Investments

Stewardship report

Reporting from 2023/2024

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Content

Foreword

In today's investment landscape, pension fund members and individual investors increasingly demand that all parties in the investment chain take their long-term interests, and those of future generations, into account. Environmental, social, and governance (ESG) considerations present both risks and opportunities that materially impact long-term risk and return outcomes. Consequently, a responsible investment approach that thoroughly evaluates these factors is imperative.

As Chief Investment Officer, I am proud to present our commitment to adopting a responsible investing (RI) approach. By integrating RI into our investment strategies, we enhance our ability to meet the needs of all our stakeholders while aligning our activities with the broader interests of society. This commitment is not only consistent with our stewardship responsibilities but also essential for creating and preserving long-term investment capital through active ownership, collaboration and disclosure.

RI is in line with our mission to achieve consistent and responsible investment outcomes for the benefit of our clients. Our approach to RI is founded on our belief that responsible investing practices play a significant role in creating a sustainable future for all.

We understand the sustainability imperative and the role it plays in changing the landscape of every industry. We believe that companies need to understand this imperative to gain the benefits of a greater impact and stronger growth prospects of various areas in society and industry.

To this end, we believe that incorporating ESG factors into our investment and stewardship decisions will support our pursuit of enhanced, sustainable returns for our clients. We also believe that it is important to provide our clients with a transparent and practical pathway to understand and identify where responsible investment considerations sit within our investment approach.

We distinguish between financial implications (such as risks and costs) associated with ESG considerations, where there is often shifting public sentiment and regulation, and growth opportunities in industries more directly affected by sustainability challenges (such as growing populations and natural resource constraints).

We further believe that incorporating responsible investment considerations in the investment decision-making process enables managers to manage risk better and generate sustainable long-term investment outcomes, sustainable returns for our clients and will achieve the following:

- **Understanding asset allocation** and related ESG implications of our positioning.
- **Construct portfolios** that manage assets responsibly, thereby safeguarding the interests of the clients we serve as well as the community and environment within which we operate.
- **Mitigate portfolio risk**, by ensuring factors are captured throughout our investment process. Applying RI principles is most effective when it is integrated into standard investment processes, providing an additional layer of insight and oversight.
- **Selection of managers**, by researching and keeping a birds-eye view of their ESG integration within their investment decision-making process.
- **Demonstrate active ownership**, to improve the governance of underlying investments directly or via asset manager monitoring, through manager selection, voting practices and engagement.

Gyongyi King
Chief Investment Officer
Alexforbes Investments

Our commitment is further demonstrated by our adherence to the Code for Responsible Investing in South Africa (CRISA) and the Principles of Responsible Investing (PRI). These frameworks guide us in implementing best practices in RI, both locally and globally. CRISA, with its voluntary and universally relevant principles, promotes an outcomes-based approach to RI, emphasising diligence in stewardship and fiduciary duties. Additionally, as a signatory of the UN Global Compact, we reinforce our support for sustainable business practices and operations worldwide. In addition, through the reach of our global partners Mercer and Blackrock, we are able to ensure stewardship and fiduciary duty remains paramount in the management of our clients' global allocations.

Our decade-long track record of championing responsible investing

2012
- Released our responsible investing manifesto
- Endorsed CRISA

2013
- Endorsed UN PRI
- Created and implemented proxy voting policy
- Adopted CRISA

2015
- Started responsible investments due diligence audits

2017
- Established South Africa private markets programme
- Incorporated Mercer's global responsible investing approach

2019
- Enhanced focus on social and environmental impact in responsible investing approach
- Started private market engagements

2021
- Signed up as signatory to the UNGC
- Established our responsible investing framework

2022
- Launched the transformation policy for asset managers
- Published inaugural private markets ESG report
- Coordination and alignment with group
- Transformed investments-focused client communication into holistic client communication aligned with group-wide sustainability coordination

2023
- Published inaugural stewardship report
- Issued updated proxy voting policy
- Represented on the SAICA technical sustainability committee
- Alexforbes impact centre of excellence established to further enhance integration of sustainability and ESG best practices and advice across the group

2024
- Launch of the Alexforbes Investments and group climate change policy
- Launch of Alexforbes Impact Advisory to deliver forward-thinking sustainability and ESG insights, and advice to retirement funds as well as corporate clients
- Launch of Alexforbes Impact Academy to provide ESG and sustainability focused training to retirement fund and corporate clients

Through these efforts, we aim to lead by example in the investment industry,
by integrating ESG and sustainability principles into our investment processes to ensure a better future for all.

Stewardship **highlights**

Our stewardship

Coverage

AUM **R6** trillion

21 managers

30 strategies

8 asset classes

Top 3 themes discussed

- Climate change
- Remuneration
- General governance

Types of meetings held during the year (1 April 2023 to 31 March 2024)

Governance Committee	1%
ESG	5%
Limited Partner Advisory Committee	8%
Due diligence	26%
Business update, catch up and introductory meetings	28%
Report backs	31%

327 formal engagements

Risks tabled

E	S	G
29%	20%	51%

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Global stewardship (Mercer)

100 + **200 +**

Mercer has +100 managers & +200 strategies across equity and fixed income*

96%

96% of Mercer's strategies are managed by PRI signatories

Mercer, 31 December 2023
*Excludes assets under administration

Industry bodies and principles we subscribe to

Group: alexforbes (insight · advice · impact); SDG Ambition; Young SDG Innovators; King IV; Integrated Reporting <IR>; Women's Empowerment Principles

Investments Local: alexforbes (insight · advice · impact); PRI Principles for Responsible Investment; CRISA Code for Responsible Investing in South Africa; ASISA; SAVCA Southern African Venture Capital and Private Equity Association

Investments Global: alexforbes (insight · advice · impact); PRI Principles for Responsible Investment; Mercer; CDP Driving Sustainable Economies; GIIN Global Impact Investing Network; IIGCC The Institutional Investors Group on Climate Change; TCFD Task Force on Climate-Related Financial Disclosures

Our four-factor ESG research: Broad perspective on risks and opportunities

What we rate

How we rate

- **ESG 1** ESG integrated into the investment policy
- **ESG 2** Consistent and repeatable process to ESG integration
- **ESG 3** Ad hoc process to ESG integration
- **ESG 4** Little to no integration of ESG factors

Milestones

Issued inaugural climate policy

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Establishment of the Alexforbes Impact Centre of Excellence (CoE)

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PRI results

Our 2023 PRI Summary Scorecard (2022 calendar year)

	Star Rating	Our Score
Policy Governance & Strategy	★★★★	79%
Indirect - Fixed income - Active	★★★★	84%
Indirect - Fixed income - Passive	★★★★	80%
Indirect - Infrastructure	★★★★	86%
Indirect - Listed equity - Active	★★★★	81%
Indirect - Listed equity - Passive	★★★★	81%
Indirect - Private equity	★★★★	86%
Indirect - Real estate	★★★★	84%
Capacity building	★★★	60%

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Proxy voting summary

No. of resolutions	24 737
No. of resolutions voted for	21 478
No. of resolutions voted against	3 173
No. of abstentions	86

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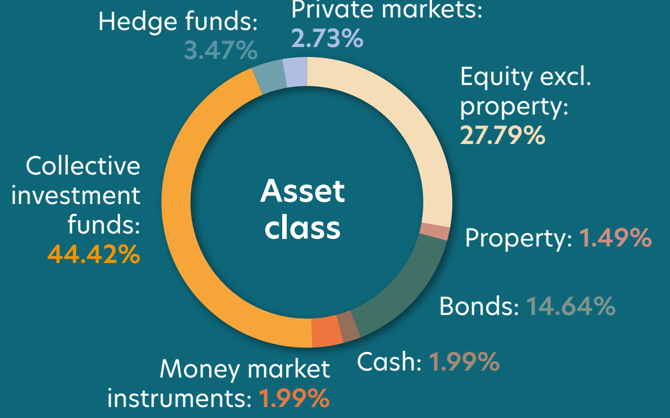
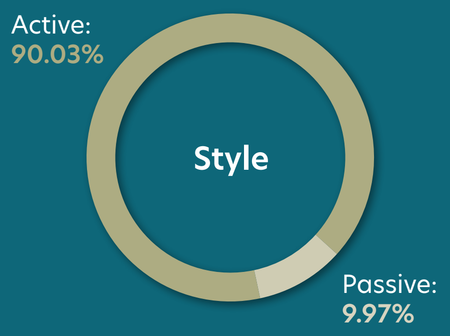
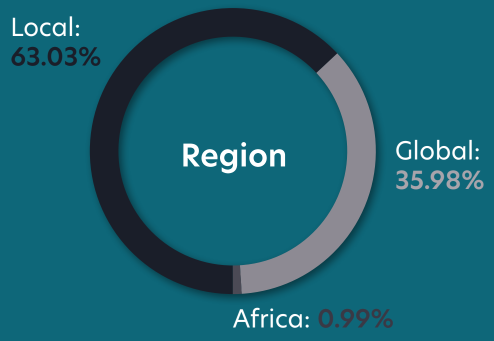
About
Alexforbes Investments

262	145	52%	86%	15
Full time employees	Investment professionals	% of women	% of black employees	Number of graduates

Assets under management: R403.1* billion (Retail and Institutional investors)



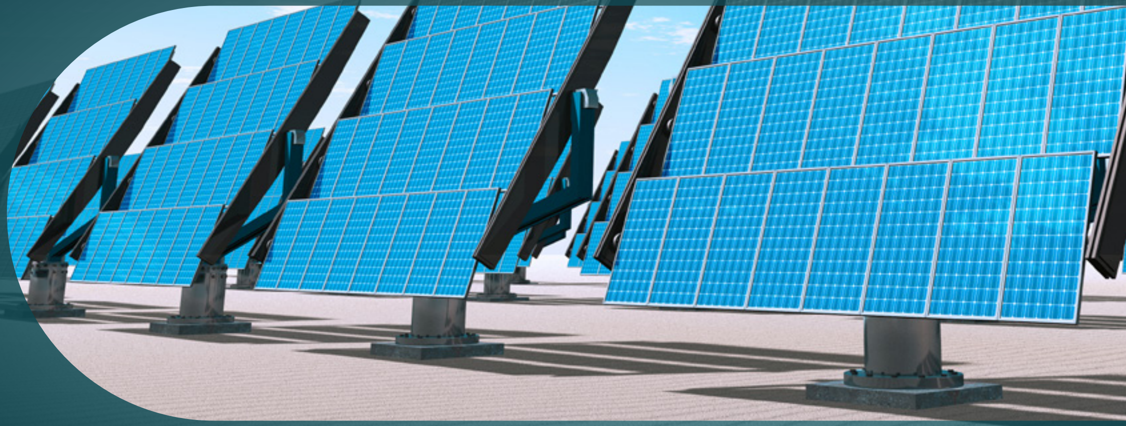




*Excludes assets under administration

Stewardship:
The year in review

In this report, we reflect on a year of steadfast commitment to responsible investment and stewardship. As we navigate the evolving landscape of sustainable finance, Alexforbes Investments remains dedicated to upholding the highest standards of stewardship, ensuring that environmental, social, and governance (ESG) considerations are integrated into our investment decisions.



Local

Commitments

Locally, we have maintained our support for CRISA 2 and the PRI. The approach has helped our process remain relatively robust and responsive to a changing environment. We continue to investigate the host of climate affiliations available to the market. We also benefit from the intellectual property that our global service provider Mercer brings with them, having been a pioneer in climate risk management. That said, whilst we have not embarked upon making public pledges of support, we think there has been much benefit in doing this work. Specifically, implementing the approach to climate stewardship, reporting, strategy and scenario or sensitivity analysis and thereby ensuring we make measured decisions for our client portfolios.

Reporting

In our inaugural report last year, we chose to report for the first time on ESG metrics. Accordingly, this year we report on ESG integration, WACI and diversity in a way that speaks to local and global allocations of our core portfolio solutions. Throughout the year, it has assisted in sharpening our engagements by the investment team with asset managers, which in turn shaped conversations with JSE-listed companies as well. We think, it is noteworthy that we are able to provide transparent reporting on aspects such as carbon intensity across portfolios, ahead of multi-managed peers and the asset management industry at large.

Private markets ESG report

In the first quarter of 2024, we also published our private markets ESG report that outlined sustainable development areas relating to RI considerations within our private markets programme. Specifically, green transition, health and safety, education, job creation and diversity and financial inclusion. The report is a result of continuous engagement and collaboration to ensure that we can provide a meaningful contribution to the RI landscape in the country and lead to more informed decision-making across the industry.

Read more

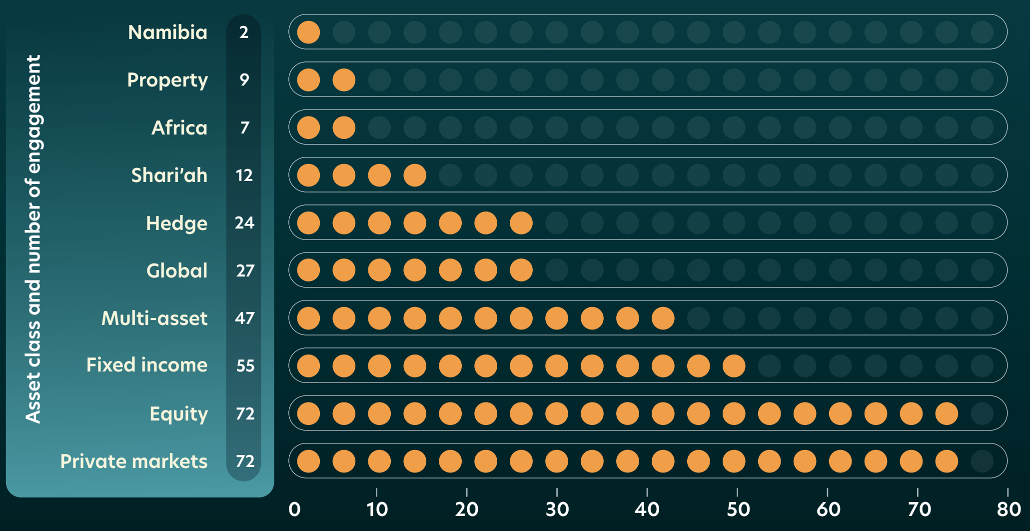
Premal Ranchod
Head ESG Research
Alexforbes Investments

Stewardship

Over the 2023/2024 reporting period, we had 327 formal engagements with asset managers. These engagements allow us to address pivotal aspects such as portfolio construction, sound risk management, and strategic asset allocation. We leveraged stewardship as a powerful lever alongside traditional manager research, ensuring that our portfolio management practices not only optimise for risk and return but also are done so in a responsible manner. Our engagements focused on integrating ESG factors, enhancing transparency, and fostering accountability across our investment strategies and across asset classes.

327
formal engagements

Engagements on asset class types during the year



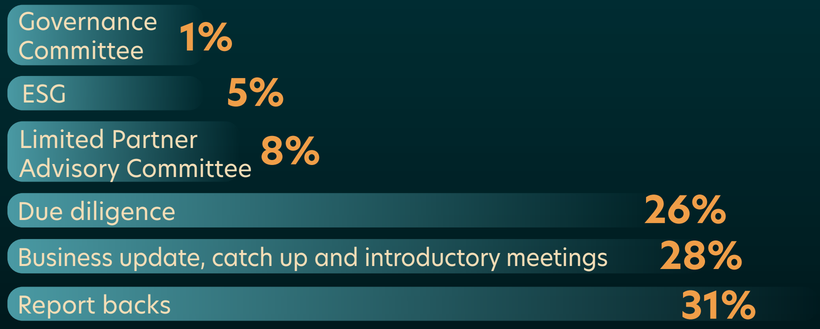
1 April 2023 to 31 March 2024

We conduct engagements through report backs, due diligence sessions, manager update meetings, governance committees, and Limited Partner Advisory Committees (LPACs), with the overall stewardship and governance of client assets as part of our agenda. We integrate and tailor our approach based on the type of engagement we have.

