ANNUAL STEWARDSHIP REPORT FOR THE YEAR ENDING 28 FEBRUARY 2021.

1. Foreword

Vunani Fund Managers has always had a strong sense of doing the right thing by following a sensible approach to investing. We always knew that well-managed companies that managed their social responsibilities well would have a competitive edge over less socially aware companies. Corporate culture and good leadership are essential for companies to survive and grow over time. We have a strong culture of compliance with regulation and of never sailing too close to the wind with our interpretation of laws and regulation. Our policies to prevent conflict of interest are part of our DNA. Our journey to responsible investment started even before the advent of CRISA. Responsible investment is not a destination but a journey as we learn from our mistakes and gain a better understanding of non-financial information. Knowledge and expectations evolve over time, and we believe that we will continue to improve our responsible investment processes steadily.

Understanding companies and the environment in which they operate is essential to be a successful investor and to enable broad risk management. As part of the journey, it is important to realise that as an institutional investor, we do not have the ability to manage companies and we do not have the same influence as a strategic investor or management.

Our approach is to avoid permanent capital loss of our clients' capital by the analysis of the financial and other risks our investee companies face. This will progress through time to incorporate a better understanding of company governance at investee companies/institutions. Companies have started to disclose more information in their annual reports and this information enables us to view companies through different lenses, to better analyse risk. Environmental, Social and Governance (ESG) disclosures and research have improved to such an extent that these non-financial disclosures add to our assessment of investment risk.

Various reports/initiatives like the King Code (and similar codes internationally), the United Nations Principles of Responsible Investment (UNPRI) and CRISA lead to a further improvement in our responsible investment processes. We ensure that we vote our proxies on behalf of our clients and report to them on such voting. The UNPRI, CRISA and similar codes are our guideposts in our journey to continuous improvement.

2. Responsible Investment approach

VFM accepts responsibility for ensuring that we invest and manage our clients' investments in a responsible and sustainable manner. Our duty as investment managers is to consider all relevant information and make informed decisions. Investing responsibly implies that, over and above financial analysis, we need to be aware of and value the ESG risk factors influencing each investment we consider. We are guided by the UNPRI, King IV Code of Corporate Governance, CRISA, Pension Funds Act 24 of 1956 and similar international codes to implement responsible investment. Given that CRISA is a South African code developed for South Africa, we follow and implement CRISA within our investment processes.

The UN Sustainable Development Goals (SDGs) of 2015 made it clear that the global community of countries relies heavily on the private sector to solve some of the most urgent problems the world is facing. The UNPRI advocates that investors contribute to the achievement of SDGs through their investments. ESG analysis and engagement with investee companies/institutions can contribute to South Africa reaching its Sustainable Development Goals.

We view our fiduciary responsibilities towards our clients very seriously and believe our first responsibility is the analysis of all risks pertaining to any investment instrument in which we invest on behalf of our clients. We also believe that we need to take calculated risks to generate adequate returns for our clients. Non-financial risks are part of any risk assessment of any instrument considered for investment. We do not believe that it is possible to completely eliminate ESG risk from our clients' portfolios but rather that we should manage these risks in a responsible manner. The South African economy and society is a product of its history and structure. As a result, we have a carbon and water intensive economy that is not necessarily sustainable in the long term. The structure of our society also has its roots in history and, as a result, investors need to be aware of legacy risks companies face. Companies need to manage these risks for the benefit of all stakeholders. Our approach to ESG is to analyse ESG risk and engage companies to manage these risks.

We integrate ESG into our analysis and we believe that a portfolio approach to ESG risk is necessary to ensure our client portfolios are managed taking ESG risk into account.

3. CRISA Implementation

3.1. ESG integration in investment decisions

We adopt a cautious approach if our analysis indicates material unquantifiable risks. The steps we follow to incorporate ESG into our investment process are as follows:

- Use company integrated reports and other data service providers (Bloomberg and Peresec or any other reliable data provider) to identify ESG risks and reporting scores.
- Analyse the identified ESG risks.
- Evaluate investments incorporating scenario analysis, considering different ESG risks and opportunities.
- ESG risks are managed on a portfolio level to diversify risk.
- Adjust discount rates, multiples and cashflows to cater for ESG risk.

3.2. Active shareholders

We accept our ownership responsibilities as investment managers by voting in person or in proxy at all investee company meetings. Our voting policy guides us to voting consistently across companies, but we accept that effective governance is more than just voting according to a policy. We do not follow a tick box approach to governance but consider each case on its own merit. (Please refer to our Proxy voting policy)

Summary of proxy voting record for the period 1 March 2020 to 28 February 2021

Proxy voting summary for yearend Feb 2021

Description	
Total number of companies voted on	134
Total number of resolutions	2889
Total number of resolutions voted For	2341
Total number of resolutions voted Against	544
Total number of resolutions voted Abstained	4
Total number of resolutions passed	2497
Most voted for resolution (besides directors, auditors)	Directors' authority to implement ordinary and special resolutions
Most voted against resolution (besides directors, auditors)	General authority to issue shares

