Stewardship Report

CALENDAR YEAR 2022

Contents

Stewardship Report

Introductory comments from the chief investment officer, Duncan Artus

We aim to be a great asset manager that integrates ESG well in our approach and decision-making, rather than an ESG-focused company that manages clients' assets.

In 2020, the world was turned on its head as COVID-19 surged across the globe. Three years later, the consequences of this pandemic are still keenly felt, compounded by the ongoing Russia-Ukraine war. As a result, 2022 was characterised by lingering and new supply chain disruptions, spiralling inflation, a cost-of-living crisis in many parts of the world, and growing recognition of the centrality of energy security to economic prosperity. Geopolitical risk also came to the fore as we continue to observe tensions rising between the West and the East and its allies.

TAKING STOCK

This dramatic shift in landscape led to something of a "reckoning" for environmental, social and governance (ESG) issues and responsible investing. For the first time in years, common narratives on "good" and "bad" companies were challenged. Russia's invasion of Ukraine highlighted the need for countries to be able to defend themselves and prompted questions around whether defence stocks should still be seen as negative and excluded from ESG funds. What about energy stocks, considering the requirement for energy security and that access to affordable, reliable electricity and heating is a crucial social need? Energy stocks saw a massive comeback after years of underperforming markets, while historically technology-heavy ESG funds had to reconsider their strategies as many high-growth, long-horizon technology stocks lost their shine in a rising rate environment.

For many years, we have tried to highlight the nuances and complexities of ESG and our concerns around several emerging trends that we believed warranted further consideration and scrutiny. We have also spoken out about our belief in the unintended consequences of fossil fuel divestment. It therefore came as no surprise that ESG debates intensified as the practical complexities of the enormous energy trilemma we face – how to achieve secure energy, ensure it is affordable, and lower its carbon profile – were laid bare. We were also pleased to see regulators taking an interest in ESG data and rating providers and the quality and transparency of their analyses, given their growing influence in the market.

In the US and globally, we saw companies re-evaluating their memberships of ESG-affiliated initiatives based on Republican pressure and the threat of litigation. In addition, many ESG-affiliated initiatives have increased their required membership commitments, and many members had underestimated what was required to adhere to the commitments. We have been careful not to join a plethora of third-party initiatives for some of these reasons, instead focusing on developing our own path to guide our ESG commitments to clients. We try to provide visibility around our commitments and how we approach these in section 3 of this report.

LOOKING AHEAD

South African political and social risks remain top of mind. Loadshedding in 2022 proved how years of corruption and mismanagement at Eskom will continue to throttle the South African economy unless tackled with an urgency and governance overhaul that we are yet to see. Loadshedding, in turn, has multiple knock-on implications, such as affecting our already-compromised water quality by straining ailing water infrastructure. But Eskom is not alone. Across a swathe of state-owned enterprises (SOEs) and government-run institutions, poor governance and service delivery failures are impacting roads, rail, ports, healthcare and education. Companies report that sophisticated criminal syndicates and self-appointed “business forums” are increasingly hampering their day-to-day operations – a huge burden on companies that are trying to operate ethically and contribute to much-needed job creation and economic development. Economic deterioration and growing poverty are likely to increase the incidence of crime. All in all, South Africa’s risk profile has increased.

However, the risk profile has arguably heightened in every region globally. As bottom-up stockpickers, we are used to seeking investment opportunities within a broad range of macroeconomic backdrops. Risk management that is cognisant of macro and issuer-specific ESG risks is an inherent part of investing, and we believe there are numerous companies operating in South Africa that are navigating the macro risks well.

We further recognise the importance of positioning our clients’ investment portfolios to be resilient under multiple scenarios that could play out, such as a substantially deteriorating South African macroeconomic environment, persistent global inflation and accompanying rate rises, a severe slowdown in economic activity in China, or a world that divides along geopolitical lines.

Our 2023-2025 ESG performance and engagement commitments, highlighted in section 4, provide a base for our 2023 focus areas. Key themes were set in early 2022 and these are biodiversity and climate change, mineworker safety, and holistic governance assessments. However, as stated earlier, we must be responsive to changes in the global and local environments. Accordingly, we will add South African water and evolving social risks (particularly labour-related) to our research agenda. We also plan to improve our documentation on state capture, ensuring that we closely investigate any directors up for election who have been linked to entities where misconduct occurred.

OUR ESG ANALYSTS

Raine Adams

Raine first joined Allan Gray in 2011 as a CA trainee and is currently an ESG analyst in the Investment team. She holds a Bachelor of Business Science (Honours) degree in Finance and a Postgraduate Diploma in Accounting, both from the University of Cape Town. Raine is a qualified Chartered Accountant.

Stephan Bernard

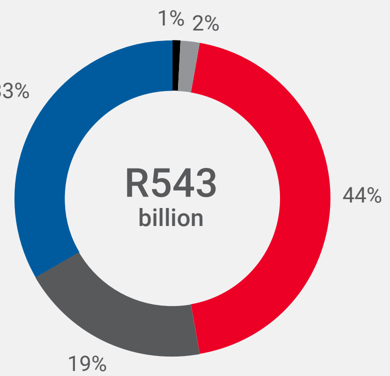
Stephan joined Allan Gray in 2013 and is an analyst in the Investment team focused on ESG research. Prior to his current role, he was a manager in the Institutional Clients team. Stephan holds a Bachelor of Commerce (Honours) degree in Actuarial Science from Stellenbosch University and is a qualified actuary.

Nicole Hamman

Nicole joined Allan Gray in 2019 and is a governance analyst in the Investment team. She holds a Bachelor of Commerce degree in Financial Accounting and a Postgraduate Diploma in Accounting, both from the University of Cape Town. Nicole is a qualified Chartered Accountant.

1. KEY METRICS

Assets under management



Equities | Fixed interest | Foreign | Property | Commodities

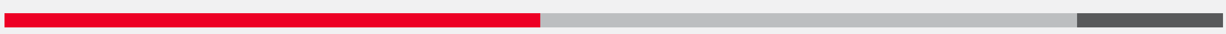
There may be some discrepancies in totals due to rounding.

B-BBEE

2022
Level 1

Allan Gray Proprietary Limited was awarded Level 1 contributor status in terms of the Amended Financial Sector Code. Our B-BBEE status was verified by AQRate, an independent verification agency.

Investment team



12 portfolio managers

12 analysts

3 ESG analysts

Investment team engagements

543
engagements

(2021: 487)

217
companies

(2021: 185)

303
discussions that included ESG topics

(2021: 262)

51
remuneration reports prepared

(2021: 56)

PRI scores

Investment and Stewardship Policy:


Direct - Listed equity - Active fundamental - Incorporation:

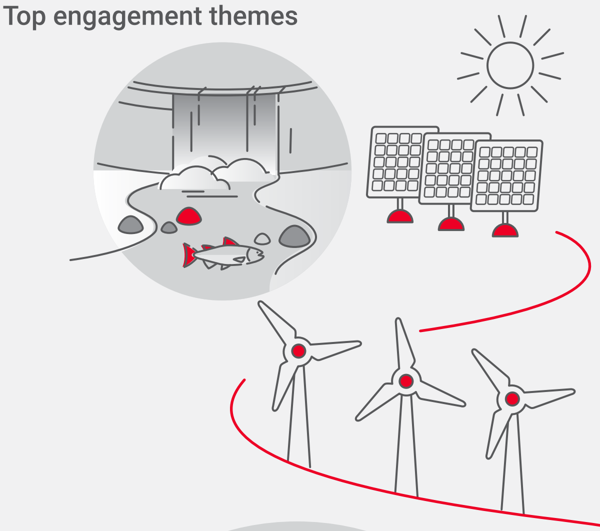

Direct - Listed equity - Active fundamental - Voting:


Direct - Fixed income - SSA:


Direct - Fixed income - Corporate:


For more information on the PRI, its scoring methodology and Allan Gray's Transparency Report, please visit www.unpri.org.

Top engagement themes



		2021	2022
E	Climate change, renewable energy and related engagements	39	65
S	Engagements on customer and societal considerations	27	42
G	Executive remuneration engagements	59	60

A breakdown of engagement categories, as well as case studies are provided in section 7.

Proxy voting

2 132
resolutions

(2021: 2 392)

158
meetings

(2021: 169)

Voting recommendations

91%
for

(2021: 90%)

9%
against or abstain (dissenting)

(2021: 10%)

28% of our dissenting votes are on executive remuneration. 23% of our total remuneration policy and implementation report votes are dissenting.

We provide our proxy voting record and unpack dissenting votes on page 32.

2. STEWARDSHIP DEVELOPMENTS OVER TIME

ESG considerations have always been integrated into our investment approach, as noted in the chief investment officer's comments on page 1 and demonstrated in "The impact of our company engagements over time" on page 27.

2012

Published first responsible investment policies

Started publishing voting record online

Publicly supported Code for Responsible Investing in South Africa (CRISA)

2013

Became a PRI signatory

Appointed first analyst dedicated to governance research

2014

Made ESG section compulsory in all research reports

2015

Created directors database

Published first Stewardship Report

2017

Appointed first E&S analyst

Introduced thematic ESG policy group meetings

Started reporting to Allan Gray's Social and Ethics Committee

2019

Published climate change position statement

Introduced Task Force on Climate-related Financial Disclosures (TCFD)-based reporting into our Stewardship Report

Benchmarked ESG performance against local and global peers

2020

Introduced politically exposed director screening

Started reporting to Allan Gray's Audit Committee

Began quarterly ESG meetings with our sister companies, Orbis and Allan Gray Australia

2021

Expanded the ESG team

Added ESG voting mechanism to investment process

Created controversies database

Created remuneration assessment framework

Improved categorisation and tracking of proxy votes

Launched new Institutional Clients website, with improved sustainability disclosure

2022

Improved directors database

Enhanced politically exposed director screening

Performed proxy voting coverage assessment

Formalised and enhanced climate risk assessment framework for top emitters

Enhanced portfolio carbon footprint analysis

3. OUR APPROACH TO RESPONSIBLE INVESTING

Sustainability, which includes good governance, is embedded in how we invest on behalf of our clients, operate our business and interact with society. We have always considered environmental, social and governance (ESG) factors as part of our investment process. We believe this holistic approach can improve investment returns, better manages risk and assists our clients to act as responsible owners. In other words, it protects our clients' interests as long-term investors.

