

# Vunani Fund Managers Climate Change Statement

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<b>Reason for Review</b>	Periodic
<b>Policy Owner</b>	Johan de Kock
<b>Approved By</b>	Key Individuals
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<b>This version replaces all previous versions of the policy</b>	

## **Preamble**

Climate change is one of the biggest structural challenges facing society today. Governments are setting policies and incentives to accelerate the transition to a lower carbon economy, but there are multiple trade-offs between economic, environmental, and social (ESG) objectives that will influence the pace of the transition. We accept the science of climate change and that a transition to a low carbon global economy is underway. The physical impacts of a changing climate are increasingly apparent with adverse weather events and the urgent need to reduce greenhouse gas emissions in line with the goals of The Paris Agreement is complicated by regional inequalities and geopolitical issues. As investors we understand that this will impact different assets in different ways, both in relation to their contributions to climate change in the form of greenhouse gas emissions, and in their exposures to changes occurring in the physical environment. In addition to managing risk, we recognise that some companies will benefit from providing the solutions needed to reduce emissions and adapt to a changing climate. We also accept that some companies and bond issuers face a significant challenge in adapting to a low carbon economy.

## **Our climate policy**

We believe that Transparency, Disclosure & Reporting on Climate Issues, and improved disclosure of material climate related risks by the companies, issuers and sovereigns could help investors to quantify the potential impact of climate change on financial performance. Climate data and scenario analyses of the impact on companies in reporting these data will help investors to better assess the climate risk. Publishing emission reduction plans creates accountability of all stakeholders.

- The transition to a lower-carbon economy could present investment opportunities for our clients in both the equity and fixed interest markets.
- We integrate climate risk and greenhouse gas emissions into our investment process and portfolio assessment of climate risk. We also believed that by incorporating the risk of climate change into our analyses we can objectively assess various scenarios that may impact the organisations financial dynamics. We incorporate in our risk assessment the alignment of investments to the 2015 Paris agreement. Accordingly, we will discount a company's valuation when our analysis shows that the pathway to low carbon future will be difficult.
- Engage with investee companies and institutions to encourage improved disclosure of climate-related risks and opportunities and promote the adoption of sustainable business practices.
- We vote our proxies to ensure that corporates develop a coherent and constructive overall Environment, Social and Governance framework.
- All stakeholders have a shared responsibility to enable the transition to a low carbon economy and this requires transparency from all stakeholders. We encourage investee companies to set targets for reducing in emissions and measurement and reporting on their progress against the targets.

## **Approach to South African focussed investments.**

- We recognise that the South African economy is substantially carbon-fuelled, mainly due to its abundant supply of coal, and that progress to a low carbon economy is driven by government policy, investor preferences and corporate responses to the challenges. We also accept that as allocators of capital, stewards of our clients' assets and as active shareholders in companies on their behalf, the individual and collective

decisions we make as investors will influence the nature and speed of the transition. We recognise our responsibility to be a positive influence in this regard. We engage our investee companies and institutions on their commitment to reducing carbon emissions.

The structure and legacy of the South African energy generation and distribution model is such that we depend disproportionately on one power utility, Eskom. This poses a serious systemic risk to the economy such that a collapse of Eskom for one reason or the other would lead to economic ruin and would plunge the country into a social crisis of rising unemployment, poverty, and hunger, and widening inequalities. We weigh the huge social risk emanating from a total collapse of Eskom against the environmental and governance risks that it carries, and we conclude that the social risks outweigh the environmental and governance risks combined. The integrated resources plan which is driven by the government together with the executive management team of Eskom is aimed at diversifying sources of energy from fossil fuel to more sustainable and environmentally friendly sources.

- The South African coal mining industry provides a source of energy to the South African economy and enables South Africa to grapple with the challenges of the United Nations Sustainability Development Goals. We need to take a balanced approach between the short-term energy, economic and employment needs of South Africa, and the impact of climate change.
- Funding new fossil fuel projects is irresponsible but not all fossil fuels have the same carbon footprint, and we will consider funding (by exception) projects/companies which lower carbon emissions over time. (Replacing coal with natural gas can lower carbon emissions but it is just part of the transition process.)
- We do not believe that wholesale divestment of large carbon emitters is the solution; rather, we believe in constructive engagement with companies and management teams to ensure that reduction/ mitigation is initiated, with a longer-term prospect of carbon neutrality.
- As custodians of their assets, we have a fiduciary responsibility to clients to engage with investee companies to transition to lower emissions.
- Counterintuitively, to enable a transition to a lower carbon future, we are in favour of continued investing in Eskom's debt funding instruments and in select suppliers to Eskom, to enable it to fund and power the South African economy towards transitioning to lower CO2 emissions.

## **Conclusion**

Vunani Fund Managers remains committed to being responsible stewards of our clients' assets. This Climate Change statement reflects our firm's commitment to addressing climate change as a systemic risk and an investment opportunity. Climate change will have a huge impact on society and all stakeholders need to contribute to reduced emissions. Vunani Fund Managers is committed to supporting and advocating for strategies and initiatives to reduce emissions. By integrating climate-related considerations into our investment processes, risk management practices, and corporate operations, we aim to enhance long-term value for our clients, investors, and society while contributing to the transition to a more sustainable and resilient global economy.