ALLANGRAY

Stewardship and Business Sustainability Reports

CALENDAR YEAR 2021

ENVIRONMENTAL SOCIAL GOVERNANCE

Contents

Stewardship Report

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The world has changed a lot over the past two years, particularly as the impact of the COVID-19 pandemic continues to be felt across the global economy. The press has been dominated by headlines of inflation, interest rate hikes, supply chain disruptions, the Great Resignation, and growing social and geopolitical tensions. Since the start of 2022, the Russia-Ukraine conflict has escalated into war, with unimaginable consequences for millions of people and ramifications for the whole world.

We are all navigating an increasingly complex world, and this brings to the forefront the importance of carefully researching environmental, social and governance (ESG) risks, both at an issuer and macro level, when evaluating investment decisions.

The rise of ESG in asset management has resulted in a proliferation of new product offerings, initiatives and rating systems. While we keep abreast of these changes and trends, we remain dedicated to focusing on the fundamentals versus the fads.

What do we mean by this?

We have remained consistent in our message to clients that ESG evaluation is complex and nuanced. We believe in evaluating ESG factors qualitatively and holistically, recognising that, unfortunately, there are often trade-offs between the E, S and G, as well as economic factors. We focus on materiality as opposed to attempting to "score" companies on every ESG issue, which can lead to a tick-box approach.

A lot of emphasis has been placed on companies considered "ESG leaders". This is often embedded in the share price. We believe the bigger opportunity is investing in "ESG improvers". These are companies trading at a discount to their peers due to perceived ESG issues. Where we can see a path for the gap to close, we believe that at times it makes sense to invest in these companies, while simultaneously engaging with management to encourage an improvement in their ESG focus and performance. Shareholders benefit, via earnings and dividend growth or as the company rerates in the market (i.e. investors are willing to pay more for a share of the company), and society benefits as environmental and/or social improvements are delivered.

We believe detailed ESG research should underpin our ESG-focused engagements. We emphasise fewer engagements with greater depth and substance, rather than a broader number of superficial engagements.

Finally, we strive for continuous improvement in our ESG approach, as reflected on page 4, and we remain committed to improving our processes and the effectiveness of our ESG engagements year-on-year. Ultimately, we would like to see a better world – one where, among other things, social inequality is reduced, corruption and conflict are addressed, and we all take better care of the environment.

In the interest of being more transparent with our clients, we have added several new features to this year's Stewardship Report. These include: disclosure of a wider range of ESG engagements; an introduction to our recently developed qualitative remuneration scorecards; additional reporting of climate metrics and on our top holdings' climate strategies; and how we believe we comply with the six principles of the United Nations-supported Principles for Responsible Investment (PRI). We also include our Business Sustainability Report on page 32.

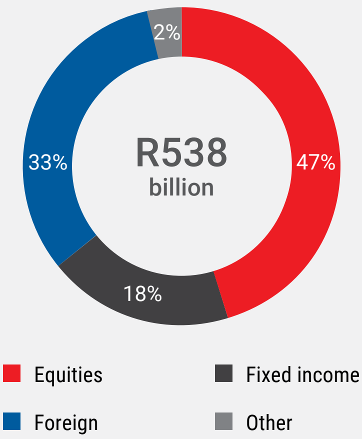
We hope that you find the additional content useful. We welcome your feedback on how we can improve our ESG reporting in future.

"We are all navigating an increasingly complex world, and this brings to the forefront the importance of carefully researching ESG risks…"

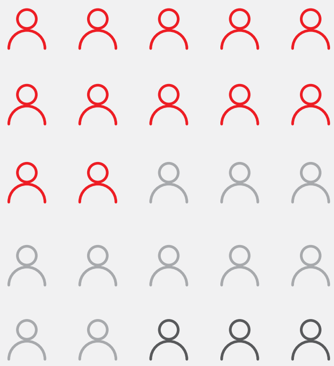
Duncan Artus
Chief investment officer

KEY METRICS

Assets under management



Investment team

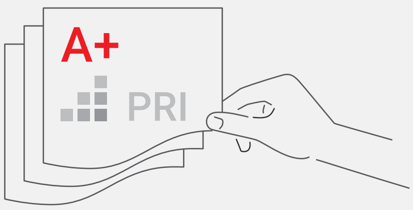


12 portfolio managers

10 analysts

3 ESG analysts

PRI scores



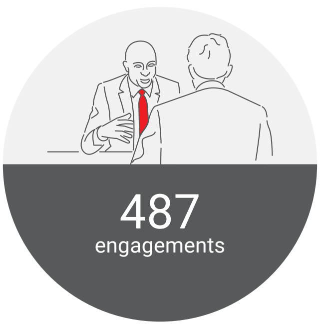
We achieved A+ scores across all assessed modules.
Discover how we are adhering to the PRI principles on page 29.

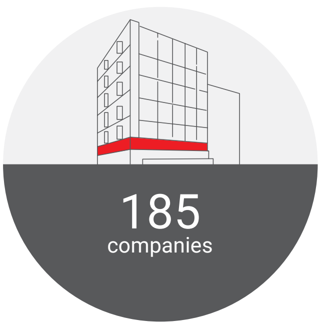
B-BBEE

2021
Level 1
contributor

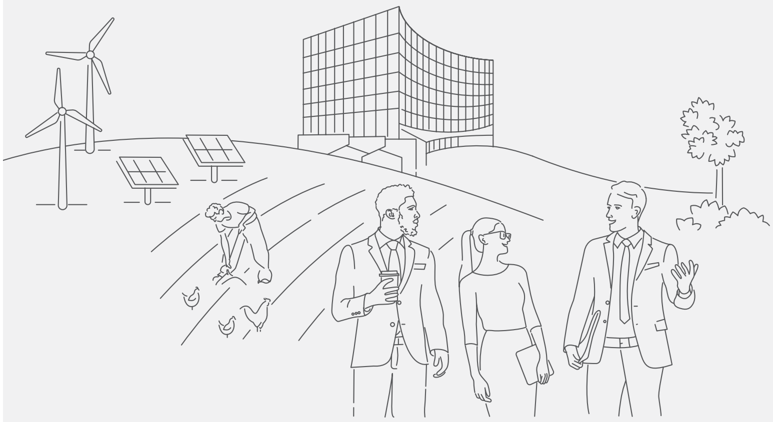
Allan Gray Proprietary Limited has been awarded a Level 1 contributor status in terms of the Amended Financial Sector Charter Codes. Our B-BBEE status was verified by AQRate, an external, independent verification agency.

Investment team engagements





Top engagement themes



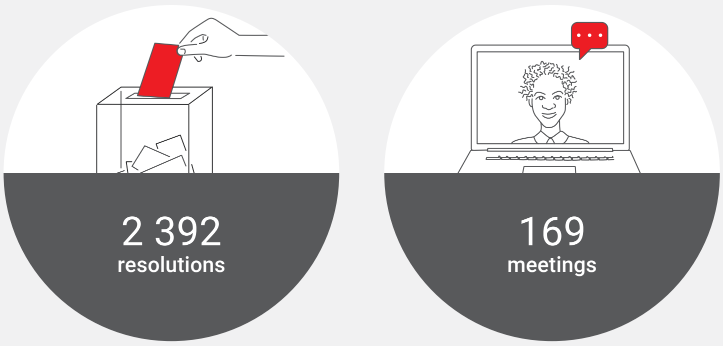
E **39** climate change, renewable energy and related engagements

S **27** engagements on customer and societal considerations

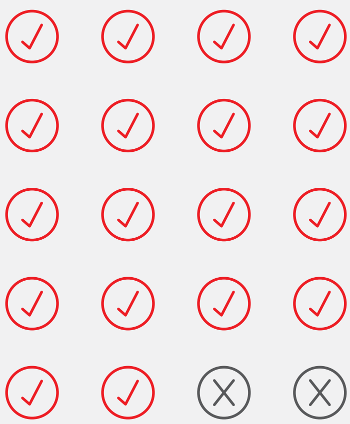
G **59** executive remuneration engagements

A snapshot of some of our key engagements is shown on page 9.

Proxy voting



Voting recommendations

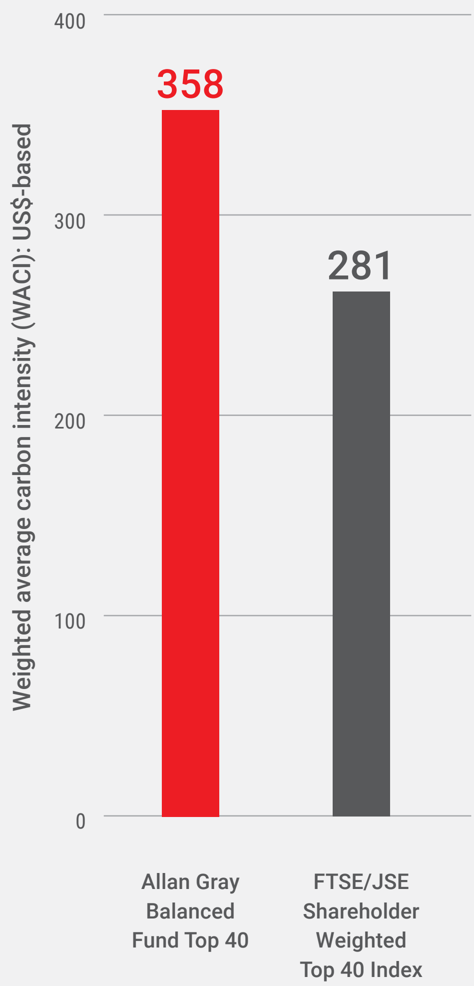


90% for

10% against or abstain

We provide our proxy voting record and unpack dissenting votes on page 20.

Portfolio carbon intensity



The portfolio's carbon footprint is interrogated on page 27.

STEWARDSHIP DEVELOPMENTS OF THE LAST DECADE

2012

Published first responsible investment policies

Started publishing voting record online

Publicly supported Code for Responsible Investing in SA (CRISA)

2013

Became a PRI signatory

Appointed first analyst dedicated to governance research

2014

Made ESG section compulsory in all research reports

2015

Directors database created

Published first Stewardship Report

2017

First E&S analyst appointed

Thematic ESG policy group meetings introduced

Started reporting to Allan Gray's Social & 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

EVALUATION OF ESG RISKS IN THE PORTFOLIO

MATERIAL ESG RISKS WITHIN OUR TOP EQUITY HOLDINGS

Below we have listed four 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, as well as 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.

Company	Primary ESG concerns per company	Actions taken to address ESG concerns: Internal research and report areas	Actions taken to address ESG concerns: Engagement areas (audience)
British American Tobacco (BAT)	Social: Health impact of smoking Allegations of child labour in tobacco supply chain	▪ Next-generation products, health impact studies versus combustibles and 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)
British American Tobacco (BAT)	Governance: Allegations around regulatory interference and methods for tackling the illicit tobacco trade	▪ Specific governance considerations at BAT, which were presented to our board of directors	▪ Governance allegations (head of Group Compliance and chairperson)
Glencore	Governance: 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 Congo ▪ Internal meeting to discuss the above research	▪ Compliance improvements, particularly the prevention of intermediaries' engagements with governments (General Counsel)
Glencore	Environmental: Thermal coal risk and green energy transition opportunity in commodity basket	▪ Base metals demand under future climate transition scenarios; discussed in a team meeting	▪ Glencore's thermal coal strategy and greenhouse gas emissions reduction targets (management and board) ▪ Feasibility of future coal demand and policy scenarios (Glencore's coal modelling expert)
Naspers	Governance, Social: 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)
Naspers	Governance: 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 ▪ Detailed assessment of the executive remuneration scheme	▪ Share-exchange offer; presented our view on the proposed transaction (management) ▪ Executive remuneration scheme concerns; suggested improvements (remuneration committee chairperson)
Sasol	Environmental: 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 as well as meetings with non-governmental organisations and academics for independent views	▪ Air pollution and climate change, including recommendations for related disclosures and commitments (numerous Sasol representatives, ex-joint CEOs)
Sasol	Governance: Strategic mistakes Quantum of non-executive directors' fees	▪ Peer group benchmarking analysis on non-executive directors' fees	▪ Governance failures related to the Lake Charles Chemical Project (board) ▪ Non-executive director fees, including sharing our benchmarking analysis (remuneration committee)

Environmental Social Governance

KEY ESG RESEARCH NOTES, REPORTS AND INTERNAL ENGAGEMENTS

ESG themes raised at internal engagements

Below we list some of the ESG themes that were raised at internal policy group meetings. Please note this list is illustrative rather than exhaustive. Companies' names have been withheld, as these discussions were proprietary.

