ALLAN GRAY

Policy on responsible investment

Allan Gray is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and supports the principles outlined in the Second Code for Responsible Investing in South Africa (CRISA 2).

Our approach to responsible investment involves incorporating sustainability considerations into the investment decision-making and monitoring process and helping our clients exercise their ownership responsibilities.

Sustainability is a key part of the Allan Gray investment philosophy, through which we aim to create long-term wealth for clients by investing in securities which trade at a discount to our Investment team's assessment of their intrinsic value. Our investment analysts spend most of their time trying to determine the sustainable level of earnings for the businesses we analyse. We value businesses based on sustainable or normal earnings rather than the earnings at any one point in time. By its nature, this approach is long-term oriented.

We consider many factors when assessing a business's sustainability. These include the level of competition, whether capital is entering or leaving the industry, technological innovation and obsolescence, as well as how the business behaves with regard to environmental, social and governance (ESG) considerations. Some may consider ESG factors as separate from the investment process, but for us, they are integral.

If a business does not operate in a sustainable manner, this would affect our conviction in the sustainability of its profitability. The outcome of unsustainable practices can manifest in many ways: a regulator may revoke the business's licence to operate, customers may shun the business's products and services (i.e. the company may lose its social licence to operate), good people may not want to work for the business, among others.

Many may consider governance a soft topic when determining a business's value, but we view it as one of the most important considerations. Businesses are led by people and people are flawed. Management teams need structures that support and enable effective decision-making and provide oversight and counsel, particularly in challenging environments. The quality of the board in terms of the oversight they provide, as well as the incentive structures designed by the board to align management decision-making with the interests of long-term shareholders, play a crucial role in this process. Companies with strong corporate governance typically perform better on environmental and social metrics as well.

ESG IN THE INVESTMENT PROCESS

ESG integration

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 – a compulsory requirement. Material ESG risks are factored into company valuations by adjusting earnings or cashflow if the risk is quantifiable, or by valuing the business on a lower multiple if downside risks are significant but uncertain. We may limit the company's position size in the portfolio to account for higher ESG risk. Our valuations also take account of possible ESG tailwinds and opportunities. The Investment team scrutinises, challenges and debates investment theses when reports are reviewed.

We have two environmental and social analysts, as well as a governance analyst, who support the primary investment analysts by performing additional monitoring and in-depth research into identified risk areas and thematic ESG research. They are also responsible for developing and maintaining ESG support tools. Examples include our proprietary directors database, which flags directors determined to be responsible for poor shareholder outcomes and unethical behaviour, as well as our controversies database, which records material company-specific adverse news flow as well as follow-up actions taken by the Investment team.

Complementing the efforts of our ESG analysts, our Research Library monitors company-specific ESG news and shares relevant updates with the team. The Investment team uses multiple resources, as opposed to company reporting only, to ensure that we form a comprehensive view of material ESG issues.

If a portfolio manager decides to buy a share, the ultimate responsibility for the incorporation of sustainability considerations falls on the portfolio manager.

We always aim to do what is right. This does not mean taking a binary view on whether investments are "good" or "bad" and making related portfolio exclusions or inclusions. 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 and inequality, is equally important. We seek to evaluate these factors as holistically as possible.

Based on the above principles, we do not apply broad-based exclusions to our investment portfolios where perceived "sin" stocks, such as alcohol, tobacco, gambling and fossil fuels, are screened out of the universe. On a case-by-case basis, we may choose not to invest in a company on ethical grounds, as discussed below.

Equity stewardship

We continue to monitor ESG factors once we are invested. This is crucial because ESG issues are dynamic. We also take our responsibility as stewards of our clients' capital seriously, engaging frequently and meaningfully with company boards and management teams and thinking critically about voting recommendations. Our Policy on ownership responsibilities details our approach in this regard. We may also engage with third parties who have specialist knowledge or an informed independent perspective on the issue at hand.

Our stewardship activities are prioritised based on materiality. In other words, we focus on companies that are material position sizes in our clients' portfolios or in which our clients are sizeable shareholders, as this is most likely to shift the needle on client outcomes and where we have the most ability to influence change. We also consider the materiality of ESG factors in the context of financial and operational performance.

Where we are invested in instruments that have negative environmental or social impacts, we encourage a focus on effecting change or minimising harm to the extent feasible and hold management and boards to account. We also strive to provide companies with useful feedback on the quality of their sustainability performance and reporting, as substantive disclosures are an important foundation for our research, which underpins our stewardship.

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 fixed income stewardship therefore focuses on high quality research and engagement.

