RESPONSIBLE INVESTING PROGRESS REPORT

Ashburton Investments sets out to make investments which create **value**, while also being **profitable** and **sustainable**. Embedding Environment, Social and Governance (ESG) considerations into our investment process is underpinned by the fact that Ashburton Investments is a signatory to the United Nations Principles of Responsible Investment (UNPRI) and an endorsee to the Code for Responsible Investing (CRISA). Our ESG-orientated approach also draws on the tenets outlined in Regulation 28 of the Pension Funds Act, Board Notice 90 of 2014 (BN90) and the King IV Report on Corporate Governance for South Africa
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This report encapsulates at a high level the progress Ashburton Investments is making to embed responsible investing practices across our investment value chain.
This report covers the period 1 July 2021 to 30 June 2022.

Our approach to responsible investing and value creation

When it comes to investing, Ashburton Investments looks beyond traditional financial measures and considers 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. These must include externalities.
b. Who are the beneficiaries of value? Who are the stakeholders?
c. What are the costs relative to the value created, both internally and externally?

In answering these questions, we align with the Sustainable Development Goals (SDGs) 2030, which, in turn, built on the earlier Millennial Development Goals. The UN SDGs target what are referred to as the **5 Ps**, namely:

- **People**
- **Planet**
- **Prosperity (Profits)**
- **Peace**
- **Partnership**

The Ashburton Investments ESG policy helps to broaden our valuation framework in the investment process beyond purely financial metrics.

As an active investment manager, Ashburton Investments directs its investment strategy towards companies that are likely to deliver sustainable value to our clients in the long term. We actively prefer to invest in businesses that abide by sustainable practices or have programmes in place to achieve sustainable practices within a clearly defined timeframe.
Our active investment credentials mean that we seek to contribute to the enhancement of value for our investors while simultaneously influencing strategy within our investee companies by encouraging the adoption and implementation of sustainable practices.

While financial markets will always ascribe a value to listed investments, there is an information asymmetry to price in ESG issues.

Economic theory says that value creation should reflect the priorities of all stakeholders. However, what errs more on the side of art than science is to consider the relative demands of different stakeholder groups, and their respective weightings. In this respect, it is important to note that Ashburton Investments is employed by asset owners with the relative weighting of ESG factors to be specified in the mandate.

As a result, for each mandate Ashburton Investments will aim to define:

- Financial value
- Non-financial value including externalities. Externalities will also take into account taxes and subsidies

Therefore, we analyse companies from a broader viewpoint than financial performance alone. This mirrors the philosophy of John Elkington, one of the founders of the global sustainability movement, who coined the term Triple Bottom Line. The Triple Bottom Line incorporates:

- Financial performance
- Human capital performance
- Environmental record

In addition, our experts further expand on Elkington's definition by including internal and external human capital, as well as corporate governance, as key factors.
While financial valuation contains subjective elements – after all, forecasting the future is always uncertain - the non-financial component to corporate activity is even more difficult to define because it is multi-faceted and will be 'valued' differently by different stakeholders.

However, as an ethical organisation, Ashburton Investments does have an exclusion list which includes, for instance, companies that employ child labour. We also expect every investee company to comply with local laws and regulations, and ethical standards such as the disclosure of all relevant data in their Integrated Annual Reports, if applicable.
On the opposite end of the spectrum, we look favourably upon companies with supportive sustainability undertakings, such as a commitment to reducing greenhouse gas emissions by accurately measuring and disclosing such carbon emissions. We believe it is crucial that Scope 3 emissions are correctly captured, including supplier and consumer emissions, even where companies do not have direct operational control.

Accuracy of data and access to supporting statistics to gauge these undertakings is critical in the ESG space. Ashburton Investments contends that the accuracy of data is first and foremost key to making accurate decisions related to a company's carbon footprint. We favour the independent verification of ESG data and work with companies to ensure that their Scope 3 data is accurately disclosed.

How we gauge environmental impact?

When assessing the impact of our investee companies on the environment, we favour the following types of organisations:

- Companies that report on climate risk and disclose their carbon emission reduction targets
- Companies with policies to reduce climate change. We use company disclosed and external data to assess the approach
- Companies with business models likely to benefit from increased regulation around climate risk

In the Ashburton Investments universe, environmental impact should always be evaluated alongside governance and social impact factors before making an overall assessment of the potential investment opportunity.

