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General approach of the UCT Retirement Fund's investment managers on Environmental, Social and Governance (ESG) considerations

UNIVERSITY OF CAPE TOWN

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Contents

Overview

The UCT Retirement Fund offers four investment channels (descriptions of each channel can be found in the member guide):

- Income fund (Portfolio A)
- Smoothed bonus fund (Portfolio B)
- Balanced fund (Portfolio C)
- Shari'ah fund (Portfolio D)

The underlying asset class and fund manager/s in each of the above Portfolios are:

Portfolio A

Asset class	Fund manager
Money market instruments	Prescient Investment Management

Portfolio B

Asset class	Fund manager
Smoothed bonus (multi-asset class)	Momentum (part of MMI Holdings Ltd) *

Portfolio C

Asset class	Fund manager
SA equities	ABAX Investments Allan Gray Mazi Asset Management Visio Capital Management
SA interest-bearing	Futuregrowth Asset Management Prescient Investment Management
SA listed property shares	Catalyst Fund Managers
Global equities	Orbis Investment Management
Global multi-asset class	Insurer = Sygnia Life Manager = various

Portfolio D

Asset class	Fund manager
Global multi-asset class, Shari'ah compliant	27four Investment Managers*

* The multi-managers, and not UCT Retirement Fund, choose the underlying investment managers in the portfolio.

This document provides an estimate of the breakdown of the exposure to fossil fuel, platinum and gold extractors in each of the Portfolios; and gives a brief summary of each of the underlying managers' approach to environmental, social and governance (ESG) considerations.

Summary of exposures to fossil fuel, platinum and gold extractors

The table below provides a summary of the exposure each portfolio has to fossil fuel, platinum and gold extractors as at 30 June 2020, based on information provided by the underlying investment managers.

Fossil fuel, platinum and gold extractors	% of portfolio	Rand amount (R'000)
Portfolio A	0.00%	-
Portfolio B	5.09%	78,039
Portfolio C	10.93%	374,225
Portfolio D	17.65%	28,337
Total	8.38%	480,631

Comments from the Fund's investment managers on their approach to Environmental, Social and Governance (ESG) considerations

ABAX

As custodians of our clients' capital, we are focused on the long-term growth prospects of the assets in which we invest. We endeavour to invest in businesses that exhibit robust corporate governance, quality management, sustainable business models and the potential for solid growth in earnings and dividends over an extended period. To this end, ESG matters are integrated into our investment analysis to strengthen the decision-making process, better manage risk and ensure that investments generate long-term value in an ethical manner. We view it as an integral component in the bottom-up research process and not simply a list of check boxes which need to be ticked off, after the investment decision is made.

When evaluating a company's environmental, social and governance stewardship we adopt a holistic approach which includes:

- a comprehensive evaluation of ESG performance based on a weighted scorecard approach
- consistent engagement with management on material ESG issues and
- proxy vote at all shareholder meetings, on all resolutions, on behalf of our clients

1.1. A comprehensive bottom-up evaluation of the company's ESG performance

1.1.1. Abax does not have a separate ESG analyst or a standalone ESG compliance department. It is the lead analyst that is ultimately responsible for evaluating a company's ESG performance. There will be times when the team will lean on industry experts or reference other sources of information to complement internal research.

1.1.2. As previously mentioned, we do not simply apply a "box ticking" approach and nor do we believe that a "one-size-fits-all model" is appropriate.

1.1.3. Consequently, we have found it beneficial to use a weighted scorecard methodology when measuring a company's ESG performance. While Abax outsources the collection of company data and scorecard calculation to a dedicated 3rd party, the ultimate responsibility for ESG evaluation remains with the team.

1.1.4. Each company is evaluated on 83 different metrics across the 3 themes (environmental; social and governance) and will achieve an absolute score based on disclosure and performance.

1.1.5. Over time, we have recognized that certain themes tend to be more or less relevant, depending on the company and sector in which it operates. For example, mining companies are more environmentally impactful than financial services companies. With this in mind, we have elected to weight each aspect appropriately when calculating the overall score.

1.1.6. While the outcome of this exercise will generate an absolute number (out of 100), our focus is rather on the trend of improvement (or deterioration) of that number, over time. Hence, we don't regard this as a grading exercise, where a company either passes or fails, but rather an on-going process of continuous evaluation.

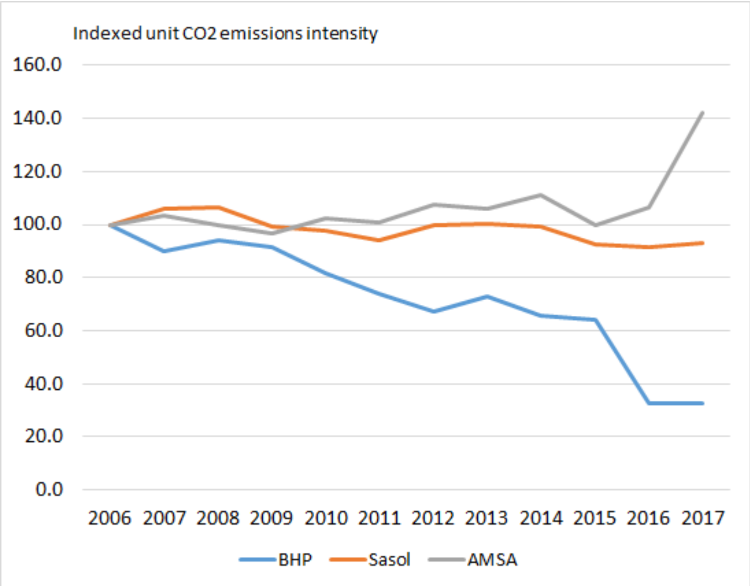
1.1.7. Below is a summary of our approach to each aspect:

A. Environmental

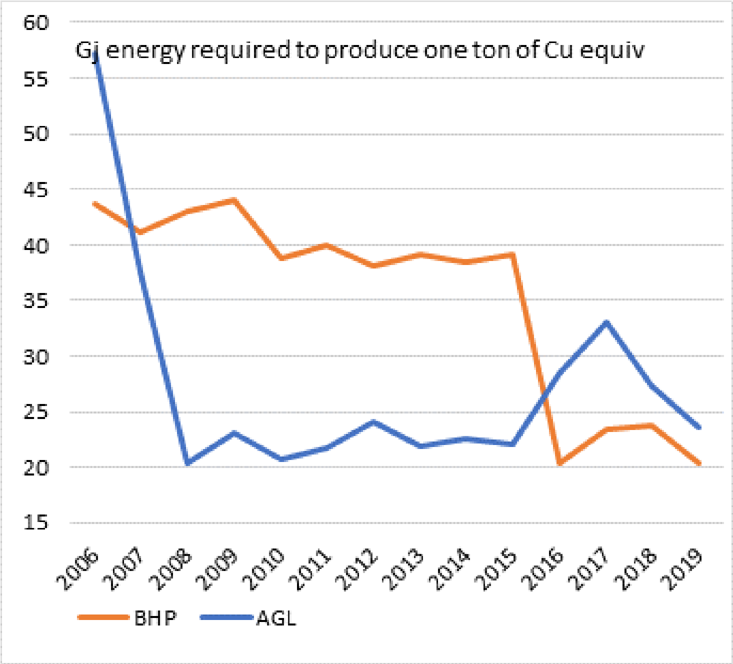
a. Our evaluation of the environmental footprint of a company involves measuring performance across 17 different metrics, with a particular focus on greenhouse gas emissions, energy usage and water usage.

