NEDGROUP INVESTMENTS

Responsible Investment Report 2022

Foreword

Mpho Makwana
Chairman of the Board
Nedbank Group Ltd.

Adopted in 2015, we are now at the midpoint in the lifetime of the United Nations Sustainable Development Goals. The 2030 agenda, as agreed by all United Nations member states, has come with its successes and disappointments, yet remains the overarching roadmap to achieving environmental, social, and economic prosperity.

As a financial institution, Nedbank appreciates that our impact goes beyond the four walls of our offices and branches and extends to the way we operate, the way we allocate capital, and our relationship with the stakeholders we are accountable to – both social and natural.

2022 has been a complex year as the world unwinds itself from the effects of COVID-19. This complexity has been exacerbated by the conflict in Ukraine and its inflationary consequences. The higher costs of food and energy have been felt across the globe, and no more so than here in South Africa.

Many global shortcomings have been exposed by the conflict, yet two imperatives that will endure beyond this decade include 1) the need to establish national food security and 2) to diversify energy production away from majority fossil fuels. The short-term shift to coal (to make up for the embargo on Russian gas and oil) has momentarily unwound some of the good work done in lowering Europe's energy related CO^2 emissions. But this has also kickstarted renewed investment in alternative sources and clean energy infrastructure.

Locally, this year we witnessed the positive effects that a lift in the limits of renewable self-generation can have. A regulatory easing that goes a long way to unlocking private sector potential. At the utility scale level, the reinvigoration of the Renewable Energy Independent Power Producer Procurement Programme, or REIPPPP, is a welcome development after many years of stalling and politicking.

A well-defined roadmap for South Africa's energy production provides organisations such as Nedbank's with the confidence and clarity to move forward in its capital investment. At a Group level we published our Energy Policy last year which saw some brave and necessary steps to lowering greenhouse gas emissions.

The droughts in the Eastern Cape and flooding in Kwa-Zulu Natal have brought home the immediate effects of climate change and the realisation that the environmental crisis is indeed a social one, too. Our colleagues at Nedgroup Investments have highlighted four key sustainability focus areas for the decade leading into 2030, and their adoption of Climate Change and Biodiversity Loss as two of these is synonymous with the major global environmental challenges we face.

As mentioned at the beginning of this foreword, we are only halfway there, and there remains plenty to be done. Over the past few years Nedbank has championed a drive for increased collaboration across its business and with its stakeholders. This collective effort is what is required to make sure we are able to fulfill our purpose for a more equitable and thriving society.

Nedbank's Energy Policy Roadmap

We will report on our actual exposure to thermal coal, upstream oil, upstream gas and power generation financing as part of our annual results, to track the transition away from fossil fuel financing, in line with the goal of a zero-carbon energy system by 2050.

2021

- No longer provide financing to thermal **coal mines** outside of South Africa
- No longer finance new **coal-fired** power stations, regardless of jurisdiction
- No longer finance new **oil** and **gas** exploration projects directly, regardless of jurisdiction

2025

- Cease project financing for new thermal **coal mines**, regardless of jurisdiction

2030

- No longer finance new utility-scale or embedded **gas-fired** power generation

2035

- Cease new financing for **oil** production, regardless of jurisdiction

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Introduction

David Levinson
Head of Responsible Investment at Nedgroup Investments

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From The Author

With each year that passes we learn, build, learn, and build some more. Our Responsible Investment journey at Nedgroup Investments is into its fifth year, and each one has brought new ways of thinking. If I recall my early days as an ESG analyst, barely any global asset managers were referring to 'net zero', and today the term has firmly cemented itself into investment mainstream. Our approach to being responsible investors has been incremental and measured. At times we wish we had moved a lot faster in certain areas, and at other times we reflect and appreciate that we didn't nose-dive into something that maybe wasn't a natural fit for where we were in our journey.

One such example is our membership to the United Nations Principles for Responsible Investing (UNPRI). Until this year, we felt that our resources were better spent on building our internal capabilities and working with our partner managers around their own responsible investment efforts - this is where a lot of our material impact lies. During the second quarter of this year, we were pleased to sign up to the UNPRI, motivated in large part by its academic and investor collaboration capabilities. It also provides us with a sounding board to confirm that we are on the right track by watching, chatting with, and learning from those managers across the globe who are leading the pack, in a genuine and sincere manner.

2022 has been a year where ESG has come under the microscope in a big way. The political right in the United States continues to voice criticism, mostly due to ESG's perceived environmental tilt. This may or may not have received confirmation bias from the Economist's headline article in July, calling for the unbundling of ESG and for asset management to place high focus on climate change, and more specifically, investee company emissions.

In a curious way, this is not too dissimilar to the message we have been giving our partner managers, to "keep it simple". The data held within the ESG world is both deep and wide, which can lead to cognitive overload and a fear to commit wholeheartedly. I was incredibly excited by Amy Jansen's work on the application of behavioural science to responsible investing, which you can read on page 12 of this report.

Earlier in the year Amy also ran a research project with the University of Pennsylvania, a finding of which was to keep our responsible investment survey findings concise and, importantly, digestible. I hope you find the visuals on pages 8-11 informative and interesting.

The ESG momentum was dealt another blow by litigation of 'greenwashing' among some of the industry's biggest names. Rather timely given the introduction of the EU's Sustainable Finance Disclosure Regulation (SFDR), which will see our funds domiciled there given either article 6, 8 or 9 categorisations, depending on their ESG credentials. Simon Watts, senior investment analyst on our London desk, provides some insights on their

2022 has been a year where ESG has come under the microscope in a big way.