Environmental	
Mining company	Deep sea tailings risk
Chemicals and energy company	Greenhouse gas emissions and climate strategy
Mining company	Scenario analysis in relation to future commodity demand; increasing ESG scrutiny
Packaging company	Impact of e-commerce and paper-for-plastic substitution

Social	
Tobacco company	Durability of the tobacco revenue model; cigarette regulation in key regions and how next-generation products are being regulated versus combustibles
Mining company	Poor historical safety track record and management actions to address this
Food producer	Lawsuit and practices around food safety
Private education group	Education outcomes versus public sector counterparts

Governance	
Technology company	Upcoming share-exchange offer
Telecommunications company	Regulatory risk, particularly in certain jurisdictions
Travel and leisure company	B-BBEE deal, B-BBEE rating and potential for new deal
Private education group	Threat of regulation for private education providers

ESG-focused research notes and reports

We also prepare a number of ESG-focused research notes and reports for internal distribution. These seek to strengthen our Investment team's awareness and knowledge of various company-specific or thematic ESG risks and opportunities.

Environmental
Base metals report: review of future supply and demand under multiple future climate-related scenarios
Evaluation of access to finance for the US shale sector, as part of a broader fossil fuel risk evaluation assessment
Future of thermal coal report: included an update on thermal coal demand in Asia and evolving Asian energy policy
Forestry externalities research: Sappi engagement preparation
Scope 3 greenhouse gas emissions primer
Key litigation and activism developments against fossil fuel companies
Primer on Sasol's new climate commitments announced at its 2021 Capital Markets Day
Seismic survey environmental impact research notes: Shell engagement preparation (attended meeting with Shell by invitation from Orbis)
Comparison of JSE-listed banks' fossil fuel versus renewable energy exposures, as well as forward-looking climate commitments
Greenhouse gas emissions intensity comparison across high-emitting sectors
National climate commitments research note

Social
Mining sector: safety review and benchmarking exercise
Study of executive racial and gender diversity at JSE Top 40 companies
BAT: Orbis and Allan Gray collaboration to ensure consistent messaging on ESG matters
Mpumalanga Highveld air pollution: Eskom engagement research

Governance
Internal note on executive remuneration principles
Executive remuneration framework including qualitative scorecard – see pages 15 to 19
Internal remuneration assessment reports discussed prior to AGM voting recommendations: 56 reports were prepared in 2021
Non-executive fee benchmarking assessment of mining companies
Rand Water governance note

Combined
Note on the impact of ESG ratings on sovereign fixed income
Two ESG reports to the Allan Gray Audit Committee
Report to the Allan Gray Social & Ethics Committee on how the investment team is complying with the PRI's six principles
ESG meeting between chief investment officers and portfolio managers at Allan Gray, Orbis and Allan Gray Australia
Due diligence of global and local ESG rating and data providers
Research into the correlation between ESG integration and investment performance
Quarterly meetings with Orbis and Allan Gray Australia, on "ESG in the investment case" and "ESG in client reporting and regulation", respectively

HOW WE THINK ABOUT ESG FACTORS IN FIXED INCOME

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. Therefore, our approach when it comes to fixed income differs to that of our equity holdings.

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

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

When it comes to corporates and parastatals, where we may be a more significant lender, we may request meetings with key management or write to the board when specific issues arise. Most of the corporates in our fixed income investment universe are also listed on stock exchanges, allowing us to draw on our equity research process (see Appendix).

HOW WE THINK ABOUT ESG FACTORS IN AFRICA (EX-SA) AND FRONTIER MARKETS

Weighing up ESG considerations in other African countries and frontier markets is complex, as disclosures are generally more limited than for JSE-listed companies. Furthermore, companies in these investment universes typically operate in emerging markets with systemic ESG challenges which, in turn, have implications for the companies' operating conditions. Governance risk often includes political regime risk at a macro level, and this remains even where a company is exercising good corporate governance.

Key ESG issues considered and discussed in relation to the Allan Gray Africa Equity Fund, the Allan Gray Africa ex-SA Equity Fund and the Allan Gray Africa Bond Fund during 2021:

- Equity considerations are closely aligned with those of the Allan Gray Frontier Markets Equity Fund (see right-hand column)
- Sovereign regime risk related to sovereign debt purchase decisions
- Governance considerations related to state-owned entities/parastatal issuers

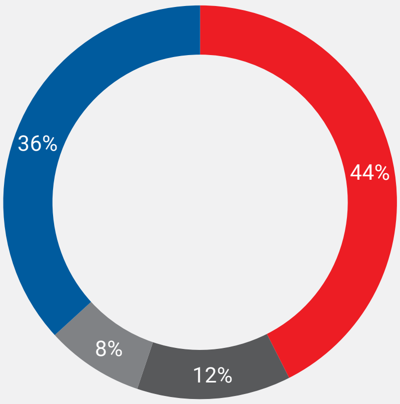
For corporates and parastatals, a focus on company-level governance provides some assurance as to the company's strength in terms of being able to navigate high-risk jurisdictions.

Key ESG issues considered and discussed in relation to the Allan Gray Frontier Markets Equity Fund during 2021:

- Capital controls and repatriation risk
- High domestic inflation, which can lead to social challenges
- Low vaccination rates relative to developed markets

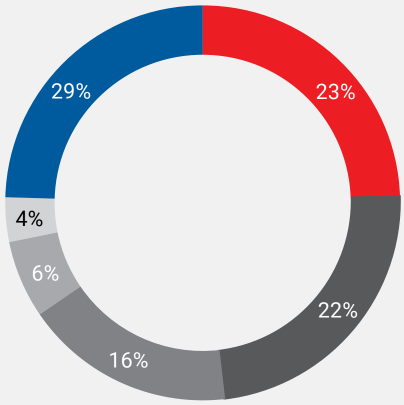
COMPANY ENGAGEMENTS

Graph 1: ESG engagements by theme



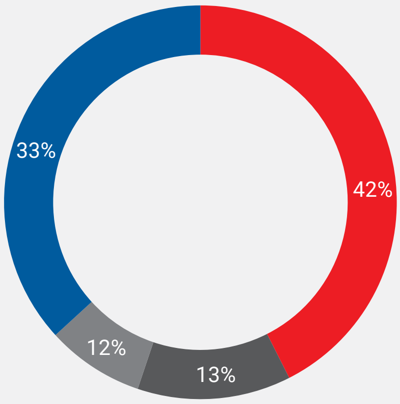
Environmental engagements

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



Social engagements

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



Governance engagements

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

SNAPSHOT OF ESG ENGAGEMENTS

Table 1: Overview of engagement activities

The list below is not exhaustive. Rather, it seeks to demonstrate the breadth and depth of our engagements.

Company	Engagement level	Key ESG topics	Description of engagement
Naspers-Prosus	High	Chinese regulatory crackdown	Multiple engagements, including with third parties, to evaluate potential impact on Tencent
		Governance	Naspers-Prosus share swap and value for shareholders (see page 23 for engagement case study)
		Executive remuneration	Alignment with rump (i.e. ex-Tencent) performance; multiple disclosure recommendations
Sasol	High	Climate change	Sasol's proposed "Say on Climate" vote; details of their updated climate commitments to assess feasibility
		Non-executive director fees	See page 23 for engagement case study
Sappi	High	Forestry externalities and certifications	Plantation management to reduce risk of alien invasive spread
		Water-use licences and water availability	Process around water-use licences, particularly when species changes are made at a plantation; risk of dam removal in relation to Somerset Mill
		Biodiversity	Percentage of land used for conservation; responsible pest control
		Community and employee relations	Initiatives in place to support important stakeholders
		Air pollution	Follow up on Saiccor Mill emissions
British American Tobacco	High	Child labour in supply chain	Commitments made and steps taken to eliminate child labour in tobacco leaf supply chain
		Environmental impact of cigarette filters	Research and development into biodegradable filters; EU Extended Producer Responsibility and general strengthening of environmental legislation
		Governance	Compliance processes put in place to screen for and manage politically exposed employees
Eskom	High	Community health and air pollution	Update on Kendal Power Station pollution and shutdown; internal compliance enhancements based on lessons from Kendal misreporting; update on minimum emission standards compliance postponements; Eskom steps to reduce harm leading up to 2030
		Climate change	Climate change modelling; integrating more renewable energy into the grid; carbon tax
		Community impact	Facilitating a socially just transition; engagement with relevant stakeholders on transition strategy
		Governance	Regulatory: update on criminal and administrative law cases against Eskom in relation to Kendal
Rand Water	High	Governance and water quality	Irregular expenditure and reporting around Vaal water quality (see engagement case study on page 25)
Woolworths	High	Executive remuneration	Remuneration policy recommendations; cautioned against additional large once-off awards to executives
		Employee considerations	Australian JobKeeper subsidies and benefit pass-through to staff
		ESG ratings	Raised that a data provider had incorrect information for Woolworths, which was negatively affecting its rating
Glencore	Medium	Climate change	Glencore's "Deplete responsibly vs divest" thermal coal strategy
		Governance	US Department of Justice and other regulatory investigations; management of rising geopolitical tensions

Company	Engagement level	Key ESG topics	Description of engagement
Old Mutual	**Medium**	Executive remuneration	See engagement case study on page 23
KAP Industrial	**Medium**	Community health	Follow up to prior engagement on Safripol chemical leak in 2019, including steps taken to address community impact, outcomes of regulatory investigations and the company's internal actions
Gold Fields	**Medium**	Tailings storage facilities (TSFs)	TSF targets to 2030 and pros and cons of different types of TSFs
		Water usage	Water stress at the Salares Norte project
		Climate change	Insight into climate stress testing at mines; carbon intensity metrics
		Safety	Industry safety certifications and independent verification; further insight into safety statistics
		Occupational health	Update on claims related to silicosis settlement
		Biodiversity	Update on chinchilla relocation at Salares Norte
		Governance	Focus on Peru given government suspension of certain mines in the country, as well as Ghana in relation to potential resource nationalisation
Standard Bank	**Medium**	Climate change	Climate target-setting that supports the Paris Agreement and how Standard Bank intends to go about this
		ESG strategy	Long-term ESG strategy discussion
Fortress	**Medium**	Community health & environmental damage	During the KwaZulu-Natal 2021 riots, an attack on UPL's warehouse resulted in a substantial chemical leak. Fortress was the landlord to UPL. We questioned the steps being taken by UPL and Fortress in response to the disaster. Despite the fact that the tenant, as opposed to the landlord, is contractually obliged to fulfil its regulatory obligations, Fortress made a big effort to address the situation. Management has also implemented additional controls for other high-risk tenants from a compliance perspective.
Quilter	**Medium**	Executive remuneration	Feedback on Quilter's newly proposed remuneration policy during the Quilter governance roadshow
Transaction Capital	**Medium**	ESG strategy	ESG strategy and reporting discussion
Harmony	**Medium**	ESG factors in executive remuneration	ESG inclusions in remuneration
		Employee considerations	Harmony's direct and indirect employment creation and management of jobs as they close some mines and open/expand others
		Climate change	Renewable energy projects underway
Just Share	**Light**	Climate change	JSE-listed banks' climate commitments and fossil fuel policies
Investec	**Light**	Climate change	In response to some of our disclosure queries on Investec's TCFD (climate) report, Investec noted that it intends to expand on some of these disclosures in its next TCFD report.
		Executive remuneration	Please see the engagement case study on page 22.
FirstRand	**Light**	Climate change	Financed emissions target-setting; climate reporting; queries on new fossil fuel policy

Company	Engagement level	Key ESG topics	Description of engagement
Mondi	Light	Sustainability of paper versus plastic-based packaging Climate change	Life cycle analysis of packaging products – Mondi's strategy of "Paper where possible, plastic where useful" EU carbon credits and green energy strategy
Sephaku	Light	Climate change	Several climate-related queries, including on carbon intensity and whether Sephaku will set carbon reduction targets
Pick n Pay	Light	Climate change	Discussed climate credentials of directors based on Pick n Pay reporting of climate expertise within the board
Shell (**Orbis engagement**)	**Medium**	Environmental impact of offshore oil exploration	Joined Orbis' engagement with Shell in relation to its planned Wild Coast offshore explorations; follow-up recommendations made by Orbis

HAVE OUR ENGAGEMENTS MADE A DIFFERENCE OVER TIME?

We believe that our history of standing up for shareholders has left its mark on the South African corporate landscape. From the more publicly known cases, to work done behind the scenes, our stewardship activities have been geared at achieving good outcomes, particularly on the governance front. Stronger corporate governance has shown a link 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. Even so, we are often asked for examples where our engagements bore fruit. Publicly discussing all cases might result in companies being less receptive to constructive criticism in future. We therefore prefer to engage in private and make public disclosures sensitively.

The following high-level examples demonstrate how persistent engagement can result in positive incremental change over time. We believe our contributions added value, although we by no means take full credit for the effected improvements.

1. Investec

Executive remuneration	
Number of engagements (10 years)	53
Number of ESG-related engagements (10 years)	25

Ten years ago, the Investec share price had substantially underperformed the other South African banks over the prior five-year period. Some of the reasons for the underperformance were outside of management's control, but much of the poor performance was a result of poor capital allocation: an investment in a sub-prime lender in the UK at the top of the cycle, poor lending decisions in South Africa, and poor investments in Australia and Ireland. Despite this poor track record, executive remuneration was excessive relative to the big banks in South Africa at the time. We started engaging with the company's board, in writing and in person, with the objective of encouraging a review of its remuneration policy to ensure better alignment between shareholder and executive interests. We recommended that our clients vote against the remuneration policies at the 2012 and 2013 annual general meetings.