The importance of social factors

Operating in a country like South Africa, where the historical legacy has led to deep and ingrained inequalities, Ashburton Investments is extremely mindful that social factors are of critical importance and must be carefully considered. Our investee companies have a crucial role to play in remedying this situation. Not only do these investee companies contribute to the fiscus by paying taxes, but they also have the potential to help the local economy by developing integrated supply chains and making use of local procurement. In addition, these investee companies should have policies in place that promote equal opportunities and ensure more inclusive participation at all levels of the organisation. We also favour companies that make extensive investments in training and education, which further enhance the opportunities available to both current and potential employees
.
In the longer term, it is also important for Ashburton Investments to invest in developing the physical infrastructure in the country. This area of focus is important if basic services are to be delivered to all South Africans, and if a broader social impact is to be achieved.

EQUITIES: DIGGING INTO THE DATA

Ashburton Investments' equity investment process relies heavily on conducting a detailed bottom-up company analysis. We make use of scenario analysis to better understand the potential range of outcomes for a particular investment. The ESG considerations are a growing element of most companies' strategic targets and deliverables, and hence form part of any company-specific analysis.

Where ESG costs and related capex are explicit and quantifiable, these are easily included into our specific valuation scenarios. Examples of this are the inclusion of carbon tax and renewable energy-related capex into our discounted cash-flow valuations.

In other cases, ESG considerations are less quantifiable, either because of inaction on the part of the company or because their business model is less impacted by tangible ESG-related costs or projects. In these cases, ESG considerations become more qualitative in nature, but are nonetheless not ignored or disregarded.

Building on our analysis, we can then compare the risk-versus-reward opportunities across several competing investment cases. The ESG risks form part of this risk-versus-reward consideration. We look to construct portfolios that we believe offer the best risk-adjusted outcomes for our clients, while at the same time providing diversification benefits.

The integration of ESG into investment analysis and decision-making is conducted at the selection/ initiation phase of an investment, as well as over the term of the investment.

With our ESG framework, our primary ESG principle is a commitment to driving what we call positive ESG momentum in the companies in which we are shareholders. We believe in active engagement with our investee companies on ESG issues. As a general principle (for companies not engaged in socially abhorrent activities such as child labour etc), we do not believe in negative screening of investment opportunities which currently fall short of what we feel are appropriate ESG standards. We believe that forcing such 'bad actors' to delist will result in worse long-term outcomes for stakeholders and the environment as these corporates get to operate in the obscurity and opaqueness of the private market.

Rather, we prefer to use our shareholder influence to try ensure that these listed companies make meaningful strides towards improving their current position across various ESG pressure points. For instance, we look to use our investment sway to impact positively on our potential investee companies and broader ESG policy frameworks and long-term targets.

We have made great strides to explicitly track, compare and record the ESG ratings of our investee companies and of potential investee companies. We combine the use of industry ESG rating data, as well as our own proprietary inputs where required or justified. Internal ESG data is required as data from global ESG providers is sometimes not available for smaller local companies and, on occasion, can be inaccurate or incomplete. This company-specific ESG data is included alongside company-specific financial data in our propriety database. This becomes a powerful measurement tool in ensuring that the ESG momentum of each investee company is maintained over time.

Because our investing process is long term in nature, our investment case scenarios are regularly revised by analysts, as and when new information becomes available. As is the case with financial valuations, our ESG risk assessments are likely to evolve over time. Therefore, we continually engage with our investors to determine which risks are more relevant to their portfolios; in this way we are adequately calibrating ESG risk into the portfolio construction process for each client. As an example, the historic bias of ESG towards environment-only issues, is increasingly evolving into a more balanced approach – this is particularly true in a country like South Africa where inequality, poverty and unemployment are so pervasive. It is our contention that no one element of the ESG considerations should be ignored or overshadowed by another; so, we target improvements across all three elements from the current baseline.

In summary, Ashburton Investments believes that long-term value creation is the result of our rigorous investment process combined with our ability to incorporate both financial and ESG considerations into our decision-making process.

