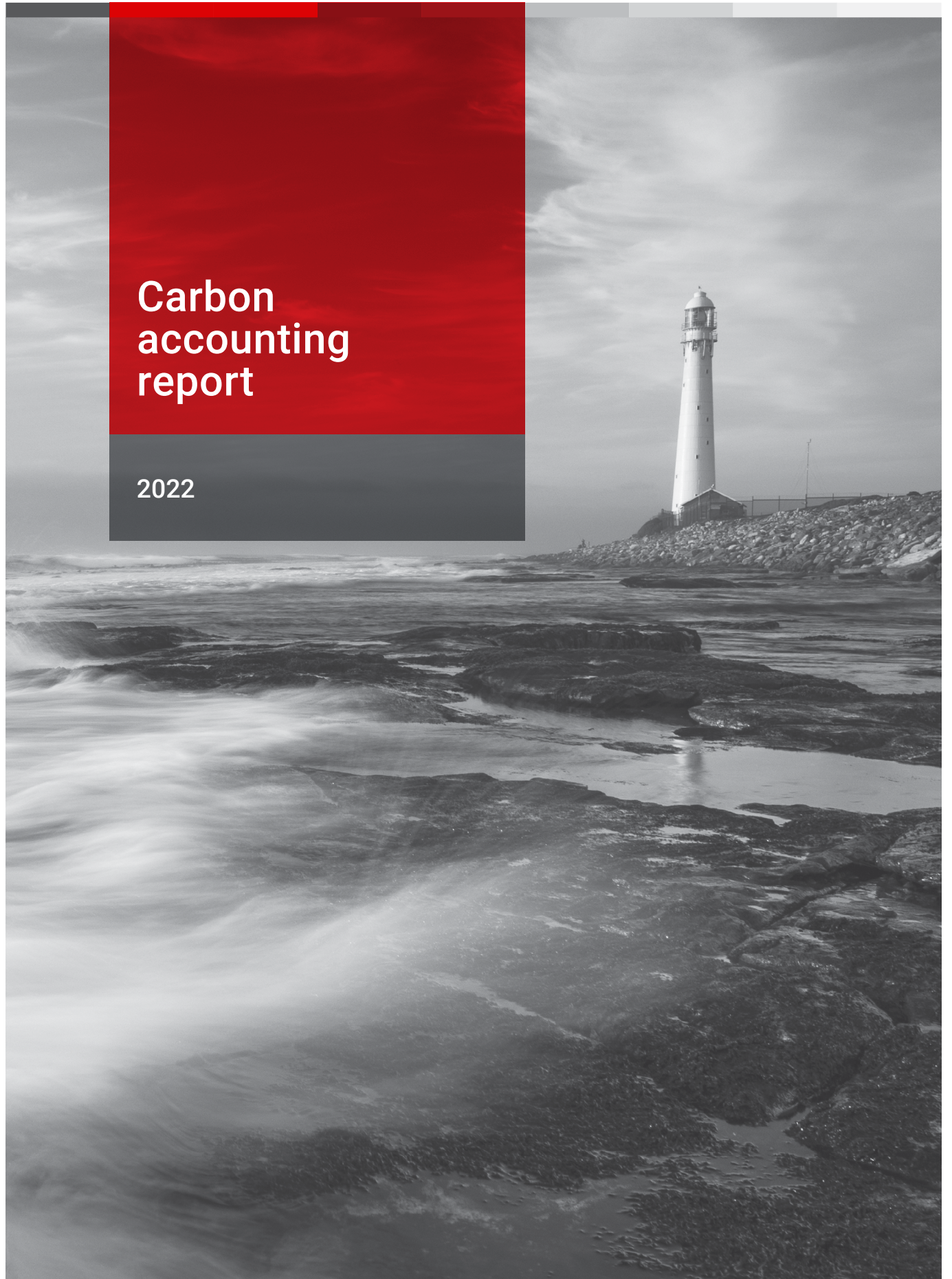


Carbon  
accounting  
report

2022



Carbon accounting methodologies are evolving, as explained in our [Carbon accounting primer](#). Previously, we reported the weighted average carbon intensity (WACI) of the top 40 local equity holdings of the Allan Gray Balanced Fund against a benchmark. WACI measures a portfolio's exposure to carbon-intensive companies and was the metric originally recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) in 2017. In this first issue of our Carbon accounting report, published in 2023 covering 2022 issues and efforts, we introduce improvements over what was previously disclosed in our [Stewardship Reports](#) across three areas:

