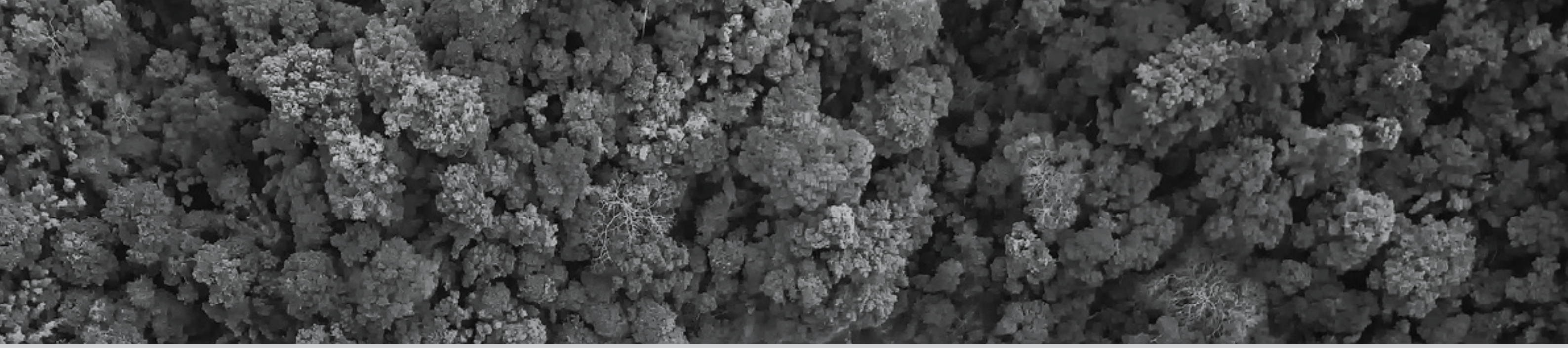


Stewardship Report

2023

Allan Gray

Contents

ENVIRONMENTAL SOCIAL GOVERNANCE

Stewardship Report

Introductory comments from the chief investment officer, Duncan Artus

> **Since our inception, we have held the view that a company that does not operate in a sustainable manner cannot sustain its profitability. This long-term mindset sits at the heart of our investment philosophy.**

Allan Gray celebrated its 50th anniversary in 2023. Operating for five decades is a significant milestone for any business and provided us with a meaningful opportunity to reflect on the history of our firm, our evolution and how we add value to clients.

As active managers who seek to understand businesses, we have always taken a keen interest in how companies are governed and the impact they have on society. Since our inception, we have held the view that a company that does not operate in a sustainable manner cannot sustain its profitability. This long-term mindset sits at the heart of our investment philosophy.

ADVOCATING FOR SHAREHOLDER RIGHTS SINCE 1973

At Allan Gray, we invest on behalf of our clients. They are the beneficial owners and, as the custodian of their capital, we represent their interests as shareholders at all times, including when we engage with the management and boards of companies. We are proud of our long history of standing up for shareholder rights when the situation demands it, to grow and protect value. We discussed this in detail in an article titled "Navigating valuations and values since 1973" in our Q3 2023 *Quarterly Commentary*.

A key focus in 2023 was the proposed Companies Amendment Bill. This has been a multi-year consultation process, during which we have highlighted both our support for aspects of the Bill, as well as concerns about the potential unintended consequences for shareholders in other areas. In 2023, we submitted our remaining concerns and presented them to the Portfolio Committee on Trade, Industry and Competition. We were one of only three asset managers to do so in South Africa, demonstrating the extent of our efforts to advocate for the protection of shareholder rights. We detail our related research and engagements in Annexure 3.

CASE STUDIES BRING THE THEORY TO LIFE

The late Charlie Munger of Berkshire Hathaway famously said, "Show me the incentive, and I'll show you the outcome." I have seen very little in my career to contradict this statement. We spend a significant amount of time analysing the governance and incentive structures of the companies held in our clients' portfolios and giving input where appropriate. I believe this has added value to the portfolios over time. In Annexure 2, we provide a case study of our engagement on remuneration with Life Healthcare. Our previous stewardship reports offer other examples, including engagements that have spanned several years. We also offer more insight into our proxy voting activity for the year in Annexure 5.

It is important to bear in mind that environmental, social and governance (ESG) considerations are dynamic. Our Investment team researches company-specific ESG risks and opportunities prior to investing and continues to research and monitor these factors – as well as additional issues that may arise – once our clients have invested. In Annexure 4, we present a case study on Sasol, demonstrating how we weighed up the ESG considerations, as well as how frequently we have engaged on ESG matters over the past seven years, given their materiality to the investment case. Through our Glencore case study, we demonstrate our belief in the value of investing in "ESG improvers" as opposed to "ESG leaders" (the latter of which have become more popular), provided we can see a path for the gap to close.

A GLIMPSE AT OUR PROCESSES, THEMATIC RESEARCH AND TOOLS

High-quality research and engagements are supported by strong processes and tools. We continue to build on these each year. For example, in our *2022 Stewardship Report*, we noted that we planned to improve our record keeping on state capture in 2023. Subsequently, we added nearly 150 records to our internal database of persons of interest based on the Zondo Commission. If they come up for election to a listed company's board of directors, our system will flag their details for the covering analyst to ensure an additional level of scrutiny. We also engaged with the Independent Regulatory Board for Auditors (IRBA) and updated our internal database to incorporate all IRBA-sanctioned auditors over the past few years. This improves our oversight on voting recommendations to clients on auditor appointments. More detail is included in Annexure 2.

Our *2022 Stewardship Report* also noted that the macroeconomic backdrop in South Africa had deteriorated, which is of relevance to the valuation of and the extent to which we expose our clients to "SA Inc" companies. Thematic ESG research supports the Investment team in quantifying such risks. For example, we wrote a report and held an internal meeting on Eskom's operational and governance outlook and have performed our own modelling of loadshedding scenarios. We summarise our views on the loadshedding outlook in our Q4 2023 *Quarterly Commentary* piece titled "Eskom: Are brighter days ahead?". We also continue to research and engage with listed companies on water risks, particularly those affecting Gauteng – the economic centre of our country.

Over time, our ESG analysts have supported the Investment team with thematic research into electric vehicles, nuclear energy, mining safety benchmarking, political donations by listed companies, and many more topics that provide useful context for and may even influence our investment decisions. We continue to believe that this type of research will add more value to our clients over the long term than a tick-box or scorecard approach to ESG evaluation.

COMMUNICATING OUR EFFORTS AND RESEARCH

Finally, we recognise the importance of sharing our perspectives with clients and interested third parties. In 2022/2023, we wrote and published several new ESG documents on our website. These are:

1. ESG FAQs, which include a series of climate FAQs
2. A report on climate initiatives in the financial sector, highlighting if or where we align with each initiative
3. A carbon accounting primer, highlighting the pros and cons of methodologies to set carbon targets at an investment portfolio level
4. An annual carbon accounting report, separate from the annual stewardship report, for those looking for more technical climate-related reporting

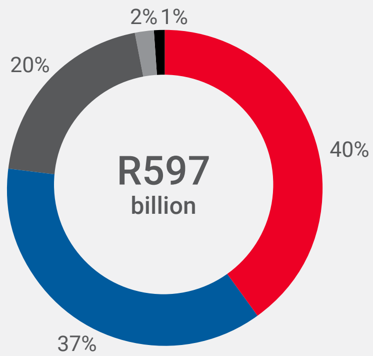
WE STRIVE TO MAKE A DIFFERENCE

Responsible investing and being a responsible corporate citizen can mean different things to different people, but investment management is a business inherently built on trust. An asset manager needs to act and be seen to act with the highest integrity and standard of ethics. We are committed to this, not only in how we engage with the companies we hold on our clients' behalf, but also in how we conduct ourselves as a business.

I believe Allan Gray can continue to make a positive contribution to our industry, the economy and broader society. For many of our employees, myself included, the knowledge that our founder, the late Allan WB Gray, generously ensured that a significant portion of our profits is used for philanthropic purposes makes our jobs feel more purposeful.

1. KEY METRICS

Assets under management



Equities | Foreign | Fixed interest | Commodities | Property

B-BBEE

2023
Level 1

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

Investment team

10 portfolio managers

15 analysts

3 ESG analysts

Investment team engagements

593
engagements
(2022: 543)
(2021: 487)

306
companies or entities
(2022: 217)
(2021: 185)

297
discussions that included ESG topics
(2022: 303)
(2021: 262)

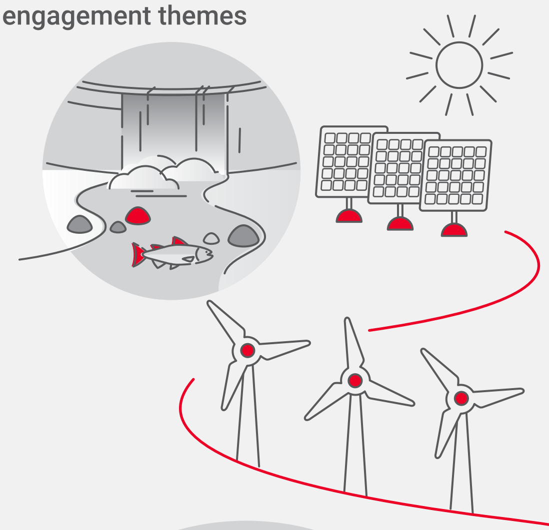
56
remuneration reports prepared
(2022: 51)
(2021: 56)

PRI scores

Policy, governance and strategy	★★★★☆
Direct - listed equity - active fundamental	★★★★☆
Direct - fixed income - SSA	★★★★☆
Direct - fixed income - corporate	★★★★☆
Confidence-building measures	★★★☆☆

For more information on the Principles for Responsible Investment (PRI), its scoring methodology and Allan Gray's Transparency Report, please visit www.unpri.org.

Top engagement themes



		2021	2022	2023
E	Climate change, renewable energy and related engagements	39	65	57
S	Engagements on customer and societal considerations	27	42	53
G	Executive remuneration engagements	59	60	73

A breakdown of these engagements is provided on page 13. For case studies, see Annexure 2.

Proxy voting

1 921
resolutions

(2022: 2 132)

(2021: 2 392)

140
meetings

(2022: 158)

(2021: 169)

Voting recommendations

89%
for

(2022: 91%)

(2021: 90%)

11%
against or abstain (dissenting)

(2022: 9%)

(2021: 10%)

33% of our dissenting votes are on executive remuneration. 27% of our total remuneration policy and implementation report votes are dissenting.

We provide our proxy voting record and unpack dissenting votes on page 32.

2. STEWARDSHIP DEVELOPMENTS OVER TIME

ESG considerations have always been integrated into our investment approach, as noted in the chief investment officer's comments on page 1. Here we show some of the stewardship-related process and disclosure enhancements we have made in recent years.

2012

Published first responsible investment policies

Started publishing voting record online

Publicly supported Code for Responsible Investing in South Africa (CRISA)

2013 - 2014

Became a PRI signatory

Appointed first analyst dedicated to governance research

Made an ESG section compulsory in all research reports

2015

Created directors database

Published first Stewardship Report

2017

Appointed first environmental and social analyst

Introduced thematic ESG policy group meetings

Started reporting to Allan Gray's Social and 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 team of ESG analysts

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

2022

Improved directors database

Enhanced politically exposed director screening

Performed proxy voting coverage assessment

Formalised and enhanced climate risk assessment framework for top emitters

Enhanced portfolio carbon footprint analysis

2023

Introduced engagement type categorisation

Published ESG FAQs and climate primers

Created list of sanctioned auditors

Further enhanced politically exposed director screening

3. 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. We believe this holistic approach can improve investment returns, risk management and our ability to assist our clients to act as responsible owners. In other words, it protects our clients' interests as long-term investors.

AN INTEGRATED APPROACH

The essence of our approach has not changed since the firm was established in 1973. While ESG integration has always been part of our DNA, we strive for annual improvements. These include efforts to enhance the quality of our ESG research, engagements and proxy voting processes; to refine our client-related disclosures; and to participate constructively in industry, regulatory and policymaking initiatives.

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 inclusions or exclusions. We recognise that, unfortunately, there are often trade-offs that need to be weighed up between environmental, social, governance and economic considerations. For example, tackling climate change is a critical global priority, but in a developing country such as South Africa, the need to address socioeconomic issues, such as unemployment and inequality, is equally important in pursuit of a sustainable economy. We seek to evaluate these factors in a holistic and balanced manner.

OUR ESG RESEARCH PROCESS

Our ESG research is conducted in-house and integrated into our investment analysis across all asset classes and geographies. Investment analysts are responsible for researching ESG issues relating to the instruments they cover and highlighting these in their research reports. Both ESG risks and opportunities are factored into company valuations where material. For equities, earnings or cash flow may be adjusted if the risk is quantifiable, or the valuation multiple may be adjusted if the risk is significant but uncertain. For bonds, we look to compensate for higher risk in the spread. The team scrutinises, challenges and debates investment theses during team meetings where reports are reviewed.

In late 2021, we introduced an ESG risk rating system for instruments to encourage debate and the careful consideration of ESG risks at aforementioned meetings. In section 4, we report on the outcomes of the first two years of using this system. ESG considerations also factor into our separate internal risk ratings, which seek to ensure sufficient diversification through portfolio exposure limits based on the broader risk profile of an investment. Sometimes, if the risk profile is perceived as unattractive, we may avoid an investment.

