Annual Stewardship Report

Financial year ending February 2025

PSG Asset Management

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Lyle Sankar
Chief Executive Officer

1. Foreword

1.1 Introduction

According to the World Meteorological Organisation, 2024 was officially the hottest year on record. Climate change is only one aspect driving heightened awareness of environmental, social and governance (ESG) factors, although it may be the one most likely to dominate headlines, given that the increasing frequency and intensity of extreme weather phenomena are plainly visible. The urgency of addressing such developments have not diminished, even as the commitment to sustainability initiatives of the world's largest economy, the United States of America (US), seems to be faltering.

To our minds, however, the S and G (social and governance) aspects are no less important or impactful than the environmental ones. As responsible stewards of our clients' capital, we consider it our responsibility to carefully weigh the impact of our investment decisions, so that societal well-being is enhanced, rather than diminished, through our activities. Holding companies to account for environmental, social and governance issues is not only a vital part of our fiduciary duties, but also the right thing to do. While these considerations are often viewed as being a straightforward, almost tick-box-like exercise, we believe the reality is far more complex and nuanced, as trade-offs may be unavoidable. Rather than viewing these factors in isolation, it is often necessary to consider the interconnection between them and view the impact of an organisation holistically.

As long-term investors, we are cognisant of the impact that sustainability issues can have on the competitive environment, both within and across industries. Companies that neglect their social and environmental obligations will inevitably face challenges in delivering sustainable long-term returns. Similarly, those that do not uphold high governance standards become more vulnerable to corporate governance deficiencies and subsequent value destruction.

We strongly believe that adopting an ESG lens allows us to gain deeper insights into the strength of the management team, the moat of the company, as well as the risks and opportunities associated with the investments, and thus it is also fully aligned to our 3M investment process. By considering ESG factors, we consistently prioritise the best interests of our investors and strive to deliver the best risk-adjusted returns.

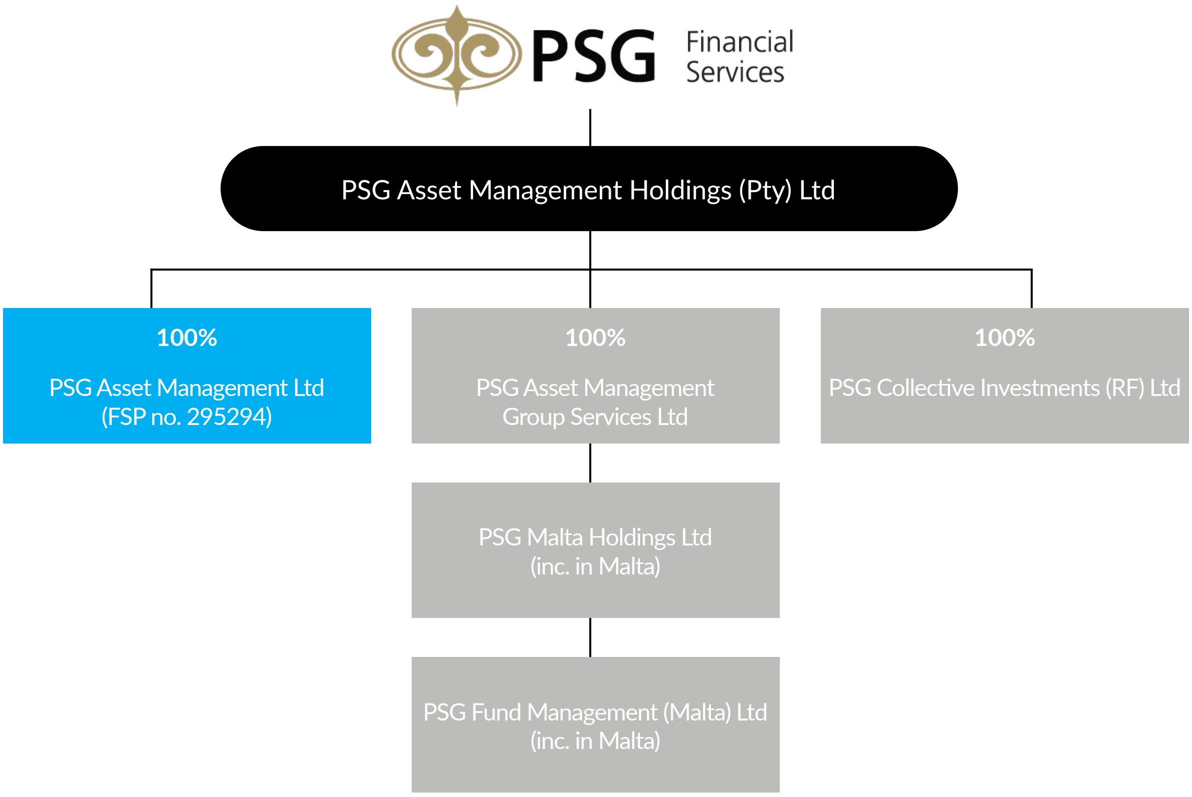
Our annual Stewardship Report provides deeper insight into how we integrate ESG factors into our investment process. It offers valuable insights into our corporate engagements through case studies and examples, and provides an overview of our proxy voting activities and initiatives.

2. Introduction to PSG Asset Management

2.1 About us

PSG Asset Management (Pty) Ltd is a subsidiary of PSG Asset Management Holdings (Pty) Ltd, an operating division of PSG Financial Services (the Group). PSG Asset Management Holdings (Pty) Ltd comprises both the single manager fund management business, and a local and offshore management company. The entities are all fully owned by PSG Financial Services (the Group), which is independently listed. The Group has more than 16 700 shareholders, of whom 52% are institutional investors (as at 28 February 2025).

