

VUNANI

FUND MANAGERS

Annual stewardship
report for the year ending
28 February 2023



1. Foreword

Events such as Covid 19, KwaZulu-Natal floods and natural disasters across the globe 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 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. Scientist are warning that we are running out of time to limit global warming to 1.5 degrees Celsius.

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 capacity 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 behaviour 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. The International Sustainability Standards Board (ISSB) is finalising general requirements for entities to disclose sustainability-related financial information. The ISSB as part of the IFRS Foundation will be able to create verifiable rules for reporting on sustainability indicators. We expect that once these rules of reporting are adopted by companies and institutions around the world comparisons will become clearer.

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 2022 to 28 February 2023:

| Description | |
|---|--|
| Total number of companies voted on | 173 |
| Total number of resolutions | 2805 |
| Total number of resolutions voted in Favour | 2247 |
| Total number of resolutions voted Against | 557 |
| Total number of resolutions voted Abstained | 1 |
| Total number of resolutions Approved | 2730 |
| Total number of resolutions Not Approved or Withdrawn | 71 |
| Total number of results Postponed | 4 |
| 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 true 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 62 companies on Financial, ESG and other issues during the 12 months from 1 March 2022 to 28 February 2023:

| Sector | Number of Meetings | Environmental Matters | Social Matters | Governmental Matters |
|------------------------|--------------------|-----------------------|----------------|----------------------|
| Banks | 15 | 3 | 3 | 6 |
| Consumer Discretionary | 8 | 1 | 2 | 4 |
| Consumer Staples | 6 | 0 | 0 | 5 |
| Financial Services | 40 | 12 | 12 | 20 |
| Healthcare | 1 | 1 | 0 | 0 |
| Industrials | 3 | 1 | 1 | 2 |
| Infrastructure | 3 | 2 | 3 | 3 |
| Mining | 12 | 7 | 7 | 5 |
| Municipalities | 5 | 4 | 4 | 5 |
| Real Estate | 0 | 0 | 0 | 0 |
| Resources | 6 | 3 | 1 | 2 |
| Telecommunications | 6 | 2 | 2 | 4 |
| Total | 105 | 36 | 35 | 56 |

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:

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 and in a lenders' forum that has appointed PwC as its consultant. Note that VFM, and not our clients, is paying our share of PwC's fees. At the time of writing, it was unclear whether these fees will be recoverable upon the resolution of the Land Bank default. 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. In addition, all outstanding interest has been recovered.

On 8 February 2021 we engaged the Board of directors of Spar on the composition of the board. The concerns we expressed were the position of the previous CEO (Graham O'Conner) as chairman of the board and his membership on the remuneration committee. We expressed our reservations on the capacity of the Lead Independent Director (Andrew Waller) due to his full-time employment as CEO of Grinrod as well as being a member of the Audit Committee. Some board members also had a long tenure; something that is not seen as best practice and which we expressed at the meeting.

During December 2022 Spar was subjected to some adverse media reports due to a court case between Spar and some of its franchise holders. It also transpired that the accounting treatment of and loan to a franchisee were reported by PwC to the relevant authority as a reportable accounting incident.

On the 3rd of February 2023 we again engaged the new board chairman (Mike Bosman) of Spar. We raised our concern about his numerous directorships and his new role as CEO of Spar following the

resignation of the Spar CEO in December 2021. His view was that a new CEO would be appointed quickly, and that he would then return to a non-executive position. He also indicated that the board will now start a wider recruitment process. He also discussed the options available to Spar in their Polish operations. His view was that an exit from Poland would potentially be very expensive.

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.

We maintain an internal “blacklist” of bond issuers with such odious ESG (most often G) factors that we do not invest with them at all. For obvious reasons we do not make this list public.

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, and we will report to the UNPRI for the first time this year. Our plan for the current financial year is to improve our incorporation of climate impacts in our analysis.

