NEDGROUP INVESTMENTS

Responsible Investment Report 2021

Foreword

Mike Davis
Chief Financial Officer
Nedbank Group

At Nedbank, the impact we make and the delivery on our purpose is largely achieved through our financing activities. As government guides the engine of the economy, Finance provides its fuel. As a universal influence on business, the role of finance and investments in re-wiring an economy is simple: to steer capital towards economic activities that support the future we want, and away from activities that cause unnecessary harm.

We understand that sustainability issues such as climate change, inequality, social justice and even pandemics are playing an increasing role in driving the economy. We believe the next 10 years are going to be the most critical for humanity, the natural world, and the planet. Finance can - and must - play a critical role.

The world requires real change in a relatively short space of time, and as per the findings of the Nedgroup Investments asset manager review, opportunity for change exists across our energy, transportation, and agricultural sectors. And of course, our built environment.

Being a Purpose-led business makes sense for Nedbank, as our sector more than any other closely reflects the macro economy. And in our view, we cannot succeed in a failing society. As custodians of society's long-term assets, not only do we have the motive to ensure a successful future for all, but we also have the means to.

The Group has adopted the United Nations Sustainable Development Goals (SDGs) to guide our Purpose-led journey as they are objective, independently agreed on by 193 governments, and supported by thousands of companies worldwide. The strategic opportunities offered in achieving the SDGs are immense. The World Business Council for Sustainable Development estimates that in Africa alone there will be at least US$1.1 trillion in business savings and revenue by 2030 for the private sector, and that SDG solutions could create as many as 85 million jobs for Africans within the same time frame.

Nedbank undertook a materiality exercise to see where we could drive the most change, identifying nine of the seventeen SDGs. The Responsible Investment efforts of Nedbank Wealth and Nedgroup Investments feed directly into our strategy and support the business in moving forward on the SDGs. But the sustainability agenda is challenging, it calls for us to lead in areas that we may well not be an expert in. As the adage goes,

> *"Last year we engaged stakeholders on climate change commitments and the result was our shareholders unanimously approving two climate change-related resolutions at our annual general meeting in May 2020."*

meeting a challenge will not be simple – anything truly meaningful seldom is.

I am accountable for SDG 7 and it has been incredible to see the number of opportunity workstreams that we have underway across the organisation, just because we started to pay some attention to how we could meet our clients' needs by delivering solutions in this area. Furthermore, it is encouraging to see our asset management business highlighting climate change as one of their key sustainability focus areas for the decade ahead. But of course, decarbonising the energy system is only one of the challenges.

Last year we engaged stakeholders on climate change commitments and the result was our shareholders unanimously approving two climate change-related resolutions at our Annual General Meeting in May 2020. One hundred percent of our shareholders voted in favour of the resolutions making Nedbank the first company in South Africa to proactively include and support binding climate change-related resolutions at its AGM.

Through the two ordinary resolutions, we have committed to adopting and disclosing an energy policy aimed at enabling the transformation of the energy system over time and reporting on our approach to measuring, disclosing and assessing our financial exposure to climate-related risks.

This agenda needs investment now to see a better future – often a direct clash with the traditional short-termism akin to the private sector.

I was also encouraged to see Johan Rockstrom's work referenced in this report, as I first heard about "Commitment time" from the renowned scientist. Commitment time calls on all leaders, regardless of industry, to realise that what we commit to investing in in the next 10 years could speed up irreversible climate change and sea level rises, or it could enable the just transition to an equitable, liveable, and safer world.

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Introduction

From The Author

David Levinson

Senior Investment Analyst at Nedgroup Investments

Much has happened since our inaugural report last year. While Nedgroup Investments have been on a responsible investing journey for several years, the strides of the last twelve months were a result of the foundation laid over preceding years. Our most impactful initiative has been our collaborative work between ourselves and our investment partners, as we look to gain a deeper insight into their respective ESG approaches and push ourselves collectively on our efforts as agents for positive change.

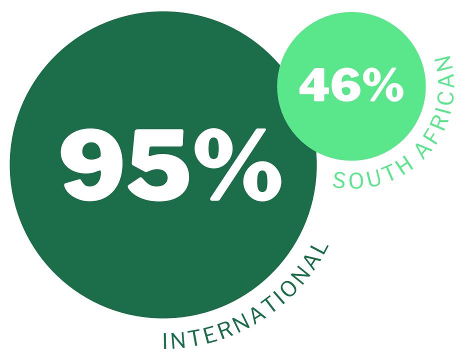
The investment industry as a whole has some way to go, and although not always as fast as some would hope or what is needed, year-on-year developments suggest the wheels of motion are turning. But there is plenty of reason to be hopeful. According to Morningstar the sales of climate transition strategies occupied six of the top-10 best-selling fund slots in Europe in the first quarter of 2021, with ESG strategies attracting more than £100bn. Even during the Covid-19 market downturn, ESG equity strategies continued to buck the trend and realise positive investment flows.

At the time of writing, Europe's Sustainable Finance Disclosure Regulation (SFDR) is about to come into effect and will serve as a taxonomy for funds and their ESG standings. This will provide investors with a clearer lens into asset managers' incorporation of sustainability factors and their level of disclosure. Ultimately, the regulators are looking to dissolve endemic greenwashing currently evident across the industry.

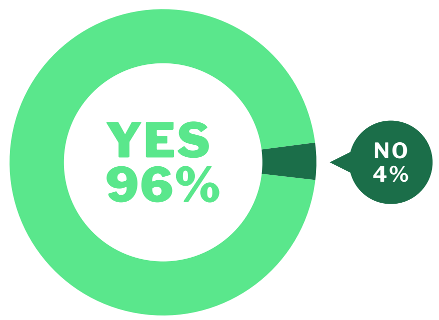
Interestingly, 95% of the international managers participating in our annual review are signatories to the UNPRI, compared with just 46% of South African-based managers.

The responsible investment landscape is a constantly evolving one that requires a deep level of self-reflection and actualisation, from ourselves and participating asset managers. It is incredibly encouraging to see that 96% of participants have recognised there is room for improvement, and thus have plans in place to develop and advance their approach and implementation of ESG factors.

Portion of asset managers who are signatories to the UNPRI



Asset managers with firm plans to develop & advance their approach & implementation toward the management of ESG factors



Although the US' regulatory framework around ESG has not quite left the ground, asset managers and service providers, such as Standard & Poor's, are moving forward in their efforts.

The Economist recently cited some research that forecast wind turbine technicians to be the fastest growing vocation in the US over the next decade, with solar panel technician coming in a respectable third.

This also provides a sense of hope that the transition from fossil fuel energy production to renewables can be achieved in a socially just manner. The energy transition and nascent green economy have been highlighted as key themes in our asset manager survey when discussing climate-related risks and opportunities.

The survey itself has been a resource and time rich endeavour. Remote working has become second nature in 2021, and what would have historically been difficult to orchestrate, is now a relatively smooth process of online meeting hopping and work calendar coordination.

During the survey it is estimated that we participated in around 50 hours of responsible investment discussions, presenting on our Nedgroup Investments key sustainability areas of focus, and listening to the varying manager approaches to ESG integration.

The uncountable hours spent dissecting the questionnaire responses have provided some incredible insight, along with the admission that technology and AI can - and should be - embraced!

The adjacent visual provides a high-level insight into some of the landmarks in Nedgroup Investments' responsible investment journey, through an iterative process we have come to learn where our most effective interventions lie, and the standards we aim to hold ourselves to.

Nedgroup Investments' Responsible Investment Journey

2017

Nedbank Wealth Responsible Investment Committee enhanced and charged with overseeing and championing ESG integration within the Wealth cluster

2018

Maiden Nedbank Wealth Responsible Investment workshop aimed at educating the asset management industry

2019

Designed and initiated bespoke Responsible Investment methodology and survey, identifying 6 pillars for assessment

2020

Inaugural Nedgroup Investments Asset Manager Responsible Investment Report, assessing investment managers on ESG integration and identifying best practice

Updated Nedbank Wealth Responsible Investment Policy formally acknowledging the United Nations SDGs and a 1.5°C global warming scenario

2021

Inaugural Nedgroup Investments Responsible Investment Summit, with focus on climate change, ethics and sustainability

Second Responsible Investment webinar, focusing on diversity and inclusion

PRESENT

Second edition of the Nedgroup Investments annual Asset Manager Responsible Investment Report

Appreciation must also go to the varying stakeholders we have engaged with over the months and years, both within the Nedbank family and externally, whose inputs are important in testing and challenging us, and serve as a dynamic sounding board that we are headed in the right direction. One of the outcomes of this has been the introduction of Biodiversity as one of our key sustainability focus areas.

Biodiversity, and more specifically biodiversity loss, is often overlooked in the global environmental narrative in favour of climate change. And in our collective consciousness for that matter. In this report we will motivate for Biodiversity's growing importance in the global challenge, as well as in asset management, and why it is central to our efforts for the coming decade.

Alongside Biodiversity Loss, we have identified Climate Change, Labour and Human Rights, and People Diversity as our four key sustainability focus areas. We are starting to acknowledge these areas as no longer mutually exclusive, as the interconnectedness between society and nature becomes better understood.

The United Nations Sustainable Development Goals (SDGs), as adopted by Nedbank, recognises this, and serves as a roadmap to a more maintainable world. Nedgroup Investments has an obligation to our stakeholders, our clients, and Nedbank in terms of our SDG impacts. It is the intersection of the SDGs with our four key sustainability focus areas where we have started to familiarise ourselves with the real-world impacts of how we invest.

I'm going to steal two observations made by one of our webinar guests, Tracey Davies of JustShare, which talks to the relationship between man and nature, and why inclusive social prosperity is material to a company like yours and ours. Both are worthy of deeper contemplation:

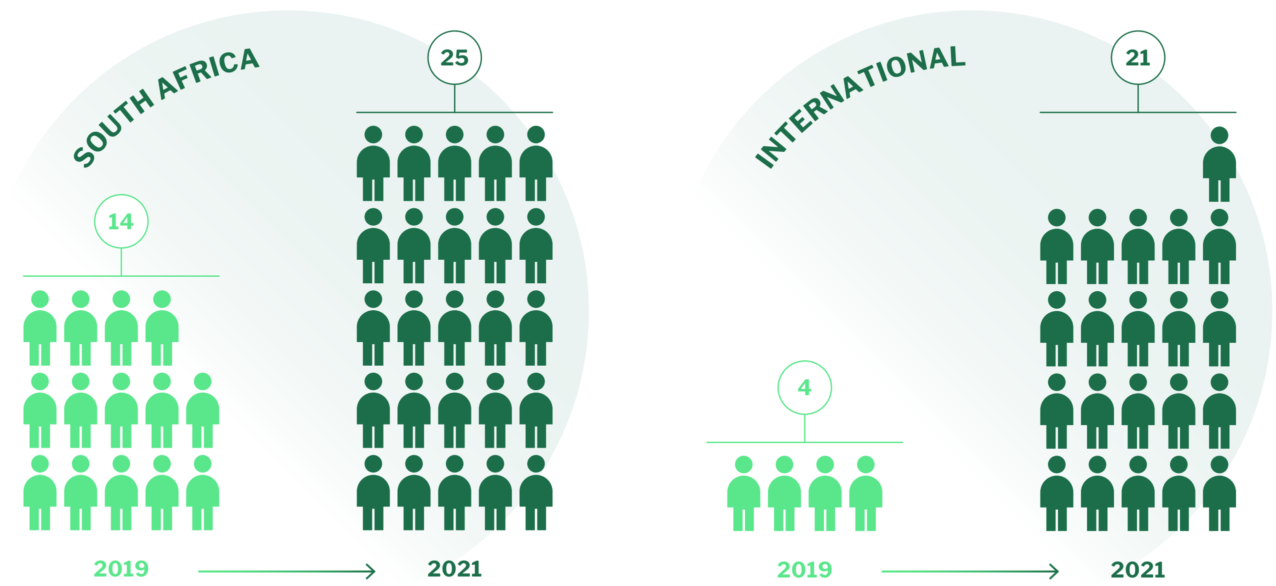
What has changed?

