

A photograph of several wind turbines against a sunset sky. The sky transitions from a pale blue at the top to a warm orange and yellow near the horizon. The turbines are dark silhouettes. In the top right corner, there are several thin, white, curved lines that sweep across the sky.

IMPORTANCE OF ESG IN INVESTING

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STANLIB

THE PRESENTER

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VIEWS EXPRESSED IN THIS PRESENTATION...

AN INTRODUCTION TO ESG



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ESG: ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

- A framework for analyzing companies and how well they compare to their peers
- Non-financial factors and normally not mandatory to report on
- In essence, ESG is good risk management
 - Environmental: Considers how a company performs as a steward of nature
 - Social: examines how a company manages relationships
 - Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights
- Unlike Social Responsible Investing (SRI), it is more on the side of economic value than ethical and social concerns
- Applies across asset classes and investments

WHY SHOULD WE CARE

An aerial photograph of the New York City skyline, showing a dense cluster of skyscrapers and buildings. The Empire State Building is prominent in the center. In the foreground, a large bridge with multiple lanes of traffic spans a body of water. The sky is hazy, and the overall tone is sepia or aged. A white diagonal line runs from the top left towards the bottom right, separating the text area from the image.

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WHY ESG – STANLIB's perspective

- WE CARE...
- ESG information is associated with numerous economically meaningful effects from a business perspective
- Risk measure
- Influence on stock price movement
- Value relevant and predictive of company's future financial performance – signal for future earnings risk
- and ultimately investment performance – it is additive
- Brings positive change in the corporate sector
- Growing client demand and a fiduciary responsibility – cannot be ignored
- Inclusion of long-term sustainability
- We want to drive change and engage with the companies
- Eventually has to be integrated into the investment process

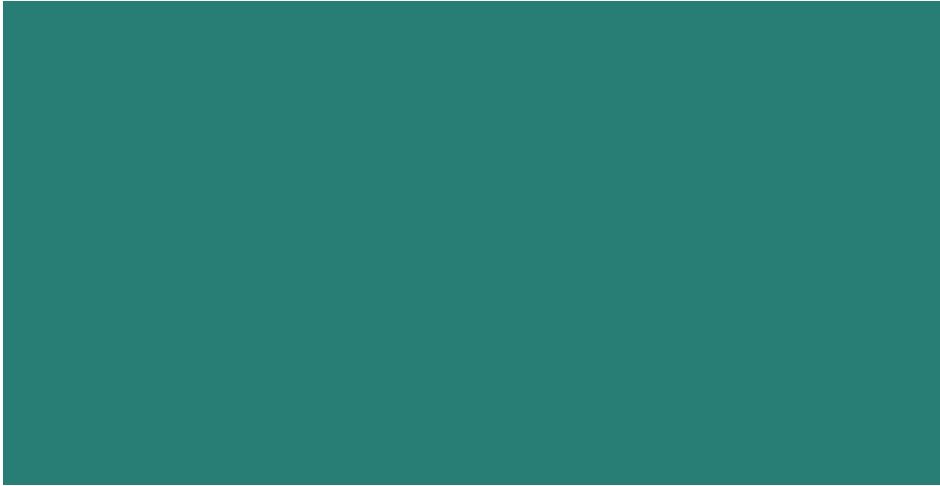
HOW

An aerial photograph of a city skyline, featuring a large, modern stadium with a blue roof and a cable-stayed bridge in the background. The image is split diagonally, with the left side being white and the right side showing the city scene.

