



**momentum**  
investments



# Stewardship Report 2020

Signatory of:



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# Forward

Welcome to the first edition of the Momentum Investments Stewardship Report. Although this report may be a new one, we have a long and proud legacy of adopting and integrating responsible investing (RI) practices in our investment portfolios. We were one of the first South African signatories of the United Nations-supported Principles for Responsible Investing (PRI) back in 2006 and are long-time supporters of the Code for Responsible Investing in South Africa (Crisa). As investors realise the importance of RI practices and start to more rigorously question not just the return on their investments but the purpose and impact thereof, new approaches and practices are being adopted worldwide.

At the time when

financial markets globally are faced with **unprecedented challenges** amid

COVID-19, it is a particularly important time to take stock and have a renewed focus on environmental, social and governance (ESG) challenges we face now and into the future. The human, economic and financial effects have already been significant, and it is not yet clear how quickly the virus will be brought under control and normal economic activity can resume.

Considerations around capital allocation and companies' decisions around funding, employee protection and benefits, food production and distribution, disaster preparedness as well as executive remuneration are but some of the range of many aspects that are particularly important, from an ESG perspective, during times like these.

We pride ourselves on being strong supporters of global best practice and developments. In 2019, we adopted our Climate Change Investment Policy and, earlier in 2020, we became one of the first South African signatories to the Just Transition Statement. A Just Transition is important, as it balances the need for adopting more efficient climate change approaches, while at the same time recognises the reality that many communities are highly dependent on 'dirty' industries and any progress to address climate change needs to take this into account. To successfully navigate to a more climate-friendly future, it is imperative to develop the communities dependent on affected industries to be able to effectively participate in new initiatives and not to be left behind.

In this report, we demonstrate the extent to which we have integrated RI practices with various case studies, show how we have exercised proxy votes on your behalf and taken the opportunity to implement line-of-sight RI impacts in a variety of our

alternative investments. A tremendous effort has gone into educating internal and external stakeholders to properly integrate the initiatives in everything we do.

During the last year, we have intensively engaged in a systematic analysis of the status of the investment management industry from a RI perspective. The results of the ongoing study are at a state where we can start evaluating and sharing this with our investors. As such, we are proud to have a section on our RI rating of investment managers in this report.

All of this and much more is demonstrated, and we trust you will find the report compelling and interesting reading.

We take the stewardship role that **our investors have entrusted** us with to heart and want to, as custodians of your capital, assure you that **we are honoured and humbled** by this responsibility.

Sonja Saunderson, Chief Investment Officer



# Our responsible investing (RI) belief system, policies and oversight

We acknowledge that we are in a privileged position to act as fiduciary to our clients and stakeholders. We strive to promote financial wellness for our clients and our values will always remain our foundation pillars. RI is part of our core belief and sustainable RI practices are material factors underpinning our long-term success.

We consider the ESG risk of assets in which we invest to be relevant to the performance of the overall objective – across all asset classes, sectors, markets and through time.

Momentum Investments includes all the investment-related businesses of Momentum Metropolitan Holdings Limited and offers a wide spectrum of investment services and solutions to individual and business investors. The services and solutions are offered through our investment management, alternative investments, outcome-based solutions, collective investments, global investments and property investments businesses as well as various investment platforms.

RI practices have always resonated with our outcome-based investing philosophy and the alignment of our client's long-term goals to positively influence the world they will retire to.

Momentum Metropolitan's solutions and investment management businesses are signatories to the PRI, which is an international network of investors working together to put the six Principles for RI into practice.

## Our RI policy

The RI policy is approved by the Momentum Metropolitan Holdings executive committee and practically implemented and maintained by the relevant business areas. The executive committee and RI committee have responsibility and oversight of implementing the policy.

Please follow this link to view our **RI policy**.

## Our climate change investment policy

We will assess climate change risks in our investment processes and, if deemed material, across our various investment offerings. We believe in active ownership as one of the important levers to successfully integrate responsible business practices with the entities we invest in.

We support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was set up by the G20's Financial Stability Board. It's a voluntary, climate-related financial risk disclosure guideline for companies to provide information to investors, lenders, insurers and other stakeholders.

# investing

We also signed the global Statement of Investor Commitment to support a Just Transition.

Please follow this link to view our **climate change investment policy**.

## Our proxy voting and engagement policy

We believe in active ownership as one of the important levers to successfully integrate RI practices into our investment processes. Therefore, we use our market presence, through shareholder activism, to contribute towards creating a well-balanced economy for our investors.

This policy is also inherent to our process of risk management. We believe it is important to vote according to our own principles. Therefore, we have started to cede the rights for proxy voting from our appointed external investment managers to make uniform decisions on proxy voting in the market. We believe it is our fiduciary duty to vote on every shareholder resolution and will only abstain if there is a conflict of interest, due to a related party involved, as per the Company Act's definition. We maintain a proxy voting register on our website, and see page 14 for a summary of the past year.

We use our market presence to influence and encourage companies to improve their management of ESG factors. This will lead to sustainable financial performance for the investor in the long term. We maintain an engagement register (see page 18), which we make available to our clients on request. We use various engagement methods, including meeting in person, virtual meetings, telephone engagements, emails or formal letters.

If a company does not respond to our engagement attempts, we will follow our escalation process, as set out in this engagement policy. However, it should be noted that companies are in general positive towards engagements.

Please follow this link to view our **Proxy voting and engagement policy**.

We believe it is **important to vote** according to our own principles.

## Oversight and implementation responsibilities

We make sure we integrate ESG throughout our various governance structures.

The RI committee sets policies and provides oversight of our efforts in RI, with member representation from across the business.

A member of the RI committee will always be present at the various sub-investment committees to make sure ESG considerations are taken into account and will provide relevant quarterly feedback to the RI committee.

	Oversight/ accountability	Implementation
CIO	Yes	Yes
Deputy CIOs	Yes	Yes
RI committee	Yes	Yes
Dedicated RI staff	Yes	Yes
Heads of investment teams	Yes	Yes
Portfolio managers		Yes
Investment analysts		Yes
Investor relations		Yes
Manager research team		Yes
External appointed investment managers		Yes

Where there is oversight, the expectation is that each of these parties should be involved with the input of the annual RI goals and the quarterly assessment of the progress to achieving these goals. Another important expectation is to ensure the investment team integrates and supports the principles of the PRI. We also have a formal feedback session to discuss the outcomes of the PRI assessment report to establish how we can improve and build on our RI initiative. The oversight and accountability role is important to influence the direction of the RI initiative and also to gain support across the organisation.

Our investment managers also make sure their respective teams assess the risks of climate change in their investment processes if deemed material. Our engagement processes are structured around recommendations of the TCFD. The investment committees serve as oversight function to make sure we seek to invest in various energy options working towards the transition to a low-carbon economy. RI practices are included in our performance appraisal processes. Each investment capability within our investment team works towards achieving the same goals set in our team scorecard. The scorecard is a derivative of our business scorecard. The RI component in the scorecard represents the RI objectives, and each respective investment capability within our investment team undergoes the same appraisal process.



# We advocate, collaborate and uphold RI principles

Our different portfolio and business offerings result in various levels of engagement:

- For direct investments and where we have investment management agreements in place with underlying investment managers, we can direct strict compliance with our principles.
- Where we outsource to external investment managers, their approach to ESG is one of the core considerations in our assessment of their capabilities.
- Clients have access to execution and advisory services, which allow them to select their own investment managers. In some instances, these investment managers may not comply to the extent we believe they should, but it does meet our minimum requirements.

## PRI

As mentioned, we were one of the first South African signatories of the PRI back in 2006. The PRI's goal and ours, as a signatory to the UN PRI, is to understand the implications of sustainability for investors and support signatories to incorporate these into their investment decision making and ownership practices.

The six principles are as follows:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles. On an annual basis, we report to the PRI on how we implement RI practices and comply with the PRI principles.

Clients have access to **execution and advisory services**, which allow them to select their own investment managers.

The assessment report from the PRI follows, which serves the purpose to provide feedback to signatories to support ongoing learning and development. Please refer to our 2020 assessment ratings below:

Module name	Our score	Global median score
Strategy and governance	A+	A
Indirect manager selection, appointment and monitoring		
Listed equity	A	A
Direct and active ownership modules		
Listed equity – incorporation	A	A
Listed equity – active ownership	A	B
Fixed income – sovereign, supra, agency <sup>1</sup>	B	B
Fixed income – corporate financial <sup>1</sup>	B	B

<sup>1</sup>The fixed income module score was reduced from an A-symbol to a B-symbol, due to a question that was omitted in the assessment. We would like to assure our stakeholders that our fixed income team’s RI approach remains unchanged. Our fixed income team is disappointed in its B-score in the PRI assessment, especially as there was no change in their commitment to RI during the year of the assessment, which in the previous year earned an A. This score is the result of the answer to a particular question in the fixed income module being left out of our submission to the PRI. Unfortunately, due to the complexity of the PRI assessment process, we were unable to rectify this once we had made our submission.