Minor improvements followed, but it became clear that there was a fundamental difference of opinion between us and Investec's remuneration committee on what an acceptable quantum of remuneration is. We were also concerned about the nature of performance targets for bonuses and the absence of rewards based on long-term share performance. We explained our objections and suggested alternatives. Disclosure improved over time, but we remained unsatisfied with improvements to the remuneration policy, again recommending votes against the policy in 2014 and 2015.

We subsequently intensified our engagement efforts and increased pressure by recommending that our clients vote against certain directors in 2016 and 2017. In 2018, significant improvements to the remuneration policy resulted in supportive voting recommendations over the next three years, while further engagement during the reporting year has been positive. Refer to page 22 for more information on our recent governance-related engagement with Investec.

2. Sasol

Engagements across the spectrum	
Number of engagements (10 years)	81
Number of ESG-related engagements (10 years)	71

The stewardship work we have done on Sasol spans the ESG spectrum, with an average of eight engagements per year over the past decade. Our governance engagements have been numerous, with discussions around incentive schemes, directors' fees, consulting fees, corruption allegations, and various other matters. We continue to provide recommendations for improvement to strengthen the executive remuneration scheme. Our engagements on non-executive remuneration took some time to bear fruit, but we are pleased with components of the revised fee structure discussed on page 23.

Other governance-related matters include our demands for greater public disclosure and board accountability for strategic failings at the Lake Charles Chemicals Project, and our recommendation to clients to vote against the excessive severance packages of the joint CEOs in 2020. However, in contrast to our engagement with most other companies, many of our interactions with Sasol touched on environmental risk in light of its position as the country's foremost private sector polluter.

Following the publication in 2010 of the list of detrimental activities and the minimum emission standards (MES) as contemplated in the Air Quality Act of 2004, we dialled up our engagement around the environmental risk faced by Sasol. We sought to deepen our understanding of Sasol's environmental impact, the nature of the relationship between its management and government, the potential impact of the MES on the business, and its plans to reduce pollution. We discussed our engagement activities on this subject in some detail in our 2015, 2018, 2019 and 2020 stewardship reports, which are available online.

We appreciate the company's progress in addressing atmospheric emissions at their facilities. We also understand the reasons for the delay in compliance with the MES at some of their facilities. However, we recognise that, as a large shareholder in Sasol on behalf of our clients, we have a role to play in ensuring that the company strives to reduce its substantial environmental footprint. We were pleased to see that a number of our recommendations on Sasol's environmental disclosure and commitments were met, as detailed in its climate change reports of the past three years. We continue to monitor and engage on Sasol's environmental performance.

3. Naspers

Governance and executive remuneration	
Number of engagements (10 years)	80*
Number of ESG-related engagements (10 years)	44*

* Excluding Orbis' engagements with Naspers and its associate, Tencent.

Under the Naspers control structure, where an unlisted share class holds disproportionate sway, the influence of shareholders such as our clients is less than it would be under the usual arrangement of voting parity. Nonetheless, we have had many valuable engagements on strategy and incentives at Naspers over the past decade. Conflicting views on certain issues, such as on how to address the growing holding company discount, resulted in robust engagement at times. There appears to have been a change of heart on some of our suggestions over time, as evidenced by the share buybacks at Naspers and Prosus in recent years.

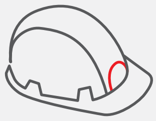
We expressed concern over misaligned and excessive remuneration at Naspers, recommending that our clients vote against the remuneration policy in 2015, 2016 and 2017. We recommended supporting votes in 2018 following pleasing improvements. However, in 2019 we supported the remuneration policy but recommended voting against the implementation report in light of insufficient disclosure around newly introduced performance conditions to a portion of long-term incentives (LTIs). These were later disclosed, but we were still of the view that performance targets were not sufficiently stretching and misaligned.

Subsequent improvements (including executive incentives being largely based on the performance of Naspers excluding Tencent, something we have been asking the remuneration committee to do for several years) and further recommendations to the company were highlighted in our 2020 Stewardship Report. More recent intensive engagement followed the announcement of the Naspers-Prosus share swap transaction. We discuss this on page 23.

Collaborative engagement, as advocated by a number of industry bodies, has its time and place. However, our experience with Naspers has highlighted some of the dangers of collaborative work. We found that a clear, concise message from a smaller shareholder can be more impactful than supporting a consensus view.

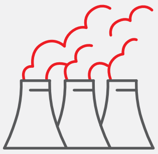
ESG ENGAGEMENT AND PERFORMANCE COMMITMENTS

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 2022 to 2025[1].



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 safety review.

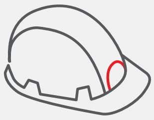


2022

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.

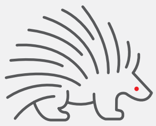
2023

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.

INDUSTRY ENGAGEMENT

INDUSTRY ADVOCACY AND COLLABORATION

Good stewardship extends beyond engagement with investee companies, to include engagements with broader industry initiatives, which seek to improve ESG knowledge and performance across the industry. At Allan Gray, we take this commitment seriously. We participated in written or verbal consultations on the following regulatory or industry ESG-related initiatives in 2021:

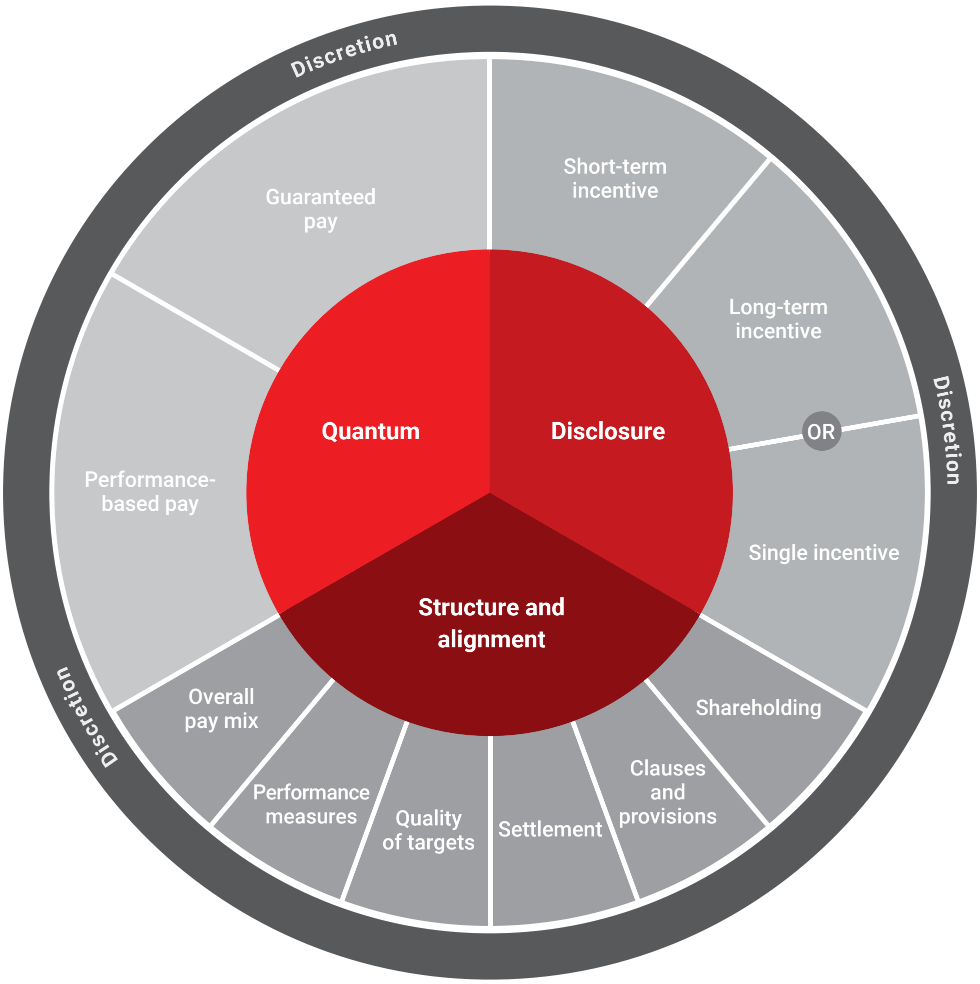
- National Treasury's draft South African Green Finance Taxonomy
- New draft CRISA
- JSE's "Cutting red tape" consultation paper
- JSE's proposed amendments to its Debt Listings Requirements
- Companies Act Amendment Bill
- Just Share South African Asset Manager Climate Risk Survey
- Investor Update's ESG White Paper, "The Corporate ESG Guide: A 360 View on the Current Landscape and Trends"
- International Organization of Securities Commissions' (IOSCO) ESG Ratings and Data Products Providers Consultation Report
- Met with several South African sustainability advisory companies to share our ESG approach
- Continue to meet with master's, doctoral and MBA students when possible to provide input into ESG-related thesis topics

GOVERNANCE UPDATE

EXECUTIVE REMUNERATION FRAMEWORK

Executive remuneration remains the top governance theme we engaged on during 2021. Engagement with remuneration committees is prompted by the JSE Listings Requirements that make it mandatory for a company with a primary listing on the JSE to table separate non-binding advisory votes on executive remuneration policies and implementation reports at the company AGM. The landscape of executive remuneration continues to evolve and, as a result, we refined our remuneration framework by developing a qualitative scorecard to examine remuneration schemes. The qualitative scorecard expands on the key remuneration factors outlined in our *Policy on ownership responsibilities*, available via our website. We rate each key remuneration factor (as demonstrated in **Figure 1**), as well as the overall remuneration scheme, on a scale of *Excellent*, *Good*, *Average* and *Poor*.

Figure 1: Remuneration framework



We are often asked by remuneration committees to provide examples of companies whose remuneration schemes we consider exemplary. We believe the objectives of a remuneration scheme should be to attract, reward and retain competent executives, while incentivising alignment between the long-term interests of executives and shareholders. The manner in which companies structure their remuneration schemes to achieve those objectives can vary, making it difficult to recommend a single company's scheme that acts as a model to others. There are numerous companies pursuing improved remuneration schemes. Using the results from our qualitative scorecard, we will draw on examples from our clients' top 25 holdings to showcase how we evaluated executive remuneration during the year. We will touch on shareholding, performance measures, disclosure of short-term incentives (STIs) and the overarching use of discretion by remuneration committees.

Alignment: shareholding

We have a strong preference for executives to own shares in the companies they manage, as there is no better method of aligning executives' interests with those of shareholders than having executives who think like shareholders. In our assessment, we consider the tenure of executives and look for reasonable progress towards building a material shareholding.

A top 25 holding whose shareholding we rated as *Excellent* is **Ninety One**. There is a minimum shareholding requirement (MSR) in place where the CEO is required to hold 1000% of their guaranteed pay. It includes a post-employment holding requirement, whereby they need to retain 500% for two years after ceasing to be an executive.

Thresholds differ per company, and a higher threshold is possible with founder executives. We recommend a threshold of between 300% and 500% of guaranteed pay for the CEO, with lower thresholds for other executives.

Remgro is a top 25 holding whose shareholding we rated as *Good*, despite there being no MSR in place. Considerations included that the current CEO's shareholding is material, and there is a strong history of the CEO maintaining a material shareholding in the company.

We encourage formal shareholding requirements for all companies. Even where current executives' shareholdings are material, the requirements assist incoming executives. We consider an enforcement mechanism, where executives are restricted from cashing out their LTIs until the required level is achieved, as a powerful tool, because it ensures the MSR is effective in building a material shareholding for executives.

Refer to **Table 2** for an extract from the qualitative scorecard on shareholding. We monitor executives' actual shareholdings, and if a formal shareholding requirement is in place, we closely inspect the terms of the requirement.

Alignment: performance measures

The effectiveness of a remuneration scheme is dependent on selecting the correct performance measures. In our assessment, we consider whether the measures selected are *suitable* for the given company and create *alignment* between management's experience and shareholder outcomes.

Suitability

We encourage companies to select performance measures that fit their long-term strategic objectives. For example, where a company is entering an expansive period, we would encourage the inclusion of capital efficiency measures to ensure executives are incentivised to undertake projects in a value-accretive manner.

Alignment

We recommend performance measures that are aligned with shareholder outcomes. For example, where a suitable peer group is available, we encourage the use of relative measures. The ongoing uncertainty around the outlook for the future has illustrated the importance of having relative measures that minimise the impact of external factors. This makes target-setting significantly easier. These measures also take industry pressures into consideration and better reward executives for performance under their control. We have found it adds a layer of sensibility to prevent pay outcomes being misaligned with shareholder outcomes. Misaligned outcomes are a common reason we recommend our clients vote against a company's implementation report.

A top 25 holding whose long-term performance measures we rated as *Good* was **Sappi**. Its measures include relative total shareholder return versus peers (50%) and cash flow return on net assets (50%). The cash flow measure is not particularly strong – we would prefer a per share measure of free cash flow. However, we view the use of relative total shareholder return as a strong measure.

