

# Investec Wealth & Investment Stewardship Code – 2021 Report

This report covers activities between  
1 January 2021 and 31 December 2021

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# Our purpose, strategy and culture

Our purpose, investment beliefs, strategy, and culture - how they 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, not off, society.

## 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 five specifically described values, our 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:** We believe in long term relationships built on mutual trust, open and honest dialogue and cast-iron integrity.
- **Distinctive performance:** We thrive on energy, ambition and outstanding talent. We are open to fresh thinking. We believe in diversity and respect for others.
- **Client focus:** We are committed to genuine collaboration and unwavering dedication to our clients' needs and goals.
- **Entrepreneurial spirit:** We are pioneers at heart. Shaped by our non-traditional origin and evolution, we share with our

clients a willingness to challenge the status quo in pursuit of a better, more sustainable tomorrow.

- **Dedicated partnership:** We collaborate unselfishly in pursuit of group performance, through open and honest dialogue – using process to test decisions, seek challenge and accept responsibility.

In addition to the above, Investec Wealth & Investment have developed seven culture statements:

### 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 isn't just about managing people or teams.

### Belonging, inclusion and diversity

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

### 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.

### 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 a high quality client experience.

## Our purpose, strategy and culture

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### 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.

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 are 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.

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 exceptional ways. This creates a positive environment, where people find it easy to build relationships that enhance their contribution to the organisation.

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.

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.

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.

## Our purpose, strategy and culture

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### Female representation

At 31 March 2021, Investec Wealth & Investment had 31% female representation in senior leadership roles\*, meaning we are on track to reach our Women In Finance Charter (WIFC) target where we aim to have 30% female senior leadership by March 2022. In the 12 months 1 January 2021 to 31 December 2021, in the Wealth business, 47.1% hires were female, and 32.6% senior hires were female. Notable female senior appointments were made into the roles of Chief Commercial Officer, Chief Investment Officer, Chief Technology Officer, Head of Charities and Co-Head of Wealth Advisory.

### Early careers

Our early careers initiative continues to feed our pipeline and this year we signed up to the #100black interns initiative, and three interns from this initiative joined us during the summer of 2021 with 33% of the cohort being female. We have since signed up to the #10,000black interns and intend to expand the programme in 2022. In addition, we hired 4 summer interns of whom 3 are female, and an Investment Management team in London hosted their first placement students from Bath university. Both students were female.

### The Young Leaders Council initiative

This initiative was launched to create a platform for young aspirational talent to share new ideas, have greater access to leadership and provide an opportunity to harness cross-generational wisdom. Out of a cohort of 42, 22 are from IW&I with 11 of those being female.

### Ethnicity

As signatories to the Race at Work Charter in 2020, we are focused on the development of minority ethnic staff and have an active representation working group. Having undertaken a drive to collect employee data on ethnicity we are pleased to report that our current disclosure rates for ethnicity have reached 79%. In the 12 months between 1 January 2021 to 31 December 2021, in the Wealth business, 25.5% hires were Black, Asian, Minority Ethnic, and 20.9% of senior hires were Black, Asian, Minority Ethnic.

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

- A BID Allies Programme was launched. The one-month programme includes the following topics: power and privilege, inclusive language, micro-aggressions, courageous conversations and challenging exclusion. Three cohorts have completed the programme totalling 130 colleagues, across the wealth and bank business.
- A Reverse Mentoring programme was established, with a particular focus on creating a diverse cohort in terms of age, gender and race.
- We strengthened our Bullying, Harassment and Discrimination policy to one of 'zero tolerance' providing mandatory online learning to all employees on the subject.
- Neurodiversity guidance and information was provided to all employees and managers, along with holding focus groups to understand more about the challenges faced and actions we can take as an organisation to address them and raise awareness.
- We are a member of the Diversity Project which promotes investment industry diversity and inclusion.

\* Senior leadership as defined per WIFC – being members of the IW&I UK Executive Committee (previously GMC)

## Our purpose, strategy and culture

### 1.4 Our strategy

- At Investec Wealth & Investment 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 strategic goals are based on the aspiration to be recognised as a distinctive wealth manager, delivering a high quality service for our clients. We believe that our journey is something that sets us apart- from a small finance company founded in South Africa in 1974 to an international organisation with listings on the London and Johannesburg Stock Exchanges- and this distinction is embodied in our entrepreneurial culture, balanced by a strong risk management discipline, client- centric approach and an ability to be nimble, flexible and innovative.
- Our [integrated annual report](#) for 2021 makes clear the importance of sustainability for our strategy: 'We are committed to delivering exceptional service to our clients, creating long-term value for our shareholders and contributing meaningfully to our people, communities and the planet in line with our core principles. Environmental, Social and Governance (ESG) considerations have long been embedded into our investment processes, as has our active engagement with the businesses that we include in client portfolios... In addition, our people are upskilling and members of the team are engaged in this

arena to improve our service to clients and increase our intellectual capital. We also have a strong organisational focus on sustainability and are making strides in reducing our carbon footprint by reducing our reliance on paper and communicating with clients electronically...

The enhancement of our ESG offering is a significant focus for the year. ESG is increasingly important for clients, particularly those in the next generation.'

### 1.5 Our investment beliefs

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.

#### 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.

- We also 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 investment process starts with the Global Investment Strategy Group, which meets quarterly, and is comprised of members of investment teams from the UK, Switzerland, and South Africa. This committee decides the overall risk tolerance 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 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 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 and not off society'. We believe ESG issues 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.

### 1.6 Our sustainable finance strategy

In 2021 we developed and formalised our Sustainable Finance strategy, which directly follows our purpose and investment beliefs.

This is summarised as follows:

1. 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 mind- set.
2. Embrace emerging asset classes and allocate resources in a way that regenerates natural and social capital without compromising traditional returns.
3. Be active owners and conscious stewards of our clients' capital, to engage with investees to drive positive change.

4. Segment our clients so that we can address regeneration and reflect their values in our investment philosophy with scalability.
5. Manage risk holistically - understanding that emerging ESG risks become financial risks and should be incorporated within fundamental analysis when making decisions.
6. Invest in human capital in such a way as to create a generation of leaders that have sustainability in their DNA.
7. 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.
8. 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).

Following approval of the strategy by our Executive Committee, a dedicated programme of work commenced to implement the strategy across the entire Operating Model of the organisation. This will address educational and data requirements, along with developing processes and products aligned with the strategy.