## Crisa

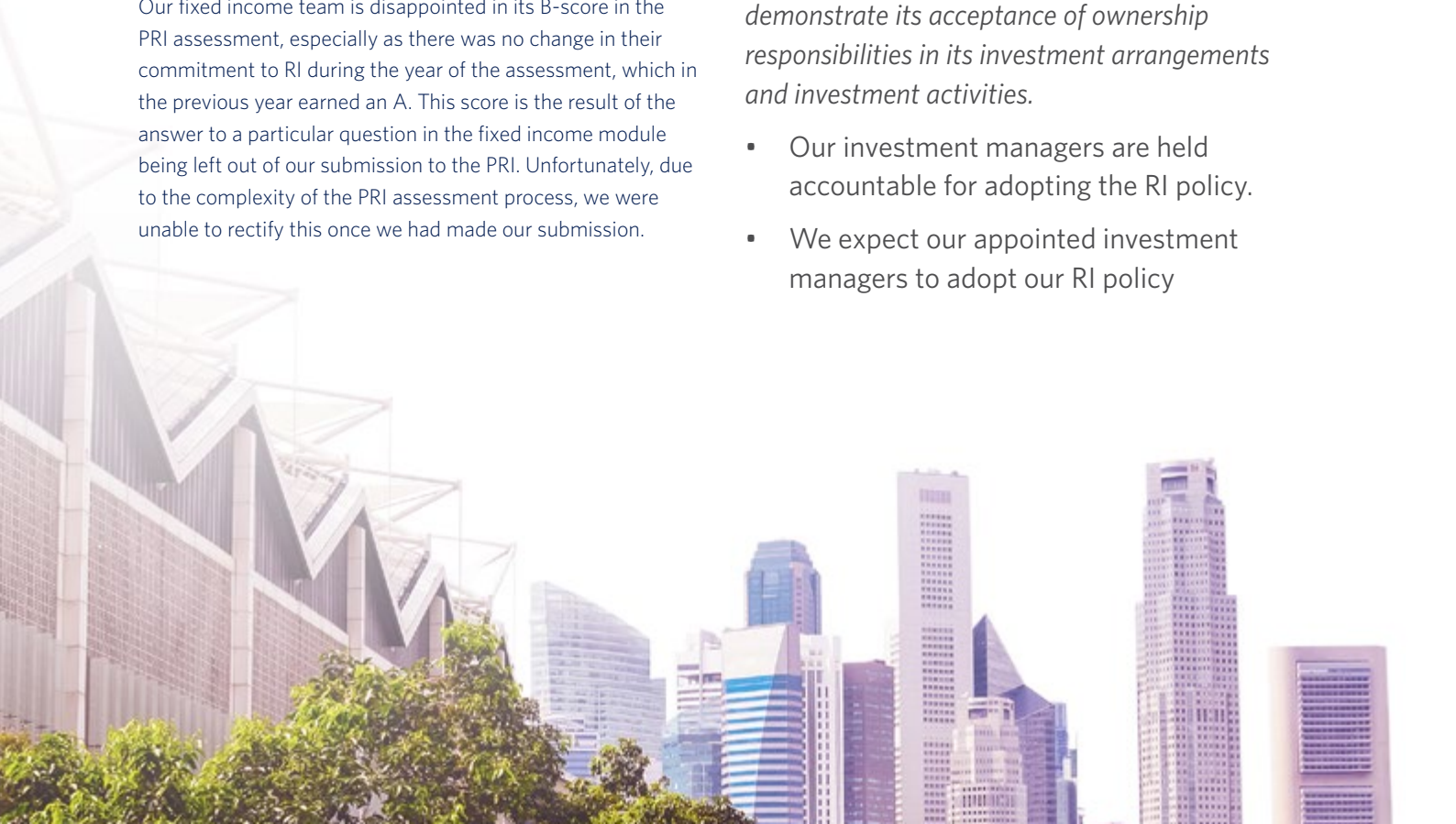
The five principles of the Crisa are as follows:

**Principle 1:** *An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.*

- Our investment managers have an integrated approach to incorporate ESG principles in investment decisions.
- We appoint investment managers that apply RI practices and, through our due-diligence processes, we assess how ESG integration is done.
- The RI committee serves as oversight committee to ensure ESG integration across our investment team.
- We also construct and invest in RI-themed portfolios.

**Principle 2:** *An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.*

- Our investment managers are held accountable for adopting the RI policy.
- We expect our appointed investment managers to adopt our RI policy



- We vote according to our policy on proxy voting, where we have legal rights.
- We vote on all shareholder resolutions, where we have legal rights.
- We engage with investment managers and companies (the register is available on request).

**Principle 3:** *Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.*

- We support various bodies and soft laws that promote RI, such as Crisa, the UN PRI and we are a member of the ICGN.
- We encourage other companies to be more transparent, through engagement.
- We serve on the RI committee of Asisa to promote RI practices.

**Principle 4:** *An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.*

Please follow this link to view our **conflict of interest management policy**.

**Principle 5:** *Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.*

The following information is available on **momentum.co.za**

- RI policy
- Proxy voting and engagement policy
- Proxy voting history
- Climate change investment policy

Please visit our website to view the UN PRI transparency report on our RI practices at **momentum.co.za**.

## Asisa RI

We have been a member of the Asisa RI Committee for a number of years. We contribute to the general discussions on how to enhance the uptake of responsible investment practices within the South African market on an industry level.

The committee itself also works closely with UN PRI on the integration of ESG factors within investment processes

## ICGN

We are a member of the investor-led organisation, the ICGN. Its mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. Its policy positions

are guided by the ICGN Global Governance Principles and Global Stewardship Principles, which are implemented by:

- Influencing policy by providing a reliable source of investor opinion on governance and stewardship
- Connecting peers at global events to enhance dialogue between companies and investors around long-term value creation
- Informing dialogue through education to enhance the professionalism of governance and stewardship practices

ICGN's long-held position is that companies and investors share a mutual responsibility to preserve and enhance long-term corporate value, and thereby contribute to sustainable capital markets and societal prosperity. Sustainability implies the company must manage effectively the ESG aspects of its activities and its financial operations. In doing so, companies should aspire to meet the cost of capital invested and generate a return over and above such capital. This is achievable sustainably only if the focus on economic returns and strategic planning includes the effective management of company relationships with stakeholders such as employees, suppliers, customers, local communities and the environment as a whole.

## Just Transition Statement

Momentum Metropolitan Life Limited signed the global Statement of Investor Commitment to Support a Just Transition on Climate Change on 30 March 2020. This statement also complements our recently published climate change investment policy in which we discuss the importance of a just transition.

We give recognition that the social dimension of the transition to a resilient and low-carbon economy is extremely important in our country. We need to engage with various stakeholders to ensure the social implications in the workplace and wider community should be managed responsibly. As investors, we can make an important contribution as stewards of assets, allocators of capital and as influential voices in public policy to make sure that the transition produces inclusive and sustainable development.

We also started to serve on the **global Just Transition** working group since May 2020 as the only emerging market representative.

The aim of the group is to convene PRI signatories, who have been active on this issue or who want to get more involved in the just transition agenda to develop more practical tools - building on the momentum and commitment of all signatories who have endorsed the investor statement.

It is intended to be a knowledge-sharing forum to share experiences and lessons learnt among members of the group. Therefore, part of the activities within this group will revolve around raising awareness around what taking action towards a just transition means in practice for the investment community.

## Steinhoff International NV (Steinhoff)

### Background

In an announcement released on 6 December 2017, Steinhoff informed the capital markets that its chief executive officer (CEO), Markus Jooste, had tendered his resignation and that information concerning 'accounting irregularities' had come to the attention of the Steinhoff board. Steinhoff recently confirmed that there were €10 billion worth of related party and other transactions that had been incorrectly accounted for in its financial statements.

Steinhoff is incorporated under Dutch law. This gives the courts in the Netherlands jurisdiction to handle claims against the company. Steinhoff is dual listed on the Frankfurt Stock Exchange (FSE) and the Johannesburg Stock Exchange (JSE). Before the dual listing of Steinhoff on 7 December 2015, Steinhoff International Holdings Limited (SIHL) was the holding company of the Steinhoff group and it was listed on the JSE. At the time of the dual listing in 2015, shares in SIHL were exchanged one for one with shares in Steinhoff. The BarentsKrans case will seek compensation for investors who acquired shares in Steinhoff and/or SIHL and who suffered losses caused by the fall in its share price following the announcements in December 2017.

