CORONATION

TRUST IS EARNED™

Stewardship report

2020

SINCE WE OPENED OUR DOORS

1993 — Coronation Fund Managers opens its doors
18 employees

1994 — First democratic elections in South Africa

1996 — Unit trust company formed

1997 — Namibia Asset Management and Unit Trust Managers launched

1998 — Established FinSource (now Maitland)
72 employees

1999 — Founded African Harvest Fund Managers

2001 — Launched Kagiso Asset Management

2002 — Raging Bull Unit Trust Company of the Year

2003 — Best Unit Trust Provider in PwC Survey of SA Bankers
1st SA asset manager to gain GIPS compliance

2004 — Raging Bull Unit Trust Company of the Year

2005 — Raging Bull Unit Trust Company of the Year
Formed Imvula Trust – our B-BBEE partner

2006 — Symmetry Hedge Fund Award: Granite Fixed Income
Established Coronation Business Support Programme for black stockbrokers

2007 — Launch of Global Emerging Markets unit trust fund
Signatory to the UN Principles for Responsible Investment

2008 — Launched 2 Africa strategies

2010 — Ai Index Series: Best Africa Fund Manager

2011 — Morningstar SA: Best Large Fund House
Africa Fund Manager Performance Award: Coronation Top 20 (best SA Equity Fund)
POA Imbasa Yegolide: Equities Manager of the Year

2012 — Morningstar SA: Best Large Fund House
Ai Index Series: Best Africa Fund Manager
Sunday Times Top 100: 3rd Best-performing Company over 5 years
218 employees

2013 — Morningstar SA: Best Large Fund House
Sunday Times Top 100: Top Performing Company over 5 years
Raging Bull: Best SA Management Company 2012
Financial Mail Top Companies: Overall winner

2014 — Morningstar SA: Best Large Fund House
Sunday Times Top 100: Top-performing Company over 5 years
Raging Bull: Best SA Management Company 2013
Financial Mail Top Companies: Overall winner

2015 — Morningstar SA: Best Large Fund House
Raging Bull: Best SA Management Company 2014
Batseta Imbasa Yegolide Equities Manager of the Year; Global Manager of the Year
Financial Mail Top Companies: Overall winner

2016 — Founding member of ASISA Stockbroker Development Programme

2017 — Ai Index Series: Best Africa Fund Manager

2018 — Ai Index Series: Best Africa Fund Manager
Established Intembeko Investment Administrators

2019 — Invested R10m in SA SME Fund
Joined Climate Action 100+
331 employees

2020 — Donated R13m in Covid-19 relief funding
Morningstar award: Optimum Growth – Best Flexible Allocation Fund
Adopted Task Force on Climate-related Financial Disclosures framework

Contents

Foreword

Sustainability matters

2020 will certainly go down as the year in which environmental, social and governance (ESG) matters became a mainstream component of the investment industry. The battle against the Covid-19 pandemic highlighted the extent to which investing in a responsible and sustainable manner matters more than ever.

Wirecard, the German electronics payments company where $2.1 billion went missing, was, arguably, the corporate fraud of the decade. The ensuing collapse of the company leaves uncomfortable questions for regulators, auditors and others who bear the collective responsibility of protecting investors' savings. This, together with the many other corporate governance failures over the past decade, emphasised the urgent need for increased active stewardship by investors. A confluence of this and other significant issues, including rising systemic risks such as climate change and pressing social challenges, has given rise, as it rightly should, to the increased call by investors for greater consideration of sustainability measures in their investment portfolios.

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 that we manage on behalf of our clients. This includes active engagement, voting and shareholder activism.

At Coronation, 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.

Evidence of our ability to deliver attractive long-term financial outcomes for clients is the fact that in excess of 95.3%[1] of our assets have outperformed their benchmarks since inception. At a simple level, when we do well for our clients as investment managers, the additional investment returns that we produce for them is of social benefit. But it goes further than that. By investing for the long term and encouraging growth and investment in businesses, we support visionary leadership and sustainable economic growth. It is for this reason that Coronation was an early signatory to the United Nations-backed Principles for Responsible Investment (PRI) in 2007, being one of the first 10% of asset managers globally to sign on.

[1] As at 30 December 2020; institutional domestic funds with a 10-year+ history

Business 'unusual'

As with any crisis, the Covid-19 pandemic created both risks and opportunities, and, at Coronation, our investment team doubled down to ensure that our clients' portfolios were positioned to benefit from the buying opportunities that presented themselves while remaining resilient to the risks. Overall, in what is an otherwise very bleak environment, I am delighted that performance across all our portfolios was strong over both the short and the long term.

As with any crisis, the Covid-19 pandemic created both risks and opportunities.

Another strong performance year

- *Specialist South African equity*: Our South African Houseview Equity Strategy generated an absolute return of 10.2% for 2020, finishing the year 9.6% ahead of its benchmark.
- *Emerging markets equity*: Our Global Emerging Markets Strategy delivered an absolute return of 24.8% in US dollars, finishing 6.5% ahead of its benchmark.
- *Multi-asset class funds*: Our South African Global Houseview Strategy generated a return of 11.9%, which translated into a 6.1% outperformance of the benchmark.
- *Absolute return funds*: Our South African Global Absolute Strategy, which has a dual objective of delivering real returns, while preserving capital over shorter time horizons, delivered a real return of 5.6% for investors.
- *Global equity fund*: Our Global Equity Strategy finished 2020 delivering a strong absolute return of 15.5% in US dollars, in line with the market.

Adapted client service

- We successfully moved all of our client interactions, report-backs and due diligences online, finishing the year with a greater number of client interactions than in 2019.
- We transitioned our thought-leadership conference, Talking Investments, into a virtual platform through a series of webinars involving subject matter experts from around the globe. This was a real highlight and was exceptionally well received by our clients and broader community of investors. In fact, through this platform, we doubled our reach in our continued efforts to keep our clients informed of relevant and important content. If you missed this series or would like to listen to recordings again, we've made them available on our website.

Our commitment to South Africa

Covid-19 has been a humbling experience for us all, as we have been challenged to make significant adjustments to our lives in the face of overwhelming uncertainty and alarming odds. The plight of underprivileged and marginalised communities became even graver, but, what was heartening was how civil society joined forces with government and the NGO sector to provide relief funding under the auspices of the Solidarity Fund and other well-coordinated schemes. It is with great pride that I can share that Coronation ranked first in the private sector in terms of payroll donations to the Solidarity Fund. Overall, we contributed R13 million to Covid-19 relief efforts, including feeding schemes, support for educators and learners, and cash donations to various charitable organisations. It is an honour and a privilege to work with people and for a company that, along with our clients, care deeply about the communities in which we operate.

Progressing active stewardship

Our third annual Stewardship Report outlines our approach to stewardship and gives an overview of our activities through 2020.

The challenging year showed the critical importance of strong leadership, good governance and clear purpose. It also revealed the resilience of different companies and their ability to manoeuvre shocks and disruptions effectively. In 2020, over and above our reported ESG activities, we engaged with over 360 companies regarding Covid-19. There is no doubt that the expectations that we have placed on boards and management teams have never been higher.

A large part of our work for the year focused on assessing the ability of companies to withstand the immediate economic shock, the adequacy of their capital allocation, the skill of management teams and the manner in which they treated stakeholders, such as employees, customers and the broader communities within which they operate. We increased our dialogue on board composition, tackling issues such as required skills, effectiveness, quality and diversity.

It is with great pride that I share that Coronation ranked first in the private sector in terms of payroll donations to the Solidarity Fund.

One of the biggest challenges to effective engagement with companies on environmental and social matters is consistent, accurate and effective data. We are strong proponents of improving the availability, quality and consistency of ESG data, which is why we have actively engaged with our investee companies around the adoption of the Task Force on Climate-related Financial Disclosures reporting framework. We have also reported on the carbon intensity of our strategies for the first time. We hope to improve on this reporting in the years to come and to reflect progress and real-world change.

Over the past year, we also saw an increasing focus by investors on mapping their investment portfolios to the United Nations Sustainable Development Goals and assessing the extent to which their underlying holdings are contributing to the achievement of these goals.

We have, once again, tried to bring our approach to life in this Stewardship Report through interesting case studies. This includes updates on company case studies highlighted in past editions, given that our engagement efforts often run over several years. These updates are an important illustration of the benefits of a long-term investment philosophy in bringing about positive outcomes over the longer term. As one would expect, these highlight both our successful and unsuccessful engagement endeavours for the year.

I trust you will find the information in our report useful. Our team is energised and committed to constantly improving and expanding our stewardship efforts across all asset classes and geographies, as we strongly believe that it is in our clients' best long-term interests to do so.

Sincerely

Kirshni

Kirshni Totaram




Regarding Coronation


A proud South African company

Headquartered in Cape Town, Coronation is one of the largest independent asset managers in South Africa. We invest the long-term savings of millions of South Africans, and our clients include individuals, pension and provident funds, medical schemes, banks, insurers and other fund managers in Southern Africa. We also manage assets for several international retirement funds, endowments and family offices.

We are an active manager with a single long-term, valuation-driven investment philosophy, and our portfolios are constructed from the bottom up and based on extensive proprietary research.

Citizenship in a time of crisis

We are a proud South African company that is committed to delivering sustainable value to all of our stakeholders. The Covid-19 economic lockdown had a devastating effect on the most vulnerable communities in our society. Our relief response was multifaceted and saw us amplify our advocacy and efforts to mitigate the devastating impact of the pandemic on the local economy to help secure an inclusive society.

ASSETS UNDER MANAGEMENT
R594.7bn[1]

LEVEL 2
B-BBEE CONTRIBUTOR
as measured by the Financial Sector Code

25%
EMPLOYEE-OWNED

95%[2]
OUTPERFORMANCE SINCE INCEPTION

[1] As at 31 December 2020
[2] As at end-December 2020; institutional domestic funds with a 10-year+ history.

COVID-19 OUTBREAK RESPONSE

#1
CORPORATE PAYROLL DONOR TO THE SOLIDARITY FUND

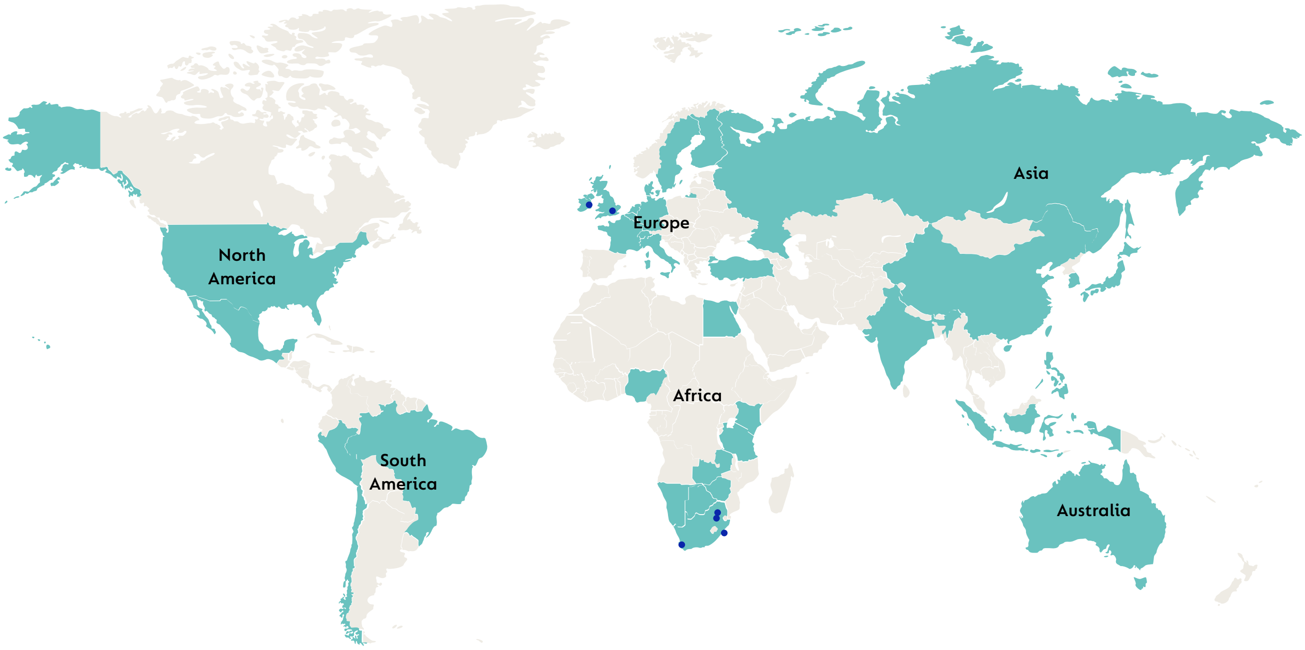
R13m
DONATED TO CHARITIES

31
CHARITIES SUPPORTED

1.8m
FOOD PARCELS DISTRIBUTED

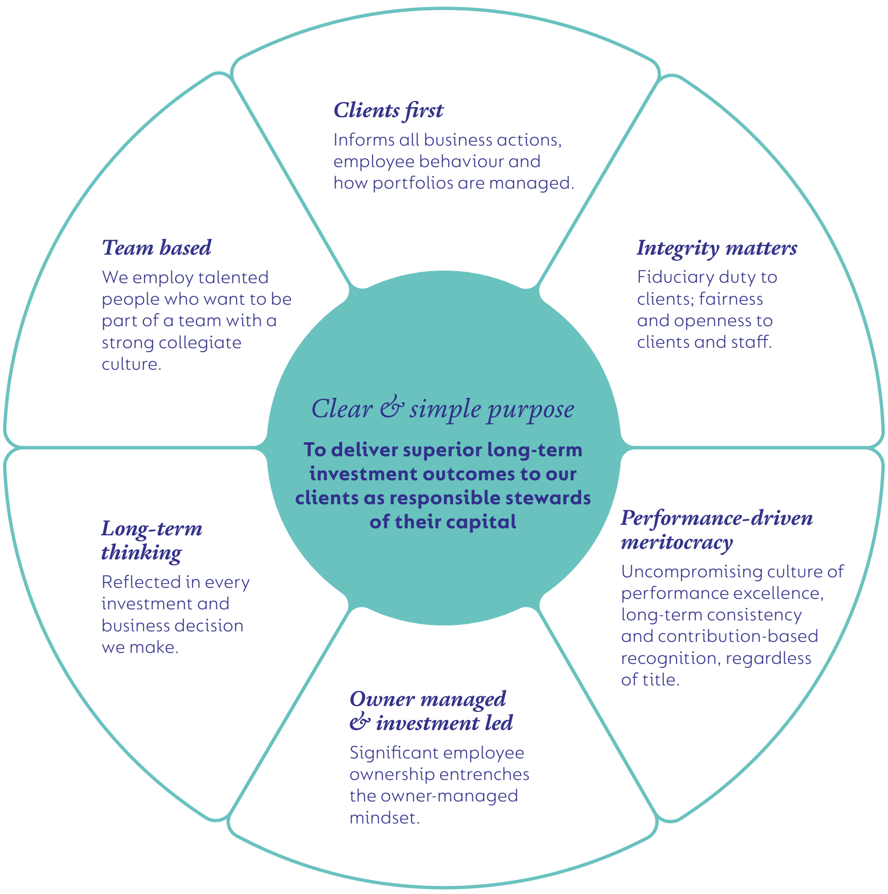
R650k
TO VICTIMS OF ABUSE

WHERE WE ARE INVESTED ON BEHALF OF OUR CLIENTS



● Coronation office

OUR CULTURE AND VALUES



Meaningful social impact

We are very proud of our education initiatives that reach learners through the education cycle – from primary school-level numeracy and literacy skills and tertiary education bursaries, through to empowering adults with consumer education workshops and upskilling small-scale farmers.



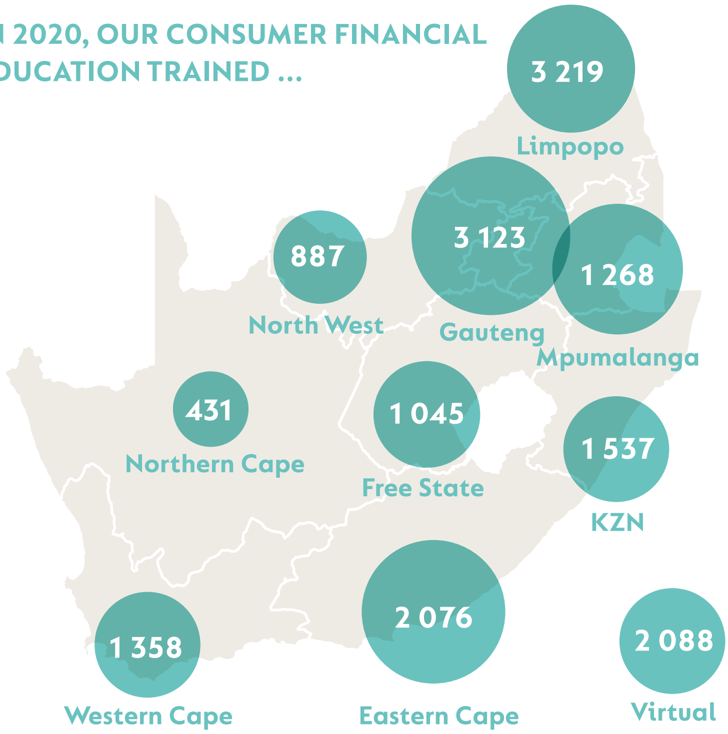
OUR EDUCATION PROGRAMMES HAVE REACHED …

>200 000 learners	**6 420** educators	**5 386** farmers	**494** schools

EDUCATION SUPPORT WAS PROVIDED TO …

>200 students awarded study opportunities	**148** black IFA businesses trained	**>740** girls and women coached and mentored	**>200** internships placed

IN 2020, OUR CONSUMER FINANCIAL EDUCATION TRAINED …



All figures are since programme inception, unless otherwise indicated.

A diverse and inclusive workplace

2020 was a watershed year for many reasons, including the enhanced focus on diversity and inclusion. This has become one of the most pressing topics in the asset management industry, both within our own sector and for the companies in which we invest. As a South African organisation, we inherently understand both the need and the implicit challenges this poses, but we are also keenly aware of the advantages that fostering true diversity can present for any organisation.

Currently, the global investment industry is under close scrutiny, given its poor collective track record on diversity and inclusion matters. But time is running out to remedy this, as almost every organisation around the world agrees that the successful investment company of the future will need to be differentiated through its culture and its ability to attract and retain the best talent.

It's not just what's right; it's proven

There are numerous research studies that continue to show the benefits of diverse and well-balanced workforces and the manner in which they positively contribute to a company's long-term success. Management consulting firm McKinsey's study on diversity in the workplace, 'Delivering through diversity', reiterates the positive relationship between a company's level of diversity and financial outperformance, and makes recommendations on how to develop more effective Diversity and Inclusion (D&I) strategies (whether these are stand-alone policies or part of the company's cultural vision) as a source of competitive advantage. Again, one needs to be mindful that the groups of people in companies responsible for implementing D&I policies are themselves representative of a broader grouping – otherwise there is the risk of merely institutionalising their individual biases.

The research shows that the success factors of top-performing companies include having a strong, sustained and inclusive leadership who is committed for the long term and who ensures that the strategy reflects their own unique company ethos and business growth drivers. An inclusive culture that leverages diverse views effectively will be an important element in determining a firm's success – especially in volatile and rapidly changing environments – much like the one the world finds itself in right now.

Diversity and inclusion at Coronation

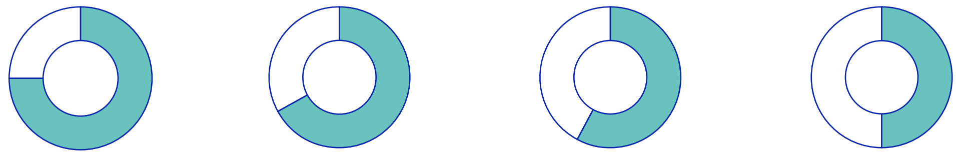
These ideas help explain some of the reasons behind Coronation's success over the years and its ability to seamlessly deal with the challenges presented by the pandemic with speed, agility and empathy. An effective culture is both consistent and strong. It embraces change, and learns from, and adapts to, experiences over time. Our diverse community of individuals and our integrated culture have always been a key part of who we are. Today is no different.

We are a truly meritocratic organisation where difference is valued and supported; and where those differences often combine to create exceptional, high-performance teams. We are proud that our representations across all categories score well above global averages, and we will look to make more progress in many areas.

*Our diversity in numbers**

ETHNIC DIVERSITY

Black individuals represent:



75% OF OUR BOARD OF DIRECTORS

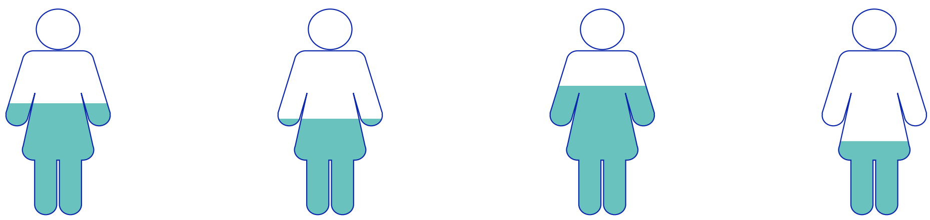
67% OF OUR EXECUTIVE COMMITTEE

59% OF OUR STAFF

50% OF OUR INVESTMENT TEAM LEADERS

GENDER DIVERSITY

Women represent:



50% OF OUR EMPLOYEES

42% OF OUR BOARD OF DIRECTORS

60% OF OUR NEW HIRES

33% OF OUR EXECUTIVE COMMITTEE

South African-based employees as at end-December 2020

Pastoral care is a key part of inclusion

Keeping track of our progress is an important part of our strategy and we will continue to report on this. But numbers alone cannot tell the story of our journey, nor describe our inclusive culture. Fostering diversity and inclusion is a valued practice that is embedded in our everyday work life. It's a promise we make and keep to both current and prospective employees.

We have a unique culture: from the onboarding process and career development, to personal growth and support, we are committed to providing a culture that nurtures growth, equal opportunity and the confidence to express unique viewpoints.

Fostering diversity and inclusion is a practice that's embedded in our everyday work life.