We often weigh the pros and cons of our Best of Breed™ model in achieving our Responsible Investment ambitions. Because we do not manage the day-to-day trading, stock decisions or construction of our portfolios, we are limited in the type of companies and major themes that our clients are exposed to.

The converse, however, is that we are in a unique and privileged position to draw on our network of partners, from large institutions to smaller boutiques, and therefore have a sweeping or broader influence on the industry. The collective assets under management that fall within our review surmounts to R4 485 billion. If we include our global partners, the true scale of our program becomes rather humbling.

One of the more pleasing evolutions since our inaugural report has been the uptake in participating managers. We have seen an incredible increase in numbers from our UK business and their extensive universe of partners. This, coupled with the organic growth in companies approaching us to partake, has seen our review participation grow from 18 in 2019 to 46 in 2021.

Participating Asset Managers



Much has changed since our initial asset manager review, yet there are some things that have stayed the same. One being the six pillars of responsible investment which we use to guide our process and rate our universe of respondents:

1. **COMMITMENT TO RESPONSIBLE INVESTMENT**
2. **INTERNAL PROCESSES**
3. **CORPORATE ENGAGEMENT**
4. **PROXY VOTING**
5. **TRANSPARENCY & DISCLOSURE**
6. **BROADER INDUSTRY PARTICIPATION IN THE RESPONSIBLE INVESTMENT SPACE**

> *Internationally, we have seen the Big Oil companies come under heightened pressure to transform their businesses.*

It is worthy to mention some notable events in 2021 and during the time of writing, regarding corporate engagement and broad industry participation, particularly around shareholder activism and collaboration among asset managers. Internationally, we have seen the Big Oil companies come under heightened shareholder pressure to transform their businesses.

There are a number of reasons for this, such as to diversify their competencies as the world moves faster towards decarbonisation, a trend that shareholders would like these companies to actively participate in. A persistent industry laggard, ExxonMobil, saw the placement of two new directors with climate science and green technology experience. Potentially most telling has been that felt by Royal Dutch Shell, who are now legally obliged by the Dutch courts to lower their emissions by 45% by 2030, off their 2019 baseline.

In South Africa, for the second year running we have seen the major banks come under pressure during AGM season around their lending practices, particularly into the fossil fuel industry and the financing of new coal-fired power plants. The investment industry and sustainable banking bodies are requesting more data from banks on their direct and indirect exposure to climate risks.

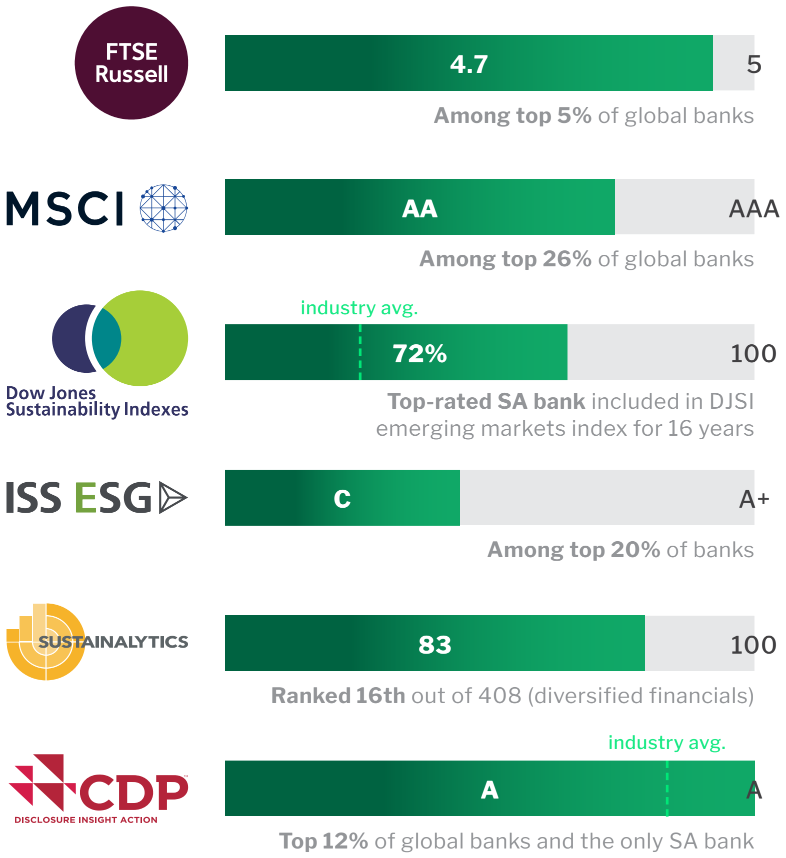
Sasol, whose sheer scale of emissions has often drawn concern from investors, environmentalists, and civil society groups, are set to bring out a carbon roadmap in the 4th quarter of 2021. In the resources sector, there was some criticism aimed at Anglo American for the unbundling of their coal assets into Thungela, as this would place the post-mining environmental rehabilitation into the hands of a lesser resourced and potentially ill-equipped company.

And finally, one of the most widespread shareholder collaborations in the country's history came in the shape of a letter to the boards of Naspers and Prosus. After many years, shareholders' concerns around corporate structure and preferential voting rights, finally boiled over.

What our parent company is doing

Nedbank Ltd. has continued to lead the way in South African banking, setting out ambitious and clear targets around lending into the fossil fuel industry, halting the funding of new coal-fired power stations, and proactively positioning itself as the country shows signs of transitioning to greener energy production.

In the below infographics, we provide some of the notable achievements in the group's ESG journey. 2020 and 2021 have been landmark years in the ESG reporting space with ESG ratings agency increasing their scope and coverage. The market has also seen regulation, such as the SFDR and Taskforce on Climate-related Financial Disclosures (TCFD), encouraging significantly deeper reporting from the private sector.



Nedbank Ltd. released their inaugural TCFD report, and via cross-collaboration from the varying clusters, provided the market with an Energy Policy that serves as a roadmap to future lending into the energy sector. In our asset manager review, the energy transition was highlighted as a key climate-related risk or opportunity.

Delivering on our purpose of using our financial expertise to do good

Environmental — E

- **R29bn** renewable energy finance since 2012
- **R8,5bn** green/SDG bonds issued and loans secured (#1 SA bank)
- **1st TCFD report** released in April 2021

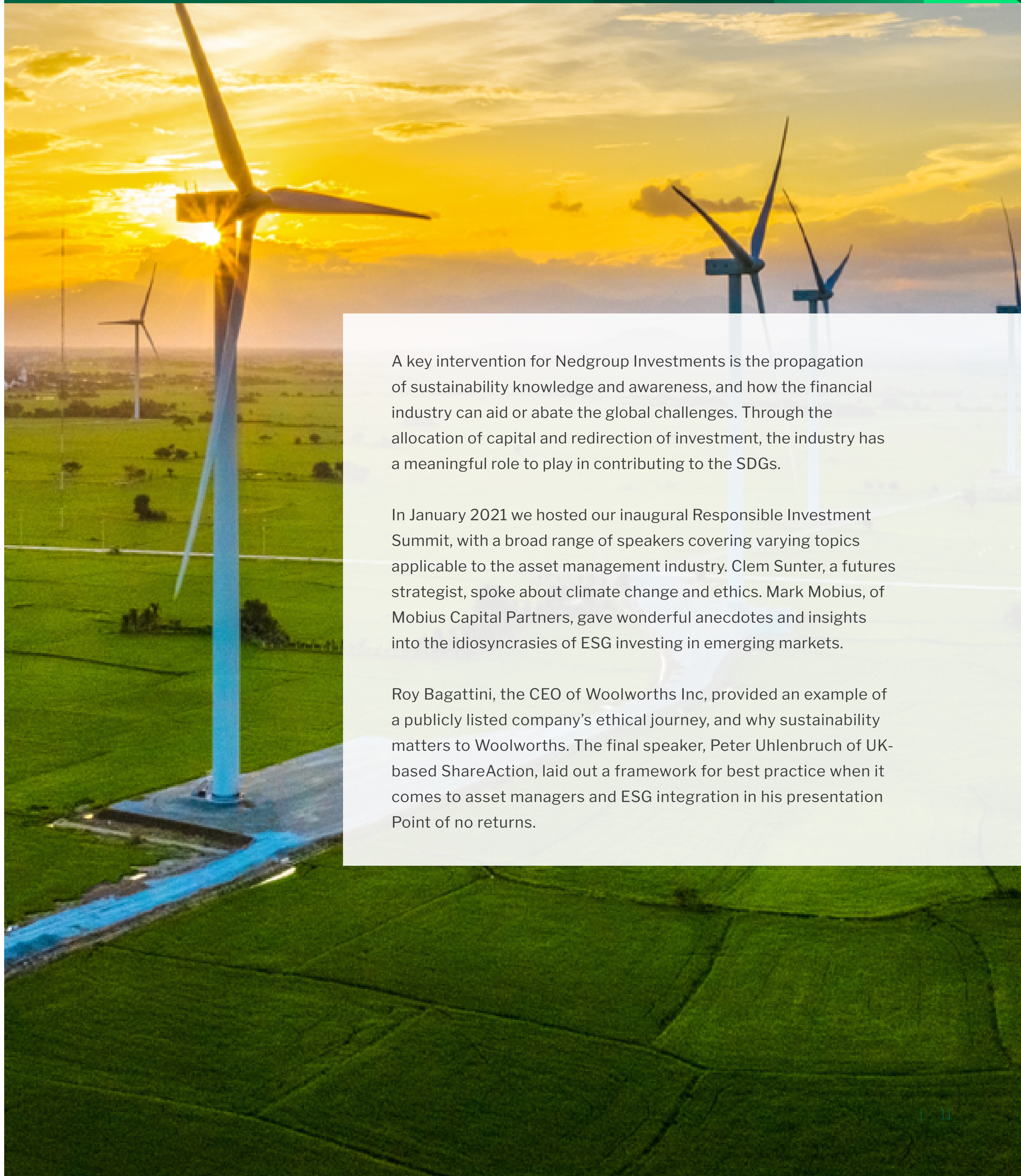
Social — S

- Female employees: **>61%**
- ACI employees: **>79%**
- Maintained **level 1 BBBEE status**
- **#PayIn30** 94% of suppliers paid in 30 days
- **>1900 youth employed** in 2021 as part of the Youth Employment Service
- **106 tons of food** delivered to employees, families and communities impacted by recent riots

Governance — G

- Independent directors: **71%**
- Women on board: **21%**
- Regular shareholder **engagement on ESG matters**
- ESG ratings:
  - MSCI: **AA**
  - FTSE Russell: **Top 5%**
  - ISS: **Top 20% of banks**

Education & awareness



A key intervention for Nedgroup Investments is the propagation of sustainability knowledge and awareness, and how the financial industry can aid or abate the global challenges. Through the allocation of capital and redirection of investment, the industry has a meaningful role to play in contributing to the SDGs.