### Update

We've pursued claims on behalf of our clients and our pooled portfolios that held shares in Steinhoff International Holdings NV (Steinhoff) and suffered losses as a result of the collapse in its share price. We have concluded that the 'class-action' case, being conducted in the Netherlands by the Dutch law firm BarentsKrans, is our preferred legal route and is aimed at achieving an outcome that is in the best interests of our clients.

Many other South African investment managers and financial institutions have reached the same conclusion. The case is being conducted through a special purpose vehicle (SPV), which has been established in the Netherlands, especially for this Steinhoff case. It is well established in the Netherlands for claimants in large-scale proceedings to assign their claims to an SPV and for the SPV to then be the sole claimant in the case. This is a more efficient way of conducting large-scale litigation than having a multitude of individual claimants having their cases run and determined by the same court at the same time. We did not have a big exposure to Steinhoff. All our funds in total owned about 0.5% of issued Steinhoff shares.

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# We take ownership of our assets

## Proxy voting summary (one year to end June 2020)

Total number of meetings voted on	236	
Total number of votes in favour	3550	86,17%
Total number of resolutions against	518	12,57%
Total number of resolutions abstained*	52	1,26%
Total number of resolutions voted on	4120	100,00%
Reasons for vote against	518	
Director issues	165	31,85%
Remuneration issues	139	26,83%
Share repurchases	49	9,46%
Share issuance	39	7,53%
Financial assistance	2	0,39%
Political donations	6	1,16%
Corporate actions	8	1,54%
Disapplication of pre-emption rights	12	2,32%
Notice period shortened to 14 days	8	1,54%
Amendments to memorandum of incorporation	3	0,58%
Discharge of liabilities	5	0,97%
Audit reappointment	78	15,06%
Approval of financial statements	2	0,39%
Dividend payments	2	0,39%

\*Important note:

Momentum Investments abstains when there is a conflict of interest situation (i.e. related parties).

# independence

## Proxy voting themes

### Director independence

In the current corporate governance environment the issue of director independence is a very important issue. Failures of independent oversight and ethics extend from state-owned enterprises to FTSE/JSE Top 40 companies. Independence is often subjective – some directors may have compromised independence on their very first day of joining a board of directors, while others may sit on a board for twenty years and still be independent in their thinking.

However, as a shareholder one is not privy to the dynamics of any board of directors. The most commonly used yardstick, apart from the other criteria, such as previous service with the company, family or business relationships with the company, is that of length of tenure.

In our proxy voting and engagement policy, the stance is taken that audit committee membership is limited to a period of nine years to maintain arms-length relationships between the audit committee and company management.

It prevents the board members growing too familiar and personally bonding with executive management and so compromising independent thinking when discussing company matters. This continual refreshing also assists in transforming boards not only in terms of gender and race but also in terms of skills. A few years ago, for example, there was no need for cyber security experts or ESG skills on boards. Now it is an imperative when considering long-term financially sustainable strategies.

During the period under review, we voted several times against the re-election of appointments to audit committees, where the majority or all members had been on those committees for more than nine years and, in some cases, for decades.

Companies that we came across in our proxy voting activities, where the majority of audit committee members had length of tenures in excess of our recommended timeframe for serving on an audit committee and where we voted negatively in the election of members of audit committees were:



### Remuneration policies

At annual general meetings (AGMs), the issue of remuneration policies has been one that has attracted a disproportionate number of negative votes. The main issues have usually been either the difficulty in relating

policy to remuneration outcomes or the use of discretion by boards to override and so negate the company remuneration policy.

The most worrying issue that surfaced in the past couple of years is the practice of forwarding executive management loans to acquire substantial stakes in the companies.

This has led to unintended consequences where shareholder funds have had to be used to make good on these structures when they collapsed, resulting in the beneficiaries having to repay the companies hundreds or even billions of rands.

In the financial year, this has happened in the cases of Brait, Resilient and recently, RCL foods. In the previous financial year, the margin calls for director's private loans from banks resulted in dramatic declines in share prices of companies in only a few days, for example EOH. During the past year, a director in Growthpoint had to pay large margin calls.

In engagements and direct proxy voting, we have consistently opposed remuneration structures enabling directors to obtain shares worth many hundreds of millions of rand using loans from companies and ultimately shareholders.

When these schemes fail and directors end up owing the company material amounts of money, boards tend to approach shareholders with requests to write off these loans. This effectively means that shareholder act as guarantors for this kind of director incentive schemes. This is not how remuneration incentive schemes are supposed to be designed or implemented.

## Proxy voting records

### Case study: Director independence

Vukile Property Fund

Date of engagement: 15 August 2019

**Issue under discussion:** Independence of independent non-executive directors after more than 15 years of service as board members.

Our approach is that, after non-executive directors have served on the audit committee of the board for more than nine years and more than 12 years on the board of directors, their independence credentials should come under more scrutiny, as the familiarity between the directors and company management would have grown substantially.

A company might declare a board member still independent after an extended service length. However, a continual refreshment of boards is the best way, in our view, to ensure there will always be board members, who can question the way the company is run with new and independent eyes and so ensuring more peace of mind for shareholders that the board has not become a club of like-minded individuals.

It has always been our view that, if a company requires the service of a non-executive director for knowledge, insight and experience, which may be scarce or unique, then these non-executive directors should be appointed as non-independent non-executive directors to garner positive votes for re-election.

In this instance, there were two independent non-executive directors with more than 15



years as board members of Vukile Property Fund. The CEO and the ESG analyst explained their respective points of view at the face to face engagement. The CEO of the company maintained that he needed the individuals as independent non-executive board members. The ESG analyst put across the view explained in the previous two paragraphs.

### Result of discussion

At the end of May, the company still listed the two directors as independent, now going on 17 years of service, while we will continue to vote against their appointment as independent non-executive directors.

## Case study: Remuneration structure

Resilient REIT Limited and Fortress REIT Limited

Date of Engagement: 21 November 2019

These companies had previously implemented remuneration policies, which had been opposed by us involving them lending money to executive management enabling the purchase of shares. These remuneration schemes had ended negatively, not only for beneficiaries but for shareholders as well. A new remuneration structure was proposed during the latter part of 2019.

What was problematic in the new structure was the need for amendments that needed to be approved by shareholders. While the list of amendments that would require shareholder approval seemed to be comprehensive, the problem was the principle of ring fencing these.

It automatically begged the question why it was necessary to ring fence the amendments. It was understandable that minor administrative amendments could be made without shareholder approval. These issues could be communicated to shareholders retrospectively, while more important issues could be put to vote at shareholder meetings.

New remuneration structures are created all the time. There are very reputable companies, which do this. By pre-emptively ring fencing amendments, this was potentially dangerous, as material amendments that can't be anticipated could be made in future.

At the engagement with a board member of Fortress REIT, there was a detailed discussion on this issue.

We voted against the new remuneration policy, which was identical in both companies, due to cross-shareholding and engaging the same remuneration experts to devise the new remuneration policy.

We **voted against** approval of this structure at both companies.

## Engagement register

### Engagement register for the financial year 2019/2020

Date	Company	Country	Topic
26 June 2020	Sasol	Africa/ USA	Discussion on remuneration proposals and climate risk mitigation measures to be made public in foreseeable future.
13 May 2020	Old Mutual Annual General Meeting update	Africa	Resolution discussion of upcoming AGM –a legal discussion on preference shareholders rights.
8 May 2020	Nedbank Corporate Governance Roadshow	Africa	Nedbank COVID-19 response, remuneration issues and climate change resolutions for the upcoming AGM.
17 March 2020	Sasol	Africa	Sasol management presented to shareholders how they were going to address cash flow and debt concerns.
13 February 2020	Sirius Property	Europe	Engagement on South African governance requirements with European management and to resolve any legal and cultural differences.
23 January 2020	Exxaro	Africa	Shareholder climate change requirements, which was an intensive discussion on what shareholders were expecting from the company in connection with climate change and the just transition to a carbon free economy.
4 December 2019	Datatec	Africa	This was a general shareholder consultation initiated by the company to ascertain whether shareholders had any governance issues.
31 October 2019	City Lodge	Africa	The company's auditor had been appointed for 33 consecutive years. We believe auditors should rotate every 10 years.
24 October 2019	Exxaro	Africa	There was a general discussion with chair of remuneration committee on remuneration approaches. We shared our best practice views and engaged on climate change risks.
9 October 2019	Growthpoint	Africa	We discussed the remuneration policy and the appointment of a new director, whose nomination seemed to be opposed by a number of shareholders.
19 September 2019	Resilient REIT	Africa	We advised of our continued concern of the company's remuneration scheme, as the amendment requiring shareholder approval was ring fenced. In our view, apart from small minor administrative amendments, all amendments should be subject to shareholder notification and approval. The engagement led to us voting against the remuneration resolutions at the AGM for shareholders.