The main operating entity is PSG Asset Management Holdings (Pty) Ltd, and the regulated entities are shown below. The local management company, PSG Collective Investments (RF) Ltd, is registered as a Collective Investment Schemes (CIS) Manager with the Financial Sector Conduct Authority (FSCA), and is a member of the Association for Savings and Investment South Africa (ASISA) through its holding company PSG Financial Services.



As at 28 February 2025

Our registered office is in Cape Town and the PSG Asset Management group currently employs 86 people. The single manager has R60.7 billion in assets under management, while total assets under administration within the PSG Asset Management group amount to R262.6 billion (as at the end of February 2025).

2.2 Vision and mission

Our purpose is to be the best stewards of our clients' capital. We always take a long-term approach and aim to build a robust business for clients, staff and stakeholders as part of a highly rated fintech group. To achieve this goal, we need diversity of clients and products, excellent long-term returns, and to be an employer of choice.

2.3 History

PSG Asset Management is a well-established business, with a proud long-term track record of performance excellence. In 2000, Alphen Asset Management (an owner-managed boutique business) was formed with the corporate backing of PSG. In late 2003, the retail asset management teams of Alphen Asset Management and Appleton officially began working together and implemented a management buyout of the merged asset management businesses. It continued to operate as Alphen Asset Management and as a subsidiary of PSG. PSG Tanzanite was started in 2005 as a separate boutique asset manager and grew into a successful multi-asset franchise. Having worked together for several years, these two PSG-aligned asset managers, Alphen Asset Management and PSG Tanzanite, formally merged in March 2011 to form PSG Asset Management.

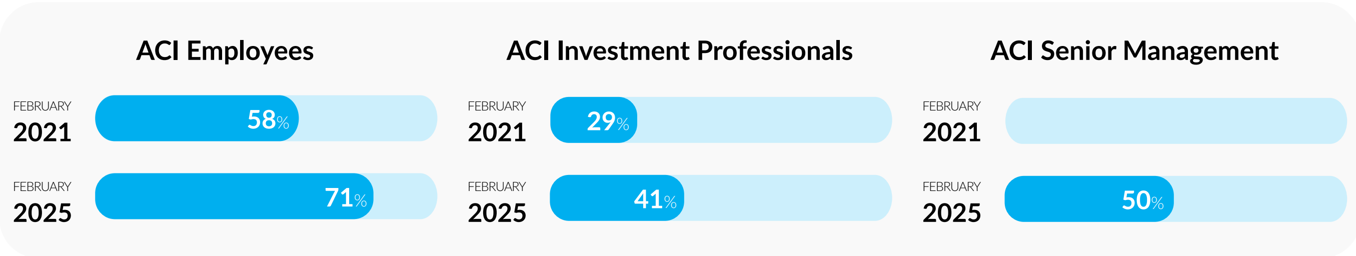
2.4. Core principles

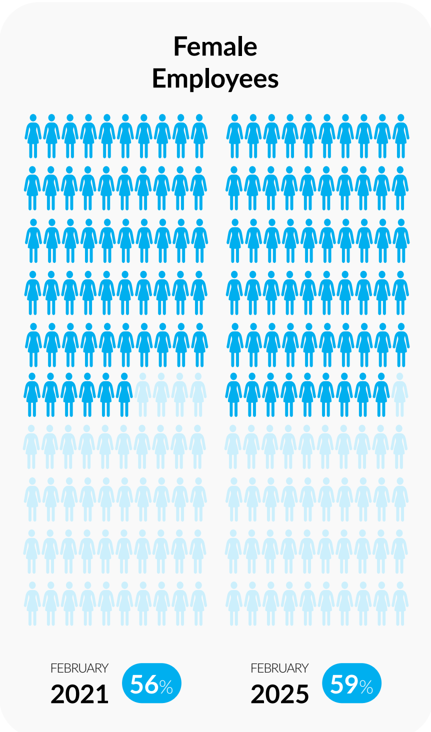
A focus on client centricity	A strong, team-based approach	Continuous learning
We want to be the best possible stewards of our clients' assets. To do this, we follow a long-term approach, conduct our own research and always buy with a margin of safety.	We promote a culture of trust and respect within which we can openly discuss and debate ideas, adding to the overall client outcome.	We are a learning organisation, striving to learn from our experiences and incorporating them into checklists to help us avoid repeating mistakes. We also have ongoing training programmes and encourage our employees to further their education.

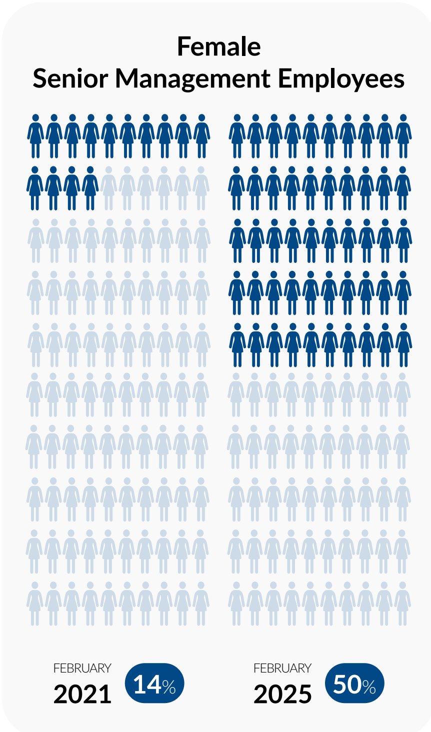
2.5 Progress on diversity and inclusion

As PSG Asset Management forms part of the PSG Financial Services Group, our broad-based black economic empowerment (B-BBEE) credentials are derived from those of the Group, which is making steady progress in improving its rankings. However, we find it appropriate to highlight our commitment to transformation within this division as part of this report.