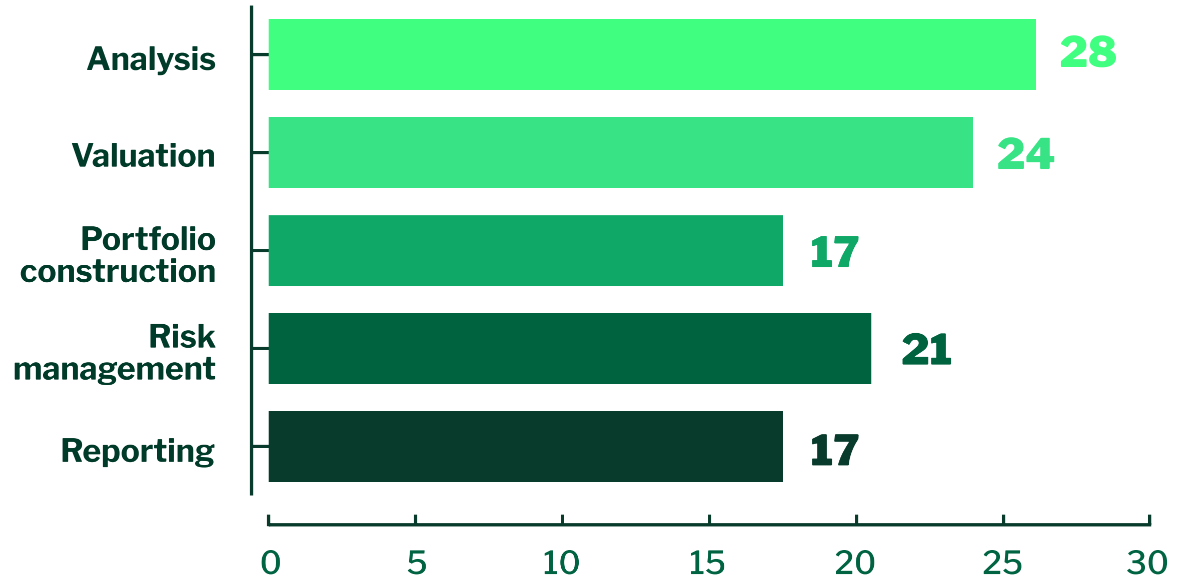
recently launched Sustainable range on page 16.

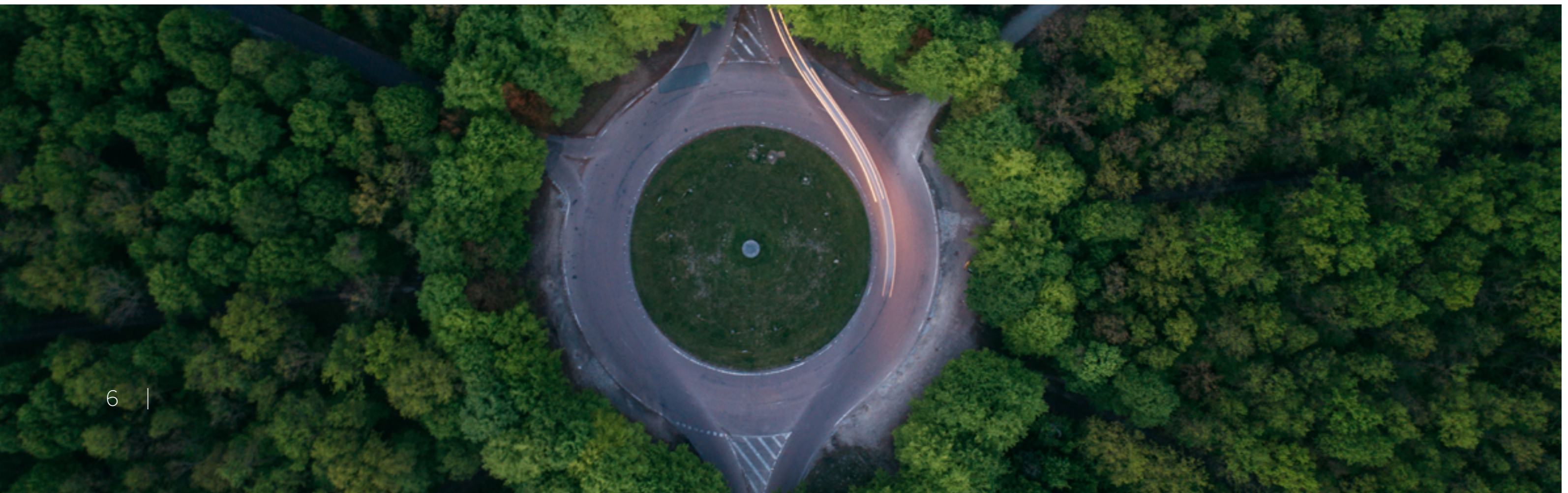
Last, but not least, has been the market impact of Russia's invasion of the Ukraine. As global prices for gas, oil and coal soared, funds with the ESG label that exclude fossil fuel exposure have underperformed by some margin. Although a rather over-simplification, as no two approaches to ESG are the same, this has bolstered the platform of ESG's most vocal critics. It also highlights the recurring debate whether exclusion of certain stocks, or remaining invested and engaging with companies, is the optimal way to achieve positive real-world outcomes. Our passive (Core) business has added a dedicated responsible investment member this year, and Lulama Qongqo's piece on page 14 explores this very debate.