Formal training

Our comprehensive induction programme ensures that new recruits gain a good foothold from which to step into their new roles. In pursuit of excellence, we provide access to study and training opportunities. These include the CFA qualification and access to on-line training in various skills. Our workplace career development initiative, the Aspiring Leaders Project, aims to inspire innovation and build confidence.

The Coronation Mentorship Programme is a potent in-house development initiative. Sixteen senior mentors are available to partner with new employees to provide guidance on how to integrate into the corporate culture, as well as insight into the company's operating environment and the broader financial services industry.

Personal development

One-on-one coaching through independent coaches is available to all employees; while those preferring group work can join one of our gender-inclusive Lean-in circles to enjoy peer support.

Supporting our women

We are passionate about the ongoing development of the women in our business. In 2020, women employees attended GetSmarter Women in Leadership courses from Stellenbosch, Oxford and Cambridge universities. Of our women employees who took up the initiative, 66% were black. In 2020, we became a signatory to the United Nations Women Empowerment Principles – a sign of our commitment to breaking gender barriers.

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Balancing work and life

As firm believers in work-life balance, we acknowledge the challenges of juggling family commitments with work, especially for new parents returning to work after maternity/paternity leave. Our Parental Transition Coaching programme is available to all colleagues who are expectant and new parents. It is geared to help them successfully manage this transformational life phase in the context of their professional life. +

Stewardship in focus

The year in review

Any review of 2020 is inevitably a review of the devastating global effect of the Covid-19 pandemic. It placed the importance of our role as long-term stewards of our clients' capital front and centre. At its core, our stewardship responsibility requires us to focus on the long-term prospects of the companies in which we invest. We do so by considering the financial health and prospects of each company, as well as the impact that their actions have on stakeholders, the environment and broader society.

The Covid-19 crisis presented a unique challenge – while our focus remained on the long term, we needed to consider the shorter-term impact that hard economic stops would have on each of the businesses in our portfolios, and the extent to which companies had the financial resilience to survive through a period of extreme uncertainty. From a corporate perspective, survival through the crisis became the crucial measure of long-term sustainability.

The severity of the crisis required us to fully understand the implications for each of the companies in which we were invested. We performed a stock-by-stock impact analysis to ensure that we understood the risks to our clients' portfolios and were appropriately positioned to deliver long-term value to clients, in line with our stewardship responsibility.

This included understanding the financial impact on each company and the measures that they could take to protect their balance sheets. We also considered how they treated their key stakeholders, such as employees, suppliers and customers, through the crisis. We believe that the Covid-19 crisis will, in time, become a study of how companies were forced to make difficult trade-off decisions when balancing the need for financial survival with their broader responsibilities, in the face of extreme uncertainty.

Despite this shift in emphasis in 2020, we continued on our stewardship journey by increasing our depth of knowledge on key sustainability issues and expanding the range of issues that we tackled with investee companies. This meant that, while our focus on driving good corporate governance remained a key pillar of our approach, we did not lose sight of the broader objectives of encouraging responsible environmental and social practices within our investee companies. This is reflected in the increased proportion of engagements of an environmental nature relative to prior years.

The rise and rise of sustainable investing

In a year that was so disrupted by lockdowns that changed the way in which we live and work, it was striking to note how the industry's focus on stewardship, environmental, social and governance (ESG) factors, and sustainable investment accelerated at an even greater rate than in prior years.

There were several contributing factors, such as a continuation of industry and regulatory efforts that preceded the pandemic. However, the pandemic itself created a heightened appreciation of the importance of sustainability. In terms of the economic and societal impact, the crisis highlighted the role that companies could play in assisting their stakeholders through the crisis. At a more systemic level, the pandemic demonstrated the new risks and complexities that we face in such an interconnected world, with clear parallels to, for example, the global climate crisis. Covid-19 has therefore placed sustainability in even sharper focus.

In 2020, we saw signs that the industry is starting to move towards a common set of standards in its approaches to tackling sustainability-related matters. Some of the more material developments that took place include updates to stewardship codes and the increasing adoption and alignment of corporate disclosure standards. A lack of consistency in company-reported sustainability data is one of the most pressing challenges facing the industry.

Active ownership

We continued to employ active ownership techniques by engaging robustly with investee companies on material issues, and by enforcing our rights as shareholders through proxy voting at shareholder meetings. Engagement with companies and voting at shareholder meetings are both powerful tools that we consider to be an essential part of our active management offering. Effective engagement drives responsible corporate behaviour, which, in turn, leads to greater sustainability and, ultimately, higher long-term returns for our clients.

We believe that we can have a greater impact by investing in companies that have scope for improvement in their ESG practices and exercising our influence to bring about the necessary changes. As some of our case studies later on in this report show, our approach has been effective and has brought positive change to many of our investee companies.

To this end, in 2020 we held 256 material engagements with 121 companies on a range of ESG issues, with an increased focus on climate-related matters.

2020 CALENDAR YEAR

R594.7bn
ASSETS UNDER MANAGEMENT

256
NUMBER OF ENGAGEMENTS

121
NUMBER OF COMPANIES

25
NUMBER OF THEMES

48%
ENGAGEMENTS THAT ARE ONGOING

6 466
VOTING RESOLUTIONS

524
SHAREHOLDER MEETINGS

Source: Coronation

We also continued to vote in line with our proxy voting principles, and voted on 6 466 resolutions across 524 shareholder meetings in 2020. We firmly believe that active engagement that is 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.

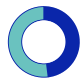
Active ownership is, therefore, a core part of our stewardship approach, which we apply consistently across the full range of investment products that we offer to our clients.

100%
Assets we engaged in client portfolios

248%
Increase in engagements on environmental matters

>360
Companies engaged regarding Covid-19

Shareholder meetings
Dissenting votes
No dissenting votes



Driving standards for sustainability reporting in South Africa

Our ability to drive meaningful environmental change requires regular and informed engagement with the companies in our investment universe. We now expect companies to provide robust disclosures of climate risks and opportunities, so that we are able to assess how well positioned they are to manage those risks and the transition to a low-carbon economy.

Starting in the fourth quarter of 2020, we have sent letters to 89 listed South African companies to explain these issues and to urge them to adopt the Task Force on Climate-related Financial Disclosures (TCFD) recommendations as part of their reporting process (see the case study on page 70). This will be a complex, multi-year initiative; however, we are encouraged with the response that we have received thus far.

We will follow through on this initiative in the coming years by urging corporates to commit to this disclosure standard and implement it properly. For companies that adopt the TCFD, we will engage with them to ensure that they have credible environmental targets and that they follow through on these targets with the correct actions and appropriate disclosure.

PORTFOLIO CARBON INTENSITY VS BENCHMARK

For every $1m in revenue, the number of tonnes of CO_2e[1] emitted by the underlying holding is:

	SA HOUSEVIEW EQUITY	ACTIVE GLOBAL EQUITY	GLOBAL EMERGING MARKET EQUITY
portfolio	305	41	35
benchmark	339	155	264

Sources: MSCI, Coronation

[1] *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*

To align our business with the commitments we ask of our investee companies, we have formally included natural capital in our corporate value-creation activities. As the first step on this journey, we included the findings of our first operational carbon footprint analysis in our integrated report for 2020. We will continue to use the learnings from this exercise to improve our operational efficiencies to soften and offset our impact on the environment. We are working towards formally reporting in terms of the TCFD in the next 12 months.

Expanding our global sustainable offering

While we actively engage all our investee companies in order to drive positive change, we also recognise and respect that many investors do not wish, or are unable, to have exposure to certain types of companies.

In 2020, we launched the Coronation Sustainable Global Emerging Markets (GEM) Fund. This is an emerging markets equity fund that builds on our existing emerging markets capability, which has delivered significant alpha to long-term investors. The Sustainable GEM Fund is designed to meet investor demand for long-term outperformance from an actively managed portfolio of sustainable investments, using a more conservative risk budget than our existing GEM offering. This follows the 2019 launch of the Coronation Global Sustainable Equity Income Fund. Both 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.

The Sustainable GEM and Global Sustainable Equity Income funds follow the same approach to stewardship and active engagement that we apply across our business, by actively encouraging responsible business practices by investee companies.

Governance matters

In 2020, governance matters continued to be a key focus area for our investment team, with over 60% of our investee company engagements linked to governance concerns. We continued to advocate for improvements in corporate governance across a range of issues, with board composition, executive remuneration and shareholder value being key topics of engagement.

Executive remuneration was once again a focal governance concern, with one third of our governance-related engagements linked to remuneration. We focused on important issues, such as enrichment versus compensation, alignment with shareholders, and whether remuneration structures are sufficiently long term in nature and set against appropriate key performance indicators. We continued our push for the inclusion of malus and clawback mechanisms in all remuneration structures and made further progress, with a number of companies either including or committing to include these provisions in their remuneration policies.

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

Social considerations

The Covid-19 crisis highlighted, and in many ways exacerbated, some of the major social and political challenges facing the global community. Many of the issues that companies faced had a social dimension, given that the issues centred on protecting the health and welfare of individuals affected by the virus and the response. The sudden and brutal economic impact of lockdowns meant that many companies were forced into survival mode. These companies needed to balance their need to survive the crisis with the need to act in the interests of their stakeholders, such as their customers, employees and suppliers, to protect the long-term viability of their businesses. All of these decisions had very real and tangible impacts on the lives of the people that were affected by them.

The economic impact of lockdowns meant companies had to balance their need to survive with the need to act in their stakeholders' interests.

We engaged extensively with our investee companies throughout the Covid-19 crisis to understand not only the financial implications that lockdown would have on their businesses, but also their operational response, including the implementation of workplace safety protocols and employee well-being initiatives.

Additional areas of focus during 2020 included engagements with companies on stock-specific issues relating to labour relations, health and safety standards, empowerment, and the management of community relations by mining companies.

Keeping you informed

As part of our stewardship commitment, we provide regular updates to clients on our wider stewardship activities, including our engagement and voting activities, and updates on ESG matters. We communicate the results of these activities in our client interactions, regular client reporting and through our annual stewardship report. We also work with our clients individually to ensure that we provide them with the information that they need to fulfil their stewardship objectives, as well as any regulatory reporting required.

As a Principles for Responsible Investment (PRI) signatory, we report publicly on our responsible investment activities each year. These Transparency Reports, together with the Assessment Reports, are accessible to signatories on the PRI Data portal.

Our voting activities are disclosed and updated on a quarterly basis in the stewardship section of the Coronation website, and annually in this report.

Collaborating with others

Institutional investors are now, more than ever, working collaboratively to effect positive change at investee companies. Last year, we collaborated with like-minded investors on specific company issues across the various geographies in which we invest. These collaborations covered a range of issues, including board independence, capital management, corporate activity and environmental reporting.

We continued to engage proactively with industry bodies and policymakers to ensure that we help develop an environment that improves outcomes and protects the long-term savings industry. In 2020, a significant proportion of our collaborative efforts focused on working with industry bodies to assist with understanding the impact of lockdowns on the South African economy, and to advocate for appropriate policy measures and responses.

Signatories to multiple codes

Coronation remains a signatory to multiple responsible investing codes, including the PRI and the Code for Responsible Investing in South Africa. In addition, we adhere to the principles denoted in the updated UK Stewardship Code. As a signatory to these codes, we work very hard to ensure that we continue to take cognisance of, and champion, their tenets and principles.

Top of the class – Principles for Responsible Investment 2020

Our annual participation in the PRI's annual reporting and assessment review is an important benchmark that enables us to assess how we compare to global best practice, and to identify areas where we can improve our process. In 2020, we achieved the highest PRI rating of A+ across all assessment categories, exceeding the median participant score across every category. We have worked hard over the years to develop and improve our stewardship practices and are encouraged to receive recognition for the progress we have made.

The road ahead

There can be no doubt that stewardship and sustainable investment practices are now mainstream requirements for the investment industry across the globe. It is no longer sufficient for investment managers to consider the two dimensions of risk and return. Instead, investment managers must consider the impact that companies have on their external environment and factor this into their investment decision-making and engagement processes.

At Coronation, we believe that these objectives are not mutually exclusive; instead, we view responsible corporate behaviour as entirely consistent with long-term corporate success. We also believe that our approach to active engagement with investee companies is the most effective way to drive meaningful, positive, long-term change within the corporate sector.

However, we are not naïve about the challenges that the industry is facing, and will continue to face, in tackling this incredibly complex and constantly evolving space. We believe that alignment with a set of credible disclosure standards remains a critical area that the industry must get right in the coming years.

We further note that the flood of new ESG investment products into the market highlights the need for effective product disclosure standards, such as the EU's Sustainable Finance Disclosure Regulation, to address the risk of potential 'greenwashing'.

As we have done for many years, we continue to review, interrogate and enhance our skills, understanding and processes so that we can fulfil our obligations as responsible stewards of our clients' capital to the fullest extent. We believe that this will be integral to achieving our goal of delivering significant and sustainable long-term benefits to our clients, to our stakeholders and to the communities in which we operate.+

Tackling climate change

Climate change is considered by many to be the defining challenge of the 21st century, with significant physical, social and economic implications for the global population. The scale and complex nature of climate change make it a unique challenge, especially in the context of economic decision-making. Climate-related risks are systemic and will have severe financial implications for all economies, asset classes, industries and companies, albeit to varying degrees.

Our approach

Climate change is a material investment risk that we factor into our investment process, as we do for all other risks that affect the long-term value of our investments. We also understand the critical role that allocators of capital such as ourselves can play in driving companies to improve their climate-related practices and, hence, mitigate the impacts of climate change. Our approach to tackling climate change uses the same three-pronged approach of integration, engagement and collaboration that we apply to our other stewardship activities. However, the lack of reliable and consistent climate-related data is a material concern and is therefore a key additional area of focus.

Climate data

Our ability to drive meaningful environmental change requires regular and informed engagement with the companies in our investment universe. This, in turn, requires robust, comparable and reliable climate-related disclosure to assist with fundamental company analysis, and to provide comprehensive portfolio-level views of climate-related risks and exposures. This includes information that can assist in the understanding of transition risks (such as stranded assets), physical risks and liability risks.

We gather information from various sources, including company reports, third-party data providers and, most importantly, through direct engagement with companies to understand their climate risks and mitigation efforts. This information is interpreted by our investment analysts and integrated into their assessments of the long-term fair values of the companies that they analyse. A lack of consistency in company-reported sustainability data is one of the most pressing challenges facing the industry. We became an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD) in 2019 and we encourage companies to adopt disclosure practices that are in line with the TCFD's recommendations so that investors can better assess the robustness of a company's strategies (see the case study on page 70).

Integration

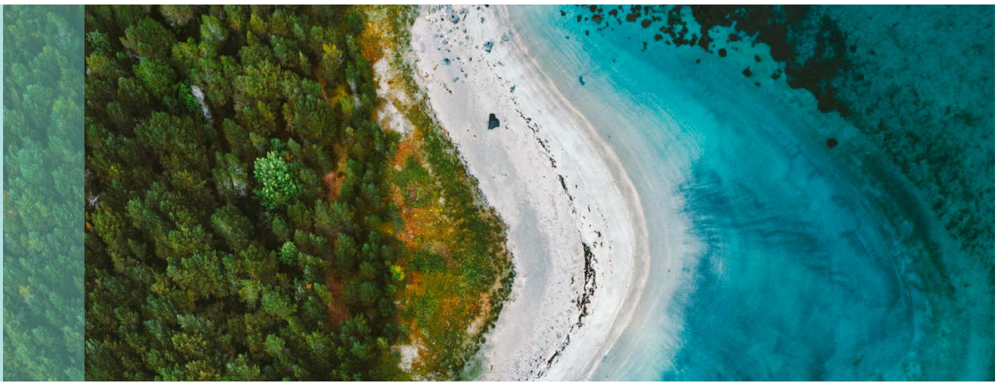
As a fundamental investment manager, material ESG factors are integrated into the valuation and investment decision-making process for every security in the investment universe. This includes a detailed consideration of material climate-change risks and opportunities.

By including the analysis of climate change in the investment process, our investment analysts have a better understanding of the risks and opportunities to which companies are exposed. This means that our fair-value estimates for companies take into account the long-term opportunities, costs and risks associated with their climate impact and risk mitigation strategies. The result is that capital can be directed towards those companies that are aiding the transition, and away from companies that do not.

It also highlights those companies that are not adequately addressing their climate change risks, and with which greater engagement is required. We tend to focus predominantly on those companies where the externalities are large and known. Fossil fuel producers, for example, are exposed to policy, technology, shifting demand, market, and other climate change transition risks.

Our aim is to ensure that we gain a proper understanding of the investment risks and opportunities presented by climate change.

As a long-term focused investment company, all our analysts are required to assess these impacts on the companies that they cover and to factor potential impacts into their valuations. This ensures that potential costs, risks and opportunities are reflected in our investment decision-making process.



We include climate change analysis in our investment process to better understand the risks that companies face.

Our understanding of individual companies and the countries in which they operate provides context as to what the most critical ESG issues are. We are cognisant that companies operate within different contexts, have different underlying business models, and are best dealt with on a case-by-case basis. This includes consideration of the geographical locations in which a business operates, its activities, supply chain effects and carbon emissions.

In addition to our detailed bottom-up analysis, we also pay significant attention to the overall exposures of our portfolios to macro risks, including risks related to climate change. This approach aims to ensure that we manage the overall risk exposure at the portfolio level and guard against unintended risks.

Engagement

We have a long and successful track record of engaging with companies on their ESG practices, including using our voting rights to support shareholder proposals to address long-term risks. Since all of the change that we can drive comes from our active ownership policies, we do not believe in automatically excluding investments from our universe. Rather, as an engaged owner, we ensure that we have well-informed and carefully considered views that assist us in advocating for change in corporate behaviour in line with a sustainable future.

When we engage on important environmental issues, we do so by carefully considering the possible unintended consequences.

This includes asking boards and senior management teams to commit to implementing strong governance frameworks that clearly articulate board accountability and oversight of climate change risks and opportunities. We also look for clear emission reduction targets, credible plans to meet these targets and consistent disclosure on their progress towards achieving their objectives. This enables us and other stakeholders to drive accountability within companies on their climate-related activities.

When we engage on important environmental issues, we do so by carefully considering the possible unintended consequences if an issue is not addressed responsibly. For example, we believe that the disposal of thermal coal assets by listed companies could result in materially worse lifecycle emissions if ownership is transferred to unlisted or non-public entities.

A listed owner is subject to greater transparency and oversight from both regulators and investors and, hence, may represent a better opportunity to manage down both the exposure to coal assets and its production in line with an orderly, more sustainable transition.

As with all ESG 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. However, it is important to recognise that engagement can be challenging and gaining support from company boards takes time.

Collaboration

Institutional investors are now, more than ever, working collaboratively to drive change at companies, particularly on systemic issues such as climate change. We collaborate with industry bodies and like-minded organisations to advocate for more sustainable climate-related practices where we believe that such a collaboration will be effective. This includes our role as a signatory to the Climate Action 100+ coalition, which is an investor-led initiative that focuses on driving positive environmental change in companies that are systemically significant greenhouse gas (GHG) emitters.

We will also support resolutions brought by other investors that we believe can positively impact disclosure practices, corporate behaviour and generally have a favourable impact on society at an acceptable cost.

CLIMATE SHAREHOLDER PROPOSALS

Company	Shareholder proposal	Vote rationale
YUM Brands Inc.	Report on supply chain impact on deforestation	FOR: shareholders will benefit from additional information on how the company is managing this impact
ABSA Group Ltd.	Provide shareholders with an initial assessment of the company's exposure to climate risk	FOR: enhanced disclosure will help investors better understand the associated risks
Nedbank Group	Adopt and publicly disclose an energy policy	FOR: greater disclosure is in the best interests of shareholders

Source: Coronation

Driving real change

The Paris Climate Agreement, which was negotiated at the 2015 United Nations Climate Change Conference (COP21), set a long-term goal to limit the increase in the global average temperature to well below 2°C above pre-industrial levels, and to attempt to limit this increase to 1.5°C in order to substantially reduce the risks and impacts of climate change. To achieve this, drastic reductions in global carbon emissions are required.

In 2019, the United Nations Environment Programme Emissions Gap Report warned that, unless global GHG emissions fall by 7.6% each year between 2020 and 2030, we will not achieve the objectives of the Paris Climate Agreement.

This, in turn, requires large GHG emitters to commit to lowering their emissions in line with the Paris Climate Agreement's objectives, and to then follow through and make the necessary changes to meet their commitments. The investment management industry can play a key role in this transition through its ability to influence companies to ensure that they set appropriate targets, disclose their progress, and follow through on their commitments.

However, real progress toward emissions reduction is only made when companies change the way in which they operate on the ground. While this may sound obvious, there is a real risk that statistical reporting on decarbonisation within investment portfolios does not necessarily mean that decarbonisation is happening in the real world.

Decarbonisation strategies

There are two ways to decarbonise a portfolio.

Divestment

The simplest is to underweight or fully divest from high-carbon stocks and to replace them with low-carbon assets. Divestment advocates argue that it is quick and visible to the public and sends a strong political signal.

However, divestment only has 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 cost of capital for a company will furthermore depend on the extent to which other investors are willing to fund companies without regard to their carbon emissions. In practice, high carbon emitters often generate excess cash, and do not need to rely on investment markets for further funding.

Divestment only has a real-world impact if it creates genuine incentives for companies to change their ways.

As an investment firm, Coronation prefers engagement over the divestment route. However, we are very happy to manage portfolios with exclusions as directed by clients, but adjustments need to be made to mandates to cater for this. It is important that there is a clear understanding and recognition by our clients of the impact of such exclusions on the assets held within the portfolios and on the potential investment returns generated over time. This is especially important in countries with a small investable universe, such as South Africa.

Active ownership

The second approach focuses on driving decarbonisation through active engagement with investee companies. This involves persuading companies to implement a Paris-aligned decarbonisation strategy. 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 more sustainable transition. Ultimately, this provides a tangible, on-the-ground approach to achieving a just climate transition.

Active ownership is fundamentally a forward-looking activity because it requires companies to set credible emission targets, to plan accordingly, and to deliver on these plans. We sometimes find that companies make climate-related commitments without clear plans on how they will meet these targets. This requires robust and ongoing engagement to hold companies accountable to their commitments.