We pride ourselves on low levels of staff turnover in our investment and senior management teams. This can, however, make it challenging to drive transformation within the business. Despite this we have achieved remarkable success in transforming our investment team since our first Stewardship Report was published in 2021, in no small part due to our graduate training programme. This initiative not only showcases PSG's commitment to growing its own talent, but also aids our talent retention efforts, since our commitment to promoting from within is clearly visible at all levels of the organisation.







3. ESG as part of the investment philosophy and process

The implementation of ESG within our research process has evolved over the last few years and we are constantly seeking to improve this process. In 2020, we reviewed and updated our ESG policy and finalised our proxy voting approach. In addition, we streamlined the integration of ESG into our investment process in January 2021 and became signatories to the United Nations Principles for Responsible Investment (UNPRI) in March 2021. Our ESG approach is embedded in our investment philosophy and process, both of which are driven by the principles of responsible investment: we invest in businesses with long-term growth strategies and whose management teams function as effective custodians, acting in our clients' best interests.

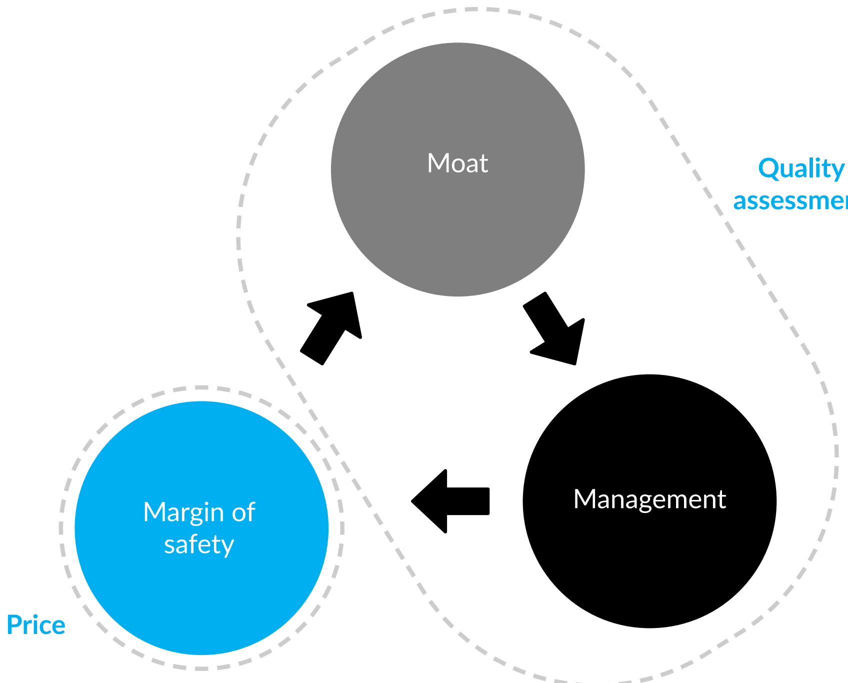
3.1 Investment philosophy

We seek to generate strong long-term returns for our clients by buying low, investing for the long run and selling high. This mindset means that the sustainability and longevity of the companies we invest in are always top of mind for our team, inherently aligning our investment philosophy to ESG considerations.

At the heart of our investment philosophy is a search for an inherent quality that the market is missing. As a result, we tend to invest in companies or assets that are of a quality similar to or better than the market, but trading at a discount. Such mispriced opportunities are often found in uncrowded and out-of-favour areas that are neglected by the rest of the market. However, simply being cheap and out of favour is not enough: we set a high bar for quality. We often find evidence of mispricing and overlooked quality where there is an excessive and a misplaced focus on short-term issues, or a continued focus on a historic issue that has been or is being resolved or a potential risk that has been fully incorporated into the price.

3.2 Investment process

Through our 3M investment process as illustrated below, we evaluate both quality (evidence of a sustainable competitive advantage or 'moat' and strength of 'management') and price ('margin of safety', or how far a security is trading from fair value). ESG factors can have an impact on any or all three Ms. We do this evaluation for every security we invest in.



We score each security we consider for investment on a scale from one to five for moat and management respectively, with a score of three being average and higher or lower being respectively above or below average.

Our scores for moat and management determine the discount rate (or risk premium in the case of interest-bearing securities) which we apply when determining the intrinsic value of the investment, with a lower score driving a higher discount rate or risk premium. As such, these scores have an impact on whether we invest in or lend to a company, and the size of the positions we take.

Moat and management score	(M+M) ≤5	>5 (M+M) ≤7	>7 (M+M) ≤8	>8 (M+M)
Possible discount rate adjustment	+2%	+1%	0%	-1%
	7% of buylist	56% of buylist	19% of buylist	18% of buylist

Calculated on the local and global buylists, as at 28 February 2025

3.3 ESG integration into the investment process

High-level overview of the process

Initial high-level ESG review

- Examine material sustainability topics per sector.
- Each analyst identifies potential company and sector ESG impacts (considering long-term, full value chain, supply side, funding implications, trends, etc.).

Deeper ESG understanding

- Review company ESG disclosure and related information.
- Supplement initial in-house research with ESG research.
- Research by Bernstein, UBS and Avior was identified as being potentially useful.

Key takeaways

- ESG impacts on moat and management scores (discount/intrinsic value).
- Is the market concerned/positive about any ESG factors, and is the share trading at an ESG discount/premium?
- What could change the market's ESG view over three years?
- Potential ESG tail risks/opportunities and key performance indicators (KPIs).
- Questions for management/board.
- Summary ESG view.