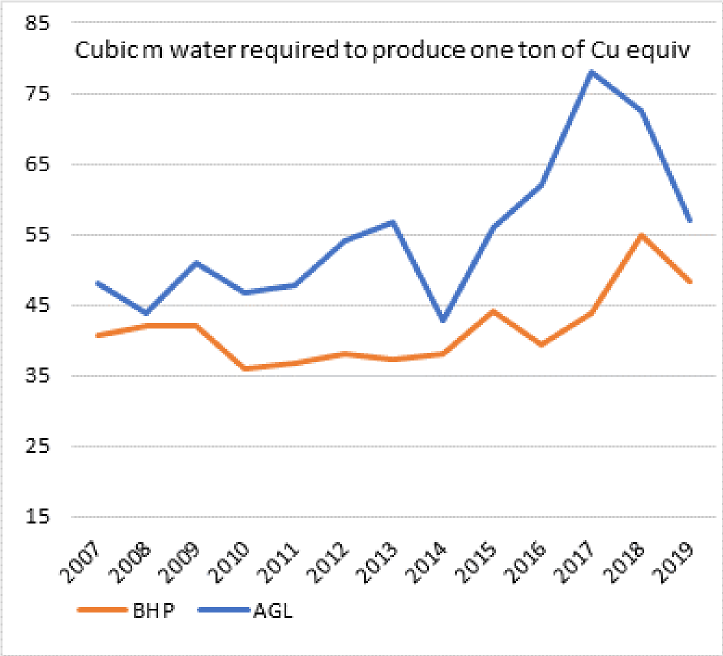
b. We recognize that environmental stewardship can be a challenge for certain companies, particularly those engaged in activities such as coal mining, oil and gas production and electricity production from fossil fuels. Consequently, we place greater importance on a company's trend of improvement (or deterioration) relative to its own history as well as peers in its sector, when evaluating performance.

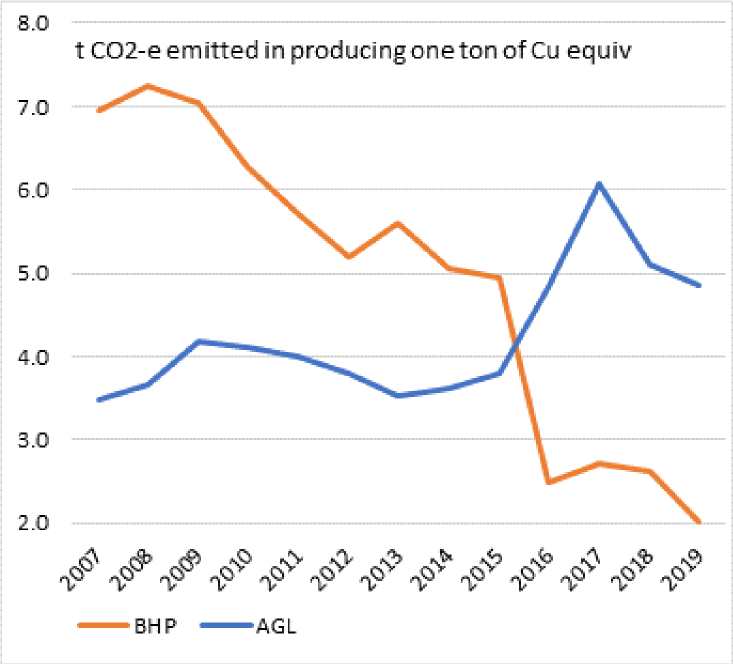
c. Example: Due to the nature of its operations, Sasol is one of the largest emitters of greenhouse gases, globally. Consequently, it measures poorly on an absolute environmental score. However, when you review the trend over the last decade it is evident that Sasol has made solid progress in lowering its unit CO2 emissions, especially relative to certain peers in the industry whose emissions have increased over this period.



See examples of the E – component of ESG below for some of the fossil fuel extractors. The reason for the increase in water consumption in the AGL graph below, as explained by management, is due to the inclusion of De Beers on a consolidated basis after the take out of minorities. It also includes the use of seawater in dredging for diamonds. This water gets returned to sea, but is included in the usage graph below.







B. Social

a. When analysing a company's social impact, we focus on 6 key components: (1) workplace health and safety, (2) workforce diversity; (3) human and labour rights; (4) human capital development, (5) product risk and (6) community investment.

b. We will often engage with management around issues like workplace fatalities and employee health (and its impact on business productivity); product quality and safety; collective bargaining and wage negotiations and transformation.

c. Example: Earlier this year, Tiger Brands' food safety practices were brought into serious question when a deadly Listeriosis outbreak was linked to their processed meat products. We were understandably shocked by the tragic loss of life (204 people died) and immediately engaged with management to assess the severity of the situation and to establish the most appropriate investment action. Immediately after, and in the months following the outbreak we held several discussions with the management team, who responded openly and thoroughly to our concerns, notwithstanding the potential legal ramifications. The company's immediate response was to shut down the affected production facilities, recall more than 4,000 tons of potentially affected product and institute an extensive deep clean of the plants and equipment. Subsequently, the company has also executed structural upgrades to their facilities, engaged international and local experts to find innovative ways to further improve food safety and are currently collaborating with the SA Department of Health to introduce stricter food safety protocols particularly as it pertains to immune deficient consumers. In that context we believed that management handled the matter adequately and we used the recent over-correction in the share price as an opportunity to increase our exposure to Tiger Brands.

