Perpetua Investment Managers

ESG Policy

2020

Contents

1. Introduction

As part of innate responsible investing focus and investment identity, we incorporate Environmental, Social & Governance (ESG) factors in all our funds to fulfil our stewardship responsibilities. To us, stewardship reflects our commitment to be accountable to the beneficial owners whose money we invest, as well as to use our power as shareholders to foster sustainable, long-term value creation.

Perpetua Investment Managers is a signatory of PRI, and a supporter of UNEP FI and The Generation Foundation's statement on investor obligations and duties. This statement indicates:

We believe that investors and other organisations in the investment system must:

- Act with due care, skill and diligence, in line with professional norms and standards of behaviour.
- Act in good faith in the interests of their beneficiaries and clients, including avoiding conflicts of interest, or where such conflicts are unavoidable, to balance and disclose such conflicts.
- Take account of environmental, social and governance (ESG) issues, in their investment processes and decision-making, encourage high standards of ESG performance in the companies or other entities in which they are invested, and support the stability and resilience of the financial system.

As long-term investors who act as stewards over our clients' savings, at Perpetua Investment Managers we believe therefore that we have a fiduciary duty to understand the impact that ESG factors may have on a company's long-term sustainability and enduring viability.

2. Our understanding of ESG

Our responsibility as an investment manager is to ensure that as investors we take into account long-term risks in our pursuit of managing and growing capital. At the same time we must foster positive impact and encourage sustainable behaviours in companies in which we invest. It is in this vein we approach the consideration of ESG in our investee companies.

When considering ESG factors in the investment process, we do not seek to take a purely moral stance, but rather look to assess the investment holistically and constructively. In this way we will ensure we have greater exposure to companies that create value and/or avoid undue risks by respecting their responsibility to their stakeholders. This responsibility comes about because of the impact of the company's operations on those stakeholders, and it is only by reducing or mitigating any negative impact that they can both reduce costs and reduce potential reputational damage. In our experience, there are certain environmental, social and governance risk factors that are critical to a company's continuing success.

3. Responsibility for ESG analysis and integration

We believe that ESG analysis should form an integral but also clearly distinguished part of each analysts' fundamental analysis process. We do not have a specific committee whose sole role is to focus on ESG issues. The Perpetua investment team works as a combination of individual and collective decision-making. We have a combination of Clusters and Groups. Typically a cluster has a focused purpose and includes a sub-set of the investment team while a group includes most of the investment team.

The reason we don't have a standalone ESG committee is that we believe in an integrated investment team approach whereby an analyst covering an instrument should be acutely aware of the actual/potential ESG issues of the company they are recommending as a potential investment opportunity. Only through this process can an analyst provide a holistic assessment of a company's risks, and this we view as key in achieving sustainable long-term results.

To ensure we also remain abreast of any development in ESG areas or broader Responsible Investing ("RI") matters, we have isolated accountability to one of our analysts in this regard. She has specific responsibility for dealing with all RI matters to ensure the team is kept apprised of the key RI developments in the industry; bring to our specific attention any matters (specifically contentious ones) relating to RI aspects across the companies within our investment universe (both domestic and global). In addition, she is also specifically responsible for attending RI related conferences and workshops. She reports to the Head of Research and Chief Investment Officer. Together the three individuals form Perpetua's RI Task Team investment representatives who would drive all process refinements; standardization and implementation within the investment process.

The ESG rating assessment is presented as a compulsory inclusion of the Research Group Report for both equities and fixed income instruments which is a critical tool in the approval process at Perpetua. The Research Group report is discussed, debated and voted on in a formal Research Group meeting where the ESG rating is also interrogated and affirmed or revisited should this be deemed necessary. All fundamental Research Group reports must explicitly include an ESG section (which includes pre-determined scorecard and points to address). If need be, an analyst/portfolio manager may also need to engage company management on certain ESG matters, and where there are material issues/concerns, an analyst/portfolio manager may recommend we do not invest in a share on ESG grounds. The Research Group comprises investment team members who are close to an investment and those who are somewhat more removed – this enables the right balance of objectivity with knowledge to be applied.