Initial high-level ESG review

We conduct our own fundamental and in-depth ESG research, with each analyst being responsible for considering ESG aspects as part of the quality assessment on a case-by-case basis for each investment. John Gilchrist, Chief Investment Officer, has overall responsibility for ESG implementation, including through our research process, proxy voting and related communication.

Deeper ESG understanding

To broaden and deepen our understanding, we supplement our ESG considerations with a review of company disclosure and available qualitative ESG analysis produced by sell-side analysts (both local and global).

After conducting an extensive analysis (which included trial runs with three leading ESG research providers), we decided not to make use of third-party research focused only on generating ESG scores for companies, for the following reasons:

- Our investment process is based primarily on in-house research, with selective use of third-party research.
- Our investment universe is global, and we frequently find opportunities in less liquid areas of the markets. Many of these investments are not covered by ESG-specific research providers.
- Much of the research appears aimed at generating ESG scores to be used as inputs into quantitative models or for share screening purposes, and this is insufficient for our requirement.

Key takeaways

ESG factors have a direct impact on moat and management ratings (see further detail under 3.5 below), as well as intrinsic value and conviction levels. As a result, ESG considerations play an integral role in our research process. Our primary emphasis is on identifying material ESG issues, evaluating the risks and opportunities associated with them, and determining how best to raise associated issues with the management team and/or the board of the company.

3.4 What differentiates our approach to ESG?

We believe our differentiated approach to ESG adds value to our clients. We consider ESG risks and opportunities from a first-principles basis, with each analyst independently applying their mind and doing their own research. The focus is on ESG factors that could materially impact the key drivers of value over the investment horizon (i.e. forward-looking and with a longer-term view). We consider which ESG factors (positive or negative) are already priced into the investment, and whether these are likely to improve or not (either based on credible management commitments or the potential to engage with management and drive ESG improvements). It is important to note that we do not follow an exclusionary policy where climate change or environmental factors are a material concern. Rather, we will seek to understand how the company is approaching its ESG responsibilities across all dimensions, before taking a view on the company based on this integrated analysis.

3.5 Key aspects of ESG considerations

Environmental

The score for moat will incorporate the consideration of significant environmental issues. We want to avoid any permanent loss of capital for our clients and therefore specifically consider tail risks (low probability but high impact events) that may threaten the long-term sustainability of a business. Key aspects considered will vary by industry but generally include carbon emissions, water stress, land use, waste treatment, air pollution, biodiversity impacts, etc.

Social

Our assessment includes potentially disruptive social issues that may affect operations or have reputational ramifications. We perform this analysis for all companies we consider for investment, as well as those we already own, to ensure that risks are monitored continuously. Key aspects include employees' health and safety, labour management, data security, corporate social responsibility, and ethical customer practices.

Governance

We see management as an extension of our process. Effectively, we delegate some responsibility for client assets to the management teams of the companies we buy into or lend to. As such, we recognise management as secondary custodians and hold them to the same high standards we hold ourselves to. We have developed a robust checklist over time, to make sure we ask the right questions when we engage with and evaluate management teams. The score for management will incorporate considerations of alignment (remuneration and share ownership), accounting integrity, transparency, capital allocation decisions, reputation, regulatory compliance, track record and governance.

3.6 Impact of the ESG approach on our portfolios

Although we do not specifically screen out investment opportunities based purely on ESG considerations, in some situations we may decide that shortfalls on ESG-related aspects are so significant that a security is uninvestable. This is likely to occur primarily where concerns about governance mean that we no longer have confidence in the management team's (or the board's) ability to act as secondary custodians.

It is important to note that we may hold securities seen as poor from an ESG perspective where we believe that:

- despite a poor historical ESG track record, the business is sustainable
- credible management commitments lead us to believe the ESG profile will improve
- we can positively impact the ESG profile of the company by engaging with management

4. Proxy voting

Proxy voting forms part of our ongoing formal investment process. We have a Policy on Ownership Responsibilities and always strive to vote responsibly and timeously. Our analysts are responsible for making proxy voting recommendations. Proxy voting is deeply embedded in our ongoing formal investment process, and contentious or material votes/engagements with management or board members are discussed in the weekly investment committee meeting or with senior team members (if time sensitive).

Under specific circumstances, we are open to collaborating with other investors when voting, so that we can present a unified view. This is consistent with the Code for Responsible Investing in South Africa (CRISA) Principle 3 (consider collaboration to promote the principles of CRISA). In these situations, we are extremely careful (taking legal advice where necessary) not to fall foul of regulatory/legislative requirements.

Our proxy voting guidelines are neither prescriptive nor exhaustive but should, in combination with the principles, provide a reference point for considering shareholder meeting resolutions and forming recommendations. We have a fiduciary duty to apply our minds to each resolution, and we therefore consider each vote on a case-by-case basis.

The proxy voting schedule, which details how we have voted on each relevant resolution, is published on our website. In the financial year that ended in February 2025, we exercised our proxy votes on 79 different companies across a total of 92 meetings, as shown below.

Proxy voting summary

Number of resolutions **fully supported**	Number of resolutions **voted against**	Number of resolutions **we abstained from**
1 288 votes	**40** votes	**58** votes

Our proxy voting schedule provides the reasons for our voting behaviour.

5. Relevant industry codes and principles

5.1 Code for Responsible Investing in South Africa (CRISA)

PSG Asset Management follows the principles outlined in CRISA and applies the principles of responsible investment in its philosophy and process. CRISA provides guidance on how to incorporate responsible investing into investment analysis and investment activities. Refer to our CRISA statement published on our website.

