

## Introduction

BlueAlpha's investment philosophy is centred around buying high-quality businesses with high cash-based returns, which are able to grow sustainably, thereby compounding their returns through time. These companies tend to exhibit quality features in qualitative spheres of assessment, including on ESG metrics. This policy has been developed throughout our 14-year history and has produced consistently superior returns throughout the earnings cycle.

Responsible and sustainable investing extends beyond the evaluation of quantitative factors and traditional fundamental analysis. It should include the analysis of an entity's impact on its stakeholders, the environment and society. We recognize that these environmental, social, and governance (ESG) factors can affect investment performance, expose potential investment risks, and provide an indication of management excellence and leadership. To this end, BlueAlpha seeks to formally integrate the analysis of these factors into our investment processes, where appropriate and consistent with our fiduciary duty.

We believe that organizations that anticipate and manage environmental, social and governance (ESG) concerns and risks, are more likely to create sustainable value over the long term than those that do not. Our fundamental analysis of companies considered for investment include an assessment of how the companies' ESG activities will impact sustainability of cash returns and growth. We believe that ESG analysis and integration is a natural extension to quality-oriented fundamental research and risk management.

## Responsible and Sustainable Investment Principles

- We seek to understand the material and relevant ESG issues in the companies we analyse and integrate these into investment decisions where consistent with fiduciary duty.
- We encourage companies to pursue responsible business practices and to disclose their practices.
- We will engage with company management teams and board members on critical ESG issues.
- We are active proxy voters on SA listed companies and incorporate BlueAlpha's views on corporate governance and ESG issues into our votes.

## ESG Integration

Integrating ESG factors into the investment process is a valuable way to identify key risk and return drivers for our investments. A company's adherence to best practices in the ESG areas can benefit a company by minimizing costs and liabilities, and enhancing profitability and competitive positioning. When evaluating companies, we believe that management teams with a proactive focus on sustainability can be an indication of a strong corporate strategy and business model. A comprehensive set of ESG factors is applied to companies held within our portfolios and, where relevant and consistent with fiduciary duty. We look for management commitment to sustainability and we analyse track records with respect to ESG factors, focusing on accountability.

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## Responsible Stewardship

- **Corporate engagement:** Engagement with management teams is a core part of our fundamental research process as it gives us unique insights into management quality, business model, financial strategy and prospects. Our ESG engagement efforts enable us to understand how ESG practices are driving value and how these are integrated in strategy and decision-making. Outcomes from engagements include: using the information in the investment decision-making process and evaluating the materiality of risk factors; helping determine conviction levels related to our investment thesis, evaluating company management quality and commitment to ESG responsibility and leadership. Our engagement also allows us to express our views to company senior management and enact positive change.
- **Proxy voting:** We are active proxy voters. BlueAlpha has adopted a proxy voting policy which considers ESG issues. The BlueAlpha team also engages with management teams on proxy issues to gather additional information and to express our views on corporate governance and ESG issues.

## Monitoring and oversight

ESG risk oversight is an important role of our portfolio managers. On a regular basis, the most significant exposures to securities with poor overall ESG scores are reviewed. This ESG review process leads to a constructive dialogue on the ESG exposures, risks, and dynamics over time. We also seek to identify companies where engagement has the highest impact potential. We aren't seeking to optimise for ESG, rather we use it for context as well as an exclusionary factor. We won't buy a stock because it scores well on ESG, but we will sell a stock if a material ESG issue arises. We will exclude certain stocks from our investment universe as a result of BlueAlpha's ESG concerns.

## Investment exclusions

Potential investments should adhere to a minimum set of "core" exclusions criteria. These criteria have been defined to ensure alignment with market expectations around business activities fundamentally incompatible with investment products that have explicit ESG or sustainability objectives and include restrictions on business activities related to:

- Controversial weapons;
- Small arms; and
- Violations of accepted global norms as defined by the United Nations Global Compact principles

## Climate Risks

We understand that both physical risks and transition risks arising from climate change can affect investment performance. We have integrated climate risks assessment into research and investment decisions.

- The primary goal is to assess climate change's impact on security value and portfolio risk, marrying top-down, systemic climate risk analysis with bottom-up analysis to improve investment performance and help clients achieve climate goals.
- We evaluate negative and positive impacts with an understanding that, while climate change's worst effects may be significantly negative, a broad range of companies stand to benefit as society mobilizes to contain climate risks

We support companies leveraging the TCFD as a framework for disclosing how they identify and manage climate risks and opportunities. We expect companies to disclose governance structure for monitoring climate risks or opportunities, identification or quantification of these, and/or articulation of how the company has integrated related insights into strategy and operations.

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## Modern Slavery

At BlueAlpha we strongly oppose slavery and human trafficking and will not knowingly support or conduct business with any organization involved in such activities.

## Corporate Governance

We believe that good corporate governance enhances long-term shareholder value, and therefore BlueAlpha has a fiduciary duty to its clients to ensure, as far as possible, that the companies in which we invest are committed to adhering to sound corporate governance principles. We expect boards and executives to have integrated climate risks and opportunities into their strategy, operations and where material, disclosure consistent with long-term value creation for the company.

In keeping with this commitment, BlueAlpha endorses the King IV Corporate Governance Code. In addition, we support the United Nations supported Principles for Responsible Investment (PRI), the South African Code for Responsible Investing (CRISA).

For our Full Proxy Voting Policy please contact: [kimberley@bluealphafunds.com](mailto:kimberley@bluealphafunds.com)

## Summary

ESG considerations are integral to our fundamental assessment of a company, given our focus on value creating businesses. Generally, companies that create value for shareholders on a sustainable basis, cannot ignore ESG-related issues. ESG scoring can improve risk / return metrics on a portfolio level. We are able to rank most companies in the local benchmark in terms of all components that make up their respective scores. ESG Scores are relatively subjective and can therefore be misleading on an individual stock level. This is largely due to the number of metrics that are averaged to derive an overall score. External scores should therefore be used to supplement internal analysis – this gives the most complete picture, rather than focusing solely on external scores