

Allan Gray is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and supports the principles outlined in the Second Code for Responsible Investing in South Africa (CRISA 2).

Our approach to responsible investment involves incorporating sustainability considerations into the investment decision-making and monitoring process and helping our clients to exercise their ownership responsibilities.

Sustainability is a key part of the Allan Gray investment philosophy, through which we aim to create long-term wealth for clients by investing in securities which trade at a discount to our Investment team's assessment of their intrinsic value. Our investment analysts spend most of their time trying to work out the sustainable level of earnings for the businesses we analyse. We value businesses based on sustainable or normal earnings rather than the earnings at any one point in time. By its nature, this approach is long-term oriented.

We consider many factors when assessing a business's sustainability. These include the level of competition, whether capital is entering or leaving the industry, technological innovation and obsolescence, as well as how the business behaves with regard to environmental, social, and governance (ESG) considerations. Some may consider ESG factors as separate from the investment process, but for us, they are integral.

If a business does not operate in a sustainable manner, this would affect our conviction in the sustainability of its profitability. The outcome of unsustainable practices can manifest in many ways: a regulator may revoke the business's licence to operate, customers may shun the business's products and services, good people may not want to work for the business, among others.

Many may consider governance a soft topic when determining a business's value, but we view it as one of the most important considerations. Businesses are led by people and people are flawed. Management teams need structures that support and enable effective decision-making and provide oversight and counsel, particularly in challenging environments. The quality of the board in terms of the oversight they provide, as well as the incentive structures designed by the board to align management decision-making with the interests of long-term shareholders, play a crucial role in this process.

ESG IN THE INVESTMENT 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 – a compulsory requirement. ESG risks are reflected in company valuations, either by adjusting earnings or cashflow if the risk is quantifiable, or by valuing the business on a lower multiple if downside risks are significant but uncertain. Our valuations also take account of possible ESG tailwinds and opportunities. The team scrutinises, challenges and debates investment theses when reports are reviewed.

We have two environmental and social analysts, as well as a governance analyst, who support the primary investment analysts by performing additional monitoring and in-depth research into identified risk areas and thematic ESG research. Additionally, our Research Library monitors company-specific ESG news and shares relevant updates with the team. The Investment team uses multiple resources, as opposed to company reporting only, to ensure that we form a comprehensive view of material ESG issues.

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

We always aim to do what is right. This does not mean taking a binary view on whether investments are "good" or "bad" and making related portfolio exclusions or inclusions. Instead, we undertake fact-based, in-depth, holistic research to inform our investment decisions.

We continue to monitor ESG factors after formal discussion and once we are invested. This is crucial because ESG issues are dynamic. Where we are invested in instruments that have negative environmental or social impacts, we encourage a focus on effecting change or minimising harm and hold management and boards to account.

We also support the promotion of sound corporate governance, sustainable business practices and improved ESG disclosure. For example, historically, we have provided comments on the draft King IV Code, the JSE's Sustainability and Climate Disclosure Guidance and the FSCA's Draft Green Finance Taxonomy. We also strive to provide companies in which we invest with useful feedback on the quality of their sustainability reporting and performance.

We believe that good stewardship of our clients' capital requires truly active ownership. We engage frequently and meaningfully with company boards and management teams and think critically about voting recommendations. Our [Policy on ownership responsibilities](#) details our approach in this regard.

ETHICS

Occasionally, a business practice may be sustainable but unethical, or there may be cases where a business practice is unethical and unsustainable, but this is reflected in the company's share price. We do not invest in businesses that we think are unethical in nature. People have different views on what is unethical. The ultimate responsibility for the decision on what is unethical lies with the chief investment officer.

If it comes to light that a business we already own on behalf of our clients is engaged in unethical behaviour, we will act to protect our clients' interests. This may involve actively trying to change the company's behaviour or selling the share.

REPORTING

We publish our annual Stewardship Report to update clients on noteworthy ESG matters that have arisen during the year. We include reporting on proxy voting as well as how often we engage with management teams on ESG matters during the year. Our voting recommendations to clients, together with the outcome of the shareholders' vote on each relevant resolution, are published on our website on a quarterly basis.

DEFINITIONS

Allan Gray refers to Allan Gray Group Proprietary Limited and its subsidiaries, which includes Allan Gray Proprietary Limited.

REVIEW

This policy will be reviewed on an annual basis from 2022 and approved by the chief investment officer.

Version	Approved by	Summary of changes	Effective date
1.0	Ian Liddle	Creation	2012
2.0	Ian Liddle	Design update, minor changes	November 2015
3.0	Andrew Lapping	Redraft	March 2018
4.0	Duncan Artus	Clarification of approach, design update	August 2022
4.1	Duncan Artus	Minor changes	December 2023