# Perpetua Investment Managers

## Engagement Policy

2020

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# 1. Principles of engagement

Engagement is the main process through which Perpetua Investment Managers (Pty) Ltd, ("Perpetua") aim to influence investee practices. As long-term oriented investors, it is our belief that the true benefits of engagement are best measured over appropriate time horizons and are achieved through mutual respect and transparency, key ingredients to successful interactions. Engagement is a continuous process that aims to influence investee company direction. In addition to growing shareholder value, we also engage to encourage companies to progress their businesses in line with the business principles of the United Nations Global Compact's Sustainable Development Goals.

Our engagement takes place continuously pre and post investment. We keep a record of all our engagements and report to clients. Currently we report on a request basis, but in the future, we will disclose an annual Engagement Report. We will make this report accessible on our website. In the event that our engagement is both critical to the investment case and has not yielded benefits within an acceptable time horizon, we will at that juncture consider disinvestment as the best course of action. The time horizon for this engagement is decided upfront and is dependent on several factors such as the severity of the issue, how long it would reasonably take for the company to fix the issue, and the steps already taken to rectify the situation.

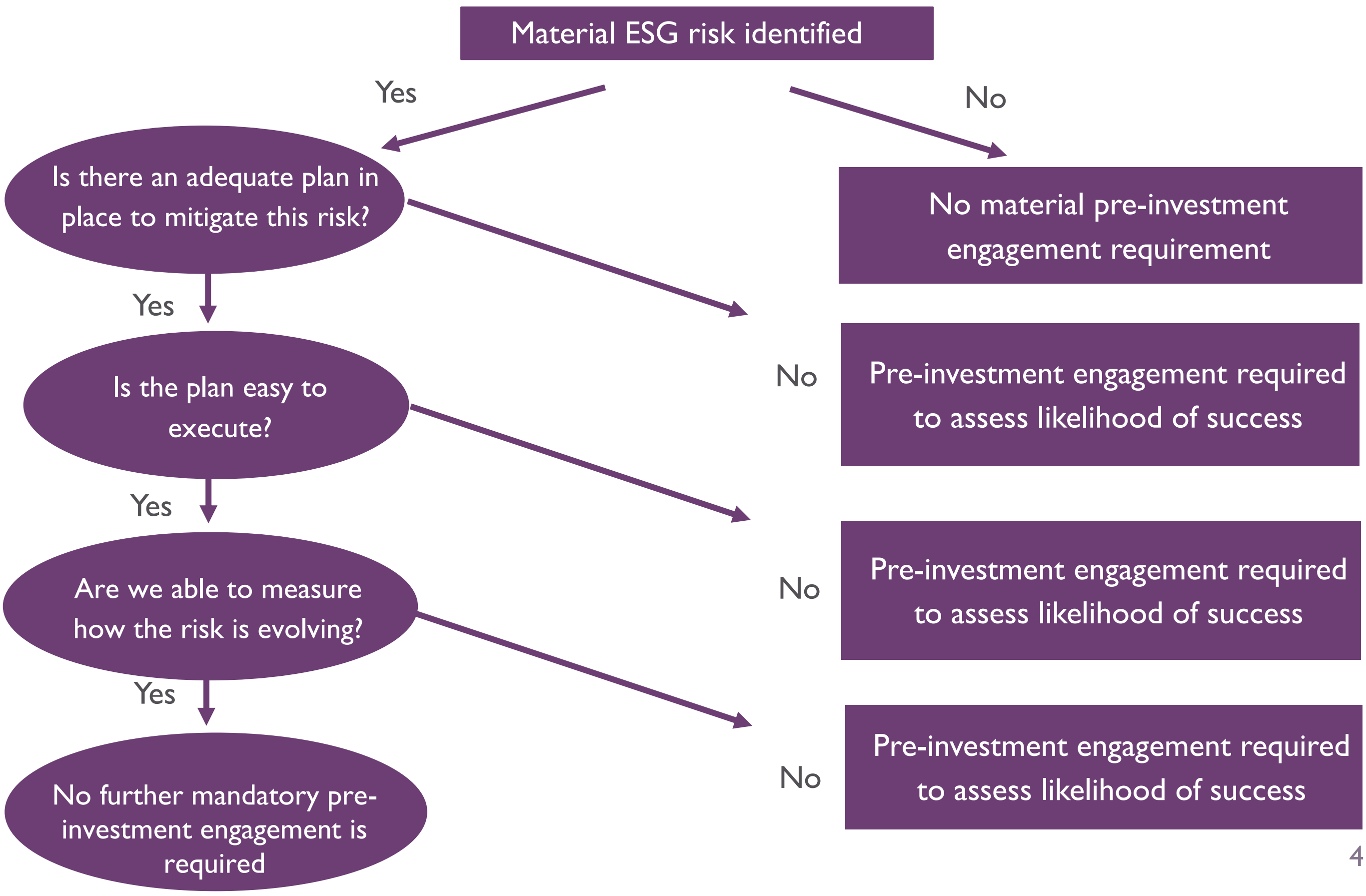
This Policy is reviewed and updated on a regular basis and at least annually. A review is also conducted when required due to changes to the principles set out in this Policy.

