphasised the importance of sustainable packing, balanced with the importance of plastic as protection in food handling. They emphasised the importance of looking at plastic in the entire value chain, rather than focusing on one particular aspect and assured us of their thinking about the circular economy in the context of their entire business model.

Given their preference to allow for customer choice, they still offer a variety of options. They gave us detail on the main carrier bag options offered in their store. While they incentivise their customers to opt for the most environmentally friendly option by making it more affordable, they noted that there may be a variety of factors that result in a customer making their final purchasing decision. Within the range of bags offered they have ensured that 100% of their bags are recycled and recyclable. In addition, they referenced that their thinking was informed by the Department of Science and Innovation and CSIR Life Cycle Sustainability Assessment of grocery carrier bags which considered the effect of various carrier bags on a number of environmental and social factors.

We were comfortable with their current approach to dealing with single-use plastic and will keep dialogue with them in the future and follow how things unfold within their business.

Climate proposals

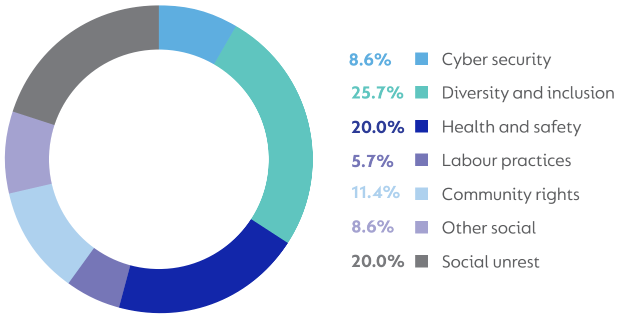
Over the past year, an increasing number of companies put their climate change strategies to shareholder vote, given increasing pressure from shareholders to do so. Many of these policies covered issues relating to emissions disclosure reports, the approval of climate change commitments and targets, and environmental transition plans. We see this as a positive development, with company management understanding the importance of having clear climate strategies in place and making these plans transparent and available.

In 2021, we voted on a total of 18 climate proposals, seven of which were put forward by shareholders, and 11 put forward by management. We voted in favour of 17 of these resolutions, with general support for credible initiatives to mitigate environmental risks which are expected to enhance long-term company sustainability and performance.

An example of one such company is Glencore, which put its climate strategy to an advisory vote at its AGM in 2021. Its strategy includes Paris-aligned total CO_2 emissions reduction targets over the medium term, and a 2050 net zero ambition. Glencore also committed to responsible stewardship of its declining coal business over time. We supported the proposal, having regard to the emissions reduction target and the company's commitment to allowing shareholders to vote regularly on the strategy.

We also voted in favour of a non-binding resolution to endorse Sasol's climate change report. Sasol has improved its climate-related disclosure, set more ambitious emission reduction targets, and been far more transparent about its plans. We believe that these steps will enable more granular discussions on specific targets and methods of achieving them in future. While in a large undertaking like this there will naturally be some remaining areas of concern, we believe that the overall direction of travel on this matter has been positive. More detail about Sasol's progress with addressing greenhouse gas emissions is on page 50.

FIGURE 25: ENGAGEMENTS ON SOCIAL MATTERS



Social

Even though engagements with companies on social matters represented a small proportion (less than 7%, Figure 10) of our total number of engagements, they covered several important matters during the year.

Areas of discussion during the year included:

- engagement with commodity companies on their safety records in instances where safety targets were not being met or where standards had deteriorated;
- discussions with companies where there were concerns about the impact of their products on their customers' health, such as confectionery and tobacco companies;

- company-specific issues, such as labour practices, cybersecurity, and the protection of customer data;
- community rights and the impact company activities were having on surrounding communities. For example, we discussed the possible need for a mining company to relocate several communities through consultation with government and community leaders and were satisfied that the company had the requisite experience and approach to manage the process correctly;
- the need for diversity, inclusion and transformation within the workplace remained an important topic for engagement; and
- in South Africa, we held discussions with companies on broad-based black economic empowerment (B-BBEE) transactions in order to understand the essential elements, such as the financial implications and intended beneficiaries.

In 2021, we voted on a total of 85 proposals relating to social issues across 51 meetings and objected to 12 (14%) of these. Notably, during the year we voted in favour of a set of proposals relating to the implementation of B-BBEE transactions for Oceana Group (a fishing company) and a platinum group metals company, **Northam Platinum.**

Northam Platinum: A seven-year transformation journey

Our engagement on B-BBEE with Northam dates back to 2015, when we were intimately involved in structuring a sustainable B-BBEE deal with the company. As significant shareholders, we engaged extensively with company management and external advisers over a period of approximately six months to structure a long-term deal with an innovative funding structure that achieved genuine broad-based empowerment, while at the same time addressing the concerns of a potential dilution in value for existing shareholders.

The deal entailed the raising of fresh capital by the B-BBEE partner by way of an issue of R6.6 billion of preference shares, R1.6bn (approx. 24%) of which was subscribed to by Coronation. Through consultation with the company and its advisors, we worked to ensure that the B-BBEE consortium consisted of a combination of strategic partners (17.4%), historically disadvantaged South African women (6.0%), local community trusts (5.0%), and employees (3.0%).

A new B-BBEE deal was put forward which would see employees and communities become the primary beneficiaries.

In 2021, we supported the early windup of the scheme to crystalise material value for the incumbent B-BBEE shareholders. The winding up of the deal four years before its intended expiry date transferred R13bn of value to shareholders and afforded Northam the opportunity to buy back a portion of its outstanding shares at a discount. As part of the windup, a new B-BBEE deal was put forward which would see employees and communities become the primary beneficiaries. It is understood that there will be a one- to two-year consultation period before the details are finalised and we will continue to engage to ensure a good outcome.

Riots in July 2021

In July 2021, a wave of civil unrest erupted in parts of South Africa following the imprisonment of former South African president Jacob Zuma for contempt of court. Widespread rioting and looting started in the province of KwaZulu-Natal and spread to some areas of Gauteng. This was a horrific event, characterised by public violence, looting and malicious damage to property. Over 300 people tragically lost their lives due to the unrest with many more injured. The unrest had a devastating impact on the companies that operated in the region, and on the livelihoods of those affected.

We reached out to over 30 companies that were affected by the riots to discuss the impact of the riots on the companies and their employees. We also wanted to understand the security measures that were put in place to protect staff, as well as the impact that this had on supply chains. A particular area of concern was food security, both within the affected provinces as well as within the broader country, with damage to storage and logistic networks affecting the production and delivery of food. We were reassured that the companies were placing paramount importance on the safety of their staff and were taking practical steps to work around the supply chain disruptions.

Other aspects of our discussions focused on understanding the damages to the businesses, the impact on their operations (such as on their warehouses and fleet), and the extent to which financial losses were expected to be covered by insurance. While we understand that most of the claims were covered by the state-owned South African Special Risks Insurance Association (SASRIA), which provides cover against unique risks such as public disorder, strikes, riots and terrorism, a key question remains about whether SASRIA is sufficiently capitalised to pay out all of the resulting claims given the scale of the damage, and whether some form of fiscal support to SASRIA may be required.

Collaborative engagements

In 2021, we participated as a collaborating investor in respect of engagements with Eskom through the CA100+ initiative, where the group commenced discussions on issues relating to the use of concessional funding which was pledged to South Africa at COP26, the de-commissioning of coal power stations and Eskom's plans to transition to a low-carbon operation whilst addressing base-load power needs.

In addition, we collaborated with other shareholders of Magnit to get genuinely independent board members elected to the board. We used our shareholding to nominate three members to the board. This would not have been possible without our backing as, for various reasons, other shareholders were unable to participate in the nomination process, and a 2% shareholder backing was needed to nominate board of director candidates. Together with select other minority investors with aggregate representation of more than 2% of the charter capital, we co-signed a letter to the board ahead of the Extraordinary General Meeting (EGM). We were successful in nominating our chosen three candidates for election at the EGM, with two of the three candidates being elected. +

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ENVIRONMENTAL ENGAGEMENTS

80
COMPANIES ENGAGED ON TCFD REPORTING

33%
INCREASE IN ENGAGEMENTS ON ENERGY EFFICIENCY AND EMISSIONS

82%
INCREASE IN TOTAL ENVIRONMENTAL ENGAGEMENTS

Tackling climate change

Climate change is a pervasive risk with significant implications for the global population. The scale and complexity of climate change make it a unique challenge in the context of economic decision-making.

There is overwhelming scientific and economic evidence pointing to the increasing risks from serious, irreversible impacts of climate change. The consequences of climate change are already evident, and the impacts thereof are expected to intensify in the coming decades.

Climate change will have severe financial implications for all economies, asset classes, industries, and companies, albeit to varying degrees. The systemic nature of climate change means that the adequacy and sustainability of long-term savings will be affected. By addressing these challenges and by helping to mitigate the impacts thereof, we aim to ensure that individuals are saving for a future in a world worth living in.

Asset managers and allocators of capital have a fiduciary responsibility to respond to the challenges of climate change. As active managers with a long history of engaging with companies, we are well positioned to act as meaningful change agents. We aim to drive change by ensuring that the risks and opportunities stemming from potentially material climate risks are integrated into our decision-making process. We are, however, cognisant that the complex challenges presented by climate change require a careful, well-considered, and long-term approach.

Our approach to the management of climate-related matters

Climate change is a material investment risk that we factor into our investment process. Our approach to climate change uses the same three-pronged approach of integration, engagement and collaboration that we apply to our other stewardship activities (see page 21). As with all risks, integration and engagement on climate-related matters are mutually reinforcing – integration drives engagement, and engagement outcomes influence our valuations with the ultimate goal of enhancing long-term shareholder value.

Applying our three-pronged approach

Integration of climate change into our investment process involves a detailed consideration of material climate-related risks and opportunities. In our assessments of businesses, we recognise that the physical risks of climate change, such as extreme heatwaves, floods, and drought, could have severe consequences for the companies in which we invest. In addition, the transition risks associated with a move toward a greener economy could mean that some sectors of the economy face significant shifts in asset values or higher costs of doing business. We are also cognisant that climate risks manifest differently in each industry. We view industry-specific impacts through the lens of materiality to each industry and the ability to make changes where there is a high degree of materiality.

