The importance of stewardship in South Africa

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Integrating environmental, social and governance (ESG) issues into investment decision-making and applying stewardship practices are two key parts of our role as a responsible investor, also known as responsible investing (RI). The two strategies are complementary to each other, as we integrate these insights to ensure the sustainability of our clients' capital. In this article, we review the concept of stewardship and show how we implement it in practice.

Stewardship means taking ownership — acting as an owner of an asset. This involves using your legal rights by either engaging and voting with investee companies or by engaging with the appointed investment managers who are managing mandates on your behalf.

The importance of stewardship applies to all types of asset classes because the principle of taking ownership is universal.

> **As a responsible investor, you need to understand what you've invested in and address ESG-related matters to protect your investment, regardless of the nature of the asset you own.**

Exclusionary policies, negative screening or divesting from entities are not popular strategies among South African investors. The small, concentrated and declining investable listed universe in South Africa makes exclusionary policies very expensive in terms of lower levels of portfolio returns and higher levels of portfolio risk. Additionally, there is the imperative to invest in opportunities linked to the Just Transition, which means that investors' most valuable mechanism to navigate through the ESG risk landscape is through sound stewardship principles.

Our proxy voting and engagement policies serve as guiding frameworks as we use our investor rights to make decisions and work towards sustainable outcomes with our investee companies.

> **We strongly encourage our investee companies to be transparent and disclose the required ESG-related information to the public.**

Transparency enables higher quality conversations between the engaging parties, allows for management accountability, and ensures well-informed proxy voting decisions. In turn, investors also have an obligation to be transparent with their clients and ensure actions are evidenced in their Stewardship Report and published voting records on their **website**.

Within the **listed equity asset class**, we believe that full participation is necessary to make a difference. Therefore, we vote on all company corporate resolutions (regardless of our percentage holding in the company) and to never abstain, unless it is a related party of Momentum Group as defined by the Companies Act.

> **Collectively investors have the potential to make a positive impact on the sustainable outcome of South African companies.**

As a signatory to the United Nations-supported Principles for Responsible Investing (PRI), we pre-declare our voting actions of the top-20 shares, by benchmark weight of the FTSE/JSE All Share Index (ALSI), where we have exposure, on the **PRI pre-declaration platform**. The intention is to be transparent in our motivations and advocate to other investors what we believe is best practice.

When engaging with company management teams, we take a focused approach, selectively engaging with companies where we are deemed material investors. Engagement topics will link to our ESG focused themes we have committed to address as a company. We will also respond to material ESG matters that may arise during the year and seek collaboration opportunities with other investors to have a meaningful presence and hopefully turn the dial towards a positive direction.

Within the **fixed income teams** stewardship efforts are evidenced in their engagement register. This register records engagements with issuers about ESG concerns, their strategy and management thereof. It enables reflection on progress and identifies agreed next steps between parties. There is acknowledgement that collaboration initiatives are necessary. We are signatories to the Climate Action 100+ initiative and serve on the Eskom and Sasol engagement groups with other investors, which helps us to be part of critical conversations, although we might not be the material investor leading the engagement.

As stewards of the assets invested in either fund of **hedge funds or multi-managed portfolios**, we understand the breadth of our influencing sphere and its limitations. Regardless of the investment vehicle type, whether it be a reinsurance agreement, unit trust, or a pooled or segregated mandate, there is always some progress to be an active owner and effect positive influence.

Our segregated investment mandates include responsible investment clauses that link to our responsible investment policy and advise that we will vote according to our own proxy voting policy. When we have more limitations, for example being an investor in a unit trust vehicle, it wouldn't stop us from sharing our views with the appointed investment manager.

Through our commitments to the sustainable development goals (SDGs), our teams have committed to engage with their appointee managers to encourage them to publish their own climate change investment policy. We believe that a policy within an organisation should have oversight and hopefully become a positive steppingstone to climate progress and alignment with our own journey.

Alternative investments such as infrastructure, real estate and private equity create a stewardship-friendly environment for investors through partnership and direct co-investment arrangements offered in these investments. These investment vehicles allow for closer involvement by allowing us to serve on the advisory board, advisory committees or attend the shareholder meetings.

Within the **private equity** landscape, side letters are another mechanism that allows investors to specify ESG guidelines. Given our team's respective SDG commitments, they have engaged directly with their investee companies to establish climate policy adoption and reached out to request impact-related metrics, for example carbon emissions metrics and number of jobs created.

One of the key learnings from our SDG initiative was that the simple request for data or queries around policy often resulted in fruitful engagements in the form of meetings, phone calls, emails and other follow-up engagements with management of the investee company. The sentiment across our investees is always positive and helpful and some have shared with us that our requests have begun new processes and considerations within their own organisations.

> **"We focus on building relationships with our various types of investees, using the opportunity to engage and explain why we stand by our principles. We also acknowledge that we are continuously on a journey to improve our responsible investment practices, which is essential for delivering sustainable returns to our clients."**

The principle of stewardship is fundamental to our RI practices. By viewing ourselves as the de facto owners of assets, we are both obligated and empowered to achieve change on behalf of our clients. This is the most powerful way to achieve the change that is required to improve the sustainability of our investments in the future.

For more information on our Stewardship practices, you can visit our website **here**.