

Responsible Investment Policy

Companies with good corporate governance policies, an entrenched ethical corporate culture and an acknowledgement of environmental, political and socioeconomic matters tend to create sustainable value over time. For this reason, we place significant emphasis on sustainability as a source of value creation and view ESG analysis as a crucial component of our research process.

Our approach to Responsible Investing (RI) relies on both an Environmental, Social and Governance (ESG) framework as well as case-by-case considerations of ESG factors. Each company's ESG policies are scrutinised by the responsible analyst and evaluated by the investment committee. We exclude companies from our screening process that rate very poorly on ESG factors when we believe these factors will have a significant negative influence on the future economic value of those companies.

The main sources of information in evaluating a company's ESG framework include company integrated reports, management meetings, external data providers, media monitoring and proprietary industry research. These factors inform both our risk assessment as well as our financial valuations of a company. Although the analyst is responsible for collection and reporting of ESG considerations, the investment committee and ultimately the Portfolio Manager are involved in the investment decision and how ESG factors may influence this.

We endorse the Code of Responsible Investing of South Africa (CRISA) and uphold its five principles, these being:

1. Incorporation of ESG factors into investment analysis and activities;
2. An acceptance of ownership responsibilities;
3. Using a collaborative approach;
4. Recognising and mitigating for Conflicts of Interest;
5. Supporting and encouraging transparency.

In addition, Northstar adheres to the **Principles for Responsible Investment (PRI)**, backed by the UN, the world's leading proponent of Responsible Investing. The PRI provides a collaboration platform and framework for implementation and monitoring of progress towards successfully implementing its six principles:

1. We will incorporate ESG issues into our investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the principles.

Incorporation of ESG Factors into our investment process

Our Investment Philosophy is guided by our mantra: "Long-term exposure to quality assets where value exceeds price". This has remained unchanged over time and is designed to work through market cycles. ESG factors will impact both our determination of the quality of the company, as well as the price that we are willing to pay for it.

We believe that most companies' return on capital converge to their cost of capital over time. We look for companies that can prolong that 'fade' or competitive advantage period, thereby creating more economic value than the market assumes. A management team that considers ESG factors, demonstrates a long-term mindset and therefore a willingness to defend this competitive advantage.

We implement ESG factors in four ways:

1. Exclusion on a case by case basis if factors are deemed material;
2. Assessment of the impact on a company's competitive advantage period and therefore its valuation;
3. Assessment of the impact on financial metrics that may be impacted;
4. Incorporation into our Portfolio Construction process through a risk-weighted process.

The analyst is responsible for collecting and reporting of ESG factors on an ongoing basis to the investment committee, with the Portfolio Manager ultimately having the final decision.

Implementation of active ownership

We vote on every proxy and record these on an ongoing basis. Proxy voting is not prescriptive and the onus is on the Portfolio Manager to make the final decisions. Controversial proxies are raised in weekly Investment Committee Meetings and decisions are minuted. Proxy voting progress is reviewed on a semi-annual basis by the Responsible Investing Committee and published on our website. Please see our [Proxy Voting Policy](#) on our website [here](#).

Where we own shares in companies whose ESG practices are not at an acceptable standard we will actively engage with management to change this. Should this be unsuccessful, we may challenge this in the public domain, else we may be forced to sell our shareholding.

Conflicts of interest

Please see our [Conflicts of Interest Policy](#) on our website [here](#).

Reporting and monitoring

The PRI requires that we submit a framework for progress on our RI integration on an annual basis. This will be made publicly available through their website. In addition, we will publish a summary of our proxy votes on our website on a semi-annual basis.

Our Responsible Investing committee reviews RI Policies and integration on a semi-annual basis and is responsible for changes to the policies thereon.

Climate Change Policy

While we do not have a formal climate change policy in place, we do however account for the environmental impact of potential investments in our research process. This is incorporated in the risk rating of the investment which impacts their weighting and ultimately our ownership of the said investment.