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HOW ITS MEASURED AND BY WHO

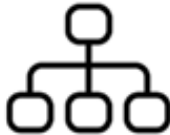
External and internal



- Bloomberg

- It can be done internally as well
- Integration into the investment process is definitely something that everyone should be doing
- Standardization might be too early but clarity is important

INTEGRATION – STANLIB's ESG pillars – Comply or explain

<ul style="list-style-type: none">• Accounting policies and auditor changes• Unusual delays in financial releases and once off charges or write offs• CEO and board chair are different people• Majority Independent board		Transparency, Board Independence
<ul style="list-style-type: none">• Audit & Remuneration committee composition• Principal – agent conflict management• Shareholders having the same voting rights		Remuneration & Ownership & Accountability
<ul style="list-style-type: none">• Value creators vs value destroyers• Strategy crafting and execution• Demonstration of a clear understanding of the industry in which they operate		Strategy & Execution
<ul style="list-style-type: none">• Green initiatives• Consideration to impact on environment from operations• Local supply sourcing• Community financial support		Environmental & Social Responsibility

WHAT DO WE DO WHEN THINGS GO WRONG?

- Where we continuously encounter conflicts with directors and management:
 - We will use our rights to vote against the re-election of directors and potentially vote against acceptance of the financial statements
- Where the company is diametrically opposed to our view, we would call for an EGM and insist our proposed changes be put to a vote
 - In the event we go as far as calling an EGM, we would canvass other institutional who might have the same views ahead of the meeting
- We could potentially divest from the company. However...

WE DO NOT COMPROMISE – THE CASE OF CHOPPIES



Before The EGM	During The EGM	After The EGM
<p>Choppies has shown signs of cracks in their corporate governance & value destruction</p> <p>Symptoms:</p> <ul style="list-style-type: none"> ▪ Retaining the same auditor for over 5 years ▪ Persistence losses in RSA ▪ Key-man risk ▪ Aggressive expansion to risky African markets such as Kenya with no regard for earnings ▪ Forensic Probe revealing allegations of Corporate Malfeasance by the CEO ▪ Lack of Appropriate Governance controls (Actions taken without Board approval) ▪ The CEO suspended by the board as a disciplinary action 	<p>Objective was mainly to remove any director who was part of the value destruction and promote balance of power</p> <p>Supported:</p> <p>Mr T. Pritchard; Mr H. Stander; Mr R. Tamale; Mr K. Nwosu</p> <p>Opposed:</p> <p>Mr Ottapathu; Mr F. Ismail; Mrs D. Kgosietsile; Mr G. Mosinyi; Mr O.M. Kgengwenyane; Ms C.J. Haward</p>	<p>Board independence questionable with most board members been handpicked by the suspended CEO (who is also a shareholder)</p> <p>Consequence:</p> <ul style="list-style-type: none"> ▪ Disciplinary proceedings fall off against the CEO ▪ CFO (Mr. Stander) and Chairman step down while CEO is reinstated ▪ Additional Board members added, which are yet to be ratified by investors ▪ PwC resigns from subsequent audits and disclaims on financials ▪ Additional Probes on Choppies financials by regulators such as BAOA ▪ Complaints lodged and relationship deterioration with investors

ESG red flags

Don't compromise on values for profits



- Wells Fargo – Fake account scandals
- Equifax – data security concerns
- Facebook – data privacy concerns

ESG IS NO LONGER AN OPTION, but the urge is now...



- AUM of ESG oriented strategies in excess of \$30 trillion
- UK targets net-zero carbon emissions by 2050
- SDG's

SOME OF THE THE WORLD'S LARGEST MANAGERS AGREE



- Fossil Fuels unlikely to be a good investment long-term – a move is towards renewable energy and encourages a move to this
- Be part of the solution, not the problem

ESG ON PERFORMANCE

- Ultimately, ESG factors do have a bearing on performance;
- Could alter the investment horizon
- Irreconcilable differences with management on issues of importance to shareholders could potentially mean selling out of that business
- Strong ESG scores assert the sustainability of an investment case
- Green initiatives have a cost containment element

SHORTFALLS OF THE ESG FRAMEWORK

- Lack of comparability across firms
 - Lack of reporting standards
 - The cost implication of gathering and analyzing ESG information
 - Information disclosed by companies can be too general to be useful
 - Difficulty in quantifying some ESG information
 - Lack of audit assurance on the data/information
- } Qualitative and relies on judgement

FROM A PENSION FUND'S PERSPECTIVE...

THANK YOU

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