OUT OF THE ORDINARY

# Investec Wealth & Investment Limited

## 2022 Stewardship Code Report

This report covers activities between
1 January 2022 and 31 March 2023

Investec Wealth & Investment Limited has significantly built on its Stewardship foundations this year. While we have continued with business-as-usual Stewardship activity, we have also recognised the importance of investing time into transformation work, to build on our Stewardship proposition.

This includes:

- hiring additional resource
- revising our Stewardship policies
- revising our Governance structures
- logging our voting decisions in more detail
- reporting on Stewardship more frequently and thoroughly
- streamlining processes

Going forward, these improvements will enable us to engage and vote more to do this, more strategically and more accurately and in a way that is more closely connected to the rest of our decision making process.

We are proud of the Stewardship and Environment, Social and Governance (ESG) related work we have done in this reporting period. We aspire and look forward to building on this further, in future years.

# Contents



# Preface

This report refers to Investec Wealth & Investment Limited as “IW&I” and Investec plc as “Investec”. Please note that Principle 2 shows our overall corporate and governance structure.

IW&I have elected to change the cadence of our reporting period from calendar year to fiscal year reporting, after consultation with the Financial Reporting Council (FRC). At the FRC’s request, this ‘transition year’ report covers a 15-month period, to ensure no gap in coverage between this report and the 2021 calendar year report.

PRINCIPLE 1

# Our purpose, strategy and culture

**Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.**

## 1.1 Our purpose

Investec's purpose is to create enduring worth, living in society, not off it.

## 1.2 Our mission

Investec is a distinctive bank and wealth manager, driven by commitment to our core philosophies and values. We deliver exceptional service to our clients in the areas of banking and wealth management, striving to create long-term value for all of our stakeholders and contributing meaningfully to our people, communities and planet.

## 1.3 Our values and culture

Crystallised in four specifically described values, the Investec culture underpins everything that we do.

It guides our behaviour towards all stakeholders – our colleagues, our clients, our counterparties and our communities.

- **Cast-iron integrity:** Cast-iron integrity: We demand cast-iron integrity in all internal and external dealings, consistently and uncompromisingly displaying moral strength and behaviour which promotes trust.
- **Distinctive performance:** We employ talented people with passion, energy and stamina, who exercise common sense in achieving effective performance in a high pressure, multi-task environment. We promote innovation and entrepreneurial freedom to operate within the context of risk consciousness, sound judgement and an obligation to do things properly. We show concern for people, support our colleagues and encourage growth and development.
- **Client focus:** We thrive on change, continually challenging the status quo and recognising that success depends on flexibility, innovation and enthusiasm in meeting the needs of our changing environment.
- **Dedicated partnership:** We believe that open and honest dialogue is the appropriate process to test decisions, seek consensus and accept responsibility. We are creative individuals who co-operate and collaborate unselfishly. We respect the dignity and worth of the individual through encouraging openness and embracing difference and by the sincere, consistent and considerate manner in which we interact.

Aligned to these values, Investec Wealth & Investment Limited have developed seven culture statements:

# Our purpose, strategy and culture

**Leadership**

Leadership is about empowering colleagues, giving them autonomy to act, and removing obstacles to enable them to thrive. We all lead in different ways, it is not just about managing people or teams.

**Belonging, inclusion and diversity**

We are all responsible for creating an inclusive environment where colleagues and clients feel free to be themselves. Diverse talent and listening to different voices are key to outstanding performance.

**Client focus**

Client focus is part of the fabric of our organisation. We need to be global in our thinking and local in our actions – “Glocal”. We leverage both regional and global expertise to deliver an Out of the Ordinary client experience.

**Collaboration and communication**

We value collaboration within Investec and beyond, and expect our colleagues to share ideas, networks and relationships. Whether in person or virtually, dialogue in the decision making process enables full participation, open communication, and builds trust.

**Business growth and performance**

We have a strong, sustainable growth culture, with our colleagues, clients and communities at the heart of everything we do. To be truly commercial we must create value for all three.

**Adaptability and change**

To be successful and relevant for our clients and ourselves, we have to listen, change and respond. We expect all colleagues to challenge the status quo.

**People development**

All colleagues can access energising development opportunities. Progress is free from the constraints of job titles and learning occurs in every part of our work.

We are a people business. Crucial to our culture is a flat organisational structure, which provides access and opportunity for all colleagues to perform in Out of the Ordinary ways. This creates a positive environment, where people find it easy to build relationships that enhance their contribution to the organisation.

We have a focus on internal mobility and strive to advertise all roles internally first before going external to support a transparent process for all employees.

We believe our culture supports good stewardship in the following ways:

- Leadership is not limited to managing people or teams. Everybody is empowered to take responsibility for their actions and is expected to be responsible stewards of investments we hold on behalf of our clients.
- Our people work in an environment where they feel safe to ‘speak up’ when decisions or actions may not be aligned to our Purpose and Sustainability goals.
- We listen to different views and opinions as part of the investment process, which makes for better long-term decision making when it comes to investment selection and voting.
- We actively develop our people and invest in learning, enabling all to increase their knowledge in the areas of ESG and sustainable finance.
- Decision making is client-centric and is aligned to their best interests and investment goals.
- We exist as part of a wider group; we use this network to increase our learning and understand the full possibilities in the space of sustainable finance.
- We will collaborate, when necessary, with third parties when voting to ensure the best outcome for our clients and communities.
- We select investments not just based on recent financial performance but on the basis that they can deliver sustainable growth or income performance.
- We adopt an agile mind-set which allows us to respond quickly to the changing external environment and make changes to our portfolio composition.
- We expect all colleagues to challenge the status quo, including long standing norms as part of our investment process.

# Our purpose, strategy and culture

## 1.3.1 Belonging, inclusion and diversity (BID) initiatives:

- The BID Allies Programme helps employees to become proactive allies for minoritised groups across the business. It includes topics such as: power and privilege, inclusive language, micro-aggressions, courageous conversations and challenging exclusion. Seven cohorts have completed the programme since inception totalling 196 colleagues, across the Wealth and Bank business.
- The Reciprocal Mentoring programme aims to facilitate reciprocal learning between senior leaders and people of colour and harness the value of difference. We have just launched our second programme at the beginning of 2023 including six mentees and six mentors.
- The Zebra Crossing programme is a learning journey that aims to raise levels of BID awareness by helping people to recognise, understand and appreciate difference. In this way we can create a more inclusive environment where everyone finds it easy to be themselves and feel that they belong at Investec. From January 2022 to March 2023, 85 Investec Wealth & Investment employees have completed the programme.
- Team workshops across the organisation focusing on how to create an inclusive environment.
- The Returnship programme across Wealth and Bank is a source of hiring female talent.
- Neurodiversity guidance and information for all employees and managers, and an established neurodiversity working group who discuss actions we can take as an organisation and raise awareness.
- We have partnered with Peppy to provide fertility, menopause, pregnancy and early parenting support.
- To inspire and support our people to have courageous conversations around diversity and inclusion, we have four employee networks and have a learning offering which enables our people to understand their own biases and to appreciate and celebrate the richness of our diverse people. These networks are: Gender Balance, Pride, Multicultural and YoungMinds, who provide regular feedback and initiated discussions on topics including: 'how to unlock opportunities through inclusive leadership', ‘the power of Pride’, ‘the power of togetherness’, ‘a network of possibilities: changing the status quo’ and a global panel discussion on International Women’s Day on 'breaking the bias'.
- We have made available video recordings discussing inclusive language within sexuality and gender, neurodiversity, disability and race and culture, to help aid people’s understanding of inclusive language within BID.
- The Investec Wealth & Investment BID working group is a place to listen, collect and understand information. The group regularly interacts to discuss belonging, inclusion and diversity and maintain an understanding of the BID culture within Wealth & Investment. The group’s purpose is to foster a network of people, create a two-way dialogue with that network and communicate to the Executive Committee (ExCo) on matters relating BID.

At Investec, we celebrate the individuality of our people, partners and clients. We believe that a diverse and inclusive workforce is essential for us to innovate, adapt and prosper in a fast-changing world. This understanding also enables us to adequately service the personalised needs of our clients.

**Gender Diversity**

From 1 January 2022 to 31 March 2023, in IW&I, 27.5% of hires were female, and 44.3% of senior hires were female. Notable female senior appointments were made into roles including Head of Research, London Divisional Lead, Wealth Private Office Lead and Senior Strategy Director, Global Head of People & Organisation and Head of Compliance & Risk.

# Our purpose, strategy and culture

The 15 months that this report covers have been particularly significant for the Investment and Research Office (IRO). Within IW&I's (IRO), 40% of leadership positions are held by women and 15% of leadership positions are held by those from minority ethnic backgrounds, as at the end of March 2023. This represents a significant increase from 24 months ago, where there were no women or individuals from minority ethnic backgrounds in leadership positions, within the IRO.

**Ethnicity**

As signatories to the Race at Work Charter in 2020, we are focused on the development of people of colour. Having undertaken a drive to collect employee data on ethnicity in 2021 we are pleased to report that our current disclosure rate for ethnicity is 84%. From 1 January 2022 to 31 March 2023, in IW&I, 21.6% of overall hires were people of colour and 27.5% of senior hires were people of colour.

**Early careers**

Our early careers initiative continues to feed our pipeline and this year we signed up to the #10000black interns initiative and recruited nine interns who joined us during the summer of 2022. Across the whole internship programme in 2022, 48% of the cohort were female and 62% of the cohort were people of colour. Three interns were recruited at the end of the programme of which two were female. Additionally, throughout 2022 we employed 15 apprentices (seven females, ten people of colour) from the Apprenticeship levy programme across the Group's Specialist Bank and IW&I, in partnership with Multiverse.

Furthermore, we collaborated with Springpod, whose goal is to create interactive, experiential learning programmes which empower the next generation and enable them to take their future into their own hands by giving them equal access to opportunity. In October 2022, 36% of our Springpod cohort were female and 56.4% were people of colour.

## 1.3.2 Embedding Leadership

We invest significantly in several opportunities for the development and upskilling of our employees and in flagship leadership programmes to enable the growth of current and future leaders across the organisation. Employees are encouraged to be the driving force behind their own development and be proactive in identifying and addressing their development needs. This allows them to maximise informal and formal learning opportunities which are most relevant to their unique requirements and context.

**Developing Team Leaders (DTL)**

DTL is designed to empower new, current and emerging leaders by providing them with practical skills and new approaches critical to managing and leading a team at Investec.

Key learning outcomes:

- Enable leaders to develop key skills needed to effectively manage themselves and others
- Create a reflective space for leaders to enhance their self-awareness, individual development and growth
- Expose leaders to leadership within the context of Investec, our culture and values
- Facilitate the development of strong internal networks across the Group.

**Leadership Development Programme (LDP)**

LDP is a highly introspective development programme with a primary focus on developing one's leadership capability through a greater understanding of self. This programme is for seasoned leaders.

Key learning outcomes:

- Enhance self-awareness to enable the development of an authentic leadership style
- Assist leaders to create an environment that inspires confidence, trust and open dialogue
- Inspire leadership behaviours and practices, including understanding team dynamics
- Enable leaders to develop reflection as a key leadership practice Key learning outcomes:
- Enable leaders to develop key skills needed to effectively manage themselves and others
- Create a reflective space for leaders to enhance their self-awareness, individual development and growth
- Expose leaders to leadership within the context of Investec, our culture and values
- Facilitate the development of strong internal networks across the Group

# Our purpose, strategy and culture

## 1.4 Our strategy

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| **At Investec Wealth & Investment Limited, our strategic goals are based on the aspiration to be recognised as a distinctive wealth manager, delivering an Out of the Ordinary service for our clients. We work closely with clients to offer a bespoke wealth management service, helping to deliver optimal returns on their investments and bring financial peace of mind.** | **Our Group integrated annual report for 2022 makes clear the importance of sustainability for our strategy: we are committed to delivering on our mission to give exceptional service to our clients, creating long term value for our shareholders, and contributing meaningfully to people, communities and the planet. We will invest responsibly on behalf of those clients, with ESG considerations integrated into our investment process and active engagement with the businesses we invest in.** |

## 1.5 Our investment beliefs

Investec's purpose is to create enduring worth, living in society, not off it, which forms the foundation of our choices around stewardship, investment strategy and decision making.

Our investment beliefs are embodied in our investment philosophy and our investment process. Both explicitly prioritise the highest standards of Stewardship and Governance and implicitly thereby recognise our role as investors in allocating capital and exercising our oversight obligations to those standards.

Addressing climate and inequality is fundamental to the success of our business. We have eight priority UN Sustainable Development Goals (SDGs): two impact SDGs, climate action (SDG 13) and reduced inequalities (SDG 10), supported by six core SDGs. These priority SDGs are globally aligned yet locally relevant to our core geographies and also reflect our growth strategy to fund a stable and sustainable economy.

Our purpose forms the foundation of our choices in IW&I; the impact SDGs are also reflected in our Voting Principles and Thematic Engagement Priorities. These will, in turn, shape our activity over the coming year (they can be found in our Stewardship Policy, on our website https://www.investec.com/en_gb/wealth/private-clients/about-us/responsible-investing-approach.html).

### 1.5.1 Our investment philosophy

- We have a holistic philosophy which is based on the belief that there are a number of ways we can generate returns for our clients by applying a thoughtful and distinctive research process.
- The majority of our research effort focuses on high quality businesses that are well managed and have strong cash flow generation characteristics, where we believe that the superior risk adjusted returns these companies should create over the long-term are a good match to our clients' required outcomes. We will find these companies directly through individual bonds or equities, or through a collective investment provider where we believe our interests and philosophies are aligned, and they will form the core of our clients' portfolios.
- In addition, we believe that we can use our research resources – both in strategy and investment selection – to identify additional opportunities for return generation or risk management. Where we identify an emerging theme, a tactical opportunity, or a mismatch in market expectations, we have the ability – through our fund selection capability – to identify fund managers who are best placed to take advantage. Equally, we use this resource to give exposure to Alternative funds, which can use derivatives-based and higher-turnover strategies.

# Our purpose, strategy and culture

## 1.5.2 Our investment process

- Our Capital Markets Assumptions (CMAs) reflect our views on expected market returns and volatilities on a ten-year view. They are the initial building blocks for the development of our strategic asset allocation, which forms the foundation of our framework portfolios and is used to construct reasonable risk and return expectations for our clients. This year we made significant improvements to our sustainability inputs into the yearly CMA work with support from a newly developed IW&I Environmental Research Group (ERG). The ERG researched several key topics, with a primary focus on the effects of climate change, and debated each topic from an economic, environmental, geopolitical, societal and technological risk perspective. Encouragingly, the ERG topics identified were broadly aligned with the top ten global risks for the coming 10 years as identified by the World Economic Forum Global Risks Perception Survey 2022-2023. The ERG findings were directly considered by the Investment & Research Office strategists as part of the CMA process, therefore the full CMA 2023 process is informed by work which has sustainability criteria at its core.

  The CMAs are due to be finalised imminently and will then provide an additional means for us ensure our investment strategy and decision making are guided by our purpose and investment beliefs.
- Our investment process starts with our strategic allocations, which are determined by our Capital Markets Assumptions work. Tactical Asset Allocation views are then given by the Global Investment Strategy Group, which meets quarterly, and is comprised of members of Group investment teams from the UK, Switzerland, and South Africa. This committee decides the overall risk tolerance on an 18-month to 3-year view and provides guidance and input on macroeconomic matters. The outputs of this committee are then fed into the Asset Allocation Committee, which determines the optimal tactical positioning against our set of strategic allocations. Finally, a set of investments are determined to populate our range of model portfolios which are aligned with these views. ESG and Sustainability factors are considered as part of the decision making process and are noted and distributed in the minutes.
- Each of our asset classes has a differentiated research strategy, given the analysis requirements of each one. Our direct equity and fixed income (credit) research is quality and cashflow focused and incorporates ESG factors in a four-stage model as part of fundamental research. Our collectivised funds – which includes equity, fixed income, and alternatives options – are assessed according to a qualitative framework (the APPROVED process) which focuses on the quality of the management team and their execution, and involves ESG analysis as one of the determinants of this quality.
- ESG and Stewardship in our process is specifically designed to align with Investec's core purpose to 'create enduring worth, living in society, not off it'. We believe ESG matters bear directly upon the sustainability of a business – i.e. the ability to generate benefits for stakeholders, remain economically healthy, and deliver consistent returns.
- Please find a summary of our governance framework and ESG policies for each of the main asset classes in Principle 7.

# Our purpose, strategy and culture

## 1.6 Our sustainable finance strategy

In 2021, we developed and formalised our Sustainable Finance strategy, which has a set of aims that directly follow our purpose and investment beliefs.

This is summarised as follows:

a) Promote systemic health and see economic and financial health as inseparable from human, societal and environmental health. Go beyond sustainability and adopt a regenerative, systems mindset.

b) Embrace emerging asset classes and allocate resources in a way that regenerates natural and social capital without compromising traditional returns.

c) Be active owners and conscious stewards of our clients' capital, to engage with investees to drive positive change.

d) Segment our clients so that we can address regeneration and reflect their values in our investment philosophy with scalability.

e) Manage risk holistically - understanding that emerging ESG risks become financial risks and should be incorporated within fundamental analysis when making decisions.

f) Invest in human capital in such a way as to create a generation of leaders that have sustainability in their DNA.

g) Amplify our corporate purpose so that it is embraced and actioned by all stakeholders, promoting a wider understanding of the important role that our sector plays in building a better and more sustainable future.

h) Create positive feedback loops in terms of client attraction and retention (reduce client acquisition costs), talent attraction and retention (reduce human capital costs), and risk-adjusted returns (reduce cost of capital).

Our Sustainable Finance transformation programme has focussed on assessing data providers primarily to support our upcoming requirement to produce climate-related disclosures in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD). It is expected that engagement with the new data provider will also bolster our existing ESG integration processes and enhance our voting and engagement Stewardship activities. In addition, it will facilitate a move towards enhanced client reporting on ESG and Sustainability topics. It is anticipated that the new data provider will be onboarded towards the end of Q2 2023.

## 1.7 Serving the best interests of our clients

We strive to put our clients at the centre of all decision making. We believe that our Stewardship activity serves clients' long-term interests by ensuring that our investee companies are creating long-term shareholder value, through their management of environmental, social and governance-related risks and opportunities. Our Full Year 2022 Stewardship Report and the contents of this report outline our extensive efforts in this space over the reporting period; we therefore believe we have been effective in serving the best interests of clients over this period.