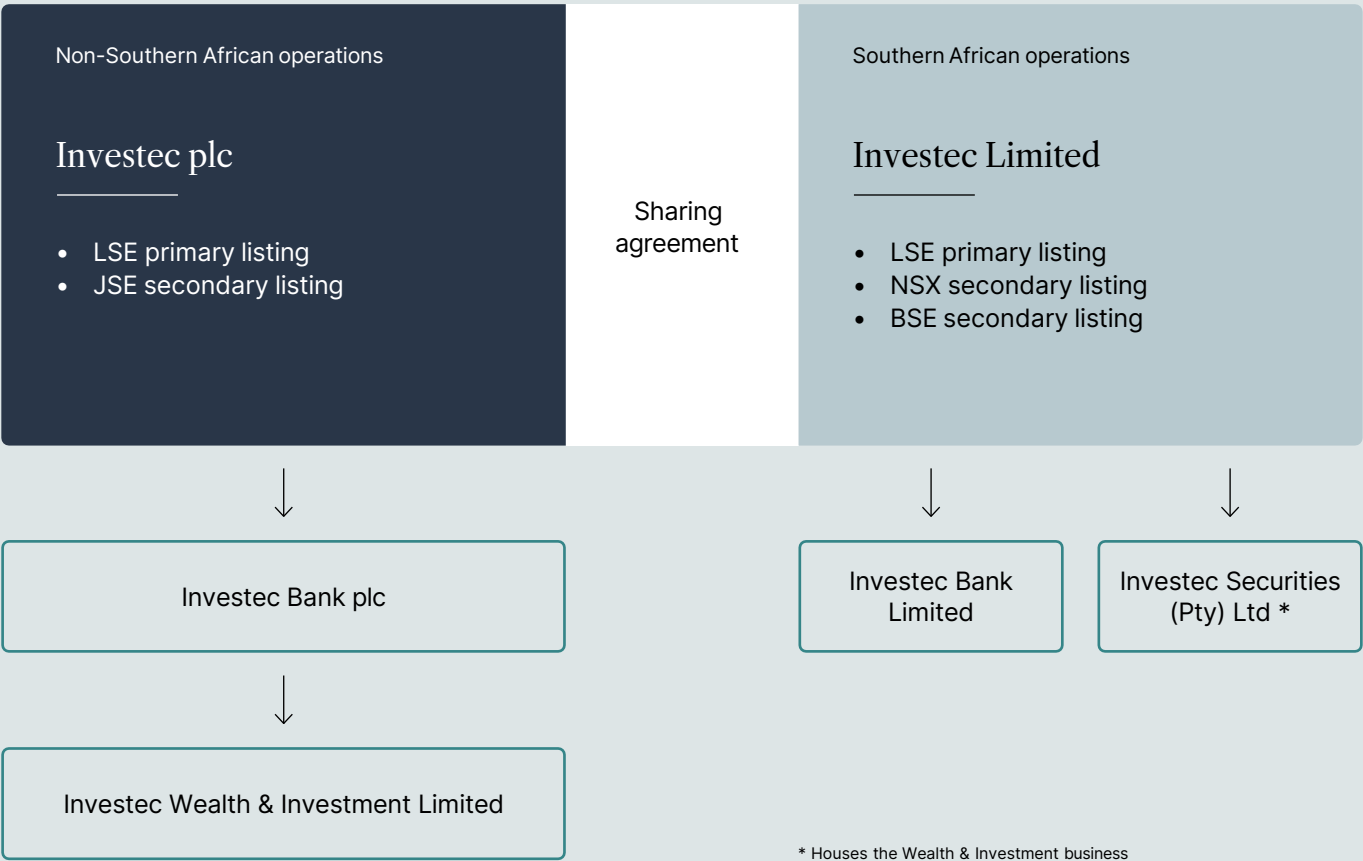


# Our governance, resources and incentives to support stewardship

## 2.1 Our shareholders

Investec Wealth UK (IWI UK) 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

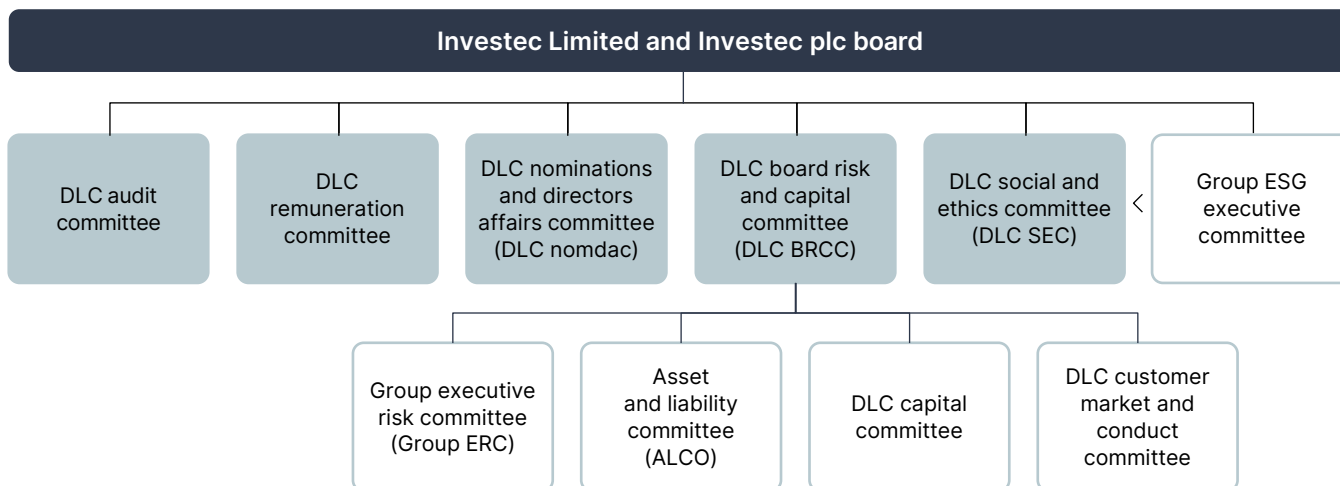


Investec Wealth UK governance must be understood in context of Investec PLC structures.



## 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 the past 20 years. The most recent is available on our Group website ([https://www.investec.com/en\\_za/welcome-to-investec/corporate-responsibility.html](https://www.investec.com/en_za/welcome-to-investec/corporate-responsibility.html)).

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

At the group level two committees oversee our ESG stewardship and governance. 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.

The main objectives of the committee are to coordinate ESG efforts across geographies and businesses and to:

- ensure that Investec conducts its business in a responsible manner
- manage non-financial risks in relation to ESG matters, incorporating considerations across philanthropy, corporate social investment (CSI), ESG screening, ESG investing, impact investing and the SDGs
- review all ESG strategies, policies, management initiatives and targets, as well as the performance of major Investec subsidiaries and the group in its entirety
- ensure that the ESG strategy is aligned with, and integrated into, business strategy
- coordinate ESG business activity and initiatives in terms of our climate and equality aspirations
- review the framework of policies and controls put in place by Investec's executive directors.

## Our governance, resources and incentives to support stewardship

Our commitment to sustainable finance has resulted in Investec CEO Fani Titi being appointed to the UN Global Investors for Sustainable Development (GISD) Alliance, made up of 30 leading corporates and financial institutions across the world. The alliance aims to accelerate action to better integrate the United Nations Sustainability Development Goals (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 UK.

As of January 2022, in terms of overall sustainability performance, we remain in the top 15% in our industry in the Dow Jones Sustainability Investment World indices and top 2% in the financial services sector for the MSCI ESG rankings.

