

## 1. SCOPE AND PURPOSE

Prescient Investment Management (Pty) Ltd's ("Prescient") engagement policy stipulates the firm's approach and guiding principles to engaging with investees and stakeholders on environmental, social and governance (ESG) matters. These principles apply across the various asset classes and the geographical investment universes with the purpose of ensuring the effective implementation of the firm's Responsible Investing Policy mandate. We apply an integrated approach to responsible investing by systematically incorporating engagement activities into our investment and corporate activities. This broader and holistic approach supports our belief that the Financial Services Industry has a responsibility to ensure that capital flows are directed in such a way that they promote positive environmental, social and governance change.

## 2. COMMITMENTS

Prescient is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and adheres to Principle 2, which speaks to the commitment of signatories to be active owners and to integrate ESG issues into their ownership policies and practices. In addition, we adhere to the Code for Responsible Investing in South Africa (CRISA), which correlates with the UN-backed Principles for Responsible Investment (PRI) mentioned above.

## 3. SCOPE OF ENGAGEMENT ACTIVITIES

Prescient engages investees and stakeholders on material ESG issues across all asset classes. Given the diverse factors to consider when engaging with various stakeholders, our engagement guidelines are tailored for three distinct classes of engagement: Engagement with Investees, Engagement with Other Stakeholders and Engagement by Proxy Voting. The scope of this policy is applicable across the business and caters for all asset classes including fixed income and equity securities. Our investment portfolios are screened on compliance with environmental, social and governance criteria in line with Prescient's ESG Policy. Furthermore, Prescient conducts security specific ESG due diligence using the research conducted by our in-house credit team, our in-house ESG analysis tools and our trusted brokers' ESG research. Cases where there are ESG concerns in the portfolio are discussed in challenging sessions between the relevant portfolio managers and the ESG Committee and escalated appropriately before an investment decision is made.

## 4. ENGAGEMENT TARGETS

Prescient adopts a holistic and integrative approach to sustainable investing. We consider environmental, social and governance issues as value drivers in our investment process, thereby shifting the traditional perception of what constitutes returns. The goal is to ultimately strike a balance between short-term financial gain and longer-term sustainability goals.

We employ multiple engagement methodologies that endeavour to meet three key engagement targets: (i) improve ESG awareness; (ii) probe change within investees; and (iii) influence public policy and marketplace issues.

- **Improving ESG awareness.** Prescient aims to improve the understanding of specific issues among companies by defining and communicating clear ESG expectations to investees. Similarly, we strive to gather detailed and accurate corporate ESG-related information where it is not readily available.
- **Probing change within investees.** We set out to further develop our position as an active shareholder by actively engaging investees who fall short of our ESG expectations. Our goal is to facilitate change within companies by collaboratively setting goals and defining a timeline within which they are to be achieved.
- **Influencing public policy.** We aim to establish robust partnerships with relevant and interested stakeholders with the aim of building sustainable financial markets by influencing public policy and diffusing industry best practice.

We understand that the materiality of certain ESG factors differs across companies and sectors. As such, we strive to focus our engagement efforts on the most material issues in order to influence companies to optimise their sustainability potential. We measure our engagement progress by means of four milestones.

## 4.1. Engagement Milestones

1. **Lodging concerns with investees.** Prescient identifies ESG related concerns and brings them to the attention of the investee company.
2. **Receiving investee responses.** The investee acknowledges receipt of the concern and responds accordingly. The aim is to receive a commitment from the investee to investigate the issue and to set out a plan to resolve the issue.
3. **Policy Development.** The investee company develops policy or applies changes to the existing system with the intention of addressing the issue.
4. **Change Implementation.** The investee company provides us with a report regarding the implementation of the changes and provides us with ongoing/periodic updates where deemed necessary.

## 5. TYPES OF ENGAGEMENT

Prescient has three pillars of engagement namely: Engagement with Investees, Engagement with Other Stakeholders and Engagement by Proxy Voting.

### 5.1. Engagement with Investees

#### Engagement on Environmental Issues

We engage with investee companies on environmental issues such as carbon emissions, greenhouse gas emissions, water usage, air, land, and water pollution as well as fossil fuel extraction. We also value efficient sustainability reporting and transparency by means of compliance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards. Furthermore, both the Prescient Clean Energy and Infrastructure Debt Fund and the Prescient Infrastructure Debt Fund aim to build a portfolio of investments that improve the sustainability of our energy supply and provide the infrastructure that is vital for the development of South Africa. As such, we engage investees on environmental issues to provide debt financing to clean energy and infrastructure projects within South Africa that are in line with our sustainability targets.

#### Engagement on Social Issues

Prescient believes that social factors are some of the most critical elements in creating human dignity especially in South Africa. As such, we strive to engage investees on matters relating (but not limited) to fair labour practice, health and safety and their Corporate Social Investment initiatives. Additionally, we actively support broad based transformation and seek to encourage

investees to meet employment equity standards by addressing board and workforce diversity and the maintenance and improvement of their respective B-BBEE scores.

## **Engagement on Governance Issues**

We engage investees where it is of our view that there are critical governance issues that require urgent redress or contravene the governance standards defined within our investment process.

In the case of State-Owned Enterprises (SOEs) and unlisted companies or debt issuers, we perform a comprehensive bottom-up governance analysis of each investee utilising information we gather from engagements with their management. Factors we consider in our engagements include:

- Board and Leadership Structure;
- Remuneration Practice;
- Accounting Standards;
- Compliance with the Public Finance and Management Act (in the case of SOEs); and
- On-going Investigations.