C. Governance

a. Corporate governance in South Africa is largely guided by the King Codes. Over time as investor focus has increased, we have seen an improvement in companies' performance and disclosure around their governance practices.

b. We view good corporate governance as paramount to driving sustainable growth and returns and defending shareholder interests. Our scorecard evaluation considers a comprehensive list of factors covering, business ethics, ownership structure, board make-up, executive compensation, voting rights and audit independence. However, further to this we will actively engage with the non-executive management of our top 10 shareholdings on matters specifically relating to board independence and quality. Examples of these matters include: (1) the frequency of directors dialling in for board meetings; (2) over-boarding; (3) non-executive directors' practical experience in the industry; (4) cross-directorships and (5) the true independence of non-executive directors.

c. Example: Dual-class shareholding structures. In principal, Abax is firmly opposed to any form of dual-class shareholding arrangement primarily because minority shareholders are at a structural disadvantage to preferred shareholders. Dual-class structures lead to an overconcentration of power in the hands of a select few, thus disenfranchising other shareholders and amplifying the potential for conflict of interest, which the "one share, one vote" principle eliminates. Our view is that dual shareholder structures undermine the fundamental tenets of good corporate governance of board accountability to all shareholders; the development of an independent leadership structure and most importantly voting rights in proportion to shareholders' economic interest. So, in principal Abax is strongly opposed to it.

1.2. Management engagement

1.2.1. The investment team have a deep understanding of the companies in which we invest. This approach fosters long-term relationships with company management teams, many of which have lasted for more than a decade.

1.2.2. It is normal practice for us to approach both executive and non-executive management to discuss contentious issues or material ESG matters, on a one-on-one basis, wherever possible. We believe that constructive, pre-emptive engagement is a far preferable outcome for all stakeholders over formulaic voting at general meetings.

1.3. Proxy Voting

1.3.1. Abax views proxy voting as an integral part of the investment process and we always vote the shares we beneficially hold. The way we exercise our rights can strengthen corporate governance significantly.

1.3.2. All proxy voting decisions are made in-house based on collaboration between members of the investment team. We will use the team's collective depth of knowledge, to make informed voting decisions, rather than solely relying on external advisory firms or making proxy voting a rote, box-ticking exercise.

1.3.3. We will support good corporate governance by voting against board recommendations we do not perceive to be in the best interests of shareholders. Historically, these have included for example: overly generous share schemes; placing authorised but unissued shares under the control of the directors; appointment of non-executive directors with questionable track records and inappropriate executive and non-executive remuneration.

Conclusion

While there has been increased focus on ESG matters by the asset management industry over the past few years, our clients should take comfort knowing that ESG has been and remains an important aspect of the ongoing research Abax conducts into all the companies held in our client portfolios as well as those in our broader purchase universe. We are acutely aware that environmental, social and corporate governance issues have a direct impact on the companies that we may invest in and as such, can affect the performance of our investment portfolios. Through the years, as companies' disclosure around ESG matters and their commitment to sustainability has evolved, so too has the breadth and depth of our ESG research. So, whilst we consider our current approach to incorporating ESG into our investment process as sufficiently robust, we are also of the view that it is an evolutionary process which continues to be refined over time.

Allan Gray

Investment managers take different approaches to responsible investing. At Allan Gray our approach is to integrate environmental, social and governance factors (see below for examples) into our investment decision-making to better manage risk and improve returns. While our reporting on ESG matters has increased over the years, ESG factors have always been embedded in our investment philosophy and process, as we firmly believe that companies that don't operate in a sustainable and responsible manner will struggle to deliver favourable results over the long term.

In addition to ESG integration, we believe that good stewardship of our clients' capital requires truly active ownership. We think critically about how we vote on behalf of our clients at company annual general meetings (AGMs) and engage frequently and meaningfully with company boards and management on identified issues.

Our ESG research and engagement efforts prioritise companies with a material weight in our clients' portfolios, as well as smaller holdings in which our clients collectively own a material percentage of the company, meaning that our engagements and proxy voting have a greater ability to influence change.

We aim to do what is right. This does not mean taking a binary view on whether companies are 'good' or 'bad' and making related portfolio exclusions or inclusions. ESG issues are complex, with trade-offs to consider, and there is rarely one answer that satisfies everyone. In evaluating these nuanced issues, we undertake fact-based, detailed and holistic research. Given our concentrated investment universe, blanket exclusions from client portfolios would further limit the opportunity set and we do not think this is in our clients' best interests. However, where we are invested in companies that have negative environmental or social impacts, we encourage a focus on minimising harm.

Our chief investment officer (CIO) is able to veto investments by other portfolio managers in cases where he determines that the company's business practices are unethical in nature. While we continue to use the multiple portfolio manager system and view it as key to our success, we believe it is necessary to have an additional level of oversight through the CIO's ethical veto. The Allan Gray board holds the CIO to account, including for his use of (or decisions not to use) this veto.

We have been a signatory of the United Nations sponsored Principles for Responsible Investment (PRI) since 2013. For a better sense of the different approaches to responsible investing, please read "How to be a responsible investor", available via the Insights page of our website.

EXAMPLES OF ESG CONSIDERATIONS:

Environmental: greenhouse gas emissions; air pollution; water consumption and pollution; waste management; biodiversity impacts; structural shifts in consumption (such as the world moving towards a more circular economy); sector-specific risks (for example, tailings dams, acid mine drainage and environmental rehabilitation are only of relevance to mining companies).

Social: employee health and safety; transformation; pay inequality; community impact and relations; ethical customer practices (for example, terms of lending and ethical sales practices).

Governance: executive remuneration; board composition, tenure and skills; company ethics; corruption allegations; regulatory compliance; auditor independence.

Mazi

Mazi Asset Management's investment philosophy is fundamental to responsible investing, with sustainability being the key tenet that is followed. The investment philosophy is based on the follow tenets:

- Sustainability of business model - We are long-term investors and believe in only buying businesses that have a sustainable competitive advantage that is expected to last into the foreseeable future;
- Quality of management team and board of directors - Quality management is a significant driver of a shareholder value and an independent board of directors are custodians of shareholders' interests;
- Balance sheet strength and clarity of cash flows - Earnings are an opinion and cash is fact. Companies with strong balance sheets tend to be able to navigate treacherous business cycles better. They are likely to emerge in a stronger relative position once the dust settles;
- Defensiveness - An investment opportunity must offer some downside protection. Investment opportunities that offer binary outcomes are speculative and should be avoided; and
- Price relative to the long-term value - not overpaying for an asset is the first step to long term investment success. We seek to buy assets that are trading at discount to their fundamental value and where there are clear, tangible catalysts for the realisation of that value.

With regards to responsible investing, the focus is therefore the application of the investment philosophy with a specific and ongoing emphasis on sustainability. In addition to the traditional environmental, social and governance factors, there is a wider assessment of all aspects of an investment in order to identify the key driver of and risks to sustainability overall. Key aspects for assessment and consideration would typically include the following:

- ESG factors;
- Business model sustainability;
- Relationships with the value chain (suppliers, customers, regulators, competition);
- Relationships with affected stakeholders (employees, communities, government); and
- Historical track record.

