

# SOCIAL RESPONSIBILITY AND ESG INTEGRATION IN THE INVESTMENT PROCESS

In recent decades, the concept of governance has gained increasing prominence on the development agenda. We believe our responsibility is vested not only in transparent policies and practices, but also in compliance with all applicable laws and ensuring that we meet the expectations of our stakeholders.

Environmental, Social and Governance (ESG) assessment, monitoring and management is an integral part of the investment process and life cycle of the Agri-funds' investments. The ESG process can be divided into five stages over the life of an investment.

## 1. ELIGIBILITY AND RISK ANALYSIS

The Agri-funds operate in accordance with the Code for Responsible Investing in South Africa (CRISA) as well as the United Nations Principles for Responsible Investment (UNPRI), and, where applicable, the World Bank's Worldwide Governance Indicators and the Corruption Perceptions Index. In the investment selection, the funds have a stringent financial and social due diligence process. UFF is signatory to the OECD guidelines for multinationals on prevention of bribery and corruption, and adhere to various guidelines and acts as set out by South African law. Our farm operators are also required to respect the rule of law and reflect an informed view of industry best-practice in their operations.

## 2. DUE DILIGENCE

During the due diligence phase, all farms are subjected to an in-depth agronomic and financial evaluation together with a detailed ESG assessment against the criteria set out in the fund mandate. ESG assessments are a non-financial check by means of an onsite audit performed by an independent, qualified social systems consultant or Agri-fund ESG specialist. A high level ESG assessment, executed by an external audit company, forms part of the due diligence process and is done on all new investments prior to acquisition. The ESG assessment complies with the World Bank's International Finance Corporation (IFC) Performance Standards. Where applicable, farms in the funds must be GLOBALG.A.P certified by independent qualified auditors. Certified farms are given a unique GLOBALG.A.P. number (GGN), which can be traced online. This reassures consumers that food is produced on the farm with minimal detrimental environmental impact and chemical inputs, together with a responsible approach to worker health and safety and animal welfare.

## 3. TRANSACTION CLOSE

As part of the final deal proposal, the final ESG assessment report, including follow up actions and suggested improvement measures, is sent to the funds' Investment Committees for approval. If not already available or up to standard, a solid healthcare programme and skills transfer programme for farm workers is required to be implemented on all farms.

#### 4. ONGOING ADMINISTRATION AND MONITORING

Within the first year of purchase, a full ESG assessment is done. This onsite audit includes assessment of the farm business as well as random checks on a representative sample of management and workers. Meetings are set up with farm managers, the administrative department, workers, committees and shop stewards. Personnel files, time sheets, pay slips, training records, and health and safety documentation are verified. Inspection of the packing stations, agrochemical storage, worker housing, community buildings and local health clinics also takes place.

A detailed ESG report is produced for the fund's Investors, including details of the visit, and findings are benchmarked against the eight IFC performance standards. The ESG report notes non-compliance, together with a check-list of improvement measures and target dates agreed with the operators for completion.

#### SOCIAL DEVELOPMENT

During the term of the investment, the fund is actively involved in monitoring the farm's operations and providing guidance on both agricultural and ESG issues. Regular farm visits are conducted and farms are monitored continuously with regard to the implementation of required improvement measures. ESG assessments take place on site annually when necessary.

The operators on our farms are contractually obliged to maintain the farm in good order and comply with all municipal, health and safety and other relevant regulations, regardless of whether these are enforced or not. Various (local) ethical trade initiatives and social development projects are implemented, where applicable, to support social development on the farms.

The fund establishes access to primary healthcare services for permanent farm workers via the prepaid CareCross OCSACare product, where available. This offers workers unlimited access to CareCross doctors, dentists and optometrists, free provision of acute and chronic medicines, and radiology and pathology services according to a prescribed protocol.

Depending on the skills development level of the workers, an Adult Education and Training (AET) programme is rolled out on all farms, covering literacy, numeracy and communication. Additional training such as personal financial planning and life skills is also offered. From year two of each investment, motivated farm workers are identified and provided with the opportunity to receive training in farm management.

#### MONITORING

The Fund Advisor uses a state-of-the-art financial and operational management and control system that allows for detailed analysis and monitoring of the performance of various agricultural assets on a continuous basis, making it possible to detect underperformance at an early stage. The fund may conduct full compliance inspections, issue directives and if necessary step in to remedy the situation.

Monthly management accounts for all the property companies are drawn up by the Fund Advisor. All capital expenditure is executed by the Fund Advisor after written approval by the fund's Investment Committee.

#### REPORTING

Quarterly reports are produced for investors and other interested parties, giving an overview of fund performance and conditions on the fund's farms, as well as any significant events during the quarter. A quarterly scorecard is also produced for each investment giving an update on various indicators organised under the broad headings: Healthcare, Education, Job Security and Labour Conditions, Food Security and Reduced Environmental Impact. In addition to the numbers provided, comments and explanations of any variances are included.

#### 5. EXIT

At the end of the fund term, the Agri-fund seeks appropriate buyers for their holdings amongst current operators, successor or competitor funds as well as on the open market.