Responsible Investment and Stewardship Report 2021

UNIVERSITY OF CAPE TOWN
IYUNIVESITHI YASEKAPA • UNIVERSITEIT VAN KAAPSTAD

ESG Initiatives and Carbon Disclosure Report

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Introduction

The Board of Trustees ("Board") of the University of Cape Town Retirement Fund ("UCTRF") are pleased to provide the second annual Responsible Investment ("RI") and Stewardship report for the members and broader stakeholders of the UCTRF.

The Board and Investment Committee ("IC") of the UCTRF are excited to share the improvements to the report and developments in UCTRF's approach to RI and stewardship of member assets. For this reason, we have changed the name of the report to better reflect these developments. The Board has also improved the content and structure of the report, which previously showcased the UCTRF asset managers' approach to climate change, the asset managers' approaches to environmental, social and governance ("ESG") considerations, and reported their exposure to fossil fuel, platinum and gold extractors. The 2021 annual report provides an update on the key RI activities of the UCTRF over the past year and provides further information on the UCTRF's approach to climate change, which is a key environmental concern for UCTRF members.

At the 2020 AGM, the Board committed to improving its reporting on the carbon exposure of the UCTRF. A significant step in this regard has been to initially focus on the carbon intensity in the UCTRF's equity holdings of the UCTRF Balanced Portfolio. We appreciate that it does not cover the entirety of the UCTRF assets, but it sets the foundation for understanding climate risk of our portfolio better and to use the insights in reviewing the UCTRF's investment strategy and RI policy. The Board believes that quantifying our portfolios' carbon intensity and each asset manager's contribution to the carbon intensity are crucial for incorporating climate risk exposure in managing and implementing the UCTRFs' RI strategy going forward. It also allows the UCTRF to have informed and targeted engagements with appointed asset managers. The 2021 report thus goes beyond reporting on the rand value of exposure to carbon emitters by providing a quantitative assessment of the carbon intensity of the UCTRF's equity holdings of the UCTRF Balanced Portfolio as of April 2021.

The UCTRF has utilised the services of an independent data provider (MSCI) to analyse UCTRF's equity holdings and utilises their measures and definition of carbon intensity. This report thus analyses the equity portion of the UCTRF Balanced Portfolio's carbon intensity and benchmarks this against the portfolio's equity market benchmark, the capped SWIX.

The UCTRF will continue to work on improving the coverage of the carbon intensity analysis with the objective of extending the analysis to other asset classes in our portfolios. In future reports, the key social and governance considerations of the UCTRF will also be discussed as we build on the current report. We would like to acknowledge the valuable input of MSCI, Old Mutual Investment Group, Mr Xolisa Dhlamini (the Acting Chairperson of the IC in 2021) and our asset consultants Sukha & Associates in shaping our 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 over the past year.

UCTRF Responsible Investing Developments

The UCTRF has been hard at work in improving its RI and stewardship approach over the past two years. While development areas remain, the UCTRF is making significant progress in strengthening its strategy and implementation. The following highlights provide a brief update on some of the key activities over the 2021 financial year.

Governance of RI and stewardship

The UCTRF believes that RI and stewardship should be an integral part of the general governance of the UCTRF's investments. The Board and its IC has made a deliberate effort to incorporate RI and stewardship into our governance policies and processes. We are happy to report the following:

- Over the past financial year, 1 July 2020 to 30 June 2021, the UCTRF enhanced its RI approach and strategy by formalising a RI policy, which is an annexure to the UCTRF Investment Policy Statement. This will allow the Board to have an integrated approach to incorporating RI practices in the implementation and annual review of the UCTRF's investment governance policies.
- Engaging investment service providers on ESG risks and opportunities as well as proxy voting were also expressed by the UCTRF members as stewardship activities expected of the Board. The UCTRF agree that these stewardship activities should form an integral part of the investment governance and ongoing implementation of the UCTRF's RI policy. The IC has thus set "ESG engagement" as a standing agenda item for discussion at every IC meeting. The outcomes of the ESG engagement discussions will be reported to the Board at all Board meetings.