Table 2: Qualitative scorecard extract: shareholding

		Excellent	Good	Average	Poor
Alignment	Shareholding	A strong MSR is in place with an enforcement mechanism and/or post-employment holding requirements. Executives' actual shareholdings are material.	An MSR is in place, and progress is being made OR there is no MSR, but actual shareholdings are material.	An MSR is in place, but progress has not been made where opportunities for progress have been sensible.	There is no MSR in place and/or executives have immaterial shareholdings.

Disclosure: short-term incentives

Our objective is to assess whether the quantum of executives' performance-based pay is sensible relative to company performance. To perform that assessment, we require an adequate level of disclosure. Given the sensitive nature of short-term targets, we encourage detailed retrospective (ex-post) disclosure for STIs.

Financial measures

A top 25 holding whose STIs disclosure we rated as *Good* is **Impala Platinum**. Its financial measures disclosure included:

- The weighting of each financial measure
- The targets at each level of vesting (threshold, target and stretch)
- The actual pay outcome achieved for each measure

Disclosing the targets at each level of vesting allows us to assess the full extent of the vesting scale. It allows us to contextualise whether the outcome achieved is reasonable and the targets sufficiently stretching.

Non-financial measures

We generally see poor disclosure of the achievement against non-financial measures accompanied by generally high vesting for executives. This disclosure typically includes a qualitative summary of achievements over the period with limited reference as to what the targets were at the outset. We consider this an area where most companies can improve the quality of their disclosure so that it is more meaningful to shareholders. For the more quantitative non-financial measures, we encourage companies to disclose the metrics and targets to justify the vesting outcome.

We understand the level of disclosure differs per company, and remuneration committees are balancing sufficient disclosure with concerns over market sensitivity. We regularly provide recommendations for improvement during our engagements with remuneration committees and expect the quality of disclosure to improve over time.

Refer to **Table 3** for an extract from the qualitative scorecard on the disclosure of STIs.

Table 3: Qualitative scorecard extract: short-term incentives

		Excellent	Good	Average	Poor
Disclosure	STIs (ex-post)	Financial targets are disclosed for each level of vesting. Quantifiable non-financial targets are well disclosed.	Majority of the financial and non-financial targets are well disclosed.	Limited actual target disclosure such as performance relative to financial targets. Limited non-financial target disclosure.	No retrospective target disclosure.

Use of discretion

This past period has taught us that all discretion is not equal. Remuneration committees are just as accountable for actioning discretion as they are for their inaction in instances where discretion is required. As a result, we are not opposed to the use of discretion, as some circumstances may warrant it to align executive and shareholder outcomes. What we do encourage is that remuneration committees exercise discretion pragmatically and only when deemed necessary.

In our framework, we view discretion as an overarching theme, as it can be exercised for any aspect of the remuneration framework. We consider if the rationale provided for the use of discretion is reasonable, whether there is symmetry in the application of discretion over time, and its impact on shareholders.

The below examples from the 2021 financial year illustrate the vast range of discretion as well as some underlying themes.

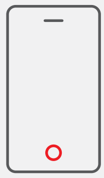
When in a grey area, transparency is key

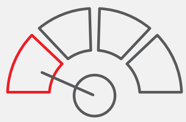
Company A, a telecommunications company in our clients' holdings, had a director who served as an executive director for the first few months of the period, before being appointed as a non-executive director. During the period, the company closed one of their long-term incentive (LTI) schemes and accelerated vesting on its closure.

This meant the director's payment for the period comprised various components, including their salary as an executive, their gains on vesting of the LTI scheme, and their director's fees. Given that the director ended the period as a non-executive, the various components of their pay were not required to be disclosed.

As this director was the highest-paid board member for the period, we felt it was in the interest of shareholders to disclose the various components of the director's compensation. We were disappointed by the decision not to disclose this information and communicated our dissatisfaction to the remuneration committee. After taking all other uses of discretion into account, we rated **Company A's** overall use of discretion as *Poor*.

Company A





Poor

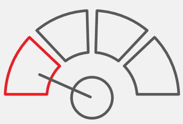
A lack of discretion can be poor discretion

Company B, a healthcare company in our clients' holdings, had set their upfront LTI earnings targets (for the three-year performance for the period ending 2023) at the beginning of 2020. This was a period of uncertainty for all companies, and as a result, the earnings target set was very modest.

During our assessment of the 2021 remuneration scheme, we noted the earnings target for the period was already achieved at the end of 2021. This was a result of the targets being very modest as well as working off the low COVID-19-impacted base year of 2020.

We understand remuneration committees are reluctant to amend targets but encourage them to remain committed to ensuring targets are sufficiently stretching for executives. In this case, we would have expected the remuneration committee to revise their targets once more information became available to avoid high vesting for non-stretching performance. We highlighted our concerns with the remuneration committee and are hopeful that our suggestions will be considered in the company's 2022 financial year. After taking all other uses of discretion into account, we rated **Company B's** overall use of discretion as *Poor*.

Company B



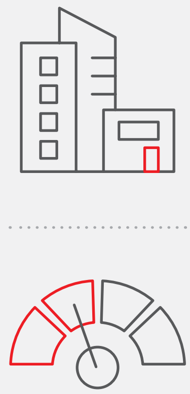
Poor

The devil is in the detail

A number of companies introduced once-off awards during the 2021 financial year. We strongly advocate for regular and consistent granting of share-linked awards as opposed to once-off awards. Where remuneration committees have taken the decision to grant once-off awards, we critically examined the conditions under which they have been introduced and how that fits into the greater context of the remuneration scheme.

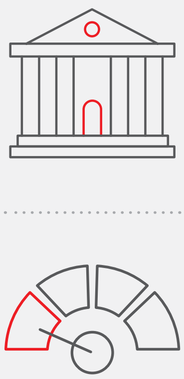
Company C, a property company in our clients' holdings, introduced a once-off LTI for executives in their remuneration policy, with the award to be made in the 2022 financial year. The award is subject to performance conditions, the majority of which are financial measures. These measures address the company's long-term strategic objectives that the existing LTI does not cover. The targets for the three-year performance period were disclosed upfront, and we were able to determine that they were sufficiently stretching. The existing LTI includes a 30% retention element which the company will be removing for the 2022 allocation, given the once-off award will be allocated during the same period. After taking all other uses of discretion into account, we rated **Company C's** overall use of discretion as *Average*.

Company C



Average

Company D



Poor

Company D, a financial services company in our clients' holdings, introduced a once-off discretionary award of shares. There were no performance conditions attached to the discretionary award. The terms included that the shares would vest to the extent that they exceeded the collective value of the share appreciation rights (SARs) with respect to the allocations in 2014, 2015 and 2016. These SARs had vested but were unexercised at the time of the discretionary award. The date at which the vested SARS could be exercised had already been extended. A consequence of the once-off award was that executives' downside risk on the SARs that had vested was significantly limited. We did not feel this aligned with shareholders who are exposed to downside risk. After taking all other uses of discretion into account, we rated **Company D's** overall use of discretion as *Poor*.

The scorecard gives our existing remuneration assessment further insight into how a company's remuneration scheme compares relative to its peers in our universe and, over time, relative to its past remuneration schemes with respect to key factors. For further insight into our executive remuneration considerations, such as those on quantum, refer to our updated *Policy on ownership responsibilities*.

As executive remuneration continues to evolve, we adjust our qualitative scorecard.

PROXY VOTING RECORD

We provide voting recommendations for general meetings of all companies in which either the value of our clients' aggregated holdings exceed 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 which fall below these thresholds if we believe that special circumstances warrant such actions. During 2021, we made voting recommendations on 2 392 resolutions tabled at shareholder meetings as shown in **Table 4**.

Table 4: Proxy voting record

	Number of meetings	Resolutions 'for'	Resolutions 'against'	Resolutions 'abstained'	Total resolutions
South Africa	103	1 583	133	9	1 725
Africa (ex-SA)	66	560	50	57	667
Total	**169**	**2 143**	**183**	**66**	**2 392**

UNDERSTANDING OUR DISSENTING VOTES

SOUTH AFRICA

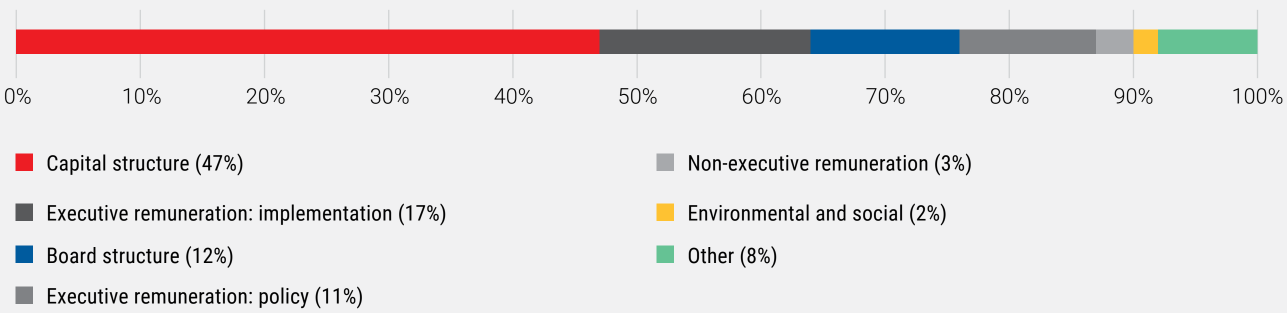
Capital structure (47%)

The majority of our dissenting recommendations (recommendations against and recommendations to abstain) continue to relate to capital structure resolutions. This includes resolutions on the general authority to issue company shares and placing unissued ordinary shares under control of directors. We typically recommend against these resolutions as it diminishes the scarcity value of the shares our clients hold. We prefer companies engage with shareholders first if they believe a share issue is necessary.

Board structure (12%)

Our dissenting recommendations within this category stem from concerns that directors' appointments or re-elections are not in the best interests of shareholders. We consider their directors' individual performance, the board's overall performance and the composition of the board, as well as other directorships held. When considering each director's appointment, we take into account any other directorships and their performance, and whether they have previously been involved in fraudulent, corrupt or unethical activities.

Graph 2: Breakdown of dissenting votes per resolution for South Africa



A common discussion point during our engagements is directors' tenure. We do not take a rules-based approach with regards to tenure. Where we have concerns on an existing director's tenure, we generally engage with the board prior to that director's rotational vote to obtain an understanding of the board's succession planning before making our recommendation.

Executive remuneration policies (11%) versus implementation reports (17%)

The JSE Listings Requirements make it mandatory to table separate non-binding advisory votes on executive remuneration. In 2021, we recommended more frequently against companies' implementation reports than their respective remuneration policies, a growing trend with JSE shareholders. A common reason we find ourselves recommending against implementation reports is that executive and shareholder outcomes are misaligned. We encourage remuneration committees to foster a culture of strong shareholder alignment. Please refer to page 15 for insight into our executive remuneration assessment.

Environmental and social (2%)

Voluntary resolutions on environmental and social reporting and policies are captured here. We carefully apply our minds to the specifics of each resolution. In rare instances, we may abstain from providing a recommendation if the resolution is related to one of our peers and it conflicts with our internal investment policies.

Other (8%)

Various administrative resolutions, such as reducing the notice period required for meetings, approving reports and resolutions to discharge directors from liability, are included in this category. We assess the specifics of each resolution before making a recommendation.

AFRICA (EXCLUDING SOUTH AFRICA)

We apply the same principles when making recommendations across regions. Our reasons for having dissenting votes on the capital structure and board structure categories in Africa excluding South Africa (ex-SA) are similar to those in South Africa. However, the nature of resolutions differs depending on the applicable listing requirements and governance codes. This is most common with resolutions on remuneration.

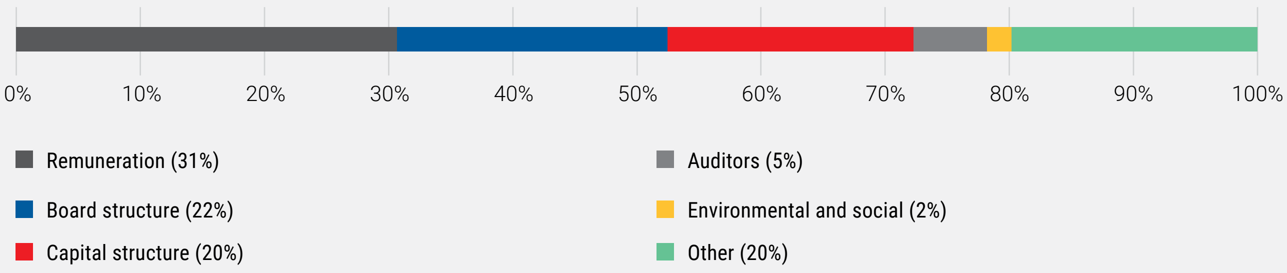
Remuneration (31%)

Our two largest Africa (ex-SA) regions where we had dissenting votes were Botswana and Namibia. In many cases, we believe the level of disclosure on remuneration resolutions (both executive and non-executive) are not at an optimal level yet.

