Abax's approach to integrating ESG into our investment practices.

As custodians of our clients' capital, we are focused on the long-term growth prospects of the assets in which we invest. We endeavour to invest in businesses that exhibit robust corporate governance, quality management, sustainable business models and the potential for solid growth in earnings and dividends over an extended period. To this end, ESG matters are integrated into our investment analysis to strengthen the decision-making process, better manage risk and ensure that investments generate long-term value in an ethical manner. We view it as an integral component in the bottom-up research process and not simply a list of check boxes which need to be ticked off, after the investment decision is made.

When evaluating a company's environmental, social and governance stewardship we adopt a holistic approach which includes:

- a comprehensive evaluation of ESG performance based on a *weighted scorecard approach*
- consistent engagement with management on material ESG issues and
- proxy vote at all shareholder meetings, on all resolutions, on behalf of our clients

1. A comprehensive bottom-up evaluation of the company's ESG performance

- Abax does not have a separate ESG analyst or a standalone ESG compliance department. It is the lead analyst that is ultimately responsible for evaluating a company's ESG performance. There will be times when the team will lean on industry experts or reference other sources of information to complement internal research.
- As previously mentioned, we do not simply apply a "box ticking" approach and nor do we believe that a "one-size-fits-all model" is appropriate.
- Consequently, we have found it beneficial to use a ***weighted scorecard methodology*** when measuring a company's ESG performance. While Abax outsources the collection of company data and scorecard calculation to a dedicated 3rd party, the ultimate responsibility for ESG evaluation remains with the team.
- Each company is evaluated on 83 different metrics across the 3 themes (environmental; social and governance) and will achieve an absolute score based on disclosure and performance.
- Over time, we have recognized that certain themes tend to be more or less relevant, depending on the company and sector in which it operates. For example, mining companies are more environmentally impactful than financial services companies. With this in mind, we have elected to weight each aspect appropriately when calculating the overall score.
- While the outcome of this exercise will generate an absolute number (out of 100), our focus is rather on the trend of improvement (or deterioration) of that number, over time. Hence, we don't regard this as a grading exercise, where a company either passes or fails, but rather an on-going process of continuous evaluation.
- Below is a summary of our approach to each aspect:

A. Environmental

a. Our evaluation of the environmental footprint of a company involves measuring performance across 17 different metrics, with a particular focus on greenhouse gas emissions, energy usage and water usage.

b. We recognize that environmental stewardship can be a challenge for certain companies, particularly those engaged in activities such as coal mining, oil and gas production and electricity production from fossil fuels. Consequently, we place greater importance on a company's trend of improvement (or deterioration) relative to its own history as well as peers in its sector, when evaluating performance.

B. Social

a. When analysing a company's social impact, we focus on 6 key components: (1) workplace health and safety, (2) workforce diversity; (3) human and labour rights; (4) human capital development, (5) product risk and (6) community investment.

b. We will often engage with management around issues like workplace fatalities and employee health (and its impact on business productivity); product quality and safety; collective bargaining and wage negotiations and transformation.

C. Governance

a. Corporate governance in South Africa is largely guided by the King Codes. Over time as investor focus has increased, we have seen an improvement in companies' performance and disclosure around their governance practices.

b. We view good corporate governance as paramount to driving sustainable growth and returns and defending shareholder interests. Our scorecard evaluation considers a comprehensive list of factors covering, business ethics, ownership structure, board make-up, executive compensation, voting rights and audit independence. However, further to this we will actively engage with the non-executive management of our top 10 shareholdings on matters specifically relating to board independence and quality. Examples of these matters include: (1) the frequency of directors dialling in for board meetings; (2) over-boarding; (3) non-executive directors' practical experience in the industry; (4) cross-directorships and (5) the true independence of non-executive directors.

2. Management engagement

- The investment team have a deep understanding of the companies in which we invest. This approach fosters long-term relationships with company management teams, many of which have lasted for more than a decade.
- It is normal practice for us to approach both executive and non-executive management to discuss contentious issues or material ESG matters, on a one-on-one basis, wherever possible. We believe that constructive, pre-emptive engagement is a far preferable outcome for all stakeholders over formulaic voting at general meetings.

3. Proxy Voting

- Abax views proxy voting as an integral part of the investment process and we always vote the shares we beneficially hold. The way we exercise our rights can strengthen corporate governance significantly.
- All proxy voting decisions are made in-house based on collaboration between members of the investment team. We will use the team's collective depth of knowledge, to make informed voting decisions, rather than solely relying on external advisory firms or making proxy voting a rote, box-ticking exercise.
- We will support good corporate governance by voting against board recommendations we do not perceive to be in the best interests of shareholders. Historically, these have included for example: overly generous share schemes; placing authorised but unissued shares under the control of the directors; appointment of non-executive directors with questionable track records and inappropriate executive and non-executive remuneration.

Conclusion

While there has been increased focus on ESG matters by the asset management industry over the past few years, our clients should take comfort knowing that ESG has been and remains an important aspect of the ongoing research Abax conducts into all the companies held in our client portfolios as well as those in our broader purchase universe. We are acutely aware that environmental, social and corporate governance issues have a direct impact on the companies that we may invest in and as such, can affect the performance of our investment portfolios. Through the years, as companies' disclosure around ESG matters and their commitment to sustainability has evolved, so too has the breadth and depth of our ESG research. So, whilst we consider our current approach to incorporating ESG into our investment process as sufficiently robust, we are also of the view that it is an evolutionary process which continues to be refined over time.