- **Methodology:** In addition to reporting portfolio carbon intensity in the form of WACI, we include disclosures in line with the methodology of the Global GHG Accounting and Reporting Standard published by the Partnership for Carbon Accounting Financials (PCAF) in 2020. The PCAF approach, explained in our summary of [Climate initiatives in the financial sector](#), is now considered best practice. It prescribes the use of enterprise value including cash (EVIC) instead of market capitalisation as an apportioning factor of choice, which allows for the inclusion of fixed income instruments in carbon footprint calculations. As investors grapple with how best to capture carbon-related risk, we expect the WACI measure to feature alongside a greater variety of carbon metrics in carbon accounting reporting going forward.
- **Scope:** In the past, we have been reluctant to rely on environmental, social and governance (ESG) data providers when performing calculations. This is because we have found inaccuracies in automated calculations as well as stale emissions data across several data providers. We have been monitoring the quality of emissions data over time and noted an improvement in some datasets. While we still prefer doing our own calculations, we have identified a preferred provider of underlying data, which eliminates the need for manual collation. This allows us to expand the scope of assets under management covered by our carbon reporting to include the full portfolio of local equities held across all South African mandates.

We also include the full local corporate fixed income exposure of these portfolios when calculating the economic emissions intensity (EEI), also known as the relative carbon footprint, as per PCAF guidance. This results in an expansion from 15% of assets under management covered by our carbon reporting previously to 45% (under WACI) and 49% (under EEI) for 2022, with the allocation to the respective Orbis funds within our portfolios representing the bulk of the excluded portion. Our Carbon accounting primer offers more detailed explanations and demonstrations of how WACI and EEI are calculated. Here we consider coverage of full AUM instead of local equities to allow for the inclusion of corporate fixed income exposure.

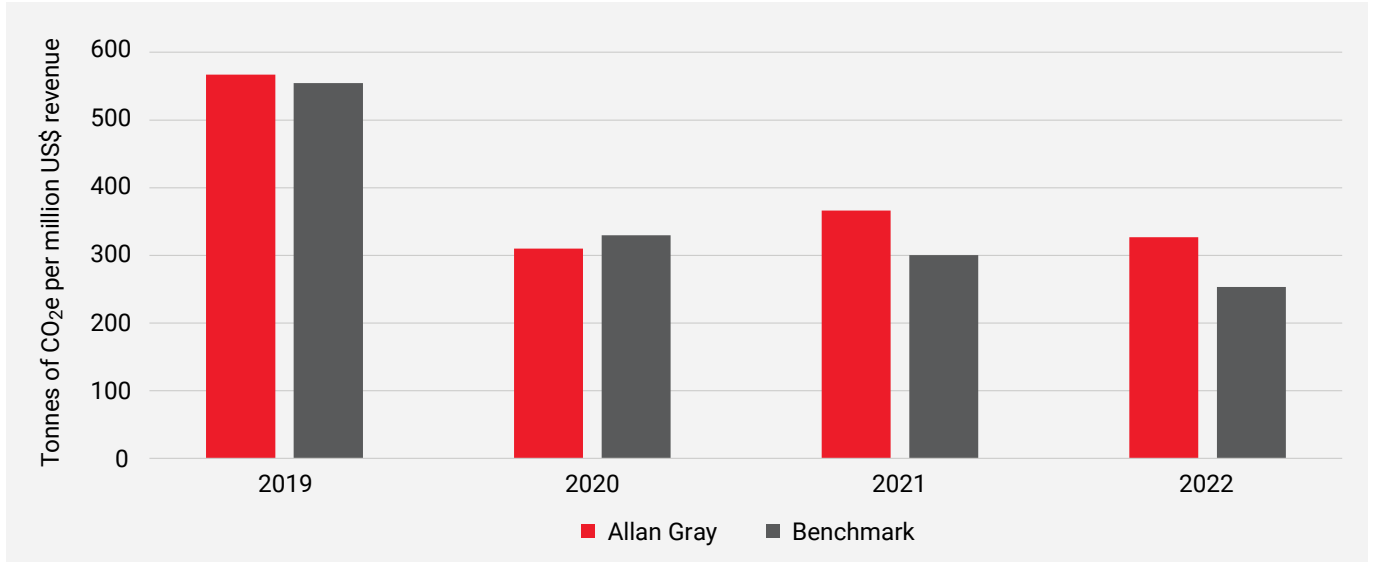
- **Target:** We include reporting on the progress towards achieving our emissions-related performance target for 2025, as stated in our [2021 Stewardship Report](#).