In relation to sovereign bonds, we aim to play a constructive role in South Africa by engaging with the government on key matters through various channels, such as the Association for Savings and 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 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.

ETHICS

Occasionally, a business practice may be sustainable but unethical, or there may be cases where a business practice is unethical and unsustainable, but this is reflected in the company's share price. We do not invest in businesses that we think are unethical in nature. People have different views on what is unethical. The ultimate responsibility for the decision on what is unethical lies with the chief investment officer, who may "veto" a purchase decision by a portfolio manager if deemed necessary.

If it comes to light that a business we already own on behalf of our clients is engaged in unethical behaviour, we will act to protect our clients' interests. This may involve actively trying to change the company's behaviour or selling the share.

REPORTING

We publish an annual Stewardship Report to update clients on noteworthy ESG matters that have arisen during the year. We include reporting on proxy voting as well as engagement with management teams on ESG topics during the year. Our voting recommendations to clients, together with the outcome of the shareholders' vote on each relevant resolution, are published on our website on a quarterly basis.

ADVOCACY AND COLLABORATION

We advocate for the promotion of sound corporate governance, sustainable business practices and constructive ESG disclosure across the industry. Examples of past actions are highlighted in our annual stewardship reports as they arise.

We engage with South African policymakers on key matters through various channels. Our ESG specialists represent Allan Gray on the ASISA Responsible Investing Standing Committee and the Institute of Directors South Africa Remuneration Committee Forum. We collaborate with peers on a case-by-case basis when we believe it is in the best interests of our clients.

We meet with our offshore sister companies, Orbis and Allan Gray Australia, on a regular basis to discuss ESG matters. We also maintain ongoing communication to facilitate knowledge sharing and promote diversity of thought.

ACCOUNTABILITY

Allan Gray makes use of a multi-portfolio manager system. As discussed earlier, each portfolio manager is accountable for material ESG risks in their slice of our clients' portfolios, while the chief investment officer has ultimate oversight and responsibility. Twice a year, the Investment team reports on ESG matters to the Allan Gray board of directors' Social and Ethics Committee and Audit Committee, respectively.

ENVIRONMENTAL CONSIDERATIONS

We assess multiple environmental impacts and dependencies in our research and engagements, primarily climate change, pollution, water security, environmental rehabilitation and biodiversity. Our policy is to evaluate these on a case-by-case basis given differences across sectors and geographies, including the regulatory, socioeconomic and operating environment.

When a company in our clients' portfolios has a materially negative environmental impact, or alternatively may be negatively impacted by an environmental factor, our general policy is that ESG analysts provide an additional layer of due diligence. ESG analysts also prepare thematic research reports for the Investment team, which serve to upskill analysts on key sustainability issues. Examples of research topics are provided in our annual stewardship reports.

Please see our Position statement on climate change for more detail on how we think about climate change and the energy transition more specifically.

SOCIAL CONSIDERATIONS

As with environmental considerations, we assess multiple social impacts and dependencies on a case-by-case basis in light of differences between sectors and geographies. Of particular interest are those relating to human rights, safety and empowerment.

While globalisation has brought numerous economic benefits, it has also resulted in long and often opaque supply chains that can obscure human rights abuses. We aim to identify and understand the related risks through our own research and tools, such as our controversies database and news monitoring solutions. Our objective is to promote responsible practices throughout the supply chains of the businesses in which we invest on behalf of our clients.

On safety, we specifically monitor the performance of high-risk companies in our clients' investment portfolios. We commit to engage with such companies when we identify concerns through our qualitative research or notice a deterioration in safety metrics through our ongoing monitoring.

Allan Gray supports an inclusive society where people are treated fairly. We strive to be a company where every person has an equal opportunity to succeed, and we support this ideal elsewhere. We encourage companies to play an active role in redressing issues of the past and will support empowerment schemes where these are structured in a way that truly aims to achieve broad-based empowerment, while balancing this with the responsibility we have to ensure minimal dilution to our clients' portfolios.

DEFINITIONS

Allan Gray refers to Allan Gray Group Proprietary Limited and its subsidiaries, which includes Allan Gray Proprietary Limited.

REVIEW

This policy will be reviewed on an annual basis from 2022 and approved by the chief investment officer.

Version	Approved by	Summary of changes	Effective date
1.0	Ian Liddle	Creation	2012
2.0	Ian Liddle	Design update, minor changes	November 2015
3.0	Andrew Lapping	Redraft	March 2018
4.0	Duncan Artus	Clarification of approach, design update	August 2022
4.1	Duncan Artus	Minor changes	December 2023
5.0	Duncan Artus	Greater detail on stewardship approach across asset classes and geographies, new sections added	December 2024