STEWARDSHIP REPORT

H1 2019

CONSISTENCY IS THE ONLY CURRENCY THAT MATTERS.™

Consistency is the only currency that matters.™

Introduction

Welcome to our second Stewardship report in which we share information on how we approach being stewards of our clients' assets.

In this report, we provide more detailed information on ESG integration into our investment decision-making process, illustrate our approach to thematic engagements, and provide a number of case studies that are illustrative of our engagements.

We view Stewardship and this report as relating to the role played with regard to our client assets and not our own corporate social initiatives. We have therefore not included details on our BEE scorecard or corporate social investments. Should these be of interest, they are available from your client representatives, or these social initiatives can be found separately on our website at:

prudential.co.za/institutional-investor/about-us/corporate-responsibility

ESG integration into the Investment Process

1. RESEARCH

Research is conducted by the equity analyst on the stock or the credit analyst on the issuer. As socially responsible investors, we would seek to understand, inter alia, the ESG risks facing the financial health and sustainability of these entities, confirmation that management are aware of these risks, their magnitude and impact on the business and broader society, and is seeking to mitigate them. We also seek assurance that management is sound and has an established practise of good governance with the correct degree of expertise, not only in the business, but also in respect of ESG issues.

This research primarily rests with the analyst with where necessary, assistance from the in-house ESG specialist, or peer analysts. In addition we receive ESG specialist research which complements internal research.

2. INTERROGATION (AND FURTHER RESEARCH)

The stock/issuer research, including ESG factors, is presented to the relevant investment decision-making team for discussion and interrogation. At this point the investment team may request further investigation into the ESG factors or a further adjustment to the model to account for these.

3. VOTING

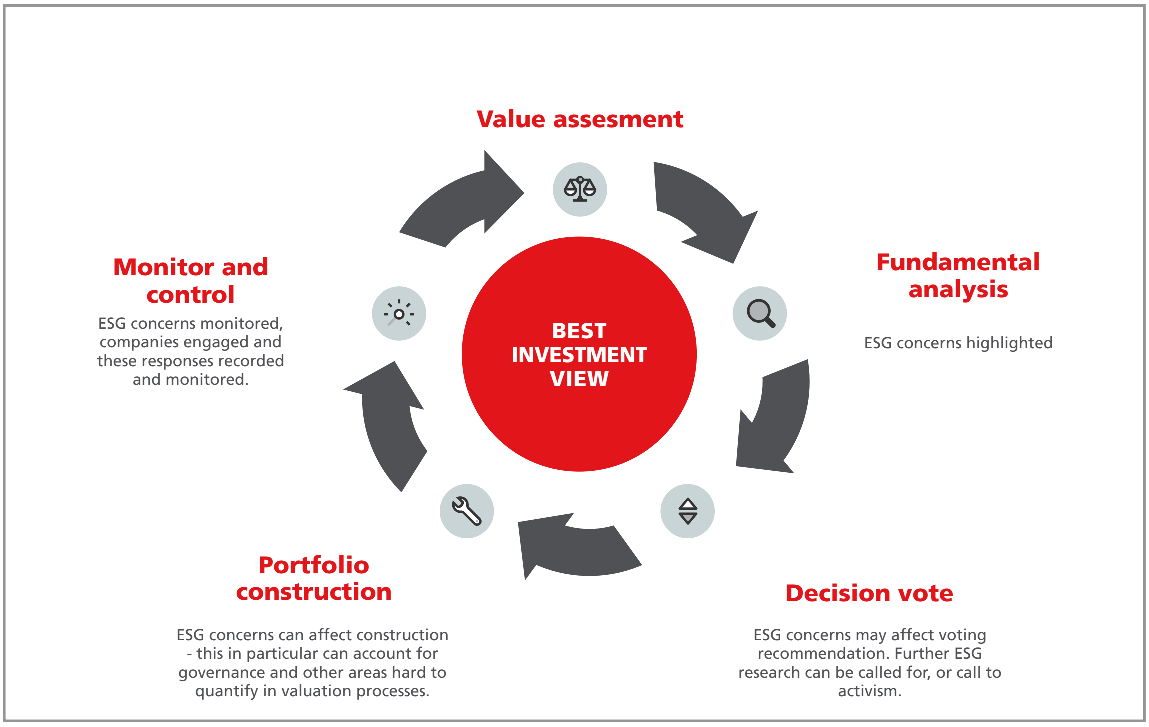
The investment decision-making team then votes on the stock or issue to determine its position on a buy or sell list, and material ESG factors can be accounted for at this stage.

4. PORTFOLIO CONSTRUCTION

ESG factors are also integrated at the portfolio construction stage, especially as many ESG factors are not easily accounted for in the valuation process. As an example, governance is not easily accounted for in a future earnings valuation. However, adjustments can be made to the weighting during portfolio construction where, taking two equally valued stocks, one may receive a higher allocation on the basis that it has stronger governance processes and structures, and is more likely to be a sustainable business.

5. MONITORING

ESG factors, as with any other material factor that influences a company or issue's valuation, are monitored.



ESG related Activism

WHEN DO WE ENGAGE?

We invest in companies whose management and non-executives are skilled and experienced experts in that industry and that company. It is not our function to supplant those roles. There are times, however, where this ideal is not met and where engagement or intervention is required. These situations can be fluid but we have clearguiding principles.

WHICH COMPANIES DO WE ENGAGE?

In order to maximise and optimise our engagements, we prefer to engage:

1. Thematically within and across sectors;
2. With companies where we have invested our clients' assets (although we may also engage where portfolios may have a potential future holding);
3. Where the ownership, either alone or in collaboration with other shareholders, is sufficient to have an impact; and
4. Where the holding is material in client portfolios.

WHY DO WE ENGAGE?

- To gain more information or a better understanding of ESG factors related to the company;
- To provide a shareholder perspective on the company or a specific strategy or transaction;
- To act to protect shareholder value;
- To further a theme where we believe the industry, or part of the industry, is potentially ignoring a structural or systemic ESG matter; and
- In instances where we believe we have a responsibility to give voice on behalf of clients or society.

HOW DO WE ENGAGE?

The method for engagement varies depending on the nature of the issue and the company. Methods range from face-to-face discussions to more formal recording of our position, to the exercise of voting rights. We can and have utilised shareholder rights with regard to calling special meetings, nominating directors or actively participating in company meetings. In very rare situations, we will contribute to media coverage.

Thematic engagements in H1

Thematic engagements allow our engagements to be broader in application, pro-active, and eliminate singling out individual companies when the matter is preferably addressed on an industry-wide basis.

ENVIRONMENTAL

Climate:

Concern

This is a prominent topic at present, and with very good reason. It is important that companies recognise the threat and act appropriately to not only protect themselves from regulatory penalties and litigation, but also to be responsible global citizens. Given the broadness of the issue, we have singled out areas in broad industry sectors and begun to address its constituents.

> Engagements: Banks

This was in part prompted by the shareholder resolution posited to Standard Bank. We abstained from voting as we believed that the resolution was too narrow in its scope. Additionally, the issue raised was thematically important and should, in our view, be addressed with the industry using a more equitable and balanced approach.

We have therefore written to the major banks requesting their Boards consider the need to report on their lending activities for both the extent of exposure to, and the risk of the impact of, climate change. We have encouraged the banks to benchmark their climate-risk disclosure against an objectively measurable standard (developed or adopted), to communicate this, and to be more proactive in this area.

Furthermore, should they not yet have one, we have encouraged the creation a broad policy for Climate Change in respect of not only mitigating risks in respect of their clients' businesses, but also for directing within its own business, and encouraging amongst its clients, responsible behaviour.

The response from the banks has been to generally issue broad policies, and undertake additional reporting. This is a space to watch in coming months to see if the output evidences a genuine commitment to the issues and to transparent and responsible disclosure.

Some banks have, however, given more concrete undertakings, such as Nedbank, which has stated *"…from 2018 the bank undertook not to provide project financing or other forms….used to develop a new coal-fired plant, regardless of the country or technology…."*

> Engagements: Oil and Gas

Sasol's operations, in terms of the nature of the production process and the age of the processing plants, means it is a high emitter of carbon and sulphur by-products which can be harmful to the natural environment and to humans. Additionally, the levying of a carbon tax on Sasol impacts its earnings and its long-term sustainability.

Our engagement with Sasol escalated in H2 of 2019, and further comments will be provided in the H2 Stewardship report.

Water:

Concern

Recent droughts across the country, most notably the current emergency in the Eastern Cape and the narrowly avoided Day Zero in the Western Cape in 2018, have highlighted that water as a resource can rapidly become scarce. By contrast high rainfall and flooding can have a significant and more immediate impact. Too much or too little water has an impact on people, industry, the environment, food production and, ultimately, on social security.