## Assessing the portfolio's 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. A significant reduction in the WACI from 2019 to 2020 stands out. This was mostly driven by the price decline of Sasol at the time, rather than reduced emissions, highlighting the blunt nature of the WACI as a tool in assessing real-world climate impact. Despite its sensitivity to revenue or share price fluctuation, WACI is useful as an indication of operational efficiency in terms of emissions per unit of sales, which means that companies with disproportionately large emissions stand out.

In 2022, the portfolio's carbon intensity 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 where we can encourage critical thinking around emissions reduction. A higher portfolio WACI does not necessarily reflect weaker environmental performance, and its backward-looking nature does not capture the portfolio's exposure to companies where the environmental position is expected to improve over time. We avoid divestment to achieve low-carbon portfolios over the short term.

**Graph 1: Weighted-average carbon intensity**



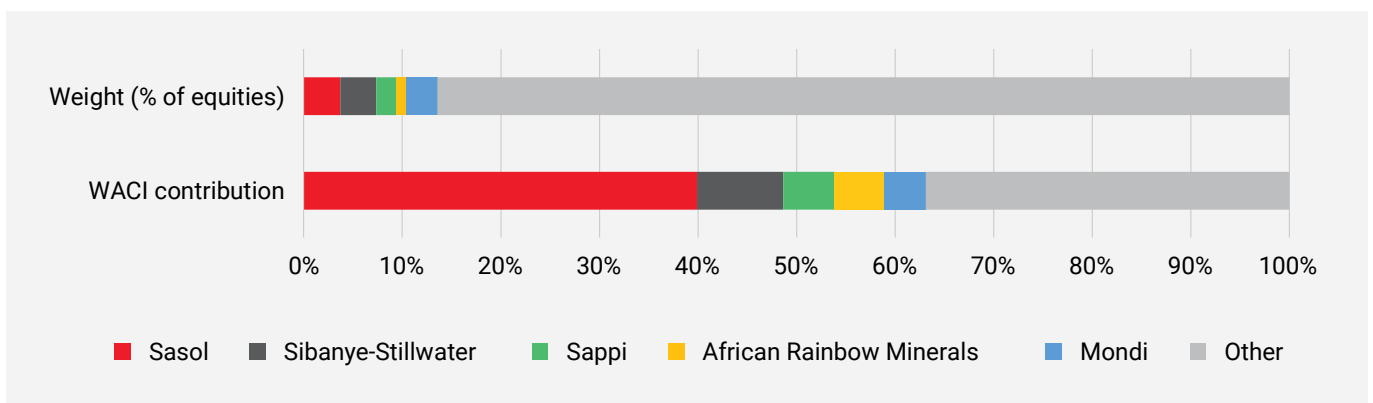
Source: Allan Gray

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, Sibanye-Stillwater, Sappi, African Rainbow Minerals and Mondi. Sasol makes an outsized contribution. We engage management on a regular basis to encourage the responsible decarbonisation of the business and monitor progress.

The environmental impact of platinum group metals (PGMs) companies, such as Sibanye-Stillwater and African Rainbow Minerals, is significant but should be weighed against the important role that PGMs play in reducing airborne pollutants from internal combustion engines and the fact that they are essential in the development of a hydrogen economy.

Sappi and Mondi have both made firm commitments to reducing emissions. Separately, one should bear in mind that their emissions do not reflect the carbon sequestration provided by their plantations from which wood fibre is sourced.