As a large investment manager in the South African market, we will engage with many of the large, listed companies on their climate-related practices regardless of whether or not we invest in them. Thus, even if we are not current owners of a stock, we are able to exert influence by engaging with potential acquisitions.

Reporting on decarbonisation

It is only possible to judge the success of decarbonisation efforts if we are able to 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.

Portfolio decarbonisation can happen without real-world emissions reduction taking place.

Portfolio decarbonisation versus real-world decarbonisation

The carbon intensity of a portfolio is the weighted sum of the carbon intensity of the portfolio's underlying holdings. Portfolio decarbonisation can therefore be defined as the reduction in portfolio-level carbon intensity over time. However, portfolio decarbonisation can happen without real-world emissions reduction taking place.

A singular focus on portfolio-level carbon intensity can create perverse incentives for investors to artificially demonstrate that their portfolios are reducing portfolio emissions in line with decarbonisation targets. However, this approach runs the risk of losing sight of the bigger goal of driving real-world, on-the-ground decarbonisation.

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. Therefore, a mechanistic approach to measuring and reporting on climate-related information can drive investment behaviour that can be contrary to the goal of effecting real-world change. For example, there is a very real risk that this 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, in reality, 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.

Measuring impact

Our clients rely on our reporting to understand how climate-related risks and opportunities are managed within each of their portfolios. We use the TCFD framework to help manage information around climate-related risks. One such a recommendation is that that we report the weighted average carbon intensity of our investment portfolios.

We measure what are known as scope 1 and 2 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 can be compared with the emissions intensity of our benchmark.

We use the TCFD framework to help manage information around climate-related risks.

These direct measures are too narrow to provide a genuine indicator of winners and losers in the years ahead. They do, however, act as a useful first pass in terms of identifying exposure to the big emitters, which can be used as a guide to direct engagement activity.

When measuring the effectiveness of our approach, we focus on understanding and communicating the context within which the portfolio is operating. We are therefore 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.
- As mentioned before, a major concern is the lack of robust and comparable climate-related disclosures by companies, which should improve over time (see page 70).

Carbon reporting on our portfolios

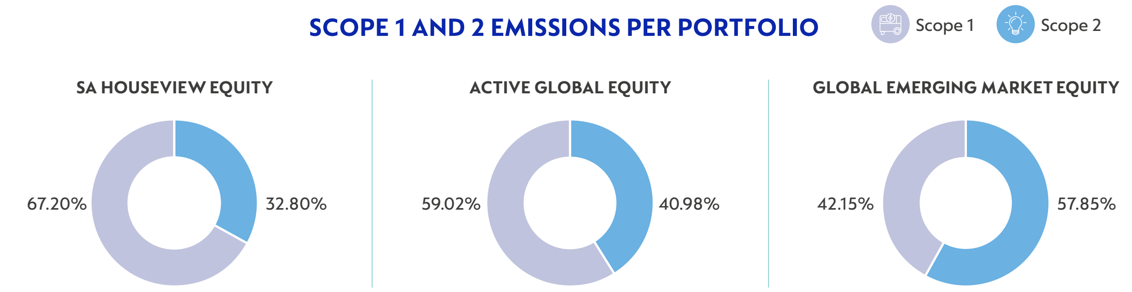
The carbon intensity of our key strategies is illustrated overleaf. All strategies, at present, have carbon exposure levels below that of an investment in the appropriate index tracker for each strategy. These values should be looked at in tandem with the regular engagements we have to understand how companies plan to reduce their emissions. The carbon intensity of a portfolio is calculated as the estimated number of tons of carbon emitted for every $1 million in revenue generated by the weighted average of the portfolio's underlying holdings.

PORTFOLIO CARBON INTENSITY VS BENCHMARK

For every $1m in revenue, the number of tonnes of CO_2e (tCO_2e)[1] emitted by the underlying holding is:

SA HOUSEVIEW EQUITY	ACTIVE GLOBAL EQUITY	GLOBAL EMERGING MARKET EQUITY
305 portfolio	41 portfolio	35 portfolio
339 benchmark	155 benchmark	264 benchmark

SCOPE 1 AND 2 EMISSIONS PER PORTFOLIO

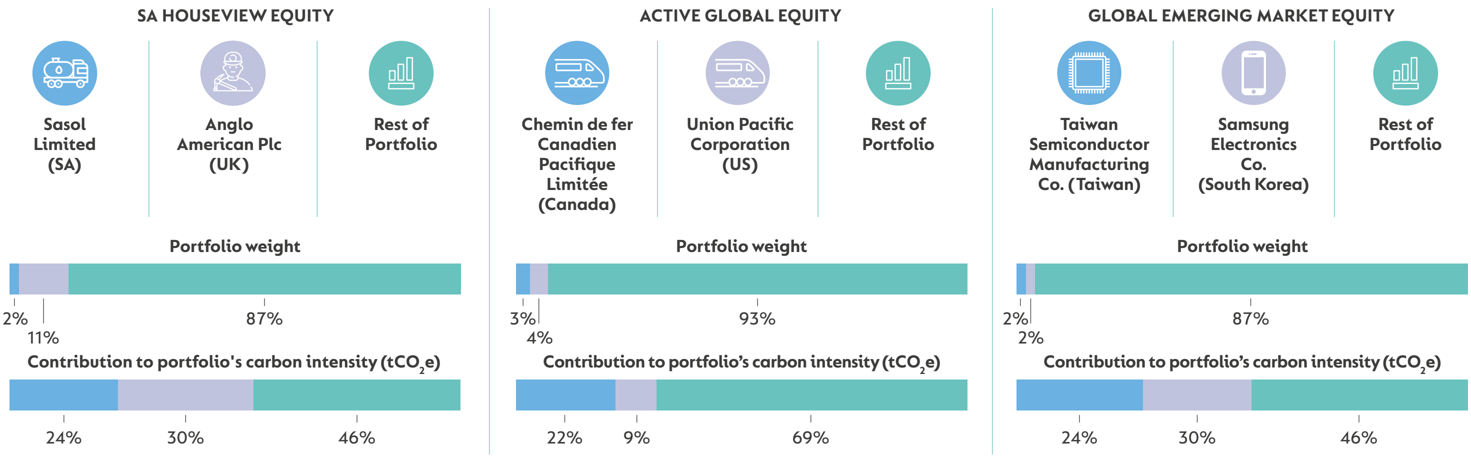


Sources: MSCI, Coronation

Within these portfolios, we do have exposure to businesses that would be considered to be carbon intensive. We are comfortable with these holdings as we have engaged with them in a proactive manner about the path forward in reducing their carbon emissions in a just and responsible manner.

LARGEST CONTRIBUTORS TO PORTFOLIO CARBON INTENSITY

Contribution to total portfolio intensity



Sources: MSCI, Coronation

[1] *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*

It is 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 both sectors, copper is a critical component, given its unrivalled thermal and electrical conductivity. Platinum group metals (PGMs) are also required to enable a shift towards cleaner air and general decarbonisation. PGMs are expected to 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 (over two thirds 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.

Scope 3 emissions

More interesting – and for future focus – is the exposure of our holdings to emissions all along the value chain. These are known as scope 3 emissions and 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. Unfortunately, scope 3 disclosures are not uniform and are often not accurately reported by companies.

Conclusion

We are taking action today based on our understanding of the current situation and challenges. We constantly monitor new developments and our approach to climate change will evolve over time. We will continue to invest resources into understanding climate-change risks and opportunities across our portfolio, because we think it makes investment sense.

This approach is consistent with seeking to achieve a maximum risk-adjusted rate of return. We will also continue to keep our clients informed as our approach to climate change evolves. Our endgame remains, as always, to deliver consistent long-term returns for our clients, but at the same time to be active players in ensuring a sustainable planet, where our clients and future generations are able to enjoy those returns. +

State of the sustainability nation

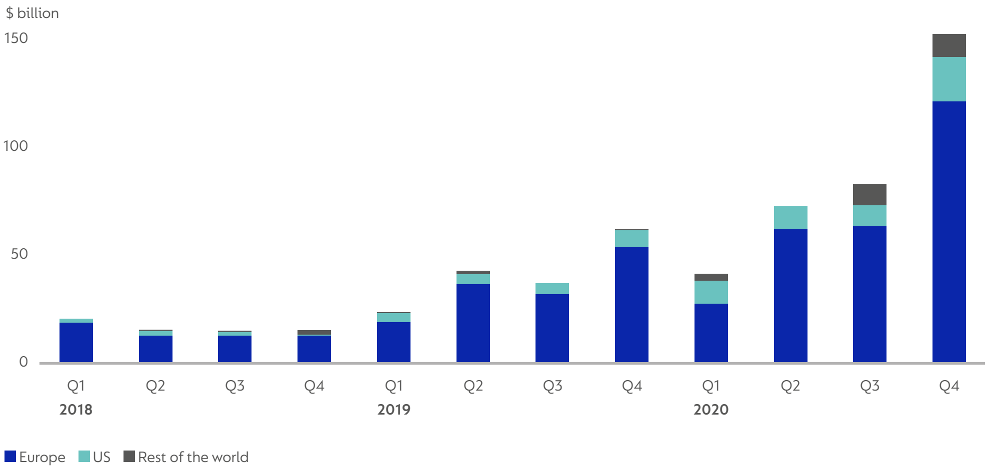
With the impact of the Covid-19 pandemic dominating personal lives, as well as corporate priorities, during 2020, it was expected that many entrenched global trends would lose momentum or change direction. However, 2020 proved to be a watershed year for sustainability in investment markets.

The focus on stewardship, environmental, social and governance (ESG) and sustainability has ramped up exponentially in recent years, and 2020 was no exception. Capital allocators and asset managers are recognised as playing a vital role in driving positive environmental and social change by ensuring that investee companies act responsibly and employ business practices that are sustainable over the long term. This responsibility extends across the financial services industry, from pension funds that are increasingly incorporating sustainability into their long-term investment objectives, to banks and other lending institutions that must consider the impact of their lending practices on the environment and society.

Despite the economic effects of lockdown contributing to extreme market volatility in 2020, investment flows into sustainable products reached record levels during the year. Rules, regulations and codes of conduct were also updated during the year, further clarifying the roles and responsibilities of companies, asset owners and financial services providers with respect to sustainability.

The scope and challenges that are associated with driving greater focus on sustainability-related matters make it an incredibly complex undertaking. While some areas are seeing a convergence in approach (such as the increasing adoption of the Task Force on Climate-related Financial Disclosures [TCFD] framework as a corporate disclosure standard), there are also areas that are becoming more complex to navigate or where there is divergence in approaches and standards. Sustainability requirements for companies and investors are often tied to national priorities, and the complexity of the future sustainability landscape will depend on the extent to which convergence takes place at a global level.

QUARTERLY GLOBAL SUSTAINABLE FUND FLOWS



Source: Morningstar

There is a wide range of challenges that must be tackled by the financial services industry in order to meaningfully address sustainability. These include:

- Clarifying the roles and responsibilities of asset owners and asset managers. These are typically captured in stewardship codes or codes of conduct. Asset owners are increasingly including sustainability objectives in their investment mandates, in addition to traditional risk-and-return objectives.
- Navigating the different philosophies around how best to achieve sustainability, and how to manage trade-offs that may exist between competing environmental and social priorities. Financial market participants have divergent views about the best ways to achieve long-term sustainable outcomes – a notable example of this is the question of whether active ownership or divestment is a more effective strategy to drive positive change.
- Understanding the multitude of sustainable investment approaches, ranging from ESG integration and norms-based or best-in-class investing, through to impact investing, and how to classify individual strategies. This links to concerns around the disclosures that are made to investors, and the risk of funds being misrepresented as sustainable ('greenwashing'), or sustainability strategies not being properly understood by investors.
- The need for reliable and consistent disclosures by companies on important sustainability metrics. This is analogous to the reliance that investors place on accounting standards in order to understand the financial position of a company. Investors require a set of reliable sustainability metrics to ensure that they can properly evaluate the ESG and sustainability profiles and risks inherent in companies.
- The increasing role of ESG data providers and the ESG benchmarks that feed off these providers. ESG ratings on the same companies can vary markedly across different ratings providers and the choice of provider can therefore have a material impact on the sustainability rating of portfolios and on investment decision-making.
- The approaches that countries take to tackling sustainability can vary significantly, and these, in turn, have implications for the sustainability obligations of companies and financial market participants in different countries.

In this note, we look at some of the more significant changes that took place in the sustainable investment market in 2020.

National commitments

The 2015 Paris Climate Agreement, which aims to limit global warming to less than 2°C, seeks to strengthen the response to climate change by, inter alia, making financial flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development.

2°C **The 2015 Paris Climate Agreement global warming target.**

Many governments have rapidly followed through on their commitments. In 2019, the UK, New Zealand and France made laws that commit them to achieving net-zero emissions by 2050, with Sweden targeting net-zero by 2045. China, Japan and South Korea made similar promises in 2020, although their targets have yet to become law.

Signatories were expected to announce new climate pledges at the UN COP26 Climate Summit in November 2020, although this was postponed to 2021 as a result of Covid-19.

Under international pressure to do more to address global warming, President Xi Jinping made a commitment at the virtual UN General Assembly in September 2020 to reduce China's emissions. He also pledged to accelerate China's timetable for reaching peak carbon emissions and to reach 'carbon neutrality' by 2060.

With the US rejoining the Paris Accord in 2021, it is likely that we will see similar climate-related commitments from the Biden-Harris Administration, with a consequential impact on the responsibility of the US financial sector to drive sustainable outcomes.

Global codes increasingly put the onus on the investment community to act as responsible stewards of client capital.

Codes and principles of investing

There are various global codes setting out the roles and responsibilities of asset owners and service providers. A number of these have been revised in recent years, increasing the onus on the investment community to act as responsible stewards of client capital. Priorities vary between countries; for example, environmental priorities tend to dominate in developed markets, while social and economic priorities take precedence in developing countries.

UK Stewardship Code

The UK Stewardship Code underwent a fundamental redraft in 2020. The revised code sets an expectation that ESG issues should be included in stewardship and investment decision-making processes. The Code also widens the application of stewardship practices to all asset classes and encourages better communication with clients.

The new Code includes 12 principles, each with an associated outcome that must be reported on, providing concrete examples of what has been delivered. There is a mandatory requirement for an annual stewardship report to be published. This report must go beyond stating policies to reporting on actual stewardship activities that were undertaken, and the outcomes achieved.

The 12 new principles cover two broad areas – principles 1 to 8 address the foundations for stewardship, while principles 9 to 12 focus on the practical discharge of engagement responsibilities.

EU Shareholder Rights Directive II

The EU's Shareholder Rights Directive II seeks to promote, inter alia, common stewardship objectives between institutional investors and asset managers. The Directive initially came into force in June 2019, with a second-phase implementation in September 2020. It aims to improve the level and quality of engagement between investors and investee companies, and to increase disclosure on how investment decisions contribute to investee company performance. Investors are required to have an engagement policy and report annually on:

- How engagement is integrated into investment strategies when they are shareholders in EU investee companies.
- The manner in which dialogue with investee companies is conducted.
- How investee companies are monitored in respect of their financial and non-financial performance.
- How voting rights and other rights attached to shares are executed.
- Cooperation with shareholders and other stakeholders in EU investee companies.
- The management of conflicts of interest with EU investee companies.

The Directive operates on a 'comply or explain' basis. Asset managers that choose not to comply must explain why the decision is appropriate, considering the nature, size and complexity of their respective businesses.

South African regulations and codes

Pension funds

South Africa has a long-standing framework that requires pension funds to consider sustainability as part of their investment decision-making process. South Africa's Pension Funds Act requires funds to "give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character". The Act further requires that "before making any investment in and while invested in an asset, consider any factor which may materially affect the sustainable long-term performance of the asset, including, but not limited to, those of an environmental, social and governance character".

South Africa's Financial Sector Conduct Authority issued further guidance to retirement funds in 2019 about how to ensure that the investment policies of retirement funds give effect to these sustainability obligations.

The Code for Responsible Investing in South Africa

The Code for Responsible Investing in South Africa (CRISA) was originally launched in 2011 in response to the King III Report on Corporate Governance for South Africa, which was issued in 2009. 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.

In November 2020, the CRISA Committee released a draft revision of the code for public comment, with the goal of updating it in 2021. The intention is to align the Code with global best practice in the regulation and governance of ESG issues.

CRISA encourages investment companies to discharge their stewardship duties diligently, with the concept of stewardship aligned with the UK Stewardship Code 2020. This means managing and overseeing investments, with a view to creating long-term value for the economy, the environment and society, while delivering superior risk-adjusted returns to clients and beneficiaries. CRISA suggests that investment companies will achieve this primarily by engaging with investee companies and exercising voting rights.

A key proposal is for the disclosure regime to move from an 'apply or explain' to an 'apply and explain' basis (as it applies to the UK Stewardship Code), and should be applied across all asset classes. Institutional investors will therefore need to disclose how they have implemented the principles and practices of CRISA. The revised Code will remain voluntary.

The proposed changes are currently out for comment, and Coronation, as a signatory to CRISA, is actively engaging on these changes.

CRISA encourages institutional investors to integrate sustainability issues into their investment decisions.

Disclosure standards for investment products

EU's Sustainable Finance Disclosure Regulation and Taxonomy Regulation

The EU's Sustainable Finance Disclosure Regulation (SFDR) is part of a broader package of EU regulatory reforms that are designed to "reorient capital towards more sustainable businesses". It is one of the most ambitious attempts in recent years to harmonise the investment industry's approach to disclosure practices when it comes to sustainable investment. 'Greenwashing' is a particular concern in Europe where many existing funds have been repurposed as sustainable funds.

The SFDR was legislated in 2019 and introduces mandatory disclosure requirements for all firms and financial products as to the way in which they integrate ESG into their investment decision-making. The SFDR requires institutional investors to categorise their products into one of three types – non-ESG (Article 6), light-green (Article 8) or dark-green (Article 9), depending on the extent to which they promote environmental and social factors.

The SFDR is rolling out in phases, with the first set of disclosures required in March 2021. In future phases, institutional investors will likely need to publish a prescribed list of quantitative metrics, including carbon footprints, and GHG and hazardous waste emissions, in line with prescribed technical standards.

The requirement for products to disclose this level of detail has led to the need for a taxonomy (a classification system) to ensure there is a clear definition of what 'sustainable' means. The EU Council adopted a Taxonomy Regulation in July 2020, which provides a classification system that establishes a list of environmentally-sustainable economic activities.

Corporate disclosure requirements

Alignment of disclosure requirements

One of the most pressing challenges in the current environment is the lack of consistency in reported company data on sustainability-related measures. As noted in our case studies, Coronation has identified the TCFD as a useful reporting framework.

However, a number of other organisations are also involved in establishing standards for corporate issuer disclosure. This clearly creates a risk of divergence, particularly where different companies choose to comply with different standards.

In September 2020, five of the leading sustainability and integrated reporting institutions issued a joint statement of intent to work towards a comprehensive corporate reporting system for sustainability disclosure. The following organisations are participating: the Global Reporting Initiative, the Sustainability Accounting Standards Board, the Climate Disclosure Standards Board, the International Integrated Reporting Council and the Customer Data Platform.

The Task Force on Climate-related Financial Disclosures

The TCFD develops recommendations for more effective climate-related disclosures to enable better understanding of the financial system's exposure to climate-related risks, and to therefore support more informed investment decision-making. The TCFD continues to evolve and issue guidance, with the following reports issued in 2020:

- Guidance on Scenario Analysis for Non-Financial Companies – to provide practical guidance to non-financial companies on the use of climate-related scenario analysis to understand climate resilience.
- Guidance on Risk Management Integration and Disclosure – to assist companies to integrate climate-related risks into their existing risk management processes.

Conclusion

Notwithstanding the effects of Covid-19, the landscape for sustainable investing continued to evolve at a rapid pace in 2020. The need for sustainable investment practices is now well entrenched across the financial sector, and industry participants must ensure that they are able to navigate this dynamic and complex environment. There are encouraging signs that the industry is starting to converge around a set of standards governing key areas, such as the responsibilities of stewardship, corporate disclosure requirements and disclosure standards for investment products. We are, however, under no illusion that the challenges posed by sustainable investing mean that the industry will continue to experience exponential change in the coming years.

At Coronation, we constantly monitor how the industry is evolving and ensure that we continue to meet our obligations as long-term stewards of our clients' capital. We do so in line with our long-term investment philosophy and in accordance with our approach to stewardship, as set out in the following section. ✚

Our approach to stewardship

Coronation is an active manager with a long-term, valuation-driven investment philosophy. As responsible stewards of our clients' capital, Coronation is focused on the long-term prospects of the assets in which we invest on our clients' behalf. It is central to our investment philosophy and process to analyse the ability of each investment to create, sustain and protect value, with the goal of generating superior risk-adjusted returns in line with our clients' objectives. Our stewardship activities enable us to more deeply understand the drivers of long-term value for companies in our portfolio, address key business risks and promote sound governance, all of which are consistent with our overall investment objectives.

Stewardship approach

We believe that companies and organisations that manage environmental, social and governance (ESG) factors more effectively are more likely to endure over time and create sustainable value over the long term. Factors may vary by industry, country and company. However, we ensure that we consider relevant ESG matters when evaluating opportunities, making investment decisions and engaging with companies to seek improvements in business practices and disclosures.

We are cognisant that the impact of ESG factors on long-term value creation can emerge gradually, or through a crisis that may result from years of mismanagement or poor assessment of the strategic relevance of ESG-related matters. 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 building on our framework, which we will continue to evolve. Our current framework aims to capture, inter alia, the following:

E – climate change, carbon emissions, energy efficiency, air and water pollution, water scarcity and waste management.

S – human rights, community impact and employment, child labour, working conditions, health and safety standards, anti-corruption, empowerment of minorities or previously disadvantaged groupings and data privacy.

G – anti-corruption, alignment of interests, executive compensation, board independence and strength, shareholder rights, capital allocation, ethical conduct and third-party assurance.

Our approach to ESG-related activities is underpinned by three core pillars: integration, engagement and collaboration. This framework informs our actions, through which we are able to influence positive changes that will create more value in the portfolios that we manage on behalf of our clients.

THREE-PRONGED APPROACH TO ESG

1 **INTEGRATION**

We ensure that potentially material ESG-related risks and opportunities are integrated into investment decision-making processes.