In private markets, we have a formalised governance committee with our largest service providers, adding an extra layer of vetting with general partners before new allocations are made and for managing existing assets. For smaller allocations, we exert influence through Limited Partner advisory committee seats alongside like-minded co-investors.

In report back and due diligence meetings (which occur across all underlying managers within our portfolios), we are able to probe much deeper to get insights, understand risk and evidence processes, systems, engagements and proxy voting. We also hold dedicated ESG engagements with the market of service providers such that we can collaborate and influence.

Types of meetings held during the year



1 April 2023 to 31 March 2024

Over and above the engagements, we focussed our efforts to build on our responsible investing framework, measurement and reporting.

Inaugural stewardship report

In the second quarter of 2023, we released our first stewardship report, based on 2021/2022 data from 17 diverse asset managers managing R5.5 trillion. This report highlighted insights from our responsible investment (RI) engagements, detailing our approach to responsible investing, ESG integration, and the incorporation of social and environmental considerations. Key findings included how managers handle materiality, measurement, and stewardship, their RI philosophy and process, industry affiliations, strategic ESG focus areas, risk evaluation, and RI engagement plans.

The report for the 2023/2024 period will provide an update in line with the above.

Proxy voting guidelines

In this reporting period, we also embarked on a detailed review of our voting guidelines. Our approach included a review of fifteen asset managers, locally and globally as well as two proxy service providers. We specifically considered these factors:

- Completeness of governance factors
- Depth of application
- Practicality
- Transparency
- Global best practice
- Flexibility
- Escalation plans
- Conflict of interest

We are comforted that our revised guidelines provide for more depth of consideration by our asset managers. Given that climate votes are a relatively newer aspect of votes, we have included a view within the guidelines such that we can track progress. It also allows us to extract additional information around the rationale for "against" votes. This goes beyond the standard required by regulators globally.

Read more

Policies

Investments climate change policy

In this reporting period, we adopted and launched our first investments climate change policy as a tangible expression of our commitment to responsible asset ownership. We sought to deepen the framework regarding climate change aspects within our investment approach, and to sharpen the process of measuring risk. Whilst we have not yet embarked on formal adoption of the Task Force on Climate-Related Financial Disclosures (TCFD) given that the just transition aspects are not yet developed for emerging markets, we think that there is merit to the approach within it.

Specifically:

- shaping the strategy
- setting the governance framework within the leadership of the business
- identification of investee companies who have climate votes or tracking thereof
- beginning deeper engagement with asset managers on their plans regarding climate risk measurement
- measurement of WACI per TCFD at portfolio level for all our flagship portfolios

These aspects of development have allowed us to be a lot more focused on the actual measurement and management of portfolio risk, ramping up efforts to engage. This is in contrast to marketing and ambition, which can come with pledges that we view as signalling mechanisms.

As part of our broader Alexforbes group (JSE-listed entity), we also embarked on a carbon footprint evaluation using an external service provider for Scope 1 and 2 emissions measurement. Emissions are components of the carbon intensity data that we report on, but separately showing them may help for a number of reasons as climate reporting becomes mandatory. Measuring absolute emissions provides a clear picture of emissions in a portfolio, which can help with transparency, regulatory reporting, emissions reduction (where possible locally, more evident globally). We conducted a transition risk evaluation, including scenario analysis within the Partnership for Carbon Accounting Financials (PCAF) methodology and continue to evaluate the long-term implications for our client assets, and the future liabilities they would need to offset.

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Global

Commitments

Throughout the past year, Mercer has renewed their commitment to global stewardship standards, exemplified by their successful renewal as signatories to the UK Stewardship Code. Additionally, their adherence to Sustainable Finance Disclosure Regulation (SFDR) requirements underscores transparency and accountability in reporting of ESG practices.

Reporting

Mercer has made significant strides in enhancing ESG metrics, broadening coverage to include factors such as Weighted Average Carbon Intensity (WACI) and gender diversity. Notably, the ESG ratings have been simplified for clarity, providing stakeholders with a more accessible understanding of the investment approach. This approach is 100% in line with the approach adopted by Alexforbes Investments locally, making Mercer an excellent fit.

Stewardship

Engagement has been a cornerstone of Mercer's stewardship approach. Over the past year, Mercer undertook focused engagements with managers and companies, addressing priority themes such as carbon emissions and biodiversity. Their participation in initiatives like Nature Action 100, where they are one of 190 investor participants representing $23.6 trillion, underscores their dedication to collaborative efforts aimed at addressing pressing environmental challenges.

Results

Furthermore, their commitment to transparency extends to their reporting practices. As evidenced by their participation in initiatives such as the PRI (Principles for Responsible Investment), where they received favourable scores across various modules, they are dedicated to providing stakeholders with comprehensive insights into their sustainable investment activities.

As they look ahead, Mercer remains committed to fostering transparency and accountability in their stewardship activities. More details in the global stewardship section on page 32.

In conclusion,

"Stewardship in focus: The year in review" encapsulates our commitment to responsible investing and highlights the strides we have made in integrating environmental, social, and governance considerations into our investment processes. Through diligent engagement and a focus on sustainable practices, we aim to drive positive change and create long-term value for our stakeholders. We hope this report provides valuable insights and reaffirms our dedication to stewardship and responsible investment. As we look ahead, we remain steadfast in our mission to foster a more sustainable and equitable future.

Our approach to **responsible investing**

As a responsible fiduciary of our clients' assets, we acknowledge that responsible investing (RI) and active stewardship can successfully be integrated into our investment process to enhance long-term portfolio performance.

We do not view sustainable investing and superior portfolio performance as mutually exclusive. We believe that the integration of ESG factors into our investment process can capture investment opportunities and mitigate risk for our portfolio solutions, thus making ESG integration a focal element of our investment strategy. We have incorporated RI considerations into our multi-managed portfolios for more than a decade now as we have always believed that this approach is fundamental to sustainability and the creation of stakeholder value. We view it as an investment practice that integrates factors that may materially affect the sustainable performance of assets, including those of an ESG nature.

However, we also acknowledge that ESG considerations pose their own inherent risks and opportunities, that is why we prefer a sustainable investment approach which considers and manages all opportunities and risks adequately.

In the rapidly moving world of investments, no one can afford to stand still. We acknowledge the urgency to evolve towards a more focused, forward-thinking approach that is aligned with local and international best practice frameworks. That is why we have created our Investment Framework for Responsible Investing. The framework follows a transparent and practical four-pillar approach - **beliefs, policy, process** and **portfolio**, that allows clients invested in our multi-managed portfolios to understand and identify where responsible investment considerations sit within our investment approach. It also allows our clients to understand how these pillars are incorporated into our investment portfolios.

Lebo Thubisi
Deputy Chief Investment Officer: Alternative assets

Senzo Langa
Deputy Chief Investment Officer: Traditional assets

Beliefs

We believe investing should consider a wide range of risks and opportunities, including sustainability factors such as good governance, environmental and social impacts on assets, and the associated policy and regulatory implications.

Asset managers who incorporate these factors into their decision-making processes are better informed of underlying risks and opportunities. As a result, they are better positioned to make quality investment decisions that are more likely to mitigate risks and enhance the performance of their portfolios.

We believe this approach is more likely to create and preserve long-term investment capital.

Policy

Once beliefs regarding responsible investment are established, they should be distilled into a responsible investment policy.

Our policy informs how we implement our beliefs within the portfolios we manage on behalf of our clients. The implementation of the policy also considers and aligns with guiding global and local best practice frameworks and industry principles advocating for responsible investment, where appropriate.

Process

To incorporate the belief that responsible investment matters, our RI policy is expressed within each stage of our investment process, including investment analysis and decision making.

Our investment process, therefore, primarily focuses on:

- Assessing asset managers in their approach towards integrating ESG considerations into their investment decision-making process
- Monitoring asset managers' commitment to active stewardship through their proxy voting and engagement activities
- Encouraging asset managers to adopt a collaborative approach in promoting the development of responsible investment practices within the industry
- Promoting enhanced disclosure from asset managers on their RI activities

Portfolio

Incorporating responsible investment into an investment approach needs to be considered in the context of risk mitigation and proactive allocations aligned with our RI beliefs.

This may include engagement on sustainability issues, leveraging ESG research and rating criteria, and targeting broader sustainability issues such as:

- ESG integration
- Active stewardship
- Impact investing
- Thematic investing

Our investment affiliations

To further signify our commitment to RI practices, and the high levels of transparency and accountability we aim to employ, we are signatories to the following industry bodies that advocate for RI and sustainable business practices. Our application of their best practice guidelines strengthens both our promise and ability to balance the needs of society today with the needs of future societies. We are signatories to the following organisations:

To access our full responsible investing framework, **click here**.

ESG ratings

The ESG research process is part of our broader asset manager research function.

This allows for ESG integration to be effective in the consideration of asset manager and investment strategy selection. To determine the rating for most asset managers and underlying investment strategies, our manager research team performs a review based on four specific factors:

- Idea generation
- Portfolio construction
- Implementation
- Business management

Asset managers also receive a separate ESG rating based on four ESG-specific considerations:

1. ESG integration
2. Resources
3. Engagements
4. Firmwide commitment

For more information on our ESG integration assessment, **click here**.

Proxy voting guidelines

In our ongoing commitment to effective stewardship, we updated our proxy voting guidelines in 2023. As responsible stewards, these guidelines play a pivotal role in shaping our engagement with asset managers and influencing corporate governance in alignment with our values. The significance of relevant and effective proxy voting guidelines cannot be overstated as they form the bedrock of our stewardship efforts.

Our proxy voting guidelines are a set of principles and criteria that guide us in exercising our voting rights. We provide them to asset managers to make informed decisions on how to vote on various corporate matters on our behalf.

The main categories of resolutions covered and informed by our guidelines are:

- **Leadership and strategic control**
- **Compensation**
- **Audit, financials and disclosure**
- **Capital structure**
- **Shareholder resolutions**

We have recently updated our proxy voting guidelines to reflect relevant priorities and actions for material issues for investors.

You can access our updated guidelines **here.**

Our 2023 PRI results

In a testament to our unwavering commitment to responsible investment practices, we are happy to share the latest ratings from the PRI. These ratings demonstrate the outcome of our dedication to stewardship, ESG integration and RI decision-making. They also showcase our progress across a range of asset classes, standing with the global landscape of responsible investors.

Our 2023 PRI summary scorecard (2022 calendar year)

	Star rating	Our score	PRI median
Policy Governance & Strategy	★★★★	79%	★★★
Indirect - Fixed income - Active	★★★★	84%	★★★
Indirect - Fixed income - Passive	★★★★	80%	★★★
Indirect - Infrastructure	★★★★	86%	★★★★
Indirect - Listed equity - Active	★★★★	81%	★★★
Indirect - Listed equity - Passive	★★★★	81%	★★★
Indirect - Private equity	★★★★	86%	★★★
Indirect - Real estate	★★★★	84%	★★★
Capacity building	★★★	60%	★★★★

0 ≤ 25%	★
> 25 ≤ 40%	★★
> 40 ≤ 65%	★★★
> 65 ≤ 90%	★★★★
> 90 ≤ 100%	★★★★★

We are pleased to report that we have **maintained strong ratings** and that we have scored above our **global peers** across the majority of the reporting modules.

Access PRI results report here.

Our private markets **ESG report**

The Alexander Forbes Investments South Africa Private Markets (AFISAPM) portfolio is an actively managed, multi-managed, multi-strategy fund of funds. Our alternative investments experts manage the portfolio through partnerships with established and experienced providers in this space. We firmly believe that alternative investments, particularly those in private markets, present fiduciaries with not only an additional source of substantial returns for members but also extend their positive benefit to the real world, leaving lasting impacts on our environment and societies.

Impact snapshot

6 480+
SMMEs funded or impacted

1.2m (via debt funding) and 2.7m (via equity-based funding)
households powered with renewable energy

41 500+
females employed

9
SDGs targeted

5 070+
employees of colour in senior management

6
NDP target chapters contributed to

Data as at 31 December 2022.

The targeted impact areas of the programme are:

- Green transition
- Job creation
- Diversity and financial inclusion
- Education
- Health and safety

These focus areas present a clear direction on where to steer our efforts to create maximum, intentional impact on social and environmental development initiatives.

We conduct in-depth analysis and foster engagement on a range of social and environmental concerns alongside our underlying alternative investment providers. Managing social and environmental risks and harnessing opportunities is of paramount importance in our portfolio integration.

Our private markets ESG report has a key objective: to highlight the impact that our business generates through the AFISAPM portfolio. This impact aligns with specific target areas supported by both local and global development goals, and falls under the scope of primary categories within responsible investment. By means of our AFISAPM portfolio, we analyse the influence we have within our communities. This approach ensures that we channel our efforts towards addressing pressing issues for the benefit of our clients and the development of our communities.

You can access our 2023 Private Markets ESG report **here.**

Our investments **climate change policy**

Climate change is a systemic challenge with profound implications, spanning geographic locations and sectors.

Its far-reaching effects extend beyond nature and the environment, significantly impacting investment considerations, including asset allocation, stock selection, valuation and portfolio returns. Furthermore, it reaches beyond the investment sphere, influencing the reputations of businesses and their relationships with stakeholders. In light of these complexities, investors must comprehend the potential financial and portfolio implications arising from transition and physical risks associated with climate change.

The implications for portfolios resulting from climate change and associated regulatory risks introduce the need for effective management to safeguard against the erosion of investment value due to environmental impacts. While mitigating risks is a priority, investors must also seize the opportunities presented by the evolving landscape. Globally, pressure is mounting to make voluntary frameworks and guidelines mandatory.

This underscores the need for a comprehensive and adaptable framework to address these emerging risks and developments over time.

This year, we launched our investments climate change policy as a testament to our commitment to continuously strengthening our responsible investing framework and integrating relevant matters to ensure that we proactively manage and adapt to sustainability issues. Our investments climate change policy is designed to enhance transparency regarding the integration of climate-related considerations into our investment processes. It begins by outlining our affiliations related to climate change action and progress made in our stewardship efforts. Additionally, we delve into measurement, reporting and ongoing risk management activities. Collectively, these elements culminate in a framework aimed at protecting our clients' assets in the long term.

Our commitment to responsible stewardship is intrinsic to our responsible investing approach. By actively managing climate-related risks and opportunities, we aim to contribute to a more resilient and sustainable financial system while maximising long-term investment returns. It is important to acknowledge that climate change evidence, implications and tools are evolving rapidly, necessitating regular updates to reflect our latest insights and strategies.

Our investment approach to climate change

Risk management

Our strategy revolves around adherence to the policy environment established by regulators, including government bodies and financial conduct authorities. While we haven't adopted explicit emission reduction targets, our approach focuses on active risk identification, measurement, reporting and management within the bounds of our mandates.

Affiliations

We participate in collaborative affiliations dedicated to addressing systemic environmental risks. Our current affiliations include the PRI, CRISA and the United Nations Global Compact.

Proxy voting

This is a vital tool for managing climate-related risks. Our guidelines ensure robust governance standards and accountability in climate-related votes.

Engagement

Long-term engagement on climate change remains a top priority. We engage industry and corporate sectors on high-emitting companies, transition risk management, liability risk, the just transition, carbon policies and climate reporting.

