M&G Investments (Southern Africa): Sustainability Report

2023/24

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Sustainability Landscape

M&G SA's Responsible Investing Beliefs

M&G SA (M&G Investments Southern Africa) believes that ESG factors can have a material impact on investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, ESG issues are integrated into our investment processes, and are incorporated into investment decisions wherever they have a meaningful impact on risk or return. We apply this integrated approach to ESG analysis across our listed equity, corporate and sovereign debt, and listed property book of assets in all sectors in which we invest.

In addition, M&G SA believes it has a role to play as a responsible global citizen for a sustainable future.

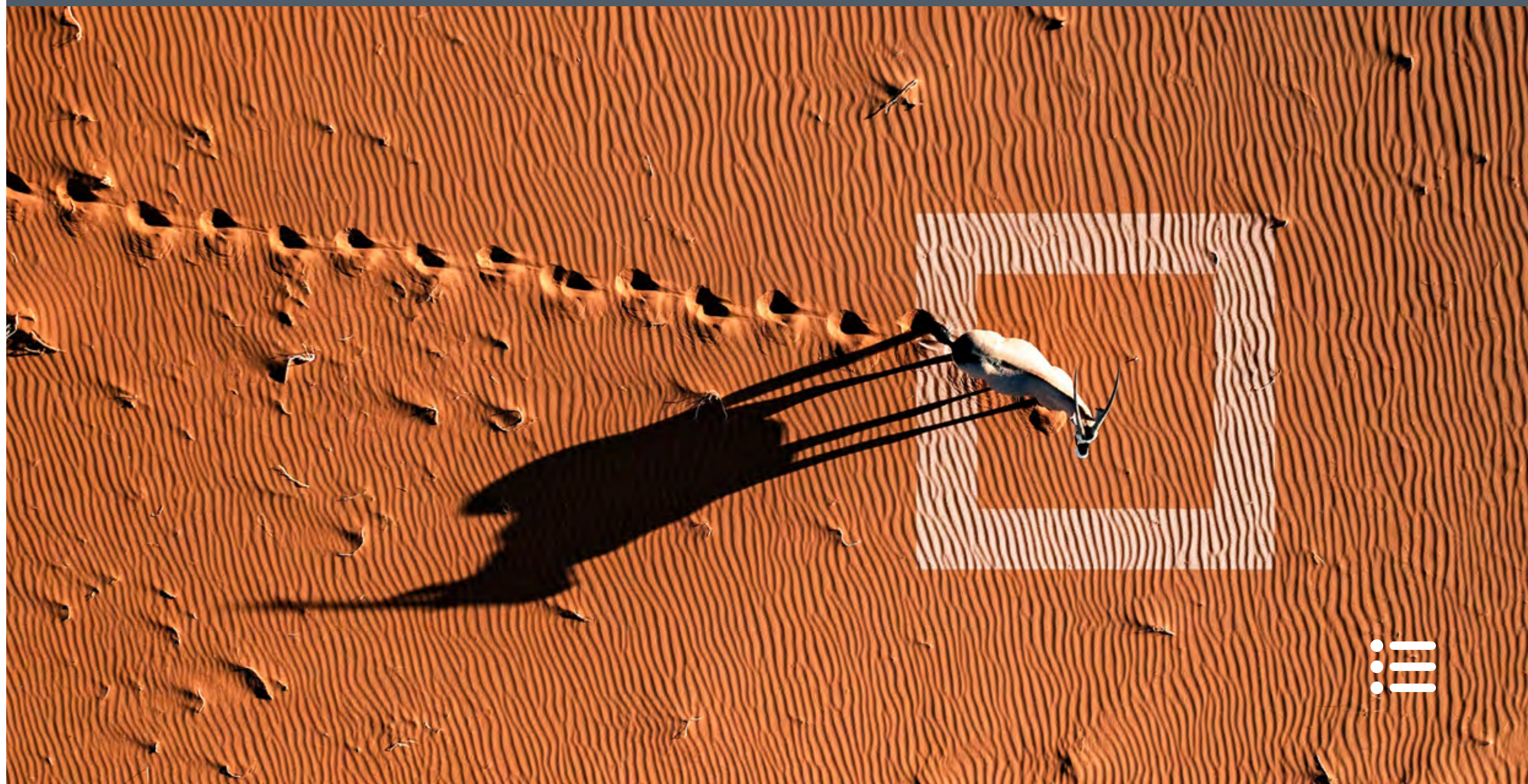
Being a responsible investor means being proactive in considering ESG factors in our investment research, in our engagements with management of listed companies or issuers of debt, as well as using our rights as shareholders to encourage companies to improve ESG issues.

(i) Global frameworks

Our approach to sustainable investing takes account of both global and local frameworks as guided by the Principles for Responsible Investment and the Paris Climate Agreement.

> **At M&G, we define sustainable investing as:**
>
> Sustainable investing involves making investment decisions incorporating Environmental, Social, and Governance (ESG) factors while trying to have a positive effect, or reduce negative effects, on the environment and society through active ownership and/or portfolio construction.

In addition to the frameworks below, we lend support to the M&G Group Limited (the UK based asset manager) and structures in the M&G plc such as working groups, communications and reporting teams. This is done through involving the asset manager in active engagements and collaboration with South African high carbon emitters, participation on climate and related committees and working groups, and provision of research to the Stewardship & Sustainability team at the asset management level.



Principles for Responsible Investment (PRI)

M&G SA is a signatory to the PRI.

The PRI works to achieve a sustainable global financial system by encouraging adoption of six ESG principles including: collaboration on their implementation; fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

Our implementation of the PRI principles rests on three pillars:

1. Integration of ESG issues into investment research;
2. Integration of ESG issues into investment decision-making and portfolio construction; and
3. Periodic portfolio review of ESG issues.

United Nations Sustainable Development Goals (SDGs)

In 2015, the United Nations established 17 Sustainable Development Goals (SDGs) designed to eradicate poverty, safeguard the planet, and ensure global peace and prosperity by 2030. The intention is for governments worldwide to implement policies aligned to the SDGs, including action to secure clean water and energy, improve gender equality, education and health, provide more work opportunities, and use land and ocean resources more sustainably.

Based on our priorities in Southern Africa, we have prioritised three areas within the broader SDGs related to climate change, water and equality (transformation).

Our **Climate** work is primarily linked to SDG 13 (Climate Action) and includes aspects of SDG 7 (Clean and Affordable Energy).

South Africa is home to some of the world's highest greenhouse gas emitters, and yet heavily dependent on these industries for the provision of their outputs such as electricity and fuel. It is important these emitters continue to transition away from fossil fuels. More details on our engagements in this regard can be found here.

This has been the most resource-intensive focus of our SDG-related work.

Our **Water-related efforts align with** SDG 6 (Clean Water and Sanitation), while aspects of our work contribute to SDG11 (Sustainable Communities and Cities).

South Africa faces a severe water crisis, with half of its municipalities providing poor or critically poor provision of clean water.

During the period, we have focused considerable attention on addressing these challenges, ramping up collaborative work to move into specific engagements. More details on our actions in this area can be found here.

In terms of **Equality**, our work relates to SDG 10 (Reduced Inequality) and covers elements of SDG 11 (Sustainable Communities and Cities).

South Africa continues to experience tremendous inequality. According to 2023 data, the country has the highest income inequality in the world, with a Gini coefficient (which is the most common indicator of inequality, at 0.67) which demonstrates having one of the world's most extreme levels of income inequality. Transformation remains a key objective, and we continue to make strides in this area, including maintaining M&G SA's BEE Level 1 rating.

While there were fewer transactions directly related to equality, our focus has been more on monitoring progress and encouraging greater involvement from entities in the investment space.

Just Transition: Considerations of the Southern African context

Because of the large capital investment required to transition to cleaner energy sources and increasing energy efficiency, the burden of this transition will be felt heavily by emerging market countries such as South Africa, which have higher investor risks, higher costs, a shortage of capital and less sophisticated economies. This is coupled with the country's reliance almost entirely on coal for its energy requirements, and being highly dependent on mining activity for jobs, tax revenues and growth. As such, the risks to these critical aspects of the economy are very high. This is one of the primary reasons why we have embraced a "Just Transition" approach.

To rush headlong into a sharp, disruptive transition that avoids or divests from carbon-emitting companies would be devasting for the South African economy and people. Equally, it would afford us little to no influence on the companies most in need of help. Instead, we prefer to influence a company's path to net zero by driving positive change through active engagement, helping guide them in their transition plans in areas such as capital investment, for example.

We are, however, not shy of the principle of divesting or reducing exposure in entities or issuers where the path to decarbonisation is either unclear and/or is heavily challenged in the long term. This has been evidenced during 2024 and will be reflected in the financed carbon emissions of our portfolio, which we will report on in our next Task Force on Climate-related Financial Disclosures (TCFD) Report.

One example during the period was a very large reduction in exposure to Sasol, beginning at the end of 2023 and continuing throughout the period. Sasol is one of the largest emitters in the world but is a key component of client benchmarks. To transition to cleaner product production, Sasol is dependent on transitioning to greener forms of feedstock from coal, and at this point there is insufficient comfort that we have line of sight into this required pivot, or the required capital expenditure. This was one of the key rationales for divesting from the entity to the extent that we did during the period, despite its undertakings to target net zero by 2050.

Developments: The Taskforce on Nature-related Financial Disclosures (TNFD)

The Taskforce on Nature-related Financial Disclosures (TNFD) released its final recommendations in September 2023. The framework aims to enable companies to assess, disclose and manage nature-related risks and impacts, with the intention that it will lead to consistent and comparable reporting by businesses and financial institutions worldwide.

The M&G SA ESG team held meetings throughout the year with numerous groups, including an informal nature and biodiversity group of asset managers to understand the South African context, stakeholder groups, and engagements with entities and issuers. In addition, M&G SA engaged with NGO groups in South Africa in order to understand how this framework might find application for our ESG purposes.

(ii) South Africa

Association for Savings and Investment South Africa (ASISA)

We are a member of ASISA, through which we collaborate on a few initiatives with our fellow investment managers in South Africa. These collaborations include responsible investing with examples of engagements with government departments and working groups, such as the Water Project Office, meeting with representatives from high emitting state-owned enterprises and engaging them on their projects and plans, and our bringing in a water expert to discuss the water crisis in South Africa with the large asset managers. Our ESG Manager is our representative on the ASISA Responsible Investing Committee.

Code for Responsible Investing in South Africa (CRISA)

We subscribe to the principles of the Code for Responsible Investing in South Africa (CRISA). We actively participated in drafting CRISA, which was launched in 2011. Our investment process and practices incorporate the five CRISA principles. These include ESG factors, proxy voting disclosure, and communicating with clients on our policies. We also look to collaborate within the industry where possible, examples include our work on water collaborations which are discussed further in this document.

King Code of Governance Principles (King IV)

In South Africa, we take guidance from the code of corporate governance principles as stated in King IV, which sets out best practice recommendations to achieve good corporate governance. It also recommends integrated sustainability performance reports to assist investors in assessing true economic value. In addition, one of its supplements for retirement funds requires pension funds to be responsible corporate citizens by taking account of sustainability issues, including identifying, assessing and managing ESG factors.

Developments: Amendments to the JSE Listing Requirements and Companies Act

JSE Listing Requirements:

The FTSE Johannesburg Stock Exchange ("JSE") has been amending its listing requirements during the period, and these were released officially in September 2024.

The outcome is a relaxation of some of the requirements to make provisions less onerous for smaller listed entities. Our concern is that governance standards could worsen, and we have previously raised concerns that the JSE listing requirements do not include, as a minimum requirement, compliance with company legislation of the entities' domicile. We have in the past raised breaches of the South African Companies Act with the JSE only to be told the JSE only requires select adherence to a few provisions.

Examples include the refusal to table shareholder resolutions by listed entities, in spite of what we view as clear compliance requirements in the legislation.

These amendments are out of the reporting period, and more granular detail will potentially follow, where relevant, in the next report or in client communications.

Companies Ammendment Act:

On 26 July 2024, the South African President signed the long-awaited First and Second Companies Amendment Act into law. It does not yet have an 'effective date'. This is also outside the reporting period, but it is worth noting that there is an impact on listed companies.

These primarily and most materially relate to remuneration aspects and pay gap disclosures. The remuneration policy makes certain aspects binding and has implications for members of the remuneration committee being removed or standing for election. We understand that the contention around the implications of this have delayed the effective date, along with discussions around proposed regulation to implement the legislation.

M&G SA's ESG Manager, along with a number senior ESG staff at other asset managers, has been making submissions to government departments and bodies in respect of the implications, via the Institute of Directors, of which our ESG Manager is currently a member of the remuneration sub-committee.

Controversial aspects of the amendments include removal of directors connected to remuneration under specific circumstances, levels of disclosure on remuneration and clarity on the impact of private company disclosures.

M&G SA have also actively engaged investee companies or issuers around the proposed changes, with a particular focus on the non-executive directors on their Remuneration Committees and how their remuneration policies might be amended. This engagement has been throughout the reporting period since drafts were released for comment. We expect one outcome to be more simple remuneration policies in South Africa, which tend to be heavier on detailed targets and benchmarking than some of their peers in Western and related regions.