Annexure:

Register of engagement and management meetings

Investment professionals of Vunani Fund Managers have attended either group meetings or one-on-one meetings with the following companies and issuers:

| Entity Name | Date | Discussion points | | | | | |
|---|-----------|-------------------|-------------|--------------|-------------------|------------|----------------|
| | | Financia l | Genera l | New issue | Environment al | Socia l | Governanc e |
| ABSA GROUP | 30-Jun-22 | | | | | | X |
| ABSA GROUP | 09-Jun-22 | | | X | | | |
| ABSA GROUP | 30-May-22 | | X | | | | |
| ABSA GROUP | 17-Aug-22 | X | X | | | | |
| Airports Company South Africa | 04-Apr-22 | X | | | X | X | X |
| African Bank | 30-Nov-22 | X | X | | | | X |
| African Bank | 29-Aug-22 | | X | | | | X |
| African Bank | 30-May-22 | X | | | X | X | X |
| ANGLO Agrarius Sustainability Engineered (RF) Ltd | 02-Aug-22 | | | | X | X | X |
| AMPLATS | 11-Oct-22 | | X | | | | |
| AMPLATS | 27-Jul-22 | | | | X | X | X |
| AMPLATS | 22-Feb-23 | X | X | | | | |
| ANGLOGOLD ASHANTI | 18-Nov-22 | | | | X | X | X |
| ANGLOGOLD ASHANTI | 12-Sep-22 | X | X | | | | |
| ANGLOGOLD ASHANTI | 18-Nov-22 | | X | | X | X | |
| Bayport | 28-Nov-22 | X | X | | | | |
| Bayport | 10-May-22 | X | | | X | X | X |
| Bayport | 01-Mar-22 | X | | | X | X | X |
| Bridge Taxi | 28-Apr-22 | | X | | | | X |
| Bridge Taxi | 20-Apr-22 | | X | | | | X |
| BIDVEST | 09-Sep-22 | | | | X | X | X |

| | | | | | | |
|------------------------------------|-----------|---|---|---|---|---|
| Capital Harvest Finance | 11-Oct-22 | X | X | X | X | X |
| Capital Harvest Finance | 04-May-22 | X | X | | | |
| CitiQ | 11-Jul-22 | X | X | | | |
| CitiQ | 06-Jul-22 | | X | | | X |
| City of Tshwane | 11-May-22 | X | | X | X | X |
| CORONAT | 22-Sep-22 | | | | | X |
| City of Johannesburg | 04-Apr-22 | X | X | X | X | X |
| City of Tshwane | 08-Jul-22 | | | | | X |
| DBSA | 30-Sep-22 | X | | X | X | X |
| DISCOVERY | 17-May-22 | | X | | | |
| DISCOVERY | 13-Sep-22 | X | X | | | |
| Ekurhuleni | 21-Apr-22 | X | | X | X | X |
| EThekweni | 21-Apr-22 | X | | X | X | X |
| Evolution Group | 10-Aug-22 | | X | | | X |
| EXXARO | 07-Sep-22 | | X | X | | X |
| EXXARO | 07-Mar-22 | X | X | | | |
| FIRSTRAND | 31-Mar-22 | X | | X | | |
| FIRSTRAND | 30-May-22 | | X | | | |
| GFIELDS | 06-May-22 | | | X | X | X |
| GFIELDS | 12-Sep-22 | X | X | | | |
| HARMONY | 02-Mar-22 | X | X | X | X | |
| Industrial Development Corporation | 03-Oct-22 | X | X | X | X | X |
| Land Bank | 19-May-22 | | X | | | |
| Land Bank | 21-Apr-22 | | X | | | |
| Land Bank | 07-Apr-22 | X | X | | | |
| Land Bank | 05-Apr-22 | | X | | | |
| Martius | 25-May-22 | | X | | | X |
| Multi-Choice Group | 13-Sep-22 | | | | | |