2 **ENGAGEMENT**

We engage with investee companies through informed dialogue about ESG disclosure and practices, monitoring corporate activities and exercising our ownership rights.

3 **COLLABORATION**

We collaborate with industry bodies and like-minded organisations to advocate for better policies and ESG-related practices.

Why not just divest?

Our responsibility is to maximise long-term investment returns for our clients without undue risk of loss. There has been an increasing global trend towards divestment from companies that operate in certain industries, such as those involved in fossil fuels. Investor preferences can vary, and some elect not to have exposure to specific types of investments.

However, in the 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.

We believe that active ownership and meaningful engagement on material ESG issues can have a greater positive impact on a company's practices than divestment. The case studies in this report demonstrate how we can effectively drive positive change by being an active, engaged investor. Effective engagement drives responsible corporate behaviour, which in turn leads to greater sustainability and, ultimately, higher long-term returns for our clients. Conversely, divestment removes our ability to influence corporate behaviour and potentially transfers ownership to parties that will not advocate for positive change.

Instead, our aim is to achieve a win-win outcome where more responsible corporate behaviour leads to greater sustainability over the long term and, ultimately, higher long-term returns.

We look at ESG factors both before and after making an investment, and they can be very important when assessing if a potential investment is attractive. Where these considerations are material, they can significantly affect our assessment of a company's risk-return profile.

By adopting the three-pronged approach to ESG, we are seeking to influence the ongoing performance of underlying companies in a proactive and responsible manner, rather than opting for short-term disinvestment.

How we monitor investee companies

Meaningful engagement with investee companies is one of the most effective ways of driving positive change. We engage with them through informed dialogue about ESG disclosure and practices, monitoring corporate activities, and exercising our ownership rights. We also engage with companies in which we do not currently invest where we believe that appropriate action will improve their investment case. We are not driven by the need to demonstrate activity on every issue – instead, our engagements focus on the most material ESG issues that need to be addressed.

Engaging with companies is a fundamental part of our investment process.

As a fundamental active asset manager, our analysis provides practical insights into the ESG issues that are most relevant to each company, and to identify those that can have a material impact on the financial prospects for a business. This enables us to integrate material ESG factors into our estimates of the long-term fair value of a business. 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. Engagement with companies is therefore a fundamental part of our active investment process.

We don't believe that our role is to get involved in the day-to-day management of a business. Rather, it is to express the concerns that we have over business strategy or ESG practices, especially if we believe that the company's approach could result in significantly lower earnings, impact cash flow for an extended period of time, or compromise value created for stakeholders.

We maintain constructive relationships with boards and senior management teams, and develop specific engagement strategies for each company. As an active shareholder, 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 have found that engagement is more effective when we engage directly and constructively with company representatives, where we are able to clearly articulate our concerns and set out our requirements. 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 shareholders, 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.

Levels of engagement

1 Engage with the management team

2 Escalate issue to the board and, where appropriate, engage with fellow shareholders

3 Take appropriate steps at AGM or call a special meeting

4 Where we are unable to effect the necessary change via steps 1 to 3, we will approach the media.

5 IF THESE DON'T EFFECT CHANGE

Reassess investment case and valuation

Take appropriate investment action within portfolios

Key engagement drivers

ENGAGEMENT CATEGORY	AIM	EXAMPLE
Identifying and integrating material ESG issues into our valuations.	Ongoing engagements to ensure that we identify, understand and quantify the material ESG issues affecting the long-term fair value of a business.	**Carbon emissions:** Carbon tax legislation, outstanding legal claims relating to health and safety risks, and changing environmental regulations.
Advocating for change on material financial or ESG issues.	Engaging with companies on issues where we believe changes are required to business practices to reduce ESG risks and improve long-term business prospects.	**Recommending changes to remuneration policies** to better align the interests of senior management with the long-term interests of shareholders.
Specific corporate transactions that require shareholder approval.	Ad-hoc engagement to address specific issues as they arise.	**The business rationale for a deal (before it is approved)** such as: • schemes of arrangement; • share acquisitions – the sale of a material portion of the business and; • ad-hoc share-related issues, such as specific repurchase.

Our ultimate intention is to drive the change we feel will be most beneficial for shareholders in the long run.

Our engagements encompass the full range of issues that affect the long-term value of a business, including strategy, capital structure, operational performance, risk management, remuneration and corporate governance.

A full assessment encompasses both financial performance and vital ESG practices that highlight the long-term health of the business, such as labour practices, the establishment of a culture that favours long-term value creation, dealing openly and fairly with suppliers and customers, and having proper and effective environmental controls in place.

These engagements help us to assess whether the company has a coherent strategy to deal with the environmental and social impact of its everyday operations. A company's awareness of these affairs and its willingness to address them indicate whether the business is committed to be a good corporate citizen and to protecting its long-term value.

The issues on which we engage are often complex, requiring difficult trade-off decisions, which in turn require multiple discussions with the relevant companies. Our ultimate intention is to drive the change we feel will be most beneficial for shareholders in the long run.

Coronation engages with key stakeholders, such as leading investment associations, regulators and government bodies to support an effective financial services industry. Our efforts are underpinned by our ESG Policy and our Proxy Voting Policy, the responsibility for which rests with our investment team. This drives our long-standing practice of integrating ESG factors into our investment process. We publish this Stewardship Report annually to keep our stakeholders informed of our stewardship activities, including examples of material ESG issues that have arisen during the year, and to outline our efforts to promote the long-term sustainability of our investments.

Engaging on governance

The dangers and potentially severe consequences of poor governance are well understood. The International Corporate Governance Network is a leading authority on global standards of corporate governance and investor stewardship. As a member, we are aligned with, committed to and advocate for the highest standards of corporate 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.

A well-functioning board is a prerequisite for proper governance. Companies should be headed by an effective board that is responsible for setting the strategy and direction of the company, as well as establishing its risk appetite. However, standardised data metrics and good governance 'box-ticking' do not 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, on a stock-by-stock basis.

A key part of our assessment focuses on trying to gain an understanding of the genuine independence and skills of a board. We aim to ensure that boards comprise a diverse range of competencies, knowledge, perspectives and experiences to enable them to effectively carry out their duties and responsibilities. We believe that an independent chairperson is pivotal in creating conditions for overall board and individual director effectiveness.

Social considerations

The social element within ESG considerations is often the most difficult to assess and requires case-by-case consideration. Having said that, we do have an overarching belief that a company's long-term strategy should take into account the development of its workforce. Labour rights and the treatment of human capital are an important part of an organisation's culture and are fundamental in driving good business performance. Good human capital management practices include the provision of a fair basic minimum wage, good health and safety standards, and an investment in training and development programmes. These help to ensure that the workforce is well equipped for completing its required tasks, operates under the latest and highest safety standards and regulations, and remains motivated. This generates a culture that is demonstrably linked to more stable and productive workforces and, ultimately, long-term value creation.

Consequently, an interrogation of these practices forms part and parcel of our ongoing investment analysis and, where warranted, of our engagement process with investee companies. +

Fixed-income stewardship: South Africa

Our stewardship responsibilities extend to all of the assets that we manage on behalf of clients, including fixed-income investments. We follow the same approach to stewardship as we do with other asset classes, and incorporate our three-pillar environmental, social and governance (ESG) framework of integration, engagement and collaboration into our fixed-income investment process. While the risk/return profiles of these assets differ from riskier asset classes such as equities, the principles that underpin our stewardship approach are equally applicable across all asset classes.

Integration

Investment in corporate fixed-income instruments is anchored by our expectations of having our capital returned and interest payments made timeously. We focus our research on understanding the key drivers of permanent capital loss associated with these instruments and on ensuring that this risk is much reduced. This is done through rigorous interrogation of company, sector-specific and material ESG factors. In addition, these factors are constantly monitored during the life of the investment as to how they might impact the sustainability of the company's debt load and/or its ability to service debt. Our goal is to ensure that the credit spread adequately compensates us for the risk associated with the investment, including significant ESG risks.

We follow a similar ESG integration process for credit risk as we do for equities; that is, we analyse and engage with companies in order to identify material risks or opportunities, and consider the full spectrum of ESG-related risks. We then assess the potential impact of these risks on an issuer's cash flow and balance sheet. We also take into consideration an issuer's willingness to engage on issues and to address material concerns.

The impact of ESG-related risks on creditworthiness depends on the specific characteristics of each investment. For each instrument, we perform detailed proprietary research on the issuer and structure in order to understand the applicable risks and to determine a risk-adjusted fair value for the instrument. We perform this analysis both at issue date and during the life of the instrument in order to inform our investment decisions. We further embed risk management 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 ESG-related defaults in the South African market. Coronation has largely avoided these experiences in the fixed-income 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 with major social and economic implications. The 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 an ESG event can affect creditworthiness – especially for issuers that were disproportionately affected by the crisis or were overly indebted leading into the crisis.

The time horizon of a fixed-income investment affects our ESG and credit assessments. Additionally, it is important to recognise that many ESG risks that appear to be long-term risks could materialise during the shorter term of an investment. For example, the severe drought that was experienced in the Western Cape in 2017 and 2018 affected businesses that operate in this region. 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.

In addition to ESG implications in credit risk analysis, there could be duration and yield curve considerations for fixed-income portfolios. As is evident with both the Covid-19 pandemic and the broader global climate change crisis, ESG events can have significant economic implications, including the need for government intervention. The monetary and fiscal response to these events affects the level of interest rates and government bond pricing.

Engagement

Engagement has been a long-standing part of our fixed-income investment process. ESG engagement with issuers allows us to evaluate a company's strategic direction, and how it will address future risks. 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 have increased.

More than half of the debt listed on the JSE is placed by the South African government. Other issuers include South African State-owned enterprises (SOEs), corporates, banks, municipalities and debt issued by listed real estate investment trusts (REITs). Given the limited number of issuers, and the overlap with companies listed on the stock exchange, we engage with all issuers where there is a clear indication that an engagement has the potential to add value or where we have concerns around risks, regardless of whether we hold their debt. We have large ownership stakes in many companies and have developed relationships with senior management and directors at these companies. We leverage these relationships to address ESG issues that are relevant to the creditworthiness of an issuer.

We engage with issuers throughout the issuance lifecycle. For new issuances, we carefully evaluate the terms of any potential transaction. In addition to our in-house legal expertise, we retain an external legal advisory firm for in-depth analysis where needed. We are able to influence the contractual agreements by, for example, ensuring that covenants include the metrics that we feel are necessary, and setting disclosure obligations. We express views on the importance of ESG matters, how these may influence the decision to invest, and at what price.

As a large investment manager, Coronation has underwritten and participated in the negotiation of the terms of a number of debt issuances. For example, in 2017, the JSE opened a Green Bond segment on the exchange.

While we do not hold Eskom debt, we continue to engage with the entity, given its economy-wide impact.

We were instrumental in structuring the first Green Bond, which was issued by Growthpoint. 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.

Post issuance, companies frequently need to refinance their debt, or an issuer may seek consent to make amendments to contractual terms of existing bonds. We actively seek direct dialogue with boards and management for better understanding of the conditions, improved ESG disclosure, management and mitigation of financial risks, and maximising positive sustainability outcomes.

Fixed-income investors face unique challenges, such as their different seniority in the capital structure, different forms of security, and the variety of instrument types, maturities and issuing entities. ESG risks can be stock specific, and evaluating these risks could lead to us electing not to invest if we believe spreads do not provide adequate compensation for the risks. For example, we currently do not have exposure to many SOEs due to governance concerns. ESG risks could also affect instruments across a sector, such as the requirement for REITs to distribute all of their income without having to allow for the depreciation of assets. This would leave them with very little operational cash to properly maintain their assets and, in turn, they would need to borrow funds for this purpose. Also, some ESG factors can affect investment returns indirectly. For example, while we do not hold Eskom debt at present, we continue to engage with the entity wherever possible, as there are economy-wide implications as to the entity's ability to service its debt.

Engagements are continuous and ongoing to ensure that issuers improve their governance and sustainability practices. We regularly collaborate with other investors and industry bodies to work towards a more efficient bond market. +

Reflections on our proxy voting in 2020

Our approach to proxy voting

Proxy voting is an integral part of our stewardship responsibilities and an important way in which we are able to exercise our ownership rights. We have been voting on behalf of our clients' portfolios since our inception in 1993. As such, our approach to proxy voting, and the effectiveness thereof, is informed by our experience over the past 27 years. 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.

For each company for which a proxy vote is required, the analyst responsible for the research coverage is also responsible for Coronation's vote. We believe it is imperative that environmental, social and governance (ESG) analysis remains within the remit of the investment team, which includes a dedicated ESG analyst, as they are best placed to understand the nuances and implications of ESG factors and how they impact the company.

This includes a detailed understanding of the ESG factors and considerations that apply to each 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. Analysts review this data to gain additional information on complex votes, and so that we are aware when we are taking views that are not in line with the broader market.

Clients often ask why we 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. 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. For example, should we believe it appropriate to remove board members who we believe are not exercising their fiduciary responsibilities in relation to shareholders' interests, we will always approach the board and the individuals upfront and deal with our concerns in a constructive and professional manner, outside of the public eye.

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. In general, voting against resolutions is always the last resort and not something that we do lightly. It is only in those cases where the company refuses to consider or act on our suggestions that we end up voting against resolutions. When we vote against, or abstain from, voting on a particular resolution, the vote will also be followed up by a letter or telephone call to management explaining our reasons for doing so.

Securities lending

Coronation does not currently engage in securities lending on the portfolios that we manage. When stocks are on loan, the voting rights for those shares are also transferred as part of the securities lending arrangement. Securities lending thus limits our ability to exercise proper long-term stewardship of these investments. We do have segregated clients who engage in securities lending on their own behalf, which we permit subject to reasonable restrictions.

Exercising a proxy without prior engagement or forewarning to the company is not in our investors' best interests.

These restrictions include 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 and, provided that clients notify us timeously, we are able to include the recalled shares in our voting.

Client-specified voting policies

We are able to apply bespoke voting policies for those segregated clients who prefer us to do so. In these cases, the clients have either provided us with their own proxy voting guidelines to which we adhere or have outsourced their voting to a specialist company. While we can accommodate these preferences for segregated clients, we do make all voting decisions for our pooled funds. In addition, given our active management approach, as a general principle, we prefer to retain the voting rights of shares held on behalf of clients so that we are better able to apply the full weight of our ownership to our voting powers, as and when needed, with the ultimate goal of extracting long-term value for our clients.

Shareholder proposals that a company tables a resolution

There are instances where shareholders themselves propose that a company table, on a once-off or on a recurring basis, 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. Engagement and the growing propensity by corporate directors to seek input from large shareholders do, however, diminish the incidence and need of such proposals being put forward.

A proxy voting success story

A good example of where we have used proxy voting successfully is in relation to remuneration. Our guiding principle on executive remuneration is that we endeavour to assess a company's remuneration policy, as far as possible, in a holistic manner. While we always evaluate key issues, such as alignment with shareholder interests, the potential for undue enrichment and evaluation time horizons, we do not focus myopically on any single aspect or metric. No remuneration policy will be perfect. A supportive vote signals that we believe the policy to be fair, having considered the policy in its entirety, having due regard for the appropriateness of the balance between the various components of the policy, and/or having positive engagements with the company regarding improvements.

We endeavour to assess a company's remuneration in a holistic manner.

Key focus areas of 2020

Proxy voting themes during the year were dominated by company sustainability through the Covid-19 crisis, capital structure, board composition and remuneration. The pandemic introduced a unique challenge – hard economic stops meant that many companies that were previously financially resilient experienced sudden and extreme revenue declines, which placed them under short-term financial pressure. Key issues included whether companies could meet their debt and other contractual obligations and, if not, whether they could renegotiate terms with counterparties. Further, we needed to understand the measures that companies could apply to strengthen their balance sheets, such as suspension of dividends and share buybacks, raising of capital, deferment of capital expenditure and treatment of executive pay. We voted accordingly on related resolutions.

Board diversity and effectiveness

The consideration of board diversity and effectiveness, including the experience and independence of the board, is always a priority. A stand-out consideration is in relation to banking boards, which require a very diverse skill set, and preferably directors who have experience in other industries. This cognitive diversity ultimately enables non-executive directors to add a unique perspective to the operations of a banking entity, which we believe is invaluable. Achieving the ideal board composition is made more challenging in South Africa, given the current shortage of experienced non-executive directors. Non-executive directors with the appropriate competencies are understandably scarce and are in high demand. Coupled with this, we are cognisant of the imperative to transform the boards of companies from both a race and a gender perspective. Given this shortage, it is almost impossible to find a situation where a proposed director has no other directorships. This means that we are required to adopt a balanced approach to ensure there are no real conflicts on boards, as well as diversity and good governance.

Climate-related resolutions

There was a material increase in climate-related resolutions during 2020. We supported the majority of these resolutions, but also voted against proposals where we considered reporting requirements too onerous, given companies' commitments and progress to date. There has been a recent push for 'say on climate' resolutions – akin to 'say on pay'– giving investors the opportunity to vote annually on how businesses are responding to climate change.

While there is a need for the assessment of climate strategy and progress, this should not be viewed separately from the broader business strategy.

While there will be an ongoing need for the assessment of climate strategy and progress, we do not believe that this should be viewed separately from the broader strategy of the business, and we have voted against allowing shareholders the ability to exert undue influence.

Other important themes we considered

The standard resolutions tabled at AGMs that we most frequently voted against during the year were those granting authority to directors to generally and unconditionally issue shares. As a general rule, our policy discourages resolutions that grant blanket authorities. Our view is that shareholders should be able to vote on all issues of share capital (with specific justification being provided for each issue). As such, issuances may result in value dilution. We take a similar view on the general authority to issue shares for cash. However, in exceptional circumstances, we may waive this rule where, for example, acquisition deal-flow is high and where we feel the company's cost of equity is especially low.

In addition, we advise on any concerns regarding remuneration policies. This is usually a multi-year engagement and, if outcomes are unresolved or unsatisfactory, we would not support the policy and vote against the resolutions. We have been more actively encouraging the inclusion of sustainability-related performance measures for senior executives and have supported related proposals. Our Mandatory Audit Firm Rotation Policy states that we do not support audit firms serving a term that is longer than 10 years. Also, excessive non-audit fees raise substantial doubts over the independence of the auditor.

Reporting

All our voting recommendations are disclosed on a quarterly basis on the Coronation website. In addition to this annual Stewardship Report, we provide updates on ESG matters during report-backs to clients. As a Principles for Responsible Investment (PRI) signatory, we are required to report publicly on our responsible investment activities each year. These Transparency Reports, together with the Assessment Reports, are accessible to signatories on the PRI data portal. We have contracted Proxy Insight to categorise all voting proposals so that we are able to produce an insightful analysis of our voting action. Going forward, this will be available for regular client proxy reporting.

Our proxy voting records for 2020 are recorded on the following pages.

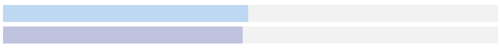
2020 PROXY VOTING RECORDS

DURING THE YEAR, WE VOTED ON

6 466 resolutions

at **524** meetings

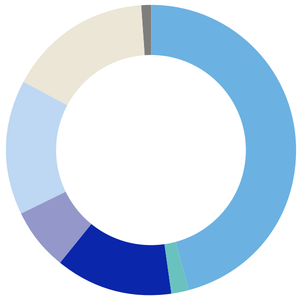
HOW WE VOTED:



Meetings with dissenting votes **52%**

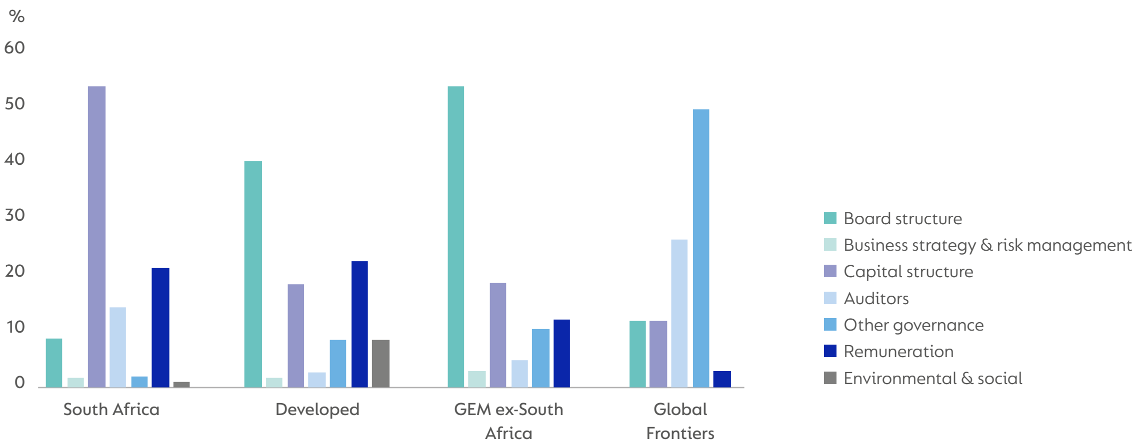
Meetings voted FOR all resolutions **48%**

GLOBAL BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS

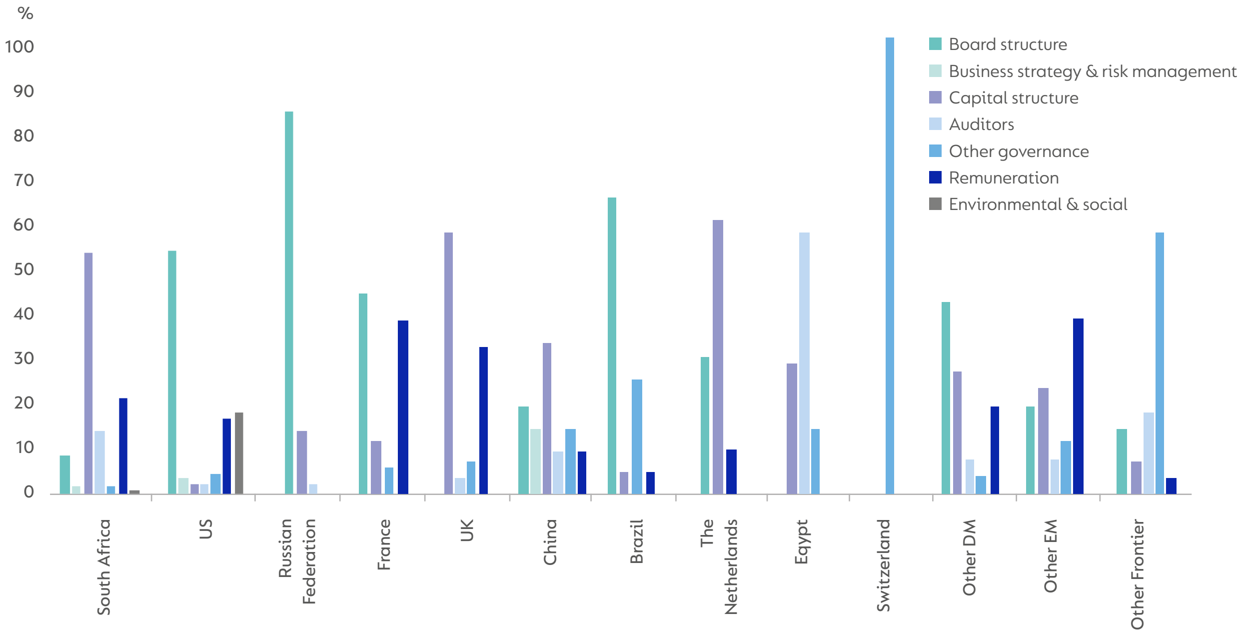


- Board structure **46%**
- Business strategy & risk management **2%**
- Capital structure **13%**
- Auditors **7%**
- Other governance **15%**
- Remuneration **16%**
- Environmental & social **1%**

DISSENTING VOTES ON A PER-RESOLUTION BASIS BY REGION



DISSENTING VOTES ON A PER-RESOLUTION BASIS BY COUNTRY



VOTING STATISTICS PER REGION

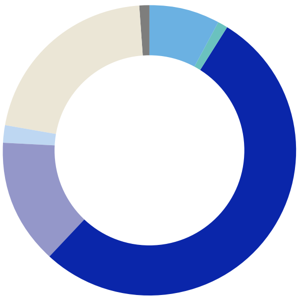
SOUTH AFRICA

In 2020, we made voting recommendations on 3 005 resolutions at 195 meetings, of which 109 meetings contained dissenting votes.