### 2.3 IWI UK investment governance structure



## Our governance, resources and incentives to support stewardship

### 2.4 Governance framework

**2.4.1** IW&I has formally committed to voting on our discretionary shareholdings to protect our clients' interests, seeking to ensure that all governance, social and environmental issues specific to their business activities are understood and well managed.

**2.4.2** To support this commitment, a comprehensive governance structure has been established. The Equity Corporate Governance Forum (ECG) and the Collectives Corporate Governance Forum (CCG) are responsible for day-to-day implementation of corporate governance, as embedded in the investment process, and are overseen by the Investment Committee (IC).

**2.4.3** The IC oversees the ECG and CCG and is responsible for ensuring adherence to our internal policies as well as to those within the Stewardship Code. It 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).

**2.4.4** We aim to continually improve upon these processes, and we are committed to ensuring that we are serving the best interests of our clients.

**2.4.5** Demonstrating this commitment, in 2020 we became signatories to the UN's Principles for Responsible Investment (UN-PRI).

Our ECG and CCG are in place to take on the day-to-day responsibility for overseeing corporate governance and voting for their respective asset classes. They are also responsible for building reports required to meet requirements of the Stewardship Code and our other governance-related commitments. The Chairs of both forums identify and escalate material and price sensitive issues to the IC, as well as providing reports twice a year, which are incorporated into the IC agenda and disseminated to the Executive Committee. The IC also oversees the investment process, and as a result has full oversight of our Responsible Investment approach (ESG, governance and voting).

## 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 sustainability investments for 17 years. She had previously sat on the Collectives Corporate Governance forum for a number of years, and now has the broader responsibility to report on the investment governance function to the executive. Reporting into the IC, the Equity and Collective governance forums are chaired by senior members of the Investment & Research Office team.

#### 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. For example, our healthcare analyst recently drove efforts to collaborate with other investors on vaccine equity, and our property investment trust analyst met with a number of chairpeople to discuss impact reporting requirements.

To support our existing activities and enhance them in the future, in 2021 we have been recruiting to create a dedicated Stewardship Team. This function will sit as part of our Research Team, completing thematic research, coordinating and leading our stewardship efforts to achieve and drive best practice, and helping the analysts prioritise their efforts appropriately. The team will be led by a Stewardship Manager, and the interview process for this role is complete and will be filled in May 2022. We are also pleased to say that we have recently appointed an apprentice to be part of this team, as we look to broaden access to opportunities, develop people within our business, and promote stewardship to the next generation in line with our purpose and values.

Many activities are also 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.

### 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 investment governance forums are comprised not solely of research and the executive leadership, but also of senior Investment Managers and the Group's Chief Investment Officer (CIO). This blends expertise, experience and perspective. Each member of the forum 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 research team lead the education of Investment Managers across the group. They do this via training sessions which encourage understanding of the fundamental compatibility of good ESG practice with our investment philosophy and investment processes.

## Our governance, resources and incentives to support stewardship

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. Our Investment Academy was established to provide an active forum for learning and, as part of its role, encourages a deeper cultural understanding of ESG issues. There were three events held over 2021, with two being particularly sustainability-focused.

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

Over the course of 2021, we have been working with the University of Cambridge Institute for Sustainability Leadership (CISL) to develop a bespoke training package on Sustainable Finance for our Executive Committee and our Investment & Research Office that is scheduled to be delivered in 2022.

Additionally, we have asked all research analyst members of the Investment & Research Office to complete the CFA Certificate in ESG Investing during 2022 and are also seeking out other more specialised opportunities where necessary. For example, our Head of Investment Strategy has recently completed the Harvard executive course in Sustainability Leadership.

We are also enrolling 26 members of our client-facing teams on an 8-week online course on the same topic to ensure we enhance our expertise across our teams in all business units and geographic locations.

### 2.6.2 Culture, people and incentives

As crystallised in our five specifically described 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.

Our remuneration philosophy and structure is 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.

We are committed to attracting, developing and retaining a diverse team of talented people and our recruitment strategies prioritise previously disadvantaged candidates, where possible. 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.

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.

Additionally, upon her appointment as Chief Investment Officer, Stacey Parrinder-Johnson tasked a diverse group from across the UK, Switzerland, and South Africa to investigate the composition and structure of all of the Investment-focused committees in our business. The results will be used to ensure that we are incorporating cognitive diversity into our investment decision making committees, structuring those groups to be effective and representative, as well as offering opportunities for broader inclusion of our colleagues.

## Our governance, resources and incentives to support stewardship

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

#### 2.7.1 The internal research team

We have invested over many years in building a substantial, dedicated team of full-time investment research professionals. The role of our research professionals 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 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.

#### 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 ISS, Sustainalytics, Credit Suisse's 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 we have commenced an initiative to look at all of our sustainability focused data and associated client and regulatory reporting requirements. We expect the output to be progressed in 2022.

#### ESG and ethical assessments

Although our collectivised fund research focuses on a proprietary assessment, we can also make use of data provided by Morningstar to support our decision making. We find the Morningstar system to be particularly useful in assessing the environmental (carbon) profile of our funds and can also use their exclusion assessments to help us assess any ethical issues.

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 Sustainable Development Goals data sourced from ISS, and Carbon Disclosure Project data.

Ethical issues within these direct investments are assessed using the Ethical Screening tool on a client-by-client basis.

In 2021, we acknowledged that in order to properly execute our stewardship responsibilities and assess global ethical issues, our investment process now requires a tool with an enhanced level of detail on potential negative issues across a wider range of securities. Consequently, we have commenced an initiative to move away from our current provider and select a newer, more sophisticated, provider in 2022.



## Our governance, resources and incentives to support stewardship

### 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 will use the information to form their own voting decision and make their own independent recommendation to the respective Corporate Governance forum. Additionally, they will 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 display of resources:

Investec Wealth & Investment UK research resources				
Business involvement screening				
Ethical screening				
ESG research providers				
ISS	Sustainalytics		CDP	
Proxy voting analysis				
ISS				
Technology enablers				
Bloomberg	Factset	Morningstar	Financial Express	Holt
Associations				
UN PRI				
Credit research				
Credit sights		S&P		
Broad research				
9 Brokers				
Specialist research				
12 Counterparts, including Credit Suisse’s HOLT				

We have also commenced an initiative to look at all of our sustainability-focussed data and associated client and regulatory reporting requirements.



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

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

Investec Wealth & Investment UK has a comprehensive Conflicts of Interest policy to which all employees are expected 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. Investec Wealth & Investment's Conflicts of Interest Policy forms part of our Terms and Conditions and is published on our [website](#).

### 3.1.1 Prevention

Investec Wealth & Investment 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 Compliance. 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 Compliance. 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 by Compliance periodically and on an at least bi-annual basis to ensure that any new potential conflicts of interest and corresponding methods of managing these are identified.

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

### 3.2.1 Voting of shareholder interests

The Collectives and Equities Corporate Governance Forums are responsible for determining voting policy on all resolutions. 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 from the firm.

### 3.2.2 Investec shares

Investec is not 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. IW&I will only vote when required to do so or it is clearly in the clients' best interests to do so. If a conflict does arise, IW&I may abstain from voting.

