



M E R G E N C E

Responsible Investment (RI) Policy

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Preamble

Responsible Investing (RI) is an investment practice that advocates and commits to the due consideration of environmental, social and governance (ESG) factors. RI is a broad term that encompasses different approaches that can be applied across various investment styles, e.g., socially responsible investing (SRI), targeted investments or developmental investing, ESG screening, fundamental valuations, investor engagement and active ownership initiatives.

Philosophy

Mergence Investment Managers (Pty) Ltd (“Mergence”) is a fiduciary asset manager: Our clients’ needs, preferences and guidelines supersede all other considerations except law or regulation. We believe all investors – including responsible or socially responsible investors – should earn commensurate returns for risks taken.

Thus, our policy and strategy for responsible investing exists within the framework of achieving appropriate returns for risks borne and satisfying clients’ expressed requirements and policy guidelines and directives.

Mergence believes that “everything counts” and therefore considers the impact of our investment activities on society and given client mandates. We believe that environmental, social and governance (ESG) issues are important factors to consider in managing investments and its attendant risks. We continuously seek to invest our clients’ funds in a responsible manner, consciously making an effort to be cognisant of these issues and actually contributing to the realisation of ESG objectives.

Mergence aligns itself and seeks to cooperate with organisations, investors and other investment managers embracing and pursuing similar RI objectives. We believe that such alignments greatly enhance ESG initiatives and making a genuine impact.

Finally, Mergence’s commitment to RI is captured by a philosophy that the wealth of society is more than mere pecuniary reward, and also encompasses broader societal wellbeing and prosperity in the spirit of “Ubuntu”.

Our commitment

Mergence’s ESG framework integrates environmental, social and governance issues into the investment analysis and decision process with the view of mitigating overall portfolio risk and/or making a constructive impact where warranted. The purpose of integrating ESG factors is to enhance the analysis of all investments by explicitly taking ESG issues into account, promote improving standards of practice, and assisting the investment process to mitigate any ESG risks to potential or existing loans or investments.

We believe that investment processes may profitably and suitably include the analysis of ESG factors in the assessment of investments. ESG factors are considered and assessed on the basis of both:



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- Economic grounds (e.g. well governed companies tend to be less risky; companies with sustainable environmental or labour policies will be less risky), and/or
 - Social grounds (e.g. tobacco is damaging to the health and welfare of the nation; road transport is beneficial for national development).

Inevitably, ESG screening or developmental investments are subjective matters that require judgement, either by Mergence (within mandates) and/or by our clients. We note that many RI policies are transitory (e.g. anti-apartheid, anti-nuclear) while others persevere through time (e.g. infrastructure, corporate engagement, proxy voting, etc.), but in all cases due consideration and judgement are important in expressing preferences and making decisions.

The application of such ESG analysis and screening is defined by our clients' expressed preferences and/or guidelines. Where these are absent, we exercise our best judgement as a fiduciary to reduce risk and achieve targeted returns while concurrently aiming to create positive social impact. At all times the fund's asset allocation or investment strategy is geared towards ensuring that satisfactory risk adjusted returns are achieved. The dual goals of maintaining principles of sound portfolio management and achieving meaningful ESG outcomes remain important aspects of the investment process.

Mergence is a signatory to the **Principles for Responsible Investment (PRI)** which is supported by the United Nations and endorses the **Code for Responsible Investment in South Africa (CRISA)**.



Annexure A

Incorporating ESG into the investment process

Mergence continues to seek opportunities to incorporate ESG criteria into investment analysis and decision making processes by assessing companies against specific ESG criteria. While we invest in a range of asset classes, fixed income makes up an important part of our investment capability. In addition, we manage several impact (SRI) funds. These impact funds form a subset of our responsible investment strategy and reflect the intentions of investors to do good by consciously committing funds to investment vehicles that make a positive impact on the environment and broader society. An ethos of sustainable investing for the benefit of current and future stakeholders is thus endorsed. In the South African context, developmental investing also encapsulates the social, infrastructural and developmental needs of our country with the aim of effecting change and realising acceptable risk adjusted returns for investors. Our impact suite of funds consists of the following:

- Listed Equity (ESG Equity)
- Unlisted Debt (Renewable Energy, Infrastructure and Development Debt)
- Unlisted Equity (Infrastructure and Development Equity)
- Fund of funds incorporating our suite of SRI funds as building blocks (SRI and Composite Bond).

The ESG framework seeks to achieve the following outcomes:

- Screen investments using the ESG factors as part of the due diligence process,
- Evaluate ESG risks,
- Monitor the ESG activities of companies,
- Measure how companies improve over time,
- Engage with companies when risks are identified or ESG matters need to be addressed, and
- Report to stakeholders on ESG issues in our investments in a transparent and accountable manner.

Active Ownership & Engagement

Mergence employs active ownership practices that assist us in engaging with companies on their sustainability (ESG) initiatives.

The PRI defines active ownership as “the use of the rights and position of ownership to influence the activity or behaviour of investees”. This can be applied differently in each asset class. For listed equities it includes both active engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes (e.g. fixed income), active engagement are more relevant while (proxy) voting may not.

Furthermore, the PRI defines engagement as the “interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.”

This is appropriate and aligns with our objective of ensuring long-term sustainability for our clients and society. We believe in collaboration with investee companies by engaging with management to



encourage companies to think about their approach to ESG issues, with the purpose of improving overall sustainability and corporate-social responsibility of companies.

Where possible, we engage on various matters that affect the triple bottom line. Our local code of corporate governance, King III, acknowledges and encourages the move away from the single bottom line (i.e. profit for shareholders) to a triple bottom line that embraces the economic, environmental and social aspects of a company's activities. Herewith some corporate engagements/activities (depending on the asset class):

- File shareholder resolutions,
- Attend annual general meetings, debt-holder meetings and other relevant meetings,
- Engage in negotiating debt related terms and conditions, and
- Engage in proxy voting and lender related issues.

Listed & unlisted equity

We hold directorships and /or actively engage management where we have unlisted equity stakes and exercise our rights through a combination of proxy voting, active ownership and engagement. We believe in active intervention through our board representations and management support, especially in the case of unlisted equity holdings.

Mergence is responsible for exercising voting authority over securities which form part of our clients' portfolios. Through our proxy voting guidelines we seek to promote:

- **Clients' interests:** promoting the protection and/or enhancement of our clients' interests,
- **Long-term value creation:** aligning the interests of management with those of shareholders and other stakeholders,
- **Accountability:** of management to all stakeholders, especially investors, and
- **Sustainability:** companies that have good corporate governance are those whose operations are financially, socially and environmentally more sustainable.

The latest voting records and engagement initiatives are available upon request. Mergence believes in active ownership and engagement; we express these values through various directorships and representation on numerous committees.

Listed & unlisted fixed income

We stay involved throughout the term of the loan, receiving monthly management accounts and attend quarterly meetings where we have the opportunity to engage with management on an ongoing basis.

Within the unlisted space, we actively engage management and related parties on matters (performance, reporting, legal, technical, ESG etc.) pertinent to the investment and ensuring ongoing compliance with the terms and conditions of transactions.



Unlisted property

We believe in active ownership and intervention through our board representation on the property holding company responsible for making the property investments.

Evaluating and monitoring

Evaluating and monitoring our engagement activities are important. We seek to achieve the following outcomes through this process:

- Monitor the ESG activities of companies,
- Measure how companies improve over time by addressing ESG issues with management,
- Disclose to our stakeholders the approach and progress of investee companies on ESG matters, and
- Report to stakeholders on ESG issues appertaining to our investments in a transparent and accountable manner.

Within the broader investment community we believe that we must lead by example. We thus expend energy and effort to encourage others to commit to and embrace responsible investing. By engaging and collaborating with them, we jointly aspire to improve awareness and actions throughout the entire investment community and among all stakeholders.

Disclosure on ESG issues

Mergence believes that engagement with investee companies on matters of ESG is important. In general, we do not believe in being prescriptive when engaging on ESG issues. Instead we aim to encourage investee involvement through the adoption of and commitment to ESG issues, with the aim of improving, disclosing and reporting on these issues.

Promote acceptance and implementation of ESG

Mergence promotes the principles of responsible investment practices within the investment industry through our engagement with clients, various industry representatives, companies and government bodies.

- **Clients:** engaging and educating clients on RI, SRI and ESG developments,
- **Media:** active advocate for RI and ESG issues - we actively seek to promote RI in the media and all industry forums with the purpose of raising awareness,
- **Industry:** promotion of RI in industry issues and policies, i.e. contributing to the draft Code for Responsible Investment in S.A (CRISA).
- **Government:** engaging government on regulatory issues relating to responsible investment policies, i.e. engagement with government and the JSE on the reformation and raising of standards and practices in the South African capital markets.

We collaborate through our involvement with various industry initiatives:



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- Represented on ASISA's Responsible Investment (RI) Standing Committee, ASISA RI Prudential Assets Working Group, ASISA RI Definitions Working Group & the ASISA Fixed Interest & Money Market Standing Committees,
 - Collaboration on the IFC/POA Sustainable Returns Project by promoting RI practices with asset owners,
 - Board representation on CFA South Africa: we promote regular interaction and educational initiatives through CFA SA. We collaborate with CFA to host ethics workshops and talks on SRI and regularly host CFA educational presentations to CFA candidates, and
 - Carbon Disclosure Project (CDP).



Annexure B

CRISA and PRI

The Code for Responsible Investing by Institutional Investors (CRISA) was officially launched at the Johannesburg Stock Exchange in July 2011. Mergence, through the Public Investment Corporation, provided input into the drafting of the code, and we are a signatory to the final code. The code is voluntary and was developed by the Institute of Directors in Southern Africa. It aims to improve the quality of corporate governance between institutional shareholder and investee companies, and to assist institutional investors in South Africa with the practical implementation of the PRI.

Our interpretation of the relationship between CRISA and the PRI is illustrated below:

Relationship between PRI and CRISA

| PRI Principles | CRISA Principles |
|--|---|
| We will incorporate ESG issues into investment analysis and decision-making processes (CRISA Principle 1) | An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries. (PRI 1) |
| We will be active owners and incorporate ESG issues into our ownership policies and practices (CRISA Principle 2) | An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities. (PRI 2) |
| We will seek appropriate disclosure on ESG issues by the entities in which we invest (CRISA Principle 4, 5) | Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of this Code and other codes and standards applicable to institutional investors. (PRI 4, 5) |
| We will promote acceptance and implementation of the Principles within the investment industry (CRISA Principle 3) | An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur. (PRI 3) |
| We will work together to enhance our effectiveness in implementing the Principles (CRISA Principle 3) | 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. (PRI 3,6) |
| We will each report on our activities and progress towards implementing the Principles (CRISA Principle 5) | |



Mergence has incorporated the PRI and CRISA principles into its investment research process. The stewardship pillar is one of four pillars against which potential and existing investments are assessed (the other three are valuation, economic moat, and uncertainty rating).

Mergence participated in past PRI surveys. The results showed an overall improvement in our performance against our peers with regards to the implementation of the principles.

