STEWARDSHIP

REPORT

2019

STANLIB

STANLIB

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CEO FOREWORD

Our company is entrusted to act on behalf of individuals, groups and corporations to safeguard their funds and deliver consistently to their objectives. It is clear to us that these objectives must be achieved by taking into account not only the financial return, but also the consideration of factors that could either enhance or undermine the overall outcome. As a fiduciary, we are embracing the responsibility of managing funds holistically and this report is one of the ways we are demonstrating our approach, activities and the outcomes of our efforts.

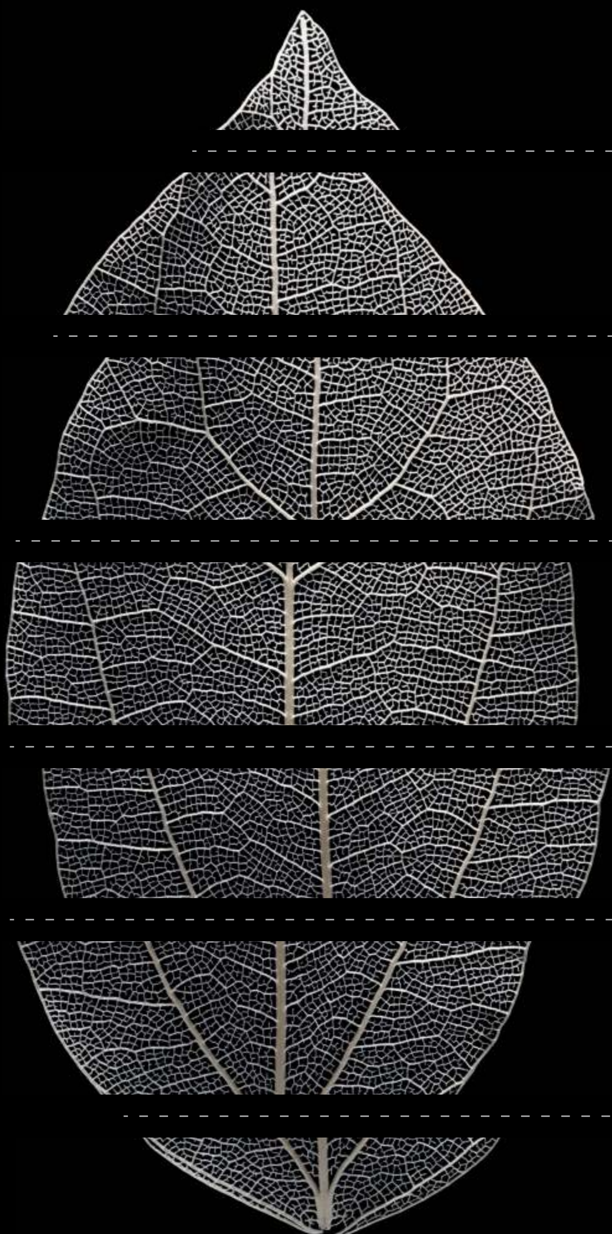
For us, success means delivering to and exceeding our client expectations. Other than the financial returns, we believe that incorporating sustainability and societal outcomes in our decision-making is critical. Therefore, true success of an investment manager now means running a healthy business and making a positive impact on all our stakeholders and society as a whole.

While we recognise our responsibility to pursue competitive returns, we remain aware that a slavish focus on returns can lead to a social and enviromental cost. This is particularly the case when profitable actions do not reflect a long-term perspective which takes into account non-financial factors. There is mounting evidence that environmental, social and governance (ESG) issues can affect the performance of investment portfolios and have implications for an entity's earnings and prospects as well as broader economic functioning. Our ESG principles are laid out to guide all investment managers in their activities to manage funds responsibly.

In this inaugural report, we are giving an account to all our stakeholders of our progress as a responsible investment house in effecting positive change. Our policies are designed for our active management business and do not extend to our passive business which has a responsibility to track the underlying benchmark. In addition, STANLIB Multi-Manager has its own policies and practices which it applies as criteria for its investment manager selection. We are reporting on our activities in the ESG arena, including our active engagement with portfolio companies and our approach to key issues like climate change. It is our intention to progressively improve in our efforts as a responsible fund manager.

Derrick Msibi – STANLIB Asset Management CEO

STANLIB's principles for responsible investing



ESG is a material investment consideration

STANLIB believes that the consideration of ESG is essential to value creation and capital protection in driving risk-adjusted returns for clients.

Integration of ESG factors

STANLIB considers ESG factors in its investment processes to ensure an understanding of risks associated with investment opportunities.

Active engagement

STANLIB's ESG approach is to actively engage business stakeholders to effect change. STANLIB believes engagement is a powerful tool to drive optimal client outcomes.

Ownership rights

STANLIB exercises voting rights in the best interests of its clients. Voting guidelines appear in the proxy voting policy.

Collaboration

STANLIB is open to collaboration where the collective efforts of all relevant stakeholders are more likely to result in a positive client outcome.

Disclosure

STANLIB communicates its policies and responsible investing activities to all stakeholders.

ESG oversight

STANLIB monitors and challenges investment professionals on ESG issues. Governance structures ensure accountability, tracking and measurement.

STANLIB

AN UPDATE FROM HEAD OF INVESTMENTS

The introduction from our Chief Executive Officer, Derrick Msibi, reflects the importance that STANLIB attaches to responsible investing as a central feature of our investment philosophies and processes. While this is our first annual report, the consideration of ESG factors and issues has been an important component of our investment philosophies and processes since the formation of our multi-specialist structure in 2012. This reflects our belief in its importance, both from a societal and investment perspective.

