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Responsible Investment and Stewardship Report 2024

UNIVERSITY OF CAPE TOWN
IYUNIVESITHI YASEKAPA • UNIVERSITEIT VAN KAAPSTAD

Table of Contents

Introduction

The Board of the University of Cape Town Retirement Fund ("UCTRF") and Investment Committee ("IC") of the UCTRF are excited to provide an update and share the developments in UCTRF's approach to RI and stewardship of member assets. This is the fourth year that the UCTRF has produced an expanded report to highlight the activities of the Board in an increasingly important aspect of the investment landscape. The 2020 annual report showcased the UCTRF asset managers' approach to climate change, the asset managers' approach to environmental, social and governance ("ESG") considerations, and reported their exposure to fossil fuel, platinum and gold extractors. The 2021 annual report provided an update on the key RI activities of the UCTRF, the carbon intensity of the UCTRF's equity holdings in the UCTRF Balanced Portfolio and further information on the UCTRF's approach to climate change, which is a key environmental concern for most UCTRF members. The 2022 annual report highlighted the key social concerns, which were cited by UCTRF members, namely income inequality and corruption. This was applied to the UCTRF's equity holdings in the UCTRF Balanced Portfolio due to the availability of data. The 2023 annual report focused on stewardship, governance and impact. The report provided an update on the RI activities of the UCTRF, a summarised history of the work that the Board has done on proxy voting and the governance metrics of the 16 key stocks on which the UCTRF will focus their stewardship activities. The positive ESG impact that the UCTRF is generating through some of their appointed asset managers, who invest in private markets was also highlighted.

Since 2021, the UCTRF has provided detailed updates on Environmental, Social and Governance issues, with each year focusing on a specific theme. In the 2024 report, the UCTRF will refocus back to environmental issues. The environmental metrics of the 16 key stocks that are at the core of the UCTRF's stewardship activities are provided. In addition, an update is provided on the UCTRF's stewardship activities and proxy voting, as well details of the positive ESG impact of the UCTRF's private market assets.

The UCTRF will continue to work on improving the coverage of our analysis with the objective of extending the analysis to other asset classes provided that good quality and consistent data becomes available. In future reports, we will focus on deepening our areas of focus and strengthening our RI practices, procedures and activities through collaboration. We would like to acknowledge the valuable input of the Investment Committee, Peresec[1] and our asset consultants Sukha & Associates (S&A) as they continue to help us shape our evolving RI strategy and compiling this report. We trust that this report helps to provide members with further information on the UCTRF and its RI activities.

1. *The UCTRF has utilised the services of an independent ESG research provider (Peresec) to provide social and governance metrics of companies as reported in 2023/2024. Peresec utilises only publicly available data and does not engage with companies to get additional data that the company is not willing to publish. Companies have different reporting standards based on the jurisdictions that they operate in and the size of the company and its investor base. Additionally, companies report at different times and data may not be complete or reported in the same format.*

UCTRF Responsible Investing Developments

The UCTRF has been hard at work in improving its RI and stewardship approach. This is a continually evolving area within the investment landscape. While development areas remain, the UCTRF is making significant progress in strengthening its practices, procedures, monitoring activities and implementation strategy. The following highlights provide a brief update on some of the key activities over the 2024 financial year:

Governance of RI and stewardship

- The Board retains responsibility for governance of RI and stewardship, but the IC is responsible for implementation and monitoring.
- Responsible investing and stewardship are large practice areas that are constantly evolving. The UCTRF IC does seek to stay abreast of developments in these areas by discussing ESG matters at every IC meeting. Climate change and a Just Transition were some of the topics discussed including excessive remuneration and disclosure of pay gaps by asset managers.
- The UCTRF IC membership changed slightly in the 2023/2024 financial year following elections. The new IC members have become more familiar with the practices and procedures of the UCTRF IC. For example, proxy voting responsibilities has been allocated to members of the IC to build capacity and depth of knowledge within each sector / industry. This allows the UCTRF to exercise their stewardship responsibilities more effectively by allowing IC members to better interrogate proxy voting recommendations received from investment managers and making more informed decisions. This strategy of building capacity and experience was cited as a case study at the 2023 International Finance Corporation (IFC) Batseta ESG Training Session for Asset Consultants, at which our asset consultants, S&A, presented.