The majority of the Africa (ex-SA) regions we look at apply King III or have their own governance codes which are principally based on King III. The JSE applies King IV, which includes detailed guidance on the disclosures to be included in a remuneration policy and implementation report. As a result, the remuneration resolutions that are tabled often lack sufficient disclosure for us to make an informed voting recommendation. In these instances, we will recommend our clients abstain.

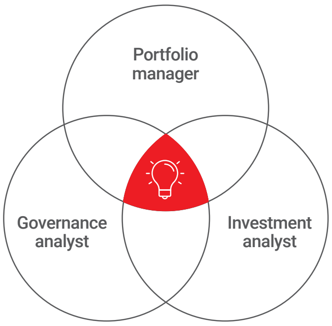
We regularly engage with companies and provide recommendations for improvements. We have seen noticeable improvements over the years with the companies we have engaged with.

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



HOW WE REACH OUR VOTING RECOMMENDATIONS ON EXECUTIVE REMUNERATION

We follow a collaborative process to make decisions on how we recommend our clients vote on remuneration resolutions. This process includes a robust discussion between the following individuals:



- The governance analyst completes a remuneration assessment that includes the qualitative scorecard.
- The investment analyst is responsible for establishing the company's valuation and regularly attends meetings with management.
- The portfolio manager with the largest holding in the company is consulted. For companies that make up a material portion of client portfolios, the sign-off of two portfolio managers is required.

This approach ensures we have a holistic and balanced understanding of the company. We can make decisions with insight into the historic performance of the company, management's outlook for the future and how the company's remuneration scheme (policy and implementation) compares to its peers' remuneration schemes and its previous remuneration schemes. We keep abreast of remuneration trends but take care only to recommend ones that we consider sensible and in the best interests of clients.

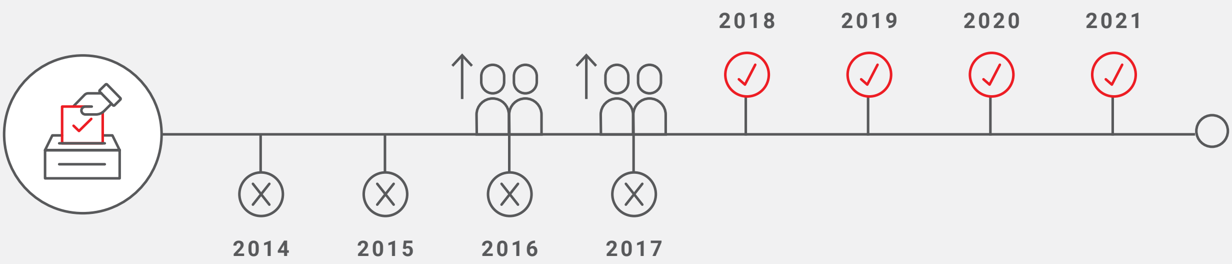
Engagements with remuneration committees include the governance analyst, the investment analyst and, in most cases, the responsible portfolio manager. As we are long-term oriented, we have been engaging with many remuneration committees for several years. During our engagements, we highlight our concerns and recommendations for improvement. An important factor we consider is how the remuneration scheme has progressed or regressed over time. A remuneration scheme which seems strong relative to peers may have regressed from its previous remuneration scheme. This may warrant us recommending that our clients vote against either the remuneration policy or the implementation report, or both.

Our recommendation reflects what we considered to be in the best interest of our clients, factoring in our assessment of the remuneration scheme and our journey with the company. We recognise that our voting recommendations may differ from those of other shareholders.

CASE STUDY: DEMONSTRATING OUR LONG-TERM ENGAGEMENT ON EXECUTIVE REMUNERATION

Investec is a top 25 holding for our clients. For a number of years, we have worked with the company to improve its remuneration policy, which has led to numerous improvements over time. As shown in **Figure 2**, we started recommending that our clients vote against the remuneration policy in 2014, which then escalated to recommending our clients vote against the board chair and the remuneration chair in 2016 and 2017. In 2018, the company made significant improvements which resulted in us recommending a vote in favour of the policy from then onwards. We believe having the correct performance measures and targets in place incentivises executives to make better decisions. We were pleased with the partial unbundling of Ninety One, which created shareholder value and rewarded executives. Most recently, during our 2021 engagement with Investec, we highlighted concerns around the LTI targets no longer being disclosed upfront, as they had been in the past. This lack of disclosure made it difficult to evaluate the remuneration policy. After the remuneration committee concluded their shareholder engagements, the committee applied their discretion to subsequently release the LTI targets via the Stock Exchange News Service (SENS) before the AGM. The additional disclosure made it possible to evaluate the remuneration policy, and we subsequently recommended a vote in favour of the remuneration policy.

Figure 2: History of our Investec remuneration policy recommendations



KEY GOVERNANCE RESEARCH AND ENGAGEMENT CASE STUDIES

SOUTH AFRICA

Sasol

Non-executive fees

As discussed in our 2020 Stewardship Report, we viewed Sasol's non-executive fees as excessive, especially when considering the board's extensive use of consultants and advisors to assist in exercising their duties.

During 2021, Sasol proposed a new structure for non-executive fees from 2022 onwards. We engaged with Sasol's remuneration committee chair, the executive vice president of human resources and information systems and the vice president of global rewards in August 2021 on the revised fee structure. We were pleased that the revised fee structure reduced key non-executive fees, such as board member fees and the chairperson's fee. We conducted peer group benchmarking analysis that looked at the total fees per board member based on their committee roles. This illustrated that for most directors domiciled outside South Africa, the reduction in board member fees was largely offset by increases in committee fees, whereas directors domiciled in South Africa saw a reduction in their total fees. We shared our benchmarking analysis and observations with Sasol.

Sasol also advised no consultants were used from 1 July 2021, the start of their 2022 financial year. Consequently, we recommended that our clients vote in favour of the proposed non-executive fees and communicated to Sasol that we are mindful the fees remain high in absolute and relative terms but believe that the fee structure is moving in the right direction. We take a balanced view with non-executive fees and consider the need to attract and retain highly competent non-executives.

Old Mutual

Executive remuneration

We continue to have constructive engagements with Old Mutual on remuneration matters. Our main friction points outlined in our 2020 Stewardship Report, included the company's failure to appropriately adjust for hyperinflation in Zimbabwe in the 2018 financial year and the use of the remuneration committee's discretion to adjust targets downwards in the 2019 financial year.

Pre-AGM

Following the publication of their 2020 remuneration report, we engaged with Old Mutual's chair, remuneration committee chair and remuneration consultant in April 2021. We raised concerns with various aspects of the remuneration policy and implementation report. On the remuneration policy, this included concerns on the subjective nature of the STIs performance conditions. On the implementation report, we highlighted the performance conditions set for the 2021 LTI allocations, which we believed to be soft and likely to result in executives being handsomely rewarded for non-stretching performance.

We were also disappointed with the use of discretion to award additional once-off LTIs based on the same LTI performance conditions that we considered particularly weak. Consequently, we recommended that our clients vote against both the remuneration policy and implementation report at the 2021 AGM.

Post-AGM

Following the AGM results of 54% support for the remuneration policy and 68% support for the implementation report, we responded to Old Mutual's invitation in September 2021 for dissenting shareholders to engage. We wrote to the board outlining our concerns and recommendations for improvements. Regarding the LTIs issued in 2021, we highlighted that discretion may be required to correct formulaic outcomes that fail to reflect management's performance or shareholder outcomes. We also reiterated our concerns on the subjective nature of the STIs. In October 2021, we engaged with Old Mutual as part of their 2021 Governance Roadshow. We were pleased with certain proposed changes communicated for the 2021 financial year. We continue to engage with the remuneration committee regularly.

Naspers and Prosus

Share exchange offer

We carefully assess the details of corporate actions impacting our clients' holdings to ensure we are well-informed and able to select the best course of action for our clients.

Our most significant corporate action for the period was the voluntary share exchange offer that involved exchanging Naspers shares for Prosus shares. Management's aim was to reduce the substantial discount at which Naspers and Prosus trade to their underlying interest in Tencent and other assets. At the time, our clients held both Naspers and Prosus shares, with the former being the larger holding. The share exchange offer was tabled to Prosus shareholders at an extraordinary general meeting in July 2021.

Prior to the meeting, we were approached and involved in the discussion that ultimately led to a letter signed by 36 South African asset managers being delivered to the Naspers board. We opted not to sign the letter for a number of reasons: 1) We have a general preference for engaging privately rather than in public; 2) We wanted to establish all the facts and better understand why management believed the transaction was a good move; 3) Our opinion is that the joint letter contained some factual inaccuracies as well as a lack of constructive suggestions.

We engaged with Naspers on two occasions to better understand the rationale for the deal and raise our concerns. Our main concerns were that we did not believe the exchange offer would be successful in addressing the discount and the proposed exchange ratio was more favourable to Prosus shareholders. We wrote to the Naspers board outlining our concerns and recommendations.

Consequently, we recommended that our clients vote against the share exchange offer resolution. The share exchange transaction did have some merits, especially given that regulatory limitations make a complete simplification of the structure hard, but overall, we felt it was not in the best interest of shareholders. Both Naspers and Prosus have atypical ownership structures (with two share classes); this allocates voting power to a small number of shareholders. The Prosus resolution passed with 90%; at the time Naspers had a 73% holding in Prosus.

Following the resolution, we did participate in the share exchange as we felt it was the right course of action for our clients. The outcome has been poor and disappointing. We continue to engage with Naspers management and highlighted in our letter to the board the importance of having executive incentives that are linked to the performance of both Naspers and Prosus, including narrowing the discounts. We noted the improvements the remuneration structure has seen over recent years, which we hope will continue. We continue to engage regularly with management and the remuneration committee.

AFRICA (EX-SA)

Seplat (Nigeria)

Board structure

While our governance engagements are guided by the AGM resolutions, such as the directors up for election and re-election, we also regularly engage with boards where we have specific governance concerns that sit outside of AGM matters. In early November 2021, we wrote to the board of Seplat regarding concerns over the chairperson of the board. We stressed his invaluable contribution to Seplat but highlighted our increasing concerns around the potential conflict of interest arising from his stakes in both Seplat and a number of other Nigerian companies, and the related legal matters. We also urged the board to implement more stringent rules around related-party transactions, particularly as it pertains to executives and directors.

We were pleased with the announcement in mid-November that the chairperson would step down following the May 2022 AGM and would be replaced by an independent chairperson. We engaged with the senior independent non-executive following the announcement and this was followed by a detailed letter received from Seplat. In a more recent engagement with Seplat, in February 2022, we welcomed further steps taken to strengthen the board. This included the termination of the co-founder serving as a non-executive director who was found to be in breach of policies and procedures relating to a conflict of interest following an investigation. We continue to engage with both management and the board on governance matters.

Letshego (Botswana)

Board structure

In recent years, Letshego has delivered poor performance and unfavourable outcomes for shareholders. The key reasons for this have been poor capital efficiency and financial performance, exacerbated by an executive remuneration scheme that is not aligned with shareholders' interests. We have serious concerns about the executive remuneration scheme, current debt levels and investment processes at Letshego. We take our role as stewards of our clients' capital very seriously and engage with management teams of companies in which our clients are invested regularly. In line with this, we repeatedly raised the aforementioned concerns with Letshego management and outlined suggestions for improvement. There was no satisfactory action taken by the board to address our concerns. In addition to recommending against the remuneration resolutions at the 2021 AGM, we also recommended that our clients vote against the two directors up for re-election; the two directors being the chairperson of the remuneration committee and a member of the investment committee that oversaw inefficient capital allocation decisions. Notwithstanding our recommendations, the remuneration resolutions were passed, and the directors were re-elected.

The destruction of shareholder value at Letshego warranted more active engagement, which resulted in us writing to the board in June 2021 to request an extraordinary general meeting (EGM) for the purpose of reconstituting the board of directors. The letter outlined our motivations for the removal of specific directors and provided suggestions for their replacements. We also shared recommendations to improve the executive remuneration scheme. We hoped the board would take our recommendations into account despite our clients' holdings being below the threshold required per the Botswana Companies Act to call special meetings (no less than 60% of voting rights). The board deliberated using its discretion to call for an EGM at the request of a shareholder and ultimately disagreed that it was in the best interests of the company to do so, concluding that the matters raised in our letter could be addressed in the normal course at the next AGM. Our clients' direct holding in Letshego has since been reduced.

We proposed resolutions to be voted on at the AGM in June 2022, which included the removal of certain directors. We believed this to be in the best interests of Letshego, its shareholders and its other stakeholders. We were pleased with the recent news that three of those directors have since resigned. We continue to engage with both management and the board to exercise our clients' rights.

FIXED INCOME

Parastatal procurement and compliance

We evaluate our equity and fixed income holdings using strict governance standards. Bondholders, however, do not benefit from the same powers of ownership conferred on shareholders, such as voting on the appointment and re-election of directors or voting on executive remuneration. As a result, our governance-related activities for fixed income are heavily weighted towards research. Key governance-related activities for the period include work on Rand Water and eThekwini Municipality.