Measurement and reporting

Effective monitoring, measurement and reporting are crucial for evidencing our responsible asset ownership and investment management. We monitor, measure and report on asset manager ESG risks, carbon emissions and resolutions at annual general meetings.

Risk management

We recognise three key climate change risks: physical, transition and liability. Our approach includes setting long-term asset class assumptions, adjusting strategic asset allocations and incorporating climate-specific risks in manager research and portfolio construction.

Capacity building and collaboration

We prioritise capacity building, collaboration and knowledge sharing within our organisation with stakeholders, industry associations and regulatory bodies to foster effective climate risk management. We actively contribute to shaping policy discussions when opportunities arise.

Our climate change policy represents our unwavering commitment to responsible stewardship and sustainable investing, with the aim of building a resilient and sustainable financial system into the future.

Access our investments climate change policy **here**.

For a better idea on how we view and manage climate change group-wide, **click here**.

An overview of climate change **policies in the South African asset management industry**

Climate change presents both challenges and opportunities for the asset management industry. In South Africa, asset managers are increasingly acknowledging the need to integrate climate change considerations into their investment strategies to safeguard long-term sustainability and resilience. This integration is not only a response to the growing environmental concerns but also a strategic move to align with global best practices and investor expectations.

In our ongoing assessment of how South African asset managers integrate climate change policies into their investment processes, we have identified several key areas of focus. This summary provides an overview of our findings and highlights the current practices and gaps within the industry.

Active voting and engagement

Asset managers in South Africa are proactively using their voting rights to influence corporate behaviour towards more sustainable practices. By actively voting on climate resolutions and engaging with companies on climate-related risks, they are contributing to the global efforts in mitigating climate change. This active stewardship is crucial in driving corporate accountability and transparency, leading to better risk management and investment outcomes.

It is also worth noting that some South African asset managers have disclosed their voting records. This transparency is an important step forward in aiding efforts to hold companies accountable and encouraging them to manage climate-related risks more effectively.

Moreover, the Code for Responsible Investing in South Africa (CRISA) guides asset managers on how to execute their stewardship responsibilities, including the exercise of voting rights and engaging with companies on issues like climate change.

According to our research of asset managers engaged, there is approximately R5.1 trillion in total assets under management that are committed to endorsing CRISA in promoting environmental considerations in investment practices.

Premal Ranchod
Head ESG Research
Alexforbes Investments

Risk integration and valuation

The integration of climate risks into asset valuations is a critical component of modern investment strategies. South African asset managers are recognising the importance of considering both physical risks, such as extreme weather events, and transition risks, which include policy changes, technological advancements, and shifts in consumer preferences as the world moves towards a low-carbon economy. Consequently, asset managers are increasingly incorporating both physical and transition risks associated with climate change into their valuation models.

For instance, asset managers are using scenario analysis to understand how different climate-related scenarios could affect their investment portfolios. They are also setting specific metrics and targets to measure and manage climate risks effectively.

This forward-looking approach not only aligns with global efforts to mitigate climate change but also ensures better risk management and potentially more sustainable investment outcomes over time.

Reporting practices

Transparency in reporting practices is essential for trustees to make informed decisions. In South Africa, asset managers are increasingly adopting the Task Force on Climate-related Financial Disclosures (TCFD) framework to improve their reporting on how they integrate climate risks into their investment strategies.

The TCFD framework provides a structured way for companies to disclose climate-related financial information, which is essential for asset managers and asset owners to assess the material risks and opportunities that climate change poses to their underlying investments.

While larger asset managers and life insurance houses in South Africa have endorsed the TCFD framework, the level of detail in their reporting varies. Some asset managers provide comprehensive TCFD reports that include governance structures, risk management processes, and the impact of climate risks on their business strategy. However, detailed reporting on Scope 1, Scope 2, and Scope 3 emissions at the fund level remains limited.

Disinvestment

Presently, no South African asset manager has adopted divestment as a strategy to manage climate risk, which contrasts with practices in other markets. This can be attributed to several factors, including portfolio diversification, the effectiveness of engagement over divestment, the historical context of the South African market and the current context of South Africa's socio-economic construct.

While South African asset managers may not adopt a divestment strategy, the silver lining lies in their commitment to active engagement and stewardship. By choosing to engage with companies rather than divest, asset managers can focus their efforts on influencing corporate governance, promoting transparency and supporting transition strategies that help to finance the shift towards a greener economy. This approach not only aligns with global sustainability goals but also ensures that asset managers can contribute to a just transition, where economic and social factors are considered alongside environmental concerns.

Scope 1	Scope 2	Scope 3
Direct emissions from owned or controlled sources	Indirect emissions from the generation of purchased energy	All other indirect emissions that occur in a company's value chain.

Areas for improvement

Transition plan communication

The disclosure of transition plans is essential as it outlines how asset managers intend to align their investment strategies with a low-carbon economy. Currently, only two managers have publicly disclosed their transition plans. This suggests a gap in communication and a need for greater transparency. Asset managers can improve this by clearly articulating their strategies for reducing carbon emissions, investing in sustainable technologies, and supporting companies that are making a positive environmental impact.

Net Zero Asset Manager Alliance

While there is a general endorsement of the TCFD framework, participation in broader climate alliances like the Carbon Disclosure Project (CDP) and Climate Action 100+ is notable. However, only two asset managers are part of the Net Zero Asset Manager Alliance.

This indicates room for more asset managers to join such alliances, which can provide frameworks for setting and achieving net-zero targets, sharing best practices, and collaborating on climate action initiatives.

Risk management practices

Effective risk management practices are crucial for asset managers to navigate the financial risks associated with climate change. While two managers have discussed their approaches to managing physical and transition risks, including stress testing, there is a lack of detailed disclosure on the data, models, and specific impacts on portfolios. Asset managers can improve their risk management practices by providing more detailed information on how they assess and manage climate risks, including the methodologies used and the potential financial implications for their portfolios.

In summary, our assessment of South African asset managers reveals that while South African asset managers are making strides in integrating climate change considerations into their investment processes, there is room for improvement in terms of communication, participation in climate alliances, and risk management practices. By addressing these areas, South African asset managers can better support the transition to a low-carbon economy and contribute to global efforts to mitigate climate change.

Engaging **the industry**

Our approach to stewardship

As custodians of our clients' assets, we uphold a commitment to active stewardship and ESG integration, recognising these as integral pathways to generate both financial and non-financial value.

Today, the imperative for a holistic approach, one that extends beyond mere financial considerations, has never been clearer. In an environment marked by challenges such as environmental degradation, inequality, poverty and labour rights—issues across the ESG spectrum—the investment community must actively contribute to identifying solutions and mitigating risks.

Today, the scope of investing encompasses not only financial benefits but also contributes to the resilience against local and global challenges that could harm investment outcomes. Our focus is increasingly directed towards managing these risks and aligning with global best practices in stewardship. As one of the country's largest multi-managers, our influence is a significant force for positive change. We exercise this influence through proxy voting and engagement with appointed asset managers. Our actions are guided by a mandate emphasising ESG considerations in stock selection and portfolio construction.

These are some of the examples of how we practice stewardship and active ownership:

Public policy participation

- Engagement with industry regulatory bodies, and global and local shareholder rights organisations to share our views for the benefit of our clients and our business

Corporate engagement

- We expect that our appointed asset managers engage on ESG issues noted with investee companies, despite their respective size and perceived levels of influence

Transparency

- Voting and engagement activities of our underlying asset managers are reviewed regularly and reported on
- Reporting on voting with summary information from asset managers is used to inform our investment decision making

Share voting

- All shares to be voted on
- Quarterly reports on 'for', 'against' and 'abstained' votes with reasoning

Our insights

Amidst escalating environmental, social, and governance (ESG) issues impacting investments, we actively engage with our appointed asset managers to address these realities. This comprehensive summary presents insights gathered from a series of engagements and polls conducted with a diverse group of asset managers overseeing various mandates within our suite of funds. These funds span a broad range of asset classes, including equity, property, fixed income, and multi-asset strategies.

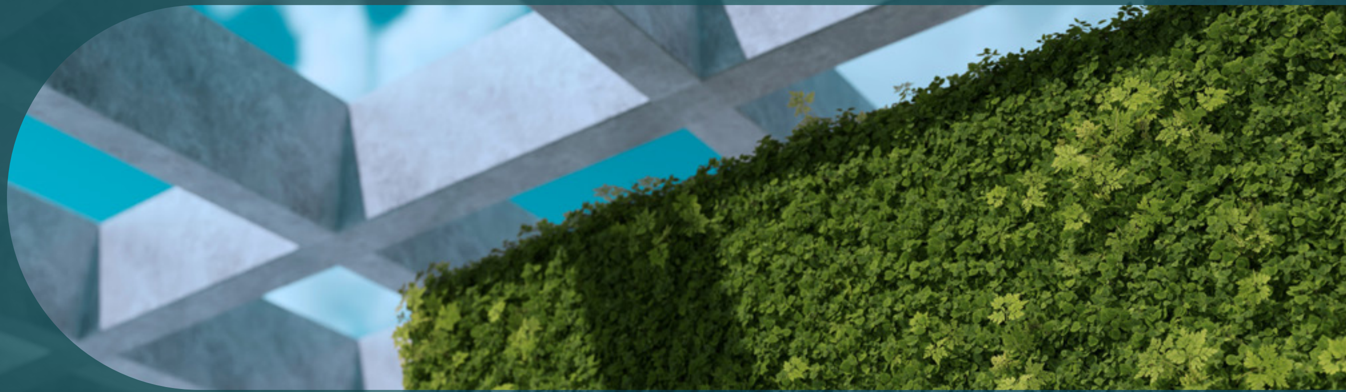
Our objective was to capture the perspectives of asset managers on the potential material impacts of various risks at the asset class level and understand the strategies employed to manage these risks effectively. We selected a broad sample of managers with combined assets under management (AUM) of R6 trillion.

Equities

E	Insights	Equities are notably susceptible to environmental risks, particularly climate change. The transition to a low-carbon economy can result in stranded assets, regulatory changes, and shifts in consumer behaviour.
E	Impact	Climate risks can affect supply chains and operational costs, leading to potential financial instability. Integrating climate risk into investment strategies and engaging with companies to enhance their environmental practices is crucial for mitigating these risks.
S	Insights	Social factors, such as labour practices and human rights, are significant concerns for equities. Poor labour practices can result in reputational damage and loss of consumer trust.
S	Impact	Social risks can directly affect stock performance. Managing these risks involves proactive engagement with companies to improve their social practices and integrating social considerations into investment decisions.
G	Insights	Governance issues, including regulatory compliance and corporate governance, can impact equities. Regulatory pressures can affect corporate operations and profitability.
G	Impact	Regulatory changes can impose new compliance costs or lead to sanctions. Ensuring robust governance practices within companies is essential to maintaining market positioning and profitability.

Listed property

E	Insights	Real estate faces significant environmental risks, particularly climate risks. We integrate climate risk directly into our earnings estimates and engage with management to address energy intensity, water usage, waste, and greenhouse gas emissions.
E	Impact	Climate risks can impact property values and operational costs. Proactively managing these risks through engagement and integrating environmental considerations into valuations is essential.
S	Insights	Social risks, such as those affecting tenants (e.g., supply chain issues), indirectly impact real estate investments.
S	Impact	Social risks can affect the economic performance of real estate investments. Ensuring that tenants adhere to sound social practices and addressing any related risks is crucial.
G	Insights	Regulatory risks are a major concern for real estate. Keeping abreast of regulatory requirements globally and questioning management's efforts to address these impacts is critical.
G	Impact	Regulatory changes can affect real estate values and operations. Engaging with management to ensure compliance and adapting strategies to new regulations helps mitigate these risks.



Fixed income

E	Insights	Fixed income investments are increasingly integrating environmental criteria, focusing on entities demonstrating positive environmental impacts.
	Impact	Environmental risks can affect credit ratings and yield performance. Integrating environmental considerations into credit analysis and engaging with issuers on their environmental practices is vital.
S	Insights	Social factors, particularly governance practices in state-owned enterprises and government entities, are critical.
	Impact	Poor social practices can lead to financial mismanagement and increased default risks. Evaluating and engaging with issuers on their social practices is essential for risk mitigation.
G	Insights	Governance issues are paramount in fixed income investments. Detailed sustainability reporting and robust governance structures are necessary to avoid funding issues and negative impacts.
	Impact	Governance risks can lead to downgrades and higher borrowing costs. Implementing governance assessments and monitoring political developments helps manage these risks.

Asset allocation

E	Insights	Environmental risks are managed by diversifying across asset classes and regions to mitigate concentration risks.
	Impact	Diversification reduces exposure to environmental risks. Adopting comprehensive environmental evaluation processes ensures alignment with sustainable practices.
S	Insights	Social risks at the sector or regional levels require thorough due diligence and continuous monitoring.
	Impact	Poor quality ESG data can lead to suboptimal investment decisions. Enhancing the quality of ESG data and engaging with stakeholders helps manage social risks.
G	Insights	Governance risks involve regional concentration risks and the inherent risks within each asset class.
	Impact	Over-concentration in regions with weak governance frameworks can expose the portfolio to heightened risks. Adopting robust governance evaluation processes and dynamic portfolio adjustments mitigates these risks.

By addressing these ESG risks through a structured and proactive approach, the potential material impact on each asset class can be significantly mitigated, leading to more sustainable and resilient investment outcomes.

Our stewardship

As part of our stewardship efforts, we engaged with 21 asset managers with combined assets under management of R6 trillion, who manage assets across the spectrum of asset classes. They include large, boutique, hedge fund, emerging, and transformed managers. This provided us with a comprehensive overview of asset managers' engagement with investee companies.

Theme → Risk → Engagement → Progress

This report highlights the ESG themes identified by our managers, which span short-, medium-, and long-term systemic issues. We then delve into the specific ESG risks identified at both the stock and super sector levels. Our analysis continues by exploring the various avenues our asset managers are using to address these risks through active engagement. Finally, we provide insights into the progress and outcomes of these engagements, demonstrating our dedication to sustainable value creation and risk mitigation.

Themes

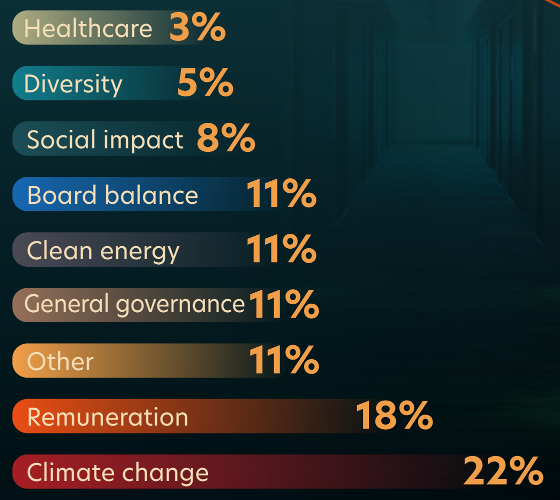
Themes play a crucial role in the idea generation process, guiding investment decisions. An asset manager might be a thematic investor, using macro themes to inform asset allocation decisions across geographies and sectors. Themes can also drive targeted investment strategies, such as a green transition theme leading to infrastructure investments in renewable energy. Additionally, themes related to poor corporate governance in specific market sectors are vital considerations for portfolio management.

Identify granular ESG data points: Pinpoint specific ESG themes that provide a sound basis for short-, medium-, and long-term engagement.

Inform risks and opportunities: Use these themes to uncover risks, opportunities, and avenues for effective stewardship.