Our analysis also highlights those climate risks which companies are not adequately addressing and where further engagement will create value over the long term. We understand the critical role that allocators of capital such as ourselves can play in driving companies to improve their climate-related practices and mitigate the impacts of climate change.

The results of our research are reflected in our fair-value estimates, together with the long-term opportunities, costs and risks associated with companies' climate impact and risk mitigation strategies. Capital can then be directed towards those companies that are aiding the transition and away from companies that are not, thereby accelerating the transition to a carbon-free global economy. Climate risk is systemic and cannot be diversified away. We, therefore, manage climate risk by balancing exposures through sector allocation, focusing exposures on best-in-class securities, and actively engaging with portfolio companies on key climate-related factors to encourage improved performance.

When dealing with systemic risks such as climate change, one needs to be cognisant that the issues are complex and nuanced. The implication is that to achieve on-the-ground progress, a holistic understanding of the company and context is integral to an accurate assessment of a company's position and trajectory. Deliberate scrutiny of potential unintended consequences is necessary. A misunderstanding of these issues or a narrow perspective can have severe real-world consequences and, therefore, cannot be outsourced or reduced to a few metrics. Instead, our analysts, who have in-depth knowledge of the stocks and sectors they cover, are responsible for ESG integration and engagement. Collaborative engagements are also critically important when addressing systemic issues.

Deliberate scrutiny of potential unintended consequences is necessary.

The impact of these engagements is not immediate and often takes a number of years to materialise. This is because companies need to understand the impact of their operations on the external environment and establish a path toward ensuring that the transition approach is properly embedded in their corporate strategies. Frameworks for disclosure, risk mitigation and monitoring of progress have to be established and these take time. Our engagement with **Sasol**, a South African-based chemicals and energy company, is a good example of this.

Case study

Addressing greenhouse gas emissions

COMPANY	REGION
SASOL LIMITED	GLOBAL

ACTION	OUTCOME
MEETINGS	POSITIVE AND ONGOING

Our engagements with Sasol Limited demonstrate the value of multi-year engagements and the necessity of having a full understanding of the intricacies of a situation, especially when dealing with systemic challenges. It is also an example of the efficacy of collaborative engagements.

Sasol is an international integrated chemicals and energy company. The company develops and commercialises technologies and produces liquid fuels and chemicals. Its regional operating hubs include Southern Africa, Europe and the USA. As a significant producer of liquid fuels and inputs into a range of manufacturing industries, including mining, healthcare, plastics and cleaning products, the company is integral to the South African economy. The company employs more than 26 000 people in South Africa.

Sasol is listed as one of the top 100 global emitters of greenhouse gases (GHGs) by the Climate Action 100+ initiative, and its Secunda plant is the largest single-site emitter in the world[6]. According to its 2021 Sustainability Report, Sasol emits 67 million tonnes of scope 1 and scope 2 GHGs per annum. The majority of this comes from its South African operations in Secunda and Sasolburg. Sasol further estimates that scope 3 GHG emissions amounted to 38 million tonnes in 2021. Sasol is also a significant emitter of other atmospheric gases, including volatile organic compounds, particulate matter, nitrogen oxide and sulphur dioxide.

We have been proactively engaging with Sasol on climate-related issues for a number of years, as the company's approach to addressing its emissions profile would have a significant impact on its long-term value and, ultimately, the sustainability of the organisation. In 2020, a group of international investors also started engaging with Sasol via the Climate Action 100+ coalition, as Sasol is regarded as systemically important for the global transition to net zero (see page 52). Several large South African investors joined this grouping in the beginning of 2021. We continued our engagements as an individual engager and shared our information with the Climate Action 100+ engagers to help inform their engagement. We believe that both the broader business context and the local context must remain important considerations.

Investor's sustained engagements over a multi-year period culminated in the announcement of significant climate commitments by Sasol in their 2021 Climate Change Report. The report, which was released at Sasol's Capital Markets Day in September 2021, addressed several areas of concern. Sasol increased their medium-term scope 1 and 2 reduction target from 10% to 30% and introduced a 2050 net zero target. They also set out timelines and plans to reach these ambitions.

Prior engagements

In prior years, our engagements with Sasol highlighted a significant lack of disclosure on emissions, emission reduction targets and how those targets were linked to management remuneration. We had therefore engaged with the sustainability and management teams to encourage improved emissions disclosure

[6] *Investors welcome Sasol's decarbonisation roadmaps, focus now moves to implementation and near-term milestones | Climate Action 100+*

as well as improvements on targeted emission reductions. In addition, we advocated for a remuneration policy that linked environmental targets to management's key performance indicators (KPIs) and for the company to commit to making capital expenditure that was necessary to decarbonise its operations further. Collective pressure from investors and other stakeholders resulted in a significant positive shift in Sasol's approach toward emissions disclosure. In its 2020 annual report, Sasol started to disclose its scope 3 emissions, as well as providing greater details on how it would achieve its GHG emissions reduction target. At the time, Sasol set a target to reduce GHG emissions from its South African operations by 10% from a 2017 baseline.

Actions in 2021

In 2021, we had six engagements with Sasol on environmental and remuneration matters specifically. We pursued these engagements despite having reduced our exposure to the company significantly. It was important to continue with these engagements to ensure that we could factor progress on these matters into our assessment of the company's long-term value, and ultimately, to its investment case. Sasol continued to engage constructively with us, notwithstanding the reduction in exposure.

Prior to the Capital Markets Day, we met with the Sasol CEO and FD and discussed their 2030 emission targets, progress to date and future emissions mitigation strategy. We were encouraged that they would be allocating capital to mitigating their sulphur emissions. This was followed by an engagement with the investor relations and finance teams, where we discussed their environmental capital expenditure plans and delved into their strategy to transition the South African operations from coal to gas inputs as well as plans to increase the use of renewable energy.

We had two discussions with the remuneration committee during the year. At our first engagement, we discussed the changes that they had proposed to the 2021 remuneration policy which, for the first time, included climate change KPIs in management's long-term and short-term incentive schemes. We also addressed the matter of whether having a short-term incentive target that rewarded management for spending less on capital expenditure was appropriate, given Sasol's need to comply with environmental legislation and its high emissions. We encouraged them to commit the capital expenditure necessary to further reduce Sasol's overall emissions.

Later in the year, after the announcement of the Group's new climate change plan and targets, the company held a group meeting with investors. The committee presented the proposed changes to their remuneration policy for 2022. The company had made further progress on including emission reduction targets in management's long-term KPIs and had linked this to energy efficiencies. This aligned with their new climate change plan. We challenged the company's decision to replace a return on invested capital KPI with a profit growth indicator as we felt that this was not appropriate. We asked what adjustments had been made to management's incentives payout as the company had not met its target for zero fatalities.

Sustained engagements over a multi-year period culminated in the announcement of significant climate commitments by Sasol.

At our annual deep dive meeting with Sasol's full sustainability team, we discussed a wide range of matters including the group's safety track record and safety processes, their water usage, their air quality metrics, and plastic waste management processes. We used this meeting to follow up on some of the background assumptions in their newly disclosed transition plan.

Outcome

We are encouraged by their progress to date, but more detail will be needed to clarify how the company will achieve their targets as we lead up to both the 2030 and 2050 milestones. The longer-dated assumptions, in particular, require more interrogation.

We will continue engaging with the company around the detailed plans necessary to achieve their ambitions, as execution risk remains high. Our focus in future engagements will be on monitoring how management will implement their short- to medium-term plans and whether they are meeting their milestones. We will also continue to assess the feasibility of their longer-term plans as more information becomes available.

The net zero ambition

The global drive towards net zero has gained significant traction over the last few years. Reaching this goal, however, is not without its challenges.

What is net zero?

Net zero emissions are achieved when emissions of GHGs resulting from human activities are balanced by the deliberate removal of GHGs from the atmosphere over a specified period.

The concept of net zero GHG emissions gained traction at the United Nations Climate Change Conference (COP21) in Paris in 2015, when world leaders reached an agreement to set long-term carbon emission reduction goals. The Paris Agreement included a commitment to limit global warming to no more than 2°C above pre-industrial levels, while pursuing efforts to limit the increase to 1.5°C. The agreement included a commitment to target "a balance between anthropogenic [man-made] emissions by sources and removals by sinks of greenhouse gases in the second half of this century".

In 2018, the Intergovernmental Panel on Climate Change (IPCC) – the leading body for pronouncements on climate change – released a 1.5°C Special Report, in which it set out the emission pathways required to limit global warming to 1.5°C. In order to reach this lofty target, emissions would need to decline by 45% by 2030 from 2010 levels and would need to reach "net zero" by around 2050. Subsequently, it has become a growing trend for companies and countries to set net zero targets.

How are commitments being turned into action?

Individual countries set out their plans to reach net zero in their nationally determined contributions (NDCs), which are updated every five years. Governments implement these plans by formulating policies, applying regulations and providing incentives to encourage economic actors to decarbonise their activities to meet the national targets.

The private sector and broader society have the responsibility to plan and execute credible carbon reduction strategies for countries to meet their commitments. The Net Zero Asset Owner Alliance and the Net Zero Asset Managers Initiatives are two examples of collaborative efforts in the investment industry that are trying to develop viable approaches supporting net zero ambitions.

Is the world on track for net zero by 2050?

Analysis in the lead-up to the COP26 conference in November 2021 in Glasgow showed that the NDCs would lead to a global increase of almost 14%[7] in greenhouse gas emissions by 2030 (from 2010 levels). Consequently, the Glasgow Climate Pact, adopted at COP26, called on all countries to revisit and strengthen their NDCs to meet their 2030 targets.

It is clear that net zero is an ambitious target that will require unprecedented levels of global coordination, investment and the transformation of global energy and other economic systems.