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

### 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.

1. 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 firm. 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 Compliance, Front Office and Research and reports to the Executive Committee. It is responsible for the oversight of IW&I's engagement and other lobbying powers on behalf of shareholders. Reporting into the IC, the Collectives and Equities Corporate Governance Forums are responsible for determining voting policy on all resolutions on behalf of discretionary clients.

2. IW&I may vote on certain EU 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 will not routinely commit discretionary holdings to the vote. In this scenario, individual Investment Managers can still opt-in clients if they are prepared to accept the extended restricted period.

3. 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.

Control – The Collectives and Equities Corporate Governance Forums 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.

4. 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 Research team 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 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 2021, no actual conflicts of interest in relation to stewardship were identified.

### 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 Compliance but relies on all staff to ensure that information is provided to Compliance in a timely and accurate manner. If an individual is in possession of inside information, they must inform the IW&I Compliance department 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.

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

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

## 4.1 Statement of principle

- 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.

## Management of market and systemic risks and the promotion of a well-functioning 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 are 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 stock/ fund selection. Individual fund 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.

- 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.

#### Example: Coronavirus market shock

At the start of the COVID-19 crisis we undertook a detailed analysis of our property investment companies' balance sheets to ascertain the risk of bankruptcy or forced deleveraging of balance sheets caused by substantially reduced rental income. More broadly, in equity markets we undertook scenario analysis to calculate the likelihood of various reductions in dividend income for clients based on suspended or cut dividends across various corporates.

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

### 4.3 Key systemic risks and Investec responses

#### 4.3.1 Climate change

We believe that the biggest systemic 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 suppliers. In this regard, Investec is committed to leading by example. The second role is to provide services for our clients that comply with best ESG practice without sacrificing investment return, together with differentiated services to enable them to invest with greater sustainability transparency and impact.

#### 4.3.2 Investec's own response

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

At the group level, we have been carbon neutral within our operations for the past three 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 the Johannesburg Waste to Energy offset project, which aims to capture methane from five landfill sites and turn it into electricity. In the UK, Investec Wealth & Investment has assembled an in-

house environmental sustainability team, Team Green, to ensure best practice is exercised across all offices. Initiatives address waste management, energy use, water use and many more environmentally sensitive issues.

#### 4.3.3 Participation in industry initiatives

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

- Supporting the Task Force for Climate Related Disclosures (TCFD). Investec PLC are one of nine companies in the UK banking and financial services sector to have signed up to the Task Force for Climate Related Disclosures (TCFD).
- Signatory of the Net-Zero Banking Alliance.
- 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.
- Committed to the Sustainable Development Goals (SDGs).
- Participant in PCAF and involved in the PCAF working groups in both South Africa and the UK.
- Actively participate 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).

**More recently we have become signatories of the United Nations Principles for Responsible Investment (UN-PRI), where we will work alongside other financial institutions and collectively contribute to the development of a more sustainable global financial system.**

#### 4.3.4 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.



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

### 4.3.4.1 Our core offering

Climate Change is included throughout our investment decision making 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.

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. We can use Morningstar data to make a further assessment of environmental and carbon risks and will use this data to challenge managers on their holdings where necessary. 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).

### 4.3.4.2 Enhanced / sustainable investment services

Largely through our Charities business, we have long provided bespoke services tailored to individual requirements that have incorporated ethical and environmental requirements.

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-Sustainable Development Goals - 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 via our South African business, however we are currently investigating the requirements for launching this product in the UK.

We have also managed an illustrative Sustainability 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, and in October 2021, we launched a Sustainable Managed Portfolio Service comprised of two strategies which are based on this model.

# Stewardship policy review and assurance

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 all of 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.

## 5.1 Our stewardship 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 two forums, the Equity Corporate Governance Forum (ECG) and the Collectives Corporate Governance Forum (CCG) who implement our Stewardship policies and obligations in Equities and Collectives on a day-to-day basis. The ECG and CCG are chaired by senior research specialists in each field.



## Stewardship policy review and assurance

### IC membership includes chairpeople of the ECG and CCG.

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. It is the responsibility of senior members of those teams and the Chief Investment Officer to ensure that this occurs.

### 5.2 Policies supervised by the Investment Committee

As a firm, we have three policies in our strategy that we feel are appropriate, relevant and aligned with modern day stewardship. 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
- 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 Institutional Shareholder Services (ISS) which provides us with governance and voting analysis as an input into our decision making. The added assurance provided by the 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 the ISS is always considered but not necessarily acted upon. It is down to the relevant analyst 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 will complement 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 have developed their own proprietary framework that incorporates ESG factors, providing internal assurance when conducting research into funds. Our direct equities team have recently taken on the services of 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 ([Our Guide To Responsible Investing](#) | [About Us](#) | [Investec](#)).

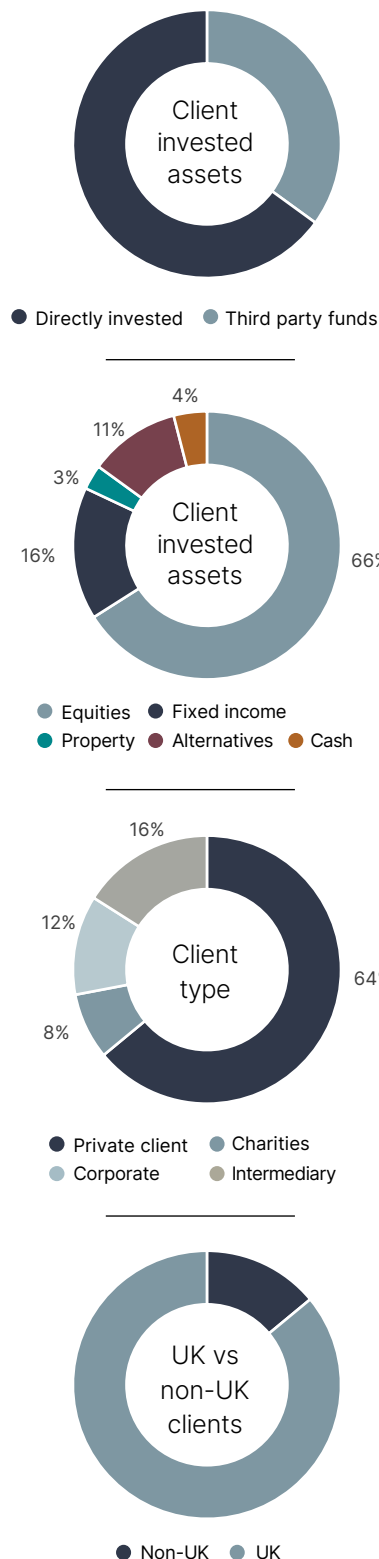
### 5.3 Stewardship reporting

Responsibility of ensuring stewardship reporting is fair, balanced and understandable will sit with the Stewardship Manager and Investment Committee going forward.

### 5.4 Policy effectiveness

The effectiveness of our Engagement, Voting and ESG policies has not been assessed in 2021, however we are assessing the controls required in this area, including the resources required, in consultation with all stakeholders within the business and hope to define this in 2022.