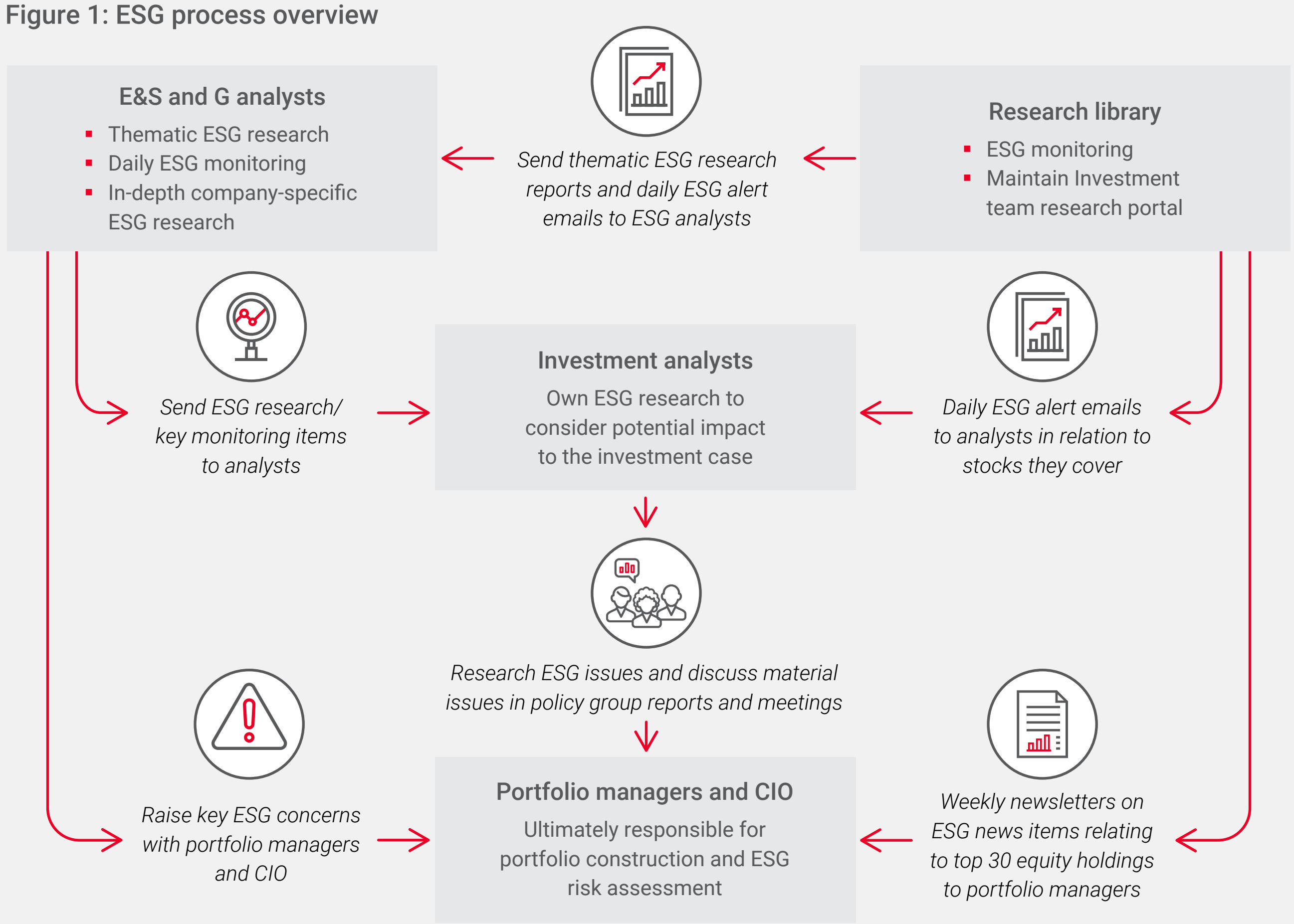
If a portfolio manager decides to buy a share, accountability for the incorporation of sustainability considerations falls on that portfolio manager.

Our chief investment officer (CIO) may veto investments by other portfolio managers in cases where he determines that the company's business practices are unethical. While we use a multiple portfolio manager system, where portfolio managers each manage a slice of the broader portfolio, and view it as key to our success, we believe it is necessary to have an additional level of oversight through the CIO's ethical veto. The Allan Gray board holds the CIO accountable, including for his use of (or decision not to exercise) this veto.

We continue to monitor ESG factors once we are invested. This is crucial because ESG issues are dynamic. 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. Additionally, our research library monitors company-specific ESG news and shares relevant news items with the team. **Figure 1** on page 7 captures our day-to-day ESG process.

> "We try to assess ESG factors holistically in our research and form a balanced view. In our opinion, ESG performance can never be adequately conveyed in a condensed ESG "score", as has become popular in the investment industry. One final score or number per company fails to convey the nuances and complexities that are inherent in ESG evaluation."
>
> *Raine Adams and Nicole Hamman, Q3 2023 Allan Gray Quarterly Commentary*

Figure 1: ESG process overview



ACTIVE OWNERSHIP

Good stewardship of our clients' capital also requires active ownership, which we effect through engagement with companies and proxy voting on resolutions tabled at shareholder meetings.

We engage frequently and meaningfully with both company boards and management teams – we elaborate further on this in section 5.
We do not use external proxy advisers and prefer to reach our voting recommendations independently. We think critically about the resolutions at hand and make a point of engaging with boards ahead of time if we have concerns. We publish our voting recommendations, together with the outcome of the shareholders' vote on each relevant resolution, on our website quarterly in arrears. A summary of our voting activity over the year is provided in Annexure 5.

We acknowledge that we are invested in companies that have negative environmental or social externalities, and we focus on understanding how they aim to reduce their impact. Investing in "ESG improvers" makes investment sense, as better ESG credentials are likely to be rewarded by the market if they signify a stronger or more responsible business. We believe in holding management teams and boards to account on their strategy and execution.

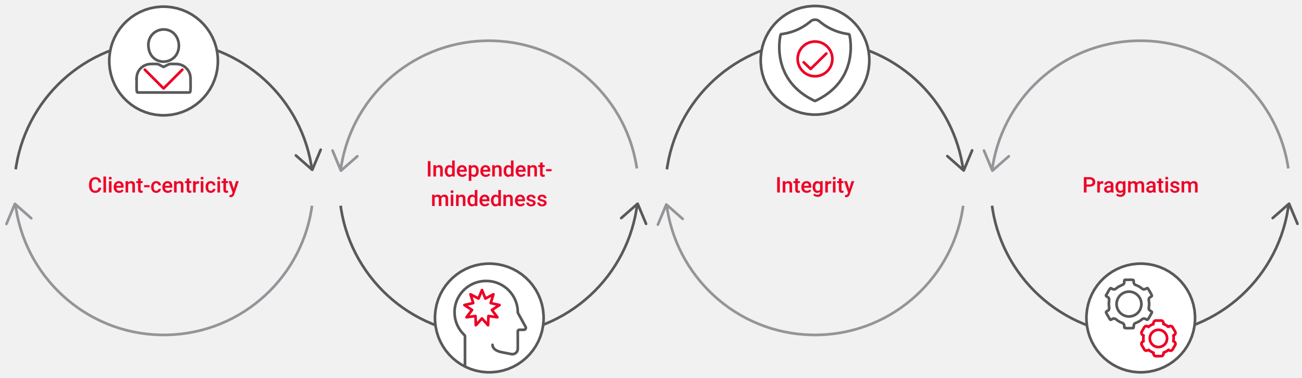
In addition to company engagements, we actively partake in industry initiatives that promote sound corporate governance and sustainable business practices.

We keep the following factors in mind in our approach to ESG:
Client-centricity: Our core objective is to build long-term wealth for our clients. It is therefore crucial to serve as responsible stewards of our clients' assets by safeguarding their interests as investors. We aim to generate the best possible risk-adjusted returns for our clients, as responsibly as possible.

Independent-mindedness: Allan Gray has always followed a contrarian investment approach, and we strongly encourage and value independent thinking. Our approach to responsible investing is no different. We may not always do what is popular, but we consider it far more important to be authentic.

Integrity: In a world where accusations of "greenwashing" abound, we try to be as clear as possible about our ESG commitments and honest about the limits of what we can achieve.

Figure 2: Factors we keep in mind in our approach to ESG



Pragmatism: We live in an imperfect world where there are often trade-offs involved in decision-making. We try to be realistic and pragmatic about these and make decisions that are in society's best interests. We recognise that not everyone will agree with our decisions and that, as with stock picking, at times we may get things wrong. In such cases, we endeavour to learn from our mistakes and remain open to changing our views as more information comes to light.

Our responsible investment policies, available on our website, provide more detail on how we consider sustainability in the investment process and how we approach ownership responsibilities on behalf of our clients. Clients may also refer to our position statement on climate change to understand our thinking around the role we can play to support the transition to a lower-carbon economy, as well as our ESG and climate FAQs which seek to provide insight into specific questions.

FIXED INCOME STEWARDSHIP

Bondholders and shareholders broadly share the same ESG concerns, but bondholders do not benefit from the same powers of ownership conferred on shareholders. For example, they cannot vote to remove directors. Therefore, our engagement approach when it comes to fixed income differs from 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 instrument.

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

In the case of corporates and parastatals, where we may be a more significant lender, we may request meetings with key management or write to boards when specific issues arise. Most of the corporates in our fixed income investment universe are listed entities, which allows us to draw on our equity research process in assessing the creditworthiness of issuers.

STEWARDSHIP IN OTHER MARKETS

The principles underlying our approach to stewardship also apply to investments in other markets. However, our approach may be adjusted to reflect the complexities introduced by investing in both larger or less developed markets.

Weighing up ESG considerations in frontier and other African markets can be challenging, as disclosures are generally more limited than for JSE-listed companies. Furthermore, developing markets typically feature systemic ESG challenges which, in turn, have implications for companies' operating conditions. Governance risk often includes heightened political risk at a macro level: Even companies exercising good corporate governance remain vulnerable.

When making voting recommendations, we cover all resolutions tabled by those companies to which our clients have material exposure.

In terms of engagement, we accept that our clients' positions in major companies in developed markets may not be large enough to ensure the same level of access to management and the board that we typically enjoy in South Africa. More substantial disclosure mitigates this concern to some extent.

Similarly, in the case of fixed interest instruments issued by governments, our ability to influence policymakers in Africa outside of South Africa is limited by the small size of a typical position in relation to the market capitalisation of the total debt in issue. Given our limited ability to bring about change using this method, our approach for these issuers focuses on research over direct engagement.

4. MATERIAL ESG RISKS WITHIN OUR TOP EQUITY HOLDINGS

We prioritise our clients' top holdings in our ongoing ESG research and monitoring, as these have the greatest ability to impact their investment value.

In this section, we discuss five of our clients' equity holdings, all of which were top 10 positions as at 31 December 2023, 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 each of the businesses, geographical and regulatory complexity, and the need to adapt well to a changing society. We discuss the actions we have taken to research and respond to these risks in recent years, as well as how potential opportunities have been weighed up. Given that we are long-term holders of assets, some engagements span many years, during which time we may see incremental year-on-year improvements.

ACTIONS TAKEN TO ADDRESS ESG CONCERNS

Anheuser-Busch InBev

Primary ESG concerns	Internal research areas	Engagement areas (audience)
Health impact of alcohol abuse Consumer activism	▪ Societal burden of alcohol abuse, possible responses by regulators and actions by the company ▪ Our offshore partner, Orbis, conducted supplemental ESG research on global alcoholic beverage company, with consideration of health impacts, regulation, divestment risk, demographics and changing consumer preferences	▪ Work done by the company to prevent harmful drinking (investor relations) ▪ ESG-based exclusions of alcohol companies in fund strategies (investor relations) ▪ Engagements between the company and governments on excise taxes (investor relations) ▪ Consumer behaviour, including demand for non-alcoholic beer and product boycotts (management)

British American Tobacco

Primary ESG concerns	Internal research areas	Engagement areas (audience)
Health impact of smoking Allegations of child labour in tobacco supply chain	▪ Next-generation products, health impact studies versus combustibles, associated global regulation and legal risk; discussed in multiple team meetings ▪ Current practices, such as prevention of sales to youth	▪ Next-generation product portfolio, progress and future targets (management) ▪ Commitments to address child labour in the supply chain and other sustainability considerations (head of Sustainability) ▪ Science-driven lobbying (management) ▪ Liaising to ensure consistent messaging to BAT on ESG issues (Orbis)
Allegations around regulatory interference with and methods for tackling the illicit tobacco trade	▪ Specific governance considerations at BAT were presented to our board of directors	▪ Governance-related allegations, particularly involving South African operations (chairperson and head of Group Compliance) ▪ Government intervention to prevent the proliferation of unregulated next-generation products in different markets (management)

