

**FUTUREGROWTH**

/ ASSET MANAGEMENT

**Futuregrowth's Responsible  
Investment Policy**

## Responsible Investment (RI) Policy

Responsible Investing (RI) is an investment practice that advocates consideration of non-financial factors i.e., environmental, social and governance (ESG). RI is a broad term that encompasses different approaches that can be applied across various investment styles, e.g., sustainable investing, socially responsible investing (SRI), targeted investments or developmental (impact) investing, non-financial screening, investor engagement and, or active ownership initiatives which forms part of a variety of stewardship practices.

### Philosophy

Futuregrowth is a fiduciary asset manager: Our clients' needs, and preferences supersede all other considerations except law or regulation. We believe all investors – including responsible or socially responsible (impact) investors – should earn appropriate returns for risks taken. Thus, our policy and strategy for RI exists within the framework of achieving appropriate returns for risks borne and satisfying clients' expressed desires or policies.

Futuregrowth believes that “everything counts” and therefore we consider the impact of our operations on society and within client mandates which includes the management of our client funds. We believe that non-financial issues are an important component in managing investment risk. We continuously seek to invest our clients' funds in a responsible manner, and to be cognisant of these issues.

### Futuregrowth's commitment

Futuregrowth's analytical framework integrates non-financial issues into the investment analysis and decision process with the view of mitigating overall portfolio risk.

The purpose of integrating these non-financial factors is to improve the analysis of all investments, promote improving standards of practice, but foremost to *price for the risk*, and to mitigate risks to potential or existing loans or investments as far as possible.

We believe that investment processes could profitably and suitably include the analysis of non-financial factors in the assessment of investments and may be utilised on the following grounds:

- Economic: Good governance practices (e.g., well governed companies tend to be less risky; companies with sustainable environmental or labour policies will be less risky), and/or
- Social: Exclusions to mandates (e.g., tobacco is damaging to the health and welfare of the nation; road transport is beneficial for national development).
- Environmental: Climate impact (e.g., flooding has a broad societal impact which results in access to services, roads etc.)

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- Governance: Board independence and diversity (e.g., contribute to improved decision-making incorporating diverse viewpoints and challenging existing mindsets):

Inevitably, non-financial screening and analysis, including developmental impact investments are subjective matters that require judgement, either Futuregrowth's (within mandates) or our clients'. We note that many RI policies are transitory (e.g., anti-apartheid, anti-nuclear) while others persevere through time (e.g., infrastructure, climate change), but in all cases judgements must be made and preferences expressed.

The integration and application of such non-financial analysis and screening are defined by our clients' expressed preferences or, where no preferences are expressed; we exercise judgement to reduce risk and raise returns and concurrently create positive social impact. At all times the fund's asset allocation or investment strategy must prevail to ensure that risk-adjusted returns are achieved. Principles of sound portfolio management should not be compromised in the RI or non-financial analysis process.

Futuregrowth is a signatory to the UN Principles for Responsible Investment (PRI). We endorse the Code for Responsible Investment in South Africa (CRISA) and the Sustainable Development Goals (SDGs), a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.



**CRISA**  
CODE FOR  
RESPONSIBLE  
INVESTING IN  
SOUTH AFRICA



## Annexure A: Non-financial Analysis & Integration into the Analytical Process

### Overview

Futuregrowth continues to seek opportunities to incorporate non-financial criteria into investment analysis and decision-making processes by assessing companies against specific non-financial criteria. While we invest in a range of asset classes, fixed income makes up the largest part of our investment capability. In addition, we manage several developmental (impact) funds. These development (impact) funds forms a subset of our RI strategy and reflects the intentions of investors to do good by consciously investing to make a positive impact on the environment and broader society, with the aim of preservation for current and future stakeholders. In the South African context, developmental (impact) investing also encapsulates the social, infrastructural and developmental needs of our country with the aim of effecting change and realising risk adjusted returns for investors. Our development (impact) suite of funds consists of the following:

- Fixed Income (Infrastructure & Development Bond Fund, Power Debt Fund);
- Unlisted equity (Development Equity Fund, Agri-Fund);
- Unlisted retail property (Community Property Fund); and
- Fund of funds incorporating our suite of Development funds as building blocks (Development Balanced Fund).

### Analytical Framework

Futuregrowth's analytical framework integrates non-financial issues into the investment analysis and decision process with the view of pricing and mitigating overall portfolio risk.

The purpose of integrating non-financial factors is to improve the analysis of all investments, promote improving standards of practice, but foremost to price and to mitigate any non-financial risks to potential or existing loans or investments.

