ASHBURTON INVESTMENTS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

FULLY INVESTED /

A part of the FirstRand Group

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1. Introduction

Ashburton Investments seeks to make investments which create **value** and which are **profitable** and **sustainable**. As signatories to the Code for Responsible Investing in South Africa (CRISA) and UN Principles for Responsible Investment (UNPRI), Ashburton Investments has embedded the environmental, social and governance (ESG) factors into the investment process.

The approach is to look beyond traditional financial measures and consider the following:

a. What is the source of the value created? Value can be in the form of utility which can be financial or specified in more intangible terms, but must include externalities.
b. Who are the beneficiaries of value and who are the stakeholders?
c. What are the costs relative to the value created – both internally and externally?

The ESG factors are an important consideration when allocating and managing investment capital.

This document represents Ashburton Investments' policy towards achieving the set ESG goals.

2. ESG policy background

Ashburton Investments, as an active investment manager, aims to focus its investment strategy on companies which are likely to deliver sustainable value to investors in the long term. It will therefore actively invest in businesses which abide by sustainable practices or have programmes in place to achieve such within a clear timeline. By being active investors, Ashburton Investments believes that it can contribute to enhancing value for investors while influencing strategy within the investee companies towards sustainable practices.

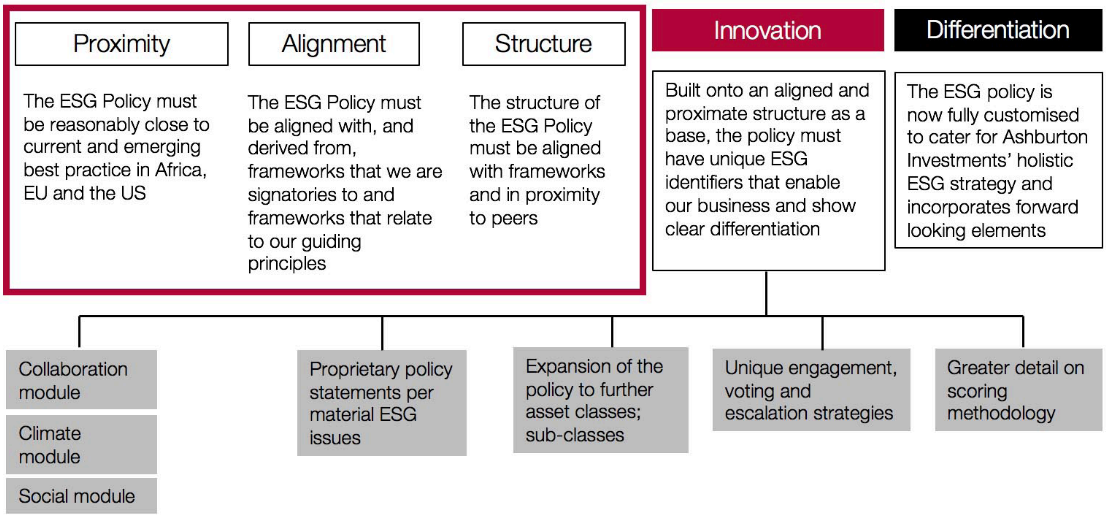
Ashburton Investments undertook a comprehensive review of its existing ESG policy in 2021. The review was necessitated by several factors:

- The desire to move towards a framework centric approach, so that the ESG strategy can be transparently tracked against leading global and local frameworks.
- An update to the Ashburton Investments ESG business strategy, which prioritised the creation of ESG capacity and focus within the business.
- The ever-increasing urgency of incorporating locally focused, socially biased ESG actions in the business model and investment process.
- A recognition that organisational design, data, reporting and policy governance are key features of an ESG policy.

3. Policy development roadmap

The ESG policy roadmap is summarised in the figure below:

ESG POLICY – DEVELOPMENT ROADMAP



The ESG policy is built on two key founding principles:

- **Alignment** – The ESG policy must be aligned to the foundational frameworks that Ashburton Investments ascribes to. This ensures that the policy complements and enhances the chosen frameworks.

- **Structure** – The structure of the policy is in line with recommendations from the UNPRI.

