36ONE
Asset Management

Stewardship Report

CALENDER YEAR 2023

CONTENTS

Introduction

We are proud to present our inaugural stewardship report. The publication of this report marks another significant milestone in our commitment to transparency, accountability and responsible investment practices. This report looks back on 2023, sharing insights into our approach to stewardship, engagement with investee companies and voting practices.

Active Corporate Citizen

At 36ONE Asset Management ('36ONE'), being a responsible investor is not just about how we manage capital, but about the broader impact that our business has on society. Over the years, we have increasingly incorporated environmental, social and governance (ESG) factors in how we manage and operate all aspects of our business. Given that we are an owner-managed firm with a small carbon footprint, our most significant efforts have always been directed towards the social pillar of responsible corporate leadership. In this respect, our greatest asset is our employees. As a result, not only is employee welfare a critical operational focus, but we also seek to align social initiatives with our employees' passions. This seeks to create a culture of collective responsibility and engagement, which we believe is key to ensuring long-term commitment to social initiatives. Ultimately, we believe that long-term commitment is the element that is most lacking in social initiatives today and therefore most in demand.

Long-term commitment at 36ONE is therefore not only evident in our investment philosophy, investment returns and relationships with clients, but also in our social initiatives. Since the inception of our business, we have consistently supported initiatives from education to sports as well as art/culture in our broader community. Specific examples of long-term support include our continued work with the Student Sponsorship Program and financial literacy courses offered in collaboration with Worth. Making a positive contribution to improving the challenging socio-economic circumstances in South Africa is a core value in our business.

Our commitment to a more transformed business and financial services industry is further demonstrated by our Learnership Program. This was launched during 2021, with the specific aim of improving diversity in our industry. Again, demonstrating our long-term mindset in everything that we do, the first individual to enter our Learnership Program, Temoso Musi, has subsequently been promoted to an analyst in our investment team. Temoso has a background in engineering and was selected from a diverse group of applicants. His strong quantitative skills have greatly added to our team's skillset, where he covers small cap equities in sectors ranging from industrials to technology. We continue our commitment to the Learnership Program and plan to soon appoint another candidate to join us on a long-term and mutually beneficial journey.

Temoso Musi

B.ENG (MECHANICAL) (UJ), CQF (CQF INSTITUTE)

Temoso joined the 36ONE Learnership Program in January 2021. He has a Bachelor of Engineering degree in Mechanical Engineering and a Certificate in Quantitative Finance. After graduating, Temo worked at Aurecon as a junior mechanical engineer. He is a CFA Level 3 candidate.

Responsible Investor: A Road of Continuous Learning and Growth

36ONE has been managing our clients' investments in South Africa for almost 20 years. The significant growth of our business over this time has increased our influence and resources. This has enabled us to actively increase the extent and the effectiveness of our efforts to be a force for good through our investing activities. We encourage investee companies to consider the interests of all stakeholders in decisions, as we believe that this is key to building long-term sustainable businesses. Our role as a responsible investor is continually evolving as we incorporate the latest principles and standards of stewardship. The evolution of our role as a responsible investor is graphically illustrated on page 12, reflecting past milestones that have been achieved. We have completed many successful initiatives to formalise our ESG processes, including those aimed at consistent and clear communication of our ESG performance.

Currently, the two most important mechanisms through which we drive ESG performance is our Sustainable and Responsible Investing (SRI) Committee and the investment process itself. Our SRI Committee includes members from all areas of the business, with the objective of embedding ESG principles in our overall strategy and all operational aspects. However, investment decisions are the core of our business, and we are very conscious of the fact that meaningful ESG performance can only be achieved when ESG principles are integrated into these decisions. For this reason, we view ESG principles as a crucial part of our investment process.

ESG integration in our investment process is led by the investment team with each analyst responsible for assessing the risk as it pertains to companies under their coverage. We consider each element of ESG in analysing a potential investment and reviewing overall portfolio positioning. At 36ONE we emphasise governance as the element that we are best placed to assess accurately and influence effectively. Moreover, we believe that good governance is the necessary precondition for responsible social and environmental outcomes and the catalyst for improvements in such outcomes. Our investment process therefore focuses on assessing management teams and the broader governance of existing and potential investee companies as a key factor behind ESG performance. More details around this aspect of our investment process are outlined on page 13 of this report.

Although we have refined and improved our investment process over the years, our broad approach to ESG matters has remained consistent. We do not believe that immediate disinvestment or outright exclusion from the investment universe will deliver changes that are in the best interest of our business, our clients or the broader society. The reason is that it is not possible to engage with an excluded company on a contentious issue. By implication, this negates any influence which we might have had to effect positive change. Therefore, should we identify weak ESG performance in a potential investment (or weakening ESG performance in an existing investment), we prefer to firstly engage with management. The form of such engagement may differ, but the ultimate goal will always be to provide appropriate feedback and support to ensure future improvements in ESG performance across all elements. When circumstances warrant, we will also engage with other shareholders and stakeholders such as regulators, government policy makers, industry associations, proxy advisory firms and debt holders to build consensus and collectively lobby for responsible change.

Our engagements are conducted by the relevant investment analyst and may take various forms, such as meetings with senior management or written communication with the board of directors. Engagement ensures that ESG principles are not simply evaluated as part of our investment process but reflects the basis on which we seek to drive positive change in society. An outline of our engagements with investee companies appears on page 17 of this report. Notably, 77% of our engagements over the past year were ESG-related, which not only reflects the importance of ESG factors in our investment process, but also our commitment to driving positive change.

Many of our investee companies faced a challenging operating environment during 2023 mainly due to elevated interest rates and record levels of loadshedding. As a result, many of our engagements were related to workforce considerations (weighing efficiency considerations against social responsibilities) and corporate restructurings (supporting balance sheets during this challenging period). The energy crisis also created an environment of increased investment in renewable energy and was a major topic underlying many of our engagements during the year. This created a positive catalyst for us to increase our engagement on energy efficiency and influence our investee companies to address their carbon footprints and response to climate risk.

We are continuously striving to improve the feedback we provide regarding our engagements, with more detailed reporting shared with our clients. From 2023, we included specific topics/themes within the broader ESG framework.

By sharing insights into our stewardship practices, this report aims to communicate our dedication to creating sustainable value for our clients and broader society through responsible and accountable asset management. Our commitment to transparency and ethical investment practices remains unwavering as we continue to navigate the ever-evolving landscape of responsible investing.

36ONE: The DEGREE of Difference

Company Background

Cy Jacobs and Steven Liptz founded 36ONE in 2004, driven by their mutual passion for investing. After completing their accounting articles in the mid-nineties, they joined Simpson McKie, which was later sold to HSBC. In 1999, the Johannesburg retail operation of HSBC was sold to Investec, where Cy and Steven remained for another five and a half years. By late 2004, with the benefit of years of experience, they resolved to launch their own venture and do things their way.

Cy and Steven then founded 36ONE where, over time, they hand-picked a deliberately small team of exceptional, committed and talented individuals. This recruitment policy ensured that 36ONE could adopt a leaner, more efficient and more customised approach than the typical investment management firm.

Following the firm's initial success with private client portfolios, 36ONE launched two unit trusts in September 2005 and its first hedge fund in April 2006. Today the firm manages unit trusts, hedge funds and institutional segregated mandates. With single-minded focus, the team continues to deliver outstanding performance and exceptional service. Despite rapid growth, 36ONE remains small enough to maintain its flexible and agile investment approach.