PRINCIPLE 2

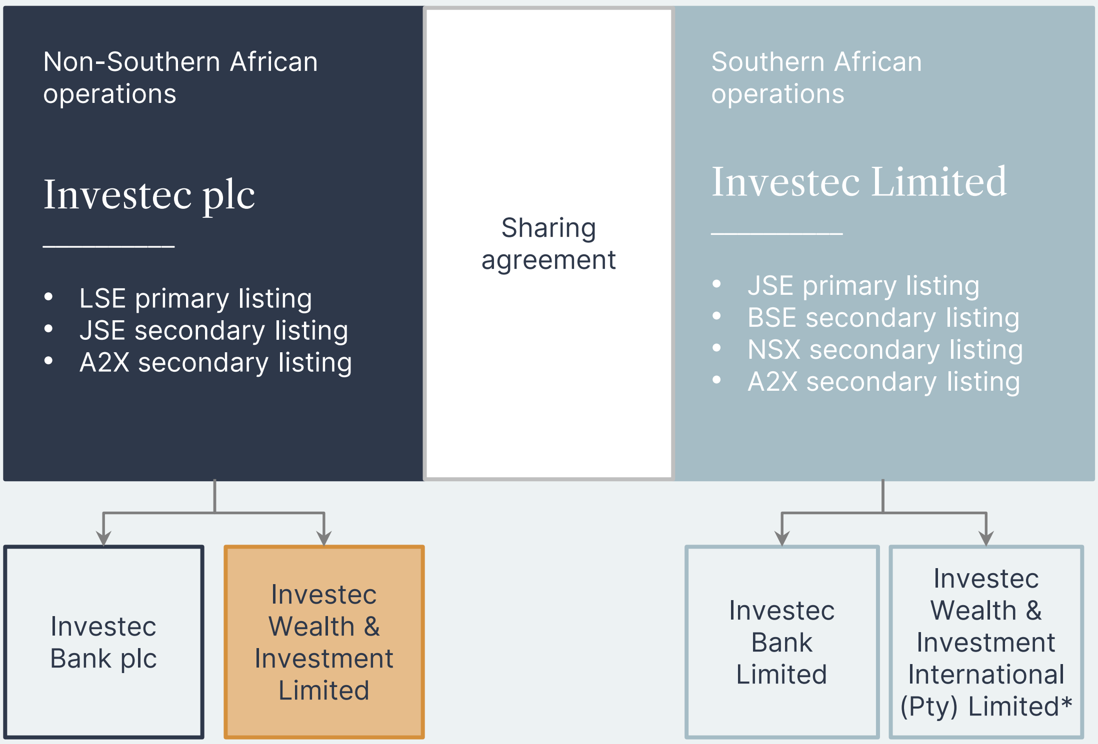
# Our governance, resources and incentives to support stewardship

**Signatories' governance, resources and incentives support stewardship.**

## 2.1 Our shareholders

Investec Wealth & Investment Limited (IW&I) is part of the Investec Group and is a wholly owned subsidiary of Investec Bank plc, which is in turn a subsidiary of Investec plc. Investec plc operates co-operatively, through a sharing arrangement, with Investec Limited, which owns the Group's South Africa operations. The Dual Listed Company (DLC) structure is set out in the table below.

**Our DLC structure and main operating subsidiaries**

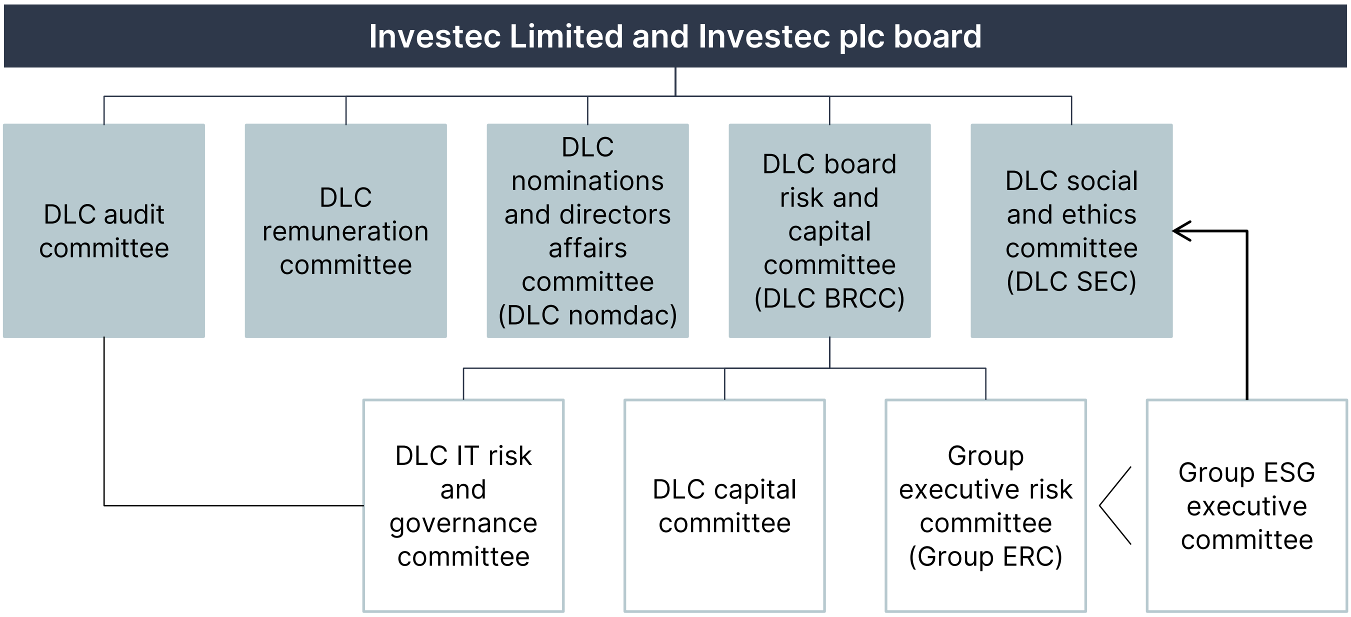



IW&I governance must be understood in context of Investec plc structures.

* Houses the South African Wealth & Investment business.

# Our governance, resources and incentives to support stewardship

## 2.2 Investec plc governance




In addition to the board committees, highlighted in grey above, further group risk committees and forums exist to support them in their objectives. Information on these committees can be supplied on request.

As a function of our South African heritage, our Group policies on sustainability, diversity and inclusion and the governance structures around them are long established. The Investec Group has compiled and published reports on our performance from a sustainability perspective for more than 20 years. The most recent is available on our Group website (https://www. investec.com/en_za/welcome-toinvestec/corporate-responsibility. html).

Our policies and practices are therefore part of our DNA and as such are not only endorsed, but promoted at the highest executive level.

At the Group level two committees oversee our corporate sustainability and ESG integration, including stewardship. The DLC Social and Ethics Committee (DLC SEC), a sub-committee of the board, monitors our progress in terms of ESG matters and in terms of advancing the UN Global Compact's ten principles with respect to business and human rights, labour, environment and anti-corruption. The Group ESG Executive Committee, mandated by the group's executive directors, reports relevant ESG matters to DLC SEC and the Group Executive Risk Committee (ERC).

The ESG Executive Committee is mandated to:

- Align and integrate sustainability activities across the organisation while focusing on the many business opportunities within Investec's priority SDGs.
- Escalate significant matters for consideration by the Group's respective committees and leaders.
- Provide feedback to the business on emerging sustainability issues.
- Identify and communicate to the relevant forums any relevant external issues that could adversely affect the organisation's reputation and business.

# Our governance, resources and incentives to support stewardship

Sustainability matters that the Committee will consider and discuss include the following:

- Social issues including:


- ESG risk screening within our business activities.
- Sustainability opportunities within our business activities including sustainable finance, transition finance and sustainability impact investing
- Our approach to the Sustainable Development Goals and our alignment to the goals.

Our commitment to sustainable finance resulted in Investec Chief Executive, Fani Titi, being appointed to the UN Global Investors for Sustainable Development (GISD) Alliance, in 2019. This is made up of 30 leading corporates and financial institutions across the world. The alliance aims to accelerate action to better integrate the UN SDGs into the business; to scale up sustainable investments globally, especially to countries most in need; and to align investment with sustainable development objectives.

Sustainability and good stewardship of our client's assets are at the heart of Investec's business and are fully endorsed by the executive committee of the ultimate parent company to IW&I.

Our efforts from the past 20 years of positioning Investec as a responsible corporate were recognised through our inclusion in a number of world-leading indices such as the MSCI ESG ratings where we score in the top 1% in the financial services sector, and Sustainalytics where we score in the top 13% of all globally assessed companies, as of March 2023.

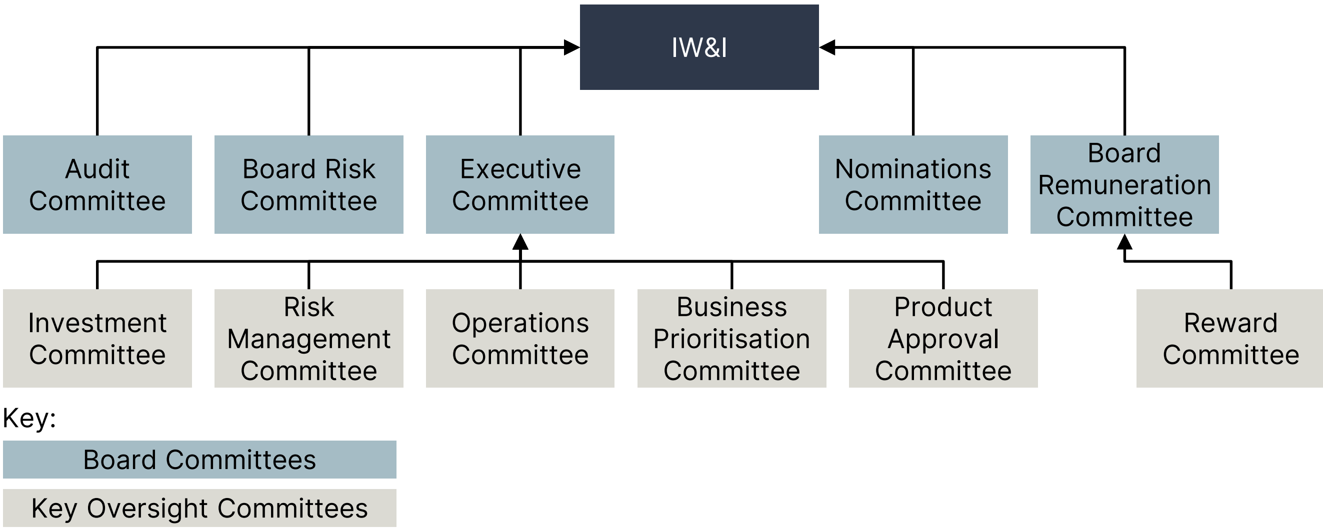
## 2.3 Investec Wealth & Investment Limited governance structure

IW&I maintains a Management Responsibilities Map (MRM), that describes its management and governance arrangements, including details of the reporting lines and the lines of responsibility.

The IW&I Board is accountable for the performance and affairs of IW&I. The Board is responsible for the development and adoption of strategic plans, monitoring operational performance and management, ensuring an effective risk management strategy, the culture of the organisation, compliance with applicable legislation, upholding corporate governance standards and succession.

There are four Board Committees, each mandated by the Board with delegated authority for specific matters plus an Executive Committee which has been established by the Chief Executive. The following four committees are composed of non-executive members. These are the:

# Our governance, resources and incentives to support stewardship




The governance structure supports clear segregation of duties between the functions responsible for the investment decision making process, monitoring of portfolios against client restrictions, the dealing process and the accounting and settlement process.

The Board of Directors is committed to complying with applicable regulatory requirements and the associated guidance. As such, the Board of Directors is responsible for ensuring the effective management of IW&I's legal and regulatory obligations.

**Audit Committee**

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing internal financial controls, monitoring, and reviewing the effectiveness of internal auditors, to recommend the appointment or replacement of external auditors and to review the effectiveness of their work.

The Committee shall regularly receive and consider reports on CASS from the person with CASS oversight responsibility as well as external audit reports.

**Board Risk Committee**

The Board Risk Committee oversees the Company's risk framework and risk strategy to ensure that the framework is appropriate to the size, scale, and nature of the Company's activities for the purposes of effectively managing the material risks to which the company is exposed and consider whether the resources allocated to the risk management framework are adequate for the purposes of managing the Company's material risk exposures effectively.

**Executive Committee**

The Executive Committee (ExCo) is established for major operational decisions and to oversee the day-to-day management of all aspects of IW&I's business. ExCo has responsibility and oversight for the Company's strategy, performance, operations, and governance. ExCo has delegated authority to several other Committees to be responsible for certain key business and risk matters. These Committees report into the ExCo.

**Nominations Committee**

The Nominations Committee is responsible for ensuring a formal, rigorous, and transparent process is in place to ensure that the composition of the Board is appropriate. The committee is expected to ensure that the directors bring characteristics to the Board that provide a mix of qualifications, skills, diversity and experience.

**Board Remuneration Committee**

The Board Remuneration Committee determine, develop, and agree with the IW&I Board the framework for the remuneration of the members of the Board and Executive Committee of IW&I as well as other members of the Senior Management and Material Risk Takers of IW&I who fall within the definition of Principle 8 of the FCA Remuneration Code. The committee ensures that remuneration packages for members of the Risk and Compliance function are determined independently of other business areas.

# Our governance, resources and incentives to support stewardship

### The Investment Committee

The purpose of the Investment Committee is to promote the creation and delivery of an efficient investment process that is of a uniform and consistent high quality, suitable for all investment management clients of IW&I in accordance with the Company's strategic objectives. The Investment Committee reports into the Executive Committee.

## 2.4 IW&I investment governance structure

IW&I has formally committed to voting on certain discretionary shareholdings to protect our clients' interests, seeking to ensure that all governance, social and environmental matters specific to their business activities are understood and well managed. To support this commitment, a comprehensive governance structure has been in place for the period covered by this report.

The Investment Committee is chaired by the Chief Investment Officer (CIO) and reports into the Executive Committee (the highest management level in IW&I), which in turn oversees the public disclosure of the discharging of our governance obligations. The IC also oversees the investment process, and as a result has full oversight of our Responsible Investment approach (ESG integration and stewardship).

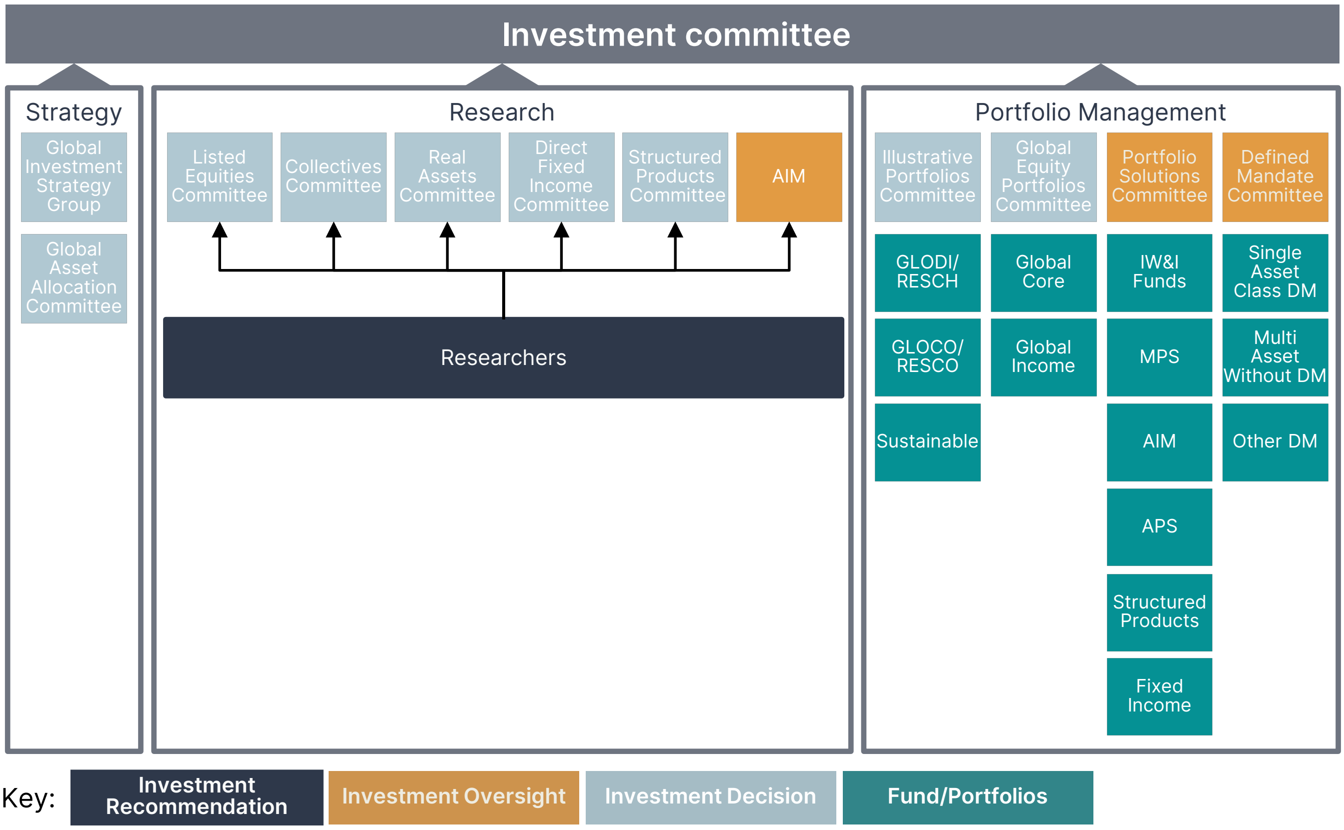
The Equity Corporate Governance Forum (ECG) and the Collectives Corporate Governance Forum (CCG) were responsible for day-to-day implementation of corporate governance, as embedded in the investment process, and were overseen by the Investment Committee (IC).

The IC oversaw the ECG and CCG and was responsible for ensuring adherence to our internal policies, as well as to the Stewardship Code. It was chaired by the Chief Investment Officer (CIO) and reported into the Executive Committee (the highest management level in IW&I, which in turn oversees the public disclosure of the discharging of our governance obligations).

Our ECG and CCG were in place to take on the day-to-day responsibility for overseeing corporate governance and voting for their respective asset classes. They were also responsible for building reports required to meet requirements of the Stewardship Code and our other governance-related commitments. The Chairs of both forums identified and escalated material and price sensitive issues to the IC, as well as providing reports twice a year, which were incorporated into the IC agenda and disseminated to the Executive Committee.

# Our governance, resources and incentives to support stewardship

## 2.4.1 Assessing how effective our governance structure has been in supporting stewardship




In 2022, we reviewed and implemented updates to our previous governance structure. We regularly review how we can improve our processes, and we are committed to ensuring that we are serving the best interests of our clients in a more effective and efficient way. This governance structure was also reviewed as part of an internal audit in 2022 (see Principle 5 for more detail). The audit findings highlighted that additional controls could be put in place and documented, to ensure full adherence to our Stewardship Policy, and that additional consistency could be implemented across our processes for Listed Equities and Collectives. In addition, Stewardship decisions and investment decisions were being made in separate forums.

We redesigned our committee structure to strengthen investment governance and better evidence how we protect good client outcomes. The new Consumer Duty regulation outlines the need to do this, as well as our ongoing commitment to fair decision making for our clients. Refreshed governance will drive clear accountability and evidence how our expertise guides the firm’s decisions. We have streamlined the process, encouraged constructive debate, and formalised Stewardship as an integral part of investment thinking and decision making.

In April 2023, we will implement this newly designed comprehensive governance structure, as shown above. The Listed Equities Committee (LEC), Collectives Committee (CC), the Real Assets Committee (RAC) and the Direct Fixed Income Committee (DFIC) will be responsible for day-to-day implementation of voting and corporate governance matters, as well as investment decisions, and will be overseen by the Investment Committee (IC).

The IC will oversee the LEC, CC, RAC and DFIC and be responsible for ensuring adherence to our internal policies. Our LEC, CC, RAC and DFIC will be in place to take on the day-to-day responsibility for overseeing corporate governance and voting for their respective asset classes, where applicable. They will also be responsible for building reports required to meet requirements of the Stewardship Code and our other governance-related commitments. The Chairs of all Committees will identify and escalate material and price sensitive issues to the IC as needed, as well as providing reports throughout the year. These will be incorporated into the IC agenda and disseminated to the Executive Committee.