| | | | | | | | |
|------------------------|-----------|---|---|---|---|---|---|
| Mercedes Benz SA | 05-May-22 | X | | X | X | X | X |
| MONDIPLC | 28-Feb-23 | X | X | | | | |
| MASSMART | 11-Mar-22 | | | | X | X | X |
| MASSMART | 11-Mar-22 | | | | X | X | X |
| MOTUS HLDG | 31-Aug-22 | | | | | X | |
| MOTUS HLDG | 27-Feb-23 | | | | | | |
| MTN GROUP | 12-Aug-22 | | | | X | | |
| MW Asset Rentals (RF) | 21-Sep-22 | X | X | | | | |
| NEDBANK | 15-Mar-22 | | | | X | X | X |
| NEDBANK | 11-May-22 | | X | X | | | |
| NEDBANK | 30-May-22 | | X | | | | |
| NEDBANK | 15-Aug-22 | X | X | | | | |
| NORTHAM PLATINUM | 31-Aug-22 | X | X | | | | |
| NASPERS -N | 30-Jun-22 | | | | | X | X |
| NASPERS -N | 30-Jun-22 | | | | | | |
| NASPERS -N | 20-Sep-22 | X | X | | | | X |
| NETCARE LIMITED | 15-Mar-22 | | | | X | | |
| OLD MUTUAL | 13-Sep-22 | X | X | | | | |
| ORION MIN | 14-Sep-22 | | | | | | |
| Other | 19-Sep-22 | | | | | | |
| PPC | 14-Sep-22 | | | | | | |
| QUILTER | 12-Sep-22 | X | X | | | | |
| Residual Debt Services | 02-Jun-22 | X | | | X | X | X |
| Redink | 30-Mar-22 | | X | | | | |
| Redink | 03-Mar-22 | | X | X | | | |
| RENERGEN | 14-Sep-22 | X | X | | X | | |
| Revov Batteries | 19-Jul-22 | | X | | | | |

| | | | | | | | |
|-------------------|-----------|---|---|---|---|---|---|
| SANRAL | 29-Nov-22 | X | X | | | X | X |
| STANBANK | 11-Mar-22 | X | | | X | X | X |
| STANBANK | 30-May-22 | | X | | | | |
| SHOPRITE | 12-Sep-22 | | X | | | | |
| SANTAM | 06-Apr-22 | | | X | | | |
| SANTAM | 02-Mar-22 | X | | | X | X | X |
| SASOL | 25-Aug-22 | X | X | | X | X | |
| SASOL | 22-Feb-23 | X | X | | | | |
| SPAR | 30-Nov-22 | | | | | | X |
| SPAR | 24-Mar-22 | | X | | | | |
| SPAR | 30-Nov-22 | | | | | | X |
| SPAR | 03-Feb-23 | | X | | | | X |
| TIGERBRANDS | 13-Sep-22 | | | | | | |
| TRANSCAP | 18-May-22 | X | | | X | X | X |
| TRANSCAP | 14-Sep-22 | X | X | | | | |
| FOSCHINIGRP | 14-Jun-22 | | X | | | | |
| FOSCHINIGRP | 13-Sep-22 | | | | | | |
| TELKOM | 04-Mar-22 | X | | | X | X | X |
| Toyota FSSA | 31-Aug-22 | X | | | X | X | X |
| Transnet | 02-Aug-22 | X | X | | X | X | X |
| TRUWORTHS | 12-Sep-22 | X | X | | | | |
| TRUWORTHS | 12-Sep-22 | | | | | | |
| TRUWORTHS | 30-Nov-22 | | | | | | X |
| True South Issuer | 08-Jul-22 | | | X | | | |
| True South Issuer | 20-May-22 | | X | | | | X |
| True South Issuer | 20-Apr-22 | X | X | | | | X |
| TUHF | 01-Sep-22 | X | | | X | X | X |

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