The DEGREE of Difference

Our brand story best encapsulates Cy and Steven’s vision - the 'ONE' in 36ONE embodies our commitment of going the extra degree. It represents the elusive ONE degree after 360 degrees; the ONE, that in theory doesn’t exist, signifying our unique approach to generating exceptional performance and service - beyond the expected.

Our firm name is accompanied by our tag line, 'the DEGREE of Difference'; we believe that we have a degree of difference to offer - to our employees, to our clients, to our community, to society and beyond. We hold the firm belief that ONE simple act can make a significant difference. The essence of this philosophy lies in consistency. Small and sustained efforts overcome inertia, build momentum and lead to visible progress. Over time, it makes all the difference. Investing to make a difference has always been part of the ethos and mission of 36ONE.

> ***“As a Proudly South African asset management firm, our business is investing in South African companies. It is therefore in our best interests to do what we can to ensure the continued success of our country. Contributing to causes that are committed to supporting society and assisting local communities (being an active citizen) is an essential component of nurturing sustainability in South Africa.”***
>
> *Steven Liptz – co-founder, 36ONE*

Making a Meaningful Social Impact

Within our commitment to fostering positive social change, 36ONE continually supports initiatives that we believe make a profound difference within society. We classify our Corporate Social Investment (CSI) efforts into three broad categories, namely sport, education and art/culture. The evolution of our CSI efforts over time illustrates our strategy of aligning social initiatives with our employees' passions.

Sport reflects our founders' passion and belief that education through sport will make a difference in South Africa. Cy and Steven firmly believe that sport teaches you discipline, concentration and creativity. These abilities underlie a strong society and dynamic economy, making sports development worth investing in.

Education is the foundation of any modern economy. The founders' and wider team's passion for improved educational outcomes is reflected in our support for numerous education initiatives over the years. Our involvement extends beyond monetary support; employees with a passion for education are encouraged and supported in their participation in both formal and informal educational initiatives.

Finally, art/culture represents the third element of a well-rounded education. We believe in the power of artistic expression to not only celebrate our diverse cultural heritage but also to spark creative thinking and contribute to the enrichment and development of society. While our art/culture initiatives are of more recent standing, we are equally passionate about the positive changes that we believe these initiatives will foster in society.

A common thread across our initiatives is a focus on inspiring, motivating and uniting people of different backgrounds and cultures. In a country like South Africa, where wide diversity among the population is matched by great social disparities, we view this three-pronged approach as pivotal in building an inclusive society. Below, we list some of our CSI initiatives:

Sport

36ONE coordinates several sporting events, which raise funds and awareness to support development of the communities through which our events pass. Examples include the following:

- **Sharing our Passion for Cycling**

  We draw parallels between cycling and investing, which both demand focus, dedication, passion, preparation and hard work to succeed. 36ONE was a major sponsor of the very successful 36ONE-SONGO-SPECIALIZED team (led by Burry Stander and Christoph Sauser) who won consecutive editions of the gruelling ABSA Cape Epic. This increased our desire to contribute to the larger mountain biking community in South Africa beyond team sponsorship. Therefore, we launched the 36ONE MTB Challenge in 2012. The 36ONE MTB Challenge is an arduous annual mountain bike event taking place in Oudtshoorn. Initially planned as a 360km race to be completed within 36 hours, the 36ONE MTB Challenge materialised as a 361km race to be completed in 36.1 hours. This is in keeping with the 36ONE philosophy of being a degree different, going the extra kilometre and putting in the extra time to deliver excellence.

  Importantly, our support of cycling does not merely reflect a desire to nurture successful sports teams, but rather our belief in the positive impact that cycling can have on society. For example, our contributions to the 36ONE-SONGO-SPECIALIZED team were not given to the cyclists themselves. Instead, this was an initiative to benefit the children of Kayamandi, a township near Stellenbosch. A unique condition was set for the children: complete your homework before you are permitted to cycle. The contributions to the 36ONE-SONGO-SPECIALIZED team provided the funds to build BMX tracks and cycling infrastructure, creating an alternative to street life and drug abuse for these children. We believe that this support has had a profound impact, potentially steering children away from challenging circumstances, and are particularly proud that some of these children have since transformed their lives to become international cyclists. This ongoing initiative continues to create positive change in South Africa.

  In addition to our own events, we also support CycAlive. The initiative was started in 1998 as a bridgebuilding exercise to bring together students from various social, racial and religious backgrounds through cycling. CycAlive is a five-day cycling relay from Johannesburg to Durban where grade 11 students eat, sleep and ride together. During the cycling relay, students whose paths would not otherwise cross form friendships, learning about shared interests and unique contributions to the South African society. In addition to the bonds formed along the way, the cyclists stop at hospitals and rural schools to provide stationery and care packages to children in need. One of the annual highlights is a stop at the Ethembeni School for Children with Disabilities in Hillcrest, where the cyclists sing and dance with the children at the school. The focus of CycAlive is to build bridges and form bonds between young South Africans while inspiring ubuntu, optimism and the building of a positive future.

- **Sharing our Passion for Swimming**

  The 36ONE Openwater Series represents a recent revamp of an existing event. We believe that the time and resources that we have devoted to supporting the development and launch of this new event will be more than repaid in benefits for the local community. Cold-water swimming offers unique benefits, which this series seeks to highlight. Our hope is that the 36ONE Openwater Series will eventually attract international swimmers, to include cold-water swimming to their to-do list while visiting Cape Town. In the words of Steven Liptz: 'That would be the ultimate objective because then, you're doing good not only for Cape Town, but for the country as a whole.'

Education

- **36ONE Bursary Program**

  The 36ONE Bursary Program takes a unique approach by providing bursaries directly to specific individuals rather than contributing funds to generic programs. This program represents a direct initiative to support deserving students with essential funding. As an additional commitment to this cause, we have contributed a cumulative total of R500,000 to Tomorrow Trust over the years. Tomorrow Trust plays a vital role by delivering comprehensive educational programs tailored to orphaned and vulnerable youth across South Africa.

- **36ONE Learnership and Internship Program**

  During 2021, we launched the 36ONE Learnership and Internship Program. This is a SETA-approved initiative that integrates theoretical learning with practical workplace experience and supports a single graduate at a time. The first graduate to join 36ONE as part of this internal program was Temoso Musi, who joined the 36ONE Learnership Program during 2021. With an engineering background, Temoso advanced to the 36ONE Internship Program by 2022 and later joined the investment team as an analyst in 2023. As with all our employees, 36ONE also contributes to the studies of employees in our learnership and internship programs. In Temoso's case, 36ONE contributed to his CFA studies, reflecting our commitment to long-term and meaningful relationships in all aspects of our business.

- **Financial Literacy Courses**

  36ONE collaborates with Worth to provide comprehensive digital financial literacy courses. These courses aim to empower individuals to make informed and prudent financial choices, fostering improvements in cash flow management, debt control and the establishment of lasting wealth.

- ***Student Sponsorship Program (SSP)***

  36ONE has contributed funds to the SSP over many years. This program selects students based on academic merit and offers bursaries to support them through their high school years. The SSP focuses on students from low-income families with the objective of removing financial obstacles from their path. The SSP therefore searches schools in the major townships to identify academically gifted students where financial support could dramatically increase throughput rates.

