

# **ESG & RESPONSIBLE INVESTMENT POLICY**



**PROTEA CAPITAL MANAGEMENT (PTY) LTD**

**FSP NUMBER 49796**

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## Introduction

The European Supervisory Authorities (ESAs) have developed through the Joint Committee (JC) draft Regulatory Technical Standards (RTS) with regard to the content, methodologies and presentation of sustainability-related disclosures under empowerments Articles 2a, 4(6) and (7), 8(3), 9(5), 10(2) and 11(4) of Regulation (EU) 2019/2088 (hereinafter Sustainable Finance Disclosure Regulation “SFDR”).

Sustainability risk is defined under the SFDR as “an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment”. It is therefore concerned with the risk that the value of an investment could be materially negatively impacted because of environmental or social risks.

Protea Capital Management is committed to sustainable investment management and incorporates environmental, social and governance (ESG) issues into our investment decision-making process. We view responsible investment as an extension of our own company culture. We act with integrity, which implies being ethical in our actions, communicating directly & honestly and not keeping quiet when something is not right. We align our own interests with that of our clients, incentivising us to do our best when managing funds. Since we invest in the funds alongside our clients, it is in our own best interest to make sure that we invest in companies whose values are aligned with our own.

Protea Capital Management is dedicated to achieving the best possible risk-adjusted returns for our investors over the long-term (i.e. sustainably), and we believe that incorporating responsible investment into our investment process and decision-making, contributes to achieving this goal. However, for SFDR purposes, note that we do not manage any investment funds which specifically promote environmental or social characteristics.

In our opinion, responsible investing necessarily includes exhibiting activism towards public companies when we believe that those companies are exposed to heightened sustainability risk, due to their conduct. Our activism activities would include engaging with companies directly, with regulators and in the media to exert positive pressure towards more sustainable conduct by companies, whether we own their shares or not.

## What is ESG?

ESG considerations are the range of environmental, social, and governance standards that can be used to assess the ethical performance of an investment. Examples of some of the ESG considerations we take into account when making investment decisions, are shown below:

### **Environmental**

- Greenhouse gas emissions and other pollution
- Waste output
- Resource management

### **Social**

- Contribution of the product/service to society in general
- Company culture e.g. commitment to diversity, equitability and meritocracy
- Impact on the local community

### **Governance**

- Board and management structure

- Conflicts of interest
- Company policies, procedures and conduct
- Sustainability of chosen business model

#### Integration of “sustainability risks” in our investment decision-making process

Protea Capital Management’s primary activity is to buy and sell shares in the secondary market, on behalf of our clients. We rarely take part in primary market transactions. Our investment decisions therefore do not affect the companies whose shares we buy/sell directly, since no money flows to companies when we enter into a secondary market transaction. We can affect companies *indirectly* though, in terms of influencing (together with other market participants broadly speaking, and not acting in concert) the share price of a company, which can increase or decrease the cost of capital of the company, effecting the company’s investment financing decisions. We can also vote at company meetings for shares we hold on behalf of our clients. Furthermore, we can engage with companies directly, with regulators and in the media to exert positive pressure towards more sustainable conduct by companies. These are all considerations integrated into our ‘quantamental’ investment decision-making process, specifically in the qualitative part of our process.

Where we have identified heightened sustainability risks, we might also decide to short the shares of the company in question, hedging the rest of our portfolio against a sustainability risk event.

#### Consideration of the principal adverse impacts of our investment decisions on sustainability factors

In the context of the fact that Protea Capital Management’s primary activity is to buy and sell shares in the secondary market, we consider that the potentially adverse impacts of our investment decisions on sustainability factors are not principally related to what shares we buy or sell (i.e. our potentially negative impact on the cost of capital of companies), but rather related to what we do in terms of shareholder activism.

#### No consideration of sustainability adverse impacts

For purposes of Article 7 of the SFDR and Regulation (EU) 2019/2088 Article 4 1(b), we do not consider adverse impacts of investment decisions on sustainability factors, because we rarely invest in primary markets. Our investment decisions cannot have material impacts on sustainability factors, since we operate in secondary markets. We therefore do not have investee companies - we do not invest *into* companies, we simply buy/sell shares already in issue in the secondary market. We intend to consider those adverse impacts indicated in Table 1 of Annex I of the SFDR ([https://www.esma.europa.eu/sites/default/files/library/jc\\_2021\\_03\\_joint\\_esas\\_final\\_report\\_on\\_rts\\_under\\_sfdr.pdf](https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf)) when we start participating more in primary markets, where our client funds are actually invested *into* companies and those companies apply the capital raised into activities which might have sustainability consequences.

## Principles for Responsible Investing (RI)

Protea Capital Management is a signatory to the United Nations Principles for Responsible Investment (UNPRI). The UNPRI is an independent body which supports investors in managing risks by better incorporating ESG analysis into investment decisions. Staff are encouraged to regularly review the PRI framework and Protea Capital Management commits to keeping its employees informed of the steps being taken to meet these principles.

As an investment manager, we have a duty to act in the best long-term interests of our clients. In this fiduciary role, we believe that 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 applying the following Principles better aligns investors with the broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

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

## ESG Integration

Environmental, Social and Governance (ESG) integration is done at individual company analysis level within the investment team at Protea Capital Management. Potential effects of ESG factors when making investment decisions are also actively considered at portfolio management level. ESG matters are considered on both the Long and the Short side of the portfolio. We have found companies lacking in corporate governance to be particularly attractive Short candidates.

Protea Capital Management's approach to integrating ESG factors into our investment analysis includes the following activities:

- In-depth research
- Company engagement
- Active ownership
- Collaboration within the investment industry

Historically we have added a lot of value for investors by scrutinising corporate governance issues, specifically on a director and senior-management level.

*This is a living document and will be reviewed on a regular basis. The last review was done on 6 March 2021.*