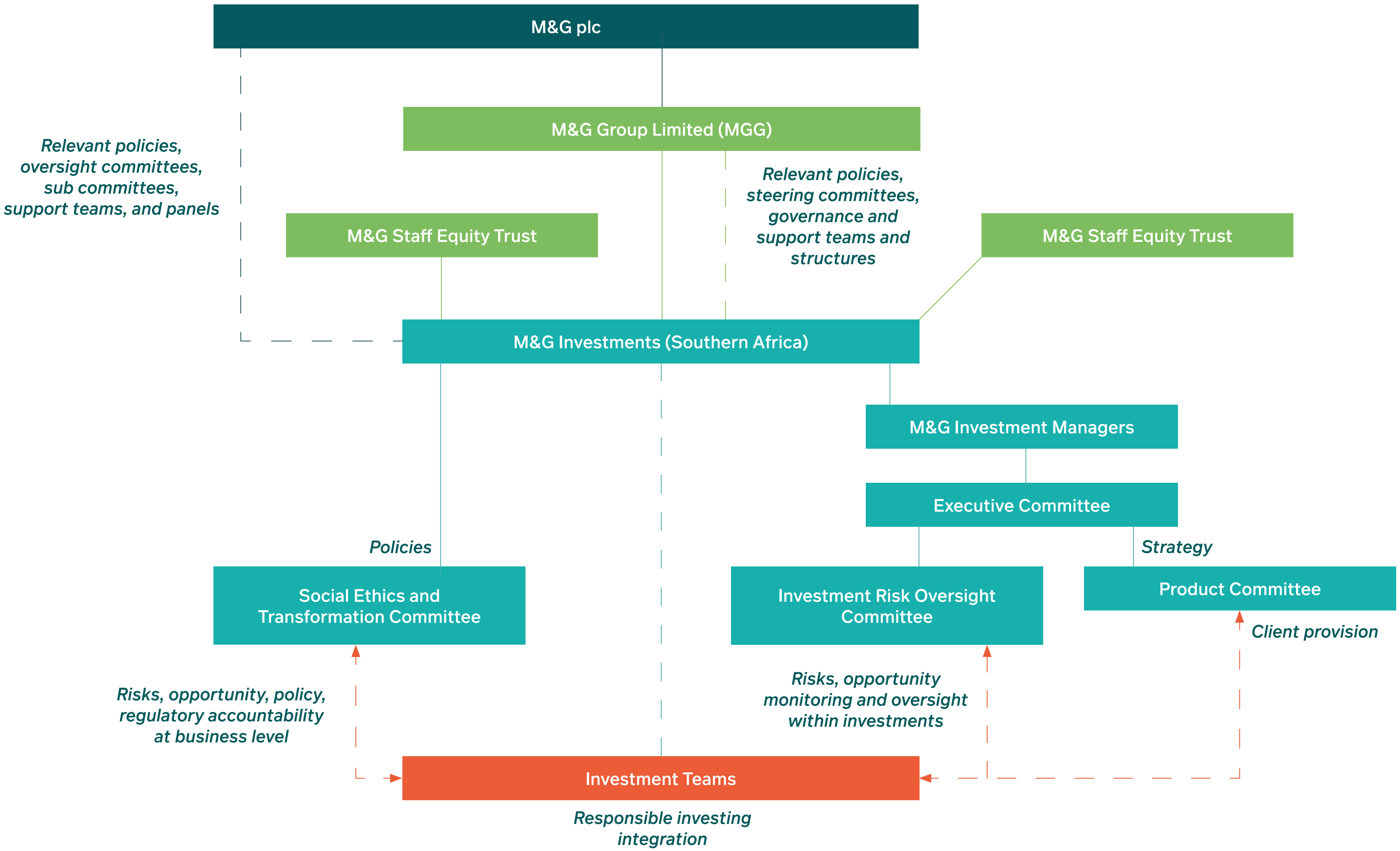
Climate Change Act:

The Climate Change Act was signed into law during period, and more detailed information on this legislation can be found here.

Sustainability Frameworks: Sustainability structures, Risk Oversight and Developments

Sustainability Structures

Much of the executive functions are established in our policies, guidelines and other reports, but in summary, the key structures ensuring ESG integration of stewardship and sustainability functions are shown in the below organogram and explained as follows.



*Even though M&G SA fits into the M&G plc and MGG governance structures, M&G SA has its own responsible investing and voting policies.

1. The Social, Ethics and Transformation Committee:

This committee takes responsibility for the Board's broader sustainability objectives and direction, themes, and regulatory functions. It has a particular focus on Climate, Social and Transformation aspects, such as black economic empowerment, and corporate social initiatives ("CSI"). Climate Risk is detailed further in our TCFD report, and social aspects are detailed in the CSI component of this report.

Risk Oversight:
This formal sub-committee of the main Board of Directors carries the regulatory oversight function related to aspects such as social considerations, transformation and climate risk, and receives quarterly reports from the ESG Manager on social, transformation and climate issues.

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2. The Investment team:

The team is responsible for integration of ESG and sustainability into the investment process, which is detailed further in this report under section here.

Risk Oversight:
ESG risks are integrated into the investment process through:
1. *the accountability of analysts (formally through the Responsible Investment Policy);*
2. *practical accounting of ESG risks into the investment process in their modelling work (where possible) and using in-house integration systems (those existing and under development and trial);*
3. *presentations to their peers in the investment team for voting on stocks and issues for buy and sell lists; and*
4. *monitoring and control functions on these risks.*

This process is discussed in more detail in on the next page.

3. The Investment Risk Oversight Committee (IROC):

This committee oversees a variety of investment risk metrics, including those relating to ESG. This committee is chaired independently from the investment team, and while it includes representatives of the investment professionals and the ESG team, it also includes risk analysts and risk managers from different business units, and other business department representatives to ensure separate oversight of investment risks, including ESG-related risks.

Risk Oversight:
IROC is a sub-committee of the Executive Committee and receives reports quarterly from the ESG team. These reports concern the ESG-related risks facing individual stocks and thematic risks to portfolios (as well as a variety of other investment risk metrics).

During 2022, an Oversight Watchlist was created for IROC, including escalation processes and documents. This Watchlist allows IROC to have oversight of key entities and/or issuers who may have material risks in respect of ESG and may impact investment returns or have a reputational impact on M&G SA and its clients through continued exposure.

This further allows an analyst to volunteer their stocks or issuers for oversight, or for this to occur automatically upon certain trigger events, many of which are ESG related. This also initiates notification to asset class heads and/or the chief investment officer for oversight, and for potential engagement plans to be initiated.

During 2023, the process was further refined and formalised in terms of documenting how entities are added to and are removed from the Oversight Watchlist.

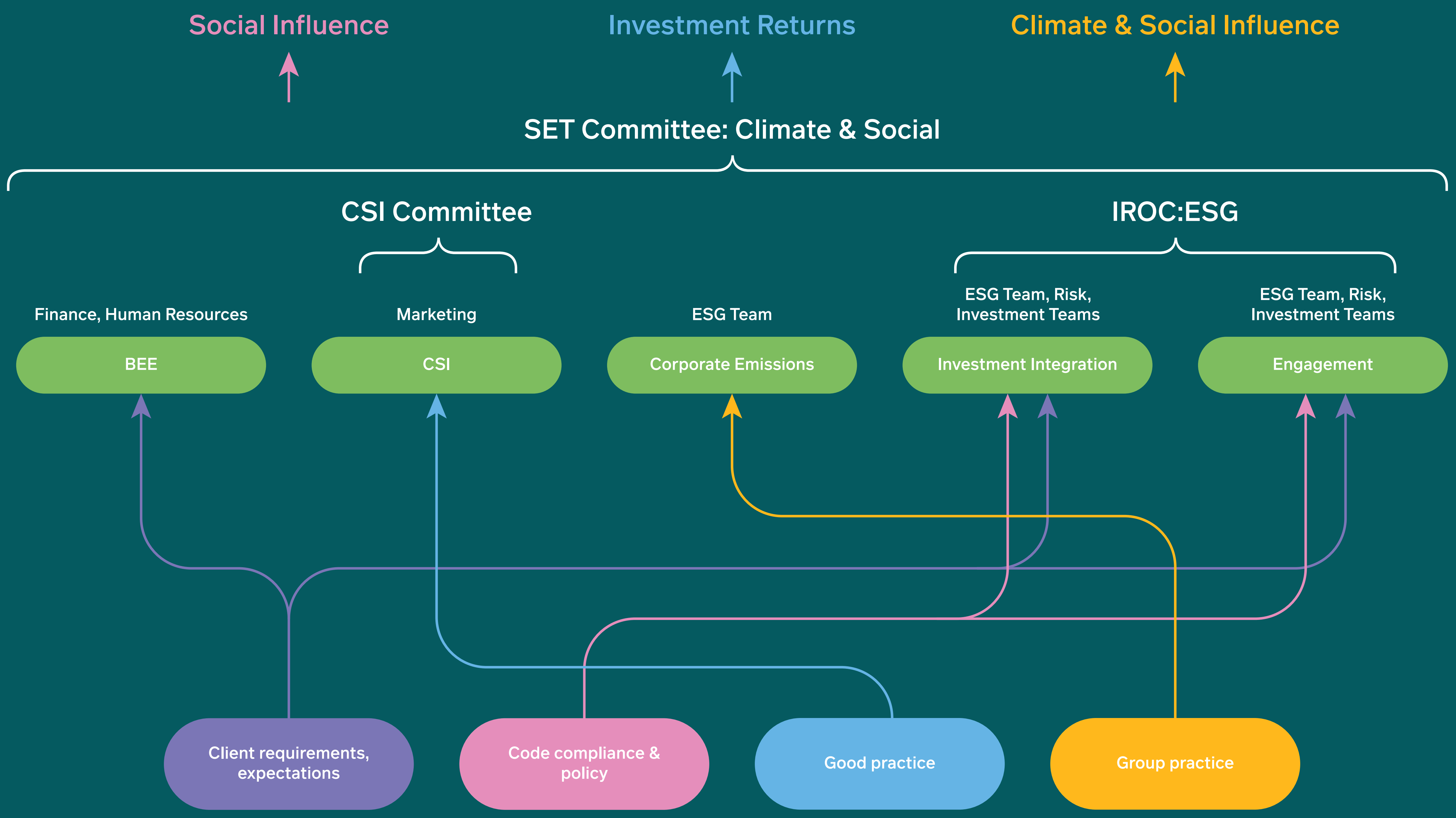
4. Product Committee:

This committee reviews our product offering to ensure they meet the sustainability and ESG needs of our clients.

Risk Oversight:
The Product Committee manages ESG risks to the business by ensuring our product suite remains relevant and responsive to the unique needs of our clients and other stakeholders. It also helps track new global developments and advances to improve the quality and extent of ESG-related solutions, drawing on M&G's global expertise.

This committee reports into the Executive Committee, as shown in the organogram (on page 9).

Below is a diagram illustrating the role of teams, committees and divisions in M&G SA in terms of Sustainability.



Developments

We also welcomed a new ESG analyst into the Investment Team in January 2024. A large focus of this role is to expand our expertise on climate and related data. The new analyst brings a wealth of experience in respect of climate data and protocols have already been strongly contributing to engagements and climate work, and is now adding nature and biodiversity work to their portfolio.

Responsible Investing: Principles and Integration

This section highlights our principles and processes around our active engagement with our investee companies on environmental, social and governance issues.

We touch on selected engagements over the period to illustrate how we engaged, and to share information about certain cases that may have been too sensitive to our investment case at the time. Clients can at any time request our quarterly engagement reports, which provide a regular high-level summary of our engagements.

Integration

We consider ESG integration to be the explicit and systematic inclusion of financially material ESG factors (both risks and opportunities) into investment analysis and investment decisions across our listed equity, corporate and sovereign debt, and listed property book of assets

M&G SA's approach to responsible investing comprises integrated fundamental analysis and active ownership. Active ownership is described in a separate section; the section below describes how ESG is incorporated into the investment process.

Screening

While including ESG issues into investment analysis is essential, broad "include/exclude screens" based on subjective viewpoints, are not commonly mechanically or quantitatively applied to Southern African assets without client reference. The investment universe in Southern Africa is quite narrow, and the effect of screening without client reference can contrast with the fiduciary duties of active management across a client's chosen investment universe. It may also reduce the opportunity set where ESG factors have been mispriced in the market. Rather, investment decisions are made after considering all factors, including ESG factors that can influence an investment's risk or return.

However, circumstances may exist where ESG concerns are sufficient to warrant either not investing in the entity or its issuance, or to hold a maximum underweight position relative to its benchmark position in the client's index. This can occur when the Investment Team reviews stocks or sectors, or by a process of escalation to the Investment Risk Oversight Committee.

Defined client requirements for exclusionary ESG screening can be accommodated for segregated mandates.

Integration into the ESG Process

ESG has not been reduced to a specific stand-alone step in the investment process.

The investment decision-making process takes into account the prospects of a company, in particular a holistic view of factors potentially affecting its sustainability, and this is where ESG issues play a material role.

Research

Research is conducted by the equity analyst on the stock or the credit analyst on the issuer. As responsible investors, the Analyst seeks to understand, amongst other things, the ESG risks facing the financial health and sustainability of these entities, confirmation that management is aware of these risks, their magnitude and impact on the business and broader society and is seeking to mitigate them. Analysts also seek assurance that management is sound and has an established practise of good governance with the correct degree of expertise, not only in the business, but also in respect of ESG issues.

This research primarily rests with the analyst, with assistance from the in-house ESG team, or peer analysts where necessary.
In addition, externally sourced ESG specialist research complements internal research.

Interrogation (and further research)

The stock/issuer research, including ESG factors, is presented to the relevant investment decision-making team for discussion and interrogation. This can be as a result of new developments, both ESG and non-ESG related, that pertain to the stock or issuer, sector reviews, or simply as part of the calendar of updating the investment team on a particular stock or issuer. The investment team may request further investigation into the ESG factors or a further adjustment to the model to account for these in our valuation process where warranted.

Voting

As part of the investment decision-making process, the team may decide to vote on the stock or issue to determine its continued or altered position on a buy or sell list. Material ESG factors are also accounted for at this stage.

Portfolio Construction

ESG factors are also integrated at the portfolio construction stage, especially as many ESG factors are not easily accounted for in the valuation process. As an example, governance is not easily accounted for in a future earnings valuation. However, adjustments can be made to the weighting during portfolio construction where, taking two similarly valued stocks, one may receive a higher allocation on the basis that it has stronger governance processes and structures, and is more likely to be a sustainable business.

Monitoring

ESG factors, as with any other material factor that influences a company or issue's valuation, are monitored. Items flagged during monitoring are fed back into the investment process above for consideration and potential engagement, and where required, escalated to the Investment Risk Oversight Committee.

Please refer to the section here for more details on the role played by the Investment Risk Oversight Committee and escalation processes for ESG risks.