# Incorporating client and beneficiary needs



## 6.1 Incorporating client and beneficiary needs

At IW&I, for discretionary clients, which are the vast majority, 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.

- 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 3 years recommended for our low-risk mandate, up to a minimum of 7 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 a screening service called Ethical Screening (soon to be replaced with an alternative provider) that can identify companies engaged in activities which may conflict with a client's values so that they can be excluded from their portfolio. Should a client require it, we are also able to concentrate individual equity holdings towards those with higher ESG ratings or use funds which have a high ESG rating or a specific sustainable focus. In regard 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.

## Incorporating client and beneficiary needs

- 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.

**Each client's individual objectives are captured as part of our ongoing suitability assessment and our Investment Manager Assurance team continuously tests samples of existing portfolios to monitor how effectively they are being managed in terms of specific client restrictions.**

To achieve this, we use a points-based system, where 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.

When a portfolio breaches the mandate 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 for the breach. 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.

The Investment Risk department oversee this process and provide Management Information, 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. They also provide a report for the Board Risk Committee on a quarterly basis which is presented by the Head of Investment Risk. The Investment Risk team are subject to a yearly external audit review conducted by Ernst & Young. This audit is wide ranging and thorough, covering all areas from the Management Information 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 our in-house audit team.

## Incorporating client and beneficiary needs

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- 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 an individual portfolio, which can then be compared to a relevant benchmark index. We can also calculate the average CDP (Carbon Disclosure Project) score at a portfolio level for individual clients.

### 6.2 Communication of stewardship decisions and outcomes with clients

At the moment, there is 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.

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

In April 2021, we received the output of research we commissioned on our clients' views on sustainability and responsible investing. This gave us a number of key insights:

1. Many of our clients feel a clear sense of personal responsibility when it comes to environmental challenges
2. Our clients expect us to aim to be as environmentally and socially responsible as we can be
3. There is an expectation that the financial services industry should act in a way that promotes a sustainable world in the future
4. There is an opportunity to educate our clients about responsible investing

These insights helped shape our Sustainable Finance Strategy, outlined in principle 1.

**Critically, we have acknowledged that we must build our internal expertise in sustainability and responsible investing to better serve our clients, so we have developed a training programme, covering our Executive team, the Investment & Research Office and selected members of our client-facing team, that will be rolled out across 2022.**

# The integration of stewardship with the investment process

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.

## 7.1 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 and not off society – and is fundamentally compatible with good stewardship practice.

## 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 relative 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.
- 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.

## The integration of stewardship with the investment process

- Our direct equity and fixed income (credit) 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 and involves ESG analysis as one of the determinants of this quality.
- Although we utilise 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](#).

### 7.3 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 deleterious 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.
- 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 issues specific to our investee business activities are understood and well managed.



## The integration of stewardship with the investment process

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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:

#### Roper Technologies

From an operational perspective the diversified US Industrial group Roper Technologies is an excellent business. It generates significant Economic Profit for shareholders and has a disciplined approach to capital allocation, both key attributes that we look for in a direct equity. However, we were disappointed to find that the company's sustainability data available in the public domain was minimal, and certainly not consistent with a company with a \$50bn market value. When we challenged the company's Investor Relations team on this we were very dissatisfied with the response, namely that the diversified nature of this business meant that collecting and aggregating sustainability data from each operating unit to produce an overall group position was impractical. We disagreed and know of several comparable industry peers that manage to do just that. As a consequence of this meeting, we downgraded our conviction in the stock and will expect to see marked improvement when we meet again in 2022. If there has been no improvement, then we will reconsider our ongoing investment in this company.

### Case Study:

#### Beyond Meat

Beyond Meat was added to our coverage list in 2020 as a play on growing consumer and investor interest in plant-based protein. We noted that the company's ESG Risk Rating was deemed "Severe" by Sustainalytics but were prepared to give this very young business time to expand its governance and disclosure efforts which should have helped reduce that score to an acceptable level. However, there was no subsequent improvement (and indeed the score has deteriorated further across 2021). Coinciding with a very strong share price performance over 2020 and into early 2021 we took the decision to remove the name from our conviction list, in part due to the lack of any progress on ESG reporting and disclosure.



## The integration of stewardship with the investment process

### 7.4 Collectives investments and third-party funds (“collectives”)

Open ended collective instrument vehicles are an essential piece of Investec Wealth & Investment’s investment offering for our clients. Our collectives selection process aims to achieve three goals:

1. To provide our clients’ portfolios with a full range of investment options (mandates / strategies) to achieve their investment objectives.
2. To select high-quality third-party managers to undertake the delegated investment mandates.
3. To ensure that the chosen third- party managers are delivering processes and results according to their mandates, on an on- going basis.

These require a disciplined manager selection process and an appropriate oversight and governance process to ensure these types of investments are covered by our stewardship responsibilities. This is done in two ways, to reflect the nature of third-party managed funds.

Firstly, we establish strong and on-going relationships with the asset management companies that manage the third-party funds in which we invest. We are in regular dialogue with them in relation to any matter pertaining to their ability to deliver the investment objective we expect of them. These matters include, but are not limited to, costs and charges, team resourcing, quality

of reporting and demonstrability of investment edge. We provide on-going feedback on these matters with the objective of influencing changes (or supporting existing good practices) that maximise the chance of the fund to deliver its investment objective. Specifically, we have been successful in negotiating reduced Annual Management Charges on a number of our funds, including the launching of new dedicated share classes where appropriate. As with our Equity investments, divestment is our last resort, after engagement efforts have failed.

Secondly, we undertake detailed initial and on-going due diligence on the asset management companies’ own stewardship policies and procedures. This occurs principally via our now annual ESG Annual Questionnaire Process, the details of which are provided below. For closed ended funds with a board of directors we also ask them separate to the Investment Manager a detailed set of questions, including, but not limited to:

- (1) How have you assessed the manager’s responsible investment policy and stewardship reports and verified they are properly exercising their ownership rights and responsibilities? (Including monitoring of voting and any third parties used).
- (2) Describe how you monitor the manager’s escalation and engagement record. How do you determine if these have been a success? How have you challenged the manager on their record?

These questions are designed to capture any asset class or

geography specific aspects of stewardship. For example, in the case of real assets such as infrastructure and property, funds are invested in physical assets rather than listed equities, so there is typically no company management to engage with. In addition, stewardship best practices will vary by geographical region, taking into account local regulations, market structure and culture. We expect our third-party asset managers to be able to demonstrate a keen awareness of these differences and to adapt their stewardship practices to the region or asset class.

It is our policy to meet at least annually with the chair of the board of every investment company in which we have a material investment. The purpose of this is to establish a regular dialogue with the board, to identify areas we wish the board to focus on to improve shareholder value and to monitor progress in achieving our engagement objectives.

It is not uncommon for us to have conversations with boards much more regularly with that. For example, within the past year we have been consulted on, and given our views on, the board and management remuneration policies of both Assura plc and Empiric Student Property plc.