Capacity building for RI and stewardship

- Building capacity takes time but the UCTRF is making progress. Resources are available to build capacity including from stockbrokers, banks, NGOs, regulators and industry bodies.
- Our asset consultant, S&A, was invited to present on how to create an ESG-integrated Investment Policy Statement at the 2023 IFC Batseta ESG Training Session for Asset Consultants. Members of the UCTRF Board attended. It was pleasing to note that the UCTRF's RI activities were utilised as case studies, demonstrating its thought leadership in this area.

RI and stewardship implementation approach

- The focus of the UCTRF has been on climate change, income inequality and anti-corruption, which are key concerns of members. Each of these issues have been tackled in successive RI reports and address at least two United Nations Sustainable Development Goals (SDGs).
- Environmental, Social and Governance issues are all important and the UCTRF recognises that at times, trade-offs will emerge. Approximately 90 000 people are employed in the coal sectors of South Africa. With rampant unemployment, high inequality and poverty, the need for a Just Transition to cleaner energy and lower emissions is imperative in South Africa. To this extent the UCTRF has been emphasizing the need to meet both climate and social targets simultaneously in our engagement with investment managers and companies. A lack of movement on climate change mitigation and lowering social risks in South Africa will stall progress on both issues, which is why the UCTRF has adopted this approach.

- The UCTRF has noted the “backlash” against ESG issues and have discussed these concerns, some of which are not justified. The UCTRF will seek a pragmatic approach centred around the interests of members.
- Within UCT, there are extensive ESG resources to be leveraged. For example, the UCTRF has been looking to craft a definition of “inequality” by engaging experts within UCT so that refined and deliberate actions could be taken, where possible.
- Impact investing is a growing industry, which focuses on allocating and leveraging capital to not only generate a commercial return from a particular project but also have a positive ESG impact. Opportunities have been identified and if they are viable may be considered in future.
- The Financial Standards Conduct Authority (FSCA) is responsible for the oversight of retirement funds and published draft amendments to Regulation 28 reporting standards. Part of these amendments were the introduction of in-depth reporting on investments into infrastructure assets, exposure to fossil fuels and green economy sectors. However, the latter requirements were subsequently withdrawn. The definition of “infrastructure” is currently being debated by industry and the regulator. This will be a focus area for the UCTRF once the draft amendments have been finalised.
- As part of the UCTRF’s strategy to allocate 5% to alternative assets, the UCTRF agreed to commit R200 million to infrastructure equity. Infrastructure is critically needed in South Africa. After extensive review, the UCTRF committed R100 million to the Infra Impact Mid-Market Infrastructure Fund and R100 million to the Summit Africa Social Infrastructure Fund. Both funds seek commercial returns over a 7 to 10 year time horizon but also seek to achieve a positive ESG impact.

Stewardship and Proxy Voting

As a reminder, the UCTRF has delegated the casting of proxy votes at Annual General Meetings (AGMs) to the appointed asset managers of the UCTRF. This is due to the fact that asset managers have the resources, expertise and knowledge to understand the complexity and context of company resolutions and assess such issues on a daily basis. However, this does not imply that the UCTRF Board are not taking its stewardship responsibilities seriously. The UCTRF IC set a strategy in 2022 that has been cited by the IFC and Batseta as best practice within the local industry.

