STEWARDSHIP REPORT 2021

The value of experience

CONTENTS

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Foreword

Vuyolwethu Nzube
ESG Analyst
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The past 2 years have shown us that risks can greatly exacerbate each other. We saw this in how the COVID pandemic led to severe supply chain bottlenecks, and geopolitical risks led to an energy crisis that will likely have a significant impact on the next steps taken on the climate crisis.

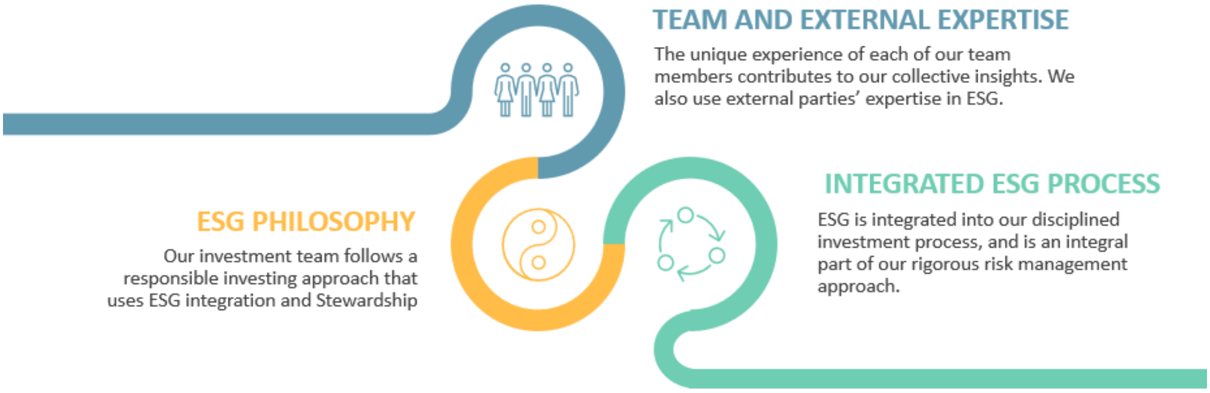
At Truffle, our process emphasises downside risk protection and making sure we fully understand the risks that we are exposed to. We spent our time in 2021 mapping the ESG risks that we are taking at a sector level, which was reflected in our engagements. 2022 will be a continuation of that, with that mapping extended across sectors we hadn't covered in the first half, and engagements continuing on the ones that we have covered. Social risk will be a bigger engagement point in the upcoming year, as this is a risk that is difficult to quantify but that tends to exacerbate other risks a company might face. We will also expand the systems we use to keep track of those risks at a company, sector, and portfolio level.

Our ESG process evolves with our understanding of the risks and opportunities embedded in our portfolio companies because of their management of environmental, social and governance issues. We look forward to taking our clients on that journey with us through our Stewardship Reports.

Vuyolwethu Ncube
ESG Analyst

Introduction

Our ESG process comprises of 3 pillars: the people responsible for it, how we think about ESG, and also how that thinking is incorporated into our process.



At Truffle, ESG analysis is important in highlighting both opportunities and risks during the investment process. Mitigating non-quantifiable risks due to exposure to suboptimal ESG outcomes plays a critical role in the pursuit of producing superior long-term sustainable returns.

Generating superior investment returns is not only about finding winning opportunities, it is also about avoiding companies that suffer permanent destruction of value. By following a thorough ESG screening and integrative process, we have been able to avoid companies that exhibit these risks, and that have the potential to impair alpha generation in our funds.

ESG outcomes provide a window into the "values" of a company. These values often manifest in a company's long-term performance and its ability to add value to its broader stakeholders while maintaining the integrity of society and the environment. We believe that companies that exhibit strong ESG risk management will drive value in the long term. As a result, where possible, we try to allocate capital to those companies which exhibit strong ESG risk management and are trading at discounts to their intrinsic values.