We also use our platform to provide broader thought leadership on corporate governance. For example, senior members of the Investment & Research Office have spoken at conferences to a significant number of Non-Executive Directors on matters relating to improving stewardship within the investment company space.

## The integration of stewardship with the investment process

### 7.4.1 Our collectives approach to manager selection

- Third party funds are delegated to organisations that we believe manage their own businesses in a way that is compatible with our own commitments and values (see Principle 1).
- When assessing third parties' investment processes, we believe that 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.
- 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.
- 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. These systems suffer from a lack of data, difficulties in the interpretation of ESG information and its materiality, and are backwards-looking. Furthermore, some of the best "good" (both for society and for client financial outcomes) can be done by owning companies with low but improving ESG scores. In our view this makes such scoring systems a poor way to

measure whether a fund's ESG approach is consistent with our ESG philosophy and meets our qualitative criteria.

- We have developed a proprietary questionnaire that, when combined with face-to-face interviews with fund management teams, is used to assess the importance and alignment of ESG considerations in an investment strategy. It is embedded in our APPROVED research process, where the E represents ESG, and is consequently embedded in our investment stewardship. The questions asked in our proprietary questionnaire include, but are not limited to:
  - Explain the strategy's voting policy and disclose any changes in policies or processes that have taken place in the last 12 months (scope, resources).
  - What third party systems are used, if any, for voting?
  - How many times has the fund voted against management/board recommendations, or abstained, over the past twelve months and what were the rationales? Provide the proportion of shares voted in the reporting period, including shares voted on ESG factor (if less than 100%, specify and provide reasons for missed/failed votes).
  - How many material and ESG engagements has the fund manager undertaken over the past twelve months?

Include examples of where the fund manager has engaged successfully with management to effect positive shareholder/credit holder outcomes.

- Using recent examples, demonstrate that your proxy voting track record has prioritised stewardship priorities over other factors (e.g. maintaining access to the company).
- Provide details of if or how voting or engagement objectives have sought to improve real-world outcomes.
- Provide details on outcomes of any voting audit and extent of audit - which checks whether votes were cast as intended and reached the company; results for key votes against the portfolio manager's assessment/vote cast.
- What is your engagement and escalation process?
- What changes have you implemented to your engagement process during the past 12 months?
- Provide up to three specific examples of engagement and how it has been used to monitor organisations (intentions, success or failure results, contribution to portfolio risk or return, escalation, etc.)
- Provide examples of how results of engagement have informed investment decisions.

## The integration of stewardship with the investment process

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- Provide details of key collaborative engagement initiatives (including with other shareholders) over the last 12 months (details of desired change or issue, method of collaboration, role and contribution, etc.). Describe your role and how the results of engagements have informed investment decisions.
- Provide details of how you have measured the success of engagements. Is it quantifiable?
- Provide details of how portfolio managers have been involved in active ownership activities over the past 12 months.
- Provide details of engagements on ESG issues that you or a third party have had with portfolio holdings, other investors or local communities. If completed, what areas and activities were typically part of the engagements?
- Using recent examples, demonstrate that your stewardship policy prioritises systemic issues and how your stewardship policy prioritises ESG factors beyond corporate governance.
- Using recent examples, demonstrate that your stewardship policy has encouraged and facilitated the use of a variety of stewardship tools (including collaborative initiative) to advance your stewardship priorities.
- List the resources allocated towards stewardship (with reference to resources allocated specifically for systemic stewardship).
- Detail any breaches of your stewardship policy (over the last 12 months).
- Provide three recent examples where members of the investment team specifically have been involved in stewardship activity and how the results of your stewardship impact investment decisions and process.
- Provide recent examples where your escalation policy has been deployed to advance stewardship priorities where initial efforts were unsuccessful.
- What are your stock- lending policies? Confirm any changes to the policies or deviations from stated policies in the last 12 months along with details of situations where holdings (entire or partial) could not be voted due to stock on loan over record date, and any instances where lent stock was recalled for voting.
- If available, please send us your stewardship code (or ethical if this is separate), and stewardship report if produced; a record of your voting and engagement activities with investees (covering the last 12 months); a record of your engagement activities with policy makers (covering the last 12 months).

## The integration of stewardship with the investment process

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### Case studies

#### TR Property

We had a meeting with the Chairperson and made very clear our disappointment at the lack of demonstrable ESG integration into the team's investment decision making progress. We have now received their response to our ESG questionnaire and, whilst there remains much work to be done, we note several areas of progress and, most importantly, a strong commitment from the board to oversee brisk and substantive improvements in the year ahead.

#### Schroder Real Estate Investment Trust

We wrote to the Chairperson of SREI and had a meeting with her to discuss fees and provided a detailed rationale for why we thought the company's Annual Management Charge should be reduced. Subsequently, in July 2021, the board announced a fee reduction equating to c£650,000 p.a.

#### Picton Property Income

We had a discussion with the new Chairperson and discussed in detail her proposals for a new remuneration policy. We provided our views and have been supportive of the new adopted policy given that it was largely in line with our thoughts. Furthermore, we expressed a strong desire for Picton and the sector more generally to look to consolidation to provide larger, more liquid and economical vehicles. We were pleased when the company's annual report made reference to this explicitly as part of their strategic objectives for the company.

#### The Investment Manager of SDCL Energy Efficiency Income Trust

Engaged with investors (including ourselves) in July via their broker to test comfort levels around an increase in the long-term and short-term gearing levels. The rationale provided via the broker seemed rather weak to us (simply to bring it in-line with other infrastructure funds in the broad peer group despite differences in target asset types and risk profiles) so we pushed back on the proposals and had a call with the Chairperson to ensure the reasons for our dissatisfaction were being accurately conveyed and to better understand the oversight being provided by the Board on matters such as these. We were pleased to hear that Company subsequently decided not to propose/pursue those changes.

#### Schroder Japan Growth

During October 2021, we reached out to the board of SJG to enquire as to why one of the NEDs with a 2-year tenure had refrained from purchasing any shares in the trust. We expressed that this could be seen as a lack of confidence in the trust's ability to perform but most importantly highlighted a lack of alignment with shareholders. Subsequently, the NED did purchase shares, along with others on the board. This increased 'skin in the game' should lead to improved alignment of interests and hopefully shareholder outcomes.

#### Life Science REIT

Pre-IPO we made it clear to the company that a condition of us supporting the company at launch was for a speedy acceleration of the investment team at the newly formed investment manager. We are pleased that two months post-launch the investment manager has concluded new hiring in line with their commitments to us pre-IPO.

## The integration of stewardship with the investment process

### 7.5 Fixed income

- The role of fixed income securities in portfolios is often to reduce risk (as defined by volatility), provide income and gain exposure to a diversifying asset class. However, the asymmetric risk profile of bonds (with a much greater potential for price loss) ensures that a large number of corporate issuers form part of the investment universe in order to diversify individual security risk.
- Corporate issuers are assessed using a number of quantitative-based ESG tools. In tandem with equity research, Sustainalytics is used to highlight specific ESG issues (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 the Carbon Disclosure Project) and carbon intensity (carbon emissions relative to company revenue). Finally, companies are assessed with regards to the Sustainable Development Goals (SDGs). Numerous corporate issuers are private companies and the availability of ESG data can sometimes be mixed. Companies and sectors are sought that provide social benefits, such as social housing associations or utilities that focus on renewable energy.