5.2 United Nations Principles for Responsible Investment (UNPRI)

We are an official signatory to the United Nations Principles for Responsible Investment (UNPRI), joining more than 3 000 other organisations around the world that have publicly demonstrated their commitment to responsible investment. As signatories, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions and asset classes, and over time).

6. ESG engagements

Our company engagements have historically focused on corporate governance concerns, as this is where we believed we could make the most meaningful contribution. However, we increasingly consider environmental and social issues – and their potential impact on the sustainability of a business.

We have regular meetings and teleconferences with directors (executive and non-executive) and senior management of investee companies. These meetings are an integral part of our investment process and are aimed at, among others:

- Gathering evidence around the quality and sustainability of the business including moat, earnings power and balance sheet.
- Building evidence that management teams are acting as good stewards of our clients' capital.
- Proactively promoting alignment with our philosophy:
  - Management aligned with shareholders through shareholding, incentives, long-term approach and per-share thinking.
  - Sustainable practices including environmental, social and corporate governance considerations.
- Understanding the boards' thinking behind remuneration policies and implementation thereof, and proposed changes to the composition of the board.

Often, our engagements span several years and we consider the willingness of the management team to engage in addition to the actual progress made over time.

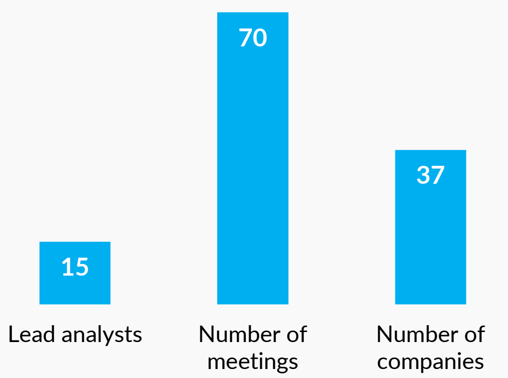
When a management team is not meeting our standards, has acted in an unsatisfactory way, or is showing a disregard for shareholder concerns, we weigh up the potential merits of engagement versus selling, by considering all facets. We keep our role as stewards of our clients' capital – and the regulatory and ethical framework within which we operate – top of mind at all times and will engage legal counsel when needed.

6.1 Our interactions with management (executive and non-executive)

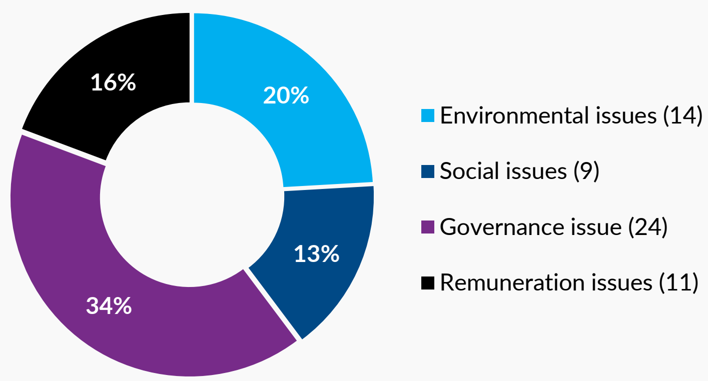
We meet with executive and non-executive management of our investee and prospective investee companies as part of our investment process. We prepare thoroughly for these interactions, with the lead analyst engaging with team members in advance of the meeting to determine a list of key questions. The engagements generally focus on key risks, strategy, results (in the context of the longer-term investment thesis) and ESG-related issues (including board-level interactions on executive remuneration and governance).

Over the financial year, we averaged nearly 3 company engagements every week.

From 1 March 2024 to 28 February 2025



Of the 70 engagements



6.2 ESG case studies

We provide case studies to explain our thinking in more detail. Rather than viewing any factor in isolation, we prefer to consider the company's impact holistically, and with this in mind we have structured the case studies in this year's report somewhat differently than in the past.

In this year's report, we focus on case studies that show how we integrate multiple ESG considerations into our decision-making process in our case studies on Babcock, Thungela and Nampak. Our long-standing involvement with Nampak, in particular, shows how a close integration of ESG considerations into our investment process leads to better outcomes for our investors. We also highlight our thinking on the issue of executive pay across a number of companies, explaining what we consider and how we aim to vote consistently on this highly emotive and contentious issue. In our view, ESG engagements are best viewed as a journey, rather than a point in time/stake in the ground assessment. Finally, we added more detail into how we incorporate ESG as part of our fixed income process, with illustrations of how ESG considerations impact our decision to hold an asset, or not.

We hope that you'll find these case studies insightful, and invite you to engage with us, should you have any further questions.

6.2.1. Thinking about the role of defence in an uncertain world: Babcock International plc

London-listed Babcock International plc plays a critical role in global defence and national security as the second largest defence contractor to the UK's Ministry of Defence with operations in the UK, Australia, New Zealand, Canada and France. Babcock also designs and manufactures equipment and systems for several other nations, including the US and South Korea.

Our shareholding in Babcock spans over several years. This case study illustrates that issues around ESG considerations are not static and change over time, requiring a dynamic approach and the ability to keep an open mind.

Governance

We were shareholders in Babcock International in 2019 and 2020 when the company started to underperform. We believed in the inherent value of the business and started to engage with the newly appointed chairperson Ruth Cairnie, to express our concerns with the management team and to better understand the company's plans to turn around their fortunes. The management team was replaced in late 2020. We continued to regularly engage with other non-executive and executive directors over the past few years and saw significant restoration of business value.