For a number of years, while STANLIB has driven and taken ownership of our own policies, we have also been proactive supporters of industry initiatives to develop ESG policies. This is both in South Africa, where we endorsed the Code for Responsible Investing in South Africa (CRISA) in 2011, but also internationally as a signatory of the United Nations Principles for Responsible Investment (UNPRI) initiative since 2008.

STANLIB has evolved our own set of broad ESG principles that can guide us in our thoughts and actions, and these sit above our individual teams' more detailed ESG policies. These are designed to ensure that as an asset manager, we will sometimes want to take a firm-wide approach to an individual ESG issue that transcends our existing commitment to CRISA and UNPRI.

This annual STANLIB Stewardship Report is an opportunity to showcase the significant work that our investment teams undertake in this crucial area. While this is our inaugural report, we have been incorporating ESG into our investment philosophies and processes for a number of years – well before it became a mainstream subject in South Africa's financial services industry. The report allows us to highlight the various sustainability initiatives, across investment teams, that we incorporate into our day-to-day activities. Accountability is important at STANLIB and implementation of ESG research and processes are owned at the individual investment team level ensuring we avoid a 'tick box' mentality that can result from a purely centralised approach. All ESG processes are reviewed on a regular basis to ensure that they are fit for purpose and reflect leading industry practices.

Central to our approach is a belief that engagement, rather than exclusion, is the primary and most powerful tool to deliver change in the area of responsible investing. Our focus is also on proactive engagement rather than simply responding to issues that are topical or profiled in the media. Engagement with management teams on altering or improving their corporate behaviour is critical and particularly so in South Africa where environmental and social development issues are so central. While proactive engagement is our primary approach, we are prepared to exclude companies from our clients' investment universe where behaviour is not considered acceptable or when action plans to deliver industry standard practices are not being delivered. In addition, on behalf of our clients, we actively vote the shares that we are custodians for, and this is a powerful tool to drive management behaviour.

We believe that social and environmental consequences of effective ESG processes are critical. In addition, with an increased focus from clients, customers and suppliers on sustainability issues, poor implementation of ESG policies can have a dilutive influence on the brand, and even the sustainability, of a business. This reputational damage can be substantial and is rarely a temporary factor. As custodians of our clients' hard-earned savings, it is our responsibility to hold management teams to account and drive improved outcomes.

We are proud at STANLIB to have one of the broadest asset class exposures in the South African asset management industry. We invest our clients' money in both listed and unlisted markets and the latter gives us an enviable opportunity to invest in sustainability-related projects, particularly related to environmental issues. On behalf of our clients, our Infrastructure Investments and Private Debt teams have invested heavily in the renewable energy space primarily through solar and wind projects, which have generated in excess of 3 million MWh of electricity over the last year.

In this report, we have attempted to capture the broad range of our asset class investment and bring to life our ESG policies with some case studies from our different investment teams. In addition, we have undertaken a deep dive into an individual teams' ESG principles and the integration into their investment process. This year, we are profiling our highly-successful Fixed Income team. Finally, we have penned an article on the challenges and opportunities associated with the Paris Agreement on climate change which highlights our desire to provide thought leadership input on important sustainability-related topics.

We hope you enjoy the report. We look forward to your feedback and continued engagement on this important topic.

Mark Lovett – Head of Investments

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ENGAGEMENT:

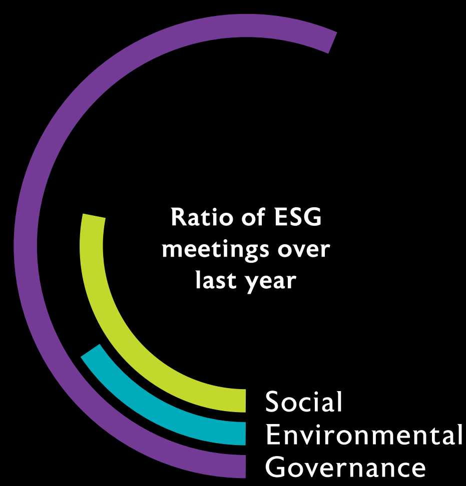
A POWERFUL TOOL TO DRIVE POSITIVE CHANGE

STANLIB's approach to responsible investing is to actively engage business stakeholders to effect change. We believe engagement is a powerful tool to drive optimal client outcomes and this has proven to be the case in the vast majority of engagements. Engagement categories span all elements of ESG and importantly include:

- **Climate change**
- **Health and safety**
- **Board structures**
- **Directors remuneration**
- **Social development and transformation**

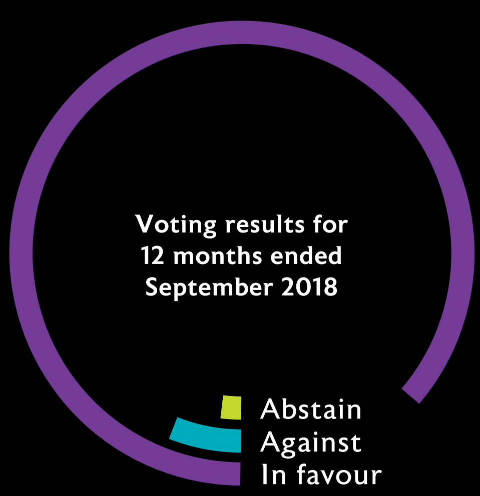
Engagement with company management around ESG issues is typically by way of face-to-face meetings and as the third largest asset manager in South Africa* we have direct access to senior executives and board representatives.

