

## SUSTAINABILITY CONSIDERATIONS IN THE ALLAN GRAY INVESTMENT PROCESS

Sustainability is a key part of the Allan Gray investment philosophy. Our investment analysts spend the majority of their time trying to work out the sustainable earnings level for the businesses we analyse. We value businesses based on the sustainable or normal earnings level rather than the earnings at any one point in time. By its nature, this approach considers the long term.

We consider many factors when determining a business's sustainability. These include the level of competition, whether capital is entering or leaving the industry, technological obsolescence and 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, it may find itself in a position where it is unable to operate profitably. The outcome of unsustainable practices can manifest in many ways: a regulator may revoke the licence to operate, customers may shun the product, good people may not want to work for the business, amongst others.

Many may consider governance a soft topic when determining a business' value but for us it is one of the most important considerations. Businesses are led by people and people are not perfect. Management need structures that assist and enable effective decisionmaking and provide oversight and counsel, particularly when things go astray. The quality of the board and the incentive structures designed by the board play a crucial role in this process.

### ESG in the investment process

It is the responsibility of the analyst assigned to a particular company to assess and analyse ESG issues. We make use of a company's integrated reporting, management meetings, third-party meetings, media reporting and industry research, amongst other sources, to assist with our analyses. The findings are included in the policy group report that is presented to the investment team for discussion. We have an environmental and

social analyst, as well as a governance analyst who are both available to assist the primary analyst in the research process and in flagging and analysing any ESG risks that may arise. These risks are prioritised and researched. If a portfolio manager decides to buy a share based on the outcome of the policy group meeting the ultimate responsibility falls on the portfolio manager. The analysis and monitoring of ESG considerations does not end with the policy group meeting, but is an ongoing process.

We also support shareholder initiatives to improve ESG disclosure. For example, we provided comments on the draft King IV Codes and strive to provide companies in which we invest with useful feedback on the quality and extent of their sustainability reporting.

There is more detail in our Policy on Ownership Responsibility document.

### Ethics

Occasionally a business practice may be sustainable but unethical, or there may be cases where a business practice is unethical and unsustainable but the unsustainability 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 own on behalf of our clients is engaged in unethical behaviour we will act to protect our clients' interests. This can take many forms from actively trying to change the company's behaviour to selling the share.

### Reporting

We publish an annual Stewardship Report as an opportunity to update our clients on important ESG matters that have arisen during the year. This includes reporting on our proxy voting as well as how often we engage with management on environmental, social and governance matters during the relevant year.