# Addendum 1: Climate change policy

*This policy forms an addendum to the Truffle Asset Management Responsible Investing Policy and specifically outlines our approach to addressing the threats of climate change when investing our clients' capital.*

Truffle Asset Management is an independent active asset manager with an experienced team of professional individuals, personally committed to ensuring our clients achieve their long-term financial objectives. Over the 16 years since inception, Truffle has grown assets under management to more than R90 billion. Our investment capabilities span equity, flexible, fixed income and multi-asset mandates, and our focused range of unit trust funds targets different investment objectives with exposure to varying levels of risk.

Truffle follows a fundamental valuation-based philosophy and disciplined investment process. This is coupled with a rigorous risk management approach and a strong focus on downside risk protection. We believe it is not only about picking winners, but also about avoiding the losers. As an agile investment manager, we complement this investment approach with efficient implementation and competitive fees.

Embedded in our investment process is a commitment to our clients to reach investment success responsibly. As responsible shareholders it is important to us that the companies we invest in are striving to advance environmental, economic, and social goals while they improve their competitive position. As a result, the collaborative movement towards the greater good is essential and this will ultimately be paid back in superior risk-adjusted returns for our clients.

**Truffle Asset Management acknowledges that climate change is one of the most significant threats to the sustainability of our environment.**

Truffle's approach to climate change is rooted in a rigorous and robust risk management framework that systematically assesses and addresses the risks and opportunities associated with the impact of climate change. By conducting thorough risk assessments, Truffle aims to identify potential climate-related impacts on investment performance and make informed decisions to mitigate risk while also developing engagement frameworks for each of our companies. Through leveraging a data-driven approach, Truffle incorporates climate risks and opportunities into its investment process to optimise returns while simultaneously promoting sustainable business practices and long-term value creation.

There are numerous global and national initiatives to transition the world to a low-carbon economy and slow the impact of climate change. We believe as stewards of our client's capital we have a fiduciary responsibility to invest for optimal financial outcomes while managing the risk and consequences of climate change. We therefore support a measured transition to a low-carbon economy, recognising the social aspect in developing markets like South Africa and the company or sector-specific implications.

We are a signatory of the UN-supported Principles of Responsible Investing (PRI). This policy considers the guidelines and principles laid out by the PRI with regards to environmental and climate issues as well as the principles of the Code for Responsible Investing in South Africa (CRISA). As a responsible asset manager, we believe the consideration of environmental, social, and governance (ESG) factors in our investment process enhances our ability to manage investment risks and identify opportunities as we aim to achieve optimal financial outcomes for our clients. We place a specific focus in this policy on the environmental factors relating to climate change. In recent years, the world has experienced significant economic and financial implications resulting from climate change events and this is expected to intensify going forward.

Truffle reports on material sustainability topics in our annual Stewardship report. The latest report is available on this webpage: Truffle Asset Management Stewardship

Sustainability disclosure frameworks, reporting standards and risk management processes are continually evolving. Truffle continually monitors the regulatory and reporting environment and will update our engagements and reporting in line with key developments.

## Incorporating climate change into our investment process

Responsible investing is embedded into our valuation-based philosophy and rigorous investment process. We consider the impact of climate change throughout our investment process and specifically in the following areas:

### 1. Research

Truffle undertakes thorough fundamental research to identify investment opportunities. Our ESG analyst and equity analysts maintain research relating to environmental factors and specifically climate change. Research and data collection informs:

- Our understanding of climate change and the financial or economic implications.
- Updates on thematic changes and technology or product advancements. For certain sectors, it is important that we keep track of upcoming changes in technology, since these can impact the demand trajectory for certain products which would influence our investment thesis and how we measure or calculate the impact.
- An awareness of the regulatory environment and how we can support initiatives to combat climate change and importantly the implications of the regulatory environment on companies in which we invest. It is also important to understand where there are gaps in regulation that might lead to changes in product demand.
- An ongoing understanding of how companies in which we invest can adapt their business models to transition to a low carbon economy.
- A quantitative analysis and summary of a stock or sector's impact on the environment which feeds into our valuations.
- Company disclosures and commitments to climate change.

## 2. Incorporating climate change factors into valuations

Where the implication of climate change on a company or sector's operations or the cost of transitioning to a low carbon economy can materially impact the company's cashflows and other financial metrics, we will quantify such impact and include this in our valuations through the rating required or the company's cashflows. This process aims to capture risks to cashflows from factors such as carbon taxes, higher capital expenditure requirements for improving the company's carbon footprint, lower market size for their products in the forecast period if they produce something that is at risk in a low-carbon economy. It also includes capturing of opportunities such as a higher market size for a company's products in the forecast period should they produce something required in the low-carbon economy or any cost savings that might arise because of a reduction in emissions. Where we cannot quantify the impact of climate on the valuation, we will adjust active positions accordingly to take in account these unquantifiable risks.

## 3. Scenario Analysis and Stress Testing

As part of portfolio construction and risk management, Truffle conducts robust scenario analysis and stress testing for various macro-economic changes and events. This analysis will include an evaluation of the potential implications of climate change on portfolios under different climate scenarios.

## 4. Proxy voting

In an era of increasing regulation and changes to corporate strategy that support initiatives to manage the impact of climate change, company management teams are increasingly putting forward proxy voting resolutions that seek shareholder approval for their climate transition plans. We vote in favour of climate change resolutions that we think the company has the ability to action and achieve. We may vote against climate policies where the company provides insufficient detail on reaching defined targets and where incentives did not appear to support their targeted emission reductions. Where appropriate, we will also reinforce our view by voting against board members responsible for climate change. This will mostly be done in cases where there have been a number of targets missed by the company.