Responsible Investment Policy
(Environmental, Social & Governance)
## Responsible Investment Policy

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1. Introduction

Ashburton Fund Managers (Pty) Ltd (“Ashburton”) manages investments portfolios for its clients and has a duty to manage those assets in a responsible manner.

As recognised by the South African Pension Funds Act Amendment of Regulation 28, “prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund’s assets, including factors of an environmental, social and governance (ESG) character. This concept applies across equity securities and should promote the interests of a fund in a stable and transparent environment.”

Ashburton regards the management of clients’ assets to be of paramount importance as part of fulfilling its obligations towards its clients. This means adhering to the terms of investment agreed with our clients, while anticipating and responding to any material risks or opportunities that may influence the performance of the assets we have been entrusted to manage. This includes ESG issues likely to affect business performance.

The purpose of this policy is to define Ashburton’s approach to integrating the consideration of ESG risks and value creation opportunities into investments made through its fund manager investment activities.

This policy provides guidelines to the investment managers of Ashburton on how to consider ESG factors in the management of clients’ assets.

It includes consideration of material ESG issues in the course of portfolio construction and management to the extent reasonably practical, based on information and resources available, and in line with any specific requirements expressed by clients, as well as the duty of Ashburton to maximise the returns on investment.

This is not, however, prescriptive and there may be instances where the investment manager exercises decision making that is contrary to the policy guidelines. In these instances a record will be kept as to the reasons for such deviation.

2. Disclosure and transparency

Ashburton will report annually on implementation of this policy to the Ashburton Responsible Investment (RI) Committee and will disclose reports to clients upon written request.

3. Scope

This policy is applicable to, but not limited to all mandates, managed on a discretionary basis by Ashburton Fund Managers (Pty) Ltd.

4. Applicable legislation, related documents and reference documents

- International Corporate Governance Network, Global Governance Principles 2014
- South African Companies Act 71 of 2008
- King Code of Governance for South Africa (King III)
- Johannesburg Stock Exchange listing requirements
- Regulation 28 of the South African Pensions Fund Act, 1956
- Code for Responsible Investing in South Africa (CRISA)
- United Nations supported Principles for Responsible Investing (PRI)
- The Carbon Disclosure Project
- The Water Disclosure Project
5. The business case for RI

At Ashburton, we understand our clients’ individual needs and offer risk-return profiles that address the strategic investment challenges they face. In this respect, we consider responsible investment (RI) core to how we operate and reflect this in our robust investment governance processes. A growing body of research shows that responsible companies are more likely to outperform their peers in financial terms.

Responsible companies are more likely to have good governance processes, effective risk management and stakeholder engagement; as well as effective compliance functions. Responsible companies are also more likely to prepare for changes in their operating environment, whether this entails resource scarcity, climate change, volatile energy costs, shifts in public opinion, availability of skills, or changes in market demand for products and services.

Incorporating ESG factors into our investment and ownership decisions supports the pursuit of superior risk-adjusted returns for our clients.

6. A group-wide competency in responsible investment and finance

The strength of our investment proposition is our unique ability to leverage investment thinking and capability across the FirstRand Group to provide investors with access to more sources of return, broader investment capabilities, and greater risk management.

As part of the FirstRand Group, we are also able to harness group-wide knowledge and competencies when it comes to assessing and managing ESG risks and opportunities, both from an investor perspective and in terms of our operations in Africa.

FirstRand leads these efforts through its application of the Equator Principles, a comprehensive set of internationally recognised, voluntary guidelines for sustainability in project finance, adopted by over 80 financial institutions globally.

The application of the Equator Principles forms part of the FirstRand Environmental and Social Risk Assessment (ESRA) programme, which is aligned to international best practice as well as requirements of The Banking Association South Africa’s Principles for managing environmental and social risk.

In addition, Ashburton has a Social & Ethics Committee which reports to the FirstRand Social & Ethics Committee.

7. Expectations of investee companies

Identification of material ESG issues enables us to tailor our investment choices and engagements with investee companies to enhance economic value.

At a minimum, we expect investee companies to comply with local laws and regulations. We also expect them to publicly report at least annually on material ESG risks and opportunities affecting or likely to affect their business in the short, medium and long term, and to explain how these are managed.

Ashburton will not however, insist that investments should be selected or rejected solely on the basis of ESG factors. The manner in which ESG considerations are integrated into the investment making decision will vary due to the various asset classes.

We therefore advocate adoption of integrated reporting by listed companies to the extent it requires disclosure of strategy and management approach to material ESG risk areas. It is suggested that investee companies consider ESG performance indicators/programmes, assess their relevance to their operations, and identify
those indicators material to influence their ability to create and sustain value in the short, medium and long-term, as part of their corporate sustainability management and reporting processes.

8. Our asset class approach to investment

At Ashburton, our approach is to understand our clients’ individual needs and offer risk-return profiles that address the strategic investment challenges they face. In this respect, we consider responsible investment (RI) core to how we operate and reflect this in our robust investment governance processes.

Our primary responsibility is to act in the interests of our clients to the best of our ability. This means adhering to the terms of investment agreed with our clients, while anticipating and responding to any material risks or opportunities that may influence the performance of the assets we have been entrusted to manage. This includes ESG issues likely to affect business performance.

We have adopted the definition of RI most widely recognised internationally and locally:

“investment management processes and ownership practices that take environmental, social and corporate governance (ESG) considerations into account in the belief that these factors can have an impact on long-term financial performance.”

