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Investing for a  
world of change

*Sustainable investing  
in retirement funds  
has grown  
dramatically over  
the past 25 years*

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9 March 2022



# Sustainable investing: what investors want

Survey of Global Investors (October 2021)

1

Investors have a strong desire to invest *sustainably*.  
74% of global investors believe that their money should be invested to make a difference

2

But there's a **wide dispersion in understanding and knowledge of sustainable investing**

- **58%** believe 'sustainable investments will pay dividends and are safe long-term investments'
- **42%** believe 'sustainable investments are environmentally friendly, green investments'

3

Investors plan to put more of their money into sustainable investments

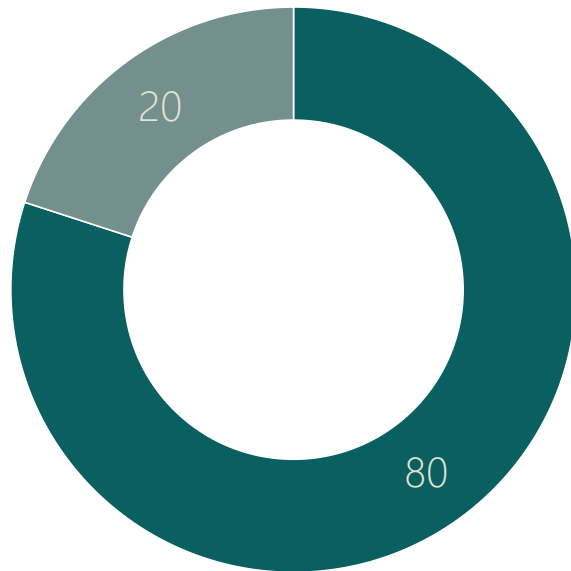
Sustainable investing is investing in countries and companies that seek to minimize their harmful, and/or maximise their positive impact on society and the environment

## Where the capital is required

The investment industry has a responsibility to address these needs

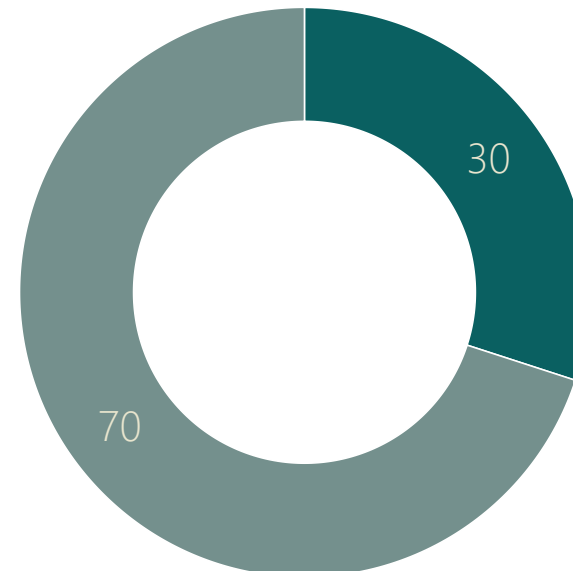
- ❖ Currently 80% of global financial assets are in developed countries
- ❖ But 70% of the SDG and Paris Agreement capital needs to go to developing countries
- ❖ 88% of ESG/Sustainable investment funds are global or developed market focussed
- ❖ Private capital has a critical role to play and will need to be unlocked for emerging

Location of global financial assets



■ Developed countries ■ Emerging markets

Location of sustainable spending needs



■ Developed countries ■ Emerging markets



# Evolution of Stewardship & Sustainability

Active stewardship of capital presents opportunity to generate 'sustainable' alpha

ESG 1.0

*Focus on formal integration frameworks, awareness building, sustainability insights and training*

Sustainability 2.0

Shift to scalable and efficient response to integration through the investment teams and expanding sustainable product offerings.