FIXED INCOME, LIABILITY-DRIVEN INVESTMENT AND CREDIT: APPLYING AN ESG LENS

Ashburton Investments' fixed income, liability-driven investment (LDI) and credit offerings incorporate all the material factors that the investment team believes could affect an investment. ESG factors form part of this important process, from the initial selection of investee companies to the evolution of the investment.

Our Credit Research team conducts an E, S and G analysis on every prospective investee company, from large publicly listed organisations to smaller private concerns; although the data-gathering process is made more complicated as many smaller companies may lack the resources to adequately measure data. While our approach to assessing ESG is constantly evolving and improving, in broad terms the process looks like this:

- Each credit analyst interprets all E, S and G factors that may materially affect the investment. Differences in the application of the various factors is accomplished through proportionality, based on where the corporate is in its growth cycle, its resources, size, and the complexity and nature of its operations. Larger listed companies are viewed and reviewed differently to smaller unlisted companies.

- The ESG factors are scored by the analyst using both internal research based on publicly available information and/or discussions with the management team of the investee company as well as external service providers, when this information is available. The individual issuer score is incorporated into each investee credit application by the analyst, and this immediately gives the analyst, as well as the Ashburton Investments Credit Committee (AICC) an idea of where to focus their attention with regards to potential material E and/or S and/or G risk factors.

- Where there is a weak score on individual ESG factors, or the total score, the credit analysts ascertain the reasons for this and present the results in the credit application. In cases where risks are manageable and management commits to change, we may still invest and be an agent of change, rather than divest or giving an outright "no". It should be noted that this is in addition to any potential material factors of an E, S or G nature that have been gathered from third-party analyst reports, the press, the issuer, web search, social media etc.

- The final score highlights to the AICC, via the credit application, those issuers that may have material risks in certain areas. This may, therefore, require:

  i. Additional research and further discussion with the issuer
  ii. Specific mitigants, such as legal and financial structuring
  iii. Appropriate pricing for increased risk

A unique benefit

What makes the adoption of an ESG lens so unique in the fixed income, LDI and credit space is that Ashburton Investments' active participation in both the listed and unlisted credit markets serves as an impactful avenue to influence the ESG policies of issuers. As providers of capital, firms with financing requirements must demonstrate their commitment to improving their ESG footprint in order to tap the capital markets. Our unlisted credit funds enable Ashburton Investments to allocate capital to these names. Many issuers have now explicitly included ESG targets in order to reduce the cost of financing if they achieve their targets – this has led to a healthy issuance in green bonds, sustainability linked bonds and,

COLLABORATION

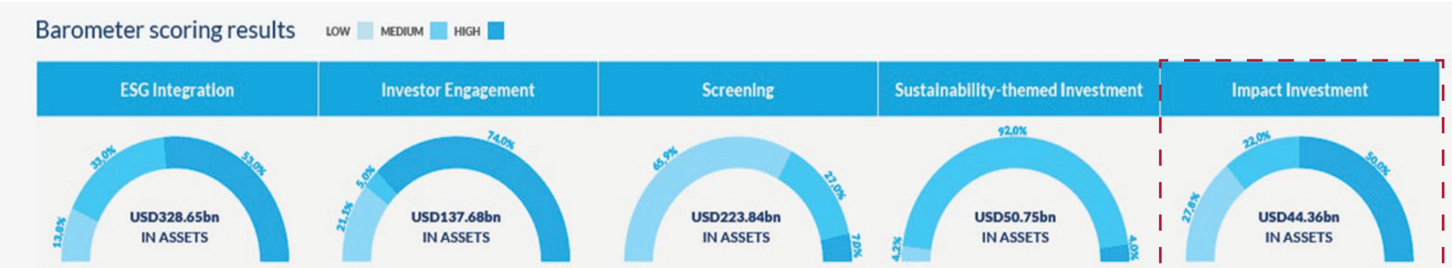
Ashburton Investments is proud to play a collaborative, leadership role within the arena of Responsible Investing.

During the period under review, employees of Ashburton Investments were involved in advancing a number of important local and global initiatives by participating as: A member of The Association for Savings and Investment South Africa (ASISA) Infrastructure Investment Workgroup; of the ASISA Infrastructure Financial Sector Group; the ASISA Fixed Income Standing Committee; the ASISA Social Security Standing Committee; and a member of the South African chapter of the Aspen Network of Development Entrepreneurs (ANDE). Ashburton Investments also participated in the ANDE working group to map impact measurement and management practices in South Africa.