## 2. Pre-investment engagement

Perpetua believes in bottom up research as being a key tenet of our investment process. We believe that our rigorous process is effective in identifying matters that are material to the investment case. Key engagement priorities are identified as part of the investment team's pre- investment approval process. These may include but are not limited to the following:

- Tenure, composition and independence of an investee's board.
- Strategy (or absence thereof) to enhance shareholder value.
- Management and board succession.
- Environmental impact of the potential investee.
- Exposure to natural resource constraints that may affect sustainability of an investee.
- Alignment of management incentives to shareholder returns.
- Conflicts of interests that may be harmful to investors. This may include the presence of a material shareholder that is likely to have different expectations.
- Human capital risks and opportunities including remuneration practices.
- Community issues and potential for positive impact.

Prior to making an investment, we apply the decision tree depicted below. The decision tree is not intended to be for exclusion purposes (except in cases where companies have failed our minimum governance score). Rather the decision tree assists us in determining the critical engagement points and to assess the probability of successful engagement. In determining the critical issues, we consider the relative materiality and pervasiveness of an issue.



## 3. Post-investment Perpetua-directed engagement

Post investment we engage on:

- Factors that were either deemed material but requiring consistent action/review.
- New (or escalating) factors identified.
- Inadequate progress on previously identified plans.

We empower our analysts and portfolio managers to identify new or escalating factors that may require further engagement.

These may include the following, but are not limited to:

- Issues raised in pre-investment engagement process.
- Incentive structures that have become misaligned from shareholder interests.
- Board members that are no longer independent or are not contributing to a diverse and functioning board.
- Other priority areas that could improve the functioning of the board.
- Capital allocation decision making framework.
- Culture of accountability.
- Financial position.
- Management performance.
- Disclosure.
- Inadequate progress on previously disclosed plans.

Our investment team meets on a regular basis with the management teams of investee companies. These interactions are either Perpetua directed conference calls, electronic mail and face-to-face interactions. Prior to these interactions, we monitor disclosed KPIs and assess progress on material matters. Should we believe that inadequate action has been taken, or management are the inappropriate channel to discuss the matter, we will engage directly with the board through written letters to the relevant board subcommittee.

## 4. Post-investment collaborative engagement

Periodically a material development may require collaborative engagement with similarly minded investors and asset owners. These are typically issues of high materiality and where we believe that more of the company's shareholders are likely to be more successful as a group rather than acting individually. We engage with other large shareholders/asset owners to discuss the areas of concern, always acting in the best interests of clients and when not in violation of any laws or internal policies. Through the process we ascertain whether there is common agreement. Based on the outcome of those discussions, the next step is to identify further collaborative action that is preferred by all/majority of the parties.

## 5. Post-investment company-directed engagement

Some companies host board-directed engagements with key shareholders in order to get shareholder views on specific issues. The company will normally allocate senior board resources to this process. To date, these usually happen prior to company AGM's and/or general meetings. These forums provide a more consistent platform to engage and we are increasingly encouraging their use.

## 6. Public engagement

We engage publicly in exceptional cases. We believe that we can be more constructive by engaging on a one on one basis. However, if we have exhausted all other alternatives we re-consider engaging publicly in a disciplined and thoughtful manner.

## 7. Engagement with regulators/industry bodies

We participate in industry bodies and provide regulators with feedback and insights in order to influence the industry's direction to desired outcomes. They may include matters such as:

- Unintended outcomes of regulations.
- Widening the scope of existing regulations.
- Issuer regulation and appropriate disclosure.
- Voluntary compliance vs. mandatory compliance.

## 8. Proxy voting

We work within the parameters of Perpetua's Proxy Voting Policy as a mechanism to engage with investees, since it is an effective way of expressing views and influencing investees. Where there are material resolutions that we deem to not be in the interest of shareholders, we communicate that to either management and/or the appropriate board structures. We also monitor progress for of these matters.

## 9. Escalation strategies

Whilst we expect our engagements to be positive experiences, there may be exceptions. Our engagement policy employs the following escalation strategies:

- Engaging directly with the board.
- Using proxy voting policy to vote against or recommend new policies.
- Use our clients' proxy vote to vote/recommend voting against the re-election of board member(s) who we don't believe have acted in the shareholders' best interests.
- Collaborating with other shareholders.
- Public engagement.
- Accumulate an even larger position in the company for our clients. This could enable us to unlock value through our activist activities and give us a higher probability of success. We would do this if:
  a) The share price is sufficiently attractively priced relative to the valuation.
  b) We are able to conclude that our view is already held by more than a significant proportion of the shareholders (more than 25 %).
  c) We can do so without contravening the SRP's 'acting in concert' regulation.
- Divesting from the position. We would do this if:
  d) The issues we are concerned about will destroy shareholder value and the share price is not sufficiently attractive to warrant further activist activities.
  e) Our view is a minority one and the probability of successful engagement is low.
- Seek legal advice on further possible steps we could take, including steps that we may legally take with likeminded shareholders working within the engagement framework provided by the Code of responsible Investing in South Africa (CRISA).