The below quote from an Allan Gray article written 20 years ago by the then-chief investment officer, Stephen Mildenhall, highlights our long history of responsible stewardship.

> "Allan Gray's relationship of trust with its clients and its investment ethics require not only that we make buy and sell decisions with our clients' best interests at heart, but also that we encourage our clients to exercise their rights as shareholders in favour of sound corporate governance. In our opinion, the key components to sound corporate governance are: effective disclosure, which enables investors to make informed decisions; accountability of those entrusted with running the business for their actions, both management to the board and the board to shareholders; and aligning the interests of managers and shareholders so that managers' incentives are designed to reward them for creating value for shareholders."
>
> *Stephen Mildenhall, Q4 2003 Allan Gray Quarterly Commentary*

AN INTEGRATED APPROACH

In section 8, we shine a light on some examples of where we have taken a stand on behalf of our clients over time. While ESG integration has always been part of our DNA, we strive for annual improvements.

These include efforts to enhance the quality of our ESG research, engagements and proxy voting processes, refine our client-related disclosures, and participate constructively in industry, regulatory and policymaking initiatives.

We aim to do what we believe is right

Doing what we believe is right does not mean taking a binary view on whether investments are "good" or "bad" and making related portfolio inclusions or exclusions. We recognise that, unfortunately, there are often trade-offs that need to be weighed up between environmental, social, governance and economic considerations. For example, tackling climate change is a critical global priority, but in a developing country such as South Africa, the need to address socioeconomic issues, such as unemployment, inequality and transformation, is equally important to promote a sustainable economy. We seek to evaluate these factors as holistically as possible.

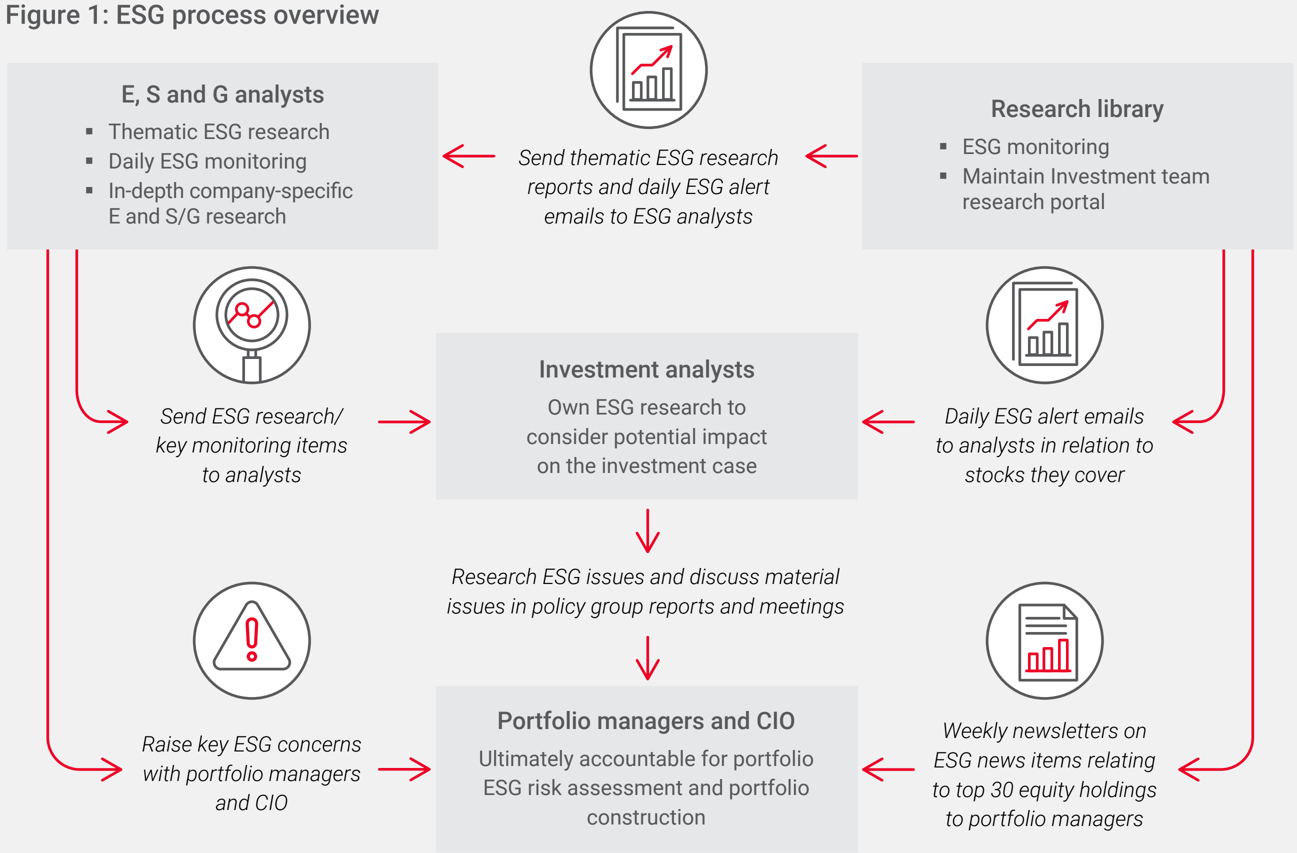
How we conduct ESG research

Our ESG research is conducted in-house and integrated into our investment analysis across all asset classes and geographies. Investment analysts are responsible for researching ESG issues relating to the instruments they cover and highlighting these in their research reports. Material ESG risks or opportunities are factored into company valuations. For equities, earnings or cash flows are adjusted if the risk is quantifiable, or the valuation multiple of the company or division is adjusted if the risk or opportunity is significant but uncertain. For bonds, we look to compensate for higher risk in the spread. Our valuations also take account of possible ESG tailwinds and opportunities. The team scrutinises, challenges and debates investment theses when reports are reviewed.

In late 2021, we introduced an ESG risk rating system for instruments discussed in the aforementioned team meetings. In section 5, we report on the outcomes of the first year of using this system. ESG risks also factor into our internal risk ratings, which seek to ensure sufficient diversification through portfolio exposure limits. Sometimes, when the risk is perceived as too great, we may choose not to buy the instrument at all.

The Investment team includes a governance analyst and two environmental and social analysts, who perform additional monitoring, in-depth research into identified risk areas and thematic ESG research. Additionally, our research library monitors company-specific ESG news and shares relevant news items with the team (see Figure 1).

Figure 1: ESG process overview



If a portfolio manager decides to buy a share, accountability for the incorporation of sustainability considerations falls on the portfolio manager. Our CIO may veto investments by portfolio managers in cases where he determines that the company's business practices are unethical in nature. While we continue to use the multiple portfolio manager system (i.e. each portfolio manager manages a slice of the broader portfolio) and view it as key to our success, we believe it is necessary to have an additional level of oversight in the form of the CIO's ethical veto. The Allan Gray board holds the CIO to account, including for his use of (or decisions not to use) this veto. We continue to monitor ESG factors once we are invested. This is crucial because ESG issues are dynamic. Good stewardship of our clients' capital also requires active ownership, which we effect through engagements with companies and proxy voting on resolutions tabled at their general meetings.

We engage frequently and meaningfully with both company boards and management teams – we elaborate further on this in section 7. We do not use external proxy advisers, preferring to reach our voting recommendations independently. We think critically about these votes on behalf of our clients and make a point of engaging with boards beforehand when we have concerns. Details of our proxy voting are provided in section 10. Our voting recommendations, together with the outcome of the shareholders' vote on each relevant resolution, are shared on our website quarterly in arrears.

We acknowledge that we are invested in companies that have negative environmental or social externalities, and we focus on understanding how they are working to reduce their impact and improve. Investing in "ESG improvers" makes investment sense, as better ESG credentials are likely to be rewarded in the market. We believe in holding management teams and boards to account for their strategy and execution.

In addition to company engagements, we actively partake in industry initiatives that promote sound corporate governance and sustainable business practices. We discuss some of the industry engagements undertaken in 2022 in section 9.

Key factors

We keep the following factors in mind in our approach to ESG:

- **Client-centricity:** Our core objective is to build long-term wealth for our clients. It is therefore crucial to serve as responsible stewards of our clients' assets by safeguarding their interests as investors. We aim to generate the best possible risk-adjusted returns for our clients, as responsibly as possible.

- **Independent-mindedness:** Allan Gray has always followed a contrarian investment approach and we strongly encourage and value independent thinking. Our approach to responsible investing is no different. We may not always do what is popular, but we consider it far more important to be authentic.

- **Integrity:** In a world where accusations of "greenwashing" abound, we try to be as clear as possible about our ESG commitments and honest about the limits of what we can achieve.

- **Pragmatism:** We live in an imperfect world where there are often trade-offs involved in decision-making. We try to be realistic and pragmatic about these and make decisions that are in society's best interests. We recognise that not everyone will agree with our decisions and that, as with stockpicking, at times we may get things wrong. In such cases, we endeavour to learn from our mistakes and remain open to changing our views as more information comes to light.

Our responsible investment policies, available on our website, provide more details about how we approach ownership responsibilities on behalf of our clients and how we consider sustainability in the investment process. Clients may also read our position statement on climate change to understand our thinking around the role we can play to support the transition to a lower-carbon economy.

FIXED INCOME STEWARDSHIP

Bondholders and shareholders broadly share the same ESG concerns, but bondholders do not benefit from the same powers of ownership conferred on shareholders; for example, they cannot vote to remove directors. Our engagement approach to fixed income therefore differs from that to our equity holdings.

We typically engage with debt issuers' management during debt investor roadshows, which frequently occur after financial results have been published or before an issuer intends to come to market with a new instrument.

In South Africa, we aim to play a constructive role by engaging with government on key matters through various channels, for example the Association for Savings & Investment South Africa (ASISA), or through direct engagement with policymakers on matters such as the fiscus and ESG.

In the case of corporates and parastatals, where we may be a more significant lender, we may request meetings with key management or write to the boards when specific issues arise. Most of the corporates in our fixed income investment universe are listed entities, which allows us to draw on our equity research process in assessing the creditworthiness of issuers.