- The biggest opportunity to engage with corporate issuers is when they are in the market to issue new debt (companies who issue debt are often repeat issuers). At that time, companies want to present their offering to market by showing the best of what they have to offer in order to secure the best (cheapest) market pricing available.
- Government bonds are also reviewed, although the opportunity to engage with governments on their policies is usually very limited (since governments are most concerned with their ultimate shareholder: the voter). Instead, government debt is reviewed through the lens of numerous indices that gauge ESG factors. Examples include the climate change performance index, energy trilemma index, social progress index, corruption perception index and freedom in the world index. The various indices may help to identify government characteristics that lead to higher returns in the long-term.

#### New issue engagement

A significant portion of our corporate engagement is related to investment grade rated issuers that are in the process of issuing new bonds. Within the new issue market, engagement typically occurs via the investment banks' syndicate roadshows. Whilst a number of corporates are regular issuers in the bond market, the focus of our engagement has been with either new issuers in the market or infrequent issuers.

In 2021, we engaged with **Berkeley Group** – a LSE-listed housebuilder that was looking to issue a new GBP-denominated green bond. Berkeley Group had not previously issued into the bond market and had relied on bank lending. The group was looking to diversify its source of debt funding. As part of the engagement strategy, we gave feedback on the group's business strategy, balance sheet structure and our expectation of the pricing of the new bond.

Other issuers we engaged with in 2021 included **Omnicom** – a US-listed media agency and **Medical Properties Trust** – a US-listed REIT. Both issuers have investment grade credit ratings, therefore can easily access the USD corporate bond market. However, our engagement with both issuers was in relation to their inaugural issuance in the GBP bond market. Our feedback to both issuers, via the syndicates, detailed our view on their business models, capital structure and where we would benchmark their proposed Sterling bonds against existing corporate bonds in the Sterling market. Feedback from investment bank syndicate desks on our collaboration is that issuers appreciate our commentary and it typically leads to a better allocation in the new issue primary debt market.



## The integration of stewardship with the investment process

### 7.6 An integrated research approach

- 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.

### 7.7 Supported by third party service providers

- Some of the service providers that we subscribe to that help us make informed decisions on ESG issues include ISS, Sustainalytics, HOLT and Morningstar. We view the ESG risks that each company poses in the context of their industry-specific exposure, guided by SASB's / 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.

### 7.8 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 (Compliance) 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 Wealth and Investment 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.

### 7.9 The role of the Stewardship Manager

The Stewardship Manager will be responsible for designing, coordinating, and communicating Investec Wealth & Investment's stewardship activities. Key responsibilities will be to:

- Liaise with members of the analyst team, Corporate Governance Committees, and Chief Investment Officer to draw conclusions for engagement activity and identify opportunities for collaboration.
- Establish and maintain escalation and divestment policies and liaise with the Group Sustainability function to ensure consistency.
- 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, Compliance, 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).

# Monitoring third party service providers

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## 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 of our significant third-party service providers. To the extent we use commonly purchased services, which covers the majority of our contracted outgoings, Investec Wealth 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 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 72 of the 2021 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 service providers in the investment process

- Investec Wealth & Investment uses multiple third-party services, accessed on a real-time basis, to provide to research, data and information in support of our investment process. Within this, our stewardship responsibilities and decision making is supported specifically by ISS. All voting decisions are ultimately our own, however, as we do not outsource any engagement or proxy voting responsibilities to third parties.
- 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 December 2021 we took the decision to commence an initiative to look at all of our sustainability-focussed data and associated client and regulatory reporting requirements and expect the output to be progressed in 2022.
- 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.



## Monitoring third party service providers

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

- 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 to the respective Corporate Governance Committee. This Committee 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 will find ourselves in agreement. However, there are many instances where we find we disagree and vote contrary to ISS, and provide some examples below:

#### Example: Next

In May 2021 ISS raised concerns about the Remuneration Report at Next but stopped short of recommending a vote against it. Our analyst disagreed. Whilst accepting that CEO Lord Wolfson is one of the leading retailers of his generation and Next has navigated the challenges of COVID-19 far better than most, the quantum of the increase in long term incentives that was being sought and the very narrow set of criteria that would be used to determine the level of that award was unacceptable to us.

#### Example: London Stock Exchange

In May 2021 ISS raised concerns about the Remuneration Report at the LSE, and recommended voting against it. Primarily, it was an objection to the 25% increase in basic salary for the CEO, which the company argued was warranted given the significant increase in size of the LSE and the complexity of the business after the Refinitiv acquisition. Our analyst disagreed with this conclusion, noting that the business had indeed become significantly more complicated post-Refinitiv and that in the context of similarly sized UK companies, the CEO's remuneration did not stand out as excessive. We ultimately supported the Remuneration Report.

# Engagement with the 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.
- Our voting policy on equities commits us to voting on any centrally researched name where we hold more than £10 million or 1% of the capital on a discretionary basis. The parameters are slightly different for investment trusts, where we must own 2% of the share capital as well as £10m invested. All decisions are made with the objective of enhancing the intrinsic value of the assets we manage on behalf of the client.
- 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.

- Aside from regular voting opportunities, other events that may prompt us to engage include changes in management teams or public controversies.

## 9.2 Engagement in practice

### 9.2.1 Key focus areas

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

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

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.

### 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 quoted equity and collectivised investment vehicles.

### 9.2.3 Non-voting engagement scope, depth and frequency

- 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, virtually or in person, at least on an annual basis. We track our success in meeting this goal and over 2021, for direct equity alone, we had more than 200 meetings with corporates. Almost all of these have been held virtually. Whilst the majority were CEO, CFO and Investor Relations, a significant number were with other representatives such as General Council or Chief Scientific Officers.

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

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- Recently, 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.

### 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:

1. Beneficial ownership information must be provided in order to vote, which we have had challenges in providing during 2021, although we expect this to be resolved for 2022 (more detail on this can be found in principle 12).
2. 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.

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

### 9.2.5 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 a number of 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 Company AGM's, 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 practices.

During 2021 we voted against management on five different occasions and abstained on eight other resolutions. Our votes against were mainly to do with not approving remuneration reports as we didn't think the criteria for awarding LTIP's to executive management were challenging enough for example. The abstains were typically issues that had been communicated with the company and they were in the process of addressing, for example if the composition of the board was not

in line with best governance practices but the issue had been previously raised with the company and was something they were in the process of rectifying over the next few years, which we felt didn't reflect a vote against.

### 9.2.6 Third party funds engagement

When meeting fund managers, the collective 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.