In addition, Ashburton Investments is part of the Global Impact Investing network (GIIN), a diverse global network of leading impact investors.
While in South Africa, we are proud of our partnership with National Treasury. Through this association we are gratified to have achieved the following:

- Our social impact funds emerged from a unique public-private partnership with the National Treasury's Jobs Fund.
- Helped unlock investments in small- and medium-sized business using intermediaries which traditional fund providers considered risky.
- Our impact funds have benefitted from a multimillion-rand guarantee facility for up to 50% of the capital and interest per investment.
- Attracted more than R2 billion of capital since inception in 2014.
- A pooled unlisted fund, which delivers financial returns and social impact outcomes to its investors, was created. Our impact funds provide a measurable positive impact on society through investments that support specified job creation targets as agreed with National Treasury's Jobs Fund.
- Ashburton Investments' credit enhanced funds delivered in excess of CPI + 3% since inception, while creating more than 17 000 sustainable jobs.

As a result of these achievements, Ashburton Investments is now considered to be one of the leaders in the area of Impact Investing. Ashburton Investments recently received Leader Status in the RISCURA/GSB African Investing for Impact Barometer (AIFIB). The AIFIB aims to objectively depict investments that combine financial returns with a positive impact on society and the environment.



	ESG Integration AM	Barometer score	ESG Integration PE/VC	Barometer score	Investor Engagement AM	Barometer score	Investor Engagement PE/VC	Barometer score
LEADERS	Ninety One	High	African Infrastructure Investment Managers	High	OMIG (SA)	High	Metier	High
	Sanlam Investments	High	Summit PE Investment Managers (Pty) Ltd	High	Ninety One	High	Tamela Capital Partners	High
	OMIG (SA)	High	Adenia Partners	High	Sanlam Investments	High	Novare Equity Partners/ Novare Fund Manager	High

	Screening AM	Barometer score	Screening PE/VC	Barometer score	Sustainability-themed Investment AM	Barometer score	Sustainability-themed Investment PE/VC	Barometer score
LEADERS	OMIG(SA)	High	African Infrastructure Investment Managers	High	Futuregrowth Asset Management	High	Summit PE Investment Managers (Pty) Ltd	High
	Sanlam Investments	High	Vuna Partners	High	Ninety One	High	Metier	High
	Prowess Investment Managers (Pty) Ltd	High	Tamela Capital Partners	High	Sanlam Investments	High	Harith General Partners	High

	Impact Investment AM	Barometer score	Impact Investment PE/VC	Barometer score
LEADERS	Futurgrowth Asset Management	High	Old Mutual Alternative Investments	High
	Mergence	High	Sanlam Investments	High
	Ashburton Fund Managers (Pty) Ltd	High	Third Way Investment Partners	High

Source: RISCURA/GSB African Investing for Impact Barometer

Collaboration has been central to many of the ESG impacts that Ashburton Investments has been able to achieve. As such, Ashburton Investments remains open and willing to work with industry initiatives or co-investors on any material issues that have the potential to drive change in the important realm of Responsible Investing.

ENGAGEMENT

Between 1 July 2021 and 30 June 2022, Ashburton Investments undertook a variety of engagements with company management across the various asset classes. Engagements varied from light to intense. In the future, we intend to keep an exact record of engagements that involve material ESG issues. To date most intense engagements have focused on governance issues.

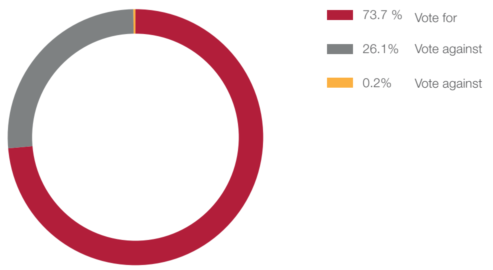
In addition, Ashburton Investments will continue to engage with the broker community, as well as the credit agency community, regarding ongoing ESG research.

