

# Principle based Framework for Responsible Investment Implementation



## Principle based Framework to guide Responsible Investment Integration for Investec Wealth & Investment International (Investec W&I).

Investec W&I has committed to the UN Principles for Responsible Investment.

A principles-based framework is proposed to guide Investec W&I with the continuing implementation of Responsible Investment and the requirements of the UN supported Principles for Responsible Investment (PRI).

Principles, unlike rules, provide guidance to move towards a shared objective with freedom to take independent decisions and action.

**The intention is to align principles developed by global investors with the objectives of the PRI and the purpose of Investec W&I.**

### Purpose of the Framework

To support Investec W&I in the creation of enduring value, while meeting our commitment to the PRI.

**This includes:**

- Implementing the principles that follow from the commitment to the PRI and CRISA.
- Guiding continuing integration of responsible investment and stewardship into the investment process.
- Supporting the creation of enduring value for Investec W&I clients.

### Investment Process

The Investec W&I investment process has been developed to create enduring value for clients and beneficiaries of funds.

**The investment process must continue to be developed to meet the requirements of selected stewardship codes, governance codes and supporting regulation:**

- PRI
- CRISA 2
- King Corporate Governance Code (King IV).
- Regulation 28 (SA Pension Fund Act).

It is important to be aware of the requirements of the UK Stewardship Code to create flexibility for possible acceptance as a signatory in the future.



PRI signatories make the following commitments.

Principle 1:	We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2:	We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3:	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4:	We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5:	We will work together to enhance our effectiveness in implementing the Principles.
Principle 6:	We will each report on our activities and progress towards implementing the Principles.

**CRISA fits effortlessly with the PRI.**

## The International Corporate Governance Network (ICGN)

The ICGN Principles have been developed over time by global investors. The Principles are monitored and regularly updated by global investors. Led by investors responsible for assets worth approximately \$US 77 trillion, ICGN is the **only organisation** that advances the highest standards of **corporate governance and investor stewardship worldwide** in pursuit of long-term value creation.

The ICGN Principles align with the objectives of the PRI, CRISA, King IV, Regulation 28, and the creation of enduring value, as per the purpose of Investec W&I.

## ICGN Global Stewardship principles

Principle 1:	Internal governance: the foundation of effective stewardship.
Principle 2:	Developing and implementing stewardship policies
Principle 3:	Monitoring and assessing investee companies.
Principle 4:	Engaging companies and investor collaboration.
Principle 5:	Exercising and protecting voting rights.
Principle 6:	Promoting long-term value creation and integration of environmental, social and governance (ESG) factors.
Principle 7:	Meaningful transparency, disclosure and reporting.

The ICGN Global Stewardship Principles **comprehensively incorporate the PRI and CRISA requirements**. They are developed and continuously updated by global investors, companies, academics and individuals.

**As they incorporate the PRI and CRISA Principles, and are of global application, they can be used to guide Investec W&I's Responsible Investment implementation Framework.** The regular revision and updating of the principles by global investors, companies, academics and investors adds to their practical guidance and application.

## PRINCIPLE BASED FRAMEWORK FOR RESPONSIBLE INVESTMENT IMPLEMENTATION

Where PRI or local CRISA requirements materially differ, Investec W&I will adapt their Responsible Investment Framework to ensure the PRI and/ or CRISA requirements are met. There are currently no material differences between the requirements of the PRI/CRISA Principles and the ICGN Global Stewardship Principles.

<i>ICGN</i>	<i>Principle</i>	<i>Context</i>	<i>Action</i>	<i>Expected outcome</i>
<b>ICGN Global Stewardship Principle 1.</b>	Internal governance: the foundation of effective stewardship.	Investors should keep under review their own governance practices to ensure consistency with the aims of national requirements of the PRI, the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries or clients.	Develop a system of governance to hold Investec W&I investment team accountable for further integration of Responsible Investment, including stewardship, into the investment process.	Implementation of a system of governance as a foundation for Responsible Investment and Stewardship.
<b>ICGN Global Stewardship Principle 2.</b>	Developing and implementing stewardship policies.	Investors should develop and implement stewardship policies which outline the scope of their responsible investment practices.	Policies drafted, reviewed and refreshed to align with leading practice.	Sound policies to support the creation of enduring value and position Investec W&I for leading third party ratings.
<b>ICGN Global Stewardship Principle 3.</b>	Monitoring and assessing investee companies.	Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.	Fundamental analysis to include governance of all new companies that are being considered for investment. Material governance concerns must be highlighted for engagement if a decision is made to invest in the company. At the next AGM, our voting decisions should consider these governance issues. Company governance to be monitored following investment in the company.	Investec W&I diligently considers governance prior to investment and when monitoring funds.
<b>ICGN Global Stewardship Principle 4.</b>	Engaging companies and investor collaboration.	Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to enhance engagement outcomes.	Develop an engagement process and ensure appropriate resources to focus on engagements that preserve and enhance value.	Effective engagement with clear purpose implemented that meets requirements of third parties, including PRI and clients.
<b>ICGN Global Stewardship Principle 5.</b>	Exercising and protecting voting rights.	Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence, and judgement across their entire portfolio in the interests of beneficiaries or clients.	Implement an effective voting system that considers analyst and PFM views, while ensuring the voting decision is made in the long-term interest of clients.	Shareholder and special meeting resolutions are voted timeously in the long-term interest of clients.