The first version of this policy will lay the foundation, based on the two principles above, for further revisions of the policy. Over time, the policy will be expanded to include the following modules:

- **Governance** – Ashburton Investments will assess its mission so that it creates value for stakeholders. Specifically, what are the ESG policies in place and what measures are there to make sure they are adhered to? Disclosure is key to reducing risk. Investee companies also need appropriate governance processes in place to ensure that the principal-agent problem does not occur. Governance is required to ensure that the agents don't favour their self-interest ahead of those of shareholders. There is also the risk that managers favour short-term profit maximisation over long-term value creation.

  In the credit arena, the ESG assessment is tailored for large, listed and unlisted corporates. The latter is generally unable to afford the King Code Board composition and largely governed by a heavy shareholder composition. Ashburton Investments will work with the borrowers to improve their governance score but if no progress is noticed, then divestment will be proposed.

- **Climate module** – Ashburton Investments recognises the absolute importance of mitigating and reversing climate change. Climate is a key tenant of every version of the ESG policy. Ashburton Investments will consider joining the Net Zero Asset Management initiative which aims to support investing to achieve net-zero carbon emissions by 2050. However, one of the approaches by the developed world managers is to focus on portfolio carbon or reported carbon intensity reductions.

- **Social module** – South Africa is a developing country with considerable potential, but also pressing social challenges. Investment capital can play a significant role in ensuring better socio-economic outcomes for all South Africans. Ashburton Investments will lay out the way it will drive specific, socially focused outcomes in this module.

  Ashburton Investments believes that the legacy of apartheid has resulted in deep social inequalities being embedded within the society. This means that from a South African perspective, companies that
  - create jobs;
  - invest in educational training; and
  - focus on reducing inequalities of the past are more relevant to society and have a greater social impact.

- **Voting and engagement modules**

- **Scoring methodology** – Scoring methodology refers to the way Ashburton Investments arrives at an ESG score or diagnostic view of a company.

4. Establishing the foundational pillars

In drafting this policy, the following steps were taken in establishing foundational principles.

To ensure that the ESG policy is similar to other ESG policy trends and characteristics globally, a review was conducted of the UNPRI's submission data globally, to get a broad sense of the following aspects, among others:

- The ESG screening methodologies used in the industry
- Levels of portfolio coverage in terms of ESG research and engagement tracking
- Various methods being utilised for engaging, escalating and collaborating with investee companies
- Topics frequently triggering engagement with investee companies
- Voting policies and escalation strategies

The policy is further derived from a set of foundational frameworks that guide the ESG reporting, strategy and aspirations of the business. These frameworks were chosen with regard to the following criteria:

- Industry standard frameworks that represent the best practice in ESG investing, such as UNPRI
- Regulatory frameworks such as Regulation 28
- FirstRand group's frameworks issues such as ethical exclusions and enhanced climate screening. It is important to note that Ashburton Investments exercises its investment mandates and executes its fiduciary duties in a fully independent manner
- Local codes, such as the Responsible Investment and Ownership Guide (Batseta)
- Frameworks representing areas of strategic importance for Ashburton Investments, such as the UN Global Compact
- Frameworks which give expression to the context and guiding principles, as regards ESG, that inform Ashburton Investments' ESG strategy and approach

The Ashburton Investments ESG Policy is structured in accordance with guidance from the UNPRI. The characteristics that this policy will display are summarised in the figure below.

CHARACTERISTICS OF THE ESG POLICY

Transparency
An ESG policy must be publicly available, in full.

Aspirational
The policy must incorporate aspirational targets, and be a catalyst for transformation.

Analytical construct
The policy must be analytically constructed, so that it has clear components and a flow of logic.

Clarity
The policy must be concise and clear.

Scope
The scope of application must be clear. There should be no doubt as to which business activities the policy applies to.

Dynamic
The policy must be flexible and allow for revisions, based on ESG materiality, framework additionality or obsoletion and client mandates.

Practicality
The policy must be capable of practical application.

Methodology
There must be a methodology and philosophy underlying the policy construct. This must be clearly articulated upfront.

Contextual
The policy must be fit for the context of its application. This context must be stated clearly upfront.

Purpose
The policy must be designed around achieving a clearly articulated purpose.

Living structure
There must be an allied business structure to the policy to ensure the continued development and implementation of the policy.

5. Trade offs and mitigants embedded in the ESG policy

Ashburton Investments operates in a particular social and economic context. Its ability to implement investment strategies, investment mandates and portfolio allocations has always been constrained by structural and regulatory factors, such as market depth and size, exchange control, asset spreading legislation, etc.

