

## What is Allan Gray's approach to industry collaboration?

Allan Gray has been a signatory to the United Nations-supported Principles for Responsible Investment (PRI), since 2013. The PRI endorses a set of six principles that offer "a menu of possible actions for incorporating ESG issues into investment practice". The fifth principle prescribes a commitment to "work together to enhance (the) effectiveness in implementing the Principles" and signatories are thereby encouraged to participate in collaborative initiatives that support the adoption of responsible investment policies and aim to achieve favourable ESG-related outcomes.

The PRI lists examples of actions such as "supporting or participating in networks and information platforms to share tools, pool resources and make use of investor reporting as a source of learning" and "developing or supporting appropriate collaborative initiatives".

At Allan Gray, we believe that building relationships with companies through individual engagement – as opposed to collaborative engagement – is better aligned to the long-term nature of our investment approach. We are concerned that collaborative engagement, especially where different stakeholders have different engagement styles, might erode these relationships and diminish the chances of ultimate success. We are also mindful of the pitfalls of consensus-based engagement, such as agreeing on watered-down proposals to accommodate a range of views. In our experience, private engagement is more constructive and more likely to yield positive outcomes for our clients than collaborative efforts or public discourse.

We believe that our size in the context of the South African market means that companies are typically open to engage with us. We understand the challenges around corporate access faced by many global asset managers whose assets represent a fraction of the market capitalisation of large, listed entities. We recognise the argument for collaborative engagement in such instances.

While we are open to sharing our views and thoughts through industry collaboration, we remain mindful of acting or being perceived to act in concert when dealing with other investors or company boards. Concert parties with a significant collective stake may be obliged to make a mandatory bid for the company in question. This risk is accentuated by the concentrated nature of the South African market. The Second Code for Responsible Investing in South Africa (CRISA 2) states that "parties... should avoid anti-competitive behaviour and should be aware of the consequences of acting in concert in terms of applicable legislation and should ensure relevant controls are in place."

We note that legal guidance commissioned by the PRI and conducted by law firm Bowmans states that collaborative engagement on ESG issues by shareholders is unlikely to trigger regulatory requirements in South Africa. However, if shareholders can be shown to have agreed on a common plan under which to work together, the risk of adverse legal consequences remains.

We firmly believe that applying our minds and acting independently is more closely aligned to our investment approach and is in the best interest of our clients in most instances. Although we prefer individual engagement, we have participated in several collaborative efforts where we believed doing so was in the best interest of our clients. We may also collaborate when our stewardship efforts have been unsuccessful or are likely to be unsuccessful, or when industry-wide collaboration makes sense from an efficiency point of view, such as in discussions through appropriate channels about the restructuring of African Bank after its collapse, or collaboration on legal action following the Steinhoff International scandal.

In addition to the collaborative engagements that we may participate in from time to time, we have established collaborative initiatives with our sister companies:

1. We meet our global partner Orbis, and Allan Gray Australia, twice per quarter to discuss ESG-related regulation and client reporting, and ESG investment considerations, respectively.
2. We meet Orbis to discuss climate-related issues in our respective portfolios on a quarterly basis.
3. The sister companies' chief investment officers and portfolio managers meet on an ad hoc basis to share investment and ESG insights.

We also participate in initiatives which involve collaboration with peers on matters affecting the industry. For example, our governance analyst serves on the Remuneration Committee Forum of the Institute of Directors South Africa (IODSA) and one of our environmental and social analysts is a member of the Responsible Investing Standing Committee of the Association for Savings and Investment South Africa (ASISA).

We support the promotion of sound corporate governance, sustainable business practices and improved ESG disclosure across the industry. For example, we submitted comments on the draft versions of the King IV Code corporate governance framework, JSE Listings Guidelines and Listings Review, CRISA 2 and National Treasury's Green Finance Taxonomy. We also engage with South African policymakers on key matters where appropriate.

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