As responsible shareholders it is important to us that the companies, we invest in are striving to advance environmental, economic, and social goals while they improve their competitive position. As a result, the collaborative movement towards the greater good is essential and this will ultimately be paid back in superior risk-adjusted returns for our clients.

Team and External Expertise

Truffle does not have a separate ESG team, rather the relevant analyst is responsible for integrating ESG into their valuations and portfolio managers along with the team are responsible for ensuring increasing ESG concerns are reflected in the portfolio construction process.

In 2021, we hired an ESG analyst who is an additional resource responsible for bringing in any company, sector, region, or thematic ESG information to the team. They are also responsible for ensuring our systems and processes are in line with global best practice.

In terms of external resources, these are fairly similar to those used for normal financial analysis:

- Management interactions;
- Board interactions;
- Company website;
- Company's sustainability report, published annually;
- Annual financial report;
- Broker Research – we make use of their thematic, company, and sector research;
- Bloomberg – we make use of the ESG tool, as Bloomberg collects ESG data on all listed companies and provides a disclosure score. This score also enables us to make comparisons to previous years as well as to companies we consider their peers;
- At this stage, we do not rely on credit rating agency assessment of ESG-related risks. Credit rating agencies at this point focus on sovereign ESG as a whole.

We are in the process of customising an ESG platform, which will likely be the subject of our 2022 stewardship report. This platform will allow us to have a more complete view of the ESG risks and opportunities we're exposed to at a portfolio, sector, and company level. It will also drive and help us keep track of engagements.

ESG Integration

ESG integration happens at 3 stages of our investment process:

Research & Screening

Material E, S, and G risks highlighted at company-, sector- and region level

Adjustments to Valuation Model

Appropriate adjustments are made to valuation models, which then feeds into our view of the company in our ranking table

Portfolio Construction

This is used where there are increasing ESG risks above what we've incorporated in valuations

The adjustments made and the factors focused on tend to differ at a sector or company level.

Case Study 1: Naspers

Environmental Materiality: low, for tech companies, this risk tends to be seen in the energy use of their data centres. Data centre efficiency globally has helped curb this. The company is also managing this risk with Tencent's plans to use 100% green energy by 2030, and Naspers making use of renewables
Valuation and/or portfolio construction: not reflected in valuations given the low materiality

Social Materiality: high, we've seen increasing regulation globally on tech companies, with that on Chinese companies weakening the earnings fundamentals.
Valuation: due to the recent regulatory changes, we think the earnings profile has structurally changed, which lowered our earnings and multiple assumptions.
Portfolio construction: there is no margin of safety, so we are underweight

Governance Materiality: high, as seen through the VIE structure, complex shareholding structure and dual share class structure.
Valuation: we applied a discount to the sum-of-the parts valuation
Portfolio construction: at the time of the June 2021 proposed Naspers/Prosus deal, we sold all the Naspers for Prosus, since that's where the value would lie.

Case Study 2: Sasol

Environmental Materiality: high; can have a significant impact on the company depending on the carbon tax they have to pay and environmental capex required.
Valuation: increasing carbon tax and environmental capex reflected in our value for the Mining and Fuels part of the business.
Portfolio construction: we are concerned around what the carbon tax will do to profitability. Therefore, we've used internal limits (60% lower than normal)

Social Materiality: high, and closely tied to the environmental risk through balancing the just transition with the need to transition

Governance Materiality: high, closely tied to the environmental risk since we have some concerns that management is not incentivised to get to the long-term targets

Case Study 3: Property Sector

Environmental Materiality: high; globally, green buildings have better vacancies, lower cost of occupancy and better borrowing rates
Valuation: mainly reflected in cost savings from increased energy efficiency and in some cases in environmental capex required to retrofit buildings. Better disclosure is required, and we welcome the EPC rating disclosures

Social Materiality: low; and something the companies themselves struggle to quantify the benefit of
Valuation and portfolio construction: not expressed through this because of low materiality, as such we've mainly been engaging on this issue with the property companies

