



EXCELSIA CAPITAL (PTY) LTD

(FSP No. 46756)

CLIMATE CHANGE POLICY

1. INTRODUCTION

The evolution and negative impact of climate change on the environment over the past decades has changed the risk profile of many companies in our investable universe. The need for urgent action is paramount, as the scale of this challenge increases and the negative impact on the global environment escalates.

Responsible investment dictates that we owe it to our clients to seriously consider how the impact of climate change affects the value of their investments. The importance of assessing the risks and opportunities of climate change on the companies we invest in cannot be underestimated. The assessment of these risks is a core part of our Environmental, Social and Governance (ESG) process and is comprehensively integrated into our company valuation methodology.

We have, for the most part, aligned our climate change risk assessment approach with that of the Paris Agreement targets, thereby ensuring that our investee companies take the necessary steps to make positive improvements on climate change. However, operating and investing in an emerging economy with a high unemployment rate, we need to be cognisant of the negative impact an investee companies' adopted climate change approach might have on the well-being of employees and communities. With this in mind, we aim to ensure a Just Transition.

Our support for the Task Force on Climate-related Financial Disclosures (TCFD) framework is a further indication of our view on the importance of company disclosure concerning climate related factors. As with our other Responsible Investing initiatives, our commitment is to continuously improve our process with global best practice in mind.

2. CLIMATE CHANGE

Climate change is considered a factor that could have a material impact on the financial performance of companies, and therefore the expected investment returns derived from them, within all sectors across the global equity exchanges.

Governments are playing an increasingly important role in managing climate change through the implementation of regulation, and the setting of emission targets. The best example of international action is the Paris Agreement, which binds the 197 countries that ratified the United Nations Framework Convention on Climate Change to a common cause which entails the undertaking of ambitious efforts to combat climate change and adapt to its effects. The Paris Agreement aims to stop global temperatures rising by more than 2.0°C above pre-industrial levels this century and to limit that increase even further to 1.5°C.

The investment impact referred to above would however be most relevant to those companies which are large carbon emitters and/or users of large quantities of natural resources. Companies which are able to manage their climate-change risks, should outperform their peers over the longer term.

Integral to our stewardship policy is the regular engagement with company management. For high-emitting investee companies, such engagement is imperative to better understand the medium/long term plans, and whether these are ambitious enough for reducing carbon emissions within their targeted timeframes. Management engagement is thus a powerful tool to enable and ensure the effective transition to carbon neutrality.

The consideration of community and employee needs in the transition process to lower carbon emissions is paramount for a successful Just Transition, and companies are closely monitored to ensure that these social impacts are not overlooked. Furthermore, an engagement escalation strategy is employed to ensure compliance, and we firmly believe that through active engagement with company management, the move towards a Just Transition has a greater chance of success.

3. ASSESSING THE IMPACT OF CLIMATE CHANGE

Various studies have concluded that the risk to shareholder returns from the negative impact of climate change on the environment is significant. The main areas of impact are those which pertain to physical climate-related risks and opportunities and which concern changes in the weather patterns. In the global capital markets this impact would be relevant to drought related issues, which are considered when forecasting, for example, company input costs such as maize prices.

On the other hand, there are transition climate-related risks and opportunities, which are concerned with green-house gas/carbon emissions. These latter factors are built into our company equity valuations via discount rates and relative valuation metrics. Although we view climate related issues on a long-term basis, our investment horizon is three to five years. Continuous engagement with company management is extremely important in assessing the longer-term impact of climate related factors on a business, which is difficult as numerous uncertainties always exist. We believe that companies which incorporate climate change issues into their long-term planning will be more resilient and have a high probability of being a better investment opportunity. As part of our investment assessment process, the carbon intensities of different companies are measured relative to each other.

Our approach is therefore to build these risks into our evaluation of companies through a number of operational metrics, including;

- the costs to reduce emissions, waste, water and energy usage, and
- carbon taxes, green capex, solar energy generation and electrical vehicles construction.

The potential impact on profitability caused by droughts, floods and other extreme weather is also assessed.

We monitor investee companies according to the following commitments:

- net zero emissions targets by 2050 that are aligned with the Paris Agreement;

- short and medium-term targets which will enable the achievement of the long-term targets;
- a clear decarbonisation strategy to meet planned emissions reduction targets, and
- board-level commitment and oversight, and sufficient expertise and authority at senior management level to identify climate related risks and implement and supervise climate-related policy.

Furthermore, our investment team actively debates regulatory and industry trends related to climate risk. Our approach to all matters related to ESG will evolve over time, and our proprietary ESG process is regularly reviewed and updated. The manner in which ESG is integrated into our investment process is outlined in our ESG Policy document.

4. SCOPE 1,2 and 3 EMISSIONS

In alignment with The Net Zero Asset Managers initiative, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and to play our part in helping deliver the goals of the Paris Agreement and importantly, ensure a just transition. We therefore commit to support investing aligned with net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

We give precedence to the achievement of real economy emissions reductions within the sectors and companies in which we invest, and aim to take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions.

We have implemented a Stewardship and Engagement strategy, with a clear escalation and voting policy, which assists us in encouraging companies with high emissions to reduce these, through engagement activities. We have also integrated sustainability considerations into our company valuation and portfolio management processes.

5. BIODIVERSITY

We define biodiversity loss as the destruction of biological communities within certain geographical areas due to a decline in the number, genetic variability, and variety of species, in that given area. This destruction is not as a result of natural degeneration. Rather, it is due to the environmental mismanagement by companies operating in these areas and tends to be more severe and longer lasting. The loss in the variety of life may lead to a breakdown in the functioning of the ecosystem within which the biological community thrives, potentially leading to the extinction of certain species of plant and/or animal.

Risks and opportunities associated with biodiversity loss:

- Risks: Humans rely on various plants, animals, and other organisms for food, building materials, and medicines. The loss of biodiversity among these critical natural resources threatens global food security and the development of new pharmaceuticals to deal with future diseases. In general, biodiversity loss may lead to the extinction of certain species of animal/plants/organisms which cannot adapt to a changing ecosystem.
- Opportunities: Although not easily identifiable, opportunities would largely include investments in agricultural related companies which would benefit from an increase in commercial farming activity.

Risk measures are incorporated into our proprietary company ESG ranking system. These are either applied on a company-by-company basis, or as discounts/premiums to our final company valuations.