Glencore		
Primary ESG concerns	**Internal research areas**	**Engagement areas (audience)**
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 the Congo ▪ Internal meeting to discuss the above research ▪ Ongoing monitoring of improvements to Glencore's Ethics and Compliance programme; attended a related webinar	▪ Board composition, ongoing compliance monitoring (chairperson and company secretary) ▪ Compliance improvements, particularly the prevention of intermediaries' engagements with governments (general counsel)
Thermal coal risk and green energy transition opportunity in commodity basket	▪ Demand for base metals under future climate transition scenarios; discussed in a team meeting ▪ Our offshore partner, Orbis, prepared a report on Glencore's greenhouse gas (GHG) reduction commitments	▪ Multiple engagements on Glencore's thermal coal strategy and GHG emission reduction targets (management and board) ▪ Feasibility of future coal demand and policy scenarios (Glencore's coal modelling expert) ▪ Meetings to discuss Glencore's climate commitments and potential recommendations (Orbis)
Health impact, community relations and child labour	▪ Ongoing monitoring of steps taken to improve traceability in cobalt supply chain	▪ Allegations of child labour, pollution and social unrest in the Democratic Republic of the Congo (chairperson and company secretary) ▪ Community relations around Cerrejón mine (chairperson)

Naspers and Prosus		
Primary ESG concerns	**Internal research areas**	**Engagement areas (audience)**
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) ▪ Regulatory clampdown, "common prosperity", "golden share" arrangements (investor relations)
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 ▪ Internal remuneration report prepared annually	▪ Share-exchange offer, cross-holding structure and share repurchases; presented our view (management) ▪ Executive remuneration scheme concerns; suggested improvements (remuneration committee chairperson)

Sasol		
Primary ESG concerns	**Internal research areas**	**Engagement areas (audience)**
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 and meetings with non-governmental organisations and academics for independent views ▪ Detailed review of annual updates to Sasol's climate strategy ▪ Detailed review of Sasol's appeal to switch from a concentration-based limit to a load-based limit for sulphur dioxide emissions	▪ Air pollution and climate change, including recommendations for related disclosures and commitments (chief executive officers, numerous other Sasol representatives) ▪ Site visit which included extensive discussion on integrated GHG reduction and air pollution reduction roadmap (numerous Sasol representatives)
Strategic mistakes Quantum of non-executive directors' fees	▪ Peer group benchmarking analysis on non-executive directors' fees ▪ Internal remuneration report prepared annually	▪ Governance failures related to the Lake Charles Chemicals Project (board) ▪ Non-executive directors' fees, including sharing our benchmarking analysis (remuneration committee) ▪ Ongoing executive remuneration engagements (remuneration committee)

ESG RISK RATINGS

In 2021, we added an ESG voting mechanism to the South African policy group meeting process. Policy group meetings are held for the Investment team to discuss and vote on research reports presented by the covering analysts.

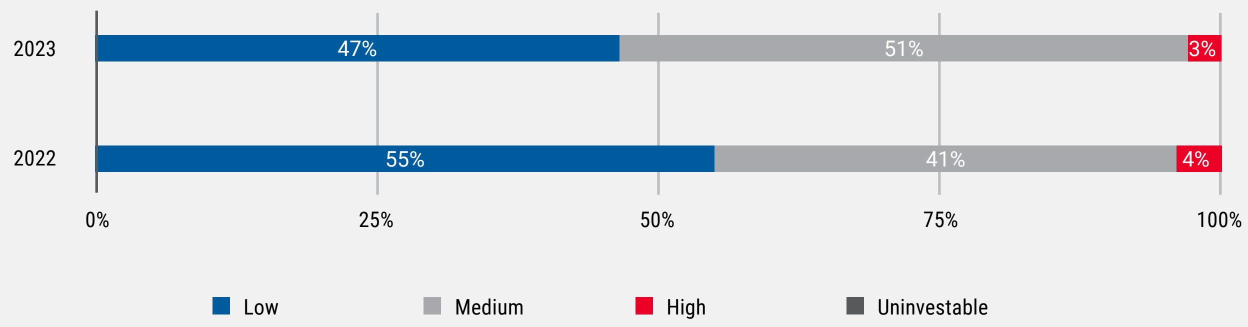
All Investment team members submit ESG "risk ratings" for the stock too. This rating uses a traffic light system – "low", "medium", "high" or "uninvestable" for the environmental and social (E and S) pillars, governance (G) pillar and the combined ESG vote. A weighted average ESG risk rating is then assigned to the stock, with an upweighting of portfolio managers' and ESG analysts' votes. This addition to our investment process aims to promote deeper consideration of ESG materiality by all analysts and prompt ESG discussion in the meeting, particularly when multiple team members have voted the stock as high risk. We also believe these ratings will serve as additional data points for internal benchmarking over time; for example, whether or not we are consistently evaluating ESG materiality. Importantly, they do not replace our existing overall risk rating for stocks, which is based on numerous factors, including ESG risks.

Figure 3 below shows the distribution of ESG risk ratings over the past two years. Please note that this only applies to stocks discussed at policy group meetings during the respective calendar years and is not a proxy for ESG risk within our clients' portfolios.

When an analyst votes a stock as carrying high E and S risks but low G risks, the combined ESG vote allows them to decide which aspect is more crucial to the investment case. Instead of giving the stock a "medium" ESG risk rating by averaging the E and S and the G ratings, they may decide that the high E and S risks are significant enough to warrant a "high" ESG risk rating overall. On the other hand, if the E and S risks are high but the company shows signs of strong management and mitigation, the combined ESG risk rating may be lower to reflect this. In this way, the combined ESG vote provides a "residual risk" rating.

Unsurprisingly, we did not vote any stocks as uninvestable on ESG grounds. We would hope not to encounter uninvestable ESG stocks very often. As with the chief investment officer's ethical veto, this internal mechanism is not intended to be used often.

Figure 3: Distribution of internal ESG risk ratings



There may be some discrepancies in totals due to rounding.

5. COMPANY ENGAGEMENT ACTIVITY

Engagement is an integral part of our investment process.

ENGAGING DIRECTORS

Our aim in engaging with a company's directors is to further the best interests of our clients by encouraging the directors to act in a way that preserves and enhances shareholder value. We always aim to engage in a constructive manner, as we believe that constructive engagement is more likely to succeed than hostile engagement.

The chairperson or non-executive directors of a company may request meetings with us from time to time. These meetings are usually arranged by the non-executive directors to solicit feedback from shareholders on matters such as the company's broad strategy, executive remuneration and the performance of executives. When offered these opportunities, we aim to speak candidly and make our views clear.

Unless it would be contrary to the best interests of our clients to do so, we aim to inform a company's representatives prior to a shareholders' meeting if our clients, in aggregate, hold a material shareholding in the company and we intend to recommend voting against any of the resolutions. Often, this creates an opportunity to explain to the company's directors why we believe a resolution is not in the shareholders' best interests.

ENGAGING EXECUTIVES

Company executives regularly ask to meet with us. These meetings typically follow the announcement of the company's financial results. We use these meetings primarily to improve our understanding of the business of the company.

We believe that the responsibility for the day-to-day operations of a company rests with its executives, and that we probably have limited value to add in this regard. From time to time, we may believe that we can contribute to a company's deliberations over its broad strategy, particularly with regard to capital allocation. When offering our views, we try to do so with humility.

Should we identify strategic, sustainability or governance concerns, and we do not expect to have an opportunity to communicate these concerns to the management team, we may contact either the company's executive or non-executive directors to discuss these concerns. We may communicate verbally or in writing, if we wish for our concerns to be placed on the record.

ESG ENGAGEMENT

From an ESG point of view, we typically engage with multiple stakeholders, including company boards and management teams, industry regulators, other industry participants, clients, civil society and activists. The way we engage has evolved over time. In the past, we mainly engaged with executives. Direct engagements with board representatives were few and far between. Nowadays, our engagements involve a wider range of stakeholders.

An important driver of more frequent engagement was the development of the JSE Listing Requirements, which made it mandatory for companies to table their executive remuneration policy and implementation report at annual general meetings from 2017. While these resolutions are advisory, it has prompted a "standing" governance engagement between shareholders and company representatives. In recent years, ESG measures have become more prominent in executive remuneration packages. This has meant that key environmental and social matters are often addressed as well.

These engagements typically exclude executive directors and may include the board chairperson, the remuneration committee chairperson and/or the company's E, S and G specialists – depending on which issues are discussed. Although these "standing" platforms are useful and an improvement from the past, they are not our only point of engagement.

Owing to the complexity and nuanced nature of environmental and social issues, many of which are interrelated, more focused engagements may be warranted. We prefer not to follow a formulaic approach to these engagements. They are mostly ad hoc, as the underlying drivers and objectives vary widely. Examples of engagement triggers include 1) thematic or company-specific research that has highlighted an ESG risk or opportunity for further discussion, and 2) adverse news prompting us to seek insight into whether the issue is being addressed appropriately.

HOW DOES ALLAN GRAY APPROACH ESG ENGAGEMENTS?

Over our history, we have learnt that the manner in which we approach our engagements is critical to achieving constructive outcomes. While the list is not exhaustive, we consider:

Materiality

We prioritise engagements with companies that are material in our clients' portfolios, or companies in which our clients own a material percentage. This contrasts with engaging with every company held in the portfolios. Instead, we dedicate more time to researching and engaging on issues that have the largest potential impact on our clients' portfolios or where we are most able to influence change.

Quality, not quantity

We are comfortable holding fewer, more meaningful engagements per year. We do not believe in contacting companies to discuss ESG issues on which they already report. We respect the time taken to prepare disclosures and always use them as a first port of call. We would like to develop a reputation with companies for high-quality ESG engagements that are mutually beneficial. This reputation should, in turn, allow us to have more influence.

Humility

We recognise that we are one of many stakeholders, and that companies undertake improvements of their own volition, therefore we avoid taking full credit for engagement outcomes. We also respect that boards may hear our views on strategy or executive performance and disagree with them. We prefer to engage with companies in private, recognising that these are typically more constructive than public engagements, which may be perceived as hostile and result in defensive behaviour.

Purpose

We engage only with the aim of achieving better outcomes for our clients (and society, although this is complex and often subjective) and not for other reasons, such as publicity.

Proactivity

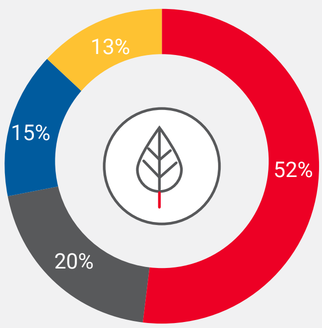
We aim to identify any potential ESG issues through thematic, sector- or stock-level research before they impact the business. We prefer to engage on these upfront, rather than when adverse news emerges (i.e. we aim to be proactive rather than reactive). Given the breadth of ESG factors, this is not always possible, but we have examples of detecting concerns and engaging before they become news headlines.

While we engage proactively on environmental and social matters, governance engagements remain more frequent and are often undertaken with the intention of influencing outcomes. Studies have shown that companies with stronger governance practices typically perform better on environmental and social metrics. We firmly believe in pushing for the alignment of the executive incentives to the interests of long-term shareholders to encourage a focus on long-term sustainability.

2023		Environmental	Social	Governance
Type of engagement	**Total number of engagements**	**Number of occasions when ESG issues were discussed**		
Meetings	386	57	81	112
Written correspondence	43	4	2	36
Site visits	24	6	8	2
Other forms of engagement	140	27	34	17
Total	**593**	**94**	**125**	**167**

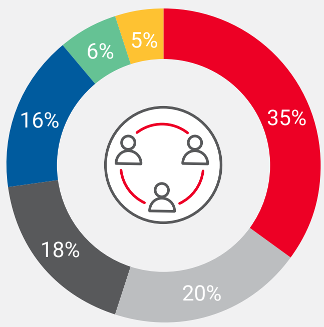
2023	593	94	125	167
2022	543	115	139	185
2021	487	89	117	139
2020	412	51	95	129

Environmental engagements



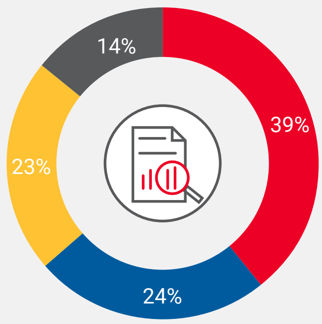
- Climate change, renewable energy and related
- Environmental considerations in the mining sector
- Policy, regulation, legal and compliance
- Other

Social engagements



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

Governance engagements



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

Annexures

1. INTRODUCTION OF ESG ENGAGEMENT CLASSIFICATIONS

At the start of 2023, we began classifying our environmental, social and governance (ESG) engagements according to their objectives. The intention is to provide clients with greater insight into the nature of these engagements. We have grouped them into five broad categories, as shown and discussed in more detail below.

ENGAGEMENT CATEGORIES

Raised by the company | **Fact-finding** | **Disclosure-enhancing** | **Influencing** | **Strategic intervention**

- Engagements “**raised by the company**” refer to ESG topics raised by a company’s management team during results meetings or via other channels. While the depth of discussion varies, these are generally higher-level engagements than those listed below.

- “**Fact-finding**” engagements are often initiated by our Investment team when we enquire about a particular ESG issue to gain more insight.

  As discussed, sometimes a company’s management team and board members proactively offer opportunities to engage on ESG matters. Alternatively, we approach or are approached by third parties. Not everyone believes that a fact-finding exercise meets the definition of an engagement. The Principles for Responsible Investment (PRI), to which we are a signatory, defines engagements as “interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) on ESG issues. Engagements are undertaken to influence (*or identify the need to influence*) ESG practices and/or improve ESG disclosure.”[1]

  Our fact-finding engagements are mostly held to obtain more detail on an investee company’s material ESG risks, which may lead to further engagement if we have concerns around mitigation. Often, the outcome is that we obtain comfort with the current management thereof and do not take it further.

