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ESG Policy

Version 1.1

Version Control

Version No.	Date Tabled for Approval	Purpose of Changes	Details of revisions to document
1.0	5 November 2020	N/A	First draft of document
1.1	26 July 2021	Updated values	Updated values

Contents

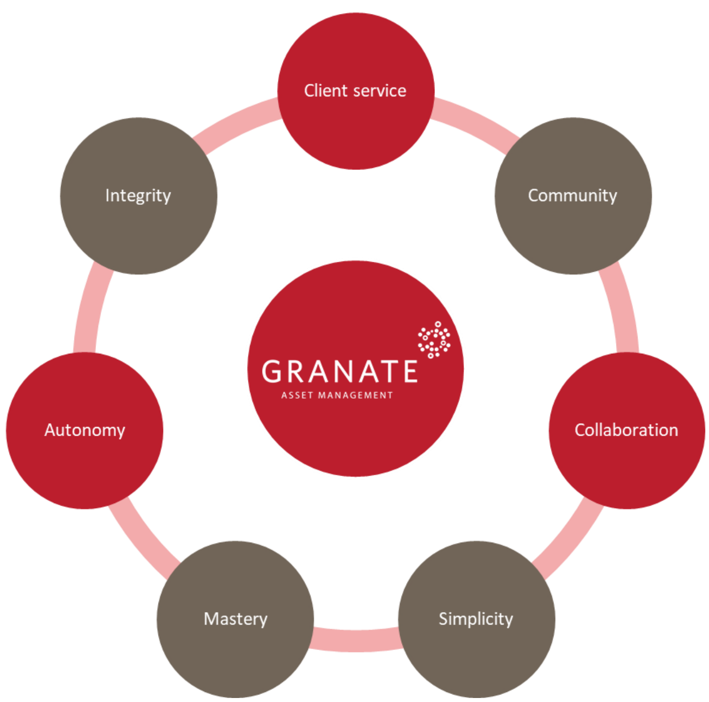
Guiding Principles

Our Purpose

Our purpose is **to protect and grow our clients' savings**. When we consider environmental, social and governance (ESG) related factors in our investment decisions, it is always with this purpose in mind. Whilst personal views and feelings naturally enter our discussions, our decisions are always made with our clients' best interests at heart.

Our Values

Granate's values are the pillars by which we measure ourselves. We are unwavering in our commitment to them and will never compromise on them for perceived progress. Our commitment as an organisation is to our clients and our colleagues. Everything else is secondary. These values form the foundation for our pragmatic approach to incorporating ESG considerations into our investing.



Integrity

ESG matters are extremely complex as they involve systems of interrelated entities with needs which often conflict. Academics in the same field with decades of experience will often disagree with each other on a single topic.

We are a team of people with decades of combined experience in investing our clients' savings. Over these decades, we have honed our skills and adapted as we learn from our and other's mistakes. Whilst we have extensive expertise in many areas of investing, we acknowledge that we have much to learn. We have a long track record of rigorously assessing corporate governance, however we still have much to learn. We are not experts on environmental and social matters. Here, we have even more to learn and will possibly never be experts. We will not pretend otherwise.

Collaboration

We are fortunate to have a team of diverse thinkers from diverse backgrounds and academic disciplines. We are accountants, actuaries, engineers, scientists and philosophers. There is a natural curiosity and desire to learn in our team. Every day is a learning opportunity on the path to mastery. Growing our ESG expertise is part of this journey.

We take a teamwide approach to difficult ESG decisions through our Investment Committee which includes the full team of investment professionals. We value conflicting opinions and encourage lively debate as this helps us view ESG matters from all angles. We take as much time as is needed to reach the best decision for our clients.

Simplicity

ESG is about our clients, colleagues and families and the world that we inhabit. ESG is human, and we are expert at being human (with all the good bits and the bad). We understand happiness and the decisions companies make to uphold or destroy happiness. We understand destructive environmental practices (while acknowledging that some are far more obvious than others) and the response companies are making to improve these practices.