The analytical framework seeks to achieve the following outcomes:

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

Futuregrowth's approach is to integrate sustainable best practices when assessing companies and engaging them on their practices – understanding that these are key components in managing investment risk and that ignoring non-financial issues can have a negative impact on risks: rewards, ultimately affecting client returns. As such, non-financial analysis forms part of our fundamental credit process across our wide range of fixed income sectors. We use a variety of tools and inputs for this purpose, and these are constantly modified as new learnings arise.

The fixed income asset class is complex due to the wide variety of issuers, and therefore there is no 'one-size-fits-all' solution to analysing companies on non-financial issues. Analysts must apply judgement, there will be variances in our approach, for example, issuers in the listed sector versus those in private (unlisted) debt. Therefore, we recognise that companies are at different stages in their business lifecycles and we have to be realistic in our requests regarding specific recommendations. We therefore engage with companies to reach a mutually agreed outcome that will benefit both parties, with the goal of improving the sustainability of their business.

## Shareholder activism and engagement

Futuregrowth employs active ownership practices that assist us in engaging with companies on their sustainability initiatives.

The UN 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 engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes (e.g. fixed income), engagement may still be relevant while (proxy) voting may not.

Further still, the UN 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 aligned with our objective of ensuring long-term sustainability for our clients and society. We believe in collaboration with investee companies by engaging management to encourage companies to think about their approach and adoption of sustainability practices towards a pathway to improving overall sustainability.

Furthermore, in recognition of the need to conduct the affairs of Futuregrowth according to the highest standards of corporate governance, in the interests of both enhancing organisational performance and investor protection, Futuregrowth endorses the recommendations in King IV which “sets out Principle 17 that the governing body of an

*institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests”.*

We do this by being active shareholders in the following areas:

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

### **Listed and unlisted equity**

We hold directorships through our minority equity holdings 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 where we have unlisted equity exposure.

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

- **Clients' interests:** to promote the protection of our clients' interests.
- **Long-term value creation:** aligning the interests of management with those of shareholders and stakeholders.
- **Accountability:** of management to all stakeholders i.e., investors; and
- **Sustainability:** companies that have good corporate governance are those whose operations are financially, socially, and environmentally sustainable.

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

### **Bondholder activism and engagement**

#### **Listed and unlisted fixed income**

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

## *Engagement*

Engagement refers to all interactions and discussions with investee companies to promote RI practices, e.g., to consider all non-financial factors that could potentially pose a material risk, encourage companies to mitigate risks and to report to their stakeholders on these issues with the view of promoting sustainable best practice within businesses.

We engage with our stakeholders, partners and investee companies on matters of responsible business practices that affect the company's bottom line. This is appropriate and aligned 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 these issues, with the purpose of improving the overall sustainability of companies.

## **Evaluating and monitoring**

Evaluating and monitoring our engagement activities is important and we seek to achieve the following outcomes through this process:

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

Within the investment community, we believe that our role is to lead by example, and we invest energy to encourage others to aspire to responsible ways of doing business. By engaging and collaborating with them, we will jointly aspire to improve awareness and actions throughout the entire investment community.

## **Disclosure on Non-financial issues**

Futuregrowth believes that engagement with investee companies on matters of sustainability and non-financial issues is appropriate. In general, we do not believe in being prescriptive when engaging on issues, instead our philosophy aims to encourage investee involvement through the adoption of sustainability practices, with the aim of disclosing and reporting on these issues.

## Promote acceptance and implementation through collaboration

Futuregrowth promotes the principles of RI practices within the investment industry through our engagement with clients, various industry representatives and government bodies on issues of RI.

- **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 i.e., contributing to the CRISA draft; and
- **Government:** engaging government on regulatory issues relating to RI policies i.e., engagement with government and the JSE on the reformation and lifting of standards and practices in the South African capital markets.

We collaborate through our involvement with various industry initiatives:

- Represented on various ASISA's committees: RI Standing Committee, ASISA RI Prudential Assets Working Group and the ASISA Fixed Interest and Money Market Standing Committees.
- Board representation on CFA South Africa: we promoted regular interaction and educational initiatives through CFA SA. We collaborate with CFA to host ethics workshops and host CFA educational presentations to CFA candidates; and
- National Treasury: Green Economy Taxonomy
- JSE: Climate and Sustainability Disclosures



## Annexure B: The PRI Principles in a nutshell

Futuregrowth is a signatory to the UN Principles for Responsible Investment (PRI). The PRI is an investor initiative in partnership with UNEP FI and UN Global Compact. The principles reflect the increasing relevance of non-financial (ESG) issues to investment practices. The PRI provide a framework to assist investors in considering these issues.

The Principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating non-financial issues into mainstream investment decision making and ownership practices.

The Principles are encapsulated as follows:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Source: PRI

<https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment>

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