



Element Investment Managers statement on The UK Stewardship Code and the Code for Responsible Investing in South Africa (CRISA)

Element Investment Managers is an independent, owner-managed company established in 1998. It provides discretionary investment management services to individuals, institutions and retirement funds.

At Element Investment Managers, we believe that a disciplined long-term contrarian approach is the most reliable way to achieve superior absolute returns for investors over the long term. We incorporate active ownership into our investment process in order to reduce downside risk and add long-term value.

Element Investment Managers strongly supports the introduction of the UK Stewardship Code for institutional investors and the Code for Responsible Investing in South Africa (CRISA).

The stewardship Code, by way of its seven principles, aims to enhance the quality of engagement between institutional investors and companies so as to improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The purpose of CRISA is stated as the provision of a voluntary framework that can be used to ensure that sound governance is practiced. Engagement between institutional investors and companies is required by both Codes to strengthen the overall system of governance and the governance of each company.

The Codes are complementary to the UK Corporate Governance Code and the King Code on Corporate Governance.

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities (Principle 1, UK Stewardship Code)

An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries (Principle 1, CRISA)

Our website contains a discussion of our approach to Responsible Investment.

The UN PRI emphasises that as institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that these Principles may better align investors with broader objectives of society.

- ✦ We integrate material ESG issues into our investment analysis and decision-making.
- ✦ We vote on all resolutions and disclose our detailed voting record.
- ✦ We have an engagement capability and engage with company management on issues that are material and relevant to a particular company on a case-by-case basis.

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed (Principle 2, UK Stewardship Code)

An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur (Principle 4, CRISA)

Element Investment Managers is an independent, owner-managed company and our employees own the majority of our business. Our independence allows us to avoid any conflicts of interest with a listed holding company and build long-term relationships with our clients that are not driven by the need to meet short-term earnings or product sales targets.

Institutional investors should monitor their investee companies (Principle 3, UK Stewardship Code)

An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities (Principle 2, CRISA)

It is clear that by addressing a potential risk in its early stages, a company has more options on how to approach and manage that risk. The longer time elapses, the fewer and more expensive the options become that are available to management. If management understands the long-term sustainability issues facing its company and is pro-active in the disclosure and management thereof it can reduce the long-term risk of the business for investors.

Corporate Governance is central in reflecting the quality of management processes. Stakeholder relations are central to reputation, risk management and the long-term success of a company. This can be derived from many sources- employee relations, community relations, impacts on surrounding environment, health and safety practices, customer satisfaction and regulatory authorities. When these relationships break down, company reputation and investor wealth can be eroded as increased costs can manifest in a number of ways: litigation, fines, environmental rehabilitation funds, strikes, loss of productivity and loss of customers.

By enhancing the understanding of sustainability risks, Element Investment Managers seeks to ensure that potential future loss of value to investors can be minimised.

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value (Principle 4, UK Stewardship Code)

An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities (Principle 2, CRISA)

Our focus at Element Investment Managers is to engage with company management on issues that are material and relevant to a particular company on a case-by-case basis applying global best practice to our engagement process. We have an independent Advisory Board that provides input on a number of issues inter alia:

- Review of engagement case studies and voting policies
- Determining priorities for engagement for particular companies
- Suggesting approaches to engagement for particular companies

The objective of engagement is the creation or protection of long-term shareholder value. The emphasis of engagement is that it should be constructive both in the interaction that we have with company management and in the issues that we are addressing. Shareholder activism and constructive engagement have been shown internationally to add value over the long-term through either improvement in the investment ratings of the underlying companies or a reduction in the cost of capital as risk issues are addressed.

In the event that we are unable to achieve our goals during the course of constructive engagement, we will assess the materiality of the issue being addressed and if it is likely that management inaction could result in a loss of long-term value to investors, we will consider mobilising shareholders (as a last resort) to:

- ✦ Remove directors, or
- ✦ Propose a special resolution to effect change in a company

Institutional investors should be willing to act collectively with other investors where appropriate (Principle 5, UK Stewardship Code)

Where appropriate institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors (Principle 3, CRISA)

We collaborate with other investors on voting, engagement, and policy-making activities when appropriate. Our collaborative efforts take place informally and through such forums as the United Nations Principles for Responsible Investment and the PRI South Africa Network.

We always carefully consider any regulations that need to be taken into account when working with other investors to improve governance and disclosure.

Institutional investors should have a clear policy on voting and disclosure of voting activity (Principle 6, UK Stewardship Code)

Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments (Principle 5, CRISA)

Element Investment Managers' voting is guided by our Voting and Proxy policy. All our detailed proxy voting records and a summary of our quarterly voting are available on our website.

Element Investment Managers engages with the management of the companies in its portfolio on material issues (including ESG issues).

Institutional investors should report periodically on their stewardship and voting activities (Principle 7, UK Stewardship Code)

Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments (Principle 5, CRISA)

We report quarterly to our clients on our engagement and voting activities. Our reporting follows the UN PRI format. We disclose detailed voting records and a quarterly summary of all voting activity. In addition, we provide updates to our clients through scheduled as well as ad hoc meetings.

Questions relating to our responsible investment approach can be directed to Terence Craig (CIO), Ian Jones (COO) and David Couldridge (Investment Analyst).