STEWARDSHIP IN FRONTIER MARKETS AND THE REST OF AFRICA

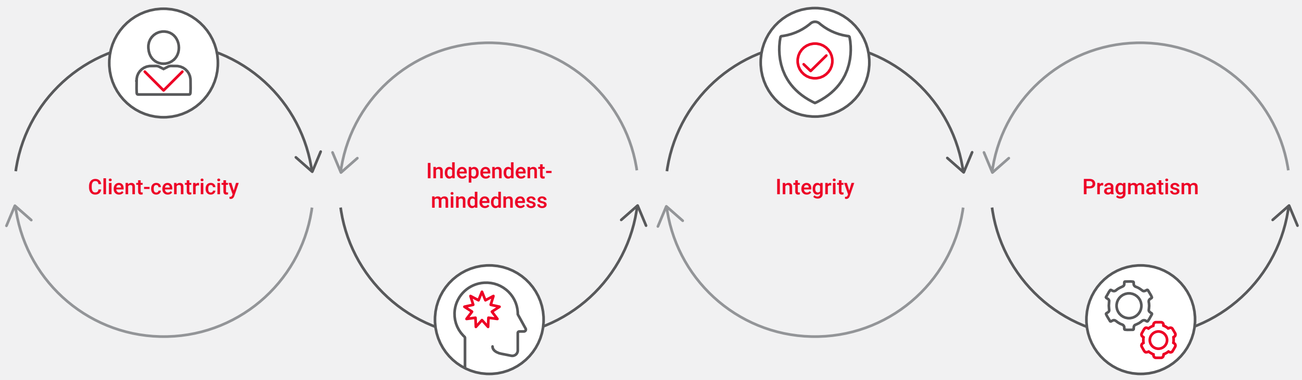
The principles underlying our approach to stewardship also apply to investments in other African countries and frontier markets. However, our approach may be adjusted to reflect the complexities introduced by investing in less developed markets.

Weighing up ESG considerations in these markets can be challenging, as disclosures are generally more limited than for JSE-listed companies. Furthermore, developing markets typically feature systemic ESG challenges which, in turn, have implications for companies' operating conditions. Governance risk often includes heightened political risk at a macro level; even companies exercising good corporate governance remain vulnerable.

In terms of making voting recommendations, we cover all resolutions tabled by those companies to which our funds have material exposure.

In the case of fixed interest instruments issued by governments, our ability to influence policymakers in Africa outside South Africa is limited by the small size of a typical position in relation to the market capitalisation of the total debt in issue. Given our limited ability to bring about change using this method, our approach for these issuers focuses on research over direct engagement.

Figure 2: Factors we keep in mind in our approach to ESG



4. PROGRESS AGAINST ESG COMMITMENTS

While we often speak about the value of engaging with investee companies in private, we also recognise the need for public accountability. In our 2021 Stewardship Report, we set out several ESG engagement and performance commitments for 2022 to 2025 in a drive towards greater self-accountability and transparency with our clients.
For 2022, the following ESG engagement commitments were made:

- **Environmental:** Air pollution – three companies will be contacted on compliance with SA air emission standards.
- **Social:** Safety in mining – engagements with three identified high-risk companies in our clients' portfolios, based on a 2021 sectoral safety review.

Table 1 summarises the outcomes of these ESG commitments and Table 2 provides an update on a selection of the commitments we have made for 2023-2025.

Table 1: Outcomes of ESG commitments (2022)

Commitment made	Outcome in 2022
ENVIRONMENTAL: AIR POLLUTION	
Engagement target: "Three companies will be contacted on compliance with SA air emission standards. We held ESG engagements with these companies on air pollution during 2021 but require follow-ups to monitor progress."	**1. Sasol** We had various engagements with Sasol representatives during 2022. These included queries around carbon tax and an update on their compliance with minimum emission standards (MESs) related to air pollution. We enquired about Sasol's application to change its sulphur dioxide (SO_2) limits from a concentration-based MES limit to a load-based limit and whether this was to meet the MES limit by 2025. Sasol noted that they still will not meet the limit, but that SO_2 reductions should materialise post 2026 as a result of their climate strategy. We have some concerns over the feasibility of this strategy given that its reliance on gas introduces other risks to the business, but continue to engage on this matter.
	2. Eskom We attended a talk by Eskom's former chief executive officer (CEO), André de Ruyter, at the Standard Bank Climate Summit. We noted that there had been no further developments since our prior engagement on air pollution, and therefore did not call for another one-on-one meeting. In light of the current loadshedding crisis and the substantial associated socioeconomic impacts, we believe that keeping the lights on and tackling the governance crisis should be the current priorities.
	3. Sappi We contacted Sappi's head of Investor Relations to follow up on several ESG issues discussed during an ESG engagement in 2021. We enquired about an investigation into Sappi Saiccor's alleged air emission transgressions that had been referred to the National Prosecuting Authority. At the time, there were no further developments to report. We also asked for an update on air pollution emissions for FY2022, given an increase in SO_2 emissions in 2021. In April 2023, it was publicised that Sappi has pleaded guilty to exceeding SO_2 emission limits at the Saiccor mill between July 2012 and December 2014 and has been ordered to pay a R8m fine. Sappi has invested in addressing its Saiccor emissions since 2014 and we are comfortable that management's efforts are sincere. Management also commenced a R7.7bn expansion and environmental upgrade project at Saiccor in September 2022, which will have further benefits in terms of reducing its broader environmental footprint. We will continue to monitor its air pollution management.

Table 1: Outcomes of ESG commitments (2022) (continued)

Commitment made	Outcome in 2022
SOCIAL: SAFETY IN MINING	
Engagement target: "Safety-focused engagements with three identified high-risk companies in our clients' portfolios, based on a 2021 sectoral review."	**1. Sibanye-Stillwater** We held a safety-focused meeting with the CEO and chief regional officer of Southern Africa. We unpack this engagement on page 23.
	2. AngloGold Ashanti AngloGold Ashanti's safety profile improved in 2021 following the sale of its South African assets to Harmony. These assets generally had the highest number of fatalities and total recordable injury frequency rate (TRIFR). In 2022, the company requested that we meet with an independent consultant for an ESG discussion, during which we could share our views on material ESG considerations for the group. While we discussed multiple ESG issues, we emphasised that safety must be an ongoing priority despite the disposal of its highest-risk assets. Subsequently, we contacted AngloGold Ashanti with disclosure recommendations across multiple ESG themes: workforce, communities, climate change and tailing storage facilities (TSFs). Based on our monitoring, we are pleased with AngloGold's progress on safety. The continuing operations TRIFR has declined from 2.26 per million hours worked in 2018 to 1.26 in 2022, and there were no fatalities in 2022. While safety metrics seldom follow a smooth trendline, we believe that safety is being well managed when comparing its metrics to that of local and global peers.
	3. Glencore We did not hold a safety-focused engagement with Glencore, as we felt comfortable with the workforce safety prioritisation strategy outlined in its reporting. However, in a meeting with the chairman, head of Sustainable Development and company secretary (primarily on governance and remuneration), we asked for an update on the management of their TSFs, rated "very high" and "extreme" in terms of potential impact. They confirmed that these TSFs will conform to the International Council on Mining and Metals' Global Industry Standard on Tailings Management (considered best practice in the industry) by August 2023. This is important to reduce community safety risk.

Table 2: Update on a selection of medium-term commitments that are underway

Commitment made	Outcome in 2022
ENVIRONMENTAL: CLIMATE CHANGE	
Performance target to 2025: "Engage with investee companies to set science-based greenhouse gas emission reduction targets, with the objective that 30% of Allan Gray's top 40 local equity holdings' financed emissions must have committed to a science-based target by 2025, preferably verified by the Science Based Targets initiative (SBTi) (if not, on an explain basis)."	**1. Sappi** During a 2021 ESG meeting held with Sappi, we queried why its greenhouse gas (GHG) emission reporting excluded the carbon "sink" (i.e. carbon removal) provided by its plantations and the significant percentage of its land that is preserved for conservation, and how this would be incorporated into any GHG target setting. Sappi noted that it had engaged with the SBTi on target validation. In 2022 we requested an update. Sappi informed us that the Greenhouse Gas Protocol Land Sector and Removals Guidance is currently in the pilot phase and Sappi is a participant. The Guidance will direct companies on how to report GHG emissions and removals from land use, land use change, biogenic products and carbon dioxide removal technologies. Once the protocol is finalised, likely in 2023, it is expected that science-based targets will be extended to include the biogenic emissions or sinks from forests. Sappi has made good progress in the interim, with the SBTi validating its science-based targets in 2022. In addition to operational GHG reduction targets, Sappi has committed to working with suppliers to progress their own science-based targets, aiming for 44% of its suppliers by spend to have these targets in place by 2026.
	2. Glencore Glencore has previously noted that SBTi verification is not possible due to methodology complexities for diversified miners. This is supported by the fact that other diversified miners do not have SBTi-verified GHG reduction targets either. We asked Glencore for an update in 2022. While it has subsequently engaged informally, there was no progress to report in this regard. We continue to engage with Glencore on its climate strategy, which includes a 50% reduction in scope 1, 2 and 3 GHG emissions by 2035 and net zero by 2050, primarily through the managed decline of its thermal coal mining business. We are comfortable with this level of ambition but requested greater disclosure around climate modelling.
	3. Standard Bank In 2022, we held a climate-focused engagement with Standard Bank (see page 22 for further details). During this discussion, we requested further details of the challenges that it faced in relation to setting an SBTi-verified GHG reduction target on its loan book. Our takeaway was that, despite the challenges, Standard Bank is focused on managing the carbon footprint of its loan portfolio.
GOVERNANCE: ETHICS AND COMPLIANCE CULTURE	
Engagement target to 2023: "Engagement with top holdings as we expand our governance dashboards to better capture and document aspects such as board composition, compliance processes and corporate culture."	In 2022, we conducted a board review of Allan Gray's top 30 equity holdings as a preliminary dataset for our governance dashboards. Factors examined include executive succession, capacity of board members, non-executive remuneration developments and various board composition aspects. The outcomes will be used to inform our company engagements. We continue to develop our broader governance framework and build on our existing tools such as our directors database. The 2023 Stewardship Report will present the outcomes.

ESG ENGAGEMENT AND PERFORMANCE COMMITMENTS

In our drive towards greater self-accountability and transparency with our clients, we set out a selection of our future ESG engagement and performance targets for 2023-2025[1].

2023

Governance: Ethics and compliance culture

Engagement target: Engagement with top holdings as we expand our governance dashboards to better capture and document aspects such as board composition, compliance processes and corporate culture.