Capacity building for RI and stewardship

The Board is fully committed to RI and stewardship but also recognises that there are areas of improvement and challenges to address as the RI journey continues. Key amongst these challenges is the governance budget available to fully implement the RI strategy, given that trustees serve on a part-time basis, and keeping abreast with developments in RI practices amongst others. The Board thus continues to explore innovative and pragmatic ways to build capacity given the constraints faced. We are happy to report the following:

- The Board is fortunate to have trustees who contribute RI expertise to the UCTRF. A member of the IC has RI experience as the former head of Africa for the UN-Supported Principles for Responsible investing ("PRI") and has provided strategic insights to support the UCTRF in adopting RI practices. Additionally, two trustees of the Board serve on the University of Cape Town's University Panel for Responsible Investment (UPRI) and provide valuable insights from the broader university community.
- The Board also draws on leading organisations in the field of RI and stewardship to support the capacity building in the UCTRF. In the past 2 years the UCRTF has drawn on expertise from external organisations including the PRI, Just Share NPC, Selekane, MSCI and Old Mutual to provide insights on developments in practice. We are grateful to Selekane for facilitating the UCTRF's Transformation Workshop, as well PRI and Just Share for their valuable input during the RI Workshop; both of which were held in 2020. Old Mutual, in collaboration with MSCI, were instrumental in the UCTRF's improvements in the carbon reporting.
- The Board also recognises the importance of partnering with capable service providers in the RI journey. To this end, the Board took advantage of the scheduled rebroke of asset consulting services to seek asset consultants who are also capable of supporting the UCTRF's RI journey. After a rigorous selection process the UCTRF successfully

appointed Sukha & Associates as the new asset consultants effective from January 2021. Over and above providing excellent investment advisory and implementation services to the UCTRF, the S&A team has a proven track record in leading RI implementation, which they have demonstrated in supporting the UCTRF's RI journey thus far.

- Some members of the Board attended formal training on climate awareness, which was conducted by the PRI. The UCTRF Principal Officer and Deputy Principal Officer also attended the course. The details of the course are available here:

    https://www.unpri.org/asset-owner-resources/african-asset-owner-climate-awareness-course/6765.article

RI and stewardship implementation approach

The Board recognises that governance policies and strategies are meaningless without effective implementation. Whilst a large part of the UCTRF's efforts over the past 2 years have been dedicated to developing and formalising the RI and Stewardship Governance Strategy, there has been progress towards implementation. The 2 focal areas for implementation have been ESG integration and stewardship. We are happy to report on our progress as follows:

- The Board has updated the IC's mandate to clarify the Board and IC powers and parameters in implementing the RI strategy.
- In order to effectively set meaningful policies, a thorough understanding of the needs, preferences and beliefs of our members is required. Therefore, the UCTRF conducted an ESG survey in 2020 of its members, to determine the key ESG concerns of its membership. This survey was referenced by the Global Sustainable Investment Alliance (GSIR) in their 2020 report, which is available here:

    http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf
- With the assistance of our new asset consultants, a decision-making framework has been developed by the Board based on 6 key factors. Environmental, Social and Governance (ESG) factors form part of the 6 overarching factors and specifically incorporate the key ESG factors identified by UCTRF members in the ESG Survey conducted in 2020. The UCTRF therefore integrates ESG considerations in its decision-making processes in this manner. Additionally, this will translate into implementation as the Board and IC must keep ESG concerns top of mind in reviewing existing and new investment opportunities, as well as in applying the decision-making framework.
- Based on the ESG survey results, the Board has set "climate change" as its key environmental priority, "inequality" as its key social priority and "anti-corruption" as its key governance priority. The IC has thus explicitly included these key ESG issues as discussion points in the briefs provided to asset managers ahead of report-backs to the UCTRF. All asset managers will be asked to address these three priorities of the UCTRF as a minimum and are expected to demonstrate progress in addressing these in the portfolios when reporting back to the UCTRF. This has been a natural progression from initially interrogating the asset managers on their ESG processes and policies.
- In the 2020 ESG survey, the majority of the members indicated that they expect the Board to engage investee companies and asset managers on ESG matters. In the past year, the IC has since developed an approach to stewardship through engagement and proxy voting. Given the constraints in the governance budget and the UCTRF outsourcing investment management to external asset managers the IC has prioritised engaging asset managers as a pragmatic starting point. The IC has thus developed a process in which proxy votes of UCTRF stocks are monitored and managed by engaging with appointed asset managers.

