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In executing our fiduciary mandate, we at Matrix Fund Managers believe we have a responsibility to commit to and support the highest standards of corporate governance and accountability. Our objective is to ensure sustainable returns and to protect value for our clients. As such, our investment process must give due regard to environmental, social and governance factors that impact the investments we hold on their behalf.

## 1. Our Approach to ESG Analysis

Our approach to ESG analysis is to systematically integrate material ESG factors across our entire investment process. We do not apply any screening towards our responsible investing approach. That is, we do not have an ESG criterion to include, exclude or even tilt our asset allocations away from certain activities, companies or sectors. Additionally, we do not approach our investing through a thematic or from an impact investing lens. We believe these approaches are not ideal in the South African context given the already small and shrinking liquid investment universe. In our view, a pragmatic approach towards ESG integration is needed, taking a balanced approach to positive and negative ESG factors.

## 2. ESG Integration across the Equity Investment Process

We view integrating ESG considerations into our investment process as predominantly a risk-mitigation objective with potential return-enhancing benefits. We consider ESG integration as embedding ESG risk analysis across our entire investment process. This involves applying ESG risk analysis in the (i) screening phase, (ii) fundamental research phase as well as in the (iii) portfolio construction phase, as seen below in Figure 1:

### i. Screening Phase:

- In this part of the process, we screen for research opportunities. We do not apply any exclusionary or negative screening in our investment process. Our multi-factor screening model incorporates ESG factors in the Quality component of the overall score. The Quality score lowers the ranking of companies with higher ESG risks.



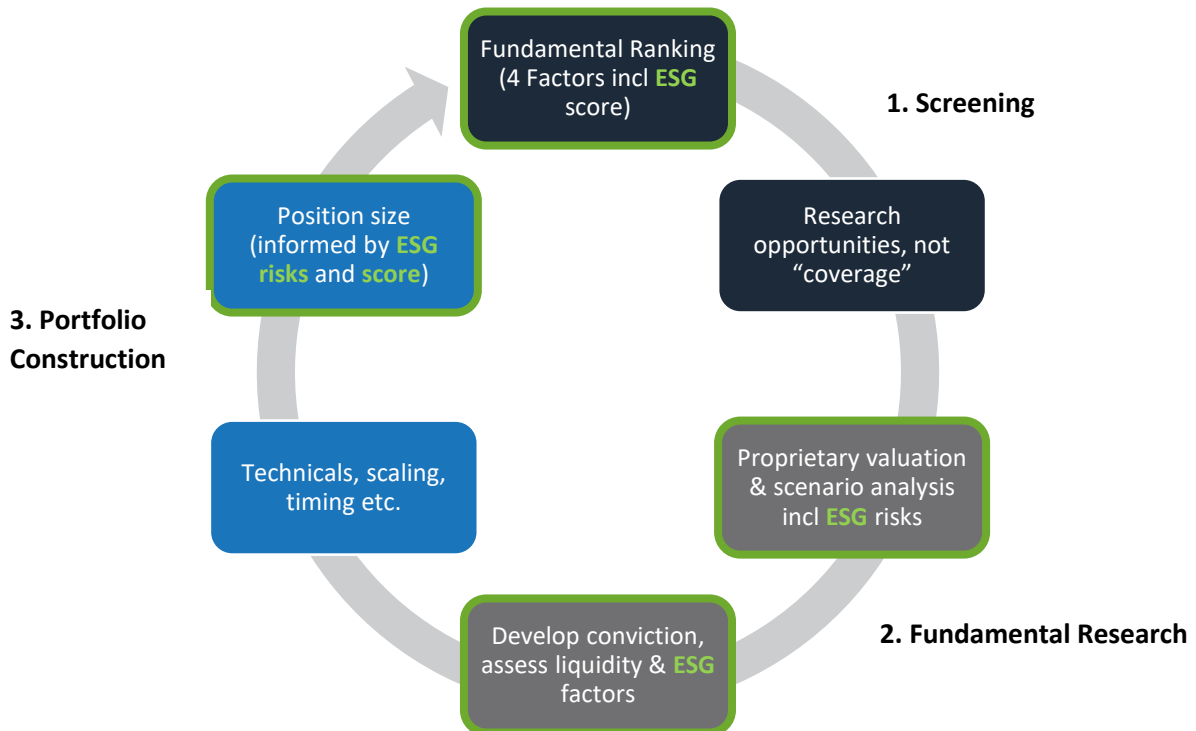
ii. Fundamental Research Phase:

- In this phase, we apply fundamental valuation and scenario analysis techniques, including embedding ESG factors to inform our investment case. We incorporate ESG issues in our different scenarios for the key drivers of the business and this feeds into our residual income valuation methodology. A higher discount rate will be applied to companies which reflect increased ESG risks.

iii. Portfolio Construction Phase:

- This part of the process relates to position sizing and managing portfolio exposure risks. The monitoring of material ESG risks supports how we manage this process over time. Where issues become of material concern, we initiate risk reduction and mitigation strategies such as engaging with the investee company, reducing or even exiting the position.

**Figure 1: ESG Integration Framework into the Equity Investment Process**





### 3. Matrix Fund Managers ESG Scorecard

We have developed a proprietary Matrix FM ESG Scorecard which is an important component of our ESG integration process. The scorecard tracks ESG risk factors that we believe can have a material impact on the company's financial and non-financial metrics. The metrics are aggregated into an overall ESG score for each company across our investment universe. ESG scores are monitored over time and can influence our positioning, as well as driving engagements with management should the scores deteriorate.

An annual review of the ESG scorecard is conducted to ensure that the elements and the metrics which are considered remain in line with international best practices and the continuously improving sustainability reporting environment. Key themes which are captured in our scorecard are highlighted below:

- Environmental Themes:
  - Environmental indicators which are considered in our scorecard look to capture broad thematic issues such as pollution, climate change and biodiversity loss. Key metrics include disclosure of environmental targets, GHG intensity, energy and water usage.
- Social Themes:
  - Social factors which are included in our scorecard are themes related to employee safety and tenure, the amount of spending in relation to social and community related initiatives and the levels of black ownership in the company. Key metrics include levels of employee turnover, staff training costs, social spending to revenue and the percentage of broad-based black ownership.
- Governance Themes:
  - Governance factors which are incorporated in our scorecard include themes related to board composition and overall independence of the board, composition of the remuneration committee and complexity of the shareholder structure. Key indicators include the percentage of independent directors on the board, whether the chairperson of the board is independent and if there are multiple classes of shares in issue.



## 4. Stewardship Activities

Our stewardship activities reflect our active ownership responsibilities focusing on companies we are invested in. The process in which we carry out these activities is through our engagement with company management and through proxy voting.

### i. Company Engagement

The monitoring of ESG performance enables us the opportunity for risk mitigation through company engagements. The responses from company management on material issues raised affect our perception of the company with regards to a particular issue or the company as a whole. Deteriorating performance prompts an interaction with a company to better inform our probabilities of ESG risks materializing and therefore a re-assessment of our current position. All engagements with management on ESG issues are recorded in our Company Engagement Register.

### ii. Proxy Voting

Our overall objective in proxy voting is to support resolutions that are aligned with creating long-term shareholder value and each proposal is evaluated on its merits. In giving effect to this, our Proxy Voting Policy provides guidelines for the consideration and implementation of voting on shareholder resolutions. Similarly, all our proxy voting decisions are recorded in our Proxy Voting Register.



## 5. Escalation Measures

Escalation measures are to be considered when there has been previous engagement with the company but there is reasonable evidence that concerns raised are not being addressed sufficiently. In considering the different escalation measures, we take a pragmatic approach and take into account the idiosyncratic features of the company and the matter(s) that are in contention. The below list of escalation measures are options available to us to escalate matters. Every issue is unique and will be addressed according to its merits. As such, there is no particular ordering of steps and not all options below will be taken up for every issue.

- a. Holding additional engagements with Management and Board of Directors.
- b. Drafting formal letters to the Board outlining our concerns.
- c. Voting against company resolutions and/or re-election of the Board of Directors.
- d. Collaborating with other shareholders to raise our concerns.
- e. Divestment from the company.