2024

Social: Safety in mining

Performance target: Currently identified high safety risk miners must have improved their total recordable injury frequency rate by at least 15% versus a 2021 baseline. We will also review absolute fatalities within this metric. Failure to achieve this target will trigger further safety engagement (unless their safety track record deteriorates leading up to this and we engage sooner).

2024

Environmental: Biodiversity

Performance target: All holdings considered to have high potential biodiversity impacts in our top 40 local equities as of December 2021 must have robust biodiversity strategies in place by end-2024. Note that some already do, but this target aims to strengthen focus on this environmental issue and broaden this initiative.

2025

Environmental: Climate change

Performance target: Engage with investee companies to set science-based greenhouse gas emission reduction targets, with the objective that 30% of Allan Gray's top 40 local equity holdings' financed emissions must have committed to a science-based target by 2025, preferably verified by the Science Based Targets initiative (SBTi) (if not, on an explain basis).[2]

1. The outlined commitments assume that all relevant holdings are still held in our clients' portfolios at the time of the set target deadline, which may not be the case.
2. This is not yet possible for certain companies due to methodology complexities, e.g. the diversified miners.

5. INTERNAL TOOLS, ENGAGEMENT AND RESEARCH

In 2021, we added an ESG voting mechanism to the South African policy group meeting process. Policy group meetings are held for the investment team to discuss and vote on research reports presented by the covering analysts.

ESG RISK RATINGS

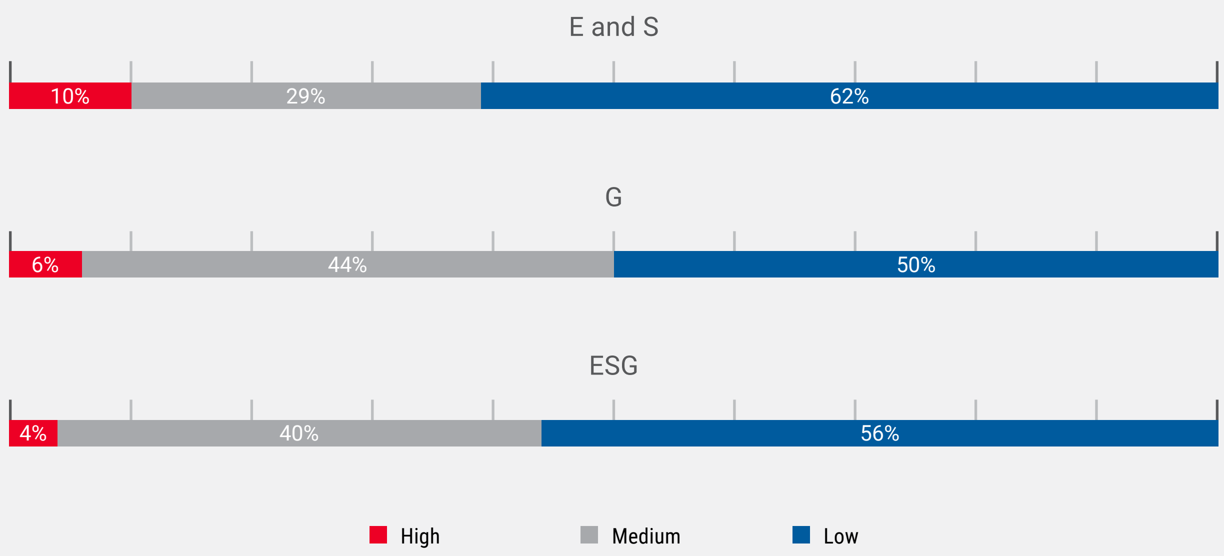
All investment team members submit ESG "risk ratings" for the stock too. This rating uses a traffic light system – "low", "medium", "high" or "uninvestable" for the environmental and social (E and S) pillars, governance (G) pillar and the combined ESG vote. A weighted average ESG risk rating is then assigned to the stock, with an upweighting of portfolio managers' and ESG analysts' votes. This addition to our investment process aims to promote deeper consideration of ESG materiality by all analysts and prompt ESG discussion in the meeting, particularly when multiple team members have voted the stock as high risk. We also believe these ratings will serve as additional data points for internal benchmarking over time, for example whether we are consistently evaluating ESG materiality. Importantly, they do not replace our existing overall risk rating for stocks, which is based on numerous factors, including ESG risks.

Graph 1 below shows the distribution of ESG risk ratings for 2022. Please note that this only applies to stocks discussed at policy group meetings during the calendar year and is not a proxy for ESG risk within our clients' portfolios.

When an analyst votes a stock as carrying high E and S risks but low G risks, the combined ESG vote allows them to decide which aspect is more crucial to the investment case. Instead of giving the stock a "medium" ESG risk rating by averaging the E and S and the G ratings, they may decide that the high E and S risks are significant enough to warrant a "high" ESG risk rating overall. On the other hand, if the E and S risks are high but the company shows signs of strong management and mitigation, the combined ESG risk rating may be lower to reflect this. In this way, the combined ESG vote provides a "residual risk" rating.

Unsurprisingly, we did not vote any stocks as uninvestable on ESG grounds in 2022. We would hope not to encounter uninvestable ESG stocks very often, similar to the chief investment officer's ethical veto not being intended to be used often.

Graph 1: ESG risk ratings for stocks discussed at policy group meetings in 2022



There may be some discrepancies in totals due to rounding.

ESG THEMES RAISED AT INTERNAL ENGAGEMENTS

Along with ESG risk ratings, we record ESG points raised or debated in policy group meetings. Below we list selected examples from two sectors, retail and mining. This list is illustrative rather than exhaustive and showcases the various ESG themes raised at these meetings during the year.

Retail

1	▪ Franchise disputes and allegations of poor treatment of labour	G S
2	▪ Food spoilage versus peers ▪ Living wage, COVID-19 support, payment of delivery employees	E S
3	▪ Executive tenure impact on culture ▪ Effective interest rate on credit and economic pressure on consumers	G S
4	▪ Strategy concerns around expansion ▪ Executive remuneration misalignment with company performance	G

Mining

1	▪ Capital allocation risk associated with the energy transition; ability to access markets still in need of conventional fuel	E
2	▪ Role of gas versus oil in the energy transition; negative sentiment towards fossil fuels	E
3	▪ Energy transition and decision not to unbundle coal assets	E
4	▪ Potential outcomes of corporate action ▪ Labour risk, shortage of specialist workers for mechanised mines	G S

ESG-FOCUSED RESEARCH

ESG-focused research notes and reports are prepared for internal distribution. These seek to strengthen the Investment team's awareness and knowledge of various company-specific or thematic developments that may translate into the identification of ESG risks and opportunities.

Focused research reports

- Nuclear energy
- Update on electric vehicle adoption, road transport greenhouse gas emissions and potential impact on global oil demand
- Investment implications of the US Inflation Reduction Act's US$369bn climate package
- Mining overview of ESG metrics and weightings in executive remuneration

Company research reports

- Thungela toxic spill
- Sibanye-Stillwater safety deep dive
- Development Bank of Southern Africa governance note
- Company-level remuneration reports, 51 reports prepared in 2022[3]
- Allan Gray Balanced Fund top 30 holdings board of directors' deep dive

SISTER COMPANY ENGAGEMENTS

In addition to quarterly meetings with our sister companies' ESG teams and related representatives, we have increased our ongoing communication and collaboration. This included an ESG-focused meeting between the chief investment officers and portfolio managers during 2022. Closer collaboration aims to derive maximum value from the combined ESG resources at Allan Gray South Africa, Orbis and Allan Gray Australia and broaden perspectives in our debates.

3. We changed our measurement period to reflect all reports prepared over the 2022 calendar year, as opposed to reports prepared for financial year-ends falling in the calendar year.

6. MATERIAL ESG RISKS WITHIN OUR TOP EQUITY HOLDINGS

We pay close attention to our clients' top holdings in our ongoing ESG research and monitoring, as these have the greatest ability to impact their investment value.

Following are five of our clients' equity holdings, all of which are top 10 positions, that we believe present the most material ESG risks within our clients' portfolios. This is a function of position size and other factors, such as the nature of the business, geographical and regulatory complexity, and the need to adapt well to a changing society. We discuss the actions we have taken to research and respond to these risks over recent years, as well as how potential opportunities have been weighed up. Given that we are long-term holders of assets, some engagements span many years, during which we may see incremental improvements year-on-year, although this is not always the case.

ACTIONS TAKEN TO ADDRESS ESG CONCERNS

British American Tobacco (BAT)

Primary ESG concerns per company	Internal research and report areas	Engagement areas (audience)
Health impact of smoking Allegations of child labour in tobacco supply chain	▪ Next-generation products, health impact studies versus combustibles, associated global regulation; discussed in a team meeting ▪ Current practices, e.g. prevention of sales to youth ▪ Liaising with our offshore partner, Orbis, on consistent messaging to BAT on ESG issues	▪ Next-generation product portfolio, progress and future targets (management) ▪ BAT's commitments to address child labour in the supply chain and other sustainability considerations (head of Sustainability)
Allegations around regulatory interference with and methods for tackling the illicit tobacco trade	▪ Specific governance considerations at BAT; presented to our board of directors	▪ Governance allegations, particularly relating to South African operations (head of Group Compliance and chairperson)

Anheuser-Busch InBev (AB InBev)

Primary ESG concerns per company	Internal research and report areas	Engagement areas (audience)
Health impact of alcohol abuse	▪ The societal burden of alcohol abuse, possible responses by regulators and actions by AB InBev ▪ ESG webinar held by AB InBev, which included a discussion about responsible consumption	▪ Work done by AB InBev to prevent harmful consumption of alcohol; investor ESG-based exclusions of alcohol stocks in their fund strategies (Investor Relations) ▪ AB InBev engagements with governments on excise taxes (Investor Relations)

Glencore		
Primary ESG concerns per company	**Internal research and report areas**	**Engagement areas (audience)**
Allegations of corruption and regulatory risk	▪ Foreign Corrupt Practices Act and associated legal and settlement costs ▪ Further research into Glencore's operations in the Democratic Republic of the Congo ▪ Internal meeting to discuss the above research ▪ Ongoing monitoring of improvements to Glencore's Ethics and Compliance programme; attended a related webinar	▪ Compliance improvements, particularly the prevention of intermediaries' engagements with governments (General Counsel)
Thermal coal risk and green energy transition opportunity in commodity basket	▪ Base metals demand under future climate transition scenarios; discussed in a team meeting ▪ Our offshore partner, Orbis, prepared a report on Glencore's GHG reduction commitments	▪ Multiple engagements on Glencore's thermal coal strategy and GHG emission reduction targets (management and board) ▪ Feasibility of future coal demand and policy scenarios (Glencore's coal modelling expert) ▪ Meetings to discuss Glencore's climate commitments and potential recommendations (Orbis)