  However, given that fact-finding communications still require preparation (a detailed review of ESG reporting and the tracking of trends and metrics over time) and because they may help us identify areas that warrant more intensive probing, we believe they still meet the definition of an engagement.

  While we use all resources at our disposal to delve into the detail of a company’s practices, it is also important to note that we are reliant on publicly available information and, in fact, prohibited by law from obtaining material, non-public information for investment decision-making. Therefore, appropriate limits are maintained.

- The next category is “**disclosure-enhancing**” engagements:

  This category includes the querying of changes in investee companies’ ESG disclosures; for example, why greenhouse gas emissions have been restated, or why a particular safety metric is no longer being disclosed. We believe that asking these questions enhances company disclosure by highlighting that investors are following the detail closely and therefore that consistency and transparency are important. We also engage to request additional disclosures or more clarity regarding certain disclosures, most notably on executive remuneration. This is particularly relevant in our clients’ Africa ex-SA universe, where we frequently provide suggestions on how executive remuneration disclosures can be improved.

1. Source: PRI Reporting Framework, Main Definitions, 2018

We do not believe in making broad-based requests in this category; for example, emailing all companies in our portfolio to request that they comply with a particular disclosure framework. Detailed reporting is onerous and resource intensive. Therefore, we should not expect an investee company with a small market capitalisation operating in one country to publish the same level of disclosures as a large-cap multinational company. It also may not be in shareholders' best interest from a cost and complexity perspective. Instead, we focus on what is most material for each company and engage on a case-by-case basis.

- Fourthly, we hold "**influencing**" engagements:

  We appreciate that holding listed equities on behalf of our clients means that we can vote towards the election of board members who are thereafter accountable for a company's governance, strategy, compliance and ethics. The executive management directs and executes strategy from an operational point of view. Shareholders, in turn, vote on how executives are remunerated.

  What does this mean? For the most part, we believe that the responsibility for the day-to-day operations of the company rests with the executives, and that we likely have limited value to add in this regard. Our best lever to positively influence management is to recommend our clients elect a competent and accountable board of directors that can provide crucial oversight against management incentive schemes that are poorly aligned with long-term shareholder value creation. In practice, however, this lever does not always work. For example, our clients may hold a small position in a company or a lower level of voting rights, depending on share classes. Given the range of shareholders, with varying opinions and interests, exercising our votes on behalf of clients does not always effect the change we consider necessary. Therefore, influencing engagements are an important part of active ownership.

  Our ongoing governance engagements on executive remuneration are a good example. When necessary, we push for improvements to the executive remuneration policy and the implementation thereof. We could request better disclosures on remuneration criteria (to enhance transparency and accountability) or attempt to improve the link between performance and pay. Often, the changes are incremental year-on-year but add up over time. In our *2021 Stewardship Report*, we provided examples of some of our engagements that have spanned multiple years but positively influenced the companies overall.

  From time to time, we may believe that we can contribute to a company's deliberations over its broader strategy. When offering our views, we try to do so with humility. We are generally reluctant to take full credit for an "ESG outcome". We recognise that companies engage with many stakeholders and undertake their own benchmarking exercises. Sometimes, we may be one of many voices that have influenced change.

- The final category is when we engage to push for a "**strategic intervention**". Of course, this is the exception rather than the norm. We have a long history, spanning decades, of demonstrating that we are willing to step in more decisively to protect our clients' interests when required. Our *2022 Stewardship Report* highlights some historical examples.

Figure 1: Number of engagements (2023)

97	46	29	49
Raised by the company	Fact-finding	Disclosure-enhancing	Influencing

CASE STUDIES

The case studies that follow in Annexure 2 show the breadth and depth of our ESG engagements and how they differ. The majority of our engagements are with issuers, but we do occasionally meet with institutions. For example, after the auditor of one of the companies in our clients' portfolios was named in a report published by the Independent Regulatory Board for Auditors (IRBA), we met with IRBA's director of Investigations to better understand their processes and how we might use their published information to improve our internal databases.

As mentioned previously, engagement with major companies in developed markets may involve different company representatives than the ones we typically have access to in South Africa. For example, for Life Healthcare's annual executive remuneration discussion we met with the remuneration committee chairperson as well as the board chairperson, whereas an engagement with Disney to discuss matters pertaining to the annual general meeting (AGM) involved an investor relations representative.

We believe that a company's willingness to engage reveals how seriously it takes the issue.

2. ENGAGEMENT CASE STUDIES

Life Healthcare	
Primary engagement objective	**Governance: Align executive remuneration with performance**
Motivation for engagement	We wanted to continue engaging with Life Healthcare around their executive remuneration policies.
Engagement categories	▪ Influencing ▪ Disclosure-enhancing
Company representatives	▪ Remuneration committee chairperson ▪ Board chairperson ▪ Investor relations
Allan Gray attendees	▪ Environmental, social and governance (ESG) analyst ▪ Investment analyst ▪ Portfolio manager
Salient points from engagement	▪ In respect of the remuneration for 2022, we highlighted our core concerns which included the omission of key long-term incentive (LTI) disclosures, the lack of consideration of long-term capital efficiency measures and insufficiently stretching targets. We have highlighted the importance of capital efficiency measures to the LTI since it was removed in 2021. ▪ In respect of remuneration for 2023, Life Healthcare proposed moving to a single incentive structure. While we are not against single incentive structures, they have shown to encumber the appropriate alignment of pay and long-term performance, given that the allocation of all performance-based pay typically happens annually based on retrospective performance. We advocated for a stronger single incentive structure through the incorporation of a longer-term trailing measurement period, particularly for the capital efficiency metric, a majority weighting to long-term trailing measures and the inclusion of a financial gatekeeper to prevent high vesting for non-financial measures, despite poor financial performance.
Supporting research	Internal remuneration assessment
Secondary engagement topic	Nursing environment
Outcome	At the annual general meeting (AGM) relating to 2022, we recommended against both executive remuneration resolutions. The respective resolutions received their lowest support in the company's history: 26% for the policy and 25% for the implementation report. We wrote to the remuneration committee (remco) and outlined our key concerns and suggestions for improvement. We are supportive of remcos that use strong shareholder opposition as a catalyst to enact change. However, we were disappointed with the quality of the revised policy tabled at the AGM relating to 2023. Our main concern was that the elements discussed in our engagement to enhance the single incentive structure were not taken on – most notably that all performance-based pay is based on a one-year performance period. These resolutions received support of 48% for the policy and 50% for the implementation report. Although an improvement from the previous year, these are still well below appropriate support levels.
Further action	Following the AGM relating to 2023, we furnished the company with our key suggestions for improvement. We will continue to engage with both management and the board.

AGM support	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Remuneration policy	75%	70%	90%	62%	26%	48%
Implementation report	76%	67%	64%	47%	25%	50%
Allan Gray recommendation						
Remuneration policy	For	For	For	For	Against	Against
Implementation report	Abstain	For	For	Against	Against	Against

The Independent Regulatory Board for Auditors (IRBA)	
Primary engagement objective	**Governance: Obtain an understanding of IRBA's investigation process with reference to registered auditors who have been found guilty of improper conduct and publicised by name**
Motivation for engagement	We wanted to improve our oversight on voting recommendations to clients on auditor appointments by leveraging the work performed by IRBA.
Engagement category	Fact-finding
IRBA representatives	▪ Director of Investigations ▪ Advocate in the Investigations department
Allan Gray attendees	▪ ESG analyst ▪ Investment analyst
Salient points from engagement	▪ We discussed the source of complaints, the investigation process and the roles of different parties, including the investigating committee, enforcement committee and disciplinary committee. ▪ We discussed the nature of the charges seen in IRBA's publications, the conditions which would lead IRBA to include an individual's name in these publications and the documentation a charged individual would be furnished with during the investigation process.
Supporting research	IRBA publications
Outcome	Following our IRBA engagement, we created an internal list of sanctioned auditors sourced from IRBA's published reports.
Further action	Going forward, we will cross reference registered auditors up for appointment or re-election at AGMs with the internal list. Our intention is not necessarily to recommend against auditor appointments, as the failure of the resolution could be problematic if a new auditor has to be sought during the audit period. Our objective is to ensure that the audit committee exercises the necessary oversight when we flag an individual. We follow the same principles underlying our director recommendations in that we focus on an individual's public track record, while remaining mindful that we are outsiders and that the audit committee is best placed to exercise oversight.

The Walt Disney Company	
Primary engagement objective	**Governance: Ensure the board of directors consists of high-calibre individuals who will preserve and create shareholder value**
Motivation for engagement	There was a proxy contest at the 2024 AGM whereby two shareholders, Trian Partners and Blackwells Capital, nominated directors to serve on the board.
Engagement category	Fact-finding
Company representative	Investor relations
Allan Gray attendees	▪ ESG analyst ▪ Investment analyst ▪ Portfolio manager
Salient points from engagement	▪ Partnering with activists ▪ Succession planning ▪ Capacity of directors ▪ Past performance ▪ Content
Supporting research	▪ Internal research report on US governance: This included a review of the use of shareholder proposals and general governance matters such as board compositions, company defences and shareholder rights. ▪ Internal proxy report: This included an assessment of all director nominees (Disney, Trian and Blackwells Capital) and an evaluation of Disney's remuneration structure. ▪ We attended a webinar hosted by Glass Lewis in which the Trian nominees, Nelson Peltz and James Rasulo, discussed their rationale for pursuing Disney directorships.
Secondary engagement topic	Executive remuneration
Outcome	We recommended in favour of the nominees of the Disney board at the AGM in 2024. The full slate of directors nominated by the board was elected with a substantial margin over the nominees of Trian and Blackwells Capital.
Further action	We will monitor shareholder outcomes and engage accordingly.

Thungela Resources	
Primary engagement objective	**Environmental: Ensure the preservation of natural resources**
Motivation for engagement	We wanted to follow up on remedial action taken following a toxic spill into a key river system. The primary cause was deemed to be illegal mining in the vicinity of the closed mine shaft.
Engagement categories	▪ Fact-finding ▪ Influencing
Company representative	Head of Investor Relations
Allan Gray attendee	ESG analyst, after consultation with investment analyst and portfolio manager
Salient points from engagement	Allan Gray made numerous enquiries, including requests for: ▪ An update on the progress of remedial actions, including the current stocks of the 13 indigenous fish species impacted, the habitat restoration versus the pre-spill baseline and the findings of a food chain study. ▪ An update on the fish breeding facility at the Loskop Dam Nature Reserve to aid the recovery of the fish population. ▪ An update on costs incurred for restoration to date and confirmation of whether Thungela was incurring the full cost. ▪ More detail on the experts involved in the rehabilitation process. We also queried allegations that experts had signed non-disclosure agreements (NDAs). Thungela confirmed that no NDAs were in place with the specialist review panel, which included members from the Mpumalanga Tourism and Parks Agency, Council for Scientific and Industrial Research, and the Department of Water and Sanitation. NDAs were entered into with consultants undertaking the monitoring and reporting. This is said to be standard commercial practice. While we complimented Thungela on the spill-related disclosures made in the 2023 edition of its ESG Report, which were useful, we strongly encouraged the publication of a more detailed study or an update on the restoration and rehabilitation progress to date, as well as the remedial plan's short-, medium- and long-term objectives. We noted the value in increasing public transparency.
Supporting research	▪ An article in *The Mission* magazine raised some concerns that warranted further enquiry. ▪ Thungela reporting
Outcome	We appreciated that Thungela responded to each of Allan Gray's queries and provided an overview of the rehabilitation plan for the Wilge-Olifants River system. Importantly, Thungela committed to providing a more detailed update on the river restoration and rehabilitation in the 2024 edition of its ESG Report and reiterated its commitment to transparency on this issue.
Further action	Thungela's head of Investor Relations offered Allan Gray a meeting with the head of Sustainability. We were satisfied with the responses received and the commitment made by Thungela at the time of writing. We will take them up on the offer to receive an update in 2024.

Mining company	
Primary engagement objective	**Social: An ESG update, with a significant focus on heightening social risks in South Africa**
Motivation for engagement	Offered by the company
Engagement categories	▪ Fact-finding ▪ Influencing
Company representatives	Group executives of multiple departments
Allan Gray attendees	▪ ESG analyst ▪ Investment analyst
Salient points from engagement	The conversation highlighted the decline of the rule of law in South Africa. The company noted a material increase in risks to the safety of its employees working in procurement, security and general management. Management also raised that self-appointed business forums seeking employment and procurement were becoming more fragmented, delaying the engagement progress. We enquired about employee morale, as well as signs of growing unrest among employees and local communities, given loadshedding, the rising cost of living and crime.
Supporting research	▪ Mining companies' reports ▪ News articles
Secondary engagement topic	Allan Gray noted our engagement target for investee companies to set science-based climate targets, preferably verified by the Science-Based Targets initiative. In addition, we spent time discussing the company's executive remuneration scheme, with a particular focus on ESG metrics.
Outcome	We appreciated the company's candour regarding the heightening social risks in South Africa, which have been echoed by many other companies. This engagement provided greater insight into the growing challenges. At the company's request, we conveyed our opinion on its remuneration scheme and how ESG metrics could be most constructively incorporated. The company noted that they had employed an independent team to assess their greenhouse gas reduction pathway.
Further action	We continue to engage with companies exposed to South Africa on SA Inc risks. We also manage various risks by ensuring diversification of our clients' investment portfolios.