**Graph 2: Contributors to portfolio carbon intensity**

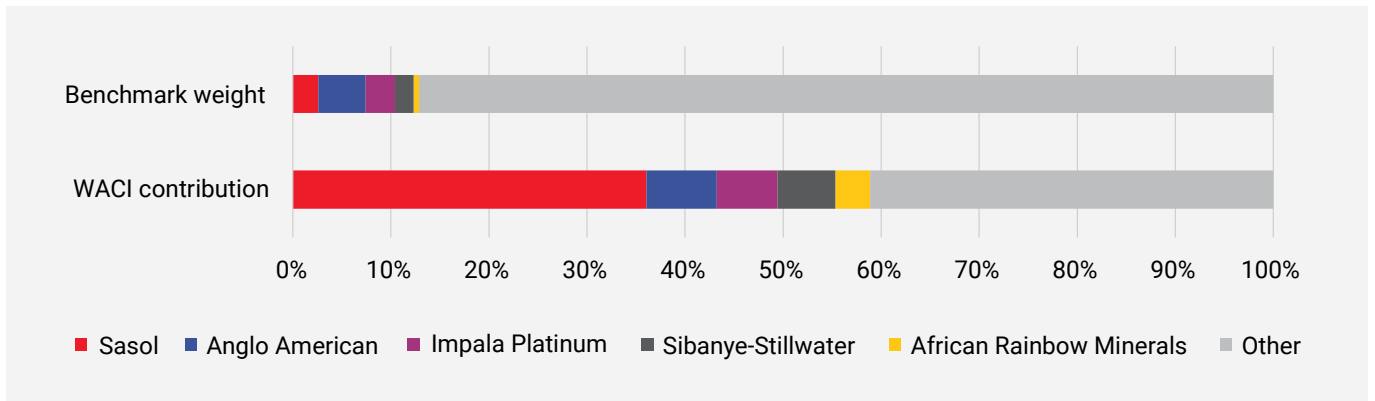


Source: Allan Gray



There is overlap with the contributors to the benchmark’s WACI. Most notably, Sasol also accounts for more than a third of the total, as shown in **Graph 3**. High emitters Anglo American and Impala Platinum displace Sappi and Mondi in the benchmark’s top five.

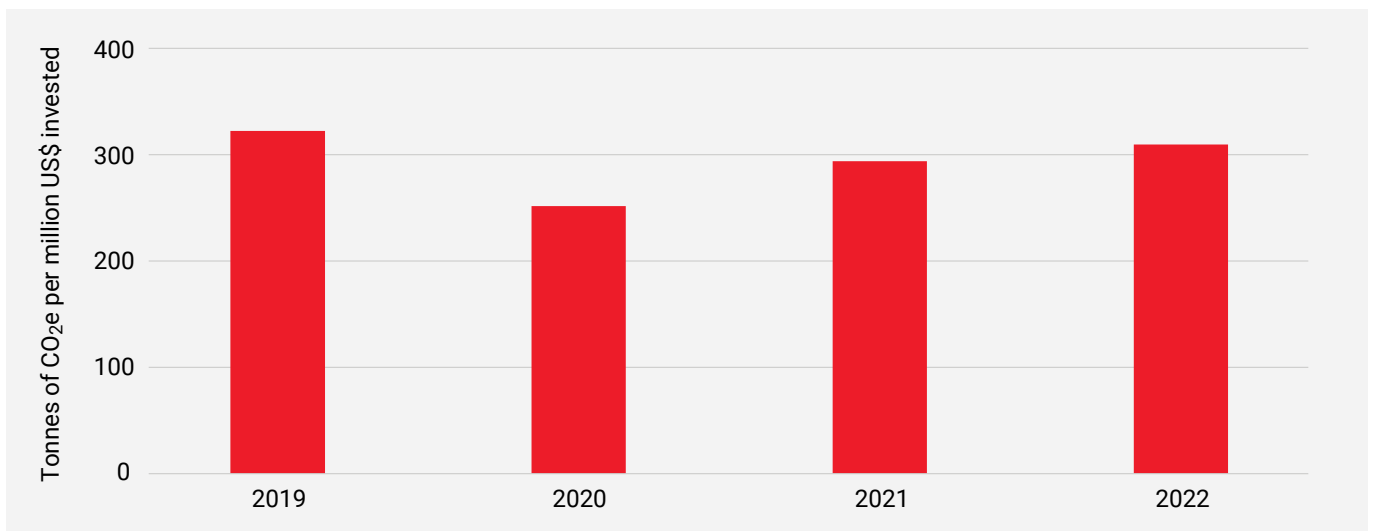
**Graph 3: Contributors to benchmark carbon intensity**



Source: Allan Gray

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 PCAF, is shown in **Graph 4**. It has been stable around the level of 300 tonnes of carbon dioxide equivalent per million US dollars invested, with the exception of the lower result for 2020 – once again driven mainly by a reduction in exposure to Sasol from 5.6% to 2.2% of equities and bonds. We report on the portfolio’s carbon footprint per million US dollars, which ensures like-for-like comparability with a wider range of managers as the US dollar is the most prevalent currency in fund management globally. This highlights another challenge of carbon reporting: Many asset managers report in their local currencies, hindering comparability.