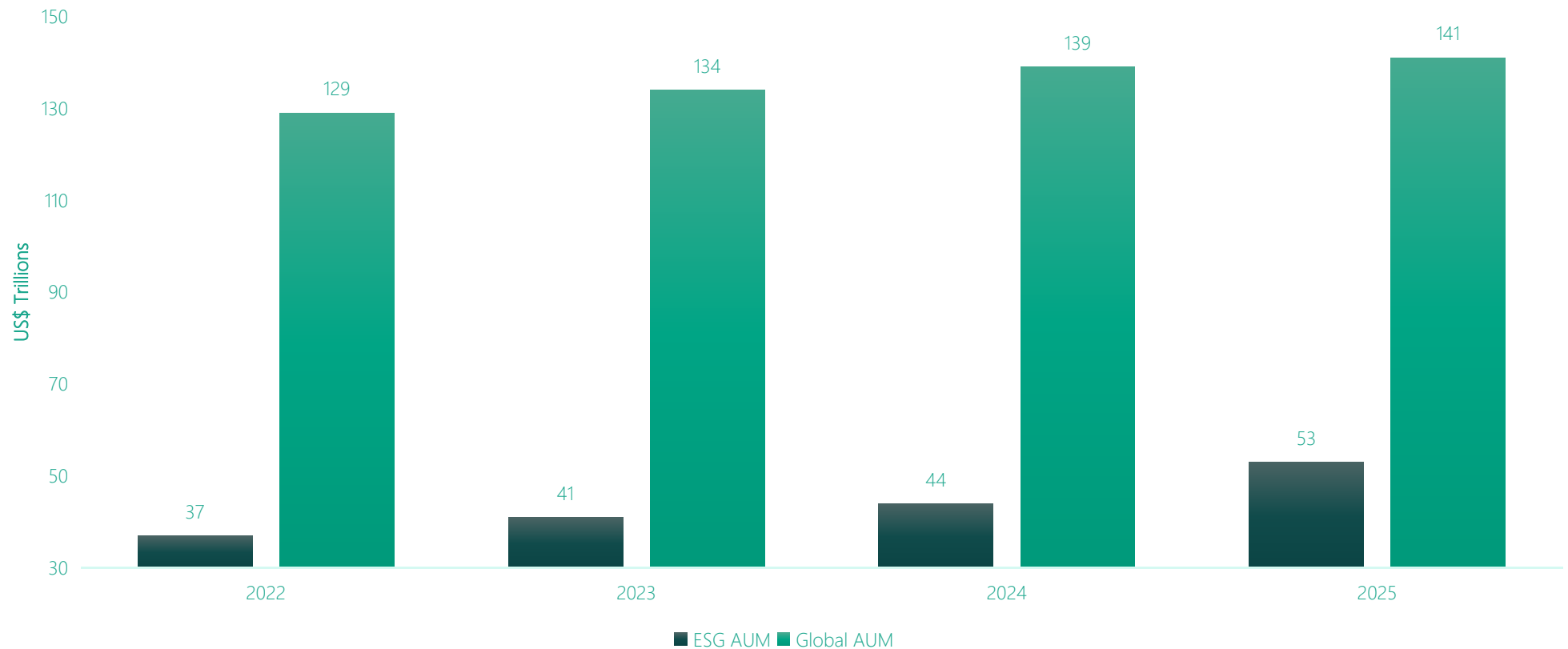
## SUSTAINABLE DEVELOPMENT GOALS





## ESG assets poised to hit US\$53 trillion by 2025

This is about 38% of global assets under management (AUM)





# Retirement Funds are Driving Sustainable Investing

Alignment with fiduciary duty of protecting the retirement funds and their members

## Environmental, social and governance (ESG)

- Long-term investments and diversified portfolios enable ESG
- Companies with higher ESG ratings are more competitive than their industry peers
- They tend to have higher profitability and pay higher dividends over time and are more resilient
- Retirement funds look for investments that will do well in the long-run