The ultimate objective in the assessment of investments in this manner is to determine whether there are any sustainability factors that may completely or partially impair the viability of an investment and therefore potentially lead to a permanent loss of capital invested in that investment. The assessment of qualitative and quantitative sustainability aspects of an investment are considered in the determination of its long-term fundamental value. We incorporate these aspects into investment analysis and decision-making processes. The investment process utilises this information and computation of long-term fundamental value in order to assess the attractiveness of investments in both absolute and relative terms.

Framework for change and assessment

Mazi utilises a number of mechanisms and avenues in the assessment of sustainability of investments. These include engagement with management/board of directors, collecting information from various sources, engaging with regulators/clients/competitors/employees/suppliers, attending relevant industry forums etc. The information collected through these channels enables for the development of insight into all aspects concerning the sustainability of an investment or industry more generally.

In terms of addressing specific sustainability challenges and concerns, Mazi utilises the following framework:

- Negative screening: Mazi does not subscribe to the concept of negative screening, wherein investments are simply avoided due to operating in specific sectors (i.e. coal mining). Mazi's view is that the sustainability challenges identified will remain in place if not actively addressed and challenged by the owners of those businesses. In addition, those challenges could eventually also adversely affect even those that are not shareholders in a business – we all live on the same planet and one is unable to escape the impact of sustainability challenges simply by not investing in certain assets.

- Balanced approach: Mazi focusses on addressing sustainability challenges in a balanced manner. In this regard, attention is given to the universal impact on stakeholders when addressing specific issues. An example would be the potential impact on surrounding communities and employees were a company to suddenly shut its operations due to sustainability concerns of some sort. Whilst the action would be effective in addressing one element of sustainability, it would consequently give rise to negative social impacts such as unemployment and poverty. A favoured approach rather would be a gradual reduction of the harmful activity as well support for the vulnerable stakeholders.

- Direction of change: Mazi engages with investments and requires clear commitments with regards to addressing identified sustainability challenges. Such commitments are required to be articulated in the strategic objectives of the investment and hence ultimately fall under the responsibility of board of directors.

- Accountability & sustainability objectives: Companies are required to hold executives responsible for the addressing of sustainability challenges. In this regard, the board of directors are also required to demonstrate how failure by executive management to meet targets and objectives in this regard will directly impact on their remuneration.

Visio

ESG is an important consideration in our research and investment process. These are incorporated into our investment case and valuation where quantifiable (as in the potential for a carbon tax in South Africa). In recent years, we have expanded our risk assessment procedures by implementing RAP sheets for each company whereby we tabulate a scorecard through a series of questions that cover both quantitative and qualitative aspects of the company. This has given us an additional layer of insights into the companies we analyse.

We continue to refine the risk assessment procedure (RAP) sheets quantifying 'softer' or qualitative aspects of companies not captured through valuation models. This tool was borne out of the Steinhoff fraud but has increasingly become helpful in avoiding potential disasters (and also identifying opportunities). It has assisted us in avoiding companies such as Aspen, Resilient, EOH, Tongaat etc. in 2018/2019 to date.

For Visio Capital, we see governance as being the place we can make the biggest impact in terms of ESG. We regularly engage with management teams and boards to ensure that their and shareholder (ourselves and our clients) interests are well aligned. Examples of this type of engagement are letters sent to the following; Steinhoff letter sent to the Board early November 2017 on board composition, a letter in October 2017 to Netcare to question the merits of the UK operations in the absence of a justifiable rent review benefit, May and January correspondence to STAR (PEPKOR), a recent letter to the ABSA Board on board composition and lastly a letter to the board of Shoprite on the need for a Chairman that is seen to be entirely independent. A letter was also sent to the board of Naspers regarding disclosure and governance.

Given the way that the Visio team operates, we believe that we all need to be aware of key issues surrounding companies in our portfolio and the market. Tassin Meyer (one of our fund managers) is closest to the sustainability issues and meets with analysts and market commentators regularly on ESG topics.

The team attend ESG training on an annual basis via conference calls and presentations where relevant and applicable. The firm is a signatory to the UN PRI code for responsible investing. www.unpri.org, and we vote all proxies. Reports on our proxy voting record can be sent to clients upon request.

We currently manage mandates which exclude select companies for ESG related issues.

Orbis

Our Stewardship Responsibilities

We seek to earn the trust and confidence of our clients by providing superior long-term investment performance and outstanding client service. When we make investment decisions we always have our clients' interests at heart and aim to act with a view to the interests of the Funds we manage on behalf of our clients.

Effectively exercising our ownership responsibilities is consistent with this objective, and we aim to fulfil our stewardship responsibilities in two broad ways:

- Engaging with investee companies (actual and potential) and, if deemed appropriate, other shareholders to further the interests of our Funds as shareholders; and

- Voting at shareholder meetings.

Responsible Investing at Orbis

In seeking superior risk-adjusted returns for our clients, we aim to invest in securities of companies that trade at a significant discount to our assessment of their intrinsic value, being the price that a prudent business person would pay for the business.

We have designed our investment process to maximise the chances that we can successfully implement our fundamental, long-term and contrarian investment philosophy. Our analysts use a structured research process to eliminate unattractive ideas in the early stages so that they can concentrate their efforts on only the most promising ideas.

As part of this bottom-up research process, our analysts consider a range of factors that might affect a company's intrinsic value, which can include environmental, social and governance (ESG) issues. For example, if a company makes money in a manner that is not sustainable from an environmental or social perspective, the analyst will not gain conviction in the sustainability of its current level of profits. Similarly the consideration of governance issues is a critical part of an analyst's assessment of a company's intrinsic value.

Our analysts' research of ESG factors informs decisions not to invest in a company as much as it informs decisions to invest, although there is no ESG issue that would automatically prevent us from investing in a company unless otherwise restricted by a Fund's investment mandate. Just as there is scope for different views on the sustainability of a company's competitive advantage, there is scope for investors (and individual Orbis analysts) to have different views on ESG matters. We believe that by performing rigorous, fact-based research on ESG matters, we may from time to time form a divergent view from the consensus that may alert us to the opportunity to buy a security at a discount to its intrinsic value.

All "Phase Three" fundamental research reports that are submitted to a Policy Group Meeting – a forum for rigorous peer review – include a section on relevant ESG matters.

Orbis is a signatory to the United Nations-supported Principles for Responsible Investment.

Prescient

Prescient's approach to ESG integration is applied at three levels. The Product Development level encompasses purposefully developed investment products that are specifically focused on ESG centric investing. The Investment Process level deals with incorporation of material ESG principles into the various investment processes across asset classes. Finally, the corporate level covers the initiatives and corporate activities that Prescient as a corporation implements to address specific ESG issues.