Environment and Social: Water at Municipal Level

Background and Approach

In 2023, our focus was on water awareness, and in early 2024, we brought in a leading water expert to highlight South Africa's escalating water crisis. The country faces critical water supply issues, with government documents like the 2023 Blue Drop Report, issued by the national Department of Water and Sanitation, indicating that 29% of all South African municipalities are in a critical state for water treatment, and a further 18% were ranked as being in a poor state. Nationwide, municipal drinking water compliance stands at just 52%.

Additionally, Gauteng, the most populous province, relies on Lesotho for 60% of its water supply. However, the main supply system was scheduled for a six-month maintenance shutdown in 2024.

For the next step, we escalated to focus on the largest water users and providers in the country: the large metropoles.

This is particularly important given that municipal services in more rural metropoles are not functioning adequately for water delivery.

Much of this is due to governance failures rather than climate change, although climate is certainly affecting water availability, as seen in Cape Town's close brush with Day Zero in April 2018.

Objectives

The goals were tailored for each metropole, but common themes included:

- Understanding the risks and challenges, from technical expertise, funding, execution, logistics, competing objectives.
- Reassuring potential and current investors that the metropoles have the expertise and teams necessary to implement effective water strategies.
- Offering constructive support to technical teams we engaged with on water issues – leveraging our position as debt holders to escalate matters to decision-makers.
- Offer funding for viable projects and exploring potential new mechanisms and avenues for debt raising.

Action

As bond-holders and potential bond-holders, the intention was to galvanise support for municipalities and apply pressure where needed through collaborative action. The goal was to bring as many asset managers as possible to meetings to meet with the major metropoles, representing as large a group as possible of potential and current debt holders.

The format was engagement via video calls with the metropoles. M&G SA's ESG team conducted extensive research, which was shared in a slide pack ahead of a pre-meeting with interested participants. During the session, ideas were pitched about the approach and objectives for the specific meeting were set. The focus has been on making the meetings as constructive as possible, seeking solutions rather than simply adding to the chorus of those pointing out the problems.

Outcome

We successfully met with both the City of Cape Town and Ekurhuleni in 2024. The two meetings were quite different. City of Cape Town brought a large team, allowing for in-depth discussions on the water programs underway, significant challenges in handling effluent disposal to the sea, and plans for future water provision and safeguarding the current water supplies. Cape Town is growing rapidly but experiences very dry summers, so water re-use will be critical for its long-term sustainability. Unfortunately, in both cases, the municipal finance teams were not present, limiting the scope for discussions on water-specific debt.

Ekurhuleni brought a small team, and the discussions were quite broad. Ekurhuleni faces greater challenges in terms of aging infrastructure and revenue collection. Similarly, it was difficult to engage on water debt with the audience in attendance.

Nonetheless, both engagements brought insights into water management, the confidence of the municipality in resolving current issues, and the expertise within their departments. It also established useful contacts for future engagements.

Environment: Water from Coal Mines

Why site visits can make the difference

Background and Approach

Water may not be the first issue that comes to mind when thinking about coal mining. However, in South Africa, particularly in regions like Mpumalanga, coal mining operations face an ongoing and complex challenge with water management. High water tables in these mining areas lead to an influx of water into mine workings, and this water - often laden with sulphur, iron, and other contaminants - presents environmental and operational concerns that require long-term, sustainable solutions.

Understanding how mining companies are addressing these challenges is critical. Not only does it impact environmental sustainability, but also regulatory compliance, operational costs, and long-term risk management.

Objectives

In mid-2024, our ESG team visited coal-mining company, Thungela, to find out about its innovative, nature-based pilot projects to treat acidic, sulphur-rich water from its mining operations.

At the forefront of Thungela's efforts to better address acidic mine water from its operations is an innovative water treatment project at its Emalahleni Water Reclamation Plant in Mpumalanga. In collaboration with the Technology Innovation Agency, Mintek, the Moss Group, and the University of Pretoria, Thungela is testing the potential of "passive anaerobic treatment" to treat the sulphur-rich, acidic waters produced by its mining operations.

Another approach concerned using lime rock and various water 'locks' in channels to contain and treat acidic water percolating through old coal mine dumps. This method relies on the slower movement of water and the biomass to precipitate some of the metals and reduce acidity before it enters wetlands. Phytoremediation (use of plants to degrade pollutants) is also used to absorb water, slowing its progress and providing more time to 'percolate' through the artificial wetland and 'donga' systems.

Action

This was the first of two big site visits to mines focused on water in 2024 (the second falls outside the reporting period). It was essential to get a firsthand understanding of the scale of these operations. It can be challenging to envisage the size of small forests planted for phytoremediation, or the size of pilot water treatment project plants from just numbers, which is why site visits and visual confirmation can be extremely informative to differentiate a forest in progress, and closely packed seedlings.

We were given extensive access to the plants, laboratories and operations during their normal operations. The company was generous with both time and access to all staff, including operational surveillance rooms and water testing laboratories.

Outcomes

From an ESG perspective, the importance of innovative water treatment initiatives cannot be overstated.

While the technology in the passive treatment is not yet a "radical game-changer," it represents a significant step forward in the mining sector's ongoing battle with acid mine drainage. Scaling up such systems will be challenging, particularly as large pools and careful control over environmental factors like temperature and substrate types are required. But it demonstrates commitment and allocation of resources for lower energy and potentially longer-term solutions.

The treatment of mine dump water outflows was insightful. We saw noticeable improvements in the water quality and increasing nature and biodiversity as we moved from the first major culverts to the entrance of the wetlands.

Site visits also provided us some additional insights that were not initially sought but were of interest:

- We observed other land that had been remediated where a full town, complete with post office, once stood. Aside from two out-of-place weeping willows, it was impossible to tell that a town had once been there. This gave us valuable insight into the company's past remediation efforts.
- We had the opportunity to ask general staff about transfers to other operations as Goedehoop closes, their feelings about the transfers, and the impact on their well-being and families.
- We engaged directly with the teams running the projects on the ground, asking questions, and engaging on the technical challenges and outcomes.
- As we toured the facilities and drove to the sites, we observed their safety processes in operation in different parts of the plant and locations. It was easy to gauge the equipment, staff attitudes, and the routine nature of staff to safety practices.

Social: Mining Safety

Please refer to the section below.

Background and Approach

Mining, particularly underground mining, comes with inherent risks. Groundfalls, despite tremendous progress from seismic monitoring, can still be inevitable. The sheer scale of the equipment, and mining conditions, can be challenging. It is therefore critical that the mines take every practical measure to mitigate safety risks through equipment, mindset and training.

At Impala Platinum, on 27 November 2023, a conveyance cage hoisting miners to the surface after their shift fell down the shaft, resulting in the deaths of 13 miners and 75 injured.

During the financial year, separate fatalities occurred, involving trams, conveyor belts and scrapers.

Objectives

The circumstances surrounding the mine shaft accident were well known, and it was important to determine whether the deaths, in addition to those caused by the falling conveyance cage, were isolated instances, process failures, or indicative of a broader cultural issue around safety that needed to be addressed.

Action

The discussion occurred in a meeting with both board members and executive and operational management during a roadshow.

This provided us the opportunity to ask questions about the nature of the fatalities and assess if these were isolated instances, process failures, or if there was a broader cultural issue around safety. The goal was to understand the context in which the accidents occurred, whether any further training was required and conducted, or if there had been any changes to operations and procedures. Additionally, it was important to explore the mentality of workers and supervisors towards safety.

Outcome

The incident involving the failed elevator cable is pending potential inquiry or inquest by the Department of Mineral and Petroleum Resources.

The other incidents each carry their own complexity. While no fatality is acceptable, there is sufficient evidence to suggest that the other deaths were either not caused by the mine's negligence or resulted from circumstances and human actions beyond their control.

Management provided insight into systems and techniques to foster and maintain a culture of safety, including shift member rotation, voluntary disclosure, testing for harmful substance levels.

This is an area we will continue to monitor and engage with the entity throughout 2025.

Governance: Boards

Background and Approach

This is also addressed under the 'Voting' section below, where we discuss issues related to tenure, over boarding and lack of sufficient experience.

New appointments continue to include individuals linked to state capture or with prior associations to entities that raise concerns about their independence.

Furthermore, some board members have been appointed despite having corruption allegations, or histories involving allegations of sexual misconduct. This situation becomes complicated when there has been no prosecution, or when allegations are privately resolved and settled.

The common response is that Chairs of the board or the Chair of the Nomination Committee will revert to us and claim there was no successful prosecution in terms of the allegations. In one case in a prior period, the individual claimed to have returned the assets as soon as the information came to light.

The above contradicts two key principles that boards must be mindful of:

i. Non-Executive Directors are formally approved by shareholders through voting and are meant to represent shareholders. The onus is not on shareholders to prove that a director is inappropriate or unfit, failing which they should be allowed to serve. The converse is true, it is shareholders who have the election, and the power to decide who is ultimately best suited to represent them.
ii. Boards must appear to be appropriate as much as they are truly appropriate. The value of an entity lies in the trust and reputation of those governing it. It is unhelpful if an entity is perceived to be managed by dishonest individuals, it will face challenges in attracting investment and maintaining positive business and regulatory relationships.

Objectives

When engaging entities facing these circumstances, we aim to ensure that the board:

- Conducts appropriate due diligence on potential board members,
- Investigates any allegations thoroughly and provides sufficient rationale to ensure that these do not taint the entity's reputation.

Action

We engaged senior board members, from Chairperson to relevant committee chairs, but were somewhat surprised when, in the one instance, they reverted with a report from the very agency that suggested the candidate. Naturally, this represents a clear conflict of interest.

In both instances, the candidates reached out to us. In the one instance, we were prepared to engage, even though the candidate withdrew. This was a helpful and constructive engagement, providing some insight, although unlikely to have changed our view on their appropriateness for the board.

Outcome

In one instance, the board member chose not to stand for election. In the other, the candidate proceeded to election and was approved as a board member. In the case where the candidate was approved, we were not entirely surprised, as it seems other shareholders do surprisingly little review of directors standing for appointment.

Responsible Investing: Engagement developments

Nature and Biodiversity

Nature and biodiversity have become increasingly important for financial institutions alongside climate change; however, the former has presented greater challenges in understanding its myriad of intricacies and impacts. Climate change and emission reduction initiatives, whilst still laborious and complex, have become more standardised in GHG accounting, albeit often with data challenges. Nature and biodiversity risk management and the reporting is being adopted at a much slower rate by a limited number of entities due to the limited understanding of its impacts, especially seen across financial institutions.

The evolution of the Group sustainability strategy in 2024 utilises a new sustainability framework as part of which nature and biodiversity have been identified as a developing theme. Working groups across M&G Plc and MGG have been established to identify nature and biodiversity focus areas across the wider Group and establish internal biodiversity and nature strategies and frameworks. M&G SA participates in these.

Nature and biodiversity as an engagement theme is focus area for M&G SA as part of its stewardship activities, when engaging with companies alongside climate change transition plans in the future. Initial work of this is underway and will be carried out in collaboration with MGG's Climate Committee. Whilst we recognise this work is in its early development, M&G SA recognises the interconnectedness of climate change and nature and its critical role in maintaining sustainable planetary boundaries.

Work in this space is already underway at M&G plc Group. These include M&G Catalyst's investment in Biobest that provides solutions to reduce the environmentally harmful use of chemical pesticides. Traditional pesticides are often responsible for vast environmental damage and health issues. This capital provided by Catalyst has helped Biobest fund and acquire Biotrop – a Brazilian biological solutions specialist in open field crop nutrition and protection. More of this case study can be found in the M&G plc 2023 Annual Report. Furthermore, M&G plc is also a member of the TNFD (Taskforce for Nature-Related Financial Disclosures) Forum through which it engages with materials provided and published by the Taskforce, including the final TNFD Framework that was released in 2023. Since its launch, M&G plc have also joined the investor engagement initiative Nature Action 100 to extend its collaborative stewardship efforts.

To stay abreast of nature and biodiversity developments and deepen our knowledge and expertise in this area, M&G SA's ESG team attended one of the IFC's Investment Consultants' Responsible Investment Workshop's on nature and biodiversity earlier this year. This covered the importance of nature and biodiversity, its interconnectedness with climate change, its challenges and some of the local frameworks that have been developed for companies in South Africa. Our participation in these and similar workshops and conferences are part of our efforts to understand the complexities our investee companies are tracking and to help us use this knowledge in our stewardship efforts and engagements.

Social Aspects

Similar to the above work on nature and biodiversity, M&G SA has undertaken the task of improving its engagements with investee companies around their social ESG issues. Social impact, much like nature and biodiversity, is more challenging to measure. This is not to say it is always complex, mining safety (see the engagement with Impala Platinum) can be easy to monitor and measure, even if practically it is in a challenging industry. Areas of social impacts of mining on supporting the economy and impacting surrounding communities and their environment, is significantly more complex and subjective in many instances.

There are, however, frameworks and guidelines which enable and help financial institutions and asset managers to engage more effectively. M&G SA is working on creating a more refined internal engagement guideline that incorporates global frameworks, with specific focus on social metrics and themes, to ensure that we are continuously improving the quality of our stewardship engagements and aligning them with best practice.

Focus on Climate: Developments in Regulation

Climate Change Act

On 23 July 2024, President Cyril Ramaphosa signed the Climate Change Act into law.

Although this development occurred a few days after the reporting period for this report, it is worth including as it was launched somewhat quietly. With the regulations that accompany it still requiring further development, its impact and market reception remains to be seen at this stage.

This landmark legislation aims to guide the country towards a low-carbon and climate-resilient future, aligning South Africa with global efforts to combat climate change. Although the Act has been officially promulgated, its implementation will only commence from a date announced by the President.

The Climate Change Act has been criticised for lacking explicit penalties for companies that exceed their carbon budgets. While the Department of Forestry, Fisheries and Environment has suggested possible amendments to Carbon Tax legislation to address this, no changes have been implemented yet. Despite this limitation, Section 30(1)b of the Act does allow the Minister to introduce future incentives and disincentives to influence greenhouse gas emissions behavior. The absence of penalties, while potentially beneficial for companies in the short term, may undermine the Act's effectiveness in achieving climate mitigation goals and ensuring compliance.

While South Africa's Climate Change Act represents a significant step towards addressing climate change, its success will depend on the implementation of effective enforcement measures and the acceleration of renewable energy infrastructure development.