## Sustainable investing

Is growing dramatically

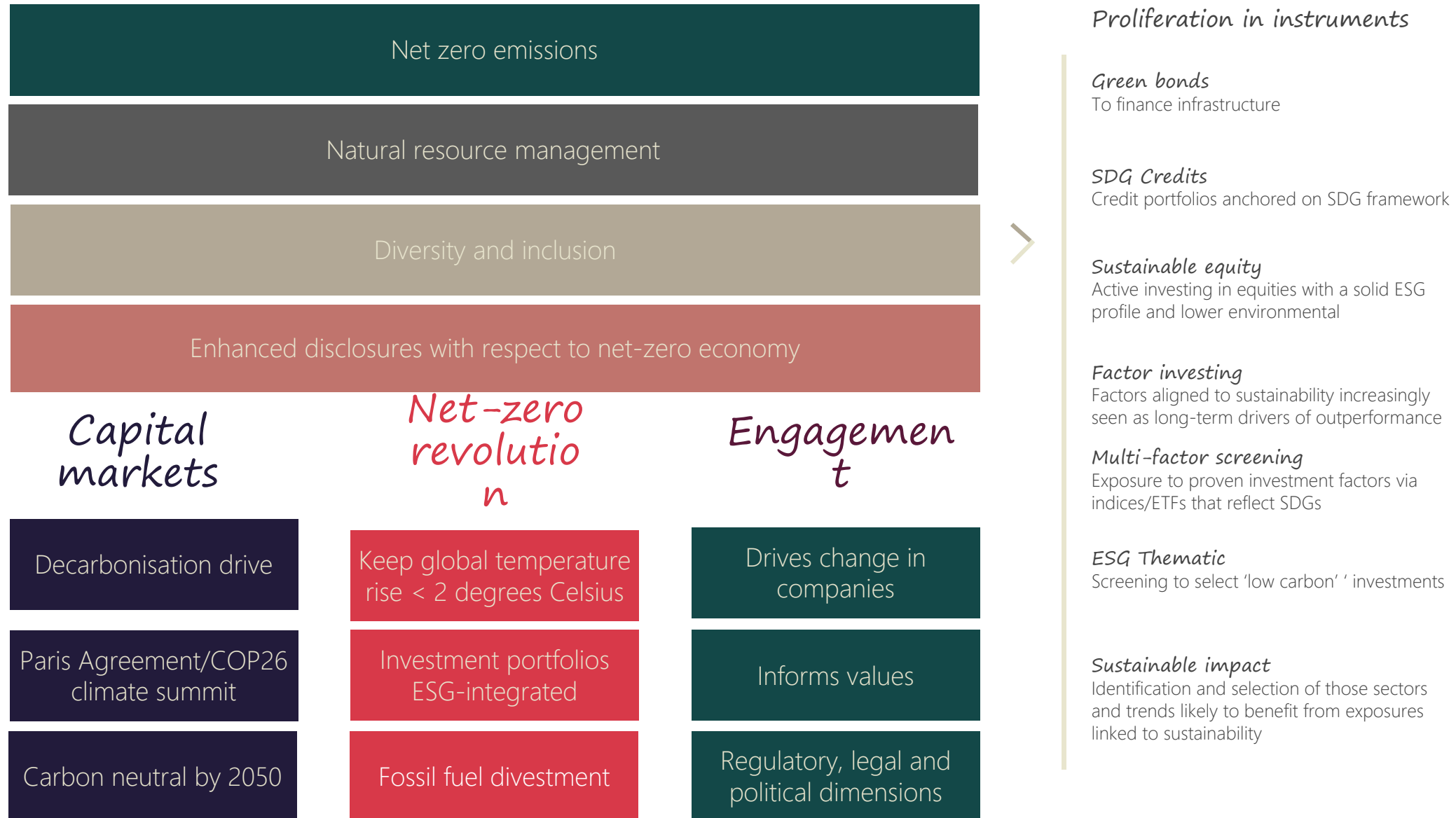
- There is an estimated US\$37 trillion of sustainable assets worldwide under management
- Total assets incorporating ESG principles poised to expand even further
- Retirement funds at the vanguard of 'financing the shift away from fossil fuels'