4. Integration of ESG into our Equity Investment Approach

To bring about our ESG approach, we have developed an internal risk rating process that is a compulsory element of our fundamental research process. ESG factors form part of our risk rating criteria. We believe that ESG analysis should form an integral but also clearly distinguished part of each analysts' fundamental analysis process in respect of the investment under consideration. The sustainability issues relating to a company are therefore embedded into the decision making related to that company and/or industry.

As part of the ESG analysis and assessment of each investment, we have devised a standalone ESG rating process. This process is completed by the analyst as part of the formal assessment of an investment and requires the analyst to individually rate the ESG factors based on pre-stipulated criteria.

When considering ESG factors in the investment process, we do not seek to take a moral stance, but rather look to have greater exposure to companies that create value and/or avoid undue risks by respecting their responsibility to all their stakeholders. We differentiate between ESG issues that have been priced by regulators (such as the carbon tax) and those that have not yet been priced. Those that have been priced we use in our valuation of the company since we have an idea of how it will impact the company's earnings.

Those that are not yet priced are incorporated into our ESG rating for a company, which impacts the maximum we can hold in a share. Our assessment of ESG risk is based on our proprietary ESG scorecard and the assessment is integrated within the research process. This scorecard is completed for every company/asset we consider for investment and an ESG score must be determined prior to investment. The ESG scorecard is based on specific metrics, and not a thematic overlay. In our experience, there are certain environmental, social and governance factors that are critical to a company's continuing success.

We do not currently perform negative or exclusionary screens based on industries or themes in our domestic portfolios. We do however, run exclusionary screens on a Governance basis with instruments/ entities/ companies which fail to meet a minimum Governance score being vetoed for investment. This entity can be subsequently "rehabilitated" should there be clear improvement in Governance weaknesses initially identified resulting in an improved score, approved by the Research Group.

4.1 Environmental Responsibility

When it comes to a company's environmental responsibility, we expect that they will comply with all environmental laws and regulations; manage their vulnerability to climate change and scarcity of natural resources; and, above all, take steps to reduce the negative impacts of their operations on the environment. Those that effectively manage their environmental risk are working to reduce the potential risks to their business, as well as looking to support potential opportunities that come from the global shift towards transitioning to a lower carbon future. Companies can be powerful forces for positive change, particularly given the increasing urgency of environmental risks and the large impact those can have on a company's operations.

4.2 Climate Change

Perpetua recognizes and acknowledges that climate change is a significant long-term risk factor in the world at large, in countries, companies and there investing. It is imperative that as investors who pursue capital preservation as a key investment objective that we are aware of the pervasive effects of climate change and understand how to incorporate them into our decision-making. As we do this we believe we need to be both intentional and considered in our approach. We recognize that while we unequivocally support the global transition to a low-carbon economy and an environmentally aware and sustainable future, we also need to understand the intricate impacts that this transition will undoubtedly bring. This includes assessing the socio-economic and environmental factors that might be applicable to a specific context including the impact on communities, employment and growth.

In our assessment of climate change effects we therefore seek to do *inter alia* the following:

- **Carbon footprint:** understand the carbon footprint of investee companies and the direction for reduction. As part of our move to a metric drive "E" assessment we will also seek to measure the CO^2 footprint of our investment portfolio. We will look to include this is direct client reporting as well as our annual Stewardship and Active Ownership report, the first one due for release to cover the 2020 calendar year (components of the report will be for existing clients only and the rest will be made public on our website).
- **Investee company policy:** ensure investee companies have a clear climate change policy; which includes a plan for how the company plans to sustain its existence in a low carbon world. We will also look to encourage investee companies to disclose their environmental impact as part of the CDP (formerly the Carbon Disclosure Project).
- **Positive support:** in portfolios which permit, we will look to invest in companies that engage in transformative operations in renewable energy, water sanitation and sustainable cities, where such companies are expected to deliver required risk-adjusted returns

4.3 Social Responsibility

We expect companies to manage their treatment of their employees, customers and the broader community in which they operate.

