Environmental, Social & Governance Policy

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ESG Policy Summary

- ESG refers to the measurement and assessment of potential threats and opportunities of environmental, social and governance factors. Environmental criteria consider how a company performs as a steward of nature; Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates; and Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.
- At Flagship, we favour a diversified selection of global businesses that have sustainable business models with long runways for growth. ESG considerations are integral to our investment selection process and are key to understanding the long-term drivers or risks to growth.
- The first instance we take ESG into account in our investment process is in our screening process, secondly in risk assessment and finally in position sizing when constructing our portfolios.

Our Investment Philosophy

Our goal at Flagship, first and foremost, is the protection of client capital in real terms, followed by generating inflation-beating returns. To achieve these goals, we manage equity-centric portfolios, which, given sufficiently long periods, offer the best opportunity for success. As active managers, we believe that the presence of several behavioural biases, amongst a number of other factors, lead to markets being only semi-efficient. This creates alpha-generating opportunities over both the short and long term.

To capitalize on these opportunities, we follow a flexible, unconstrained investment approach, which seeks to identify and take advantage of the best opportunities around the globe. We incorporate both bottom-up and top-down research when making investment decisions. Our style-agnostic approach is based on our belief that different macro environments will favour different investment styles. We utilise an active risk management process, which has been designed to let our winners run for longer, cut our losses sooner, and ultimately deliver through-the-cycle performance. This leads to diversified portfolios which will not resemble the indices against which they are benchmarked.

Our Investment Approach

Our investment approach is characterised by the following five tenants:

- Dynamic and unconstrained. We are not constrained by traditional investment styles. We utilize a combination of fundamental, quantitative, and technical tools which aim to identify the best investment opportunities in any market environment. We achieve this through a flexible approach which allows winners to run while steering clear of large losses.
- Active risk management. We understand that risk and return are two sides of the same coin. Our risk management takes place at the individual stock level and at the portfolio level, where we embrace a strict selling discipline. We focus on understanding and accepting appropriate portfolio risk without sacrificing our ability to generate positive returns.
- We play to our strengths. As a boutique investment manager, being nimble is one of our greatest assets. It gives us the ability to rapidly move between positions and themes, without being concerned about moving the market. We seek to fully exploit this ability, and are constantly on the hunt for new, more attractive investment opportunities.
- We are aware of our blind spots. No process is perfect, mistakes are guaranteed. Our selling discipline has been designed to offer protection against such mistakes by preventing any biases from clouding our investment decisions.
- We accept the wisdom of the market. We believe that the combined wisdom of the market is to be ignored at one's own peril. Sentiment can, and does, remain positive or negative for much longer than it rationally should. We aim to use this to our benefit, while exploiting the semi-efficient nature of the market.

All global equity analysts and portfolio managers are generalists and contribute to the research process for our global strategies as well as ongoing monitoring of stocks in our portfolios. Any stock identified that has the potential to be included in our diversified equity portfolio has to meet at least two of our three screening tools. New investments are only selected from stocks in our screened universe. Portfolio construction is based on both bottom-up, fundamental analysis and top down, macro-economic research. Investments are selected on their individual merits as well as their thematic, sector and geographical qualities.

ESG considerations are integral to this investment process and are key to understanding the long-term drivers or threats to growth.

ESG in our Investment Process

- At Flagship, we follow a flexible, unconstrained investment approach, incorporating both bottom-up and top-down research when making investment decisions.
- Issues regarding environmental, social, and governance factors are central to our process due to the impact they have on the sustainability of a business and its management in the best interests of its shareholders.
- Companies that take short cuts on environmental, staff and social issues impair the customer perception of a company and can also make staff or talent attraction difficult or impossible. In extreme cases they can bring into question the very existence of the firm.
- Governance is of particular importance. The majority of corporate scandals that result in a firm's collapse involve fraud on the part of management (Enron, Worldcom, Parmalat etc.). Additionally, governance structures that allow management or certain shareholders greater voting control than their economic interests create the potential for a conflict of interest and typically negatively impact our assessment of a company. Government control is also something we typically have a strongly negative view on, as typically then the company's priorities lie elsewhere than profits or returns to shareholders.
- The first instance we take ESG into account in our investment process is in our screening process, secondly in risk assessment and finally in position sizing when constructing our portfolios.

ESG in our Screening Process

- The first place that we take ESG into account is during our screening or criteria for stock selection. We screen for companies using proprietary fundamental, quantitative and technical tools. A company must meet at least two of the three minimum screening metrics, while always having good fundamentals. We typically focus on above average businesses, thus our risk of loss of capital is already being mitigated to some extent (as long as we buy and own at reasonable valuations).
- We identify such companies by filtering for low debt, strong balance sheets, good runways for growth, the presence of intellectual property or a moat and minimum liquidity requirements. We believe these companies are managed well and that this is reflected in the fact that they have consistently achieved a return on capital greater than their cost of capital.
- A company must fit into one of the key themes or sectors that we have identified using our top-down analysis, with sufficient tailwinds for future growth.
- In addition, our top-down macro-economic analysis identifies geographies with strong macro-economic indicators.

ESG in our Risk Assessment

At Flagship we utilize an active risk management strategy that seeks to remove emotion from the investment process, while also protecting against sources of unintended risk in the portfolio.

Our risk management strategy is based on a strict selling discipline, designed to limit losses from any single position. We focus on evaluating the downside risk on every security in the portfolio, of which ESG considerations form a necessary function. We further reduce risk through portfolio diversification, currency diversification, position size targets and minimum liquidity requirements.

ESG criteria is also taken into account in portfolio construction and risk management at the portfolio level where we seek to build robust portfolios that don't hinge on any one style and that can do well in a wide variety of economic environments.

Finally, ESG factors are considered when analyst monitor the stocks under their coverage, and by portfolio managers of the portfolio. The team seeks to identify ESG risks such as changes in corporate structure, board or management changes, controversies or regulatory or reputational risks. It is important that the analyst applies their mind as to whether the investment case still holds, and importantly if the latest information results in a change to the investment thesis.

ESG in Portfolio Construction

Our portfolio construction process is centred around our selling discipline, which limits large losses from any single position. If the stock falls beyond a pre-determined dynamically adjusting level, we sell and if the thesis is intact, we re-enter at a lower price. We will hold more than one stock in a theme or sector which has positive metrics, increasing the benefits of diversification. We let our winners run but have a soft cap of 5% of committed capital. We ensure our portfolios are diversified from a geographical and sector perspective.

A function of our confidence in the sustainability of a portfolio company's earnings is taking into account in the position sizing. Given that we believe ESG considerations can impact earnings, these risks are a material component of our position sizing decisions.

Proxy Voting Policy

Flagship Asset Management (Pty) Ltd is an authorised financial service provider and licensed category 2 discretionary portfolio manager under the Financial Advisory and Intermediary Services Act. As stewards of our clients' investments, it is our responsibility to ensure that the businesses in which our clients are invested, are always managed in such a way as to maximise stakeholder value over the long term. As such, where company management polls shareholders' votes on certain actions, votes are cast on our clients' behalf in a manner consistent with their best interests and with the objectives of protecting, sustaining and improving their long-term wealth in mind.

Flagship's primary objective with this proxy voting policy is to protect or improve the economic value of the investments it makes on behalf of clients. Flagship will vote against any agenda item that threatens this economic value, in particular where we have concerns over proposed changes in the capital structure of the business, or inappropriate or misaligned management remuneration and incentivisation, that may negatively impact the creation of business value.

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