As far as investment process, Prescient is a quantitative investment manager aiming to deliver superior risk adjusted returns for its clients over the long-term. Prescient's investment process covers all investment related principles from investment research and idea generation to security selection and portfolio construction, and finally portfolio monitoring and proxy voting. In line with the responsibility to ensure that capital flows are directed such that a balance is struck between short-term financial gain and long-term sustainability goals, Prescient incorporates ESG considerations as at each of these stages in the following way

Prescient participates actively in terms of its Proxy Voting Policy for equities. On the fixed interest side, there is no proxy voting on government or corporate bonds. However, there is room for management engagement during deal and non-deal road shows.

For equities, share prices are often driven by news flow sentiment about growth prospects rather than just fundamentals. As such, this is more likely to have an immediate impact on the ESG factors whereas bond prices are slower to adjust.

Credit analysis is focused on credit fundamentals, with the bond prices or spreads influenced by changes to expectations of future credit losses as a result of ESG factors. For Fixed Interest investments, there are potentially less direct sensitivities to ESG risks, as the creditworthiness of issuers act as buffers to the ESG risk. Therefore ESG risk may be considered significant in terms of a business risk (future profitability which will impact potential dividends and thus equity prices), but may not necessarily increase the credit risk that results in a material credit rating change nor a material impact on bond spreads or bond prices. Issuers have considerable operational and financial flexibility of adjusting to emerging ESG risks without them becoming material to credit quality.

Prescient recognises that ESG metrics may impact an issuer as an important long-term factor but is unlikely to lead to outperformance in the short-term.

Prescient's objective for integrating an ESG approach into the credit process is to, where possible, mitigate against increases in credit risk and ensure that our clients are being compensated in terms of spread for the risk being taken.

This approach is globally considered a "best-in-class" approach where discretion is given to allow investment in issuers with poor ESG only if:

a) ESG risks are well known;

b) Credit spread compensates for ESG risks; and

c) There is confidence in future improvements of the issuer's ESG factors which impact its credit risk.

ESG factors are considered separately within Prescient. ESG is implemented at two distinct levels as follows:

Issuers that have listed equity

- Prescient sources ESG data from a number of specialist third party provides, as well as utilises other ESG data related products and services from external stakeholders to assist with the Proxy Voting of issuers of fixed interest instruments that have listed equity.
- This proxy voting is undertaken by the Equity Team within Prescient, in line with best practices.

- ESG risks are taken into account within the Distance-to-default process as the market sentiment towards the materiality of ESG risks are already reflected in share prices, which may impact on credit risk.
- Prescient will not invest in an issue deemed too credit risky or if the issue is not compensating for the underlying credit risk. These risks are displayed by the Distance-to-default or ratio metrics.

Issuers that do not have listed equity

- The Fixed Interest Team incorporates a bottom up assessment of Governance factors that may materially affect the credit risk of an Issuer.
- Prescient recognises that a material lack of Governance for issuers that do not have actively traded equity, may result in increased risk.
- We assess the credit rating in line of G factors to ensure rating consummate with risk.

Catalyst

No exposure, directly or indirectly, to the fossil fuel sector.

Catalyst Fund Managers recognises that to ensure the sustainability of its business and the broader environment in which it operates, the Company has the fiduciary responsibility to incorporate sustainable responsible investment practices into the way in which it conducts its business as well as integrate such practices into its standard investment analysis.

To achieve this, we engage the management and the board of the companies in our investment universe on environmental, social and corporate governance (ESG) issues which can affect the long-term performance of these companies as well as align investors with the broader objectives of society by incorporating sustainability measures in the companies objectives.

In the formulation of the policy document, thought leaders in responsible investing were consulted to provide guidelines for our objectives. These include the United Nations Principles for Responsible Investing, the King Code of Governance Principles, CRISA and the FTSE/JSE Responsible Investment index series (SRI). Catalyst Fund Managers is voluntary adherent to the principles and recommendations as outlined by the guidelines which inform our responsible investing policy.

Futuregrowth

Futuregrowth's ESG framework integrates environmental, social and governance issues into the investment analysis and decision process with the view of mitigating overall portfolio risk.

The purpose of integrating ESG factors is to improve the analysis of all investments, promote improving standards of practice, and to assist the investment process to mitigate any ESG risks to potential or existing loans or investments.

We believe that investment processes may profitably and suitably include the analysis of ESG factors in the assessment of investments. ESG factors may be utilised on both:

- Economic grounds (e.g. well governed companies tend to be less risky; companies with sustainable environmental or labour policies will be less risky), and/or

- Social grounds (e.g. tobacco is damaging to the health and welfare of the nation; road transport is beneficial for national development).

Inevitably, ESG screening or developmental investments are subjective matters that require judgement, either Futuregrowth's (within mandates) or our clients'. We note that many RI policies are transitory (e.g. anti-apartheid, anti-nuclear) while others persevere through time (e.g. infrastructure), but in all cases judgements must be made and preferences expressed.

The application of such ESG analysis and screening is defined by our clients' expressed preferences or, where no preferences are expressed; we exercise judgement to reduce risk and raise returns and concurrently create positive social impact. At all times the fund's asset allocation or investment strategy must prevail to ensure that risk adjusted returns are achieved. Principles of sound portfolio management should not be compromised in the RI or ESG screening process.

Futuregrowth is a signatory to the UN Principles for Responsible Investment (PRI) and endorses the Code for Responsible Investment in South Africa (CRISA).

Incorporating ESG into the investment process

Futuregrowth continues to seek opportunities to incorporate ESG criteria into investment analysis and decision making processes by assessing companies against specific ESG criteria. While we invest in a range of asset classes, fixed income makes up the largest part of our investment capability. In addition, we manage several developmental funds. These developmental funds forms a subset of our responsible investment strategy and reflects the intentions of investors to do good by consciously investing to make a positive impact on the environment and broader society, with the aim of preservation for current and future stakeholders. In the South African context, developmental investing also encapsulates the social, infrastructural and developmental needs of our country with the aim of effecting change and realising risk adjusted returns for investors. Our developmental suite of funds consists of the following:

- Fixed Income (Infrastructure & Development Bond Fund, Power Debt),
- Unlisted equity (Development Equity Fund, Agri-Fund),
- Unlisted retail property (Community Property Fund), and
- Fund of funds incorporating our suite of Developmental funds as building blocks (Development Balanced Fund).

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The purpose of integrating ESG factors is to improve the analysis of all investments, promote improving standards of practice, and to assist the investment process to mitigate any ESG risks to potential or existing loans or investments.