- **Employees**: the more a company respects their employees' rights and manages the impact the work environment has on them, the more committed and productive their employees will be. In considering how well a company manages their human capital, we look at how well they manage various human resource processes such as: recruitment, development and retention of employees; health and safety; diversity and lack of discrimination; collective bargaining and unions; benefits paid to employees and minimum wage.
- **Customers:** fair treatment of customers should be at the heart of every business model, because without your customers you have no business. There are a number of aspects of treating customers fairly that we consider, including: product safety and quality; privacy and data security; responsible marketing and fair disclosure; and access and affordability.
- **Community:** a company that manages their community impact well will avoid negative scrutiny from the media, NGOs, regulators and government.

4.4 Governance

We believe that sound corporate governance should achieve three key objectives:

- **Accountability:** There must be structures and processes in place to hold those entrusted with running a company's business accountable for their actions. Management of a company must be accountable to its Board of Directors. The Board, in turn, must be accountable to shareholders, who are the company's owners.
- **Alignment of management and shareholder interests:** The interests of a company's management and Board of Directors should be aligned with the interests of the company's shareholders. This means, for example, that salary and equity-based forms of compensation paid to management should be designed to reward management for creating long term value for the shareholders of the company. Management should also be rewarded primarily for metrics over which they exercise some control.
- **Effective disclosure:** The third objective is to promote timely disclosure of important information about a company's business operations and financial performance. This is intended to enable individual and institutional investors to make informed decisions on when to buy, sell or hold a company's shares.

Based on our experience and learnings, companies that manage their governance risks well/poorly tend to manage their environmental and social risks well/poorly too. Because of that, a share would become automatically excluded from all client portfolios if the governance score is poor and will be added to an exclusion list. It can only be taken off that exclusion list if the analyst can show that there has been a material improvement in the factors that led to it being on the list in the first place.

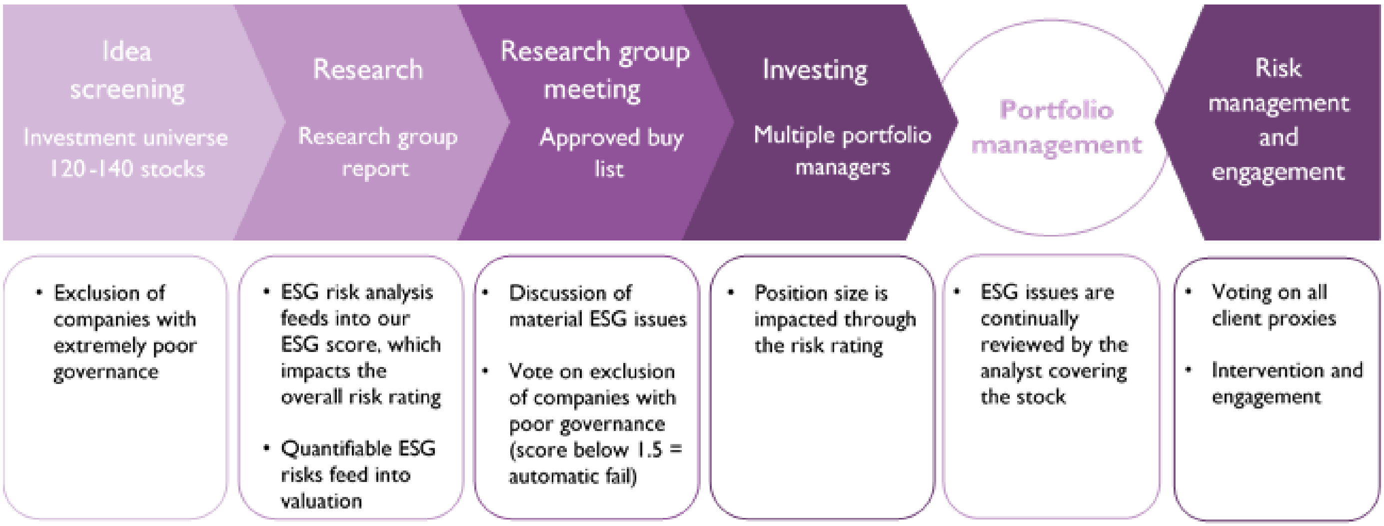
5. Integration of ESG into our Fixed Income Investment Approach