In January 2021 we hosted our inaugural Responsible Investment Summit, with a broad range of speakers covering varying topics applicable to the asset management industry. Clem Sunter, a futures strategist, spoke about climate change and ethics. Mark Mobius, of Mobius Capital Partners, gave wonderful anecdotes and insights into the idiosyncrasies of ESG investing in emerging markets.

Roy Bagattini, the CEO of Woolworths Inc, provided an example of a publicly listed company's ethical journey, and why sustainability matters to Woolworths. The final speaker, Peter Uhlenbruch of UK-based ShareAction, laid out a framework for best practice when it comes to asset managers and ESG integration in his presentation Point of no returns.

KEY TAKEAWAY

A major challenge for responsible investing is breaking down traditional silos that have often separated end-clients, shareholders and portfolio managers from company management, employees and affected communities. It is this multi-disciplinary approach that will allow for better information sharing amongst stakeholders, and closer alignment of our collective investments with the global challenges we face.

CLEM SUNTER - Futures Strategist

"The jury is out on the effectiveness of the vaccines, but equally the distribution of the vaccines has thrown up an inconvenient truth about the world. First world countries are essentially monopolizing the vaccine supply for their own people while the rest of the world is being shut out and will continue to have a pandemic."

Climate change and ethics

MARK MOBIUS – Mobius Capital Partners

"Share prices have gone up partly as a result of the engagements and companies have made improvements in terms of governance and their behaviour in the environmental and social spheres. Sustainable investments are those that benefit society and shareholders. If you improve ESG, share prices will improve, so it's a win-win situation, which is becoming more prevalent as investors demand good ESG participation and performance."

ESG investing in emerging markets

ROY BAGATTINI – Woolworths

"There are several reasons why sustainability and responsible retailing is important to us. Climate change is real and is a threat to all life on this planet if we don't take action. Sustainability is a business critical issue for any company with a supply chain that uses natural resources. We need to take responsibility for the human and environmental footprint of our products and operations."

Why sustainability matters to Woolworths

PETER UHLENBRUCH - ShareAction

"The Covid pandemic has really put ESG back in the spotlight. There's a lot more focus on what investors are doing to ensure human rights are respected in the companies they invest in and throughout the supply chains. We'd like to see asset managers develop firm-wide policies that outline their approaches to investment decision-making, risk management, stewardship, voting and stakeholder engagement."

Point of no returns

Our Responsible Investment Insights session in May 2021, was titled "Diversity: why it is good for everyone". Here we looked to draw attention to the numerous benefits of inclusion in all facets of work life, where progress has been made and where there remain many glass ceilings for the historically underrepresented.

Fadzi Whande, a diversity and inclusion strategist at the United Nations, highlighted that diversity does not by default, lead to inclusion. Fadzi gave attendees the tools of what can be done at each of our organisations to truly realise authentic inclusion.

Tracey Davies, executive direct at Just Share, is a brave and pioneering voice for shareholder activism in South Africa. The discussion with Tracey candidly addressed the shortcomings of the private sector in promoting women leaders and management teams that are more representative of society. Tracey also spoke about the 30% Club and the goals and timelines that have been put in place to engender greater, and fairer, female representation across the economy. The session also brought home the stark disproportionate impact that Covid-19 has had on female workers in South Africa, and the broader need to champion a fair and decent living wage for the lowest paid people in the country.

KEY TAKEAWAY

Diversity & Inclusion - Although the private sector has made decent strides in promoting diversity within leadership, many companies are still not benefiting fully from inclusion when it comes to strategic decision-making. In some corners of industry, glass ceilings have been broken as companies proactively seek gender and demographic representation that is reflective of society. But in other corners, glass ceilings remain.

FADZI WHANDE - Senior Diversity & Inclusion Adviser at UN

"Diversity is all about difference, so you'll find diversity in any situation by the nature of its definition. Inclusion is the act of bringing people together and harnessing differences in a way that is beneficial."

"Psychological safety is creating the right climate and mindset for people to be able to thrive. If companies are committed and set time aside to make diversity inclusion happen, they will start to see the benefits".

Why diversity doesn't always result in inclusion

TRACEY DAVIES - Executive director at Just Share

"There are very few requirements in terms of gender and race diversity for listed companies. While progress is being made at board level, there is far less diversity at senior management level."

"The 30% club aims to achieve 30% female representation on boards globally by 2020. 30% represents a critical mass from which point minority groups can impact the boardroom dynamics."

The benefits of gender equality & inclusive growth

2030 key focus areas

Nedgroup Investments have high-lighted **4 key sustainability focus areas** for the decade ahead. These have formed a cornerstone of our responsible investment awareness and education efforts thus far, as well as being central to our discussions, debates and assessments of asset managers participating in our 2021 review. We are in the early stages of evaluating portfolio risks attached to each theme but will continue to educate ourselves and proactively engage our stakeholders on these critical and high impact issues.

Climate Change

Climate change is the greatest threat we face today, putting at risk the natural world and the very ecosystems on which the planet and its people rely.

However, the financial system has the ability to put capital to work into areas that look to mitigate and even reverse some of the degradation that has been caused over the past 200 years.

In our 2021 asset manager review, we asked each of the investment firms to highlight three of the top climate-related risks or opportunities as identified by themselves. In the below infographic we give context into some of the major themes that emerged from the survey.

The most amount of attention was placed on carbon regulation such as carbon pricing, taxation, and emission trading schemes. These are typical levers that governments look to employ to meet their emission reduction pledges, as submitted into the United Framework Convention on Climate Change. As national pricing strategies become clearer, analysts are able to forecast with relative certainty the CO_2 cost to company, and more importantly put a price on a major environmental impact.

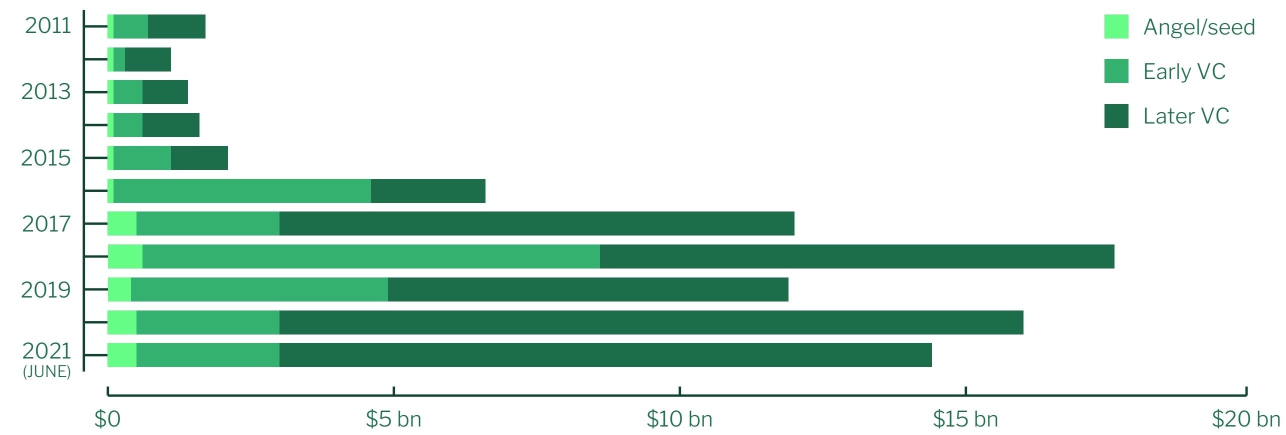
Another frequently mentioned risk or opportunity was that of commodities. Fossil fuels were deemed risky while the likes of PGMs, copper and nickel presented an investment opportunity, as their role in greener technologies becomes more evident.

In terms of some of the broader themes, the transition to cleaner energy, prospects within the green economy, battery and energy storage, around the clock renewable power, and the potential rollout of electric transport were highlighted as attractive areas for investment.

The below two charts offer support to the themes identified in our manager research. Climate technology is continuing to see investment in the form of venture capital, while the US' energy storage capacity has thus far in 2021 dwarfed that of preceding years.

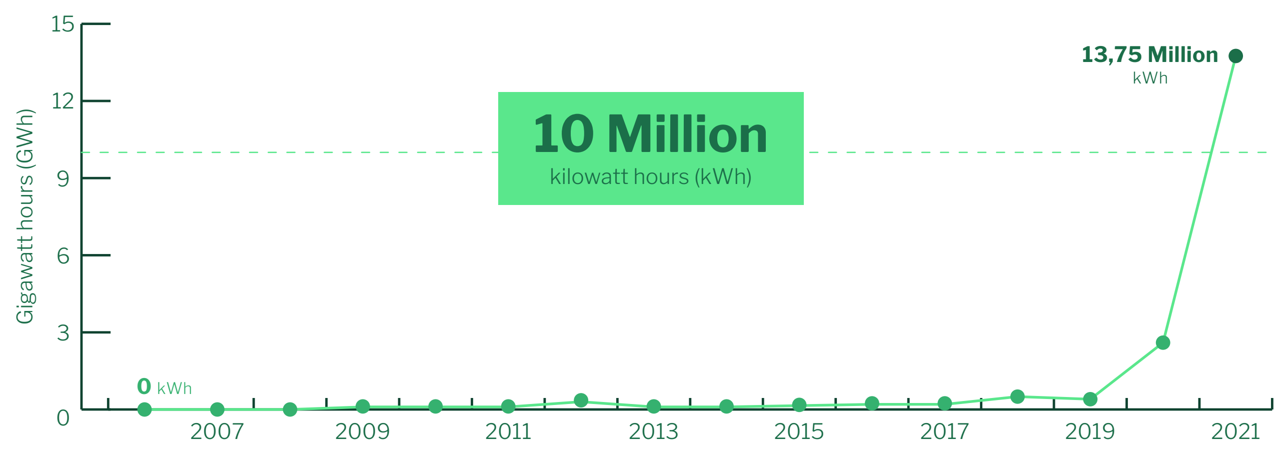
Global venture capital deal flow in climate tech

(source: Pitchbook)



US energy storage system capacity installed per year

(source: Bloomberg New Energy Finance)