Net zero is an ambitious target that will require unprecedented levels of global coordination.

What should be considered when setting net zero targets?

As companies and countries increasingly adopt net zero targets, it has become clear that there is no uniform approach to setting these targets. Setting a net zero target requires consideration of various factors, including:

- whether to include carbon dioxide (CO_2) emissions or a wider set of greenhouse gases;
- the scope of emissions that are covered;

[7] *COP 26: Update to the NDC Synthesis Report, available at https://unfccc.int/news/cop26-update-to-the-ndc-synthesis-report*

- the proportion of total emissions that are included within a target;
- the level of investment required and timeline over which the target can be achieved; and
- how to measure emissions and to monitor progress towards achieving the objective.

Another issue is how embedded emissions (the total emissions required to bring a product to market) are addressed. Many of the countries that have set net zero targets import a high proportion of their emissions. Therefore, a country may be reducing its own emissions, whilst not reducing global emissions to the same degree through this leakage process. Similar questions arise with corporate targets, and so clear disclosures are necessary to understand the differences between each target and the scopes of emissions that are covered.

What are the challenges of the transition to net zero?
Fossil fuels still account for over 80% of global energy consumption[8]. Transitioning our energy needs to more sustainable sources will require significant investment and credible plans to be implemented by governments, companies and broader society. Commitments to net zero are only as strong as the plans on which they are based, and there is currently no demonstrable evidence that these plans are feasible.

Net zero strategies are often determined in isolation of the funding that would be required to execute such plans, and many are based on assumptions that the technologies needed to reduce carbon emissions will be available and commercially viable in time for companies and countries to meet commitments – which at present is not the case. Carbon footprint measurements are also contested, as accurate and verifiable data on direct and indirect measurements are not readily available.

Importantly, the challenges resulting from the energy transition are nuanced and solutions often involve trade-offs between different ESG elements. For example, shutting down environmentally sensitive operations of a mine may benefit the environment, but it may have adverse social impacts on the mining community. When suggesting solutions, one needs to be mindful of the possible unintended consequences to ensure a just transition.

Notwithstanding these challenges, many companies are committing to achieving net zero, an important step towards a lower carbon economy.

What are the implications of decarbonisation for emerging markets?
Energy from fossil fuels is an important underpin of the development plans of many developing countries and terminating financing opportunities for these technologies can put their development at risk. A withdrawal of funding may also not necessarily lead to actual carbon emission reductions, as developing countries may source funding from partners who do not prioritise environmental impacts. Adding to this complexity is that developing countries are disproportionately affected by climate change. In Africa, for example, climate change has caused a decline in agricultural productivity of 34% since 1961, more than in any other region[9].

What is a just transition?
The transition out of high-carbon activities into more sustainable economies will have significant impacts on workers and communities. Managing the move to a net zero carbon economy in an equitable manner is referred to as a just transition. A just transition would be one where the implications for the people who are affected by the transition are considered and adequately addressed.

A just transition would also aim to distribute the responsibilities for addressing climate change in a fair manner, with due consideration for each country's historical contribution to greenhouse gas emissions and exposure to the impacts of climate change. Furthermore, each country's unique current circumstances, technological capabilities and development needs must be taken into account.

According to a report released by South Africa's Presidential Climate Commission in February 2022, a just transition in the South African context responds to the following imperatives:

- How to empower people and communities in the transition to a low-emissions economy.
- How to ensure that the most impacted do not get left behind.
- How to support the goals of social inclusion and decent work for all.
- How to solve South Africa's triple challenges of inequality, poverty, and unemployment based on the roadmap laid out in the National Development Plan.

Asset managers and asset allocators have a role to play in ensuring that these issues are addressed in a manner consistent with international human rights and labour standards.

[8] *Energy mix – Our World in Data, available at https://ourworldindata.org/energy-mix?msclkid=e1429dced10b11ec839d68ab24e277f4*
[9] *Intergovernmental Panel on Climate Change (IPCC)*

Divestment and decarbonisation

As active managers and advocates for real, on-the-ground change, we prefer to actively engage with companies to bring about long-term change instead of simply divesting from them. Embarking on a journey to help a company decarbonise its operations ensures that exposure to fossil fuel assets and production is managed down in an orderly and sustainable manner. It requires companies to set credible emission targets and commit to clear plans on how they will meet these targets. Robust and ongoing engagement is necessary to hold companies accountable for their commitments.

We believe that divestment as an approach is a simple way to decarbonise a portfolio but does not necessarily result in real-world change. Any single portfolio could underweight or fully divest from high-carbon stocks and replace them with low-carbon assets. Divestment advocates argue that it is quick and visible to the public and sends a strong political signal. The reasoning is that if many investors sell securities of high carbon emitting companies, the cost of financing will increase, which will aid global net zero ambitions.

However, portfolio decarbonisation can happen without real-world emissions reduction taking place. A singular focus on portfolio-level carbon intensity can incentivise investors to artificially demonstrate that their portfolios are reducing portfolio emissions in line with decarbonisation targets but may not reflect an actual reduction in emissions and risks losing sight of the bigger goal of driving real-world, on-the-ground decarbonisation. Divestment may also hurt companies that need the capital and incentive to transition.

The theoretical thinking behind divestment is that it works in achieving a real-world impact if it creates genuine incentives for companies to change their ways. For example, divestment can incentivise companies to reduce their carbon emissions if it raises their cost of capital at a time when they need to raise capital. The reality is that the cost of capital also depends on the extent to which other investors are willing to fund companies without regard to their carbon emissions. In addition, carbon emitters often generate excess cash and do not need investment markets for further funding.

In 2021, we engaged with a number of companies about their carbon reduction strategies and the responsible management of their impact on the environment. The demerger and separation of the South African coal exporting company Thungela Resources from Anglo American, a large and well-resourced global miner, is an example of divestment having the unintended consequence of contributing to increased future investment in thermal coal.

Thungela was listed separately on the JSE in June 2021, after Anglo American came under pressure from investors to spin off its South African thermal coal assets into a separate vehicle. We voted against this unbundling, as we believed that Anglo American, as a major mining company with many revenue streams, could have run down the thermal coal assets in a responsible manner with appropriate public scrutiny. Instead, the CEO, who has a fiduciary responsibility to his employees and shareholders, has stated that whereas Anglo

American was unlikely to allocate new capital to coal mining, Thungela would definitely continue to invest. The decision to divest from thermal coal did, therefore, result in additional investment into coal mining, which is the exact opposite of the intended goal of divestment. To ensure that Thungela manages down its coal exposure in a responsible fashion shareholders have to invest and own this pure play coal business.

However, had the coal assets still been part of Anglo American, there would have been the potential for Anglo American to manage down the assets as part of a diversified portfolio and for their employees to be moved to different operations as the mines ran down.

Juxtaposing this unfortunate outcome is our continued engagements with the global diversified mining and trading company Glencore. At the end of 2020, Glencore set out a plan to become carbon neutral by 2050. Scope 3 emissions – the carbon dioxide generated when customers burn or process their raw materials – are included in this target. In late 2021, Glencore came under pressure from investors to spin off its coal division.

We reacted by sending an email to the chairman of Glencore, reiterating our view that coal assets should remain within the listed environment where they can be responsibly managed and that a coal spin-off would have unintended consequences due to the removal of public scrutiny and potential incentive for the standalone unit to boost production. When companies are unlisted, it becomes far more difficult to engage with these businesses, and it is much more difficult to track key metrics such as their emissions intensity, their rehabilitation funds, capital allocation into new mines or life extensions, mineworker safety and investment in surrounding communities. Encouragingly, the chairperson affirmed our view.

We also unsuccessfully raised similar concerns with South32, who were looking to dispose of its thermal coal assets – SA Energy Coal (SAEC) – to an unlisted entity, Seriti. In a call with the South32 management team following the release of the interim results in March 2021, we communicated our view that our preference is for assets to remain within the listed environment where they can be responsibly managed. The disposal of South32's interest in SAEC does not achieve an overall carbon reduction, and thus our preference would be for South32 to retain the assets, manage them responsibly and adequately provide for rehabilitation liabilities. The disposal was concluded in June 2021, and as SAEC is now part of an unlisted entity, we are no longer in a position to advocate for its decarbonisation.

Climate change opportunities

The global transition to a low-carbon economy does not only present risks, but also offers investment opportunities. Like any disruptive force, climate change is creating opportunities for innovative companies.

The United Nations Sustainable Development Goals (SDGs) can be a powerful way to identify and map impactful companies. They help demonstrate the connections between some of our exciting investment opportunities and the underlying targets of the SDGs. **Safran**, a leading French aeroplane manufacturer, is an example of a company with a strong investment case and ambitious decarbonisation strategy linked to the SDGs.

Case study

Investing to decarbonise aerospace

COMPANY	REGION
SAFRAN	GLOBAL

ACTION	OPPORTUNITY
INTEGRATION	DECARBONISATION

The French airplane manufacturer Safran has a leading position in the manufacturing of aeroplane engines and equipment. It has a 72% market share of narrowbody engines, which power the most commonly used aircraft for commercial flights today. It also has an attractive business model of charging for spare parts on its large installed base of aircraft. The company has significant pricing power due to the technological complexity and mission-critical nature of the spare parts that it manufactures.

Safran has a comprehensive approach to sustainability and is committed to 12 of the 17 SDGs through four broad pillars: decarbonising aerospace, being an exemplary employer, embodying responsible industry and affirming its commitment to citizenship. Figure 26 describes the actions they are undertaking to decarbonise aerospace.

FIGURE 26: SAFRAN'S COMMITMENT TO SUSTAINABILITY GOALS

Decarbonise aerospace Be recognised as a leader in the decarbonisation of the aviation sector.	Make carbon neutral aircraft the R&T priority.	Reduce CO_2 emissions throughout our value chain.	Involve employees in the reduction of their carbon footprint.
Be an exemplary employer Be considered as an employer of choice by our employees and the talents of the sector.	Accelerate training in the skills and jobs of tomorrow.	Ensure health and safety of employees, improve the quality of life at work and maintain a thriving social dialogue.	Encourage equal opportunities and promote diversity.
Embody responsible industry Be the benchmark in our production methods and throughout our value chain.	Uphold the highest standards of ethics.	Strengthen responsible supply chain management and support suppliers.	Respect the environment and natural resources.
Affirm our commitment to citizenship Get involved with our local communities and contribute to their development.	Be at the forefront of innovation to protect citizens.	Develop partnerships for training and research.	Enhance professional and social integration.