Using the above points, the aim is to go beyond the generic assertion that "ESG or sustainability" is a megatrend, as this does not offer meaningful insights for portfolio actions. As a multi-manager, we sought to thoroughly analyse the detailed information provided by asset managers to uncover relevant themes that help mitigate portfolio risks, and uncover investable opportunities.

Key themes



The data indicates that climate change (due to its financial and operational impact on assets) is paramount for asset managers, driven by the Johannesburg Stock Exchange (JSE) market's structure and global trends. Next being overall governance and more pressingly remuneration, as these policies are closely scrutinised, emphasising the importance of transparency and alignment with long-term shareholder value. These core themes are crucial for sustainable and responsible investment practices. While themes like diversity, healthcare, social impact are acknowledged, they do not yet have the same level of influence on investment decisions. This analysis underscores the market's priorities, highlighting the importance of robust governance and proactive climate strategies in driving long-term value and risk mitigation.

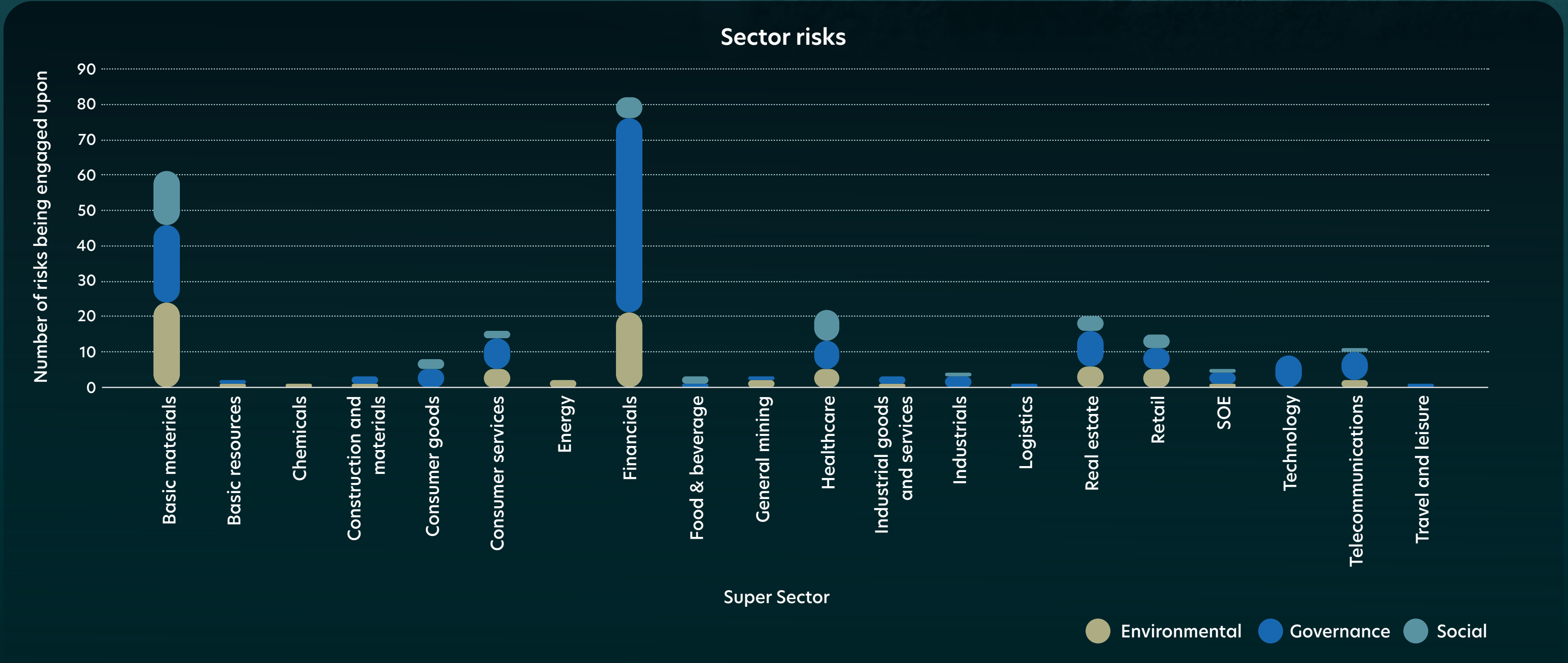
Material ESG risks

Asset managers evaluate the potential impact of ESG factors on company cash flows, recognising both opportunities for gains and risks of financial loss if these factors are not managed properly. Consequently, asset managers incorporate these risks into their idea generation and portfolio construction processes. To assess how effectively asset managers integrate ESG considerations, we asked them to present their top ESG risks, categorising each by its materiality and impact on valuation.

ESG risks

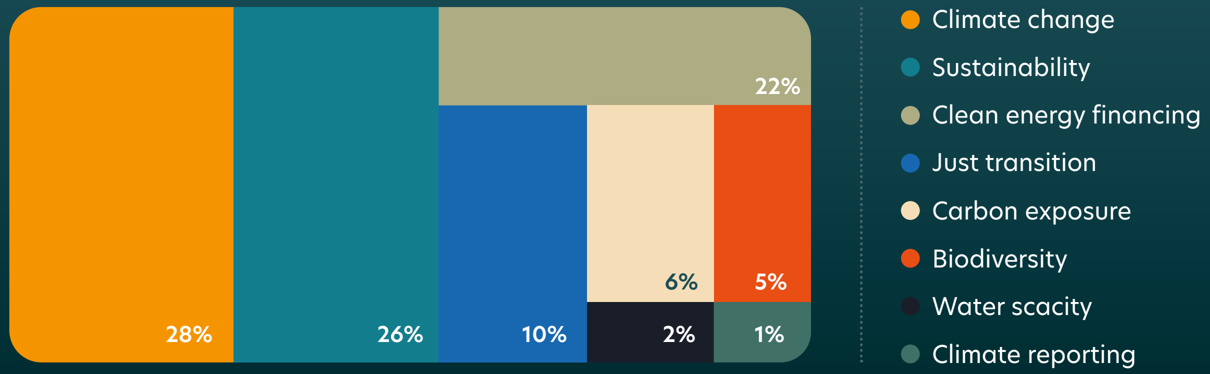
E 29% | S 20% | G 51%

The analysis indicates that governance risks are more prominently emphasised compared to social and environmental risks. This is likely because governance issues are inherent across all companies and sectors. Additionally, the disclosure, recognition, and documentation of governance risks are at a more advanced stage compared to social and environmental risks.



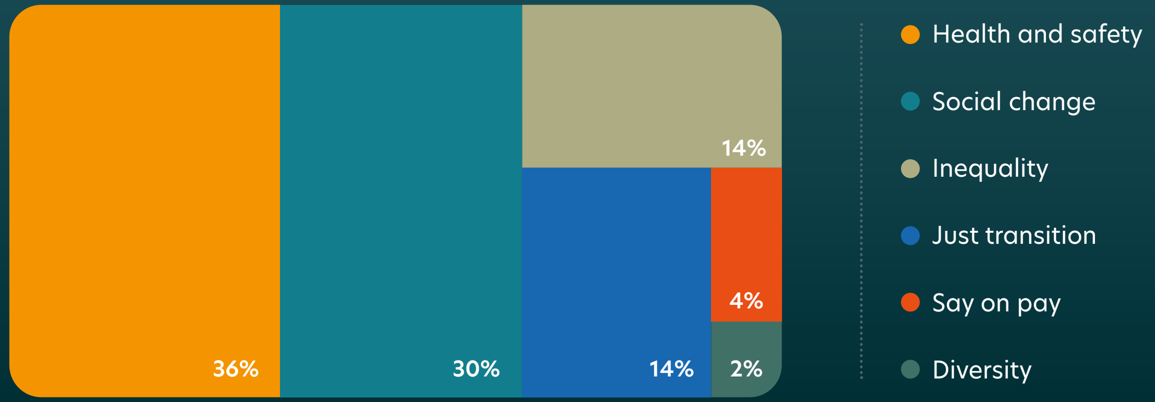
The sector graph highlights the same trend that governance features across all sectors. It further shows that ESG risks are presenting in financials and basic material more so than in other sectors. The data submitted by managers suggest that remuneration and board composition risks are evident. The environmental risks for these sectors are also notable given that one (financials) provides funding to the other (basic materials and real estate) for fossil fuel or in process of transitioning to cleaner energy mix. The social risks include the impact on communities in and around mines, health and safety due to higher lost-time injury frequency rate of workers and just transition risks relating to potential retrenchments from mine or plant closures.

Environmental risks



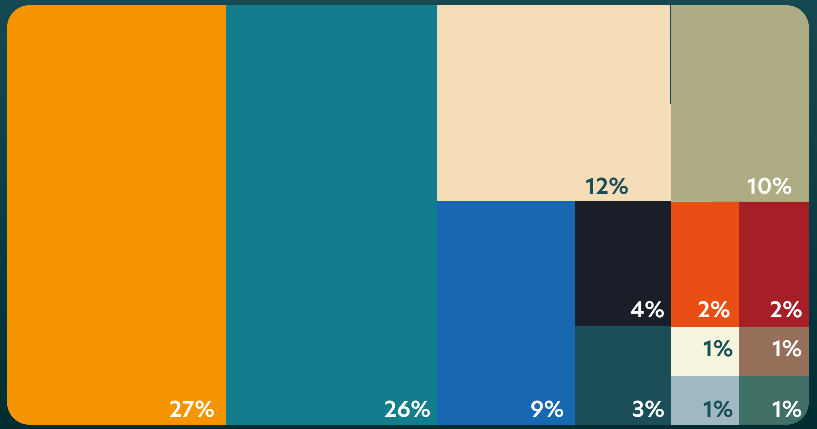
- **Climate change strategy (28%) and sustainability (26%)** are the top concerns, reflecting a focus on long-term environmental stewardship and resilience.
- **Clean energy financing (22%)** indicates significant investment in renewable energy projects to reduce carbon footprints.
- **Just transition (10%)** emphasises equitable solutions for communities affected by the shift to a low-carbon economy.

Social risks



- **Health and safety (36%)** is the highest priority, ensuring safe working environments and regulatory compliance.
- **Social change (30%)** encompasses issues like societal inequalities and corporate social responsibility and social impact in the affected or adjacent communities.
- **Inequality and just transition (14% each)** highlight the need for fair economic transformation in the context of South Africa's socio-economic landscape, as well as the potential for job loss and its multiplier effect on livelihood of affected households.

Governance risks



- Overall corporate governance
- Remuneration & KPI
- Board composition
- ESG leadership
- Shareholder rights
- Board competency
- Board independence
- Conflict of interest
- Board diversity
- Anti-competitive behaviour
- Auditor independence
- Capital allocation
- Board oversight

- **Overall corporate governance (27%) and remuneration & KPI (26%)** are crucial, focusing on accountability, transparency, and aligning executive incentives with company performance.
- **Board composition (12%)** reflects the risks of over-boarded directors and or risks of skill and gender balance for the role.
- **ESG leadership (10%)** reflects the importance of dedicated leadership in integrating sustainability into core operations.

Engagements

Meeting with asset managers around their engagement with companies is a powerful tool in our stewardship efforts as a multi-manager. It is crucial for fulfilling our fiduciary responsibilities to clients, managing ESG risks, and identifying opportunities within portfolios. This engagement must be rooted in the core beliefs of an asset manager and integrated into their investment process to generate long-term value.

As asset owners, we prioritise collaborating with asset managers who share our commitment to these principles. Our business model and fiduciary duty require us to engage with, report on, and evaluate the stewardship progress of our asset managers.

Engagements channel

Proxy vote: 1%	Video call: 13%
Conference call: 8%	Email: 13%
Letter: 3%	In-person meeting: 51%

Number of engagements

In-person meetings
51%

Dominant approach:

In-person meetings are the most utilised engagement method, accounting for over half of all engagements.

Effectiveness:

These meetings are highly effective for building strong relationships, ensuring clear communication, and allowing for detailed discussions on complex issues. They facilitate trust and a deeper understanding of both parties' perspectives.

Video calls
24%

Second most common:

Video calls are the second most preferred method, comprising nearly a quarter of engagements.

Effectiveness:

Video calls offer a balance between convenience and personal interaction. They are particularly useful for maintaining regular contact and addressing issues that require visual cues without the need for travel.

The engagement approaches reflect a clear preference for direct, personal interaction, with in-person meetings and video calls being the most common methods. These approaches are highly effective for building relationships, ensuring clear communication, and addressing complex issues. Email and conference calls serve as important supplementary methods, while letters and proxy votes are used sparingly for formal and official communications. Overall, we believe the blend of these methods allows for a comprehensive and effective engagement strategy with top holdings.

Progress

72%
Ongoing engagement

Implication	The majority of engagements are ongoing, indicating a continuous effort to address ESG risks and issues. This suggests that many ESG concerns are complex and require sustained dialogue and action.
Stewardship impact	This highlights the commitment of asset managers to long-term engagement and the iterative nature of achieving meaningful change in investee companies.

26%
Objective achieved

Implication	A significant portion of engagements have successfully met their objectives. This indicates that when objectives are clearly defined and pursued through effective engagement channels, positive outcomes can be realised.
Stewardship impact	Demonstrates the effectiveness of active stewardship and the ability to drive change and improvements in ESG practices.

2%
Objective not achieved

Implication	A small percentage of engagements have not met their objectives, which might be due to various factors such as resistance from investee companies, the complexity of the issues, or insufficient engagement strategies.
Stewardship impact	While this is a minor percentage, it underscores the need for ongoing efforts to refine engagement strategies and possibly indicates areas where additional resources or alternative approaches are needed.

Conclusion

Our local engagements with asset managers reveals a strategic approach to ESG engagement, highlighting robust governance, proactive environmental strategies, and addressing critical social issues. Diverse channels, particularly in-person meetings and video calls, have proven effective in fostering dialogue and progress. The high percentage of ongoing engagements reflects the complex nature of ESG issues, requiring sustained and adaptive efforts.

Going forward, a strong commitment to improving engagement methods and tackling emerging challenges will be crucial for long-term sustainability and resilience in the asset managers' portfolios.

Global stewardship
(Mercer)

We have a strategic relationship with Mercer Global Investments Management Limited (Mercer).

Through Mercer, we have access to the full global opportunity set of Mercer's global building block portfolios, including those portfolios with access to asset classes not available locally. We determine the appropriate offshore asset allocations across our respective multi-managed solutions and invest in a range of Mercer Global Investment Funds PLC portfolios managed by Mercer.

Different Mercer global building block portfolios are used at different stages to implement our views and manage risk in line with clients' investment objectives.

As part of our holistic stewardship work, we think it is valuable to highlight the efforts undertaken by Mercer. In elevating transparency and building on our reporting effort, the data that follows represents the evidence of work done.

Mercer survey highlights and results

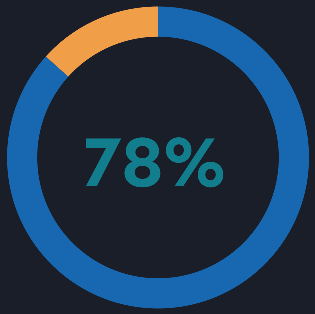
100 + | **200 +**

Mercer has +100 managers & +200 strategies across equities and fixed income*

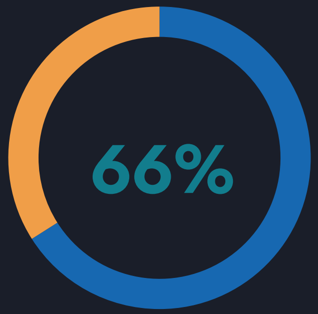
96%

96% of Mercer's strategies are managed by PRI signatories

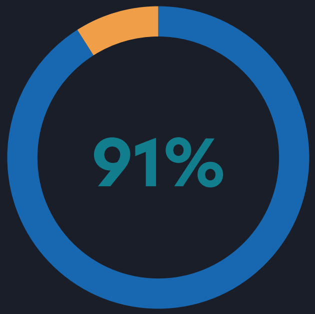
* Listed alternative strategies were also included for monitoring purposes however have not been included in reported stats given significantly lower response rates which are likely to be due to less applicability across the asset class.