# Our governance, resources and incentives to support stewardship

## 2.5 Investment governance and stewardship resourcing and function

### 2.5.1 Membership

The Governance processes are chaired by senior members of our executive and investment teams. The Investment Committee (IC), the supervising body of our investment processes, is chaired by Stacey Parrinder-Johnson, our CIO and member of the Executive Committee. Stacey was appointed to the CIO position in August 2021 and has worked with ESG and sustainable investments for 18 years. She was previously a member of the Collectives Corporate Governance Forum for several years, and now has the broader responsibility to report on the investment governance function to the Executive Committee.

### 2.5.2 Resources

Stewardship activities are built into our processes, meaning each of our investment analysts have responsibility for stewardship issues. As these analysts are sector and asset class focused, we therefore have a good understanding of industry best practice in each area, and so can tailor our activities appropriately.

To support our existing activities and enhance them in the future, in 2022/2023 we built a dedicated Stewardship team. This new function forms part of our Research team, coordinating, and leading our stewardship efforts to achieve and drive best practice, and helping the analysts prioritise their efforts appropriately. The team is led by our Stewardship manager, who is supported by our Stewardship analyst. The team aims to stay agile and flexible in order to work on a variety of tasks and meet various deadlines. Activities are prioritised based on importance and urgency and assigned by the Stewardship manager, according to each team member's skillset and existing workload. Other resourcing approaches have been considered, such as dividing tasks based on topic (environmental/social/ governance) or type of activity (voting, engagement etc.). However, given the size and broad skillsets of the team, the current approach is deemed to be most effective; it allows the team to be more agile and remain generalists, honing a broad skillset and developing SME knowledge across ESG topics.

Our Head of Research has brought additional consistency and rigour to our governance and processes, including those pertaining to Stewardship.

To increase capacity for other Sustainability and ESG integration activities, we have also recruited a Senior Strategy Director for Sustainability. Their focus is on development of our Sustainable Finance strategy, which among other things includes alignment with and reporting under the UN Principles for Responsible Investment (PRI), and preparation for upcoming disclosures required under the TCFD. They also conducted a review and update of our ESG policy, this year.

In addition, to cater to the Investment & Research Office's data needs, we recruited a Senior Strategy Director for Data. Part of the remit of this role will be to enable increased access to, and ease of use of, data relating to Stewardship. For example, more granular breakdowns of holdings, client data, and voting rights.

Many activities are being supported by our Sustainable Finance programme, which contains members of our Client Facing, Compliance, Transformation and Product teams. We also have a number of ESG investment focused teams which focus on Sustainability products in both the UK and South Africa. All of the participants in these groups help us identify best practice in stewardship, emerging themes, and areas in which we can lead. When it is time for us to report on our ESG and Stewardship activities, they create a strong network which help us communicate and embed our Stewardship activities throughout the group.

# Our governance, resources and incentives to support stewardship

## 2.6 Embedding behaviour into the business

### 2.6.1 Leadership, education and training

Aside from ensuring that we are discharging our governance obligations and commitments, the governance function has a role in promoting awareness of our responsibilities and capabilities throughout the organisation.

This goal is achieved by requiring that the governance committees are comprised not solely of research team members and the executive leadership, but also of senior Investment Managers. This blends expertise, experience and perspective. Each member is tasked with understanding the investment process, and the mechanics of the combination of internal and third-party research which we use to make decisions and with sharing this understanding with the business.

The Investment & Research Office and Learning & Development teams lead the education of Investment Managers across the group. They do this through training sessions which encourage understanding of the fundamental compatibility of good ESG practice with our investment philosophy and investment processes. In 2022, a mandatory ‘ESG 101’ e-learning module was rolled out to all of IW&I. This aimed to help all staff develop a better understanding of what ESG means and its importance in today’s world. It also built awareness of how ESG relates to investors, regulators and organisations in the financial sector, and was attended by over 3,500 employees, across the Group.

We maintain active training for our portfolio managers through our investment communications, explaining how ESG and corporate governance factors are incorporated into our decision making.

In addition, the Investment & Research Office arrange presentations to Investment Managers on sustainable, responsible and ESG investing by outside parties, including specialist fund providers, our own information and service suppliers, such as Sustainalytics. This enhances their understanding of our capabilities and the best ways to deploy them on behalf of our clients.

Additionally, over 10 members of the Investment & Research Office completed the CFA Certificate in ESG Investing during 2022.

In 2022, 30 members of the Executive Committee and Board team completed a bespoke training programme on Sustainable Finance which was developed in collaboration with the University of Cambridge for Sustainability Leadership (CISL). This was a face-to-face programme hosted at Investec's offices and delivered by CISL expert faculty and external contributors. It aimed to:

- Distinguish what leading practice within the organisation might look like and how other financial institutions are responding to sustainability related risks and opportunities
- Develop the characteristics of an effective change agent for sustainability, including listening, building coalitions, identifying key leverage points, influencing/inspiring others
- Develop practical actions to take things forward as part of a broader sustainability related strategy.

Approximately 30 members of our Investment & Research Office then also attended a similar, two-day, face-to-face programme delivered by CISL expert faculty. This interactive course covered global pressures and trends, the changing landscape of Sustainable Finance and how those learnings could be integrated into the team’s roles and functions.

A further 30 members of our client-facing teams and Investment & Research Office took CISL's eight-week Sustainable Finance online course, to enhance their sustainability knowledge and spend time considering how to apply it to their roles on a day-to-day basis. We are pleased to also have an ongoing relationship with CISL, being a member of the Investment Leaders’ Group.

We are committed to attracting, developing and retaining a diverse team of talented people and our recruitment strategies reflect this. A diverse workforce is vital to our ability to continue to be an innovative organisation that can adapt and prosper in a fast-changing world.

# Our governance, resources and incentives to support stewardship

### 2.6.2 Culture, people and incentives

As crystallised in our values (outlined in Principle 1), our culture underpins everything that we do. It guides our behaviour towards all stakeholders – our colleagues, our clients, our counterparties, and our communities. We believe that by employing people who align with our culture and values and incentivising them appropriately, good governance becomes fundamentally integrated into our business.

To be sure that we are aligning with these cultures and values, the group looked to further show our commitment through the changes we made to our directors' remuneration: in 2022, we developed and implemented a robust approach to assess non-financial measures for both the short-term and long-term incentive plans, particularly relating to the ESG measures. These developments are present in both our short-term and long-term incentive plans scorecard, which includes both financial and non-financial measures, the former equating to 80% and the later carrying a weight of 20%. Our non-financial measures consist of; culture and values (5%), ESG related measures (5%) and strategic measures (10%). The targets are reviewed and set annually by the Remuneration Committee. For more information on this policy please look at our Remuneration Report on our website.

Our remuneration philosophy and structure are designed to reinforce the behaviours needed to support our culture and values. Our reward plans are clear and transparent, designed and implemented to align employees' interests with those of all stakeholders and to support the short and long-term success of the business.

Across our research governance process within the UK, there is diversity by age, geographic location within the UK and by gender. However, we are aware that there is room for improvement, and we have outlined various initiatives to achieve greater diversity within our business in Principle 1.

Upon her appointment as CIO, Stacey Parrinder-Johnson tasked a diverse group from the business to develop and introduce recommendations and guidance on how to build a decision making process which can reduce bias and avoid mistakes. This was shaped into three core pillars: Committee Structure, Committee Governance and Decision Architecture.

These pillars were created through the help of existing IW&I investment committee members as well as academic research and decision science.

- The first pillar, committee structure, aimed to strengthen common committee values and culture in order to both practice and reap the benefits of diversity of thought. Recommendations included the introduction of pre-requisite training on unconscious bias for members.
- The committee governance pillar was centered around the creation and execution of clear responsibilities, guidance and best practice for members to make sure the logistical management of committees is carried out effectively.
- Finally, the decision architecture theme focused on the importance of executing clear and logical decision making processes, while also allowing for room to develop this methodology further than before. For example, a more refined method of decision ratification in voting than simple majority.

At IW&I we already had a strong starting point, however these recommendations encouraged increased transparency, maximised opportunities and made our investment decision making process more structured, which we believe gives us a competitive edge.

## 2.7 Investment in systems, processes, research and analysis

### 2.7.1 The internal research team

A key part of the Investment & Research Office is the Research Team. We have invested over many years in building a substantial, dedicated team of full-time investment professionals, whose role is to make and communicate judgements on the attractions of our investment options, in accordance with our investment philosophy and our investment processes (as outlined in Principle 1). Currently numbering more than 20 in the UK, our capability is supplemented by close co-operation with the research team of Investec Wealth & Investment Limited in South Africa – with whom we share common practices in investment strategy and direct equity investment, including ESG analysis and coordination of our stewardship output.

# Our governance, resources and incentives to support stewardship

## 2.7.2 Third-party research and systems

Our research team make independent judgements fully supported by third-party research inputs, chosen for their relevance and quality. We utilise the services of Institutional Shareholder Services (ISS), Sustainalytics, CS HOLT and Morningstar, which in addition to feeding into our fundamental analysis and ESG assessments, contribute to our overall stewardship obligations. We believe that we have a duty to remain forward-looking with regards to ESG, sustainability, and stewardship issues, and consequently completed an initiative to look at all of our sustainability focused data and associated client and regulatory reporting requirements. Our Sustainable Finance programme has focussed on assessing data providers primarily to support our upcoming requirement to produce climate-related disclosures in accordance with the TCFD. It is anticipated that the new data provider will be onboarded towards the end of the second quarter 2023.

### ESG and ethical assessments

Within our direct (equities and fixed income) research, the predominant third-party information source used is Sustainalytics. This is a quantitative tool which focuses on the ESG risks and the management of those risks. We utilise the data from Sustainalytics as a fundamental input into the ESG component of our investment assessment, along with UN SDGs data sourced from ISS, and CDP (formerly known as the Carbon Disclosure Project) data.

Our governance, resources and incentives to support ethical issues within these direct investments are assessed on a client-by-client basis, using a screening provider. In August 2022, after a regular vendor review, we replaced our screening provider, Ethical Screening, with Sustainalytics. This review took place as part of our normal vendor review process, to ensure that we continue to meet our clients' requirements. We concluded it would be beneficial to move to Sustainalytics, given their ability to provide us with access to a larger, more detailed data set. Using Sustainalytics for screening complements our use of their ESG Risk Rating in our Equities ESG integration process.

### Stewardship assessments

Our stewardship activity is informed by the work of ISS, which is combined with our analyst research. ISS provides analysis of proposed AGM and EGM resolutions for listed investments (including Investment Trusts), and highlights where proposals are not aligned with best practice, or the ISS analysis team disagree with the resolution. The relevant analyst uses the information to form their own voting recommendation to the respective asset-class specific Governance Forum (or going forwards, the relevant Committee). Additionally, they use the information provided by both ISS and Sustainalytics to engage and challenge companies on how they are confronting risks, the quality of their solutions, and the level of their responsiveness, compared to others in similar businesses.

<table>
<tr><th colspan="8">Investec Wealth & Investment Limited research resources</th></tr>
<tr><td colspan="8">ESG research providers</td></tr>
<tr><td colspan="2">ISS</td><td colspan="4">Sustainability</td><td colspan="2">CDP</td></tr>
<tr><td colspan="8">Proxy voting analysis</td></tr>
<tr><td>Bloomberg</td><td colspan="2">FactSet</td><td colspan="2">Morningstar</td><td colspan="2">Financial Express</td><td>HOLT</td></tr>
<tr><td colspan="8">Associations</td></tr>
<tr><td colspan="2">Investor forum</td><td colspan="4">UN PRI</td><td colspan="2">IIGCC</td></tr>
<tr><td colspan="8">Credit research</td></tr>
<tr><td colspan="4">Credit rights</td><td colspan="4">S&P</td></tr>
<tr><td colspan="8">Broad research</td></tr>
<tr><td colspan="8">Nine Brokers</td></tr>
<tr><td colspan="8">Specialist research</td></tr>
<tr><td colspan="8">12 Counterparts, including CS HOLT</td></tr>
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PRINCIPLE 3

# Managing conflicts of interest to put the best interests of clients and beneficiaries first

**Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**

## 3.1 Investec Wealth & Investment Limited's conflicts of interest policy

IW&I has a comprehensive Conflicts of Interest policy, to which all employees are required to adhere. The policy aims to prevent conflicts of interest, and where that is not possible, to identify and manage them. The policy details the different types of inherent conflicts of interest that have been identified within our business and the controls adopted to manage these. IW&I's Conflicts of Interest Policy forms part of our Terms and Conditions and is published on our website https://www.investec.com/en_gb/legal/UK/conflicts-of-interest.html.

### 3.1.1 Prevention

IW&I will always look to prevent a conflict of interest from arising where possible and to do so we have measures in place to ensure that conflicts of interest are identified, recorded and managed effectively. All staff are required to attest on an annual basis that they have read and understood the policy.

### 3.1.2 Personal conflicts

All staff must disclose any outside business interests that could create a conflict of interest with their obligations as an IW&I employee. In line with the principles of the policy, staff are expected to be open about relationships and personal interests that could be seen to influence their independent judgement.

### 3.1.3 Business conflicts

All employees are encouraged to disclose any potential conflicts of interest they see arise within their day-to-day roles and Senior Management have a responsibility to escalate these to the relevant stakeholders, including the Compliance function. All conflicts of interest that are identified are assessed for the material risk they pose to the interests of our clients and appropriate controls are implemented to give IW&I confidence that damage to clients' interests will not occur. It is the responsibility of Senior Management to ensure that all conflicts of interest within their respective business areas are managed effectively.

### 3.1.4 Management

An up-to-date record of services and activities that may give rise to a material conflict is maintained by the Compliance function. The details of all potential conflicts and how these are managed or the measures in place to prevent them from occurring are recorded in the Conflicts of Interest register and assigned a risk owner. The Conflicts of Interest Policy is reviewed and updated where required by the Compliance function on an annual basis, or sooner if there are any changes to processes or regulatory requirements. It was last updated in May 2022 and while the next review is due in May 2024, we are in the process of another update of this policy. This is required as we have refreshed our governance structures and developed more detailed mitigations and controls to identify and deal with conflicts relating to Stewardship, which will be included in the next policy update.

# Managing conflicts of interest to put the best interests of clients and beneficiaries first

## 3.2 Conflicts of interest – key areas and governance processes

### 3.2.1 Voting and shareholder interests

The Equity and Collectives Corporate Governance Forums were responsible for determining voting decisions on all resolutions; the Collectives, Real Assets and Listed Equities Committees will be responsible for this, from April 2023 onwards. Where IW&I's Research team advise voting against any resolutions, they will notify Investment Managers, who must advise where their client may want to vote differently to the firm.

### 3.2.2 Investec plc shares

No Investec entity is included in our research coverage due to the potential conflict of interest (see Principle 2 for more detail on the Group structure). Client ownership of Investec shares leads to voting rights held by IW&I.

### 3.2.3 Application of our conflicts policy to stewardship

We have identified four potential Conflicts of Interest specific to Stewardship. These, and the associated controls, are detailed below.

a) **IW&I may vote on a UK shareholding in a way that is not in the client's best interest.**

Control – The IW&I approach to voting is stated within our terms and conditions and our Voting Policy. Where Research advise voting against any resolutions, Investment Managers are notified and have the opportunity to advise where their client may want to vote differently from the company. The Investment Committee (IC) provides governance surrounding voting and engagement on behalf of IW&I. The IC is made up of senior members of the firm, including representation from the Compliance function, client-facing practitioners, and the Investment & Research Office report to the Executive Committee. It is responsible for the oversight of IW&I's engagement and other lobbying powers on behalf of shareholders.

b) **IW&I may vote on certain holdings resulting in a restriction in its ability to trade for its clients.**

Control – Where the restricted period is expected to be more than five working days, we may consider only committing a proportion of our stock to the vote, leaving a proportion uncommitted to satisfy execution-only trades. In this scenario, individual Investment Managers can still opt-in clients if they are prepared to accept the extended restricted period.

c) **IW&IW&I may be hesitant to engage with investee companies where this could result in open dispute, despite engagement being in the best interest of the client.**

This conflict may arise in particular where IW&I are invested in a company that Investec Bank plc and Investec Bank Limited have a client relationship with.

Control – The Listed Equities, Collectives, Real Assets and Direct Fixed Income Committees will report any recommended actions with potential high public profile to the IC for ratification, in advance of any action being taken, to ensure that the correct course of action is taken with regard to clients' interests. (This would have been undertaken by the Equity and Collectives Corporate Governance Forums, if such a conflict was identified during the reporting period). This will then be taken to the DLC SEC, ESG Executive Committee and/or Group ERC, as appropriate. We are in the process of drafting 'Go/No-Go Principles' for public engagement and a more detailed internal governance process, to enhance the control around this potential conflict.

d) **IW&I staff may commit the firm through irrevocable undertakings or letters of intent which mean the firm cannot trade in the best interest of its clients.**

Control – When asked to provide an irrevocable undertaking or letter of intent, the Investment & Research Office make a recommendation to Investment Committee so a decision can be made whether to proceed. If a decision is taken to proceed the wording of the irrevocable undertaking or letter of intent is reviewed by Group Compliance and Group Legal and can only relate to discretionary holdings registered in our nominee which are not subject to client restrictions. The reasons for the decision must be clearly communicated to all Investment Managers by Research and system dealing restrictions are set up to ensure IW&I does not breach terms. Over the course of 2022 and the first quarter of 2023, no actual conflicts of interest in relation to stewardship were identified.

# Managing conflicts of interest to put the best interests of clients and beneficiaries first

## 3.3 Inside information and market abuse

In addition to IW&I's Conflicts of Interest Policy, there is also a comprehensive Market Abuse Policy to assist in managing conflicts that arise as a result of access to inside information. IW&I maintains an insider list containing details of all people who have access to inside information (internal and external). This process is managed centrally by Group Compliance but relies on all staff to ensure that information is provided to Group Compliance in a timely and accurate manner. If an individual is in possession of inside information, they must inform the IW&I Compliance function of the details, before taking any further action.

All staff receive regular training and reminders on the procedures to follow where they are in receipt of inside information.

**Ethical Walls**

Investec Bank plc (IBP) have Ethical Walls in place for their Corporate Finance business to control and prevent information flow between different entities within the Investec Group.

The expression "Ethical Walls" is used to describe the invisible boundaries within a financial services company which are set up to divide one part of its business from another. The general aim is to establish an arrangement whereby information that is known to persons in one business area is not available, directly or indirectly, to those that are involved in another business area.

The extent to which one can evidence the existence of the separation can enhance IW&I efficiency and credibility as far as Ethical Walls are concerned.

PRINCIPLE 4

# Management of market and systemic risks and the promotion of a well-functioning financial systems

**Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

## 4.1 Statement of principles

- We manage investment risk on behalf of our clients
- It is our fiduciary duty to ensure that this purpose be fulfilled to the highest standards of professionalism and governance
- Under this duty, the promotion of the efficient functioning of markets and a healthy financial system is an obligation, since this works to minimise systemic risks originating within the financial system
- This duty also extends to ensuring that our own corporate behaviour and the services that we offer contribute to the minimisation of systemic risks originating from outside the financial system.

## 4.2 The role of suitability and the investment process

The twin goals of appropriate management of market risks, from a client perspective, and the promotion of a healthy financial system are served at IW&I by three pillars:

- First, clearly describing our services, giving a full understanding to prospective clients of the historical experience under all circumstances. Our Managing Your Investments brochure describes our core multi-asset investment services.
- Second, maintaining an investment process that takes systemic risks explicitly into account in its investment risk-budget, but also ensures that mandates are executed according to the agreed terms in this context.