Our engagement action points are tracked and monitored within the investment teams. The ESG Committee, chaired by our Head of Investments, is tasked with reviewing all action points across these teams.



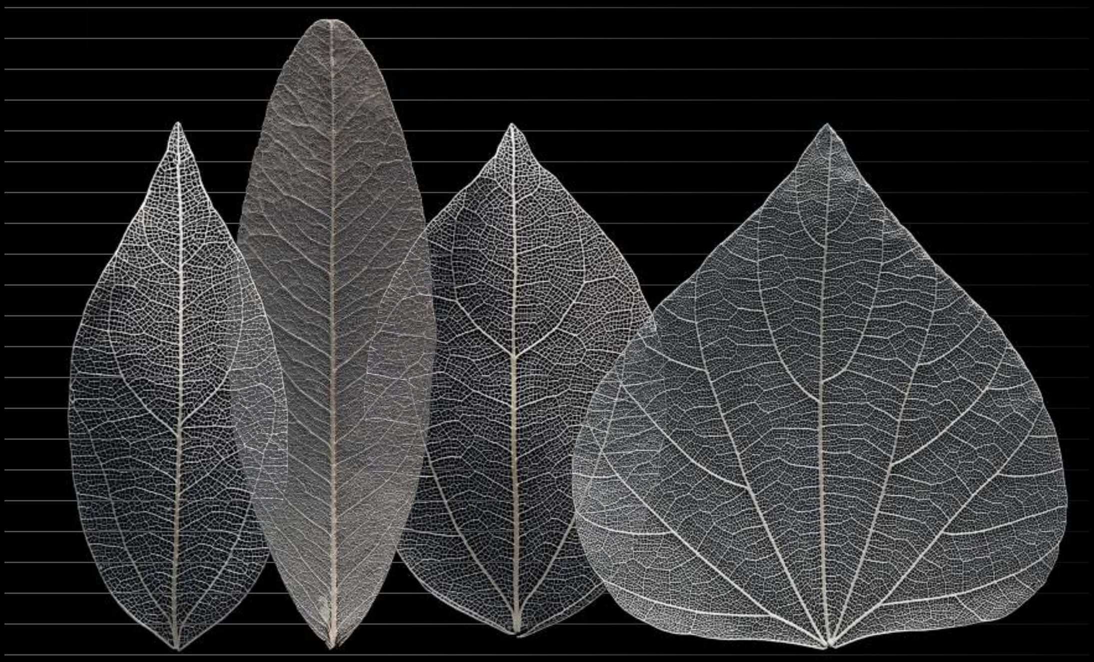
	2019
Total company meetings	272
Number of votes on South African companies	1 041
Voting trends – we are prepared to act when engagement fails: – We vote on 100% of company resolutions – Abstentions 2018: 2%, 2019: 0% – Against 2018: 6%, 2019: 8%	

** By assets under management, ASISA report, 30 June 2019*



STANLIB

PROFILING RESPONSIBLE INVESTING ACTIVITIES IN OUR FIXED INCOME INVESTMENT PROCESS



Our intention in the annual report is to profile one of our investment teams in terms of an in-depth analysis of its ESG approach, to share a deeper understanding of the process.

In this report, we profile our STANLIB Fixed Income team which is one of the largest Fixed Interest managers in South Africa, managing over R220 billion in assets.

STANLIB Fixed Income understands the importance of considering ESG factors in investment decision-making and the direct impact this has on long-term sustainability (financial and operational) of any entity. Various studies conducted over different time periods and geographic regions found clear positive correlations between adherence to sound ESG principles and long-term sustainability. Entities with good ESG principles ultimately have a lower probability of default in the long term.

In all our portfolios, we have to ensure that the credit risks our clients are exposed to are in their best interests and consistent with their mandates. We find value in incorporating formal ESG assessments into our investment decision process and believe this enables us to better identify investments that will provide consistent, through-the-cycle returns to our investors. Our ESG assessment is both quantitative and qualitative and incorporated into our bottom-up credit analysis, being integral to our final credit decision.

ESG in our investment process

1. Negative screening

Our first step is to apply a negative screening process during which we will eliminate entities that engage directly in any of the following:

- Production or activities involving harmful or exploitive forms of labour.
- Any form of child labour.
- Manufacture of weapons, weapons support or warfare systems for terrorist-related activities.
- Production and/or distribution of illegal narcotic drugs.
- A history of serious health and safety breaches.
- Production and/or trade of any product or activity deemed illegal by laws, regulations and/or international conventions, e.g. animal poaching, illegal harvested timber and environmental pollution.

Negative screening is easily implemented, as most companies will struggle to access capital markets if they are involved in any of the above practices. The value in our ESG assessment lies in a robust and well-tested in-house model, which forms part of the initial step in our credit analysis.

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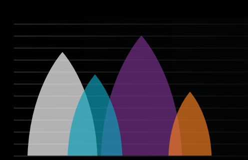
2. ESG factor assessment

In assessing credit risk of all new and existing exposures, our credit analysis includes a qualitative and quantitative counterparty assessment which translates into an overall score. This quantitative analysis allows easy comparison across different issuers. We collate qualitative information from various sources, including engagements with issuers' management teams, integrated reports and financial statements, proprietary data providers (such as rating agencies and Bloomberg), as well as third-party ESG research.