Going back to my opening comments around 'building', maybe the clearest indication is the contribution to this report from colleagues across the business. Collaboration has been synonymous with our post-Covid work world, but this has only been made possible by their natural pull towards sustainability, their curiosity, and genuine desire for purpose.

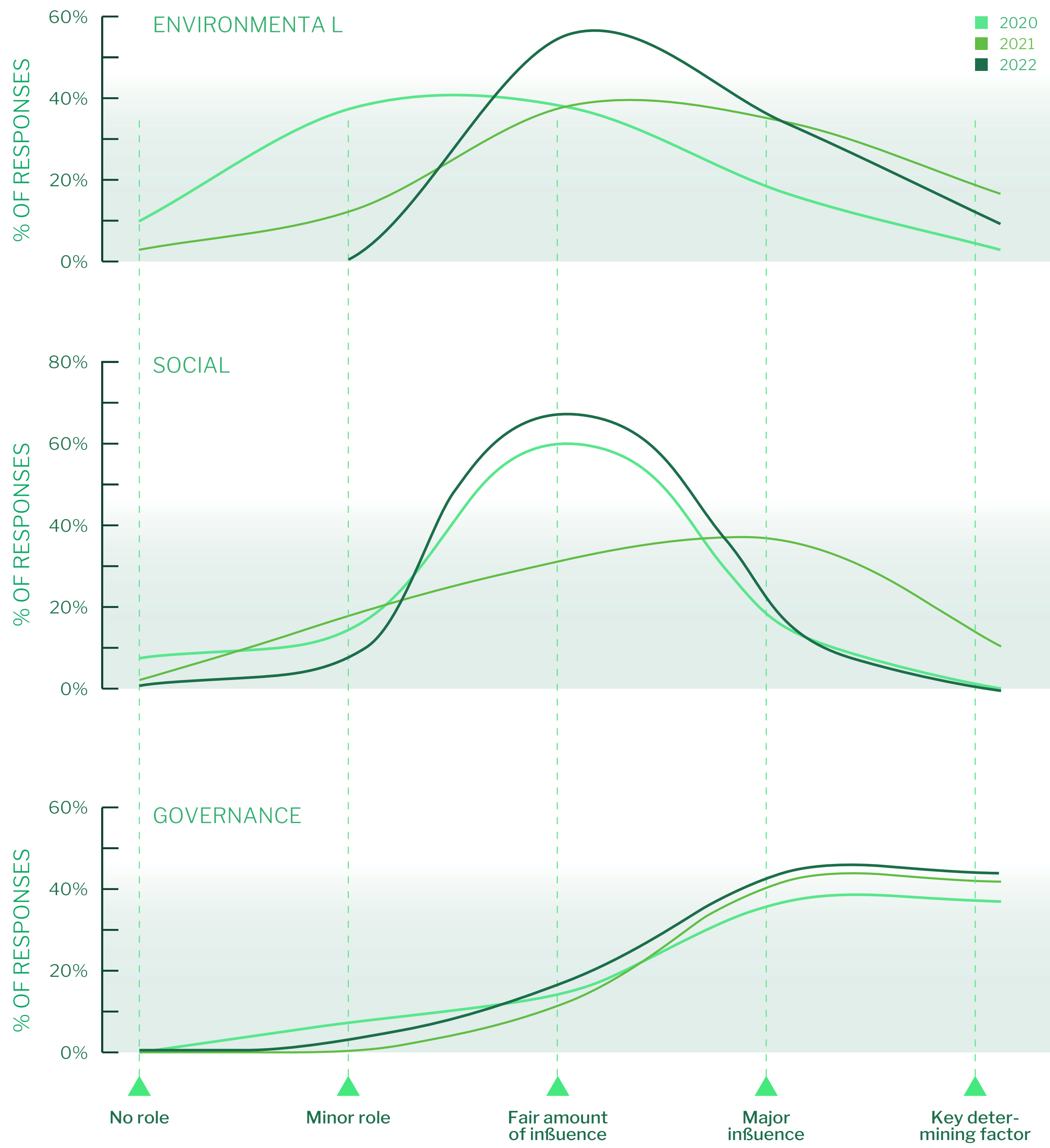
Results of our annual asset manager survey

Steps of the investment process where ESG factors are incorporated (number of responses)





To what extent do ESG factors play a role in investment decision making, year-on-year trends



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BIODIVERSITY RISKS AND OPPORTUNITIES

