

# Responsible Investing Policy

## 1. Mazi's responsible investing policy

Mazi Asset Management's investment philosophy is fundamental to responsible investing, with sustainability being the key tenet that is followed. The investment philosophy is based on the follow tenets:

- Sustainability of business model – We are long-term investors and believe in only buying businesses that have a sustainable competitive advantage that is expected to last into the foreseeable future;
- Quality of management team and board of directors – Quality management is a significant driver of a shareholder value and an independent board of directors are custodians of shareholders' interests;
- Balance sheet strength and clarity of cash flows – Earnings are an opinion and cash is fact. Companies with strong balance sheets tend to be able to navigate treacherous business cycles better. They are likely to emerge in a stronger relative position once the dust settles;
- Defensiveness – An investment opportunity must offer some downside protection. Investment opportunities that offer binary outcomes are speculative and should be avoided; and
- Price relative to the long-term value – not overpaying for an asset is the first step to long term investment success. We seek to buy assets that are trading at discount to their fundamental value and where there are clear, tangible catalysts for the realisation of that value.

With regards to responsible investing, the focus is therefore the application of the investment philosophy with a specific and ongoing emphasis on sustainability. In addition to the traditional environmental, social and governance factors, there is a wider assessment of all aspects of an investment in order to identify the key driver of and risks to sustainability overall. Key aspects for assessment and consideration would typically include the following:

- ESG factors;
- Business model sustainability;
- Relationships with the value chain (suppliers, customers, regulators, competition);
- Relationships with affected stakeholders (employees, communities, government); and

The ultimate objective in the assessment of investments in this manner is to determine whether there are any sustainability factors that may completely or partially impair the viability of an investment and therefore potentially lead to a permanent loss of capital invested in that investment. The assessment of qualitative and quantitative sustainability aspects of an investment are considered in the determination of its long-term fundamental value. We incorporate these aspects into investment analysis and decision-making processes. The investment process utilizes this information and computation of long-term fundamental value in order to assess the attractiveness of investments in both absolute and relative terms.

## **2. Framework for Change and Assessment**

Mazi utilises a number of mechanisms and avenues in the assessment of sustainability of investments. These include engagement with management/board of directors, collecting information from various sources, engaging with regulators/clients/competitors/employees/suppliers, attending relevant industry forums etc. The information collected through these channels enables for the development of insight into all aspects concerning the sustainability of an investment or industry more generally.

In terms of addressing specific sustainability challenges and concerns, Mazi utilises the following framework:

- **Negative screening:** Mazi does not subscribe to the concept of negative screening, wherein investments are simply avoided due to operating in specific sectors (i.e. coal mining). Mazi's view is that the sustainability challenges identified will remain in place if not actively addressed and challenged by the owners of those businesses. In addition, those challenges could eventually also adversely affect even those that are not shareholders in a business – we all live on the same planet and one is unable to escape the impact of sustainability challenges simply by not investing in certain assets.

- **Balanced approach:** Mazi focusses on addressing sustainability challenges in a balanced manner. In this regard, attention is given to the universal impact on stakeholders when addressing specific issues. An example would be the potential impact on surrounding communities and employees were a company to suddenly shut its operations due to sustainability concerns of some sort. Whilst the action would be effective in addressing one element of sustainability, it would consequently give rise to negative social impacts such as unemployment and poverty. A favoured approach rather would be a gradual reduction of the harmful activity as well support for the vulnerable stakeholders.
- **Direction of change:** Mazi engages with investments and requires clear commitments with regards to addressing identified sustainability challenges. Such commitments are required to be articulated in the strategic objectives of the investment and hence ultimately fall under the responsibility of board of directors.
- **Accountability and sustainability objectives:** Companies are required to hold executives responsible for the addressing of sustainability challenges. In this regard, the board of directors are also required to demonstrate how failure by executive management to meet targets and objectives in this regard will directly impact on their remuneration.

Mazi is a signatory to the United Nations Principals of Responsible Investing (UNPRI) and supports the Code for Responsible Investing in South Africa (CRISA).