

A responsible investment strategy for the RAITH Foundation

27 May 2015

For approval by the RAITH Board of Trustees

Background

The RAITH Foundation's operations are funded through the income generated by its ownership of investments. The Foundation wishes to align the social justice outcomes it seeks to achieve at the programme level with the conduct of the companies in which it is invested.

The Foundation has previously acted to negatively screen out investments in alcohol, tobacco and gambling, which it considers a good foundation for the development of a responsible investment strategy.

RAITH is concerned that its investment strategy be fully consistent with its programme approach. At the moment it is not actively involved in monitoring the conduct and behaviour of the companies in which it is invested and it has also not within the remit of Allan Grey. As a result, the Foundation is not in a position to take an active stance on key strategic matters on which it is asked to vote, nor can it take any preemptive positions on strategic social justice issues.

Responsible investment and stewardship

Responsible investment can be understood to be an investment strategy that seeks to generate both financial and sustainable value. It consists of a set of interlocking investment approaches that integrate environmental, social and governance (ESG) and ethical issues into financial analysis and decision-making.

A key element of a responsible investment strategy is stewardship which aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper.

Stewardship entails monitoring, engaging and intervening - if appropriate - on matters that may affect long-term value, and on the companies' activities in social, environmental and other governance areas. (In this context, engagement is understood to be purposeful dialogue on these matters and issues that are the subject of votes at general meetings.)

This approach recognises that asset owners, such as RAITH, as the providers of capital, set the tone for stewardship and can influence behavioural changes that lead to better stewardship by asset managers and companies.

Aim and purpose of the RI strategy

This strategy aims to allow the RAITH Foundation to take the steps required that will allow it to practice a responsible investment strategy.

This will see the RAITH Foundation in due course adopt and comply with the following principles of stewardship¹:

1. Publically disclosing a policy on how the Foundation discharges its stewardship principles
2. Having a publically disclosed policy on the management of conflicts of interest
3. Monitoring companies in which the Foundation is invested
4. Adopting clear guidelines on when and how stewardship activities will be escalated
5. Indicating a clear willingness to act collectively with other investors when appropriate
6. Adopting a clear policy on voting and disclosure of voting activity
7. Reporting periodically on stewardship and voting activities.

Results to be achieved

RESULT ONE: In the first instance, the Foundation will demonstrate the intention to pursue **responsible ownership** by developing an Investment Stewardship Policy and adopt it along with a clear timetable for implementation.

RESULT TWO: The Foundation will then make positive and negative investment screening decisions consistent with its policy statement. Through implementation of the Stewardship Policy, RAITH will become a **responsible investor**.

RESULT THREE: Over time, RAITH will also be able engage in sober and responsible **investor activism**, in all likelihood through discreet engagements with companies where appropriate.

RESULT FOUR: Finally, RAITH will develop the ability to use the information and knowledge it gains to collaborate

¹ These are drawn from the UK Financial Reporting Council's "Stewardship Code", generally recognised to be the most effective and straightforward set of principles. See: <https://www.frc.org.uk/getattachment/e2db042e-120b-4e4e-bdc7-d540923533a6/UK-Stewardship-Code-September-2012.aspx>

with its grantees and others on campaigns initiated and designed by them or by RAITH.

Activities to be undertaken	Result	Activities
	ONE:	Draft a Stewardship Policy for presentation to the RAITH Board, after which it will be revised and presented for adoption.
	TWO:	Scrutinise the documents provided by companies in which RAITH is invested for voting at Annual General Meetings and providing clear instructions on how to vote to the asset manager responsible for the Foundation's investments. In the first instance, the focus will be on companies' remuneration policies as these are a ready mechanism for measuring corporate greed and have a societal impact with possibly incendiary effects.
	THREE:	Engage in discrete, closed-door meetings with companies when appropriate.
	FOUR:	Activities in support of grantees and other partners will only arise later in the implementation phase and will vary depending on the nature of the issues to be addressed. However, RAITH will only ever play a relatively discreet role and will be unlikely to act as a public face on any campaigns.

Implementation approach: It is proposed that RAITH contract Corporate Governance.Pro (CorpGovPro) to provide a basic annual service and three additional tailored services (described in page 5 below). The services are to be delivered by Charl Kocks and Theo Botha.

BASIC ANNUAL SERVICE

Once a company in which RAITH is invested issues its annual or its integrated report in preparation for its annual general meeting, CorpGovPro will undertake an analysis of those topics most important to RAITH in its efforts to be a responsible steward of its investments.

Because corporate remuneration has a major societal impact and the perception of capitalist greed is potentially incendiary to impoverished South Africans, and because shareholders are required to vote specifically on the

remuneration policies to guide the board, as a responsible investor, RAITH will take special note of this aspect.

CorpGovPro will also provide comments on the annual or integrated report's provision of social and environmental information (such as the Social and Ethics Committee's report) to assist RAITH in the responsible stewardship process since they flag matters that might require further engagement.

Since AGM resolutions include the selection of directors who set the tone and direction for a company, as a responsible steward RAITH will seek to guard against appointing or re-electing inappropriate directors.

In addition, sustainability issues (which include environmental and societal aspects) bear discussion at AGMs, even if only to question the company on its inaction or excesses.

The SENS (Stock Exchange News Service) announcements made by each JSE listed company notify stakeholders if an event occurs that fall into a reportable category. These categories would include corporate activity that require monitoring to ensure that RAITH's investment disqualifications would not apply, and might include announcements of unacceptable social or environmental actions if these were judged to be price-sensitive. CorpGovPro will monitor SENS on RAITH's behalf.

In modern integrated reports or on the websites of listed companies, a register is supplied of the extent to which the company applies the 75 principles of the KING III Code of Corporate Governance. Three of these are specifically linked to sustainability and corporate social and environmental aspects. CorpGovPro will undertake a review of this register in order to flag issues.

In summary, this service entails covering the following from the annual or integrated reports and SENS announcements:

- Remuneration policy/report comments;
- Social and environmental comments;
- AGM Resolution voting proposals;
- Monitoring SENS on a weekly basis to ascertain that the investee does not become involved in unacceptable activities as set out in the RAITH investment rules and aspects of similar concern;
- Reviewing the KING III compliance register in respect of each integrated report for disclosed application of

principles:

The provision of this service will require a monthly retainer of R30 500 (for the 26 companies in which RAITH currently has investments), with a review after 12 months in respect of future years, based on the experience gained.

ADDITIONAL SERVICES TO BE PROVIDED ON REQUEST

In addition to the ongoing service, CorpGovPro will provide, on request, support to RAITH involving:

1. Distilling practical rules to fit the RAITH investment policies and then monitoring them over a 12-month period to ensure practicality. This would cost between R5000 and R15000 depending on the length and complexity required.
2. Supporting RAITH in engagements with its investees to discuss concerns in line with the RAITH investment policy. This could include follow up discussions after a suitable period to ascertain the longer-term reactions to previous discussions. This service would cost R10 250 per interaction.
3. Detailed analysis of sustainability aspects of annual integrated or sustainability reports and the provision of critique in the form of a discussion document that would serve as the basis for further action when deemed appropriate. This service would be triggered when RAITH or CorpGovPro flags an issue that is then discussed as a project. This service would cost between R40 000 and R70 000 depending on the company.

Ownership:

Note that all reports provided by CorpGovPro will be RAITH's intellectual property to be used at its discretion.

End.