Investec Asset Management

Fostering competitive markets through higher corporate governance standards in Africa

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Global Head of ESG

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Investec
Asset Management

Evolution of responsible investing at IAM

Active stewards of capital

Joins Principles for Responsible Investment (PRI)

Signs UK Stewardship Code

Establishes:

- Investment Governance Committee
- Stewardship policy
- Ownership and proxy voting guidelines

Establishes exclusion principles on cluster munitions

Develops ESG tools for investment teams

Evolves integration programme

Publishes second integration progress report

Sets up Investment Sustainability Forum

Expands exclusion policy

Launches first Sustainability fund

2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019

Develops ESG approach

Therese Niklasson, Global Head of ESG, joins

Formally sets up ESG team

Signs SA CRISA Code

Onboards external data provider

Expands ESG team

Sets up ESG integration framework

Expands private markets expertise

Integrates climate change statement within stewardship policy

Appoints Head of Engagement

Enhances transparency and disclosure with Annual Stewardship report

Publishes first integration progress report

Launches second Sustainability fund

Ensuring we are active stewards of capital

Ensuring ESG is integrated across all of IAM's investment strategies

Creating sustainable investment solutions

Corporate Governance principles

Leadership and Strategic Governance

This primarily relates to director resolutions

Alignment with the long term

This primarily relates to remuneration and sustainability resolutions

Protecting Clients' Capital

The issues covered under this section relate to:

- Capitalization
- Alterations to shareholder rights
- Fundamental transactions

Disclosure and Transparency

This primarily relates to the assessment of material financial and non-financial disclosures

Key pillars to help to ensure the preservation and growth of the assets entrusted to us by our clients over the long term

Further details can be found within our 'Ownership Policy and Proxy Guidelines' on our website

Common Corporate Governance Issues

Common corporate governance issues that arise

Director Resolutions

Independence, majority independent committees, fully independent audit committee, skills, attendance, expertise and diversity

Remuneration

Transparency, performance conditions and shareholder alignment, scheme simplicity

Disclosure and Audit-Related

Independent auditor, fully independent audit committee, audit quality

Capitalisation

Equity issuance, stock splits, share repurchasing, dividend policy

Fundamental Transactions

Share usage limits, capital management, related party transactions

Shareholder Rights

Proxy access and majority voting, minority protection, anti-takeover measures

Evolving emerging market practices

Most markets have shown material improvements in ESG… but there is still a long way to go

- Mixed but largely improving governance policies and practices within EM
- Stewardship Codes encourages active ownership fostering dialogue and accountability
- Stock exchanges are supporting ESG disclosure (i.e. Brazil and South Africa) and increasing listing requirements
- Challenges still remain but data quality and coverage is improving
- Challenges include transparency issues, weak shareholder protections, related party transaction and corruption and business integrity issues
- Growth in EM Stewardship and corporate governance codes

Stewardship codes in emerging markets

South Africa (2011)	Code for Responsible Investing in South Africa (CRISA)
Kenya (2017)	Kenya Stewardship Code
Malaysia (2014)	Malaysian Code for Institutional Investors
Brazil (2016)	Amec Stewardship Code
Korea (2016)	Principles on the Stewardship Responsibilities of Institutional Investors
Taiwan (2016)	Stewardship Principles for Institutional Investors
Thailand (2017)	The Investment Governance Code
India (2017)	Stewardship Code for Insurers in India

Corporate governance codes include: Brazil, Chile, China, India, Indonesia, Malaysia, Mexico, Philippines, Russia, Saudi Arabia, South Africa, South Korea, Taiwan, Thailand, Turkey

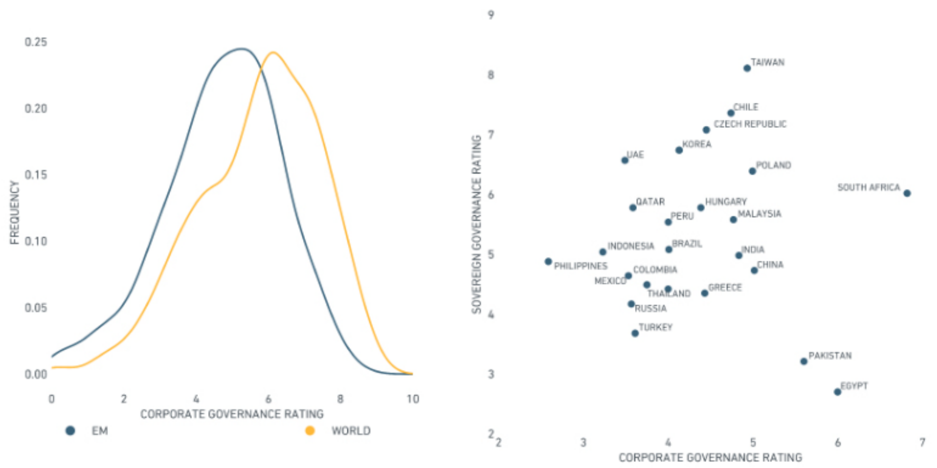
Governance and Performance in Emerging Markets