In June 2021, we produced governance-specific research to aid our Rand Water investment case. This was followed by engagement and correspondence with management discussing the debtors' book and broader ESG issues. A number of the governance issues we raised would require some time for management to rectify, such as reducing irregular expenditure and meeting capital expenditure targets, while complying with the relevant legislation. Therefore, we did not participate in the Rand Water bond auction. To help the issuer improve, we provided management with feedback on the governance indicators that would need to improve in order for us to participate in future auctions.

During September 2021, we engaged with the eThekwini Municipality management as part of their investor roadshow ahead of their inaugural bond issuance. This was followed by an individual management engagement, where we obtained clarity on key matters to the investment case. A credit policy group meeting was subsequently held, which included a detailed governance discussion, after which the policy group decided we should not be invested with the issuer at that time. Similar to Rand Water, we provided management with feedback on the governance indicators that would need to improve before we can invest, such as irregular expenditure, compliance with procurement regulations and operational performance.

We continue to engage with debt issuers' management teams during periodic investor roadshows or before an issuer comes to market with a new issue. We also continuously monitor ESG factors related to existing investments.

CLIMATE

We believe that our clients' top 10 equity holdings, using the Allan Gray Balanced Fund (Balanced Fund) top 10 as a proxy, have made good climate progress. Most have set strong climate goals for operational (scope 1 and 2) greenhouse gas emissions, while also showing progress on indirect e.g. value chain (scope 3) emission reporting and target setting. Within the top 10, Sasol is by far the largest emitter. Thereafter, Glencore, Sibanye-Stillwater and Anheuser-Busch InBev are the other top emitters in absolute terms.

Table 5: Climate commitments of the top holdings in the Balanced Fund (as published by 30 April 2022)

Company	% of Fund	Scope 1 and 2 greenhouse gas emissions	Scope 3 greenhouse gas emissions	Baseline	TCFD alignment[1]	SBTi[2]
Naspers and Prosus	5.3%	Carbon neutral at group level by end 2022. Will communicate decarbonisation roadmap with multi-year targets in 2022.	Will include scope 3 emission measuring from 2022.	N/A	Yes	No
British American Tobacco	5.2%	Carbon neutral by 2030 (-50% by 2025).	-30% by 2030, carbon neutral by 2050. 70% of its direct material suppliers by spend will set science-based scope 1 and 2 targets by 2023.	2017	Yes	Yes. 2°C.
Glencore	4.6%	-50% by 2035, net zero by 2050. Offered first advisory 'say on climate' vote to shareholders in 2021.	-50% by 2035, net zero by 2050.	2019	Yes	No[3]
Woolworths	2.3%	Net zero by 2040 (-50% by 2030). Target 100% renewable energy in electricity mix by 2030. First African retailer to have an approved science-based target for carbon emissions reduction.	Work with top suppliers (=25% of total procurement spend) to set science-based scope 1 and 2 reduction targets by 2024. These suppliers are responsible for 80% of Woolworths' emissions from purchased goods and services based on procurement spend.	2019	Yes	Yes. 1.5°C.
Nedbank	2.2%	-30% by the end of 2025.	Will not finance: new coal power plants (in place); new coal mines post-2025 (post-2021 for ex-SA); oil and gas exploration post-2021; oil production post-2035; gas power post-2030 (unless for integrated renewable energy gas backup); gas production indefinitely. Targeting zero exposure to fossil fuel activities by 2045.	2019	Yes	No
Sasol	2.1%	-30% by 2030, net zero by 2050. Exclude Natref[4]. Offered first advisory "say on climate" vote to shareholders in 2021.	-20% by 2030 for energy and chemicals businesses.	2017 (scope 3: 2019.)	Yes	No, but SA 1.5°C -aligned.
Remgro	2.0%	Holding company. No targets at present, but we have engaged with Remgro several times in the past 12 months on their strategy to incorporate ESG (look-through to operating companies).		N/A	No[5]	No
Standard Bank	2.0%	Net zero by 2030 for newly built facilities and by 2040 for existing facilities.	Published some fossil fuel exposure targets in 1H2022. Shareholder resolution at 2022 AGM will result in target setting for financed greenhouse gas emissions from oil and gas by March 2025.	2014	Yes	No[6]
Anheuser-Busch InBev	2.0%	-35% by 2025. Increase renewable energy from 7% in 2016 to 100% in 2025. Net zero across value chain (including scope 3) by 2040.	Reduce emissions across the value chain (scopes 1-3) by 25% per beverage by 2025. Include 87% of scope 3 emissions in science-based target (well over 2/3 inclusion threshold).	2017	Yes	Yes. 1.5°C.
Sibanye-Stillwater	1.8%	-27.3% by 2025 (pre-Marikana, will be updated to include in 2022). Carbon neutral by 2040.	Planned to extend their decarbonisation initiatives to scope 3 in 2021. Await updated reporting.	2010	Yes	Yes. 2°C, but to be updated.

Source: Company reports, Allan Gray research

1. Task Force on Climate-Related Financial Disclosures (TCFD); partial or full disclosure
2. Science-Based Targets initiative (SBTi) verification
3. Noted that the SBTi is not applicable for diversified miners at this stage, as intensity measures are too complex to apply to cross-commodity companies
4. One of Sasol's SA facilities but it is a joint venture with Total and they exclude it from their calculations
5. Under consideration
6. Noted that they would like to be verified by the SBTi, but that data challenges and resource constraints meant that their methodology was not considered compliant by the SBTi

PORTFOLIO CARBON FOOTPRINT

Weighted-average carbon intensity (WACI) is a carbon emissions exposure metric recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). **Graph 4** reflects the WACI of the top 40 local equity holdings of the Balanced Fund, compared to the FTSE/JSE Shareholder Weighted Top 40 Index (the benchmark), as at 31 December 2021. The top 40 represent 91% of the Balanced Fund's local equity market value and 48% of the Fund. We began reporting the WACI of our clients' top equity holdings in 2019, using the Balanced Fund as our most representative fund. Indeed, its top 40 holdings feature across our different mandates – representing 88% of total local equities under management and 40% of the firm's total assets under management.

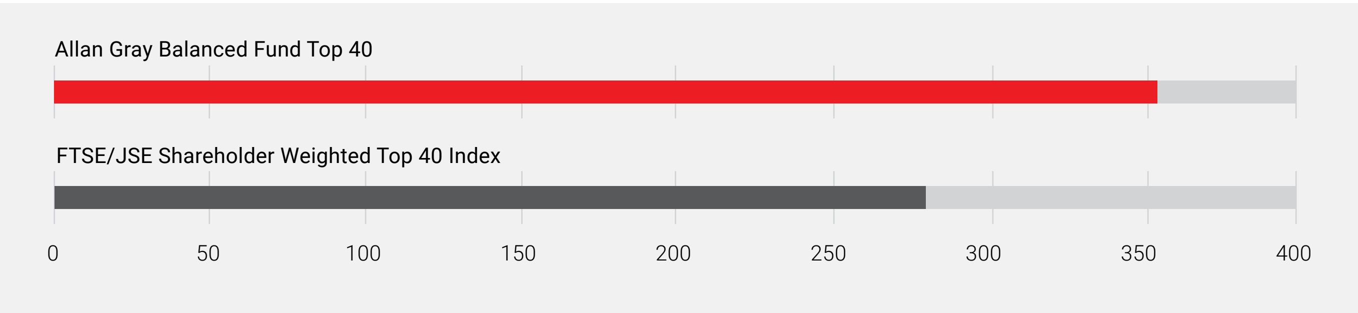
With this report we expanded the scope of the WACI calculation to cover more companies, introduced a benchmark for comparative purposes and updated our methodology by expressing revenue figures in US dollar terms instead of rand terms. The latter change improves comparability across funds globally.

We note that most managers rely on ESG data providers when performing WACI calculations. We prefer doing the calculation ourselves, as we have found inaccuracies in automated calculations, including stale emissions data across several data providers. We trust that data quality will improve over time. We discussed some of WACI's shortcomings in our 2019 Stewardship Report. However, despite these flaws, WACI does provide a simple basis of comparison that, in combination with other metrics, can be used as a starting point for engaging with companies and clients, as well as understanding carbon risk from a portfolio management perspective.

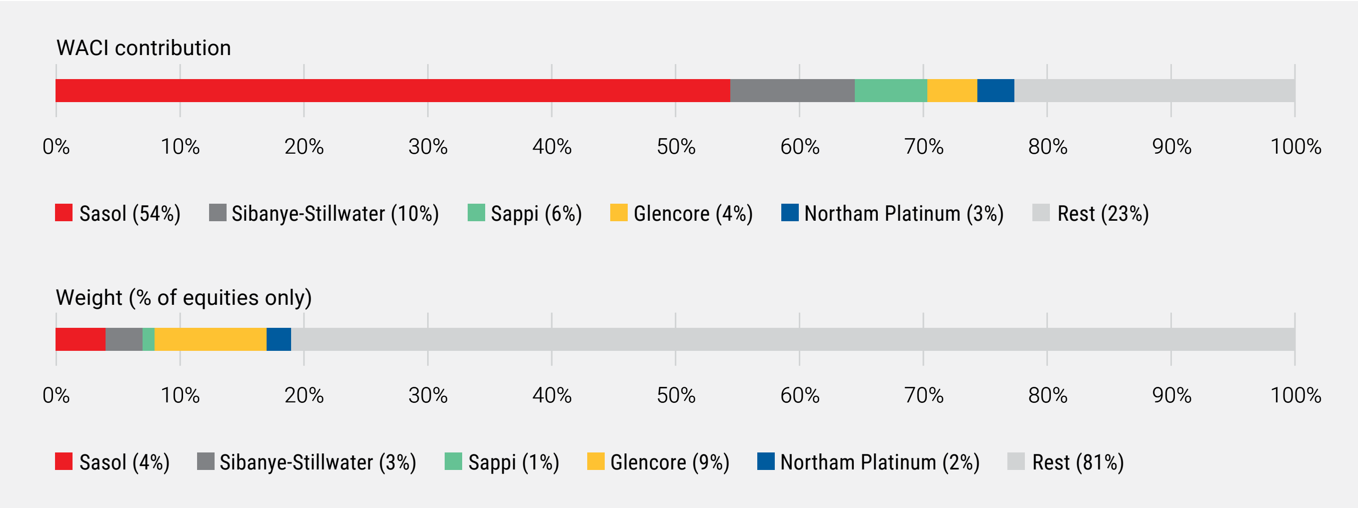
The carbon intensity of the Balanced Fund is ahead of that of the benchmark index. This does not contradict our approach; rather it reflects the fact that we do not limit exposure to high emitters where we can encourage critical thinking around emissions reduction. We avoid divestment with the aim of building low-carbon portfolios. A higher WACI number does not necessarily reflect weaker environmental performance.

The portfolio's WACI is driven by overweight positions in some of the outliers from a carbon-intensity perspective, as shown in **Graph 5**: Sasol, Sibanye-Stillwater, Sappi, Glencore and Northam Platinum. Sasol's carbon intensity motivates our continued engagement with the company as detailed on page 12. Meanwhile, we believe that the environmental impact of platinum group metals (PGMs) companies such as Sibanye-Stillwater and Northam Platinum should be weighed against the important role that PGMs play in reducing airborne pollutants from internal combustion engines, among other things. They are also critical to any future hydrogen economy development. Glencore extracts commodities that are essential to the energy transition while committing to running down its coal mines in a responsible manner. Sappi's emissions do not reflect the carbon sequestration provided by its plantations and forests from which wood fibre is sourced.

Graph 4: Portfolio carbon intensity

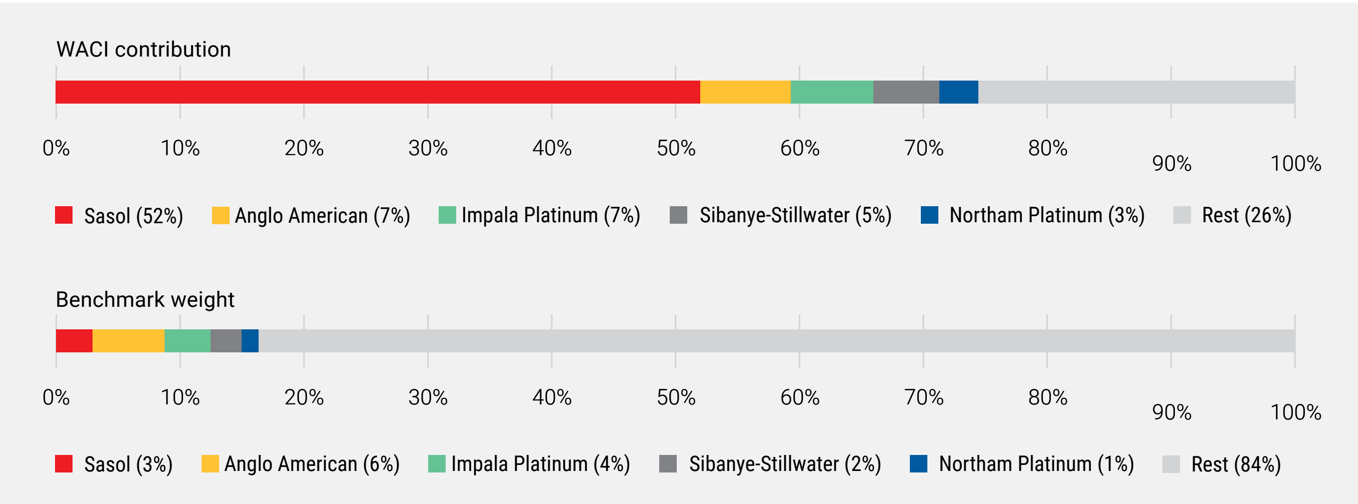


Graph 5: Contributors to portfolio carbon intensity



Note that the weights above reflect each company's weight in the equity carve-out of the Balanced Fund, which is why they differ to the weights disclosed in **Table 5** on page 26.