  The process is as follows: the Global Investment Strategy Group (GISG) is charged with taking systemic risks into account in our investment decision making, wherever they may come from (i.e. within the financial system, geopolitics, or due to sudden exogenous factors such as coronavirus).

  The GISG determines the risk appetite of our discretionarily invested portfolios. The GISG is made up of UK, Swiss and South African practitioners, who meet quarterly, assessing market and systemic factors such as inflation, interest rates, geopolitical tensions, and economic growth. The group's chief economist also feeds into the GISG. The decisions of the GISG are then considered by our internal Asset Allocation Committee (AAC), who act as another layer of due diligence in terms of assessing market and systemic factors. The AAC is ultimately responsible for determining the company wide tactical asset allocation (TAA) that is implemented across client portfolios. In contrast to the GISG, the AAC focus on the sub asset classes that make up equity and non-equity investments. Incorporating a tactical asset allocation allows us to be dynamic in the response to market and systemic changes, with an 18-month view typically incorporated in decisions made but with the ability to introduce shorter term changes where appropriate.

  The decisions of the AAC feed through to committees that decide optimal investment selection. Individual investment managers then implement the decisions in client portfolios, according to their judgment and client circumstance, subject to the oversight of a Suitability system that ensures the implementation is consistent with the terms of the mandate.

# Management of market and systemic risks and the promotion of a well-functioning financial systems

- Third, in a business based on personal relationships, we are committed to Know Your Client (KYC) processes that take client objectives, risk appetite and capacity for loss into account and are regularly updated. In combination these three pillars reinforce a healthy financial system by minimising the risk that investors are surprised or forced into behaviour that is against their interests at times of market stress, which in turn promotes further instability.

With one of our key focuses being ESG/sustainability, we will be considering integrating this into our suitability processes over the coming year.

## 4.3 Policy engagement

We understand that the companies and investment trusts we invest in operate as part of a larger investment system. Therefore, fostering a policy and regulatory environment that enables companies and trusts to operate sustainably is paramount. We engage with policymakers to encourage them to create a policy environment in which our investments can thrive.

**Example: Letter to the Prime Minister on Prioritising Net Zero and Nature Restoration to Build a Resilient UK Economy**

Our CIO, Stacey Parrinder-Johnson, joined CEOs of businesses and finance institutions including Amazon, the Co-op, Signify, Zurich Insurance, Coca-Cola, Bupa, IKEA, Siemens, BNP Paribas, Sky and Aviva, to call on then Prime Minister, Liz Truss, to build economic resilience through delivery of net zero carbon emissions and restoring nature.

The letter called for the UK government to accelerate the energy transition for the sake of environment and society, particularly in light of sharply rising inflation levels and energy bills. We chose to sign the letter as we felt that the objectives stated in the letter, if achieved, would mitigate risks to vulnerable households and protect natural capital, while also enabling the UK economy to exploit the opportunities of the transition to a net zero world.

**Example: UN Principles of Responsible Investment (UN PRI) – Investor Letter on Human Rights**

As investors and members of the UN PRI, we signed a letter, supporting a 'Business, Human Rights and Environment Act', ambitious UK primary legislation to mandate companies to carry out human rights and environmental due diligence across their own operations and value chains.

The letter made the following recommendations for robust UK legislation on mandatory human rights and environmental due diligence:

- Businesses should have an obligation to identify, prevent, mitigate, and account for how they address their potential and actual human rights and environmental impacts through an ongoing due diligence process.
- Throughout the human rights and environmental due diligence process, businesses should meaningfully engage with actually and potentially affected stakeholders.

## 4.4 Key systemic risks and Investec responses

### 4.4.1 Climate change

We believe that the most significant challenge that we currently face is climate change, which drives the need to transition to a cleaner world. We have two roles in addressing climate change. The first is in tuning our own behaviour to promote efficiency, encouraging similar behaviour in our supply chain. In this regard, Investec is committed to leading by example. The second role is to provide services for our clients that comply with ESG best practice without sacrificing investment return, together with differentiated services to enable them to invest with greater sustainability transparency and impact.

# Management of market and systemic risks and the promotion of a well-functioning financial systems

**Example: Blue Economy Ocean Accelerator**

In 2022, Investec (with work led by IW&I) were delighted to be a founding sponsor of the Blue Economy Ocean Accelerator programme, which was one of the first of its kind in the UK and run by Bright Tide, a sustainability-focused training consultancy.

Over the eight-week programme, we were actively involved in mentoring and supporting a cohort of 12 entrepreneur businesses each focused on making a positive impact in sustaining the ocean's resources. This initiative aligns with our purpose 'to create enduring worth, living in society, not off it', as well as the UN SDGs.

The need for a healthy ocean and the Blue Economy, the sustainable use of its resources for economic growth, was a key topic of discussion at COP26. This means opportunities for entrepreneurship and innovation in this market continue to gain recognition and require investment.

If you would like to read further information on the initiative, please visit our website using this link: Blue economy | Focus | Investec.

## 4.4.2 Investec's own response

Our Group CE, Fani Titi, is part of the Global Investors for Sustainable Development (GISD) Alliance, which is a group of 30 CEs convened by the UN, tasked with securing investment from the private sector to finance the UN SDGs.

At the Group level, we have been carbon neutral within our operations for the past five years and have committed to ongoing carbon neutrality. Our initiatives to ensure this remains the case include an innovative partnership in South Africa with the Climate Neutral Group in support of high-quality, ethical carbon credits. In the UK, IW&I has assembled an in-house environmental sustainability team, Team Green, to ensure best practice is exercised across all our IW&I offices. Initiatives address waste management, energy use, water use and many more environmentally sensitive issues.

## 4.4.3 Participation in industry initiatives

At the Group level, we participate in various industry initiatives as shown below:

- Investec plc have signed up to the TFCD
- Signatory of the Net-Zero Banking Alliance (NZBA)
- Participant of the United Nations Global Compact's (UNGC) 10 principles on human rights, labour, environment and anticorruption and report annually our Communication of Progress
- Member of the Institute of International Finance (IIF) and participate in the working group focused on providing a standardised template for TCFD disclosures for banks
- Participant in Partnership for Carbon Accounting Financials (PCAF) and involved in the PCAF working groups in both the UK and South Africa
- Active participants in the working groups for the United Nations Global Investors for Sustainable Development (UN GISD)
- Member of Support the Goals, an organisation aimed to Raise awareness of the Global Goals in the business community
- Member of the World Benchmarking Alliance (WBA)
- Founding member of the African Natural Capital Alliance (ANCA)
- Member of the Partnership for Biodiversity Accounting Financials (PBAF)

Within IW&I we are:

- Signatories of the UN PRI
- Members of Climate Action 100+
- Signatories of the CDP (formerly known as the Carbon Disclosure Project)
- Member of the Partnership for Biodiversity Accounting Financials (PBAF)
- IW&I is a member of the Institutional Investors' Group on Climate Change (IIGCC), as of 2022 (further details can be found in Principle 10)
- IW&I are part of the University of Cambridge Institute for Sustainability Leadership (CISL) Investment Leaders Group
- IW&I South Africa subscribes to the Code for Responsible Investing in South Africa (CRISA)

# Management of market and systemic risks and the promotion of a well-functioning financial systems

We are signatories of the United Nations Principles for Responsible Investment (UN-PRI), and so, work alongside other financial institutions and collectively contribute to the development of a more sustainable global financial system. The Stewardship Manager and Senior Strategy Director for Sustainability attended the UN PRI's Conference in Barcelona in November 2022, alongside three team members from Investec Limited in South Africa. The team learned from industry peers and leaders and enhanced their knowledge; sessions attended included those on ESG data, voting, policy, engagement and resourcing. Attending this event enabled the team to foster industry connections and demonstrated a commitment to building on our stewardship and sustainability credentials.

## 4.4.4 Addressing climate change in the client offering

As fully described in Principle 7, our investment process is resourced and structured to enable ESG considerations (including climate change) to be explicitly considered in all of our investment decisions – whether we invest directly, or through third-party fund providers.

### 4.4.4.1 Our core offering

We aim to embed thinking about climate change throughout the investment process. As we believe climate change poses a significant risk to the global economy in the coming years, we have recently adjusted the process by which we review our yearly Capital Market Assumptions to incorporate more factors relating to climate change. These assumptions ultimately feed into the determination of our long-term Strategic Asset Allocation, and the insights also used to be able to make tactical allocation assessments. We are committed to consistently improve our inputs and understanding of these issues and fully incorporate them into our investment strategy.

Our Capital Markets Assumptions (CMAs) reflect our views on expected market returns and volatilities on a ten-year view. They are the initial building blocks for the development of our strategic asset allocation and are used as the foundation of our framework portfolios and to construct reasonable risk and return expectations for our clients. This year we made improvements to our sustainability inputs into the yearly CMA work with support from a newly developed IW&I Environmental Research Group (ERG). The ERG researched several key topics, with a primary focus on the effects of climate change, and debated each topic from an economic, environmental, geopolitical, societal and technological risk perspective. As mentioned in Principle 1, the ERG topics identified were broadly aligned with the top ten global risks for the coming 10 years as identified by the World Economic Forum Global Risks Perception Survey 2022-2023 and the ERG findings were directly considered by the IRO strategists as part of the CMA process.

Where we make investments directly in the debt or equity of a company, Sustainalytics data and CDP data is used as part of the ESG assessment. We adjust our expectations for an investment according to the extent to which the data implies there will be a negative impact on future returns due to poor outcomes – which will include those related to climate change, and worst in class stocks will be excluded from our analysis. Although this assessment may mean we will still invest in companies that currently contribute to climate change, we believe our method highlights those who will be able to manage the risks most successfully and moderate their impact over time. Our collective fund research process uses an ESG questionnaire which is used by analysts to assess whether the managers have demonstrated ability in assessing climate change issues and challenging their holdings where appropriate. Where required, we may use third-party ESG data providers with a view to finding an optimal solution to aid our analysis of environmental and carbon risks in the future. We also have a number of funds on our list which give exposure to assets which aim to directly contributing to a reduction in carbon emissions (e.g. solar and wind infrastructure).

# Management of market and systemic risks and the promotion of a well-functioning financial systems

### 4.4.4.2 Enhanced / sustainable investment services

Our Investment Managers have access to our research output, which has full details of ESG assessments made through the investment process. Additionally, through third-party database information, they have the option to screen individual equities to understand the positive and negative implications of holding an investment (where positives can be defined by the UN SDGs to help with portfolio construction. Additionally, we have worked with our South African business to use these SDG inputs in creating a portfolio – the Global Sustainable Equity fund – which explicitly only invests in companies that are positively aligned with the SDGs. For now, this product is only available in our South African business, however we are currently investigating the requirements for launching this product elsewhere.

We have managed an illustrative Sustainability model portfolio (collective fund multi asset) for a number of years, which is used by our Investment Managers for clients who specifically require a sustainability-focused outcome. The portfolio looks for sustainability-focused themes and combines our expertise in fund selection along with a focus on risk management. In October 2021, we launched a Sustainable Managed Portfolio Service comprised of two strategies which are based on this model.

We have long provided bespoke services tailored to individual requirements that have incorporated ethical and environmental requirements. This is particularly prevalent in our Charities business.

## 4.5 Assessing our effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.

We believe we have taken significant steps on this journey in this reporting period. Activities described above demonstrate a growing emphasis on our response to systemic risks and helping promote well-functioning markets, e.g. the work on policy, sustainability inputs into the CMAs and joining the IIGCC and collaborative initiatives.

# Stewardship policy review and assurance

**Signatories review their policies, assure their processes and assess the effectiveness of their activities.**

## 5.1 Our stewardship governance structure

*Please see Principle 2 for a diagram of our governance structure.*

Primary responsibility for overseeing our investment stewardship activities is vested in the Investment Committee (IC). This committee designs, approves, and oversees policies relating to investment stewardship, working together with our Compliance function to ensure they are appropriate and that they can be implemented in an effective way.

The IC is chaired by the Chief Investment Officer, who is an Executive Committee Member and reports to the Executive Committee. In this way the committee discharges its responsibility to ensure policies are supported and resourced by the Executive.

As addressed in Principle 2, the IC oversees the work of the Equity and Collectives Corporate Governance Forums, who all implement our Stewardship policies and obligations across all relevant asset classes on a day-to-day basis. Each committee is chaired by a senior research specialist from the appropriate field. These Fo rums will be replaced by the Listed Equity Committee, Collectives Committee, Real Assets Committee and Direct Fixed Income Committee, going forwards.

IC membership includes chairpeople of each asset class-specific Forum/Committee. This structure ensures that the differing priorities of governance for investment trusts and direct equities are appropriately considered, in turn ensuring that our clients' interests are being best served. Governance issues relating to Fixed Income and Structured Products are dealt with on an ad hoc basis by the research teams supervising those investments. Controversial issues are reported to the IC, and it is the responsibility of senior members of those teams and the CIO to ensure that this occurs.

As an asset manager bound by the Shareholder Rights Directive (SRD II), it is our duty to promote effective stewardship and long-term investment decision making by enhancing the transparency of our investment processes. We have responded to these requirements by formalising a structure to oversee our policies relating to the Stewardship of our investments, to report on our activities to relevant interested parties, and to review the policies and their effectiveness.

# Stewardship policy review and assurance

## 5.2 Policies supervised by the Investment Committee

As a company, we have three policies in our strategy that we feel are appropriate, relevant and aligned with modern day stewardship, and three relating to ESG integration. The implementation of these policies is an indication as to how important we feel they are in helping us to achieve high standards of stewardship and long-term client benefit. The policies are as follows:

- Engagement policy
- Voting policy
- Escalation policy
- Listed Equities ESG policy
- Collectives ESG policy
- Fixed Income ESG policy

Our engagement policy addresses what we believe to be some of the key areas we must focus on when interacting with investee companies: the monitoring of performance, engagement with company boards through in house meetings, exercising voting rights, co-operation with other shareholders and managing conflicts of interest.

Our voting policy outlines the circumstances where we will actively vote on company matters. As an external assurance, we have partnered with ISS which provides us with governance and voting analysis as an input into our decision making. The added assurance provided by ISS contributes towards us taking a fair and balanced approach to governance and voting analysis, with an outside and unbiased perspective considered in any decisions made. The input of ISS is always considered but not necessarily acted upon. It is down to the relevant analyst, Stewardship team and Forum/Committee to consider the report provided and then ultimately come to a decision on a particular issue.

Our ESG policy details how we will integrate ESG considerations into our process on both equity and collective investments. It outlines how we will screen, analyse and engage with management teams, something which we feel complements the conventional financial analysis that is already conducted, whilst also adding another layer of risk assessment. These processes are constantly evolving as the wider market becomes more aware of the importance of ESG related matters. The fund research team has developed their own proprietary framework that incorporates ESG factors, providing internal assurance when conducting research into funds. Our direct equities and fixed income teams use Sustainalytics, which provides quantitative ESG risk data and further external assurance to their stock selection process.

All these policies can be viewed on our website (https://www.investec.com/en_gb/wealth/private-clients/about-us/responsible-investing-approach.html).

## 5.3 Stewardship reporting

Responsibility of ensuring stewardship reporting is fair, balanced and understandable sits with the Stewardship team, who compile the quarterly reports. These are shared with the Investment Committee for information, though it has delegated responsibility for reporting to the Stewardship Team.

In the last year, we have enhanced our quarterly voting reports by including more case studies and, for the first time, charts, graphs and comparisons to previous reporting periods. This not only enhanced our level of transparency and disclosure, but also increased the accessibility of our disclosures, for our clients. This is of the utmost importance to us, as we seek to serve our clients' interests and clearly communicate to them, how we are being active stewards of their capital.

## 5.4 Policy effectiveness

In 2022, an Internal Audit of the IRO was carried out. An internal audit was deemed to be the most appropriate assurance method, as:

- This capability existed within our business already
- A bi-annual audit of each team is part of our internal policy
- The Internal Audit team’s existing understanding of the business allows them to better identify risks and gaps in practices.

# Stewardship policy review and assurance

**Assessment of our internal assurance methods**

Internal Audit develop and document a risk-based audit plan, at least annually, which is subject to a quarterly review process and authorised by the Audit Committee. The annual planning process is underpinned by the following:

- Identification of the audit universe
- Assessment of the level of risk posed by each audit activity, using a consistent set of risk factors
- Audit frequencies covering a range of cycles between six and 36 months depending on the risk rating of the audit activity including the use of continuous monitoring for those audits considered lowest risk.

**The audit process consists of:**

- A planning phase where Internal Audit perform a process walkthrough to identify and assess the key risks and controls of the audited activity and to establish an audit testing strategy
- A field work phase where Internal Audit perform sample testing and data analysis to determine the effectiveness of the activity's controls
- A reporting phase where Internal Audit discuss the audit findings with IW&I Management and formally issue a report to IW&I Senior Management and the Audit Committee. Internal Audit also track to resolution all findings raised in these reports.

Internal Audit maintains a global quality assurance framework and methodology that complies with the Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (which includes the International standards, the definition of Internal Audit, and the Code of Ethics) and the UK Code for Effective Internal Audit in the Financial Services Sector. Internal Audit ensures audit quality through internal review processes at an engagement level, and through post-engagement independent quality assurance performed on a sample basis. The results of the internal Quality Assurance processes are shared with the Audit Committees at least annually. Internal Audit is subject to an independent external assessment once every five years in order to assess adherence to the IIA Standards. The results of these reviews are reported to the Investec plc and Investec Ltd Audit Committees and shared with the subsidiary Audit Committees within the Group. The Audit Committees evaluate the performance of Internal Audit annually to ensure that it is fulfilling its responsibilities in assisting and advising the Committee members. In 2022, Internal Audit reviewed the key processes of the IW&I Investment and Research Office (IRO), in which the IW&I Stewardship function resides, with a formal audit report issued in August 2022.

Following this audit, a policy effectiveness review was carried out for our Stewardship and ESG policies.

**Background to ESG and Stewardship policy reviews**

There were three key triggers for the review of IW&I's ESG and Stewardship policies:

- They required a periodic review
- They required more specific wording
- IW&I committed to reviewing the effectiveness of these policies in the last UK Stewardship Code report.

The following policies were reviewed and updated as appropriate as part of this project:

- Changes made to: Equity ESG policy, Collectives ESG policy, Voting policy, Engagement policy and Responsible Investment policy
- Newly written: Fixed Income ESG policy and Escalation policy.

**Approach to ESG policy Review**

- Engagement with Research teams
- Understand existing process in practice to ensure that the approach is fully and accurately reflected in the documented policy
- Review of existing internal documentation
- Ensure that processes described in existing internal documentation (e.g. ESG pitch deck, 2022 Stewardship Code submission) align with documented policy approach
- UN PRI guidance & industry best practice
- Review of guidance available on the PRI website regarding expected ESG Policy content.

# Stewardship policy review and assurance

**Approach to Stewardship Policy review**

The current state policies were compared to various sources to find gaps; the rationale for each is laid out below:

- UN Principles of Responsible Investment (PRI) Transparency Assessment Criteria: understand gaps vs. the expectations of this assessment, given this is a widely accepted measure of industry best practice
- UN PRI's 'Making Voting Count' guidance: understand gaps vs. recommendations from a respected industry body, which we are a signatory of
- IW&I Internal Audit report: address recommendations made by our internal assurance function
- IW&I South Africa's policies: Understand differences between UK and South Africa's policies, to work towards standardisation across the two geographies
- Other industry best practice: understand what we would need to change to achieve a more industry-leading position.