Source: Safran 2021 Integrated Report

The restrictions that were imposed during the Covid-19 crisis have emphasised the value that humans place on mobility. At the same time, decarbonisation is a critical global goal required to limit climate change and its devastating impact. Aviation contributes just over 2.1% of global carbon emissions (Figure 27). Without actions to reduce carbon emissions, commercial aircraft emissions could triple by 2050, given projections of passenger air travel and freight[10].

As a member of the Air Transport Action Group, Safran has pledged to achieve net zero carbon emissions by 2050 in line with the Paris Climate agreement, which is a significant task in light of the above projection. In the nearer term, Safran has set a goal of reducing its scope 1 and scope 2 emissions by 30% by 2025. This refers to emissions from its own factories and indirect emissions related to its energy procurement for its operations. Safran will begin reporting reduction targets for scope 3 emissions in 2022.

95% of GHG emissions from aviation are due to aircraft fuel burn, mainly in the form of CO_2, and approximately 5% from aircraft dismantling at the end of their lifetimes. (Aircraft have very long service lives of about 23 years.)

[10] *The growth in Greenhouse Gas Emissions from Commercial Aviation, Environmental and Energy Study Institute.*

Despite the reduction in fuel consumption per passenger kilometre of about 2% p.a. over the long term from improved technology, gross emissions will increase over time due to growth in air traffic.

Safran believes multiple approaches will be required to reach the net zero goal. In order of importance, they are the usage of sustainable aviation fuel, replacing aircraft and their engines with new models that are more fuel efficient, traffic optimisation and finally, carbon offsets for the residual. 75% of the company's research and technology spend in 2019 was focussed on environmental efficiency.

Sustainable Aviation Fuel (SAF)

Using SAF in existing planes is a technologically-simple way of reducing emissions. Safran is working on increasing the threshold for mixing SAF with jet fuels. The threshold currently stands at 50%, but the company has already done test flights using only biofuels in the new generation LEAP engines. Being commercially viable, however, requires an increased biofuel supply chain, which is still a nascent industry.

The company is simultaneously researching a longer-term opportunity to use hydrogen to power short-haul and small aircraft. Hydrogen is a potentially attractive alternative to jet fuel because the byproduct of hydrogen combustion is water, as opposed to carbon. In February 2022, Airbus announced a joint venture between itself, Safran and General Electric to develop a hydrogen engine and test it on Airbus's superjumbo A380 aircraft by the end of 2026. It is a positive sign that Safran is working with its largest client, Airbus, to research the hydrogen alternative and likely puts Safran in a strong competitive position if Airbus ultimately decides to use hydrogen on shorter-haul flights.

In 2022, Safran also signed the Global SAF Declaration along with Airbus, Rolls-Royce and Singapore Airlines, in which it committed to promoting the acceleration of the development, production and consumption of SAF. The declaration envisions the steady acceleration of capacity over the next decade and calls on industry partners from the aerospace, aviation, and fuel value chains to work towards the transition to SAF as an important part of decarbonisation.

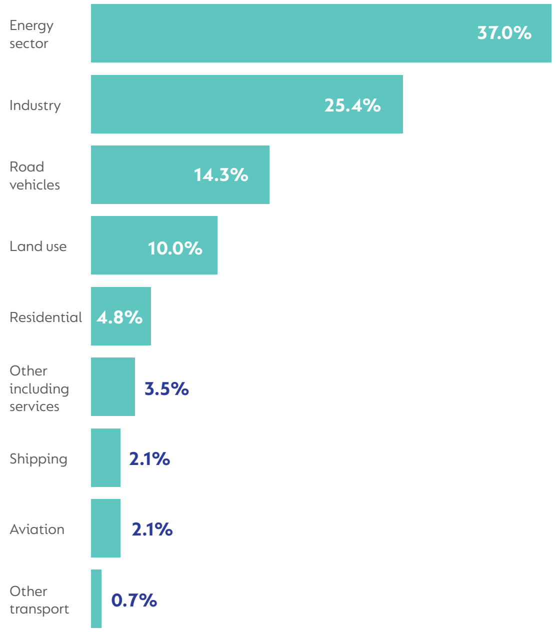
Aircraft replacement

The ongoing retirement and replacement of older aircraft are expected to reduce CO_2 emissions per passenger by approximately 1% to 2% over the medium term, given that the latest generation of engines (LEAP) is c.15% more fuel efficient than the last generation. Safran also aims to introduce a 20% more efficient engine than the new LEAP engine between 2030 and 2035.

Disruptive jet engine design

Conventional gas turbine engines are likely to be the only way to power large, long-range aircraft for many decades because significant breakthroughs would have to be made before battery energy density and power management are at the level required by large commercial aircraft. However, Safran is working on disruptive technologies to improve engine fuel efficiency, such as open-rotor engines and larger engines to improve the fan's airflow. Additionally, the company has invested in material science and additive manufacturing capabilities to reduce engine and equipment weight (reduced weight assists in lowering fuel consumption). Finally, Safran announced a new engine programme, RISE, that combines these new technologies to improve engine fuel efficiency by 20% and be compatible with sustainable

FIGURE 27: GLOBAL CARBON EMISSIONS RELATED TO HUMAN ACTIVITIES BY SECTOR IN 2018



Source: Safran, IEA Atlas of Energy, EDGAR aviation fuels. Combined, these have the potential to reduce CO_2 emissions by up to 80%. Entry into service is aimed for the mid-2030s.

Traffic optimisation

Current air traffic management systems have limitations resulting in aircraft holding patterns (circling while waiting to land) and inefficient routing, resulting in excess fuel burn and hence emissions. The IPCC estimated that traffic optimisation could lead to a 6% to 12% reduction in aviation fuel burn.

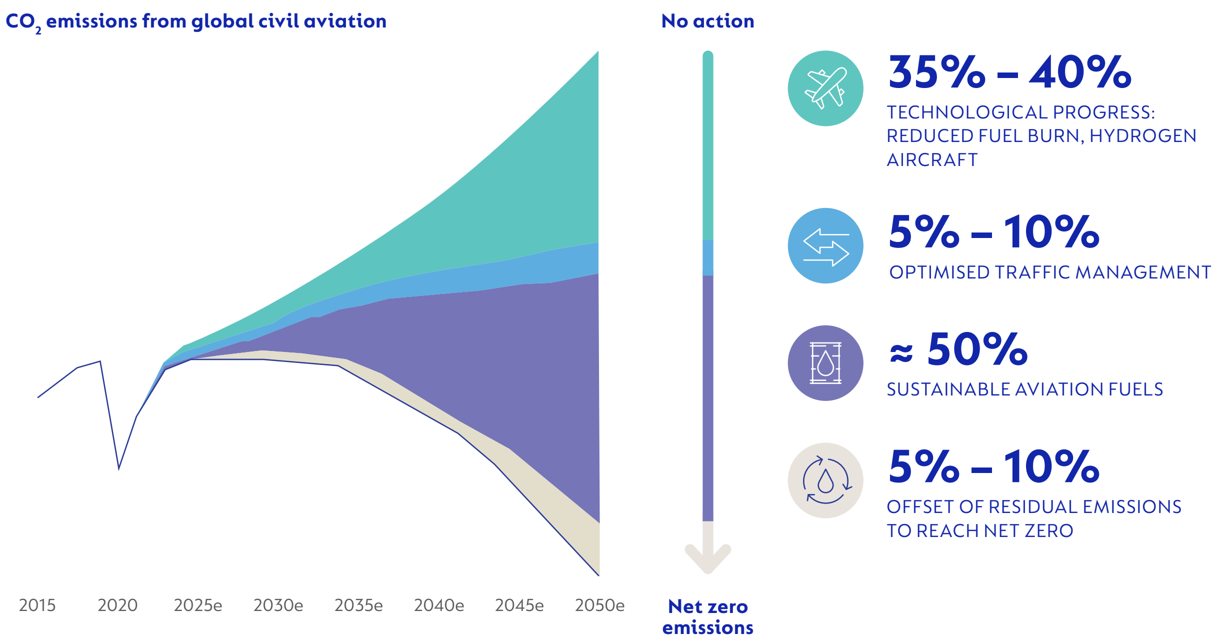
Carbon offsets

The final approach to meeting the net zero target is for airlines to purchase carbon offsets for the residual emissions that the new technologies are unable to reduce or as a bridging solution until the technologies mature.

Risks and opportunities

Safran has adopted a multi-pronged strategy to meet its net zero carbon emission target by 2050. The main risks to Safran's strategy are that either the new technologies are unable to meet their carbon emission goals (for example, if there are technological challenges in using a high share of SAF) or that the cost of doing so is prohibitive. However, if they are the first to make breakthroughs in decarbonising aviation, they have the opportunity to gain market share. Fuel efficiency is a key factor that airlines use to determine which engines to purchase and, if successful, these investments will help Safran stay ahead of its competition and continue to deliver above-average returns on invested capital. Given the technological complexity of the task, success would further increase barriers to entry within the industry.

FIGURE 28: AMBITIONS COMMITMENT TO REACH NET ZERO CARBON EMISSIONS BY 2050



Source: Safran

Conclusion

As an aerospace company, Safran managed through the Covid-19 crisis impressively and is well positioned to support air travel as international travel opens more fully. We forecast strong earnings growth and attractive returns over the long term. Despite having had to reduce costs at a challenging time for the industry, Safran continues to invest in initiatives to allow humankind to fly while reducing the environmental impact through deep research and innovation. Safran is investing significant resources to remain on the cutting edge of green aviation both because it is necessary if we are to limit climate change while still enjoying the advantages of air travel, and because it increases its competitive advantage.