As South Africa's population continues to grow and climate change is likely to cause unpredictable drought and flood cycles, businesses need to be conscious of the impact this can have on their long-term sustainability and their obligations as responsible citizens. In addition there is a need to understand the measures taken by those entities whose actions or the nature of their industry could put existing and increasingly scarce water resources at risk.

> Engagements: Mining

The environmental impact of mining on water resources is one of our biggest concerns, particularly in the case precious metals where the by-product can be exceptionally toxic.

In mining we have begun meeting with single-commodity miners in gold and platinum to engage them on their management of waste water and tailings dams.

Engagements with individual miners has been broadly positive. We have seen some entities such as Goldfields proactively engaging shareholders to allay concerns over ESG considerations.

The information we have received has been broadly reassuring, with self-disclosure by miners on the challenges and remedies being instituted to prevent contamination.

Post the end of the quarter this engagement was extended to general miners following media reports of ground water being severely affected with contaminants being above legal and safe levels. The miners noted that they were not given access to the reports in which the allegations were made. However they acknowledged that the reports were based upon their own reporting and regulatory submissions. This ambiguous or contradictory position requires further consultation.

> Engagements: Water Boards

The effects of Climate Change on the volatility of rainfall and the increasing population size are risks for Gauteng's people and industries.

Part of our engagements with Rand Water involved their projects for water treatment and recycling, the usage and sustainability of ground water, and efforts to minimise water loss in pipeline infrastructure.

These projects are still in their infancy and we look forward to further engagement with the board.

We are pleased with the proactive manner in which Rand Water appears to be tackling these matters.

Plastic Pollution:

Concern

It is estimated that 1.1 to 8.8 million metric tons (MT) of plastic waste enters the ocean from coastal communities each year. Studies suggest that the bodies of 90% of seabirds contain plastic debris. This is not only a marine issue: most waste in the form of plastic in landfills are single-use items such as packaging. Plastic bags that do not make it to landfills or recycling end up as litter or in water systems, were they can clog up storm water drains and contribute to localised flooding during heavy rainfalls. In addition the litter also negatively impacts on our environment and tourism industries.

Due to their durability, plastic bags can take centuries to decompose. The use lifespan of a bag is approximately 12 minutes of utility.

> Engagements: Retailers

We have focused on single-use plastic carrier bags as an area where a handful of large retailers in South Africa can make a rapid, meaningful and highly visible difference.

This is an area where there are viable alternative solutions and multiple international case studies. By taking such visible action, we believe that South

African retailers can contribute meaningfully towards a culture of sustainability that could have far-reaching benefits for environmental protection in general.

In collaboration with other asset managers, we have written to leading retailers to encourage the reduction, or even elimination, of single-use plastic shopping bags in their stores. We noted that, whilst not experts in this field, the asset managers would appreciate a process of engagement on the issues to better understand the implications of such an action and the steps being taking or plans in place to reduce single-use plastics.

The asset managers commended the steps already taken by the major SA retailers towards reducing plastic bag pollution, typically by promoting recycling, supplying re-usable bags (including plastic bags) or selectively supplying paper bags. Most large retailers have also taken positive steps towards re-cycling waste packaging, including plastic bags. These steps are welcome, but if one looks at the total number of plastic bags still supplied into the market and the relative progress of many other countries, we conclude that the SA retail industry can do more.

Response:

The most constructive, informative and practical response was from Pick 'n Pay, but many of the retailers did not respond directly to the correspondence, and nor did they subsequently engage us on the matter.

SOCIAL

Safety:

Concern

Safety within the mining industry is an area of ongoing concern. In terms of financial costs this can impact through lost production and jeopardise mining licenses from government. Of greater concern is the human impact on staff and mining communities. Whilst mining carries inherent dangers, these should be absolutely minimised.

> Engagements: Mining

An area of past and current engagement with mining houses has been the push for mining companies to introduce more relevant and meaningful safety measures into the remuneration calculations of executives. This is a complex area and one does not wish to place any form of value on human life, or trivialise injury. It nonetheless remains important that executives face financial penalties where safety is not being given adequate attention.

We are pleased to note we have seen a number of miners introduce either larger measures to account for safety, or a better measurement of safety in the workplace with a greater impact on executive pay.

> *"This is a complex area and one does not wish to place any form of value on human life, or trivialise injury.*

GOVERNANCE

State Owned Enterprises (SOEs):

Concern

Slipping governance standards, irregular expenditure, mismanagement and allegations of corruption have continued with increasing frequency at SOE's under the previous presidency and cabinet, and with the launch of the Zondo Commission many fears and concerns are appearing to have been well founded.

