REZCO

Information Statement:
How the Investment Research Process Incorporates Sustainability Considerations

Our core focus is risk adjusted returns and our style is benchmark agnostic. When incorporating sustainability considerations into our research process we apply two key aspects:

1. we view ESG (environmental, social and governance) risks and business sustainability as a core risk to the business that is likely to generate negative returns, i.e. increase risk and decrease relative return and thus counter to our objective to take good risks to generate outperformance; and
2. we simply choose not to invest in companies where ESG issues are significant.

Unpacking the above further, where there are significant ESG risks within an investment we view the risks as high because it points to poor quality company management, the risk of government intervention or regulation, market share losses etc. These types of risks lead to poor returns. It is intrinsically part of our fundamental research process to analyse a company in the context of what the risks are i.e. are they good risks we would like to take or bad risks we should avoid and what are the return expectations. We look for companies where there is good quality growth and where the price of that growth is reasonable (i.e. Quality + GARP investment style).

ESG risks are incorporated into our understanding of quality. We do not apply a checklist view to ESG, but we view companies that significantly breach ESG standards as able to tick pre-specified checklists. Instead, we take a fundamental and holistic approach to assessing the risk. Given the overlap of business quality and ESG risks, it may not be necessary to specifically define where the issue lie. For example, a company selling a substandard product using poor quality packaging (non-recyclable plastics etc.) would not meet our quality criteria but may also breach ESG standards should the company have made this decision to boost short term profits at the expense of the environment and long-term sustainability of their brand. Our investment process seeks to analyse the business in terms of future earnings (growth) and confidence in that growth (quality / sustainability).

As part of our research process, we take care in our analyst remuneration and performance reviews to acknowledge ESG issues in any of their research coverage lists. This is important

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because analysts need to be backed to make tough calls not to invest, even if the share price is going up, when there are ESG issues. Therefore, management's assessment of an analyst's performance should not penalise an analyst when ESG issues informed a call to not make an investment. Therefore, part of our process is to specifically call if there is a breach in ESG which would then be removed from the coverage list / benchmark universe when assessing the analysts track record. Being correct on tough ESG calls would further be rewarded should they come to light e.g. in South Africa Steinhoff was a major outperformer for many years, analysts would not be penalised as missing an outperforming share when it was going up, but would be rewarded for avoiding it when the scandal become clear in the public's view.