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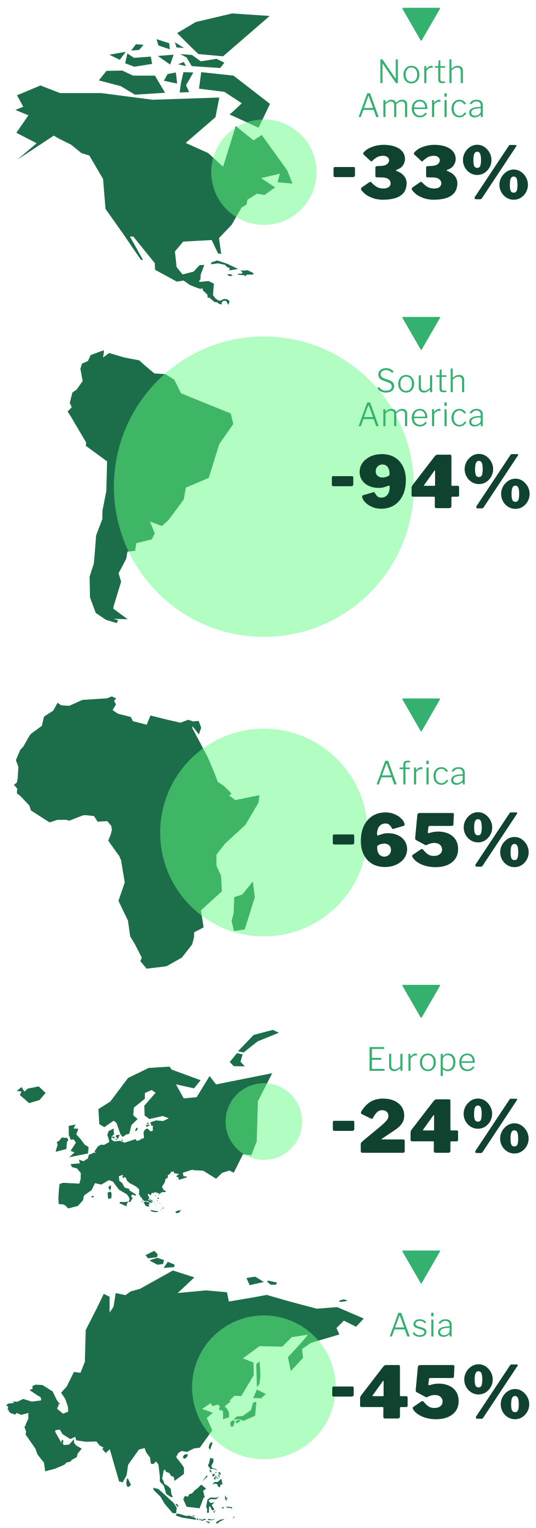
Biodiversity Loss

Biodiversity loss was the final introduction to our top four sustainability focus areas. During our Responsible Investment Summit in January 2021, one of our speakers mentioned the rising importance that this will have on the asset management industry over the coming decade. There are some signs in the broader political discourse that collective action is starting to take shape. Kunming, China, hosts the 15th Biodiversity Conference of the Parties in October 2021.

According to the United Nations Convention on Biological Diversity, "In 2021, 196 countries will come together to develop new global goals on biodiversity in a framework that will be implemented over the next decade, with the objective of promoting a healthy planet and human well-being. The framework will include a set of global goals, targets and indicators that will guide conservation efforts. In addition to agreeing to this new biodiversity framework, countries will also negotiate financing arrangements and establish a mechanism to implement the plan of action.

Fall in wild animal populations per region

Between 1970 and 2016, animal populations have **fallen by 68%** on average worldwide



In terms of regulation, the success and momentum of the TCFD program has been leveraged to create the TNFD, or Taskforce on Nature-related Financial Disclosures. Although in its infancy, below is the three-year roadmap for its rolling out.

According to the organisation, "The TNFD is a new global initiative which aims to give financial institutions and companies a complete picture of their environmental risks. Better information will allow financial institutions and companies to incorporate nature-related risks and opportunities into their decision-making processes. In 2023, the TNFD will deliver a framework for organisations to report and act on evolving nature-related risks, in order to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes."

> *The TNFD is a new global initiative which aims to give financial institutions and companies a complete picture of their environmental risks.*

PHASE 0: Prepare

2020 – 2021

July 2020
Announcement of the initiative bringing together a TNFD

September 2020
Launch of 75-member Informal Working Group

TNFD endorsed by UN Secretary General Guterres

January 2021
TNFD endorsed by President Macron

June 2021
TNFD launches and Co-Chairs announced

PHASE 1: Build

2021 – 2022

Taskforce members announced

Building the TNFD framework begins

PHASE 2: Test

2022

Testing the framework across emerging and developed markets

Revise framework

PHASE 3: Consult

2023

Consultations with a range of financial regulators, data preparers and data users in 20 emerging economies, plus developed markets

PHASE 4: Disseminate

2023

Launch of the framework via key events and specific communications

PHASE 5: Uptake

2023

Continued **guidance** to help uptake of the framework

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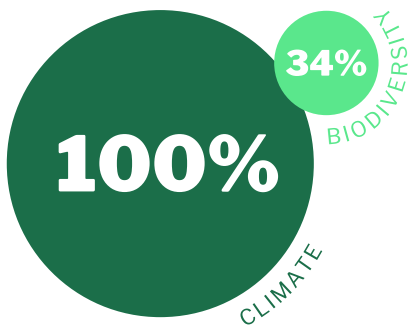
Later in this section we provide the main Biodiversity risks and opportunities as identified by the 47 asset managers in our review. What became apparent during the assessment process is that the industry has some way to go in understanding the risks and urgency at which we need to act. 31 of the 47 managers, or 66%, were unable to provide a single biodiversity risk or opportunity. This contrasts with 100% of asset managers being able to highlight three key climate-related risks or opportunities.

Portion of asset managers who are able to identify risks or opportunities in:



As we researched the topic further, it became increasingly clear that biodiversity loss across the globe is at a critical juncture. The below diagram has gained increasing notice in sustainability circles, as well as playing a central role in the forming of the UN's Sustainable Development Goals, it highlights the dire state of the Earth's biodiversity.

According to the Stockholm Resilience Centre, "In 2009, former centre director Johan Rockström led a group of 28 internationally renowned scientists to identify the nine processes that regulate the stability and resilience of the Earth system.

The scientists proposed quantitative planetary boundaries within which humanity can continue to develop and thrive for generations to come. Crossing these boundaries increases the risk of generating large-scale abrupt or irreversible environmental changes."

In a 2015 update of the framework, it was stated that "humanity's activities have pushed climate change, biodiversity loss, shifts in nutrient cycles (nitrogen and phosphorus), and land use beyond the boundaries into unprecedented territory."

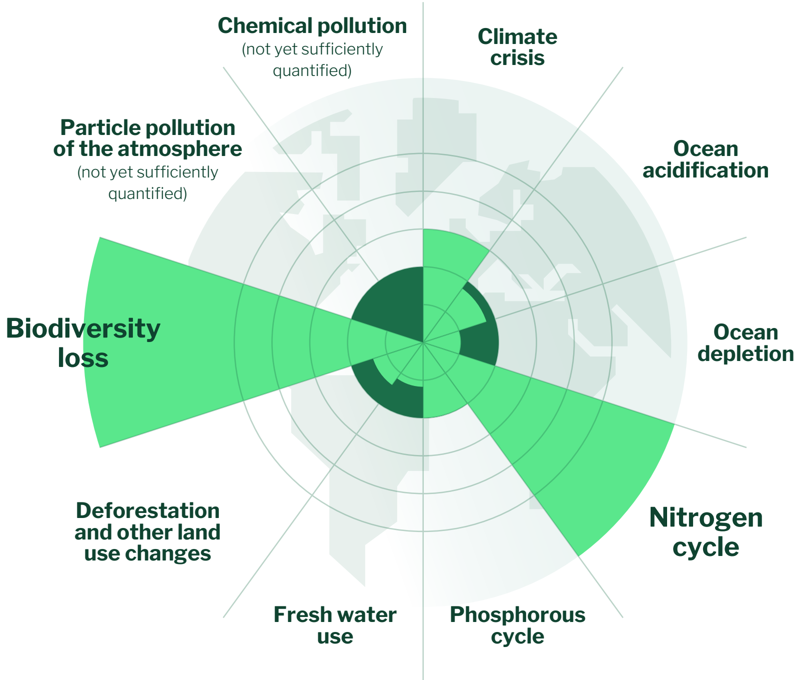
The below infographic is a word cloud of what the 47 managers in our review identified as the main risks or opportunities to their portfolios. For those sixteen managers who were able to supply responses to this field, the top mentions were deforestation, agriculture & food production, the negative effects of palm oil growing, waste management, aquaculture, sustainable ocean life populations, and water security.

- Environment
- Agriculture
- Water related

Earth's Planetary boundaries

(source: Stockholm Resilience Centre, Johan Rockstrom et al, 2009)

- Safe planetary boundary / guide rail according to authors
- Scientific observation until 2009



Labour & Human Rights

Labour & Human Rights was one of the more challenging focus areas during the 2021 review. Although most of us are reasonably aware of many of the violations taking place across the globe, drawing the relationship with private sector value chains is not always clear or apparent. While not as underwhelming as biodiversity, around 22 (or 47%) of asset managers in the review were unable to identify human or labour risks to their portfolios.

It is maybe not unsurprising that union relations was the top mentioned risk, as this has arguably the most calculable impact on companies being able to deliver on performance. Other top mentions include child labour, worker health & safety, diversity, fair or living wages, human trafficking, modern slavery, and supply chain risks.

Some notable discussions during the feedback sessions included child labour in the cocoa value chain (notably in Ghana and Ivory Coast), and the forced labour of the Uyghur minority in cotton picking and polysilicon (solar panel) production in Xinjiang, China. In the below graphic we provide the risks and opportunities as identified by asset managers.

Diversity

Earlier on we provided some key numbers to Nedbank Group's journey regarding ESG goals. Within the social pillar, inclusion of previously underrepresented corners of society is receiving deserving remedial action. Not only does diversity and inclusion result in better company outcomes, but there is a broader imperative and responsibility to be more reflective of society.

In our second Responsible Investment webinar of the year we focused on inclusion. Attendees were encouraged to reflect on their own interactions with the world and those of their colleagues, with a deeper actualisation at a personal and organisational level. During the event we held an audience poll, alongside are the results. Although the numbers show the majority replied in the affirmative, there is still plenty of scope for improvement. The audience included both South African and UK-based stakeholders.

In our asset manager review, we looked to gauge the degree to which the industry is pushing diversity in the companies they invest in. This covers diversity along demographic lines such as gender, skills, age, background, and cognition. It is important to take into consideration both the composition of the non-executive and executive management teams, as well as that of the company in its entirety.

The alongside suggests a decent majority are using their votes to encourage greater diversity. Studies suggest that for minorities to attain psychological safety and have a voice in decision-making, a minimum of 30% representation is required. It is interesting to note that a few asset managers mentioned their cognisance for 30% representation, particularly regarding gender, and would proactively engage companies where this threshold was not being met.

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Poll results

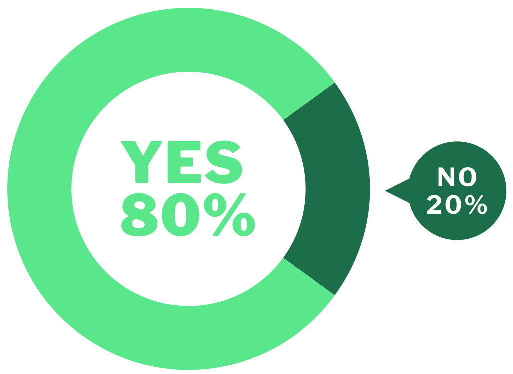
Are you of the view that greater diversity leads to enhanced stategic decision-making?

Do you believe your organisation is sufficiently diverse along demographic lines?

Do you believe your organisation is sufficiently diverse along gender lines?

Do you believe your organisation benefits from inclusion in its decision-making?