## **Bond Issuers**

The guidelines for continued engagement with bonds/fixed interest securities issuers comprise of Matters Outlined in Negative Covenants, Other Material Matters and Management Visits.

### **Matters Outlined in Negative Covenants**

At inception of the agreement, we clearly outline the negative covenants which the issuing entity should not breach and thereafter monitor these on an on-going basis. In the case where a negative covenant has been breached, we contact (in writing) the issuing company for further details regarding the breach and notify them of the contravention of the agreed upon terms. Initially, the goal of the interaction is for the issuing entity to remedy the breach, given strict timelines. Should the issuing entity fail to remedy the breach within the given time frame, the breach is officially recognised and the conditions specified in the initial agreement come into effect (e.g. recalling of the lent amount or stepping up of the interest rates).

### **Other Material Matters**

Ensuring that we are constantly acting in the best interests of our clients entails on-going monitoring of the overall operations and management of our debt issuers. In the case where adverse issues materialise that are not covered in the negative covenants, we contact (in writing) the issuing company for further details regarding the issue, gather their plans for remedying the issue and agree on timelines. Should the engagement lead to unsatisfactory results, we take further steps to safeguard the interest of our clients (e.g. recalling the lent amount).

### **Management Visits**

The management of the bond-issuing company is obligated by regulation to conduct annual visits in order to discuss various matters and present relevant reports to the management and fund managers of the bond-holding companies. These annual visits provide an essential platform for effective engagement.

## 5.2. Engagement with Stakeholders

As a UNPRI Signatory, we regularly attend seminars to keep abreast of themes and new developments within the responsible investing landscape. Furthermore, we approach analysts that have developed models for ESG analysis and various other ESG screening tools in order to enhance the ESG considerations in our investment process. We also have access to the PRI Clearinghouse which is a collaborative platform that facilitates the collaboration of PRI signatories through the organisation of working groups and questionnaires that influence UNPRI investor guides and frameworks.

## 5.3 Proxy Voting

As the appointed portfolio manager, Prescient invests money on behalf of its clients through the management of segregated and other portfolios, largely in companies listed on the Johannesburg Securities Exchange (JSE), as well as corporate debt issuances. Corporate behaviours that diverge from the interests of investors, including abuses are more inclined to occur within an environment of shareholder apathy and shareholders therefore share responsibility for protecting the value of their investments against potentially harmful management decisions and practices.

Voting on Ordinary and Special Resolutions is decided on a case-by case basis, and portfolio managers are expected to apply their minds to each issue. The internal proxy voting register lists all the Annual General Meetings and the General Meeting for all the companies where Prescient owns shares and needs to vote on behalf of clients. The register includes all historic meetings and the upcoming meetings. Not only does this provide a historic account of the votes but also records previous resolutions passed by the company.

Proxy voting within the fixed income context is mainly related to the contents of the Debt Listing Requirements. Debt Listing Requirements outline the rules and procedures governing new applications and the ongoing obligations of applicant issuers. In the case where the issuing company wishes to alter the contents of the Debt Listing Requirements such as a change in covenants, a vote must be cast by the holders of the securities. In this case, we would cast a proxy vote on behalf of our clients by forwarding our vote to the debt sponsor, who will then vote on the JSE platform on our behalf.

## 6. CONFLICT OF INTEREST

Conflicts of interest may potentially arise from engagement with various stakeholders. In order to safeguard the interests of our clients and ensure that we continuously remain unbiased in our engagement process, Prescient has procedures and guidelines in place that facilitate the management of potential conflicts. Where potential conflicts are identified, our main objective remains safeguarding the interests of our clients by ensuring that such conflicts are effectively managed in a timely manner. Prescient also has a Conflicts of Interest Management Policy that facilitates the prevention and management of potential conflicts.

## 7. MONITORING

Prescient understands that adequate integration requires continuous monitoring and disclosure of our active ownership activities as part of our regular reporting framework. All policies, including our active ownership policy, goals and progress made are continuously monitored and reviewed on a periodic basis. Reports covering policy implementation results, impacts and amendments are prepared for various stakeholders and made available upon request. Such reports are intended to ensure that the various beneficiaries, trustees, and the broader public can help hold the organisation accountable to any newly incorporated policy.

## 8. TRANSPARENCY

Prescient endeavours to provide full transparency regarding all engagement and voting activities. All the key outcomes of any engagements are documented and made available to all stakeholders upon request. Furthermore, our annual Principles for Responsible Investing (PRI) report, which lists all engagements for the specific reporting period is available on the Prescient website.

## 9. CONCLUSION

Prescient applies a holistic, collaborative and integrated approach to engagement as we believe that this aligns with our ESG integration guidelines and our overall approach to responsible investing. We believe that we have a duty to ensure that capital flows are directed in such a way that they support positive environmental, social and governance change. We endeavour to fulfil this duty through our commitment to be active owners and engrain ESG matters into our investment process.

### Policy Amendment Log

Effective Date	Pages	Authorised by	Amendment and Reasoning
September 2019	All	Bastian Teichgreeber (Head of Research)	First Draft
September 2019	All	David Jarman (Compliance and Risk)	Compliance Review and Changes
October 2019	All	Nadia Galloway (Legal)	Legal Review and Changes
October 2019	All	Bastian Teichgreeber (Head of Research)	Final Policy Review
July 2020	3	Bastian Teichgreeber (Head of Research)	Updates to Engagement with Investees
September 2020	All	Bastian Teichgreeber (Head of Research)	Annual Review
August 2021	All	Bastian Teichgreeber (Chief Investment Officer)	Annual Review

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