Art/Culture

- **Empowering and Facilitating Emerging Artists**

  36ONE has championed the growth of several promising South African artists by acquiring and displaying their artworks in our office spaces. Artworks by notable talents like Ramarutha Makoba, Thulani Nhlapo and Kyle Light have all graced our offices. Additionally, we collaborate with Artist Proof Studios to strengthen our impact in the arts and culture sphere.

- **Mentoring and Guiding**

  In line with the 36ONE ethos of adding the extra degree, we do not only purchase artists' output or support organisations, but actively seek opportunities to develop artists' careers. We believe in building direct connections with individuals and assist them in exploring new business opportunities. One such example is our partnership with Andile Bhala. Andile is a gifted self-taught photographer from Soweto that we sponsored to attend the 36ONE MTB Challenge. By showcasing Andile's ability to vividly capture cycling moments, his photographs encapsulated the essence of the race and created new business opportunities for Andile to explore.

Although sports, education and art/culture represent our CSI focus areas, our support extends far beyond these areas. Particularly during the challenging times of the COVID-19 pandemic, we provided significant support to numerous vulnerable communities across South Africa. Our efforts have been directed at assisting the most impoverished and ensuring strategic, unified and sustainable aid reaches those most in need. Among the organisations with which we collaborated include SA Harvest, One People Fund and The Solidarity Fund. Below is an extract illustrating some (but by no means all) of the CSI initiatives that we have supported:

Diversity, Equity and Inclusion

36ONE is committed to improving diversity, equity and inclusion in South Africa more broadly and specifically within the asset management industry. We chase these goals with the same passion and commitment to excellence for which our investment management is known. Specific to our business, our focus has long been to improve the diversity of our investment and operational teams. However, acknowledging the critical shortage of available skills in the marketplace, we have sought to create new opportunities that provide growth and development within the firm to those that have the potential to succeed in the asset management industry. In respect, our main vehicle is the 36ONE Learnership and Internship Program.

Industry participation and Organisations

Since 2011, we have collaborated with fellow asset managers by publicly supporting CRISA. We are currently a signatory to the Code for Responsible Investing in South Africa (CRISA), the Carbon Disclosure Project (CDP) and United Nations Principles for Responsible Investment (UNPRI). We remain committed to implementing the latest stewardship practices. Refer to the remainder of the report for details on how we implement stewardship practices.

36ONE Asset Management

Our Responsible Investing Journey

As a South African asset manager, our core business is investing in South African companies. We therefore have a vested interest in the sustainable growth of our country to the long-term benefit of ourselves, our clients and other stakeholders. Since the foundation of 36ONE, ESG principles have been woven into the fabric of our operations. While community-focused CSI initiatives and ESG principles have always been part of our business philosophy. In recent years we have increasingly formalised our commitment to ESG principles and the communication of our ESG performance. We continually refine our processes, stiving to incrementally improve our ESG performance over time.

2019 marked an important milestone in our responsible investing journey when we proactively established an SRI Committee and published our policies on responsible investing. These initiatives laid the foundation for subsequent advances in our ESG performance. However, despite our existing investments in ESG performance, we acknowledge that much remains to be done and we aim to make greater progress in the years to come. The timeline below highlights the key milestones in our endeavour towards formalising and improving our ESG practices.

YEAR	KEY MILESTONES
JUL 2011	Publicly supported CRISA
2014 Q3	Published first responsible investment policies
2013 Q1	Started tracking proxy voting
2014 Q4	Improved proxy voting records (breakdown of votes for, against, abstain)
2015 Q2	Improved proxy voting records (included reasons for voting against a resolution)
APR 2019	Formed SRI Committee
AUG 2019	Became a Principles for Responsible Investment ('PRI') signatory
NOV 2019	Became a Carbon Disclosure Project ('CDP') signatory
JAN 2020	Improved categorisation of proxy votes
JUL 2020	Started publishing summary of voting record online
JUN 2021	Started tracking ESG engagements
JUL 2021	Migrated proxy voting to an online solution
MAY 2022	Published climate change policy statement
MAR 2021	Portfolio ESG scoring vs benchmark (SA Equity Fund)
H2 2024	Published first Stewardship Report

Currently, the two most important mechanisms through which we drive ESG performance are the following:

1. The Sustainable and Responsible Investing (SRI) Committee

The SRI committee includes staff members from both sides of the business, being the investment team and the operations team. This reflects our culture of collective responsibility and our view that ESG is a key factor in our overall business success.

The SRI committee provides the strategic impetus to improve ESG performance across the business and particularly within the investment process. One of its objectives is to build awareness and capacity within the business relating to ESG matters by, amongst others, improving the availability of data and other resources. The SRI committee also aims to ensure greater and more effective monitoring of ESG matters to ensure that our policies and processes regarding ESG are implemented successfully.

2. Our Investment Process

Our investment process emphasises high quality corporate governance as a key and necessary factor to achieving optimal financial, social and environmental outcomes. Weaknesses in corporate governance increase the probability that financial, social and environmental risks negatively impact investment returns. Therefore, our analysts are expected to evaluate corporate governance as part of the research process, and it is carefully weighed in our decision-making process. Moreover, each analyst is required to incorporate all factors that may impact on the investment income in their research, of which ESG risks and opportunities represent a crucial part. As a result, ESG matters are an integral part of our investment process when these have the potential to materially affect the investment outcome.

Our Approach to Responsible Investing

The UNPRI defines five responsible investment approaches: Screening, ESG Integration, Thematic Investing, Impact Investing and Stewardship. Each of these responsible investment approaches offers a unique way for investors to align their financial goals with their values, contributing to a more sustainable and ethical global economy. The diverse investment approaches therefore offer more than one way in which investment choices can have a positive impact on society. These investment approaches are briefly defined in the following table:

SCREENING	ESG INTEGRATION	THEMATIC	IMPACT	STEWARDSHIP
Applying rules based on defined criteria that determine whether an investment is permissible.	Ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim of improving risk-adjusted returns.	Underpinned by the belief that economic, political, technological, regulatory and demographic dynamics are key drivers of investment risk and return and selecting assets to access specified trends.	Investing with the intention to generate a positive, measurable social and/or environmental impact alongside a financial return.	The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries.

At 36ONE, our commitment to responsible investing forms the foundation of our decision-making process. We understand the pivotal role that ESG factors play in shaping the future of investments, especially within the unique landscape of South Africa. Our approach is based on ESG integration, where evaluating and advocating for improved corporate governance is a cornerstone of our approach. We hold a steadfast belief that high standards of governance are a prerequisite for successful long-term investment, social and environmental outcomes. The presence of determinable governance weaknesses, such as past decisions that are ethically questionable, inappropriate policies and weak board structures are a red flag for us, often leading us to steer clear of potential investments. We recognise that weak governance is not just a financial concern but is synonymous with increased social and environmental risks.

In addressing social and environmental issues, we adopt a two-pronged strategy. Engaging with management, both publicly and privately, is a key element of our approach. Our decision-making framework is rooted in a commitment to engaging with all sectors rather than adopting blanket company or sector exclusions. We recognise that each sector brings its own set of opportunities and challenges, and our preference is to actively engage with stakeholders to address risks and concerns collaboratively.