HOW WE VOTED:

Meetings with dissenting votes **56%**
Meetings voted FOR all resolutions **44%**

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS



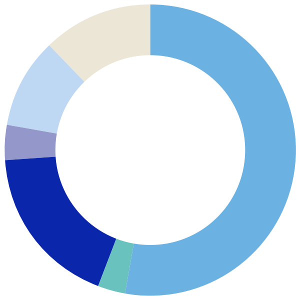
EMERGING MARKETS (EX-SOUTH AFRICA)

In 2020, we made voting recommendations on 796 resolutions at 97 meetings, of which 36 meetings contained dissenting votes.

HOW WE VOTED:

Meetings with dissenting votes **37%**
Meetings voted FOR all resolutions **63%**

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS



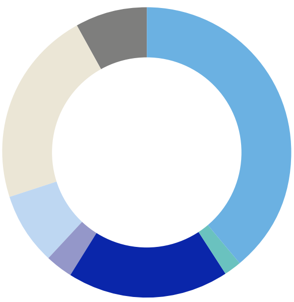
DEVELOPED MARKETS

In 2020, we made voting recommendations on 2 096 resolutions at 158 meetings, of which 81 meetings contained dissenting votes.

HOW WE VOTED:

Meetings with dissenting votes **51%**
Meetings voted FOR all resolutions **49%**

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS



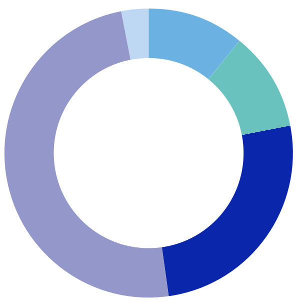
GLOBAL FRONTIER MARKETS

In 2020, we made voting recommendations on 569 resolutions at 74 meetings, of which 25 meetings contained dissenting votes.

HOW WE VOTED:

Meetings with dissenting votes **34%**
Meetings voted FOR all resolutions **66%**

BREAKDOWN OF DISSENTING VOTES ON A PER-RESOLUTION BASIS





Meaningful engagement


Our approach to engagement

As a fundamental manager, we regularly interact with all the companies that form part of 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 that we analyse. We maintain constructive relationships with the boards and senior management teams of these companies and engage regularly on a full range of issues, such as business strategy, operational performance, risk management and corporate governance. Given that environmental, social and governance (ESG) analysis is fully integrated into our investment process, the scope of these interactions includes informed discussions about ESG risks, practices and disclosures.

We increase our level of engagement with companies when we have concerns about issues that 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 our 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.

Engagement with representatives of our underlying investments takes place through a variety of methods, including in-person meetings, video conferences, teleconferences, formal correspondence and proxy voting. We often address a number of areas of concern per engagement. While we usually engage independently, we will collaborate with other like-minded investors when we believe that a combined effort will be more effective.

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 (refer to page 35 for more detail on our engagement process).

Individual 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. 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.

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 Coronation 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.

Engagements in 2020

In 2020, we had 256 engagements with 121 companies covering 25 themes. When we interact with companies on material issues, these discussions typically involve complex matters that often require time, effort and ongoing dialogue to resolve. Almost half of our current engagements are ongoing and will require committed follow-through in order to drive resolution. For those engagements that did reach resolution in 2020, more than three-quarters resulted in positive outcomes. We are encouraged by the number of engagements that were successfully resolved during the reporting period.

As we indicated in our 2019 Stewardship Report, we increased our focus on climate-related issues, and this translated into an increase in the volume of engagements with an environmental focus. During the year, we had 108 engagements with companies on environmental matters, which constituted almost 30% of total company engagements. By comparison, environmental matters comprised just over 8% of our total engagements in 2019.

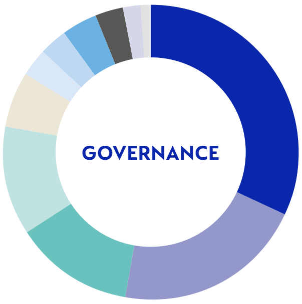
Engagement themes

Many of these engagements were company specific, where we engaged on specific concerns, such as business strategy, capital allocation decisions and proposed corporate actions. However, we also find that many of our engagements are thematic in nature, based on issues that are relevant at the time. For example, in 2019, we had a number of engagements with mining companies in order to better understand their employee safety records and the measures that they were putting in place to improve safety standards. Employee safety concerns took on a different dimension in 2020, where specific focus was required on understanding workplace safety and well-being initiatives in response to the Covid-19 pandemic.

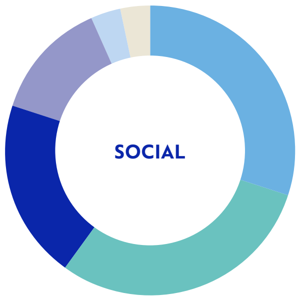
Engagement with the mining companies expanded further in 2020, beyond the update on employee safety, to include issues of community engagement, as well as details of various environmental issues. These include emission reduction plans, waste management performance, water performance and use reduction targets, air quality and pollution, plastic usage and recycling initiatives, and remuneration linked to ESG targets.

The varied nature of these engagements is illustrated in the charts overleaf, which demonstrate the range of topics that were addressed in 2020 within each of the ESG dimensions.

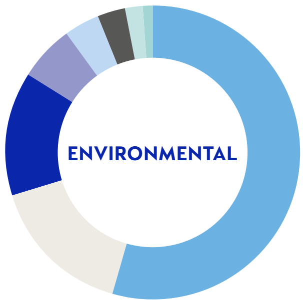
ENGAGEMENTS BY THEME



- Remuneration **32%**
- Capital structure **21%**
- Board structure **13%**
- Business strategy & risk management **12%**
- Succession planning **6%**
- Company leadership issues **3%**
- Auditors **3%**
- Other **4%**
- Conflicts of interest **3%**
- Business ethics **2%**
- Shareholder rights **1%**

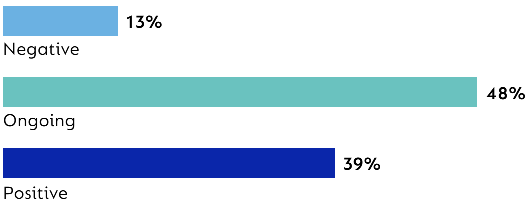


- Health & safety **30%**
- Diversity & inclusion **30%**
- Community rights **20%**
- Other social **14%**
- Labour standards/practices **3%**
- Cyber security **3%**

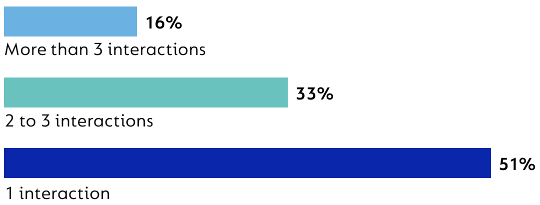


- Sustainability reporting **55%**
- Pollution & waste **16%**
- Carbon emissions **14%**
- Water security **6%**
- Clean technology **4%**
- Energy efficiency & alternative sources **3%**
- Other environmental **1%**
- Biodiversity **1%**

ENGAGEMENTS OUTCOMES



NO. OF INTERACTIONS WITH A COMPANY



Collaborative engagements

While we usually engage with companies independently, we will collaborate with other stakeholders where we believe that a combined effort will be more effective. In 2020, we participated in five collaborative engagements across our South African, emerging market and global strategies. The nature of these collaborations varied, and included the provision of joint feedback and letters to boards, participation in shareholder forums, and group calls with company representatives.

In South Africa, collaborative engagements covered issues relating to board independence at Pepkor, dividend cover and capital allocation at Exxaro, and the dividend pay-out policy at Fortress Real Estate Investment Trust.

In our global portfolio, a key part of our strategy to halt a private equity group bid for 58.com in April 2020 involved collaboration with other large shareholders who shared our view. The details of this engagement, which was ultimately unsuccessful, are set out in the case studies section on page 73. In our emerging market portfolio, we participated in a group call with two independent directors of Magnit that was organised by a minority rights protection organisation. This was a constructive discussion covering matters relating to board independence and environmental reporting.

Corporate governance

Last year, as in prior years, we continued to emphasise the importance of good corporate governance, with over 60% of our engagements linked to concerns we had over governance practices. Companies require proper governance structures to ensure that they have the skills, structures and incentives to drive long-term business success. Companies that lack good governance are exposed to increased risk of mismanagement and misalignment between the objectives of management and the long-term interests of stakeholders. This, in turn, impairs the ability of a company to manage its environmental and social impacts.

The case studies that accompany this report indicate the breadth and complexity of some of the governance issues that we have encountered and demonstrate that there are often no straightforward solutions. It is our view that governance matters should be addressed in a manner that is best suited to the unique circumstances of the company concerned.

Board composition

We continued to engage with companies where we were not satisfied with board composition, 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 give the required level of focus to be effective in their roles. We also continued to advocate for a strong mix of financial, technical and commercial skills that meet the individual needs of each business.

We actively engage with companies where we were not satisfied with board composition

We have found that engagements where we express our concerns about the skill levels of board members tend to be difficult discussions. However, we also found that, as we persisted in voicing our concerns, companies have increasingly understood our perspective, and we have started to see what we believe to be positive changes coming through. A significant proportion of engagements in 2020 were linked to concerns about the independence of board members, and we will continue to advocate strongly for appropriate independent oversight within investee companies.

We had several engagements with our frontier market investee companies about the composition of their boards of directors. We met with the CEO of Lecico, a large tile producer in Egypt, where we communicated our view that the size of the board was too large, given the size of the company, and that the level of female representation was too low. The CEO responded that the company was in the process of reducing the board size, while adding more independent directors. We also engaged with GB Auto, a vehicle manufacturer in Egypt, on the fact that the CEO was also the Chairman of the board, and the lack of female board members. The company has committed to address both these issues.

We engaged specifically on gender diversity at board level with several companies, including Cairo for Investment and Real Estate Development, to voice our concerns over the low level of female representation on their boards.

The varied nature of our engagements demonstrates the range of topics addressed in 2020.

Remuneration

Remuneration was once again a key governance concern, representing one third of our governance-related engagements. We recognise that the adequacy of a remuneration policy requires a holistic assessment of the balance between various factors, such as the key performance indicators used to measure performance, the balance between short-term and long-term incentives, and the degree to which the policy ensures alignment between the interests of management and shareholders.

We do not support any policy that does not include malus and clawback mechanisms to protect the company from fraud or other material misrepresentation by executives. A malus and clawback clause allows companies to legally recoup any bonuses that were inappropriately paid to executives based on fraudulent or misstated financial information, or requires executives, in such cases, to forfeit the bonus, if not already paid. In 2020, we made further progress engaging with South African companies that did not adequately incorporate this requirement and exercised our proxy voting rights to vote against remuneration policies that did not meet this requirement.

We further engaged with companies such as Sasol, Anglo American Platinum, The Foschini Group and British American Tobacco, where we believed that their remuneration policies required better alignment with their long-term sustainability objectives.

Covid-19-related engagements

The sudden and brutal economic impact of Covid-19 meant that many companies were forced into survival mode. Companies needed to balance their need to survive the crisis with the need to act in the interests of their stakeholders in order to protect the long-term viability of their businesses.

We advocated revised capital spend and dividend distribution plans amidst the Covid-19 crisis.

At the onset of the pandemic, we performed detailed analyses to identify those companies that would be better able to withstand the impact of Covid-19 and those that would be heavily impacted. We engaged with every single full-coverage stock on multiple occasions on Covid-19-related issues, with our coverage extending across over 360 companies. We engaged with companies across the full spectrum of Covid-19-related issues in order to understand the operational impacts on their businesses, the financial implications, and the way in which they managed their relationships with key stakeholders, such as employees, suppliers and customers, through the crisis.

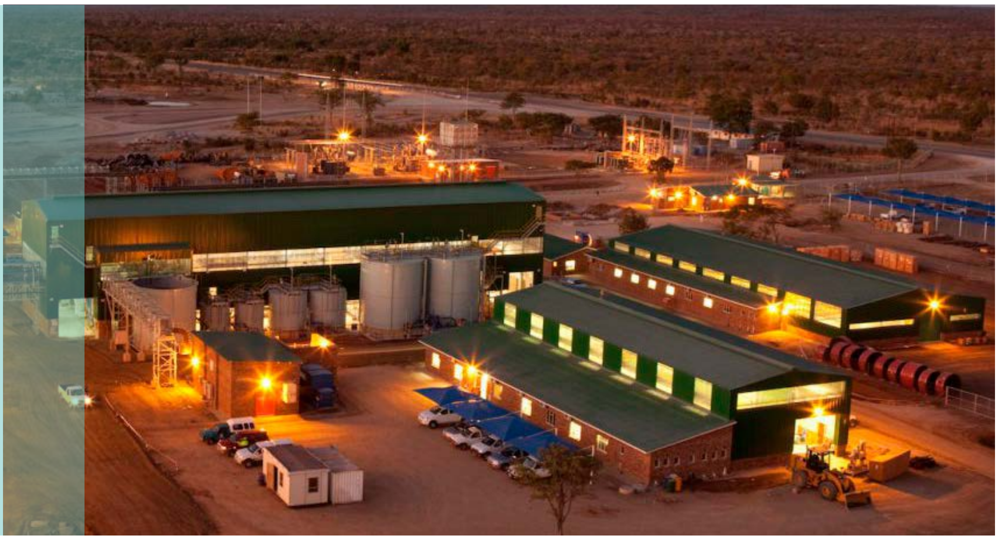
We engaged extensively with companies on their capital allocation and dividend distribution plans in order to ensure that they were able to protect their balance sheets and weather the storm. This most notably included our interactions with the listed real estate sector, which we believe faced an existential crisis, where we advocated for the retention of earnings in lieu of dividends (see the case study on page 68).

More generally, we engaged with companies across all sectors of the economy where we felt that dividend distributions and/or capital spend would be imprudent in light of the uncertainty that Covid-19 introduced into the economy and their respective businesses. We also had a number of engagements with companies on the effect that Covid-19 had on remuneration and incentives, and how companies should restructure their incentives in response to the crisis. In addition, we engaged with businesses on their social responsibility during this time. For example, Georgia Healthcare Group, the largest hospital group in Georgia, proactively made hospitals available for the treatment of Covid-19 patients, despite the negative impact that this had on short-term earnings.

Shareholder value

We regularly 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 (or could be) value destructive. In 2020, we addressed a variety of matters, all of which were stock specific, requiring informed dialogue based on a fundamental understanding of the company and its value drivers. The issues we addressed were wide ranging and included discussions on business strategy, capital structure, capital allocation, corporate actions (such as mergers) and regulatory matters.

We had a number of engagements with companies in our frontier market portfolios around capital allocation. We held numerous calls with the Zimbabwean platinum miner, Zimplats, to communicate that we believed the company should return more cash to shareholders, given the size of the company's cash balance. The company subsequently released a formal dividend policy, which balances the need to retain cash for growth and to return excess cash to shareholders.



We actively engage with companies to unlock shareholder value.

We also had several engagements with the CEO and CFO of Letshego Namibia, a micro-finance business. The company decided to convert a loan from the parent company to preference shares, which, in our view, was not in the best interest of minority shareholders. We voted against the resolution.

We discussed share buybacks with the Chairman of Centamin, an Egyptian gold mine, and highlighted that we believed this should be considered as part of the capital allocation decision. The company assured us that it had considered buybacks, but that its preference was to return cash to shareholders through dividends. We also discussed share buybacks with the CEO of Eastern Tobacco and are pleased that the company subsequently initiated a share buyback programme.

Carbon emissions and disclosures

We ramped up our engagement with companies on environment-related matters, with a particular emphasis on encouraging consistent and comparable climate-related disclosure by companies. To date, we have sent letters to 89 listed South African companies to, inter alia, urge them to adopt the Task Force on Climate-related Financial Disclosures (TCFD) framework (see the case study on page 70). We believe that the TCFD framework's four pillars – Governance, Strategy, Risk Management, and Metrics and Targets – are applicable to corporate reporting of all material and relevant environmental and societal risks and opportunities. We will continue to drive this initiative to encourage the industry to coalesce around a global standard that could be used as a baseline to support meaningful engagement on how to improve investee companies' climate-related activities. In addition, we believe that this reporting framework can help companies demonstrate the extent to which they have factored material environmental and social considerations into their long-term strategies and daily operations.

The physical and transition risks posed by climate change represent a systemic threat to financial stability, to our economy and to our society. As such, we engaged with a number of companies on company-specific environmental matters. We continued our engagements with Sasol to understand its greenhouse gas emissions and water usage, the actions it is taking to reduce the company's impact on the environment, and to encourage the inclusion of environmental key performance indicators in its remuneration policy. Our engagements with Sasol on these matters are included as a case study on page 79.

We remain concerned about the potential unintended consequences of the growing industry-wide action to exclude investment in listed companies that own coal-producing assets. With this understanding, we continued to engage with mining companies to discuss their targets and plans for environmental impact reduction. In 2020, this included encouraging Glencore to manage its coal business sustainably and responsibly, with a view to running it down over time, instead of divesting.

We further recognise the importance of driving positive environmental change through interactions with entities that finance activities that can be harmful to the environment. We engaged with two South African banks to encourage improved climate-related disclosures and policies on coal-based lending and will continue to drive responsible lending practices within the industry.

Sustainability

We again had a number of engagements with some of our emerging and frontier market investee companies to encourage better sustainability disclosure and practices where we considered these to be lacking. These discussions can be categorised into three areas: improved disclosure, understanding integration and understanding existing practices.

Improved disclosure

We had several discussions with companies where we were not satisfied with their disclosure on sustainability matters. Examples include:

- **Odontoprev**: The company is a dental insurer in Brazil. We recommended improvements to its ESG disclosures and practices. We highlighted that TCFD is our preferred environmental reporting framework and specified the most important factors where we would like to see ongoing reporting. The company committed to making further improvements to its annual ESG disclosure report.
- **Eastern Tobacco**: We have repeatedly engaged with Eastern Tobacco around its ESG disclosure and about ways to improve the efficiency of its operations to reduce wastage. In 2020, the company released its first formal ESG report, having been encouraged by us to do so. We are also pleased to see ongoing improvements in efficiencies.
- **Cairo for Investment and Real Estate**: This is the largest private education company in Egypt. The company currently does not provide any disclosures on ESG matters. We discussed this with the CEO, who committed to release a full integrated report with proper sustainability disclosures in 2021.
- **Speed Medical**: The company is a large diagnostics chain in Egypt. We discussed the company's environmental practices, including the disposal of medical waste, and encouraged it to fully disclose sustainability matters. The CEO committed to releasing a full sustainability report.

We further completed a sustainability survey at the request of one of our investee companies – a hard discount retailer in Turkey called BIM – where we provided our input into ESG matters that require further emphasis and specified the changes that we would like to see.

Understanding integration

We engaged a number of companies to better understand how they incorporate sustainability factors in their investment decisions. For example, we engaged with EFG Hermes (one of the largest investment banks in Egypt) and were pleased with the extent to which sustainability factors are integrated into its decision-making process. The company's private equity business invests only in renewable energy, education and healthcare, while its asset management business excludes certain sectors based on ESG considerations.

Understanding existing practices

We had numerous engagements on the social and environmental practices of companies in which we invest. For example, we engaged Vietnamese retailer Mobile World Group on its environmental practices, including its use of plastic and packaging materials. We also discussed carbon emissions in the distribution network and the electrification of the company's trucking fleet to reduce emissions. We are satisfied that these are important focus areas for the company.+

Collaboration and participation

Working together

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.

We are key contributors to the activities of the Association of Savings and Investments 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, 31 of our team members serve on eight technical board committees, as well as 53 standing committees and working groups.

Our CEO is a member of ASISA's main board and executive committee. 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 Global.

Recent initiatives and engagements included:

Responding to Covid-19

Our Covid-19 relief response was multifaceted and saw us amplify our advocacy and efforts to mitigate the devastating impact of the pandemic on the local economy to help secure an inclusive society. 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.

