



FOORD ASSET MANAGEMENT

STEWARDSHIP REPORT 2022

Signatory of:



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ESG POLICY

Foord Asset Management’s investment funds neither promote environmental, social and governance (ESG) factors nor have specific sustainable objectives. However, Foord brings a stewardship ethos to the management of investors’ capital and integrates ESG factors into its fund management activities. This policy document explains how Foord incorporates ESG factors into its research and portfolio management process and supplements the investment approach and stewardship material published on www.foord.co.za.

Introduction

As long-term investors, the enduring sustainability of income streams is fundamental to Foord’s investment philosophy. Foord considers ESG factors in its formal macro view, economic and earnings forecasts, probability analysis and top-down asset allocation. Foord also uses ESG factors as a subjective measure to rank attractively priced companies or when evaluating management of investee entities.

- Environmental factors include climate change management, protection of water and marine resources, stewardship of biodiversity and ecosystems and pollution control
- Social factors include customer satisfaction, diversity issues, privacy and data protection, community relations and labour standards
- Governance factors include the standards applied to running companies, bribery and corruption, lobbying, audit and financial reporting and employee and director remuneration.

As ESG factors may have an adverse impact on investee entity income streams, careful consideration of these factors before investment is instrumental in shaping Foord’s view of the long-term sustainability and longevity of investee entities. Foord therefore integrates sustainability risks into its investment decision-making process for investor mandates but does not specifically prohibit investment in any given sector or industry.

ESG risk management

Foord does not manage ESG risks by applying aggregate limits on specific economic sectors or setting caps, for example on carbon emissions, for its investment portfolios. It does, however, commit to incrementally improve the individual and aggregate ESG risk scores for portfolio investments. As ESG risks have a potential impact on the sustainable finance within the investment horizon of its investment funds, Foord scores ESG risks for individual investments using the probability/outcome ESG Risk Scoring Matrix that follows.

ESG Risk Scoring Matrix

	Consequence of ESG risks		
	For example, financial or reputational loss, client complaints, adverse media coverage, adverse effect on revenue, adverse effect on integrity of market, ESG fines, penalties or litigation.		
Probability of risk manifesting	Low	Medium	High
High (Will probably occur)	Medium risk	High risk	Extreme risk
Medium (May occur)	Low risk	Medium risk	High risk
Low (Occurs very infrequently)	Negligible risk	Low risk	Medium risk

After scoring ESG risks for each investment, Foord commits to:

ESG RISK CATEGORY		FOORD'S COMMITMENT
Negligible risk	Low risk	Monitor investee entity's ESG risks and engage as needed.
Medium risk	High risk	Influence investee entities through management engagement and shareholder votes to support suitable ESG initiatives and shape positive ESG outcomes.
Extreme risk		Avoid investing in such securities and divest if apposite.

Stewardship and voting policy

Foord owes a fiduciary duty to investors to vote on investee entity resolutions in a manner that preserves and enhances investors' interests. In terms of Foord's voting policy on ESG issues, Foord will vote on every ESG-related resolution to improve the long-term ESG outcomes of investee entities. Foord will support resolutions that promote the integration of ESG factors into the investee entity's strategy and those which serve to improve sustainable business practices.

PROXY VOTING POLICY

Foord invests on behalf of segregated and collective investment scheme portfolios in companies listed on approved stock exchanges. It owes a fiduciary duty to its investors to vote on company resolutions in a manner that preserves and enhances the investor's investment interest. Corporate abuses are more probable in an environment of shareholder apathy. Shareholders must actively participate in protecting the value of their investments against potentially harmful management decisions.

Guiding principles include:

- Do not abstain unless for strategic or tactical reasons. Foord takes its stewardship responsibilities very seriously. We apply our minds to every resolution put to shareholders.
- Vote against resolutions that dilute the interests of shareholders. Examples include placing shares under the blanket control of directors, authorising loans and financial assistance to directors, associate companies or subsidiaries and blanket authority to issue shares.
- Vote against share option remuneration models. Share option schemes offer inherent risk-reward asymmetry and dilute existing shareholders. We favour the alignment created between management and shareholders when management buys shares in the market for cash. Foord's management remuneration philosophy therefore supports cash awards to good managers that achieve performance metrics that enhance long-term shareholder value.
- Scrutinise director appointments closely. We pay special attention to the election and re-election of directors. Appointees must be appropriately qualified and experienced for the company's industry. Track records must show the highest ethical and governance standards. We apply strict criteria to the election of independent directors and chairpersons.
- The proper composition and size of boards and board subcommittees.
- Auditor rotations in line with the King codes of governance.

The voting process is as follows:

- Administrators collate proxy voting forms for shares held in client portfolios. Portfolio managers will initiate/undertake voting following internal discussions and in-line with Foord's voting policy.
- Administrators process the approved proxy forms. The vote, voting rationale and resolution outcome is recorded on the Foord investment administration system for reporting purposes.
- Administrators retain completed proxy voting forms in the corporate actions database.

PROXY VOTING SUMMARY — 2022

The table below provides a high-level summary of proxy voting activity on the Foord Balanced Fund.