The UCTRF IC decided in the 2022 financial year to focus specifically on the top 10 equity holdings of the UCTRF and the top 10 carbon intensive stocks listed on the JSE. The top 10 equity holdings of the UCTRF Balanced Portfolio as at 30 June 2021 was utilised for this purpose. Given the overlap between the two lists, the IC obtained a focused list of 16 key stocks. Each board member of the IC has been allocated a listed company over which they will monitor the proxy voting recommendations of the asset managers and will seek to engage asset managers on any discrepancies in voting recommendations. In 2023, each board member of the IC was allocated companies within the same sector, where possible. Our asset consultant, S&A, also provides an independent recommendation from a stockbroker firm's ESG team to assist the UCTRF IC in comparing the proxy voting recommendations of the UCTRF asset managers.

During September 2023, Royal Bafokeng was delisted and the IC agreed to replace it with Glencore. Glencore, as a large stock on the JSE and a carbon intensive stock, joined the list. The engagements with asset managers on the 16 stocks will primarily be on their proxy voting recommendations but also the three key ESG concerns of UCTRF members. The 16 key stocks are as follows:

1	NPN	Naspers	9	IMP	Impala Platinum
2	BTI	British American Tobacco	10	MNP	Mondi
3	PRX	Prosus	11	BHG	BHP Group
4	AGL	Anglo American	12	SSW	Sibanye
5	FSR	FirstRand	13	ANG	AngloGold Ashanti
6	MTN	MTN	14	SAP	Sappi
7	SBK	Standard Bank	15	NPH	Northam Platinum
8	SOL	Sasol	16	GLN	Glencore

The UCTRF IC members have been active in exercising their proxy voting responsibilities on the 16 stocks selected. In the financial year ended June 2024, there have been 16 company annual general meetings and 356 resolutions that were voted on at those meetings.

On 92 of these resolutions, the UCTRF instructed their asset managers to vote against the resolution. The resolutions voted against typically related to:

- Remuneration – payments deemed excessive or not linked to performance of management
- Issue of additional shares – the allocation of additional share capital which is dilutive to existing shareholders
- Donations to political parties

- The appointment of directors who are not necessarily deemed independent
- The reappointment of auditors who have been providing auditing services in excess of the recommended period.

In the 2023 / 2024 financial year, an interesting development was that a few asset managers voted against the climate and emissions related policies of two of the companies on the list above, citing a lack of stringent targets being set by the company to mitigate carbon emissions.

2023

292

216 76

2024

356

264 92

Environmental Metrics of Listed Companies in South Africa

The impact of climate change is being felt worldwide and some of the poorest areas of the globe have been hardest hit by the ravages of floods, storm damage, wildfires and droughts. There are parts of the world that have become uninsurable against environmental damage due to changing weather patterns and the risks faced by insurance companies of large-scale claims. Climate changes can have profound impacts on human mortality and morbidity as well. Chronic changes like elevated temperatures and prolonged drought — as well as acute events such as increasingly frequent and severe hurricanes and wildfires, can significantly affect health and longevity. Water scarcity and shifting precipitation patterns have led to increasing health risks. Notably, drought-fueled wildfires have caused death and devasted many communities.

A survey of its membership, highlighted to the UCTRF that climate change and climate policy is one of the risks at the forefront of peoples' minds. There needs to be awareness and engagement by the asset managers with their underlying portfolio companies on environmental risks, appropriate pathways of achieving a just transition, climate mitigation and adaptation strategies, biodiversity and sustainability.

Listed company data

The UCTRF has decided to focus its engagement with asset managers on 16 companies given the limited governance and resources budget of the UCTRF. In the section below, the key environmental metrics of the 16 companies are shown with high level comment provided. The data was obtained from Peresec, Farsight, S&A and other public sources as at the company reporting date during the 2023-2024 financial years. A like for like comparison may not be appropriate in all cases given different reporting dates. Disclosure was also not received from companies on all the metrics, but the UCTRF will seek to improve this over time by engaging with its asset managers and the companies themselves, if necessary.