3. ESG RESEARCH AND REGULATORY ENGAGEMENT OVER TIME

Since our inception in 1973, we have been privileged to witness the evolution of shareholder rights associated with JSE-listed companies. These rights have been instrumental in enhancing corporate governance. Over the past decade, we have observed significant strides in the executive remuneration landscape.

Notably, in 2017, the JSE Listings Requirements underwent amendments, ushering in annual advisory resolutions on executive remuneration. This crucial change provided a platform for dissenting shareholders to engage, granting minority shareholders a more significant voice in corporate affairs. This development empowered us to scrutinise executive remuneration schemes meticulously and advocate for structures that align executive pay outcomes with shareholder interests. That alignment is essential in fostering decision-making that enhances shareholder value while deterring actions that could potentially erode it. It is this impact on shareholder value that motivates us to continue our pursuit of well-aligned executive remuneration structures.

GOVERNANCE CASE STUDY: COMPANIES AMENDMENT BILL

The proposed 2023 Companies Amendment Bill ("CAB") seeks to integrate shareholder approval on executive remuneration into the Companies Act, which differs from the current process outlined in the JSE Listings Requirements. While we acknowledge there is ample room for improvement in the current process, the key question for our purposes has been: For JSE-listed companies, do the proposed amendments under the CAB enhance the current process? In our view, in the CAB's current form, the amendments do not. Given that the proposed amendments would change how we go about exercising our stewardship responsibilities over executive remuneration, i.e. the nature of shareholder rights and the frequency with which we engage with remuneration committees (remcos), we have a vested interest in the development of this important piece of legislation. We have participated in all three rounds of public consultation since the 2021 draft that first included shareholder approval on executive remuneration.

In framing our feedback during these consultations, we leveraged our experience of the current process. Our submissions highlighted the potential impact of the proposed amendments on the quality of executive remuneration schemes, the process of shareholder engagement and the quality of South African boards.

OUR EFFORTS

Submissions can either be made in our capacity as Allan Gray, through industry associations such as the Association for Savings and Investment South Africa (ASISA), or through professional forums such as the Institute of Directors South Africa's Remuneration Committee Forum (IoDSA REMCO Forum). We advocated for an industry submission via ASISA. However, in 2021 and 2023, ASISA failed to garner enough member submissions to justify an industry submission. This outcome was disappointing, as we observed that participants representing the shareholder perspective were underrepresented throughout the public consultations.

The IoDSA REMCO Forum is a diverse platform that includes representatives from institutional investors, remuneration committees, consultants and independent members occupying internal reward roles at issuers. Through our seat, we contributed to the REMCO Forum's submissions in 2021, 2023 and 2024 as shown in **Figure 1**.

Drawing on our experience, we also provided feedback directly to the Department of Trade, Industry and Competition (DTIC) (2021), the Portfolio Committee on Trade, Industry and Competition (2023) and the Select Committee on Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour (2024).

Figure 1: Timeline of our CAB-related submissions/participations

OUR KEY CONCERNS

Remuneration policy

Under the current process, JSE-listed companies table their remuneration policies and implementation reports on an annual basis. Where more than 25% of shareholder opposition is obtained for either resolution, issuers are required to invite dissenting shareholders to engage. As a result, shareholders have the opportunity to engage with remcos when remuneration resolutions obtain 25-49% shareholder opposition. We make use of these opportunities: Since the JSE introduced these advisory resolutions, our clients have voted on 990 executive remuneration resolutions, and we have held 196 remuneration-focused engagements. The aim of our engagement is to be constructive by highlighting our key concerns and providing remcos with practical recommendations for improvement.

The traditional structure for an executive's performance-pay structure involves an annual short-term incentive (STI) measured over a one-year period and an annual long-term incentive (LTI) most commonly measured over a three-year period. In South Africa, the remuneration policy includes the LTIs' performance conditions and their respective financial targets for the upcoming three-year measurement period. Annual engagement on remuneration policies has served us well: We have been able to encourage companies to include suitable performance conditions and set robust financial targets, as it is particularly difficult for remcos to amend these incentives once they have been awarded. The annual policy engagement therefore acts as a meaningful soundboard for remcos to hear shareholders' concerns while they are still in a position to make improvements.

Under the CAB's proposed amendments, many aspects would change: Remuneration policies would only be tabled every three years, provided no material changes are made, and the resolution would be an ordinary one, which requires 50% shareholder approval to pass. In practice, only 2% of the JSE's top 100 companies' remuneration policies obtained below 50% shareholder approval over the five-year period from 2019 to 2023. In our view, this is not a reflection of the high quality of remuneration policies, but rather the predominance of average policies that are not poor enough to get voted down, largely due to the nature of shareholder makeup. Given concentrated ownership structures in South Africa, an ordinary resolution threshold of 50% fails to accommodate scenarios where minority shareholders are strongly in opposition. Even if the JSE Listings Requirements remain unchanged and issuers need to invite dissenting shareholders to engage when they receive more than 25% opposition, how efficient would that engagement be if issuers have already obtained the 50% support required by the Companies Act?

In the United Kingdom, remuneration policies are tabled every three years. As a result, companies tend to update policies once every three years. While locally the implementation report is proposed to be tabled annually, the policy dictates the bounds of the implementation. If the remuneration policy is weak, the shareholder rights on the implementation report will not carry much weight. We are concerned that the loss of meaningful shareholder engagement and the reduced resolution frequency will slow the pace at which policy improvements can be made, ultimately affecting the quality of remuneration schemes.

Consequences for remco members

Under the current process, one-third of non-executive directors stand for re-election annually. Depending on the size of the board, this typically means the remco chair stands for re-election in their board capacity around every three years. The CAB proposes direct consequences for remco members following successive failure of the implementation report resolution. **Table 1** on page 26 shows the development of this proposal. Initially, it was very hostile towards issuers, requiring all remco members to step down following one failed implementation report. The latest version is less punitive and introduces a safeguard – the consequences only apply to remco members who have served for more than 12 months, and the consequences follow two successive failed implementation reports. In the event that this happens, remco members will be ineligible to serve on the remco for two years. Table 1 illustrates the value of public consultations, as some improvements have been made.

This proposed amendment to the consequences for board and remco members has been an area where both issuers and shareholders have expressed the same concerns during the consultation processes. The main concern is that these stringent consequences will have the unintended effect of diminishing the value proposition of serving on remcos. We echoed these concerns in our submissions. Remco members have a specialised skillset. Our key concern is that it is unlikely that remco members will continue to serve on the board should they be declared ineligible. To ensure a balance of views, it is important that remco members are experienced and can provide an independent voice that challenges management and remuneration consultants, especially as remuneration consultants become more prevalent. The high turnover of directors resulting from this amendment could diminish the quality of individuals serving as directors and impact the quality of executive remuneration schemes. In our experience, positive shareholder activism requires time, and remcos require time to build relationships with management and shareholders in order to get improvements over the line.

We acknowledge the need for director accountability in the current process. However, we believe the consequences should be more balanced so as not to deter participation of non-executive directors on boards. Our suggestion throughout has been that it should be the remco chair as the ultimate accountable party who stands for re-election following two successive failed votes instead of all remco members.

Table 1: Amendments to the consequences for remco members

BEFORE		AFTER
Following one failed implementation report		Following two failed implementation reports
All remco members		Remco members with tenure longer than 12 months
Step down from the board		Continue to serve on board but ineligible to serve on remco for two years

GOING FORWARD

We will continue to monitor developments relating to the CAB, particularly how the JSE Listings Requirements will be amended should the CAB be enacted. At the time of writing, the CAB is with the president for assent. Overall, we advocate for a balanced outcome, where shareholder rights are preserved while the quality of boards and executive remuneration schemes are not compromised.

4. ESG RESEARCH AND COMPANY ENGAGEMENT OVER TIME

We prioritise environmental, social and governance (ESG) research and engagements relating to our clients' most material holdings, as we believe these hold the greatest potential to shift the needle on client outcomes. Given that we are long-term investors, and because ESG matters are dynamic, our engagements may span many years, as we demonstrate in the case studies that follow.

ENVIRONMENTAL CASE STUDY: SASOL

Weighing up ESG considerations

Sasol is a prime example of the complexities of ESG evaluation. On the one hand, it is a substantial emitter of greenhouse gases (GHGs) and other pollutants. On the other hand, it plays a critically important economic and social role in South Africa, which cannot be overlooked.

How do we weigh these up?

We believe high-quality, in-depth ESG research is the first step. As part of this, we always try to place the negative (or positive) externality in context to understand the broader implications.

South Africa is among the top 15 countries in terms of carbon dioxide-equivalent (CO_2e) emissions, accounting for 1.2% of the global total (see **Graph 1**). On a GHG emissions per capita basis, we rank 45th. In South Africa, Sasol is the second-largest GHG emitter after Eskom.

However, Sasol's emissions must be contextualised. Sasol's scope 1 emissions (i.e. relating to onsite combustion of fossil fuels) account for approximately 12% of South Africa's emissions before the carbon sink resulting from forestry and other land use (FOLU). Consequently, Sasol's scope 1 GHG emissions account for roughly 0.14% of global GHG emissions.

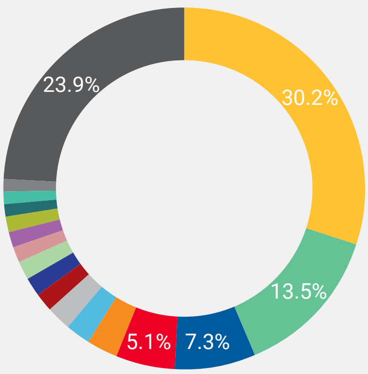
Sasol is targeting a 30% reduction in its GHG emissions by 2030. If it only achieves a 20% reduction by this time, this 10% difference is equivalent to 0.014% (10% x 0.14%) of global GHG emissions. One should therefore consider the cost-benefit outcome of insisting on the achievement of a specific reduction in the absence of a credible long-term business strategy. Furthermore, just three countries – China, the United States and India – account for over 50% of total global GHG emissions. We believe it is important to keep this in mind when weighing up the substantial economic and social contribution that Sasol makes to South Africa.

Sasol employs approximately 25 000 South Africans, which grows to 73 000 once its direct suppliers are included. When casting the net wider, Sasol supports 458 000 local jobs. This takes its upstream value chain and the induced effects thereof into account. Sasol is also a large supporter of bursaries and skills development in South Africa. In a country with critically high unemployment and poverty, considering the induced economic impact of policy decisions – and engagement objectives in our case – is very important.

Sasol directly contributes 4% of government revenue and 1.6% of South Africa's GDP. When one includes Sasol's upstream value chain and induced effects, its contribution rises to 12% of government revenue and 5.2% of GDP.

Secunda, Sasol's synthetic fuel plant, and Natref, South Africa's only inland crude oil refinery, supply the equivalent of 50% of South Africa's inland fuel demand (Sasol owns 64% of Natref). This is very important when thinking about energy security. For example, Sasol supplies 30-35% of South Africa's jet fuel demand. The alternative would be importing even more oil than the status quo. In addition, Sasol is a significant exporter of chemicals. By reducing imports and increasing exports, it makes a key contribution to South Africa's balance of payments.

Graph 1: Greenhouse gas emissions by country in 2022



China	30.2%	Indonesia	2.1%	Brazil	1.3%
United States	13.5%	Saudi Arabia	1.8%	South Africa	1.2%
India	7.3%	Germany	1.7%	Turkey	1.2%
Russia	5.1%	South Korea	1.6%	Australia	1.1%
Japan	2.8%	Canada	1.5%	Rest of world	23.9%
Iran	2.3%	Mexico	1.5%		

Source: Allan Gray research based on the annual Statistical Review of World Energy

This does not mean that Sasol should be allowed to operate with impunity or should be considered "too big to fail". In 2018, we wrote a letter to Sasol's joint CEOs on behalf of our clients in which we made multiple recommendations to improve sustainability disclosures and performance, including that Sasol should consider proactively setting a long-term GHG emission reduction target.

Graph 2 shows South Africa's GHG emissions excluding FOLU, which is based on South Africa's National GHG Inventory Report for 2000-2020, published in December 2022. It also compares this to South Africa's annual CO_2e emissions from energy, process emissions, methane and flaring, as reported in the 2023 edition of the *Statistical Review of World Energy* – a global database. The red bar shows the GHG emissions range that South Africa has committed to achieving by 2030 under our Nationally Determined Contribution (NDC) submitted in 2021. This ranges from 350-420 million tonnes (Mt) CO_2e including FOLU, thereby estimated at 367-437 Mt CO_2e excluding FOLU, versus 467 Mt CO_2e of GHG emissions in 2020.

According to Climate Action Tracker, the lower end of South Africa's committed 2030 range would be 1.5°C-compatible when compared to modelled emissions pathways (but not South Africa's fair share contribution), while the upper end would only be "almost sufficient", equivalent to less than 2°C.

One may conclude from the trend of Graph 2 that South Africa is on track to achieve its 2030 NDC, as GHG emissions have been in decline since 2009. However, this is not as much of an achievement as it sounds, as it reflects serious economic stagnation and deindustrialisation.