Governance Materiality: high; seen in cases of poor governance leading to shareholder value destruction
Valuation: governance concerns are one of the factors that impact the exit yield we require
Portfolio construction: where we have concerns around increasing governance concerns, these will be reflected in an underweight in the company

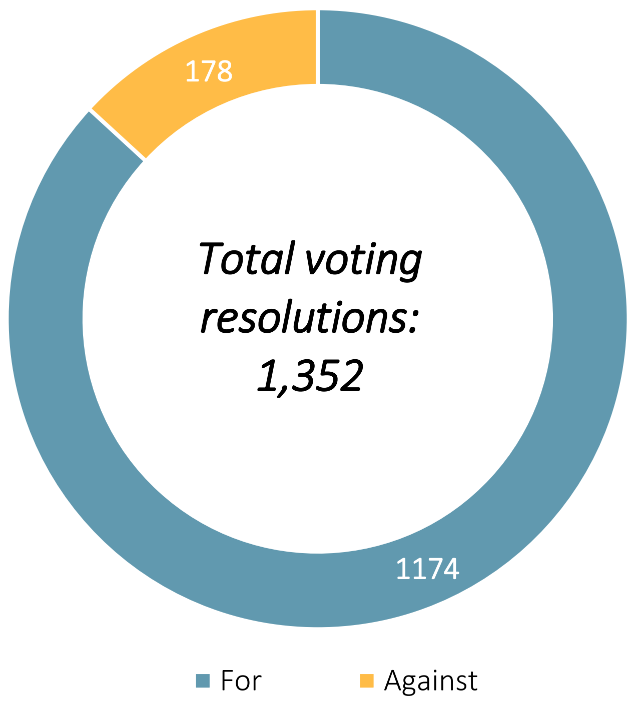
Proxy Voting

Truffle considers and ensures voting occurs on all proxies for all companies in which we hold shares on behalf of our clients. This is done in accordance with our proxy voting policy, which can be found on our website here. We do not outsource any aspect of the proxy voting process, and also do not, except in exceptional circumstances, commit our votes in advance to third parties.

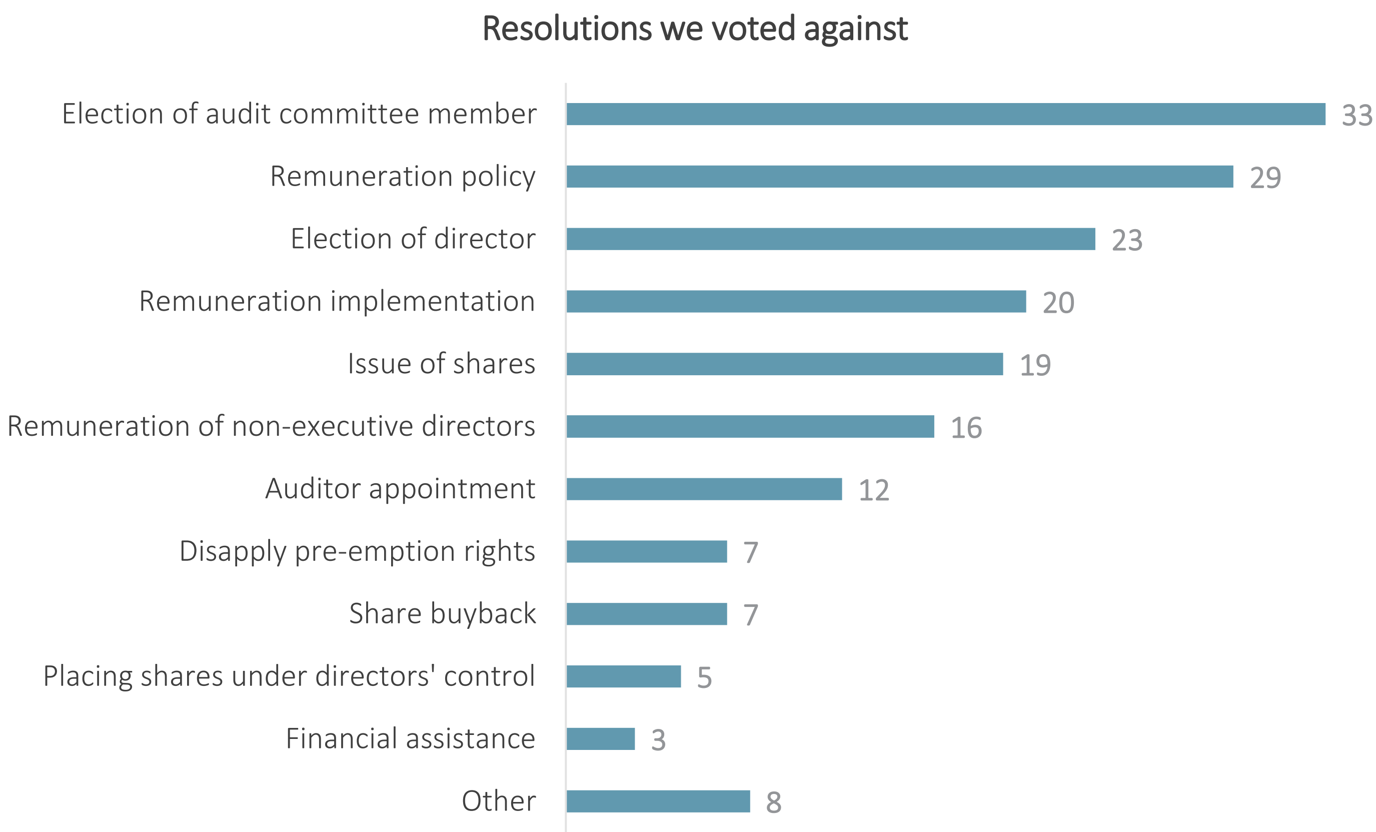
Our voting process is as follows:

