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# WHAT IT TAKES TO BE RESPONSIBLE CUSTODIANS OF OUR CLIENTS' CAPITAL

“ WHEN MATERIAL ISSUES ARISE THAT WE THINK COULD DAMAGE OR ENHANCE SHAREHOLDER VALUE, WE ACTIVELY LOBBY FOR CHANGE. ”

Responsible investment is important. It is relevant. And we engage with it on a daily basis. We are committed to incorporate ESG factors into our investment and ownership decisions. We deliver to our commitment by considering two sides of responsible ownership: firstly, whether to own an asset (pre-trade) and, secondly, influencing the outcomes on assets that we already own (post-trade).

## RESPONSIBLE INVESTORS: PRE-TRADE

The first stage of incorporating ESG factors into our decision-making happens when we review an investment for inclusion in our portfolios. Our philosophy incorporates a uniquely two-dimensional investment approach of “Theme” and “Price”, on an equally weighted basis. Under Theme, in addition to considering the macroeconomic environment that drives the performance of the investment, we also consider industry dynamics and company specifics. In doing so, we look for any environmental, governance or social issues that may impact the

investment now or in the future. Most often, these issues screen as negative themes and form part of our decision not to own a company.

For instance, as part of our investment process we had decided to place a negative Theme score on Steinhoff’s corporate governance as far back as 2015. While this meant that since then we became active sellers of the shares, it also stopped us from buying shares when they got cheaper. This is a good example of our philosophy in practice, given what ensued from a corporate governance perspective for the company. As another pre-trade example, we don’t own commodity producer Sibanye, based on a negative Theme score arising from social impact concerns. Deep-level mining is very risky from a fatality point of view and Sibanye has been among the worst in this regard. Coupled with the company’s antagonist relationship with labour, we are presented with a sizeable hurdle to ownership. Of course, the factors raised in these examples are dynamic and they can be resolved. We therefore do not regard such hurdles to be permanent and monitor for any thematic improvement with the same diligence as we would monitor Price action.

## OWNERS: POST-TRADE

Given the small universe of shares in South Africa, it is in our interests to actively engage with companies in order to get the best long-term outcomes for our clients. We invest in a company with an expected time horizon of around five to 10 years. As long-term investors, we need those companies to do the right thing – whether that be how they allocate capital, remunerate themselves or invest to grow. Decisions made by companies today impact their longer-term sustainability and hence the investment outcomes for our clients.

While we are able to draw on the expertise of our Responsible Investment team as specialists on ESG-related engagement, the responsibility to ensure that companies do the right thing sits with the portfolio manager. As active custodians, we regularly vote on company resolutions (see our Responsible Ownership Report), but our level of engagement is much more than just proxy voting.

When material issues arise that we think could damage (or enhance) shareholder value, we actively lobby for change. For instance, following the listeriosis outbreak at Tiger Brands’ meat processing factories, we felt the company’s focus was only on the short-term cost of potential payouts and loss of sales. We pushed the board of directors to address the damage to brand value, as it could impact the long-term profitability of the business. You can read more about our approach in our Responsible Ownership Report.

By integrating ESG considerations into our investment framework we have managed to avoid owning a number of “landmines”. For those companies that we do own, we actively engage with their leadership, through voting and lobbying for change, to drive the best possible outcome for long-term value. As custodians of our clients’ wealth, we are focused on delivering returns sustainably and our philosophy of “theme” and “price” has worked well in growing and protecting our clients’ capital.