15 August 2019	Vukile Property Fund	Africa	We engaged with management to discuss the upcoming resolutions that would be tabled at the AGM. We also engaged on our concern with the lack of director independence, as a result of the length of tenure being longer than 12 years.
10 July 2019	SA Corporate Property Fund	Africa	We engaged with company management to better understand the functioning of the board structure.
9 July 2019	Equites Property Fund	Africa	The company management engaged with us to explain the upcoming share issuance resolution that will be tabled at the upcoming AGM. We agreed with these resolutions and voted in favour.
10 June 2019	Brait SE	Africa	We engaged with company management to make sure the share incentive scheme is at reasonable cost towards shareholders. In the past, the share incentive scheme was expensive towards shareholders.

## Engagement themes

There are three issues that will be the basis for most engagements in future. The first two relate to governance and the third cuts across social and the environment.

### Remuneration issues

This issue has dominated and continues to dominate shareholder meetings for a number of years now and all indications are that it will remain so for the foreseeable future.

With the world economy under severe strain and unemployment rising, populist pressures in this regard will continue to increase. This will hold especially if there is a breakdown between the relation of executive remuneration and performance measures. This has been the source of most votes against management remuneration in the past. The current crises ignited by the COVID-19 pandemic will only complicate matters more, as it injects a large measure of unpredictability into company

performance, which forms the basis of executive remuneration. Many case-by-case decisions will have to be taken.

### Independence of directors

As with management remuneration, this is an ongoing issue. Shareholders depend on boards of directors to hold management to account. However, if directors are not independent enough, all stakeholders will be negatively affected. This relates especially to audit committees. Many corporate failures are the result of audit committee members, who have not been sufficiently independent. The issue is compounded when the audit profession is also implicated in lacking the required independence.

### The 'Just Transition'

As the world economy moves to a carbon-free economy, the issue of employees and communities' dependent on a carbon economy looms large. These people cannot just be cast aside as collateral damage.

engagement

The matter is critically important in almost every emerging market. As most emerging market economies are not rich or consist of masses of well-educated populations, who can easily switch to new industries, this transformation has to be done in a very gradual and societal sensitive way, to not destroy lives and societies.

Many of the engagements with carbon-intensive companies will be about this transition. It also affects financing institutions, as they cannot just stop financing carbon-intensive companies, forcing them into bankruptcy.

## Engagement

### Case study: Exxaro (just transition)

Date of engagement: 23 January 2020

During the previous remuneration engagement in 2019, the RI specialist had a brief discussion on climate change issues with Exxaro.

We were informed that the company was actively discussing its approach to climate change and the just transition, as the board realised the carbon-based business model in its current form would at most be viable for only another decade or two.

Subsequent to this discussion, consultants representing Exxaro contacted the RI specialist and requested an interview with our RI team to discuss investor perceptions of the company with regard to these issues going forward.

The discussion concentrated on the issue of a just transition. Both sides realised that this is an issue, which is critical to carbon-generating companies and which contribute in a significant way to employment and tax generation in South Africa.

It would not suffice to declare that South Africa will go its own way, as offshore companies are increasingly using their own climate ratings to determine who they want to do business with. Lack of movement on climate issues could detrimentally affect a resource-exporting country such as South Africa.

The RI team was left with a very favourable view of how the Exxaro board was approaching these issues, especially the strategic vision they were trying to create.

### Case study: COVID-19 response and climate change resolutions

Date of engagement: 8 May 2020

The chairman of the Nedbank Group has an annual engagement on governance issues with analysts, and the 2020 meeting was the first virtual engagement the ESG Analyst had ever participated in.

It was interesting from two perspectives. The first was to obtain first-hand information on how a major banking group was coping with the lockdown and other consequences of the COVID-19 pandemic.

It was also notable in that management had put forward two climate-related resolutions for voting at the company's upcoming AGM. After the said AGM, it transpired that these resolutions had received 100% approval from shareholders.

The chairman informed the analysts that almost all staff members were working from home, except for those that had to be physically present at the office, including receptionists, office cleaners and the like.

The pandemic also affected the way the next financial year's short-term bonuses would be calculated. The current environment was so uncertain that it would be impossible to establish financial criteria for awarding bonuses in advance.

The meeting was **well attended by the analyst community and conducted in a very positive** atmosphere, despite the subjects under discussion.



# How we integrate ESG

ESG risk factors are relevant to the overall performance of investments. RI practices are a part of our investment philosophy and are implemented when following our investment processes. As part of our investment risk management process, the effect on portfolios of any material ESG concerns need to be identified and assessed on a case-by-case basis and action needs to be taken accordingly. Even though ESG issues might not be able to be quantified initially, the potential impact of ESG issues could manifest into significant financial implications for an entity. As part of the continual ESG monitoring, it is important to also assess and obtain comfort with the management of companies.

## Fixed income and credit

ESG investing is integral in our investment process. Although we are lenders and not owners in businesses, we see ESG as part of our duty to protect your money. We actively engage investment management teams on ESG issues and support green bonds, where the valuation meets our criteria. We have and will in future decline investment opportunities where our criteria for ESG are not met. Below is our process of integrating ESG in our fixed income and credit investments:

### We assess ESG risk across all fixed income and credit investments

- We use internal and external ESG research
- A member of the RI committee provides qualitative ESG input

### We capture the ESG risks throughout our investment process:

- The credit application forms state the concerned ESG risks
- Companies with ESG concerns are published on our watchlist
- A monthly internal credit newsletter flags the companies with ESG risks

### We manage the ESG risks

- Companies with ESG risks are monitored closely
- We may divest, reduce, sell or not roll upcoming maturities
- We may decide not to increase exposure further and/or obtain additional security to mitigate for heightened ESG risks

### We will engage

- We want to better understand the ESG strategy of management
- We encourage better ESG disclosure
- We influence issuers to follow best practise
- We engage before and after investing
- We engage when there is an ESG concern that affects the bond issuer
- We maintain an engagement register

## We have a state-owned entities (SoEs) lending framework

Our SoEs lending framework help guides our risk management framework.

The various entities are divided according to our risk criteria into respective categories of lending appetite. It's informed by corporate governance issues, dependency on government, funding constraints and ESG issues on an entity's credit rating.

In South Africa, lending to SoEs is a challenge, involving a fine balance between its strategic importance, adequate compensation and risk mitigation on the one side and its ESG risk factors on the other side that needs to be assessed on a case-by-case basis.

Accordingly, governance issues with regards to SoEs are becoming increasingly important

in the risk management process and, as a result, it is also influencing investment decisions. These issues would include, but will not be limited to, management concerns, poor operational performance, corruption and fraud, mismanagement of money, misuse of assets and irregularities within supply chain. Some issuers are unable to access the debt capital markets for funding, as a result of governance concerns, which in turn puts even more pressure on their liquidity position.



ESG risk factors are relevant to the **overall performance** of investments.



## Examples of our approach

### Denel

Denel is one of the largest defense technology companies in South Africa. Our SoEs lending framework guided us not to invest with this company. The main ESG issues identified were social risks, which may result from the company's business activity and the lack of transparency regarding the laws that govern it, its related parties and clients.

### Eskom

Eskom has been plagued with weak financial and liquidity profiles, management instability, poor corporate governance, qualified audit reports, execution risk with regards to large capex requirements and a challenging regulatory environment, resulting in below-cost tariff increases.

However, this entity remains of key strategic importance to government and the country, as the dominant electricity provider in South Africa and we, as a socially responsible investor, have the responsibility to support this entity.

To mitigate and navigate this challenge, a decision was taken to not take on this entity's unsecured exposure but obtain comfort from the government-guarantee backing of the entity's exposure. Thus, we are essentially taking on SA government risk rather than that entity's risk, which can be regarded as a 'risk-free' borrower to a certain extent.

Corporate governance issues, dependency on government and funding constraints have become increasingly important considerations to rating agencies and, therefore, the impact of ESG issues on an

entity's credit rating is also an important factor to consider in investment decisions. With regards to portfolio construction, holding this entity's exposure is also essential to maintain weighting to the South African bond index (JSE Assa Albi) it is tracking.

### Conclusion

Overall, SoEs cannot be treated uniformly and there are SoEs that perform satisfactorily and are credit worthy on a stand-alone basis. We are only comfortable to invest in SoEs on a stand-alone basis, i.e. with no government guarantee, to the extent that all the credit fundamentals stack up as well as the ESG fundamentals. ESG concerns will always need to be monitored and continually assessed.