Ashburton as part of the FirstRand Group Limited does subscribe to the FirstRand Excluded Activities list. A FSR Exclusions list has been developed which indicates activities which FirstRand will not finance. These activities will include a potential transaction within an industry which FirstRand will not finance due to legal constraints, financing restrictions due to international financing agreements, or where FSR may suffer reputational damage as a result of involvement within the specific industries.

The identification of these activities has been integrated into the responsible investment practices of Ashburton. We also do not invest directly in individuals, entities or countries on the sanctions list of FirstRand Group South Africa.

Furthermore we support various industry initiatives such as the JSE ESG Indices, Impact Reporting Investment Standards (IRIS) and the Carbon Disclosure Project (CDP) to ensure that information within the ESG environment is sufficient for meaningful analysis.

We acknowledge the four different approaches of responsible investment, namely Themed Investing, ESG Screening (positive/negative), ESG Integration and Active Ownership Initiatives. The different approaches will be followed depending on the asset class in question.

Ashburton has developed in-house guideline documents to assist the investment teams in conducting ESG analysis.

8.1 Listed Equities

8.1.1. ESG Integration

Our fund manager investment proposition draws on the knowledge and expertise of our investment team to research and analyse stock selection opportunities. Ashburton’s investment philosophy emphasizes the selection of shares based on principles of “Substance and Sustainability”. This underpins how ESG is considered in the investment process.

Ashburton aims to incorporate relevant material (only publicly available information can be used) and quantifiable ESG factors in its decision making and assess ESG risks at company level. Integration of ESG into investment analysis and decision-making is conducted at the stock selection phase.
Ashburton has developed in-house guideline documents to assist the investment teams in conducting these reviews.

8.1.2. Active ownership

Ashburton takes active ownership seriously and emphasises direct engagement with companies on material risks or opportunities that may influence business performance and shareholder returns. For listed equities, this includes a combination of direct engagement and the use of proxy voting where relevant.

8.1.2.1. Direct engagement

Ashburton’s strategy of preference is to engage directly with company management on matters of material interest to enhanced value creation for customers, society and shareholders. It is our belief that we can only engage effectively on priority issues by first gaining a deeper understanding of the company’s rationale and operating context.

We will seek to provide a constructive perspective on ESG as well as other business risks and opportunities that the company faces; and will aim to reach a mutual understanding on the appropriate route forward for the company.

Should we not be able to achieve mutual understanding and satisfactory action on the part of the company, we will employ other strategies to manage portfolio risk.

8.1.2.2. Proxy Voting

Ashburton has adopted a Proxy Voting Policy, which guides investment managers of Ashburton on how to exercise shareholder rights in the best interests of their clients. Ashburton investment managers are responsible for identifying sustainability, corporate governance or strategic concerns of companies held in their portfolios.

Ashburton will disclose investment manager proxy voting records to clients upon written request.

8.1.2.3. Exclusion or adjustment of weighting

Should direct engagement and shareholder voting prove to be insufficient, Ashburton may employ weighting strategies or exclusion to address investment risk in portfolio construction.

Adjustment of portfolio weightings serves to minimize the exposure of our investments to particularly controversial sectors and companies. For instance, in some cases, despite good company governance, the sector itself or the operating context might represent excessive environmental and social risk. Weightings will be determined based on actions taken by the company to address and manage these risks effectively. Where specific issues are noted with a potential investee, Ashburton will engage with the company on these issues to gain a greater understanding of the risks and controls before moving to exclude the company from the portfolio. Should the risk be significant enough, Ashburton may choose to exclude a company or sector entirely. Exclusion is considered an option of last resort.

8.2. Fixed Income and Debt Finance

While ESG integration within this asset class is growing in interest among institutional investors, incorporation of ESG issues into this asset class remains a work in progress.
8.3. Non Traditional Strategies

While ESG integration within this asset class is growing in interest among institutional investors, incorporation of ESG issues into this asset class remains a work in progress.

9. Conflict of Interest

Ashburton is very conscious of its fiduciary responsibility to clients and stakeholders and has adopted a detailed Conflict of Interest Policy, available on our website via the following link: http://www.ashburtoninvestments.com/docs/default-source/documents/legal/conflict-of-interest-policy.pdf?sfvrsn=2

10. Training of Staff

- Training of Staff involved in the investment process will be conducted throughout the implementation stages of this Policy.
- Where necessary, the expertise of third parties will be employed to ensure that effective training is conducted.
- Training will be conducted whenever required.

11. Commitment to Continual Improvement

We recognise that, like all aspects of effective investment decision making, consideration of ESG dimensions requires on-going attention to market trends, evolving stakeholder expectations, and emerging risks and opportunities.

Ashburton is therefore committed to:

- Developing and retaining competencies for ESG analysis through staff training and knowledge sharing.
- Actively monitoring the ESG performance of companies in our portfolios.
- Strengthening internal systems to efficiently track and manage ESG aspects alongside other elements of the investment process.
- Refining our policy on an annual basis to keep pace with market changes.
- Reporting to our clients on implementation of our policy and the impact on portfolio performance.
- Collaborating with investee companies to improve ESG performance.
- Collaborating with other investors to improve shared understandings of RI and drive improvements in private sector ESG management.

These processes are guided and monitored by the Ashburton RI Committee, which is responsible for

- Annual review of the RI policy.
- Review and update of proxy voting policies.
- Approving engagement with investee companies.