**Key changes made: Stewardship policies**

- **Added Voting principles to the Voting Policy**

  According to the UN PRI's 'Making Voting Count' guidance, these are: "high-level statements which explain the investor's position on ESG matters and how they vote to effect progress on those matters. Investors should develop principles by considering the preferences of beneficiaries and risks to the portfolio overall, as well as how the portfolio contributes to risks in the real world. These principles should be made publicly available...Investors should support all resolutions which, if successful, would be consistent with their voting principles; and oppose only resolutions whose effect would be contrary to these principles". We added these to our Voting policy to publicly state our support for ESG topics and to provide us with a consistent framework against which to make voting decisions.

  Our Voting Principles and Thematic Engagement Priorities are aligned with Investec's 'impact' SDGs, mentioned in Principle 1.

- **Changed voting parameters for Collectives**

  Wording flagged as vague by Internal Audit was removed. The voting threshold has been reduced for researched trusts; we now vote on all researched trusts. Voting on off-list trusts over a certain threshold remains as a parameter, and controls are going to be placed around this in due course.

- **Added thematic engagement priorities to Engagement Policy**

  Six ESG topics were identified as priority topics for engagement with our holdings. These have been identified using Sustainalytics data on our equity holdings. We have laid out how these will be considered with nuance across asset classes, depending on materiality, e.g. environmental topics may be most material for real assets, while governance topics may be most material for equity investment trusts.

# Stewardship policy review and assurance

- **Published an Escalation Policy**

  We have published escalation methods that may be employed, as we feel appropriate, to escalate an engagement with a holding. These include public statements of concern, meeting more senior management/Board members and co-filing shareholder resolutions, with divestment cited as a rare and extreme measure.

- **Added detail around internal processes and beliefs**

  We added detail around our beliefs relating to Voting and Engagement to our policies to articulate our ESG philosophy to external parties.

**Key changes made: ESG policies**

- **Fixed Income ESG Policy**

  This is a newly written policy for 2023. Similar to the existing ESG policies for Equities and Collectives, it covers the various aspects of the ESG approach relating to fixed income assets including our Philosophy, Approach, Screening and Engagement.

- **Collectives ESG Policy**

  Key amendments to the policy for 2023 are:

  i. confirmation of the annual review process for funds

  ii. additional context regarding the use of third-party provider ESG scores

  iii. an outline of our industry leading approach to engagement with Investment Trusts

  iv. mention of our comprehensive in-house due diligence questionnaire which informs our ESG assessment process.

- **Direct Equities ESG Policy**

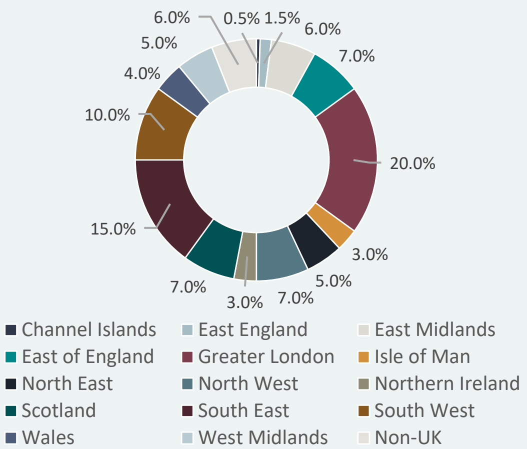
  The policy was reviewed in early 2023, it was confirmed that there have been no changes to the existing process for equities, therefore no updates to the policy were proposed.

# Incorporating client and beneficiary needs

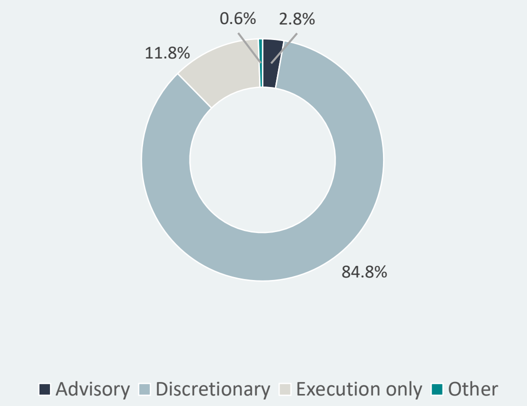
**Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**

**The charts below show an approximate breakdown of the full client base of Investec Wealth & Investment Limited.**

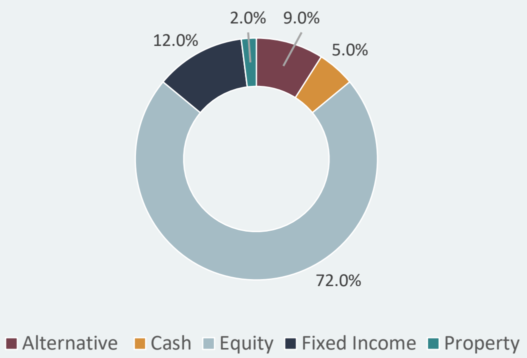
### Number of portfolios by geographic region*



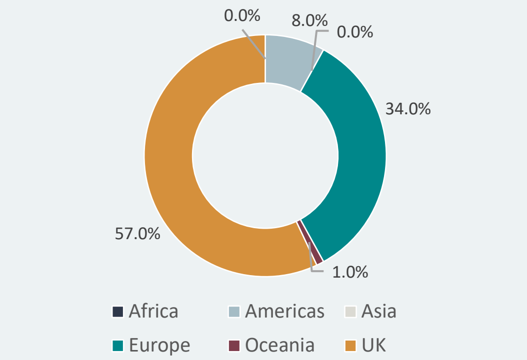

### AUM by service type



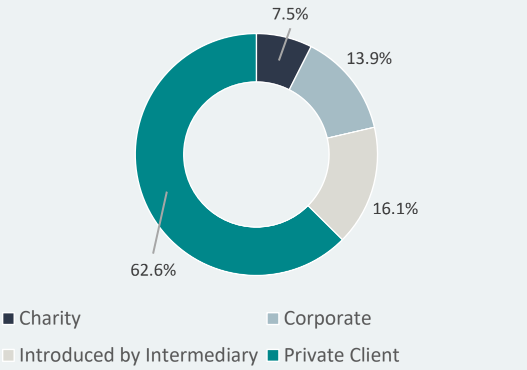

### AUM by asset type



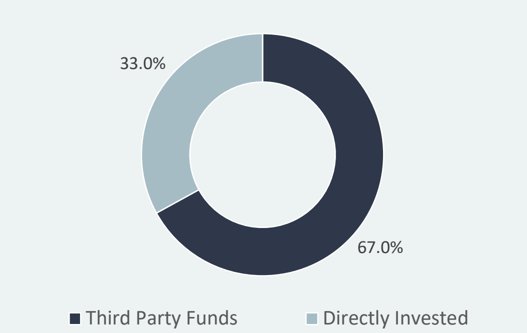

### AUM by region**




### Client type by AUM




### Client invested assets




* Location of portfolios has been determined using the location of the client who owns the individual portfolio.
** Location of AUM has been determined using the country of registration of the asset.

# Incorporating client and beneficiary needs

At IW&I, for discretionary clients, which are the vast majority of clients, we pride ourselves on our bespoke portfolio management approach. This means that it is our business to ensure that all aspects of a client's individual requirements are accommodated in the investment portfolios that we run on their behalf. We do this by correctly establishing our relationship with a client at the outset, and then by continually reviewing their needs, adjusting our services accordingly.

## 6.1 Incorporating client and beneficiary needs

- Before a client invests with us, our Investment Managers discuss the client's specific requirements from their investments and build a tailored portfolio which caters to this. In this process, the Investment Manager will establish the basic information that we require in order to manage money for a client. This will include understanding their return objectives, their attitude to risk and their capacity to sustain losses. Together this information establishes the general characteristics of the services that are most appropriate to them individually, including the time frame that is likely to be required to meet their objectives with an acceptably high probability of success. Our investment time horizon differs in line with our client's attitude to risk, with a minimum of three years recommended for our low-risk mandate, up to a minimum of seven for our high-risk mandate.
- In addition, in defining the mandate for the delivery of our services to the client, our Investment Managers will establish any additional personal preferences or restrictions. There are a number of ways in which we tailor portfolios to reflect clients' preferences. Clients are able to request that we negatively screen out certain sectors or companies from their portfolio. We can also utilise Sustainalytics to identify companies (for direct equities only) engaged in activities which may conflict with a client's values, so that they can be excluded from their portfolio, to the best of our ability. Should a client require it, for clients looking to promote positive ESG outcomes, we work with them to agree how best to incorporate their preferences into the portfolio. This typically involves concentrating individual equity holdings towards those with lower ESG risk ratings or use of funds with a low ESG risk rating or sustainable focus. With regards to voting, should they be requested to do so, the Investment Manager can register a different preference, on an individual client basis, to that recommended by the firm's central policy on an 'opt-out' basis.

Once a client is invested with us, we ensure that their portfolio is managed in a way that is consistent with their goals through regular communication and update meetings.

To achieve this, we use a points-based system, where regular testing and scoring can tell if a portfolio is managed to mandate. We also have a range of other tests which include quality tests, concentration tests, diversification tests and a research stock test.

Should the testing identified that a portfolio no longer conforms to the mandate agreed with the client, the Investment Manager is expected to explain or remediate. If the Investment Manager decides to remediate, they can change the portfolio, often by trading back into line with mandate or they can change the mandate. If the Investment Manager chooses to explain, then they must provide a valid reason backed up by evidence. This explanation must be reviewed by a peer within the same team or office, who will then have 21 days to review the explanation. If the peer reviewer thinks the explanation and evidence provided is satisfactory then they will approve the portfolio. However, if they think the explanation is inadequate and further explanation or action is required then the portfolio will be referred back to the Investment Manager, who has 21 days to provide further evidence or explanation until the peer reviewer feels they can pass the portfolio.

# Incorporating client and beneficiary needs

The Investment Risk department oversee this process and provide Management Information (MI), training, help and advice to Investment Managers and Senior Management. The Investment Risk team remains completely independent of the Investment Management function, which is important for oversight. They check whether tasks are completed in a timely manner and also check the quality of explanations and evidence provided as part of the Quality Assurance process. This consists of review and remediation work where required by the Investment Manager or Peer Reviewer depending on the audit. Each Investment Manager is subjected to a small number of individual reviews on an ongoing basis. An audit review is conducted by a member of Investment Risk team on the initial explanation by the Investment Manager, if the auditor is satisfied by the explanation they will pass the portfolio, however, if they feel the explanation or evidence provided is inadequate the Investment Manager will then need to remediate until the auditor is satisfied enough to pass the portfolio. A separate audit can be conducted on the approver to ensure a robust review has taken place. A pass or referral is then decided upon in the same way as the Investment Manager audit.

The Investment Risk team also provide a monthly MI report which is sent to Senior Management, Desk Heads in London and all Office Heads which gives an in-depth view of Suitability across the business. They also provide monthly data to the Conduct Risk Committee and escalate other issues to the Investment Committee and Board Risk Committee. The Investment Risk team are subject to a yearly external audit review. This audit is wide ranging and thorough, covering all areas from the MI they provide, Quality Assurance and how they monitor all areas of suitability. On top of this external audit, they are also subject to regular review by the Internal Audit team.

We subscribe to various data streams which allow us to construct bespoke reports in response to our client's specific ESG requirements. For example, we are able to calculate the greenhouse gas emissions per £1 million of revenues for the direct equity portion of an individual portfolio, which can then be compared to a relevant benchmark index. We can also calculate the average CDP score of the direct equity portion of an individual portfolio.

## 6.2 Communication of stewardship decisions and outcomes with clients

There is currently no formal policy in place outlining the way in which we report to individual clients on their specific ESG objectives. We hope to include this reporting as part of our annual suitability review in the future. In terms of how we report on our general stewardship activities, we publish our full voting activity on our website on a quarterly basis. This is accompanied by a number of commentaries and case studies including those covering engagement and policy work.

## 6.3 Understanding client needs in relation to sustainability and responsible investing

In order to understand the needs of our clients, we conducted a preliminary litmus test of FCA SDR labelling with end investors, on behalf of the Investment Association (IA). Investec offered access to our Client Council, accessed through The Wisdom Council (TWC), for the purpose of the testing. The Investment Association then commissioned TWC to conduct consumer research into sustainable and responsible investment language and definitions. This fed into the IA's response to the FCA's SDR discussion paper.

The IA conducted an online survey across five end-customer communities (managed by TWC) in early December 2021. The findings report was not issued until January 2022, which falls within the period covered by this report.

- There were 551 respondents: 179 High Net Worth (HNW) Investors and 372 Retail Investors. (Included in the HNW respondents were 57 Investec participants.)

Feedback from the survey included:

- Understanding perceptions of Sustainable vs Responsible investments
  - Emotional responses to proposed SDR labelling
  - Perceptions of the level of sustainability associated with the proposed SDR labels

# Incorporating client and beneficiary needs

We are in the process of determining what follow-up questions to ask our Client Council and how to feed the findings into our proposition, in order to ensure this remains client-centric.

Our key means of evaluating client needs is through our Investment Managers, who are the key point of contact with our clients and meet with them regularly to assess their needs and how well they are being met. They are also responsible for managing their clients' investments and taking their needs into consideration. We receive and cater to bespoke client requests; examples are provided below:

**a) Mutual Society request for ESG data and ESG integration into their portfolio**

ESG considerations are becoming more important for our institutional clients, driven both by their own concerns and increasingly onerous requirements from their regulators.

In the case of this client, a friendly society regulated by the PRA, they were asked to show the direction of travel of business in terms of their sustainability, ‘heat’, CDP and adherence to the UN SDGs. This encompassed both the insurance business they write and with whom, and their investments including those managed by Investec.

In addition, they wanted to reduce exposure to certain sectors either by natural maturity of bonds in for example the tobacco sector, or by active divesting.

With the tools at our disposal, we were able to analyse their bond portfolios against the corporate bond benchmark and show over time a clear improvement in all areas. We presented this in tabular form as a snapshot at quarter end, along with charting the progress of the portfolios.

By charting the quarterly progress in this way, we were able to both showcase our knowledge and capabilities in this relatively new area of client reporting, as well as proving we also had deeper talking points around the constituents of the portfolio.

The client was satisfied that their needs were met and as a consequence of this process, now want to replicate the charts in their own reports and accounting.

**b) Charity request for voting report relating to key shareholder resolutions**

A foundation that wanted to support certain social and environmental causes, asked for a report outlining how we voted on each of ShareAction's 'Resolutions to Watch' 2022 list. We compiled this for them, explaining the rationale behind each vote and any related engagement with the companies on the list.

**c) Voting report**

In response to increased client demand, most notably from our Charity clients, we have increased the frequency of our voting report and now share this quarterly to clients who request the report.

**d) Russian exposure**

At the time of Russia’s invasion into Ukraine, we received a high volume of requests from clients with regards to their portfolio’s exposure to Russia. It was identified that Mondi owned and operated a paper mill alongside three other smaller plants in Russia. On our clients’ behalf, we engaged with Mondi early and maintained regular contact to understand their approach to managing their Russian productions. Since then, Mondi have sold (or are in the process of selling) their productions in Russia.

# Incorporating client and beneficiary needs

> Some clients were uncomfortable with Mondi having exposure to a Russian production facility and wished us to engage with the company to understand whether the Russian facility could be sold or closed. We engaged directly with these clients to understand the specifics of their concerns and also engaged with the company to try to resolve the issue which was not only having an impact on certain clients' comfort with the investment but also having a negative impact on the company's share price, and therefore the value of client holdings.

While we cater to a variety of client needs, we believe we continue to do more to better understand and serve our clients. Critically, we have acknowledged that we must build our internal expertise in sustainability and responsible investing to better serve our clients, so we developed a training programme, covering our Executive team, the Investment & Research Office and selected members of our client-facing team that was rolled out across 2022.

In addition to this, an internal Sustainable Finance Learning Series is being developed for delivery to all staff during the 2023 calendar year. The series will cover several topic areas including ESG integration research processes for each asset class, stewardship activities and regulation and initiatives relating to sustainable finance.

Furthermore, we are in conversations with the Investec plc Board regarding the scheduling of Sustainability training, designed for Board members, to support them in the context of pressing external trends, evolving stakeholder expectations and new disclosure requirements. It is anticipated that this will be delivered during the third quarter of 2023.

# The integration of stewardship with the investment process

**Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**

## 7.1 A foundation in our investment philosophy

We believe there are a number of ways we can generate returns for our clients by applying a thoughtful and distinctive research process. We focus on qualitative, fundamental factors in both our direct and funds research, using processes designed to identify high quality businesses that are well run, and fund managers who have demonstrable track records and processes to which we can align. We want our thought processes and due diligence to focus on the value we can add from looking deeper and asking differentiated questions. Frequently, this focus falls on understanding how the company or fund manager aligns with broader stakeholders, and the inherent risks and opportunities of their actions over the longer term. In addition to research sources, we put high value on access to people – company management, fund manager teams, and boards – and believe this can be a two-way relationship where exchanging information about our perspectives and expectations as investors can be of as much benefit as hearing about their own. This means that our investment philosophy aligns with Investec's core purpose – to create enduring worth, living in society, not off it – and is fundamentally compatible with good stewardship practice.

We believe that good stewardship practice is a basic obligation in performing our fiduciary duties for our clients. Embedding robust stewardship understanding, practice and governance into the investment process is a therefore a pre-requisite in ensuring that the investment process is fit for purpose.

## 7.2 Embedded naturally in our investment processes

- Building on the foundations of our investment philosophy, our centralised investment process is designed to deliver a fully researched universe of stocks upon which we can provide a bespoke portfolio management service to our clients. This means we must enable each client's portfolio to be managed to their specific requirements, including their return objectives, their risk appetites, their capacity for loss, their investment time horizon and their individual investment preferences, such as differing priorities relating to ESG criteria. Where non-centrally researched stocks are held, it is the responsibility of our Investment Managers to ensure appropriate due diligence is performed. More information is available in Principle 4.

# The integration of stewardship with the investment process

- Each of our asset classes has a differentiated ESG analysis and stewardship strategy, given the different requirements of each. Although we do not aim for a 'one size fits all' strategy, there is alignment of our activities, and the team discuss this together, sharing best practice.
- Although we embed ESG analysis in different ways, we are aligned under a common focus to engage with those with whom we invest to ensure we generate good long-term outcomes for our clients. This engagement is considered a fundamental step in our research process and helps inform our final investment recommendations. We use engagement and ESG analysis as part of our due diligence before adding an investment to our centrally researched universe and we continue to use it as part of our ongoing monitoring. If we believe that the best interests of our clients' assets are no longer being met, we will use this as a catalyst to disinvest.

Our direct equity and fixed income ESG research is quality and cash-flow focused and incorporates ESG factors in a four-stage model as part of fundamental research. Our collectivised funds – which includes equity, fixed income, and alternatives options – are assessed according to a qualitative framework (the APPROVED process) which focuses on the quality of the management team and their execution; ESG analysis is one of the determinants of this quality.

- Although we utilise Institutional Shareholder Services (ISS) to inform our engagement and voting decision making in both direct and collectivised fund processes, we are committed to making our own assessments and judgments.
- The following sections details how our Equity, Collectives, and Fixed Income Research functions have embedded ESG analysis and stewardship into their processes. Our policies can be found on our website (https://www.investec.com/en_gb/wealth/private-clients/about-us/responsible-investing-approach.html).