Through our membership of ASISA, we engaged actively with regulatory authorities to help stabilise financial markets during the height of the liquidity crisis that followed the first lockdown. We initiated a process to enhance the regulatory infrastructure governing potential liquidity constraints in the local collective investments industry, which led to the creation of a new regulatory instrument. This enables funds to prioritise the payment of contractual obligations, such as regular retirement income payments in the case of future episodes of market distress. Through ASISA, we also provided input to the National Treasury on the expected economic impact of a prolonged lockdown, and the preventative measures that should be taken. This is set out in more detail in our case study on page 66.

As members and active participants in BLSA, we engaged with key stakeholders in government, labour and civil society to ensure that the business community played a meaningful role, where possible, in assisting with the Covid-19 response, such as advocating for measures to ease the lockdowns, input into the economic recovery strategy, and assistance with the vaccine rollout.

We also joined and participated in Business for South Africa (B4SA), which was formed in 2020 as an alliance of businesses to support the national response to Covid-19. This included the promotion of an economic recovery plan to accelerate the economic recovery post-Covid-19 and drive inclusive growth. B4SA recognised the critical pressure that many small- to-medium enterprises (SMEs) faced as a result of lockdown, and drove the #PayIn30 initiative. This saw over 50 CEOs commit to paying their SME suppliers within 30 days in an effort to sustain the SME sector, which was disproportionately affected by the crisis. In 2021, the purpose and focus of B4SA shifted toward providing support to the national vaccine programme.

The Solidarity Fund was launched in 2020 to mobilise funding to provide financial support as part of the response to Covid-19. Coronation's employees ranked first in the private sector in terms of corporate payroll donations to the Fund, with the proceeds supporting the Fund's various initiatives.

Climate Action 100+

In 2019, Coronation became a signatory to the Climate Action 100+ (CA100+), which is a large investor-led initiative focusing on systematically significant greenhouse gas emitters. We initially joined CA100+ as a collaborating investor in respect of engagements with both Sasol and Eskom to ensure that engagements consider the local context within which these companies operate.

During 2020, through our engagements with Sasol, it became clear that we could not consider climate risk in isolation from broader considerations around business strategy. This is consistent with our long-standing investment approach where material sustainability aspects are an integral part of the long-term analysis of an individual company. This, coupled with the progress that we have been able to achieve through our individual engagements with Sasol, culminated in our decision to instead serve as a CA100+ individual engager with Sasol. In our role as a CA100+ individual engager, we share information with the lead engagers, report to the co-ordinating investor network and complete bi-annual surveys to communicate progress in relation to our engagements with each of our focus companies.

In December 2020, CA100+ identified two new co-lead investors for engagements with Eskom. These co-lead investors agreed to first steps to introduce the CA100+ initiative to the company, including the new CA100+ Net Zero Company Benchmark initiative. Eskom has separately announced that it is working on a plan aimed at net zero emissions by 2050.

Net-zero company benchmark

In September 2020, the CA100+ sent letters to the world's largest carbon emitters to call on them to implement net-zero business strategies, and to set targets to support this delivery by 2050 or sooner. According to CA100+, these companies are 'collectively responsible for up to 80% of global industrial greenhouse gas emissions'. The preliminary scores were sent to all CA100+ focus companies as part of an open review period prior to the initiative publishing final company scorecards during the first quarter of 2021.

Best in class A+ rating: Principles for Responsible Investment reporting and assessment

As a signatory to the Principles for Responsible Investment (PRI), we participate in its annual reporting and assessment review. Here, signatories report on their responsible investment activities and how environmental, social and governance (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.

For the reporting year 2020, we achieved the highest possible rating of A+ across all categories. We earned an A+ score for Strategy & Governance compared to a median participant score of A. Of note, was our A+ for both Listed Equity Active Ownership and Fixed Income, compared to a median participant score of B (refer to the table below).

Our improved ratings in 2020 were primarily the result of the following actions we took during the year:

- bolstering our ESG database and proxy voting categorisation;
- joining industry bodies: the Task Force on Climate-related Financial Disclosures, the International Corporate Governance Network and CA100+;
- industry participation: ASISA's Responsible Investment Committee, PRI networking and contributing to the Thinking Ahead Institute's thinktanks;
- employing a dedicated ESG analyst to support our team of investment analysts; and
- clear articulation of thinking and processes on, for example, our climate process.

CORONATION'S 2020 PRI ASSESSMENT REPORT CARD

	2020	
Module name	**Coronation**	**Median**
Strategy & Governance	A+	A
Listed Equity – Incorporations	A+	A
Listed Equity – Active Ownership	A+	B
Fixed Income – Sovereign, Supranational and Agency	A+	B
Fixed Income – Corporate Financial	A+	B
Fixed Income – Corporate Non-Financial	A+	B

Sources: PRI, Coronation

Industry collaboration

The majority of our regulatory interaction is with the South African Financial Sector Conduct Authority (FSCA), and, more recently, with the South African Prudential Authority, either directly or through our involvement with the ASISA. We are committed to playing an active role in shaping the South African financial services industry by working with industry partners and the FSCA.

ASISA

The Association for Savings and Investment South Africa

Status: Member and participant on boards and working groups

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.

#CEOPledgeSA

South Africa's CEO Initiative

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.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Task Force on Climate-related Financial Disclosures

Status: Member

The Task Force on Climate-related Financial Disclosures 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.

ICI INVESTMENT COMPANY INSTITUTE®

The 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 US, and similar funds offered to investors in jurisdictions worldwide. The ICI seeks to encourage adherence to high ethical standards, promote public understanding and otherwise advance the interests of funds, their shareholders, directors and advisers. The ICI's members manage total assets of $28.5 trillion in the US, serving more than 100 million US shareholders, and $9.6 trillion in assets in other jurisdictions. The ICI carries out its international work through ICI Global, with offices in London, Brussels, Hong Kong and Washington, DC.

Principles for Responsible Investment

Status: Signatory

The Principles for Responsible Investment is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and support its international network of investor signatories to incorporate 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 Code for Responsible Investing in South Africa and fully supports its five principles, which stress the importance of integrating sustainability issues, including ESG factors, into long-term investment strategies. These principles also provide guidance on how institutional investors should execute investment analysis and investment activities, and exercise their rights to promote sound governance.

Business Leadership South Africa

Status: Member

Business Leadership South Africa (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 of and active participants in the Thinking Ahead Institute, a global not-for-profit research and innovation hub that connects 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 for the better in the investment arena 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.

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.

International Corporate Governance Network
Status: Member

The International Corporate Governance Network is a global organisation aiming to raise the standards of corporate governance worldwide. Membership includes investors responsible for assets under management in excess of $54 trillion from more than 45 countries.

Irish Funds Industry Association (Irish Funds)
Status: Member

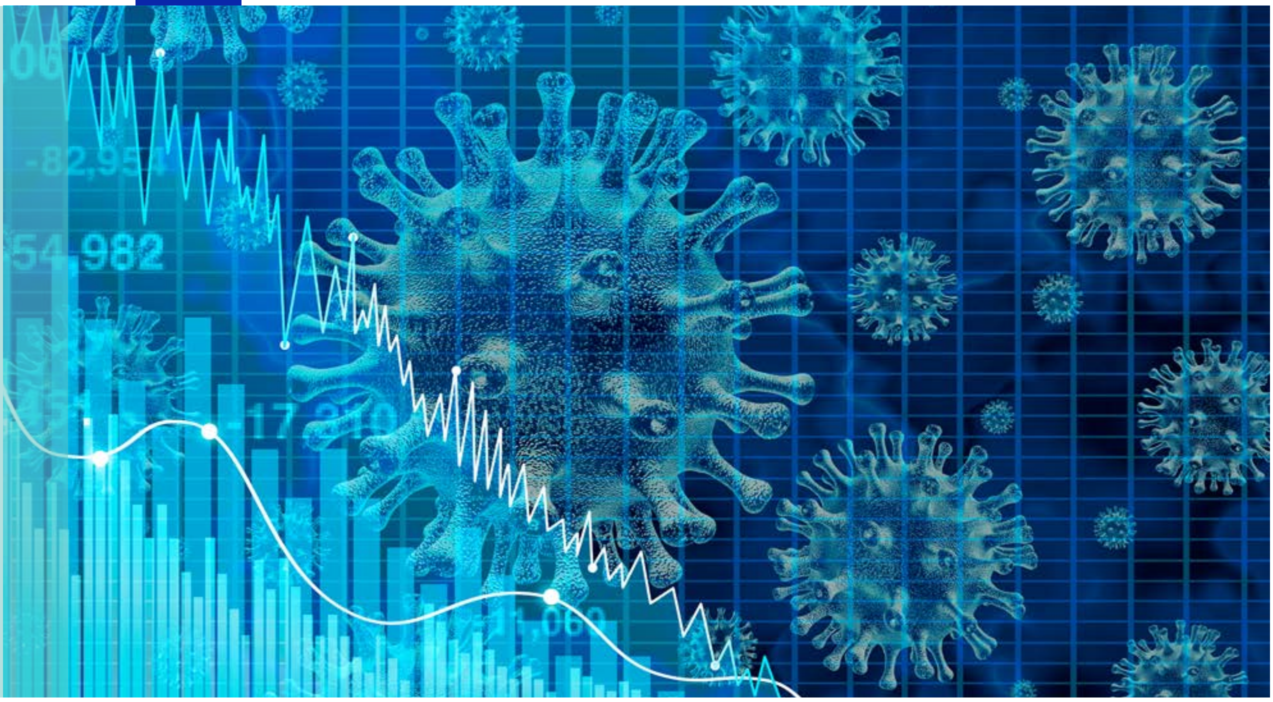
The objective of Irish Funds is to support, complement and develop the funds industry in Ireland. It represents the industry in discussions with government, its departments and agencies, and the Central Bank of Ireland to ensure that the environment and infrastructure are supportive of the continued 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.

Case studies

01



Supporting the financial market response to Covid-19

Background

The early outbreak of Covid-19 across the globe brought economic activity to a standstill. In March 2020, financial markets went into a full-blown crisis as governments around the world imposed hard lockdowns to arrest the spread of the virus. The hard lockdown in South Africa, which was not initially accompanied by any form of support or stimulus, roiled local financial markets. This saw liquidity dry up as foreign investors divested from South African assets and financial intermediaries withdrew large amounts of cash to shore up their balance sheets.

Action

As a large stakeholder in financial markets, Coronation was actively involved in discussions via the Association of Savings and Investment South Africa (ASISA) with the regulatory authorities, namely the South African Reserve Bank (SARB) and the National Treasury, on measures to help stabilise financial markets during the crisis. The engagements with regulatory authorities took place through bilateral and group meetings, written correspondence and telephonic conversations. These measures focused on suggestions for stabilising cash markets (interbank lending and the secondary bond market), relaxing prudential capital ratios to improve banks' capital positions, and purchases in the secondary bond market.

SITUATION
COVID-19 OUTBREAK AND LOCKDOWNS

COUNTRY
SOUTH AFRICA

ACTION
MEETINGS, CORRESPONDENCE AND INDUSTRY COLLABORATION

OUTCOME
POSITIVE AND ONGOING

Concurrently, we were part of a task team modelling the economic effects of the lockdown on the government's debt position, economic growth and unemployment. These inputs were fed into numerous discussion documents and then combined in an ASISA submission in mid-April to the National Treasury about the effects of a prolonged lockdown and the need to ease certain restrictions to prevent lasting, and potentially irreparable, economic damage.

Outcome

As a result of these discussions, the SARB injected liquidity into financial markets through term repos on South African government bonds. The injection of liquidity and secondary market bond purchases during March 2020 provided stability to markets, and functioning returned to normal during April 2020. This enabled the National Treasury to continue to fund the local market at reasonable rates and launch a number of support programmes for business.

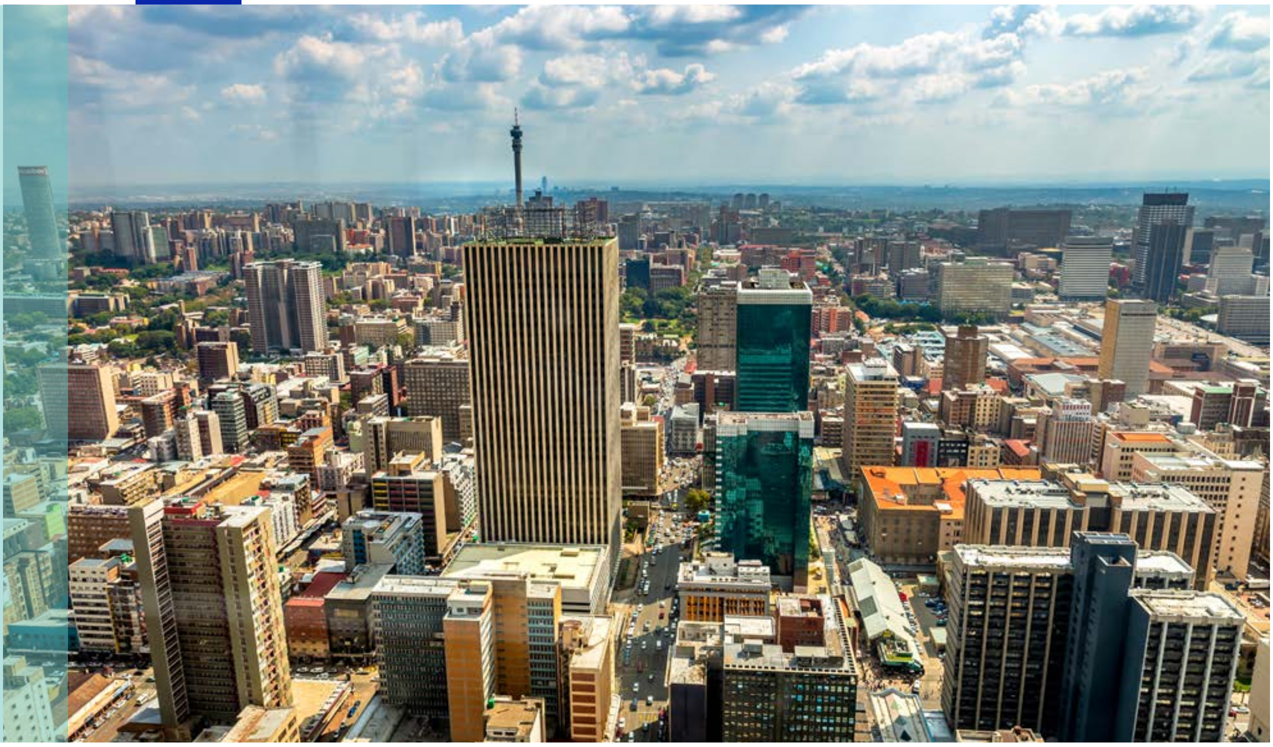
Our submissions on the economic effects of the lockdown, together with submissions made by corporate South Africa, were part of the consultative process undertaken within the country and the resultant impact was an easing of restrictions by end-May 2020.

During this time, Coronation also consulted with the National Treasury and maintained open communication with them regarding longer-term funding strategies aimed at promoting a more sustainable fiscal position. This included separate interactions in March and April, in June after the Special Adjustment Budget, and, again, towards the end of 2020.

We continue to remain in open dialogue with the SARB and the National Treasury regarding our observations of financial markets and remedies to any inefficiencies that might exist. A number of working groups have emerged from these discussions, which look to plan for future scenarios in order to be in a position to deal with any future emergencies in a coordinated manner.

A positive outcome was achieved in stabilising the South African financial markets and in strengthening the relationship between private sector institutions and government agencies.

02



Driving a financially resilient REIT sector

Background

As a stakeholder in the listed real estate investment trust (REIT) sector in South Africa, Coronation realised early into the first Covid-19-induced lockdown that the sector faced an existential moment. After already engaging with the South African REIT Association on the sustainability of distributable earnings policies in 2019, we deemed it important to engage at board level with most REITs and with the JSE on the sustainability of balance sheets in the sector.

Balance sheet sustainability

Although current REIT legislation allows for a minimum dividend pay-out ratio of 75%, up to 2020, the general sector practice was for REITs to distribute all their income as a dividend to shareholders, while not providing for any asset depreciation in determining what distributable earnings are. This practice resulted in limited operational cash flow capacity to maintain properties and, as such, REITs typically utilised additional debt to fund maintenance spend. The challenging economic backdrop of the last few years led to limited asset price inflation to create enough debt capacity to continue with this practice. The result was that sector-wide average gearing levels moved from below 30% in 2009 to close to 40% at the start of 2020.

SECTOR
LISTED REAL ESTATE INVESTMENT TRUSTS

COUNTRY
SOUTH AFRICA

ACTION
LETTERS AND MEETINGS

OUTCOME
NEUTRAL AND ONGOING

The lockdown and behavioural changes post-lockdown will negatively impact the sector well beyond the first-order impact of rentals lost during this period. We believe that all REITs and the relevant regulatory bodies should be planning for the second-order impact on market rentals, reversions, vacancies and, ultimately, negative property revaluations and stressed balance sheets in the years to come. Against this backdrop, we are wary of companies that are distributing earnings when their financial stability could be at risk.

Action

We believe that one of the ways of curing stretched REIT balance sheets lies in temporarily retaining not only a portion of distributable earnings as per REIT legislation, but all the earnings. In this regard, we have formally written to all the REITs we deem to have stretched balance sheets and urged them to forgo dividends for a 24-month period. In addition, we engaged with the JSE on various occasions, in both an informal and a formal manner (via the invitation it presented to sector stakeholders in May 2020 to comment on the challenges faced by the property industry and the limitations of the current listing regime), on ways in which it could aid balance sheet flexibility.

Outcome

Despite our efforts, we could not convince the relevant authorities of the long-term benefit of temporarily suspending the minimum dividend pay-out requirement as per REIT listing rules. We believe that this measure would help improve the structural integrity of the REIT sector.

The REIT listing rules are linked to provisions in the Income Tax Act and, hence, any amendments can only be achieved with the consent of the National Treasury, the Financial Sector Conduct Authority (FSCA), the South African Reserve Bank and the JSE. In the deliberations between the South African REIT Association, the JSE and the FSCA on the issue, no agreement could ultimately be reached. The South African REIT Association, which has various members with a wide variety of interests, did not entertain the FCSA's requirement that the REIT Association agrees to waivers of the executive remuneration of its members to align with the impact on investors of the loss of dividend income over a similar period.

The only interim relief provided to REITs regarding dividends was for those REITs with year-ends between February 2020 and September 2020 to postpone the payment of their dividends for a further two-month period from the maximum previously allowable.

A current provision in the REIT legislation does allow for non-payment of a dividend while maintaining a company's REIT status if it is unable to make the payment due to the solvency and liquidity requirements in terms of the Companies Act. Our initial engagement with REITs on temporarily suspending dividend payments indicated that few boards were prepared to consider using this provision as a reason for non-payment, due to the negative message it might send to potential investors.

However, it has become clear that our seriousness on the issue and proactive engagement as a stakeholder in the sector have led to many boards earnestly considering temporarily withholding dividend payment to shareholders, despite their initial messaging concerns. Several REITs with which we have engaged have subsequently used the provision provided by the Companies Act to withhold dividend payments, without negative share price implications, to the longer-term benefit of total shareholder returns. This has enabled these companies to start rebuilding their balance sheets without needing to tap into capital markets, which are currently unfavourable for REITs.

03

Advocating for TCFD to improve environmental disclosures

As custodians of our clients' capital, we have a duty to ensure that we are integrating all material risks into our investment decisions. Given the global threat of climate change, this is increasingly becoming a systemic risk that we need to incorporate into our fundamental analysis.

While we fully recognise the grave threat that climate change poses to future sustainability, the ability to drive meaningful change will require regular and informed engagement with the companies in our investment universe. We consider the most pressing challenge in the current environment to be a lack of consistency in reported company data. There are several sustainability frameworks available to issuers. This, unfortunately, compounds the problem of a lack of comparability.

ACTION
LETTERS AND MEETINGS

OUTCOME
POSITIVE AND ONGOING

We expect companies to provide robust disclosures of climate risks and opportunities so that we are able to assess how well positioned they are to manage those risks and the transition to a low-carbon economy. Such disclosures include a clear narrative about the company's approach to risk assessment and mitigation, supported by material and relevant metrics. We conducted a detailed analysis of the various reporting frameworks to identify the one which best suits our needs and is suitable for the majority of the companies that we analyse. Once we had decided on the appropriate framework, we communicated this to our coverage universe to enhance reporting consistency and comparability.

As a result of our analysis, we identified the Task Force on Climate-related Financial Disclosures (TCFD) as a useful reporting framework. Since mid-2019, the number of organisations expressing support for the TCFD has grown more than 85%, reaching over 1 500 organisations globally, including over 1 340 companies with a market capitalisation of $12.6 trillion and financial institutions responsible for assets of $150 trillion.

The Framework provides the following advantages:

TCFD DISCLOSURE RECOMMENDATIONS

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.

Governance	Strategy	Risk management	Metrics and targets
Disclose the organisation's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	Disclose how the organisation 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 management's role in assessing and managing 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 impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's process for managing climate-related risks. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks. Describe the targets used by the organisation to manage climate-related risks and opportunities to perform against targets.

Source: TCFD status report

- It focuses on climate risk, which is a material systemic risk to all companies and requires consistent disclosure.
- It 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.

Action

In a first for a South African fund manager, we have, to date, sent letters to 89 listed South African companies to explain the issues that we are facing and to urge them to adopt the TCFD recommendations as part of their reporting process. We conducted follow-up meetings where companies posed further questions. Broad topics of discussion included our views on the Framework, the importance of climate-related disclosure and our expectations regarding timelines for disclosure. As a corporate, Coronation has also adopted this as a reporting standard.