In assessing the impact of ESG factors, we follow our bespoke methodology and score each company accordingly. The score is weighted to material ESG factors and we do not invest in companies unable to achieve our hurdle or benchmark score. For companies that clear the hurdle, the ESG score assists in informing the size of the positions as part of our overall credit process. Given the nature of our investable markets, we place a higher weighting on governance, but social and environmental issues remain important. The yield or return offered on an investment does not override a weak ESG score.

The following provide examples of ESG factors assessed. These factors would differ according to the nature of the issuer.

ENVIRONMENTAL

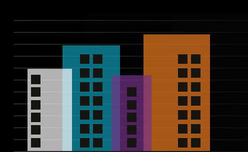


- Electricity and water usage
- Carbon emissions relative to industry best practice
- Sustainable sourcing of materials
- Rehabilitation of the land

SOCIAL

- Diversity of management team
- Role in society
- Use of local labour and materials
- Social demographics

GOVERNANCE



- Independence of board and chairman
- Management integrity and compliance with regulatory standards/frameworks
- Share incentive schemes and how they are funded and whether linked to KPIs
- Risk management practices

3. Engagement

Direct engagement is a powerful mechanism to drive good and sustainable corporate behaviour. In instances where this engagement is not successful in bringing about the necessary change, the STANLIB Fixed Income team will engage with other teams and note our concern through the proxy voting process. A further action would be non-participation in extending funding or abstaining from auctions.

Over the last 12 months, we have had 86 engagements with issuing entities' management teams, where we have discussed various ESG-related issues.

The STANLIB Fixed Income team is a member of ASISA (The Association for Savings and Investment in South Africa), SASF (The South African Securitisation Forum) and GFII (The Global Fixed Income Institute). Through these forums, we are able to raise ESG concerns and influence responsible investing principles, play a critical role in improving investor protection via debt listing requirements and standards of best practice, as well as learn from and engage with global fixed income managers.

The STANLIB Fixed Income team strives to remain a responsible investor by staying abreast of latest ESG developments and constantly enhancing our analysis and reporting thereof.

CASE STUDY:
GOVERNANCE AT SHOPRITE

As at 31 March 2019, STANLIB Equity had a 1.1% holding in Shoprite's issued share capital shortly before the business announced a proposal to change the shareholding structure.

The company

Shoprite is South Africa's largest listed retailer, with a market capitalisation of R87.4 billion (as at 30 June 2019). For the year to June 2019, the business achieved a turnover of R150.4 billion derived from 2 779 stores across 15 African countries. Shoprite's significant growth over the last 20 years has been driven by extensive market share gains.
[Source: Shoprite Integrated Report 2019]

Our ESG approach

STANLIB's equity team follows a robust quantitative and qualitative investment process to understand all ESG factors for the companies in which we invest. Analysis during our process ensures we provide an ESG score for each company analysed. Shoprite's ESG score as at May 2019 was below the average of our universe, according to our ESG framework.

We engaged the board twice over the past year. The first, to discuss our decision to vote against Shoprite's remuneration policy. The second, to discuss the proposed transaction for the acquisition or redemption and cancellation of Shoprite's deferred shares.

STANLIB'S assessment

	Shoprite	STANLIB Universe Average
Governance	58%	66%
Social	74%	68%
Environmental	67%	65%
Total Score	**63%**	**66%**

Source: STANLIB equity team research

The governance issue

A contributing factor to the lower-than-average governance score for Shoprite is the existence of an unequal voting structure, created in the early 2000s. As part of this corporate restructure, Chairman Christo Wiese's private company, Thibault Financial Services was issued deferred shares, that held voting rights but had no economic interests. Minority shareholders therefore held 85% of the ordinary share capital in Shoprite, but only 58% of voting rights due to the unequal voting structure.

On 18 April 2019, Shoprite released an announcement detailing a proposed transaction for the potential acquisition or redemption and cancellation of the deferred shares owned by Thibault Financial Services. Importantly, the proposal stated that if at least 15% of shareholders indicated their intention to vote against the proposed transaction by 31 May 2019, the company may choose not to proceed.

In line with our ESG approach, we undertook a comprehensive review of the proposal, including extensive research, internal discussion, and finally engaging the board of Shoprite. Despite widespread media coverage highlighting the negative sentiment of local shareholders towards the transaction, we recognised that a very strong rationale existed for both voting in favour, and voting against the proposed transaction. Guided by our ESG framework, we made every effort to determine what we considered to be in the best interest of shareholders. We eventually concluded that, although we valued the positive corporate governance implications of the elimination of the voting structure, we could not vote in favour of the deal in its current form. The alongside table highlights the key considerations taken into account and the related STANLIB view.

The outcome

Although we support a more equitable voting structure, we were not in support of the financial terms attached to the proposal. We therefore communicated our intention to vote against the resolution before the 31 May 2019 deadline. On 3 June 2019, Shoprite announced that they had received indication from more than 15% of shareholders that they intended to vote against the transaction, and had accordingly decided not to proceed.

We will continue to engage with the board on initiatives to improve the corporate governance at Shoprite, and expect that the board, led by the lead independent director, will pursue initiatives that both improve governance and uphold the interests of minority shareholders.

At the end of 2019, we continued to hold Shoprite, given our positive view on its growth.