- Asset managers are expected to provide their proxy vote recommendations in advance of company AGMs with explanations for their recommendations. This enables the IC to monitor how UCTRF shares will be voted and to engage the asset managers in cases where there are conflicting votes on the same stock to ensure that voting is consistent across our appointed asset managers. This stewardship implementation approach will be strengthened to be more efficient.
- The Board is aware that stewardship is not limited to proxy voting and can include other mechanisms, such as proposing ESG related resolutions or collaborating with other investors in engaging companies regarding ESG issues. To this end, the UCTRF approaches ESG engagement outside of proxy voting on an opportunistic basis as a start. Priority is thus given to engagement opportunities and initiatives related to climate change, inequality and anti-corruption where it is possible for the UCTRF to participate. An example of such an opportunistic engagement was in relation to Standard Bank, a portfolio holding. The UCTRF was approached by Just Share to support the tabling of a climate-related resolution at Standard Bank's 2021 AGM. The UCTRF engaged the asset managers to interrogate the contents of the proposed resolution and to provide their views. Two of the UCTRF's equity asset managers not only supported the resolution because of our engagement but also co-tabled the resolution in collaboration with Just Share and Aeon Investment Management. Through this engagement the UCTRF contributed to the Just Share and the asset managers' engagement by influencing Standard Bank's commitment to improving and disclosing its climate change plans. The Standard Bank Chairman published the following statement after the engagement with the UCTRF asset managers, Just Share and Aeon:

  https://thevault.exchange/?get_group_doc=18/1622222921-Standard-Bank-AGM-2021-Chairman-Statement-Climate-27-May-2021.pdf

The implementation of RI and stewardship is a journey that the UCTRF has embraced, despite the challenges. As we progress on this journey the Board is also cognisant of the importance of the RI principles of disclosure and transparency regarding progress. The carbon intensity report below is a step in the right direction, which we plan to continue improving upon on this journey. The next section of this report outlines the new approach we have adopted from MSCI for reporting on our portfolio's carbon footprint.

Carbon Footprint Methodology (MSCI proprietary information)

Climate change presents one of the largest economic and political challenges of the 21st century. Over the coming decades, efforts to mitigate and adapt to climate change may have wide-ranging policy, economic, and technological impacts, creating both risks and opportunities for institutional investors. A survey conducted of the UCTRF members revealed that climate change was one of their top 3 ESG concerns.

Assessing the carbon footprint of a portfolio is the first step in addressing the investment implications of climate change. Assessing the carbon intensity of the portfolio sets the baseline or benchmark from which to monitor both the changes made by the UCTRF's underlying asset managers, but also the underlying portfolio companies. It provides a point from which to inform future actions, which can range from reporting and engagement to decarbonisation and integrated risk management.

Over the past 10 years, the highly regarded Responsible Investment team at Old Mutual have conducted extensive research on ESG data; assessing numerous ESG data providers. Through this research, and further due diligence, they have gained insight into the strengths and weaknesses of the various offerings available and how best to leverage ESG data optimally for clients. They selected MSCI as a data provider in terms of the depth of coverage, skills and expertise of the research team and quality of the signals provided. Our new asset consultants therefore engaged with Old Mutual Investment Group and selected MSCI as the data provider for the purposes of analysing the carbon intensity of the UCTRF portfolio.

The MSCI ESG Research team identified a desire for consistent market standards in carbon footprint metrics. Four key metrics emerged after extensive market consultation to provide standard answers to four key questions typically asked by institutional investors:

Carbon Emissions	What is my portfolio's normalized carbon footprint per million dollars invested?
Total Carbon Emissions	What is my portfolio's total carbon footprint?
Carbon Intensity	How efficient is my portfolio in terms of emissions per unit of output?
Weighted Average Carbon Intensity	What is my portfolio's exposure to carbon-intensive companies?

These four metrics therefore form the basis of MSCI's research and this UCTRF report.