Through meaningful engagement, we aim to foster dialogue, understanding, and cooperation among diverse stakeholders. This approach allows us to identify shared objectives and work towards mutually beneficial outcomes. By maintaining open lines of communication and actively seeking input from all parties involved, we can better understand the perspectives, concerns, and priorities of each company.

While engagement is our primary strategy for addressing risks, we understand that there may be instances where consensus cannot be reached or where urgent action is required. In such cases, we reserve the options of proposing resolutions, voting against proposed resolutions or exiting an investment as last resorts. We therefore continue to prioritise collaboration and dialogue whenever possible but are willing to take decisive action when this is merited.

We believe that our involvement can catalyse positive change within the companies in which we invest. By examining social and environmental issues separately, we gain a comprehensive understanding of the unique challenges and opportunities associated with each aspect of ESG. This nuanced approach allows us to tailor our engagement strategies to address specific concerns effectively. Our integrated approach revolves around a systematic process of identifying, measuring, and managing various factors to make informed and responsible investment decisions.

1. **Identify:** Our investment process begins with a meticulous identification of ESG factors associated with potential investments. We assess the environmental impact, social practices, and governance structures of companies within our investment universe. This involves scrutinising corporate policies, practices, and track records to identify strengths and potential weaknesses for each ESG component.

2. **Measure:** Once identified, we employ rigorous measurement metrics to quantify the impact of ESG factors. Practically, we use a wide range of indicators to evaluate a company's environmental footprint, social initiatives, and governance practices against relevant benchmarks. By assigning values to ESG factors, we gain a clearer understanding of the overall sustainability and ethical standing of a potential investment in absolute and relative terms. Some of the ESG metrics that we track include product safety, carbon emissions, employee health and safety, employee diversity, and metrics relating to the board of directors.

3. **Manage:** The management phase is the most dynamic aspect of our ESG approach. Here, we actively engage with the companies in which we invest. Whether through public discourse or private conversations with management, our aim is always to drive positive change. By using our influence to address weaknesses in corporate governance or encouraging improvements in social and environmental practices, we actively manage the ESG performance of our portfolio.

Monitoring and reporting ESG performance

We continuously monitor and evaluate ESG performance throughout all phases of our investment process. Of necessity, ongoing monitoring requires a focus on material strengths and weaknesses. In this respect, quantification of ESG performance is an essential filtering tool to ensure that the most critical matters receive the required attention. These scores play a crucial role in our ongoing efforts to assess and compare the SA Equity Fund against its benchmark. Specifically, our scoring integrates the Peresec FarSight ESG tool to calculate scores for individual investments and portfolios.

In contrast to competing offers, the Peresec FarSight ESG tool has the ability to provide nuanced insights into each component of an ESG score, rather than focusing on a single outcome. Using this tool, we are able to go beyond surface-level assessments, delving deeper into a company's ESG approach and performance. This approach ensures a more accurate and insightful understanding of how ESG considerations are actively managed and aligns with our philosophy of making informed investment decisions. We therefore strategically employ the Peresec FarSight ESG tool to ensure that ESG scores for our investments are not solely influenced by company-sourced ESG disclosures. Instead, our focus is to evaluate ability of a company's management to address and navigate industry-specific ESG matters.

The Peresec FarSight ESG tool rates the quality of a company's response to identified ESG matters over the short, medium and long-term. These responses are weighted by materiality to provide insight into the inherent vulnerability of a company (being the total ESG risk of the company, which may vary by industry) and its leadership quality (ultimately representing a measure of the ability of management to respond to the risk environment). The residual vulnerability is the difference between the two scores, representing the unaddressed ESG risk. Evaluating the unaddressed ESG risk is a key aspect of managing our investments' long-term ESG performance. When unaddressed risk is too large, this reflects the need for urgent action by management and often forms the basis for our engagement with management teams.

Please refer to the following policies available on the 36ONE website for more information on our approach to ESG and sustainability:

1. Sustainable and Responsible Investing Policy
2. Policy on Ownership Responsibilities
3. Policy on Conflicts of Interest

Engagements and Proxy Voting

Engagements

Our investment team routinely engages with each company's management team on multiple occasions throughout the year. Engagements take many different forms such as individual and group meetings, collaborative initiatives, letters and written statements. Interactions with management form an inherent part of our investment process, representing an ideal opportunity to gain a better understanding of the business and future strategy. However, any management interaction also represents an opportunity to raise pertinent environmental, social and governance concerns. If we believe that management is not taking our concerns seriously, we may decide to engage with the board of directors or express our concerns publicly. Our ultimate goal will always be to provide appropriate feedback and support to ensure future improvements in ESG performance across all elements, as we believe that ESG performance is a key input in protecting and growing our clients' investments over the long-term.

Engagement Tracker

We formally implemented an engagement tracker during June 2021 where we track all engagements with management. This allows us to keep a central record of all our engagements with management. Moreover, the engagement tracker enables the extraction of detailed reports on the topics of engagement, including subcategories of environmental, social and governance matters. On a quarterly basis, our clients may request the details of our engagements.

Key metrics during 2023

Investment team engagements:

77% of total engagements during the 2023 calendar year included environmental, social and governance issues

394	>140	304
Total Engagements	Companies Engaged	ESG Related Engagements

Engagement Summary

We continually seek to engage on all three elements within ESG. Some of the current priorities for engagement within these elements are the following:

1) Environmental

- Measurement and analysis of carbon footprints
- Reduction of energy consumption
- Sustainable supply chains