- Governance is increasingly an indicator of firm quality and factor in investment selection

- Strong business case linking sound corporate governance practices to better firm performance
  - Companies adapting governance best practices make better decisions over time, better manage risks, enjoy enhanced market conditions and have improved access to capital
  - On a macro level corporate governance may also contribute to country-level social and economic development

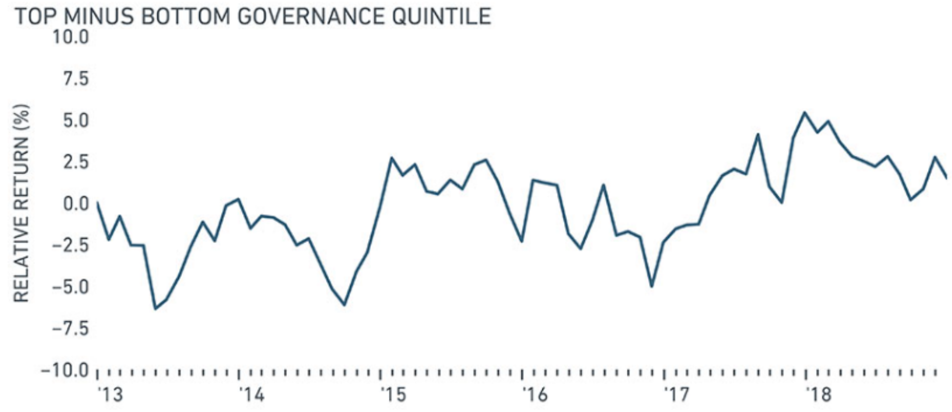
- The two areas of governance are closely interlinked and interconnected.

Emerging markets scored lower on governance criteria than developed markets



Corporate governance scores as of December 2018. Sovereign governance scores as of October 2018. The average corporate governance scores across all firms in a country is shown in the right plot.

Return differences between highest- and lowest-rated EM companies



Returns are gross in USD and relative to the MSCI EM index from January 2013 to December 2018. We choose 2013 as a start date, as complete ratings coverage of the MSCI EM index began in 2013. Quintiles are formed using the Governance Pillar Score for each stock. The Governance Pillar Score is a composite of a firm's corporate governance and corporate behavior score. Quintiles contain an equal number of stocks that are equally weighted and rebalanced semi-annually.

Governance considerations in markets

Three critical considerations; transparency, accountability and fair treatment of consumers and shareholders

1. Government & Public Governance
2. Regulators
   - Funding, capacity, reform
   - Enforcement
3. Rules
4. Listed companies
5. Investors
6. Auditing and audit regulators
7. Civil society and media

Market rankings: CG Watch 2016 and 2018

Blue = Rising market
Red = Falling market

2016	2018
1. Australia	1. Australia
2. Singapore	**2.Hong Kong**
3. Hong Kong	**3. Singapore**
4. Japan	**4. Malaysia**
5. Taiwan	5. Taiwan
6. Thailand	6. Thailand
7. Malaysia	**=7. Japan, India**
8. India	-
9. Korea	9. Korea
10. China	10. China
11. Philippines	11. Philippines
12. Indonesia	12. Indonesia

Source: Asian Corporate Governance Association

Learnings from Asia

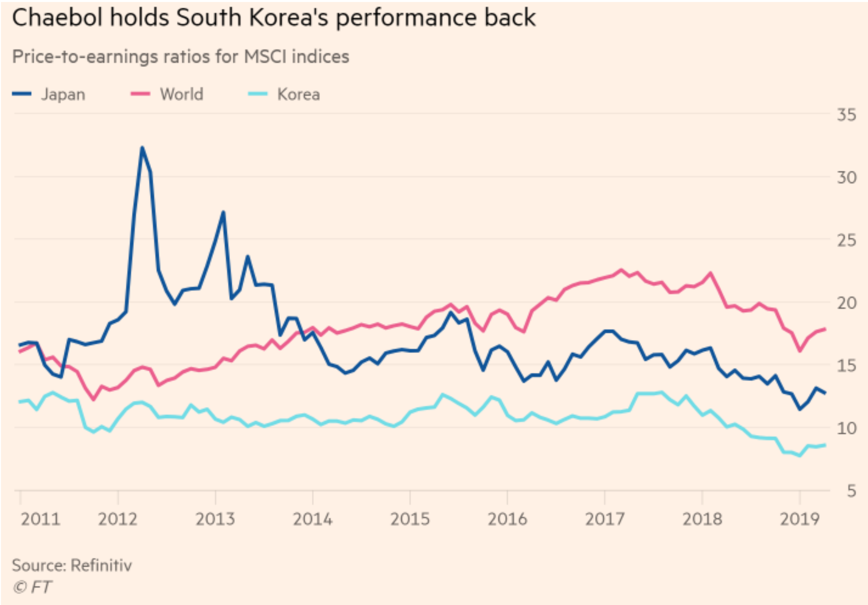
CG Watch market scores, 2018		
Market	**Total (%)**	**Key CG reform themes and questions**
1. Australia	71%	Bank governance needs overhaul, time for a federal ICAC
2. Hong Kong	60%	Going backwards on DCS, about to go forwards on audit regulation
3. Singapore	59%	Going backwards on DCS, reform direction reflects contradictory ideas
4. Malaysia	58%	Can new government rid the system of corruption and cronyism?
5. Taiwan	56%	Moving forward, yet piecemeal reforms hinder progress
6. Thailand	55%	Moving forward, yet corruption and decline in press freedom are concerns
=7. India	54%	Bank governance needs overhaul, new audit regulator disappoints
=7. Japan	54%	Heavy focus on soft law needs to be balanced with hard law reforms
9. Korea	46%	Stewardship code gaining traction, but sadly so is DCS
10. China	41%	Reinforcement of Party Committees raises numerous questions
11. Philippines	37%	CG reform low on the government's priorities, direction unclear
12. Indonesia	34%	CG reform low on the government's priorities, direction unclear

