



Information Statement **How the Investment Research Process Incorporates Sustainability Considerations**

Rezco's core investment objective is to generate superior risk-adjusted returns through a benchmark-agnostic approach. Sustainability considerations are integrated into our fundamental research process through two key principles:

1. Environmental, Social and Governance (ESG) risks and business sustainability are treated as core investment risks. Such risks have the potential to generate negative returns and thus counter our objective of taking favourable risks to achieve outperformance.
2. We avoid investing in companies where ESG issues are material. Where ESG risks are deemed significant, we simply choose not to invest.

Where material ESG risks are identified, we view these as indicators of elevated business risk. They often reflect poor management quality and may expose the company to regulatory intervention, reputational damage, or loss of market share all of which can lead to inferior investment outcomes. Assessing risk is intrinsic to our fundamental research process, including distinguishing between risks we are willing to accept and those we should avoid, and evaluating whether expected returns adequately compensate for those risks. Our investment philosophy focuses on companies exhibiting high-quality growth at a reasonable price (Quality + GARP).

ESG considerations are embedded within our assessment of business quality and sustainability. Rather than applying a checklist-based ESG framework, we adopt a holistic, fundamental approach to risk analysis. In many cases, business quality and ESG risks overlap, making it unnecessary to isolate ESG as a standalone assessment. For example, a company producing a substandard product using poor-quality, non-recyclable packaging would likely fail our quality criteria. Such practices may also constitute an ESG concern, particularly if driven by short-term profit maximisation at the expense of environmental responsibility and long-term brand sustainability. Our investment process therefore evaluates businesses based on their future earnings potential (growth) and the durability and confidence of that growth (quality and sustainability).

ESG considerations are also formally integrated into our research governance and analyst evaluation processes. Analyst remuneration and performance reviews explicitly recognise ESG risks identified within their coverage universe. This is critical to ensuring analysts are supported when making disciplined decisions not to invest in companies with material ESG concerns, even where share price performance may be strong in the short term. Analysts are not penalised for excluding companies from investment when ESG issues inform that decision.

Where a material ESG breach is identified, the company may be removed from the analyst's coverage list or benchmark universe for performance assessment purposes. Analysts are rewarded for making sound ESG-driven judgments, particularly where risks subsequently crystallise. A notable example is Steinhoff in South Africa, which significantly outperformed for several years prior to its collapse. Analysts who avoided the stock due to governance concerns would not be penalised for missing its earlier outperformance and would be recognised for correctly identifying and avoiding the underlying risks once they became publicly evident.