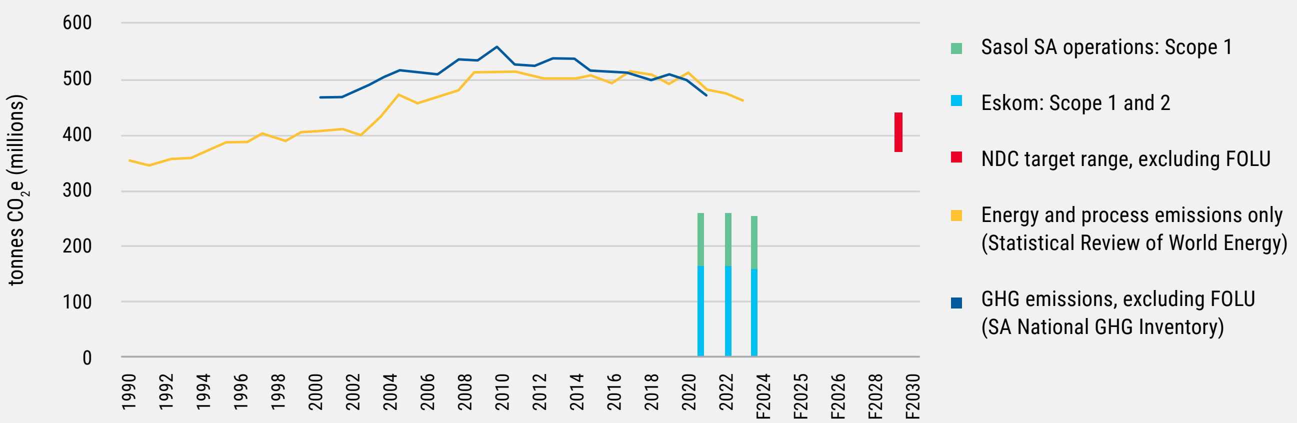
Eskom accounts for approximately 50% of South Africa's GHG emissions. Given that the median age of Eskom's 14 coal power plants is 39 years, the power sector is ripe for change. For example, gas power plants typically emit 50% less than equivalent coal power plants, as evidenced by the United States' decline in GHG emissions since switching from coal to gas power. If South Africa is able to upgrade its transmission infrastructure timeously, the flexibility of gas would pair well with a greater intermittent renewable energy buildout.

Unfortunately, because of the historical gross mismanagement of Eskom, South Africa has no immediate alternatives to coal baseload power and must try to extend the life of its overworked coal power plants, where possible. This will prevent a significant decline in Eskom's GHG emission profile to 2030. Greater activist pressure has now fallen on Sasol, as the largest private emitter, to commit to larger GHG reductions by 2030.

Sasol's current plan to reduce GHG emissions by 2030 is to turn down five or six of its 17 coal boilers at Secunda. Thereafter, its decarbonisation strategy is relatively unclear. We believe Sasol and the government should remain open to a scenario in which Secunda aims for less decarbonisation in the short term but considers a hard shutdown from 2040+ – in recognition of the fact that coal-to-liquids technology may not have a place in a net-zero world. This would, of course, necessitate a proper wind-down plan to manage the transition for all affected stakeholders. Sasol speaks of plans to retrofit the Secunda facility to thrive in a low-carbon world, but without adequate data to support the various options being discussed, shareholders are not yet able to offer meaningful support. We appreciate the complexity of this situation and continue to engage and monitor Sasol's strategy as it evolves.

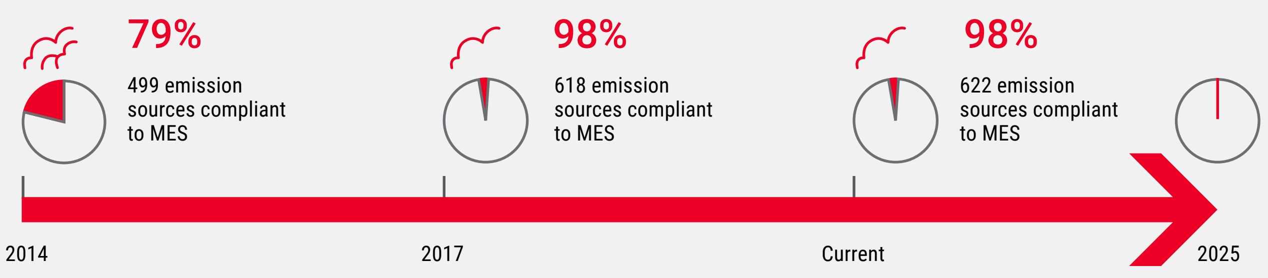
In terms of airborne pollutant emissions, the key concern is Sasol's non-compliance with minimum emission standards (MES) for sulphur dioxide (SO_2) at Secunda by 2025, initially postponed from 2020. In 2023, Sasol applied for its concentration-based limit under the MES to be changed to a load-based limit, which was denied by the National Air Quality Officer. Sasol appealed this ruling to the minister of Forestry, Fisheries and the Environment. In April 2024, the minister granted Sasol permission to manage SO_2 emissions under a load-based limit to 2030, subject to certain conditions and requirements which will be incorporated into Sasol's atmospheric emission licence.

Graph 2: South Africa's GHG emissions and 2030 target range



Sources: National GHG Inventory Report South Africa 2000-2020 (DFFE); Statistical Review of World Energy (2023), Climate Action Tracker, Sasol and Eskom

Figure 1: Sasol's compliance with South Africa's minimum emission standards for air pollution



Source: Sasol

In 2018, one of our ESG analysts prepared a deep-dive report on Sasol's GHG emissions and air quality impacts, which was discussed by the investment team during an internal meeting. The report incorporated numerous sources, including information obtained from attending two meetings of the Parliamentary Portfolio Committee on Environmental Affairs focused on air quality compliance as well as meeting with an NGO. We also compared South Africa's ambient air quality standards to the World Health Organisation's Air Quality Guidelines as well as standards in other countries, and evaluated in detail the actions that Sasol had taken to reduce various air pollutants.

We subsequently sent a letter to the joint CEOs, primarily outlining our concerns regarding SO_2 emissions compliance and querying further action plans to address air pollution.

Over the subsequent years, we followed up with Sasol on emissions compliance at numerous meetings, including a meeting with Sasol's head of Technology to understand the limitations of retrofit options to reduce SO_2 emissions. We recognise that Sasol has made strides on complying with South Africa's MES, as indicated by its timeline in **Figure 1**, and remain committed to engaging on best possible solutions to reducing pollutants.

ESG engagements: An ongoing process

To give an indication of the extent of our engagements as well as the ongoing prominence of ESG matters over time, **Table 1** outlines the number of engagements Allan Gray has had with Sasol representatives, third parties or other asset managers regarding Sasol since 2017. This is not to say that we did not have ESG-related discussions prior to this – we had already been discussing topics such as carbon tax and air quality compliance for many years.

As stated earlier, we believe in placing a company's negative externalities in context and weighing them against the positive externalities. With that said, we always encourage companies to minimise their negative impacts and Sasol is no exception. Given that Secunda is an integrated and complex facility, the solutions are not easy. We continue to engage with management on finding a suitable path forward, recognising that ESG considerations are central to the investment case.

Table 1: Engagements regarding Sasol since 2017

Type of engagement	Number of engagements
Financial results, where ESG matters were discussed	7
Financial results, where no ESG matters were discussed	8
Business update	6
Governance focus	13
Remuneration focus	13
Environmental and social focus	14
Site visit	4
Group ESG engagements with Sasol and/or other shareholders	4

69

Total number of engagements

CORPORATE GOVERNANCE CASE STUDY: GLENCORE

The investment case for ESG improvers

In 2018, the US Department of Justice (DOJ) announced an investigation into Glencore for a violation of the US Foreign Corrupt Practices Act (FCPA), primarily related to its business in the Democratic Republic of Congo from 2007 to 2018. Glencore lost approximately 8% of its market value on the day of the announcement and continued to lose value over the next 18 months. This was partly due to the DOJ/governance overhang but also because it coincided with peak negative sentiment towards thermal coal, which affected Glencore as the world's largest seaborne thermal coal producer.

Our Investment team adopted a three-pronged approach to researching the DOJ investigation and quantifying its risks to the investment case:

1. We considered whether the corruption was pervasive and intrinsic to Glencore's business model. In our view, it was not: Approximately two-thirds of Glencore's through-the-cycle cash flows were generated in stable, more regulated jurisdictions.

2. We evaluated whether there were signs of improvement in Glencore's compliance and company culture. As part of this due diligence, we called for separate meetings with Glencore's chair and general counsel.

   Based on our meetings, we believed that Glencore was cooperating with the DOJ investigation and that strides had been made in its compliance programme. A key finding was that Glencore had now banned the use of local "middlemen" or intermediaries in negotiations with governments unless a very strong business case was presented to the Compliance department, and they approved it as an exception. We believed this would reduce the risk of corruption in future. We expressed support for this change and encouraged further enhancements. Our research into the FCPA showed that most companies enter into a plea agreement with the DOJ. As part of this process, they open their books up to a more global audit and/or allow for the appointment of a compliance monitor – an independent legal company which monitors a company's compliance and internal controls for several years after a DOJ agreement has been reached. We believed that such an outcome would further reduce the risk of ongoing unethical conduct. As anticipated, upon settling with the DOJ in 2022, Glencore agreed to the appointment of an independent compliance monitor for a three-year period.

3. We undertook research into the FCPA and the likely size of the fine and associated costs to assess the financial risk. This included joining expert calls and evaluating former FCPA rulings in detail.

   Based on our estimate of the FCPA fine and associated costs, our view was that the share price decline had created a sufficient margin of safety to invest. Our portfolio managers subsequently built a material position in Glencore on behalf our clients. It proved to be a good decision, making a strong contribution to investment outperformance in the following period. **Graph 3** highlights share price performance over this period but excludes the benefit of dividends, which further contributed to our clients' total return. Glencore's ultimate settlement with the DOJ and other regulatory organisations in 2022 was in line with our estimates, based on research conducted in 2018. We subsequently continued to monitor FCPA fines.

This is one of the best examples we have of where deep-dive ESG research and engagement added value to the investment case. It also demonstrates that we are not opposed to investing in "ESG improvers"

Graph 3: Glencore's market capitalisation from 2017 to 2023

Sources: Bloomberg, Institute for Energy Economics and Financial Analysis, Mining Technology as opposed to "ESG leaders" when we can see a path for the gap to close. The latter presents an opportunity for an accompanying market re-rating of the stock.

Of course, ongoing monitoring and engagement remains important. We subsequently discussed governance-related matters – such as the regulatory investigations, compliance and due diligence procedures, and corporate culture – with the chairperson and management at eight meetings. We also performed other channel checks such as informally asking employees about changes in the company's culture.

Climate strategy: To unbundle or not to unbundle coal

Glencore's climate strategy has been another focus area during engagements. For example, we met with the head of Sustainable Development on climate-related matters in 2022 and 2023, and we discussed its thermal coal strategy in detail at 10 meetings since 2018. We also called a meeting with Glencore's coal modelling expert in 2019 to evaluate the company's research into coal demand under various policy and climate scenarios (as compared to our internal research).

In 2023, following news that Glencore was making an offer to purchase Teck Resources and possibly unbundling the merged coal business, we engaged with Glencore and reaffirmed our previously communicated position that we were in favour of the original strategy not to unbundle coal but rather to "retain and retire". Of course, Glencore has many stakeholders, many of whom would like the company to unbundle coal, and we recognise the conflicting pressures.

Glencore has subsequently completed the acquisition of a 77% stake in Teck's steelmaking coal business. Management has not yet confirmed whether the steelmaking and thermal coal businesses will be unbundled post-acquisition, stating that they plan to engage with shareholders on an optimal strategy to unlock shareholder value post-acquisition.

ESG engagements: An ongoing process

Between 2018 and 2023, Allan Gray met with Glencore's directors or executives 22 times and sent one letter to the board. ESG matters were discussed at all meetings given the materiality of ESG factors to Glencore's investment case. Company representatives included the chair, CEO, CFO, company secretary, remuneration committee chair, head of Sustainable Development and other heads of department.