1. The AGM or GM meeting notice is received by our Corporate Events Team from the custodian
2. These are then allocated to the relevant research analyst in the investment team
3. The analyst will review and analyse the resolutions. Some of that analysis will draw on knowledge about the company and sector, our proxy voting policy, best practice, and what would be in clients' best interests. This is done to ensure we can make an informed decision. If necessary, before deciding on how to vote, they will engage with the company management to get more detail and/or members of the investment team including the ESG analyst to get their input
4. Votes are sent to the relevant custodians and also recorded in our system. Where there are votes against resolutions, the reasons for these will be recorded as well and are sent to the company through the custodian
5. The voting record is published on our company website quarterly, and can also be provided to clients upon request

During 2021, our voting was as follows:



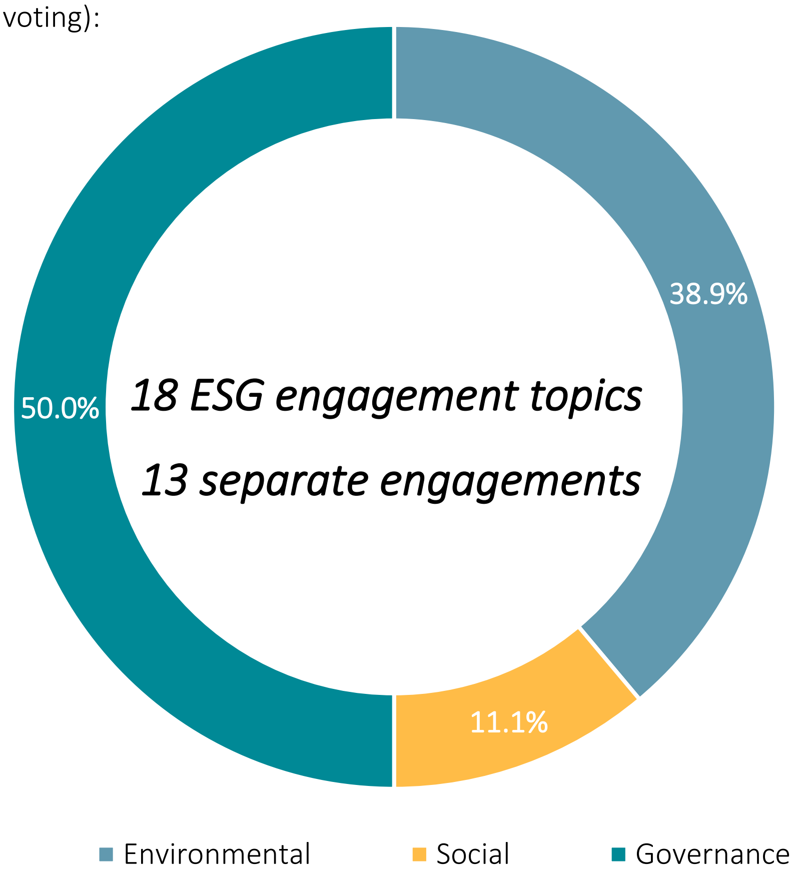
Of those we voted against, the majority centred around the directors on the board where our main concern was lack of independence. When making these decisions, we look at the board holistically to try to maintain a majority independent board that will act in the interests of all shareholders. Remuneration policies and implementation thereof were the next sources of our votes against resolutions. We prefer that the policy has adequate disclosure, as well as clear targets that are appropriate and not too low.



Engagement

We make use of engagement as a feedback loop in our ESG process to ensure we are appropriately calibrating the ESG risks and opportunities. Once an ESG risk has been flagged by our screening process, we would start by verbally engaging with the relevant management team. We would aim to get a better understanding of the issue and endeavour to find an acceptable solution in the context of the risk. If we don't manage to achieve a satisfactory outcome, we would then have a follow-up meeting with management to try and find common ground. Failing this, we then escalate the issue to the Board and the Chairman of the Board. In certain cases, we look to collaborate with other asset management companies to initiate change for the greater good.

During 2021, our engagement activities were as follows (the below excludes proxy voting or notifying companies of our proxy voting):