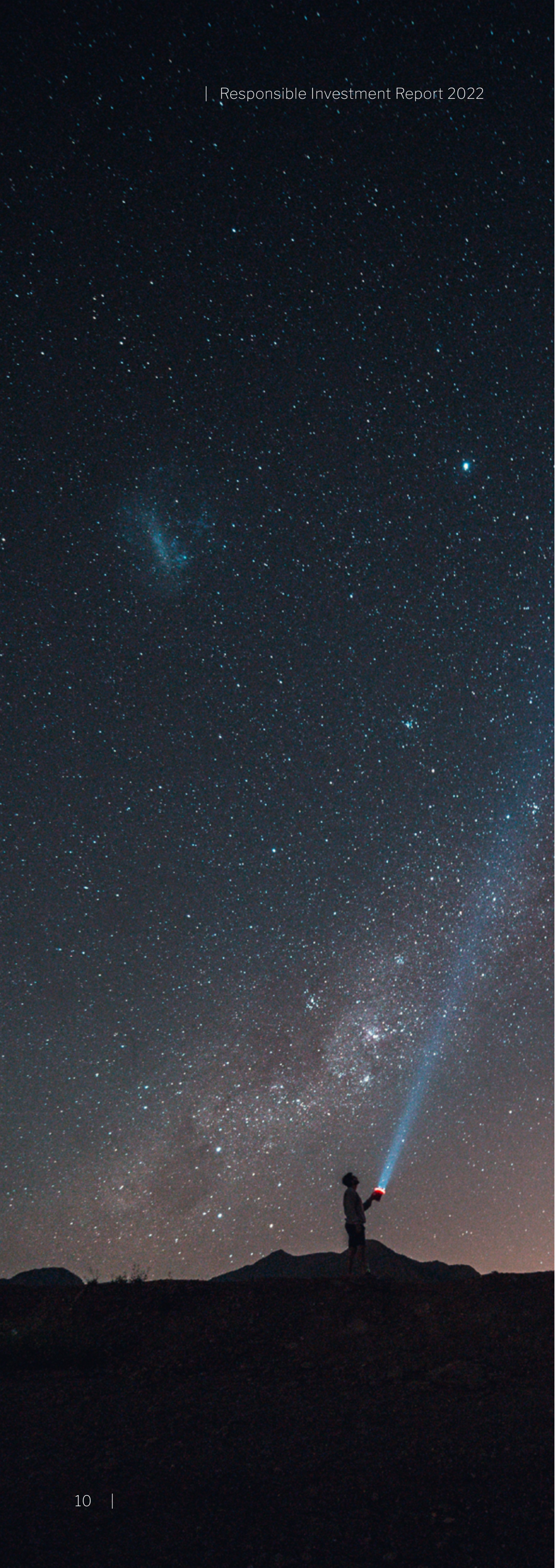
ADVERSE ECOSYSTEM EVENTS
HEALTH OF THE OCEANS
SUSTAINABLE FISHERIES & AQUACULTURE
TAILINGS DAM MANAGEMENT
ENVIRONMENTAL REHABILITATION
WASTE MANAGEMENT
WATER MANAGEMENT
CONSCIOUS CONSUMER TRENDS
RESPONSIBLE AGRICULTURAL PRACTICES
DEFORESTATION

CLIMATE RISKS AND OPPORTUNITIES

TRANSPORT ELECTRIFICATION
EXTREME WEATHER EVENTS
THE GREEN ENERGY TRANSITION
WASTE MANAGEMENT
GLOBAL WARMING
SHIFTS
DEMAND
COMMODITY
WATER SECURITY
BATTERY TECHNOLOGY & STORAGE
SEA LEVEL RISES
CARBON & EMISSIONS REGULATION

HUMAN RIGHTS RISKS AND OPPORTUNITIES

LABOUR RIGHTS IN MINING SECTOR
WORKER SAFETY
INADEQUATE MODERN SLAVERY POLICIES
INSUFFICIENT UPSKILLING
HUMAN RIGHTS RISK IN SUPPLY CHAINS
LOCAL COMMUNITY RIGHTS
CHILD LABOUR IN TOBACCO
INADEQUATE SOCIAL TRANSFORMATION
HUMAN RIGHTS IN COTTON SUPPLY
UNSETTLED UNION LABOUR
EMPLOYMENT EFFECT OF ENERGY TRANSITION



86%

78% 2021

of fund managers disclose their AGM voting results to investors and the public, up from 2021

Yet only 41% of voting intentions are communicated to companies prior to the AGM

YES 41%

Impressively 96% of fund managers interact with boards and executive leadership teams in an attempt to influence the company's management of ESG factors

YES 96%

And a further 69% specifically look to address people diversity issues

YES 69%

Yet only 52% of those surveyed have an engagement policy in place

YES 52%

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International body membership, in order of highest uptake amongst the participating managers

1. United Nations Principles for Responsible Investing
2. Climate Action 100+
3. Net Zero Asset Owners Initiative
4. Code for Responsible Investing in South Africa
5. Institutional Investors Group on Climate Change
6. Global Real Estate Sustainability Benchmark
7. Responsible Investment Association Australasia
8. Taskforce on Climate related Financial Disclosures
9. Transition Pathway Initiative
10. Science Based Target Initiative
11. Carbon Disclosure Project
12. ShareAction's Workforce Disclosure Initiative (WDI)
13. Investor Alliance for Human Rights

Applying Behavioural Science to Responsible Investing

Amy Jansen
Head of Behavioural Solutions
at Nedgroup Investments

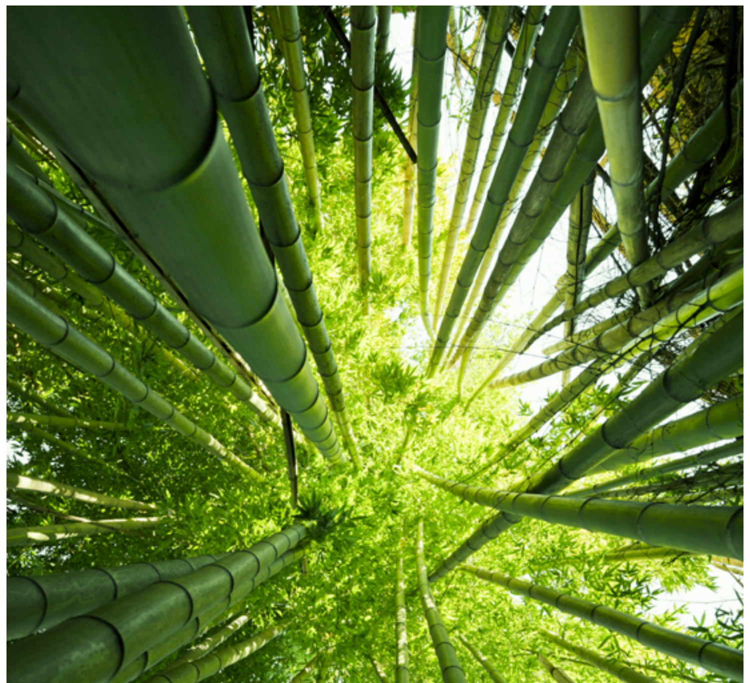
Our research with the University of Pennsylvania challenged us on whether there are better ways to contrast investment professionals' approaches to Responsible Investing. Too much of this space has become littered with ranking terminology. Both companies and funds are ranked and rated on responsible investing criteria, but remarkably inconsistently. Especially within funds that invest in listed equities.

