

Our latest Stewardship and Business Sustainability Reports

Companies have positive and negative environmental, social and governance (ESG) impacts and forming a holistic view based on these is far more complicated, and at times subjective, than it seems at face value. At Allan Gray we value independent thinking and strive to do what we believe is right. We remain open to engaging with those with a different perspective and committed to improving our ESG processes year on year.

We also engage with management and boards on improving governance and ensuring that incentives are linked to long-term value creation. This is an area where we believe we can add value to the underlying businesses that our clients are invested in. Because we recognise that there are sometimes complexities that are difficult for those outside the boardroom to know, we place a lot of weight on actual outcomes that can be measured and judged. Stronger governance tends to be linked to stronger environmental and social performance.

Below our ESG analyst, Raine Naudé, outlines our approach to responsible investing, which gives good context to our latest [Stewardship and Business Sustainability Reports](#), available to download from our website. The Stewardship Report goes into more detail around our approach and research and offers a selection of engagement and proxy-voting case studies, which illustrate our approach in action. It also includes a section covering the impact of COVID-19 on ESG factors. Meanwhile, our Business Sustainability Report shares our ongoing endeavours, as a business, to make a meaningful difference to society.

Our approach to responsible investing

Investment managers take different approaches to responsible investing. At Allan Gray, our approach is to integrate ESG factors into our investment process to better manage risk and improve returns. We have been using this approach since the company was founded in 1973, but have made a conscious effort over the past few years to make our reporting on ESG matters more visible.

ESG is integrated into our investment analysis across all asset classes. In relation to equities, our ESG research and engagement efforts prioritise companies with a material weight in our clients' portfolios, as well as smaller holdings in which our clients collectively own a material percentage of the company. In this way, our engagements and proxy voting have a greater ability to influence change.

For our fixed income holdings, we consider factors such as policymaker/counterparty credibility, which includes governance considerations, as well as how environmental and social factors influence the macroeconomic environment. We also consider issuer-specific environmental and social factors.

Engagement can be more difficult on the fixed income side, as counterparties are often governments or parastatals. Our positions are generally small in relation to the market capitalisation of total debt. Furthermore, bondholders do not benefit from the same powers of ownership conferred on shareholders; for example, they cannot vote to remove directors.

We engage with debt issuers' management during periodic debt investor roadshows, which most frequently occur after financial results are published or before an issuer intends to come to market with a new issue. In the case of corporates and parastatals, where we may be a more significant lender, we may request conference calls with key management when specific issues arise. Most of the corporates in our investment universe are also listed on stock exchanges, allowing us to leverage off the equity process – because bondholders and shareholders broadly share the same ESG concerns. While we do try to have constructive engagements with governments and parastatals, our approach for these issuers is more heavily weighted towards research. In the case of governments, our ability to influence policymakers is limited by our comparably small size.

For both equities and fixed income, we continue to monitor ESG factors once we are invested. This is crucial because ESG issues are dynamic and sometimes concerns may only arise further down the line.

We believe in truly active ownership

We always aim to do what we believe is right. While you would expect your manager to say this, what it does not mean is taking a binary view on whether investments are "good" or "bad" and making hard rules about related portfolio exclusions or inclusions. Instead, we undertake fact-based, in-depth, and holistic research to inform our investment decisions. Where we are invested in instruments that have negative environmental or social impacts, we encourage a focus on minimising harm and take a firm line in holding management and boards to account.

We believe that good stewardship of our clients' capital requires truly active ownership. We engage frequently and meaningfully with company boards and management teams and think critically about how we vote on behalf of our clients at company meetings. In addition to engaging with our investee companies, we actively partake in initiatives that promote sound corporate governance and sustainable business practices. This includes participation in private- and public-sector discussions as well as formal commentary on public policy papers and regulatory updates.

While we use a multiple portfolio manager system – where each portfolio manager manages a slice of the portfolio, making their own

investment decisions – and view it as key to our success, additional oversight is provided by the chief investment officer (CIO) and the Allan Gray board. Our CIO is able to veto investments by other portfolio managers in cases where he determines that the company's business practices are unethical in nature. The Allan Gray board further holds the CIO to account, including for his use of (or decisions not to use) this veto.

We strive to maintain a high standard of ESG integration and disclosure. We have been a signatory of the United Nations supported Principles for Responsible Investment (PRI) since 2013, which involves annual reporting on our ESG research and engagements.

Commentary contributed by Raine Naudé, environmental, social & governance analyst, Allan Gray

Further reading

For more information on our approach to responsible investing, please download our latest [Stewardship and Business Sustainability Reports](#) and consult the following documents on our website:

- [Policy on incorporation of sustainability considerations](#)
- [Policy on ownership responsibilities](#)
- [How we think about climate change and investing](#)

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