ESG concerns  
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## Listed equity and listed property

Below is our process of integrating ESG in our listed equity and property investments:

	Listed equity (systematic strategies)	Listed equity (active strategies)	Listed property
We will always vote	✓	✓	✓
Engagement is important – we maintain a register	✓	✓	✓
We use in-house research and external research	✓	✓	✓
ESG considerations will be included in economic, industry, quality of management, company strategy and fundamental analysis		✓	✓
We may incorporate an additional equity risk premium to the cost of equity on our equity ranking table, if we become aware of material governance issues of a company		✓	
Our bottom-up approach is anchored by three pillars, which we use to identify the best property shares to invest in, namely top-down macro analysis, bottom-up qualitative (ESG) and quantitative analysis, as well as valuation and ranking			✓

### Examples of our approach

#### EHO EOH

Our listed equity team that looks after the active investment strategies decided to sell our holdings in EOH, an IT service management company, after raising our concerns with the management of the company. The concerns were due to the lack of transparency with regards to the reporting of divisional earnings, the composition of the board of directors, who was not independent enough, and the unclear remuneration policy.

#### Rebosis Property Fund

Our dedicated governance specialist voted against Rebosis Property Fund's annual financial statements and the listed property team sold its position. These actions were necessary after the company's valuation in the qualified audit report relative to company management showed a difference of more than R2 billion.

#### Vukile Property



Our listed property team engaged with Vukile Property in August 2019 on its ESG initiatives. Our discussions centered on the real estate investment trust (Reits) environmental sustainability plan that has been in place since 2015. The plan focuses on reducing Vukile and its tenants' environmental footprint by using green energy sources, reducing consumption and optimising utility usage. We focused on the company's electricity and water initiatives. It appointed an engineer to drive the initiatives and provide sound metrics of its progress on these matters. In addition, our discussions with the company also centered on the work done by the Vukile Academy, which seeks to empower young, black professionals with skills to develop their careers in property development and investment in South Africa.

## Direct property

Eris Property Group (Eris), of which Momentum Metropolitan is the major shareholder, manages our direct property portfolio. The company is a fully integrated property development and services group, which provides a range of commercial property skills in the South African and sub-Saharan African markets.

All direct property investments need to comply with our RI policies.

The following ESG outcomes are considered when we invest in direct property:

- Green building initiatives
- Infrastructure development
- Water and sanitation
- Community empowerment
- Enterprise and supplier development
- Solar energy



## ESG outcomes

### Community empowerment

- 1 808 jobs created supporting 9 040 households
- Generated co-investment opportunities for local communities in certain properties
- Health awareness and school campaigns in previously disadvantaged communities we are active in

### Enterprise and supplier development

- Assisting young black suppliers with development opportunities, free office space, training and mentorships
- In the process of providing bursaries to previously disadvantaged young black property students

### Solar energy

- Solar power installed at the Tsumeb shopping centre, taking 352kWh (peak) off the grid
- Six solar projects underway at various retail centres
- Total generation of power on the seven sites is 8 130 310kWh, which equates to powering 746 households for a year

### Green building initiatives

- We installed water and electrical metering devices to reduce wastage in our centres
- We maximise access to natural light and use energy efficient LED lights
- We target a four-star rating from the Green Building Council of South Africa in all new developments

## Infrastructure development

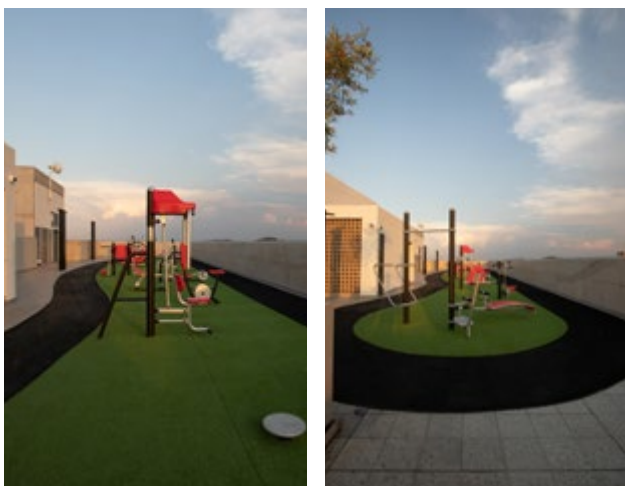
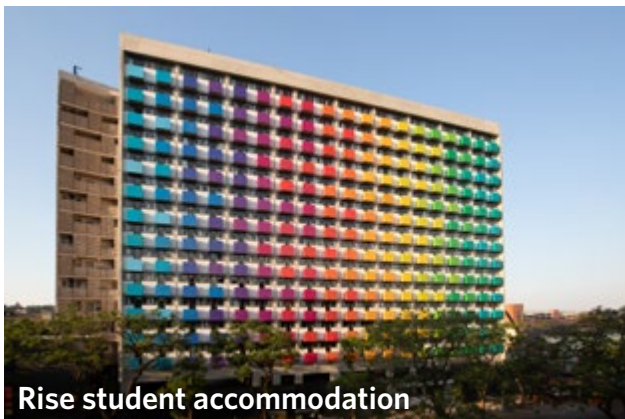
- We developed and manage 10 shopping malls in rural locations
- The relative benefits are improved roads and infrastructure

## Water and sanitation

- Water conservation initiatives such as the use of ground water
- Reduced average water consumption by 247 000 KI, which is 40% of the portfolio's 2018/19 usage (equates to 541 households' water consumption for a year)

## Examples of our approach

### Shortage of student accommodation



Having taken note of the shortages of student accommodation in South Africa, Eris researched the sector and decided to expand its services into this area. This culminated in the development of a new sub-brand called RISE Student Living.

As Eris began to investigate opportunities, it became clear that there is a need in the market for more than new student accommodation developments, but also property management services. Eris has therefore been leveraging its existing skills in property development and management to meet this need, as well as developing new teams, technological approaches and other offerings to cater specifically for the student accommodation market.

Eris is doing things a bit differently to the traditional property management model. Conventionally, you'd have an investment manager with a property manager, property administrators and a plug-in finance team. With its student accommodation property management, the company has put together a project team comprising of young, tech-driven, agile individuals with an understanding of the student market and the property market. Its team understands the property management aspect, the finance aspect and the IT aspect and brings it all together to provide a solution that is streamlined and efficient. This is complemented with a tech-driven platform that allows for innovative ideas, such as online leasing. Eris believes this is the first of its kind in the industry - where the entire student accommodation leasing process, encompassing every stakeholder involved, happens digitally.

There is increasing appetite for property management services within the student accommodation sector and Eris is well positioned to meet this demand, not just

within Eris-developed buildings, but as an outsourced facilities management partner for other developments too. The company has only expanded into student accommodation recently, but it's been building onto its existing capabilities and systems in property management, where it has real expertise already. Eris has used that foundation and has already seen results.

In the company's 'Units on Park' development in Hatfield, Pretoria, it achieved more than 90% occupation in the first year, which is well above industry standards. This is partly because of the systems Eris put in place that allow it to react and process things more quickly.

By partnering with a competent property management services company, developers and investors can de-risk their student accommodation projects and properties, which is why more finance institutions are requiring property management as part of their student accommodation funding agreements.

Eris can get involved in any or all of the property management components involved, for example leasing and administration, facilities and operations management, as well as management systems and technology. The company can also assist with things like setting up websites and linking of back-end management systems, ultimately allowing it to offer a management system solution to the market as well.

Please follow this link to view the **Rise website**.

### **Eris supports government's initiative to stop the spread of COVID-19:**

Eris' primary focus is the safety of its employees, who are crucial to supporting its business, as well as delivering a continued service to the company's clients, tenants and service providers.

Eris fully supports President Cyril Ramaphosa and government's initiatives in attempting to stop the spread of COVID-19. The company will continue to provide excellent service to its clients, tenants and service providers. This is a key priority for all its team members and Eris is hard at work to prevent any disruption where possible, and to mitigate any negative effect the virus may have on its operations. At the same time, the company is taking responsible actions to do what it can to prevent further spread of the virus, which has already affected so many in the world.

Eris has established a Coronavirus Steering Committee that thoroughly assesses the situation and continues to follow the guidance from government, local and health authorities.

The retail portfolio is predominantly servicing communities that are from the lower LSM categories and, in many instances, these communities have been the hardest hit with the COVID-19 lockdown and restrictions.

Each property and centre manager that is knowledgeable on the areas in which their centres are located identified reputable non-government organisations that are assisting Eris to distribute the food donation to the most vulnerable and to those that haven't benefitted from government assistance.