As humans we have a strong sense of fairness, what motivates us and what is clearly ethical or unethical corporate behaviour. We believe that encouraging and incorporating these positive traits in our investment philosophy and process will benefit and support our clients, colleagues, and families. We believe there are many ways in which we can serve our community. A well-considered, integrated ESG philosophy is one of those. We are certain that ticking boxes to make it appear we have all the information and are equipped to make expert decisions on all ESG matters will be of no use to anyone.

Application of Governing Codes & Principles

Granate has incorporated the five key principles of the **Code for Responsible Investing in South Africa (CRISA)** into our investment approach as follows:

CRISA Prinicple	Summary of Our Approach
Principle 1: Incorporate sustainability considerations, including ESG, into investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.	ESG considerations factor into assessment of whether a company is investible and its sustainability and true profitability. Our approach is outlined in the next section ("Practical Approach").
Principle 2: Demonstrate acceptance of ownership responsibilities in its investment arrangements and investment activities.	We are active owners and engage with companies on ESG concerns, exercise bondholder voting rights and exercise proxy voting rights as equity holders.
Principle 3: Consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.	All investment professionals at Granate are involved in ESG-related decisions through our investment committee. More broadly, we are an active member of the Association for Savings and Investment SA (ASISA), which promotes responsible investment practices within the industry.
Principle 4: Recognise the circumstances and relationships that hold a potential for conflicts of interest and pro-actively manage these when they occur.	We have a Conflict of Interest (COI) Policy, a Personal Account Trading Policy and procedures in place for implementing these policies. Our policies are reviewed and signed off by all team members.
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.	Our Conflict of Interest Policy and approach to responsible investing are available on our website.

We also apply the United Nations Principles of Responsible Investing by following the approach outlined in this policy. However, we are not currently a signatory. We will consider becoming a signatory once we have grown to a financial position that allows us to commit funds to this.

Practical Approach

Incorporating ESG Considerations

ESG considerations impact our investment decisions and activities in two ways. Firstly, these considerations factor into our assessment of whether a company is investible. If so, they also factor into our assessment of the company's sustainability and true level of profitability. Secondly, we incorporate qualitative factors into our credit rating tool which we use to assess a company's probability of default. We also adjust growth and discount rates in our equity pricing models to account for ESG implications.

We may have ESG concerns that do not disqualify a company from investment but leave room for improvement. If this is true for any of the companies we invest in or lend to, we may engage with their boards and management teams. Our aim is to encourage greater awareness of their societal and environmental impact, and to offer constructive input on possible improvements.

Internally, ESG considerations are deliberated at Investment Committee meetings, which all fund managers and investment analysts attend. This ensures that we consider differing viewpoints, helps to identify aspects we may need to investigate further and encourages discussion and debate. When investing, we seek appropriate disclosure on ESG issues from investee companies, ask for standardised ESG reporting if our counterparties have access to such tools and may engage with management teams on ESG concerns.

We are an active member of the Association for Savings and Investment SA (ASISA), which promotes responsible investment practices within the industry. We adopt the principles of the UN PRI but are currently not a signatory, due to financial considerations. We will consider becoming a signatory once we have grown to a financial position that allows us to commit funds to this.

Governance Considerations

The first component of our research comprises a detailed corporate governance analysis for each company we invest in or lend to. Our key considerations and the purpose of considering these is outlined in the table below.

If we have material governance concerns, we will exclude the company from further analysis as we believe such companies pose unacceptable risk. If we believe that the company is investible but that governance is weak in specific areas, we will raise our concerns with investor relations, management or the board.

We have many examples of where we have excluded companies because of governance concerns and engaged with investor relations on governance matters. We are happy to provide examples upon request.

Consideration	Questions to be addressed
Composition, qualifications, strength and independence of the board	Is there sufficient oversight from the board to ensure that the interests of shareholders (particularly minorities) are protected?
The experience and track record of the management team	Do we trust the management team to be honest, take a long-term view and act for the good of the company and its stakeholders?
Potential conflicts of interest and related party transactions	Are we sure that related parties are not extracting value from the company in a way that is detrimental to other stakeholders? Are all parties free and able to act in the best interests of the company?
The principles of remuneration and how these are applied	Is management incentivized to act in the long-term interests of the company?
Balance sheet strength	Has the company used its balance sheet responsibly and managed the associated risks effectively?