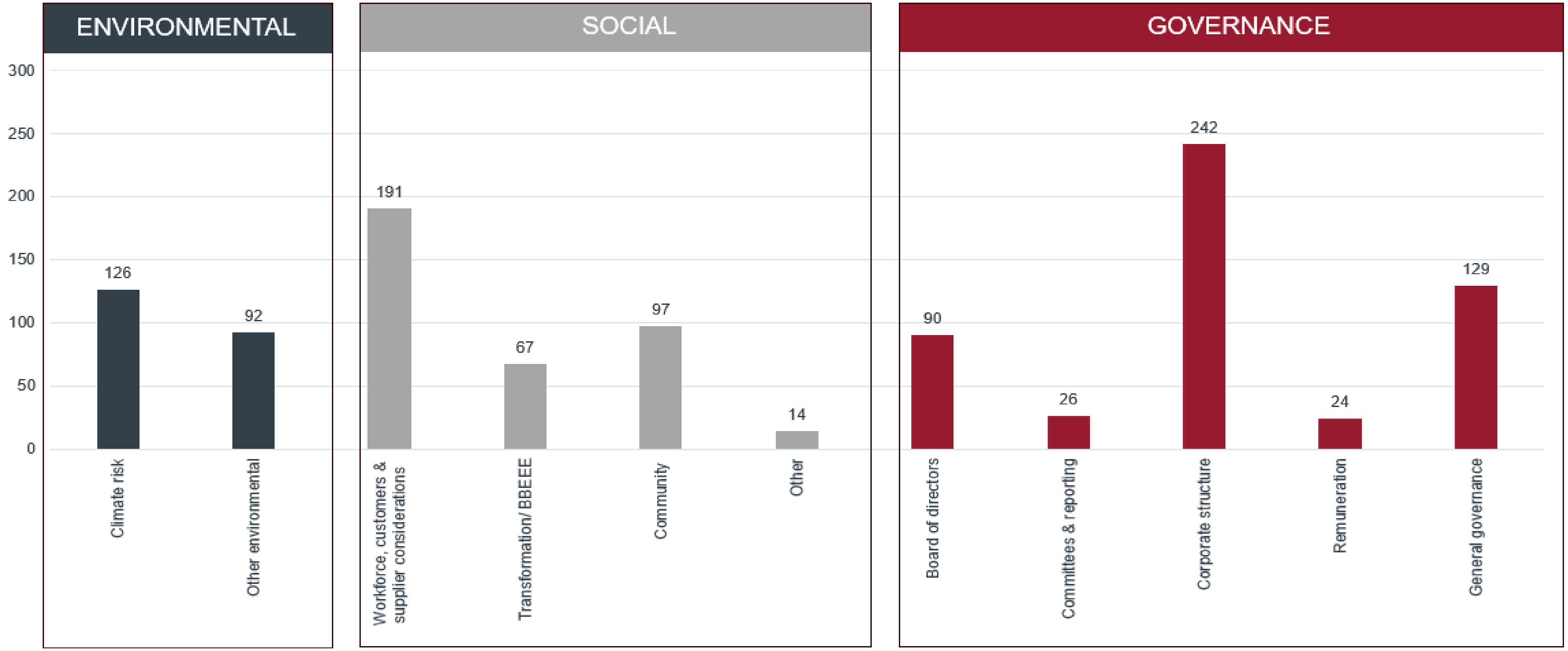
2) Social

- Ethical sourcing and supply chains
- Protection and management of human capital
- Diversity and inclusion

3) Governance

- Alignment of executive remuneration with shareholders' interest
- Assessment of performance of senior management (including consequences for underperformance)
- Auditor rotation

Number of ESG engagements from 1 January 2023 – 31 December 2023:



Environmental Engagements

Environmental considerations encompass a multifaceted evaluation of a company's impact on the natural world. This evaluation involves assessing factors such as greenhouse gas emissions, waste and pollution management, resource depletion, deforestation practices, and responses to climate change. Our approach emphasises not only understanding a company's current environmental footprint but also identifying areas for improvement and opportunities for long-term sustainability. Through engagement with company management, we advocate for eco-friendly policies and practices. Furthermore, we actively support shareholder resolutions aimed at addressing environmental concerns, thereby integrating environmental practices into our investment decisions. The current energy crisis in South Africa has accelerated the investment in renewable energy for many companies in our investment universe.

Social Engagements

Social considerations involve an evaluation of the way in which a company treats its employees, ensures workplace diversity, upholds labour standards, engages with local communities, prioritizes health and safety, and navigates potential conflicts. Our engagements with company management seeks to address social issues, promote inclusivity and equality within companies, and support projects benefiting underserved communities. Additionally, we advocate for improved social responsibility practices through shareholder resolutions, aligning our investment decisions with ethical principles and striving to make a positive social impact.

As many South African companies face a lower growth environment, we find that many of our engagements focus on the potential social impact of any workforce restructuring which may occur. As South African investors, we are highly cognisant of the need to consider the social impact of decisions. In many industries the short-term impact of workforce restructuring can be significant, while such decisions can also undermine the long-term social impact. Therefore, when engaging with management in industries such as mining, which directly and indirectly support a significant portion of the population, we endeavour to use our influence in favour of approaches which balance short-term and long-term concerns.

Governance Engagements

Governance considerations reflect our evaluation of various metrics which have been demonstrated to be associated with governance outcomes. Such metrics include, for example, a company's tax strategy, tax compliance, executive compensation structures, transparency in donations and political lobbying, anti-corruption measures, and board composition. We identify governance weaknesses and assess their impact on investment decisions, advocating for enhanced governance standards through engagement with management. Furthermore, we support governance-related shareholder resolutions and collaborate with companies to strengthen governance frameworks, emphasizing accountability, transparency and ethical conduct.

Many companies faced financial pressure during the year as interest rates remain at elevated levels. As such, our engagements were heavily influenced by this challenging operating environment with a focus on corporate strategy and capital allocation. Furthermore, executive remuneration was also a significant topic of engagement during the year. A perennial element of governance engagements, executive remuneration is always a focus of our investment team, as we aim to ensure that management incentives are aligned with long-term value creation.

Proxy Voting

We believe that exercising our rights as shareholders forms part of our mandate to maximise investment returns, of which the right to vote on shareholder resolutions forms an important part. Shareholder votes do not only influence corporate governance decisions but represents the only way in which most investors directly exercise a corporate governance role. At 36ONE, we view good corporate governance as a prerequisite for financial and ESG performance and therefore attach great importance to our voting responsibilities. Our proxy votes are guided by our 'Policy on ownership responsibilities'. This proxy voting policy outlines the manner in which we discharge our ownership responsibilities on behalf of our clients, describes our engagement processes and our approach to proxy voting. This policy is publicly available and can be found on our company website under the responsible investing tab.

Each analyst takes ESG matters into consideration as part of our integrated investment process and therefore we believe that the primary analyst covering each firm is best placed to make proxy recommendations. In doing so, the analyst takes into consideration the policy on ownership responsibilities as well as recommendations by third party providers (for example, broker voting recommendations and research on ESG performance). However, third-party proxy recommendations are never accepted without applying our minds to the specific situation. If necessary, we conduct our own targeted investigations. All final voting decisions are made with reference to the policy on ownership responsibilities.

Proxy Voting System

We rely on an external provider for our proxy voting system. This system links related voting data (e.g., corporate actions and proxy voting) with our holdings. Data is updated daily. We therefore exercise shareholder rights centrally across our mandates and submit votes/corporate action elections to all custodians simultaneously. Not only is this process efficient, it reduces the risk of human error when voting/electing separately per mandate. Our proxy voting system provides us with significant insight into the voting process, which makes potential improvements to the process easier to identify and implement.

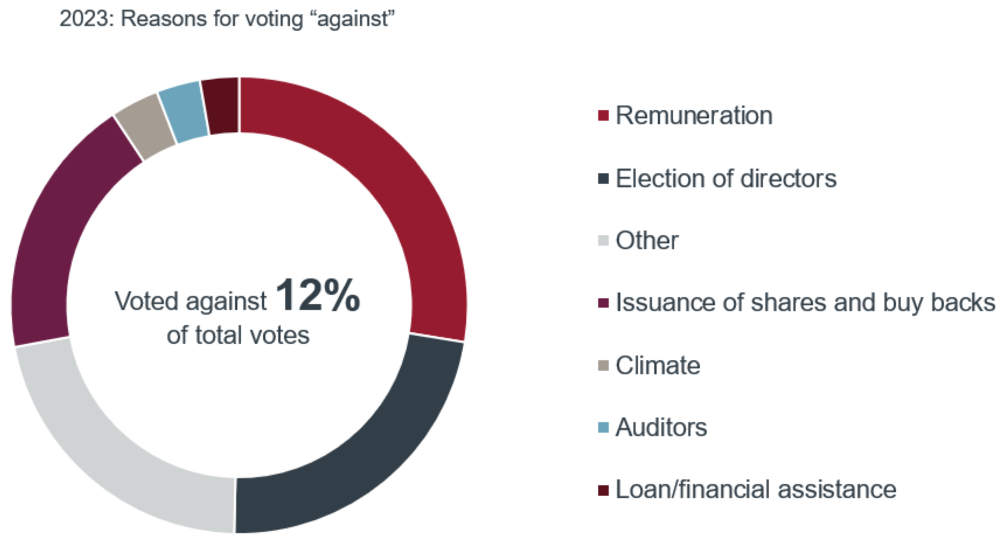
Reporting

All client proxy voting is tracked and made available on our company website. Each quarter, we report on our proxy voting within client report backs. Using the Peresec FarSight ESG tool, we calculate quantitative ESG scores for our portfolios which we monitor and compare to the related benchmark on a regular basis. This ensures that we continuously have insight into the ESG performance of our portfolio as well as our exposure to various ESG factors.