Environmental Policies

Company Code	Company Name	Climate change policy	Net zero target in place	Carbon emissions targets disclosed	Environmental supply chain policy	Green building policy	Waste policy	Water policy
AGL	ANGLO AMERICAN PLC	Y	Y	Y		Y		Y
ANG	ANGLOGOLD ASHANTI LTD		Y	Y		N	N	
BHG	BHP GROUP PLC			Y				
BTI	BRITISH AMERICAN TOBACCO PLC	Y	Y	Y		Y		Y
FSR	FIRSTRAND LTD	Y	Y	Y		Y	N	Y
GLN	GLENCORE	Y	Y	Y				Y
IMP	IMPALA PLATINUM HOLDINGS LTD			Y				
MNP	MONDI PLC	Y	Y	Y		Y	N	Y
MTN	MTN GROUP LTD	Y	Y	Y		Y		Y
NPH	NORTHAM PLATINUM LTD			Y				
NPN	NASPERS LTD-N SHS	Y	Y	Y		Y		Y
PRX	PROSUS NV	Y	Y	Y		Y	Y	Y
SAP	SAPPI LIMITED	Y	N	Y		Y	N	Y
SBK	STANDARD BANK GROUP LTD	Y	Y	Y		Y	Y	Y
SOL	SASOL LTD	Y	Y	Y				
SSW	SIBANYE STILLWATER LTD	Y	Y	Y		Y		Y

- The ability for companies to put specific environmental policies in place can be hampered by an inability to gather appropriate data, which is also dependent on the sector in which the company operates. Companies with dual listing in jurisdictions with more stringent listing requirements may also have better disclosure practices than companies exclusively domiciled in South Africa. None of the 16 companies have publicly available environmental policies that relate to their supply chains most likely due to lack of data and standardisation of reporting metrics across the supply chain.

- The banking sector and shares with listings in Europe tend to have more policies in place than the mining and resources sector. While some of these companies may well have their own internal policies governing items like waste and water, these are not publicly disclosed.

- All of the 16 companies have carbon emissions targets in place with the majority committing to net zero over a certain period.

- Only Standard Bank and Prosus (with their main listing in the Netherlands) have policies on waste management, which are publicly available, whereas the paper and packaging producers like Mondi and Sappi do not have such policies.

- Water policies have been much more widely adopted and are in place and publicly available for most of the companies.

Usage and Emissions

Company Code	Company Name	Scope 1 emissions intensity to revenue vs universe (t/Rm revenue)	Scope 2 emissions intensity to revenue vs universe (t/Rm revenue)	Absolute energy usage (GWh)	Absolute water usage ('000 kl)	Percentage of water recycled
AGL	ANGLO AMERICAN PLC	13.29	8.83	24.72	176 576	84%
ANG	ANGLOGOLD ASHANTI LTD	14.01	1.55	6 286.16		
BHG	BHP GROUP PLC	8.83	3.79			
BTI	BRITISH AMERICAN TOBACCO PLC	0.49	0.55	2.18	4 180	24%
FSR	FIRSTRAND LTD	0.04	0.77			
GLN	GLENCORE	4.15	2.40	56.11	950 000	53%
IMP	IMPALA PLATINUM HOLDINGS LTD	6.10	31.18			
MNP	MONDI PLC	23.71	2.39	27.15	205 257	
MTN	MTN GROUP LTD	1.33	1.21	1.50		
NPH	NORTHAM PLATINUM LTD	1.63	35.76			
NPN	NASPERS LTD-N SHS	0.00	0.07	0.00		
PRX	PROSUS NV	0.00	0.01	0.09		
SAP	SAPPI LIMITED	38.57	11.69	36.33	279 606	
SBK	STANDARD BANK GROUP LTD	0.04	0.42	0.18	248	
SOL	SASOL LTD	207.93	19.99			
SSW	SIBANYE STILLWATER LTD	4.36	54.66	6.80	151 362	60%