Further detail on some of the engagements we had can be seen below.

Environmental

1. **Mining companies' environmental impact**

   We are engaging with the mining companies, especially those in the platinum and gold sectors, on the risks of tailings dams, with specific reference to safety issues, additional CapEx spending that might be needed, and environmental impact studies.

   In 2020, we engaged with Anglo American Platinum and discussed their specific plans and progress in reducing their carbon footprint. They will switch out of their diesel trucks (one of the biggest emitters of $CO2$ in the mines) for hydrogen trucks. These trucks will be rolled out to the rest of their mines. We also engaged with Exxaro on their Scope 1, 2, and 3 emissions and their strategy around reducing these emissions with their Cennergi (Windpower) JV.

   In 2021, we continued with those engagements with a focus on their use of renewable energy and what hinders them from ramping this up.

   The outcome achieved: *engagement is ongoing, but companies are making plans to reduce their emissions.*

2. **Sasol**

   Post Sasol Capital Markets' Day 2021 engagement – increased ambition noted questions remain around remuneration

   We noted the increased ambition in Sasol's Capital Markets' Day – from 10% emissions reduction by 2030 to 30% reduction. Truffle engaged with them in October 2021 on several climate-related topics. Sasol was planning to table their climate change resolution and explained the main driver behind the increase in ambition. We had some concerns about how their more ambitious climate targets would come through in remuneration, and whether the right people were being incentivised in the right way. To get more clarity on that, we also had a follow-up call with them on remuneration only.

   The outcome achieved*: engagement is ongoing, and the company increased ambition in emission reduction. Given the ESG concerns facing fossil fuel producers, we have set internal limits as to the maximum active position we would take in Sasol in the portfolios. These limits are set at much lower levels than would have been the case historically.*

3. **Environmental risk in property companies**

   One upcoming environmental risk for South African property companies in the Energy Performance Certificate (EPC) Ratings. To better understand how companies are dealing with this risk, we engaged with a few property companies.