At M&G SA we are diligently tracking these developments and advocating for stronger measures to hold companies accountable while promoting climate-resilient practices. Until regulations around penalties or additional carbon taxes are established, ensuring accountability remains a crucial focus for investors dedicated to combatting climate change.

ESG considerations are integral to our investment approach, and we strive to make a tangible impact as active stewards and capital allocators. We believe it is essential to direct capital towards companies that support a just transition and encourage high-carbon firms in shifting to sustainable business models through engagement and collective action. Although the journey will be complex with many challenges along the way, we are fully committed to navigating it.

This stewardship around carbon emission reductions is further unpacked in the section below.

Focus on Climate: Engagements examples

Sappi

Background and Approach

Sappi, a South African pulp and paper company, is a noteworthy example of an organisation actively engaged in the challenge of mitigating climate change. The company has taken significant steps toward renewable energy adoption and sustainability, yet, like many companies operating in resource-intensive industries, it is encountering obstacles in committing to long-term, net-zero emissions targets. The complexity of South Africa's energy sector, heavily reliant on coal-generated electricity, plays a significant role in the challenges Sappi faces.

Sappi's approach to sustainability appears to be genuine and sincere, with significant efforts focused on deploying renewable energy solutions and reducing its carbon footprint. Globally, 63.3% of the energy Sappi generates comes from renewable sources, such as black liquor, bark, sludges, and purchased biomass. The company has made sustained progress in enhancing energy self-sufficiency, improving energy efficiency, and decreasing its reliance on fossil fuels, further lowering its carbon footprint. Sappi has committed to reducing scope 1 and 2 GHG emissions by 41.5% per ton of product by 2030 (from 2019 base year).

The company's environmental, social, and governance (ESG) initiatives have been under observation by M&G Investment's ESG team, who acknowledge the strides the company has made in renewable energy efforts. However, the company remains cautious in making long-term, firm commitments to net-zero targets, particularly in the absence of a clear resolution to South Africa's coal dependency, which poses a significant challenge to realising such goals.
Sappi's focus has been on setting medium-term plans for reducing carbon emissions, a strategy that aligns with their culture of integrity and commitment to meeting feasible targets. While this cautious approach has led to recognition of the company's sustainability progress, it has also prompted a dilemma: how to manage shareholder expectations and global scrutiny, especially from foreign investors with specific sustainability benchmarks.

Objectives

While shareholders are understandably concerned about sustainability, it is crucial that they take a balanced approach when engaging with the company. We believe shareholders should refrain from pressuring boards to commit to long-term targets without fully understanding the challenges and uncertainties involved in achieving them. Instead, shareholders should work collaboratively with companies to explore interim ambitions and create pragmatic solutions that allow for progress without unrealistic expectations.

Action

Starting in early 2024, M&G SA had established a constructive dialogue with Sappi's investor relations team. This dialogue paved the way for a formal request to be presented to the board for consideration at the November 2024 meeting. The request focused on exploring net-zero emissions as a future ambition, acknowledging that the target would be subject to local challenges and uncertainties. At the same time, M&G SA commended the company for its ongoing efforts and strong medium-term targets, which reflect a credible and sincere approach to climate change mitigation.

Outcome

By taking this measured approach, we hoped to achieve alignment with Sappi's leadership, ensuring that the board felt comfortable considering net-zero emissions as a long-term goal while recognising the practical challenges of achieving such an ambition.

As we move into 2025, we plan to continue our engagement with Sappi's board and management. We hope to review the company's 2024 results and provide further feedback on their sustainability progress. This ongoing dialogue is key to ensuring that Sappi continues to make meaningful progress in sustainability, while balancing ambition with the realities of the operating environment.

Sasol

Background and Approach

Sasol is one of the highest emitters in the world, but plays a critical part in the South African economy. It has committed to a net zero target, but the viability of this target is in question.

Sasol faces challenges in terms of needing to balance its cashflows between needing to exercise debt reduction (and potentially reducing dividends) on the one side, and with needed capex for both its operations (e.g. de-stoning), and meeting regulatory compliance on emissions as well as its shorter term emissions targets (through boiler turn downs in both temperature and reduction in their number).

In the longer-term the natural gas supply from Mozambique, which has been a planned substitute feedstock as part of its decarbonisation plan, is likely to run dry around 2034. Natural gas prices mean importing this from elsewhere is not currently viable, and there may also be a deficit of infrastructure to viably bring this gas into their operations.

Objectives

In order to meet 2030 targets, it seems fairly certain that boiler turn downs and renewable energy input was going to be insufficient, and so production will potentially be decreased by circa 1 million tons of coal in the 2030 year (if it is able to restore coal production to prior levels). These levers were important to understand in terms of the impact on both emissions and total production.

It was therefore important to engage Sasol on the potential to meet its shorter term targets, and understand the emissions and production impacts of the planned actions to reduce and turn down the number of boilers, as well as test its commitment to a reduction in coal production if operations were restored.

Action

We engaged Sasol collaboratively with team members from our UK office's M&G Investments asset management arm on the viability of the shorter term targets, and seeking specific detail on the plans and their impact. We have found Sasol has stepped up its willingness to engage both in ambit and granularity, and hoped this would continue under the new CEO and next FD. We were impressed by the level of detail and access to their technical expertise, but remained unconvinced that their shorter term climate goals could be achieved without a significant reduction in use of coal as feedstock, which presented a solution of rather reducing the final product than making the product itself less impactful in terms of its production emissions.

Outcome

We moved underweight in Sasol during period, and further so following the meeting. This reflects both the potential for uncertainty in the earnings outlook for the entity in terms of viability of current and future feedstock, as well complex capital allocation decisions it faces. It also will be unable to easily grow volumes beyond prior levels. This preceded the news of the FD resigning, but a change in CEO and FD subsequently raised questions if the new CEO intended holding to the "Sasol 2.0" as envisaged by the former CEO Fleetwood Grobler.

Subsequent to these meetings there have been statements by the new CEO that have created market uncertainty as to whether Sasol is willing to reduce its production to meet its shorter term climate targets.

Corporate Governance in Action: Voting

Voting Policy and Guidelines

Whilst reviews are undertaken on an annual basis, no material changes have been made to M&G SA's Voting guidelines throughout 2024. Comprehensive changes were made to the guidelines in 2022 and will be followed by potential updates in 2025.

Our equity analysts continue to be responsible for the majority of voting decisions, unless clients have specified this in their own policies or mandates as to how their shares should be voted; this, however, is not a common practice, nor often practical, and our votes remain largely to the expertise of our investment team.

Our teams have acquired legacy/institutional knowledge of our listed investee companies over the years, with a deep level of insight into these businesses and markets, and for this reason M&G SA does not employ a proxy voting service to undertake any of these votes. When required, our ESG department will work in conjunction with analysts around specific votes that pertain to ESG issues. All decisions continue to adhere to our proxy voting policy and can be at times supplemented with governance research with local specialists when required.

IROC (the Investment Risk Oversight Committee) continues to play an integral role throughout the voting process. Specific voting items such as issues around climate change, and major corporate actions, will trigger escalation and oversight processes. This ensures that all material ESG voting issues are duly considered and consulted, as part of our ESG integration process, as extended to our proxy voting.

Director Appointments

Adhering to our Proxy Voting Guidelines, M&G SA will frequently vote against the (re)appointment of directors and committee members when:

- tenure has exceeded our guideline time frames;
- directors have evidence of being involved in state capture or demonstrate poor records of good governance;
- directors fail to demonstrate independence of thought;
- and in cases where directors are over boarded and do not have sufficient capacity to undertake their responsibilities effectively.

Themes that continued to emerge in our proxy voting over the reporting period were related to tenure, lack of director independence and lack of capacity to due to being over-boarded. Tenure exceeding 9 years has generally been voted against, unless exceptional cases prove directors necessary.

An example of this was seen when we voted against a director of an industrial resources company who has been serving as an 'independent' director of the board for 14 years. Such a long tenure exceeds our 9-year threshold which can no longer classify this director as independent of thought. There were no extenuating circumstances such as a failure of succession planning due to unforeseen circumstances. As a result, we voted against the resolution.

Capital Structures

Examples of capital structures that were voted against generally pertained to resolutions that issued shares for cash which M&G SA is not supportive of. Adhering to our voting policy, we continue to oppose such resolutions through which the firm raises excessive capital or issuance of ordinary shares without sufficient shareholder consultation.

Remuneration Policies and implementation

Instances in which we have voted against remuneration policies and their implementation are generally due to elements of remuneration policies that are misaligned with our principles in creating shareholder wealth or polices that fail to provide adequate, sufficient and clear detail.

Shareholder resolutions

Shareholder resolutions are not a common practice in South Africa; however, we are supportive of these if they address issues appropriately. Shareholders have the right to propose resolutions in line with the shareholding hurdle which is specified in Companies Act and the Memorandum of Incorporation (the company's founding documents and its 'guiding rules'). In line with our policy, we are generally opposed to resolutions that seek to alter organisation's strategies, as these are responsibilities for the chief executive to determine with the board's approval. We have seen NGOs propose shareholder resolutions at general meetings and have at times been dismissed by the directors and management of organisations. This is dismissive of shareholder rights (if the threshold has been met) and is an issue we will engage companies with to ensure principles of good governance are maintained.

Corporate Climate Resolutions

Climate resolutions proposed by companies are becoming increasingly relevant at general meetings. As our previous reporting has noted, these resolutions often receive mixed sentiment. Some shareholders have expressed that these resolutions provide helpful guidance around climate strategy, whilst others have expressed opposing views that these strategies should not be presented by management, as management are then redirecting the approval of these strategies to shareholders. This can make shareholders responsible, to some degree, for the approval of the strategy instead of a firm's management.

Management should ultimately be held accountable for the drafting and implementation of these climate change strategies; if failing policies have been passed through to shareholders, management are somewhat 'excused' from their ineffectiveness.

Both arguments have merit. It is therefore important to understand the context, objective, ambition and impact of the resolution.

During the period, M&G SA abstained from voting around a particular corporate climate resolution of a leading energy and chemical company's progress on its decarbonisation plans and net-zero ambitions. In this particular case, the resolution appeared poorly crafted, bordering on management overreach and neglecting the role of shareholders.

Instead, we have responded to these environmental plans and initiatives through our stewardship and engagement activities with management and the organisation's relevant sustainability team members. We continue to actively engage with companies on their emission reduction initiatives.

Corporate Responsibility: Corporate Social Investment (CSI) Report

Our approach to corporate social investment

In a nation facing significant social and economic challenges, we at M&G SA strive to empower communities through meaningful action that benefits them positively both now and for generations to come. As long-term investors, we understand that our enduring commitment and unwavering dedication to upliftment are crucial to achieving sustained success and genuine empowerment.

Core to our approach is creating long-term partnerships with existing community organisations. This deepens our understanding of their challenges, empowering them to make progress in the areas that need it most. We collaborate with our Corporate Social Investment (CSI) partners to make a real difference through the transfer of sustainable skills, resources, and financial contributions.

Leveraging global support from M&G plc

The added advantage of being part of a global investment company is the ability to make a greater impact with the additional support of our parent company, M&G plc, for our community initiatives. M&G plc actively partners with charities and NGOs on local, national, and international programmes that create opportunities to bring colleagues together and support communities.

Creating lasting change through investment in education

At M&G SA, we believe that education is the most powerful tool to break the cycle of poverty and foster active societal participation. This belief fuels our long-standing commitment to educational initiatives, which lie at the heart of our CSI strategy.

Our vision is to enable of quality education for as many people as possible. Embracing education supports the UN Sustainable Development Goal 4, which emphasises that achieving inclusive and quality education for all is a proven vehicle for sustainable development, and one of the most effective ways to reduce gender and wealth disparities in society.

Forging lasting partnerships to drive progress

We are proud of our long-standing relationships with The LifeMatters Foundation, LEAP Science and Maths Schools, and SAME Foundation. These organisations are passionate about educating our youth and providing the infrastructure and support systems needed. Our shared values and collective efforts are channelled into making a positive difference and creating lasting change in the communities that we serve.

Delivering on our CSI commitment

M&G SA's Corporate Social Investment Committee leads our CSI programme, both externally and internally, under a mandate from the M&G SA Social, Ethics and Transformation (SET) Sub-Committee of the Board.

Our CSI Committee champions our purpose of promoting inclusivity and sustainable socio-economic equality through education. It identifies CSI projects and partners that are aligned to our CSI strategy and purpose, and oversees the allocation of the CSI budget, the staff funding application process for community initiatives, and in-house fundraising activities. The Committee also monitors and records the progress of initiatives and their impact on beneficiaries, ensuring initiatives reach diverse regions across South Africa and Namibia, and make a meaningful difference.

Our activities include three types of initiatives:

- CSI partner initiatives: We engage at a corporate level with registered non-profit organisations working in communities most in need.
- Living CSI initiatives: Through staff in-house activities, we generate donations to community projects identified as priority areas.
- Staff community initiatives: We fund community projects that our staff are directly involved in.

LEAP Science and Maths Schools

Empowering our youth for a brighter future

We have a long-standing partnership with LEAP Science and Maths Schools, which provide high-quality education to students from underprivileged communities.

During the period, we contributed to the educational expenses of three LEAP schools in Gauteng, specifically in Linbro Park, Diepsloot, and Ga-Rankuwa, benefiting over 3,800 students.

Our donation was used to enhance teaching and tutoring, provide essential educational materials like textbooks and science kits, support cultural activities, and improve health, sports, and stationery provisions. For example, the science kits have made learning more interactive and engaging, sparking students' interest in science and technology. Access to new textbooks has significantly improved academic performance by providing up-to-date information and study materials. The provision of essential stationery, such as writing books, pens, and rulers, has also been critical, helping students who otherwise might not have had these basic tools for learning.

“When learners come to our centres of excellence, they receive more than education, they receive career and personal emotional development and become part of a family. This is a significant commitment as it represents a like-minded partnership which means like us; you recognise the challenges faced in present day South Africa and that you want to be the response to complex problems which affect young people in under-resourced communities. Because of M&G we are able to annually transform and advance the lives of more than 1673 young people nationally. Your partnership with us empowers young people to become economically active citizens able to stand on their own two feet and be the best that they can be.”