	Considerations	STANLIB view
1.	The Board's stated rationale for the transaction	
	Simplify the company's voting structure and align to international best corporate governance practice.	Positive
	Potential for increased demand for Shoprite shares post the transaction.	Low probability
	Eliminating the risk of a third party acquiring deferred shares through the purchase of Thibault itself.	Less compelling and low probability
2.	Valuation	
	The Board considered the non-negotiable R3.3 billion payable for the deferred shares and dilution of minority shareholders to be fair and reasonable. This was supported by EY's assessment.	Implies a 3.5% dilution for minorities which is considered materially negative
3.	Initial characteristics for deferred shares	
	Shoprite's Memorandum of Incorporation (MOI) outlined very clearly the characteristics of these shares, and the process to be followed to acquire and cancel them. These shares were not intended to be transferred or attract any economic value. Therefore, we would not wish to engage in any transaction that is inconsistent with the process defined in the MOI.	Inconsistent with initial purpose

CASE STUDY:

A REFLECTION ON ENVIRONMENTAL INITIATIVES: EMIRA PROPERTY FUND

The issue of governance is a substantive one for the property sector. This includes issues such as cross holding structures, the elimination of complex management structures and the restructuring of boards to include more independent non-executive directors. Environmental and social factors remain material considerations in our investment process as we seek to deliver optimal client outcomes while investing responsibly.

The company

Emira Property Fund (Emira) is a medium-cap diversified REIT invested in a quality portfolio of office and retail properties. Its directly-held assets at June 2019, comprise 104 properties valued at R12.5 billion. Through its exposure to Enyuka Property Fund, it indirectly held 22 shopping centres valued at R1.04 billion. It also has a 34.9% holding in JSE AltX-listed Transcend Residential Property Fund.
[Source: Emira AFS 2018]

Our ESG approach

STANLIB Listed Property employs proprietary ESG screening for all our property companies based on key distinguishing factors.

The range of environmental and social issues facing property management are integral to business performance and sustainability. These include commitment to green buildings, health and safety and climate change considerations such as control of CO_2 emissions. We approach and rate each issue accordingly in our bottom-up investment process.

Our investment analysis considers a number of ESG factors, including:

ENVIRONMENTAL ADHERENCE
– Commitment to green buildings
– Restoration post developments
– Build properties with high safety standards
– Climate change consideration

SOCIAL CONTRIBUTION
– Commitment to charitable and education trusts
– Improving the communities in which property companies operate

A STRONG BOARD WITH EXPERIENCE
– Confirms to King Governance Codes
– Experienced board with an independent chairman
– Remuneration engagement
– No cross holdings or manco structures

Our environmental assessment

During 2019, STANLIB Property undertook a thorough assessment of Emira's progress in managing social and environmental initiatives.

Environmental initiatives

Emira's specific environmental management objectives include:

1. Creating a common and consistent framework for green building standards across all properties within the portfolio. Not only are green buildings a lot more efficient, they at times can command premium rentals for certain tenants.
2. Minimising the negative environmental impacts associated with building-site selection, construction and refurbishment.
3. Lowering greenhouse gas (GHG) emissions from buildings by improving energy efficiency and expanding the use of clean, renewable energy.
4. Capitalising on other benefits often achieved by green buildings such as healthier, more productive indoor environments and improved asset value.

Since our initial investment in the company, we have supported Emira in a number of strategic initiatives to contribute to reducing environmental concerns. Overseeing the company's sustainability plans is a dedicated committee which monitors and manages the portfolio of properties in terms of the environmental, energy and economic performance, throughout the duration of their life cycle. We reviewed the following factors during our assessment:

1. Carbon footprint (GHG emissions)

Emira is looking to target a 13% reduction in absolute scope 1 and 2 emissions from the base year by 2022 despite a 10% growth rate in gross lettable area over the measurement period. This is an impressive objective to reduce emissions while still delivering on its growth objective.

Emira recently became the first company in Africa to have its carbon reduction targets approved by the SBTi (Science Based Targets Initiative). It is continuing its positive impact in environmental sustainability by increasing its use of renewable energy resources, expanding its water efficiency initiatives and phasing out the use of ozone depleting R22 refrigerant gas. Further to controlling CO_2 emissions, an independent verification process approved the measurement methodologies for emissions and that sufficient steps are being taken by the business to minimise GHG emissions. These clear measurable targets enable us to effectively track delivery.

2. Green buildings

Emira uses the South African green star building rating as a benchmark for assessment. In 2019, it made significant progress on various developments with many receiving a 4-star rating. New office developments are likely to see more green star building initiatives across the Emira portfolio in 2020.

3. Transition to renewable energy sources: water and solar projects

During the year under review, Emira successfully completed the following projects:

- A third solar farm installation – rooftop of the Mitchells Plain shopping centre. The 22Kwp photovoltaic farm is estimated to save 360,456Kwh of the electricity required in the shopping centre (almost of 30% savings).
- A pilot solar farm project at Epsom Downs Shopping Centre and Wonderpark.
- A total of 19 water-efficiency projects during the year. In its Pretoria portfolio it is estimated Emira will save almost 57 million litres of water on an annual basis. This was a central topic in our last engagement with the management company and an initiative of which we are highly supportive.

The outcome

Our assessment of Emira property fund's environmental initiatives concluded that the business has delivered meaningful progress in the financial year with significant effort to set long-term targets for both its carbon footprint and green buildings.

On our rating methodology, Emira scored positively on both ESG and quality. It remains a core holding in our listed property portfolios.