Total Carbon Emissions

Total Carbon Emissions measures the absolute tons of CO2e using Scope 1 and Scope 2 - where Scope 1 refers to direct Green House Gas ("GHG") emissions and Scope 2 refers to indirect GHG emissions from the consumption of purchased electricity. It is apportioned to the investor based on an equity ownership perspective, and can be explained with a simple example:

> If an investor's position in a company is equal to 1% of the company's total market capitalization, then the investor owns 1% of the company, and is consequently responsible for 1% of the company's carbon emissions (tons CO2e).

Calculating the "owned" emissions from each position in the portfolio and summing those emissions yields the total carbon emissions for the portfolio.

Carbon Emissions (per Million Dollars Invested)

Total Carbon Emissions are directly linked to the market value of the portfolio. For instance, if two portfolios have identical securities and weights, but one has twice the market value, then the larger one will also have twice the Total Carbon Emissions. This presents limitations when comparing the carbon footprint between portfolios or against a benchmark index. Presenting the footprint as a normalised figure enables cross-portfolio comparison.

"Carbon Emissions" is identical to "Total Carbon Emissions", except that, rather than providing the total carbon emissions for the portfolio, it normalises the carbon emissions for every $1 million of market value. As a normalised metric, it can be used to accurately compare portfolios of any size.

Carbon Intensity

Carbon Intensity expresses the carbon efficiency of the portfolio and allows institutional investors to measure the volume of carbon emissions per dollar of sales generated by portfolio companies over a specified time frame. This metric adjusts for company size and is a more accurate measurement of the efficiency of output, rather than a portfolio's absolute footprint.

Although efficiency at the company level is best measured using industry-specific measures of output (e.g. per tons of steel, miles flown, MWh of power generated, etc.), sales are used in the portfolio context as the best available measure of output when comparing across industries.

Portfolio Carbon Intensity is calculated by dividing the portfolio's total Carbon Emissions (apportioned by the investor's ownership share) by the portfolio's total Sales over that same period of time (also apportioned by the investor's ownership share).

If a portfolio's position in a company is equal to 1% of the company's total market capitalization, then the investor owns 1% of the company and has a claim on 1% of the company's sales. Summing those sales for each investment yields the total portfolio sales.

Weighted Average Carbon Intensity

The Weighted Average Carbon Intensity measures a portfolio's exposure to carbon intensive companies. Since companies with higher carbon intensity are likely to face more exposure to carbon related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios or relative to a benchmark.

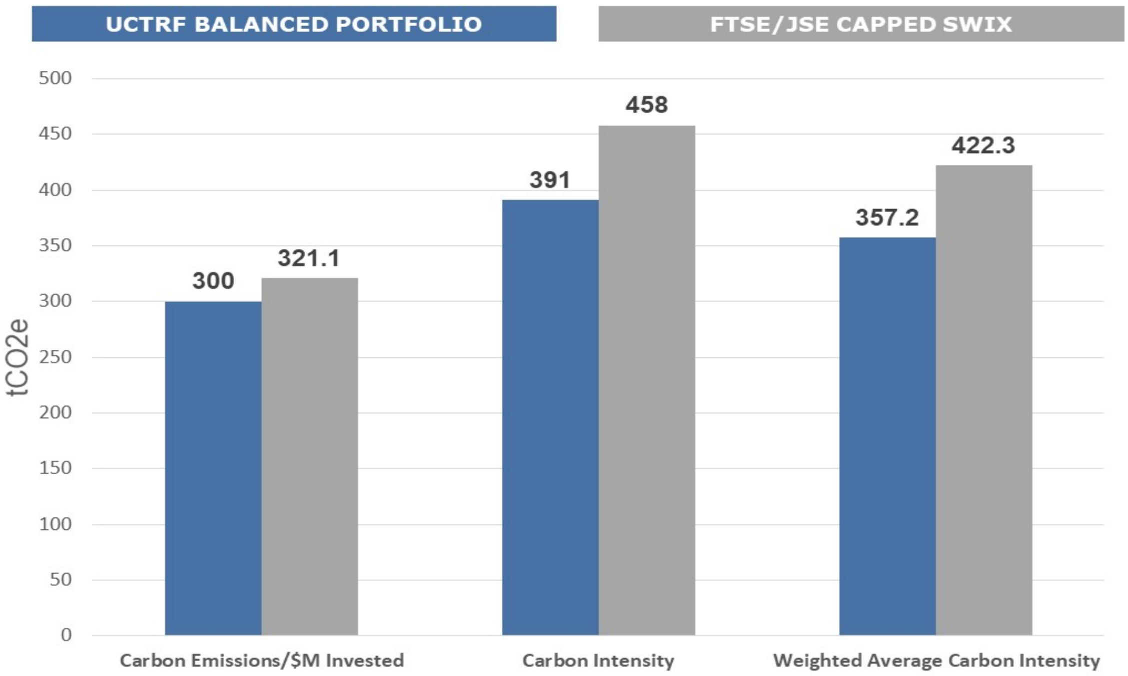
Calculating a portfolio's Weighted Average Carbon Intensity is simple, achieved by calculating the carbon intensity (Scope 1 + 2 Emissions / $M Sales) for each portfolio company and calculating the weighted average by portfolio weight. Unlike the Portfolio Carbon Intensity, carbon emissions are apportioned based on portfolio weights / exposure, rather than the investor's ownership share of emissions or sales.