Face masks were distributed to participating shopping centres and the same non-government organisations, which assisted with the distribution of food also distributed face masks to the poor and vulnerable in our communities.

## Alternative investments

Our focused teams operate independently, each with their own processes and structures, to deliver on their intended outcomes.

**Our core offering revolves around the four alternative strategies indicated below:**

### Hedge funds

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Provides unique risk and return outcomes, by making the most of the wider opportunities that exist for hedge funds.

### Private equity

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Offers diversification and historically higher returns compared to listed investments.

### High-yield credit

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Targets high-yielding, illiquid investment opportunities outside traditional markets.

### Real assets

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Offers investors focused access to uncorrelated inflation-linked returns from real assets.

## Hedge fund Programme

Our hedge funds are constructed using our outcome-based investing philosophy. The main focus is to reduce risk, while still generating good returns. Within a portfolio of more traditional investments, hedge funds can play a unique role, helping reduce volatility and increase returns. These returns are a result of a combination of alpha, leverage and alternative risk premia. Our process-based approach

makes sure all positions are continually evaluated against expectations, and in the context of the available opportunities.

**In our selection process:**

- Our investment manager research team makes sure we know the full scope across all investment managers
- We engage with the investment managers at our offices, through virtual meetings online and conduct site visits
- Our rigorous due-diligence assessment includes a set of questions on RI practices
- Before an appointment, the investment manager research team's due-diligence outcome and the investment manager's RI rating will be taken into consideration

**We continually monitor our investment managers:**

- We expect our appointed investment managers to report on any RI concerns that may have occurred in the past quarter

The investment manager research team may also request specific ESG-related information from the respective investment managers to report on

## Private equity

Our private equity focus is to provide uncorrelated outperformance at a lower volatility than what public markets and traditional asset classes offer. The private equity investments are managed according to our outcome-based investing philosophy. We look at long-term time horizons and strategies that consistently maximise the probability of delivering the desired outcome.

### In our selection process we:

- Assess all the potential general partners at our offices, with virtual meetings and conduct site visits
- Have a rigorous due-diligence assessment that includes a set of questions on RI practices

### When we appoint:

- The appointed general partner needs to comply to our side letter, which may include any of the following conditions:
  - o The investors should not make capital contributions to:
    - Production or activities involving forced labour or harmful child labour
    - Production of or trade in any product or activity deemed illegal or subject to phase-outs/bans by global conventions and agreements, such as certain
      - o Hazardous chemicals, pesticides and wastes
      - o Ozone depleting substances
      - o Endangered or protected wildlife or wildlife products
    - Any business relating to prostitution
    - Production of, use of or trade in radioactive materials
    - Production of, use of or trade in unbonded asbestos fibres
    - Drift-net fishing in the marine environment using nets of more than 2.5 km in length
    - Destruction of critical habitat

- Any investment by the partnership, when the following activities form a substantial part of that business' primary operations or those of any of its projects that would be financed by capital from the partnership:
  - o Production or trade in:
    - a. Weapons and munitions
    - b. Tobacco and related products
    - c. Hard liquor
    - d. Pornography
    - e. Gambling, casinos and equivalent enterprises
- We require the manager to frequently report back on our investment and report any ESG material concerns we need to be aware of

### How we continually monitor:

- We attend advisory committee and AGMs of our private equity investments and also where we are a direct co-investor
- We receive quarterly reports from our investments that reflect any material ESG concerns we should be aware of
- During our meetings with the general partners, we'll assess if they uphold our side letter terms and deliver on the appointed mandate
- We maintain a meeting register, which includes our engagement meetings
- From an ESG oversight function, our ESG analyst and other RI committee members serve on the alternative investment committee

- We receive annual ESG reports from the general partners where we are invested

### High-yield credit

Our high-yield credit strategy focuses on gaining exposure to high-yielding investments that provide a diversified source of return at acceptable levels of risk. The investment proposal is centred on the understanding that illiquid premia exist in financial markets and that patient capital has the potential to earn this premium.

Portfolio construction follows an outcome-based investing strategy with the probability of attaining the stated goal enhanced through:

- Providing new sources of return, at acceptable levels of risk
- Taking advantage of Momentum Investments' scale to gain exposure to less liquid strategies that offer return premia relative to more liquid comparable strategies
- Using the asset origination capability within the broader Momentum Metropolitan group to facilitate access to non-traditional investment opportunities usually reserved for life company balance sheet capital

The investment team reviews specialist investment strategies managed by third-party investment managers or direct credit investments.

In our selection process:

- Origination of investment opportunities comes from a number of sources, from industry contacts, investment conferences or from the team responsible for managing Momentum Metropolitan Life Limited's balance sheet

- We engage with the investment managers at our offices and conduct site visits
- Our rigorous due-diligence assessment includes a thorough interrogation of the people involved, the financial records of associated companies and an assessment of the future profitability
- The due-diligence process also includes a set of questions on RI practices
- Before appointment, the investment manager research team's due-diligence outcome and the investment manager's RI rating will be taken into consideration.

We continually monitor our investment managers:

- We attend advisory committee and AGMs of our high-yield credit portfolios and also where we are a direct co-investor
- We receive quarterly reports from our investments that reflect any material ESG concerns we should be aware of
- During our meetings with the portfolio managers, we assess if they deliver on the appointed mandate
- From an ESG oversight function, our ESG analyst and other RI committee members serve on the alternative investment committee

### Real assets

Real assets are critical to a functioning economy and include infrastructure, property and natural resources, such as agriculture, energy resources and physical commodities. Importantly, their individual cash flow profiles have limited correlation to public markets and economic conditions. The strategy has a long-term investment theme and aims to deliver

inflation-plus returns over the full investment cycle. The investment process, portfolio construction and ongoing monitoring benefit from our strong track record in managing investments in infrastructure, renewable energy, direct property and commodities.

#### **In our selection process:**

- Origination of investment opportunities comes from a number of sources, from industry contacts, investment conferences or from the team responsible for managing Momentum Metropolitan Life Limited's balance sheet.
- We engage with the investment managers at our offices and conduct site visits
- Our rigorous due-diligence assessment includes a thorough interrogation of the people involved, the financial records of associated companies and an assessment of the future profitability
- The due-diligence process also includes a set of questions on RI practices
- Prior to appointment, the investment manager research team's due-diligence outcome and the investment manager's RI rating will be taken into consideration

#### **We continually monitor our managers:**

- We attend advisory committee and AGMs of our real asset portfolios and also where we are a direct co-investor
- We receive quarterly reports from our investments that reflect any material ESG concerns we should be aware of
- We attend investment committee meetings of the funds where we have such representation

- From an ESG oversight function, our ESG analyst and other RI committee members serve on the alternative investment committee

#### **Student accommodation**

Every year, many new students entering tertiary education struggle to find appropriate accommodation, as a result of the shortage of accommodation approaching an estimated 300 000 beds annually. To address this situation, we have committed an investment of R150 million in the Momentum Student Accommodation Impact Fund to develop and maintain off-campus student residences at tertiary institutions nationally. We will look to increase our investment in student accommodation as we roll out our investment strategy in the future.

#### **Renewable energy**

In support of the South African government's Integrated Resource Plan and the country's commitment to reducing carbon emissions, we have invested more than R1.6 billion in renewable energy power stations (onshore wind and solar photovoltaic). We have recently committed another R126 million to renewable energy. Policyholders will contribute 50% of this investment amount.

This investment in renewable energy will generate enough electricity to power around 65 000 South African households and will help South Africa to reduce its carbon emissions (the project we are investing in right now is generating 100MW).

We have identified the renewable energy sector, in particular solar and wind projects in South Africa, as a sector with attractive investment opportunities that meet our return and impact investing objectives.



We are an equity investor in Umoya, which is an independent wind-power producer situated in Hopefield on the west coast. The plant was the first renewable energy independent power producer programme (REIPPPP) wind project to receive environment authorisation in South Africa, the first to prove radar compliance with the SA Air Force, the first to achieve rezoning of land to 'Special - Renewable Energy Generation' and was an early player in the interactions with the grid operator to prove grid code compliance.

The facility has contracted capacity of 65.4 MW and commenced commercial operations in February 2014.

**It has operated stably since commencement and provides clean power to thousands of South African homes.** Furthermore, it continues to bring socio-economic benefits to the local communities within which it operates.