Important resolutions that we voted against:

- Changes to the capital structure of companies (share issuance and share buy backs) are a contentious issue. We are very concerned when companies want to be empowered to buy back shares and issue shares. Highly leveraged companies sometimes even want permission to do buy backs without any regard for their precariously geared balance sheets. Companies with large controlling shareholders should not do buy backs unless this is done on a ratio proportional to the large shareholder. Large controlling shareholders have better access to information, and this prejudices minorities.
- Vunani Fund Managers generally vote against the reappointment of auditors due to very long-standing appointments. The independence of auditors is a vital control mechanism that can help ensure better reporting and disclosure by companies.
- The remuneration of executives is very complex, and it is difficult task to properly align the interests of management with those of shareholders. We generally vote against remuneration policies and reports where the management incentives are not aligned with shareholders and when incentives paid do not reflect the company's performance.
- During the year we also paid more attention to minimum shareholder requirements, malice and claw back policies as an important part of executive remuneration. Weak disclosure of performance targets or benchmarks remains problematic in some remuneration reports.
- We generally do not abstain from voting on resolutions, but we do occasionally abstain when a resolution is not applicable (a director resigns but is still on the annual general meeting, up for re-election).

We engage, where appropriate, with the directorate and management of companies/institutions in which we are invested, to address our concerns. Our engagement process involves:

- identification of serious ESG risks.
- analysis of those ESG risks.
- engaging management through a normal/scheduled meeting.
- writing a formal letter to management if the issue is not addressed through a normal meeting.
- writing a letter (if the above has failed to deliver results) to the Chairman of the Board, Board or Chairman of the Sub-committee that needs to address the issue.

We engaged with 10 companies on ESG issues during the 12 months from 1 March 2020 to 28 February 2021. The main engagement topics were:

Governance

- Remuneration – performance indicators and targets.
- Rotation of Auditors.
- Director tenure and independence.
- Disclosure of ESG targets.

Social

- Community relations within mining communities.
- Labour relationships.
- Relationship with regulators (mining, telcos).

Environment

- Mining rehabilitation liabilities and funding.
- Carbon emission targets.
- Water use and water impacts.
- Air quality.

3.3. Collaboration

While we do not believe we can manage companies better than the directors or management, we can identify some risks, concerns, and weaknesses in companies. If we cannot resolve concerns regarding an investment after engaging with companies, we may collaborate with other shareholders to raise our joint concerns. We will consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors. We follow the UNPRI Collaborative engagement guidelines when we need to collaborate with other investors.

An example of recent and ongoing engagement and collaboration:

The Land and Agricultural Bank of South Africa (LB) experienced an Event of Default (EoD) in April 2020, when it failed to make a full and on-time interest payment to a particular DFI. This immediately triggered a cross-default. Despite Vunani Fund Managers holding only modest exposure to LB at any one portfolio level or in aggregate, our fiduciary and ESG obligations led to our Head of Fixed Interest to join a noteholders committee coordinated by ASISA and to actively participate in that committee. As a matter of pragmatism, it made sense for us to collaborate with other domestic noteholders in this case. Only one holder of domestic notes broke rank; all others have pursued a common goal. It is our view that domestic noteholders have been treated disdainfully and unfairly, and that INSOL protocols have not been respected. It is therefore incumbent upon us to maintain our participation on the committee until a satisfactory resolution has been reached.

3.4. Management of conflict of interest

We bear responsibility to our clients for recognising the circumstances and relationships that hold potential for conflicts of interest and to proactively manage these when they occur. VFM is fully committed to:

- complying with all applicable laws and promoting international best practice, including those laws and international best practice standards intended to prevent extortion, bribery, and financial crime.
- exhibiting honesty, integrity, fairness and respect in all our business dealings.
- dealing with regulators in an open and co-operative manner.
- prohibiting all employees from making or receiving gifts of substance during the course of business.
- prohibiting contributions to political parties or political candidates,
- prohibiting the making of payments as improper inducement to confer preferential treatment.

3.5. Reporting and disclosure of actions

We maintain records and a summary of our actions on our website and report to our clients on the following:

- our assessment of ESG risks and how we incorporate ESG risks into our investment process.
- our voting records and reasoning for voting in a particular way.
- our engagements with company management.
- our Investment/ESG/conflict of interest policies and efforts in achieving Responsible Investment targets.
- our collaboration efforts with other shareholders or bondholders.

4. Governance of Responsible Investment

We assign the following responsibilities:

Approval of RI policies	Key Individuals of Vunani Fund Managers
Incorporating RI into investment decisions	CIO in conjunction with Investment Team
Voting on company resolutions	Investment team
Engagement with companies	CIO and Investment Team
Collaborative engagement	CEO, CIO and Portfolio Managers
Management of conflicts	Compliance
Record-keeping and reporting	CIO and Investment Team
Promoting ESG/RI	Investment Team
Reporting on ESG/RI	CIO and Investment Team

5. Future actions and commitments

Vunani Fund Managers aim to join the UNPRI during our next financial year.