Naspers		
Primary ESG concerns per company	**Internal research and report areas**	**Engagement areas (audience)**
Chinese regulatory risk and political regime risk in relation to Tencent	▪ Chinese gaming approval system and social issues related to gaming addiction ▪ China-related risks, such as global geopolitical tensions	▪ Numerous engagements to interrogate the perceived risk-reward profile (external China experts)
Voting rights and Naspers-Prosus share exchange Variable interest entity Executive remuneration scheme	▪ Tencent's variable interest entity structure, including ongoing internal updates on the associated risks ▪ Internal remuneration report prepared annually	▪ Share-exchange offer; presented our view on the proposed transaction (management) ▪ Executive remuneration scheme concerns; suggested improvements (remuneration committee chairperson)

Sasol		
Primary ESG concerns per company	**Internal research and report areas**	**Engagement areas (audience)**
Climate change disclosures and future-fit strategy Air pollution and associated regulatory compliance postponements	▪ Air pollution, for which research included attending meetings of the Parliamentary Portfolio Committee on Environmental Affairs on air pollution and meetings with non-governmental organisations and academics for independent views ▪ Detailed review of annual updates to its climate strategy	▪ Air pollution and climate change, including recommendations for related disclosures and commitments (numerous Sasol representatives, ex-joint CEOs)
Strategic mistakes Quantum of non-executive directors' fees	▪ Peer group benchmarking analysis on non-executive directors' fees ▪ Internal remuneration report prepared annually	▪ Governance failures related to the Lake Charles Chemicals Project (board) ▪ Non-executive directors' fees, including sharing our benchmarking analysis (remuneration committee) ▪ Ongoing executive remuneration engagements (remuneration committee)

7. COMPANY ENGAGEMENT ACTIVITIES

Engagement is an integral part of our investment and proxy voting processes. From an environmental (E), social (S) and governance (G) (ESG) point of view, we typically engage with multiple stakeholders, including company boards and management teams, industry regulators, other industry participants, clients and civil society or activists.

As detailed in section 8, we have been engaging through various platforms for decades in pursuit of better outcomes for our clients.

EVOLUTION OF COMPANY ENGAGEMENTS

Over time, the way we engage has evolved. Fifteen years ago, we mainly engaged with executives, and direct engagements with board representatives were few and far between. Now our engagements have a broader audience, as discussed below.

Governance provides the platform

An important development in establishing a platform for more frequent engagement was the JSE Listings Requirements that in 2017 made it mandatory for companies to table their executive remuneration policy and implementation report at their annual general meetings (AGMs). While these resolutions are advisory, it has prompted a "standing" governance engagement between shareholders and company representatives. Over recent years, ESG measures have become more prominent in executive remuneration packages. This has meant that key E and S matters have often been addressed in these engagements.

These engagements typically exclude executive directors and may include the board chairperson, remuneration committee chair or the company E, S and G specialists – depending on which issues are discussed. While "standing" platforms are useful and an improvement on the past, they are not our only point of contact.

Environmental and social require depth

Owing to the complexities and nuances of E and S issues, many of which are interrelated, more focused engagements may be warranted.

We prefer not to have a formulaic approach to these engagements. They are mostly ad hoc, as the underlying drivers and objectives vary widely. Examples of engagement drivers include thematic or company-specific research that has highlighted an ESG risk or opportunity for further discussion or adverse news, in which case we may seek further insight into whether the issue is being appropriately addressed by the company.

Stewardship progress

We are encouraged by the evolution of engagements that has occurred over the years. We now have broader access to key individuals at companies in which we are invested. This adds value to our fundamental research and the manner in which we exercise our stewardship responsibilities. While we engage proactively on E and S matters, G engagements remain more frequent, and are often undertaken with the intention of influencing outcomes. Studies have shown that companies with stronger governance practices typically perform better on environmental and social metrics as well. We firmly believe in pushing for the alignment of executive management's incentives with those of long-term shareholders, meaning that more consideration is given to long-term sustainability.

HOW DOES ALLAN GRAY APPROACH ESG ENGAGEMENTS?

Over our history, we have learnt that the manner in which we approach our engagements is critical to achieving constructive outcomes. While the list is not exhaustive, we consider:

Materiality

We prioritise engagements with companies that are material in our clients' portfolios, or companies of which our clients own a material percentage. This contrasts with engaging with every company held in the portfolio. Instead, we dedicate more time to researching and engaging on issues that have the largest potential impact on our clients' portfolios or where we are most able to influence change.

Quality, not quantity

We are comfortable holding fewer, more meaningful engagements per year. We do not believe in contacting companies to discuss ESG issues on which they already report. We respect the time taken to prepare disclosures and always use them as a first port of call. We would like to develop a reputation with companies for high-quality ESG engagements that are mutually beneficial. This reputation should, in turn, allow us to have more influence.

Humility

We recognise that we are one of many stakeholders, and that companies undertake improvements of their own volition, therefore we avoid taking full credit for engagement outcomes. We also respect that boards may hear our views on strategy or executive performance and disagree with them. We prefer to engage with companies in private, recognising that these are typically more constructive than public engagement, which may be perceived as hostile, resulting in defensive behaviour.

Purpose

We engage only with the aim to achieve better outcomes for our clients (and society, although this is complex and often subjective) and not for other reasons, such as publicity.

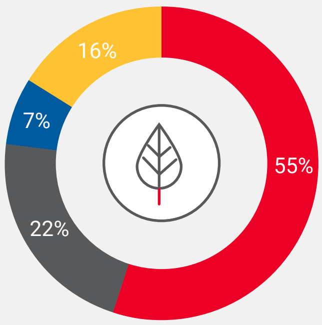
Proactivity

We aim to identify any potential ESG issues through thematic, sector- or stock-level research before they impact the business. We prefer to engage on these upfront, rather than when adverse news emerges (i.e. we aim to be proactive rather than reactive). Given the breadth of ESG factors, this is not always possible, but we have examples of detecting concerns and engaging before they become news headlines.

ESG ENGAGEMENTS BY THEME

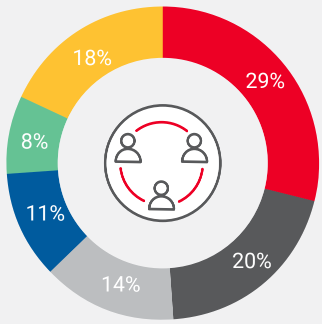
We cover a broad range of ESG topics in our engagements, as shown in the graphs below. In 2022, our top engagement categories per pillar were executive remuneration (governance), climate change and related topics, such as renewable energy spending (environmental), and customer and societal considerations (social). These were consistent with our key engagement themes of 2021.

Environmental engagements



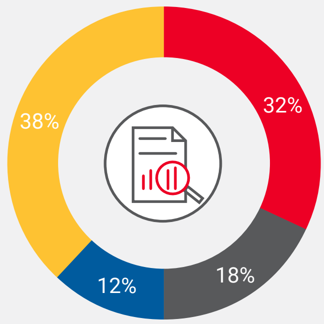
- Climate change, renewable energy and related
- Environmental considerations in the mining sector
- Policy, regulation, legal and compliance
- Other

Social engagements



- Customer and societal considerations
- Workforce and supplier considerations
- Community relations
- Policy, regulation, legal and compliance
- Transformation and B-BBEE
- Other

Governance engagements



- Executive remuneration
- Board composition and governance structure
- Executive management matters, leadership changes and succession
- Other

TOTAL ENGAGEMENTS HELD IN 2022

Following a period of fewer engagements in light of the unique circumstances presented by the pandemic, our total number of engagements increased to pre-pandemic levels, as shown in the table below. The frequency of occasions where E and S issues were raised had been rising steadily: In 2022, environmental considerations were raised at double the number of occasions observed in 2019. Similarly, an uptick in occasions where S issues were discussed reflects a concerted effort to scrutinise social considerations more closely. This coincides with a global shift in attention towards the so-called "middle child" of ESG. Global developments – such as the pandemic, geopolitical tensions and the sociopolitical challenges presented by the energy transition – have driven home the significant impact that social issues can have on financial markets.

2022		Environmental	Social	Governance
Type of engagement	**Total number of engagements**	**Occasions when ESG issues were discussed**		
Meetings	342	79	99	120
Written correspondence	33	4	2	27
Site visits	9	1	2	1
Other forms of engagement	159	31	36	37
Total	**543**	**115**	**139**	**185**
2021	487	89	117	139
2020	412	51	95	129
2019	542	54	95	174

ISSUER-SPECIFIC CASE STUDIES

In the case studies that follow, we disclose company contact representatives for transparency and to show how the representatives vary depending on the topic at hand. We have heard views that ESG engagements are not meaningful unless held with C-suite executives or board members. We do not share this opinion. The best point of contact depends entirely on the content to be discussed. For example, following a product recall at Tiger Brands, we met with a company specialist with comprehensive product and systems knowledge; following the delayed financial results at Oceana, we met with board representatives, and following the Standard Bank ESG Roadshow, we requested a separate E engagement with the company corporate citizenship specialist.

We also believe that a company's willingness to engage reveals how seriously it takes the issue. We highlight Sibanye-Stillwater's CEO and chief regional officer of Southern Africa meeting with us when we requested a safety discussion, which was valuable and appreciated.

thungela

Thungela Resources (TGA)

Primary engagement objective	**Environmental: Preservation of natural resources**
Motivation for engagement	A concrete seal failure at an old mine shaft resulted in a toxic spill into a key river system. This issue was detected by our ongoing news monitoring.
Engagement categories	▪ Fact-finding ▪ Influencing (we encouraged a focus on remediation and noted that we would check in on progress)
Company representative	▪ Head of Investor Relations
Allan Gray attendees	▪ ESG analyst ▪ Investment analyst
Salient points from engagement	▪ We held a meeting with TGA's Head of Investor Relations, after which we followed up with queries via email. ▪ Short-term remedial actions undertaken were discussed in more detail. ▪ We further discussed the impact that illegal mining has on its business (a problem identified by multiple South African mining companies), as it was a contributing factor to the concrete seal failure. ▪ We queried the action plan for longer-term efforts and which experts would be consulted to ensure effective remediation. ▪ We discussed control enhancements at this and other sites that would reduce the risk of a repeat incident.
Supporting research	Our ESG analyst prepared an internal research note on the spill, which was distributed to the Investment team. This incorporated multiple media reports on the incident and third-party expert views.
Secondary engagement topics	▪ Climate change: alignment with Task Force on Climate-related Financial Disclosures (TCFD) reporting ▪ Setting of medium- and long-term reduction targets; future production strategy
Outcome	TGA appears to be taking constructive steps to repair damages and restore the ecosystem. This was an extremely regrettable event with long-term consequences. While there were external contributing factors, we support the responsible approach of remediation.
Further action	▪ We will check in during mid-2023 to receive a progress update on remedial efforts.

Standard Bank

Standard Bank (SBK)

Primary engagement objective	Environmental: Environmental policy and performance
Motivation for engagement	Criticism of SBK's environmental policy by certain civil society members
Engagement categories	▪ Fact-finding ▪ Influencing (we discussed that there may be benefit in increasing transparency on environmental and social impact assessment work undertaken on the East African Crude Oil Pipeline transaction, as the social compact is changing)
Company representatives	▪ Head of Group Corporate Citizenship ▪ Head of Investor Relations
Allan Gray attendee	▪ ESG analyst
Salient points from engagement	▪ We discussed financed emissions accounting methodology in detail. ▪ We queried SBK's scenario analysis in light of criticism from civil society. We were comfortable with SBK's motivation for using the Net Zero 2050 scenario of the Network for Greening the Financial System (NGFS). ▪ We discussed SBK's involvement in various climate-related initiatives and challenges it faces in terms of signing up to the Science Based Targets initiative (SBTi).
Supporting research	We read multiple SBK climate-related disclosures, such as its Climate Policy and TCFD Report.
Secondary engagement topics	Questions around the East African Crude Oil Pipeline (to which SBK is a transaction adviser) and work performed on environmental and social impact assessment.
Outcome	We are comfortable with the work that SBK has done in relation to its climate reporting thus far. All climate frameworks and guidelines allow for an evolution of reporting as learnings are incorporated.
Further action	No immediate action is required, although we may engage in the future as further iterations of reporting are produced.

Sibanye-Stillwater (SSW)

Primary engagement objective	Social: Labour safety considerations
Motivation for engagement	Our mining sector safety review and benchmarking exercise in 2021 highlighted an increase in fatalities at SSW in 2021 (following substantially reduced fatalities in 2019 and 2020 after a poor 2018).
Engagement categories	▪ Fact-finding ▪ Influencing (we expressed our support for SSW's ongoing efforts to prioritise safety and noted that we supported their 2025 target, discussed further below)
Company representatives	▪ CEO ▪ Chief regional officer of Southern Africa
Allan Gray attendees	▪ Two portfolio managers ▪ ESG analyst ▪ Investment analyst
Salient points from engagement	▪ It was indicated that the deterioration was due to re-establishing operational teams post COVID-19, as well as lost face time on operations. Both South Africa and the United States saw an industry-wide uptick in fatalities in 2021. ▪ SSW suspended operations for safety reasons for the first time in 2021, showing its commitment to getting safety right before proceeding. ▪ An independent safety review was conducted in 2021, which found that SSW's systems were strong, while management worked quickly to embed the review's recommendations around daily implementation of controls. ▪ The South African operations received ISO 45001 (occupational health and safety) accreditation in 2021. This is considered industry best practice. ▪ SSW continues to pursue a fatality elimination strategy.
Supporting research	ESG analyst prepared an internal research note on SSW's safety metrics, as well as a comparison versus peers, which were distributed to Allan Gray meeting attendees.
Secondary engagement topics	▪ Impact of loadshedding on operations ▪ Union relations ▪ Energy transition, particularly electric vehicle adoption given potential implications for platinum group metals (PGMs)
Outcome	We are comfortable that SSW is taking safety seriously. Prior to our engagement, SSW had already set a target to reduce its total recordable injury frequency rate (TRIFR) to 4.0 per million hours worked by the end of 2025. Its 2021 TRIFR was 7.1, implying a 44% cumulative reduction. We believe this target is sufficiently stretching relative to its history, gold and PGM sector peers, and International Council on Mining and Metals (ICMM) peers. It also exceeds our targets for our mining investments: Miners we identified as a high safety risk in 2021 must have improved their TRIFR by more than 15% in 2024 against a 2021 baseline, failing which we will engage further on safety performance. Absolute fatalities were also noted as an engagement trigger. SSW's safety metrics improved in 2022. It recorded five fatalities and a TRIFR of 5.1 per million hours worked. Of course, achieving zero fatalities is, and should remain, the overarching goal. However, it operates deep, labour-intensive mines that are inherently higher risk than a more automated or open-pit operation. We are also mindful of SSW's significantly beneficial socioeconomic impact. It employs 85 000 people globally, 31 000 of which work in the riskier SA deep-level gold business. Closing this segment will result in a substantial loss of jobs in a country already facing dire unemployment levels.
Further action	We monitor SSW's safety results annually and will further engage if another deterioration in safety is observed.

Tiger Brands (TBS)	
Primary engagement objective	**Social: Customer product quality assurance**
Motivation for engagement	TBS product recalls. This issue was detected by our ongoing news monitoring.
Engagement category	▪ Fact-finding (undertaken with an intention to gain more insight to determine whether further action was required at the time)
Company representatives	▪ Director of Quality ▪ Head of Investor Relations
Allan Gray attendees	▪ Two ESG analysts ▪ Investment analyst
Salient points from engagement	▪ Recalls of canned vegetable and baby powder products were initiated by TBS on a precautionary basis, in contrast to the listeriosis-related recall following the discovery of the bacterium during an external audit. ▪ TBS has made numerous quality control (QC) improvements since the director of Quality joined in 2020. This includes a detailed supplier review to improve QC standards, restructuring of reporting functions, reformulating certain products and introducing more technology into controls. ▪ We discussed the investigation process followed when a problem is found with supplier-provided raw material. ▪ We enquired about the extent to which QC processes are front-loaded to ensure problems are detected prior to hitting the shelves.
Supporting research	Issuer-specific adverse or controversial news events are captured in our controversies database, established in 2021 (although news has always been monitored). TBS was flagged due to its recall of Purity baby powder. Following the TBS canned vegetable product recall, we also engaged with can manufacturers to gain technical knowledge on the issue and develop our understanding of the canning market in South Africa.
Secondary engagement topics	None; solely focused on product quality assurance
Outcome	This was a successful fact-finding exercise rather than an outcomes-driven conversation. We support TBS's efforts to continually improve its QC processes, which is critically important for a packaged goods manufacturer and its customers.
Further action	We will check in with TBS on further improvements to the quality assurance process in the first quarter of 2024.

Nampak packaging excellence

Nampak (NPK)

Primary engagement objective	Governance: Executive remuneration alignment with performance
Motivation for engagement	Ongoing remuneration engagement
Engagement categories	▪ Fact-finding (we outlined the components we believed to be friction points and obtained the company's rationale behind them) ▪ Influencing (we recommended improvements to the remuneration scheme)
Company representatives	▪ Remuneration committee chair ▪ HR executive ▪ Investor Relations representatives
Allan Gray attendees	▪ ESG analyst ▪ Investment analyst
Salient points from engagement	▪ We highlighted friction points, such as 1) the one-year performance period of all performance-based pay, which incentivises short-termism and can produce oscillating pay outcomes, and 2) the excessive quantum of performance-based pay in light of poor shareholder returns in recent years. ▪ We repeated our objection to the poor alignment between pay and performance and explained our belief that this could encourage and reward undesirable outcomes.
Supporting research	An internal remuneration assessment was compiled and distributed to the relevant Investment team members.
Secondary engagement topic	Impact of continued turnaround phase on remuneration
Outcome	We have been unsuccessful in influencing the company to change its policy and rewards for some time. At the AGM relating to 2021, we were one of few shareholders to recommend against the remuneration resolutions. Despite the issues, these resolutions received support of 71%, and the policy and implementation report, 72%. This highlights the limits of one's influence as one of many shareholders in a market of opinions.
Further action	At the AGM relating to 2022, we recommended against both executive remuneration resolutions. The respective resolutions received poor support of 31% (policy) and 42%. We will continue to engage with both management and the board on a scheme that effectively rewards executives.

MultiChoice Group (MCG)	
Primary engagement objective	**Governance: Executive remuneration returning to robustness**
Motivation for engagement	Ongoing remuneration engagement
Engagement categories	▪ Fact-finding ▪ Disclosure enhancing (we expressed our support for the elements of disclosure that had improved)
Company representatives	▪ Remuneration committee chair ▪ Board chair ▪ Head of Investor Relations
Allan Gray attendees	▪ ESG analyst ▪ Investment analyst
Salient points from engagement	▪ We discussed the strengthening of the LTI targets. This was a friction point we had raised in the past as they had previously been based on internal measures. This was one of many improvements discussed. ▪ We expressed support for the manner in which ESG has been incorporated – it has a weighting of 10% in the LTI and is based on a larger scorecard with quantifiable external and internal measures.
Supporting research	Internal remuneration assessment
Secondary engagement topics	None
Outcome	At the AGM relating to 2022, we recommended voting in favour of the remuneration policy and implementation report. The respective resolutions received support of 96% and 68% – a significant improvement on the 36% support level for both the year before. We appreciate remuneration committees that act to address shareholder concerns, especially following strong shareholder opposition.
Further action	We will continue to engage with both management and the board.

8. THE IMPACT OF OUR COMPANY ENGAGEMENTS OVER TIME

We believe that our history of standing up for shareholder interests has left its mark on the South African corporate landscape. From publicly known cases to work done behind the scenes, our stewardship activities have been geared towards achieving positive outcomes, particularly on the governance front. Stronger corporate governance has been linked to stronger environmental and social performance as well. In most instances, there are other parties whose interests are aligned with those of our clients, and it is not always possible to say whether, or to what extent, successful outcomes have been a result of our efforts. Publicly discussing all cases might result in companies being less receptive to constructive criticism in the future, therefore we prefer to engage in private and make public disclosures sensitively.

Throughout our stewardship journey, we have undertaken a range of initiatives aimed at promoting alignment between the management, the board and shareholders. We have focused on fostering decision-making that generates sustainable shareholder value, which we believe is fundamental for long-term success. While creating value for our shareholders is undoubtedly critical, we also recognise that preserving this value is equally essential. Following are specific instances where we have endeavoured to create and safeguard shareholder value and the valuable insights we have gained from these experiences.

OTK, 1999-2002

We believed the agribusiness's board and management were failing to adequately unlock shareholder value – underutilising its cash and implementing a poor acquisition strategy. Our clients' holdings together with Brait's represented more than 50% of the shares in issue at the time. We stepped in to create value for shareholders by changing the board of directors. Alongside Brait representatives, Allan Gray's chief investment officer at the time, Simon Marais, joined the company's board. During this time, considerable value was created for shareholders. Through the sale of OTK's debtors' book, shareholders received a special dividend. In the past, it was common for portfolio managers to hold board positions. These positions were not long-term but rather targeted and short-term where we felt their expertise could be of use. Over the years, shareholder rights have improved significantly. We no longer avail ourselves for board positions at companies we are invested in and prefer to vote for strong individuals to sit on boards rather than get involved operationally.

COMPAREX, 2002-2003

In order to preserve shareholder value at Comparex, Allan Gray, Investec Asset Management and Sanlam Investment Management informed the board of their intention to request a general meeting to reconstitute the Comparex board, if necessary. Six Comparex non-executive directors were of the opinion that the asset managers were acting in concert and were thus obliged to make an offer to Comparex's minority shareholders. In 2003, the Securities Regulation Panel (SRP) ruled that there was no affected transaction and thus no basis for a mandatory offer. This was a landmark ruling by the SRP in favour of shareholder activism in the country, but also served as a reminder that shareholders need to be cautious when participating in collaborative engagements.

> The decision confirms legitimate rights of shareholders and will strengthen corporate governance in South Africa.

GROUP FIVE, 2017

We called for an extraordinary meeting of shareholders, which led to the successful reconstitution of the board with eight new individuals. While the board reconstitution was a success, sometimes our best efforts are still not enough. In this case, it was too late to save the company, and shareholder value was destroyed. However, this intervention proved that it was possible for shareholders to use the new Companies Act to successfully replace all non-executive directors.

OLD MUTUAL, 2019

The Old Mutual board of directors had disputes with the then-CEO. We recommended against the CEO and CFO's re-election in early 2019, before the board's unhappiness, due to the earnings distortions caused by the Zimbabwean business unit in the 2018 results. At the 2019 AGM, we also recommended against both remuneration resolutions. We had been recommending against the implementation report since 2017. We do not go public on every matter we vote against or on which we disagree with a company, but in this case, we felt it was necessary to publicly support the board and stand against any settlement payouts to the CEO. We believe this was a positive outcome, empowering boards to act against underperforming executives and protect shareholder value.

INVESTEC AND NASPERS, 2014-2021

Our focus on executive remuneration, as demonstrated throughout this report, is driven by our belief that aligning remuneration with shareholder outcomes incentivises better long-term decision-making and ultimately leads to improved shareholder returns. We outlined our history with Investec and Naspers in our 2021 Stewardship Report.

- **Investec:** We went from recommending against the remuneration policy in 2014 to escalating our shareholder action and recommending against certain directors in 2016 and 2017 when improvements to the policy still did not materialise. Significant improvements were then made in 2018. We have been supportive of the policy since and value has been created for shareholders through the unbundling of Ninety One. In 2021, the company released an additional disclosure before their AGM to address shareholder concerns. This was a positive development and should encourage remuneration committees to be proactive and flexible in addressing shareholders on executive remuneration.

- **Naspers:** We recommended against Naspers's remuneration policy in 2015, 2016 and 2017 due to alignment concerns and excessive quantum. We started seeing pleasing improvements in 2018, which led to us supporting the policy. Subsequent improvements and further recommendations were highlighted in our 2020 Stewardship Report. More recently, intensive engagement occurred in 2021, following the announcement of the Naspers-Prosus share swap transaction.

The success of these engagements underscores that value creation and its preservation take time and require effective engagement.

9. CLIENT AND INDUSTRY ENGAGEMENT ACTIVITIES

We try to play an active, constructive role in the industry by hosting and participating in ESG-focused events. Below, we summarise our key activities in 2022. Good stewardship extends beyond engaging with companies we are invested in to include engagement with broader initiatives that seek to improve ESG knowledge and performance in the industry. These engagements take many forms and provide a platform to bring different role players together. We try to play a constructive role by engaging meaningfully.

ESG PRESENTATIONS TO CLIENTS AND INDUSTRY

Client-facing activities

- ESG webinar for financial advisers and trustees
- Governance event titled "Corporate governance uncovered: exploring the role of stakeholders in enhancing governance and accountability", which included external speakers
- One-on-one ESG presentations at clients' request

Industry-facing activities

- Presented the "Investor perspective" at the launch of the JSE's Sustainability and Climate Disclosure Guidance
- Hosted a panel for the MBA class at the UCT Graduate School of Business's "Green Economy: How South Africa needs to pivot to be a market leader" conference
- Delivered an ESG presentation at Glacier's Investment Summit
- Presented at the annual Institute of Retirement Funds Africa (IRFA) conference on how sociopolitical developments have shifted some of the focus from the E to the S in ESG
- Presented a paper titled "Principal-agent problems and executive remuneration" in our Institute of Directors South Africa Remco Forum capacity

INDUSTRY ADVOCACY AND COLLABORATION

Description of engagement	Frequency	Examples from 2022
GOVERNMENT POLICYMAKERS OR REGULATORS		
▪ We provide written or verbal feedback on draft guidance or legislation through the consultation process. ▪ We provide feedback where the outcome will influence how we exercise our stewardship responsibilities and our assessment of companies.	Ad hoc	▪ JSE Sustainability and Climate Disclosure Guidance ▪ JSE Listings Review and subsequent Amendment Schedule to the JSE Listings Requirements
INDUSTRY ASSOCIATIONS AND FORUMS		
▪ We join industry associations or specialised forums selectively when we think we can gain insight from or add value to both industry peers and broader role players' development of E, S and G matters.	Three times per year Quarterly	▪ Joined the ASISA Responsible Investing Standing Committee (attended our first meeting in February 2023) ▪ Ongoing firm representation on the Institute of Directors South Africa Remuneration Committee Forum since 2017
OTHER		
▪ We are invited to various events that take different forms, such as collaborative industry events with different role players.	Ad hoc	▪ Attended two International Auditing and Accounting Standards Board investor outreach events: "Fraud and Going Concern Standards" and "Sustainability and Reporting Standards" ▪ Supervised an ESG-focused thesis for university students ▪ Met with master's, doctoral and MBA students to provide input into ESG-related thesis topics

NOTEWORTHY MENTIONS

Draft Companies Act Amendment Bill

Our stewardship responsibilities are largely driven by our clients' shareholder rights that are outlined in the Companies Act and the JSE Listings Requirements. The Draft Companies Act Amendment Bill was published for public consultation at the end of 2021. The bill is arguably the most significant development in shareholder rights in recent years. These amendments will significantly impact the proxy voting process, outlined in section 10. The draft addressed important topics such as the resolution type for executive remuneration and accountability for remuneration committee members. While supportive of the overall objectives of the bill, we felt that certain amendments were slightly hostile towards issuers and that alternative safeguards would be more appropriate. We submitted detailed feedback, including our views on the aforementioned alternative safeguards, to ASISA and directly to the Department of Trade, Industry and Competition. We will monitor developments and expect further feedback in 2023.

JSE Listings Review

The JSE conducted a Listings Review during 2022 and published a consultation paper outlining proposals to its listings framework and a subsequent amendment schedule for selected proposals. This is an important development to monitor as initiatives that aim to ensure that the exchange remains competitive often come at a cost. It is important for all role players that the JSE strike the correct balance between making the exchange an attractive destination for issuers and making sure that the core corporate governance standards and the corresponding shareholder rights are not compromised. We will continue to participate in the consultation processes of proposals of this nature.

10. PROXY VOTING ANALYSIS

We make use of internal guidelines for voting recommendations. As illustrated in Figure 3, we provide voting recommendations for general meetings for all companies in which either the value of our clients' aggregated holdings exceeds 1% of the total value of equities under our management, or our clients' aggregated holdings exceed 4% of the company's shares in issue. We also make recommendations for shareholder meetings of companies that fall below these thresholds if we believe that special circumstances warrant such action.