- Ashburton Investments is a client focused business that invests according to the mandates of clients. As such fulfilling the client mandate is of paramount importance. While ESG investing has grown significantly as a priority for investors, the focus areas differ from investor to investor, as each are at different stages of their ESG journey. As such, Ashburton Investments may have client mandates that contain objectives requiring investment in companies with ESG profiles that have significant room for improvement. In these instances, Ashburton Investments will fulfil the mandate, but will also engage with the client concerned on how the mandate may be amended to result in a more ESG friendly portfolio. Ashburton Investments will engage with investee companies to improve their ESG profile.

- The ability of Ashburton Investments to exercise influence over the management of an investee company may be limited by the size of its investment. A minor or insignificant stake is often not sufficient, on its own, to bring about the desired level of influence. To mitigate against this, Ashburton Investments will utilise voting strategies, industry alliances and if required active non-investment among other strategies.

- The transition to a low carbon economy and a focus on climate change can sometimes contradict or even hinder the achievement of crucial social goals. Known colloquially as the “conflict between E and S”, these trade-off decisions arise every so often. Should Ashburton Investments choose to invest in a security that is overweight S or E, to the detriment of the other, either will be acceptable in light of the guiding principles above. The spirit of the principles does, however, favour S over E, and any investment which severely impacts S should be avoided.

6. Prescribed actions, data and reporting requirements

The foundational frameworks provide the bedrock for the evidence based ESG approach of Ashburton Investments and inform the reporting requirements, data usage and collection and prescribed actions that it must undertake.

Prescribed actions are those actions the frameworks direct Ashburton Investments to take. Reporting requirements are those reports that frameworks prescribe signatories to compile and/or make available. Data requirements point to the data required in order to comply with the reporting requirements and fulfil the prescribed actions.

7. Voting, engagement and escalation

Voting and engagement policies and practices, as well as subsequent escalation measures, are effectively dependent on two key factors:

1. Materiality and relevance to the company concerned
2. Context and current affairs

Materiality refers to the importance and weight of an ESG topic or factor generally, and the overall attention and rank given to these factors locally and globally. Relevance refers to the significance of a material factor in the context of a company, industry and sector. An ESG factor may be material in general but of very little relevance or importance to a particular sector or industry.

A key feature of Ashburton Investments' approach to voting and engagement is that ESG materiality and industry specific relevance guide the topics that will be voted and engaged on. Ashburton Investments will utilise, among others, the Sustainability Accounting Standards Board (SASB) materiality dimensions and any other materiality indicator as available from time to time.

At the time of writing, the SASB materiality dimensions correspond to various provisions from the approved frameworks upon which this ESG policy is constructed:

Voting

Ashburton Investments subscribes to an active voting policy that is based on the following principles:

- Voting decisions are to be considered through the lens of the ESG policy and strategy. To that end, all relevant sustainability related issues (including ESG) will be considered

- Voting decisions must periodically be analysed, and the reasoning behind the voting recorded and voting decisions and trends reported. Further information that will be recorded includes:
  - The number of votes cast
  - Annual general meeting and voting coverage
  - Overview of topics covered, together with an explanation of materiality and relevance
  - External assurance on the veracity of the data

Should a particular voting strategy not have the desired effect, Ashburton Investments will consider, among other measures, the following course of action:

- Contacting senior management and the board
- Undertaking either individual or collaborative engagement

The timeframes for the triggering of the above escalation actions are highly dependent on the situation at hand. As a general guide, Ashburton Investments will look to implement the above at three monthly intervals after an unsuccessful vote.

Engagement

In considering engaging with investee companies, it is envisaged that engagement will arise in three circumstances:

- Ongoing, periodic engagement on relevant and material ESG issues
- Event driven engagement as and when required
- Engagement undertaken as an escalation strategy for voting

8. ESG research coverage

Ashburton Investments will utilise both internal and/or external ESG research to cover the securities in its portfolios.

9. Integration and screening of securities

The method of integration of the organisational ESG policy into the investment decision making process will be the sole preserve of the investment team, led by the Chief Investment Officer.