**Incorporation of ESG principles into investment decisions to mitigate risk**



# Pressure to change...

Retirement funds taken decisive steps to persuade corporates to commit to ESG principles





# *The effect of a corporate culture of sustainability*

High sustainability companies vs Low sustainability companies

## High sustainability companies

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The Boards of Directors ensure:

- Organised procedures for stakeholder engagement
- More long-term orientated
- Exhibit more measurement and disclosure of nonfinancial information
- Outperform their counterparts over the long-term, both in terms of stock market and accounting performance

## Low sustainability companies

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The Board of Directors less likely

- To ensure appropriate and consistent stakeholder engagement
- Prone to short-termism and poor accountability
- Weak disclosure standards and erratic display of nonfinancial data
- Market and reporting performance very mixed





# Rationale for sustainable strategies

Sustainability factors intersect with investment risks and returns

- Corporate governance and sustainable business practices that support long-term value creation by companies
- Inclusive, diverse and engaged boards contribute to business continuity, innovation and resilience
- Independence and quality of boards necessary to oversee investors' long-term economic interests

## Engagement

*Impact*

*Corporate Governance*

Provide feedback and build mutual understanding about sustainable business practices

*Board of Directors*

*Accountability is key*

When companies not moving fast enough on major issues we vote against the re-election of relevant directors

## Voting for impact

*Sustainability*

*Understand interests of key stakeholders*

the demonstrated impact that sustainability-related factors can have on a company's ability to generate long-term risk adjusted returns

## Sustainability-related risks

*Integration*

*Business and financial strategy*

Assess and address materiality risks



# *Sustainability risks = business risks*

Business leaders have an important role to play in ensuring transparency around sustainability risks

1. Links between sustainability and business are increasingly evident and inextricable
  - Business decisions and actions will slow or accelerate sustainability risks
  - Sustainability will drive risks and opportunities for business
2. Board of Directors are expected to ensure that sustainability-related risks and opportunities are appropriately addressed
  - Sustainability is simply another issue that drives financial and business risks
  - Boards have a duty to engage on this topic with same rigour as any other board topic
3. Sustainability is a new and complex issue for many boards
  - Entails grappling with scientific, macroeconomic and policy uncertainties across broad time scales and beyond broad terms
  - Sustainability governance is both integral to basic good governance and fraught with complexity



# Implications for corporate boards

Boards should be diverse to effectively debate and take decisions

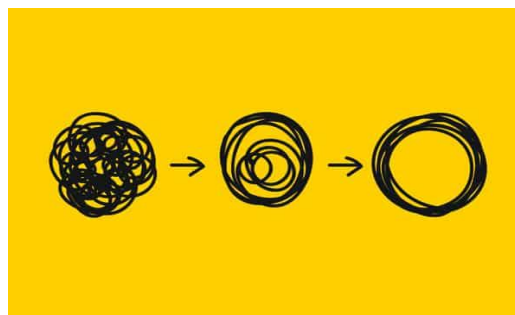


## *Competing priorities*

Sustainability competes with a host of other emerging and strategic risks that must be addressed by the board

For example, industry change, technology and business model disruption, changing domestic and global economic conditions

Boards have limited time and capacity to equally review and address all of these strategic topics