CASE STUDY: STANLIB'S SUPPORT OF ENVIRONMENTALLY-CONSCIOUS INVESTMENTS

An introduction to green bonds

A 'green' bond is a term used to describe a bond that encompasses both a financial obligation and an environmental benefit. The JSE launched an official green bond segment in October 2017, which provided issuers with a platform to raise funds that are earmarked for low-carbon initiatives. The listing requirements of this segment are aligned with the International Capital Markets Association's (ICMA's) Green Bond Principles (GBP) introduced in 2014.

Our ESG approach

STANLIB's Fixed Income team has a fiduciary responsibility to our clients, meaning we carefully assess investments to assume a reasonable level of credit risk in generating optimal risk-adjusted returns. The Credit team plays a critical role in safeguarding client assets by ensuring that STANLIB invests only with credit-worthy institutions at yields that are commensurate with the underlying risk.

Our credit process involves thorough qualitative and quantitative analysis. Our quantitative considerations assess the financial strength of potential counterparties and their ability to honour interest and capital repayments. Our qualitative assessment importantly includes the consideration of ESG factors. Taken together, this analysis forms the basis of our internal credit rating and ultimately the counterparty credit limit which is presented to and approved by the STANLIB Fixed Income Credit Committee.

Considering environmental factors during our qualitative process is critical and with the ever-enhanced corporate reporting, we are able to monitor various data points on environmental issues for each company overlaying with relevant research, ensuring we are well-informed of environmental risks for each investment. We also consider specific opportunities to invest in debt instruments that fund initiatives to drive environmental sustainability in South Africa.

Consideration of green bonds

The STANLIB Fixed Income team regards green bonds as an interesting initiative and here we detail the process we followed on one specific issuance. We engaged the sponsoring bank prior to issuance and explained the need for the proceeds to be specifically allocated to green projects. We also required independent verification and annual reporting on the underlying projects. This granular approach to identify the use of capital was an important starting point for our consideration of green bonds.

Our investment team assessed the green targets of the fund and the soundness of measurement and governance structures to ensure that investment funding was applied to initiatives that drive environmental change for good.

The projects benefitting from the green bond funding were identified upfront and included solar and wind power renewable energy projects. The benefits of the underlying renewable energy projects were quantified in terms of CO_2 savings. This green bond supported the achievement of the UN Sustainable Development Goals 7 – affordable and clean energy and 9 industry, innovation and infrastructure of environmentally-sound technologies and industrial processes. As part of our assessment process, we were keen to ensure that the issuer had a robust monitoring process. The sponsor established a sustainable issuance working committee ultimately responsible and accountable for sustainable issuance. It also has the Social and Environmental Management System (SEMS), which is a system that tracks and reviews social and environmental risks during the life of transaction.

From a measurement perspective, the Carbon Trust Assurance Limited was commissioned by the sponsor as the verifier and the scope of their engagement was to assess that the pre-issuance standards of Climate Bonds were met. The sponsor's renewable energy bond was certified by the Climate Bond Standards Board on behalf of the Climate Bonds Initiative which will be reported annually. STANLIB is conscious of inappropriate labelling of green initiatives. We follow an extensive process to validate the review and monitoring of project objectives both by the issuer and external parties.

The outcome

Through our detailed analysis, STANLIB was confident in the pricing and objective of the sponsor's green bond initiative and we participated in a R1.6 billion green bond issue. We ended up taking 13% of the issue across our client base.

STANLIB's investment in green bonds demonstrates our commitment to support sustainable investing initiatives. While the South African asset management industry does not have mandates that are solely dedicated to green initiatives, we regard them as attractive opportunities and we will continue to incorporate favourable environmental outcomes into our investment activities.

STANLIB

PARIS AGREEMENT

DEFENDING A COLLECTIVE SPIRIT TO THE CLIMATE CHANGE CHALLENGE

Daily news headlines play a constant reminder that our planet and its precious resources are under increasing threat from the activities of humankind. The scientific evidence is now extensive and difficult for sceptics to challenge. Rising seas, decline in coral reefs, deforestation, extreme heat and weather events present some of the known physical risks associated with the continued emission of carbon or GHG into the world's atmosphere. The race is on to 'net-zero carbon emissions' across the world as government policymakers, market participants and individuals are all seeking ways to drive change. This is nothing new. For decades we have seen world economies debate the issue and attempt to address challenges to stall pollutant emission into the atmosphere.

A collective governmental response to this critical problem was seen as a strategic imperative necessary to address this challenge. The work began to establish a collective arrangement that could satisfy all parties. An early global initiative was the UN's Kyoto Protocol, which was followed by the formal Convention. More recently, in 2015, the Conference of Parties (COP 21) agreed to the now well-known Paris Agreement, which has been ratified by close to 170 countries (including the European Union 28) representing countries accounting for about 88% of global carbon emissions. The Paris Agreement stood out as a first in aligning objectives and efforts of all nations to combat climate change. Countries committed to keep global temperature rises below 2 degrees Celsius of pre-industrial levels and to pursue efforts to limit this increase to 1.5 degrees Celsius as soon as possible. The Agreement also committed to support countries in reaching these aims, particularly developing and the most vulnerable countries, through mobilisation of financial resources and a new technology framework. Submission of targets were to be set through nationally-determined contributions (NDCs) and countries were encouraged to strengthen their efforts with assessments taking place formally every five years. The Paris Agreement represented a substantial move forward in collective action and co-operation.