- Nicole Buckley, Fundraising Manager at LEAP Science and Maths Schools.

Mandela Day

For our Mandela Day initiative, M&G SA staff contributed various essentials, including bread, spreads, grocery items, and books, alongside their voluntary time making sandwiches and covering books. We distributed 840 sandwiches, numerous non-perishable food items, and a substantial collection of books to LEAP Crossroads in Philippi. We also provided LEAP Crossroads with funding for essential educational materials, such as textbooks, stationery, and printing costs. Additionally, we donated grocery items to LEAP Ga-Rankuwa.

SA Medical & Education (SAME) Foundation

Enhancing educational infrastructure

Our partnership with the SAME Foundation continues to make a significant impact in underprivileged communities, particularly in the enhancement of education and healthcare infrastructures. SAME addresses critical gaps in government funding, focusing on providing resources essential for community development.

Many South African schools, particularly in disadvantaged areas, face a shortage of basic furniture. During this period, we assisted in furnishing Mosupatsela Secondary School in Gauteng, which was rebuilt at the end of 2023. This contribution allowed the school to equip classrooms with essential desks and chairs, drastically improving the learning environment for students. The school expressed heartfelt gratitude, noting how this donation has transformed the way students engage in their studies, ensuring they no longer need to share seating or sit on the floor.

“ We extend our heartfelt gratitude to you for this incredibly impactful investment in our school. We look forward to utilizing the resources to improve our STEM and robotics programmes to further the knowledge and skills of our girl learners, to enable them to achieve their full potential in this modern world. ”

- Ellen Mathopo, Letsibogo Girls Secondary School

LifeMatters Literacy Programme

Advancing literacy and educational support

Our support for LifeMatters continues to yield significant results. During this period, the program helped 69 learners develop foundational skills at a pace tailored to their individual abilities, which they would not have achieved in a traditional classroom setting.

This success is particularly noteworthy given the challenges faced by students in overcrowded classrooms. LifeMatters focuses on providing personalised attention to learners, helping them overcome literacy challenges and achieve academic success.

As part of our Mandela Day activities, we supplied books to LifeMatters to be used in their literacy programme.

By investing in initiatives like LifeMatters, we are addressing disparities in education and empowering learners to unlock their full potential, setting them on a path to future success.

Chic Mamas

Supporting early childhood development

Chic Mamas is a volunteer-based NPO focused on raising funds for educational initiatives in the Early Childhood Development (ECD) sector. Our funding has helped transform Empilweni Primary School in KwaZulu-Natal by creating a fully functional kitchen, sandpit, and jungle gym for preschool children. Additionally, we funded a multifunctional playpark on an adjacent abandoned tennis court, which has been re-fenced. One half has been resurfaced for basketball and tennis, while the other is equipped with a large jungle gym and obstacle course for primary school children. A 12-metre container is also being converted into a library for the school community.

The Learning Initiative

Another beneficiary, The Learning Initiative (TLI), has worked with the Western Cape Department of Social Development to develop therapeutic interventions for 4- to 5-year-old children in disadvantaged communities, ensuring optimal growth and development. Our donation will extend these vital services to five ECD centres in the Western Cape, empowering young learners and fostering their full potential.

ABC For Life

Developing literacy

ABC For Life is an NPO dedicated to supporting primary school students with literacy challenges. Our contribution supports their Foundation Phase Literacy programme, which serves over 550 Grade R-4 students across three low-income schools: Hout Bay Primary, Ithemba Primary, and Muizenberg Primary. ABC For Life provides daily literacy support through whole-class teaching, small group sessions, and individualised lessons, making a lasting impact on the lives of young learners.

University of the Western Cape's Access-to-Success Campaign

Alleviating student debt

We supported UWC's Access-to-Success campaign, which helps financially disadvantaged students settle fee balances, enabling them to graduate without the burden of debt. Our donation has already helped clear the debt for 11 students, promoting academic success and financial relief as they start their careers.

Endurocad

Empowering young women

Endurocad is a women's empowerment and athlete development academy. Our contribution supports the Endurocad Achieve Young Women Empowerment Programme, which has empowered over 100 young women across 13 schools in the Cape Winelands. The programme offers a holistic approach, blending athletics, personal development, and career-focused workshops. Our donation will help fund the participation of one school in this transformative initiative, fostering resilience and self-confidence in young women.

Help Lesotho's Smart Kids Programme

Fostering youth leadership and life skills

A new addition to our CSI activities for this year was Help Lesotho's Smart Kids Programme, which enlists graduates from Help Lesotho's leadership and life skills programs to tutor students in their communities, providing educational resources and psychosocial support. Designed to address challenges amplified by Covid-19, the Smart Kids programme has already benefited over 4,300 students in its first year.

U-Turn

Supporting the homeless while celebrating diversity

On Heritage Day, we celebrated South Africa's rich cultural diversity through a community-focused initiative called "A Dish, A Difference." Staff members shared dishes that reflected their personal heritage, and for every dish contributed, M&G plc pledged a donation. Proceeds from this initiative were donated to U-Turn, an organisation dedicated to supporting homeless individuals. This contribution provided shelter for 128 people for a month, offering them respite from the challenges of living on the streets.

In addition, M&G SA staff members are distributing vouchers to homeless individuals, ensuring that our commitment to alleviating homelessness continues year-round.

Saartjie Baartman Centre for Women and Children (SBCWC)

The SBCWC stands as a comprehensive facility, providing support to women and children who have endured abuse. It functions as a one-stop center offering a sanctuary for survivors and fostering empowerment and healing through specialised services.

In marking Women's Day in South Africa, we pledged a donation to support the centre's daily needs and reinforce their mission of restoring hope and security to survivors. This contribution helps to strengthen the vital work of the SBCWC, ensuring they can continue to support vulnerable women and children.

Staff-nominated community initiatives

We also help fund select community projects that our staff are directly involved in. Below is a summary of some organisations supported:

1. **Ottoman Cricket Club** - Established in 1882, the club is one of the oldest cricket clubs in the Western Cape, with members representing various areas. To sustain its operations, it relies heavily on sponsorship and donations. Our funding supported the club's kit expenses, allowing them to secure quality equipment and subsidise costs for their members.
2. **Vuyiswa Home for Disabled** – The home, situated in Orange Farm, caters for up to 90 people who suffer from a range of mental and physical disabilities. Our donation made it possible for the home to buy a much-needed washing machine as well as purchase and install two geysers.
3. **Shark Spotters** – We became a Shark Spotters "Gold" supporter with this donation, providing funding in support of education, community development, and conservation of our coastline and ocean – including beach pop-ups and clean-ups.
4. **Hannah's place of safety** – Situated in Mitchells Plein, they provide safety care for abused, abandoned and neglected babies. We made a donation to purchase nappies, formula and clothes. A portion of our donation also went to paying their electricity bill.
5. **Simanyene Centre of the Disabled** – We treated 30 occupants of the centre to a day of shopping at Somerset Mall so that each could choose a brand-new outfit for themselves. For many, this was the first time that they were able to choose new clothes.
6. **St Augustine's Cricket Club** – For the second year, we have donated to their project to resurface the cricket pitch and install nets for practices. Our donation was used for the nets.
7. **SCOUTS - SCOUTS South Africa (SSA)** is a volunteer-driven educational organisation with over 115 years of history, preparing children and young adults (ages 5-30) to be confident, independent citizens and catalysts for social change. The funding was used to train the youth and children in the Khayelitsha cluster of Scouting-in-Schools, and to purchase spring onion and spinach seedlings, compost, and tools needed to establish the vegetable gardens. It also covered transportation of these goods to the schools.

Our CSI in Namibia

During the period, M&G SA supported two beneficiaries in Namibia:

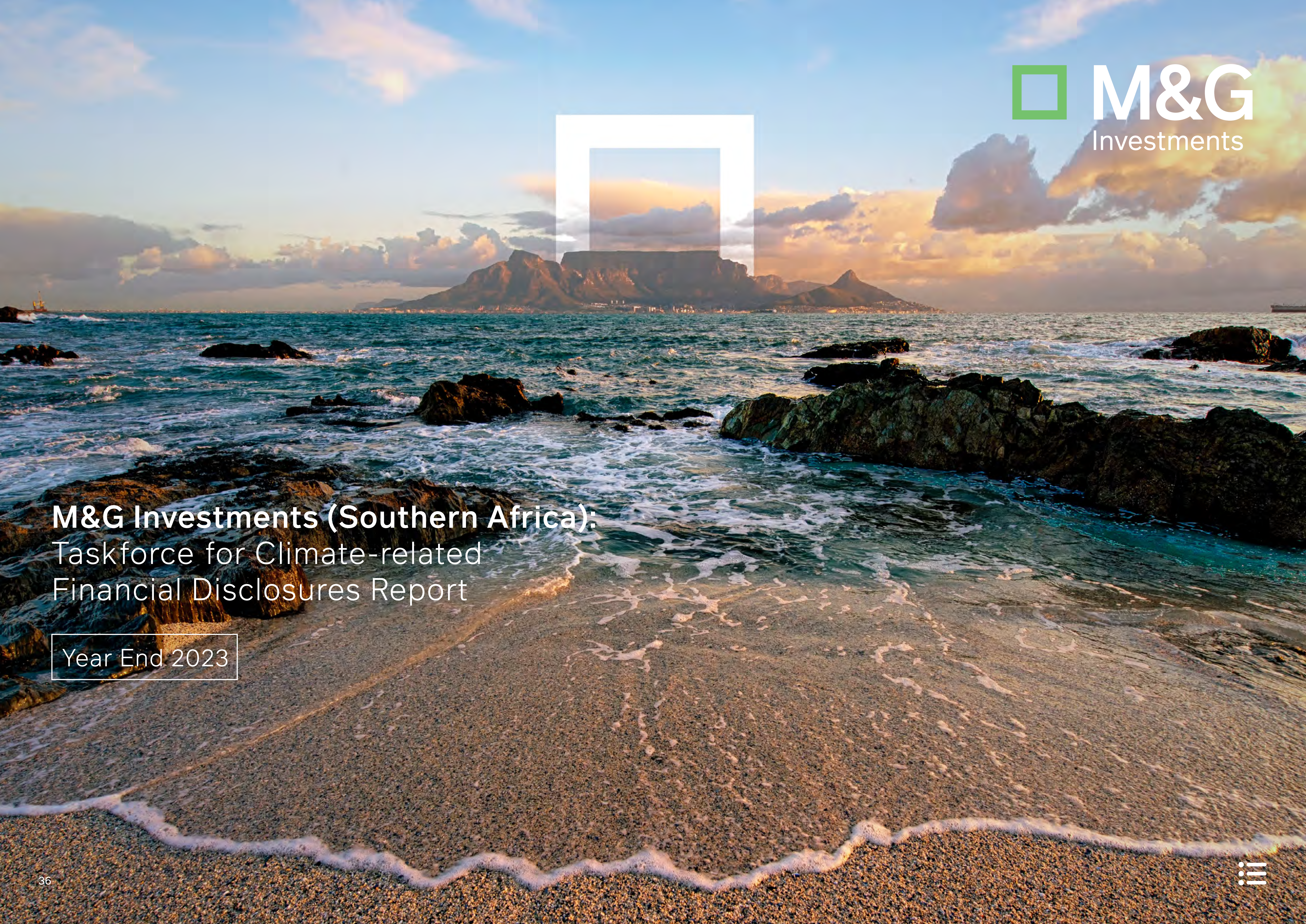
1. **Izak Buys High School** is a rural school located in Leonardville, a village in the Omaheke Region, 250 km southeast of Windhoek. A key challenge the school faces is Namibia's education policy, which states that learners cannot fail more than twice. This policy, introduced in 2012, resulted in a 0% pass rate for Grade 11 students last year, as students had been promoted without meeting grade-level requirements.

   We chose to support the school due to the vision and commitment of its headmaster, Mr. Kgosimang. M&G Namibia decided to deepen its involvement with the school to help improve educational outcomes, funding a strategy meeting and motivational day.

2. **UNAM Foundation** - To address the shortage of postgraduate students with excellent results, we introduced the "Access to Success" programme, which helps settle the debt of postgraduate students with good grades. We provided financial assistance to final-year students with strong academic records in Economics, Mathematics, Statistics, Financial Mathematics, Applied Statistics, and Actuarial Science.
   Additionally, M&G Namibia sponsored a table at the UNAM Foundation Chancellor's Gala Dinner, which raises funds for students in financial need. The University faces an outstanding student debt of approximately N$300 million.

Our long-term commitment: Empowering communities for sustained success

At M&G SA through the collective efforts of our staff, partners, and beneficiaries, we are proud to play a role in empowering and educating youth in the communities we serve and ultimately, driving sustainable change across South Africa. We also recognise that there is still much more to be done. It's why our commitment to creating lasting change through consistent investment in educational initiatives is for the long-term.



M&G Investments

M&G Investments (Southern Africa):

Taskforce for Climate-related Financial Disclosures Report

Year End 2023

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TCFD report overview and context

This is our second Taskforce for Climate-related Financial Disclosures (TCFD) report for the M&G Investments Southern Africa Group ("M&G SA").

As a subsidiary (not wholly owned), of M&G plc (M&G plc Group) both M&G SA, via its majority owner, M&G Group Limited* (MGG) take strong lead from M&G plc Group strategies as well as develop and execute on strategies within the M&G SA. Both MGG and M&G SA also collaborate on engaging South African entities that have particularly high carbon emissions yet operate in the complex South African transition context.

This report will cover and reference M&G plc Group processes where they are relevant or apply to M&G SA.

*MGG's ownership is facilitated through M&G FA Limited ("M&G FA"). More information on this structure can be found on the M&G SA website.

TCFD pillars

Governance	Please refer to
Board's oversight of climate-related risks and opportunities	p40
Management's role in assessing and managing risks and opportunities	p48
Strategy	**Please refer to**
Climate-related risks and opportunities that the organisation has identified	p47, 50
The impact on the organisation's businesses, strategy and financial planning	p49
Resilience of the organisation's strategy, based on different climate-related scenarios	p49
Risk management	**Please refer to**
Processes for identifying and assessing climate-related risks	p48, 52
Processes for managing climate-related risks	p52, 54
Integration of climate risks into overall risk management	p48
Metrics and targets	**Please refer to**
Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	p58
GHG emissions	p56

Climate oversight and governance

M&G SA is a subsidiary of the M&G plc Group. The latter's climate policies and objectives are not only key guideposts for our climate approach and bear referencing, but we play a role in supporting these through our own engagements and structures.