> *We have been able to identify 6 profiles that distinguish how investment professionals approach Responsible Investing.*

While impact investing is often obvious due to its focus on unlisted assets and its high prioritisation on impact, responsible investing can be hard to distinguish across funds in the listed space. As Responsible Investing has become mainstream, most fund managers have responsible investing policies and reporting. But wading through these can be hard cognitive work, making ratings a less taxing but unreliable alternative.

Using tools from behavioural science, we set out to trial a different approach. Our research team from the University of Pennsylvania conducted qualitative interviews where they identified 5 ways in which investment professionals differed in how they spoke about their approach to Responsible Investing.

We turned these hypotheses into a quantitative survey for individuals in our partner manager's investment teams that ran alongside our primary firm-level Responsible Investing review. Using this data, we have been able to identify 6 profiles that distinguish how investment professionals approach Responsible Investing. While these profiles are exploratory and do not cover all aspects of Responsible Investing, they do provide a new lens to view the Responsible Investing landscape.



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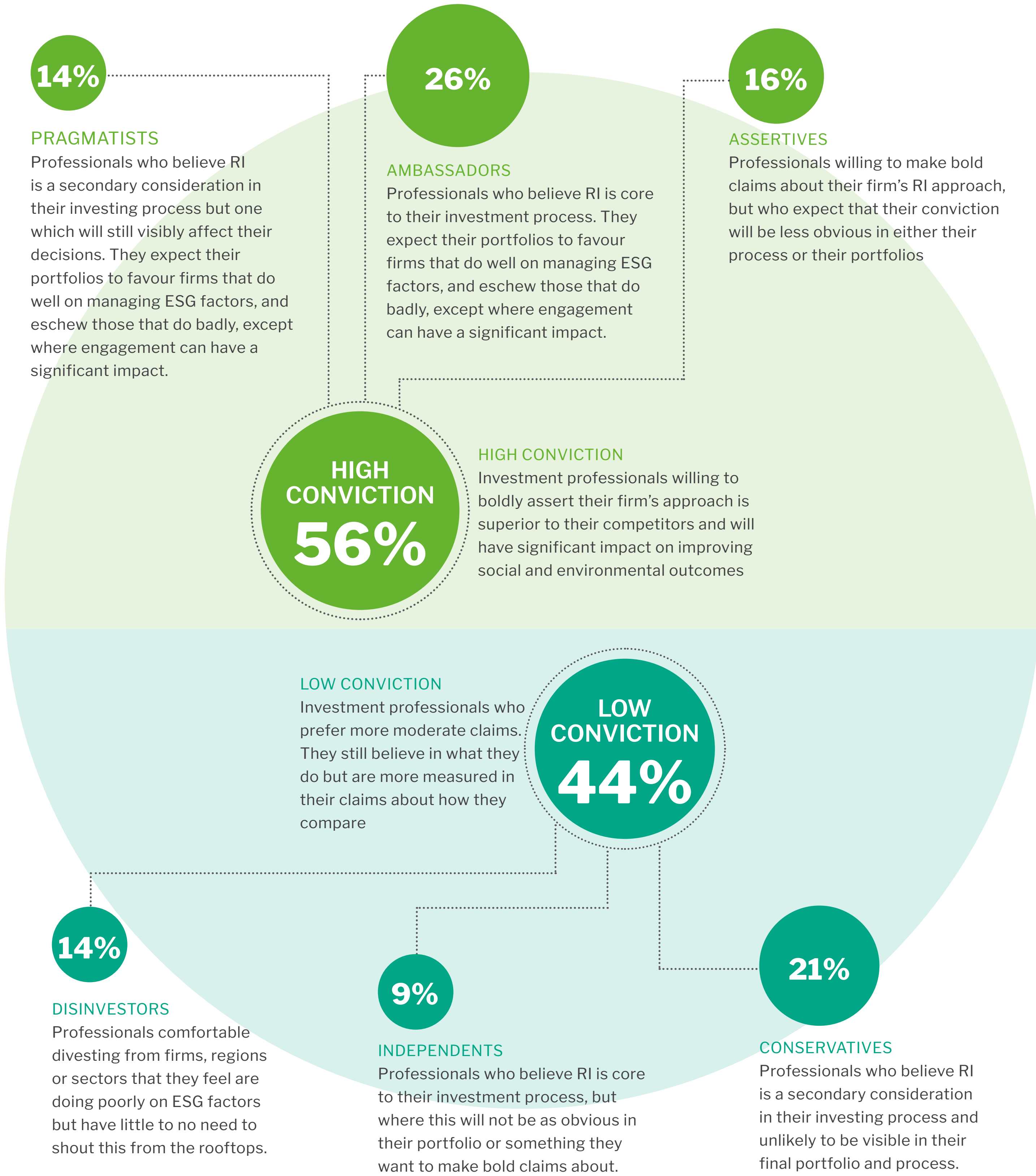
The Nedgroup Investments 6 profiles that distinguish how investment professionals approach Responsible Investing