Disclosure of climate data

A lack of consistency in company reported sustainability data is one of the most pressing challenges facing the industry. Robust, comparable and reliable climate-related disclosure is a prerequisite for fundamental company analysis and the integration of transition risks, physical risks and liability risks into our investment process. High-quality data is also essential to provide comprehensive portfolio-level views of climate-related risks and exposures.

We cannot drive change without a good understanding of what each company's greenhouse gas emissions are, what they have done over time and what they are expected to do in the future. Also, increasingly clients and regulators are looking for improved disclosure of the exposure that investment funds have to climate risk.

To address these challenges, we embarked on a project to improve the quality of the data of our investee companies. In 2020, the first leg of this project was to assess the main sustainability frameworks. We identified the TCFD as the best practice framework to encourage companies to adopt.

During 2020 and 2021, we saw a number of developments globally which supported this assessment and would mean that companies who are disclosing in terms of TCFD will have a significant head start.

These developments included, inter alia, the following:

- In South Africa, TCFD was mentioned in the National Treasury's paper on Financing a Sustainable Economy as a recommended framework. The JSE has also issued draft Climate Change Disclosure Guidance which builds on TCFD recommendations.
- The G7 supported moving toward mandatory climate-related financial disclosure, based on the TCFD framework and the G20 committed to promoting the implementation of disclosure building on TCFD.
- The UK government announced that large listed and private companies that are registered in the country would have to report in terms of TCFD by 6 April 2022. This requirement brings them closer to the goal of mandating disclosures across the economy by 2025.
- The 2021 TCFD status report indicates that Brazil, the EU, Hong Kong, Japan, New Zealand, Singapore, Switzerland and the UK have started to include TCFD-aligned disclosures in official reporting requirements.
- In 2021, the International Financial Reporting Standards (IFRS) Foundation formed the International Sustainability Standards Board. They released a Climate-Related Disclosure prototype that has significant overlap with the TCFD recommendations.

Why TCFD?

The TCFD includes all the key tenets that we believe are necessary for our analysis of climate-related risk, without being unduly burdensome on the issuer. It is not overly prescriptive and allows the issuer some discretion in the form and content of information disclosed, which should ease widespread adoption.

The TCFD provides an overarching four-part framework, applicable regardless of sector, to help investors understand a firm's governance and business practices in relation to the specific topic of climate risk.

It is structured around four thematic areas – governance, strategy, risk management, and metrics and targets.

Encouraging companies to adopt TCFD

Following the identification of TCFD as the most relevant framework, during 2020 and 2021, we encouraged 90 of our investee companies via letters and emails to comply with the recommendations of the TCFD. The response to these letters varied and was often a factor of where the company was in its journey to improved disclosure. Where we did not receive any response or an inadequate response, we continued to engage to ensure that this matter was being considered at the highest level of governance within the company.

Encouragingly, 55 of the 90 companies are committed to implementing TCFD recommendations or are already reporting in accordance with TCFD. While our influence was not necessarily the sole reason for the companies' decisions to improve their reporting, we believe our influence along with pressure from other stakeholders contributed to better reporting. Another 11 companies committed to at least partial TCFD disclosure and seven companies said they were assessing TCFD or other sustainability frameworks to understand how to improve their sustainability disclosure.

The letters also instigated 20 substantial engagements with 15 companies that reached out to us for further

TABLE 2: TCFD RECOMMENDATIONS AND SUPPORTING RECOMMENDED DISCLOSURES

Governance	Strategy	Risk management	Metrics and targets
Disclose the company's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.	Disclose how the company identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Describe the board's oversight of climate-related risks and opportunities.	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Describe the company's processes for identifying and assessing climate-related risks.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
Describe management's role in assessing and managing climate-related risks and opportunities.	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Describe the company's processes for managing climate-related risks.	
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management.	

Sources: Task Force on Climate-related Financial Disclosures, available at 2021-TCFD-Implementing_Guidance.pdf (bbhub.io); and TCFD 2021 Status Report, available at 2021-TCFD-Status_Report.pdf (bbhub.io)

clarity. These engagements ranged from us substantiating our position and providing context for TCFD disclosure to providing an explanation of our preference for TCFD over other sustainability frameworks, to discussions with companies who have already begun their sustainability disclosure journey and who asked for our input to improve the quality of their reporting.

We will continue to engage with companies to improve their climate-related disclosure where we believe improved disclosure is vital for our analysis of the company. It is understandable that a number of companies are not in a position to implement TCFD at this stage. This may be due to various reasons, such as other pressures on the business. We are also mindful that our ability to influence decisions may depend on the size of our shareholding.

Of the 90 companies that we approached, eight companies did not communicate a tangible plan to us and another five indicated that they were not looking to implement TCFD recommendations at this stage.

Without a solid foundation built on accurate and comparable information, the journey to decarbonisation will be far more difficult and take longer. Common reporting standards are the tool that stakeholders need to successfully contribute to achieving a net zero future.

Measuring carbon emissions

It is only possible to judge the success of decarbonisation efforts if we can properly measure and report on the extent to which companies are lowering their carbon emissions. Climate-related reporting is an area that is changing rapidly, with the industry currently primarily focused on measuring the carbon footprint of a company or a portfolio through metrics such as total carbon emissions or the carbon intensity of emissions.

However, as it is our view that portfolio decarbonisation does not lead to real-world emission reductions, our reporting does not attempt to portray a decarbonisation trend. Instead, we aim to provide insight into which stocks are contributing most to climate-related risks and how these risks are addressed.

How we measure carbon emissions

We measure scope 1 and 2 emissions – the emissions produced directly by a company's activities or related to the electricity it consumes – and compare total emissions against total revenues and/or market capitalisation. This is compared with the emissions intensity of our benchmark. While these direct measures are too narrow to provide a genuine indicator of winners and losers in the years ahead, they act as a useful first pass to identify exposure to the big emitters.

Scope 3 emissions occur upstream in product manufacturing or downstream in product use and disposal. As the price of carbon increases, it will impact margins across the value chain. We need to understand this impact on our investments; for example, the degree to which companies could pass on costs to consumers will affect the extent to which they experience margin expansion or contraction.

However, scope 3 emissions are not included in our reporting at this stage as it does not provide an accurate representation of emissions at a portfolio level. This is because scope 3 disclosures are not uniform and introduce the risk of double counting. For example, some companies include the supply chain in their scope 3 reporting, while others include customers. In addition, some report carbon emissions only, while others include all greenhouse gases; and some reporting is based on observed emissions, while others rely on third-party systems.

Furthermore, it is important to be mindful that not all companies disclose scope 1, 2 and 3 emissions. Disclosure by companies based in developed markets is typically greater than companies in emerging markets. According to MSCI data, 74% of developed market companies disclose in terms of scope 1 and 2, while 63% disclose in terms of scope 3. In comparison, 41% of emerging markets companies provide scope 1 and 2 disclosure, and only 20% report scope 3 emissions.

Portfolio-level carbon emissions

In accordance with the TCFD framework, we report the weighted average carbon intensity of selected investment portfolios. The strategies in Figure 29 have carbon exposure levels below that of an investment in the appropriate index tracker for each strategy. The carbon intensity of a portfolio is calculated as the estimated number of tonnes of carbon emitted for every $1 million in revenue generated by the weighted average of the portfolio's underlying holdings.

We are mindful of the following key issues when compiling portfolio-level carbon emission statistics:

- These statistics are backward-looking measures that show the carbon footprint of a portfolio at a single point in time. They do not provide a forward-looking indication of the extent to which the investee companies are decarbonising their operations.
- A portfolio's carbon footprint is a function of the portfolio's holdings. Portfolio holdings can change over time and are not necessarily comparable year on year.
- A major concern is the lack of robust and comparable climate-related disclosures by companies, which should improve over time as more companies start reporting in terms of TCFD.

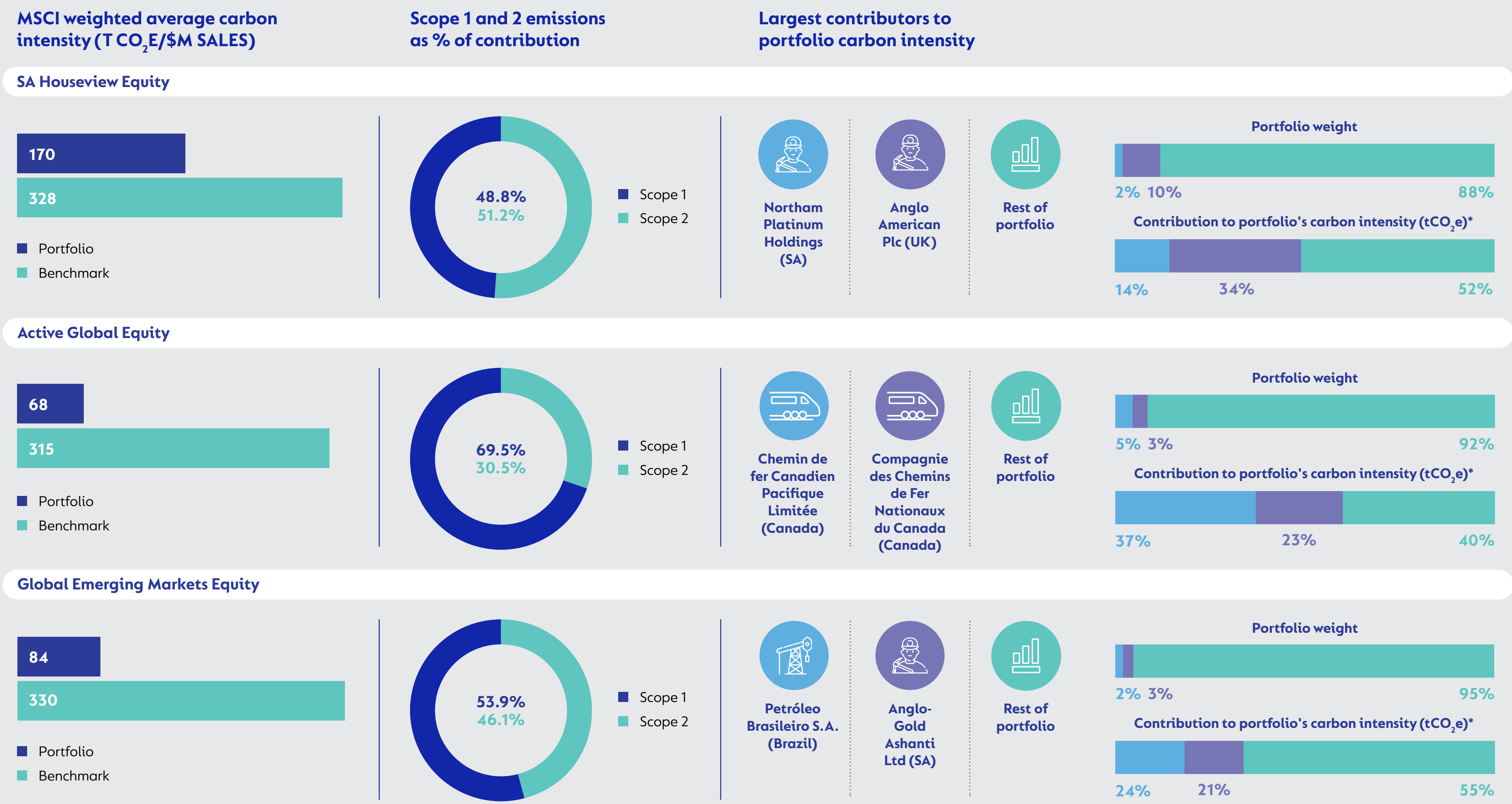
Our SA Houseview Equity Strategy, Active Global Equity Strategy and Global Emerging Market Equity Strategy have carbon exposure levels below that of an investment in the appropriate index tracker for the strategy.