The overarching M&G plc Group climate approach aims to drive real-world decarbonisation and support the transition to a net-zero economy.

From an investment perspective, decarbonisation can be influenced through three key channels:

- Investment strategies: Making changes to our investment portfolios and supporting climate solutions
- Stewardship: Engaging issuers to implement ambitious transition plans
- Advocacy: Engaging regulators and industries to drive at sector and asset class levels.

(This approach is also followed within M&G SA and as illustrated elsewhere in this report.)

The M&G plc Board is ultimately responsible for the oversight of M&G plc Group's sustainability strategy, including climate change. The Board and its sub-committees consider climate-related risks, opportunities and other issues.

M&G SA framework for climate

The framework for climate in the South African context is a combination of corporate frameworks, but additionally influenced by legislation.

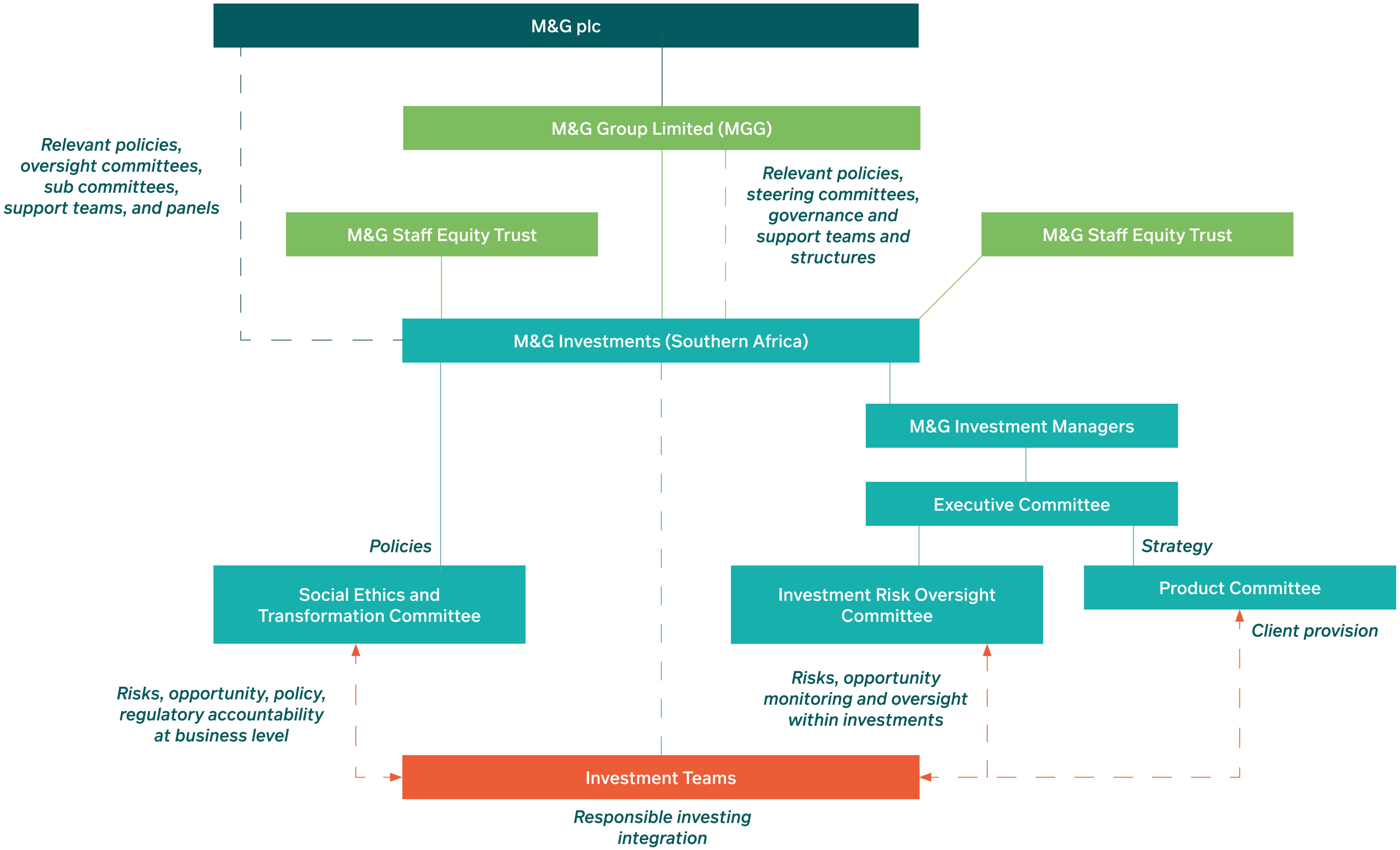
Under M&G SA's South African regulatory framework, the business' "environment, health and public safety, including the impact of the company's activities and of its products or services" fall under the Social Ethics and Transformation (SET) Committee. This is a function of the South African Companies Act and Regulations ((Regulation 43 (5), and Section 72 (4) of Act 71 of 2008)), making the SET Committee a formal and legislated subcommittee of the M&G SA Board of Directors.

This sub-committee carries the regulatory oversight function related to climate risk and governance, and receives quarterly reports from the ESG Team, inclusive of climate risk and governance aspects.

The Terms of Reference (ToR) for the SET Committee assigns the accountable officer as the Chief Executive Officer (CEO) of M&G SA. The SET Committee is required to be chaired by an independent director, and comprises the CEO as a member, as well as a shareholder representative and attendees comprising senior management. The SET Committee has oversight of M&G SA's climate risk, climate governance, climate reporting, climate change strategy, and the company's climate commitments. In this way, the M&G SA Board has ultimate responsibility and oversight of climate-related risks, governance, opportunities and strategies.

While M&G SA's primary reporting remains through the local reporting line to the M&G SA CEO, the M&G plc group provides oversight and governance through various channels. M&G SA is a subsidiary of M&G Group Limited ("MGG") via its own subsidiary and holding company M&G FA Ltd. MGG forms a significant part of the Asset Management segment of the M&G plc group. The M&G SA CEO reports to the CEO of the M&G plc Asset Management business. The M&G SA Board is comprised of two MGG nominees (again via its subsidiary M&G FA), which currently includes the Chief Investment Officer (CIO) of Equities, Multi-Asset and Sustainability at MGG. Further alignment is achieved through reporting lines for the heads of each M&G SA function to their respective heads within MGG.

The SET sub-committees role in the broader governance and risk structure is reflected below.



*Even though M&G SA fits into the M&G plc and MGG governance structures, M&G SA has its own responsible investing and voting policies.

M&G SA’s Responsible Investment Policy

Incorporation of ESG risks and opportunities is reflected in the M&G SA’s Responsible Investment Policy. This policy is subject to oversight by the Investment Risk Oversight Committee and the Social Ethics and Transformation Committee, a sub-committee of the Board of Directors of M&G SA. Details of these committees can be found above.

In terms of this policy, the Chief Investment Officers, asset class heads, and analysts all hold accountability for incorporating ESG (which includes climate change aspects) into their portfolio construction, risk assessment and investment analysis.

The M&G plc Group: The overarching approach to climate change

The M&G plc Group approach to climate change is reflected in their 2023 annual reports. References are made here to explicit climate commitments and the broader context of the M&G plc group to inform the reader.

Climate change is a global problem beset by huge complexity, uncertain timing and economy-wide impacts. The scientific community has given us a clear idea of the many interconnected effects of a warming planet, with extreme events already affecting lives and livelihoods across the world. Adding to the urgency, there are signs that we are moving closer to planetary tipping points – thresholds beyond which change could become irreversible. While it is widely recognised that there has been progress on many fronts, not least when it comes to renewable energy, decarbonisation is not happening at the scale and pace needed to keep the global temperature rise within 1.5 degrees Celsius.

As part of the broader M&G plc Group, we want to help advance private and public action, playing our part by using the levers we have to drive positive real-world change, such as engagement, investment strategy and advocacy. This includes communicating clear transition expectations to investees and stakeholders, as well as offering financing and enabling solutions available through the broader M&G plc Group and related entities in order to support our clients on their climate journey.

In the Southern African context

For M&G SA, we are particularly aware of the need for decarbonisation pathways to recognise the local context and investment levers we can deploy. A whole economy transition is required within a local, just transition context for Southern African economies and communities.

Southern Africa remains extremely coal dependent for its provision of electricity, provision of fuel and exports for trade, as well as providing employment for a region with some of the most extreme levels of unemployment and financial inequality in the world.

Engagement, advocacy and investment integration of the dependency on thermal coals, and the associated risks, is critical to playing a responsible and meaningful role in climate change and transition frameworks. An acknowledgement of the urgency to address climate change, while avoiding unintended consequences on a socio-economic level, is particularly difficult to achieve in this region.

Our M&G SA climate journey

M&G SA has taken steps to undertake operational climate and engagement activities to both reduce the use of fossil fuels and to play our part in decarbonising our investment impacts. This journey can be evidenced in the below timeline, from our initial investments in our own operational installation of solar panels at our Cape Town headquarters through to the emerging investment, engagement and sustainability policy activities.

Strategy: M&G Southern Africa Group

M&G SA recognises, as part of the M&G plc Group and as a signatory of the Principles of Responsible Investments (PRI), the urgent need to decarbonise across its various industries and economy. M&G SA equally recognises the risks and opportunities of the South African energy landscape within the country's broader climate change agenda.

The four channels in which M&G SA can facilitate this, in keeping with its fiduciary duty to clients, include:

(i) Investment strategies: Making changes to our investment portfolios

Where engagement activities and the outlook on climate-related risk have proved more challenging, M&G SA may take (and has taken) this into account when adjusting our investment strategies. In cases where climate change risk is more prevalent in some stocks or issuers, this is considered in our investment analysis and integration of ESG themes. This may (and has in one instance) lead to potentially reducing the exposure of our portfolios to some stocks and issuers. Downward tilts have historically been, and continue to be, applied when engagements on climate change matters have not progressed to outcomes aligned with global low-carbon transition frameworks.

(ii) Stewardship: Engaging issuers to implement credible transition plans

Engagement for the development and implementation of credible climate transition plans is one of the strongest elements of our strategy.

(iii) Advocacy: Engaging with industry and policy makers

We leverage our influence for advocacy with leading industry experts and policy makers around climate change themes. Highlights of this work include:

- Meetings with Eskom, South Africa's national energy provider
- Meetings and feedback on the SA Real Estate Investment Trust (REIT) Association's SA REIT Sustainability Guide
- Meetings with the Presidential Climate Committee
- Ongoing Engagement with the PRI (Principles of Responsible Investments) on aspects of concepts and frameworks of a Just Transition
- Meetings and discussion via the South African Association for Savings and Investment (ASISA) where a member of the ESG team is a member of the Responsible Investment Committee
- Guest lectures on ESG integration in investment processes at the University of Cape Town Graduate School of Business, touching on issues and questions of climate.

Our advocacy work continues to evolve advocacy and engagements on sustainability themes, including climate change or related topics such as water, can be found in our Sustainability Report

(iv) Divestment: Exiting stocks or issuers

Divestment presents the last resort for issuers or stocks who are unwilling or unable to make the necessary changes to provide M&G SA and/or MGG sufficient comfort that they are transitioning sufficiently within their industry and socio-economic context, presenting an unacceptable level of risk for our clients and misalignment with our policy requirements. Our priority as an active investment manager is to encourage change through engagement and voting over divestment where possible.

Taking action in 2023

2023 saw strong collaboration at a group level with MGG's teams. Extensive work was done on the top emitters held by M&G SA with thermal coal exposures. This involved collaborative engagements, joint completion of detailed research and information and data templates, and review of this work with the MGG Climate Committee. (This committee assesses compliance with the MGG Thermal Coal Investment Policy and may result in exclusions of certain entities or issuers depending on the policy's application.)

South African stocks with thermal coal exposures were discussed at this committee. Stocks and issuers were considered on their ability to meet Paris aligned targets or net-zero ambitions, willingness to engage and align, and goals and objectives for engagements for the next 12 months were set.

Following these discussions, entity and issuer specific engagement targets were set for key emitters, and engagements held in late 2023 and into 2024 with key emitters, with the scope widening beyond just thermal coal exposure but also including high emitters in the M&G SA client universes.

Targets

Both M&G plc and M&G SA are conscious of the difference between 'paper' emissions reductions and decarbonisation in the real world. We also realise the importance of a just transition, where the costs and benefits are shared fairly between generations, communities and regions.

While the wider M&G plc Group has committed to net-zero emissions across its investments and operations by 2050 at the latest, M&G SA has not formalised targets for its investments or operations. In particular, the dependance of the South African economy on fossil fuel makes target setting of a net-zero ambition extremely difficult to achieve. Discussions around potential ambitions in this regard is ongoing within the business operations.

After the close of this reporting period, early 2024 was dedicated to creating a report outlining the South African context of a just transition. Further work has been done on the implications of various actions under different scenarios given the economic and investment context of the region.

Risks and opportunities

Climate risk

The identification, assessment and management of climate-related risks, along with other ESG-related risks, is integrated into the broader M&G plc Group's ESG Risk Management Framework.

Climate change falls under sustainability and ESG, a principal risk for the M&G plc Group and M&G Southern Africa, and is therefore a key area of oversight for the M&G plc Group Risk and Compliance teams as well as the oversight functions covered in the climate governance and oversight section of this report.

Consideration of sustainability risk is built into our decision-making, with sustainability themes and risk factors being incorporated into our general investment and risk management processes.

M&G SA's role

M&G SA operates in a region with a high exposure to climate risk on a multitude of levels and is exposed to a number of high emitting entities, which are crucial for the ongoing economic activity of the nation.

As part of identifying the risks of some of the entities covered further below, it's important to understand the dependencies and vulnerability of the Southern African region. As highlighted elsewhere, much work has been done in early 2024 to research the South African landscape and generate reports, which have been shared both internally and with the South African asset management industry and employees at the UN PRI.