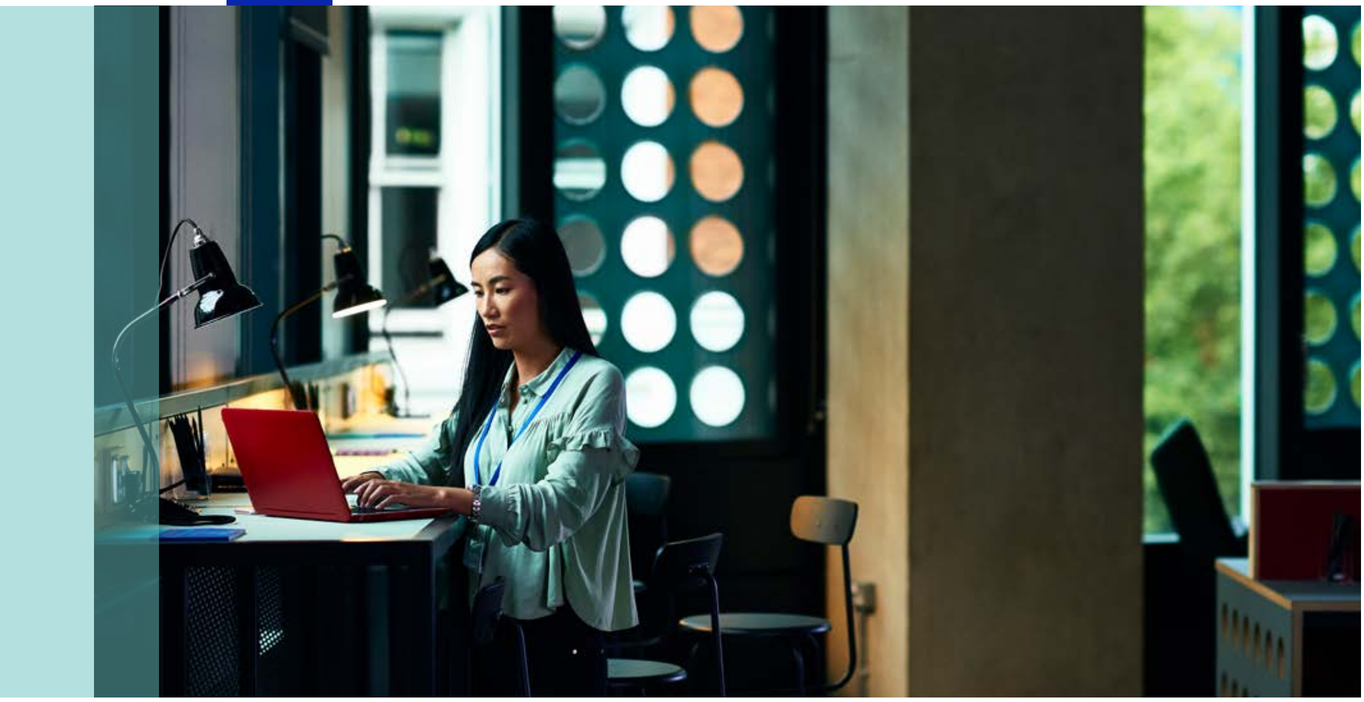
Outcome

As the content of the letter requires substantial analysis at board level, communication has continued into 2021. Of the companies engaged, Coronation had received 56 responses by the end of March 2021. The content of responses can be summarised as follows:

- 16 companies have committed to TCFD-aligned disclosure in future reports.
- 7 companies have committed to undertaking an analysis of sustainability disclosure and the appropriate framework for their circumstances.
- 32 companies have committed to discussing our proposal at a board or board committee meeting.
- 1 company declined to align with TCFD reporting requirements at this stage.

We will continue to follow up with the companies that haven't yet responded in the 2021 calendar year and, based on these outcomes, we will consider what additional action will be required. Where companies are in compliance with the TCFD, we will have meaningful engagements with them on how they intend to improve these metrics to achieve the Paris climate goals as well as aspirational net-zero objectives. More important, however, will be discussions with those companies resistant to making these requested changes.

04



Opposing a take-private offer

COMPANY
WUBA – 58.COM

COUNTRY
CHINA

ACTION
LETTERS AND MEETINGS

OUTCOME
NEGATIVE

58.com is the largest online classifieds site in China for both real estate and blue-collar jobs. It also has ancillary businesses that are less material but have bright long-term prospects. The business was founded in 2005, listed on the NYSE in 2013 and, subsequently, taken private in 2020.

Coronation, on behalf of our clients, has been a shareholder since 2015, and we reluctantly sold our holding as part of the take-private transaction in 2020. The company received a non-binding take-private offer in April 2020, which, in our view, grossly undervalued the business.

In May 2020, it was disclosed that the CEO and founder of the business would be joining the consortium. He held approximately 10.2% in economic interest, but an aggregate voting power of 42% due to his holding of higher voting shares. In our view, this rendered him conflicted, which should preclude him from voting his shares in the transaction. However, due to the company being incorporated in the Cayman Islands, there was no legal requirement for the CEO to preclude himself from voting his shares. For the transaction to be approved, a two-thirds majority was required.

Action

April 2020: We sent a letter to the board of the company, expressing our view that the offer grossly undervalued the business and requested the board to reject the offer.

May 2020: After learning that the CEO was joining the consortium to take the business private, we sent a further letter to the board, expressing our view that should he not preclude himself from voting his shares, this would represent a material corporate governance lapse. We urged both the board and the special committee evaluating the offer to ensure that he recused himself.

June 2020: We had a call with the financial advice firm, Houlihan Lokey, that was assisting the special committee in evaluating the offer. During this call, we expressed our views regarding the valuation and the corporate governance concerns. As Houlihan Lokey had a direct dialogue with the committee, we were given the assurance that our views would be communicated to them. During the process, we also obtained legal advice in order to understand our rights as minority shareholders in a company incorporated in the Cayman Islands in a take-private transaction.

In September 2020, at the extraordinary general meeting, we voted against the transaction.

Outcome

The CEO was not legally precluded from voting his shares and we were unsuccessful in getting him to voluntarily preclude himself. Significant minority shareholders that were able to remain invested in the unlisted entity abstained from voting their shares.

The take-private transaction was, to our disappointment, approved by shareholders, with 75% voting in favour of the transaction. However, only 61% of shareholders voted. This was not the outcome we had hoped for and we fought for our clients. We believe that we made every effort to ensure their interests were protected in the process, notwithstanding the unfavourable outcome. It also emphasised the risks inherent in entities domiciled in regions outside the main bourses. Coronation did not continue its holding into the unlisted entity.

05

Promoting responsible capital allocation

COMPANY
NOAH HOLDINGS

COUNTRIES
CHINA AND THE US

ACTION
MULTIPLE LETTERS

OUTCOME
MODERATELY POSITIVE

Noah Holdings is a Chinese wealth and asset manager listed in the US. The business specialises in distributing private equity products from boutique asset managers with whom it has exclusive relationships. The company is owner managed, with the founders still owning 44% of the equity. Under a dual-class voting structure, the founders control 63.6% of the voting rights.

At the time of purchasing our first shares in the company in mid-2017, management had an exemplary track record, and all decisions made had been in the best interests of all stakeholders. Over the prior 10 years, the company had compounded earnings per share at 74% per annum and net asset value per share at 78% per annum. The management team had demonstrated the ability to make long-term decisions in the interests of the company and we felt that these interests were aligned with minority shareholders.

Due to very high demand for its products as China's high-networth individual class has grown, the company moved away from its traditionally low-risk approach to investment products and started reaching down the risk spectrum. Over the course of the next few years, the business suffered some setbacks as a few of its selected investments performed poorly. While Noah was the victim of fraud in one of the products, in other situations it was clear that due diligence had been lacking. It also became apparent that advisers had not appropriately diversified their clients' portfolios and clients who were the victim of the fraudulent case lost a material part of their portfolios.

As the core business was slowing down, the management team looked at other avenues for growth and launched new divisions within the company. We became concerned as to how they were allocating capital, as these new ventures were not areas where Noah had any unique competitive advantage. Indeed, our fears over the next couple of years proved true as they shuttered the two new divisions.

We had been in continuous dialogue with the CFO regarding our concerns, but matters came to a head in 2020 when the management team made the decision to make good their clients' losses via the issuance of Noah's own shares. While we understood the moral case to compensate clients for losses, we were not convinced that issuing Noah shares was a sound allocation of capital as, in our view, the shares were significantly undervalued, having fallen by two thirds since their peak in 2018.

Action

We began engaging with the company in November 2019 when a new CFO was appointed. At that point, the company had never paid a dividend, and, due to the capital-light nature of the business, had amassed a substantial sum of cash on the balance sheet. At this time, the share was already trading at a depressed valuation and we urged the company to consider authorising a share buyback, which we felt would be a better allocation of capital. There was a general reluctance over this suggestion due to the already-low free float in the company and management's desire to pursue strategic acquisitions to complement the existing business. We engaged with the company again in March 2020 and reiterated our view that a buyback would be the most efficient use of capital, and were again rebuffed.

In September 2020, when management announced its intention to issue Noah shares to aggrieved clients, we wrote a letter to the board. The letter expressed our concerns that shareholders would now be shouldering the losses in these investments by being diluted with the issuance of shares that were significantly undervalued. With significant cash on the balance sheet, it did not make sense to issue shares for any reason. Our view was that if the company chose to issue shares to investors, they should at least be offset by the repurchase of shares in the market.

Outcome

We received a well-articulated reply to our letter in late-September 2020, but no promise of action. Central to the response was that the company believed issuing shares would tie investors in for the long term and allow them to benefit from the rising share price, whereas simply paying out cash compensation would not result in an alignment of interests. We did not agree with this view. However, at the AGM in December 2020, the board authorised a buyback equivalent to 5% of the market capitalisation of the company. This is a small amount relative to the cash reserves the company has, but is sufficient to offset the dilution of the share issuance over the next five years. This small act was well received by the market and we believe it was a contributing factor to the rise in the share price from lows of $24.77 at the time of the announcement to $50 by early-February 2021.

06

Protecting minority shareholder rights

Namibia Breweries (NBS) is the leading beverage manufacturer in Namibia, with a product offering comprising mainly beer and, to a smaller degree, cider and soft drinks. It is one of the largest businesses in the country and South Africa is a key export market. The major shareholders are the founding family business – Ohlthaver & List (O&L) – and the Heineken Group, with each effectively owning 29.7% of the business.

The business also owns 25% of Heineken South Africa, the number two beer producer in the South African market. The investment in Heineken South Africa is a material part of the value we see in Namibia Breweries. At inception in 2010, Heineken South Africa was a joint venture between Diageo, the Heineken Group and NBS (the joint venture was called DHN). In 2015, a restructure of DHN saw Diageo exit, leaving the Heineken Group with a 75% stake and NBS with 25%.

COMPANY
NAMIBIA BREWERIES

COUNTRY
NAMIBIA

ACTION
LETTERS, TELEPHONE CALLS AND MEETINGS

OUTCOME
POSITIVE

Action

During 2020, we engaged management on two separate issues:

1. Action: Minority shareholder rights

In 2020, it came to light that O&L received €97 million from the Heineken Group as a consideration for the termination of an option agreement written at the time of the DHN restructuring. Minority shareholders of NBS were not beneficiaries of this deal. As a result, we engaged extensively with management to assess whether minority shareholders were treated appropriately, and whether the transaction was valid.

We had a call with the CEO and the deputy CFO, as well as the Deloitte partner who advised on the deal. They took us through the transaction in detail. With the information we were provided, we conferred with our in-house counsel to get an assessment of the validity of the events and whether minority shareholders were prejudiced in any way.

Outcome

We were satisfied with the details of the agreement and felt comfortable that minority shareholder rights were not impinged. Both anchor shareholders were well within their rights to engage in the contract. Based on the current evidence available, we have no reason to believe that value was extracted from Heineken South Africa to the detriment of minority shareholders.

2. Action: Board composition

We engaged with the company on board composition and whether minority shareholders were appropriately represented. In our view, the number of independent non-executives was not sufficient. In addition, the independence of some of the independent non-executives could be called into question, given the length of their tenure on the board. We had a call with the NBS CEO to highlight our view that it would be in the best interests of all stakeholders if additional independent non-executive directors were appointed to the board. Additionally, we wrote a letter to the trustees of the Government Institutions Pension Fund (GIPF) to propose that it appoints a director to the board of Namibia Breweries to represent its interests as the largest minority shareholder. We followed this up with a call with representatives of the GIPF to discuss our views and the importance of minority interests being protected.

Outcome

We were pleased to see that our discussions with the GIPF yielded results, as it lobbied for a change in the board composition to protect minority interests. In our view, two very capable and independent board members were appointed to the board of directors at the AGM following our engagement. We think this is a positive change for the governance of a company of such major importance to a nation.

07

Addressing greenhouse gas emissions

Sasol Limited is an international integrated chemicals and energy company. The company develops and commercialises technologies and builds and operates facilities to produce a range of product streams, including liquid fuels and chemicals. Its regional operating hubs include Southern Africa operations and international operations, mainly in Europe and the US.

Sasol is a large emitter of greenhouse gases (GHGs). As per its 2020 Sustainability Report, it emits 66 million tonnes of Scope 1 and Scope 2 GHGs per annum. Approximately 85% of this comes from its South African operations in Secunda and Sasolburg. In addition, Sasol estimates that Scope 3 GHG emissions amounted to 42 million tonnes in 2019.

Sasol is also a significant emitter of other atmospheric gases, including volatile organic compounds, particulate matter, nitrogen oxide and sulphur dioxide. Sasol has to comply with the South African Air Quality Act to maintain its atmospheric emission licences. In certain instances where Sasol has not been able to meet standards within the required timeframe, it has asked for extensions or postponements to deadlines. We have noted that Sasol will find it particularly challenging to meet the new plant standard for sulphur dioxide emissions by 2025 due to financial pressures necessitating a deferral of capital expenditure. This presents a potential risk of non-compliance with the conditions of its licence.

COMPANY
SASOL LIMITED

REGION
GLOBAL

ACTION
MEETINGS

OUTCOME
POSITIVE AND ONGOING

Action

Over the last three years, we have had seven specific engagements with the company regarding environmental matters. Our early engagements consisted of meetings with the Sasol sustainability team to understand and discuss its detailed plans to reduce GHG and atmospheric emissions. Our initial meetings highlighted a significant lack of disclosure on emissions, emission reduction targets and how those targets were linked to management remuneration. We encouraged the sustainability, and management teams to improve disclosure in this regard. At Sasol's 2019 AGM, we were part of a group of institutional shareholders that proposed resolutions asking Sasol to disclose its Scope 1 and 2 GHG emission targets and link them to management remuneration; to disclose its Scope 3 GHG emissions in 2020; and, from 2022 onwards, to disclose its Scope 3 GHG emission targets.

In 2020, we followed up on these issues with three separate engagements, as follows:

- We started with an engagement with the Chairperson of the remuneration committee to add environmental targets to management's key performance indicators (KPIs).
- There was a further meeting later in the year with the Chairperson of the remuneration committee as well as an independent non-executive director.
- Finally, we had a discussion with the Chairman of the board and Sasol's Vice President of Climate Change, encouraging them to commit the necessary capital expenditure to further reduce Sasol's overall emissions.

Outcome

While Sasol did not table our resolutions at the 2019 AGM, the company's 2020 Annual Report provided disclosures related to Scope 1, 2 and 3 emissions, as well as improved detail on how Sasol would achieve its target to reduce GHG emissions from its South African operations by 10% (off the 2017 baseline). During 2020, post our engagement with Sasol's remuneration committee, the company undertook to include climate change milestones, which would be linked to its objective of reducing GHG emissions by 10% by 2030, in management's short- and long-term KPIs.

We continue to monitor Sasol's compliance with Air Quality Standards and will re-engage with the company on its capital expenditure plans in 2021. Sasol is also in the process of defining a 2050 GHG reduction ambition and roadmap, which it will communicate at Capital Markets Day in 2021. We are encouraged by the company's willingness to improve its disclosure and share its plans to deal with its significant environmental issues. The company will likely face a challenging transition, but we believe that clear, transparent disclosure and guidance on how it will meet these challenges will allow shareholders to evaluate the company's valuation with more certainty, and hold the management team and board accountable.

08

Promoting efficient and focused capital allocation

COMPANY
FAMOUS BRANDS

COUNTRY
SOUTH AFRICA

ACTION
LETTER

OUTCOME
POSITIVE

Famous Brands is a leading owner of multiple restaurant franchisees in South Africa and abroad, notably Wimpy, Steers, Debonairs and Mugg & Bean. Since its listing on the JSE in 1994, Famous Brands has methodically built out a highly successful South African business where it is both the franchisor of multiple brands as well as the manufacturer and distributor of goods that are sold through the stores. The company has consistently demonstrated the success of its business model through strong earnings growth, near 100% free cash flow generation and excellent returns to shareholders over time. This all changed in September 2016 when the group acquired British-based Gourmet Burger Kitchen (GBK) for R2.1 billion, funded with debt.

Within six months of acquiring the business, its performance started to drop off materially, impacted both by Brexit and the consequent economic uncertainty and the over-traded nature of the gourmet burger category. While GBK had been one of the original gourmet burger operators in the region, a wave of capital from 2013 had led to a proliferation of competition. GBK was a particular departure for Famous Brands because, unlike its African business where it is primarily the franchisor, in GBK it owned the entire store base. Individual ownership of restaurants is a very different proposition to being a franchisor, with vastly different economics as well as operating practices. With GBK loss-making, the group had to service its large debt load from the South African profit stream.

Increasingly, management attention was diverted away from the core South African business to fixing GBK, including the redeployment of top South African executives to the UK. In several management meetings between 2017 and 2019, we consistently implored the Famous Brands team to prioritise human and financial capital allocation to the core South African business and to not allocate further capital to the loss-making UK business.

Action

In March 2020, once it was clear that the restaurant sector would be one of the hardest hit by Covid-19 lockdowns, we wrote a letter to the board urging it to no longer allocate resources to the UK and look to exit the GBK investment. While its group debt was previously large but manageable, the shutting down of the entire South African business due to lockdowns left no capacity to hold onto the increasingly loss-making GBK, which could potentially put the entire organisation at risk.

Outcome

Within two weeks of responding to our letter, Famous Brands put out a SENS announcement stating that it would no longer "provide any further financial assistance to the GBK business". This was an excellent first step towards exiting the asset, and we believe that the support and direction from Coronation as Famous Brands' largest shareholder enabled the business to make this decision. It took until October to find a comprehensive solution and GBK was put into administration as required by UK legislation. It was then taken over by a local operator, saving the business and many jobs, while terminating any future liability for the group. Famous Brands can now focus entirely on its successful African business, without the distraction and financial losses from GBK.

09

Linking executive remuneration to sustainable growth

The tobacco industry is undergoing a transformation as smokers increasingly shift to potentially reduced risk alternatives to cigarettes. To remain relevant and to continue to deliver attractive long-term shareholder returns, tobacco companies must invest behind, and be competitive in, this new world of next-generation products (NGPs). British American Tobacco (BAT), a leading global tobacco company, has embarked on a multi-category approach towards harm reduction, epitomised through its 'Better Tomorrow' strategy.

Coronation believes this is the right approach; however, early progress has been mixed. BAT's performance in the e-vapour category has been improving but it has materially lagged its peer, Philip Morris International, in the heated tobacco category, the largest of the three NGP sub-categories.

COMPANY
BRITISH AMERICAN TOBACCO

REGION
GLOBAL

ACTION
LETTERS AND MEETINGS

OUTCOME
POSITIVE AND ONGOING

Action

Coronation engaged with the Chairman of the board and the Head of the Remuneration committee during 2020 to share our views on the company's mixed performance in NGPs and to encourage the company to more closely link the business's performance in NGPs with management remuneration outcomes. Coronation did not believe that BAT's remuneration structure adequately aligned management's remuneration incentives with what we believe is the strategic imperative for management to develop and successfully market a range of NGPs. At the time, there was only a weak link between BAT's performance in NGPs and management remuneration. In fact, it allowed for management to conceivably achieve target or close-to-target incentive compensation pay-outs through strong performance in combustible cigarette pricing alone. This is largely because only a modest amount of BAT's revenue currently comes from NGPs. If this were accompanied by a lacklustre NGP performance, it would arguably leave BAT without a sustainable future product portfolio. Under such a scenario, management and stakeholder interests would not have been adequately aligned.

Outcome
Following our engagement with the company, BAT, via a letter to shareholders, has indicated that it intends to make changes to the company's short-term incentive key performance indicators (KPIs) for 2021, which will, for the first time, explicitly include NGP-related metrics. We are encouraged by this positive outcome, but believe there is still further room for improvement in the structure of the company's management remuneration KPIs, and will continue to engage with the company in this regard.

10

Addressing board independence and conflicts of interest

Pepkor has the largest retail store network in Southern Africa and owns some of South Africa's most well-known brands, including Pep and Ackermans. After initially listing on the JSE in 1972, Pepkor delisted in 2004. It existed as a private entity until Steinhoff acquired it from Brait in 2015 and then separately listed the business (called Steinhoff Africa Retail – STAR) in 2017. After the corporate scandal at Steinhoff, STAR moved quickly to distance itself from its majority shareholder, changing its name back to Pepkor and cutting significant business ties.

As a stand-alone entity, Pepkor has unfortunately made several governance missteps since returning to the listed space. Notably, it neglected to disclose an executive share scheme guarantee backed by Steinhoff shares in its pre-listing statement. With the subsequent collapse of the Steinhoff share price, the secured loan became payable by Pepkor, forcing it to disclose its existence to the market. In addition to being fined by the JSE for the non-disclosure, the settlement of the loan guarantee and accrued interest ultimately cost shareholders in the region of R600 million. Pepkor's board has also endured numerous challenges since listing, with the resignation and/or retirement of 11 non-executive directors, including a director who was found to have allegedly supplied false qualifications.

COMPANY
PEPKOR

REGION
SOUTHERN AFRICA

ACTION
LETTERS, MEETINGS AND PROXY VOTING

OUTCOME
POSITIVE

Action

While Pepkor has improved its board composition over the last few years, until recently, two significant issues remained. The first was the issue of Pepkor's Chairperson. We disagreed with Pepkor's classification of the Chairperson as an independent director, considering his large shareholding in Steinhoff. We also urged the board to appoint an independent Chairperson, considering Pepkor's history and the need to implement sound corporate governance principles.

In 2020, the situation became untenable when Pepkor's Chairperson was named in the Report of the Judicial Commission of Inquiry into Allegations of Impropriety at the Public Investment Corporation, relating to funding indirectly provided to him to invest in Steinhoff and Pepkor.

The second issue related to a non-executive director with a clear conflict of interest pertaining to legal action instituted against Steinhoff.