## 7.3 Direct Equities

- When making investments in equities directly, our investment process incorporates valuation tools that explicitly allow for ESG factors to be considered. The concept of Economic Profit rather than conventional accounting profit is fundamental to our judgement. We subscribe to research providers whose work, along with our own, help us assess and rank investments based on ESG metrics.
- On an annual basis, we screen all of our centrally researched equities from an ESG perspective. Any proposed additions to coverage will be reviewed on an ad-hoc basis, as will any existing covered name that suffers a material notifiable event.
- We use the services of Sustainalytics to provide a quantitative analysis of a company's ESG attributes. Informed by this data, we will consider a company's ESG credentials both in absolute terms and within a sub industry context, excluding from research any that pose a significant risk of destroying value through inadequate management of their specific ESG risks.
- Beyond screening out the worst performing names, we will provide the means for our Investment Managers to appraise the overall ESG score of a direct equity portfolio (where those equities are centrally researched) against the overall score for the MSCI UK IMI Index. This will reveal whether or not an equity portfolio's overall ESG metrics are better or worse than our domestic index and will highlight those names which are having the greatest negative impact on the overall score.
- Whilst bottom-up screening and scoring is a passive approach to ESG investing, we have the opportunity to be more active and use interaction with investee company management teams, (both the executive and non-executive) to engage on ESG matters. As well as soliciting more information about the significance of and priorities for ESG within a business, we can also communicate our own agenda.

# The integration of stewardship with the investment process

- Our ownership mentality dictates that we exercise our on-going governance obligations as if we were owners of those businesses. We vote on our discretionary shareholdings to protect our clients' interests, which, being assessed on the basis of economic profit, implicitly seek to ensure that all governance, social and environmental matters specific to our investee business activities are understood and well managed.

We strive to meet the management, or senior representatives, of all our highest conviction companies on an annual basis, participating in several hundred meetings a year. Interactions will often extend beyond the executive and Investor Relations to the Chair of the Remuneration Committee or Company Secretary, if we have specific points of enquiry.

**Case Study: Health Technology Pharmaceuticals Company, UK**

We visited the company's research and development facility in Cambridge to understand more about their approach to Sustainability and identify where they could integrate Sustainability even further into the business.

Specifically, we asked them to demonstrate:

- How they are mitigating ESG risks, e.g., by asking for their learnings and changes made after a recent data breach that left patient information exposed
- How they are taking advantage of ESG opportunities and having a positive impact on society.

We also challenged the composition of their remuneration policy and why the Access to Medicines Index was not a component, given it is a measurable and auditable measure of the social impact of the company. We remain in cooperative and positive discussions with the company on these topics but are happy with their overall ESG credentials and see no reason for escalation at this time.

**Case Study: Oil & Natural Gas Production Company, UK**

Following the company's 2022 AGM, we met with their Head of Sustainability to understand more about their energy transition plan and communicate our expected areas of improvement. Specifically, we made it clear that a Scope 3 emissions target should be published, and they should evidence how they are aligned with the Paris Agreement. We also advised that their transition plan should be verified by an independent body.

Subsequent activity was considered and ultimately deemed necessary by our Stewardship Team; detail of this escalation can be found in Principle 7.

Engagement before voting against management is IW&I's preferred approach to active ownership, as it leads to a more constructive, collaborative relationship with the company, and consequently, a better outcome for all stakeholders.

**Case Study: Personal Goods Company, UK**

We participated in a collective engagement with the company under the auspices of the Investor Forum. In late 2021, the company made a series of unsuccessful bids that surprised investors and raised questions about the portfolio rotation strategy to reorientate the brand portfolio toward higher growth categories. In addition, underperformance of the company's shares relative to their fast-moving consumer goods (FMCG) peers prompted one prominent investor to challenge the company's balance between purpose and delivering attractive financial performance.

As part of the collective engagement, we shared our concerns with the Investor Forum, who wrote two letters to the company. We also partook in a member-only investor meeting with the CEO and Chair. This has been constructive engagement, focussing their attention on the need for action beyond the announcements to date. Feedback from the company has been positive. IW&I, along with other investors, articulated their concerns and reinforced the key priorities through this engagement. Should the company fail to improve performance or build confidence in the effectiveness of its governance, there is now a channel through which to escalate concerns further, if required.

# The integration of stewardship with the investment process

## 7.4 Collectives investments and third-party funds (‘collectives’ or ‘Funds’)

Open ended collective instrument vehicles are an essential piece of IW&I’s investment offering for our clients. Our ESG Philosophy determines that:

1. Incorporating ESG considerations into a non-judgemental, objective investment framework is consistent with maximising risk-adjusted returns by reducing risk and increasing the potential value creation over the long-term.
2. We do not put specific ethical requirements ahead of other criteria or incorporate moral judgements into the financial analysis of investable instruments.
3. ESG approaches should be appropriate for the asset class and strategy. They should only include those ESG considerations that may have a material financial impact on an investable instrument’s future return given the investment strategy being employed.
4. Assessing the efficacy of an ESG approach should focus on ‘inputs’ rather than ‘outputs’. It is necessarily qualitative and as such we do not use, nor do we seek to ascribe to funds’ quantitative ESG ‘scores’ as a definitive measure.
5. Our ESG philosophy and its practical implementation is underpinned by evidence and logic. Some clients will have specific ethical requirements or other requirements that are inconsistent with our ESG philosophy. In practice, this means negative screening. As it is very difficult to accommodate specific negative screens into a range of fund holdings, we work with our clients to find solutions, which may mean the use of ethical funds under coverage, or the use of direct equities, where negative screening is easier to implement.
6. Our ESG approach assesses funds to ensure their ESG approach is consistent with our ESG philosophy and meets our qualitative APPROVED criteria. (See below.)

We focus on the ability of our third-party managers to integrate ESG considerations into their investment process in ways which are appropriate for their target asset class and style of active management as this can influence risk-adjusted returns generated by managers over time. Funds are assessed on at least an annual basis. Consistent with our philosophy and our current collectives research approach we do not use any current output (i.e. portfolio) based third-party quantitative ESG scoring systems as they only provide a snapshot of a manager’s portfolio at a specific time, telling us little about how a manager integrates ESG related considerations into its decision making.

Third-party systems suffer from a lack of data, particularly for funds investing in private assets in addition to those investing in small-cap to mid-cap public listed equities which typically lack the resources to make comprehensive ESG disclosures and as such score poorly through lack of publicly available information rather than actual poor ESG performance. We recognise the value of quantitative metrics for individual securities when accompanied by detailed qualitative rationales.

Indeed, we expect our fund managers to use them. But when it comes to looking at funds, the fact that they are backward looking and tend to be without context or explanation makes them less useful.

However, we do not rule out incorporating them in the future should they improve in their usefulness.

We therefore leverage our deep qualitative understanding of how our third-party managers are pricing ESG related risks and opportunities, looking for this to translate meaningfully to investment decision making over time.

We are material investors in a number of listed funds (Investment Trusts) - like many of our third-party managers, we believe engagement is key to improving ESG outcomes and that this in turn will be accretive to their respective share prices. Identifying companies that can make a positive ESG journey requires rigorous qualitative ESG assessments and this is where in our view the active management community can add additional value.

# The integration of stewardship with the investment process

**Our Funds Process – APPROVED Framework**

| Requirement | Rationale | |
|---|---|---|
| Assets manageable | Scale of assets managed must be compatible with investment objective | Inappropriate scale of assets is a key driver of underperformance |
| Philosophy resonates | Intuitively appealing and able to deliver our required investment outcome | Investment team must articulate and demonstrate efficacy of investment philosophy |
| Process disciplined | Philosophy rigorously implemented with a consistent approach | Disciplined application of process to minimise risk of style drift |
| Risk managed | Investment process embeds appropriate risk management | Risk taken must be consistently commensurate with the returns delivered |
| Organisationally sound | All relevant aspects of the company organisation and infrastructure must be sound | Investment excellence is best supported by an organisation that exhibits all round excellence |
| Value for money | All costs are reasonable given value of investment objective | A large portion of active managers lose outperformance due to excessive costs |
| ESG approach | Clear evidence of a robust, dispassionate and suitable integrated ESG approach | Appropriate ESG approach will maximise risk- adjusted returns |
| Demonstrable talent | All investment individuals should demonstrate peer-leading investment skill | This is the first pre-requisite of achieving an investment objective |

## 7.4.1 Our collectives approach to manager selection

- Consistent with the existing qualitative APPROVED framework our ESG assessment will be driven by evidence and logic. Asset managers will be expected to clearly articulate their ESG approach and demonstrate its efficacy A key component of our ESG assessment is our in-house Due Diligence Questionnaire which consists of more than one hundred questions. Asset Managers are required to complete this questionnaire to inform the ESG assessment process. Our current approach focus on the following - including, but not limited to:

| Expectation | Rationale |
|---|---|
| **Consideration of ESG factors is fully integrated into the decision making process** | ESG factors considered should be material to risk or return and thus fundamental to asset analysis and therefore fully integrated into the investment process |
| **ESG approach should be well established** | Many ESG considerations are relatively new, but many are not; investors will benefit from approaches that are well thought out and well established |
| **ESG approach is non-judgemental and evidence based** | Only financially material ESG factors should be taken into account; do not get “carried away” or take into account non financially material risks, even if controversial |
| **Full commitment to ESG** | Memberships of bodies, adherence to codes, level of management buy in all serve to underpin ESG commitment and likely success |
| **Resources** | Full consideration of ESG risks will have resource implications; resources must be appropriate to the task at hand |
| **Suitable for and consistent with strategy and asset class** | Different strategies and asset classes will require different ESG approaches as ESG factor materiality will vary depending on investment type |
| **ESG approach efficacy** | ESG approach must be based on logic and evidence and its likelihood to improve client outcomes must be demonstrable |
| **No over-reliance on external scoring to assess ESG risk of investment instruments** | Low correlation of ESG scores between third-party providers reflects differing value sets; asset managers can outsource data provision, but not their principles |
| **ESG approach at the asset management company level** | Best ESG approaches will be undertaken by asset managers who themselves have strong ESG approaches at the corporate level |
| **Engagement** | If there is one ‘must have’, it is that fund managers fully engage and be active in voting |
| **Passion for ESG and belief in it** | Given evidence supporting need to consider ESG factors investment team must show suitable level of passion and engagement with ESG matters |
| **Measuring ESG for both potential return and risk** | Team can demonstrate effective process to analyse and measure ESG considerations both for potential return and also potential risk |

# The integration of stewardship with the investment process

We aim to achieve industry leading engagement and voting in relation to the Investment Trusts our clients invest in. We use Institutional Shareholder Services (ISS) to notify us of meetings in a timely manner, with ISS also providing initial guidance on voting action. We discuss voting and engagement in the Collectives Corporate Governance Forum (and going forwards, in the Collectives Committee instead), ensuring our actions are reflective of our qualitative understanding of the funds under coverage as well as our beliefs in terms of best outcomes for clients. We meet the Chairpersons of the Boards of every Investment Trust under our coverage at least once per annum in order to ensure a strong understanding of the quality of governance being applied to the vehicles and to provide investor feedback if requested.

**Case Study: European Real Estate Investment Trust**

We engaged with the Chair of the Board to understand the Board's priorities for the year ahead. A key objective was to ensure that pursuing Net Zero was a priority for the Board; we articulated that a clear, ambitious but viable plan should be the objective. A positive two-way dialogue ensued, and we learnt more about the limitations and challenges faced by the Trust in pursuing Net Zero. The Trust's Building Research Establishment Environmental Assessment Method (BREEAM) measurements are improving slowly, but we will remain engaged on this topic.

**Case Study: Emerging Market Investment Trust**

The Collectives Research Team meet annually with the Chair and other board members of all the investment trusts that reside on the research list. These conversations are designed to cover all the governance aspects of the trust and provide a platform to have consistent and honest conversations to improve upon the status quo. Fees are a mainstay of our engagements and we regularly challenge the current structures in place, aiming for to make pricing more competitive and improve the outcome for our clients.

This investment trust is a prime example where we have engaged on its pricing structure, comparing it not only to trusts in the same space, but also open-ended equivalents (they have a cheaper emerging markets open-ended investment company). We were therefore very happy to see that on 30 June 2022, the board announced that the current annual management fee of 1% of net assets up to £1 billion and 0.80% of net assets above that level will with effect from 1 July 2022, remain at 1% of net assets up to £1 billion but will be reduced to 0.75% of net assets above £1 billion and up to £2 billion and 0.5% above £2 billion. The board commented "This reduction in management fee ensures that the fee arrangements remain competitive, provides a saving for our existing shareholders and should make us more attractive for investors". We believe this was a very positive outcome from our regular engagements.

**Case Study: Special Values Trust**

We regularly engage with the chairs of the investment trust boards we invest in around our views on the strategy and how it operates. ESG integration was a key aspect we engaged on, and the board admitted that the investment team had been slow to demonstrate their ESG capabilities when challenged by the board. We impressed upon the board that we consider it very important that this is demonstrated to better effect going forwards and from. Those conversations we have seen improved qualitative views around ESG integration in stock selection rationale and generally content in marketing material, which better demonstrating their approach. Given the ESG capabilities and resource at the company we still believe ESG integration can be further improved upon and will continue to engage at all touch points on the trust.

**Case Study: Sustainability Disclosures Engagement**

In 2021, as part of our annual engagement with the chairpersons of numerous listed infrastructure Investment Trusts, we highlighted that more could and should be done in relation to climate change risk assessment and reporting as part of the Sustainability Reports those entities produced. We were pleased to see subsequently in 2022 that the next iterations of these reports showed material improvement had been made in this area. We had felt that more robust climate change related assessment and scenario analysis was both feasible and relevant to investors in those vehicles. Meetings with the same chairperson in 2022 highlighted the fact that our feedback the previous year had acted as a big driver to improve the reporting the following year and they were pleased to hear that we had noticed and appreciated the improvement in reporting standards.

# The integration of stewardship with the investment process

## 7.5 Direct Fixed Income

Given the asymmetric return profile of the asset class (the upside is typically capped, whilst the downside is significantly larger), we believe ESG is an important consideration when investing in fixed income assets, the focus is typically on managing downside risk. In the main, we see ESG integration as a toolkit and process that reduces the downside risks that are normally not found by conventional fixed income analysis. ESG upside opportunities in fixed income markets are not typical, however where we see value we will invest (e.g. green/sustainable bonds).

- Our ESG considerations are different per sub-component of the fixed income market:
  - For government bonds, we use a proprietary ten-factor scorecard, covering a number of social, governance and environmental factors, to assess ESG risks and opportunities. Supra-national agencies are reviewed annually using qualitative assessments to ensure their purpose and activities are consistent with delivering positive change to society.
  - For credit selection, we use a number of techniques. Corporate issuers are assessed using a number of quantitative-based ESG tools. In tandem with our direct equity research, Sustainalytics is used to highlight specific ESG matters (e.g. environmental credentials, business ethics and exposure to human rights issues) that may require further investigation and to filter out the worst performing companies in both absolute terms and relative to their industry group. Companies are also reviewed in terms of their commitment to environmental reporting through CDP and carbon intensity (carbon emissions relative to company revenue). Finally, companies are assessed with regards to the SDGs.
  - Numerous corporate issuers are private companies and the availability of ESG data can sometimes be mixed. These can include companies and sectors are that provide clear social benefits, such as social housing associations or utilities that focus on renewable energy. Where this is an issue, the team will conduct further analysis in order to come to a suitable conclusion.
  - The vast majority of our centrally researched corporate bond holdings are investment grade rated – which typically do not have a severe risk rating (as per Sustainalytics ESG risk methodology). Where data is available, we exclude securities that have a severe risk rating from our centrally researched bond list, with a review carried out on an annual basis.

**New issue engagement**

We understand that the ability to develop a dialogue with governments is difficult and government bond yields are mainly determined by economic growth, inflation and interest rates. A significant portion of our corporate engagement is related to investment grade rated issuers that are in the process of issuing new bonds. In addition, we collaborate internally with our equity research colleagues regarding engagement with corporates. ESG matters are reviewed at a monthly Fixed Income Direct ESG group that includes both members of the fixed income team and the wider governance team within the Investment Research Office (IRO).

**Examples of investment decisions with ESG considerations made:**

We are looking to take increased exposure to certain financial institutions, given their recently published commitments to reduce their Scope 1, 2 and 3 greenhouse gas (GHG) emissions. Their plans have been validated by the Science Based Targets initiative (SBTi), with both financial institutions committing to a meaningful reduction in the Scope 3 emissions of their lending portfolios by 2030.

We also recently avoided centrally researching a new bond issued by an LSE listed Oil and Gas producer due to its 'Severe' ESG risk rating as assigned by the Sustainalytics. Given the inherent ESG associated with the oil and gas sector, the ESG rating agency highlighted the group's large management gap in relation to these risks.

# The integration of stewardship with the investment process

## 7.6 Third-party service providers

- Some of the service providers that we subscribe to that help us make informed decisions on ESG matters include ISS, Sustainalytics, CS HOLT and Morningstar. We view the ESG risks that each company poses in the context of their industry specific exposure, guided by the Suitability Accounting Standards Board (SASB) / Sustainalytics' analysis. Sustainalytics, for example, produces detailed, industry specific analysis based on publicly available information and on their own engagement with the company.
- Although we are not driven by third-party scoring systems, we pay close attention to companies that score badly within whole industries that score poorly, since that can flag which companies pose the highest risk, from the investment perspective, within that industry.

## 7.7 Empowered, accountable, responsive and transparent stewardship governance

- Our stewardship governance structures and processes are set out in Principles 2 and 5.
- The structures are also integrated into our investment process. They are responsible for the both the design and supervision of good stewardship practice in the day-to-day decision making processes.
- They are empowered by the Executive to make decisions and are accountable to them for those decisions.
- The process is well resourced, supported by objective input from outside the investment process (the Compliance function) and is transparent to the business.
- These governance structures ensure that we respond in a timely way to specific controversies as they occur.
- These structures also enable the IW&I business to co-ordinate our approach to ESG with the wider Investec Group, producing greater impact in the service of our clients' interests and thereby those of all our stakeholders.

## 7.8 The role of the Stewardship team

The Stewardship Team's role is to design, coordinate, and communicate IW&I's stewardship activities. Key responsibilities are to:

- Liaise with members of the Research Team, committees, and CIO to draw conclusions for engagement activity and identify opportunities for collaboration.
- Establish and maintain escalation and disinvestment policies and liaise with the Group Sustainability function to ensure consistency.
- Deliver periodic updates to the business and Investment Committee on stewardship activities.
- Deliver periodic updates to the business and Investment Committee on stewardship activities.
- Deliver and monitor the firm's UN PRI and Stewardship Code submissions, liaising with multiple stakeholders (IW&I South Africa, the Compliance function, Senior Management).
- Identify stewardship best practices and industry developments, liaising with industry partners / other investors where required, and lead projects to implement improvements across the business.
- Establish and oversee membership of investor groups to which we are signatories.
- Provide marketing support (content creation and external speaking) for the Investment & Research Office, as well as individual teams (e.g. charity pitches).
- Engage with service providers, primarily ISS, on a quarterly basis, to ensure they have clear and actionable criteria through which to support our voting process.

# The integration of stewardship with the investment process

## 7.9 Differences in the approach to integration across geographies

**ESG integration**

As in IW&I, a factor inclusion approach is followed for our global direct equity mandates which are managed from London but used by our South African business e.g. the Global Sustainable Equity fund and Global Leaders fund – i.e. the discount rate is adjusted, based on ESG factors. The approach to ESG integration into local (i.e. managed from South Africa for South African clients) direct equity mandates differs slightly; the discount rate is not adjusted based on ESG considerations. However, ESG data is still considered and feeds into decision making in a qualitative manner.