Carbon emissions of UCTRF Balanced Portfolio

	Carbon Emissions	Total Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity	Carbon Emissions Data Availability
UCTRF BALANCED PORTFOLIO	**300.0**	300,045	391.0	357.2	91.7%
FTSE/JSE CAPPED SWIX	321.1	321,076	458.0	422.3	96.3%
	T CO2e / $M Invested	T CO2e	T CO2e / $M Sales		Market Value

- The equity holdings of the UCTRF Balanced Portfolio have a carbon footprint which is lower than the capped SWIX benchmark as per the first column in the table. The carbon footprint is defined as the carbon emissions in tons of the equity holdings of the UCTRF per $ million invested.
- The second column shows the total carbon emissions in absolute terms of the UCTRF equity portfolio in tons and the third and fourth columns provide two measures of carbon intensity.
- The third column shows the carbon intensity of the UCTRF equity holdings and is defined as the total carbon emissions of the portfolio per $ million of portfolio sales. The UCTRF's carbon intensity is 85.4% of the benchmark.
- The fourth column shows the second measure of carbon intensity, namely "weighted average carbon intensity", which is calculated as the sum product of the portfolio companies' carbon intensities and weights. The UCTRF's weighted average carbon intensity is 84.6% of the benchmark.
- Only 91.7% of the UCTRF equity portfolio could be assessed for carbon exposure due to data availability and MSCI's coverage of the SA listed market.

UCTRF Balanced Portfolio versus the Benchmark



- The first step in coming up with a climate change strategy is to identify the UCTRF's current exposure and how this compares to the market.
- While the UCTRF's carbon exposure is lower than the capped SWIX, the capped SWIX benchmark is relatively high compared to what is required to transition to international targets. It is estimated that the capped SWIX may be 3 times higher than the target required to ensure a less than 1.5 degree rise in global temperatures.
- Therefore, the carbon exposure of most retirement funds could decrease if the South African listed equity market reduces its carbon exposure over time. The UCTRF is starting to play an active role in this regard through collaboration, engagement and the exercising of proxy votes.
- Retirement funds could take additional steps to decarbonise their portfolio. The UCTRF is considering such a strategy but it does require careful consideration, as a number of competing objectives must be considered and balanced appropriately. Divestment is one strategy, but it must be carefully considered as active engagement and being an active owner may lead to more effective outcomes.