Key committees and functions on aspects of climate risk identification and management

Climate change is an area that impacts many areas of M&G SA's business. As reflected in Figure 1, we also have an Investment Risk Oversight Committee, which is a sub-board Executive Committee.

(i) Investment Risk Oversight Committee

The Investment Risk Oversight Committee is a sub-committee of the Executive Committee and meets and receives quarterly reports on ESG risks from the ESG team, and aspects that impact the investment portfolios of M&G SA and its clients, including those of climate risk.

(ii) Investment Team

Climate risks are integrated into the investment process through:

i. the accountability of analysts (formally through the Responsible Investment Policy)
ii. practical accounting of climate risks into the investment process in their modelling work (where possible) and using the inhouse integration system. These include existing and those under development and trial.
iii. presentations to their peers in the investment team for voting on stocks and issues
iv. monitoring and control functions on these risks. This process will be discussed in more detail in the upcoming M&G SA Sustainability Report.

(iii) New Product Committee

The New Product Committee manages climate-related risks to the business by ensuring our product suite remains relevant and responsive to the unique needs of our clients and other stakeholders. It also helps track new global developments and advances to improve the quality and extent of climate-related solutions, in concert with MGG's global expertise from the broader M&G plc group. This committee reports into M&G SA's Executive Committee.

M&G SA's Client Services teams are responsible for communicating with clients on their climate-related risk views, policies and requirements in the approach to climate risks.

Climate risk as a business

As a business, we are impacted by both the physical and transition risks of climate change. We are exposed to physical and transition risks in our operations and through our supply chain, both of which could have an impact on our costs. The M&G plc Workplace Solutions team based in London actively monitors the Group operational footprint, mitigating against the risks arising, and assists us with interpreting our collated data in the Southern African operations.

Transition and physical impacts

Both the broader M&G plc Group and M&G SA take a holistic view of climate risks across a range of timeframes:

- short term: <3 years (consistent with our business planning cycle)
- medium term: 3-10 years
- long term: 10+ years.

Both transition and physical risks have the potential to impact the value of the assets we manage on our clients' behalf, which directly influences our revenue and the value of assets held on our balance sheet. The main categories of these risks are illustrated in the table below and are applicable across our different legal entities and business areas. We understand that climate-related risks can overlap and interact, creating compound and cascading impacts, and that the precise timing and sequence is hard to predict.

Given this uncertainty, the transition and physical risks outlined below have potential to arise over a range of timeframes. We believe that both transition and physical risks may start to materialise over the short term, with the likelihood and potential impact of the risks rising and continuing to increase over time.

Climate risks

	Transition				Physical	
	Policy and legal	**Technology**	**Market**	**Reputation**	**Acute physical**	**Chronic physical**
Description	Carbon pricing, climate regulation, other activities. Increased intensive failure to meet material prices	Renewable energy, cleaner transport investor and services from greenwashing, technologies, causing regulatory potential stranding	Changes in consumer and investor preferences (e.g. avoidance of carbon-intensive products and services) and related pressure on input/material prices	Damage to company's standing and restrictions on carbon-intensive emission products or failure to meet commitments or greenwashing claims	Increased frequency of extreme weather events (e.g. wildfires and heat-waves)	Longer-term shifts and severity in climate patterns (e.g. sea level rise, storms, and changes in precipitation patterns) and associated impacts on food and water security, human health, and geopolitical risk
Investment impacts	Impact of net client flows and asset values on AUMA					
Corporate impacts	Revenue, expenses, business continuity, and ability to attract and retain employees					

Monitoring and management

Derisking involves pulling our levers – investment strategy, stewardship, advocacy and operational change – to ensure that the portfolios we manage, and our operations, are aligned with the transition, and resilient to physical impacts.

We are willing to accept some time-bound transition risk exposure, as long as we can build confidence that investees are on sufficiently ambitious decarbonisation trajectories.

In South Africa, we have a proprietary database that has aspects of climate risks and records related engagements.

Our first-line risk management approach is engagement with our investments that are key emitters of Greenhouse Gases (GHG), particularly those that are prominent in our narrow investment universe in Southern Africa. For example, engagements in the period (and post this reporting period) have included, amongst others, aspects such as gaining better insights into how targets will be practically achieved (for an oil and gas company), setting long term targets for net zero (paper company), and relevant required capital expenditure required for achieving these goals (diversified miner).

Physical risk is more prominent for some of the asset classes we manage than others, such as listed real estate, and involve location-specific assessments of existing and new assets. In terms of our M&G SA business operations, we are managing transition risks, for example through our renewable energy solutions (such as rooftop solar).

We also benefit from M&G plc Group level assistance, working towards increasing access to resources to group databases and reports. For example, this includes the carbon data reflected further in this report in terms of our investment universe, and the work done by M&G plc Group related teams to model data in instances where the public data was insufficient or had gaps for the Southern Africa investment universe.

Climate opportunities

The climate transition presents major long-term investment opportunities across asset classes and markets, both from a mitigation and adaptation perspective.

Many drivers are now converging to accelerate the shift away from fossil fuels, including technological progress, falling costs of renewable energy and storage, and government policy. We cannot predict the exact pace of change, but climate action is a structural opportunity aligned with the M&G plc Group's strategy.

Whether clients are looking for climate- focused strategies, including energy transition opportunities, or increased exposure to sustainability and impact- oriented funds, MGG offers a wide range of capabilities. We are also driving action in our operations, by reducing our direct and indirect impacts, and educating our employees.

Climate strategies and solutions: MGG offerings available to M&G SA clients

Opportunities for climate strategies and solution funds with Southern African assets remain quite limited. Many offerings are not yet listed, and/or offer concerns around liquidity or yields. Viable products for our typical client profiles are under consideration, but not yet offered at time of writing.

To the extent that clients of M&G SA can invest offshore, we are able to offer them exposure to climate strategies and solutions-based products in the M&G plc Group, which are strongly placed to finance and enable climate solutions, both in developed and emerging markets.

Offerings include responsAbility and the M&G plc Group's Planet+ range of funds. This offers targeted strategies that provide our clients with exposure to solutions providers and Paris-aligned benchmarks. The Group's wider product offering is also evolving: the share of strategies in their SICAV fund range compliant with SFDR Articles 8 (where a financial product promotes environmental or social characteristics) and 9 (where a financial product has sustainable investment as its objective) has risen to 79% at the end of 2023, up from 54% at the end of 2022.

MGG is evolving the frameworks it uses to assess transition and net-zero alignment, including the classification of climate solutions and critical 'transition enablers'. This is feeding into strategy development – for example, the newly launched Sustainable Alpha Opportunities fund (SAOF) uses the evolved net-zero investment framework categories as part of its monitoring criteria.

Across the global business, the M&G plc Group continue to identify attractive climate-related investments in many markets, and we expect the opportunity set of climate solutions to continue to expand as the transition builds momentum. As these come to market, M&G SA hope to make many of these available to our clients to expand our climate and solutions-based offerings.

Climate transition alignment

At the group level, MGG uses top-down analysis to help monitor and manage exposures and portfolio decarbonisation. However, to address climate-related risks and opportunities properly, each issuer and asset needs to be assessed on an individual basis.

These evolving frameworks and tools allow MGG to build a clearer picture of issuers' climate profiles, including the identification of critical 'transition enablers' who are helping the world mitigate and adapt. They also support their stewardship efforts, by highlighting areas of misalignment and, therefore, priorities for engagement.

Because of the high carbon exposures of many South African entities, many flag for collaborative engagement, or escalation to the MGG Climate Committee.

The data and exposures on the M&G SA, including those in this report, assist in understanding our climate exposures. Additionally, scenario analysis is conducted at the MGG level and this data is provided to the M&G SA for use in considering its exposure to higher emitters.

In a similar vein to the broader group, each issuer and asset is assessed on an individual basis. Either on their own or in collaboration with colleagues from MGG, engagements are held with high emitters to understand how these risks are being prioritised and mitigated.

Implementation Strategy

Details on how these strategies are implemented is discussed further HERE (insert link to four key aspects under strategy)

A specific example of climate implementation into the investment process includes the reduction of exposure to Sasol, a theme that has continued into 2024. (At the time of writing at end August 2024, the exposure is less than 20% of the exposure held at end of 2023). Much of this reduction centers around the uncertainty of this entity's operations to meet very long-term climate ambitions and goals given its dependence on fossil fuel, and the viability and practical difficulties it currently faces in transitioning to cleaner fuel stocks for its production processes.

Thermal coal policy M&G SA

M&G SA is currently exempt from the MGG's Thermal Coal Investment Policy on the grounds of its client base requirements and the practical implementation of retirement fund regulations. Internal research, data analysis and potential responses have been prepared by M&G SA in this regard. Despite this current exemption, M&G SA is very active in engagement (more on this in the following section) with heavy thermal coal miners and utilisers (for example power generation). The impact of future uncertainties of these entities is accounted for in the investment integration process, and a primary emitter, Sasol, was down weighted during the period on grounds of this uncertainty.

M&G SA: Issuer and stock engagements

Climate focused engagement with investee companies continues to be a key lever of stewardship to drive ESG value for our beneficiaries at M&G SA and MGG levels.
This year, M&G SA initiated a series of engagements focused on entities low-carbon transition plans.

Asset classes included both fixed income and equity, targeting the highest Financed Carbon Emissions (FCE) across M&G SA's portfolio. These initiatives aim to reduce its investment-related emissions and push for critical industry leaders in South Africa's economy to improve their carbon emission performance.

The top-emitting companies' part of this engagement focus consist of some of the country's leading industry players across the energy and commodity sectors, which make up Southern Africa's broader transition landscape and some of the most significant carbon footprints nationally in South Africa. Engaging with these entities and pushing for companies to improve their disclosures is therefore a key channel to reduce these climate-related risks on both a portfolio level and a national emissions scope. Sectors engaged thus far include mining, paper and pulp manufacturing, and energy and chemicals.

These engagements and analyses were jointly undertaken with the broader MGG's Climate Committee that has driven the same engagements across the global portfolio, thus standardising the approach. Some of the key aspects covered include ensuring that companies:

- Disclose their emissions performance
- Disclose any relevant mid-term and long-term emission reduction targets
- Sufficiently oversee transition plans
- Have effective decarbonisation strategies
- Have relevant CAPEX linked to initiatives of these plans
- Have aspects of lobbying and just transition initiatives, amongst other themes

Engagements provide shareholders with opportunities to voice their concerns and comments on aspect of an
organisation's operations and strategies, allowing for dialogue and constructive discourse between investors and businesses.

An example of an engagement over this period included an analysis of a leading paper and pulp manufacturer within the industry. The organisation's decarbonisation plan and initiatives in incorporating greater renewable energy sources, amongst other projects, were commendable, however the group lacked a long-term net-zero commitment to reduce its emissions. Environmental risks such as "natural disasters and extreme weather events" and "failure to mitigate climate change" have become increasingly more prevalent in global risk perceptions[1] over the last decade, placing the emphasis on long-term net-zero commitments as a significant driver of climate change mitigation efforts.

For this reason, it was necessary to engage with and strongly encourage the organisation to set a long-term net-zero target, despite its ongoing work to mitigate its carbon footprint. This request has been well received by the organisation and has been taken to the board for review as the outcomes of this engagement objective finalise.

M&G SA continue to engage with leading corporations on the JSE on their climate change strategies and transition plans, using its shareholder rights and platform to push for greater disclosure and performance in mitigating climate change.

[1]The Global Risks Report 2023, 18th Edition, World Economic Forum

Public policy and industry engagement

We recognise that the climate transition will not reach the necessary pace and scale without the right public policy frameworks and remain committed to advocacy and industry collaboration to create a more supportive environment for ambitious climate action.

Public policy advocacy that affects climate – M&G SA

M&G SA engaged with the Presidential Climate Committee in early 2023 on aspects of the Just Economic Transition ("JET") Plan and potential impacts of the Carbon Board Adjustment Mechanism.

Additionally, the Chair of the Presidential Climate Committee was engaged in the same period through industry bodies around transitioning South Africa's power supply, Eskom, away from coal.

Industry advocacy that affects climate – M&G SA

M&G SA engaged on climate impacts on nature and biodiversity through participation in industry workshops, including those with the World Wildlife Fund (WWF) and peer asset managers, and industry meetings on climate related disclosure facilitated through ASISA RI committee, on which one of the ESG Team members sits.

The impact on water of climate change in Namibia was addressed as an aspect of a training workshop in Windhoek given to retirement fund industry and consulting staff through the local retirement fund industry body, raising awareness of potential impacts to the region and economy. Also discussed was the green hydrogen economy that Namibia is investing in on a national level.

Further aspects of our focus and industry advocacy on water supply, which will be adversely affected by climate change, on the South African region are discussed in our Sustainability Report.

Metrics and targets

Greenhouse Gas Emissions Statement: Operations

Our global greenhouse gas (GHG) emissions have been compiled in accordance with the United Kingdom's Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Provision of this data and oversight has been with assistance from teams based in the broader M&G plc Group for whose assistance we are grateful.

GHG emissions are broken down into three scopes. We have included full reporting for Scope 1 & 2, and selected Scope 3 reporting as best practice:

- Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles if applicable.
- Scope 2 emissions cover our indirect emissions from the purchase of electricity (including use of company electrical vehicles), heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance.
- Our Scope 3 footprint includes water consumption (category 1) and waste generation (category 5) where data is available.

M&G SA has recently started 2023 data collection for business travel (category 6) booked through our travel providers, however, is not a full set of data to be included in this year's GHG inventory. Data is presented gross of any carbon credits.

The financed emissions (category 15) from our investment portfolios are reported separately on pages 82-84.

While the metrics in the following table have not been subject to any independent assurance, they have been produced using the same methodology as the climate metrics disclosed by M&G plc group, over which limited assurance was obtained for certain metrics. Refer to the M&G plc Annual Report and Accounts for further details.

Information on definitions of metrics reported and limitations relating to data used are detailed in the M&G plc Group's 2023 Environmental Metrics Basis of Reporting ('Basis of Reporting') published on M&G plc's website. We have restated certain metrics for the year ended 31 December 2022 in line with the policy set out in the M&G plc Group's Basis of Reporting.