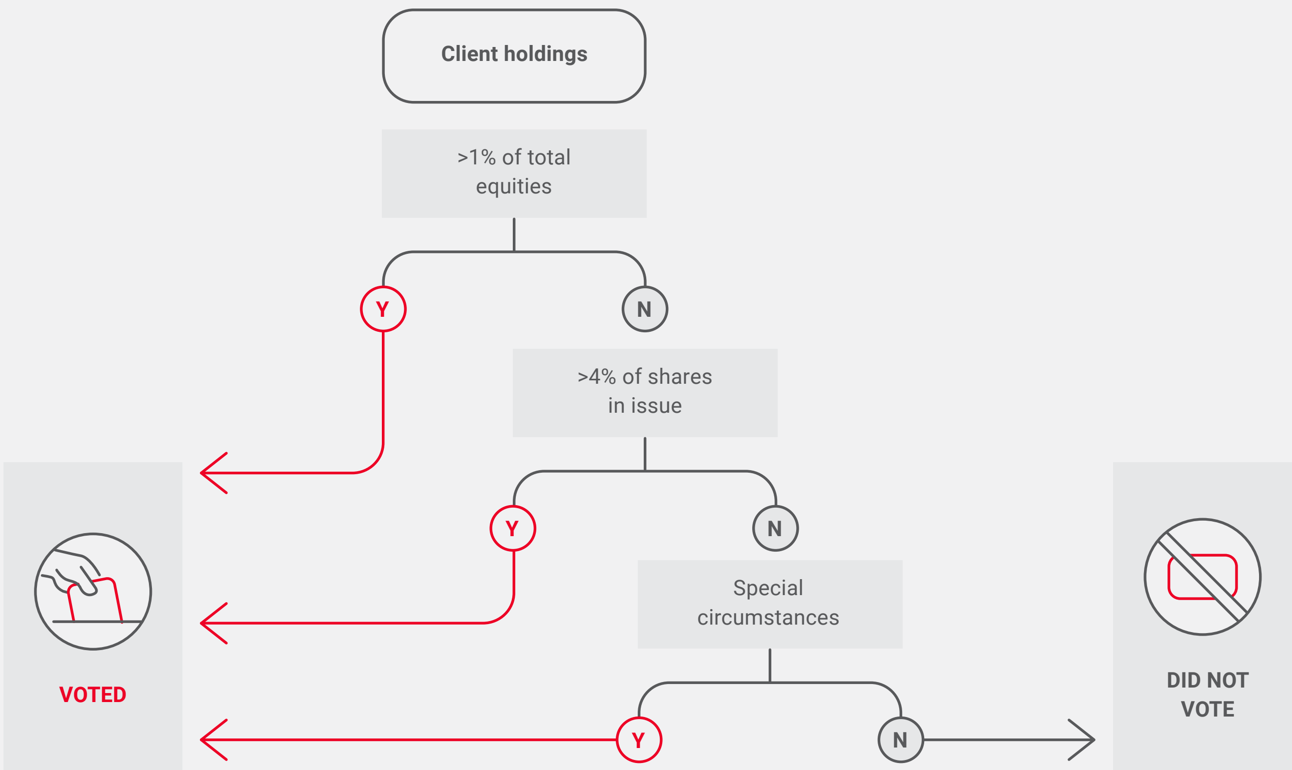
UNDERSTANDING OUR VOTING METHODOLOGY

Thresholds aside, we always apply our minds and provide voting recommendations on resolutions that will materially impact our clients' interests. Special circumstances are therefore determined on a case-by-case basis and can span several scenarios. For example, we may provide recommendations when we are below our voting thresholds but the resolution pertains to capital structure changes that would negatively impact our shareholder rights.

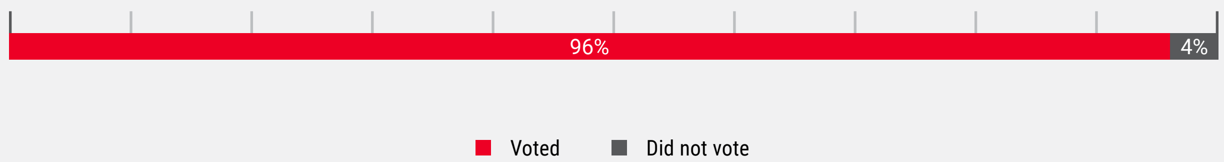
What does this mean for our voting coverage?

We monitor our voting thresholds to ensure our proxy voting captures a significant proportion of our total equity position. As shown in Graph 2, applying our voting methodology, we voted on 96% of our total equity position for the calendar year ending 31 December 2022 (voted at AGMs).

Figure 3: Voting approach



Graph 2: Total equity position voted on at AGMs during 2022



PROXY VOTING RECORD

During 2022, we made voting recommendations on 2 132 resolutions tabled at shareholder meetings, as shown in the table below. Dissenting votes include recommendations to our clients to both vote against and abstain from voting. We recommend dissenting votes for various reasons in line with our policy on ownership responsibilities. Our voting recommendations are shared on our website quarterly in arrears.

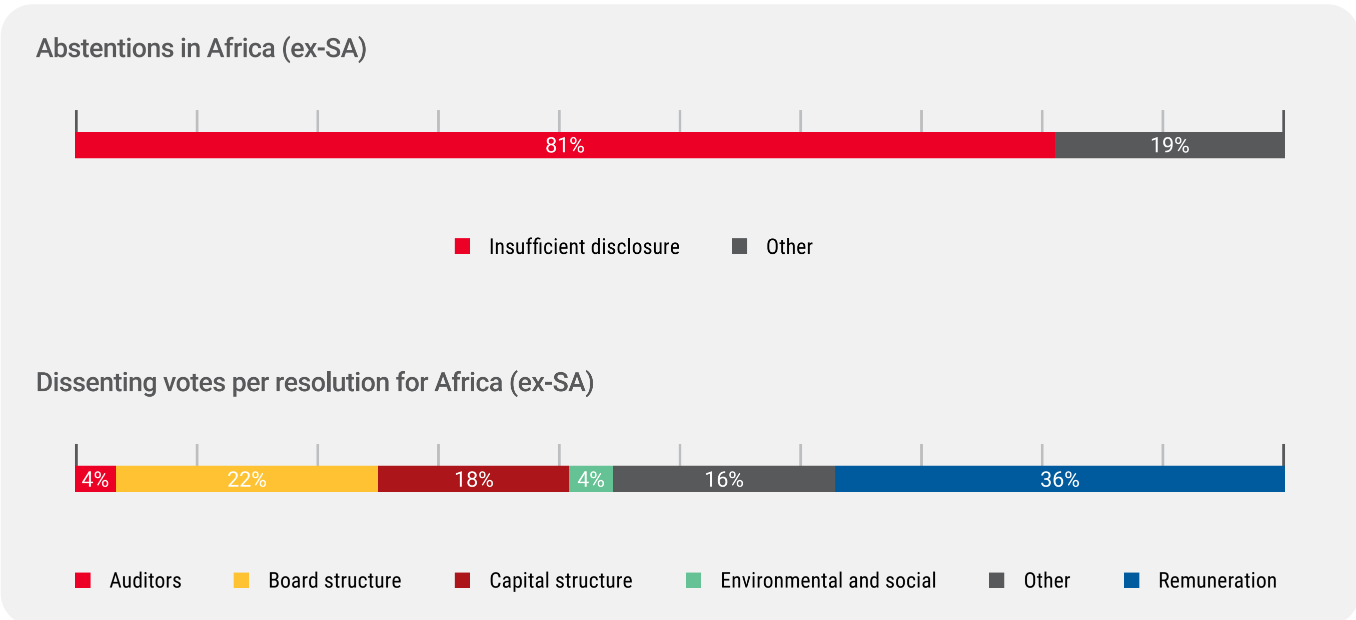
	Number of meetings	For	Against	Abstain	Total resolutions
South Africa	93	1 403	99	17	1 519
Africa (ex-SA)	65	530	40	43	613
Total	**158**	**1 933**	**139**	**60**	**2 132**

UNDERSTANDING OUR DISSENTING VOTES

Africa (excluding South Africa)

We apply the same principles when making recommendations across regions and our reasons for dissenting votes in Africa (ex-SA) are largely similar to those in South Africa. However, in Africa (ex-SA), we are faced with a big constraint and that is the extent of disclosure around AGM resolutions. This often prohibits us from providing an informed voting recommendation. As shown in the table above, abstentions are far higher in Africa (ex-SA). Graph 3 highlights that 81% of our abstentions were due to insufficient disclosure. We provide companies with disclosure recommendations, but for this to significantly improve, we require regulatory advances in the relevant corporate governance codes.

Graph 3: Breakdown of abstentions and dissenting votes per resolution for Africa (ex-SA)



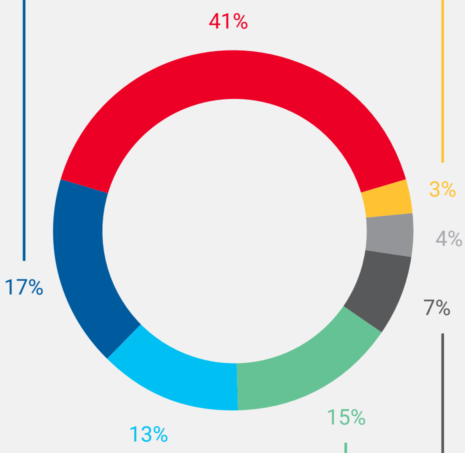
UNDERSTANDING OUR DISSENTING VOTES (CONTINUED)

South Africa

Capital structure (41%)
In line with prior years, the majority of our dissenting recommendations relate to capital structure resolutions. We are generally not opposed to resolutions that reduce the number of shares in issue, such as resolutions relating to the general repurchasing of shares. We generally oppose the opposite: resolutions relating to increasing the number of shares in issue, such as resolutions on the general authority to issue company shares and placing unissued ordinary shares under the control of directors. We typically recommend against these resolutions as they diminish the scarcity value of the shares our clients hold. We prefer that companies engage with shareholders first if they believe a share issue is necessary.

Environmental and social (3%)
Currently, there are few environmental and social resolutions tabled for JSE-listed companies, given their voluntary nature. The absolute number of resolutions on which we dissented in 2022 is five, all of which relate to dual-listed companies. We carefully apply our minds to the specifics of each resolution as they span a broad range of topics, from climate to charitable donations, that are often unique to the company. In some instances, we may recommend an abstention if a resolution conflicts with our internal investment policies. We communicate our voting rationale to clients who factor this into their final decision as shareholders.

Board structure (17%)
Our dissenting recommendations stem from concerns that directors' appointments or re-elections are not in the best interests of shareholders. As outsiders, we are not privy to the innerworkings of the board. However, we consider the shareholder outcomes under a board and whether value has been created or destroyed. We consider the individual performance of directors, the overall performance of the board, the composition of the board as well as other directorships each director may hold. We also consider whether any of the directors have previously been involved in fraudulent, corrupt or unethical activities. We record this information in our directors database.



Non-executive remuneration (4%)
During the period, we saw an uptick in companies proposing changes to their non-executive remuneration structures. Similar to executive remuneration, we benchmark fees on both an absolute and relative basis. We understand the need for strong, high-calibre directors and do consider the specific company context in our recommendations. We caution against overly complex non-executive remuneration structures.

Other (7%)
This includes administrative resolutions as well as occasional mergers and acquisitions.

Executive remuneration policies (15%) versus implementation reports (13%)
This refers to the annual non-binding advisory resolutions for JSE-listed companies on the executive remuneration policy and its implementation during the year. During 2021, our dissenting votes were skewed towards the implementation report (17% implementation versus 11% policies). This was largely due to companies' 2021 implementation reports including temporary measures in response to COVID-19 that were misaligned with strong financial performance and shareholder outcomes. While some companies still have these measures in place, most companies' remuneration schemes returned to their previous robustness, which filtered through to our implementation report recommendations. The absolute number of resolutions on which we dissented also dropped from 39 in 2021 to 32 in 2022.

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