Key Metrics During 2023

Our proxy voting at shareholder meetings during 2023 comprised the following:

Vote	Number
Resolutions “For”	2057
Resolutions “Against”	290
Resolutions “Abstained”	22
Total resolutions	**2369**



As reflected in the chart (far right), the category with the largest number of votes against proposed shareholder resolutions is that of executive remuneration, followed by director elections. The mains reasons for voting against proposed shareholder resolutions in each category are discussed on the next page.

Remuneration

- Lack of Alignment with Company Strategy: Whenever executive remuneration packages and the overarching strategic goals of the company are misaligned; this creates a major area of concern. Misalignment in this context can severely impede the effectiveness of the company overall, not only at executive level, but can additionally cause long-term damage that is often very difficult and expensive to correct.

- Oversimplification of Variable Remuneration Targets: Oversimplistic targets for variable remunerations fail to capture the complexity of strategic achievements. This can result in rewarding executives for achievements that do not contribute to the company's long-term performance.

- Unclear Articulation of the Basis of Fixed Pay: Transparency is key in fostering trust and understanding among stakeholders. The absence of a clear and well-articulated basis for determining fixed pay raises questions about the fairness of compensation structures.

Election of Directors

- Director Tenure and Independence: Extended tenure of non-executive directors raises concerns about their independence and objectivity. Long-serving non-executive directors could develop close relationships with management, which could potentially compromise their ability to make impartial decisions and act in the best interest of outside shareholders.

Issuance of Shares and Share Buybacks

- Rationale for Rights to Issue Shares: 36ONE will only support resolutions that provide companies with the right to issue shares when clear and well-founded justifications are provided. Specifically, we believe that companies that have weaker return prospects should not receive unfettered control over issuing shares, as control over share issuance in such situations have often resulted in suboptimal decisions by directors in the past.

- Beneficiaries of Share Issuance: 36ONE will only support share issuance that contribute to the long-term success and sustainability of the company. Share issuances that primarily serve the interest of directors or their close associates, undermine good corporate governance (and thereby shareholder value creation).

Auditors

- Rotation of Auditors: While mandatory rotation regulations have reduced auditor tenure, some companies appear to implement questionable rotations without clear justification. Poorly explained resignations by incumbent auditors raise concerns about the reasons for such rotations, particularly when the proposed rotation is to an audit firm of lower stature.

Integration of ESG Factors in the Investment Process

At 36ONE, we integrate ESG factors in the investment process. This means that we consider ESG factors as part of our fundamental research and include ESG performance in the investment decision on a qualitative or quantitative basis (or occasionally both). The materiality of an individual ESG factor differs between investments, which often depend on the industry to which a company belongs. For example, social and environmental risks are relatively high for certain industries, such as oil and chemical producers. Increasingly, carbon emissions, carbon tax and climate change are also key considerations for firms in these industries. Sasol is a prime example of a company for which all these factors would be particularly relevant. Furthermore, some ESG factors only apply to a specific industry, such as MSC certification in the fishing industry, which denotes well-managed sustainable fishing practices. This is a material consideration for companies operating in this industry (Sea Harvest is a South African example), as MSC certification enables a company to charge a premium price for its products in international markets. Therefore, each analyst is responsible for incorporating the ESG factors that are relevant to a specific investment case. These may represent risks or opportunities from a financial perspective.

Nevertheless, high quality corporate governance is applicable across all industries. Moreover, at 36ONE, we emphasise governance as the necessary precondition for financial, environmental, and social performance and the catalyst for improvements in these outcomes. Irrespective of industry, our investment process therefore focuses on assessing management teams and the broader governance of existing and potential investee companies as a key factor behind financial and ESG performance.

We use three main sources of information to incorporate ESG factors in our research process:

- **Information disclosed by the firm.** Firms increasingly disclose ESG information as part of their audited integrated reports. However, all publicly available information, including feedback from management engagements, is an important source of ESG information. They reveal a firm's approach to identifying, managing and responding to ESG risks and opportunities. Publicly available information often represents a key starting point for further investigation.

- **Firm-specific third-party research.** Sell-side research on specific firms frequently reveals ESG risks and opportunities, even when these are not the primary focus of the report, as ESG matters frequently have financial implications. In addition, we make use of research reports with a specific ESG focus, of which the ESG research provided by Peresec is a prime example.

- **Independent data providers.** We make use of publicly available data from independent data providers to assess specific ESG risks. Such data is particularly useful when an ESG risk potentially has a significant and wide societal or environmental impact, while its evaluation is highly technical. Carbon disclosures available on the CDP portal is a prime example of such data.

Case Studies

At 36ONE, we acknowledge the intricate nature of ESG matters, recognising that they are often interconnected and multifaceted. While we view high quality corporate governance as a prerequisite for ESG performance across its comprising elements, investment decisions weigh far more than simply financial and governance considerations. Instead, we adopt a holistic approach, understanding that a comprehensive evaluation is essential to grasp the true complexities and risks associated with a company's operations.

We believe that a holistic approach is essential when evaluating ESG performance, as individual aspects of environmental sustainability, social responsibility and governance practices do not operate in isolation. Instead, they often interact in ways that require careful consideration. For example, in some cases improvements in one aspect may pose challenges or trade-offs in another, necessitating a nuanced and context-specific understanding of the interaction and optimal balance between different ESG factors. We seek to advance the industry norm in this respect, by incorporating the broader impact on communities and the environment within our investment decision-making process. This approach necessitates a sophisticated analysis that can accommodate diverse (and sometimes conflicting) sources of information. While necessarily complex, we believe that a holistic approach is an essential element of sustainable and responsible investing.

At 36ONE, we are not only committed to a holistic investment approach, but we also endeavour to provide our clients with a comprehensive understanding of our investment process and the companies in which they are invested. With this objective, we highlight some of the recent investment considerations and trade-offs that we have navigated in two case studies. The first case study reflects on Sasol, operating in the chemicals industry, while the second case study reviews Aspen, a pharmaceutical company. We selected these case studies to highlight the diverse nature of ESG considerations across industries and how materiality can differ as a result. In the chemicals industry, climate change is a highly material factor to consider in any investment decision, while healthcare is currently dominated by the discourse around improved healthcare access and the opportunity that this may present not only for individual companies but for society more broadly.

sasol
reaching new frontiers

Source: Google Images

Sasol's Quest for a Cleaner Future

Operating in the chemical industry, Sasol's main activities, namely resource extraction and chemical production, have always come with significant environmental risk. However, in recent times, the carbon-intensive nature of Sasol's operations has become a critical risk to its 'licence to operate'. In our analysis below, we discuss Sasol's initiatives to minimise its environmental footprint, transition to cleaner energy sources and implement responsible waste management practices.