M&G SA Business Operations - Emissions

Location	Scope	Scope category	2023	2022 (Restated)	2022 (Previously Stated)
South Africa	Scope 1 (tCO2e)	Oil (generators)	5.99	5.35	5.23
	Scope 2 (tCO2e) Location based	Electricity, purchased heat and steam	418.84	546.11	533.31
	Scope 2 (tCO2e) Market based (supplier and residual mix)	Electricity, purchased heat and steam	0	0	0
	Scope 3 (tCO2e)	Water	0.33	0.24	0.23
	Scope 3 (tCO2e)	Waste	0.01	0.01	NA
Namibia	Scope 1 (tCO2e)	Oil (generators)	-	0	0
	Scope 2 (tCO2e) Location based	Electricity, purchased heat and steam	1.67	3.97	3.97
	Scope 2 (tCO2e) Market based (supplier and residual mix)	Electricity, purchased heat and steam	1.67	0	0
	Scope 3 (tCO2e)	Water	0.00 12	0.0026	0.002

Emissions have been restated to reflect newly available emissions data for the period that was not available at the time of publishing the 2022 figures last year.

Use of and approach to carbon credits

M&G SA's operational emissions as tracked (reflected above) have been partially offset through the use of carbon credits.

M&G plc prioritises absolute emissions reduction, recognising that the use of carbon credits to offset residual emissions should be the last resort. In line with current industry guidance, the group does not anticipate using carbon credits to offset over 10% of their residual emissions to reach net zero.

For 2023, as part of the group, M&G plc have purchased carbon credits in a nature-based project. The project has been assessed against our offsetting principles, which align to the Oxford Principles for Net Zero Aligned Carbon Offsetting. M&G plc continues to assess the voluntary carbon market and emerging guidance when purchasing carbon credits.

Operational emissions targets

M&G SA currently does not have targets to reduce our corporate emissions individually but feeds into the M&G plc Group targets. This TCFD report is the second year of reporting and measuring our corporate emissions. With this in consideration, we acknowledge data limits to our current carbon footprint boundary. Areas of our footprint that we aim to improve on (where reliable data can be viably collected) includes:

- better reporting and managing our waste
- including employee commuting within scope 3
- reporting refrigerants

As mentioned, we plan to include business air travel next year and we continue to explore ways of improving our carbon footprint data.

In addition to the above, while we have not yet committed to targets, we have already implemented ways to improve our water and energy use to reduce emissions by installing and making use of the following:

- LED lights for the majority of our office areas
- electronic timers and sensor controls for lighting in our spaces
- electronic timers to all water boilers and geysers
- electric tap controls on our water fixtures and dishwashers
- low-flow shower heads

We are also planning to install two electric vehicle plug points (one of which is currently operating) at our head office's parking bay for employees who have electric vehicles to allow them to charge their cars.

While we continue to improve aspects of our carbon emissions, we are mindful of the need to set targets and aim to follow our wider Group's initiatives once our data is more complete and of better quality, thus providing us with a reliable base year from which we can measure our emissions performance.

M&G SA performance during the year

In 2023, our total Scope 1 and 2 location-based GHG emissions for our South African offices were 425 tCO_2e, which is a 21% reduction from 2022. This decrease is largely attributed to a reduction in Scope 2 emissions due to less electricity used at our offices when the economy experienced a significant amount of loadshedding throughout the year. For this reason, a slight increase in Scope 1 emissions were seen in 2023, as our offices relied more on diesel generators to maintain a constant power supply during loadshedding.

Material changes for Namibia were seen across Scope 2 emissions. While the number of employees has increased during the last three years, (2 employees in 2022, 4 in 2023 and 6 in 2024), Scope 2 emissions decreased by 58%. This could largely be attributed to a decrease in electricity consumption as the M&G Namibian team moved into a more efficient energy consuming building, relocating from Bonsec Heights (closed in 2023) to the Namibia Maerua Office Tower (opened in 2023).

Renewable energy

M&G SA continues to make use of renewable energy from our solar panels that were installed on our Cape Town office's building. Our renewable energy consists of a 66kW system of solar panels that were installed in 2016.

Enforcement actions

No fines or regulatory actions have occurred during the year for environmental incidents.

Investments - climate metrics

M&G SA use a range of metrics to identify and assess climate-related risks and opportunities. This includes absolute emissions metrics as well as intensity-based indicators that enable comparison across different issuers and portfolios.

The key metrics used are financed carbon emissions (FCE), carbon footprint, and weighted average carbon intensity (WACI). For example, the M&G plc group assesses FCE change at portfolio level to monitor the overall portfolio emissions exposure. WACI is used to understand our portfolio exposure to carbon-intensive issuers.

While we monitor Scope 3 emissions as a proxy for risk exposure to inform targeted actions, such as engaging companies on transition plans, disclosure of this emissions category remains poor, which makes it less reliable for decision-making.

Emissions are calculated on the same basis as M&G plc Group and have been calculated based on the Partnership for Carbon Accounting Financials (PCAF) principles. This year a data quality score has been included – covering public assets (equities and corporate debt) and sovereign debt emissions – for the first time. The score is based on PCAF methodology and ranges from one to five, where one represents the highest data quality and five is the lowest. Details on definitions of metrics reported and limitations of data used can be found on pages 89-90, with more information provided in our Environmental Metrics Basis of Reporting available on M&G plc's website.

In the analysis, 'coverage' refers to the proportion of in-scope AUMA for which we have sufficient environmental, financial, or other data required in the calculation of a given metric. Asset classes such as cash, derivatives and asset-backed securities (ABS) are not included, reflecting a lack of either climate accounting standards or mature data sources for these types of assets.

While the metrics presented below have not been subject to any independent assurance, they have been produced using the same methodology as the climate metrics disclosed by M&G plc group, over which limited assurance was obtained for certain metrics. Refer to the M&G plc Annual Report and Accounts for further details.

M&G SA's assets: Equities and corporate debt

The table below presents M&G SA's emissions metrics relating to investments in listed equities and public corporate debt.

	2023	2023 Coverage	2022 (Restated)	2022 Coverage (Restated)	2022 (As Previously Presented)	2022 Coverage (As Previously Presented)
AUMA in-scope for metrics presented (ZARm)	211,629	N/A	232,887	N/A	204,576	N/A
Financed carbon emissions (FCE) – Scope 1 & 2 ($ktCO_2e$)	3,073	96%	5,365	94%	3,496	91%
Data quality score – Scope 1 & 2	2.2	N/A	1.5	N/A	N/A	N/A
Financed carbon emissions (FCE) – Scope 3 ($ktCO_2e$)	10,310	95%	15,901	94%	22,430	90%
Data quality score – Scope 3	2.2	N/A	1.9	N/A	N/A	N/A
Carbon footprint – Scope 1 & 2 (tCO2e/ZARm invested)	15	N/A	25	N/A	19	91%
Carbon footprint – Scope 3 (tCO2e/ZARm invested)	51	N/A	73	N/A	122	90%
WACI – Scope 1 & 2 (tCO2e/ZARm sales)	28	94%	42	93%	48	93%
WACI – Scope 3 (tCO2e/ZARm sales)	145	94%	154	92%	188.8	92%

Analysis of 2023 compared with restated 2022 metrics

For 2023, despite an increase in coverage, there has been a reduction in FCE and carbon footprint. This is due to the reduction of holdings in a high-emission intensity issuer in our portfolios and shifts in its market value (which do not reflect real-world decarbonisation). This was to some extent offset by an underlying increase in real-world emissions of investee companies that remain in the portfolio.

The fall in Scope 3 FCE was driven largely by a reduction of holdings in a small number of high-emission intensity issuers in our M&G SA and client portfolios. An example of a decrease in FCE is demonstrated by our decision to decrease our exposure to Sasol, one of our highest emitting issuers. A decrease in these holdings, subsequently decreased the reported FCE of our emissions.

Restatement of 2022 metrics previously presented

In 2023, we changed our data hierarchy for the use of third-party emissions data for public equities and corporate bonds to include Bloomberg as a secondary source with a view to increasing coverage - further details on our data hierarchy is set out in the Basis of Reporting, available on the M&G plc website. As a result of this change, we have restated the 2022 metrics previously presented to include the additional source.

Sovereign debt

In the table below, which shows M&G SA's investments in sovereign debt, we have included financed domestic production and consumption emissions, and their respective weighted average intensities. The presentation has been updated this year to show metrics both as including and excluding land use, land use change and forestry (LULUCF). *

M&G SA's assets: Sovereign debt

The table below presents M&G SA's emissions metrics relating to investments in listed sovereign debt

	2023			2022 (restated)			2022 (Previously stated)		
	incl. LULUCF	Exclude. LULUCF	Coverage	Incl. LULUCF	Exclude. LULUCF	Coverage	Incl. LULUCF	Exclude. LULUCF	Coverage
AUMA in-scope for metrics presented (ZARm)	69,248*	69,248*	N/A	73,453*	73,453*	N/A	N/A	N/A	N/A
Financed sovereign production emissions - Scope 1 ($ktCO_2e$)	2,199	2,142	100%	2,410	2,353	100%	N/A	2,818	100%
Data quality score – Scope 1	4.0	4.0	N/A	4.0	4.0	N/A	N/A	N/A	N/A
Financed sovereign consumption - Scope 1,2,3 ($ktCO_2e$)	1,656	1,630	95%	1,826	1,797	96%	N/A	5,102	96%
Data quality score – Scope 2 and 3	4.0	4.0	N/A	4.0	4.0		N/A	N/A	N/A
Weighted average sovereign production (US$)	0.58	0.57	99.6%	0.64	0.62	99.5%	0.04*	N/A	100%
Weighted average sovereign consumption intensity - Scope 1,2,3 (tCO_2e/ Capita)	7.3	7.2	95%	7.4	7.3	95%	N/A	17.1	96%

Restatement of 2022 metrics previously presented

We have reviewed our methodology for sovereign debt emissions against PCAF's Financed Emissions Standard. As a result, we have restated the 2022 sovereign debt emissions for the following methodology changes:

i. The calculation of sovereign production emissions relies on the determination of an attribution factor, using data on the sovereign's gross domestic product (GDP) adjusted for the purchasing power parity (PPP) rates in international dollars. Previously this was converted using the World Bank's PPP conversion factor for the UK and used along with the investment holding in GBP to determine the attribution factor. We have updated our methodology to determine the attribution factor using PPP-adjusted GDP (international dollar) and the sovereign bond market value (US$). The change in production emissions following restatement is primarily a result of this change. Financed sovereign production emissions have also been recalculated using a higher quality data source where this source is available for the assets in-scope.

ii. In addition to the changes above, financed sovereign consumption emissions are now reported excluding exported emissions. Previously no adjustment was made for exported emissions, which is the main driver for the change in restated consumption emissions. There has also been a change in the scope of OECD data used for imported emissions which are included in the overall calculation.

The restatements set out above in relation to the absolute values of emissions have resulted in the restatement of weighted average intensity metrics for production and consumption metrics. There have been no other changes to methodology to produce these metrics.

Portfolio alignment

Portfolio alignment indicators help us assess which portfolio companies have committed to, or are in the process of, aligning to the Paris Agreement temperature goals. While companies are not net zero today, this reflects target setting and plans for emissions reductions and is, therefore, a gauge of the transition alignment of our investment strategies going into the future. The binary net-zero alignment data below is based on public commitments from companies to set science-based targets and have these validated by the Science Based Targets Initiative (SBTi). SBTi is a widely used framework for independently validated science-based targets. The metrics presented exclude companies that may have established climate targets, but have not committed to, or had targets validated by the SBTi.

Science-based targets

The table below shows the proportion of M&G SA's AUMA that have either committed to or set SBTi targets, together representing R59.13 billion, or a total of 22 issuers.

The number of issuers with SBTi commitments has increased despite SBTi tightening its criteria in 2023 and removing companies across the globe that have not submitted their targets for validation within 24 months.

	2023	2022
SBTI Coverage	28%	13%
SBTI number of issuers committed or target set	22	16
ZAR m issuers committed or target set	59 153	29 893

Metric definitions

Financed Carbon Emissions (FCE)

represent the absolute greenhouse gas emissions associated with a portfolio of investments where there is available reported data or estimates. Financed emissions are influenced by change in financial factors such as market movements and portfolio values, which are separate to real world emissions.

Carbon footprint

refers to FCE normalised by the market value of a portfolio (GHG emissions per million pounds of investment). This indicator is particularly useful for comparative purposes, but, similar to FCE ,is sensitive to financial factors that do not relate to decarbonisation. Carbon footprint is used to monitor progress against our net zero interim targets.

Weighted Average Carbon Intensity (WACI)

provides a single metric summing the individual emissions intensities of issuers in a portfolio based on their weightings, indicating our portfolio exposure to carbon-intensive issuers.

For both carbon footprint and WACI, the current portfolio value is based on market value and is limited to assets for which all data necessary for the calculation of financed carbon emissions is available.

M&G plc and M&G SA use data sourced from third-party data providers (e.g. MSCI and Bloomberg) to calculate the above emissions metrics. While high-level checks on the data received is performed, we are reliant upon the accuracy of source data received from these third-party vendors.

Details on the calculation methodology, data sources and limitations of each metric produced is available in our Environmental Metrics Basis of Reporting 2023 available on the M&G plc website.

In addition to backward-looking metrics that are focused on emissions, M&GG monitor a range of indicators that provide information on whether an asset or portfolio is exposed to higher climate-related transition risks or opportunities.
These include:

- Exposure to fossil fuels: These metrics show the value of our exposure to issuers with revenues derived from the whole value chain of oil, gas and coal, with a separate metric for issuers that generate revenue from fossil fuel-based power generation. These metrics indicate transition risk, given the necessity of phasing out fossil fuels to meet the Paris Agreement.

- Climate commitment of issuers: M&G plc monitors net-zero alignment across ‘committed’ and ‘targets validated’ SBTi categories and green exposure. These metrics, calculated for public listed equities and corporate debt portfolios, are helpful in monitoring our overall position at portfolio level.

M&G Investments

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