DOMESTIC COMPONENT	NUMBER	FOR	AGAINST	ABSTAIN
Adopt Financials	16	100%	0%	0%
Auditor/Risk/Social/Ethics related	145	99%	1%	0%
Buy Back Shares	43	93%	7%	0%
Director Remuneration	144	100%	0%	0%
Dis-apply Preemptive Rights	6	0%	100%	0%
Dividend Related	7	100%	0%	0%
Issue Shares	32	19%	21%	0%
Loan / Financial Assistance	34	38%	62%	0%
Other	80	88%	12%	0%
Political Expenditure/Donation	1	0%	100%	0%
Re/Elect Director	200	98%	2%	1%
Remuneration Policy	63	48%	52%	0%
Share Option Scheme	6	50%	50%	0%
Shares under Director Control	16	13%	87%	0%
Signature of Documents	11	100%	0%	0%
	804			

FOREIGN COMPONENT (FOORD INTERNATIONAL FUND)	NUMBER	FOR	AGAINST	ABSTAIN
Adopt Financials	26	100%	0%	0%
Auditor/Risk/Social/Ethics related	52	81%	19%	0%
Buy Back Shares	21	72%	28%	0%
Dividend Related	17	100%	0%	0%
Issue Shares	20	95%	5%	0%
Others	21	77%	23%	0%
Political Expenditure/Donation	37	46%	54%	0%
Re/Elect Director or members of supervisory board	304	98%	2%	0%
Remuneration Policy incl. directors' remuneration	62	37%	63%	0%
Signature of Documents/ Ratification	21	67%	33%	0%
	581			

FOREIGN COMPONENT (FOORD GLOBAL EQUITY FUND)	NUMBER	FOR	AGAINST	ABSTAIN
Adopt Financials	28	100%	0%	0%
Auditor/Risk/Social/Ethics related	90	67%	33%	0%
Buy Back Shares	24	83%	17%	0%
Dividend Related	21	100%	0%	0%
Issue Shares	36	28%	72%	0%
Others	40	60%	40%	0%
Political Expenditure/Donation	5	20%	80%	0%
Re/Elect Director or members of supervisory board	492	98%	2%	0%
Remuneration Policy including directors'	107	48%	52%	0%
Signature of Documents/ Ratification	27	85%	15%	0%
	870			

ESG INTEGRATION PROCESS ENHANCEMENTS

Foord has maintained a comprehensive ESG policy for an extended period, with the investment team consistently advancing the incorporation of ESG factors into investment decision-making and portfolio reporting. Following the last reporting period, Foord successfully incorporated security-level ESG scores, dating back seven years, into the firm's portfolio management database. This integration enables automated reporting on ESG scores at both product and security levels across various mandates. The scores are derived from third-party assessments provided by Persec, complemented by Foord's adjustments as necessary.

Additionally, the firm has enlisted another international third-party ESG data provider to augment the scope and quality of ESG data. These enhanced reports are currently under development, as the firm explores various methodologies and reporting structures. Nonetheless, we anticipate soon offering investors more comprehensive ESG-related reporting.

Furthermore, Foord has implemented a risk management matrix within its ESG policy documentation. This tool effectively measures ESG risks in terms of their significance and priority.

NOTABLE ENGAGEMENTS

COMPANY	NATURE OF ENGAGEMENT	DETAILS
QUARTER 1 2022		
Fortress	Capital Structure, Governance	Addressed concerns regarding the company's proposed classification of income as a capital distribution, indicating our intention to vote against the proposed MOI change. We also highlighted a potential conflict of interest due to management's varied shareholding between A and B units.
Oceana	Disclosure, Governance	Conducted multiple board engagements to understand the nature and extent of violations causing delayed publication of results. We urged the board for increased disclosure of facts surrounding these violations.
Astral Foods	Governance	Raised concerns about voting on financial assistance to subsidiaries, an issue that is often overlooked during AGMs. We conversed with the Financial Director about the importance of specific wording on this issue for future years.
QUARTER 2 2022		
BHP Group	Capital Structure	Previously expressed concerns about the process by which BHP would sell Woodside shares on behalf of South African shareholders. We sought clarification regarding the timing of this process and an update on the opportunity to sell during a period of strength in the Woodside share price.
Massmart	Corporate Strategy	Closely monitored the company's restructuring process to ensure that changes being made aligned with shareholders' best interests.
Nedbank	Remuneration Policy, Cyber Security	Voiced concerns about the financial targets set for Long-Term Incentives (LTIs) and the fact that these incentives were time-vesting instead of performance-vesting. We also raised questions about the management's approach to cyber security risks and found their response satisfactory.
Santam	Governance, Remuneration Policy	Raised concerns on multiple issues including auditor rotation, benchmarking of non-executive director fees, settlement of equity-linked LTIs, disclosure of non-financial performance metrics, and financial assistance disclosures under Section 45 of the Companies Act. Management responded positively, committing to address these issues.
Quilter	Remuneration Policy	Raised concerns about the lack of a formal definition of financial metrics for Short-Term Incentives (STIs) and LTIs in their remuneration policy. We also flagged the lack of a formal policy to acquire shares in the market for equity-settled remuneration schemes. After receiving management's response, we concluded to vote against the remuneration policy.
QUARTER 3 2022		
Omnia	Remuneration Policy	Initiated discussions with the Remuneration Committee (Remco) to express concerns about the company's remuneration policy. We suggested possible improvements to both the short-term and long-term incentive programs.
QUARTER 4 2022		
The Spar Group	Governance	Actively addressed allegations involving the company's CEO and conducted our own in-depth analysis of the valuations paid for corporate stores. We factored more conservative assumptions for the business due to unresolved risks, and subsequently reduced our holding in the company.
Spurcorp	Remuneration Policy	Expressed concerns about potential dilution due to the implementation of the remuneration policy related to settlement in shares for bonus awards and LTI programs.

Bidvest	Remuneration Policy	Discussed recent changes to the remuneration policy. We clearly stated Foord's position against any policy that could lead to dilution of our investors' interests.
Fortress	Governance	Engaged with the board and management on numerous occasions to address governance concerns and propose solutions. Co-signed letters to the board highlighting concerns around management fiduciary responsibility