Passive Investing in an Active World

Lulama Qongqo
Responsible Investment Analyst at Nedgroup Investments

The Nedgroup Investments Core Funds are designed to increase the opportunity clients have to capture their fair share of market returns. This is the spirit of passive investment - universal asset ownership. Being a passive shareholder, however, does not mean being a dormant shareholder. While passive asset managers do not have a say in the weights assigned to certain investments – they can still contribute to the discourse on how invested capital can be used sustainably in the long run.

As more clients vote with their capital by placing more of their income into passive funds – the role of passive shareholders and their growing influence in companies has become a widely debated matter. In our view, passive asset management is simply another way people can participate in the ever-growing global economy over the long term. Overseeing this goal also entails working alongside recipients of capital towards sustainable value creation.

Another benefit of increasing Responsible Investing resources across the board is the sharing of resources by the industry.

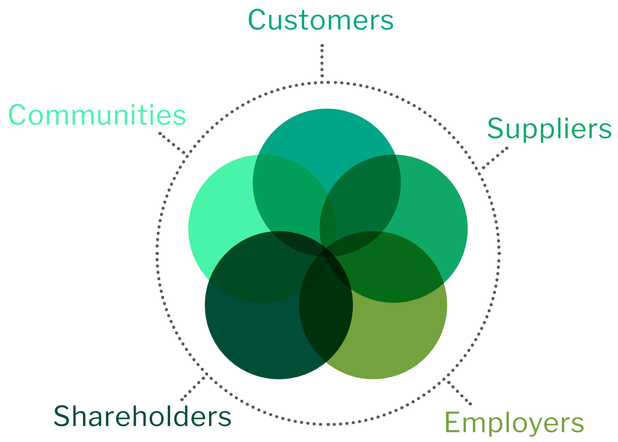
In our view, active and passive asset management strategies are complementary in clients' portfolios – which is why we often see client overlap despite being classified as technically different. It would be an incomplete exercise to look for great representation in one part of a client's portfolio and leave the other growing portion underrepresented. This is especially true if a client has sought a balanced portfolio using both active and passive strategies.

As UNPRI signatories, we prioritise PRI Principles in the same manner that many active managers do. ESG incorporation and active ownership play a very key role in the completion of our investment process as we continue to align our portfolios to globally recommended Responsible Investing frameworks and specific SDGs through active engagement.

Responsible Investing is not only to be taken seriously by investors who forecast into the future and try to extract expected alpha. It is the responsibility of all asset management companies. There are plenty of examples that prove that supporting market-wide active engagement is beneficial to the market as a whole.

While we discuss the activities of one group of stakeholders– it is worthwhile considering which other stakeholders are affected by the capital allocators of the market.

Group of company Stakeholders



It is in companies' best interests to look after all stakeholders should they want to continue to remain relevant (goodwill) and benefit from the long-term capital circulating in the economies they operate in. At the heart of it all – it is incentives that drive stakeholders' actions in the long run. They tend to be attracted to entities and experiences that provide them the most value. Therefore, the opportunity cost of keeping other groups of stakeholders out of the loop, is significantly high in the long run.

Another benefit of increasing Responsible Investing resources across the board is the sharing of resources by the industry. The increase in ESG requirements from a regulation perspective has increased the amount of capital and resources required to continue to be a responsible investor, while fee pressure continues to weigh on the industry. This dichotomy of adopting a culture of doing the right thing with limited resources means that asset managers need to find creative ways of leveraging the collective effort they have within regulatory allowances. The collective efforts of both passive and active could help the industry share more of the responsibility and cover more ground for companies to accelerate the improvement of global business practices and the creation of more robust ESG outcomes.

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Minimising risk though active engagement is an important part of post-investment ESG strategies - by supporting companies to form well governed boards and to influence the strategy and risk management of companies (ecological and social). Risk management pre- and post-investment is something that passive shareholders can contribute well to.

In conclusion, all types of shareholders deserve representation irrespective of what type of vehicle they use to access an investment. It matters more how stakeholders' interests are taken care of, than it matters who does it.

Sustainable Investment Portfolios

Simon Watts
Senior Investment Analyst at Nedgroup Investments UK

Our new Sustainable Investment Portfolios, launched in the second quarter of this year, provides our Nedbank Private Wealth clients with a considered approach to investing to meet the changing needs of our people and planet. Founded on respect for the intrinsic value of every human being and our responsibility to safeguard the environment for future generations, our Sustainable Range approach:

- Aims to focus on the priorities of tomorrow whilst addressing the real-world investment challenges of today;
- Strikes a balance between the fundamentals of investment theory, the demands of the real-world economy and aligning to the requirements of the future;
- Has the same long-term investment goals and risk parameters as our well established 'Responsible' portfolio range;
- Combines some thematic positioning with broader, highly diversified sustainable strategies to help balance risk and control asset class positioning;
- Incorporates specific exclusionary criteria – to avoid certain areas and business practices ("avoids the bad"), and;
- Has a positive alignment to long term UN Sustainable Development Goals ("aligns to the good").