The ESG framework seeks to achieve the following outcomes:

- Screen investments using the ESG factors as part of the due diligence process,
- Evaluate ESG risks,
- Monitor the ESG activities of companies,
- Measure how companies improve over time,
- Engage with companies when risks are identified, and
- Report to stakeholders on ESG issues in our investments in a transparent and accountable manner.

Active ownership & engagement

Futuregrowth employs active ownership practices that assist us in engaging with companies on their sustainability initiatives.

The UN PRI defines active ownership as "the use of the rights and position of ownership to influence the activity or behaviour of investees. This can be applied differently in each asset class. For listed equities it includes both engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes (e.g. fixed income), engagement may still be relevant while (proxy) voting may not.

Further still, the UN PRI defines engagement as the "interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) on ESG issues.

Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure."

This is appropriate and aligned with our objective of ensuring long-term sustainability for our clients and society. We believe in collaboration with investee companies by engaging with management to encourage companies to think about their approach to ESG issues, with the purpose of improving overall sustainability of companies.

Where possible we engage on various matters that affect the triple bottom line (King III) acknowledges that there is a move away from the single bottom line (that is, profit for shareholders) to a triple bottom line, which embraces the economic, environmental and social aspects of a company's activities, outlined below:

- File shareholder resolutions,
- Attend annual general meetings, debt-holder meetings and other relevant meetings,
- Engage in negotiating debt related terms, and
- Engage in proxy voting and lender related issues.

Listed and unlisted equity

We hold directorships through a few minority equity holdings and exercise our rights through a combination of proxy voting, active ownership and engagement. We believe in active intervention through our board representations, and management support; especially where we have unlisted equity exposure.

Futuregrowth is responsible for exercising voting authority over securities which form part of our client's portfolios. Through our proxy voting guidelines we seek to promote:

- Clients' interests: to promote the protection of our clients' interests,
- Long-term value creation: aligning the interests of management with those of shareholders and stakeholders,
- Accountability: of management to all stakeholders i.e. investors, and
- Sustainability: companies that have good corporate governance are those whose operations are financially, socially and environmentally sustainable.

The latest voting records and engagement initiatives are available upon request. Futuregrowth believes in active ownership and engagement; we express these values through various directorships and numerous committee representation.

Listed and unlisted fixed income

We stay involved throughout the term of the loan, receiving monthly management accounts and attend quarterly meetings where we have the opportunity to engage with management on an ongoing basis.

Unlisted property

We believe in active ownership and intervention through our board representation on the property holding company responsible for making the property investments.

Evaluating and monitoring

Evaluating and monitoring our engagement activities is important and we seek to achieve the following outcomes through this process:

- Monitor the ESG activities of companies,

- Measure how companies improve over time by addressing ESG issues with management,

- Disclose to our stakeholders the approach and progress of investee companies on ESG matters, and

- Report to stakeholders on ESG issues in our investments, in a transparent and accountable manner.

Within the investment community, we believe that our role is to lead by example and we invest energy to encourage others to aspire to responsible ways of doing business. By engaging and collaborating with them, we will jointly aspire to improve awareness and actions throughout the entire investment community.

Disclosure on ESG issues

Futuregrowth believes that engagement with investee companies on matters of ESG is appropriate. In general we do not believe in being prescriptive when engaging on ESG issues, instead our philosophy aims to encourage investee involvement through the adoption of ESG issues, with the aim of disclosing and reporting on these issues.

Promote acceptance and implementation of ESG

Futuregrowth promotes the principles of responsible investment practices within the investment industry through our engagement with clients, various industry representatives and government bodies on issues of RI.

- Clients: engaging and educating clients on RI, SRI and ESG developments,

- Media: active advocate for RI and ESG issues - we actively seek to promote RI in the media and all industry forums with the purpose of raising awareness,

- Industry: promotion of RI in industry issues i.e. contributing to the draft Code for Responsible Investment in S.A (CRISA).

- Government: engaging government on regulatory issues relating to responsible investment engaging government on regulatory issues relating to responsible investment policies i.e. engagement with government and the JSE on the reformation and lifting of standards and practices in the South African capital markets.

We collaborate through our involvement with various industry initiatives:

- Represented on ASISA's Responsible Investment (RI) Standing Committee, ASISA RI Prudential Assets Working Group, ASISA RI Definitions Working Group & the ASISA Fixed Interest & Money Market Standing Committees,

- Collaboration on the IFC/POA Sustainable Returns Project by promoting RI practices with asset owners,

- Board representation on CFA South Africa: we promote regular interaction and educational initiatives through CFA SA. We collaborate with CFA to host ethics workshops and talks on SRI and regularly host CFA educational presentations to CFA candidates, and

- Carbon Disclosure Project (CDP).

Momentum (part of MMI Holdings Limited)

Our purpose and vision

Our purpose is to ensure due care and diligence is taken when making responsible investment decisions.

The intent of this policy is to address the importance of taking concerns such as environmental, social and governance (ESG) risk factors into consideration that may affect the sustainable nature of an investment.

The end result of Financial Wellness remains at the core of what we do.

Our responsibility and policy review

This policy is approved by the Momentum Metropolitan Holdings executive committee and practically implemented and maintained by the relevant business areas. The executive committee will review this policy at such time as it sees fit to revise the policy.

Our position on responsible investment

We acknowledge that we are in a privileged position to act as fiduciary to our clients and stakeholders. We strive to promote Financial Wellness for our clients and our values will always remain our foundation pillars.

These values are accountability, diversity, excellence, innovation, integrity and teamwork.

Responsible investing is part of our core beliefs and sustainable and responsible investment practices are material factors underpinning our long-term success.

We consider the ESG risks of our investments to be relevant to the performance of the overall objective– across all asset classes, sectors, markets and through time.

We endorse and, where practical, practice the definition of responsible investment, adopted from the Fiduciary Duty in the 21st Century[1] report.

This is an approach to investment management that explicitly acknowledges the relevance to the investor of ESG factors and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems.

[1]. Supported by United Nations Global Compact; United Nations Environment Programme Finance Initiative; Principles for Responsible Investment Initiative; Inquiry into the Design of a Sustainable Financial System initiated by the United Nations Environment Programme.

Our fiduciary duty to stakeholders

We work to incorporate ESG factors into our investment considerations and ensure sustainability forms a cornerstone of our business principles as well as in our business dealings and undertakings. Through our responsible investment approach, we aim, as fiduciaries of clients' investments, to invest in a manner that is fair and driven by the intention to generate long-term, sustainable investment returns, while at the same time ensure we remain true to our philosophy, portfolio construction and robust investment processes.