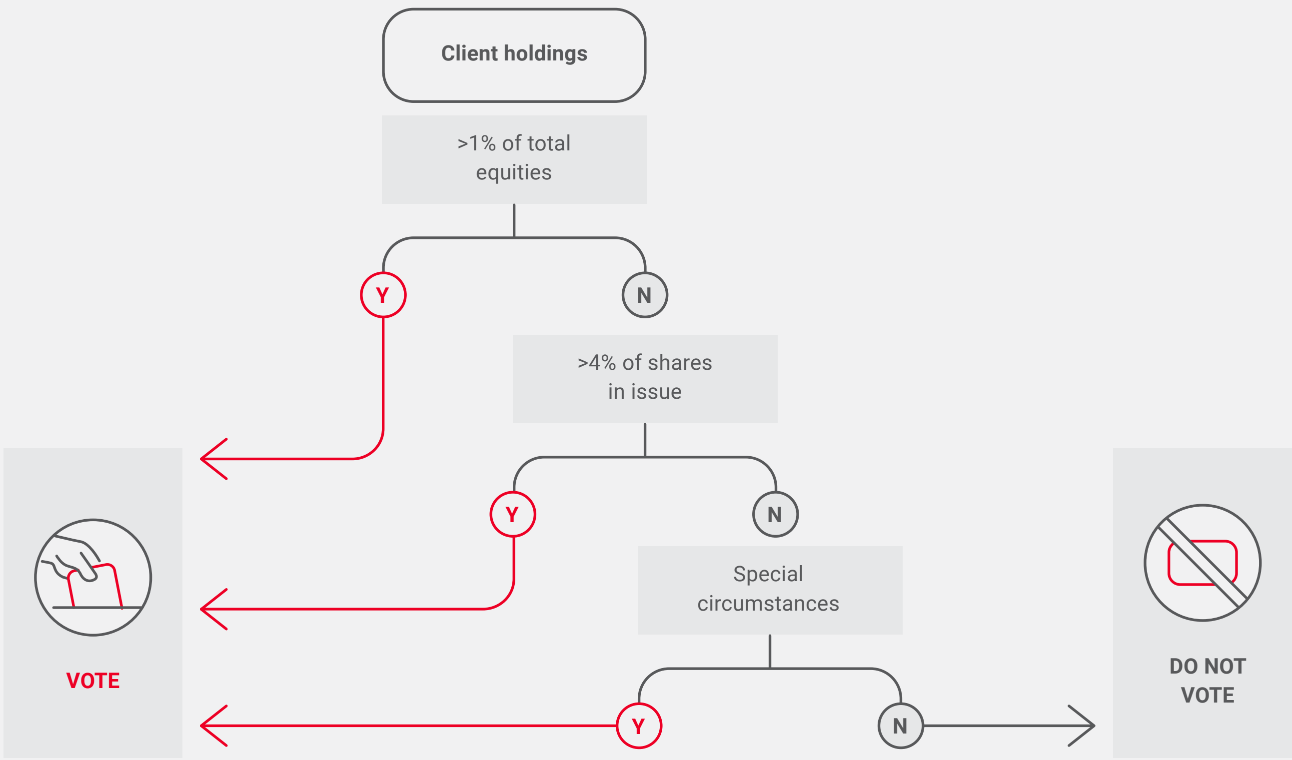
ESG discussion topics at meetings have been broad. Within corporate governance, key themes included compliance and ethics, management succession and remuneration, and board structure. Environmental discussions have centred on Glencore's thermal coal and decarbonisation strategy within the global energy transition and, to a lesser extent, tailings management. Most of these meetings also included discussions around Glencore's base metals basket, which presents a substantial opportunity in an electrifying world. Finally, social themes included safety, Glencore's response to artisanal mining in the Democratic Republic of Congo, and how they ensure responsible cobalt mining and community relations in Cerrejón.

5. VOTING ACTIVITY

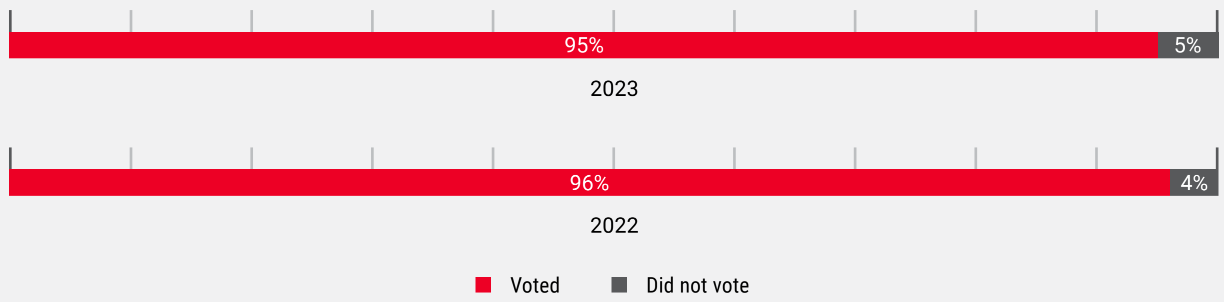
UNDERSTANDING OUR VOTING METHODOLOGY

We make use of internal guidelines for voting recommendations. As illustrated in **Figure 1**, we provide voting recommendations for general meetings for all companies in which either the value of our clients' aggregated holdings exceeds 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 that fall below these thresholds if we believe that special circumstances warrant such action. Special circumstances are determined on a case-by-case basis. We apply our minds and consider where our clients' interests could be materially impacted. We monitor our voting thresholds to ensure our proxy voting captures a significant portion of our total equity position. As shown in **Graph 1**, we voted at the annual general meetings (AGMs) of 95% of our total equity position[1] for the calendar year ending 31 December 2023.

Figure 1: Voting approach



Graph 1: Total equity position voted at AGMs



1. Given that position sizes fluctuate, and we could build a position in the latter half of the year for a company whose AGM took place in beginning of the year, this has been updated by using our average equity position instead of our year-end position. 2022 has been restated and was unchanged under the updated method.

Table 1: Voting recommendations

	Number of meetings	For	Against	Abstain	Dissenting (%)	Total resolutions
South Africa	80	1 252	93	8	7%	1 353
Africa (ex-SA)	60	467	45	56	18%	568
Total	**140**	**1 719**	**138**	**64**	**11%**	**1 921**

PROXY VOTING RECORD

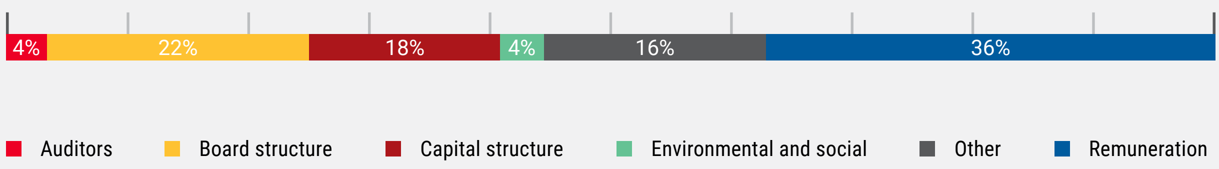
During 2023, we made voting recommendations on 1 921 resolutions tabled at shareholder meetings, as shown in **Table 1**. Dissenting votes include recommendations to our clients to either vote against or abstain from voting. We recommend dissenting votes for various reasons in line with our *Policy on ownership responsibilities*. Our voting recommendations are shared on our website quarterly in arrears.

UNDERSTANDING OUR DISSENTING VOTES

Africa (excluding South Africa)

We apply the same principles when making recommendations across regions, and our reasons for dissenting votes in Africa (ex-SA) are largely similar to those in South Africa. Given that not all regions require the same resolutions to be tabled, the remuneration category includes resolutions relating to executive remuneration, directors' fees and auditors' remuneration. The largest constraint in Africa (ex-SA) remains the quality of disclosure around AGM resolutions. This often prohibits us from providing an informed voting recommendation. As a result, abstentions are far higher in Africa (ex-SA), as shown in Table 1. We provide companies with disclosure recommendations, but for this to significantly improve, we require regulatory advances in the relevant corporate governance codes.

Figure 2: Dissenting votes per resolution for Africa (ex-SA)



South Africa

Breakdown of dissenting votes by category		2023 examples
Board structure 8%	Our dissenting recommendations stem from concerns that director appointments or re-elections are not in the best interests of shareholders. As outsiders, we are not privy to the inner workings of the board. However, we consider the shareholder outcomes under a board and whether value has been created or destroyed. We consider the individual performance of directors, the overall performance of the board, the composition of the board as well as other directorships each director may hold. We also consider whether any of the directors have previously been involved in fraudulent, corrupt or unethical activities. We record this information in our directors database.	**Mining industry:** Two of our dissenting recommendations relate to individuals seeking re-election as non-executive directors. They are former chief executive officers (CEOs). During their respective tenures, they were responsible for significant shareholder value destruction at miners in which our clients held shares. We evaluated the quality of their track records, the recency of their actions and their subsequent behaviour. Based on our assessment, we recommended against their reappointment because we believe it would not be in the best interests of shareholders if these individuals serve as non-executives.
Capital structure 39%	The largest group of dissenting votes relates to capital structure, driven by numerous routine AGM resolutions. This category includes resolutions to repurchase shares, which we generally support, and resolutions to increase the number of shares in issue, which we generally oppose, as they diminish the scarcity value of the shares our clients hold. We prefer companies to engage with shareholders first if they believe a share issue is necessary. These are our general positions; however, we examine each resolution on a case-by-case basis and consider the specific company context. The examples listed are instances where the context justified a deviation from our typical stance.	**Nampak:** While we generally support resolutions to repurchase ordinary shares, considering the state of Nampak's balance sheet at the time of the AGM, we preferred for the available cash to be allocated to debt repayment rather than share repurchases. **Naspers:** Although we typically oppose resolutions to issue shares, we may support such resolutions in specific circumstances. In this case, we recommended that our clients support the resolution to provide flexibility for possible future changes to the structure that would unlock value to shareholders.
Environmental and social 3%	There are few environmental and social resolutions tabled for JSE-listed companies, given their voluntary nature. We carefully apply our minds to the specifics of each resolution as they span a broad range of topics from climate to charitable donations. These are often unique to the company. In some instances, we may recommend an abstention if a resolution conflicts with our internal investment policies. We communicate our voting rationale to clients, who factor this into their final decision as shareholders.	**Glencore:** We recommended that our clients support the management resolution to approve the company's climate report. However, we did not recommend supporting the shareholder resolution on the Climate Action Transition Plan, as we were pleased with the progress of Glencore's climate disclosures and have had constructive engagements on its related strategy.

Breakdown of dissenting votes by category		2023 examples
Executive remuneration 33% **Policy (17%)** **Implementation (16%)**	The annual non-binding advisory resolutions for JSE-listed companies on the executive remuneration policy and its implementation are covered under this category. Overall, we advocate for remuneration schemes that align executive pay with company performance. In reaching our recommendations, we perform an internal evaluation and apply our framework that considers quantum, structure and alignment, the quality of disclosure and the overall use of discretion. This is supported by different forms of engagement with remuneration committees during the year. We aim for constructive engagements, where we are clear about our key concerns and share our practical recommendations for improvement. Enacting positive change takes time. As a result, we do not look for all our recommendations to be taken on in any given year. Instead, we look for progress: Is the alignment between executive and shareholder outcomes improving or deteriorating?	***Split vote examples:** Dissenting on either the remuneration policy or the implementation report* **Remuneration policies:** Our dissenting votes often occur when a new policy structure is proposed that we deem inferior to the existing one. This may result from significant changes, as in the case of **Old Mutual**, or smaller yet impactful alterations, as seen with **Mondi**. Old Mutual transitioned from a long-term incentive (LTI) based on forward-looking long-term performance to a single incentive structure where all performance-based pay is subject to a one-year retrospective measurement period. Mondi altered the composition of the performance conditions of its LTIs reducing the weighting to relative total shareholder return and introducing a new metric closely aligned with the existing one, thereby affecting the overall balance of the instrument. **Implementation reports:** Our dissenting votes often stem from discrepancies between pay outcomes and underlying performance. This could result from overly adjusted measures or weak overall targets, particularly as certain target detail (such as the short-term incentive) is only available upon implementation. Additionally, there are discretionary nuances that a policy cannot fully encapsulate, such as how outgoing CEOs will be treated on exit for remuneration purposes, as exemplified by former **Gold Fields** CEOs. ***Non-split vote examples:** Dissenting on both the remuneration policy and its implementation report* In recent years, there has been an increase in poor single incentive remuneration structures, where all performance-based pay for executives is based on a retrospective short-term period. This has led to large pay outcomes that are not commensurate with long-term company performance and shareholder outcomes, as observed with **The Foschini Group** and **Nampak**. ***Using abstentions*** Executive remuneration is granular and nuanced, and abstentions are often employed to prompt further improvements. In some cases, many of our recommendations were taken on board, indicating a positive trajectory, but the full extent of the improvements can only be seen on implementation, as in the case of **KAP**. Alternatively, there may be certain disclosure omissions that should be addressed, but overall, we still consider the alignment between executive and shareholder outcomes to be sufficient, as demonstrated in the case of **Oceana Group**.

Breakdown of dissenting votes by category		2023 examples
Non-executive remuneration 9%	We assess non-executive director fees both in absolute terms and relative to industry standards, and we consider the specific context of each company. We recognise the importance of recruiting strong, high-calibre directors and acknowledge that the increasing risks and responsibilities associated with serving as a non-executive director of a JSE-listed company has affected the overall value proposition.	**African Rainbow Minerals:** We are concerned with the quantum of total fees paid to non-executive directors relative to the company size and the high number of non-executive directors serving on the board. **Tiger Brands:** Some companies distinguish between non-executive director fees for resident and non-resident directors, resulting in a foreign premium. This premium typically includes a cost-of-living adjustment and additional excess adjustment. We advocate for transparency for the rationale behind the foreign premium. In the case of Tiger Brands, we found insufficient justification for the quantum of the foreign premium.
Other 8%	This category includes administrative resolutions such as requests to shorten the notice period for general meetings, the occasional merger and acquisition (none included in 2023) and resolutions to discharge directors of liability, which is often tabled by dual-listed companies with listings in Europe.	**Anheuser-Busch InBev, NEPI Rockcastle and Prosus:** Resolutions to discharge directors of liability are common in European jurisdictions. However, we prefer to exercise prudence and recommended against such exemptions to allow companies the opportunity to pursue legal action against directors if warranted in future.

6. PROGRESS AGAINST ESG COMMITMENTS

In our *2021 Stewardship Report*, we set out several environmental, social and governance (ESG) engagement and performance commitments for the period 2022 to 2025 in a drive towards greater self-accountability and transparency. We provided an update on our 2022 engagement targets in our *2022 Stewardship Report.* Below we detail the progress we have made towards achieving our engagement and performance targets for the period 2023 to 2025.