**Graph 4: Portfolio economic emissions intensity**



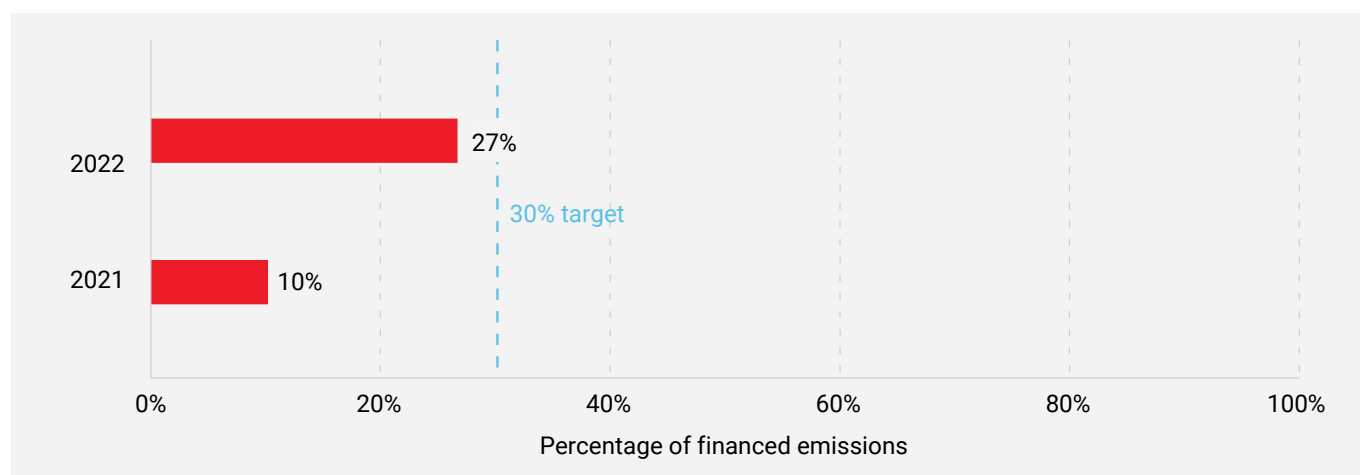
Source: Allan Gray

**Performance targets**

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 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 Science Based Target initiative (SBTi) and if not, on an explain basis.

In **Graph 5**, we reflect our progress towards achieving this objective as at end-2022, indicating the percentage of the top 40's financed emissions where the investee company publicly commits to adopting SBTi's net-zero standard or had its net-zero commitment verified by the SBTi. In 2021, 10% of financed emissions met this requirement and we committed to a 30% target by 2025. The verification of Sappi's near-term target by the SBTi, as well as commitments made by Pick n Pay<sup>1</sup> and Gold Fields in 2022, drove most of the increase to 27% at the end of 2022. While we have engaged with Sappi and Gold Fields on their GHG emissions, we do not take credit for these achievements. Companies are monitoring global initiatives on climate change themselves and engaging with many stakeholders.

**Graph 5: Performance target update, based on SBTi data**



Source: Allan Gray

1. We have not engaged with Pick n Pay on its GHG emissions, although we have in the past contacted the company to request more detail on the climate expertise of its directors based on comments in the press.

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Allan Gray Proprietary Limited is an authorised financial services provider.

1 Silo Square  
V&A Waterfront  
Cape Town  
8001  
South Africa

P O Box 51605  
V&A Waterfront  
Cape Town  
8002  
South Africa

**Client Service Centre**

T 0860 000 654 or +27 (0)21 415 2301

E [info@allangray.co.za](mailto:info@allangray.co.za)

[www.allangray.co.za](http://www.allangray.co.za)