We have written five separate letters to Pepkor's board since 2018, urging it to appoint an independent Chairperson and to replace the director with the conflict of interest. Our engagements also included several meetings with executive management and non-executive directors, including Pepkor's lead independent director. We voted against the re-election of the Chairperson and the conflicted director in 2018, 2019 and 2020.

Outcome

In 2018, Pepkor finally agreed with our assessment of the Chairperson's lack of independence and appointed a lead independent director. Despite this mitigating factor, we persisted with our calls for the appointment of an independent Chairperson. Following an external review conducted about the Chairperson, in which we participated, the Chairperson was persuaded to step down from his role and, soon after, announced his resignation from the board. In a further nod to effective shareholder engagement, the board member with the conflict of interest decided to not stand for re-election in 2021.

Pepkor has subsequently improved its board's composition by appointing an independent non-executive Chairperson and has begun searching for two new independent board members.

11

11a

Investing for impact and investment returns

The United Nations Sustainable Development Goals (SDGs) can be a powerful way to identify and map impactful companies. They help to demonstrate the clear connections between some of our exciting investment opportunities and the underlying targets of the SDGs.

Two such examples are Mercari, a Japanese retailer that promotes the circular economy, and X5, a Russian retail group. We outline their investment cases below.

SUPPORTING A CIRCULAR ECONOMY

Mercari, a Japanese company founded in 2013, has created an online marketplace to facilitate the trade of used goods between consumers. While we fully appreciate the economic potential of a leading online commerce platform, it was our environmental, social and governance (ESG) work that uncovered an entirely new market – the circular economy. This large, yet nascent, opportunity, which we expect will reduce waste and unnecessary consumption, is integral to Mercari's long-term strategy.

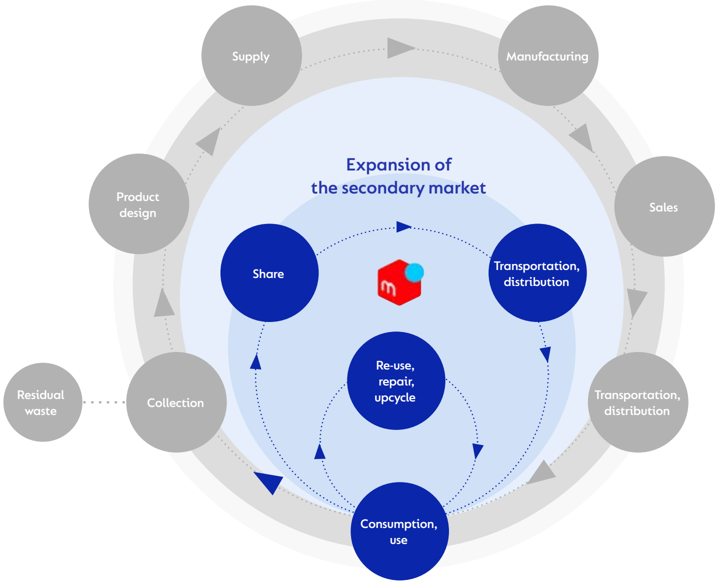
COMPANY
MERCARI

REGION
GLOBAL

MERCARI'S SDG FOCUS AREAS

Sources: United Nations, Mercari

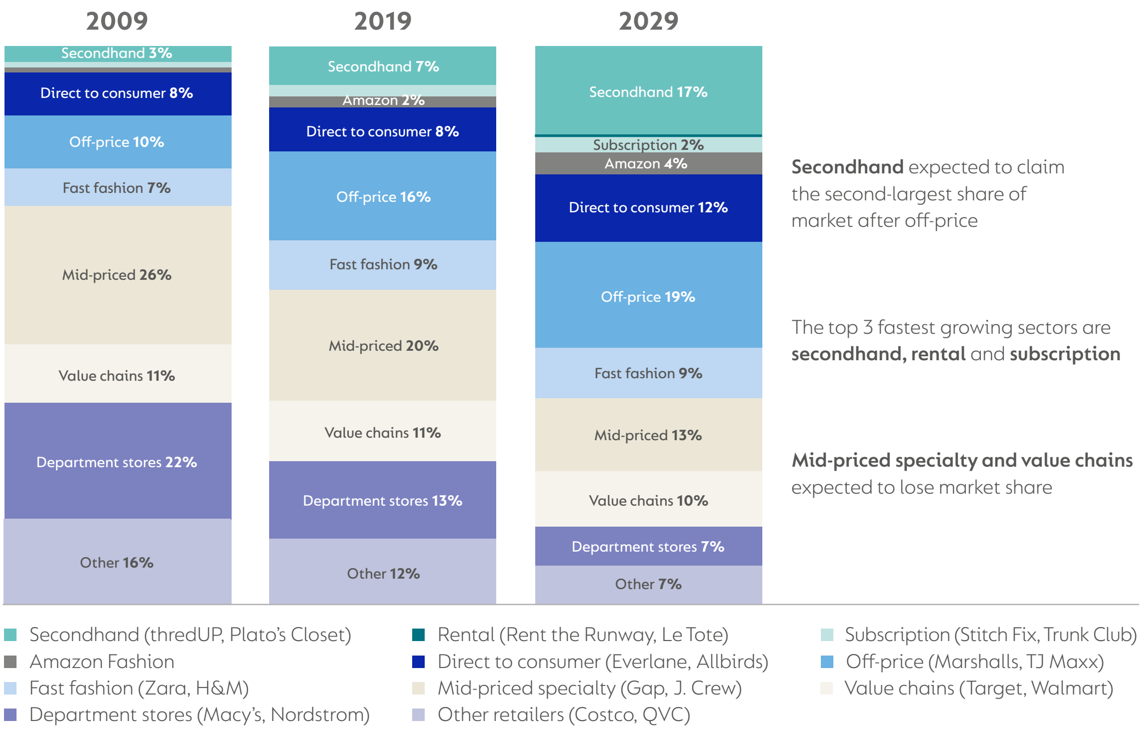
THE CIRCULAR ECONOMY THAT MERCARI ENVISIONS



Source: Mercari

The company has taken an innovative approach by investing in technology that improves user experiences, thereby growing the market to the benefit of all consumers. One such example is the ecosystem it has developed that links new and used goods to better track the lifecycle of products as they move between different owners. This rich dataset of overall consumption will become increasingly important as secondhand items grow in terms of share of wallet.

SECONDHAND EXPECTED TO DOUBLE MARKET SHARE IN 10 YEARS



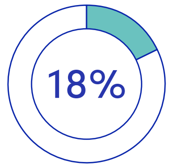
Source: threadUP

So far, success is evident in the growth of their Japanese marketplace, up from three million monthly active users in 2016 to 18 million currently. The value of goods transacted on the platform has grown more than eight times over the same period, which highlights the momentum of this powerful consumer trend. Over the medium term, Mercari aims to convert over a third of Japanese adults to the platform. Mercari's operations in the US are smaller but growing rapidly, in what can be described as an evolving used-goods ecosystem, as individuals seek out more sustainable ways to consume. The company is following a similar strategy to Japan, and has attracted over four million monthly active users to the platform, with the volume of goods transacted currently growing in excess of 100%.

The used goods market has long-term structural tailwinds and is at an early stage of development. By 'doing good' we believe all of Mercari's stakeholders will also 'do well'. The early signs are promising, and we fully support the company's strategy and early successes in driving consumer adoption, broadening the acceptance of used goods selling, growing the circular economy and reducing waste. Mercari is an example of an impact investment that contributes strongly to the achievement of the UN SDGs and also offers compelling financial returns to the end-investor. In a world where there is increasing need to limit the effects of climate change, there is a unique opportunity for investors to find attractive investment opportunities that marry both positive impact and compelling returns.

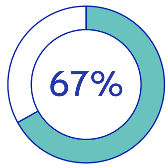
RESALE MARKET IS MASSIVE, AND IT'S JUST GETTING STARTED

82% of America hasn't yet resold clothing, but most consumers are open to doing so



OF PEOPLE HAVE NEVER RESOLD CLOTHING

BUT



OF PEOPLE WHO HAVEN'T, ARE OPEN TO RESELLING THEIR CLOTHING

11b

THE FIRST RUSSIAN RETAILER TO JOIN THE UN GLOBAL COMPACT

X5 Retail Group, Russia's largest food retailer, operates more than 16 000 multi-format stores across seven of the eight federal districts in this expansive country. Notably, in 2020, X5 became the first Russian retailer to join the UN Global Compact, a signal of its intent to demonstrate a commitment to ESG factors in its operations, such as anti-corruption, human rights, fair labour practices and environmental considerations.

COMPANY
X5 RETAIL GROUP

REGION
RUSSIA

In December 2019, the board approved X5's sustainable policy, which uses the UN SDGs as a framework for integrating them into the company's overall business strategy. The company has identified SDG goals 2, 3, 8 and 12 as areas where it can have the biggest impact.

X5'S SDG FOCUS AREAS

During 2020, X5 adopted specific strategic targets for 2023, as well as ambitious goals for 2030.

X5'S SDG COMMITMENTS

UN SDGs		Key goals for X5
Primary	**Secondary**	
2 Zero hunger		• Support local communities by expanding social investments and charity programmes.
3 Good health & well-being		• Facilitate accessibility (across geography of operations) of a wide assortment of high-quality and health foods • Support healthy lifestyles • Monitor the production of the food (and non-food) goods we sell from 'farm to fork' for quality and safety.
8 Decent work & economic growth	5 Gender equality; 10 Reduced inequalities	• Ensure that we offer decent working conditions and equal opportunities for all of our employees • Monitor the production of the food (and non-food) goods we sell from 'farm to fork' for social impact • Further improve the productivity of every employee.
12 Responsible consumption and production	7 Affordable & clean energy; 11 Sustainable cities & communities; 13 Climate action; 14 Life below water; 15 Life on land	• Reduce energy consumption • Develop sustainable packaging offerings • Monitor the production of the food (and non-food) goods we sell from 'farm to fork' for environmental impact • Cut volumes of waste sent to landfills • Support responsible consumption.

Source: X5

Zero hunger

In a strong demonstration of corporate citizenship, X5 has implemented discount programmes to lower-income citizens, provided food aid to nearly 48 000 families in need and to people with disabilities, and offers 5% to 10% discounts to pensioners and families with children on weekdays. To assist with social distancing during lockdown, the company accelerated the rollout of grocery delivery and also piloted a programme of delivering to lockers free of charge to facilitate easier and safer collection.

Decent work and economic growth

All employees have been trained on the principles of sustainable development, and programmes to bolster corporate culture, and diversity and inclusion have been implemented, along with feedback channels. Workplace break facilities have been improved, notwithstanding the 95% work-from-home policy introduced by the company during the Covid-19 lockdown. Further, competency and remuneration transparency have been improved.

Good health and well-being

In consultation with nutritionists and dieticians, the Good Habit Route and Healthy Food Basket campaigns were launched to encourage healthy eating habits, through training and product labelling and availability.

Responsible consumption and production

X5 is actively working towards achieving carbon neutrality by 2050. The company has committed to reducing greenhouse gas emissions and improving energy efficiency out to 2023 to limit its environmental impact. This is being achieved through the introduction of in-store technology designed to increase the efficiency and sustainability of operations while providing long-term environmental benefits. This includes low-energy consumption refrigeration, lighting and power equipment, and coordinating all energy-consuming components to maximise energy savings.

The company will also recycle up to 100% of the plastic, cardboard, paper and other non-food waste generated by its stores, and transfer unsold, unsaleable food before its expiry date for recycling into animal feed. Russia has limited capacity for industrial composting, and large-scale recycling of consumer waste has only begun to be introduced in most cities. X5's pilot programme has so far installed 20 reverse vending machines that collect plastic packaging for recycling in the company's stores and offers coupons to customers who use them. Additionally, X5's supplier policy promotes ecological and social certifications, as well as recycling criteria for product packaging.

Conclusion

In 2021, X5 plans to publish its first sustainability report in accordance with the Global Reporting Initiative's Sustainability Reporting Standards, and seek independent assurance. These standards create a common framework for companies to assess and reveal their impact in terms of sustainability in a uniform and reliable way, increasing transparency and accountability.

Although Russia is relatively new to the sustainability space, X5 exemplifies a forward-thinking company that embraces responsible business practice and disclosure. In addition, this company is an excellent example of an attractive investment opportunity within our portfolios that also represents a positive impact story through its strategic priorities.

12

Effective engagement is a multi-year endeavour

The following case studies are updates on case studies from our 2019 and 2020 Stewardship Reports.

ENGAGING CO-SHAREHOLDERS TO PROTECT VALUE

In our 2019 report, we outlined how the Trencor unbundling took place in December 2019 as the result of a prior multi-year engagement with management and the board. The unbundling unlocked significant value for shareholders. The outcome of the unbundling was that shareholders now held two shares: a share in Trencor – a cash shell, albeit with some remaining complexity – and a share in Textainer, a US-listed asset, but now also represented on the JSE through an inward listing. The inward listing was a key element in the interactions around the structure of the unbundling of the previous year. It facilitated the mechanism through which South African shareholders could remain invested in the underlying operations, without having to sell their shares. During 2020, we continued to engage, now separately, with both companies.

Action

With the unbundling, 2020 should have been a year of plain sailing for Trencor shareholders; one of simply awaiting various tranches of capital returns. The reality turned out to be one of substantial complexity,

COMPANY
TRENCOR

COUNTRIES
SOUTH AFRICA AND THE US

ACTION
LETTERS AND MEETINGS

OUTCOME
POSITIVE AND ONGOING

where Coronation as shareholder of reference (being the institutional shareholder with by far the biggest interest) had to get intensely involved to ensure we achieved the desired value for our clients. While the bulk of the economic value in Trencor had been unbundled as Textainer shares, the assets left in Trencor could be better described as 'near-cash' than simply as cash. A clear commitment had been made by the board that all assets would be unbundled to shareholders as soon as they became 'commercially available' to Trencor. However, there were practical problems and impediments associated with all three of the major classes of assets remaining in the company. These hurdles caused substantial delays in the disbursement of the tranches of capital. The first tranche involved a residual of three million Textainer shares that had been held in reserve from the initial unbundling. Attempts to sell this block of shares fell through in the wake of Covid-19 and a ruling by the relevant regulator that such a sale would need shareholder approval. This ruling had to be overturned, with substantial negotiation with the regulator, in which we also became involved. A subsequent attempt to distribute these Textainer shares as a dividend in specie ran into very significant administrative issues around dividend withholding tax. The company did manage to get this distribution done, even though it was several months later than anticipated.

Action

Surprisingly, with the AGM looming, a revolt took root among aggrieved minority shareholders who blamed management and the board for the delays in disbursements and who planned to set a motion to dismiss and replace the board. In our view, the disappointment was due mostly to an underestimation of the complexities and timeframes associated with these transactions. Having been long-standing shareholders, we felt we had a good appreciation of the accompanying facts and complexities. We disagreed with both the premise of wrongdoing and the assertion that a new board could alter contractual obligations that were cast in stone.

We felt that a loss of corporate memory and key relationships would be disastrous in a company so close to the end of its life and that the incumbent individuals were clearly the best people to steer the wind-up of the group. As such, we found ourselves in the unusual position of defending the incumbent management. We had around a dozen interactions with other shareholders, using the opportunity to explain our understanding of the facts and debating their conflicting views. The result was that the situation was defused and no motion to dismiss or replace directors was put forward.

Outcomes

By mid-2020, the company was able to announce that the second capital tranche, known as the LAPCO indemnity, had been unlocked through negotiation, much earlier than the July 2021 date initially expected. It was thus paid out to shareholders as a dividend. The last tranche is due no later than January 2025, but endeavours to get at least part of it released before that date remain ongoing. Management has also committed to stringent management of the administrative costs until the final winding up, and have made tangible savings through headcount reduction, cuts in salaries and reduction in directors' fees.

UNLOCKING SHAREHOLDER VALUE AND PROMOTING GOOD GOVERNANCE

As shareholders via Trencor, we had already started participating in regular quarterly calls with Textainer's management. Well ahead of the inward listing, lines of communication had also been established with individual board members beyond those nominated by Trencor. Textainer is a company engaged in a deeply cyclical and capital-intensive industry. Walking the line between the ebb and flow of the economic cycle and business sentiment on the one hand and the requirement for long-term decision-making on the other is tough.

Astute capital policy decisions, such as when to issue equity or debt, when to prioritise capital expenditure, or when to give cash back to shareholders as buy-backs or dividends, are even more critical than in most businesses. They are complicated further by wild swings in the share price, which can trade at a big premium or discount to the underlying asset value, depending on the stage of the cycle. Such decisions also have long-lasting implications. By the time of the unbundling, Textainer had suffered a multi-year period of operational underperformance, largely, in our view, due to misreading the cycle in the past and through poor decision-making.

COMPANY
TEXTAINER

COUNTRY
US

ACTION
LETTERS AND MEETINGS

OUTCOME
POSITIVE AND ONGOING

Action

We do not presume to run companies or to advise management teams how to do so, but we often do have informed views, which we share with management on a constructive basis. In Textainer's case, we felt strongly that the deep discount at which the shares were trading in 2019 and 2020 made a compelling case for share buy-backs. We shared this view with the new management team and the board. On discovering that there was a long-standing resistance to buy-backs among some board members, we lobbied several individual board members on the issue.

As outlined in last year's report, as a company registered in Bermuda and listed as a foreign issuer in the US, Textainer is subject to far less onerous governance and disclosure requirements than global best practice requires. We have engaged extensively with the company, both personally with the Chairperson and in the form of written correspondence to the board, on better disclosure of executive remuneration, the constitution of board committees and other matters.

Outcome

Starting in late 2019 and continuing into 2020, the company bought back a substantial number of its shares in issue. We can take no credit for a subsequent upturn in the cycle nor the astute timing of a large tranche of capital expenditure that happened just in time to take advantage of that upturn, but in combination with the buy-back, the about-turn in fortunes saw Textainer's share price more than double during the year and its discount to net asset value narrow significantly. This was a major value unlock. In the midst of the downcycle, we rebuffed repeated approaches from private equity firms for our stake in the business, always at only a slightly less steep discount to the underlying value at which the share was trading. Rather than banking a quick but small return, we elected to trust our process and work with management. This has paid off handsomely.

The board has undertaken to demonstrate progress on a number of our requests. At the time of writing, the 2020 Annual Report has not yet been published, so the monitoring of progress remains an outstanding matter. We have also expressed our objection to an anti-takeover clause (poison pill) in the company's by-laws. Engagement on this will remain ongoing. Lastly, we have expressed the view that the severing of ties with Trencor presents a generational opportunity to implement board renewal and bring fresh insights and skills to the board. The board is committed to the process, but progress has been slow. We have actively participated by leveraging our global contact network, and by suggesting possible candidates, some of whom have been considered by the board. This also remains an ongoing process.

ENGAGING ON GOVERNANCE

Glencore is a global diversified mining and resource trading company. Over the years, various allegations have been made against the company's practices, especially its dealings in the Democratic Republic of the Congo (DRC). On 2 July 2018, the company notified the market that the US Department of Justice (DoJ) had requested information and documents relating to the Foreign Corrupt Practices Act, as well as US money laundering rules. On 5 December 2019 and 19 June 2020, the UK's Serious Fraud Office and the Office of the Attorney General of Switzerland respectively announced investigations into Glencore. It is our understanding that their investigations relate to the same ground the DoJ is covering.

COMPANY
GLENCORE

REGION
GLOBAL

ACTION
MEETINGS

OUTCOME
REINVESTMENT AND ONGOING ENGAGEMENT

Previous action

To better understand the allegations, the investigative process and the company's responses, we arranged a number of calls with legal experts, past employees of the DoJ, past and current employees of Glencore, the Group Chairman and Glencore's legal counsel. We spent significant time interrogating how the company has evolved from its days as an unlisted player to where it is today and the vastly differing layers of governance that are now in operation.

Ongoing outcome

The ownership structure has been reorganised and resolved in a manner which is no longer in contravention of US regulations, and a number of senior executives have been replaced. The investigation into past practices is, however, still ongoing. There was a significant operational and personnel restructuring process, aligned with the new governance structures, and a change to the model of relying on intermediaries and third parties in politically sensitive regions. The company has introduced far higher compliance standards into the trading business; in particular a compliance team that monitors the trades in this division. We have maintained annual contact with Glencore's Chairman. In our 2020 interaction, he highlighted the fact that he expected the management overhaul to conclude in 2020 with the CEO's departure. He also highlighted that Glencore would be subjecting its compliance function to an external review and would make the results public. The good progress on refreshing all senior management, the improvement in the compliance function, the increasing appreciation of the role that companies like Glencore play in supplying 'decarbonisation metals', and an increased margin of safety between fair value and share price led us to reinitiate a position in Glencore. While the investigations into past practices are still ongoing, we incorporate a likely fine into our assessment of fair value.

ADDRESSING REMUNERATION POLICY

Over the past several years, we have worked to improve the corporate governance at Spur and to align management and shareholders' interests. We voted against the company's remuneration policy in 2017, 2018 and 2019, due to what we believed were excessive levels of remuneration and substandard key performance indicators. In 2018, we pushed the company to appoint new independent directors and voted against three board members who were up for re-election in that year. There was great progress in 2019 and 2020, with the election of a new Chairperson, and we have worked very closely with him since his arrival on the board.

COMPANY
SPUR

COUNTRY
SOUTH AFRICA

ACTION
MEETINGS

OUTCOME
POSITIVE AND ONGOING

Action

In 2020, we had video calls with the newly formed remuneration committee to provide our input on how best to structure the policy going forward. With the 2020 remuneration policy, there has been some very good progress in the remuneration structure, but improvement needs to be made in the 2021 report on appropriate hurdles for long-term incentives.

Outcome

Importantly in 2020, the previous CEO and COO of the business tendered their resignations, which we view to be a positive step forward for the business. A capable external hire was made, and Val Nichas officially started her role as CEO on 1 January 2021. We are optimistic about her taking the business forward and believe that a fresh face will contribute towards greatly improved corporate governance at the company. In addition, the significant conflicts we had highlighted where executives were also benefiting as operators of Spur franchises and receiving loans from the listed company have been resolved and should no longer be an issue in the future.

With a newly reconstituted board, remuneration committee and executive committee, we believe that Spur and its shareholders will be able to prosper into the future. Structures and policies are being put in place that will enable this success and a new executive will be able to move forward with none of the old legacy issues hanging over its head. +

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