Many state owned entities have relied on implied and explicit government guarantees of their debt. With tax revenue moderating under a slow economy, further potential falls in our international sovereign credit rating have brought into question the continued solvency of the government standing behind these guarantees. Tough action is being called for foundering at SOEs and this brings opportunities for active engagement and reform from investors who invest in our country and its parastatals.

H1 2019 saw engagements with SOEs, some of which have executives which have been directly or indirectly implicated in the State Capture project.

Notable engagements were with ACSA and Umgeni Water. Both boards have undergone changes in composition and are taking measures to better comply with the Auditor General's requirements.

We remain concerned about some entities' commitments to resolving past allegations of corruption once those alleged to have been involved have left the entity. This remains a subject of ongoing engagement, and in some instances escalation to National Treasury. We remain concerned that where corrupt individuals are simply removed from office without consequence, there is no incentive for a change in the pattern of behavior or culture within these organisations.

In addition we have engaged with the City of Johannesburg, SANRAL and Rand Water on matters pertaining to developments related to governance at their institutions.

Independence of directors:

Concern

Independent directors play a vital role in protecting shareholder interests and bringing independent perspectives and outside experience to boards. As they are not, or should not be, incentivised by short- term profits, they are also well suited to guide the company in achieving long-term sustainability.

> Tenure

In respect of length of tenure, we are not immediately averse to long tenures for independent directors, but we do need to receive comfort that this has not compromised their substantive independence and that the director has near-unique expertise and skill to warrant remaining in the independent director position.

Alternatively we do not object to non-executive directors remaining in positions beyond normal tenure, provided they are not categorised as ‘independent’ for purposes of board composition, nor placed on committees where independence is required.

An area of concern for us is where we have seen a number of companies classifying directors as independent but where it can be argued that the classification is more technical than substantive, given previous roles at the company and their consequential long tenure.

Of particular concern is a practice where a director’s years of service “resets” on moving from Director to Chair. We are now actively opposing many of these examples.

> Balance of Independent and Non-Independent

We have continued our engagements around a lack of independence of board members on listed equity companies and have begun actively engaging on the number of independent directors and their individual skill, expertise and capacity. This last issue of capacity has been a specific focus and we will not support appointments where, for example, one director, by a conservative estimation, would need to attend 71 board and related committee meetings a year.

> Shortage of Independent Directors

We have lobbied in a number of companies for appointments of additional independent directors.

In one case, we started the process of calling for a shareholder-initiated EGM to facilitate these appointments. Fortunately, it was not necessary for the process to conclude as the company acquiesced and appointed additional independent directors.

Examples

We opposed appointments to the Sanlam Board/s due to either tenure, perceptions of independence or both. We opposed directors of Anglo American Platinum and Tiger Brands on perceptions of lack of independence, tenure or concerns of their being over committed to too many boards. We secured undertakings from a large Telecommunications network that they will be phasing in a number of independent directors in the coming period.

This is a theme we have continued to pursue into the 2H of 2019.

Update on prior thematic engagements

REMUNERATION

Within listed equity, remuneration engagements have been the bulk of our governance-related engagements in H1 2019.

We have started observing from the published voting results of companies that there is an increase in opposition by shareholders, which are non- binding on the company, on remuneration policies and their implementation.

In our view, executive remuneration has not received enough attention from shareholders, although this is changing. There is a strong (and justified) view that some remuneration committees have taken advantage of this lack of attention to make payments to executives that seem unwarranted or lack justification.

We are, however, also seeing a trend to oppose all remuneration unless it fits the interpretation of a particular shareholder or their stewards.

At Prudential we are comfortable with remuneration policies being tailored to the circumstances of that entity. We accept that no remuneration policy will please all shareholders. There are, however, certain minimum disclosures we require in these policies and targets for executives, where applicable, must be both aligned with shareholders and appropriate.

Our view is that we will approve remuneration policies where there is continuous improvement, and the quantum of remuneration is not excessive in relation to the market. To this end we have approved a few remuneration policies that we expect to vote against next year should we not see improvements.

'Forward Guidance'

We have two areas of concern where certain entities (but not their peers in the same industry) seem to be relying on interpretations of JSE rules relating to "Forward Guidance" to prevent disclosure in remuneration policies specifically on thresholds, targets or stretch metrics for executive pay for long term incentives. As a result, the disclosures are made after the period and after shareholders have voted on the remuneration policy without insight into the bases of how the executive remuneration is measured or calculated.

