VUNANI FUND MANAGERS

Annual stewardship report for the year ending 28 February 2022

1. Foreword

The Covid 19 epidemic brought with it a stark realisation of the delicate balance between nature and human activity. Over the past 120 years the world has witnessed a devastation of our natural environment at an ever-accelerating speed. Some forecasters even expect an acceleration of climate change over the next decades. As investors we need to be aware of the impact of human activity on our environment and the climate.

Vunani Fund Managers (VFM) has always had a strong sense of doing the right thing by following a sensible approach to investing. We recognise that well-managed companies which acknowledge and fulfill their social responsibilities have a competitive edge over less socially-aware businesses. Corporate culture and good leadership are essential for companies and institutions to survive and grow over time. We have a strong culture of regulatory compliance and of prudent, conservative interpretation of laws and regulations. Our policies to avoid potential conflicts of interest are part of our DNA. Responsible investment is not a destination but a journey, and our journey began well before the advent of the Code for Responsible Investing in South Africa(CRISA). Knowledge and expectations evolve over time; and we believe that we will continue to steadily improve our responsible investment processes as we learn from mistakes and successes and gain a better ability to interpret non-financial information.

Understanding companies and the environment in which they operate is essential in order to manage risk and be a successful investor. We 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 shareholder or board of directors, but we can engage with the management of such companies to change their behavior towards becoming more responsible corporate citizens.

Our intention is to protect and grow our clients' capital by analysing the financial and other risks which our investee companies face. Analysing non-financial data enables stakeholders to better assess the role which institutions and companies can play in society. Environmental, Social and Governance (ESG) disclosures will improve with the development of disclosure codes and standards such as the Task Force on Climate Disclosure (TFCD) and the Global Reporting Initiative (GRI).

Various reports and initiatives like the King Code (and similar codes internationally), the United Nations Principles of Responsible Investment (UNPRI) and CRISA have further improved our responsible investment processes. We ensure that we use our proxy votes on behalf of our clients and report to them on such voting. The UNPRI, CRISA and similar codes are guideposts in our journey of continuous improvement. Responsible investment practices have evolved from merely being an active shareholder/stakeholder to being a responsible and ethical steward of the funds entrusted to us by our clients.

2. Responsible Investment approach

VFM undertakes to invest and manage our clients' funds in a responsible and sustainable manner. Our duty as investment managers is to consider all relevant information and make informed decisions. Investing responsibly requires 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 practices. Given that CRISA is a code developed specifically 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 make a significant contribution towards South Africa reaching its Sustainable Development Goals.

We view our fiduciary responsibilities towards our clients very seriously and analyse all risks pertaining to any investment instrument in which we may invest on behalf of our clients. The need to take calculated risks to generate adequate returns for our clients does not absolve us from our stewardship role in managing investments in a responsible manner. However, the elimination of all ESG risks from our clients' portfolios is not possible; and divestment from risky investments sometimes does not solve the problem but merely transfers it to other less responsible owners. The South African economy and society is a product of its history and structure. For example, 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 the legacy risks which companies face. Companies need to manage these risks for the benefit of all stakeholders. Our approach is to have a deep understanding of the risks and engage companies and institutions to understand how they will transition to a better future.

We integrate ESG into our analysis and ensure that 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;
- Engage management on ESG issues;
- Analyse the identified ESG risks;
- Evaluate investments incorporating scenario analysis, considering different ESG risks and opportunities;
- Manage ESG risks on a portfolio level to diversify risk;
- Adjust discount rates, multiples, cashflows, bond yield spreads etc. to cater for ESG risk.

3.2. Active shareholders

We accept our ownership responsibilities as investment managers **by voting** in person or by proxy at all investee company meetings. Our voting policy guides us to vote consistently across companies, but we accept that effective governance requires 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 2021 to 28 February 2022

Proxy voting summary for yearend Feb 2022

Description	
Total number of companies voted on	163
Total number of resolutions	2803
Total number of resolutions voted in favour	2303
Total number of resolutions voted Against	500
Total number of resolutions voted abstained	0
Total number of resolutions Approved	2767
Total number of resolutions Not Approved or Withdrawn	36
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 issuances and buy backs) are often a contentious issue. We are concerned when companies want to be empowered to both buy back 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 engage in buy backs unless this is done proportionally to the majority shareholders. Large controlling shareholders have better access to information, which prejudices minorities.
- VFM generally voted against the reappointment of auditors with very lengthy tenures. 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 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.
- We generally do not abstain from voting on resolutions, but we do occasionally abstain when a resolution is not applicable (for example, when a director resigns but is still part of the annual general meeting, up for re-election).
- We **engage** to address our concerns**,** where appropriate, with the directorate and management of companies/institutions in which we are invested. 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 or the Board or Chairman of the Sub-committee that needs to address the issue.

We engaged with 19 companies on ESG issues during the 12 months from 1 March 2021 to 28 February 2022. The main engagement topics were:

Governance

- Remuneration – performance indicators and targets
- Rotation of Auditors
- Director tenure and independence
- Disclosure of ESG targets
- Inadequate investor relations, usually in the case of bond issuers

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 their directors or management, we have a responsibility to identify risks, concerns, and weaknesses. If we cannot resolve concerns regarding an investment after engaging with the companies' management, 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.

Examples of recent and ongoing engagement and collaboration:

The Land Bank experienced an Event of Default (EoD) in April 2020, when it failed to make a full and on-time interest payment to a particular Development Finance Institution. This immediately triggered a cross-default. Although VFM has only modest exposure to Land Bank at both individual portfolio level and in aggregate, our fiduciary and ESG obligations led to our Head of Fixed Interest joining and actively participating in a noteholders committee coordinated by ASISA. It was pragmatic 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. Since our engagement began, domestic holders of Land Bank debt have received back some 42% of the value of their investments at the time of the default.

We declined to invest in a new bond issued by a large bank after deciding that the bank had set itself very easily attainable ESG goals and had simply compartmentalised its existing loan book to enhance the social aspect of these loans. In addition, the proposed coupon step-up in the event of not achieving some stated goals was barely punitive.

Naspers and Prosus announced a voluntary exchange of Naspers shares for Prosus shares. Our view was that the proposed transaction would increase the complexities of the company structure and we had reservations regarding the impact on the discounts between the different companies and their underlying investments. VFM collaborated with other asset managers and wrote a letter to the Naspers and Prosus boards to voice our concerns regarding the proposed transaction. Notwithstanding the letter from 35 asset managers, the Boards of Directors of Naspers and Prosus went ahead with the transactions after securing shareholders' approval, with the controlling shareholder voting in favour of the transaction.

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 for proactively managing 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 in 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 (RI)

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 joined the UNPRI during the financial year ended February 2022, as planned. Our plan for the current financial year is to improve our record keeping and reporting system to enable us to report to the UNPRI on our responsible investment progress.

VUNANI

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Disclaimer

Vunani Fund Managers (Pty) Ltd claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Vunani Fund Managers (Pty) Ltd has been independently verified for the periods 1 January 2005 to 31 December 2020. The verification report is available on request.

Verification assesses whether (1) the has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firms' policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation