

OUR APPROACH TO RESPONSIBLE INVESTING

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OVERALL APPROACH TO RESPONSIBLE INVESTING

1. Purpose

The purpose of this document is to:

- Set out Abax's objectives, guidelines, and policies for responsible investing.
- Demonstrate how Abax incorporates the principles recommended by the Code for Responsible Investing in South Africa (CRISA) into its investment analysis and investment activities.
- Set out how we incorporate environmental, social and governance (ESG) issues into our investment decision-making process.
- Demonstrate how our investment activities are aligned to the broader social and environmental objectives of society.
- Meet mandated stewardship requirements.
- Make employees aware of our responsible investing approach and objectives.

2. Introduction

Abax Investments

Abax Investments (Abax) is an owner-operated investment firm founded in 2003 dedicated exclusively to fund management. Abax manages equity, multi-asset, fixed income, and hedge fund portfolios.

As an investment organisation, we have a fiduciary duty to act in the best long-term interests of our beneficiaries and believe that environmental, social and governance (ESG) issues can affect the long-term financial performance of investee companies.

Our Impact – Purpose Beyond Profit

Our purpose is to have a positive impact on our clients, stakeholders and society.

We continue to promote and build an inclusive business.

- Abax is committed to diversity across the company as we believe this enhances the performance of our business and leads to better decision making.
- We are a Level 2 contributor to broad-based black economic empowerment as per the Financial Sector Code.

Caring for society is embedded in our DNA. Abax is 16% owned by three charitable trusts established by our staff.

- The team at Abax are actively involved in the administration as well as ongoing work of the trusts, as part of their efforts to build a better future for South Africa.
- The Abax Development Trust focusses on Early Childhood Development (ECD).
- The Abax Foundation supports environmental and conservation related projects in South Africa.

We seek to be a responsible investor and continue to deepen our focus on stewardship and ESG integration in our investment process. Abax is a signatory to the PRI, a UN-supported network of investors working to promote sustainable investment.

3. Responsible Investing Objectives

Our purpose is to have a positive impact on our clients, stakeholders, and society. We take seriously our role as custodians of client assets and Abax is committed to:

- Promoting the right values and culture within our organization.
- Incorporating environmental, social and governance (ESG) into our investment decision-making process.
- Building capacity and skills within the organization to enhance the identification and management of ESG and broader sustainable development issues.
- Engaging actively to push for beneficial change.
- Working with other stakeholders to promote sound governance and the management of ESG issues.
- Exercising our voting rights in a thoughtful manner to enhance the management of ESG and broader sustainable development issues.
- Promoting and developing enhanced reporting of ESG related information.
- Investing in businesses that are proactively managing their interactions with society and the environment.

4. Code for Responsible Investing in South Africa (CRISA)

The Code for Responsible Investing in South Africa (CRISA) was launched in 2011. CRISA 2, launched by the CRISA Committee in September 2022, builds on the first CRISA Code (2011) and contains five voluntary principles for stewardship and responsible investment as a key component of the South African governance framework. The five principles of CRISA 2 are as follows:

1. ESG Integration
2. Stewardship
3. Capacity Building & Collaboration
4. Governance
5. Transparency

Abax incorporates the principles recommended by CRISA into its investment analysis and investment activities.

Please refer to the following document for details:

- Abax Investments - Responsible Investing Policy

5. PRI

Abax is a signatory to the PRI, a UN-supported network of investors working to promote sustainable investment. As a signatory, Abax Investments commit to the following:

- To incorporate Environmental, Social and Corporate Governance (ESG) issues into investment analysis and decision-making processes;
- To be an active owner and to incorporate ESG issues into our ownership policies and practices;
- To seek appropriate disclosure on ESG issues by the entities in which we invest;
- To promote acceptance and implementation of the Principles within the investment industry;
- To work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing Principles;
- To report on our activities and progress towards implanting the Principles.

6. Training

For Abax to respond appropriately to sustainable investment topics, training programs are mandatory for relevant staff, including board members, portfolio managers and analysts. Training occurs at frequent intervals and leverages off external expertise.

Our approach to responsible investment is part of the introduction program for all new employees. In addition, there is continuous investment knowledge sharing - our investment team meets regularly to discuss various investment related matters including ESG integration, academic research, ESG reporting tools as well as engagement results.

7. Governance Structure

Accountability for responsible investment is embedded at both board and senior executive levels, ensuring integrity of approach.

The Chief Investment Officer (CIO) is responsible for approving the responsible investment strategy. All key investment policies are subject to ongoing assessment, monitoring and oversight by the CIO, the investment team and the Abax Risk & Compliance Committee.

We do not have a specific ESG team whose sole role is to focus on ESG issues. The Abax investment team works as a combination of individual and collective decision-making.

We believe that pro-active ownership is essential and should not be outsourced to a sperate team. When analysis and engagement is outsourced, this valuable investment information is lost from the investment decision-making process.

To ensure we remain well-informed of developments in ESG or broader responsible investing matters, we have isolated accountability to one of our analysts. The analyst has responsibility for dealing with related matters, attending relevant conferences, and ensuring the team is kept acquainted with key developments.

8. Managing Conflicts of Interest

We are mindful that conflicts of interest may occur in the course of our work.

Abax manages this risk through the application and the monitoring of compliance with its Conflicts of Interests Policy. The Conflict of Interest policy is applicable to all Abax employees and is reviewed annually or as dictated by changes to legislation.

Please refer to the following document for further details.

- [Abax Investments – Conflicts of Interests Policy](#)

ESG INTEGRATION

1. Introduction

The decisions we make regarding investments can significantly impact the stakeholders connected to these assets. Business can only thrive in a strong society. Society, in turn, can only prosper if its needs are being met by a healthy natural environment.

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 have a preference to 'include', engage and influence (as opposed to an exclusionary approach).

2. Integration of ESG into our Investment Approach

ESG issues are inevitably embedded in any business model and are therefore no different than the many other issues taken into consideration in investment research. ESG considerations form an intrinsic part of our investment process, impacting on research, valuation, and portfolio construction.

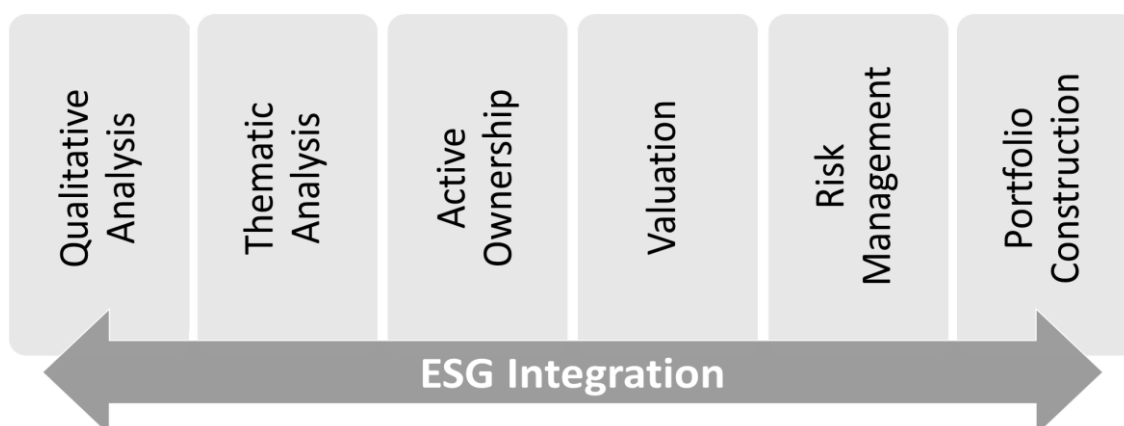
We perform a broad-based ESG analysis with the goals of identifying issues material to the investment outcome, managing risk, and encouraging company progress on ESG issues. Our investment team approach is one of full integration of ESG issues with a focus on materiality.

- **Investment team driven:** The Abax investment team works as a combination of individual and collective decision-making. Companies in the investment universe are evaluated using the investment team's accumulated ESG knowledge and Abax's framework for prioritizing the most relevant ESG issues within each sector.
- **Focus on materiality:** Our investment team concentrates their research on the ESG risks and opportunities that are most impactful for each company and sector.

We use several methods for bringing ESG considerations into our decision making:

- **Qualitative Analysis:** A comprehensive evaluation of ESG performance, with clear priorities that are aligned with the United Nations Sustainable Development Goals (UN SDGs) and specific priorities of South Africa.
- **Thematic Analysis:** The identification of critical ESG themes that help to highlight companies on the right side of the transition to a more sustainable world.
- **Active Ownership:** Engagement with management on issues that are relevant and material. As well as proxy vote at all shareholder meetings.
- **Valuation:** Valuations may be influenced by ESG factors (adjustments to forecasted financials and valuation multiples).
- **Risk Management:** Companies are regularly reviewed and monitored for changes in ESG risks.

- **Portfolio Construction:** The ESG profile of portfolios are examined, and adjustments made to enhance return and reduce risk.



Qualitative Analysis

A comprehensive qualitative evaluation of ESG performance. The foundations of the analysis are as follows;

- Each company is evaluated on material and relevant metrics across the 3 categories (environmental, social and governance)
- The analysis shows the risks inherent in individual companies and allows for easy comparison
- The analysis of risks is specific to the business and industry
- The focus is on the trend of improvement (or deterioration) over time
- The methodology is robust and consistently applied

The analysis helps identify those areas that require more attention and deeper analysis. It also allows for screening, best-in-class selection (peer assessment) and trend analysis.

Our qualitative analysis has clear priorities that are aligned with the United Nations Sustainable Development Goals (UN SDGs) and specific priorities of South Africa.

Environment Excellence in environmental management	Social Delivering a positive social impact	Governance Robust corporate governance
▪ Climate change ▪ Carbon emissions & net zero targets ▪ Biodiversity ▪ Energy efficiency ▪ Water use ▪ Waste management and recycling	▪ Job creation, training and education ▪ Community uplift & social investment ▪ Workforce diversity ▪ Gender equality ▪ Human and labour rights ▪ Privacy and data security	▪ Board composition ▪ Board independence ▪ Ownership structure & voting rights ▪ Audit committee independence ▪ Compensation policy ▪ Business ethics

Thematic Analysis

We use themes (i.e. transition to a green economy, inequality) to highlight companies on the right or wrong side of the transition to a more sustainable world. In addition, incorporating sustainability themes ensures that our team has a good understanding of significant ESG investment implications affecting the market over the longer term. While these themes are important, there are further criteria all companies have to satisfy (i.e. robust business fundamentals, sound governance, competitive advantage, valuation).

Active Ownership

We have an 'active owner' approach. We keep a record of all engagement and voting activities, and this is available to clients.

- **Engagement**

Engagement is the main process through which Abax aims to influence investee practices.

A successful transition to a sustainable economy depends on urgent and transformational change from the corporate sector. Engaging with investee companies is a key tool to keep corporate activity within planetary boundaries and tackle social inequality.

Our investment professionals regularly meet with the management and non-executive directors of companies to discuss a range of issues relating to strategy, financial performance, governance, environmental and social topics. We believe that constructive, pre-emptive engagement results in a preferable outcome for all stakeholders.

We engage with company management on issues that are material and relevant. Our engagement strategically targets high-impact topics and sectors, for example, climate change or workplace diversity. We prioritize contacting companies that are lagging and / or by the largest positions in our funds. Our engagement priorities are consistent with specific priorities of South Africa as well as the United Nations Sustainable Development Goals (UN SDGs).

There may be circumstances where we deem it necessary to escalate matters to enhance and protect our clients' interests. If we deem it necessary, we will collaborate with other shareholders to add pressure to influence the board. If so, we always remain aware of potential conflicts, concert party rules and issues of insider information.

The main objectives of engagement are to enhance long-term shareholder value, meet our fiduciary responsibilities to our clients and benefit broader society.

Please refer to the following document for further details.

- Abax Investments – Engagement Policy

- **Proxy Voting**

Proxy voting has the power to influence corporate behaviour.

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 thus we vote in a thoughtful and considered manner.

The basis for how we vote is guided by our Proxy Voting Policy. 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.

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; the appointment of non-executive directors with questionable track records, inappropriate executive and non-executive remuneration and placing authorised but unissued shares under the control of the directors.

Please refer to the following document for further details.

- Abax Investments – Proxy Voting Policy

Valuation

Company valuation may be influenced by ESG factors. Adjustments are made to forecasted financials (such as revenue, operating cost and capital expenditure) and valuation-model variables for the expected impact of ESG factors.

Example: Impact of ESG Factors on Equity Forecasts and Valuation

Financial Metric	Relevant Input	ESG Issue
Income Statement	Revenue Operating Costs & Margins	- Licence to operate - Product demand - Human capital - Supply chain management
Balance Sheet	Physical Assets Intangible Assets	- Physical risks - Stranded assets - Company reputation - Innovation
Cash Flow Statement	Capex	- Environmental, safety, and / or regulatory requirements
Valuation	Multiples Cost of Capital	- Premium / discount driven by ESG factors - Cost of equity - Cost of debt

Risk Management

A comprehensive analysis of fundamental and ESG attributes in tandem results in a more complete view of company and allows our team to identify material risks.

The highest-risk companies are identified by the investment team. The ESG risk profile is regularly reviewed, taking into consideration whether the company's risk-management practices are improving or worsening.

A security will be sold if Abax determines that it no longer meets the firm's ESG or fundamental standards.

Portfolio Construction

The ESG profile of portfolios are examined, and adjustments made to enhance return and reduce risk. We believe that all investments have impacts on society and the environment. We aim to assess these effects and, where possible, promote the positive and mitigate the negative. We believe that companies that exhibit strong (or improving) ESG profiles will drive value in the long term; and as a result, we try to allocate capital to those companies. In this way we ensure we have greater exposure to companies that create value and/or avoid undue risks.

In addition, we use an ESG analytics tool that scans portfolios to identify areas where ESG sensitivities exist. The process covers a wide variety of material ESG factors.

3. Fixed Income

Adopting responsible investment best practices across all asset classes helps to provide enduring benefits for clients, portfolio companies, society, our communities, and the environment.

ESG factors matter to fixed income and can contribute to credit fundamentals, enhance risk assessments, impact performance and as lenders of capital, fixed income investors can contribute to funding more sustainable business models.

The diversity and complexity of the asset class – with various types of borrowers, instruments, legal structures, and maturities – brings unique challenges when incorporating ESG factors in investment decisions. In addition, engagement can be more challenging for debt investors as they lack equity holders' voting rights.

ESG considerations are integrated into the fixed income investment process. And where possible, ESG fundamental research and engagement efforts are coordinated across the different investment teams (equity and fixed income).

4. ESG Expectations for Companies

Good corporate governance is essential for long-term value creation at the company and for protecting our investments. We vote at all shareholder meetings and engage with company boards. We have expectations of the boards and management of companies we invest in regarding how to address environmental, social and governance challenges. The expectations detailed below forms the basis for our discussions with companies and our voting at shareholder meetings.

Governance

- **Board Independence:** The board should guide company strategy and monitor management without conflicts of interest. A majority of shareholder-elected board members should be independent.

- **Board Diversity:** The board should have an appropriate gender balance.
- **Industry Expertise on the Board:** The board should have sufficient industry expertise to monitor management's implementation of corporate strategy.
- **Multiple Share Classes:** One share should give one vote. Any unequal voting rights should be aligned with cash flow rights over time.
- **Audit Committee Independence:** The active involvement of a high-quality, independent, Audit Committee will enhance the quality of the audit and financial statements. All members of the audit committee should be independent, non-executive members of the board.
- **Shareholder Rights in Equity Issuances:** Existing shareholders should have the right to approve new share issuances in order to evaluate significant capital decisions and prevent dilution of their ownership.
- **Executive Remuneration:** Boards should establish simple and transparent incentive plans based on long-term equity holding.
- **Business ethics and Anti-Corruption:** We expect companies to have clear conduct guidelines and take effective action to combat corruption.
- **Related Party Transactions:** Transactions with related parties may represent conflicts of interest and expose shareholders to potential abuse. Related-party transactions should be carried out on market terms and be clearly beneficial to all shareholders.
- **Tax Transparency:** We expect companies to adopt appropriate and prudent tax policies and be transparent about where they generate economic value.
- **Political Engagement:** Responsible political engagement is important for maintaining trust in the political process and ensuring that legitimate points of view are heard by public decision-makers to support effective policy decisions in the interests of all stakeholders. We expect companies to engage with integrity in a transparent manner, for legitimate business or stakeholder objectives and in compliance with applicable laws. Companies must not seek to influence the political process by improper or corrupt means.

Environmental

- **Climate Change:** Climate change may impact on corporate earnings and portfolio returns over time. Companies should integrate relevant climate change targets, risks and opportunities into their corporate strategy, risk management and reporting.
- **Biodiversity:** Biodiversity is a systemic crisis that presents risks to entire economies and populations, and therefore cannot be tackled in isolation. Companies must recognise their impact on the environment, and we will support companies in adopting policies and procedures to minimise a company's impact on the environment.
- **Water:** Water scarcity and pollution may pose business risks to companies. Companies in sectors which are highly polluting or dependent on water, or with operations and value chains in water-scarce regions, should seek to manage water sustainably. They should integrate water management into their corporate strategy, risk management and reporting.
- **Waste Management:** The world's resources are finite. Businesses should manage waste effectively through reusing, recycling, or repurposing.
- **Corporate Sustainability Reporting:** Sustainability matters can have financial implications for companies. The board should ensure that company reporting reflects all material sustainability risks, based on established international frameworks and standards.

Sustainability disclosures should include indicators of exposure, management, and performance.

Social

- Human Rights: All companies have a responsibility to respect human rights. They may impact human rights in several ways through their business operations and supply chains, their community interactions and the marketing and use of their products and services. Respecting human rights is an inherent part of good business practice and risk management.
- Children's Rights: We cannot accept the exploitation of children. Companies may impact children's rights in several ways through their business operations and supply chains, their community interactions and the marketing and use of their products and services. Respecting children's rights is an inherent part of good business practice and risk management.
- Corporate Social Investment: Corporate Social Investment can empower and equip individuals and communities with the tools and skills to improve their living standards.

The priorities listed above, together with supporting policies form the foundation for our discussions with companies and our voting at shareholder meetings. The expectations are consistent with specific priorities of South Africa as well as the United Nations Sustainable Development Goals.

Please refer to the following documents for further details.

- Abax Investments - Proxy Voting Policy
- Abax Investments - Engagement Policy
- Abax Investments - Climate Change Policy

5. Reporting

Despite the efforts of organizations such as the Global Reporting Initiative (GRI) and Task Force on Climate-related Financial Disclosures (TCFD), no two companies explain their social and environmental commitments in the same concise, comparable way. That being said, we endeavour to measure the impact of your portfolio so we can manage the impact. Abax has access to measurement tools that aim to quantify the impacts companies have on the environment and society. This helps analysts, fund managers and clients measure and manage those social and environmental impacts and risks more effectively.

We keep a record of our engagements with management. These activities are reported to clients and key engagements are also disclosed on our website on a quarterly basis.

We are transparent with our voting record with voting decisions published on our website on a quarterly basis in a user-friendly format. Rationales for voting decisions on controversial resolutions are publicly available.

6. Conclusion

ESG thinking is embedded in our business and investment process. Our approach and commitment to ESG enhances our value proposition to our clients and supports our purpose to have a positive impact on our stakeholders and society.

We are acutely aware that ESG issues have a direct impact on the companies that we may invest in and as such, can affect the performance of our investment portfolios. Our integrated approach focuses on the issues that are or will likely become material for businesses. We carefully assess the ESG attributes of each company before deciding whether to add it to our portfolios and monitor our existing holdings for changes in their ESG profiles.

We believe that high-quality companies with solid fundamentals and good valuations can offer compelling long-term investment opportunities, and that incorporating ESG research into the decision-making process improves both investment and societal outcomes. Abax defines high-quality companies as businesses that have increasingly relevant products or services, sustainable competitive advantages, quality management teams and positive ESG profiles.

Engagement with companies is another hallmark of our ESG approach. In these discussions we aim to understand ESG strategies, risks and encourage sustainable conduct. We also use collaborative engagement and partner with key industry groups such as the PRI.

The sustainability journey is a long one and we appreciate the need to continuously evolve, learn and develop. 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.

POLICIES & DOCUMENTS

The following policies and documents support our approach to responsible investing. Abax policies and documents are available to its clients and their service providers. These policies and documents include inter alia:

- Abax Investments - Responsible Investing Policy
- Abax Investments - Engagement Policy
- Abax Investments - Proxy Voting Policy
- Abax Investments - Climate Change Policy
- Abax Investments - Conflicts of Interest Policy
- Abax Investments - Our Approach to Responsible Investing
- Abax Investments - Our Approach to ESG Integration

