FOORD ASSET MANAGEMENT

STEWARDSHIP REPORT 2019

TABLE OF CONTENTS

STEWARDSHIP

Dave Foord founded Foord Asset Management in 1981 on the simple premise that clients' money should be managed with the same degree of care and dedication they would themselves exercise in the endeavour. Foord has a well-established Environmental, Social and Governance (ESG) and investment stewardship ethos.

This vision of investment stewardship remains the cornerstone of the Foord approach today.

VALUE PROPOSITION

Foord offers a premium investment service to long-term investors in investment funds and tailor-made portfolios. A multi-decade track record of successful investing evidences our capacity to consistently deliver superior investment returns for a range of investment strategies.

- As an independent and owner-managed boutique built on the principles of investment stewardship, we place investors' interests ahead of our own.
- We construct diversified investment portfolios based on rigorous fundamental research, high conviction ideas and an adaptable, value-driven investment policy.
- We embrace market volatility as opportunity, not risk.

KEY ESG ATTRIBUTES

- We focus on long-term, **sustainable** earnings
- Our **forward-looking** philosophy means that **all** investment professionals must factor in all relevant factors (not only financial)
- **Portfolio managers are the risk managers,** so responsibility ultimately sits with them
- We **do not disaggregate** anything from our investment process at Foord
- Deputy CIO responsible for **ESG integration**, overseen by the CIO
- Defined **ESG policy**
- Defined **Proxy Voting policy**
- **Publicly available** ESG activity reporting

ESG POLICY

Foord has a well-established Environmental, Social and Governance (ESG) and investment stewardship ethos. This ethos is founded on the belief that investors' money should be managed with the same degree of care and dedication they would themselves exercise in the endeavour.

Foord considers ESG factors to be integral to the research and portfolio management process. They are essential to active shareholding. Because the long-term sustainability of income streams has always been fundamental to our investment philosophy, we have an acute awareness of non-financial factors embedded in the investment process.

In addition to a highly disciplined and well-defined proxy voting policy, the firm's proprietary application of ESG factors in the research process is complemented by specialist third party ESG research. Foord has a long track record of actively engaging company boards and management to improve sustainable outcomes for all stakeholders. We report our comprehensive ESG activities via an annual Stewardship report, ongoing investor feedback sessions and documentation available on the website and other channels.

Given this natural alignment, we endorse the principles espoused in the CRISA code:

Principle 1 – An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

As long-term investors, Foord understood the importance of taking account of social, environmental and governance issues long before the 2011 amendment of Regulation 28. ESG is an integral part of the overall investment process as these issues are critical to the future success and sustainability of the company. Sustainability is important in Foord's formal macro overview, its economic forecasting and probability analysis, and top-down asset allocation and is used as one of the subjective measures when rank attractively priced companies or evaluating the management of companies purchased for client portfolios. We have made ongoing incremental improvements to improve the external visibility of these activities and more formally record them to improve our ESG reporting.

Principle 2 – An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.

Foord assigns a formal ESG score to each of the companies under our research coverage. Importantly we also record the score trajectory (i.e. improving or declining) which automatically initiates a deeper dive from the relevant analysts to better understand the reasons for a company's ESG score trend. Company engagements are a cornerstone of our research process and we have a long history as an active shareholder. In addition, to discharge its responsibilities on the governance, social and environmental side and to fulfil its duty of care, the firm votes on behalf of clients in respect of their investments in accordance with Foord's voting policy. The voting policy is publicly available on the website. In brief, it requires that Foord:

- Staff apply their minds to all matters requiring the voting of clients' shares, irrespective of whether or not the number of votes to be cast may affect the outcome of the voting
- Maintain a register of all upcoming annual general meetings (attendance is compulsory where questioning of management decisions is deemed appropriate)
- Vote on resolutions in accordance with what it believes to be in the best interests of shareholders
- Consider environmental, social and governance issues for each vote
- Consider all other matters on a case by case basis.

Principle 3 – Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

Foord will continue to show leadership in shareholder activism in the South African investment management industry. Where appropriate, the firm will consider collaborative approaches to promote the interests of investors. In addition, Foord is an active member of the investment community and is an ordinary member of ASISA.

Principle 4 – An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.