- Generally, disclosure of scope 1 and scope 2 emissions is relatively good across all companies. Scope 1 emissions are direct greenhouse gas emissions from operations that a company owns or controls. Scope 2 emissions are indirect emissions associated with the company such as from the production of the energy that a company purchases and uses. Scope 3 emissions data is much harder to obtain as it involves any other emissions not captured in Scope 1 and Scope 2, for example, from the suppliers to the company.
- As expected, the emissions from materials and resources companies are much higher than banks for example. Sasol is by far the biggest emitter. Scope 2 emissions can vary widely depending on the sources of electricity used and whether the company is heavily dependent on coal power generation or can generate their own power through renewable energy sources.
- Sibanye, Northam and Glencore have lower emissions than many of the other mining companies. Naspers, Prosus, FirstRand, MTN and Standard Bank have much lower emissions given that these are services businesses.
- Far fewer companies measure and publicly disclose the energy and water usage metrics. While energy usage and emissions have been at the forefront of climate change, water and water scarcity is going to become an increasingly important issue. The ability to reduce overall water consumption will become important to companies operating in water scarce or semi-arid regions such as South Africa. The UCTRF has commitments to an infrastructure equity fund that invests directly in water and waste management companies.

Impact Investing

The Board took an active decision to allocate 5% of the UCTRF to alternative investments that would help diversify the fund's assets, generate good risk-adjusted returns and have a positive ESG impact. Infrastructure was identified as an area that offered good investment opportunities, which would also meet the required return objectives of the UCTRF.

As discussed earlier, the UCTRF committed R100 million each to the Infra Impact Mid-Market Infrastructure Fund and to the Summit Africa Social Infrastructure Fund. Around half of the capital has been deployed to date.

Infra Impact seeks to invest in infrastructure investments in the areas of water and sanitation, clean energy, telecommunications and waste management. They seek to generate commercial returns but also help facilitate job creation, reduce carbon emissions and water usage in portfolio companies. To date, the fund has created 192 permanent and 9 contract or temporary jobs across 5 portfolio companies. This includes 5 new learnerships, which have offered on the job training and experience for the youth.

The Summit Social Infrastructure Fund invests in real estate investment opportunities that supports the social and economic transformation and development of local communities and South Africa as a whole. The fund is focussed on the areas of education, healthcare, accessible housing and surrounding community development. To date, the fund has invested in two school operators that fund 3 schools in the Midrand and Soweto areas, which provide schooling for over 5 000 students and have created 273 permanent teaching jobs.

Within the Prescient Global Balanced portfolio that the UCTRF has invested into, there is exposure to the Prescient Clean Energy and Infrastructure Debt Fund. This fund invests directly into various renewable energy and infrastructure projects which each have community ownership. The projects are located as follows:

- Northern Cape – 48.02%
- Western Cape – 27.88%
- Eastern Cape – 10.59%
- Free State – 8.26%
- Limpopo – 1.57%
- National footprint – 3.68%

The Prescient Clean Energy and Infrastructure Debt Fund has supported 29 projects which have created 5 161 jobs, generated 2.9 GW of clean power, resulted in over R1.7 billion being spent on local community projects and procured R523 million of input from local businesses.

These investments complement the allocation that the UCTRF also has to the FutureGrowth Infrastructure Bond Fund. This fund has 47% into direct infrastructure assets, split as follows:

- 16% in renewable energy
- 11% in transport
- 3% in communications
- 3% in development finance
- 2% in water and sanitation
- 12% in other developmental sectors like agriculture, SMME finance and access to finance.

75% of the investments are nationwide while 2.4% of the exposure is to projects that are in the Western Cape specifically.

Conclusion

The Board is once again pleased to provide an update to UCTRF members regarding their ongoing efforts in integrating RI and stewardship practices into the management, governance and culture of the UCTRF.

This year the Board has continued to build up a repertoire of knowledge on the 16 focused companies and has actively casted proxy votes for these companies, considering the recommendations of an independent ESG team, S&A and our asset managers. The UCTRF has looked at the environmental metric of these companies and can continue to look at these through time to assess change.

The UCTRF has also quantified the impact of its investments as it has deployed capital into infrastructure equity.

The UCTRF will continue to educate the trustees and members on the evolving area of responsible investing and will continue to endeavour stay at the forefront of South African retirement funds in this space, as responsible stewards of capital.