Additionally, every year the team sends out a detailed ESG questionnaire to all funds on our central research list in order to gain a better understanding of how they assess ESG and how it is embedded into their philosophy. This has been improved upon in 2021 and is more directly aligned to the UN Principles for Responsible Investment framework. The team also send out a comprehensive annual questionnaire which is less focused on ESG criteria. The setting of objectives is often discussed in CCG meetings and then outlined in the CCG minutes.

During the course of 2021 we categorised all of our flagged collective investment vehicles according to our assessment of their ESG integration. The classifications are 'poor,' 'basic,' 'intermediate,' 'advanced' or 'sustainability focused'. These classifications are determined by the analyst after reviewing the results of our qualitative ESG questionnaires and other ESG related information collected from our on-going conversations and discussions with our third-party managers and boards. These classifications are under constant review, and it is our intention to focus our efforts in 2022 on encouraging fund managers to take the necessary steps to improve their ESG classification rating.

In Principle 7 we highlight areas 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.

# Collaborative engagement policies and initiatives

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## 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.

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.**

## Collaborative engagement policies and initiatives

### 10.3 Collaborative examples

For direct equities, we make use of collaborative engagement initiatives such as the PRI's Collaboration Platform, Climate Action 100+ and the Investor Forum.

Examples of areas of engagement via each in 2021 include:

Via the PRI: we were a signatory to a letter challenging **Total** on its continued remittance of revenues to the Myanmar state energy companies, funds which ultimately would have contributed to financing the military junta.

**Total** subsequently changed policy, placing funds into escrow and ultimately deciding to exit its operations in Myanmar completely. We also co-signed a broad letter to the pharmaceutical industry to encourage access to vaccines, especially the COVID-19 vaccine, in executive remuneration to encourage the right behaviours that fosters vaccine equality. This resulted in a meeting with **Pfizer's** CEO and a similar meeting is pending with **Johnson & Johnson**. We have also participated in two distinct engagements around Modern Slavery where engagement is ongoing with companies to encourage enhanced scrutiny of supply chains for

evidence of Modern Slavery and to hold a named Director responsible oversight of this key social-welfare topic. We would expect all companies involved to improve disclosure and identify accountable executives.

Via Climate Action 100+, we have ongoing engagement with **SASOL** to challenge and improve its climate policies.

Via the Investor Forum, our analyst met with the Chairperson of **BHP** to talk about its Climate Transition Action Plan and incorporation into remuneration. This will form a basis for further and ongoing engagement to hold it to account on its targets.

For investment trusts, **Civitas Social Housing** had been subject to negative commentary and some short selling. We recently met with the short sellers to discuss their concerns with the company and to explain our more bullish view. This has led to further questions and challenge to company management and the board which we believe will improve investor outcomes. We believe these conversations and exchange of information and views is very useful in furthering knowledge and understanding of investments, to the benefit of investors. We also expect to have a meeting with the Regulator for Social Housing, in 2022, to discuss the prospects for the sector and to provide

comments on how the regulatory and policy environment can deliver the dual goals of supporting the company's prospects and providing a vital social service of high-quality specialist accommodation for vulnerable citizens.

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

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## 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:
  - 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 oversees 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.

## Stewardship escalation

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### 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 our 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.
- 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 valuers 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 RemCom 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.
- One example was an investee company where the CEO had left due to ill health and we engaged with the board on a number of occasions to discuss the requirements for their replacement. We gave our view in terms of what a new CEO could look like with what skills they could possess in order to reinforce the future direction of an increasingly complicated business.

# The active exercise of 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 voting policy can be summarised as follows:

### 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.

Over 2021, for discretionary clients we voted on 89% of the start-of-year value of the investments we held in centrally researched direct equities. The most significant element of capital not voted (8%) relates to European holdings, where we were unable at the time to provide the requisite Beneficial Ownership or Power Of Attorney details for the ultimate shareholder.

### Investment trusts

We will vote for discretionary holdings of the following:

- All centrally researched investment trusts, unless we have less than 2% of the share capital AND have less than £10 million invested.
- Investment trusts which are not centrally researched where we hold over 10% of the share capital.

The full policy can be found on our website ([Our Guide To Responsible Investing](#) | [About Us](#) | [Investec](#)). 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 our Equity Corporate Governance Forum.

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. Under the Shareholder Right Directive II, companies have the right to require beneficial ownership disclosure to be provided in order to be able to submit votes at their AGM's/EGM's. Prior to this, we were able to submit bulk votes on behalf of all of our discretionary clients at once without having to provide this.

As a result, we have been developing an in-house solution to enable us to retrieve the required beneficial ownership information for all discretionary clients holding a particular security, in a suitable format that will allow us to use this information in conjunction with two of our custodians' systems that we submit our proxy votes with. There has been some complexity to this due to the amount of beneficial ownership data required per vote (we may have up to 3,000-4,000 discretionary clients holding EU equities) and the fact we are building a solution to interact with two different custodian systems rather than just one.

This is now in the final stages of development and we expect to be able to start making use of these reports in 2022 to allow us to once again begin voting on direct European equities on behalf of our discretionary clients.

## The active exercise of rights and responsibilities

### Direct equities

Summary of 2021 activity

Votes cast:

2021	AGM or EGM	Votes lodged	Votes against management	%
United Kingdom	129	2137	32	1.5
United States	38	637	45	7.1
Europe	2	54	0	0
<b>Totals</b>	<b>169</b>	<b>2828</b>	<b>77</b>	<b>2.7</b>

No votes were withheld for direct equities

### Collectives

Summary of 2021 activity

Votes cast:

2021	AGM or EGM	Votes lodged	Votes against management	%
<b>Totals</b>	<b>113</b>	<b>1109</b>	<b>1</b>	<b>0.0009</b>

### AIM

Summary of 2021 activity

Votes cast:

	Number of resolutions	Votes against management	Votes withheld
<b>Totals</b>	<b>450</b>	<b>5</b>	<b>8</b>

#### Examples of where we voted against management

**Ocado** has in the past been subject to scrutiny over the pay level of its CEO, Tim Steiner, but this is no longer flagged as out of step with performance. However, Ocado's Board has the lowest percentage of women on its Board of any FTSE100 company. The senior independent director, Andrew Harrison (ex-CEO of Carphone Warehouse, now Dixons), who is a member of the nomination committee has responsibility for improving gender diversity, which

is a stated aim of the company. The stated goal is to have 33% female representation. At last year's AGM (6th May 2020), 20% of votes were against Andrew Harrison's re-election, but no improvement has been forthcoming in the intervening period. Hence, while acknowledging that it may not always be easy to change the Board composition "to order", enough time has passed for it to have been achievable, and we voted against his re-election.

## Appendix – review, approval and sign-off

This is Investec Wealth & Investment's second report and was compiled by reviewing and enhancing the content of the first report, which was published in 2021. The review has been undertaken as part of our Sustainable Finance programme, with contributions from our Investment & Research Office, Commercial Transformation, Client-Facing, Compliance, Product Development and Marketing teams. The content was reviewed by the programme Working Group and Steering Committee, before it was submitted to the Investec Wealth & Investment Executive Committee and board. Final sign-off was provided by the Chief Commercial Officer and Chief Executive Officer.

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

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