Social

Defence companies have historically been viewed negatively by investors through an ESG lens. However, well before the onset of the war in Ukraine, we took the view that the company's services – whether maintaining the UK's nuclear deterrent, building ships or training fighter pilots – are critical in allowing democracies to defend themselves from potential aggressors. With this in mind, we believe that the company should not be penalised from a 'social' perspective, and we have been long-term investors in Babcock. In our view, such companies will play an increasingly important role in helping democracies maintain their sovereignty as the world becomes more fragmented and geopolitical tensions inevitably ramp up as a result. More recently, we have noted that investors' views on the critical importance and thus investability of this sector have shifted, attracting incremental capital inflows into the sector.

Environmental

During 2024, Babcock was one of the first international defence companies to gain approval for their science-based near- and long-term emissions reduction targets and verification of the company's net zero target by 2050 from the Science Based Targets initiative (SBTi).

In engaging with Babcock, we consider its footprint across multiple dimensions of the ESG spectrum. We aim to balance pragmatic considerations with a willingness to engage with the company, when we believe it is necessary to do so.

6.2.2 Thungela Resources: Considering the holistic ESG response

Sustainability is a complex issue, and although the tendency is to reduce it to environmental factors alone, it deserves a considered and holistic approach. In this case study, we focus on Thungela, a thermal coal producer with operations in South Africa and Australia. Many investment managers would consider the company uninvestable, due to the nature of the business. Nevertheless, Thungela's approach underscores that it is still possible for companies that are 'unattractive' in ESG terms to show a commitment to reducing their negative impact on the environment, while upholding high corporate governance values and aiming to make a positive difference on the social dimension.

Thungela follows a three-pronged approach to its ESG responsibilities.

- Environmental stewardship, which focuses on managing climate risk, responsible management of land, preserving biodiversity and the efficient use of resources.
- Social commitment, focused on creating shared value for all stakeholders and uplifting the communities that live in areas surrounding the company's operations.
- Governance, focused on responsible decision-making and leadership.

Thungela is serious about its environmental responsibility, committing to a policy of 'zero harm'. The business has set targets to reduce its Scope 1 and 2 greenhouse gas emissions by 30% by 2030. According to its 2024 Integrated Report, it is committed to efficient use of resources, implementing a water stewardship programme, reducing waste sent to landfills by 50% by 2030 (using 2021 volumes as a baseline) and focusing on wetland restoration and no net loss of biodiversity. However, the company recognises that there are limits to what it can achieve through these programmes while remaining a coal-focused business.

As such, Thungela has put a distinct emphasis on the social dimension ('spiking' on social) where it believes it can make a material difference to the lives of its stakeholders. Key social programmes and interventions targeted by the company include:

- socio-economic development aimed at reducing the impact on communities due to mine closures
- the Sisonke Employee Empowerment Scheme
- the Nkulo Community Partnership Trust
- Thungela Education Initiative, focused on grade R to 4 interventions

Since listing the business in 2021, the Sisonke Employee Empowerment Scheme and the Nkulo Community Partnership Trust have together received R1.7 billion, demonstrating Thungela's ability to deliver strong returns to all its stakeholders. In addition, the company paid R6.7 billion in wages and benefits, and R4.5 billion in taxes in the 2024 reporting period, highlighting its important role in the South African economy.

Balancing the world's energy needs is a complex journey, with fossil fuels likely to still remain a necessary part of the energy mix to ensure energy security. With this in mind, in our view, Thungela's considered approach to being proactive and a positive contributor to society – despite the limitations due to the nature of its industry – warrants a consideration of the investment case.

6.2.3 Engaging over multiple years for greater impact: Nampak

Nampak Limited (Nampak) is a diversified packaging manufacturer with operations in South Africa and other parts of Africa. It has a strong focus on metal packaging, which is attractive from a sustainability perspective, as especially aluminium packaging is being recognised for its recyclability.

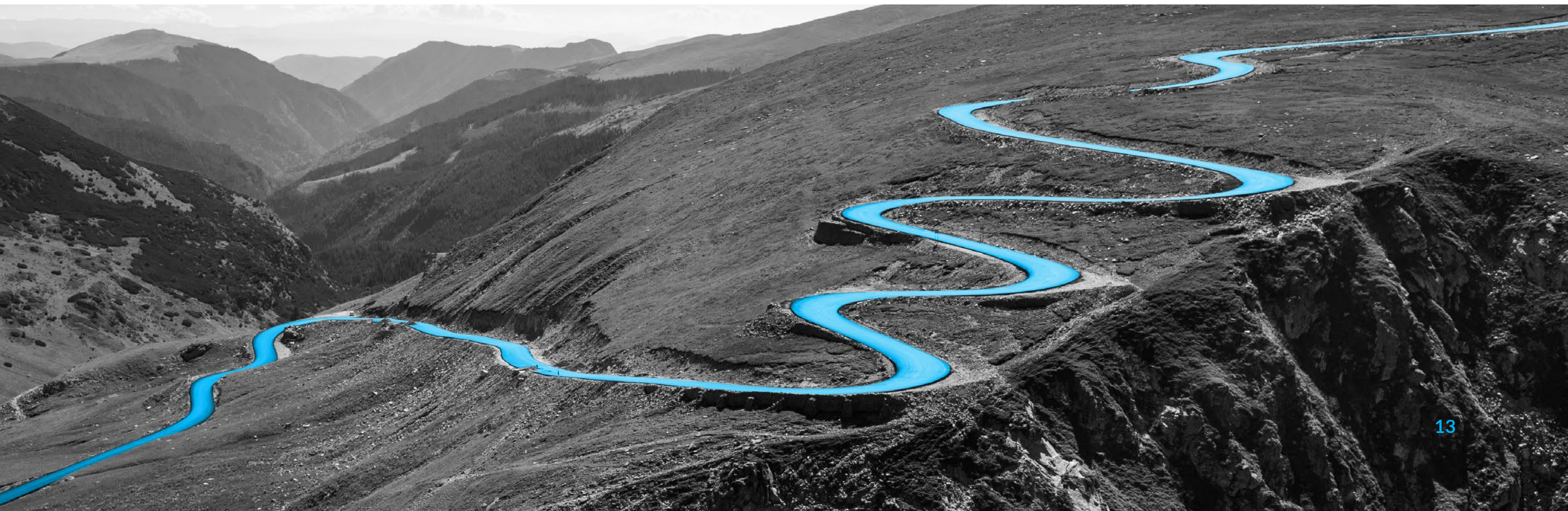
We started investing in Nampak in December 2022, when the company's market value was around R1 billion (having declined from close to R10 billion five years prior). At the time, we believed the company offered a quality asset base and could potentially recover, with the prospect of generating attractive returns for shareholders – provided the right management team was in place. In addition, Nampak had a crushing debt problem that needed urgent attention, given Nampak's debt balance was over five times its roughly R1 billon equity market value at the time.

