

Environmental, Social and Governance (ESG): Policy Factor Guidelines

ESG complements our investment process. We have designed a way to compare non-financial data which is voluntarily disclosed and non-standardised. In order to do this, we have created a proprietary scorecard with ESG sub-factors. The assessments are primarily qualitative, but like our investment approach these qualitative assessments are an extremely powerful risk assessment tool. We overlay the Sustainability Accounting Standards Board (SASB) Materiality Framework as a means of identifying pertinent indicators that have a direct financial impact. Using a database allows us to collect, collate and compare ESG scores across companies and sectors. Looking at the database over time allows us to track ESG momentum over the years.

Due to the reliance on voluntary data, it is essential that we trust the management teams and check the information we receive, matching up direct engagement responses with the publicly available information in the integrated annual reports and sustainability reports. We see ESG integration as part of the evolution of our investment process. The database allows us to assess the 3 criteria broken down as follows:

Environmental Factors

We look at **10 key environmental factors**, looking for measurable, objective data. The criteria is focused on measurement and recording of aspects that have an environmental impact, highlighting risks identified and assessing how those risks are mitigated. Because of this, data verified by third parties have the highest scores. Furthermore, data accompanied by progress reports and targets set also score highly. It is imperative for us to understand a company's approach to the various aspects, beyond the statistics.

We also publicly support the Financial Stability Board's **Task Force on Climate-related Financial Disclosures (TCFD)** and look for alignment with TCFD recommendations within the reporting framework of each company. Additionally, we publicly support **the Paris Agreement**, holding companies in our portfolio and on our watchlist accountable to their energy-saving targets.

Specifically, we look at the following aspects:

- Carbon footprint reduction
- Air quality
- Energy usage/low energy usage
- Water/ wastewater management
- Waste/hazardous material management
- Renewables and clean energy
- Innovative products/ technology
- Supply chain
- Materials sourcing
- Climate change impacts

Each aspect is assessed and detailed using our proprietary scorecard, then weighted accordingly. Due to the importance and far-reaching impact of **climate change**, it is weighted more heavily than the other aspects, and companies who work with third-party verifiers to mitigate for climate change impacts score highest. We also take into account whether

companies report to the **Carbon Disclosure Project (CDP)** which automatically raises the standard of emission data and reporting to the highest quality.

Furthermore we are cognizant of how various sectors differ in terms of environmental impact, and this is taken into account in our internal scorecard.

Social Factor Guidelines

We outline **12 main social factors** as a means of assessment. Our investment process identifies companies that are in the sectors that capture the mega trends driving African growth and which have demonstrated an ability to continue to expand their market share. These companies drive economic upliftment which in turn has a direct social impact. With the demographics and urbanisation rates in favour of the African investment case, this aspect is integral to the sustainability of growth and the extent of a company's footprint.

We are, however, cognizant of the importance of **human rights** which extends into how products are made, the fair and equal treatment of people within the organisation as well as the positive regard for people within its context. Africa has a high disparity of wealth, and so the issue of human rights is key. As such, it is incorporated in 3 Social aspects: first, community and the general human rights approach of the organisation, second under labour practices for staff, and third, under employee engagement, diversity & inclusion. As such, it is the highest weighted factor overall.

We assess aspects covering the following:

- Human rights & community relations
- Customer privacy & data security
- Access & affordability
- Product quality & safety
- Customer welfare
- Selling practices & product labelling
- Labour practices incl bonus plans
- Health and safety
- AIDS programmes
- Training (internally)
- Employee engagement, diversity & inclusion
- Charitable donations

Governance Factor Guidelines

This is a key factor in terms of assessing the quality of management. We like companies with proven good governance practices over the years. Our quality assets criteria include governance as an important sub-factor, contributing to stock selection. A company with strong leadership and good governance is the starting point for leading in both environmental and social aspects. Understanding the materiality of governance has been driven by our research process over the years, resulting in **13 governance factors** that we score quantitatively.

Specifically, overall factors incorporate the following:

- Board ethics & quality

- Board meeting attendance
- Executive vs non-executive board members
- Audit committee independence & quality
- Presence of a sustainability committee & reporting structure to board level
- Senior executive compensation
- Quality of management
- Financial statement quality
- Risk disclosure to stakeholders
- CEO/Chairman separation
- Competitive behaviour
- Legal & regulatory environment
- Systemic risk management

Systemic sustainability issues are incorporated into the risk management component, with a deep understanding of material issues and whether a company has completed an impact valuation of externalities. As such, companies that score highly have a comprehensive set of risk disclosures which are publicly available.

Additional considerations

In addition to the 3 primary components of ESG, our scorecard also incorporates details of each company's sustainability approach. We take into account whether the company signs up to support the **10 principles of the UN Global Compact** and how they integrate the **UN Sustainable Development Goals**.

Questionnaire

For companies in our portfolio and on our watchlist we send out a questionnaire to check congruency with the database and obtain more colour on material ESG aspects. The questionnaire and company responses are available for clients upon request.

We focus on 10 questions covering a range of aspects in alignment with each of the E,S and G sub-factors.

Our ESG database is available for clients upon request.