Investec Asset Management

Fostering competitive markets through higher corporate governance standards in Africa

Therese Niklasson
Global Head of ESG

June 2019
Evolution of responsible investing at IAM
Active stewards of capital


• Develops ESG approach
  - Therese Niklasson, Global Head of ESG, joins
  - Signs SA CRISA Code
  - Expands ESG team
    - Onboards external data provider
    - Sets up ESG integration framework
  - Expands private markets expertise
    - Integrates climate change statement within stewardship policy

• Establishes exclusion principles on cluster munitions
• Investment Governance Committee
• Stewardship policy

• Sets up Investment Sustainability Forum
• Expands exclusion policy

• Expands private markets expertise
• Integrates climate change statement within stewardship policy
• Enhances transparency and disclosure with Annual Stewardship report

• Publishes first integration progress report
• Expands private markets expertise
• Publishes second 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

Creating sustainable investment solutions
Ensuring ESG is integrated across all of IAM's investment strategies
Ensuring we are active stewards of capital
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

<table>
<thead>
<tr>
<th>Stewardshipcodes in emerging markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia (2014)</td>
</tr>
<tr>
<td>Brazil (2016)</td>
</tr>
<tr>
<td>Korea (2016)</td>
</tr>
<tr>
<td>Taiwan (2016)</td>
</tr>
<tr>
<td>Thailand (2017)</td>
</tr>
<tr>
<td>India (2017)</td>
</tr>
</tbody>
</table>

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

Return differences between highest- and lowest-rated EM companies

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.

Returns are gross in USD and relative to the MSCI EM Index from January 2013 to December 2018. We choose 2012 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

<table>
<thead>
<tr>
<th>Blue = Rising market</th>
<th>Red = Falling market</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2018</td>
</tr>
<tr>
<td>1. Australia</td>
<td>1. Australia</td>
</tr>
<tr>
<td>2. Singapore</td>
<td>2. Hong Kong</td>
</tr>
<tr>
<td>3. Hong Kong</td>
<td>3. Singapore</td>
</tr>
<tr>
<td>4. Japan</td>
<td>4. Malaysia</td>
</tr>
<tr>
<td>5. Taiwan</td>
<td>5. Taiwan</td>
</tr>
<tr>
<td>6. Thailand</td>
<td>6. Thailand</td>
</tr>
<tr>
<td>7. Malaysia</td>
<td>=7. Japan, India</td>
</tr>
<tr>
<td>8. India</td>
<td>-</td>
</tr>
<tr>
<td>10. China</td>
<td>10. China</td>
</tr>
<tr>
<td>12. Indonesia</td>
<td>12. Indonesia</td>
</tr>
</tbody>
</table>

Source: Asian Corporate Governance Association
## Learnings from Asia

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

*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
**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