In the preamble of Regulation 28, issued by the Minister of Finance under section 36 of the Pension Funds Act of 1956, it outlines the fiduciary's duty to "give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character.

This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment."

Long-term interests

Our investment philosophy is an outcome-based investing approach, which is to be aware of managing the clients' experience and journey to achieve a defined investment goal over a determined time period.

We realise ESG risk factors affect the sustainability of companies and, therefore, it is especially relevant to our investment decision-making process.

Implications for our investment approach

We have set goal posts to help build on our responsible investment approach. Under each goal post is a list of actions we implement and annually review to strengthen our responsible investment approach.

These goal posts are:

- ESG integration
- Active owners
- Seek disclosure
- Regulation and codes
- Advocacy
- Report progress

We believe our approach should preferably be pro-active by investigating directly or through our appointed service providers ESG risks before these escalate to be material events that may affect clients or stakeholders. Should they occur, an assertive process is adopted to manage the effect. It is our fiduciary duty to follow up on material ESG concerns and engage appropriately.

We encourage better transparency and disclosure of responsible investment practices across the investment industry. Therefore, we promote integration of this information in investment decision making to internal and external investment professionals, service providers and consultants.

Collaboration with the investment industry

Collaboration on responsible investment initiatives and encouragement of sharing ESG information within the investment industry is important to our company. We will support and participate in appropriate networks and platforms and seek to collectively address relevant emerging issues. Through our involvement with the United Nations-supported Principles for Responsible

Investment (UN PRI)[2], supporting the Code for Responsible Investing in South Africa (CRISA)[3] and being a member of the International Corporate Governance Network (ICGN)[4], we strive to encourage other investment managers, service providers, asset consultants and asset owners to do the same.

[2]. http://www.unpri.org/

[3]. http://www.iodsa.co.za/

[4]. https://www.icgn.org

United Nations-supported Principles for Responsible Investment (UN PRI)

As signatory to the UN PRI, which is an international network of investors working together to put the six Principles for Responsible Investment into practice, our goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices.

The six principles are as follows:

1. We will incorporate ESG issues into 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 promote 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 each report on our activities and progress towards implementing the Principles.

Reporting on progress

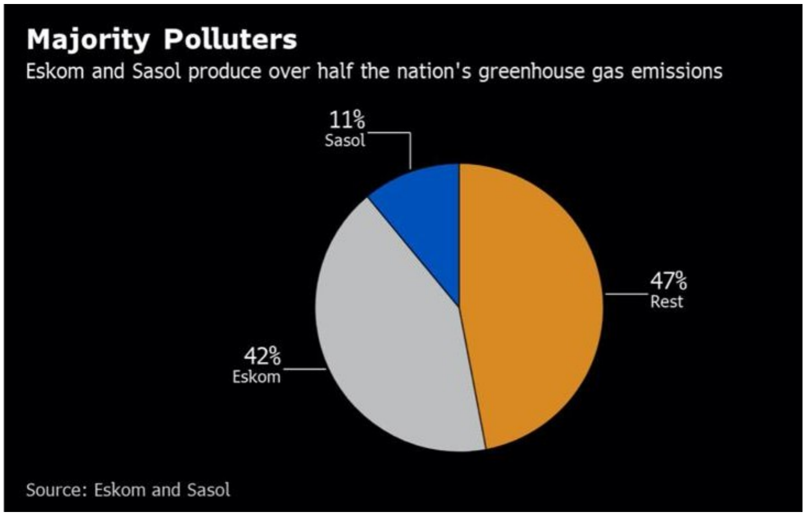
We undertake to:

- Update members on responsible investment initiatives in our annual integrated report
- Disclose our proxy voting results on our website
- Participate in the reporting requirements of the UN PRI

27four Investment Managers

As an avid supporter of ESG principles, there is ongoing research and analysis in the three facets of ESG. As a supporter of the UN Principles of Responsible Investing we commit to adopting and implementing these principles. We also commit to evaluating the effectiveness and improving the content of the principles over time. We encourage other institutions to adopt the principles.

At the forefront of our current strategy we have designated the environment factor of ESG to be an important component in our evaluation within the investment process. Environmental concerns are aligned with climate change concerns. Climate change affects the global economy the impact will most likely be on the physical risk of assets. Although all sustainable development goals are related to the consequences of climate change, the goal which stands out is Goal 13 which is focused on climate action. South Africa is the World's 15th largest emitter of greenhouse gases - this is mostly due to the country's reliance on coal.



Source: Bloomberg

Eskom:

South Africa is the seventh largest coal producer, an explanation for this is due to the power supplier Eskom. The power utility is currently in the process of producing two large coal plants: Medupi and Kusile. Both plants will supply 4.8 Gigawatts (GW) of energy each. Eskom emits 42% of greenhouse gases which is costly since the carbon tax could cost Eskom R11.5 billion. There are also governance issues which have resulted in a large amount of debt.

Sasol:

Sasol uses coal to liquid and gas to liquid technologies to produce synthetic feul. As the largest fuel supplier in South Africa, Sasol emits 11% of carbon dioxide. Although Sasol is a Paris Agreement supporter they may not be able to cap emmissions during this current year of 2020.

The benefits of pursuing a climate friendly investment process include the following:

- Research shows that climate friendly related companies deliver higher returns on investments, more stable dividends and lower costs of capital.
- The increase in engagement and shareholder activism
- The increase in sustainable companies which will operate for a long period of time
- Climate change will force investors to change asset allocation to avoid risks and invests in opportunities

Comment from underlying managers on their approach to ESG:

Kagiso's engagement

We have invested in these companies that are fossil fuel related companies as we believe they still offer significant value. Our ESG process does not negatively or positively screen companies based on their sector exposure, such as fossil fuels or negative environmental impact thereof. Rather we look to quantify the risk associated with this exposure and incorporate it in our valuations and continuously engage with the management teams on these risks. We further developed our sector specific ESG scorecards to quantify what we deem as material risk factors in a sector.

Glencore

Glencore forms 1% of the Islamic Equity Fund with an active share of 0.43%

We recently conducted in-depth on fossil fuels to better assess the investment case for fossil fuel producers and drew the following conclusions: We expect the future of energy markets to be tied to:

i. Lower cost producers successfully defending their markets and accelerating production;

ii. ii. Higher cost producers failing, resulting in asset impairments and localised stranded assets;

iii. Decarbonisation policies resulting in otherwise economically viable projects not seeing the light of day;

iv. Carbon-focussed capital allocation decisions resulting in value traps and permanent value destruction.

We believe that Glencore is well positioned as a low cost fossil fuel producer, and we have included the risk of a transition away from fossil fuels in our valuation and still find some upside form current levels. Our concerns continue around corporate governance issues, and we have engaged with them on changes to senior management as well as the board composition and oversight given multiple investigations initiated by authorities in multiple jurisdictions. The board has committed of the senior executives in the near future.