Sources of Carbon Intensity

	Company	Sector	Country	Portfolio Weight	Active Weight	Carbon Intensity	Contribution to Wtd Ave Carbon Intensity
1	Sasol Ltd	Materials	South Africa	1.66%	-0.99%	5 763	29.16%
2	Impala Platinum Holdings Ltd	Materials	South Africa	3.58%	-0.59%	1 111	12.12%
3	Sibanye Stillwater Ltd	Materials	South Africa	2.70%	-0.59%	1 422	11.73%
4	Anglo American Plc	Materials	United Kingdom	5.12%	-0.30%	497	7.77%
5	Sappi Ltd	Materials	South Africa	1.46%	0.93%	1 176	5.23%
6	BHP Group Plc	Materials	United Kingdom	3.39%	0.88%	376	3.89%
7	Northam Platinum Ltd	Materials	South Africa	1.18%	-0.51%	1 051	3.77%
8	Royal Bafokeng Platinum Ltd	Materials	South Africa	1.18%	0.85%	798	2.88%
9	Anglogold Ashanti Ltd	Materials	South Africa	1.25%	-0.33%	707	2.70%
10	Mondi Plc	Materials	United Kingdom	1.36%	0.31%	528	2.19%
				22.86%			81.44%

- The above table shows the top 10 shares listed on the JSE with the highest carbon intensity using the MSCI weighted average carbon intensity measure. It is no surprise that all of the companies in the top 10 are from the Basic Materials sector, which ironically will also play a crucial role in providing raw materials to support the growth of the renewable energy market and other “green” sectors.
- The top 10 shares listed above make up 81.4% of the capped SWIX’s carbon intensity, with Sasol making up 29.16%, followed by Impala Platinum (12.12%) and Sibanye Stillwater (11.73%). By understanding the sources of carbon intensity in the capped SWIX, the UCTRF and its asset managers could have more focused engagement with the key contributors and help lower carbon intensity of the overall market, if such companies agree to transition and lower their carbon intensity over time.
- 5 shares have a carbon intensity measure greater than 1 000, namely: Sasol, Sibanye Stillwater, Sappi, Impala Platinum and Northam Platinum. The UCTRF has an underweight position in all of these shares, except Sappi.

Carbon Intensity by UCTRF Equity Manager

	Company	Total UCTRF Carbon Intensity	Abax	Allan Gray	Mazi	Visio
1	Sasol Ltd	97.98	22.36	55.35	20.27	-
2	Impala Platinum Holdings Ltd	40.77	14.50	5.57	7.09	13.62
3	Sibanye Stillwater Ltd	39.47	4.14	13.36	7.74	14.23
4	Anglo American Plc	26.12	11.22	1.13	4.01	9.76
5	Sappi Ltd	17.60	-	6.48	-	11.12
6	BHP Group Plc	13.09	4.78	1.39	0.83	6.07
7	Northam Platinum Ltd	12.69	6.24	6.45	-	-
8	Royal Bafokeng Platinum Ltd	9.68	3.47	3.15	1.44	1.63
9	Anglogold Ashanti Ltd	9.07	2.53	2.03	1.05	3.45
10	Mondi Plc	7.40	3.03	-	-	4.37
		273.88	72.26	94.93	42.43	64.25

- The above table shows the top 10 highest carbon intensity shares listed on the JSE split according to the UCTRF's local equity managers.
- Allan Gray contributes the most to the UCTRF's total carbon intensity mainly due to its exposure to Sasol and Sibanye Stillwater, while Mazi contributes the least. However, note that Mazi does have a much smaller portfolio allocation relative to the other three asset managers.
- Abax and Allan Gray have exposure to 9 of the top 10 highest carbon intensity shares.

Conclusion

The Board has been hard at work in integrating RI and stewardship practices into the governance and culture of the UCTRF by building capacity and enhancing and tailoring our policies to better suit the requirements of our members. We have formally integrated ESG factors into our decision-making framework in line with regulatory requirements and best practice and focused our efforts on practically implementing our RI and stewardship approach in the 2021 financial year. We have strengthened our proxy voting process, which will remain an ongoing developmental area, given our resources, capacity and governance budget, but the IC will play a more meaningful role in future in this regard. We will seek to collaborate on RI and stewardship activities where possible, to be more effective in driving meaningful and positive impact.

The Board will seek to tailor our annual reports to the key issues of concern of our members. The 2021 report therefore focuses on climate change specifically, a key environmental concern that was flagged by members in the 2020 UCTRF member survey. We have started to understand and analyse the carbon footprint of the equity holdings of the UCTRF Balanced Portfolio, which is the starting point in setting an effective strategy and engaging with the UCTRF appointed asset managers. In future, we will also report on the key social and governance concerns of our members.