PRINCIPLE BASED FRAMEWORK FOR RESPONSIBLE INVESTMENT IMPLEMENTATION

<i>ICGN</i>	<i>Principle</i>	<i>Context</i>	<i>Action</i>	<i>Expected outcome</i>
<b>ICGN Global Stewardship Principle 6.</b>	Promoting long-term value creation and integration of environmental, social and governance (ESG) factors.	Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors into investment decision-making and stewardship activities.	Material ESG factors identified. Adjustments made to expected company future earnings. Valuations adjusted for future earnings impact. A valuation discount or premium is applied where specific earnings adjustments are not practical.	Effective integration of material ESG factors for better earnings projections and valuations.
<b>ICGN Global Stewardship Principle 7.</b>	Meaningful transparency, disclosure and reporting	Investors should publicly disclose their stewardship policies and activities and report to beneficiaries or clients on how they have been implemented.	Ensure policies disclosed on website supporting responsible Investment purpose. Develop professional client reporting to communicate material stewardship action.	All Responsible Investment policies, voting decisions, including reasons for voting against, and material engagement is transparently disclosed through the website and/or focused client reporting.

## Supporting Action

- Develop a high-level framework to guide the integration of Governance into investment analysis and decision making. The framework to require engagement and voting at the next AGM if material governance issues are identified (Principle 3).
- Develop a playbook to guide engagement and the documentation of engagement progress (Principle 4).
- Develop a standard engagement framework to focus engagement and to record data for reporting purposes (Principle 4).
- Support investment team engagement where requested to do so (Principle 4).
- Provide a voting and engagement advisory service to support the investment team (Principle 4 & 5).
- Develop a system to report voting decisions, as recorded on the ISS platform (Principle 5 & 7).
- Responsible investment resourcing decision following implementation of the above (Principle 1 to 7).

## ICGN Global Stewardship Principle 1 (Internal governance: the foundation of effective stewardship).

Investors should keep under review their own governance practices to ensure consistency with the aims of national requirements of the PRI, the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries or clients.

### Action required:

- Develop and implement a system of governance as a foundation for Responsible Investment and Stewardship.
- Investec W&I board and executives must ensure oversight and accountability for effective responsible investment strategy implementation.
- The board should have appropriate sustainability & stewardship skills to hold executives accountable for the implementation of the responsible investment system. Alternatively, they should receive advice and guidance on a sound responsible investment system to ensure they are positioned to ask appropriate questions.
- The board to ensure the purpose of responsible investment is fully understood across the firm and implemented by the executives.
- The executive team to identify individuals to serve on a responsible investment implementation committee.
- The Responsible Investment Committee terms of reference to include stewardship guidance. The Committee will act as arbiter for complex voting and engagement decisions.
- The board to ensure resources are available for the implementation of the responsible investment strategy. The resources should include stewardship skills and carefully selected third-party research to supplement analyst fundamental research.

## PRINCIPLE BASED FRAMEWORK FOR RESPONSIBLE INVESTMENT IMPLEMENTATION

- The firm's risk system must provide assurance to the Board that material risk factors (idiosyncratic and systemic risk) and opportunities are considered as part of investment analysis, investment decision making and portfolio construction?
- Board to ensure a Conflict of Interest (COI) policy is in place and that it appropriately covers potential stewardship conflicts.
- The firm's system of remuneration should incentivise effective responsible investment strategy implementation.

Implementation targets and metrics to be carefully selected and communicated by the board Remuneration Committee.

An internal document is available setting out the governance system roles and individual responsibilities.

### Expected Outcome:

Implementation of a system of governance as a foundation for Responsible Investment and Stewardship.

## ICGN Global Stewardship Principle 2

(Developing and implementing stewardship policies).

Investors should develop and implement stewardship policies which outline the scope of their responsible investment practices.

### Action required:

Policies drafted, reviewed and refreshed to align with leading practice.

### These include:

- Governance policy
- Responsible Investment integration policy
- Stewardship policy
  - Voting
  - Engagement

### Expected outcome:

Sound policies that support the creation of enduring value and position Investec W&I for leading third party ratings.

## ICGN Global Stewardship Principle 3

(Monitoring and assessing investee companies).

Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

### Action required:

Company fundamental analysis must include the corporate governance system (interrelated elements that interact to reduce risk and add value). Analysis must include governance of all new companies that are being considered for investment. Material governance concerns to be highlighted for engagement where, despite the governance issue, a decision is made to invest in the company. At the next Annual General Meeting (AGM), voting decisions should respond appropriately to the governance issue. Company governance to be monitored on an ongoing basis following investment on behalf of clients.

The material Corporate Governance system elements are set out in the Integrated Corporate Governance Framework below.

### Action required:

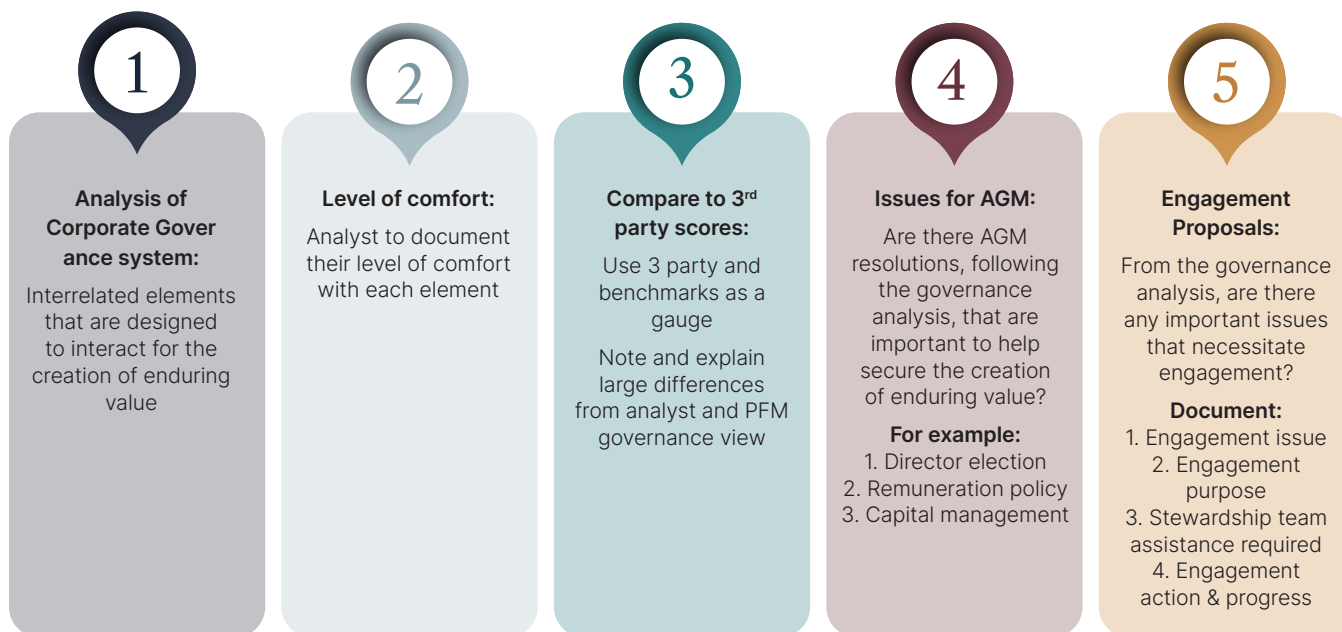
- Analyst to document the company business model.
- Document and understand the company strategy.
- Understand the system of governance that is in place to hold executives accountable for the implementation of strategy.
  - Governance system must align with and support strategy, while encouraging a culture of value creation.
  - Election and re-election of directors must consider skills, track record, diversity, independence and overall suitability for the company strategy.
  - Remuneration system to encourage strategy implementation with appropriate performance criteria for the short, medium and long-term.
  - Comprehensive enterprise risk management system in place to identify and mitigate risk.
  - Information system must ensure transparent, accurate and complete information.
  - An assurance process assists directors to hold executives accountable to the board for risk management.
  - A capital management system is in place to ensure the allocation of capital in support of strategy.
  - From the governance analysis, are there any important issues that necessitate engagement?
  - Are there AGM resolutions that are important to support the engagement objective and help secure the creation of enduring value?
- Document the level of comfort for each element of the system of governance.
- Compare the level of comfort to third party research ratings.
- Document the reasons for material differences between 3rd party research and the analyst's view of the governance system.