Table 1: Outcomes of ESG commitments

GOVERNANCE	YEAR OF COMPLETION: 2023
Commitment: 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.	**Progress made:** ▪ We prepared focused research reports on the directors and board compositions of our clients' top holdings. In addition, we prepared a report on US general governance, which informs our governance engagements. ▪ We requested a focused engagement with the Independent Regulatory Board for Auditors to discuss sanctioned auditors. Subsequently, we established a proprietary listing of auditors to better monitor these individuals. ▪ Our governance engagements include discussions on ethics and compliance, where applicable. ▪ We improved our tracking of persons of interest mentioned during the Zondo Commission. Their names are captured in our internal database of directors for further scrutiny in the event that any come up for election to a listed company board.

ENVIRONMENTAL: BIODIVERSITY	YEAR OF COMPLETION: 2024
Commitment: 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 the end of 2024. Some of these companies already do, but this target aims to strengthen focus on this environmental issue and broaden this initiative.	**Progress made:** ▪ Our offshore sister company, Orbis, prepared a thematic biodiversity report. In 2023, we discussed this report at a responsible investing workshop with Orbis and our other sister company, Allan Gray Australia. ▪ We have extended our biodiversity research and have reached out to a well-respected non-governmental organisation with significant expertise on biodiversity management, target-setting and reporting.

ENVIRONMENTAL: CLIMATE CHANGE	YEAR OF COMPLETION: 2025
Commitment: Engage with investee companies to set science-based greenhouse gas emission reduction targets. Our aim is that at least 30% of the financed emissions of our clients' top 40 local equity holdings must have committed to a science-based target by 2025, preferably verified by the Science Based Targets Initiative (SBTi), and, if not, on an explain basis.	**Progress made:** ▪ At the end of 2023, 30% of the financed emissions of our clients' top 40 holdings had a net-zero commitment verified by the SBTi or publicly claimed a science-based approach to target-setting. ▪ We report on progress in this regard in our annual carbon accounting report. See Annexure 7.

7. CARBON ACCOUNTING REPORT

Our carbon accounting primer explains the main methodologies for the measurement of financed emissions in the asset management industry. We calculate the weighted average carbon intensity (WACI) and economic emissions intensity (EEI) of our clients' combined portfolios. We also report on the progress towards achieving our emissions-related performance target for 2025, as committed at the end of 2021.

PORTFOLIO CARBON FOOTPRINT

Graph 1 reflects the WACI of the portfolio of local equities across all South African mandates compared to that of the FTSE/JSE Capped Shareholder Weighted All Share Index (the benchmark) as at year-end over the past four years.

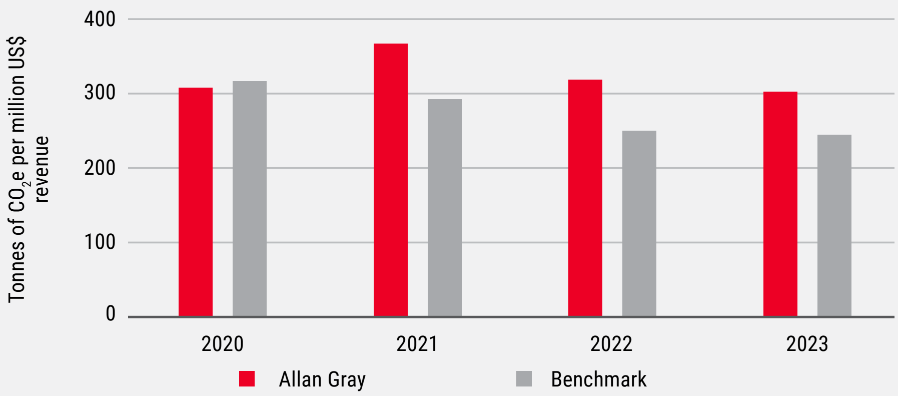
In 2023, the portfolio's carbon intensity declined marginally on the previous year but remained ahead of that of the benchmark index.

This does not contradict our approach; rather, it reflects the fact that we do not limit exposure to high emitters if we can encourage critical thinking around emissions reduction. The backward-looking nature of the WACI does not capture the portfolio's exposure to companies where the environmental position is expected to improve over time. We avoid using divestment as a method to produce low-carbon portfolios over the short term.

As in previous years, the portfolio's WACI is driven by overweight positions in some of the outliers from a carbon-intensity perspective, as shown in **Graph 2**: Sasol, African Rainbow Minerals, Sappi, South32 and Sibanye-Stillwater.

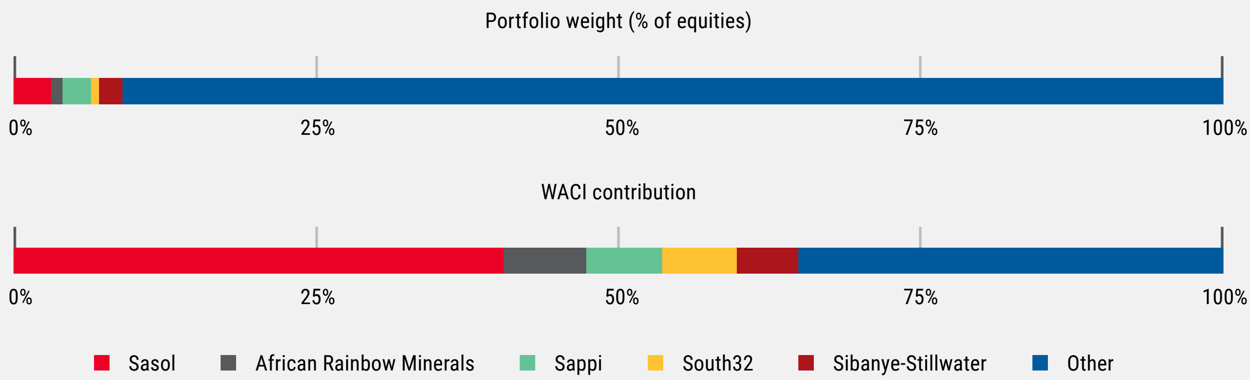
Sasol makes an outsized contribution (40%). As discussed in Annexure 4, we engage with management on a regular basis to discuss the responsible decarbonisation of the business and monitor progress.

Graph 1: Weighted average carbon intensity[1]

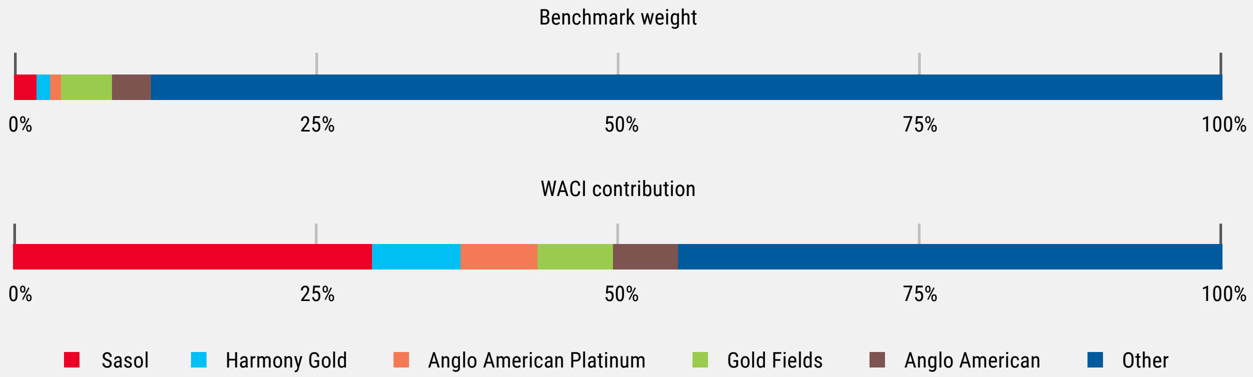


1. Previously reported figures have been updated to reflect restatements and delayed emissions disclosure.

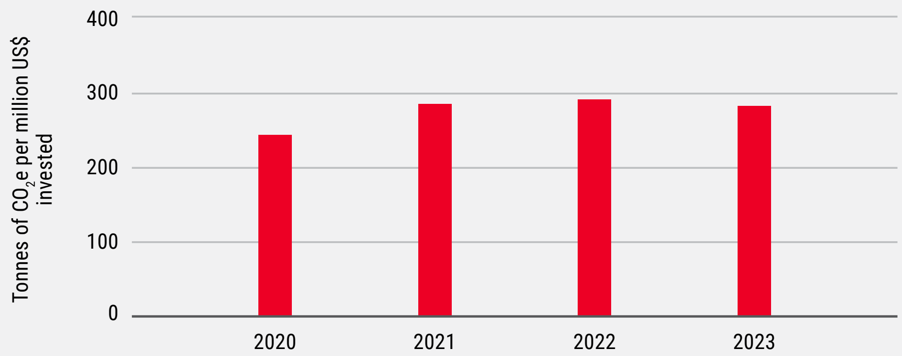
Graph 2: Contributors to portfolio carbon intensity



Graph 3: Contributors to benchmark carbon intensity



Graph 4: Portfolio economic emissions intensity[2]



2. Previously reported figures have been updated to reflect restatements and delayed emissions disclosure.

The environmental impact of platinum group metals (PGMs) companies, such as African Rainbow Minerals and Sibanye-Stillwater, is significant but should be weighed against the important role PGMs play in reducing airborne pollutants from internal combustion engines and the fact that PGMs are essential in the development of a hydrogen economy. Similarly, many of the commodities in South32's portfolio will play a critical role in the transition to a low-carbon economy.

Sappi has made firm commitments around emissions reduction with target approval by the SBTi achieved in 2022. Separately, one should bear in mind that its emissions do not reflect the carbon sequestration provided by its plantations.

Sasol is the single largest contributor to the benchmark's WACI, as shown in **Graph 3**. High-emitting miners Harmony Gold, Anglo American Platinum, Gold Fields and Anglo American all make disproportionate contributions to the benchmark's carbon intensity in relation to their respective benchmark weights.

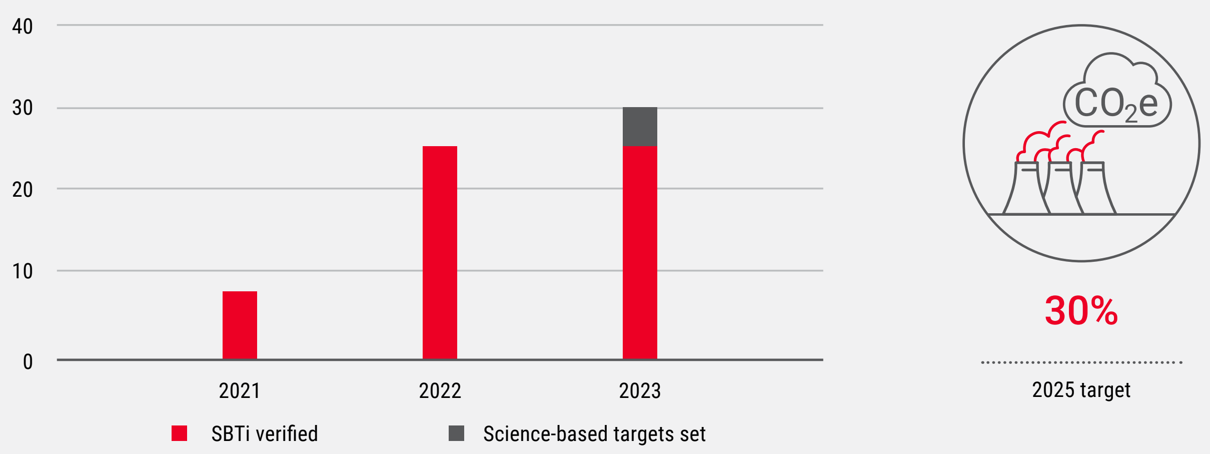
The carbon footprint of the portfolio of local equities and corporate bonds held across all South African mandates, as measured by the EEI prescribed by the Partnership for Carbon Accounting Financials, is shown in **Graph 4**. It has been stable around the level of 300 tonnes of carbon dioxide equivalent per million US dollars invested over the past three years. We report on the portfolio's carbon footprint per million US dollars, which ensures like-for-like comparability with a wider range of managers. This highlights another challenge of carbon reporting: Many asset managers report in their local currencies, hindering comparability.

PERFORMANCE TARGET

In a drive to greater self-accountability and transparency with our clients, we set out a selection of our future ESG engagement and performance targets in 2021. Under our climate change performance target, we committed to engage with investee companies to set science-based greenhouse gas emissions reduction targets with the objective that at least 30% of the financed emissions of Allan Gray's top 40 local equity holdings must have committed to a science-based target by 2025, preferably verified by the SBTi and, if not, on an explain basis.

In **Graph 5**, we reflect our progress towards achieving this objective as at the end of 2023, indicating the percentage of the top 40's financed emissions where the investee company had its net-zero commitment verified by the SBTi or publicly claims a science-based approach to target setting. The verification of Mondi, Naspers, Prosus and NEPI Rockcastle's targets in 2023 has contributed but was partially offset by Pick n Pay dropping out of the top 40. As such, we are dealing with a moving target. When including companies that cannot be verified owing to shortcomings of the SBTi's methodologies, the 30% target has been achieved. We do not take credit for this result. While our efforts may have helped, companies monitor global initiatives on climate change themselves and engage with many stakeholders.

Graph 5: Performance target update [3, 4]



3. Based on SBTi and Bloomberg data
4. Previously reported figures have been updated to reflect restatements, delayed emissions disclosure and methodology changes.

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