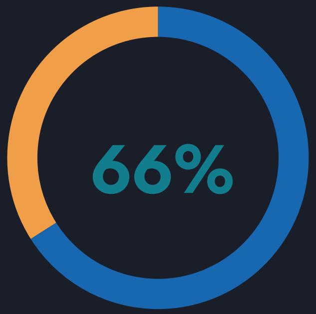
78% of managers integrate ESG factors into the security selection process



66% of PM teams engage on ESG issues in regular meetings with company management



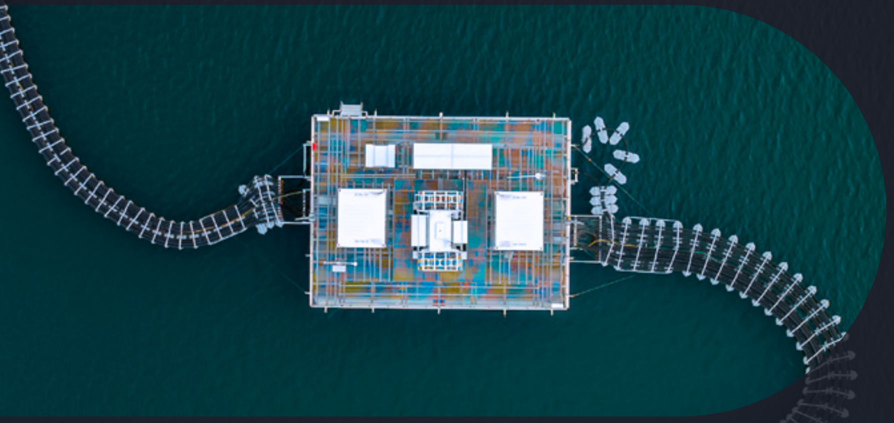
91% are members of a collaborative initiative



66% have active ownership policies that covers engagement and voting behaviours

Mercer's approach

- Mercer believes that appointed investment managers are typically best placed to execute on company engagement and connect this with voting decisions
- They communicate their stewardship priorities with the managers
- Stewardship forms a key role in their manager selection decisions and ongoing monitoring by their investment teams
- They developed target lists and enhanced frameworks for key themes such as climate change and UN Global compact



Voting & Engagements via Investment Managers

- Sustainable Investment and Stewardship Survey
  100+ managers
  200+ strategies
- Voting oversight
- Significant votes

Climate Engagement Target List

UN Global Compact Framework

Collaborative initiatives

- IIGCC; TCFD; TPI*; CDP*; CA 100+
- TNFD*; Nature Action 100
- 30% Club – UK Chapter
- PRI; ICSWG*, UKSIF*, EUROSIF*, GIIN*

Client Engagement Survey

*Participation led by Mercer's Sustainable Investment Consulting team which provides advice to Mercer IS's Sustainable Investment Solutions team.

Stewardship priorities

Environmental

- Climate change: Climate-related financial impacts are driven by the associated transition to a low-carbon economy and the physical damages of different climate outcomes.
- Biodiversity & Natural capital: Destruction of biodiversity and the environment is a key risk to all business, as economies are highly dependent on nature. There are direct links between the environment and financial markets that relate to the interrelationship between nature and climate change.

Social

- Human rights & labour practices: Workforce and supply chain safety and human rights practices should avoid contributing to modern slavery, exploitation and other human rights abuses – these can contribute to economic instability, the threat of social tension and subsequent political instability; and negatively impact beneficiaries for economic and health reasons.

Governance

- Diversity, Equity & Inclusion: Including cognitive and identity diversity in decision-making processes is expected to create better outcomes and solutions.

Mercer's client engagement survey seeks to collect the views of their clients which assists in assessing the level of alignment between their engagement priority areas and those of their clients, while highlighting additional areas of focus which are important to their clients and Mercer, to consider.

Analysis has shown that the **top 10 contributing listed companies** in high impact sectors are responsible for **c.25% of total portfolio*** emission intensity, with the **top 50 issuers in high impact sectors**^ responsible for **c.65% of total portfolio emissions intensity**

Top contributors to carbon emissions operating in high impact sectors

Identification of the top issuers contributing the most to overall Mercer assets'* emissions intensity operating in high carbon impact sectors^

Decarbonisation plan: Have the issuers set SBTi** targets?

ACT analysis: Does the issuer rank green in ACT analysis?

Net zero aligned: Has the issuer been assessed as net zero aligned (1.5C TPI)?

Engagement: Consider existing engagement activity either direct or via collaborative initiatives e.g. CA100+

Client engagement target list

^as defined by IIGCC **https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/**
*Defined as the core 36 multi client active and passive equity and fixed income funds. A portfolio was built where each fund was assigned a weight in the overall portfolio based on its $AUM. Data as at 31st Dec 2022
** Science Based Targets Initiative (SBTi) is a corporate climate action organization, incorporated as a charity partnering with, amongst other, Carbon Disclosure Project (CDP), United Nations Global Compact and World Wide Fund for Nature (WWF)

Mercer sustainability initiatives

Collaborative industry engagement initiatives related to engagement priorities, or other topics that are considered aligned with the best interests of Mercer's clients:

Sustainability

- Principles for Responsible Investment (PRI)
- Investment Consultants Sustainability Working Group
- UK Sustainable Investment & Finance Association (UKSIF)
- Global Impact Investing Network (GIIN)
- 30% Club -UK & Irish Investor Chapters
- The UK Stewardship Code

Climate change

- Institutional Investors Group on Climate Change (IIGCC)
- Task Force on Climate Related Financial Disclosures (TCFD)
- Climate Action 100+
- Transition Pathway Initiative (TPI)
- The CDP (previously Carbon Disclosure Project)

Nature and biodiversity

- Task Force on Nature Related Financial Disclosures (TNFD)
- Nature Action 100

The list sets out here evidences industry initiatives Mercer IS or Mercer Limited is a signatory to and /or active participant of, some of which may include cooperation with other stakeholders.

Regulatory update

Europe and UK continue to lead on ambitious policy; progress slower elsewhere.

- **Taxonomies gaining widespread acceptance**, with Australia being the most recent country to release a draft
- Some advancement in regulatory disclosures in 2023 in the US, particularly with the **passage of an ambitious bill in California**, but the appropriate emphasis for ESG factors remains divisive
- **Emergence of state-level anti-ESG legislation** and delay in implementing SEC TCFD disclosure proposal are noteworthy
- **Upcoming US elections will be pivotal for climate and sustainability policy**

COP28 reflections

Accelerating action whilst ensuring a 'just transition'

Mercer's key takeaways for investors include:

- Agreement to transition away from fossil fuels and triple renewables energy capacity
- Importance of just transition, including nature
- Transition finance is a key focus
- We are not on track towards the goal of limiting global average surface warming to 1.5°C and the adaption finance gap is widening

The year ahead: 2024

Key trends & outlook Energy transition progress (and role of fossil fuels):

Likely to accelerate given:

- Global policy and investor support
- Compelling economics in the renewables sector

Climate transition, nature & biodiversity, and circular economy as dominant themes:
To manage systemic risks and shift towards "positive" tipping points requires systems-thinking and cross-sectional investment solutions

Global sustainability standards landscape:
Given the ever-growing list, convergence is now a requirement on the part of companies and investors alike

ESG portfolio **reporting**

Introduction

ESG reporting – the practice of disclosing how ESG factors are managed – is gaining increasing significance.

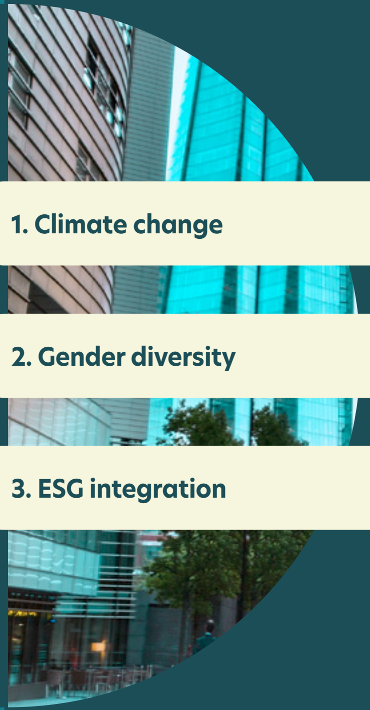
Investors, regulators and businesses now recognise the substantial risks and opportunities associated with ESG issues. This form of reporting fosters trust and transparency in the market and with investors. Further, it can empower the market, empowering asset owners and managers to proficiently identify, assess and navigate these risks while seizing opportunities.

This section illustrates the ESG outcomes related to significant ESG themes within some of our selected portfolio solutions. Our ESG reporting is industry-leading because we have expanded our transparency across all asset classes, not just equities. This comprehensive approach provides both qualitative and quantitative information on ESG integration, Weighted Average Carbon Intensity (WACI), and diversity, setting us apart in an industry where such extensive disclosure of such metrics at portfolio level is still nascent. When combined with our asset class insights, proxy voting and commentary, the reporting proposition is unique.

Our conviction lies in understanding that climate change not only threatens society but also poses a systemic threat to financial markets, amplifying existing vulnerabilities. Recognising its financial impact across various asset classes is imperative for us to effectively steward our clients' assets. As a multi-manager, we align with managers whose ESG exposure varies based on their distinct investment philosophies.

This will further shape our ability to engage the market on material ESG issues pertaining to investment portfolios and to continue encouraging transparency and disclosure.

We use the following three metrics to measure certain elements of ESG performance:

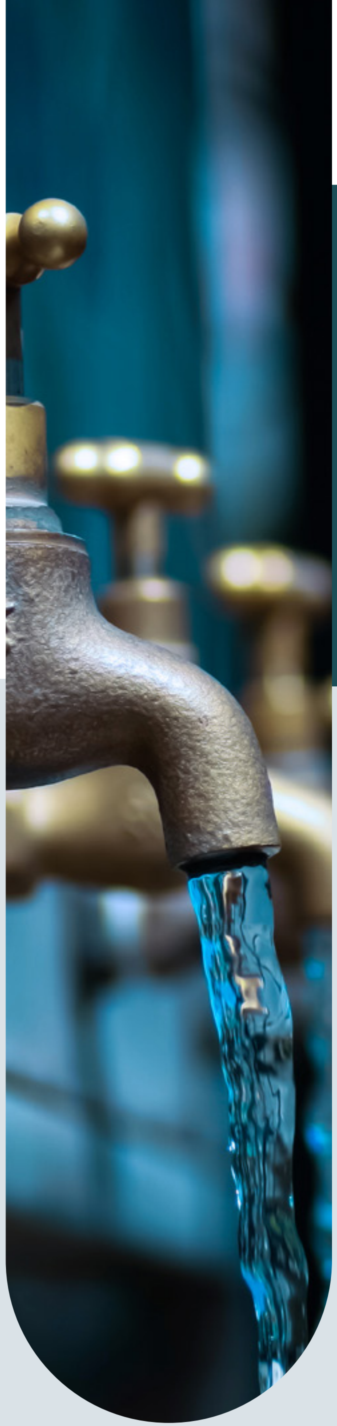


1. Climate change

2. Gender diversity

3. ESG integration

For more information on these metrics, you can access our ESG reporting methodology document **here**.



1 Climate change

We have adopted the Weighted Average Carbon Intensity (WACI) metric to report the carbon intensity of the most widely used portfolios across our multi-managed solutions offering, comprising over R330 billion in assets under management.

The WACI metric must be disclosed by both asset owners and companies. WACI measures the investment portfolio's exposure to potential carbon-intensive companies, expressed in tons of greenhouse gas converted to carbon dioxide emissions using the greenhouse gas protocol per million sales, written as:

Greenhouse gas protocol per million sales

tCO2e/$M Sales

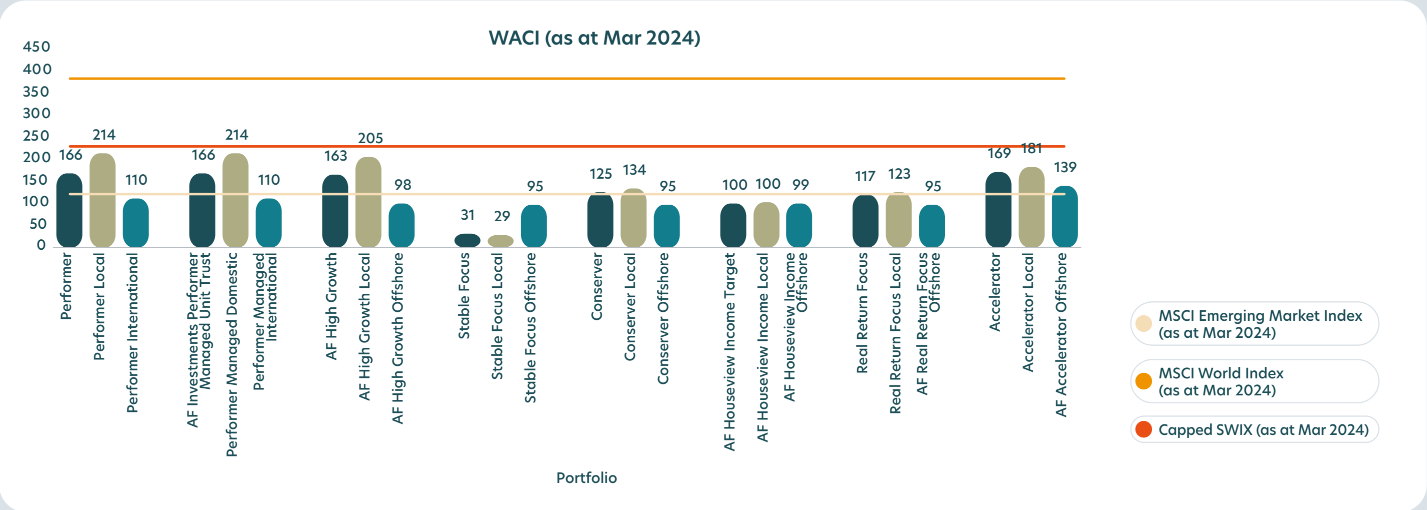
The higher the WACI number is relative to a comparable equity index, the more vulnerable a portfolio is to carbon-related market and regulatory risks. It helps to gauge companies' impact on the planet, allowing us to compare companies, markets and regions against each other.

The numbers indicate the WACI of global and local indices as at 31 December 2023:

- FTSE/JSE Capped SWIX ALSI - 229
- MSCI World Index - 121
- MSCI Emerging Markets Index - 383

To provide an example for comparison, we have found that a WACI measure of around 450 means a portfolio is highly vulnerable to carbon-related risks and a measure of around 90 indicates that it is relatively protected from carbon-related risks.