This is as odds with international best practice and we are engaging on this issue.

Engagement on failure to reach 75% on remuneration votes

Entities listed on the JSE that fail to achieve 75% support for their remuneration policy and/or implementation are required, under JSE rules, to engage with shareholders.

We have had recent experiences where the engagement is limited to a single multi-party engagement of little substance and no opportunity for follow up engagements which are apparently prohibited under JSE rules.

We have written to the JSE for guidance on the way the rules are being applied and await comment.

Other Notable Engagements during H1 2019*

***Excludes thematic engagements with these and other entities under 3 above. Not all engagements are reflected in 3 above or in the table below; some engagements are sensitive are not appropriate for public disclosure.**

FIXED INCOME

Our engagements with state-owned enterprises are covered under 3 above.

Entities engaged on ESG matters during in the period include Eskom, Umgeni Water, Rand Water, SANRAL, ACSA and City of Johannesburg.

EQUITY

Stock	Issue	Engagement	Outcome
Growthpoint	Environmental - Growthpoint are leaders in green building initiatives.	Discussions with Growthpoint staff to determine how this could be encouraged with other listed property groups.	Encouraging engagement, decision to attempt collaborative engagements with other asset managers in this area in late 2019.
BTI	Social – concerns around industry marketing of devices to underage users and US regulation.	Discussion with CEO and senior executives.	Achieved clarity on BTI's position, and products, marketing, and impact of legislation.
Woolworths	Governance – potential concern around resignations of senior staff and divisional heads.	Teleconferences with CEO and board chairman.	Ongoing engagement for monitoring, further engagement in H2 of 2019.
Anglo American	Governance – authority to issue shares.	Correspondence and telephone calls with company representatives around appropriate	Opposed vote to grant authority to allot shares. Left as an open aspect for future discussions.
levels of authority the board should have to issue shares.	Opposed vote to grant authority to allot shares. Left as an open aspect for future discussions.	Written correspondence to and face-to-face meetings with executive management.	Received assurances on the management of the conflicts of interest.
Investec	Governance – potential conflicts of interest relating to directors on unbundling. Governance – understanding the relationship between Mr Brian Kantor and Mr Marcus Jooste in respect of Investec loans.	Written correspondence to and face-to-face meetings with executive management.	Received assurances on the management of the conflicts of interest.
ABSA	Governance – concerns around group strategy following break away from Barclays, roles of executives, management of conflict of interests between ABSA and parent entity.	Discussions with management, followed by formal correspondence in H2 2019.	This remains an area of ongoing concern and engagement.
Old Mutual	Governance – general discussion around governance, concerns around board size, dual audit appointments, and a related-party transaction. Subsequent further discussions around the firing of the CEO.	Discussions with Chairman, Head of Investor relations.	Area of ongoing engagement into H2 of 2019.
Fortress	Governance – audit concerns raised under prior management.	Engagement with management at roadshow.	Area of ongoing engagement, but new management seem reticent to engage about prior management issues.

Voting

Voting is an important aspect of shareholder activism, and a means of expressing shareholder views on governance aspects such as appointments, remuneration, auditors, etc. For the first time in South Africa it also became a platform for voting on environmental policy for an entity, in the form of the shareholder resolution proposed for Standard Bank.

Our full voting records are somewhat extensive. A detailed voting report, listing all resolutions and how we voted, is available to clients quarterly, and is published on our website. For ease of reference though, a summary of our voting activities is shown below.

Proxy Voting summary	1 Jan 2019 - 30 Jun 2019
Number of resolutions	958
Number of resolutions voted for	872
Number of resolutions voted against	84
Number of intentional abstentions	2

Conclusion

Prudential South Africa is proud to be active shareholders and stewards since our inception 25 years ago. We remain of the firm conviction that correctly understanding and incorporating ESG issues into our investment process, whether this being quantified at the modelling stage, or accounted for in the investment voting or construction processes, has added value to for our clients.

For over a decade we have also catered for clients who wish to not only have ESG and shareholder activism embedded into our investment process, but also desire a specific socially conscious overlay or screen on their segregated portfolio.

It is our hope that this report gives some flavour of the nature of our process and our engagements. Given the sensitivity of some engagements, not all engagements have been reflected in this report.

Should you have any questions about the contents of our report or our ESG process, you are invited to engage with your Client Services or Institutional Business Representative.