Contributors to portfolio carbon intensity

In order to identify priorities for our stewardship activities, it is instructive to understand which companies are contributing most to carbon emissions. It is evident that the majority of emissions are driven by a few companies with large emissions (Figure 29).

Portfolio-level carbon emissions

FIGURE 29



Sources: MSCI, Coronation

* *Carbon dioxide equivalent or CO_2e is the number of metric tonnes of carbon dioxide emissions with the same global warming potential as one metric tonne of another greenhouse gas*

The emissions profile of a portfolio is clearly skewed towards a small number of securities, as the majority of carbon emissions are driven by certain companies and sectors. While it remains important to engage with investee companies across the board on their emissions profiles, this analysis helps to direct our attention to those companies that can make the most meaningful impact on lowering aggregate real-world carbon emissions.

It is also worth noting that some of the largest contributors to carbon intensity are commodity companies that are expected to play a key role in the decarbonisation of the motor vehicle and electricity sectors. In these sectors, copper is a critical component, given its unrivalled thermal and electrical conductivity.

Platinum group metals (PGMs) are also expected to enable a shift towards cleaner air and decarbonisation, and should benefit from increased regulatory pressure on car manufacturers to reduce emissions. Adding palladium or rhodium to the catalyst of an emissions treatment system is a natural solution for vehicle and catalyst manufacturers.

Anglo American's exposure to copper, nickel and PGMs (more than 50% of normal earnings) positions it well to contribute to the decarbonisation journey. The company has also invested meaningfully in technologies to reduce its energy and water use.

A higher carbon emission profile for some holdings may be justified if the stocks in the portfolio are taking meaningful action to reduce their emissions. There is a very real risk that a mechanistic approach to measuring and reporting on climate-related information can result in poorer countries with carbon-intensive electricity grids struggling to attract the external capital that they need in order to decarbonise. Portfolios that focus on optimising their carbon emission metrics may be disinclined to invest in companies that operate in these countries. However, a greater level of investment is needed in developing countries in order to enable them to transition to a lower carbon pathway, while managing broader issues, such as the societal impact of decarbonising these economies.

Conclusion

Climate change poses serious risks to businesses globally, and asset managers and asset allocators have a fiduciary duty to respond to these risks and identify possible opportunities. We can and must use our influence to mitigate against the impacts, thereby also enhancing long-term shareholder value and the sustainability of the businesses with which we engage. However, climate change is a complex issue that cannot be viewed in isolation as such a simplistic approach may not only have unintended consequences but is also unlikely to result in real change.

Our three-pronged stewardship approach is ideally placed for an appropriate response to these challenges. Our proprietary research enables us to gain a holistic understanding of each company and its context, allowing us to engage from an informed perspective. These engagements do not always have instant impact, but over the long term, we believe our clients and future generations will benefit from the work we do now. +

Collaboration and participation

We believe in proactively participating in shaping an operating environment that protects the long-term interests of asset owners and promotes collaboration in support of a sustainable and diverse investment industry that serves the best interests of the societies in which we operate. Accordingly, we are committed to playing an active role in shaping the South African financial services industry by working with industry partners and regulators.

Shaping a sustainable industry

We are key contributors to the activities of the Association for Savings and Investments in South Africa (ASISA), whose role is to ensure the sustainability and relevance of the investment industry for the benefit of the country and its citizens. As such, 33 of our team members serve on eight technical board committees and on 67 standing committees and working groups. Our CEO is a member of ASISA's executive committee and was recently appointed as chairman of ASISA. Through ASISA and its relationship with Business Unity South Africa, our membership of Business Leadership South Africa (BLSA), the CEO Initiative and, when required, through direct engagement with regulators and government, we aim to contribute to an investment environment that is sustainable and supportive of our clients' long-term interests. To enable us to better serve the interests of our international clients and to ensure that we remain abreast of global developments and best practice, we are also a member of the Investment Company Institute (US), abide by the requirements of the Irish Funds Industry Association and support the principles of the UK Stewardship Code.

Recent initiatives and engagements include:

Covid-19 relief

Our Covid-19 relief response continued in 2021 in an effort to mitigate the devastating impact of the pandemic on the local economy, support our supply chain partners and lend aid to hard-hit impoverished communities. To this end, we committed a further R6.4 million to relief efforts. Our efforts included contributions to the not-for-profit organisations FoodForwardSA and Ladles of Love, and support for the Solidarity Fund's vaccine rollout programme. We continued to expedite small, medium and microenterprise (SMME) payments through our support of BLSA's #payin30 campaign. Senior members of our business continued to engage government, industry bodies and experts on the socioeconomic and health impacts of the pandemic while seeking solutions for the responsible yet crucial unlocking of businesses.

We are committed to playing an active role in shaping the South African financial services industry by working with industry partners and regulators.

Principles for Responsible Investment (PRI) reporting and assessment

We participate in the PRI's annual reporting and assessment review which requires signatories to report on their responsible investment activities and how ESG considerations are integrated into their investment process. This is an important benchmark against which we can assess our progress against global best practice, as well as to identify areas where we can improve our process. In 2020, we achieved the highest possible rating of A+ across all categories. For the 2021 reporting cycle, the PRI piloted a new reporting system for signatories to streamline and improve the reporting process. Some signatories were not able to submit a full and complete dataset due to issues with specific areas in the reporting system, which affected the 2021 data quality. To complete this review process and improve the quality of 2021 outputs, the PRI is taking a staged approach to release the 2021 reports in 2022 and has also delayed the next reporting cycle until 2023.

Green Finance Taxonomy

We submitted comments to South Africa's National Treasury on a Draft Green Finance Taxonomy and its application for company and asset management reporting. A Green Taxonomy focuses primarily on classifying activities as environmentally sustainable, supporting industry efforts to ensure that a consistent classification framework is used when directing flows to sustainable investments.

The Taxonomy is intended to align with international best practice, whilst taking national priorities into consideration. The Taxonomy relies to a large extent on the report of the EU Taxonomy that was published in March 2020, which is a cornerstone of the EU's Sustainable Finance Strategy, alongside the Sustainable Finance Disclosure Regulations (SFDR).

The Taxonomy specifically focuses on classifying sustainable activities as those that make a substantial contribution to climate change mitigation and adaptation, the sustainable use of resources, the prevention of pollution and the protection and restoration of ecosystems. While this is beneficial and necessary in an environment like Europe, where there is a larger base of opportunity for investing in these activities, South Africa is not yet at a stage where there is ample opportunity for similar investment in the listed equity space. In the current South African context, it would be more impactful to focus our energies on incentivising the decarbonisation of existing activities.

In addition, the granularity of disclosure required to classify activities according to the Taxonomy was identified as a key challenge, as this information is not consistently available across the South African market. More consistent and detailed ESG disclosure would be required to classify portfolios to contribute toward the objectives of the proposed Taxonomy meaningfully.

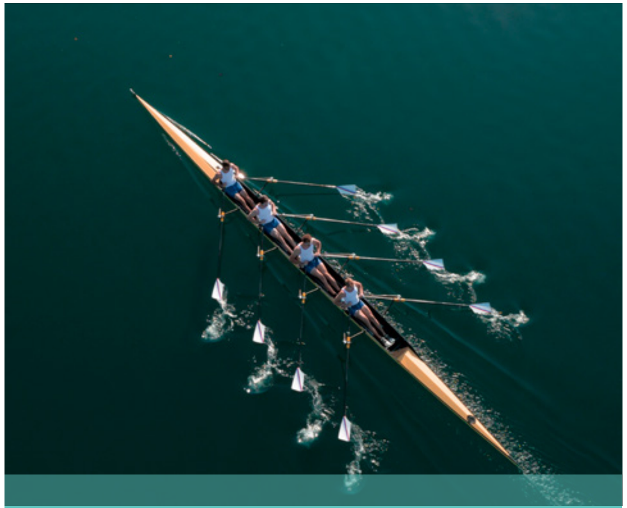
In our view, banks and life insurance companies are the primary channels through which we can encourage listed businesses to play an active role in funding these activities. Banks and life companies are a key component to financing the transition to a more sustainable economy, as they have access to the granularity of detail required to assess whether an investment is "green" through the due diligence process that they follow as part of their lending activities.