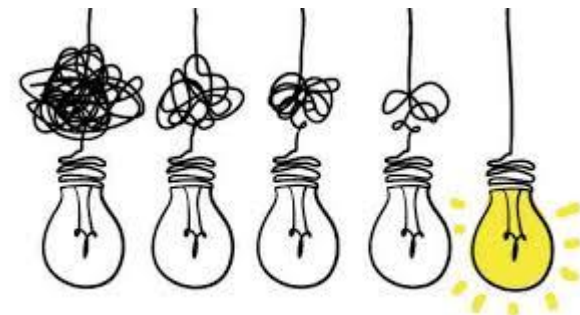


## *Complexity of sustainability*

Sustainability is a complex and inherently systemic issue

The risks are diverse, uncertain and often not yet visible in some markets

Moreover, the extent of the impacts will depend on important external drivers such as disruptive technologies, pandemics and climate change



## *Short-term time horizon and focus*

Companies are under constant pressure to deliver short-term results, to meet investor expectations on a half yearly basis

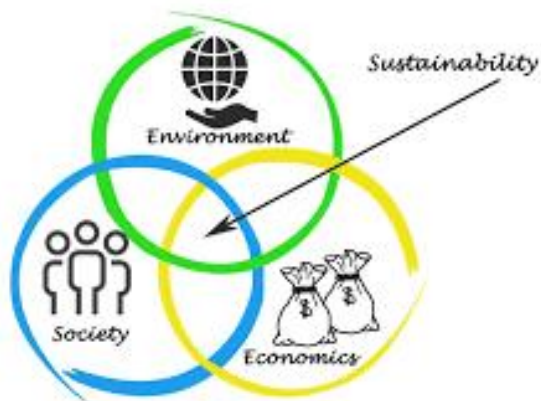
Sustainability poses longer-term risks that extend beyond the considerations of the typical business planning cycle

Time for corporate directors to ensure long-term resilience of their organisations



# Our objective and responsibility: “We aim for our clients to retire with dignity”

- *Consistent outperformance* with a clear focus on capital growth over time
- *Globally integrated and experienced investment team*
- Sustainable competitive advantage from *unique earnings revision philosophy*
- A strong focus on *risk management*
- *ESG integrated into our investment process*



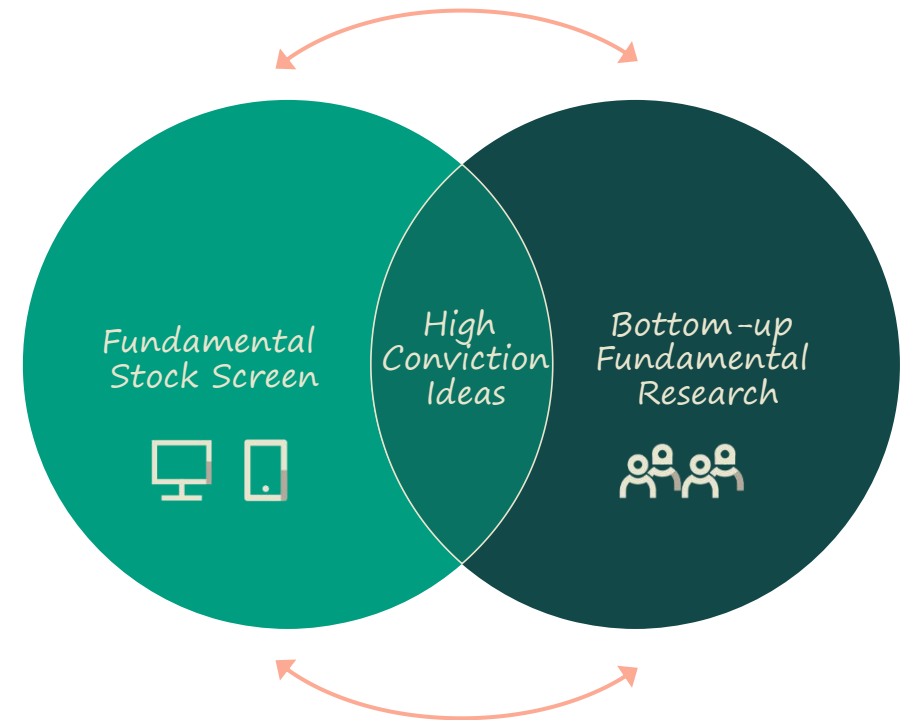
ESG is a blueprint to assure sustainability