Source: Asian Corporate Governance Association

Korea and the governance discount

A direct result of lagging governance reform

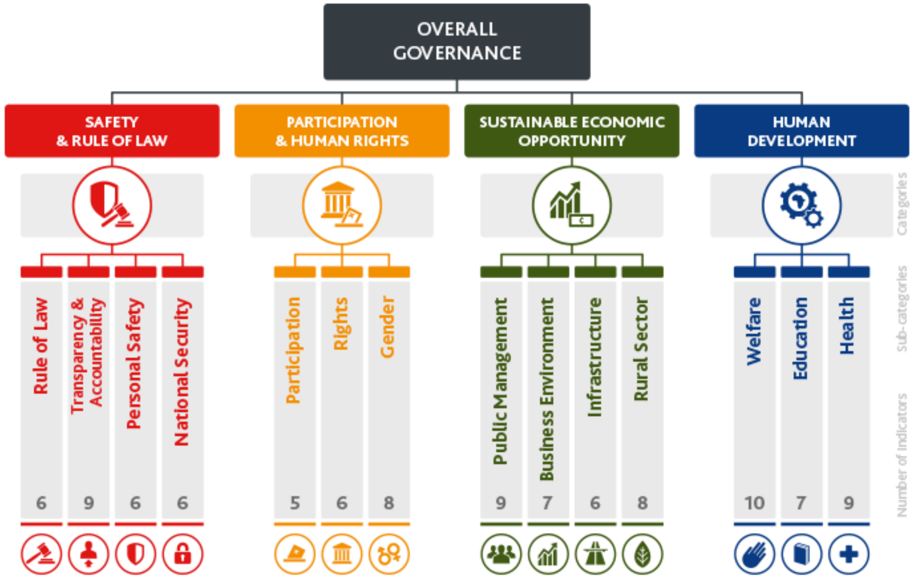
- Complicated ownership structures (Chaebols), sub-par governance systems, close governance ties, and corruption concerns
- Domestic stock market is 5th largest in Asia (USD terms)
- Trades at 1/5 below valuation of comparable markets on a price-to-earnings basis despite global companies
- Should be attracting huge amount of foreign investment



African Governance Developments

Ibrahim Index of African Governance (IIAG)

- Defines governance as the provision of the political, social and economic public goods and services that every citizen has the right to expect from their state, and that a state has the responsibility to deliver to its citizens.
- 12th Index shows governance is improving



Overall Governance

2017 AFRICAN AVERAGE SCORE/100.0	CHANGE 2008-2017	SLOWING IMPROVEMENT
49.9	+1.0	

Safety & Rule of Law	52.6	-2.5
Participation & Human Rights	49.2	+2.9
Sustainable Economic Opportunity	44.8	+0.1
Human Development	52.8	+3.5

African Governance Codes - King IV

- Arguably the strongest Governance Code in Africa
- Other markets are following suite – E.g. Botswana developments
- King IV brought a new definition on corporate governance focusing on the system of governance
- Focuses on achieving four governance outcomes
  - Ethical culture
  - Good performance
  - Effective control
  - Legitimacy

Governance Codes make no guarantees

Conclusions and critical considerations

Strong governance arrangements are critical to growing markets and attracting capital

- Matters to all asset classes
- Discounts for markets and companies that do not build strong governance frameworks

Learnings for governments/markets

- Engage stakeholders. Timing and communication
- Focus on transparency
- Consider the value of Governance Codes and Stewardship Codes

Learnings for investors

- Be sensitive to local contexts
- Be consistent on message
- Support Stewardship Codes and engage in consultation opportunities
- Importance of stock exchanges