All segregated mandates are being loaded into Morningstar, to enable carbon footprint data, alongside other ESG data points, to be monitored.

**Examples:**

- The team analysed management's remuneration metrics and incentives and found that the composition of certain companies' incentives was not aligned with ESG best practices. The team did not invest in this listed equity for this reason.
- Within the mining sector, a specific stock was chosen over other diversified miners; due to its ESG credentials.

**Product proposition**

Two thematic, ESG-linked structured products are on offer in South Africa; one related to clean energy and one based on climate/environment score.

**Voting and Engagement**

Like IW&I, the South African IW&I entity also use ISS to inform their voting decisions. However, voting records are currently shared with clients on request rather than being published periodically. More detail on voting and engagement practices can be found here: IWI-Voting-and-active-engagement-policy-SA-updated.pdf (investec.com).

# Monitoring third-party service providers

**Signatories monitor and hold to account managers and/or service providers.**

## 8.1 Investec group third-party service providers

- In common with all businesses, we use third-party service providers widely across the Investec Group to help supply the day to day needs of a thriving organisation. We recognise our obligations to encourage good ESG behaviour to the benefit of the wider community in our selection and monitoring of all our significant third-party service providers. To the extent we use commonly purchased services, which covers the majority of our contracted outgoings, IW&I follows group policies and practices.
- We expect our counterparties to operate and behave in an environmentally and socially appropriate and responsible manner with the same high standards as we demonstrate ourselves. We engage with clients and suppliers to understand their processes and policies and explore how any environmental and social risks may be mitigated.
- Our specific standards for engaging with suppliers are set out on page 119,120 and 125 of the 2022 Investec Group Sustainability report, published on our website. We aim to evaluate our suppliers' performance against our standards at least every three years.

## 8.2 Third-party data providers

- IW&I uses multiple third-party services, accessed on a real-time basis, to provide to research, data and information in support of our investment process.
- We review the performance of all of the data service providers to the investment process in the normal run of business at the time of contract renewal. This is typically on an annual basis. In 2021, as part of our focus to improve our ESG screening capability, we acknowledged that in order to provide precise screening for a global portfolio, we needed a tool with an enhanced level of detail on a wider range of securities. We conducted a market assessment and agreed a replacement provider in early 2022.
- In 2022, our Sustainable Finance transformation programme focused on assessing data providers primarily to support our upcoming requirement to produce climate-related disclosures in accordance with the Task Force for Climate Related Financial Disclosures (TCFD). It is expected that engagement with the new data provider will also bolster our existing ESG integration processes and enhance our voting and engagement Stewardship activities. In addition, it will facilitate a move towards enhanced client reporting on ESG and Sustainability topics. It is anticipated that the new data provider will be onboarded towards the end of Q2 2023.

# Monitoring third-party service providers

## 8.3 Third-party fund managers: setting expectations and monitoring against them

Our expectations for third-party managers can vary to some extent based on their target asset class and strategy type. However, we expect all of our centrally researched fund holdings to score sufficiently well against our qualitative APPROVED framework which captures the key factors which we believe will be most impactful in terms of forward-looking out-performance potential. We expect asset managers to be resourced appropriately (both in terms of investment personnel and infrastructure and support functions), to provide regular and detailed reporting on performance and positioning, to ensure we are made aware of any material changes to their strategies in a timely manner, and to respond to specific queries in a detailed and timely manner.

We monitor the performance of all centrally researched fund holdings on a monthly basis, over a range of time horizons to ensure that funds are behaving in-line with expectations. Each researched fund is included in our Annual Quality Review (AQR) which is a detailed questionnaire that aims to highlight any material changes to a strategy which warrant further assessment.

Examples of actions taken when they have not met our requirements are set out below.

Third-party fund managers with whom we have invested our clients' assets are engaged with regularly thorough the year, including an annual in-depth questionnaire and separate operational and performance reviews.

**Example: Fixed Income fund**

Following a US Department of Justice indictment and Securities Exchange Commission (SEC) charges against an asset manager, we began an enhanced risk management focused due diligence exercise. The charges were in relation to a fund which we did not own, however as owners of other funds managed by that group, we engaged with the objective of confirming what the fund house had communicated to us: that the issue was an isolated case and not systematic of the wider firm's approach to portfolio and risk management, and that the funds that we research and own were unaffected.

We met the risk management and investment analytics teams and found that a significant number were relatively new to their positions. The large amount of change, even if driven by regular business evolution, was not comforting on its own, as with many staff getting up to speed at the same time, there can be an increased potential for issues to arise and/or go unnoticed.

We also typically expect internal risk limits to be within regulatory limits, but only the regulatory limits were being used for monitoring. We also did not find sufficient evidence that the team was challenging the investment team. Given the size and composition of the fund, best in class risk management tooling and processes that we felt should have been in place, were not. These concerns relating to governance and risk oversight led us to downgrade these funds and pursue a managed exit from them.

**Example: Active Equity Asset Manager**

Divestment was recommended, given concerns around style drift alongside an appreciation for the more competitive environment they are operating within – we were concerned that the team had not maintained its competitive 'edge' in terms of refinement of approach and scaling up of internal resources in the face of more sophisticated and well-resourced competitor capabilities now available to investors. We conveyed these concerns to the asset manager and provided sufficient time for them to respond in a robust manner to those concerns, but such responses were not forthcoming and responses when eventually received failed to provide appropriate reassurance.

# Monitoring third-party service providers

**Example: US Mid-cap Equities Asset Manager**

Divestment was recommended, given concerns relating to AUM having fallen rapidly alongside a significant reduction in analyst resource (those two factors were somewhat linked). We had had significant dialogue and engagement with the manager over the preceding years as a result of performance-related issues and team changes. We had lowered the fund's internal rating at the end of 2021 to reflect uncertainty in relation to changes made at that time to the team set-up at both PM and analyst level. The additional (and material changes) in 2022 in relation to the analyst pool and AUM were sufficiently material to warrant recommending divestment.

**Example: Specialist Asset Manager**

Divestment was recommended, given concerns relating to the investor profile of the majority of the fund's investors – significant ownership by pension funds operating within a liability-driven investment framework which had influenced the performance of the fund as a result of their redemption activity at times of market stress. In Q1 2023, after significant analysis, it was concluded that this fund behaviour was likely to continue in the medium-term and that therefore the risk return trade-off was not favourable for a fund being used as a cash proxy especially given the high levels of interest now achievable via more conservative money market funds.

## 8.4 The use of third-party services in voting

- Within this, our stewardship responsibilities and decision making is supported specifically by ISS. All voting decisions are ultimately our own, as we do not outsource any engagement or proxy voting responsibilities to third parties.

  As outlined above and in Principle 5, we make use of the information and conclusions provided by third-party service providers to inform our decisions, not to make them for us.
- In the case of ISS, the dedicated analyst for that particular company will review ISS's report and voting recommendations before making their own independent recommendations alongside the Stewardship team to the respective relevant asset class Governance Forum. This Forum then uses the information supplied by both the analyst and ISS to inform their final voting decision.
- We generally find ISS's research to be thorough and conclusions well-reasoned. For the majority of ballot items, we find ourselves in agreement. However, there are many instances where we find we disagree and vote contrary to ISS, for example:

**Example: Small to mid-cap Energy Trust**

At the February 2023 AGM, there were two contentious management proposals from a Trust focussing on small to mid-cap energy efficiency projects.

- Approve Continuation of Company as Closed-ended Investment Company
- Adopt New Articles of Association

ISS recommended voting for both resolutions, however, we decided to vote against management. This was because, while the Board and the Manager of the Trust have behaved positively through their forward-looking execution potential, there were potential risks around liquidity issues, concentration, short duration exposure, and finally deteriorated target return.

**Example: Multi-national Airline**

In February 2023, the management at the airline proposed the approval of the Remuneration Report. This was considered with caution as there were a number of contentious points, but ultimately, we voted against the proposed report. Initially, we were inclined to be supportive for a number of reasons which ISS specifically mention:

a) There was progress across key metrics including increased revenue leading to a strengthened balance sheet

b) The bonus, in proposal, was mainly based on pre-set financial targets

c) The headwinds impacting performance are not unique to the company but apply throughout the sector

However, upon further analysis our analysts decided that voting against management would be the better decision as the company reported a headline loss, continued suspension of the dividend, with the CE being paid almost double the peer median.

PRINCIPLE 9

# Engagement with the issuers to maintain or enhance the value of assets

**Signatories engage with issuers to maintain or enhance the value of assets.**

## 9.1 Principles of engagement

- It is our duty to engage with companies in order to deliver the best possible outcomes for our clients. We prioritise engagement with companies and trusts in which our discretionary clients in aggregate have the most exposure, either in terms of value or as a percentage holding of the entity
- We regularly engage directly with company boards outside of the traditional AGM cycle on matters ranging from remuneration to mandate change. Separate Listed Equity, Real Assets and Collectives Committees will oversee the execution of our governance responsibilities going forwards. This was done by the Equity and Collectives Corporate Governance Forums, during this reporting period
- We incorporate the third-party services of ISS when looking at voting and engagement. ISS provides analysis reports of the ballot papers at company and investment trust AGMs and EGMs, highlighting where the proposals are not aligned with best practice. We review recommendations to vote against management in our researched coverage when highlighted by ISS, regardless of the size of our aggregate position.

## 9.2 Engagement in practice

**Engagement with the issuers to maintain or enhance the value of assets.**

In Principle 7 we highlight examples of our engagement at both the investment trust level and the direct equity level. These exemplify how the rationale for engagement can differ on an ad hoc basis, from performance related issues to climate change and remuneration. Examples of engagement outcomes include the discontinuation (winding up) of investment trusts, managerial changes, board changes and dividend policy.

### 9.2.1 Key focus areas

Given our focus on maintaining and creating long-term value for our clients and society, we prioritise engagement on topics that are most material to each industry and asset class we invest in.

Our engagement with companies and funds is driven by a number of broad factors but typically focuses on the below:

- Investment or operational performance
- Gaining a better understanding of the risks and opportunities an investment faces
- ESG related matters, and how a company is addressing or improving these matters
- Changes in management/strategy
- Management incentives and remuneration
- Public controversies
- Capital allocation.

# Engagement with the issuers to maintain or enhance the value of assets

Our investment philosophy focuses on finding those companies that can deliver superior risk adjusted returns; high quality businesses that create economic value via excellent products and services, well managed with a prudent nature. We believe that the factors considered above help assess the quality of a company and any changes that could affect an investment thesis.

More specifically on the material ESG matters, we have identified the following Thematic Engagement Priorities, to engage on, going forwards. These align with Investec Group's two impact SDGs being on SDG 13 (climate action) and SDG 10 (reduced inequalities).

**Direct Equities**

IW&I use Sustainalytics' data, where available, on material issues, which is in line with SASB standards, to establish which topics are material to each of our holdings. IW&I have prioritised these issues based on the severity of Sustainalytics scores across our centrally researched universe, combined with a consideration of the size of each holding.

**Environmental factors**

- Carbon emissions and waste management
- Resource use and environmental impact of products & services

**Social factors**

- Human capital (including diversity) and occupational health & safety
- Data privacy & security

**Governance factors**

- Corporate governance & business ethics
- Product governance

**Real estate & infrastructure (direct and funds)**

IW&I's internal analysis, third-party research and relationships with our holdings in this space lead us to believe that environmental factors (see above) are most material for real estate and infrastructure investments. IW&I will also prioritise the above social factors where appropriate (e.g. with social housing investments) and governance factors where appropriate (e.g. with investment trusts).

**Equity, Fixed Income, and Alternative Funds**

IW&I's focus in this space will center around factors deemed most material to these investments:

- Board diversity
- ESG disclosures
- ESG investment analysis
- Stewardship, with material issues prioritised

## 9.2.2 Engagement processes, outside voting

Given that our reasoning for engagement can vary on a case-by-case basis so too can our methodology of engagement:

- Face-to-face meetings with members of the board and fund management teams
- Meetings with Investor relations officers
- Meetings with those who do not sit on the executive board but are significant stakeholders in areas surrounding ESG or remuneration
- Video conference calls/ Phone calls
- E-mails.

These methods of engagement are used extensively across both the listed equity and collectivised investment vehicles.

## 9.2.3 Non-voting engagement scope

- We are committed to regular engagement (in addition to voting) with companies that are on our researched list. The objective is for a relevant member of our Research Team to meet with them regularly. Whilst the majority of meetings were with the Chairs of Boards, CEO, CFO and Investor Relations, a significant number were with other representatives such as Chief Sustainability Officers or Chief Scientific Officers
- For collective funds under central coverage, our analysts aim to meet with the fund manager and the board of the investment trust at least annually
- There has been a greater focus on engagement with a broader universe of leaders within an organisation who may not be on the executive board but are significant stakeholders in areas surrounding ESG or remuneration. This gives us a better insight into specific issues that perhaps carry greater corporate governance risks, as well as giving us a different perspective on a company.

# Engagement with the issuers to maintain or enhance the value of assets

### 9.2.4 Addressing differing receptivity to shareholder engagement

- In our direct equity shareholdings, access to senior management is generally rationed by companies themselves on the basis of shareholder size. In addition, attitudes to shareholder engagement initiatives varies substantially by geography.
- Our success in maintaining meaningful active relationships, with a potential to influence company behaviour, is therefore greatest in our UK listed holdings, where we have the largest holding relative to the target company size and where the value of good governance is understood and enshrined in regulation.
- Although we target the same level of engagement, we have been less successful at consistently achieving our targets in non-UK holdings. This is because our exposure to non-UK companies generally merit less attention from the companies themselves, both because our holdings are less significant on the shareholder register, and also because local practices empower shareholders to a lesser degree. In some cases, voting is also more problematic. There are two main issues which arise when voting on overseas stocks:
  a) Beneficial ownership information must be provided in order to vote, where we worked successfully to resolve issues related to this through 2022
  b) Some markets have a long gap between when the vote is submitted and when the AGM takes place, during which time the shares cannot be traded which raises liquidity issues. In such cases, where we may be prevented from, or choose not to vote our shareholdings, decisions in both cases are taken with clients' best interests in mind.
- Accelerated digital migration has resulted in greater access to management teams, facilitating more frequent engagement at a more granular level than in the past. We intend to use this to increase our understanding of, and influence upon, the most important investments in our client portfolios (in-line with our Principles of Engagement), with an expectation that this will improve our contact with our international holdings disproportionately.

### 9.2.5 Third-party funds engagement

When meeting fund managers, the Collectives Research Team utilise their APPROVED framework which has been developed over many years and includes an analysis of a fund's ESG implementation.

For collective funds under central coverage, our analysts aim to meet fund managers at a minimum of once annually and will also meet with the boards of investment trusts annually. At these meetings, the analysts scrutinise investment performance, any operational issues, and governance. Management changes or public controversies prompt more frequent engagement.

The team also send out a comprehensive annual questionnaire which is less focused on ESG criteria. The setting of objectives is often discussed in Governance Forum meetings and then outlined in the minutes. The AQR is an annual exercise where all Researched funds are sent a detailed questionnaire and asked to complete a number of specific sections in relation to the funds within scope. Those sections are as follows:

| |
|---|
| Investment process and team |
| AUM and capacity |
| Turnover and liquidity |
| Cash, derivatives and securities |
| Active share |
| Fees and charges |
| Regulation |
| Litigation |
| Structure |
| Marketing |

# Engagement with the issuers to maintain or enhance the value of assets

The responses are then reviewed by the appropriate primary analysts with any issues raised on the output document to be discussed at the Collectives Governance Forum, or Collectives/Real Assets Committees, going forwards. Any responses which are outside of expectations can be identified and followed up on, depending on the nature of the issue.

As a result of the 2022 AQR, we identified risk management related issues within the same investment house impacting three separate funds (which we will talk about separately in this document) although we were already aware of these issues, so engagement and assessment was already in progress, and identified another fund as having higher investment team turnover than expected which has prompted further assessment. There were a large number of 'amber' issues raised although this is a natural outcome of the process – those amber ratings acting as issues to be aware of and to be factored into the ongoing due diligence while some warrant further assessment or clarification.

Whilst the vast majority of AQRs have been completed, there were some delays to receipt of some AQR responses from certain providers (caused by the use of a third party we had used to engage with the asset managers on our behalf) so we will shortly be running a final discussion on the AQR output in – this will allow us to ensure all providers have been assessed with complete findings presented to the Collectives Committee, while allowing for some follow-ups in relation to AQR assessments already completed to be run and allow for further discussion.

### 9.2.6 Alternative Investment Market (AIM) engagement

We tend to own greater stakes in AIM companies given their relative market cap and the funds under management within the AIM IHT plan which target these companies. Position sizes can often range from 3%-10% which leads to benefits including better access to executive management and better relationships with them over a sustained period of time. Engagement will range from detailed discussion of results and strategy with executive management to discussion of remuneration policy or management changes with the boards. At our investee companies' AGMs, the managers of the plan review all resolutions and vote in line with our views, as stewards for our clients' capital. We use ISS as a guide but with our direct conversations with management we are well placed to make informed decisions. Any issues tend to be raised with management directly and normally votes are based on management responses. Companies within this space tend to be too small to be covered by Sustainalytics or other third-party suppliers, however the AIM team have an ESG policy in place for best practice.

# Collaborative engagement policies and initiatives

**Signatories, where necessary, participate in collaborative engagement to influence issuers.**

## 10.1 Principles of collaboration

We support and seek collaboration with other shareholders, when it is necessary to increase our influence on specific issuer decisions, endeavouring to ensure that they are made to the benefit of our clients.

Our engagement and collaboration is typically prompted by a situation in which we intend to vote against or express our discontent with management decisions, where we may not have a material position in the investee company but where other shareholders echo our beliefs or concerns:

Examples of issues include:

- Situations where there is a lack of transparency
- Concerns over management or board competence and whether they will be able to deliver on their promises
- Concerns over the underlying assets and ultimately the performance of the investment.

## 10.2 Collaborative processes and outcomes

There are a number of ways in which collaborations have been initiated. We have written to fellow shareholders ahead of AGMs, detailing our concerns regarding a specific issue and also explaining what we feel would be a more beneficial outcome. We have hosted roundtables with fellow shareholders to express our discontent and to determine an outcome that can be agreed on by all parties. There are also cases where we do not initiate collaboration, but where a fellow shareholder approaches us. Ultimately, the collaborations carry a more powerful and meaningful message to management teams which consequently lead to better outcomes for shareholders.

Collaboration with other shareholders has led to a variety of outcomes which vary on a case-by case basis. Examples include, but are not limited to:

- Changes in management teams
- Discontinuation of investment fund
- Strategic reviews
- Dividend reassessments.

# Collaborative engagement policies and initiatives

### 10.2.1 Increasing membership of industry bodies

In 2022, Investec signed up to the IIGCC which was strategically important for us in order to be provided with a wealth of resources and opportunities to do more on fighting climate change. The IIGCC members have a total of €51tn AUM between them.

The IIGCC's mission is to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future. This will be achieved through capital allocation decisions, stewardship and successful engagement with companies, policy makers and fellow investors.

The IIGCC is a renowned body for collaboration and will provide IW&I with the ability to influence policy, join and lead collective engagements with our holdings as well as resources to help us set net-zero targets and investing in-line with net zero. Investec will also have the ability to connect colleagues to their peers across the industry on the topic.

In 2021 Investec became a full member of The Investor Forum, which helps investors to work collectively to escalate material issues with the Boards of UK-listed companies. Collective engagement is often the most effective way to challenge companies to change for the benefit of all stakeholders. The Investor Forum gives us an important platform to add our voice, together with other institutional shareholders, and help companies to operate in a way that ultimately leads to sustainable long-term returns for all stakeholders.