# Sustainability-related financial disclosures

Without sufficient information financial market participants are unable to analyse and price risks

- At a systemic level, the mispricing of assets could lead to financial instability and capital allocation which is not aligned with sustainability considerations such as the low carbon transition, diverse board composition, etc.
- (i), Promote better-informed investment, lending and insurance underwriting decisions; and (ii) enable stake holders to understand the financial system's concentrations of exposures to various sustainability risks
- Disclose your organisation's governance around sustainability risk and opportunities within a disciplined, evidence-based process
- Review the impacts of sustainability risks and opportunities on your business strategy and financial planning . Metrics and targets used to assess and manage sustainability risk and opportunities
- Identify, assess and manage sustainability risks to ensure stakeholder interests are not only protected but advanced



The analysis of a company's ESG risk exposure over time enables stakeholders to take prompt action to mitigate their exposure to such risks



# ESG as a core tenant of good practice is here to stay

Sustainability is reshaping the competitive landscape across and within industries



Long-term sustainable financial outcomes

## 1. Assess the quality of management

Board leadership,  
standards of operational  
excellence

## 2. Executive compensation

ESG targets in executive  
pay is growing, corporate  
reporting

## 3. Direct dialogue

With corporate leadership  
and we cast proxy votes  
aligned with clients' best  
interests

## 4. Accountability

Hold directors  
accountable for their  
action or inaction

Employees are looking for a variety of sustainable, socially responsible ways to save for retirement



# How we build sustainability at the centre of our business

Holding ourselves accountable and identifying where we must improve



## Invest

Integrate  
*ESG analysis in our  
investment approach  
and decision-making*

Engage  
*companies strategically  
to drive positive  
change*

Impact  
*strategies with positive  
allocation and defined  
impact*



## Advocate

Policy contribution  
*where we can drive and  
improve policy  
frameworks*

Education  
*for our clients,  
communities and  
stakeholders*

Thought-leadership  
*to lead the conversation  
with our research and  
expertise*



## Inhabit

Our Firm  
*works hard to act  
sustainably and  
reflect our  
communities*

Diversity  
*and transformation  
across the communities  
with whom we operate*

Natural world  
*where we help preserve  
our natural world and  
work towards a  
sustainable future*

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**In all of these areas we strive  
for substance over form**





# Engagements take place as an integral part of the investment process

## Why do we engage?

- To preserve and grow our clients' capital over the long term
- Sustainability of earnings and the creation of capital
- Improve transparency of information
- Improve governance
- Benefits to society

## Our philosophy

Engagement is a process of diplomacy and research – more of an art than a science. There is no single approach that will fit all cases

## Types of engagement

- Our engagements are categorised into
  - **Strategic:** Looking to create change and enhance return
  - **Communication:** Improve information, reinforce voting rights and communicating voting rationale
  - **Advocacy:** Specific themes to reduce risk, improve information and help build the Ninety One brand





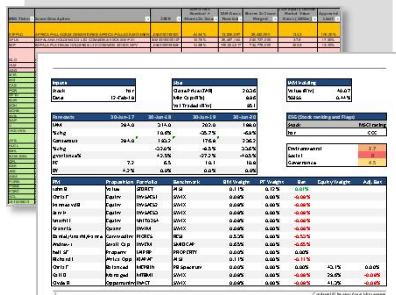
# ESG integrated in philosophy and process

Articulating impact on investment decision making and encouraging firms to improve disclosure

## ESG embedded in the investment philosophy and process

### 1. Universe screening

- Investment universe screened against alpha factors
- No exclusions in our SA investment universe
- External ESG rankings as check and reference against our own ESG analysis



### 2. Fundamental analysis

- Fundamental analysis incorporates ESG as part of the investment process, especially where it impacts sustainability of earnings and valuations
- Continued monitoring of ESG issues with formalised documentation of key concerns and