Northam Platinum and Royal Bafokeng Platinum

Northam Platinum and Royal Bafokeng Platinum produce platinum group metals (PGM) where the bulk of demand for is utilised in internal combustion engines or vehicles to treat emissions produced and therefore are a positive contributor in the battle against climate change.

For both Northam Platinum and Royal Bafokeng Platinum most recent engagements have been around COVID-19 and requirements for social distancing and impact on productivity.

We further engaged with Royal Bafokeng on executive remuneration policy that we believe is not inline with shareholder value creation and have therefore voted against it and continue to engage.

Sentio Capital's engagement

Sentio builds its ESG analysis directly into its investment process both quantitatively and qualitatively. There are three parts to their process: Qualitative, Quantitative and Active Management

1. Qualitative

   We collate the qualitative and fundamental information on ESG issues around a company. We identify flags, opportunities and points of action. We use our proprietary data to understand the timeline of each company and its ESG history. We also include external research and information related to the company Directors, the details of the Board and Remuneration policies and structures. We cross reference the Board with other Boards and information such as Board meetings attended and other sub-committee information. For example, how many Boards do each of the Directors sit on and in what industries and what the relationships are to executive management? This information informs our overall ESG Risk of the company based on both our own interactions of the company as well as external sources of information and is an input into our Quantitative Rankings. For example, on mining companies we would identify the highest risk factors such as Social and Environmental and then engage the company and industry experts around these. For retailers or banks we would engage around Social and Transformation issues

2. Quantitative

   We have a proprietary Quantitative system specifically related to ESG, which basically highlights Risk Factors by industry and company. This system uses both the Qualitative and Quantitative data and information and is an input into our fundamental bottom up analytical system that feeds into our valuation and portfolio systems. The idea is to rank companies by their specific risks to attractiveness and potential future risks. For example, we would relate Sasol to the fact that it inherently is in an industry that has elevated Environmental risks and as such we would not exclude it but rank it on its specific risks and improvement metrics. On the same basis, comparing Woolworths with Sasol would not be useful. So Woolworths would have its own risk factors and benchmarks

3. Active Management

   In this part of our process, we actively engage management teams to register our concerns around ESG and to encourage change. If this doesn't work we have two options: engage other shareholders and force change with Proxy Voting at AGM's or Exit the share if we believe there is little chance of change and if the risk will reduce the expected return significantly. For example, we engaged with the Board of Absa over a number of years to firstly register our concern about Executive Remuneration and the lack of a link to performance metrics that are measurable. We voted against the Remuneration Policy and its Execution and engaged with our peers in the asset management industry to do the same. We also engaged with the management of Lonmin prior to the Marikana incident to highlight our concern around the living conditions of miners. This was not heeded and we did not own the share as we felt this was a significant risk to the company in the medium to long term.

   We think factors such as Environmental and Social have a longer term impact and we therefore often include it in that context, although there are exceptions such as Lonmin for example. Governance issues depend on the intensity and impact and often have unknown or short and long term impacts. For example, Steinhoff and EOH. We would sometimes not invest in a company at all if we believe the risks are significant and unpredictable.

Sasol

One of the most important factors to consider from an ESG perspective when it comes to Sasol, is the greenhouse gases (GHG) that they emit at their operations. We continually engage with the management team about their plans to reduce these emissions over time. In line with this, Sasol have committed to reducing their GHG emissions by at least 10% by 2030 (off of their 2017 base). We believe that this will go a long way towards reducing the negative impact of their operations on the environment.

We have also engaged with Sasol at length about the appropriateness of the governance structures that they had in place to oversee their Lake Charles Chemicals Project. After conducting an independent Board review into the matter, various changes were made, including at a personnel level, to improve their governance structures. We are encouraged by the fact that these changes have been implemented.

Sasol has also improved their disclosure on ESG issues which helps us to track their progress.

Exxaro

One of the multiple factors worth considering from an ESG perspective with Exxaro, is the impact that their operations have on the air quality in their surrounding communities. Through our engagements with Exxaro's management team, we have been made aware of some of the measures that they are taking to mitigate against the negative impact that their operations have on the air quality. For instance, they implemented their own air quality management system that ensures that they go beyond what is required from a compliance perspective. Stricter implementation of this system should go a long way in improving the air quality of their surrounding communities.

Another important factor worth highlighting relates to the community unrest that Exxaro has had to contend with at their operations over the last few years. In 2018, this resulted in 22 days of production stoppages. In our discussions with Exxaro, we have learnt that the company has been engaging with community leaders to address their concerns. The constant engagements helped to contribute to an 80% reduction in the number of production stoppages in 2019 (vs 2018).

Old Mutual Albaraka's engagement

Our ESG engagement and social responsibility obligations in respect of the holdings in the Old Mutual Albaraka Fund need to be seen in the context of our Responsible Investment and Stewardship Policy and Climate Change Position Statement which details our commitment to engage on these issues.

Sasol

Sasol consists of a cash generative South African energy and chemicals business, a cash generative Europeanchemicals business and a 98% constructed ethane cracker chemicals plant in the US. At the spot rand oil price, the legacy operations are still cash generative. The issue is that Sasol paid for the construction of the USD13bn US ethane cracker largely with debt. The Saudi-Russia price war has put the oil price under pressure at a time when Sasol is at peak gearing (peak indebtedness) whilst its large project is just about to produce cash flows, creating a perfect storm. The share price collapsed by over 80% in less than a year by 10 March 2020. We believe that the market has efficiently priced Sasol as if the following were true:

- A sizeable highly dilutive rights issue is coming
- The spot rand oil price will prevail indefinitely

We spent more time debating Sasol than any other investment opportunity in 2019, given the risks which have now clearly materialised, and the opportunity which has yet to materialise. Whilst we did not envision the oil price war, we did run sensitivities which determined our investment case and position size. The combination of COVID-19 economic growth risk and an oil price war has created many investment opportunities, including

Sasol. Allocation of further capital in the event of a rights offer will be considered against other investment ideas. We are not sellers of Sasol at these levels. Our philosophy centres on valuation and the use of quality, growth and sentiment factors to confirm our fundamental view. We believe Sasol is mispriced. Currently it does not have a strong balance sheet, but there is a cash flow inflection point on the horizon which is tied to a discreet event, that is the completion of the US cracker. Earnings will grow as the US cracker ramps up production and the oil price normalises. Sentiment is at pessimistic levels and will improve with the oil price and project ramp-up. The risks were always near term with Sasol, while the investment opportunity to create significant value for clients is very evident on a longer-term basis.