ASHBURTON INVESTMENTS

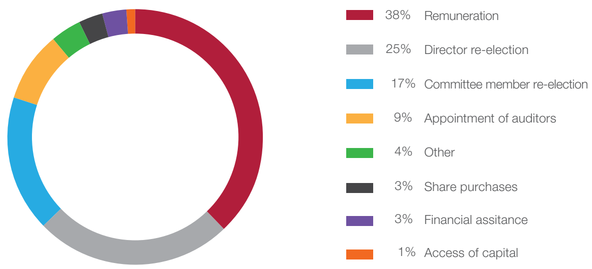
RESPONSIBLE OWNERSHIP

In the period under review, Ashburton Investments Equity voted at 56 South Africa-listed equity meetings covering 1 001 resolutions. The voting is not automated. Instead, each vote receives individual attention as guided by the Ashburton Investments Proxy Voting Policy. Our detailed quarterly voting activity is published on our website. The summary of the voting activity for the period was as follows:

Voting activity for meetings held from 1 July 2021 to 30 June 2022



Reasons for voting against management for meetings held from 1 July 2021 to 30 June 2022



Source: Ashburton Investments

RESPONSIBLE LENDING

During the period, all lender rights were exercised after careful consideration as to what action would have the optimal results for clients, while also ensuring that responsible leadership was exercised. Ashburton Investments' fixed income, LDI and credit was involved in 415 (2021: 388) lender decisions, involving some 51 companies and it was not outvoted on any decisions. We continued to improve our legal documentation with regards to covenants and, in some cases, we have included clauses that allow us to measure the impact of our funding.

CONFLICT OF INTEREST

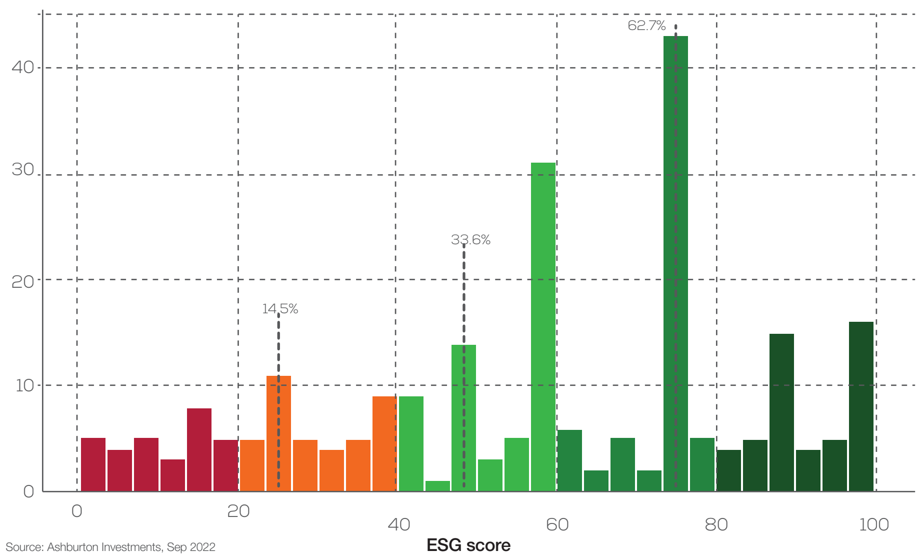
The conflict-of-interest policy has been reviewed and the latest policy documents are available on the website under the Responsible Investing tab. Ashburton Investments will continue to proactively manage conflicts of interest in the future.

DISCLOSURE

In addition to this progress report, Ashburton Investments provides further disclosure on its responsible investment practices in the annual PRI public reporting, client reporting and the FirstRand Annual Integrated Report.

It is our belief that by measuring the ESG footprint of our portfolios, we are better able to measure how our investment process clearly favours companies with better ESG footprints. However, we do have a minority of investments which have been made in companies that score in the lower quartiles of ESG determinations. This is often dictated by client mandates.

Ashburton Investments ESG exposure



Source: Ashburton Investments, Sep 2022

In the case of low ESG investee companies, our engagement approach aims to ensure that progress is made over time to improve the relevant ESG footprint of these companies. In conclusion and as demonstrated above, Ashburton Investments is proud of having instituted a process whereby our client's capital is invested in companies that favour a positive overall impact on South African society and the economy at large.

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