The graph shows the WACI metric of our flagship portfolio solutions, as well as their respective domestic and global components:

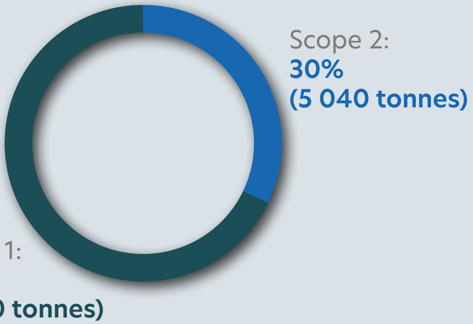


* Note that the carbon intensity calculations for both domestic and offshore components have used tCO2e / $M sales

Weighted average carbon intensity

AF Investments (local & global equity)	174.6
AF Investments (local equity)	219
AF Investments (global equity)	121.9
Capped SWIX Index	235
MSCI World Index	112.5
MSCI Emerging Markets Index	308.9

Scope 1 and 2 emissions as % of contribution (total: 16 750 tonnes)



2 Gender diversity

With social inequality getting more attention, investors and other stakeholders are getting increasingly vocal about the need for greater diversity in corporate boardrooms. In the quest to enhance transparency and disclosure, identifying quantitative ESG metrics that are consistently being measured and reported by companies is helpful.

Measurement metrics

Accordingly, global providers have preceded on reporting on gender diversity as one of these metrics, aiming for 30% or more female representation at board level. We find that local companies have since followed suit, suggesting a concerted effort in working towards an improvement in this regard locally.

Portfolio metrics: local vs global

We are pleased to note that South African companies have embraced female representation on boards and our portfolios reflect this positive outcome. Locally, our portfolios are in line with female board representation being close to the 30 - 35% range, broadly in line with the FTSE/JSE All Share Index.

Both our local and global portfolios are in line with their respective benchmarks.

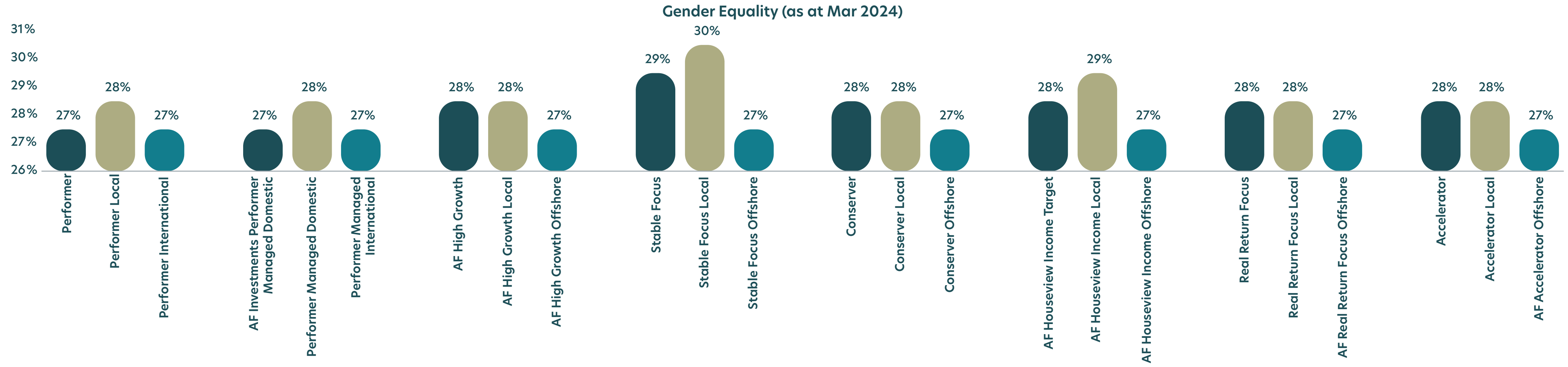
In our conversations with Mercer, we understand that the global investment manager universe and investable companies have a long journey ahead in improving diversity.

It is worth monitoring the metric, however it is important to be pragmatic in engagement around the matter. Ultimately, a merit-based approach to investments will allow for improved results in the long term.

In improving the global aspect of our portfolios, we note that the vast scale of the challenge given that the investment universe is significantly wider.

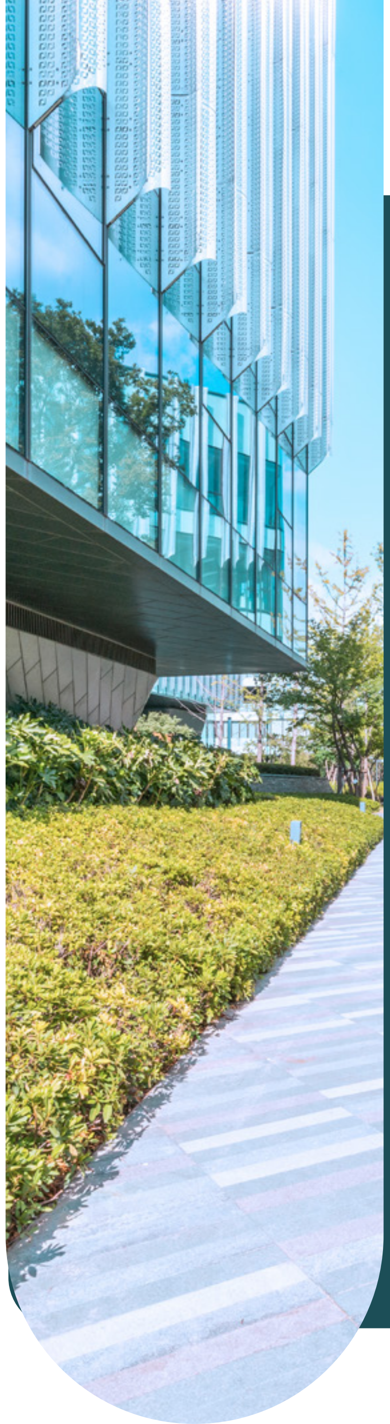
Accordingly, Mercer have made commitments to improve their investment process by 2030. At present, portfolio metrics on our offshore portfolios are in line with the respective benchmarks. Engagement on diversity is a top priority for us and for Mercer.

We will continue to engage on the matter so that meaningful diversity and inclusivity is achieved.



'Gender diversity' is the percentage of women in boards and top management.

3 ESG integration



Our investment process

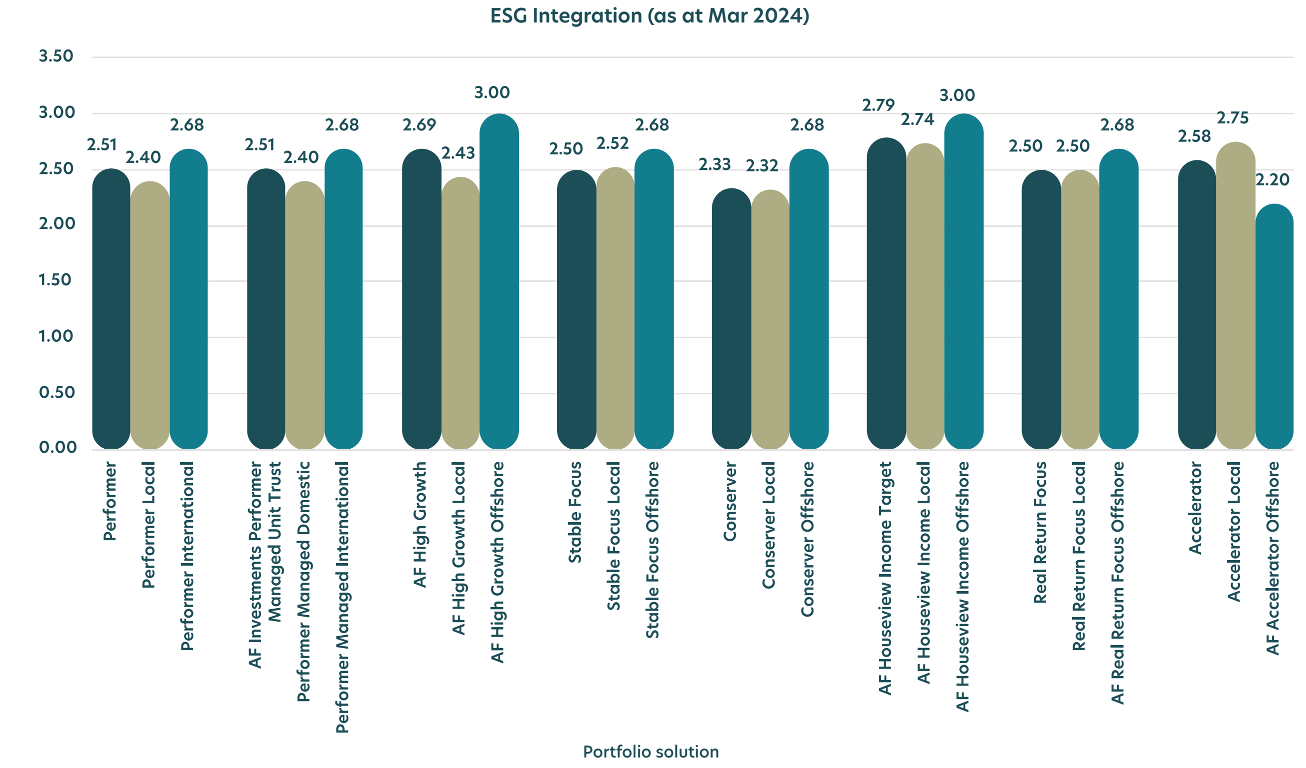
We select and combine top-rated asset managers across asset classes, styles, and philosophies into our multi-managed portfolios. However, as most shares are held directly in the name of Alexander Forbes Investments, we have ownership responsibilities that we have a responsibility to fulfil. Our investment process is therefore primarily focused on assessing asset managers on their approach towards integrating ESG considerations into their respective investment decision-making processes. These ratings apply to the full scope of the investment strategy and its underlying assets, not solely to equities.

Our measurement of ESG integration

The portfolio ratings represent a weighted average of the ESG ratings of individual managers within a given portfolio as determined through our due diligence processes. This process informs our appointment of suitable asset managers for our portfolio solutions. ESG 1 signifies a leader in the integration of ESG factors and it goes down to ESG 4, indicating little integration of ESG considerations. You can find more information on our ratings here.

Our approach to continuous improvement

Overall, most of our portfolios have higher-rated portfolio ratings relative to their respective benchmarks. The goal is to continuously improve the ratings of all managers across asset classes rather than chase absolute scores or attaining a score of ESG 1 at the expense of meaningful change. Progress being made by a manager is measured on a relative basis to the peer universe and how they keep up with the rapidly developing ESG landscape.

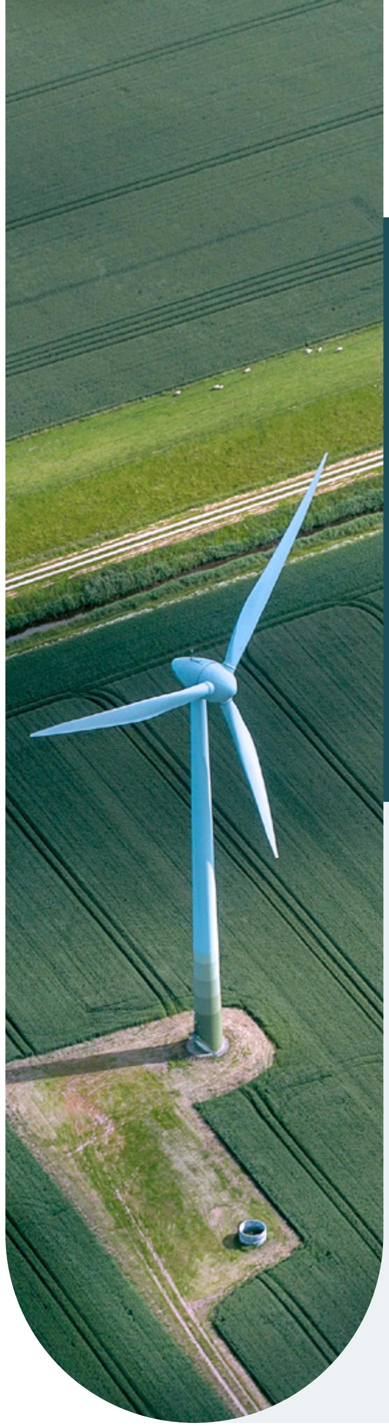


Note:

- Carbon intensity is measured on the equity component of our portfolio solutions according to the TCFD metric of WACI, normalised in USD. Domestic calculations are conducted from Bloomberg data. Global metrics are sourced from Mercer/MSCI ESG.
- Diversity is measured across the equity component of our portfolio solutions. Local diversity percentages are sourced from Bloomberg. Global diversity metrics are sourced from Mercer.
- ESG integration ratings are measured across the entire portfolio solution being managed by managers. Ratings reflect the weighted average of ESG integration ratings across the managers within each solution shown locally through our manager research process and globally through Mercer's manager research process.

ESG ratings benchmarks	
Equity universe	2.85
Domestic balanced	2.92
Global balanced	2.88
Low equity multi-asset	2.86
Stable and absolute return	2.77

We will continue to assess these metrics and targets as they relate to ESG risks and opportunities and what they mean for investors. We believe that by identifying and monitoring these factors, we can use them to achieve better long-term financial value in our pursuit for a better alignment with global and local ESG priorities.



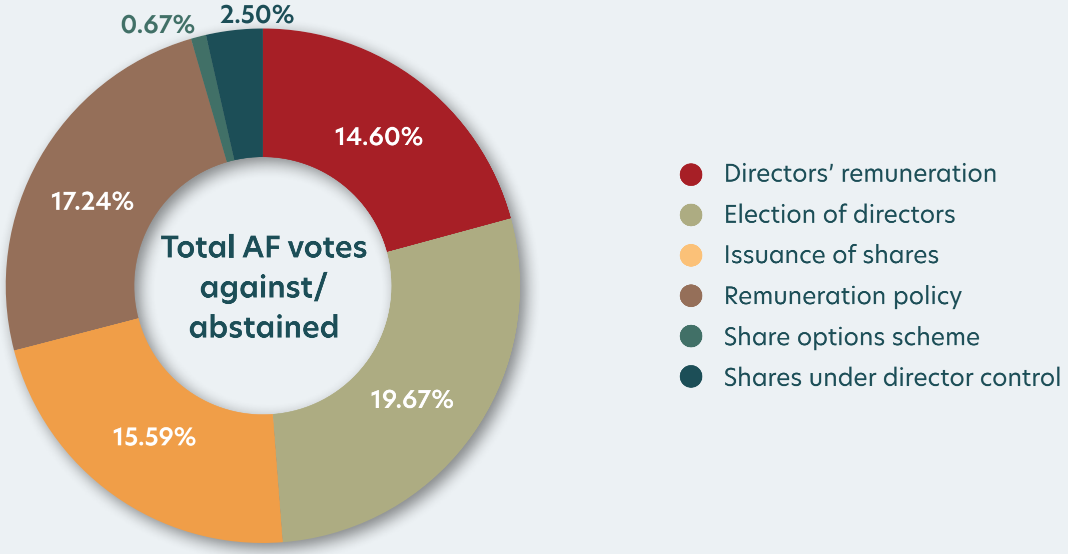
Proxy voting analysis

In 2023, we voted over 24 000 resolutions through our appointed asset managers across locally-managed equities. Mercer in all regions has outsourced proxy voting decisions to its appointed investment managers and disclose them semi annually per region. We are comfortable with the process adopted by our partner Mercer and with the alignment and monitoring they do on appointed asset managers. Our preference has been to provide the mandate to our appointed asset managers to engage with and vote on the companies that they have selected within their portfolios. We believe that the asset manager is well placed to conduct these aspects of stewardship given that stock selection is one of their core competencies, while we evaluate their adopted practices to ensure that it is aligned to our philosophy and process.