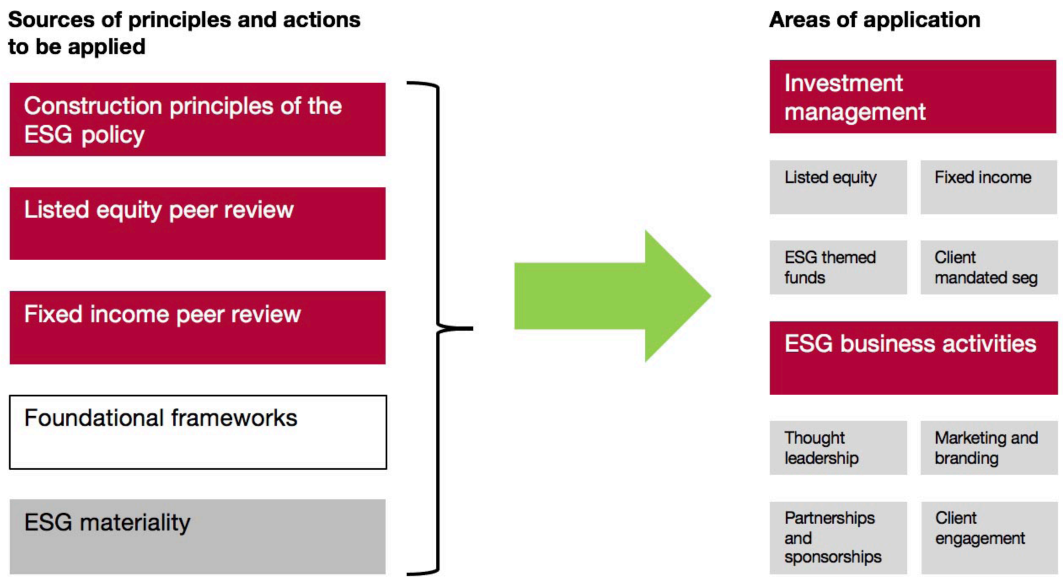
Ashburton Investments will utilise the integration of ESG information into the investment decision making process, together with screening as its predominant ESG investment methodology. These methods will be underpinned by comprehensive research, regular ratings updates, and both internal and external reviews.

In addition, research on the return impact of ESG screening will be undertaken. Periodic reviews are to be carried out quarterly. However, any additional methods, controls and review periods may be adopted to give effect to the ESG policy in investment decision making.

10. ESG policy application

The ESG policy will apply as an overarching framework to both investment management and overall business activities of Ashburton Investments, as shown in the diagram below:

APPLICATION ECOSYSTEM



Application to investment management

The application of the policy will follow the philosophy as it applies to the following areas in investment management:

1. Listed equity
2. Fixed income
3. Client mandates

The goal at Ashburton Investments is to verify whether ESG targets set by investee companies are reasonable and science based and whether plans are in place for companies to meet them. The engagement framework will ensure that companies set targets and for those which have set them, to report that there is progress against those goals.

Listed equity
The aim of ESG integration and screening for listed equity is to engage with investee companies and work with them to improve their ESG outcomes. The ESG philosophy for listed equity is not a punitive or an exclusionary one. Rather, it is premised on constructive engagement. As such, Ashburton Investments does not exclude investment into any equity based on ESG scores but rather assesses the potential for positive engagement with a particular company.

Given the focus on symbiotic advancement in ESG, the listed equity focus will have a broad ESG base, with a preference for the S.

Fixed income
The aim of ESG integration and screening for fixed income is to drive corporate behaviour through the lending covenants and instrument design and to allocate capital towards social and green projects.

The key focus in our fixed income ESG assessment is to identify and mitigate ESG risks that can affect the credit worthiness of the issuer. A strong focus on the G is crucial here. Given that fixed income instruments typically do not have voting rights, Ashburton Investments will focus strongly on management engagement as a tool.

Client mandates
Ashburton Investments is a client centric asset manager and fulfilling client needs is paramount. However, Ashburton Investments will also take very seriously its role as custodian of capital allocation, and the responsibility to promote ESG that comes with it.

As such, when considering very bespoke client mandates, none of our screening methodologies will be decisive, except to the extent indicated by the client in the mandate.

Ashburton Investments will balance this approach by screening the securities chosen across ESG factors, and where there are areas of concern, engaging with our clients on the same, and providing alternatives wherever possible.

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