Sasol's notable carbon intensity has emerged as a prominent concern for investors, triggering potential repercussions that extend beyond mere environmental considerations. The heightened concerns around carbon intensity presents challenges that reverberate across Sasol's financial viability, access to capital markets, and, critically, the risk of its South African business evolving into a stranded asset. In response to these concerns, Sasol has proactively strengthened its climate transition strategy, particularly following constructive engagements with stakeholders and discussions during its 2021 Capital Markets Day. This strategic shift underscores Sasol's commitment to align its operations with evolving global environmental standards and national climate policies. By intensifying its efforts, Sasol aims to address investor concerns and demonstrate a dedication to sustainability and climate-conscious practices.

In a notable move towards environmental responsibility, Sasol set tangible targets to curtail its carbon footprint. During 2021, the company made significant revisions to its 2030 decarbonisation goals, raising the reduction target from 10% to an ambitious 30% in both Scope 1 and 2 emissions (using 2017 emissions as the baseline). In addition, Sasol declared its commitment to achieving 'net zero by 2050'.

While the 2050 goal aligns with the growing industry trend towards sustainability, Sasol acknowledges that it remains largely aspirational at this point. The primary focus is directed towards meeting the challenging 2030 targets. The company's transition strategy is delicately poised between addressing immediate economic and social consequences of decarbonisation, considering factors such as its extensive network of indirect employment and substantial tax contributions, and forging a path towards long-term environmental sustainability.

Sasol's Role as a Major Tax Contributor and Corporate Jobs Engine

The environmental impact of Sasol's operations remains a pivotal aspect of the overall investment thesis. However, it is equally imperative to consider the company's broader role in South Africa. As the largest taxpayer in South Africa, Sasol's economic contributions extend well beyond the confines of its direct business operations. This elevated status underscores the company's role in the nation's public finances. Indirectly, Sasol therefore funds many essential public services, infrastructure developments and social programs.

Furthermore, Sasol's impact on employment in South Africa is far-reaching. The company directly employs approximately 30,000 individuals, providing critical employment opportunities in a country grappling with high unemployment rates. These direct jobs offered by Sasol are not only important in numerical terms but represent stable and skilled job opportunities. Indirectly, Sasol's operations are estimated to support 450,000 jobs across diverse industries. By implication, Sasol supports a broad economic ecosystem which contributes to the livelihoods of many individuals and families, fostering economic stability in broader society.

Engagements with Sasol's management over the past year have been instrumental in moulding our comprehension of the company's environmental and social strategies. We believe that we were able to contribute to shaping these strategies through ongoing dialogues, which have played a pivotal role in shaping our perspective of Sasol as a company with an unwavering commitment to long-term sustainability. Some of the elements addressed in our engagements include the following:

1. Reviewing the 2030 Emissions-Reduction Roadmap

Our in-depth discussions delved into Sasol's comprehensive plan to achieve its ambitious emissions-reduction goals by 2030. This engagement covered intermediate milestones, investment strategies and the incorporation of renewable energy solutions. We walked away from these discussions with far greater insight into Sasol's path towards a more sustainable future.

2. Navigating LNG Access and the Energy Transition

Examining Sasol's strategy for securing access to Liquefied Natural Gas (LNG) formed a critical part of our conversation. This dialogue explored the pivotal role of LNG in Sasol's energy mix for the future, with a specific focus on environmental concerns. We also discussed the essential partnerships and infrastructure developments needed to facilitate this transition, considering the pivotal role that LNG terminals are likely to play during the next decade and beyond.

3. Exploring Technological Innovations for Decarbonisation

Our engagement with Sasol included extensive dialogue about investments in researching and developing decarbonisation technologies. We also discussed potential employment opportunities arising from such technological innovations. This engagement was a proactive exploration of the way in which adoption of new technologies could contribute to job creation and economic growth. This engagement provided insights into the specific technologies Sasol is actively developing, including an overview of their feasibility based on global technological trends.

Sasol: Navigating the Green Future with Renewable Energy Initiatives

Sasol's ambitious goal to secure 1.2GW of renewable energy for its South African operations by 2030 is making substantial headway. Following the initial procurement of 550MW in early 2023, the company has now secured an additional 97MW of renewable power through a strategic partnership with Air Liquide. A key short-term objective for Sasol is to formulate a concrete plan to secure gas supplies out to 2030 and beyond. In this respect a planned development of a new LNG import terminal in Maputo by Total could be positive, with a final investment decision anticipated to be announced during 2024. This strategic shift towards a more substantial renewable energy and lower carbon-emission portfolio not only signifies Sasol's commitment to meeting ambitious sustainability targets but also underscores its dedication to striking a balance between job protection and environmental responsibility.

Sasol's commitment to reducing the carbon intensity of its operations, is a key element of our investment considerations. The company's journey toward environmental stewardship, exemplified by a clear decarbonisation strategy and ambitious emissions-reduction targets, deserves commendation. However, from an investment perspective, the challenge lies in balancing the positive impact from environmental initiatives with potentially negative social outcomes should job security and the company's contribution to the national fiscus be compromised. This illustrates the complexities of a holistic investment approach, but also that true responsible investment is not possible without it.

As Sasol navigates these challenges, investors need to judge more than its achievement of environmental objectives. The interplay between environmental sustainability and broader societal impacts requires ongoing attention and thoughtful consideration. We believe that only a holistic investment approach, which integrates both environmental responsibility and social well-being in the South African context, can effectively balance these concerns.

Source: Google Images

Injecting Value: Aspen's Financial and Social Synergy in Africa

Aspen Holdings (Aspen) is a global specialty and branded multinational pharmaceutical company with a presence in both emerging and developed markets. Rooted in a mission to improve global healthcare, Aspen focuses on delivering high-quality, affordable medicines. This ensures that the company is defensively positioned, even when considering the traditionally defensive nature of the pharmaceutical industry, with resilient product demand for its affordable medicines throughout different economic cycles.

Aspen’s strategic plans involve significant investments to increase its sterile manufacturing capacity, with the ambitious goal of positioning itself as the largest vaccine manufacturer in Africa. A review of Aspen’s strategic decision-making processes provides insight into the challenges encountered within this strategy, while balancing financial commitments with the social aspect of ESG responsibilities.

From Acquisitions to Growing Internally: Aspen's Historical Trajectory

Historically, Aspen gained recognition for its highly acquisitive nature. However, untrammelled expansion, mainly financed by debt, eventually led to unacceptably high leverage by 2018 (FY18 Net Debt: EBITDA was 4.2x). However, 2018 marked the start of a strategic shift, with substantial divestments of underperforming assets and investments in Aspen’s sterile manufacturing capacity. This strategic pivot was underpinned by Aspen’s foresight of an industry shift towards biologicals and the opportunity to augment patient access to sterile products in Africa.

Beyond the financial considerations, Aspen's focus on improving patient access to sterile medication in Africa carries profound social benefits in the form of enhanced public health outcomes and improved community well-being. In turn, improvements community health fosters a more resilient and productive society, strengthening the social fabric over time.