As part of our continuous analysis, we have ensured that our appointed asset managers maintain a sound governance approach to proxy voting. Accordingly, we provide proxy-voting guidelines that are part of the investment management agreements with managers. They disclose the outcomes of their engagements to us through submissions, report back meetings and through ad-hoc meetings that we use to engage on ESG matters within our portfolios.

No. of resolutions	24 737
No. of resolutions voted for	21 478
No. of resolutions voted against	3 173
No. of abstentions	86

The graph highlights the main categories of resolutions that asset managers either have voted against or abstained from voting:



Evaluation of dissenting votes

Against

Policy alignment: Shareholders vote against resolutions when policies misalign with long-term value creation, favour short-term gains, lack clarity, or pose unnecessary risks.

Example:

Climate Policy. Whilst these votes do not appear to be significant compared to other resolutions, it is a relatively new category of resolutions added to traditional governance-related ones. Given the importance of climate change to the South African economy, the carbon exposure of companies within the corporate sector, the just transition and 2030 climate targets are consistent themes being tabled by companies. The assessment of votes for and against suggests that views around progress made by companies vary. Our engagement with managers has shown that they do not want to impede the initial climate policy and disclosure from companies as that alone has been an improvement on recent engagements with them. This is a long-term matter that will need continuous engagement to hold the management of companies accountable on targets set for strategy, disclosure and progress on the just transition.

Against

Remuneration issues: Non-executive director remuneration policies are scrutinised, with votes against high fixed (versus variable) remuneration unlinked to performance. Shareholders prefer merit-based pay reflecting contributions and company goals.

Example:

One such example remuneration policy, received a substantial number of votes against. In combination with directors' remuneration, it constituted just over 30% of all dissenting votes. Through our engagements with asset managers, the importance of linking remuneration structures of the executive and senior management teams are linked to both key performance indicators and company strategy, making them key material considerations for engagement.

Examples from our interactions with managers and interrogation of the issues noted on specific shares include:

- An imbalance between the variable and guaranteed compensation elements of executive compensation
- Narrow metrics being used for short- and long-term incentives
- A lack of adequate disclosure related to remuneration
- Poor or no benchmarking of compensation disclosure (although companies often disclose that they have conducted such benchmarking)
- A difficulty in measuring whether remuneration practices are being followed in line with the remuneration policy

Against

- **Independence concerns:** Concerns about the independence of board members and auditors, especially those with long tenures, lead to votes against to maintain objectivity and prevent conflicts of interest.
- **Capacity concerns:** Directors with multiple commitments may face opposition due to doubts about their ability to dedicate sufficient time and effort to their roles, affecting their effectiveness in governance.
- **Tenure issues:** Long tenure of directors and auditors can threaten independence, leading shareholders to favour fresh perspectives to avoid complacency and undue influence.

Many of these votes were used to vote against the re-election of directors that are not independent or are members on a number of other boards. These factors impede the directors' ability to discharge their duty or fulfil the functions of their role adequately. When we engaged asset managers on how they balance their voting for or against director appointments, they have cited the lack of suitably skilled directors available for appointments. Globally, there is a growing emphasis on board diversity and ESG competency in addition to the industry specific experience that a director brings. The wider universe of companies and regions assists the appointments. Accordingly, asset managers have attempted to balance the weight of corporate governance issues at hand and vote thoughtfully at AGMs. They also continue to engage with the company with the goal of enhanced shareholder value creation.

Against

- **Shareholder activism policy:** Shareholders oppose resolutions that contradict the organisation's activism policies, particularly those that dilute value or lack clear financial rationales.
- **Financial assistance:** Generic financial assistance resolutions face opposition without clear terms and conditions to prevent misuse and conflicts of interest, favouring detailed and transparent disclosures. The Minister of Trade, Industry and Competition has proposed certain amendments to the Companies Act 2008, one of which relates to inter-company financial assistance. We are comfortable that our appointed asset managers will look to apply their minds when the Act is updated with approved amendments.
- **General concerns:** Broader issues, like potential dilution of shareholder interest or lack of tangible returns on investment, also drive votes against, aiming to safeguard long-term profitability and sustainability.
- **Other:** In the other category we have bundled the range of smaller resolutions including, but not limited to, matters arising in committees such as audit, risk, social, ethics, transformation, property and investment, human resource and sustainability committees.

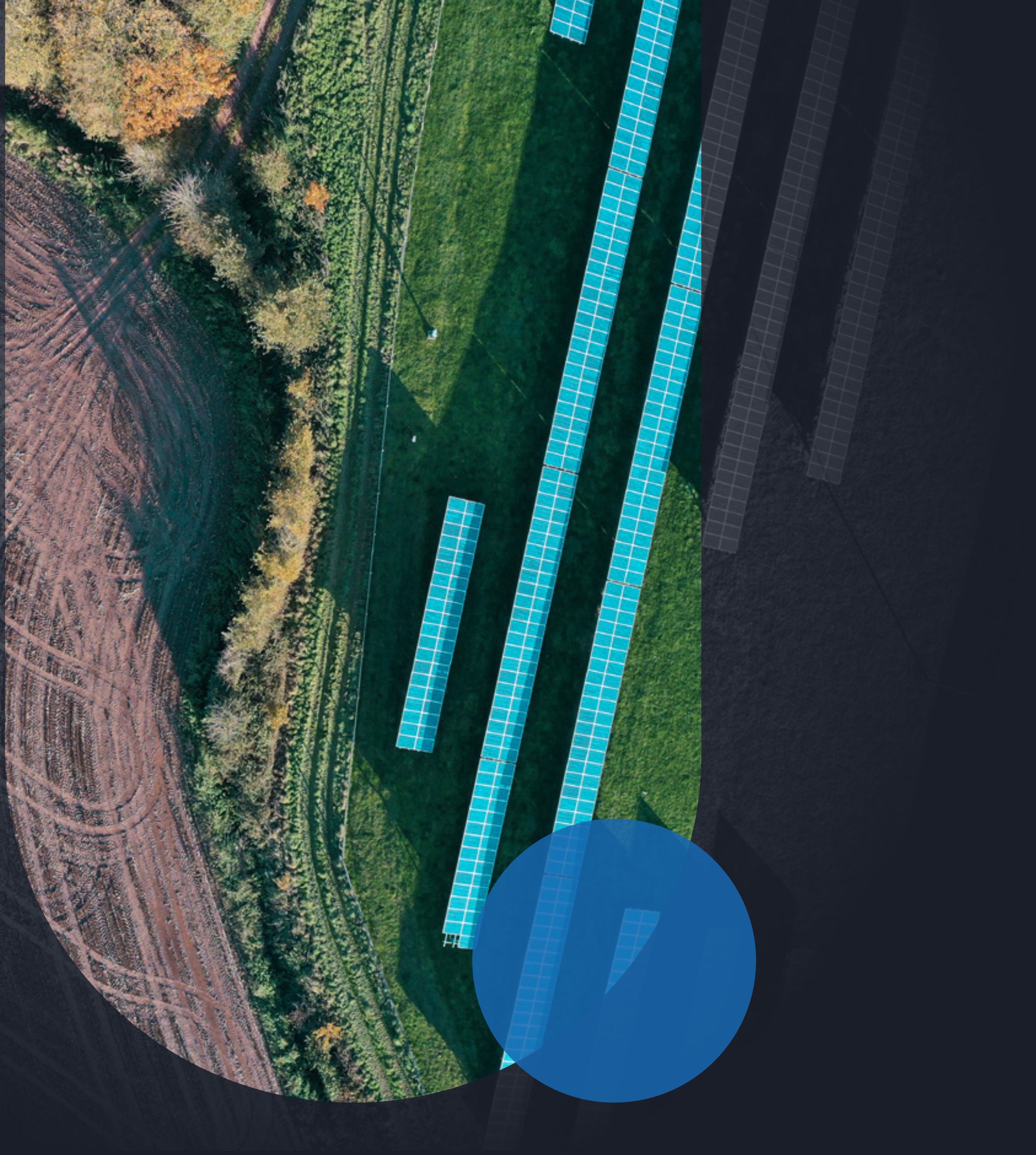
In some instances, we have found that managers have lost confidence in the various committees' ability to function independently, due to a board member having a long tenure on the committee or a member being in too many committees. The combined percentage of votes against certain resolutions is significant and we continue to monitor the rationale for against votes in this respect.

Abstentions

- **Insufficient information:** Abstentions occur when companies fail to provide enough detail for shareholders to assess the impact of proposals, emphasising the need for informed decision-making and better disclosure practices
- **Variable remuneration targets:** Shareholders abstain when financial targets for variable remuneration are perceived as too low, using abstentions to push for challenging and aligned performance targets.
- **Operational issues:** Technical failures in proxy voting systems can lead to unintentional abstentions, underscoring the need for reliable voting infrastructure to ensure accurate shareholder engagement.
- **Remuneration policies:** Insufficient disclosure or excessively high executive pay compared to peers prompts abstentions, signalling a demand for fair, transparent, and performance-based remuneration structures.
- **Conflict of interest and past performance:** Concerns about potential conflicts of interest and directors' past performance lead to abstentions to ensure objective and prudent governance.
- **Strategic engagement:** Abstentions act as a strategic tool for shareholders to demand better governance, higher standards, and greater transparency, promoting long-term value creation and corporate accountability.

Proxy voting is a crucial tool alongside company engagement. Although AGM resolutions are limited, the underlying ESG issues are complex and need long-term engagement. Therefore, engagement and voting should be considered together with the full investment case made by the asset manager, not in isolation. Additionally, no issue should be addressed in isolation. For instance, focusing solely on climate issues neglects the broader investment and ESG context. Consequently, our appointed managers engage on matters they deem material to the overall investment case.

Collaboration and **thought leadership**



Sponsor of Daily Maverick Climate Conference: The gathering: Earth Edition

May 2023

Proudly sponsored by:

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Alexforbes was one of the sponsors of the Daily Maverick Climate Conference, also known as The Gathering: Earth Edition held in Cape Town on 26 May 2023. We showcased an exhibition stand featuring compelling collateral focused on building a better future.

This event provided a platform for meaningful discussions, knowledge sharing, and collaborative efforts to combat climate change. It underscores the urgency of addressing environmental challenges for the well-being of both South Africa and the world.

Participants included leading scientists, economists, business leaders, policymakers, and activists. The focus was on finding solutions to the energy, environmental, and economic challenges faced by South Africa.

Bringing balance back to business – the sustainability imperative

Author: Premal Ranchod, Head of ESG Research

The article, authored by our Head of ESG Research Premal Ranchod, featured in the Manager Watch™ Annual Survey 2024.

In today's hyper-connected world, the call for sustainability echoes louder than ever, reshaping the landscape of business and investment.

As companies and investors grapple with the urgency of addressing environmental, social and governance (ESG) risks, they find themselves walking a tightrope between progress and overreach. This article delves into the intricate dance of sustainability, exploring the role of companies and investors in shaping a future that balances ambition with pragmatism. It also attempts to silence the socio-political noise or backlash against ESG integration by surfacing the falsehoods.

Read more

Investment Forum 2024: Frontiers of disruption

March 2024

The Investment Forum is a gathering attended by over 1 500 financial advisers from Johannesburg and Cape Town, along with more than 30 top-tier asset managers, discretionary fund managers, and investment platforms. This event stands as South Africa's premier thought leadership investment forum. Local and international industry experts share their perspectives on a diverse range of topics, including geopolitics, macroeconomic predictions, fiscal stimulation, money supply, and emerging thematic investment trends.

Alexforbes Investments Chief Executive Officer Ann Leepile presented on Doing well and doing good in portfolio construction. **Read the article based on an interview with Ann here.**

Deputy Chief Investment Officer Lebo Thubisi spoke about the great retreat from public equity into alternative investing. **Read the article based on an interview with Lebo here.**

Ninety One Infrastructure Forum 2024

March 2024

South Africa's infrastructure investment efforts are critical for long-term economic prosperity. By addressing challenges, fostering public-private partnerships, and maintaining a long-term perspective, the country can build a robust infrastructure network that benefits its citizens and drives sustainable growth.

Investing in public infrastructure is crucial for economic growth and development. Alexforbes' Deputy Chief Investment Officer for Alternative Assets, Lebo Thubisi, participated in a panel discussion at the Ninety One Infrastructure Forum. The platform spotlights the critical need of investing in public infrastructure and how the savings industry can contribute to South Africa's infrastructure build.

Investing in the future of infrastructure involves several considerations. Lebo's panel highlighted the tension between short-termism driven by quarterly earnings reports and the inherently long-term nature of infrastructure investments.

Alternatives Investment Forum 2024: Reimagining alternatives

Moderator: Lebo Thubisi • April 2024

Our Deputy Chief Investment Officer, Lebo Thubisi, moderated a panel discussion around the challenges faced by traditional fixed-income markets in the current economic landscape. They explored alternative strategies and instruments that offer unique opportunities for income generation and risk management, from non-traditional bonds to innovative income-generating approaches. The panel of experts discussed and dissected alternative fixed-income options that can enhance returns while navigating the complexities of today's market conditions. The panel of experts included representatives from Aluwani Capital Partners, Goldman Sachs, Premier Miton and Prescient Investment Management.

Group **activities**

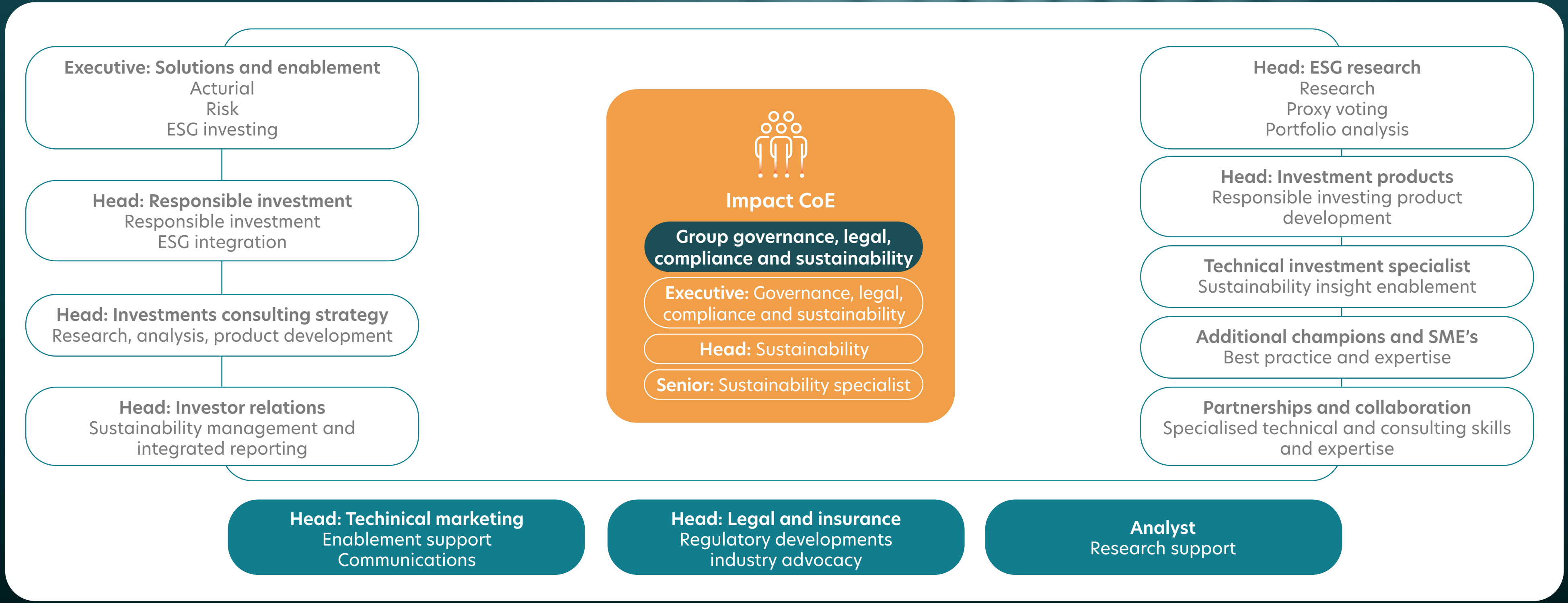
A holistic approach **to sustainability**

Alexforbes Impact Centre of Excellence

Through the Impact Centre of Excellence CoE, clients are provided with insights, practical advice and solutions that enable sustainable outcomes.