Since that landmark date of the Paris Agreement in 2015, we have seen a positive shift to cleaner technology, but statistics show that emissions continue to rise in many countries, including South Africa, showing up as 'highly insufficient' on the Climate Action Tracker. While the Paris Agreement creates a solid foundation to achieve these targets, the shift in global politics towards more insular and populist policies, has substantially undermined the collective spirit. This culminated in US President Donald Trump's announcement of the US withdrawal from the Paris Agreement in 2017; other signatories were left questioning the future for the agreement without the world's largest economy. It also felt like déjà vu with national interest outweighing the collective benefits. In 2001, Republican George Bush withdrew from the Kyoto Protocol due to concerns in the US that India and China were being 'let off the hook'. Since then, the US has moved to second place in the ranking of air polluters, emitting approximately 16% of the world's GHG emissions into the atmosphere. Taking the helm from Democratic President Barack Obama in 2016, Trump did not waste time in undoing the Obama era climate-related policies. Trump claimed that the Paris Agreement was detrimental to US economic growth.
The focus is incompatible with the need for a joint responsibility culture and the US stance

> “Since our leaders are behaving like children, we will have to take the responsibility they should have taken long ago.”
>
> *- Greta Thunberg, COP24, Poland, 4 December 2018*

potentially poses a significant threat to the ability of all nations to collectively address a fundamental climate problem and reach global targets. While we need action from corporates, shareholders and investors to drive cleaner air targets, this would be meaningless if governments (particularly major developed superpowers) don’t act together.

Where one pressure point has diminished, another one has emerged. Enter the rise of public activism. This has risen at a rapid pace, particularly amongst students and youth who are demonstrating to protect their future. In 2019, we saw millions of individuals take to the streets in climate strikes, demanding action from politicians. Individuals such as Swedish teenager Greta Thunberg are encouraging millions to hold government bodies to account and demanding faster change at a grand scale. Parallel to the growth in mass public opinion over the last year, there are numerous catalysts driving the climate change agenda and supporting the objectives of the Paris Agreement. These include:

- Increased actions by larger nations with countries like Germany announcing new measures to bring the country back on track to meet its 2030 targets. These include a carbon price for key sectors and significant spend to encourage companies and households to reduce carbon emissions.
- Costs of renewables and ‘clean’ energy solutions coming down. Now major polluters, China and India specifically, are creating economic growth off the back of a transition to a low-carbon world including the cancellation of planned coal-power plants. Even in the US, at a domestic level, implementation of the Obama era Clean Power Plan in states such as California means emissions are being controlled despite Trump. Employment in the renewable energy industry is also growing rapidly.
- The recent IMF fiscal report, October 2019, which emphasises the environmental, fiscal, economic and administrative case for using carbon taxes, or similar pricing schemes such as emission trading systems, to implement climate mitigation strategies.
- An increase in the establishment of global forums that will carry significant weight in driving change. This includes the 2019 Coalition of Finance Ministers for Climate Action aimed at driving stronger collective action on climate change and its impacts especially through fiscal policy and the use of public finance.

“Climate change is a real threat nowadays, but we can turn it into an opportunity,” said Felipe Larraín Bascuñán, Minister of Finance, Chile. “Beyond traditional tools like carbon pricing or the phasing out of fossil fuels, we can stimulate and signal the private sector to invest in innovative solutions, incorporate this risk and externalities into the investment decision-making process. Economic growth is essential but reducing emissions is also essential. We need more ambition and concrete commitments that translate into action.”

The South African perspective

While the rise of popular governmental policies challenges global initiatives, the related challenges in our country are also well-known. We are the 14th largest emitter of GHG (source: CAT), due largely to our heavy reliance on coal for energy supply. We require significant structural changes to reduce our CO_2 emissions against a backdrop of weak economic growth, Eskom our struggling energy provider, and the need to consider other Sustainable Development Goals such as ‘no poverty’. Replacing current energy sources with renewable alternatives is essential to bring down emissions but may take time as we balance the socio-economic impact. Encouragingly the cost of renewable energy in South Africa has fallen in the last four years (solar by 80% and wind by 60%).

"If people around the world ever thought climate change is just a fable, we in South Africa are now seeing the real effects." – Cyril Ramaphosa

Our government is acutely aware of the challenges and its commitments to the Paris Agreement and the National Development Plan. A revision to the Government's Integrated Resources Plan (IRP), announced in 2019, is supportive of a move to lower emissions and in line with the Paris Agreement. An increase in energy supply from renewables being a key factor. New legislation in the form of carbon tax has also been introduced, penalising companies for excessive carbon emissions. Our contribution to the cause is noted, however we wait and see on the ability to implement.

As asset managers in South Africa, we face difficult decisions along with capital allocators worldwide. Whilst factoring in the alignment to national and global development plans which reach beyond the Paris Agreement and include targets like the 17 SDGs, asset managers also need to calculate and quantify investment outcomes and their impact. It's pertinent to note that the Task Force on Climate-related Financial Disclosures (TCFD), chaired by Michael Bloomberg, is driving a new dimension to the measurement and reporting of climate impact in developed economies.

"Looking ahead beyond 2019, the PRI still see climate change as the number one concern to our signatory base." – Fiona Reynolds, CEO, the PRI. The PRI is working to help investors protect portfolios from risks and to expose them to opportunities in the shift to a low-carbon global economy

The reality is the world needs to work as one to genuinely achieve an environment to meet the targets of the Paris Agreement by mid-century. The US stance has placed strain on these collaborative efforts and highlighted the strong political agenda behind the climate change topic.