Avoids the bad

The Sustainable Investment Portfolios are designed to ensure minimal exposure to companies that are flagged for controversial business involvement. It is difficult to apply hard and fast rules to what can often be a very subjective concept: how do I feel about a particular business practice or sector? Do I have a specific aversion? Is this at odds to my moral or religious beliefs? Would I rather be invested and look to influence change, or just not be involved? Do the positives outweigh the negatives? Are the negative elements a peripheral part to the wider business? Is the business on course to change for the good? All of these are very valid considerations, but there are certain investment areas that are commonly accepted as falling short of socially responsible investment (SRI) standards. We look to screen these out across the portfolios:

- Alcohol
- Civilian firearms
- Gambling
- Weapons
- Cluster bombs
- Landmines
- GMOs
- Tobacco
- Nuclear power
- Fossil fuels

Portfolios will never have more than 2% exposure to SRI exclusion companies. It is important to note that we use MSCI's SRI exclusion criteria but have adapted it to include companies with fossil fuel-based revenue (as this is strangely not included in MSCI's SRI calculation) and exclude companies involved in electricity generation from nuclear power (which is strangely included in MSCI's SRI calculation). Whilst nuclear power is not sustainable, it is a cleaner energy as it does not release greenhouse gases, and it will be required for energy transition

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Aligns to the good

Whilst there are certain commonly accepted investment areas to avoid, there are businesses that contribute positively towards long term sustainability across a range of factors. Considering the need to meet urgent environment, political and economic challenges of our time in 2015 the United Nations adopted the 2030 Agenda for Sustainable Development and set out its 17 Sustainable Development Goals (SDGs) which focus on a range of critical areas.

All SDGs are linked to broader structural mega-trends and are positioned to generate positive sustainable development outcomes. Whilst environmental factors often dominate public discourse, future sustainability is multi-faceted. Sustainable Investment Portfolios will always, on aggregate, provide a positive alignment to the SDGs. By positively aligning to these Sustainable Development Goals, and excluding certain business practices, we firmly believe the Sustainable Range can meet the needs of a changing world and people, whilst also meeting its investment objectives.

Through integrating the core building blocks of portfolio management theory with an overarching approach to positioning to meet the future requirements of humanity and the planet, the Sustainable Range is positioned to take advantage of long-term trends and the themes and investment opportunities that these present. At the same time portfolios are positioned to align to wider sustainable development goals and to avoid certain sectors and businesses associated with and involved in controversial practices. In essence, we aim to provide a portfolio that "meets the needs of the present without compromising the ability of future generations to meet their own needs" [1], which is the very definition of sustainable.

The Global Goals for Sustainable Development

Conclusion

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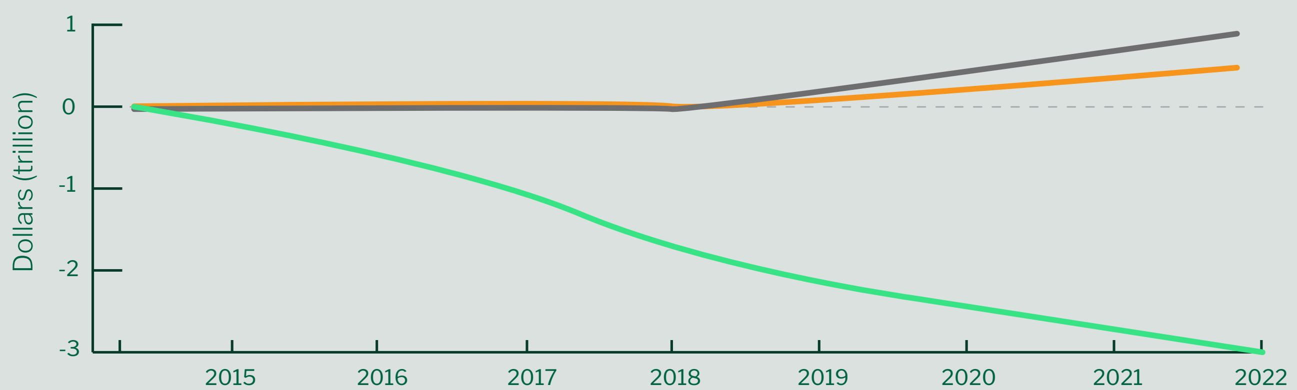
Moving forward with Responsible Investing

Despite heightened scrutiny in 2022, the field of ESG continues to attract assets. This has been driven by several factors, including regulation, emergent investment opportunities, investor demands, and a broader desire for investments to have positive real-world outcomes. As per the chart below, equity funds with an ESG component have attracted almost USD 1 trillion assets over the past four years, split evenly between active and passive strategies. This contrasts with traditional non-ESG active funds, where asset outflows have accumulated close to USD 3 trillion.