Graph 6: Contributors to benchmark carbon intensity



ARE WE ADHERING TO THE PRI PRINCIPLES?

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment, which works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

Allan Gray has been a signatory to the PRI since 2013. The PRI endorses a set of six principles that offer a menu of possible actions for incorporating ESG issues into investment practice. **Table 6** unpacks the various actions we have taken to adhere to these principles.

Table 6: PRI principles and their application

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes	
PRI example of application	**Allan Gray application**
Address ESG issues in investment policy statements.	We have four policies available on our website: ▪ Policy on ownership responsibilities ▪ Sustainability considerations in the Allan Gray investment process ▪ Climate policy statement ▪ Conflict of interest management policy
Support development of ESG-related tools, metrics and analyses.	We publicly disclose the ESG tools we have developed, such as: ▪ Our proprietary director database (implemented in 2014 and continuously updated) ▪ External system screening for politically exposed directors (2021) ▪ Our ESG controversies database (2021) We support the development of ESG analyses by publishing our annual Stewardship Report, which provides case studies on how we research and engage on ESG matters. We first reported on climate-related metrics in our 2019 Stewardship Report, using the Financial Stability Board's TCFD recommendations to build on our disclosures over time.
Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.	This is no longer necessary, as investment service providers are providing a substantial amount of ESG research already.
Encourage academic and other research on this theme.	We meet with master's, doctoral and MBA students researching ESG/sustainability topics to provide input to their dissertations and advance ESG academic research. We also meet with third-party research organisations to participate in industry ESG surveys and studies.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices	
PRI example of application	**Allan Gray application**
Develop and disclose an active ownership policy consistent with the principles.	Our Policy on ownership responsibilities is available on our website.
Exercise voting rights or monitor compliance with voting policy (if outsourced).	We exercise our voting rights according to our ownership policy and have a strong voting process in place. Compliance is monitored by our Compliance team.
Develop an engagement capability (either directly or through outsourcing).	We have three ESG analysts within the investment team, after ESG team capacity was increased in 2021. This improves our engagement capability. Investment analysts and portfolio managers engage on ESG issues too.
Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).	We provided feedback on the following during 2021: ▪ New draft CRISA ▪ JSE's "Cutting red tape" consultation paper ▪ Companies Act Amendment Bill ▪ Draft South African Green Finance Taxonomy ▪ JSE's proposed amendments to its Debt Listings Requirements ▪ The IOSCO consultation paper on regulating ESG data and rating providers
File shareholder resolutions consistent with long-term ESG considerations.	Our preference is to engage with companies rather than file shareholder resolutions, for example, recommending to companies that certain individuals be nominated as directors. In our experience, most companies are open to making changes (partial or full) based on these engagements. Filing a resolution is a later step in our engagement escalation process.
Engage with companies on ESG issues.	We disclose the number of ESG engagements we hold, and highlight case studies, in this annual Stewardship Report.
Participate in collaborative engagement initiatives.	Our team is open to collaborative engagement initiatives and we have participated in the past, but we generally prefer to engage with companies individually. We meet with peers on request to discuss ESG matters.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest	
PRI example of application	**Allan Gray application**
Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).	We make recommendations on a case-by-case basis. For example, we encouraged Sasol to produce a TCFD-based climate report because climate disclosures are material to its business.
Ask for ESG issues to be integrated within annual financial reports.	We have asked many companies to improve their governance disclosures in annual reports, mostly related to executive remuneration structure and targets. We have also requested certain company-specific environmental and social disclosures.
Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).	This is a broad theme, but one example of application involves the principle relating to the abolishment of child labour as per the United Nations Global Compact. We have asked Glencore about child labour allegations in the DRC, including the measures it has in place to prevent artisanal miners, who are often children, from entering unused parts of its mines. This is a very difficult situation. We have monitored Glencore's steps to improve traceability in the cobalt supply chain, the responsible mining initiatives it has joined, and the audits that some customers are now performing at its DRC mines. Similarly, British American Tobacco has been accused of benefiting from child labour in its tobacco supply chain and recently made commitments to ensure the abolition of child labour by 2025. We held a call with their head of Sustainability during which we further discussed these commitments. That said, we cannot always form a clear view. For example, Cerrejón (until recently owned equally by Glencore, BHP, and Anglo American, now 100% Glencore) has long faced allegations of violating the OECD Guidelines for Multinational Enterprises, whereas all of the companies believe they operated in accordance with the norms and standards at this site.
Support shareholder initiatives and resolutions promoting ESG disclosure	We have historically voted in favour of resolutions requesting that JSE-listed banks disclose a coal or fossil fuel policy. We sometimes vote against climate-related disclosure resolutions, but this has generally related to the details within the resolution (e.g. unreasonably short timeframe for implementation) rather than the principle. We have also voted against resolutions requesting miners to exit any industry bodies that do not align with their view on climate change. Miners now prepare reports (or disclose to the CDP climate reporting platform) on how their views on climate change align with or differ from every industry body of which they are a member. However, some wish to stay in these industry bodies regardless, for reasons such as sharing best practice on safety. Given that they have publicly stated that their view on climate differs, we accept this.

Principle 4: We will promote acceptance and implementation of the principles within the investment industry	
PRI example of application	**Allan Gray application**
Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).	Our investment mandates and incentive structures are aligned with a long-term approach. Portfolio managers who fail to incorporate ESG into their investment decision-making will feel the effects of this on their remuneration over the long term.
Support the development of tools for benchmarking ESG integration.	This is challenging, as we consider some tools to be tick-box in their approach. ESG rating providers strive to benchmark ESG integration among companies, yet the correlation between providers' ratings is often low. This shows how complex and nuanced these topics are and how widely opinions, and methodologies, can differ. Nevertheless, we meet with external providers on a regular basis to assess new ESG tools and remain open to using external tools. Internally, we have developed several tools, as discussed earlier.
Support regulatory or policy developments that enable implementation of the Principles.	In 2021, we expressed broad support for: ▪ New draft CRISA ▪ JSE's "Cutting red tape" consultation paper ▪ Companies Act Amendment Bill ▪ Draft South African Green Finance Taxonomy ▪ JSE's proposed amendments to its Debt Listings Requirements ▪ The IOSCO consultation paper on regulating ESG data and rating providers

Principle 5: We will work together to enhance our effectiveness in implementing the principles	
PRI example of application	**Allan Gray application**
Support/participate in networks and information platforms to share tools, pool resources and make use of investor reporting as a source of learning.	Our governance analyst serves on the Institute of Directors South Africa (IODSA) Remuneration Committee Forum and participated in PWC's executive remuneration roundtable. We provide ESG-related commentary to ASISA on request.
Develop or support appropriate collaborative initiatives.	In addition to the collaborative engagements that we may participate in from time to time with the industry, we have established collaborative initiatives with our sister companies: ▪ We meet Orbis and Allan Gray Australia twice per quarter to discuss 1) ESG-related regulation and client reporting and 2) ESG investment considerations. ▪ We meet Orbis to discuss climate-related issues in our respective portfolios on a quarterly basis. ▪ The sister companies' chief investment officers and portfolio managers meet on an ad hoc basis to share ESG insights.

Principle 6: We will each report on our activities and progress towards implementing the principles	
PRI example of application	**Allan Gray application**
Disclose how ESG issues are integrated within investment practices.	We disclose this in our policies and our annual Stewardship Report. This is also communicated to clients during ad hoc ESG presentations and updates.
Disclose active ownership activities (voting, engagement and/or policy dialogue).	We publish proxy voting results quarterly on our website and publish more detailed proxy voting and engagement data annually in our Stewardship Report.
Communicate with beneficiaries about ESG issues and the principles.	We present to our clients on a regular basis, publish ESG-related articles, complete client and consultant due diligences, and share our Stewardship Report on an annual basis. We have also hosted a number of ESG-themed seminars.
Report on progress and/or achievements relating to the principles using a comply-or-explain approach.	This is the first time we have reported on how we comply with the PRI's six principles in our Stewardship Report but we plan to incorporate this element moving forward.
Seek to determine the impact of the principles.	We evaluate the robustness of our ESG integration and disclosure practices on an ongoing basis.
Make use of reporting to raise awareness among a broader group of stakeholders.	Reporting discussed above.

PRI SCORES

Allan Gray received top-tier scores from the PRI across all assessed modules for the latest reporting period.

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

Table 7: PRI scores

	2020[1]	
	Allan Gray	**Median**
Strategy and governance	A+	A
Listed equity – incorporation	A+	A
Listed equity – active ownership	A+	B

1. Latest period assessed

Business Sustainability Report

Rob Formby, Chief operating officer

As producers of services and goods, drivers of innovation, and employers, businesses play a significant role in shaping society.

Throughout this report, we have outlined the role we play as stewards of our clients' investments and detailed the actions we have taken to improve the governance standards and social and environmental responsibility in the companies in which we invest. As a responsible corporate entity with a long-term philosophy, we apply similar scrutiny to our own operations and look to implement initiatives that reduce our impact on the environment and enhance our sustainability.

This section of the report provides an overview of our ongoing endeavours to make a positive contribution to the broader community and a meaningful difference to society at large.

BUSINESS FOCUS

Clients

Our core focus as a business is to deliver long-term returns for our clients. Since 1973 we have adhered to the same set of values. These have provided us with a consistent framework to help us make the best decisions for our clients in a changing environment and over time.

We always put our clients' interests first and avoid (not manage) conflicts of interest. We build our clients' trust and confidence through investment returns, offering excellent client service and designing our products and fees so that they tie our success to that of our clients. Our performance-based fees make our income more sensitive to long-term investment performance than the size of assets under management. Our senior executives are shareholders in the business, aligning their long-term interests with our clients.

Government, regulator, industry

We are committed to the growth and development of the financial services industry in South Africa. We are actively involved with the Association for Savings & Investment South Africa (ASISA) and engage with the government and the regulator through ASISA. We have representation on ASISA's board, we are involved in various board committees and support their growth and development programmes.

We continue to support a number of industry initiatives through ASISA, including the ASISA Enterprise Supplier and Development IFA Programme since its inception in 2016. This programme aims to provide business development support to select independent financial advisers (IFAs) and equip them with practical management toolkits, skills and knowledge to grow their businesses, and therefore bolster the industry's distribution capability.

Furthermore, the programme provides high-potential, early career individuals with the opportunity to participate in an internship with a selected top-performing IFA in a structured programme.

We also supported the ASISA Academy's Retirement Fund Trustee Education programme, which offers a range of workshops on a fully-funded basis to South African trustees and principal officers. These workshops aim to equip trustees and principal officers with the skills and knowledge required to execute their duties and improve outcomes for fund members.

Our environmental footprint

As the material effects of climate change are becoming increasingly evident, we remain committed to doing what we can to reduce our impact on the environment. The Allan Gray building in Cape Town was designed to be as environmentally friendly as possible. We review our facilities and workflow processes on an ongoing basis to identify where we can reduce consumption and introduce more sustainable alternatives.

The ongoing pandemic resulted in many of our employees working remotely during the various lockdowns. This led to a reduction in air travel for the year.

Transformation

As a multicultural organisation, transformation remains a key focus of our sustainability efforts. We see transformation as a business and ethical priority, and we value, seek and foster diversity. Allan Gray is a level 1 B-BBEE contributor. For more information on our transformation efforts, please contact us for the latest copy of our "Transforming our business" report.

The Allan Gray Staff Share Scheme was established in 2005. This is a key lever to encourage employees to contribute to and share in the growth and profitability of the business. Equally, it is a lever which aims to help Black employees build wealth to reduce historic wealth imbalances within South Africa. A 14% equity stake has been reserved for current and future employees, of which 70% is earmarked for Black employees.

PHILANTHROPIC OWNERSHIP

We are a privately-owned company, with a controlling interest held in perpetuity by Allan & Gill Gray Foundation. Other shareholders include past and present employees and E Squared (which is described below). Allan & Gill Gray Foundation has no owners in the traditional sense and is instead designed to exist in perpetuity and to serve two equally important purposes: (1) to ensure that the distributable profits Allan & Gill Gray Foundation receives are ultimately devoted exclusively to philanthropy, and (2) to promote the commercial success, continuity and independence of the Allan Gray and Orbis asset management businesses.