Managers engaging companies on diversity



Results of our 2021 asset manager review

Overview

The 2021 review culminated in a combined R260 billon of Nedgroup Investments' clients' assets being assessed on a responsible investing basis. The collective effort, undertaken between Nedgroup Investments analysts and our partner asset managers, covered the entire range of funds. This included SA-domestic and global portfolios across multiple asset classes, while covering both active and passively managed unit trusts. The review was also broadened this year to include asset managers who may not manage assets for us but were open, or eager, to participate in our assessment.

The assessments were not focused on the specific funds, but rather the asset managers themselves. With this in mind, the assets covered by the review totalled around R4 485 billion. The review was both quantitative and qualitative in nature, the latter forming a key aspect of the process where face-to-face Responsible Investment due diligence and feedback sessions were conducted with our partner managers.

2021 Nedgroup Investments Responsible Investment review in numbers

Number of global asset managers reviewed	**21**
Number of South African asset managers reviewed	**25**
Sum of international assets under management	**R 2 490 billion**
Sum of South African assets under management	**R 1 995 billion**
Total assets under management reviewed	**R 4 485 billion**

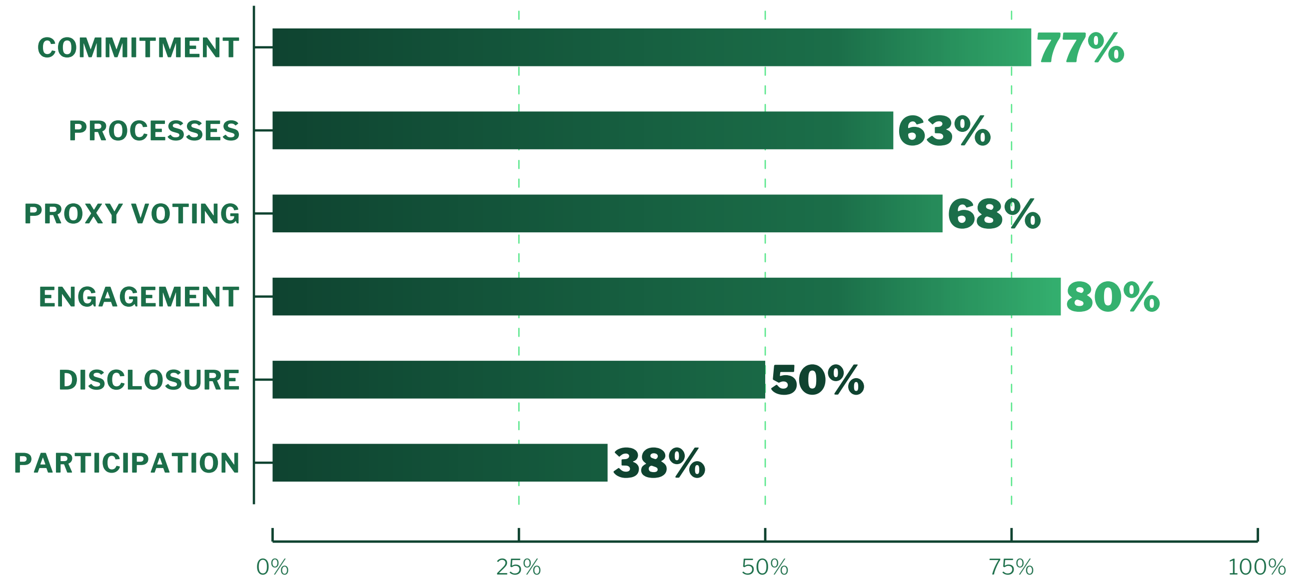
Note: The international sum of assets does not include BlackRock who participated in the review, with AUM of c.US$ 3.5 trillion

Below serves as a reminder of our six key pillars of the assessment. Importantly, we assign a different weighting to each pillar, with greater emphasis placed on Corporate Engagement, Internal Processes, and Proxy Voting. Below we also provide the average rating for our suite of managers across each pillar.

Responsible Investment Assessment Pillars

1. **COMMITMENT** – Firmwide commitment to responsible investing
2. **PROCESSES** – Integration of ESG factors into investment decision-making process
3. **PROXY VOTING** – Participation at investee company AGMs
4. **ENGAGEMENT** – Responsible ownership practices through the depth, quality, and outcomes of corporate engagement
5. **DISCLOSURE** – ESG transparency and disclosure practices
6. **PARTICIPATION** – Overall support and presence in the broader RI community

Average rating per pillar



Commitment & Processes

Within the commitment pillar we look to better assess the asset managers' Responsible Investment governance structures, the quality of policy documents, resources allocated to Responsible Investment, and the belief that ESG factors can have on company performance. This pillar came across as one of the stronger two in our review.

Regarding Investment Policy documents, we look for policies that display a high understanding of ESG best practice and suggest a profound level of ESG integration in the investment decision-making process. We encourage policies that acknowledge the Paris Agreement or hint at a goal to align portfolios with future climate change scenarios.

We also attempt to draw any links of the Responsible Investment policies to guiding frameworks such as UNSDGs, or the four key sustainability focus areas that we have identified.

The Responsible Investment policy provides a lens into the asset manager's degree of buy in, and in the following list we provide a breakdown of those reviewed and where responsibility falls when it comes to drafting the document.

In a similar vain to our previous year's review, our findings show that bigger asset managers tend to have ESG specialists, however we also rated favourably those investment teams where each analyst takes ownership of an investee company's ESG evaluation (there was no separation of duties). As per the chart below, the majority of ESG work is taken on by the analysts and portfolio managers. Another noteworthy takeaway is that despite the broadening use of ESG service providers, the investment teams place greater weight on their internal analysis. This is supported with 72% of respondents stating that the investment teams receive training on ESG analysis and incorporation.

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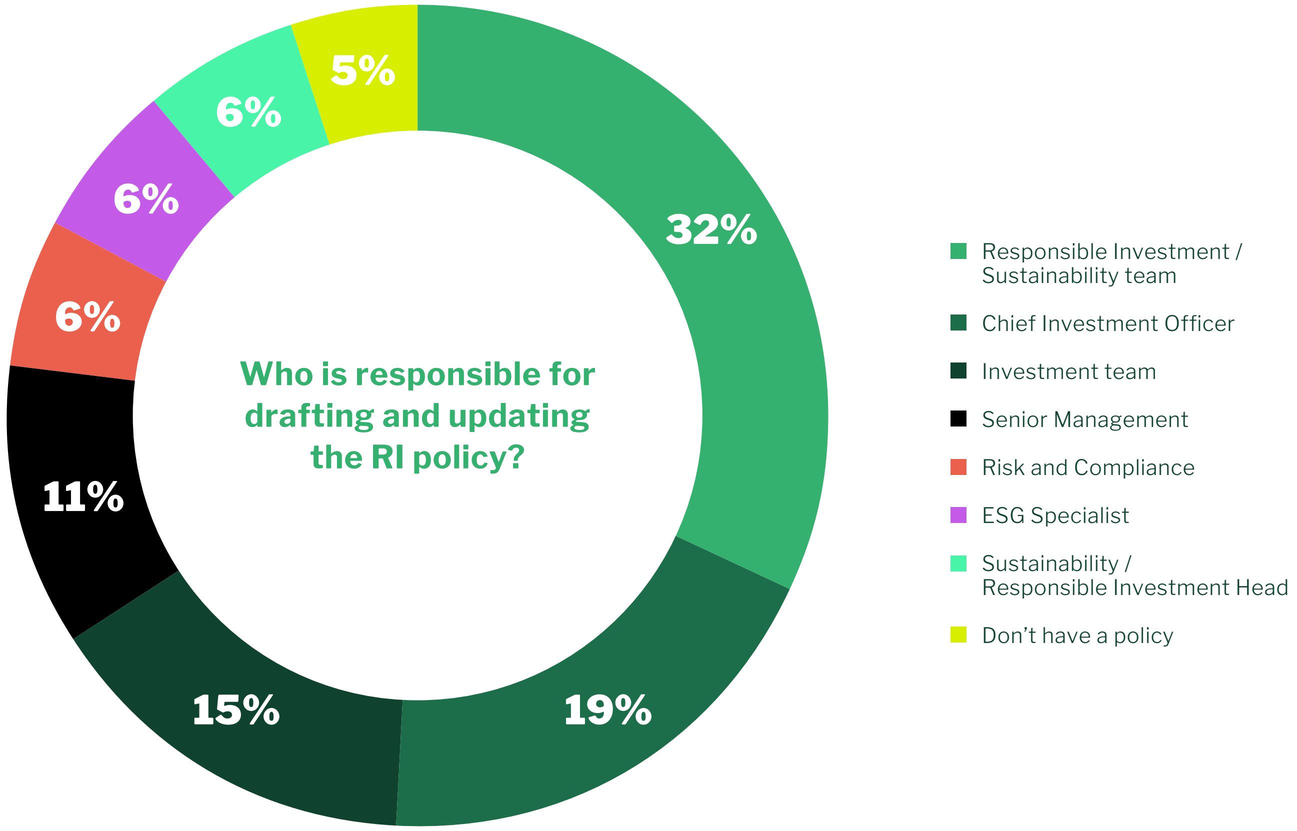
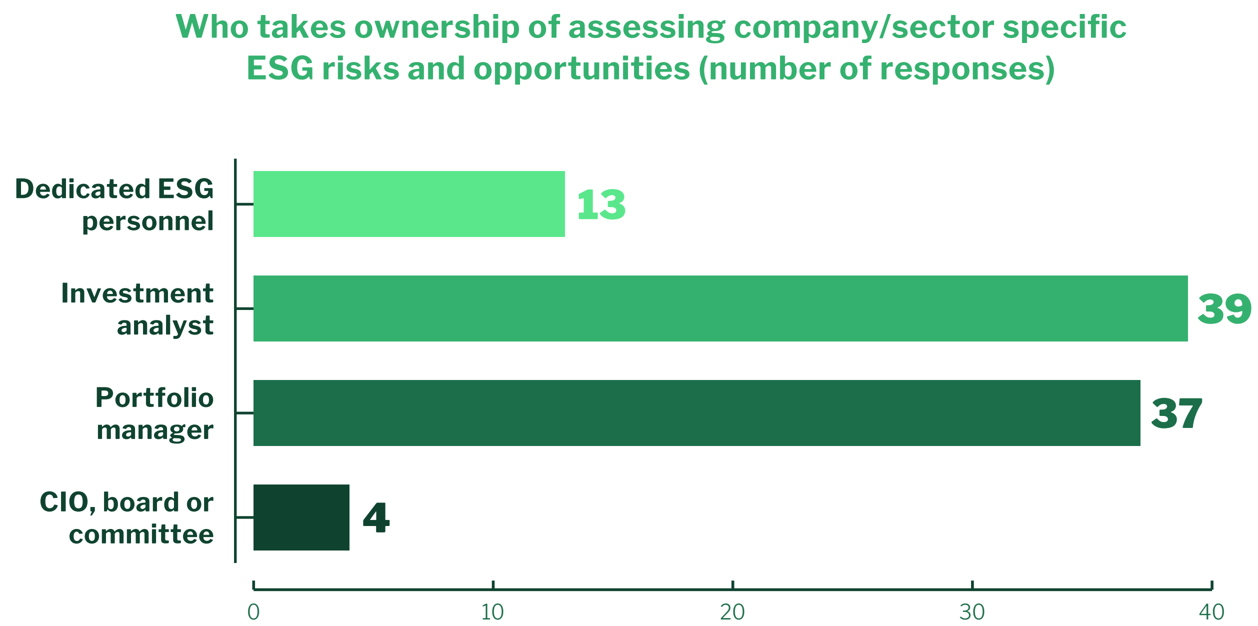
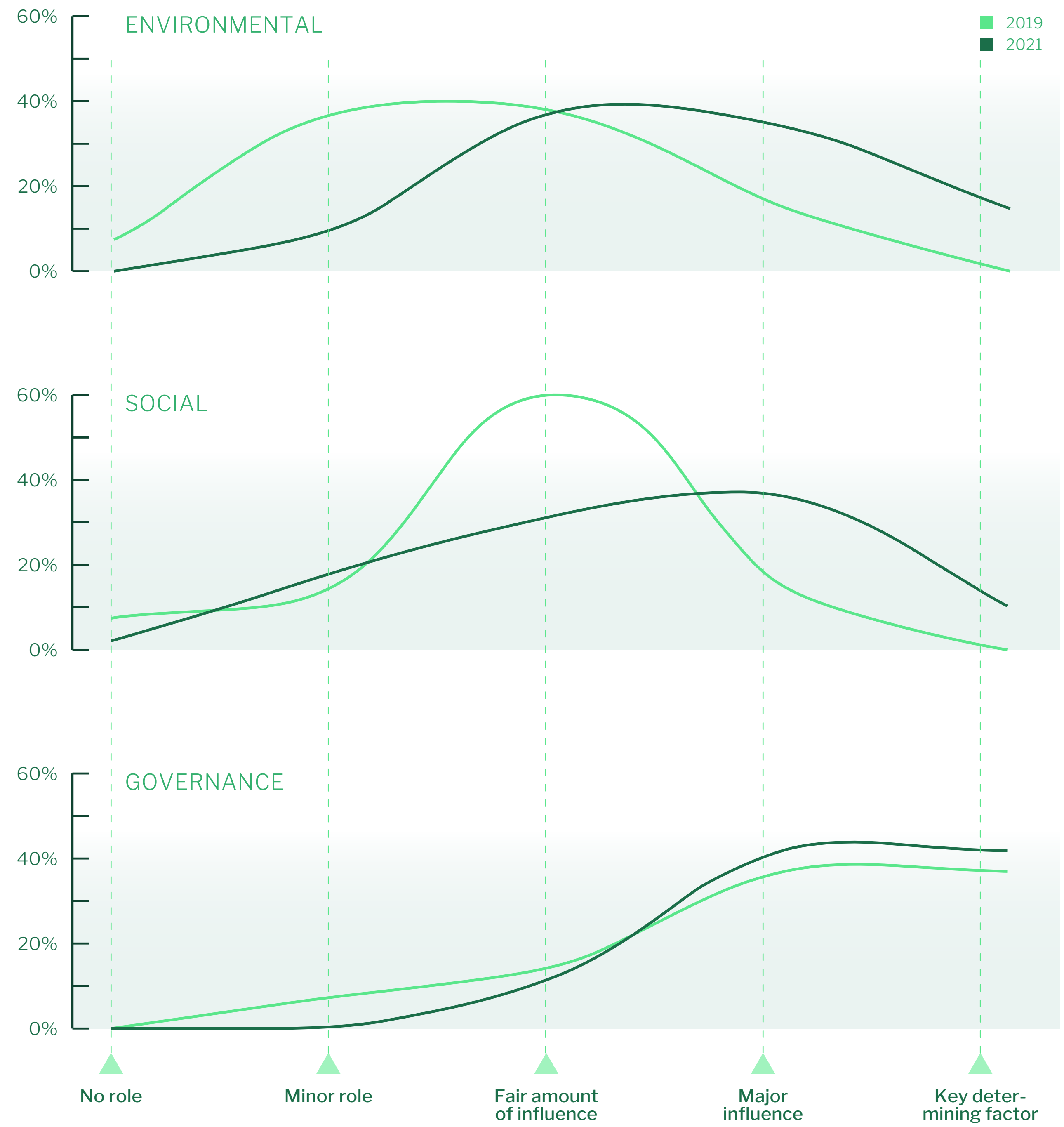