   Our engagement with Vukile in August 2021 gave us some comfort that even though shopping malls are exempt from the certification deadline of December 2022, they were still considering this risk. Truffle also engaged with Attacq in September 2021 to obtain more information about their thoughts on EPC ratings, how much it would cost them to upgrade their buildings, how this aligns with global standards around energy efficiency and green buildings, as well as how they think about improving the energy efficiency of their buildings.

   The outcome achieved: *engagement is ongoing with the sector, but this helped us obtain more information about how this risk might be incorporated into valuations*

Social

1. **Social risk in property companies**

   In trying to get a better understanding of how property companies think about social risk, we engaged with Vukile in August 2021 on their thoughts on social spending and its impact on the community. They see the benefits as hard to quantify but see the spending as a part of doing business and gaining the trust/loyalty of the communities they operate in.

   The outcome achieved*: engagement is ongoing*

Governance

1. **Remuneration**

   Truffle has adopted stricter voting on remuneration and looks at each company's remuneration policy before voting. For the 2020 year, we have voted NO on the remuneration policy on 40% of our proxy votes. This stricter voting approach continued into 2021 as well.

2. **Naspers/Prosus**

   June 2021 proposed Naspers/Prosus transaction

   In June 2021, Truffle teamed up with 35 other managers to question the complex shareholding structure and lack of management alignment in the new Naspers, Prosus deal. We found several aspects of the proposed transaction problematic. We were of the view that it introduces elements that serve to increase complexity in the overall company structures, thereby reducing the likelihood of further value unlock, whether immediate or longer-term. The collaborative engagement was a way to escalate our commonly held concerns directly with the non-executive directors of NPN and PRX.

   <u>Our main concerns were</u>:

   - Complexity and cross-shareholding:
     - The proposed transaction increases the complexity within the PRX/NPN overall structure in its execution and its outcome, and in our view appears unlikely to address the net asset value (NAV) discounts that such complexity invokes in the longer term.
     - There is a lack of visibility over what the next steps flowing from this transaction might be that could potentially trigger further value unlock. We believe that the weak share price reaction and widening of the NAV discounts of both companies after the announcement of the proposed transaction reflect this most disappointing reality.
     - As a matter of principle, we were of the view and experience that the introduction of cross-shareholdings between two companies inhibits subsequent corporate restructuring and defers the potential unlock of trapped value. It would be unique for this instance to result in the opposite.
   - Management alignment:
     - We were concerned about possible misalignment in management incentives that could result in the discount between NPN and PRX widening further given the fact that, according to this transaction, it appears management's incentives are now more aligned with PRX than NPN.
     - Our previous concerns still stood, that the management incentives in PRX are dominated by the performance of Tencent and are not sufficiently connected to the unlisted companies

within PRX. This reduces alignment between management's decisions in respect of the unlisted components and how their own capital allocation decisions are ultimately accounted for and assessed. We believe that this misalignment was not addressed in this proposed transaction and therefore continues to contribute in part to the lack of value attributed by the market to these unlisted investments.

In addition to those core matters, we also had concerns over the more commercially based aspects of the proposed transaction, including the exchange ratio in respect of the NPN share offer and the future potential tax liabilities.

The outcome achieved*: the engagement was unsuccessful since the transaction went through, but we managed our risk through the portfolio construction process.*

3. Fortress

In October 2021, we engaged with a member of the remuneration committee on their plans to unwind legacy staff schemes, the one-off retention award, and their plans for their conditional share plan.

The outcome achieved: *engagement is ongoing*

4. Vukile

In August 2021, we engaged on certain elements of their remuneration that we were concerned about, namely the metrics used in the past saw a very big focus on DPS growth, and not a more balanced approach. Once their Conditional Share Plan was updated, we had another engagement with them on the updated plan.

The outcome achieved: *they came out with a CSP that had metrics we approved of and we gained more information on their proposed Barrier Option scheme.*

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