**Earnings revisions**

**Impala ESG risk evaluation flags no material risks**

Fully understand that ESG has direct impact on earnings and valuation

Issues around Labour: Safety and Retirements

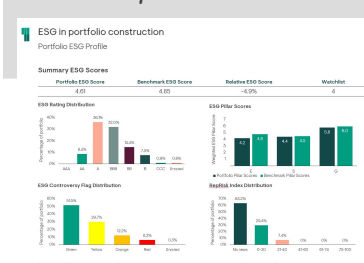
- Improved their safety performances and are now in-line with international peers. Roof bolts and netting are now required and fatalities rates have dropped
- We have some of the deepest mines. Although safety has increased dramatically, accidents still occur largely due to fall-of-ground from seismic activity
- Salaries are also no longer as out of kilter with global norms. SA underground workers are paid more than their peers in retail, education or health
- Operations are in the Rustenburg region where migrant labour, immigrant labour, shantytowns, militant unions (AMCU), and social unrest proliferate
- Mining processes are water intensive

Risks and other sensitivities

- Macro risks – PGM prices / Rand
- Water and electricity availability
- Engagement / follow-up plan
- Ongoing engagement on environmental impact and labour

### 3. Portfolio construction

- Stock selection and position sizing adjusted through structured ESG approach
- Portfolio ESG profiles allows team to review ESG portfolio footprint and identify areas of concerns
- Continuous monitoring of aggregated portfolio ESG exposure



### 4. Engagement

- Focussed and constructive engagement as identified in fundamental analysis and portfolio construction
- The ESG team meets with investment team regularly to review and discuss ongoing engagements
- The Investment

**ESG in portfolio construction**

Portfolio ESG Profile



### 5. Reporting

- The business reports extensively on ESG activities in an annual Stewardship Report, available on the website
- Detailed ESG reporting can be provided on request

**Ownership policy and proxy voting guidelines**

ESG

**Sustainability & Satellites**

New frontiers in sovereign debt investing



# Roles and responsibilities

## Sustainability & Stewardship Committee (SC)

- Responsible for the internal oversight of Sustainability and Stewardship, including:
  - Monitoring progress of sustainability strategy
  - Ensuring alignment of focus and integrity through the business

## Investment Teams

- Ultimately responsible for ESG integration, including ESG risk, engagement and voting
- Set ESG priorities and focus areas in line with investment strategy and policy
- Work with the Engagement & Voting team on individual issuers and with the Sustainability team on more controversial holdings

## Sustainability Team

The central custodian of the firm-wide Sustainability & Stewardship 'eco-system' Four focus areas:

- Sustainability and Stewardship policies and frameworks
- Investments & risk support
- Advocacy and sustainability initiatives

## Risk Team

- Oversight and challenge of firm-wide ESG risk mitigation efforts and integration quality
- Responsible for compliance with regulatory risk
- Leadership role around ESG data and carbon risk

## Engagement & Voting Team

- Supports the investment teams integration processes with respect to active ownership
- Supports the development of engagement frameworks and owns the voting guidelines
- Execution of the voting process.
- Works closely with the Sustainability team to ensure the strategic engagement efforts and voting align with the strategic initiatives



## Key messages

We are looking for companies to strengthen their commitments to the sustainability agenda

- The insights of **stewardship activities feed into investment decisions** and form an inextricable part of the sustainable investing process
- Sustainable investing is **outcome-focused**
- These outcomes impact a companies **ESG performance and investment decisions**
- A well-functioning company needs to consider **not just shareholder returns but rather a broad range of factors** which can deliver value over time
- Corporate engagement is **a two-way dialogue** between investors and companies. Its objective is to enhance information and improve business performance
- A **competent and independent** of Board of Directors is central to **enhancing the long-term value of our clients' investments**



*Thank you*

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