Public Health Triumph: Improving Access to Sterile Medication

While the social benefits of Aspen’s initiatives are self-evident, it is crucial to acknowledge the challenges encountered during this transformative journey. These challenges are primarily linked to the substantial financial investment required and extended lead times experienced. Aspen committed a substantial R5.6 billion investment over an eight-year period when leverage was notably high. Weak returns from the strategy during the initial phases engendered investor scepticism and the company’s market capitalisation decreased by nearly R100 billion. Nevertheless, Aspen displayed resilience in pursuing its strategy, ultimately contributing to a positive social impact.

During the pandemic, Aspen's investment facilitated a strategic partnership with Johnson & Johnson (JnJ) for the formulation, filling, and packaging of JnJ Covid-19 vaccines for Africa. Moreover, collaborations with the Serum Institute for manufacturing key paediatric vaccines, grants from the Bill & Melinda Gates Foundation and the Coalition for Epidemic Preparedness Innovation (CEPI) underscore the positive outcomes of Aspen's strategic investments. Moreover, Aspen's forward-looking initiatives include the forthcoming manufacture of insulin for Novo Nordisk, expanding the scope of products it can deliver throughout the African continent. This diversification signifies Aspen's commitment to addressing a broader spectrum of healthcare needs and further solidifies its position as a key player in advancing healthcare accessibility in the region.

Our engagements with Aspen's management have been instrumental in enhancing our understanding of Aspen's strategic transformation in sterile manufacturing, vaccine distribution and healthcare accessibility across Africa. Through these discussions, we have gained a concise yet profound insight into Aspen's commitment to balancing financial resilience with significant social impact. Our continuous interactions with Aspen focus on two key aspects, namely Aspen's strategic trajectory and the complex connections between its financial and social impact objectives. Some of the elements addressed in our more recent engagements include the following:

1. Vaccine Manufacturing Strategy

At the start of 2023, our engagements with management allowed deeper insight into Aspen's strategy to use spare sterile capacity to manufacture vaccines. This engagement highlighted economic benefits and emphasised Aspen's commitment to addressing vaccine disparities in Africa.

2. Global Expansion and Vaccine Manufacturing

Engagements around the release of Aspen's FY23 financial results focused on Aspen's global positioning and investments in manufacturing. This included discussions around the company's strategy to increase in-house production of anaesthetics and vaccines for the Africa continent by leveraging existing infrastructure. The consistency between short-term communication in financial results with long-term strategic objectives, reaffirms our view of Aspen as a committed responsible corporate citizen actively contributing to global health equity.

3. Access to Affordable Medications

In other engagements, we explored Aspen's initiative to expand access to affordable medicines in Africa, encompassing agreements with Eli Lilly, Viatris and Novo Nordisk. This reflected the company's adeptness in establishing collaborative partnerships that contribute to both corporate social responsibility and financial success.

Striking the Balance: Aspen's Social-Financial Symphony

As 36ONE, we have closely monitored Aspen's strategic journey, appreciating its focus on shareholder value creation while supporting long-term societal objectives. We took advantage of the period during which Aspen's share price was under significant pressure to increase our holding of the shares, comprehending the intricacies of its venture into sterile manufacturing. Currently, we hold Aspen across several of our funds because we see value in the strategy, not only from a financial perspective but also for the commendable social impact it aims to achieve.

During 2023, the company's shares outperformed the market and returned approximately 40% for the year. In our view, this reflects a growing recognition in the market of the value inherent in the company's strategic initiatives. There has been a material reduction in leverage from the 2018 levels with Net Debt: EBITDA now below 2.0x. We anticipate that the company is still in the early stages of its journey, with the potential for material growth in the coming years. This ongoing progression serves as a compelling illustration of the symbiotic relationship between the company's social impact initiatives and its financial outcomes. As the company continues to navigate its strategic journey, the alignment of social responsibility with financial success becomes increasingly evident.

In conclusion, Aspen’s strategic journey towards bolstering its sterile manufacturing capacity serves as a compelling example of a company striving to strike a delicate balance between social and financial priorities. The transformative shift, marked by divestments and investments, reflects Aspen's commitment to addressing both ESG responsibilities and financial objectives. However, the challenges faced underscore the complexity of harmonising societal impact with financial performance. While investor scepticism provided an excellent opportunity for our own clients to take advantage of a depressed share price, for Aspen to continue with its strategy in the face of severe short-term pressure required considerable resolve. Aspen’s journey in recent years demonstrates the decision-making required for companies to navigate the complex intersection of social responsibility and financial sustainability.

Climate Change

A modern stewardship report would not be complete without due consideration of climate change concerns. As the focus on climate change gains attention on a global level, the discussion in emerging economies, such as South Africa, is increasingly around a 'just energy transition'. A just energy transition relates to the interplay between climate change (the E in ESG) and social equality (the S in ESG) and is predicated on fairness, ensuring that no community is left behind and all can thrive in the face of rapid decarbonisation. It places a strong emphasis on managing the social aspects of climate change within the workplace and broader communities. Such an approach, facilitated by inclusive decision-making, paves the way for growth and economic opportunities from decarbonisation.

Renewable energy sources, which are integral to the transition, offer the potential to create new industries and jobs while reducing dependence on fossil fuels. The International Renewable Energy Agency estimates that Africa's energy sector could generate as much as 28 million jobs by 2050. However, the vulnerable and marginalised, least responsible for climate change, often face exclusion from the benefits of achieving net-zero goals, amplifying existing inequalities.

Furthermore, the challenge of reducing emissions introduces a dilemma for companies as they navigate the trade-off between environmental responsibility and shareholder returns. Initial sacrifices in profits will most likely place downward pressure on share prices, which raises concerns around societal responsibilities toward savers, particularly those that depend on financial markets for an income during retirement. In addition, companies must strike a delicate balance between immediate profitability and long-term sustainability. Investing in a green future often incurs expenses that may affect short-term profits, potentially impacting employee compensation and job stability. However, neglecting to address climate change effectively and persisting on the present course would lead to significant long-term job reductions. These concerns highlight the importance of considering diverse interests to ensure a just transition, ensuring that the change to a low-carbon economy occurs in a responsible manner.

As asset managers are evaluated first and foremost on performance, these concerns also present unique challenges for the asset management industry. At 36ONE, we recognise that responsible investing is central to delivering outstanding performance, sustainability and long-term shareholder value. However, the complexity of the economy in which we invest, means that we ultimately strive to maintain a balanced view when investing in companies. When we encounter an investment that screens well from an ESG perspective, but not as well from a return on investment (ROI) perspective, we will not invest in the business if the risk/return profile is unfavourable. Similarly, when we encounter an investment that screens well from a ROI perspective, but not as well from an ESG perspective, we will only invest in the business if the risk/return profile is favourable.

Importantly, whenever there are material ESG risks, we take a proactive approach and engage with companies to drive positive change, while ensuring that we foster a holistic approach to sustainability. Our aim is to play a role in fostering a future that is both equitable and environmentally conscious.

2024: Looking Ahead

Looking ahead, the key takeaway from the experiences of 2023 is the necessity for a flexible and dynamic investment approach. As we continue to monitor global economic trends and geopolitical developments, we remain committed to making informed decisions that prioritise the long-term interests of our clients.

We remain dedicated to stewardship and responsible investment practices that drive sustainable financial growth and positive societal impact. Our stewardship efforts have yielded great results, and we are resolute in our commitment to shaping a more sustainable and equitable future. We appreciate your continued trust and collaboration as we work to navigate this ever-evolving landscape.