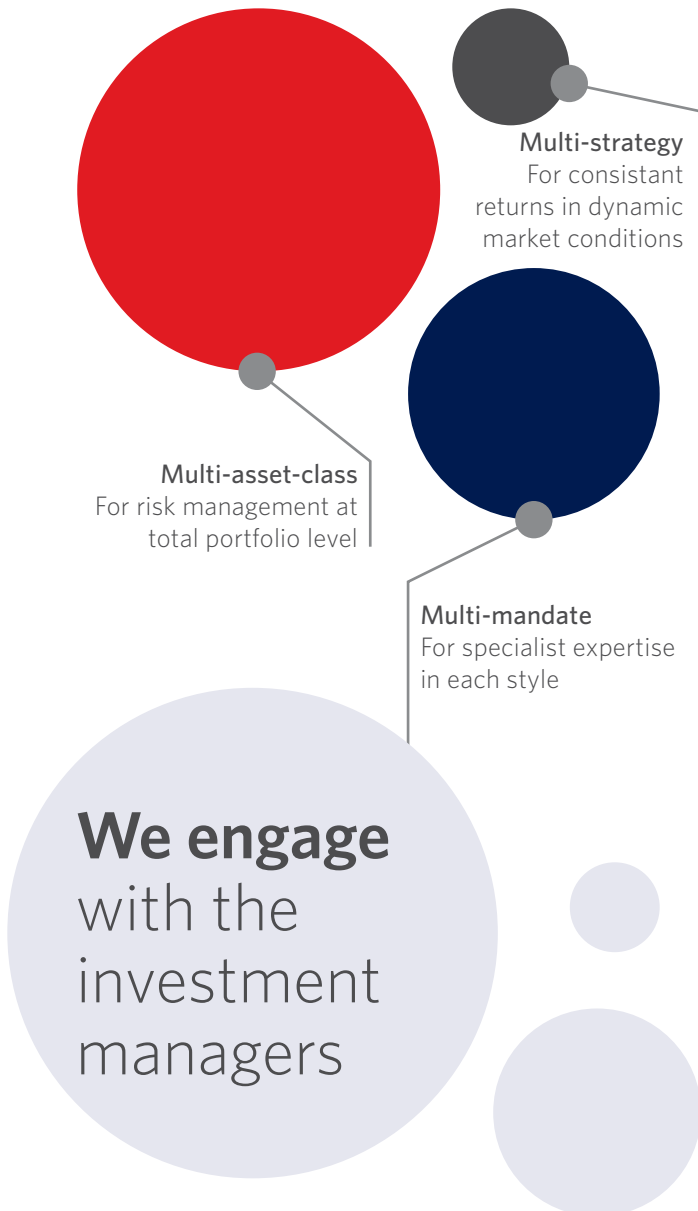
## Portfolio solutions

The outcome-based investing portfolio solutions team is responsible for bringing all the investment components, internal and external, together to create outcome-based multi-asset-class, multi-strategy and multi-mandate portfolios.

### Portfolio construction process

From a high-level point of view, the portfolio construction process comprises of three steps:

ESG integration applied across each level



The following table shows the considerations we make in the asset class risk premia and therefore the first step in the portfolio construction process:

Asset class	Expected real return	RI considerations
Local equities	5.75%	Proxy voting and engagement
Global equities	6.50%	Delegated proxy voting and engagement and screening
Local property	7%	Proxy voting and engagement
Global property	4%	Delegated proxy voting and engagement
Local bonds	3.25%	Engagement, ESG (carbon, climate)
Global bonds	-0.25%	Engagement, ESG (carbon, climate)
Local cash	1.25%	Engagement and ESG
Local inflation-linked bonds	2.75%	Engagement, ESG (carbon, climate)

### In our selection process:

- Our investment manager research team ensures we know the full scope across all investment managers
- We engage with the investment managers at our offices and through virtual meetings online, and conduct site visits with potential investment managers
- Our rigorous due-diligence assessment includes a set of questions on RI practices
- Before an appointment, the investment manager research team's due-diligence outcome and the investment manager's RI rating is taken into consideration

### When we appoint:

- Our investment manager agreement (IMA) includes a RI section, reflecting our terms.
- Our appointed investment managers, through our IMA, adopts our RI policy
- The investment manager votes on corporate actions that have a direct financial effect on the portfolio
- We maintain our voting rights when it comes to governance resolutions and vote according to our own proxy voting policy
- We require the investment manager to report any material ESG risks that may affect our investment mandate
- Our appointed investment managers engage with companies and bond issuers on our behalf

### We continually monitor our investment managers

- We expect our appointed investment managers to report on any RI concerns that may have occurred in the past quarter.
- Report-back meetings are held to ensure the appointed investment managers comply with the terms of the mandate and continue to implement RI practices
- The investment manager research team may also request specific ESG-related information from the respective investment managers to report on
- Our governance specialist frequently engages with the investment managers, when corporate actions arise to assess in which direction they are going to vote on behalf of us

Our appointed investment managers should report on their voting decisions and engagements conducted

### RI themes evident in our offerings

- Published our climate change investment policy – we adopted the TCFD recommendations
- Direct property – a five-star green certificate for The Marc
- Renewable energy sector, in particular solar, wind and hydro projects in SA – we are an equity investor in Umoya

### Social

- Direct property – Employ from local community, up-skilling and training new appointments
- Momentum Student Accommodation Impact Fund – assisting with the shortage of appropriate student facilities

### Governance

- Independent Regulatory Board of Auditors (IRBA) – companies should rotate audit appointments every 10 years
- We vote mostly against remuneration and director independence resolutions

### Case Study 1: Governance concern at an external investment manager

The investment manager acknowledged that its existing board was not independent.

When the investment manager board became a concern, the investment team's risk team arranged an onsite visit to address the non-independence of the board of the investment management company.

The investment manager underwent a process of reviewing its board structure. It has since appointed two non-executive members. It also arranged subsequent meetings to provide feedback, as it resolved our concern.

The investment manager also created a risk department, and the current compliance function will report to the board. This will address the investment compliance monitoring concerns raised in terms of the lack of independence on the board.

The investment manager also **created a risk department, and the current compliance function will report to the board.**



# Investment manager RI rating

Our RI rating model for investment managers establishes the level of RI practices applied by the various investment managers we appoint. It is important that investment managers that invest on our behalf implement RI practices and our principles should be aligned.

While our findings show that most investment managers recognise the importance of RI practices, there is still work to be done. The ratings enable us to engage with the investment managers and we provide them with recommendations that should improve their RI approaches. The goal is to bring our appointed investment managers along with us on the RI journey.

We appoint investment managers that apply RI practices and, through our due-diligence processes, assess how ESG integration is done.

We created an investment manager RI rating model to establish the level of RI practices applied by the various investment managers. This model complements the appointment, monitoring and reviewing process of the investment managers.

Please follow this link to view our **latest investment manager RI rating**.

The ratings  
**enable us to  
engage** with  
the investment  
managers

# Business sustainability matters

## Social matters

Supporting and giving back to our communities – our social investment

The Momentum Metropolitan Foundation exists to enable the life aspirations and sustainable income earning potential on young South Africans. We address this through:

Financial education programmes	Programmes focused on youth employment	Staff volunteer initiatives - empowering youth
<p><b>Invested R12m</b></p> <ul style="list-style-type: none"> <li>KickStarz to 10 schools</li> <li>3 000 School learners</li> <li>3 000 TVET learners</li> </ul> <p><b>Invested between R1.6 – R2.4 m annually</b></p> <ul style="list-style-type: none"> <li>Strategic partnerships with the DBE and NECT</li> </ul>	<p>R7.2 million to date dedicated to Youth Employment</p> <p>618 Opportunities facilitated for young people</p> <p>1 038 Young people trained</p> <p>669 Young people placed in jobs (52% female / 48% male)</p> <p>R200 million Total social investment – 2011 to 2019</p>	<p>Skills-based volunteerism that gives NPOs access to professional services</p> <p>Lesedi Momentum Metropolitan Volunteer Recognition Awards</p> <p>Match-funding and Payroll-giving</p>