The following three charts show the distribution of responses to the question aimed at capturing the degree to which ESG factors are incorporated in the investment process. The responses were very much in line with our expectations, with governance taking on a greater role than environmental and social factors. What is most encouraging is the supposed greater role that environmental and social aspects are receiving in the process than was the case in 2019.

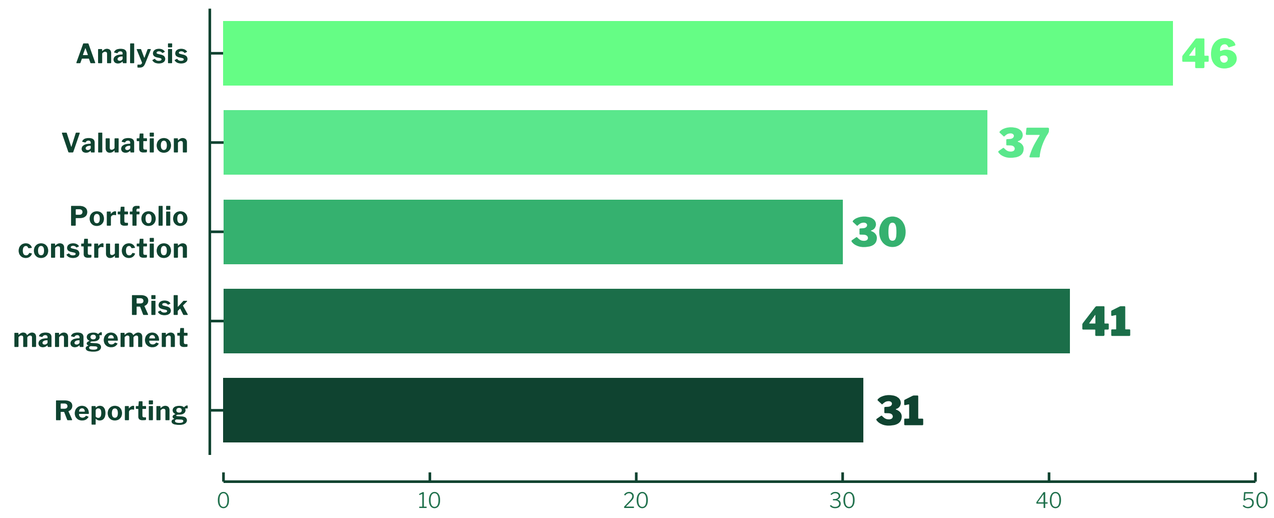
To what extent do ESG factors play a role in investment decisions



A conclusion that we may draw from the review, and this was evident in both our questionnaire and the face-to-face manager interactions, was that despite a reasonable awareness of the global sustainability challenges, this did not feature strongly in portfolio construction.

The chart below suggests stronger ESG involvement in the analysis and risk management areas, and we highlight both portfolio construction and reporting as areas requiring deeper incorporation. This supports our view for ESG subject matter experts or teams, as during our engagements we found that managers with ESG experts were better able to incorporate sustainability trends and themes into portfolio strategy and construction. Furthermore, we found our discussions where ESG teams were present to be more robust, and the company exhibited greater awareness of the industry's role in the broader global system.

Steps of the investment process where ESG factors are incorporated (number of responses)



Recommendations:

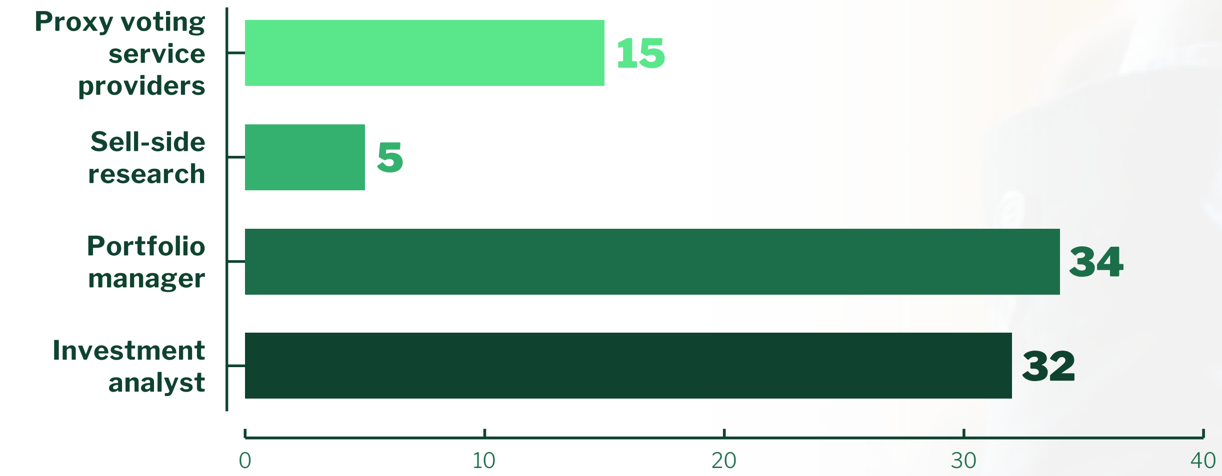
- **A Responsible investment policy that states a position on the major sustainability challenges**
- **A policy that outlines the manager's stance on climate risks and how this may inform the investment process**
- **The policy document should be updated regularly, given the evolution of the subject matter is both complex and fast-paced, we recommend on an annual basis**
- **An ESG team or specialist to support the integration of sustainability factors into all areas of the investment process**

Engagement & Proxy Voting

We believe that effective engagement can lead to improved fund performance, while also serving to better manage ESG factors in line with client expectations. This aspect of active management can have a telling influence on how a company is run by drawing attention to the broader stakeholder ecosystem, both social and environmental.

Proxy voting has become a key component in this segment, and we continue to assess our partners on the way they vote - from the level of participation to the manner in which they apply their proxy voting policies. The below gives some insight into who typically makes the decision with regard to voting at investee company AGMs.

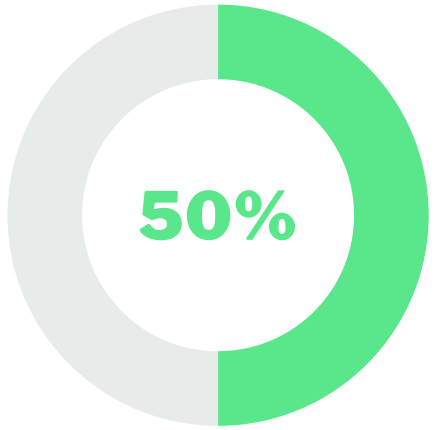
What informs voting decisions at company AGMs (number of mentions)



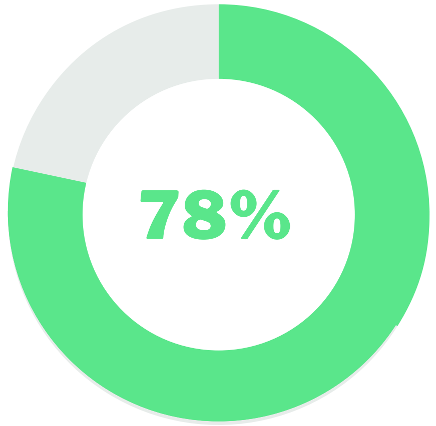
As mentioned earlier in this report, company pressure at AGMs is on an upward trajectory, as we have started to see far greater activism from shareholders, civil society, and other stakeholders. One of our recommendations from last year's report was around continued communication with companies leading into the AGM season.