As Nampak's largest shareholder at the time, we believed that part of our responsibility was to contribute to the survival of the enterprise, which would also realise value for our investors. In 2023, we engaged with Nampak on a number of governance issues, including about appointments to the board, to ensure the company had the requisite skills needed to remain in business and continue serving its stakeholders. This strengthening of governance at the board and executive management levels was a critical success factor in the subsequent turnaround we saw in the business. During the 2024 reporting period, the company undertook various actions aimed at actively ensuring its continued viability. These include disposing of several non-core businesses in South Africa, as well as a number of businesses in Malawi, Zambia, Nigeria and Zimbabwe. The group was refinanced, and South African operations were reorganised into two entities: Beverages and Diverisified. We have observed tangible progress as a result of right-sizing its operations, as well as material improvement in its profitability. Importantly, the value of our investment has more than doubled since we participated in the capital injection in August 2023.

Without a restoration of confidence in the company, a rejuvenated and refocused management team and fresh capital injection, it is likely that significantly worse job losses would have been realised, as well as potential liquidations for non-profitable divisions. Today, Nampak remains a significant employer within South Africa's manufacturing industry. It plays a vital role in providing meaningful employment opportunities, particularly to vulnerable and underserved communities. The company's continued presence as an economically viable enterprise carries long-term positive implications for social and economic inclusion – an outcome we value deeply as committed South African investors.

We are encouraged by the company's improving financial performance, which we believe strengthens its ability to contribute meaningfully to society. This includes efforts in skills development, job creation, and broader societal well-being – reinforced by its continued contribution to tax revenues in South Africa. Likewise, the role of Nampak in aiding the sustainability efforts of other companies who are reliant on their packaging material, should also not be overlooked, even as the firm is pursuing its own sustainability objectives aimed at reducing material use, and introducing a closed-loop system with a focus on packaging re-use and recycling.

We continue to engage with Nampak, where we believe our actions can add value to shareholders and where doing so is aligned to our role as responsible stewards of our clients' capital. Notably, we also believe this case study highlights how important it is to integrate fundamental investing principles with judicious ESG-relevant research and engagement, in order to achieve better risk-adjusted outcomes for our investors.



6.2.4 Engaging on the thorny issue of executive pay

Few topics have drawn as much ire and scrutiny as the one of executive pay. What constitutes 'fair' remuneration for the executives and directors who are tasked with setting the strategic direction of firms, and who can make a material difference to the outcomes companies (and their shareholders) achieve? In South Africa, with its highly unequal distribution of income and wealth, it can become an especially contentious and emotive issue.

When it comes to discharging our duty as responsible stewards of our clients' capital through voting on these matters and in line with our approach to managing investments in general, we aim to remain unemotional and make considered decisions. To this end, we prefer to satisfy ourselves about two key questions:

- Are the disclosures transparent and detailed enough to facilitate considered analysis of executive pay?
- Is the overall remuneration package structured so that it aligns with shareholder outcomes, especially with regards to short-term and long-term incentives?

We support above-average payment outcomes, as long as these are aligned with positive shareholder results. The company engagements below highlight where our approach leads us to question executive remuneration policies.

JSE

We have been shareholders in the company that manages SA's dominant bourse, the JSE Limited, since 2018 and have engaged with them on various governance issues. During the 2024 reporting cycle, we engaged with the board on executive remuneration, as we had a number of concerns about its structure.

- We were concerned that the long-term incentive (LTI) targets were not sufficiently stretching, and felt that the total shareholder return should be retained as a metric within the LTI framework.
- We suggested a revision of the short-term incentive (STI) structure, particularly advocating for the deferment of a portion into shares, increasing the weighting of financial metrics within the STI, and placing greater emphasis on at-risk LTIs.

As a result of our concerns, we voted against both the Remuneration Report and the Implementation Report at the 2024 annual general meeting (AGM).

Standard Bank

Standard Bank Group has been listed on the JSE since 1970 and has been in operation over 162 years. The group operates in 20 countries in sub-Saharan Africa and incorporates personal, private, business, commercial, corporate and investment banking, as well as insurance and asset management. We have been a shareholder in Standard Bank since 2021. In 2024, we voted against the proposed remuneration structure. Our key concerns centred on:

- Poor disclosure, particularly on the STI.
- Difficulty determining whether remuneration would be aligned with shareholder interests.

Telkom

We have been investors in Telkom since early 2023 and have actively engaged with the board on several governance matters. One area we particularly highlighted is the progress made in aligning the company's incentive structure with shareholder value creation.