Importantly, Allan & Gill Gray Foundation does not directly manage Allan Gray, but rather vests control of the firm to Orbis Allan Gray Limited, a holding company whose board consists of a majority of present and past executives of the underlying asset management companies.

With perpetual ownership in strong hands, the management of Allan Gray can focus entirely on adding value for clients for generations to come, and the investment professionals can continue to focus on achieving long-term results.

While our ownership allows focus, equally it places us within a philanthropic ecosystem that includes the Allan Gray Orbis Foundation, Allan & Gill Gray Philanthropy South Africa, Allan & Gill Gray Philanthropy Africa, E Squared and the Philanthropy initiative with employees from Allan Gray.

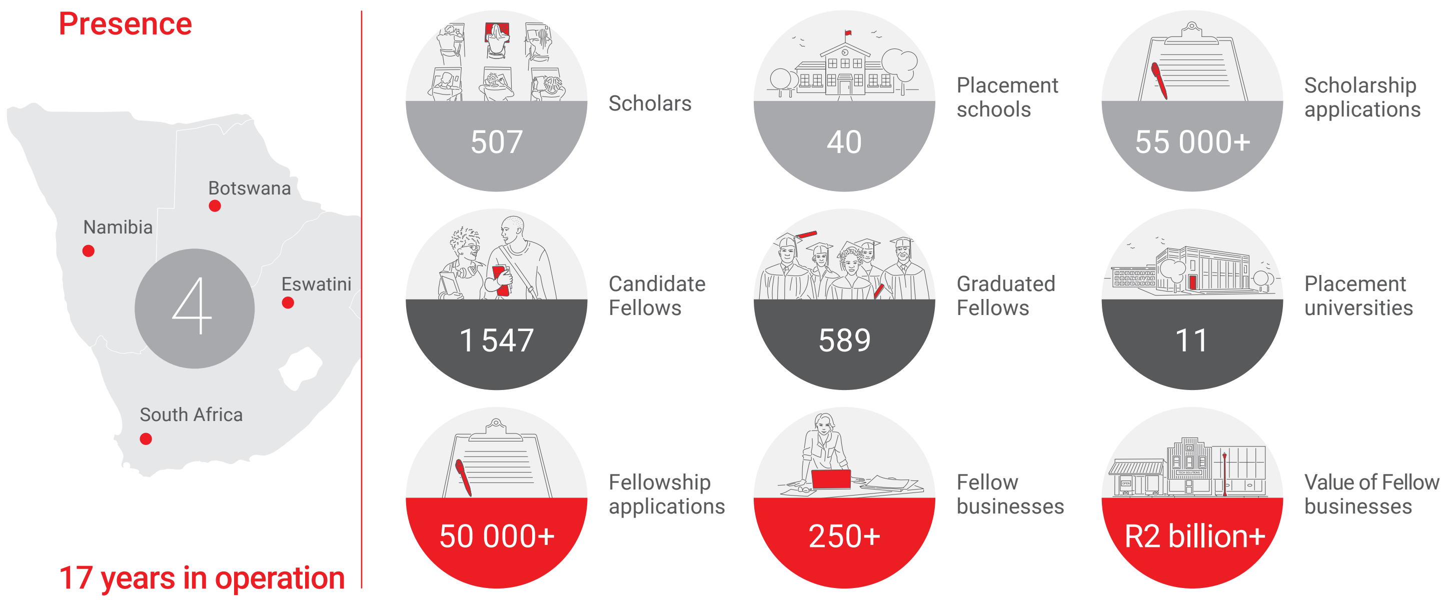
Allan Gray Orbis Foundation

The Allan Gray Orbis Foundation was established in 2005 as part of the Gray family's vision of making a sustainable, long-term contribution to Southern Africa by nurturing the emerging entrepreneurial potential within the region. The Allan Gray Orbis Foundation now operates in South Africa, Namibia, Botswana and Eswatini and is funded by a donation of 5% of the pre-tax profits from Allan Gray.

The Allan Gray Orbis Foundation provides successful candidates with extensive support aimed at enabling them to pursue entrepreneurship as a viable career option. This includes tuition and residence fees for programme participants to pursue their high school or university studies. Once graduated from university, the programme participants are recognised as Allan Gray Fellows and encouraged and supported to pursue entrepreneurship. In addition, some are also offered the opportunity to pursue a postgraduate degree at a local university or top-rated international institution after acquiring relevant working experience.

Figure 3 summarises the Allan Gray Orbis Foundation's reach and impact.

Figure 3: Allan Gray Orbis Foundation's reach and impact (since inception)



Allan & Gill Gray Philanthropy South Africa

Allan & Gill Gray Philanthropy South Africa (previously the Allan Gray Orbis Foundation Endowment) contributes to strengthening the entrepreneurial ecosystem in South Africa by:

1. Building a strong pipeline of entrepreneurial talent through improving access and skills levels in language, mathematics, numeracy and entrepreneurship;
2. Amplifying support for entrepreneurship;
3. Promoting a culture of responsible entrepreneurship; and
4. Identifying and showcasing effective and scalable models that can be adopted by others.

This is achieved through three key mechanisms: provision of grant funding to existing initiatives, incubation of programmes where gaps are identified, and sharing of contextual insights gained from research. Some of the initiatives within these focus areas are:

Social innovation and incubation

- **Jakes Gerwel Fellowship:** This initiative is committed to creating a pipeline of future, high-impact teachers.
- **Funda Wande:** This initiative prioritises, thinks through and tests interventions that will lead to all children learning to read for meaning and calculate with confidence by the age 10. Funda Wande hopes to achieve this by 2030.
- **Allan Gray Makers:** This initiative is committed to providing transferable entrepreneurial skills and support to youth who are technically or vocationally talented. It aims to accelerate the creation of meaningful employment opportunities in South Africa.

Grant-making

- **10KJ:** This is a partnership of 10 public benefit organisations that have collectively created more than 14 300 meaningful income-earning opportunities.
- **Grow Great:** This partnership seeks to mobilise South Africa towards a national commitment to zero stunting by 2030.

E Squared

E Squared, together with the Allan Gray Orbis Foundation and Allan & Gill Gray Philanthropy South Africa, aims to foster "entrepreneurship for the common good", with a focus on creating successful entrepreneurs who in turn create employment opportunities.

E Squared was established in 2007, when it purchased shares in Allan Gray Proprietary Limited from the Gray family through a loan guaranteed by the Allan Gray business. E Squared owns 17.8% of Allan Gray.

The long-term objective of E Squared is to extend subsidised financing to predominantly Black entrepreneurs. These entrepreneurs are either graduates of the Allan Gray Fellowship Programme or social entrepreneurs who are sought out by E Squared for their leadership and creative initiative.

Philanthropy initiative with employees of Allan Gray

One of the Allan & Gill Gray Foundation's key projects is the Philanthropy initiative with employees of Allan Gray, where employees vote for a funding theme and beneficiaries, and grants are channelled towards these beneficiaries following an evaluation process. The 2021 themes were "Ensure inclusive and quality education for all" and "Economic resilience and growth". The initiative made nine grants in South Africa, one grant in Namibia and one grant in Botswana.

Appendix

OUR APPROACH TO RESPONSIBLE INVESTING

Sustainability is embedded in how we invest on behalf of our clients, operate our business and interact with society. We have always considered ESG factors as part of our investment process as we believe that this improves investment returns, better manages risk and assists our clients to act as responsible owners. Our approach is illustrated in **Figure 1**.

We aim to do what we believe is right. This does not mean taking a binary view on whether investments are "good" or "bad" and making related portfolio exclusions or inclusions. Instead, we undertake holistic research to inform our investment decisions.

Our ESG research is conducted in-house and integrated into our investment analysis across all asset classes. Investment analysts are responsible for researching material ESG issues relating to the instruments they cover and highlighting these in their research reports. Key ESG issues are debated when we discuss investment opportunities and vote on "buy" or "sell" ratings. ESG risks are factored into company valuations, either by adjusting earnings or cashflow if the risk is quantifiable, or by adjusting the valuation multiple of the company or division if the risk is significant but uncertain.

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. We also have a Research Library, which monitors company-specific ESG news and shares relevant news items with the team.

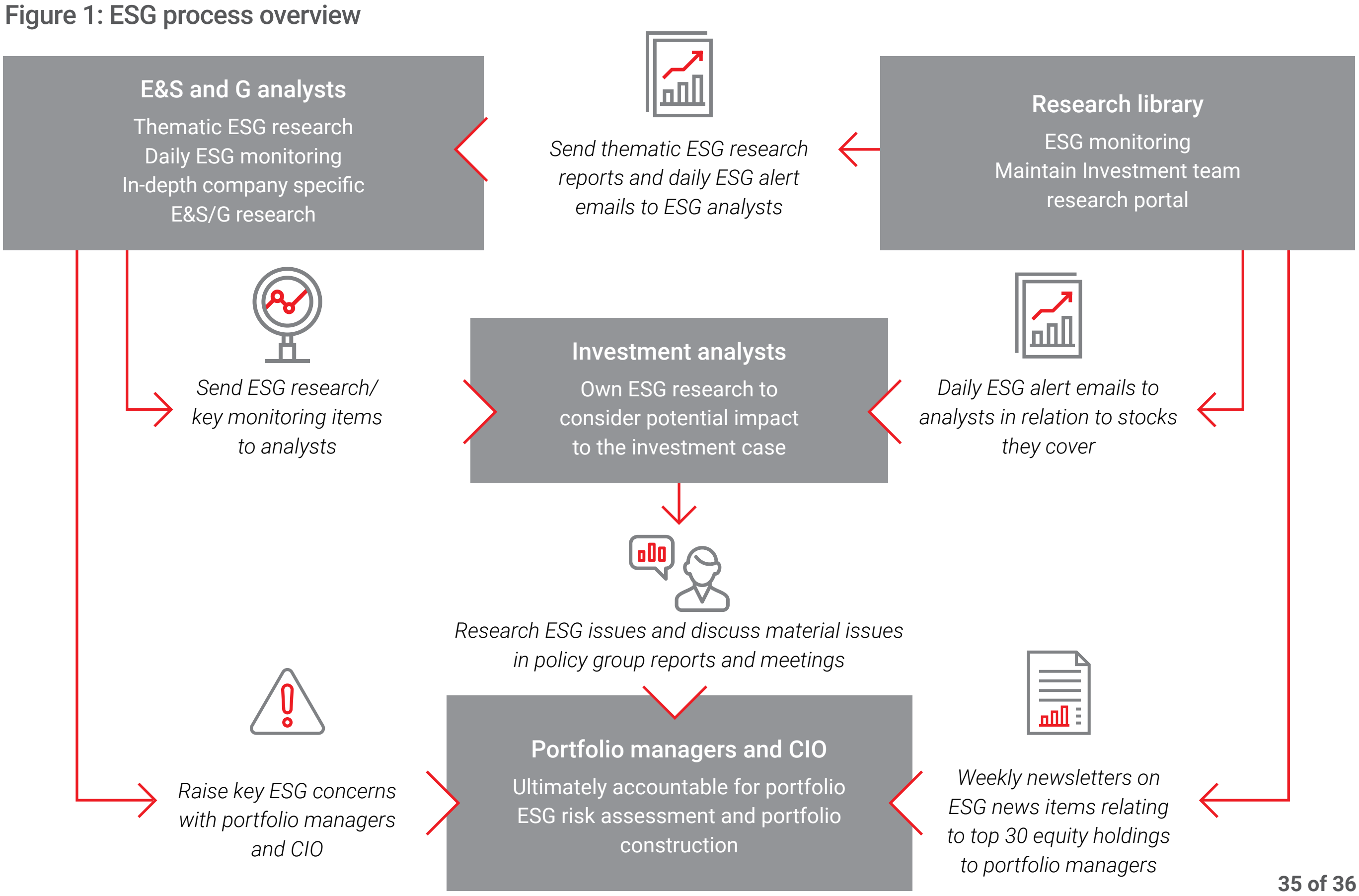
If a portfolio manager decides to buy a share, the ultimate responsibility for the incorporation of sustainability considerations falls on the portfolio manager.

We continue to monitor ESG factors once we are invested. This is crucial because ESG issues are dynamic and sometimes concerns may only arise once we are invested. Where we are invested in instruments that have negative environmental or social impacts, we encourage a focus on minimising harm and holding management teams and boards to account.

We believe that good stewardship of our clients' capital requires truly active ownership. We engage frequently and meaningfully with company boards and management teams and think critically about how we vote on behalf of our clients at company meetings. In addition to engaging with our investee companies, we actively partake in initiatives that promote sound corporate governance and sustainable business practices.

We publish our voting recommendations, together with the outcome of the shareholders' vote on each relevant resolution, quarterly in arrears.

Figure 1: ESG process overview



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