We view ESG as an integral part of our approach to both pricing and evaluating credit risk. ESG risks that are highlighted for fixed income instruments of listed entities will mirror the listed equity analyst's view. For all entities that do not have listed equities, the following process describes the approach we would adopt:

- There is an automatic fail with respect to Governance, consistent with our equity approach.
- In addition to the ESG factors mentioned in the equity process above, ESG factors which can influence the performance of credit bonds are considered:
    - Issuer/company specific risk: examples include regulatory compliance, social license to operate and brand reputation.
    - Sector/geographic risk: these arise from factors which affect an entire industry or region. They include regulatory and technological changes across the industry and/or the markets it has supply chain or sourcing arrangements with.
    - Multi sector/systemic risk: these factors are emerging risks that span across sectors, such as cyber-security.
    - Indirect exposure. These are factors which affect investment returns indirectly, for example resource scarcity.
- Focusing on unlisted issuers and SOE's, we would take extra care to explore the following areas:
    - Understanding the approach to whistleblowing and the whistleblowing policy;
    - Examining the politically exposed person policy with respect to procurement, lending, contracting, etc.;
    - Understanding the approach to procurement, balancing BBEE requirements against cost effectiveness and SMME development, specifically for black entrepreneurs;
    - Examining the strength of the board, performance of the board and any governance issues that may arise with respect to the members of the board;
    - Understanding specific development goals with respect to the entity's mandate and adherence to these objectives and mandates;
    - Ensuring that adequate transparency and information is provided to investors around ESG.
- Any concerns that are raised by the ESG analysis are directly discussed with the corporate and SOE issuers along with an explanation of how these factors affect investability as well as pricing of any credit invested in. ESG engagement is seen as critical and no investment is initiated without an adequate ESG assessment.

6. Active ownership and engagement

Incorporating ESG into our investment process doesn't just stop at the analysis and decision-making steps of the process. This is an ongoing process that impacts how we approach the companies we're invested in.



Proxy voting and targeted engagement with company management are powerful tools in that process, and these are tools we've used in a considered and deliberate manner.

We recognize our responsibility to make considered use of voting rights that are conferred to us by our clients and will vote in a manner that we believe is in the best interests of those clients. Resolutions are voted on once a year, so we rely on engagement with company management to enhance our ability to be an active owner.

Engagement is an integral part of both the equity and fixed income ESG processes and is actively compared to timelines and commitments provided to us as potential or current investors. We generally engage for one of three reasons:

- To seek improvement in performance and processes in order to enhance and protect the value of our investments
- To monitor developments in ESG practices, business strategy and financial performance within a company
- To enhance our analysis of a company's risks and opportunities

For more detailed information refer to our Engagement policy here.

7. Evolution of our ESG policy

Our ESG, proxy voting and engagement policies incorporate principles from the United Nations-supported Principles for Responsible Investment (UNPRI), the King Code, CRISA, as well as any client mandate restrictions and guidelines.

Given our commitment to ESG integration and growing data supporting effective implementation, we expect our approach to continue to evolve. In order to be a good steward of our clients' capital, we will:

- Report in a way that enables clients to assess whether we are fulfilling ownership responsibilities on their behalf in a manner that is loyal to the objectives of protecting and enhancing their assets
- Regularly look to industry and global best practices to see where those can be incorporated into our policies and guidelines
- Review our ESG process periodically to ensure that it reflects our own internal learnings and experiences; enabling us to fully engage with the ESG process and not make it a tick-box exercise.

In November 2019, Perpetua further entrenched our belief in the importance of ESG in the investment process by becoming a signatory to the UNPRI. Formally implementing the principles of the UNPRI was therefore a natural step for Perpetua in the evolution of our sustainable investment practices.

As a signatory to the UNPRI, we have committed to adopt and implement the following principles:

1. We will incorporate ESG issues into our investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will provide acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will report on our activities and progress towards implementing the Principles

8. Reporting

Perpetua Investment Managers discloses all relevant policies on our website and reports on our proxy voting record to clients on a quarterly basis. In addition, we publish an annual Stewardship and Active Ownership Report as an opportunity to update our clients on important matters that have arisen around our active ownership activities during the year. On an annual basis, we will also report on our progress on the principles of the UNPRI.