Foord has a comprehensive internal policy on avoiding conflicts of interest. This policy is available on the website. In brief, it requires that Foord:

- Place client interest before its own as client interests are paramount
- Not engage in practices designed to distort prices or artificially inflate volume with the intent to mislead market participants
- Not act, or cause others to act, on material, non-public information that could affect the value of a publicly traded investment
- Give priority to investments made on behalf of the client over those that benefit their own interests
- Must not execute its own trades in the same security prior to client transactions
- Does not benefit from investment activities if such activities could adversely affect any client interest
- Must not engage in trading activities that work to the disadvantage of clients (e.g. front-running client trades)
- May, in certain circumstances, put its own capital at risk alongside that of its clients in order to align its interests with the interests of its clients (it being noted that thee arrangements are permissible only if clients are not disadvantaged)
- Ensures fair and equitable trade allocation among client accounts
- Discloses all material facts when providing information to clients regarding Foord's investments, its personnel's investments or the investment process.

Principle 5 – Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

All ESG related policy, process and reporting documentation is publicly available on the firm's website. The following documents can be accessed:

- ESG policy
- Proxy voting policy
- Conflicts of interest policy
- Annual stewardship report
- Quarterly stewardship update

ESG summaries are also included in all pension fund investor feedback presentations and meetings.

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 – 2019

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

	NUMBER	FOR	AGAINST	ABSTAIN
Adopt Financials	16	100%	0%	0%
Auditor / Risk / Social / Ethics related	140	94%	6%	0%
Buy Back Shares	30	87%	13%	0%
Director Remuneration	147	98%	2%	0%
Dividend Related	5	100%	0%	0%
Issue Shares	31	16%	84%	0%
Loan / Financial Assistance	44	52%	48%	0%
Other	40	83%	18%	0%
Political Expenditure / Donation	1	0%	100%	0%
Re / Elect Director	193	97%	2%	1%
Remuneration Policy	57	28%	72%	0%
Share Option Scheme	5	60%	40%	0%
Shares under Director Control	13	15%	85%	0%

SPECIAL NOTE ON CLIMATE CHANGE RISK

During 2019, there were two climate change related resolutions put to shareholders for voting at the Standard Bank and FirstRand AGMs, which was a first in South Africa.

In Standard Bank's case, the resolutions were as follows:

1. To report to shareholders on the company's assessment of greenhouse gas emissions resulting from its financing portfolio
2. To adopt and publicly disclose a policy on lending to coal-fired power projects and coal mining operations

In FirstRand's case the resolutions were as follows:

1. FirstRand should prepare a consolidated report to shareholders, by no later than end October 2020, at reasonable cost and omitting proprietary information, on its assessment of its exposure to climate-related risks (transition and physical) in its lending, investing and financing activities, including:
    - the amount and percentage of fossil fuel-related assets relative to total assets;
    - a description of any significant concentrations of credit exposure to fossil fuel-related assets; and
    - the amount of lending and other financing connected with climate-related opportunities.
2. FirstRand should adopt and publicly disclose on its website, by no later than end October 2020, a policy on lending to fossil fuel-related projects, including coal-fired power plants, coal mining operations and oil and gas exploration and production projects.

A summary of our positioning on these resolutions is as follows:

- Climate change is a material long-term risk factor that must be considered in a long-term investment management context
- Whilst climate change risk is not explicitly mentioned in the current Regulation 28, PF130 or other directives, the existing broad ambit regarding ESG considerations, provides ample space (indeed compulsion) for asset owners and investment managers to be appropriately seized with the matter.
- Over time, there are likely to be continued regulatory interventions (already emerging globally) as the climate change risk issue specifically continues to become more politically relevant and broadly accepted in the mainstream. As such, the proactive and relatively advanced ESG ecosystem in the South African retirement funding system is well placed and we are fully supportive of its further development.
- We also note however that the issue of investment choice is salient. Pension funds in the developed economies with their much larger investment opportunity sets can afford to be more resolute on applying ESG factors than South African investors, given the country's historic reliance on commodity exports. Exchange control constraints also mean that we must make do with a tiny subset of viable long-term investments.
- We therefore have a pragmatic approach whereby we can still invest in companies that score poorly in terms of environmental impact, but as owners will exert influence over these investee companies' ESG policies and look to see ongoing incremental improvements.
- Regarding the recent Standard Bank and FirstRand climate change related resolutions, we voted in favour of both in both instances. Quite simply, from an investor perspective more information enables better investment decision making. Therefore, whilst we might not necessarily proactively propose such a resolution, we will in most instances, vote in favour of one that does. In the case of Standard Bank and FirstRand, meaningful lending exposure to companies facing ethical headwinds and potential liabilities and additional regulation does pose incremental business risk, which albeit relatively small, needs to be understood and quantified to the extent possible. Lastly, from an ethical perspective it is positive for investors to demand greater transparency regarding all market players involved in areas which raise environmental concerns.