JSE Sustainability and Climate Disclosure Standard

Towards the end of 2021, the JSE requested feedback on draft guidance relating to Sustainability and Climate Disclosure. The guidance was developed in response to growing awareness of sustainability issues and the need for guidance that is tailored to the South African market. These are intended as voluntary standards that could be adopted by JSE-listed companies in respect of material sustainability matters. The proposed standards cover a range of issues, such as diversity and inclusion, pay gaps, living wages, skills development and climate disclosure. We provided input on the standards in early 2022.

The Climate Disclosure Guidance builds on the principles of TCFD and therefore is consistent with our ongoing climate disclosure drive. We are supportive of the widespread adoption of this guidance in the South African market.

Regarding the proposed Sustainability Disclosure Guidance, we are broadly supportive of more disclosure and consistent disclosure within sectors. However, sustainability issues are nuanced at a company and sector level and we indicated that some of the proposed sustainability metrics would not be relevant to all companies/sectors. It would be preferable for the guidance to emphasise that the metrics are examples of potential metrics to include and should be disclosed only where relevant to the company in question.



We aim to contribute to an investment environment that is sustainable and supportive of our clients' long-term interests.

Although this is a voluntary guidance document, our concern is that the unintended consequence may be that it is treated as a checklist of metrics with which all companies must comply in order not to be seen to be an ESG laggard. As collecting this data and reporting on the metrics requires a significant time and resource investment, we do not think it appropriate that companies are forced to spend money and time meeting certain metrics which are neither relevant to their sector nor to many of the users of their sustainability reports.

Companies Amendment Bill 2021

In 2021, we provided written comments on the proposed Companies Amendment Bill 2021, the contents of which could, in our view, have a material impact on the corporate governance landscape in South Africa. In particular, the draft proposes additional remuneration-related provisions, including requirements to disclose remuneration policies and reports, as well as specific outcomes that would occur as a result of shareholder votes on these policies and reports. Importantly, the Bill proposes that shareholder votes should be binding and that directors would be required to stand down for re-election if a remuneration report is voted down.

We pointed out the challenges and knock-on implications of these proposed amendments. One needs to distinguish between the responsibilities of the shareholders and that of the board, where directors are legally required to balance the interests of all stakeholders and have a fiduciary duty to always act in the best interest of the company. We also highlighted the importance of specialist skills (that are typically found on remuneration committees), the need for boards to be able to act swiftly and decisively when addressing remuneration matters, and unintended practical consequences that would result from a binding negative vote that would require directors to step down from their positions. We believe that votes on remuneration policies and reports should remain non-binding and that avenues should be created to enable companies to give shareholders an opportunity to engage with them to address their concerns.

The Code for Responsible Investing (CRISA) 2.0

CRISA is a voluntary code encouraging institutional investors and service providers to integrate sustainability issues, including ESG factors, into their investment decisions. CRISA applies to asset owners as well as to service providers, such as asset managers and consultants. CRISA encourages investment companies to discharge their stewardship duties diligently, with the concept of stewardship aligned with the UK Stewardship Code 2020.

In 2020, the CRISA committee released a draft revision of the code for public comment. The intention is to align the Code with global best practice in the regulation and governance of ESG issues. We commented on the proposed amendments in 2021.

Climate Action 100+

In 2019, Coronation became a signatory to the Climate Action 100+, an investor-led initiative that aims to strengthen engagement through collaboration to encourage the world's largest emitters to take the necessary actions to mitigate their impact on climate change. This is achieved through advocacy for better climate change governance, disclosure and emissions reduction. We participated in engagements relating to the two South African focus companies:

- Eskom, where we are a collaborating investor. In 2021, we participated in initial meetings with lead and other collaborating investors in order to discuss key issues relating to the company and the approach to tackle priorities and advocate for change. We further met as a collective with the company to discuss our concerns.

- Sasol, where we are an individual engager. We have been engaging with Sasol on climate change issues for a number of years. We share information and report the periodic progress of our engagements to the CA100+ lead engagers to help inform their engagement.

Active participation

Coronation is a signatory to and member of multiple responsible investing and stewardship codes and organisations, including the PRI, the CRISA, the International Corporate Governance Network (IGCN), the TCFD and Climate Action 100+. The ICGN is a leading authority on global standards of corporate governance and investor stewardship and, as a member, we are committed to and advocate for the highest standards of corporate governance. In addition, we support the principles of the UK Stewardship Code, which are designed to foster the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society. We work hard to ensure we continue to take cognisance of and champion their tenets and principles.

The Association for Savings and Investment South Africa

ASISA

Status: Member and participant on boards and working groups

The Association for Savings and Investment South Africa (ASISA) plays a significant role in the development of the social, economic and regulatory framework in which its members operate. Members include financial services companies that provide products and services to the personal investment sector. ASISA is the primary channel through which Coronation engages with policymakers and regulators.

South Africa's CEO Initiative

#CEOPledgeSA

Status: Member

Coronation is a member of South Africa's CEO Initiative, a group of CEOs working with government and labour to resolve the social and economic challenges facing South Africa. Its main strategic objectives include promoting inclusive growth and protecting and strengthening South Africa's core institutions.

Task Force on Climate-Related Financial Disclosure

TCFD

Status: Member

The TCFD was established by the Financial Stability Board to develop voluntary, consistent climate-related financial disclosures by companies in order to provide useful decision-making information to investors, lenders, insurers and other stakeholders.

The Investment Company Institute

ICI Investment Company Institute

Status: Member

The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors and advisers. ICI's members manage total assets of US$31 trillion in the United States, serving more than 100 million US shareholders, and US$10 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Brussels, Hong Kong, and Washington, D.C.

Principles for Responsible Investment

Signatory of: PRI Principles for Responsible Investment

Status: Signatory

The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

Climate Action 100+

Status: Signatory

The Climate Action 100+ coalition aims to engage and work with companies and industry members to communicate the need for greater disclosure around climate change risk and for the alignment of company strategies with the 2015 Paris Agreement.

Code for Responsible Investing in South Africa

Status: Supporter

Coronation participated in the process of establishing the CRISA and fully support the five principles, which stress the importance of integrating sustainability issues, including ESG factors, into long-term investment strategies. They also provide guidance on how institutional investors should execute investment analysis, investment activities and exercise rights so as to promote sound governance.

The UK Stewardship Code

Status: Supporter

We support the UK Stewardship Code, which seeks to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

Business Leadership South Africa (BLSA)

Status: Member

BLSA is an independent association whose members include the leaders of some of South Africa's largest businesses. Its main strategic objectives include promoting inclusive growth and protecting and strengthening South Africa's core institutions. Coronation has committed itself to BLSA's integrity pledge, which is a public declaration of our commitment to combat corrupt practices by, inter alia, not acting anti-competitively and by protecting the anonymity of whistle blowers.

Thinking Ahead Institute

Status: Member and working group participant

We are members and active participants in the Thinking Ahead Institute, a global not-for-profit research and innovation hub, connecting members from across the investment world to harness the power of collective thought leadership. The objective of the Thinking Ahead Institute is to influence for change in the investment arena for the better by improving the provision of savings and investment services.

Since its establishment in 2015, over 60 investment organisations have collaborated to bring this vision to light through designing fit-for-purpose investment strategies, better organisational effectiveness and strengthened stakeholder legitimacy.

International Corporate Governance Network

Status: Member

The ICGN is a global organisation aiming to raise standards of corporate governance worldwide. Membership includes investors responsible for assets of $70 trillion from more than 45 countries.

Irish Funds Industry Association (Irish Funds)

Status: Member

The objective of Irish Funds is to support, complement and develop the retirement fund industry in Ireland. It represents the industry in discussions with government, its departments and agencies, and the Central Bank of Ireland to ensure that the environment and infrastructure are supportive of the continued development and growth of the industry. We participate in the Asset Manager forum.

United Nations Women's Empowerment Principles

Status: Signatory

The United Nations Women's Empowerment Principles provide guidance to businesses on how to promote gender equality and women empowerment in the workplace, marketplace and community. This emphasises our commitment to diversity and to ensuring that women, who make up almost half our workforce, are strongly represented in senior roles and on our board. +

Looking ahead

Looking ahead

Our focus for 2022

As we move into 2022, we remain committed to our purpose of delivering superior long-term outcomes to our clients as responsible stewards of their capital. Companies that are managed on a sustainable basis are more likely to create value over the long term and as active stewards of our clients' capital, we will continue to engage with companies on matters that affect their sustainability in order to drive meaningful change.

We are observing an increased awareness by companies of their impact on the communities in which they operate and their responsibility to be agents of positive change in the broader society. Boards and management teams recognise the importance of identifying the needs of all stakeholders and devising strategies to address those needs.

The drive to act as responsible citizens is reflected in the escalation in commitments to reach net zero, which we saw in 2021. We expect to see more commitments over the next few years, as well as a sharper focus on efforts to explore plausible avenues to meet these targets.

Credible reporting is recognised as an important pillar of measuring progress towards meeting carbon reduction and other climate-related targets. In the past year, positive strides have been made towards improved sustainability reporting, and we expect this momentum to be sustained in the years ahead.

The debate around the effectiveness of active ownership versus divestment is also expected to remain important. We have seen the positive impact that active ownership can have in our portfolios and will persist with our engagements with companies to drive meaningful change through informed discussions with management teams and boards. We will continue to adopt a respectful and pragmatic approach when we engage with companies, having due regard to the nuance, complexity and trade-off decisions facing each company in relation to the ESG issues being addressed.

Furthermore, we expect social issues to come into sharper focus this year, and we have identified mining safety as a key engagement theme for the year alongside stock-specific engagements.