The Impact CoE, established during 2023 under the leadership of the group governance, legal, compliance and sustainability team, includes a multi-disciplinary cross-functional team of experienced professionals. The Impact CoE is focused on delivering the company's sustainability strategy, which includes the design and operationalisation of broad-based sustainability advisory services to clients, including retirement funds.

Guided by principles such as governance, policy and frameworks, standardisation, subject matter expertise, collaboration and coordination, performance measurement, and research and training, the Impact CoE is committed to shaping sustainable strategy advice, which creates a positive impact for retirement funds, their members and the world within which they exist.



Our path to the fund of the future

To survive and thrive in the future, retirement funds must embrace sustainable ways of thinking and adapt to emerging megatrends, which are likely to drive change in our economies, societies and environments at an exponentially increasing rate.

Globalisation, predicted changes in geopolitics, population dynamics, technological advancements, climate change and shifting generational expectations, for example, are driving fundamental changes in mindsets, risks and opportunities for funds. As such, retirement funds will need to be agile in order to proactively embrace change in the short and medium term.

However, the duty placed upon retirement funds to achieve suitable risk adjusted returns over the long term presents a significant opportunity to think more strategically, over longer timeframes, and to not only respond to the factors which will influence the future, but to play a significant role in creating it.

Retirement funds must transcend traditional retirement planning approaches if they are to survive, thrive and deliver on their mandates to members. By seriously considering what risks and opportunities the future might hold, retirement funds can ensure their fitness for the future and unlock numerous benefits.

Retirement Fund of the Future™

The Impact CoE has designed a maturity process for clients to guide their journey towards becoming a sustainable, resilient Retirement Fund of the Future™.

This design represents the ideal retirement fund that is aspirational in its design and sets the industry standard for a best-in-class, leading and future-fit retirement fund.

Against this, we can assess the sustainability maturity of our retirement fund clients as a baseline and develop a tailored and practical maturity roadmap towards improved sustainability and resilience.

Our comprehensive approach combines deep industry insights, cutting-edge solutions and a proactive stance towards emerging trends, ensuring our clients remain ahead of the curve.

- Sustainability, ESG and megatrend-focused trustee training, including virtual reality training capabilities
- Maturity gap analysis and tailored improvement plans
- Increased responsible investing policy development
- Enhanced risk management policy and process development
- Digital member enablement
- Member impact reporting
- Portfolio stress testing
- Materiality assessments
- ESG integration advice and ESG performance reporting
- Stakeholder assessments and tailored stakeholder management plans
- Stakeholder reporting, including integrated reporting support

Alexforbes Impact Advisory

Assisted by the CoE, Impact Advisory comprises sustainability specialists in the business, supported by strategic partners to deliver forward-thinking sustainability and ESG insights, and advice to retirement funds as well as corporate clients.

The landscape of sustainability practices has become complex, resulting in a growing demand for sustainability-focused advice and solutions. Our approach is to conduct research, simplify complex topics into usable insights, and provide practical advice and solutions which help our clients secure their relevance, resilience and long-term success.

Making an impact requires working with experts who share our vision and commitment. To this end we have partnered with Alternative Prosperity Group to address the ever-evolving needs of this vital sector through this pioneering offering. This partnership expands our existing sustainability offering to retirement fund clients and also strengthens our sustainability offering to corporate clients. We provide bespoke advice and solutions, including sustainability strategy development and implementation, impact measurement and monitoring and sustainability reporting.

Alexforbes Impact Academy

To assist retirement fund trustees in moving the dial to ensure that they position their fund as a "Fund of the Future", we have launched the Alexforbes Impact Academy.

The Alexforbes Impact Academy is a subscription-based platform, offering a comprehensive curriculum that demystifies sustainability and provides practical tools and insights for retirement fund trustees, principal officers and professional financial practitioners looking to equip themselves with the necessaray skills to integrate, develop and implement sustainability into their strategic planning.

The curriculum is built on the latest research and best practices, delivered by leading sustainability experts in the industry. Subscribers become part of a community of visionary leaders dedicated to a sustainable future for retirement funds, gaining the knowledge and confidence to guide their funds towards enduring success and resilience.

The story of the Alexforbes ArchAngel team – making an impact

Alexforbes proudly sponsored the remarkable Alexforbes ArchAngel crew on their thrilling journey during the Cape2Rio 2023 yacht race. This courageous crew, comprised of talented individuals from the Royal Cape Yacht Club (RCYC) Sailing Academy, embarked on a grand adventure across the vast Atlantic Ocean.

As trailblazers, the Alexforbes ArchAngel crew made history as the first complete crew from marginalised communities in Cape Town to participate in the Cape2Rio race from the RCYC Sailing Academy. Their extraordinary feat embodies the very essence of Alexforbes, where we believe in embracing possibilities to forge a brighter future for all South Africans. The RCYC, by using sailing as a vehicle to challenge inequality, poverty and marginalisation, shares a profound alignment with the core values of Alexforbes.

Thanks to the sponsorship from Alexforbes, this exceptional crew had a platform to showcase their years of training, unwavering commitment and unyielding dedication on a global stage. Their triumph serves as an inspiration to the youth of South Africa, demonstrating that dreams can be achieved against all odds. At Alexforbes, we are dedicated to empowering our clients and members, assisting them in investing in a better tomorrow through our insightful solutions.

The success of the Alexforbes ArchAngel crew stands as a powerful symbol of the pursuit of excellence, the courage to embrace challenges and our resolute commitment to making a lasting impact.

> ‘Thanks to the sponsorship from Alexforbes, this exceptional crew had a platform to showcase their years of training, unwavering commitment and unyielding dedication on a global stage.’

Battle Boards Chess Championship for South African high schools

Alexforbes was the proud sponsor of the inaugural Alexforbes Battle Boards Chess Championship for high schools in South Africa. This exciting online chess championship sets to unite students from Gauteng, Western Cape, North West and KwaZulu-Natal, and serves as a platform to foster inclusivity, develop problem-solving skills, and celebrate the world's most accessible sport.

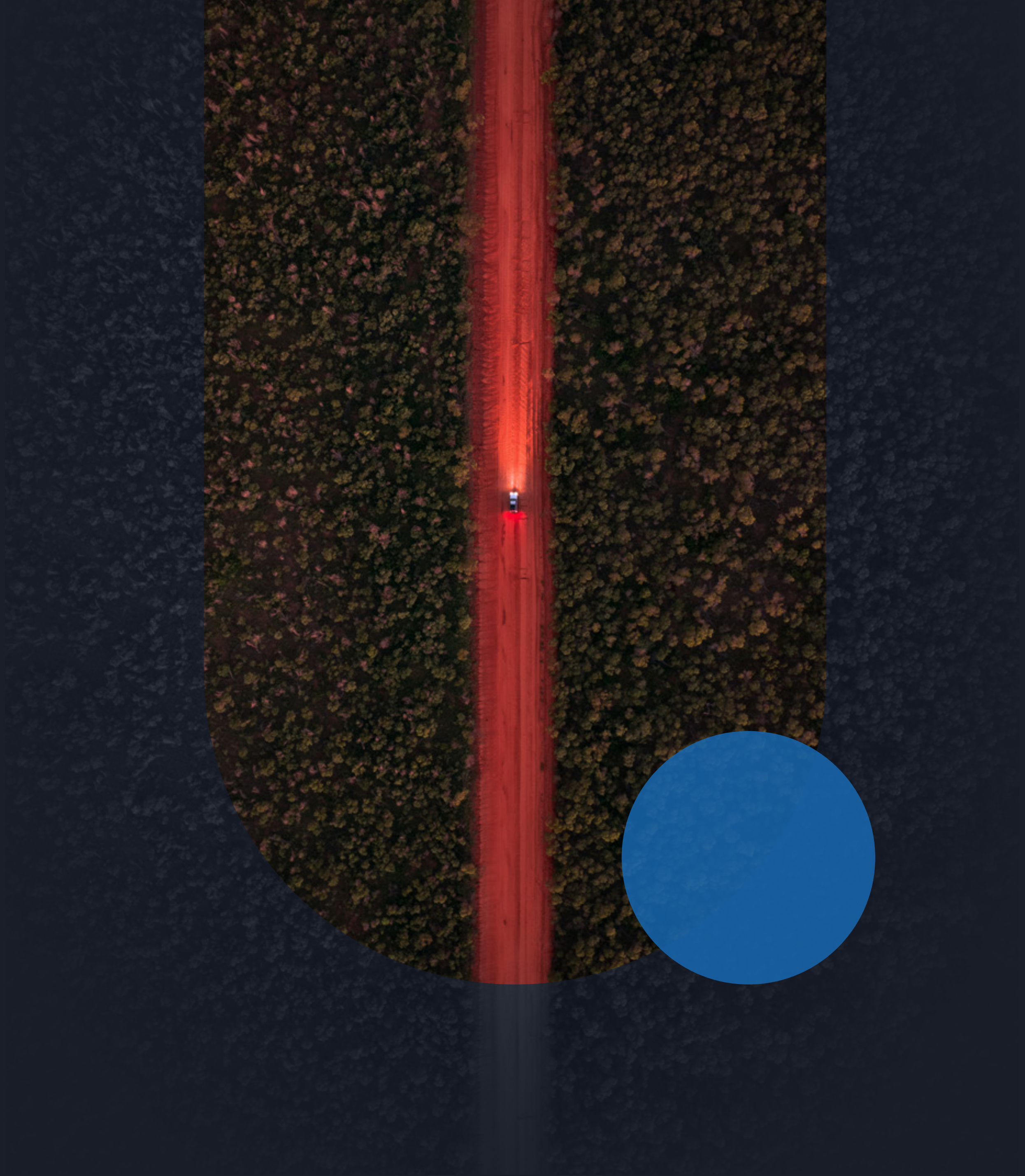
This year's team tournament witnessed 160 schools, comprising 1600 players, competing within their provincial pools. The top 10 school teams advanced to the final stages, culminating in a grand showdown on 24 February 2024 to determine the ultimate champions.

St. John's College emerged as the champions. The online high school team chess competition displayed the talent and strategic skill of participating schools from four provinces across South Africa.

Andre Lewaks, President Elect of Chess SA, commended the innovative online format of the championship, saying, 'The introduction of the online high school team chess competition model has provided a platform for schools to compete at a new level, transcending geographical boundaries. We are delighted to see the success of this event and look forward to its continued growth and impact on the development of chess in South Africa.'

The sponsorship of the Alexforbes Battle Boards Chess Championship reflects Alexforbes' commitment to fostering intellectual growth, breaking down barriers, and creating opportunities for students in South Africa. The championship will also serve as a model for expansion, with plans to include all nine provinces in the future.

Going forward



Future-forward stewardship: navigating tomorrow's challenges

Going forward

In order to play a more active role in shaping our industry, we are focusing on the following aspects of responsible investing:

ESG integration

- Ensure that training continues across the business
- Investment team members are well equipped to engage, manage and communicate portfolio risks

Climate change

- Measurement of the top 10 carbon intensity within the portfolio as a percentage of portfolio holdings
- Strategic engagements between our Chief Executive Officer or Chief Investment Officer, and the leadership within the asset management industry on the climate approach and the practicality of pledges such as net zero

Private markets programme

- Inclusion of additional asset managers within the reporting suite
- Engagement around sustainability outcomes and their measurement

Stewardship

- Monitoring the progress being made by the industry on existing holdings
- Engagement with the industry and clients on what aspects of sustainable development they deem directly related to the management of assets

  We think that there is merit in engagement without wielding the stick on matters of sustainable development within the public market participants. This is due to the immense ESG backlash being witnessed across development market geographies

Panels

- Participation in industry panels around social and environmental aspects such as gender equality and sustainable development outcomes (UN SDG's national engagement)

Events

- ESG Africa conference sponsorship for advocacy

Conferences

- We plan to attend several conferences to gain a deeper understanding of reporting developments that have been announced such as the ISSB standards and GRI. While these aspects relate to the listed entities and are not specific to asset managers, we believe that being knowledgeable about them will shape our engagement and the expectations we set for our managers. The concept of double materiality is not well understood in public markets, given that only financial materiality is considered

Collaboration

- As a business we intend to focus on industry wide matters and best practice, especially considering the enhanced group-wide focus on sustainability
- We intend to be more active within the Actuarial Society of South Africa on climate change risk management development for long-term asset liability management. We will elevate our voice through regulatory engagement

Glossary

Active ownership

Active ownership means using voting rights and engagement with investees to influence a company's decisions based on their expected ESG impact. Voting for or against company policies allows investors to take an active interest in improving ESG practices.

Double materiality

The concept of double materiality describes how corporate information can be important both for its implications about a firm's financial value, and about a firm's impact on the world at large, particularly with regard to climate change and other environmental impacts.

Due diligence

Due diligence is defined as an investigation, audit or review of a potential investment, product or company to confirm all facts or details under consideration. These facts can include items as reviewing all financial records, past company performance, leadership structure and anything else deemed material.

ESG integration

ESG integration incorporates environmental, social and governance criteria into investment decision making. It aims to identify, evaluate and price social, environmental and economic risks and opportunities over the long term. It considers factors other than assessments of short-term financial performance and commercial risks to performance, and instead incorporates a risk assessment of long-term ESG challenges and developments as well.

Materiality

Materiality is a concept that defines why and how certain issues are important for a company or a business sector. A material issue can have a major impact on the financial, economic, reputational and legal aspects of a company, as well as on the system of internal and external stakeholders of that company. Such issues can, in turn, have an impact on the underlying performance of investment returns derived from a company or business.

Financially material ESG factors are factors that could have a significant impact – both positive and negative – on a company's business model and value drivers such as revenue growth, margins, required capital and risk. The material factors differ from one sector to another. Examples of factors that can be material are supply chain management, environmental policy, worker health and safety and corporate governance.

Proxy voting

A proxy vote is a delegation of voting authority to a representative on behalf of the original vote holder. The party who receives the authority to vote is known as the proxy and the original vote holder is known as the principal. It allows groups of shareholders to amass greater influence by pooling their votes together.

Responsible investing

Responsible investing (RI) is the umbrella term for the various ways that investors can consider security selection and portfolio construction. The Principles for Responsible Investment define RI as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership. It complements traditional financial analysis and portfolio construction techniques.

Stewardship

The Financial Reporting Council defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, environment and society. Stewardship gives ESG issues and financial issues equal footing when building a portfolio so investors can be sure they are investing responsibly as well as profitably.

Sustainability

In the broadest sense, sustainability refers to the ability to maintain or support a process continuously over time. In business and policy contexts, sustainability seeks to prevent the depletion of natural or physical resources so that they remain available for the long term.

Sustainable investing

Sustainable investing combines traditional investing (using investment opportunities to provide expected returns) with ESG factors to improve investment decisions and long-term outcomes. Sustainable investing is supplementary to investment management – it does not mean a diversion from traditional investment concepts – and it also uses ESG considerations for value creation and deeper insight.

Alexander Forbes Investments Limited FAIS disclaimer

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