NOTABLE ENGAGEMENTS

Q1 2019	
Sasol	Met with remuneration committee to discuss proposed LTIP scheme and re-iterated our opposition to any incentive scheme that dilutes existing shareholders. Informed the committee that we feel there should be remuneration consequences for management given the unexpected delays in the LCCP cracker project. Once the LCCP project is complete, the company's cashflow should improve materially. As such, we think the committee needs to start thinking now about appropriate long-term targets/ guidelines for management's application of this cash-flow in the coming year.
BHP Billiton	Have raised with management our concern regarding the lack of direct mining experience at board level, especially for a company so dependent on mining.
EOH	Initiated co-ordination with other shareholders to effect change Extensive engagement with prospective BEE partner Labashe Actively involved in effecting change to the board of directors
Metair	Strong CEO but we think additional independent board oversight is required Engaged with new shareholder (Value Capital) and proposed 2 new board members

Q2 2019	
Mediclinic	Engaged regarding concerns around Remuneration structures.
Omnia	Met with management regarding the pending capital raising requirement as well as the bank's bridging finance facility. Ongoing discussions are taking place until the finalisation of the rights issue.

Q3 2019	
Omnia	The effect of two large acquisitions in the previous 12 months and a high capex year (new nitrophos plant commissioned in March 2019) meant that Omnia's balance sheet was strained at September 2019 interims. A drought affected agricultural season together with poor trading in their mining division meant that results to end March were very poor which exposed the company's already stretched balance sheet. This resulted in the banks threatening to pull Omnia's credit facilities and forcing the company into a rights issue. Foord instigated a shareholder supported under-write to ensure that excessive dilution was not imposed on the company by the risk averse banks. The R2 billion rights issue was successfully concluded with no call on the under-writers. Foord followed all their rights on behalf of our investors and remains invested in the company.

Q4 2019	
Sasol	We held a face to face ESG specific meeting with the new CEO. Main ESG risks center around pollution as Sasol's Secunda plant is a major source of carbon emissions. Sasol acknowledges the scientific evidence for climate change and has, for many years, been trying to mitigate its impact on the environment. It produces a comprehensive sustainability report and incorporates its progress on set criteria when reporting to shareholders to ensure long term value is not compromised. The introduction of a carbon tax in SA could result in a 5% knock to earnings so, as shareholders, it is essential that we engage with management to ensure the impact to their bottom line is limited. Although exposure to Eskom has been reduced with self-provision, major Eskom blackouts would impact production facilities. In addition, the board has also not necessarily been strengthened by recent appointments and we are flagging the effectiveness of the proposed new chairman. Longer serving, more experienced board members will have to take leadership in guiding the executive team. Against this, Sasol remains an uncorrelated source of return in our investor's portfolios and a good hedge against the Rand fuel price and therefore inflation. In addition, given the relatively narrow investment opportunity set in South Africa, the investment case for including it in our investors' portfolios remains. Our approach is to manage the various risks cited through position size and ongoing constructive engagement with the company, rather than outright exclusion.
FirstRand	Voted "For" on two special resolutions relating to climate change risk: We are in favour of increased disclosure that is deemed to provide greater insight into business, social and environmental risks pertaining to the group. Management has shown a clear understanding and active approach towards mitigation of ESG
Aspen	Engaged with Ben Kruger (board member) on general corporate governance issues, the structure and conduct of board meetings, interactions and conduct of the executive.
Stor-age	Interaction with Graham Blackshaw (new Chairman) on executive related party transactions.
Spur	Interaction with Mike Bosman (Chairman) on remuneration, related party transactions, board conduct and interactions.
Invicta	Engaged with Christo Wiese (Chairman) regarding general corporate governance and executive management.
Metair	Interaction with Sam Sithole (board member) on strategy, corporate governance, executive remuneration and board meeting conduct.
Italtile	Engaged Susan Du Toit (lead independent non-executive director) over the remuneration policy and share incentive scheme.