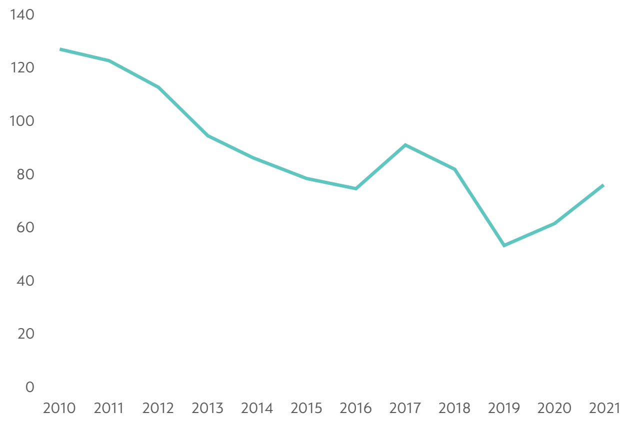
Mining safety

Over the past decade, the number of fatalities and injuries in South African mines has been steadily declining (Figure 29). While there are a number of reasons behind this, one of the key factors has been an acknowledgement of the importance of safety by both management and employees.

We expect social issues to come into sharper focus this year.

During the first period of lockdowns instituted by the SA government in response to Covid-19, all the mines were ordered to shut down, and workers were sent home. This proved to be incredibly disruptive, and on resumption of full-time mining, we have seen an increase in mining fatalities and injuries. Furthermore, with the recent uptick in commodity prices, one cannot ignore the potential for mines and mineworkers to prioritise production, often at the expense of safety.

FIGURE 29: FATALITIES IN SOUTH AFRICAN MINES



Source: Minerals Council of South Africa

As a result of the above, we have embarked on a deep dive analysis into understanding the underlying causes of the recent deterioration in safety incidents across the mining industry. The aim is to go far deeper than a simple metric-driven analysis of safety incidents. A good understanding of ore bodies (opencast vs deep level), geological conditions, level of mechanisation, the make-up of the workforce, managerial remuneration structures and worker and management incentives is essential if one is to do the task properly.

We intend to engage extensively with local and global mining companies to investigate best practices, as well as the DMR (Department of Mineral Resources), the Minerals Council South Africa, union representatives and specialist engineers to obtain a holistic picture. Our aim with this work is to assist engagement with the relevant companies to drive improved outcomes in mining safety. This will be a key focus of our team in 2022.

Near-term engagement priorities

In addition to our regular engagement with companies on ESG issues that are material to each individual company, we have identified the themes below as key engagement priorities in the context of what we believe is currently relevant and important to our stakeholders.

Board diversity and effectiveness

Board diversity and effectiveness remain key engagement priorities. Companies should be headed by effective boards that set the strategy and direction of the company and establish its risk appetite. We will engage with each company individually to understand board dynamics and to advocate for changes where we believe they are required.

We will engage with companies where we are not satisfied with board composition, including where we have concerns around independence, the competence of directors, and the availability of directors to give the level of focus required to be effective in their roles.

We recognise the importance of transforming the boards of companies from both a race and gender perspective, and will continue to advocate for appropriate diversity within boards. We will advocate for cognitive diversity within boards, with a strong mix of financial, technical and commercial skills that meet the individual needs of each business.

Shareholder value

We will engage with companies on matters where we believe that action is required to unlock or enhance shareholder value or where we believe that a company should refrain from activities that are value destructive.

Engagements relating to shareholder value will be company-specific, based on the individual circumstances of each company and the actions required to drive long-term corporate success. We will engage across the full spectrum of issues relating to shareholder value, ranging from business strategy, capital structure and capital allocation to corporate actions and regulatory matters.

Remuneration

We will continue to assess company remuneration policies on a holistic basis, focusing on ensuring that remuneration policies and related compensation plans support a business strategy and substantively align the interests of executive management with key company stakeholders. We will engage with companies where we believe that changes are required, with the ultimate goal of ensuring that company executives are remunerated fairly and reasonably for long-term value creation.

We have embarked on a deep dive analysis into understanding the causes of the recent deterioration in safety incidents across the mining industry.

Diversity and inclusion	An inclusive company culture that leverages diverse views effectively can be an important element in determining a firm's success, especially in volatile and rapidly changing environments. We will continue to advocate for diverse workforces and practices that promote inclusivity, as these attributes can positively contribute to a company's long-term success and can be a source of competitive advantage.
Sustainability reporting	Sustainability reporting remains a key engagement priority. We will monitor the progress of companies that we have engaged with in 2021 and continue to advocate for improvements where necessary. We will evaluate climate-related emission disclosures and engage with companies on the quality of their disclosures, the credibility of their emission reduction plans, and the progress that they are making towards achieving their plans. We will also engage with companies more generally on the availability and quality of their sustainability reports, including the disclosure of material ESG risks and the strategies that are in place to address these risks.
Sustainable finance	We will continue to engage with companies that are looking to raise funding by issuing debt instruments that are linked to sustainable practices, such as green bonds and sustainability-linked bonds. We will engage on how best to structure these issuances such that sustainability targets are reasonable and encourage meaningful action on sustainability, and that the payoff profiles of these instruments are appropriately linked to the achievement of sustainability targets.
Employee safety	We will continue to focus on ensuring that companies have appropriate safety protocols in place to protect their employees from harm. In the coming year, we will focus on employee safety at South African mining companies as we undertake a deep dive analysis to understand the causes of the recent deterioration in safety incidents across the mining industry.

Making a difference

Our discussions with investee companies often address many of the UN's Sustainable Development Goals (SDGs) that have been developed in order to encourage a comprehensive approach to the achievement of global sustainability objectives. The table below provides an overview of the extent to which our priorities for 2022 are expected to address each of the SDGs.

	1 No Poverty	2 Zero Hunger	3 Good Health and Well-Being	4 Quality Education	5 Gender Equality	6 Clean Water and Sanitation	7 Affordable and Clean Energy	8 Decent Work and Economic Growth	9 Industry, Innovation and Infrastructure	10 Reduced Inequalities	11 Sustainable Cities and Communities	12 Responsible Consumption and Productions	13 Action Climate	14 Life Below Water	15 Life on Land	16 Peace, Justice and Strong Institutions	17 Partnerships for the Goals
Board diversity and effectiveness					●												
Shareholder value								●									
Remuneration								●									
Diversity and inclusion					●					●						●	
Sustainability reporting					●	●	●			●	●	●	●	●	●		●
Sustainable finance						●	●		●		●	●					●
Employee safety								●									

Appendix

Evidence of Alignment with the UK Stewardship Code

The table below sets out how our stewardship approach aligns with the 12 principles of the UK Stewardship code with reference to the information published in this report and other reference materials:

Principles for Asset Owners and Asset Managers	Evidence of alignment in this report (section/s)	Other reference material
Purpose and Governance		
1. Purpose, strategy and culture	**About Coronation:** our purpose, our culture and values, our investment offering	**Integrated Annual Report:** our purpose, strategy, values and how we create value for stakeholders **ESG Policy:** our beliefs and approach
2. Governance, resources and incentives	**Our approach to stewardship:** stewardship responsibilities	**ESG Policy:** ownership and governance **Proxy Voting Policy:** ownership and governance **Integrated Annual Report:** combined assurance model **Remuneration Report:** remuneration principles, structure, governance and implementation
3. Conflicts of interest	**Our approach to stewardship:** governance	**Conflicts of Interest policy:** how we identify and manage conflicts within the business
4. Promoting well-functioning markets	**Collaboration and participation:** shaping a sustainable industry	**Integrated Annual Report:** active corporate citizenship
5. Review and assurance	**Our approach to stewardship:** review and assurance	**ESG Policy:** ownership and governance **Integrated Annual Report:** combined assurance model

Principles for Asset Owners and Asset Managers	Evidence of alignment in this report (section/s)	Other reference material
Investment Approach		
6. Client and beneficiary needs	This Stewardship Report evidences our activities and outcomes.	**Integrated Annual Report:** about us, how we create value for stakeholders **ESG Policy:** reporting
7. Stewardship, investment and ESG integration	**Our approach to stewardship** **Tackling climate change** **Case studies**	**ESG Policy:** ESG incorporation
8. Monitoring managers and service providers	**Our approach to stewardship**	**ESG Policy:** investment process, engagement with investee companies
Engagement		
9. Engagement	**Our approach to stewardship:** integration **Engagement and proxy voting:** our engagements in 2021 **Tackling climate change** **Case studies**	**ESG Policy:** engagement with investee companies
10. Collaboration	**Collaboration and participation** **Engagement and proxy voting:** collaborative engagements **Climate change**	**ESG Policy:** engagement with other stakeholders
11. Escalation	**Our approach to stewardship:** escalation process **Case studies**	**ESG Policy:** engagement with investee companies
Exercising rights and responsibilities		
12. Exercising rights and responsibilities	**Engagement and proxy voting:** our voting record in 2021 **Our approach to stewardship:** Proxy voting	**ESG Policy:** voting proxy **Proxy Voting Policy:** proxy voting guidelines

Alignment with CRISA

The following table sets out how our Stewardship policies and approach are aligned to the principles of the Code for Responsible Investing in South Africa (CRISA):

Principle	Evidence
Purpose and Governance	
1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.	**Our spproach to stewardship** (on page 18 of this report) sets out how we incorporate sustainability considerations into our investment process. Our **ESG Policy** sets the guiding principles behind our approach and describes how we incorporate ESG factors into investment analysis and decision making.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities	**Our approach to stewardship** explains how we implement our ownership responsibility through engagement and proxy voting. Our **ESG Policy** sets out our engagement and voting policies. Our **Proxy Voting Policy** outlines the principles that we apply when voting.
3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.	**Our approach to stewardship** sets out how we collaborate. Collaboration and Participation describes the collaborative initiatives in which we participate. Our **ESG Policy** outlines how we collaborate with like-minded investors.
4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.	**Our approach to stewardship** describes our approach to identifying and managing conflicts within investee companies. Our **Conflicts of Interest Management Policy** establishes how we identify and manage conflicts within our business.
5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.	All relevant policies and reports are available on our website, including our: • ESG policy • Proxy Voting Policy • Conflicts of Interest policy • Treating Customers Fairly policy • Annual Stewardship report • Proxy voting reports

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