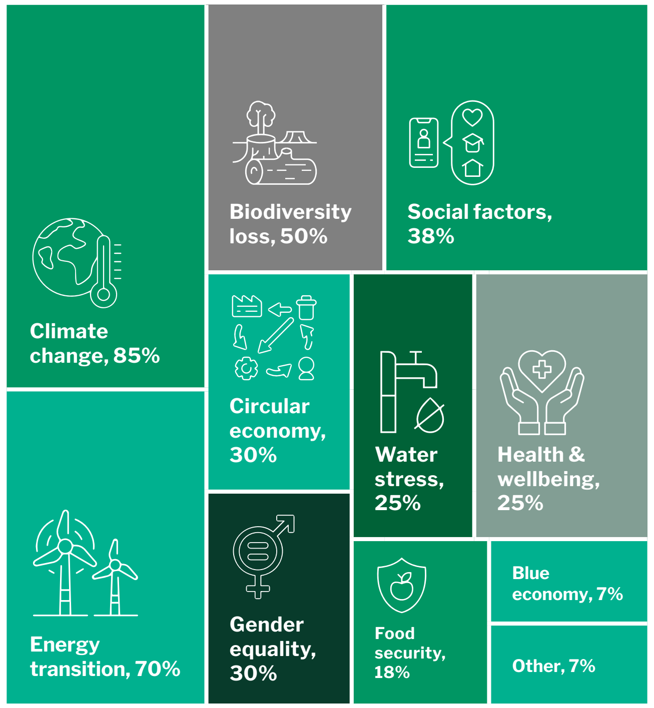
Source: Bernstein, The Economist

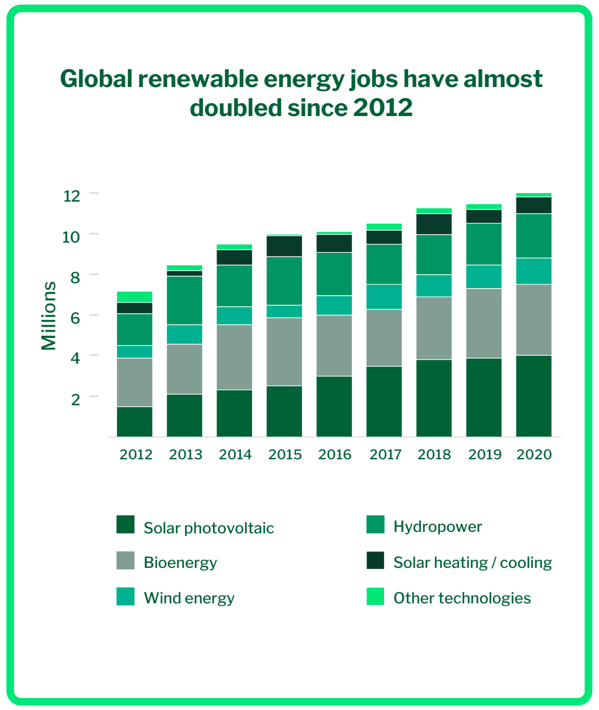
Total ESG equity ESG active equity Non-ESG active equity

According to a study by Citi Research, climate change and the energy transition continue to attract the greatest investor attention and will have central roles in addressing today's environmental challenges. The energy transition, from traditional fossil fuels to a production mix that includes greater use of renewables, illustrates the complex intersection of society and the environment.

Fossil fuel lobbyists often highlight the amount of people that depend on the oil and coal value chains for their livelihoods, while those in the renewables corner draw on the need to upskill and evolve the workforce in line with industrial and technological progress. The chart below illustrates the growth in jobs across the various clean energy sources and offers a glimpse into how the energy sector may evolve and look to absorb some of the losses from the traditional value chain.

Sustainable investment themes as prioritized by investors





Source: International Renewable Energy Agency, Bloomberg Green, Citi Research: Investor Sentiment Survey

The relationship between companies and their investors on ESG issues can all too often take on an antagonistic nature. Instead, investors should look to encourage, and importantly, support company management to transition their businesses for a low-carbon and inclusive economy. Shareholder support will embolden management to break from historic inertia and proactively pursue better societal outcomes.

Engagement initiatives, such as Climate Action 100+, build on pre-existing engagement efforts across the globe. Significant focus has been placed on materiality, where this group has committed to engaging with 167 pre-identified companies that are strategically important to the net-zero emissions transition.

A complexity for fund managers often lies in the challenge of integrating fast-evolving ESG information with decades old investment processes and philosophies. Amy Jansen's work showcased the cognitive overload that sustainability often presents to investment professionals, and our Responsible Investment webinars (see right) hope to close the knowledge gap that currently persists.

Across Nedgroup Investments' regions of operation (South Africa, United Kingdom, and Europe), or anywhere in the world for that matter, environmental and social challenges are real and pertinent. By managing these risks, we believe our investments will be more resilient and participatory in the real economy. Our conversations and responsible investment efforts will play a significant role in better serving our environment, its people, our partner managers, and our clients.

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MADODA KHUMALO - Sea Harvest Group Ltd

"Twenty years ago we were worried about low fish stocks and needed to make a change. Through rigorous scientific assessment, alongside global best practice and certififcation standards, we have experienced a recovery in our ocean resources."

CAMILA BUDDEN - Protect the West Coast

"Mining companies need to respond to shareholders' ESG concerns. getting around a table and engaging with stakeholders is an effective strategy when trying to cooperate and understand each other's needs, and hopefully coming to a middle ground."

LEITAH MHABELA - The Black Mamba Anti-Poaching Unit

"As long as young ladies believe in themselves, they should grab opportunity with both hands. There are so many opportunities in conservation and we need more women to lead and safeguard nature for future generations."

TRACY WESSELS - Sappi Ltd

"Regarding UNSDG: Life on Land, we firmly believe that working with nature through healthy working forests, we can produce bio-based products which can create value as a fossil-based replacement, as well as for the communities in which we operate."

OLIVER WITHERS - Credit Suisse International

"Bending the curve on biodiversity loss requires responsible consumption and production. Agriculture is arguably the biggest driver of biodiversity loss, but the exciting thing is that it is also the biggest opportunity that we have in terms of mitigating future losses."

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Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za