Societal / Social Considerations

We consider how heavily management teams weigh client/customer, employee (direct or down the supply chain) and societal happiness. This is not an exact science, as objective information is often not freely available, and any conclusion is therefore a matter of degree. It is our policy of requesting supply chain and environmental analysis reports from companies where we believe this is not sufficiently dealt with in their Integrated Report or other publicly available information.

Our approach is guided by the questions outlined below. This is not an exhaustive list but instead designed to prompt critical thinking from the team about social factors and their impacts.

If we believe that a company's negative actions might affect the long-term sustainability of the business, we would either exclude the company from our investment universe or adjust expected profits and may engage with management on our concerns. On the flip side, if we believe a company weighs these factors heavily in their actions (in a positive sense), it encourages us to place a greater value on the company and increase our portfolio sizing accordingly.

Can we identify any ways in which the company acts against the interest of its stakeholders (e.g. employees, supply chain, customers, wider community)?	
If the answer is yes	If the answer is no
• Could these negative actions impact on the long-term sustainability of the business? • Is there evidence that the company is aware of these risks and making improvements? • Can we reasonably account for these risks in our analysis?	• Are there clear processes in place to monitor the health of relationships with key stakeholders? • Is there evidence that stakeholders are unhappy? Could this impact on the long-term sustainability of the business? • Does the company go out of its way to have happy stakeholders? Is this likely to positively impact their future profitability? • Does it seem like information is missing? Is lack of transparency a concern? What might be important that we aren't seeing?

Environmental Considerations

In evaluating environmental impacts, we identify the matters that appear most material to the business based on the nature of its operations. We acknowledge that most assessments and reported information is subjective and we remain aware of potential limitations to our knowledge. If we believe the information in Integrated Reports or company websites is insufficient, we request environmental footprint analyses from companies. This also helps to encourage management teams to give these factors greater consideration.

Our approach is guided by the questions outlined below. Again, this list is not exhaustive and designed to encourage the team to think critically.

If we believe that a company is so detrimental to the environment that it renders the business model unsustainable, we exclude it from our investment universe. If we believe profitability is artificially high, we adjust for this in our analysis and consider engaging with management on the issues. Similarly, if we see evidence of the company taking a particularly proactive approach to environmental sustainability, it might positively influence our valuation of the company and encourage a larger position.

Does the company cause serious environmental harm by the nature of their business?	
If the answer is yes	If the answer is no
• Is it clear that suitable actions are being taken to manage and mitigate these risks? • Could serious environmental harm negatively impact on the long-term sustainability of the business? • Can we reasonably account for these risks in our analysis? • Does the company provide sufficient information for us to answer these questions? Are there any gaps? Is transparency a concern?	• Does the company monitor and evaluate key aspects of their environmental impact? If not, what are the possible hidden risks? Is transparency a concern? • Are there signs of proactive measures and improvements? If not, is this likely to impact on the long-term sustainability of the business? • Does the company go above and beyond what is required? Is this likely to positively impact their future profitability?

Ownership Responsibilities

We are active owners and engage with companies on ESG concerns. As debtholders, we have adopted the necessary principles to vote on decisions that affect corporate behaviour and have exercised bondholder voting rights numerous times. As equity holders, we exercise proxy voting at companies' AGMs and will vote on key ESG-related issues where relevant. This process is governed by our Proxy Voting Policy and recorded in our Proxy Voting register. We have various opportunities to address ESG issues with management teams. These include public presentations, one-on-one engagements, and formal correspondence with boards of directors. We have a Conflict of Interest Management Policy and a Personal Account Trading Policy, along with established processes to monitor compliance. We also have controls in place to prevent insider trading as defined by the Securities Services Act.