We are also proponents for voting records to be displayed in the public space, and here our review found 78% of fund managers are currently doing so.

Managers communicating voting intentions to companies and/or the public prior to the shareholder vote



Portion of asset managers disclosing voting records in the public space



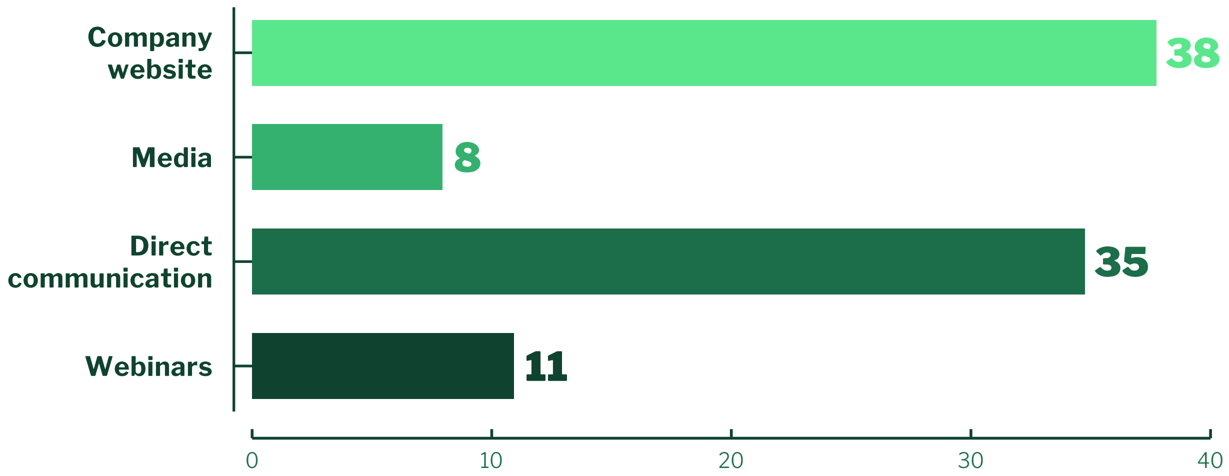
Recommendations:

- Responsible Investment and proxy voting policies are supported by an engagement policy that guides and standardises the way investment teams interact with companies on key ESG risks
- Engagement policies that clearly define and guide the investment response to a company's action, or lack thereof, to climate change
- An engagement policy that outlines the steps for collaboration with other shareholders should the necessary pressure be required, and the company has not responded favourably to prior engagement
- Evidence and record keeping of corporate engagement on ESG related matters, and their outcomes
- A voting policy that guides engagement with companies on voting issues prior to an AGM
- Where appropriate, to engage companies beforehand how you intend to vote
- A best in class policy clearly defines the assessment of corporate governance, incorporating factors that support key sustainability metrics such as:
  - Board independence, skill set, diversity, and experience
  - The alignment of long-term executive remuneration with shareholder interests and company E&S performance
- Use AGM proposals and shareholder rights as an effective way to bring about great climate reporting and accountability
- Clearly documented records of proxy votes and the results of the resolutions
- Regarding labour rights, insist that companies have worker health & safety and human rights policies formalised and in place
- This can be supported by commitment as per the UN Global Compact

Disclosure & Participation

Our review identified transparency, disclosure, and broader proactive participation across the industry on responsible investment initiatives as an area for future development. The leading managers in our review followed industry-leading traits by providing quarterly ESG and voting reports. Importantly, these are regularly made available to investors and the public via multiple platforms - website, media, company magazine, conferences, and direct communications.

Channels used by managers to communicate ESG-related issues to investors



In terms of best practice, we believe:

- Asset manager should provide regular/ quarterly ESG and voting reports
- Such reports are available to investors and the public via multiple media and communication platforms
- Evidence of a high level of participation in the broader Responsible Investment space, collaborating on initiatives introduced by various institutions, forums and roundtables
- Deliberate, structured and consistent Corporate Social Investment (CSI)
- Proactively increasing contribution to the broader community, both in a social and environmental capacity
- Leading collaborative engagement with corporates on issues relating to ESG factors.

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...we strongly recommend an engagement policy that clearly addresses scenarios where significant and unfavourable pushback from investee companies takes place.

After the conclusion we provide some examples of where corporate engagement and shareholder collaboration has led to optimal ESG outcomes for investors. Of course, this is very much dependant on the willingness of companies to respond, and therefore we strongly recommend an engagement policy that clearly addresses scenarios where significant and unfavourable pushback from investee companies takes place.

AUM & geography of asset managers included in the 2021 review

Conclusion

...productive cross-collaboration has started to emerge between asset managers, asset owners, regulators, civil society, and importantly, investee companies.

Global systems have often evolved to operate in silos, yet it is this fragmented structure that often inhibits interdisciplinarity and progress to the Sustainability wave. The investment industry has much to transcend, but productive cross-collaboration has started to emerge between asset managers, asset owners, regulators, civil society, and importantly, investee companies.

The relationship between companies and their investors on ESG issues can all too often take on an antagonistic nature. Instead, investors should look to encourage, and importantly, support company management to transition their businesses for a low-carbon and inclusive economy. Shareholder support will embolden management to break from historic inertia and proactively pursue better societal outcomes.

This has been one of the more heartening developments of the Nedgroup Investments asset manager review, as the relationship between us and our partner managers has over the years become a symbiotic one, characterised by respectful and constructive debate around responsible investing. Which of course, has not come without its challenges and differences of opinion. However, the mere fact that these debates are being had in a respectful and robust manner garners hope and optimism.

It is a delicate balancing act of harnessing a manager's unique investment approach, skill, autonomy, and value system against our own responsible investment imperatives. At the end of the day, this relationship and these conversations play a significant role in better serving our environment, its people, and our clients.

Case studies

Safari Investments

The SENS announcement below details what shareholders went through to improve the governance at Safari Investments, a South African property investment company. This followed an unsuccessful bid by Comprop for the company that many investors felt was blocked by the actions of many of the board members whose independence was being challenged.

This was the culmination of more than twelve months of work on the portfolio manager's part to effect change at the company, and based on the company's most recent results, an extremely rewarding exercise for investors in the fund.

The SENS announcement below highlights the investor pressure that was placed on the company. Safari has also outperformed the SAPY index since the end of 2019 when the fund manager initiated the process to improve governance at the company (see chart below).

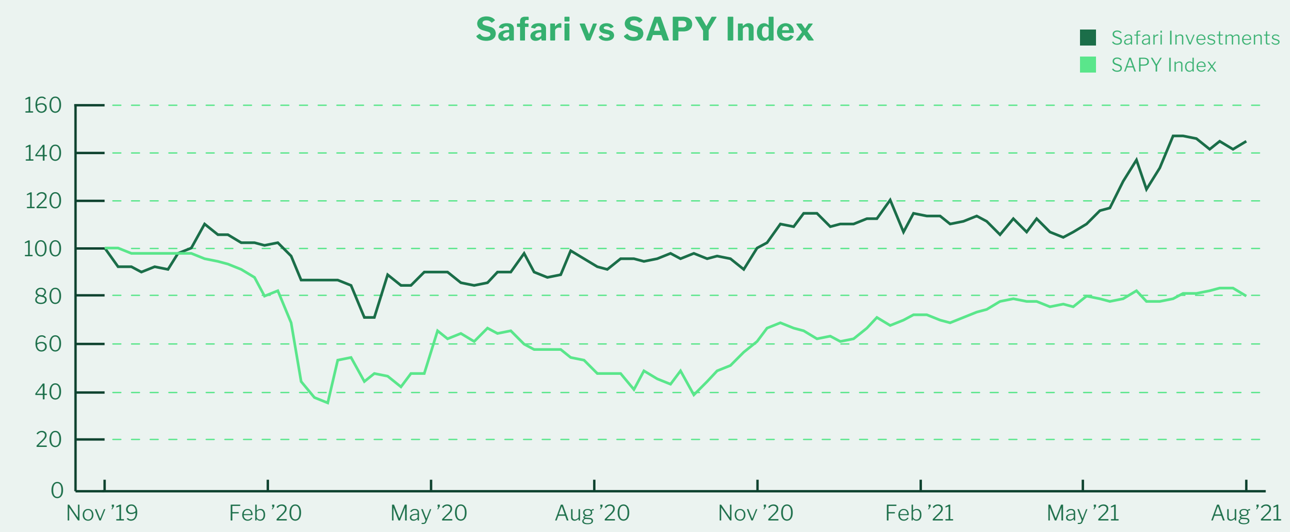
SAFARI INVESTMENTS (RSA) LIMITED - Changes to the Board of Directors

Monday, June 22, 2020 08:39:05 AM (GMT)

As noted in the announcement, both Messrs Swanepoel and Slabber are (inter alia) highly experienced corporate lawyers, and independent of Safari and its shareholders.

In line with the wishes of the above-mentioned shareholders, Mr Slabber was also subsequently appointed by the Board as the company's independent Chairman... with effect 1 January 2020...

Messrs Slabber and Swanepoel were identified and proposed by, and - following due governance processes - appointed to the Safari board at the express request of, Bridge Fund Managers Proprietary Limited ("Bridge"), Stanlib Asset Management Proprietary Limited and certain minority shareholders who were frustrated with the developments relating to the unsolicited offer from Community Property Company Proprietary Limited failing to proceed. At the time, these shareholders wanted the Safari board to have, and be led by, experienced, wholly-independent directors.



Japan Tobacco

In 2020, the fund manager directly engaged with Japan Tobacco with an objective to establish what concrete measures have been taken to mitigate child labour issues, the relative success of these, and what more can be done going forward. The manager contacted the company to discuss this issue in greater depth, upon which the firm suggested a call with their dedicated ESG department, where they spoke with several members of the company on the shortcomings of their existing procedures.

After engaging with the company about the issue and conducting their research, the manager believes it is clear the problem is complex and multi-dimensional, involving different levels of the supply chain. Where family farms are used in the agricultural supply chain there is a danger that children are involved in work at younger ages than is acceptable.

In their engagement with the company, Japan Tobacco were reflective of such issues, and pointed to the establishment of their ARISE (Achieving Reduction of Child Labour in Support of Education) programme. This program operates in Brazil, Malawi, Tanzania, and Zambia, and successfully placed 6,186 children into formal education in 2019. When questioned about the initiative, Japan Tobacco added that they are open to expanding the programme.

Outcome of the engagement: Whilst the manager is pleased to see that Japan Tobacco acknowledge the severity of this issue and can demonstrate that they are taking steps to help eliminate child labour, more needs to be done. As a shareholder, the manager will continue to hold the company to account on this crucial issue. In their engagement with the company, they urged Japan Tobacco to take a leading industry position in raising wages and suggested that their policies were updated to cover children handling dried tobacco, to which the company was responsive. The fund manager is continuing to converse with the firm on their progress in tackling child labour and aim to report back to investors on progress with this ongoing engagement.

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Svenska Handelsbanken

The fund manager in this case holds the view that Governance is central to Environmental and Social risks and opportunities. Forward thinking management that is incentivised in the right way, is more likely to adjust a business to Environmental and Social risks and opportunities.