## Integrated Corporate Governance Framework:

*A system to lead and control an organisation for the creation of enduring value*



## Corporate Governance system for the creation of enduring:

	<b>Commitment</b>	System aligns with and supports strategy while encouraging a culture of value creation	<ul style="list-style-type: none"> <li>Integrated annual and sustainability report descriptions</li> <li>3rd party scores</li> </ul>	<b>Level of comfort</b>
	<b>Board of Directors Structure and Functioning</b>	Board skills, track record, diversity, independence and suitability for company strategy	<ul style="list-style-type: none"> <li>Board structure</li> <li>Skills Matrix</li> <li>Performance Process</li> <li>Succession Planning</li> </ul>	<b>VL</b>
	<b>Remuneration</b>	Encourage strategy implementation with appropriate performance criteria in the short, medium and long-term. Fair and transparent.	<ul style="list-style-type: none"> <li>Remuneration policy</li> <li>STI and LTI criteria and metrics</li> </ul>	<b>L</b>
	<b>Risk Management</b>	Comprehensive ERM system to identify and mitigate risk	<ul style="list-style-type: none"> <li>Reporting structure</li> <li>Material Risks</li> <li>Controls to mitigate risk</li> </ul>	<b>M</b>
	<b>Transparency and Disclosure</b>	Information system ensures transparent, accurate and complete information and disclosure that enables stakeholders to make informed decisions	<ul style="list-style-type: none"> <li>Reporting structure</li> <li>Quality and accuracy of reporting</li> </ul>	<b>H</b>
	<b>Assurance to the Board</b>	Integrated assurance process assists directors to hold executives accountable to the board for risk management, including transparency and disclosure of information	<ul style="list-style-type: none"> <li>External &amp; internal audit</li> <li>Risk management</li> <li>Compliance</li> </ul>	<b>VH</b>
	<b>Capital Management</b>	Effective system to allocate capital in support of strategy	<ul style="list-style-type: none"> <li>Clear accountability and process</li> <li>Return vs cost of capital track record</li> </ul>	<b>Level of comfort</b>

### Expected outcome:

Investec W&I diligently considers governance prior to investment and when monitoring funds.

## ICGN Global Stewardship Principle 4 (Engaging companies and investor collaboration).

Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to enhance engagement outcomes.

### Action required:

- Develop an engagement process to preserve and enhance value.
- The process to ensure that credit and equity engagement is aligned.
- Document the process.
- The process must ensure that any decision to engage is made after consideration of capacity to make an impact and preserve or enhance value.

- Consider collaborative engagement opportunities.
- Regulation, including acting in concert risk, to be carefully considered prior to any engagement decision.
- Develop a playbook to guide engagement and the documentation of engagement progress.
- All engagement action to be documented using a standard engagement framework.
- In time, ensure appropriate resources are in place to support the investment team engagement.

### Expected outcome:

Effective engagement with clear purpose implemented that meets requirements of third parties, including PRI and clients.

## ICGN Global Stewardship Principle 5 (Exercising and protecting voting rights).

Investors with voting rights should seek to vote on shares held and make informed and independent voting decisions, applying due care, diligence, and judgement across their entire portfolio in the interests of beneficiaries or clients.

### Action:

Implement an effective voting system that considers analyst and PFM views, while ensuring the voting decision is made in the long-term interest of clients.

- ISS recommendations (3rd party voting research) is considered as a starting point.
- The ISS research to be analysed by the stewardship team.
- The stewardship team and analyst responsible for the company, to agree with or dissent with ISS recommendations.

- Reasons for voting against or abstaining to be appropriately documented (rationale).
- Develop a rationale library. Include a free text option to record reasons for voting against that do not fit with the standard rationale library options.
- All voting decisions to be inputted on the ISS voting platform. Appropriate rationale selected to support votes against or abstentions.

### Expected outcome:

Resolutions are voted timeously in the long-term interest of clients.

## ICGN Global Stewardship Principle 6

(Promoting long-term value creation and integration of environmental, social and governance (ESG) factors).

Investors should promote the long-term performance and sustainable success of companies and should integrate **material** environmental, social and governance (ESG) factors into investment decision-making and stewardship activities.

### Action:

- Material ESG factors to be identified by analysts and documented.
- Adjustments made to expected company future earnings for the material factors selected.
- Material ESG adjustments to be explained and documented in the analyst research report.
- Valuations adjusted for future earnings impact.
- A valuation discount or premium is applied where specific earnings adjustments are not practical.

- Investec W&I does not have a uniform approach to ESG integration. Instead, IIM looks to play to analysts' strengths and to curate industry-specific approaches based on information available to analysts and sector nuances.

### Expected outcome:

Effective integration of material ESG factors for better earnings projections and valuations.



## ICGN Global Stewardship Principle 7 (Meaningful transparency, disclosure and reporting).

Investors should publicly disclose their stewardship policies and activities and report to beneficiaries or clients on how they have been implemented.

### Action:

- Ensure policies disclosed on website supporting Responsible Investment purpose.
- Develop professional client reporting to communicate material stewardship action.
- Policies and reporting to align with the requirements of the PRI and regulators.
- Client reporting to meet client expectations.

### Expected outcome:

All Responsible Investment policies, voting decisions, including reasons for voting against, and material engagement is disclosed through the website and/or focused client reporting.