But actions from other world superpowers, global public opinion particularly from youth, domestic activity within the US, including a shift to renewables, and the establishment of strong global forums, are all factors paving a stronger path for continued collaboration, squeezing out any climate change denialists. The way we do business across the world, the basis for economic growth and our choice of investment assets, has to fundamentally change to ensure the protection of our planet.

STANLIB is fully aligned with the view that collaborative and collective action is required to drive genuine and substantial change. We also recognise the local challenges to balance environmental protection and socio-economic development. We will continue to play a role as an organisation, but also into industry bodies such as CRISA and UNPRI. This is necessary to participate in the changes required to take this issue forward.

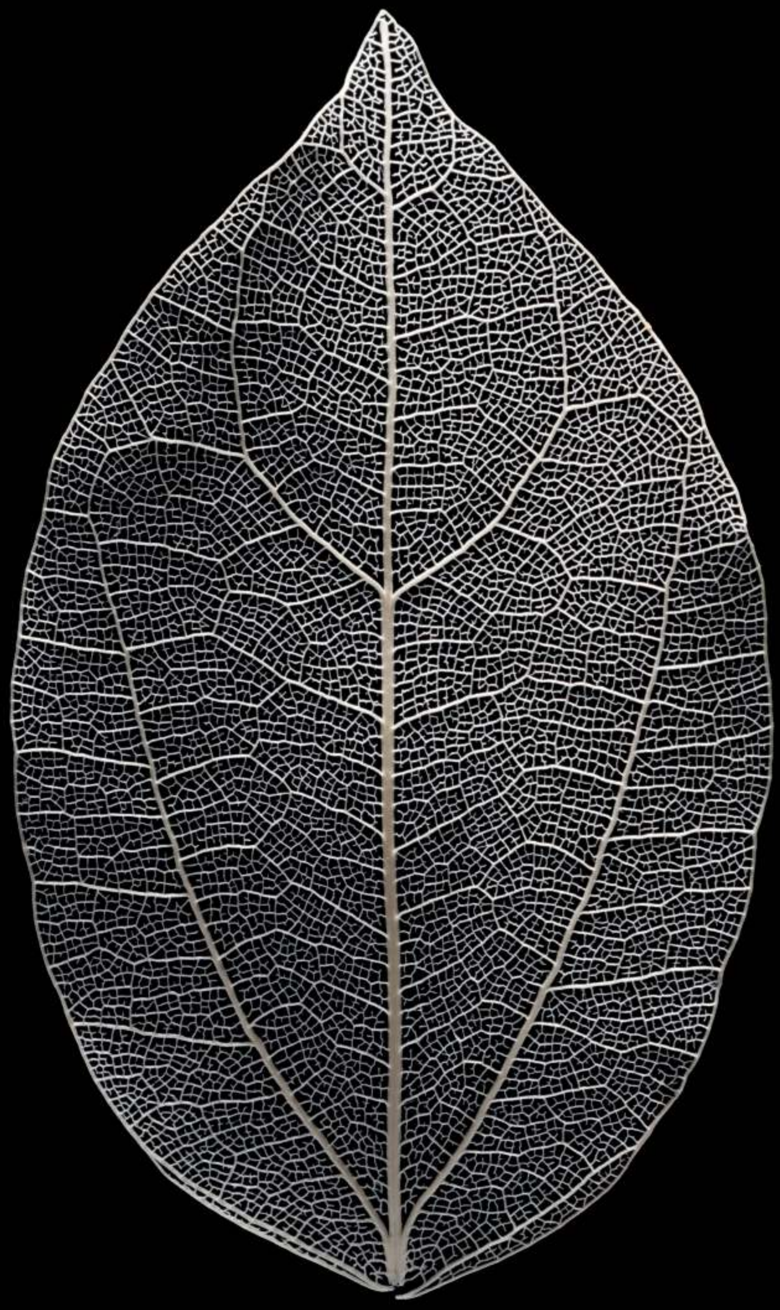
Sources:
UNFCC, The Paris Agreement, 2019
BP Statistical Review of World Energy, CarbonBrief.org
Climate Action Tracker (CAT), 2019
**International Energy Agency: Coal Report 2018*
The Heat is On, Taking Stock of Climate Change Ambition, UNDP

LOOKING FORWARD:

INVESTING FOR A SUSTAINABLE FUTURE

The concept of investing for a sustainable future is evolving fast and what was once an add-on to investment practices in asset management now forms part of the way we work and think every day. Policies and processes to embed the consideration of environmental, social and governance factors into investment decision-making form the bedrock of the way we operate. However, we recognise that a mindful and agile approach to sustainable investing is required as we head into 2020 and beyond. Investors worldwide are increasingly demanding financial returns coupled with social and environmental impact and in some cases the latter has become more important. Globally, we have seen established funds such as the Ford Foundation and CalPERS allocating a portion of their capital to impact investing, and this trend continues to grow. There is also an increasing demand from retail investors for ESG or SRI products with the Z generation driving future investment trends. Governments worldwide are being challenged to collaborate to support the future health of our environment and the SDGs: In South Africa, we are also seeing policy and corporate behaviour shifting to replicate these global trends.

As we look ahead, we remain encouraged by these shifting investor trends and the heightened efforts for stakeholder collaboration. The collection of relevant data and information plus the need to balance environmental and social factors, particularly in South Africa, remains critical. We are determined to be part of this transforming arena and to work together with all our stakeholders to invest for a sustainable future.



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