## BEE

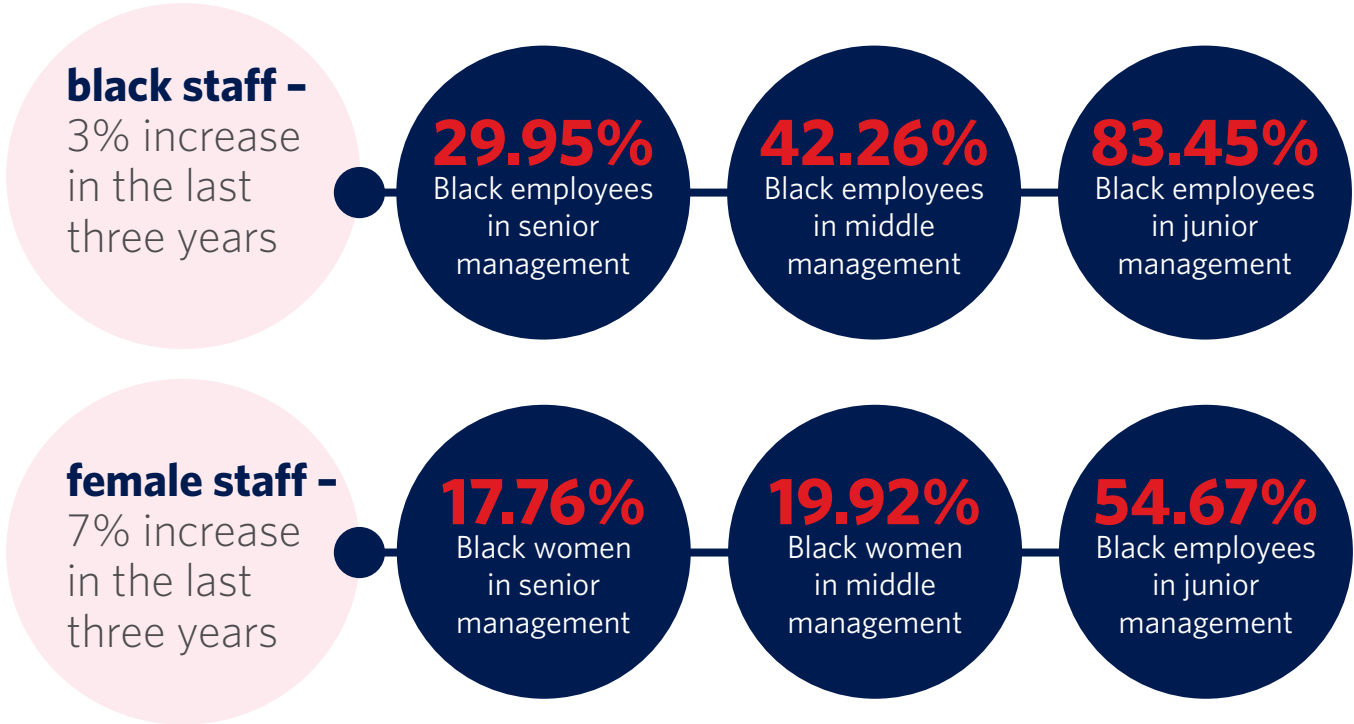
Empowerment through transformation

Momentum Metropolitan – Level 1 B-BBEE contributor

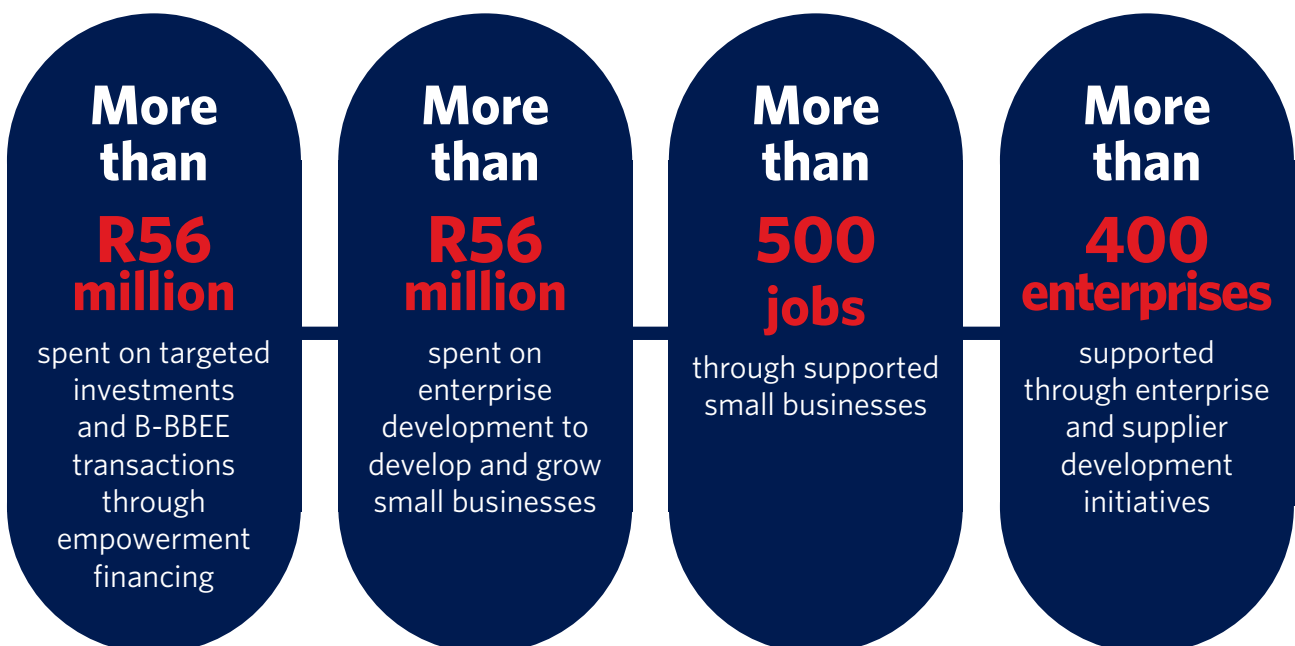
Enterprise and Supplier Development (ESD)	Empowerment financing	Renewable energy investments
<ul style="list-style-type: none"> <li>Within the 18 months duration of our ESD programme, we supported six business to create 345 jobs and obtain 40 new corporate clients.</li> <li>Two of the businesses that participated in the programme, Kusile Hygiene and Octavian Group, are 100% black women owned.</li> </ul>	<p>By year-end our investments included:</p> <ul style="list-style-type: none"> <li>R28 billion in targeted investments.</li> <li>R2.7 Billion in bee transaction funding.</li> </ul>	<p>Momentum Metropolitan has invested over R1.6 billion in renewable energy power stations (onshore wind and solar photovoltaic). This will generate sufficient electricity to power around 700 000 South African households and will help South Africa to reduce its carbon emissions.</p>

# Transformation - black employee development

**R153 million** spent in the last year on black employee development



## Enterprise development initiatives



## How we manage conflict of interest

We subscribe to a Code of Ethics and Standards for Conduct. Business areas supplement this policy with further requirements specific to their business, including the management of conflict of interest.

We recognise that when conducting business, employees may receive or offer gifts/hospitality as a means of gratitude and as part of a legitimate goal of building goodwill in business relationships.

We recognise it is unethical, against the law and contrary to good corporate governance for our directors, officers, employees and representatives, to offer or provide persons with, or receive gifts, with a view to improperly influence or induce those persons to obtain some benefit or result.

## We place a high **priority on our clients'** interests.

As conflicts of interest affecting clients could undermine the integrity and professionalism of our business, we will always attempt, as far as possible, to manage any identified conflict of interest, by imposing actions designed to mitigate the risk of any of our clients receiving unfair treatment. These policies of mitigation will not only consider the treatment of client interests in relation to our interests and employees, but also treatment between clients. If conflict situations cannot be avoided, they

must be mitigated and managed equitably and in the client's best interests. Detecting actual or potential conflicts of interest that could compromise the interest of our clients and managing and limiting the effect of conflicts of interest constitute an integral part of our duties and obligations and our ongoing commitment to treat clients fairly.

### **We have mechanisms for the identification and disclosure of conflicts of interest, which include:**

- Internal guidance to employees and training on conflicts of interest.
- We require all employees to report identified conflicts of interest to our regulatory compliance team.
- The adoption of policies and procedures to manage conflicts of interest, for example a 'whistle-blowing' policy.
- Every authorised representative is required to complete a declaration form as and when they receive and/or offer a financial interest from/to third parties. The declaration form must be completed before receiving and/or offering any financial interest from/to third parties and must be submitted for approval to our regulatory compliance team.
- Employees are required to disclose ownership interests held, for example any outside employment or other interests for whom remuneration is received as well as any directorships held.
- Disclosure of shares held in companies (locally and internationally) is also required of employees.



- The aforesaid must be disclosed and pre-approved by our human capital team. Disclosures are also required at every board meeting, executive committee meeting and investment team meetings of the relevant entities.
- To prevent conflicts of interest arising from the use of information and market abuse generally, personal account trading is permitted under limited circumstances. A periodic review of personal account trading is conducted by our investment compliance team in conjunction with the JSE.
- Every entity under Momentum Investments must maintain a gift register.
- Authorised representatives are required to sign an annual declaration stating that they are fit and proper, as required under the Fais Act, and are required to disclose whether or not they are conflicted or have been in a conflict situation and what measures were taken to avoid or mitigate the conflict of interest.
- Representatives must disclose a conflict of interest to the client.
- Our regulatory compliance team monitors compliance with the above requirements.



# momentum

## investments

[www.momentum.co.za](http://www.momentum.co.za)

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