The only bank held by the portfolio, Svenska Handelsbanken, had not handed out bonuses for over 40 years. Instead, they had a profit-sharing scheme called the Oktogonen foundation, which only distributed the proceeds when the individual turned sixty. This could be a generous pay-out to those that have served with the company for many years. All employees received the same allocation based on the bank's performance against its rivals but there were no sales targets or budgets.

Whilst each branch had autonomy to lend, the bank had a culture of looking over the long term and not taking big risks. The consequence of this had been a bank with an enviable Return on Capital and one of the lowest bad loan books of any European bank. They had not been bailed out of any financial crisis or suffered AML scandals.

Given the announcement in 2020 that the Bank proposed to change the Oktogonen scheme going forward and introduce bonuses. At first sight this challenged part of the investment thesis under which the shares were held, therefore the fund manager felt the need to engage.

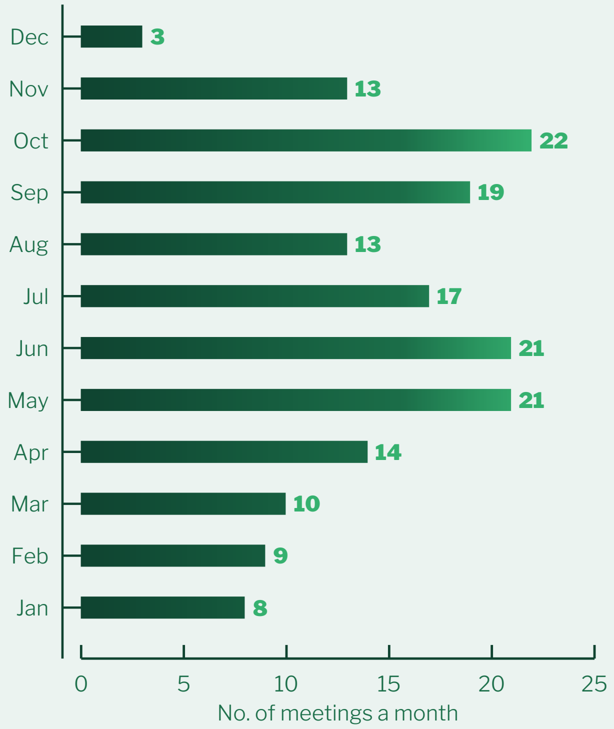
Following the engagement, they wrote to the company suggesting what measures they should take in order that employees remained aligned with shareholders. Given these suggestions were unlikely to be implemented, the manager exited the position.

Landbank

The fund manager in this case recently restructured their Landbank debt (over R1bn) due to governance concerns. By succeeding in getting Landbank to insert a clause in their re-structured debt in 2018, this then gave the fund manager the right to request early settlement of debt should the Landbank Exco lose more than a certain number of members within a one-year rolling period. This was the case after the acting CEO resigned in January 2020, ultimately allowing the fund manager to invoke their covenant and receive the full investment back. Incidentally, this was two months prior to Landbank going into default.

Below is a snapshot of the number of issuer meetings held by the manager during the 2020 calendar year. Impressively, 170 meetings were held during the period.

2020 Credit Engagements



Sasol Ltd

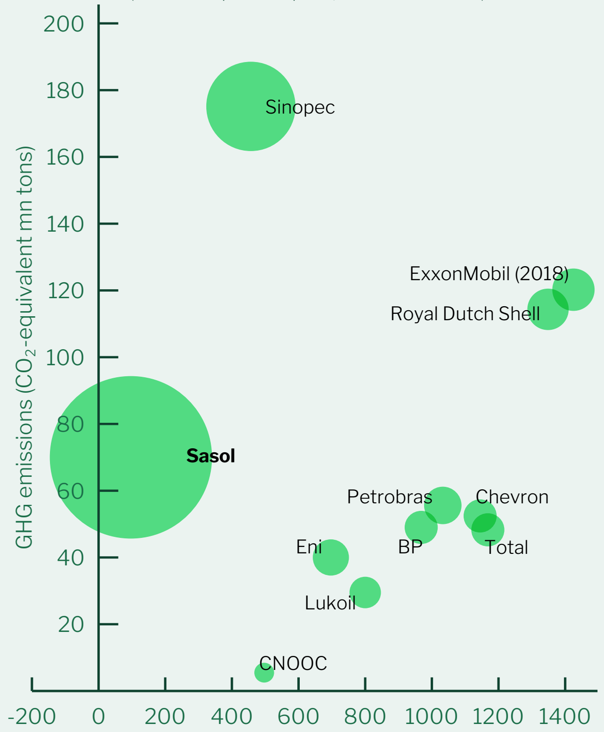
In the JSE listed universe Sasol screens negatively on ESG largely because it is one of the largest emitters of greenhouse gases globally, on a per unit basis. And here we outline a manager's engagement with them on their remedial efforts and environmental roadmap going forward.

Sasol's current emissions footprint and future trajectory poses material risks and costs associated with the 'Clean Energy Transition' thematic, with negative implications on underlying valuation fundamentals of cash flows, growth and risk.

Sasol's global peers have been noticeably more proactive in formulating strategic responses to the transition by setting goals and building frameworks upon which to target emission reductions. In contrast, Sasol's response had been tepid, raising questions as to the long-term sustainability of the current business model.

Carbon emission intensity comparison 2019

(source: Corporate reports, HSBC calculations)



The fund manager believes that constructive, pre-emptive engagement results in a preferable outcome for all stakeholders and in this regard have been actively engaged with Sasol management and the Board over the last eighteen months on ESG-related issues, specifically:

- Detailed discussion on Sasol's ESG Roadmap beyond 2025, focussing on its plans for natural gas to offset the coal base, green energy offset, related costs and impact on future cash flows.
- Discussions with Remco regarding linking remuneration with ESG score and targets.

In addition, the manager collaborated with a group of shareholders promoting the inclusion of ESG targets as part of management incentives and remuneration. This has been agreed upon by the Board, a very positive step forward in driving the best outcome for all stakeholders. The group of investors also requested that Sasol clearly define how the Climate Roadmap will be aligned with the Paris Accord.

Sasol acknowledges the importance of ESG and encouragingly is working on long-term solutions. However, the response has arguably been too slow and too conservative.

According to Sasol, more clarity on the actual emissions targets, key performance indicators, cash flow, growth and risk impacts will be presented to stakeholders in September 2021. It remains to be seen whether the ESG response will be adequate and sufficient, but until then risks will remain elevated.

Resources sector

During 2020, a South African manager held ESG-style meetings with multiple resource companies. The majority of these engagements revolved around labour, the implications of the lockdown, and the ramp up in operations that would ensure a safe operating environment for employees.

The manager met virtually with the executive management teams of Anglo American, BHP Billiton, Anglo American Platinum, Royal Bafokeng Platinum, Gold Fields, Northam Platinum, Impala Platinum, Harmony, Pan African Resources, and Sasol. These meetings were held post the publication of their June 2020 results. In addition to financial and strategic discussions, the fund manager took the opportunity to discuss pertinent ESG matters. This included how companies were managing operations during the pandemic and the measures put in place to ensure the safety of employees and the stability of the operating environment in future. For companies with South African mines, the additional social initiatives they had undertaken to support the communities in which they operate were also discussed.

The manager also held meetings with the ESG representatives of Gold Fields, where labour and environmental management was discussed. And leading up to Sasol's AGM, they met the Chairman to deliberate board experience, executive succession planning and climate change.

Woolworths & Anglo American Platinum

In this instance, the fund manager held numerous corporate engagements during the year, and we highlight just two notable cases.

The manager met in November 2020 with the Chairman of Woolworths and board members to discuss strategy, remuneration structure, the previous CEO's severance package, as well as concerns around a vesting period of three years on management's long-term incentives (LTIs). The fund manager went on to use their shareholder vote on AGM resolutions concerning auditor rotation (E&Y have been auditors for 88 years), the re-election of a board member whose length of tenure had challenged their independence, and the company's remuneration policy.

The amount paid to the outgoing CEO is concerning, concomitant with poor disclosure on targets set for incentives schemes. The 3-year vesting period on LTIs is not long enough in the manager's opinion, and engagements are ongoing to appease this.

With regards to a more positive outcome, the team discussed with the management of Anglo American Platinum on their plans (and progress) to reducing their carbon footprint. The company will switch out of their diesel trucks - one of the biggest emitters of CO_2 on the mines - for hydrogen trucks. These trucks will then be rolled out to the rest of the Anglo American company mines.

Global REITS & Diversity

Company engagement is an important part of this manager's investment process. As active owners, engagement provides them the opportunity to share their philosophy and corporate governance values and make a positive contribution to investee companies. Furthermore, it often provides the manager with a deeper and different perspective on how the company operates.

The asset manager sets an engagement agenda annually, where they identify a specific ESG issue they want to systematically raise with the portfolio holdings. For instance, they have engaged with:

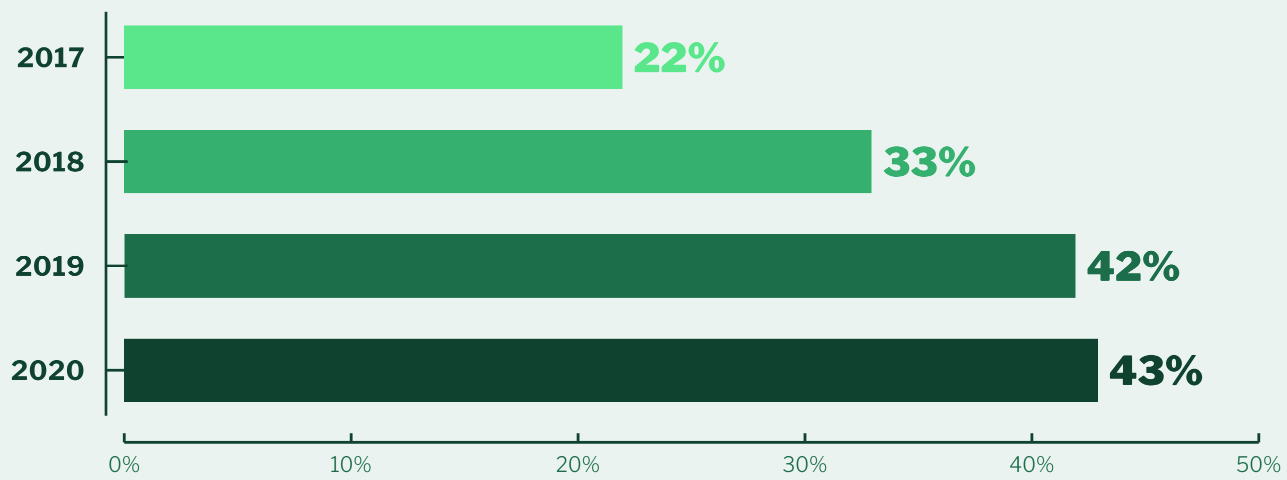
- Portfolio holdings where women make up <30% of the board
- Portfolio holdings with relatively poor ESG disclosure (low or no GRESB score)

The manager believes that boards which exhibit cognitive diversity will more than likely outperform over the long run. A diversity in thinking comes through, for example, different skills, gender, race, age and background.

In terms of gender diversity, good progress has been made in recent years - almost half of the Portfolio holdings have 30% or more women on the board.

Nevertheless, more work needs to be done to create better diversity, whether in terms of gender, race or skills (including for example technological and environmental expertise).

Portfolio's global holdings with 30% or more women on the board



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