- **Improved transparency in executive remuneration:** Telkom has made strides in enhancing the transparency of its executive remuneration disclosures. This has enabled us to better evaluate the alignment between executive compensation, company strategy, and operational performance.
- **Integration of free cash flow (FCF) into incentive metrics:** Recognising the capital-intensive nature of Telkom's business model, we have consistently engaged management on the importance of including FCF as a core metric in remuneration KPIs. We welcome the increased emphasis on FCF, now reflected in the company's short-term incentive structure. This focus has already yielded tangible results, including the reinstatement of a dividend policy directly linked to FCF generation. We believe that aligning executive rewards with FCF performance reinforces prudent capital allocation and ensures that Telkom can sustainably return capital to shareholders.
- **Emphasis on return on invested capital (ROIC):** We have also advocated for greater attention to return on invested capital (ROIC) as a strategic key performance indicator (KPI). ROIC plays a critical role in promoting long-term thinking within the management team and is well-aligned with our philosophy as long-term investors. We are encouraged to observe that Telkom has embedded ROIC into its long-term incentive framework. The increased focus on ROIC by management supports a disciplined capital allocation mindset and reinforces a culture of long-term profitability and value creation.

We continue to maintain constructive and collaborative dialogue with Telkom's executive leadership and board. These engagements reflect our shared objective of building a high-performance, shareholder-aligned organisation.

Continued dialogue helps drive better shareholder outcomes

In engaging with companies on executive remuneration policies, we aim to provide constructive guidance concerning the desired outcomes we would like to see. While we are not the only shareholders of these companies, we have in many cases noted changes to remuneration structures in subsequent years, leading us to support remuneration policies, once we are comfortable that our requirements have been met and that it is in the best interest of shareholders to do so.

6.2.5 How we approach ESG in the fixed income space, and how it sways our decision-making

The analysis of ESG factors is seamlessly integrated into our investment process within PSG Asset Management, as outlined earlier in this document. In a fixed income-specific context, ESG factors help us to assess a full range of risks relevant to an investment case, whether upside risk (positive ESG factors) or downside risk (negative ESG factors). Material ESG risks to an investment case could serve as a signal to avoid an investment opportunity.

Our primary emphasis is on identifying material ESG issues, evaluating the risks and opportunities associated with them, and determining how best to raise associated issues with the management team and/or the board of the company, where appropriate.

Below are some examples of how ESG considerations have altered our investment decisions, specifically within a fixed income context.

Eskom

Despite government guaranteed bonds being available and attractively priced, our assessment of Eskom's governance precluded us from investing in the issuer's bonds prior to governance improvements in 2017.

The Land and Agricultural Bank of Southern Africa

This was one of our higher-conviction credit holdings in 2017/18. However, as part of an annual review on the counterparty during 2019 we noted a material deterioration in our governance assessment, particularly around skills departure at the senior management level. We downgraded our internal credit rating and successfully sold all holdings in our fixed income funds during 2019. At the time of the credit event in April 2020, we did not have any exposure to the issuer in our fixed income funds. Two of our multi-asset funds had immaterial exposure to the issuer.

Resilient REIT

When Resilient was accused of accounting irregularities in 2018, this had a negative impact on the company's ability to raise capital. We conducted an in-depth due diligence of the remedial action that followed and process enhancements that were made since 2018, the result of which improved our governance assessment of the company. We proceeded to invest in Resilient bonds in 2021.

Sasol

We invested in Sasol credit when the price of Brent crude oil was high. However, it became evident that management was failing to adequately address environmental concerns and related contingent liabilities, which we believed would put continued pressure on Sasol's credit spreads. We sold the Sasol bonds that we owned and removed Sasol from our credit buylist in December 2023.

7. Our impact on social responsibility

PSG Asset Management formally became donors to Constantia Primary School (CPS) in 2015. CPS is a zero-fee school, with almost all of its 530 learners coming from previously disadvantaged backgrounds. Our ad hoc initiatives over the years have included donating interactive whiteboards, repairing and improving physical infrastructure at the school, renovating the school hall and staffroom, sponsoring sports days and prize-givings, conducting Christmas shoebox drives for stationery, and collecting clothing and blankets for families affected by the Hout Bay fires in 2017. Since 2019, our initiatives have become centred around our mission statement of providing equal opportunities. Since government funding did not allow the school to offer sporting and cultural activities, we have focused our efforts on these, providing the learners with access to opportunities the school is unable to offer due to a lack of government funding.

Our support focuses on sponsoring four key initiatives:

- a full-time sports teacher via Sporting Chance
- drama for five grades via the Helen O'Grady Drama Academy
- a full-time music teacher
- the prizes at the year-end prize-giving

Since introducing its focus on equal opportunities, PSG Asset Management has contributed a cumulative R3.2 million to CPS.

Our four key initiatives at Constantia Primary School:

Watch: Our impact at Constantia Primary School

The impact of these programmes are far-reaching, and they have– had a transformative impact on the school and pupils, as we highlight in this video.

Looking ahead

PSG Asset Management remains committed to supporting CPS and offering its learners access to a world of opportunities they would not otherwise enjoy. CPS remains grateful for our involvement and we look forward to another year of making a visible difference to the learners.

8. Conclusion

As is evidenced in this Stewardship Report, we take our fiduciary responsibilities extremely seriously. Our size and approach frequently result in us being a material shareholder in mid-cap SA listed shares – this gives us a unique opportunity to materially influence these companies' ESG strategies, for the benefit of these companies (and ultimately our investors) as well as society. As our approach to ESG continues to evolve and grow as we weigh the various trade-offs between competing stakeholders and imperatives, we expect ESG to become increasingly important in our process.

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