

Environmental, Social and Governance (ESG) Policy

At Imara Asset Management our investment philosophy and process is uniquely long-term focused, in a competitive environment so obsessed with the short-term. Whilst we recognise that priority must typically be given to the highest possible financial return on investment, we believe that value creation is influenced by more than financial capital alone, especially longer term. Consequently, we seek to consider other factors that might contribute to the creation of sustainable long-term investment returns over time, including factors of an Environmental, Social and Governance character.

Our conclusion is that we should actively seek out Corporate Social Investment (CSI) initiatives which will add value to a company's fair value (e.g. undiscounted improvements to reduce water usage) rather than buy companies which have already undertaken such initiatives (discounted improvements). This approach aligns CSI initiatives and fiduciary duty in our view whereas to buy a company which is fully valued could be viewed as against our fiduciary duty.

Investment Approach:

There are various approaches to Responsible Investment which include:

- Exclusionary screening (negative screening): avoiding companies based on ethical concerns or norms e.g. arms manufacturers or tobacco;
- Best in class selection (positive screening): preferring companies with better ESG performance relative to peers;
- Active ownership: Exercising shareholder rights and entering into dialogue with companies;
- Thematic Investing: which targets certain sectors such as environmental technologies (e.g., renewable energy companies);
- Impact investing: measures social benefit alongside traditional returns;
- ESG integration: Evaluate each company individually and add ESG alongside traditional valuation methods.

Analysing ESG risk remains highly subjective and there will always be exceptions to the rule. Many ESG issues can be contentious or opinionated without necessarily adding anything to our ESG responsibilities. We use two of the methods above:

- Best in class selection (positive screening): preferring companies with better ESG performance relative to peers. We have an ESG score for all of our companies and we attach a higher score to companies that have better ESG policies. This spreadsheet with ESG scores is updated annually.
- ESG integration: Evaluate each company individually and add ESG alongside traditional valuation methods. We look at each company to identify the ESG issues that are important to that company. Governance is of particular importance to us.

Our Sphere of Influence:

Some aspects of ESG are outside our sphere of influence and we can only operate within our sphere of influence, as suggested by the UN PRI Compact. If “sustainability” is a key objective of multilateral organizations such as the UN, then economic reform (or change to Governance) is the single most important factor that investors and global bodies should be focused on in our view. It is not hard to think of desperate examples of poor Governance in Africa and we think that any positive reform or change would have a positive impact on the quality of life. As investors, we actively look for positive economic or institutional change especially when the rule of law over property rights is strengthened. Strong property rights encourage investment and jobs, with subsequent higher employment taxes available to fund health care and other essential services. Improving the rule of law is a long journey but the more global institutions can encourage governments to manage their affairs better, the more sustainable the world will become and the higher the quality of life for its poorest occupants.

In Africa, it is hard/impossible for us to change or influence political behaviour e.g. in Zimbabwe, or to change behaviour at an entrepreneurial company until management sees the light. Our approach to buying “undiscounted ESG change” reflects this inability to change behaviour except by voting with our feet. However, we are prepared to vote against self-serving management in AGM’s.

Integration of ESG Factors into Our Process:

Underlying our investment approach are three fundamental objectives:

- To enhance and protect shareholder value as well as minority shareholder rights;
- To respect the wishes of our clients’ Statement of Investment Principles;
- To identify potentially material ESG risks.

To achieve these objectives, we may undertake qualitative assessments of the ESG weaknesses of companies so as to understand their risks, if left unchecked. This may lead to active engagement with management and, where necessary, escalation to their governing bodies. Furthermore, we recognize that the right to vote proxies is a significant asset of our clients and we endeavour to exert influence as a shareholder to achieve constructive outcomes on behalf of our clients.

Our objective at Imara Asset Management is to still outperform our benchmarks and to not give up anything from a yield perspective, but by looking for socially responsible companies “doing the right thing” we should at least be lowering our risk and probably enhancing returns.

We avoid buying companies with Governance problems. The companies that meet our selection criteria are typically the larger, more established companies which are often subsidiaries of multinationals. Such companies have their own well documented ethical ESG guidelines. Governance problems are more often associated with entrepreneurial companies.

We tend to use ESG principles to reject potential investments - poor Governance, use of child labour, discrimination against women or minority group's etc.

Whole countries can have ESG problems; e.g. Zimbabwe which has an indigenisation policy that discriminates against minority groups and foreigners. These types of policies are similar to Governance issues at a company level yet we are happy to hold Zimbabwean stocks but not entrepreneurial stocks.

The reason is that we look for undiscounted positive ESG change. We believe the UN (and the US/EU) will ultimately precipitate positive ESG change in Zimbabwe in the near future - at a time when no positive change is priced in. We do not have the confidence that entrepreneurial companies will have the same motivation to change. Hence, we feel that buying in? a country that is likely to improve its ESG performance is aligned with our fiduciary duty. In this respect we remain in touch with IMF/World Bank representatives in Zimbabwe and have a reasonably clear idea of what needs to be achieved.