The Investor Forum gives us an important platform to add our voice, together with other institutional shareholders, and help companies to operate in a way that ultimately leads to sustainable long-term returns for all stakeholders.

## 10.3 Collaborative examples

Recognising that engagements often see more success when backed by a greater number of investors and more assets under management, we seek to engage collaboratively where possible. For direct equities, we make use of collaborative engagement initiatives such as the PRI's Collaboration Platform, Climate Action 100+, IIGCC and the Investor Forum.

Examples of areas of engagement through each in 2022 and the first quarter of 2023 include:

**Votes Against Slavery 2022**

This initiative, led by Rathbones, targeted forty-four companies that were found to be non-compliant with section 54 of the 2015 Modern Slavery Act, and subsequent reporting guidelines issued by the Home Office. They were sent letters warning that should the company remain non-compliant by the time of their 2022 AGM, members of the investor coalition would give consideration to abstaining on the acceptance of the Financial Statements and Statutory Reports. The companies were asked to provide clarity regarding how they plan to improve performance in this area.

We were a supporting investor on this initiative, which won the UN Principles of Responsible Investment award for 'Stewardship Initiative of the Year'. Forty-one out of forty-four companies were 100% compliant by the end of the year. A further three companies are expected to produce compliant statements by March 2023.

# Collaborative engagement policies and initiatives

**GlaxoSmithKline plc (GSK)**

Following the spin-off of the consumer healthcare division Haleon, GSK plc changed its segmental reporting such that the profitability of the Vaccines division was no longer disclosed. The GSK plc Vaccines business is often referred to as the crown jewel in the GSK plc portfolio and, in many investors' eyes, is a distinct investment proposition to the Specialty and General Medicines GSK plc divisions.

The Investor Forum reached out to GSK plc to express investor concern around the reduced transparency of disclosure. GSK plc provided a detailed response to the issues raised by Investor Forum Members. The Chair explained that the disclosure was in line with IFRS 8 best practice which requires companies to segmentally disclose in-line with how the business in run. Following the Haleon spin-off, GSK plc has undergone a simplification of its organisational structure to form an integrated biopharma business. GSK plc argue it is therefore inconsistent with this one GSK plc organisational structure to then unbundle the vaccines business in external reporting. While disappointed that the engagement did not result in a reversion to the level of disclosure observed before Haleon's spin-off, the engagement allowed GSK plc to understand the value of transparency to investors and provides good footing for future dialogue.

**Technology Companies Disclosure Campaign**

We signed up to a collaborative engagement to support the Technology Companies Disclosure Campaign, run by Esgbook. The campaign focused on urging technology companies to further disclose their Scope 1, 2 and 3 emissions data, in the correct format. This included both increased disclosure as well as enhanced disclosure so that data can be more easily compared.

The campaign focused on six large technology companies, one being SAP, who were of key focus for us. The first stage meant the collaboration directed personalised letters to all companies included in the benchmark requesting the specific data points required. Overall, the campaign had a positive outcome. While there is always room for improvement, we succeed in reaching the desired data disclosure with five of the six companies. The group will continue engagement with the one company which lacks requested disclosure.

**Investor Access to Regulated Bonds (IARB) – Working Group**

The creation of the IARB Working Group was spearheaded by Head of Fixed Income at Winterflood Securities and Chair of think tank City Future, who have supported engagement of this conversation over the last year, since the fall out from the mini bond scandal.

Members of the IARB include long standing regulated counterparts including Investec Wealth & Investment, Rothschild & Co. and Killik & Co., along with Hargreaves Lansdown. The Working Group aims to accelerate dialogue at a crucial time of change in UK financial services regulation.

The formation of the group aligns with comments made by Mel Stride of the Treasury Select Committee stating that the Treasury should require the FCA to have regard for financial inclusion in its rulemaking. In line with regulatory imperative, the working group has pledged to secure improved investor and discretionary wealth manager access to regulated transferable bonds, with lower denominated issuances, under €100,000 wholesale thresholds.

In the AIM division, collaborative engagement to influence issuers is rare but has occurred in the past. An example was in response to executive remuneration, in particular a long-term incentive plan ('LTIP') that was proposed during COVID-19. The AIM division will continue to liaise with peers on such matters with the aim of enhancing outcomes for clients and creating greater value.

# Stewardship escalation

**Signatories, where necessary, escalate stewardship activities to influence issuers.**

## 11.1 Principles of escalation

- It is our duty to engage with companies in order to deliver the best possible outcomes for our clients. We prioritise engagement with companies and trusts in which our discretionary clients in aggregate have the most exposure, either in terms of value or as a percentage holding of the entity. In these situations, our shareholding gives us greater influence when escalating potential issues to investee companies.
- Similarly, to many of the points alluded to in Principle 9 and 10, our drivers of escalating our engagement typically arise from a potential issue that will have a material impact on shareholder value. These issues include the following:
  - Concerns relating to the impact of the holding on environment and society, or vice versa
  - Annual votes, containing proposals not in the general shareholder interests
  - A loss of confidence in management teams to carry out their strategy
  - Governance related issues such as a CFO also being Chairperson of a company
  - A loss of confidence in the board who overseas management operations
  - Questioning the quality of the underlying assets
  - Lack of transparency
  - Fee or remuneration structures
  - Public controversies
  - ISS reports which highlight potential areas for engagement.

## 11.2 Escalation processes and outcomes

- Where we own a material position in a company, we will engage with the management team or board directly, in an attempt to implement change. Alternatively, we will express any discontent through voting engagements and have in the past written to fellow shareholders expressing our concerns and detailing what we believe to be a more positive outcome. In certain situations, we will engage with fellow shareholders in order to increase the likelihood of generating a more beneficial outcome for our clients. For more information on our approach to collaborative engagement please see Principle 10.

# Stewardship escalation

- Given the varied nature of our underlying investments, our response to these issues has been different on a case-by-case basis. There have been situations where we have been the largest shareholder of an investment and have effectively forced a complete review of an investment strategy. This has led to a number of changes, such as:

| | | | | |
|---|---|---|---|---|
| **Managerial changes** | **Dividend alterations** | **Discontinuations of investment trusts** | **Improvements in the quality of the underlying assets** | **Fee reductions** |

- Our approach to engagement and escalation of stewardship activities varies very little across asset classes. One area that is more closely monitored is in investments into funds that target the private company space, both in equity and debt investments. Here, an element of trust is required in the underlying managers, given the lack of transparency which is allowed here relative to publicly listed investments. Furthermore, these types of investments also incorporate independent valuators which have previously been causes of contention. Engagement is key in these situations in order for us to gain a clear picture of the underlying portfolio and to ensure that management are carrying out their given strategy.
- Although not explicitly a different asset class, and as alluded to in Principle 9, our AIM division look to build material positions in the relatively small number of stocks they invest in and will look to engage with all investee companies when appropriate. They typically use ISS reports or company announcements as their starting point for engagement escalation, although are increasingly being consulted ahead of time by Remuneration Committee or Board Chairperson. Given the material holdings which they have in investee companies, they often have excellent access to executive management and therefore will consult with them on highlighted issues before voting against AGM motions. Scenarios in which they have escalated stewardship activities to influence issuers have typically centred on remuneration for management.

## 11.3 Our Escalation Policy

Our newly written Escalation Policy can be found on our website (https://www.investec.com/en_gb/wealth/private-clients/about-us/responsible-investing-approach.html), within our Stewardship Policy, and is also laid out below.

While we approach each engagement with the nuance required, our general approach to escalating an engagement is set out below.

**Methods of engagement**

To pursue our engagement goals with investee companies, we employ one or more of the following methods, as appropriate:

- One-to-one dialogue with management and Boards
- Joining a collaborative engagement, or establish one by raising concerns to one of the industry bodies of which we are a member, e.g. Investor Forum or UN PRI
- Abstaining or voting against management at AGMs/EGMs, exercising voting rights for assets over which we have discretion.

# Stewardship escalation

**Methods of escalation**

If the above methods of engagement do not yield a cooperative response from our holdings, we will progress to more acute means, as outlined below. Triggers for progressing to these methods will depend on the nature of the engagement goal, i.e. the materiality and urgency of the matter.

- Private, written correspondence
- Escalate 1-1 dialogue by speaking with senior management, the company's advisers, its non-executive directors, or the Chairperson, leveraging our relationships through Investec Bank Limited and Investec Bank plc, where appropriate
- Continuing to abstain or vote against management proposals at AGMs and EGMs
- Public statement of concern, either 1-1 or in collaboration with other investors
- Co-filing a shareholder resolution, combining forces with other shareholders to increase pressure on management where we feel such action is in the interests of our shareholders
- Partial or full divestment may be considered as an extreme and rare measure, where we feel our concerns have not been adequately addressed. However, on the whole we favour retaining investments where we have ESG concerns, as this approach enables us to leverage our shareholder rights to encourage the business to address those concerns.

## 11.4 Examples of escalation

**Real Estate Investment Trust (REIT), UK**

**Aim** – Further improvement of processes relating to carbon reduction targets and better disclosure across ESG developments.

**Engagement summary** – We met with the REIT in our annual review with the company in 2022, where we discussed the improvement in carbon reduction efforts being made as well as the external disclosure available relating to these efforts. The discussion was informative for us as we had the ability to hear first-hand, the detail relating to the company's carbon reduction targets. However, there was some concern expressed around whether the targets could and would be met. Following this meeting, we have not seen further detail released and therefore, sent a letter to our contacts at the company, in order to follow up with them on their progress against their targets, what processes they have put in place to deal with the situation if they do not meet them and how to prevent that from happening in the future.

Furthermore, we encouraged them to continue to disclose further ESG and carbon-related information, by reporting on their external website.

**Progress** – we continue to wait to hear back from the investment trust and will meet with the Chairperson at least as part of our annual review process, if not sooner.

**Real Estate Investment Trust (REIT), UK**

**Aim** – To better understand how the REIT has integrated the Energy Performance Certification (EPC) ratings into their risk strategy.

**Engagement summary** – In 2022, we spoke with the investment trust where we discussed how they planned to integrate EPC ratings into their risk strategy. We were encouraged to see that the company has established a target to improve the EPC rating of planned refurbishments and upgrade works across their overall portfolio. However, we were keen to understand how the company would develop their portfolio targets to keep up with shifts across the industry, towards EPC ratings of 'B' and above. Therefore, we have communicated with the company to further discuss the methodology used to create current targets and develop future ones.

**Progress** – we continue to wait to hear back from the company and will meet with the Chair at least as part of our annual review process, if not sooner.

# Stewardship escalation

**Real Estate Investment Trust (REIT), UK**

**Aim** – To continue to monitor the progression of a potential sustainability resource gap on the board-level ESG committee.

**Engagement summary** – Last year we met with the investment trust and had the opportunity to learn more about their ESG principles and more specifically, the Governance and Transparency pillar. We were heartened to hear about their newly introduced ESG committee, however there seemed to be a potential lack of ESG expertise/experience among the Committee members. We are hoping to better understand the reasoning behind this and have recommended the trust considers whether it is necessary to add a sustainability expert to the Committee, in order for it to be performing as needed. Now that the Committee has met for the first time, we thought it would be an appropriate time to contact the company in order to discuss more about the respective topic.

**Progress** – we continue to wait to hear back from the company and will meet with the Chairperson at least as part of our annual review process, if not sooner.

**Oil and Natural Gas Production, UK**

**Aim** – Influence the commitment to setting carbon targets specifically in relation to setting medium-term absolute Scope 3 emissions targets, instead of carbon intensity targets.

**Engagement summary** – The issue was first brought to our attention at the company's 2022 AGM where we voted with management to support the approval for the Transition Progress despite having concerns around the Transition Plan. We therefore opted to engage and monitor the company.

During our last meeting with the company in June 2022, we raised concerns regarding the lack of absolute Scope 3 emissions targets. Having seen little progress, we escalated by sending a letter sent to the company, prior to their 2023 AGM. This outlined five clear objectives that we would like to see the company meet.

**Progress** – Continued engagement and monitoring of company; we are waiting to hear back from our recent letter and their response will inform our voting decision at their 2023 AGM.

# The active exercise of rights and responsibilities

**Signatories actively exercise their rights and responsibilities.**

## 12.1 Principles of the exercise of investor rights and responsibilities

The exercise of our fiduciary duties on behalf of discretionary clients requires that IW&I fully discharge our stewardship responsibilities. These responsibilities include actively protecting and exercising the rights of our clients, as shareholders and beneficiaries. In order to do this we retain full discretion when it comes to voting on our discretionary managed holdings, though in exceptional circumstances we may allow a client to take a different view.

Our governance structures to supervise the exercise of investor rights and responsibilities can be found in Principles 2 and 5. Our full Stewardship Policy can be found on our website, here: https://www.investec.com/en_gb/wealth/private-clients/about-us/responsible-investing-approach.html

Our voting policy can be summarised as follows:

**Direct Equities**

We will vote for discretionary holdings of centrally researched stocks (including overseas) when:

- We hold more than £10 million worth – we will vote on all ballot items, if necessary registering a vote against management where we identify any contentious items
- We hold less than £10 million worth but more than 1% of the shares – we will vote on all ballot items, if necessary, registering a vote against management where we identify any contentious items
- Positions of less than £10 million when the analyst identifies a recommendation against management – we will vote on the contentious issue as appropriate
- For holdings within our AIM inheritance tax plan, we vote on all of our discretionary holdings.

In 2021, we experienced an issue that has prevented us from voting on direct European equities. This was resolved in time for the 2022 Proxy Voting season.

# The active exercise of rights and responsibilities

### Investment trusts

We will vote for discretionary holdings of the following:

- All centrally researched investment trusts.
- Investment trusts which are not centrally researched but we hold over £10mn and/or over 2% of the share capital.

The full policy can be found on our website (https://www.investec.com/en_gb/wealth/private-clients/about-us/responsible-investing-approach.html).

As mentioned in Principles 2, 5 and 7, we enlist the services of ISS as a proxy advisor. ISS provides analysis reports of the ballot papers at company and investment trust AGMs and EGMs, highlighting where the proposals are not aligned with best practice. This is then reviewed by our analysts, who provide a recommendation to the appropriate Forum/Committee. We review any recommendations to vote against management as highlighted by ISS, regardless of the size of our position. We do not participate in any stock lending activities.

In 2021, we experienced an issue that has prevented us from voting on direct European equities. This was resolved in time for the 2022 Proxy Voting season.

### Amendments to our Voting Policy

We subscribe to the UK Stewardship Code's definition of stewardship as being "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." This is evidenced through the inclusion of Voting Principles in our Voting Policy. These range across environmental, social and governance topics and we state we will vote in support of these topics when we "feel it is in stakeholders' best interests", where "stakeholders" are defined as "shareholders and broader parties that can affect or be affected by a business or trust's operations and performance. These include a company's employees and the environment in which the business or trust operates. Considering these parties is in line with our corporate purpose to create enduring worth, living in society, not off it ". Please see Principle 5 for more detail on how we updated our Stewardship Policies in 2022.

### Examples of Voting Against Management

#### Amazon Inc

We voted against the ratification of named officers' compensation, as we felt it was excessive; there was a misalignment between CEO pay and company performance. This was driven by an excessive equity grant to the new CEO, which lacked performance conditions. Large time-vested awards were granted to other executive officers, and the compensation program lacked a link to pre-set performance criteria.

**Vote outcome:** supported by the majority of shareholders.

#### Nike Inc

We voted against the ratification of named executive officers' compensation. Nike plc had adjusted its short-term incentive programme moved from an annual performance period to two six-month periods, after threshold goals were not achieved under the original structure. The action resulted in pay-outs for Executive Officers that would have otherwise been forfeited.

Adjustments made to the long-term incentive programme were also not visibly linked to clearly stated performance targets and left it difficult to judge what the future impact may be on shareholders. We therefore felt that voting against this ballot item at the AGM, was in our clients' best interests.

**Vote outcome:** supported by the majority of shareholders.

# The active exercise of rights and responsibilities

**Pernod Ricard SA**

We voted against two management proposals – approval of the remuneration report of Ricard (Chairperson and CE) and the remuneration policy. This was because:

- Ricard was able to receive a maximum bonus even when he does not hit a maximum target level on all criteria. This structure misleads investors and is not best practice
- The non-financial criteria used to calculate the bonus were unclear
- LTIPs were to start vesting if performance was only at the average of peers, which we felt was insufficiently stretching
- There was no disclosed cap on potential exceptional remuneration

**Vote outcome:** supported by the majority of shareholders.

**SSE plc**

We voted against SSE plc's Remuneration Policy because the CE and Finance Director had received significant pension payments in FY2021/22. Additionally, the COO's pension at a level above that of the rest of the workforce. The Remuneration Committee was also seeking to increase the Performance Share Plan opportunities for the CEO and other Executive Directors to a level that we thought was egregious and not in shareholders' best interests.

**Vote outcome:** supported by the majority of shareholders.

**Witan Investment Trust**

We voted against the re-election of a Director, due to concerns around their independence. The director in question had served on the Board for 10 years which is misaligned with best practice, as after such a tenure, a director's independence and ability to hold management and the rest of the Board's decision to accounts, becomes compromised. This also meant that the composition of the Remuneration Committee, on which they sat, was not aligned to best practice.

**Vote outcome:** supported by the majority of shareholders.

Our full year 2022 and Q1 2023 voting reports can be found on our website, here:
https://www.investec.com/en_gb/wealth/private-clients/about-us/responsible-investing-approach.html

## 12.2 Monitoring our Voting Rights

We monitor our voting rights to ensure we are voting in accordance with our Voting policy.

We maintain a central log of centrally researched listed equities and investment trusts and monitor our holdings via our 'investment book of record' - our back-end system that stores holdings data. We run a 'liquidity report' to ensure we know where our holdings pass the threshold laid out in our Voting policy. The AIM Team maintains their coverage list and monitor holdings via the same investment book of record.

These data points are collated into a list and sent periodically to ISS, who then send us the relevant meeting (e.g. AGM/EGM) notifications for the companies and trusts.

# APPENDIX

## Review, approval and sign-off

This is Investec Wealth & Investment Limited's third UK Stewardship Code report and was compiled by reviewing and enhancing the content of the second report, which was published in 2022. IW&I have elected to transition from calendar year to fiscal year reporting; the Financial Reporting Council (FRC) have validated this change in approach. Per the FRC's request, this 'transitional year's' report covers a 15-month period, to ensure there is no gap in coverage between the last report and this one. The following teams have contributed to the report: Investment & Research Office, Group Sustainability, Commercial Transformation, Client-Facing, Compliance, People & Organisation, Learning & Development, Product Development and Marketing. The content was reviewed by the Investment Committee, before it was submitted to the Investec Wealth & Investment Limited Executive Committee and Board.

**The information in this document is believed to be accurate at the time of publication. The value of investments and the income derived from them can go down as well as up and you may not get back your initial investment.**

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|---|---|---|---|---|---|---|---|
| **Belfast** | 02890 321002 | **Cheltenham** | 01242 514756 | **Guildford** | 01483 304 707 | **Manchester** | 0161 832 6868 |
| **Birmingham** | 0121 232 0700 | **Edinburgh** | 0131 226 5000 | **Leeds** | 0113 245 4488 | **Sheffield** | 0114 275 5100 |
| **Bournemouth** | 01202 208100 | **Exeter** | 01392 204404 | **Liverpool** | 0151 227 2030 | | |
| **Bristol** | 01172 444860 | **Glasgow** | 0141 333 9323 | **London** | 020 7597 1234 | | |

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