

FARSIGHT

*Winners of the Financial Mail /
Intellidex Top ESG Analyst Awards for
2019, 2020, 2021 & 2022*

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- Our journey
- The Role of Stakeholders
- Value Reporting Foundation & ESG
- The FarSight model
- Reporting on leadership quality
- FarSight model performance
- Discussion

FarSight - an ESG Rating tool

A tool for rating leadership's ability to create long-term value for shareholders

Tuesday September 13, 2022 *Dogbert Starts Esg Rating Firm*



DILBERT.COM @SCOTTADAMSSAYS



9-13-22 2022 Scott Adams, Inc./Dist. by Andrews McMeel



~~FarSight – an ESG Rating tool~~

Making sense of ESG-ology

~~A tool for rating leadership's ability to create long-term value for
shareholders~~

FarSight: How to fix capitalism

My journey towards understanding leadership quality in the context of ESG

1980s

Bsc Agriculture Econ Hons

Extension officer in Mpumalanga

Advanced irrigation engineering - Israel

1990s

Triple Trust - launch entrepreneurs in Cape Flats

“Understand your business” training

2000s

Sustainability reporting

Annual Reporting

Integrated Reporting

2010s

Developed the FarSight model
For rating Leadership Quality

Commercial launch of FS model in 2017

My journey towards understanding leadership quality in the context of ESG

*“The role of business in the economy
is to take on societal and environmental challenges,
not avoid them.
Solving these challenges requires good leadership,
which reduces business risk
and increases returns to the shareholder.”*

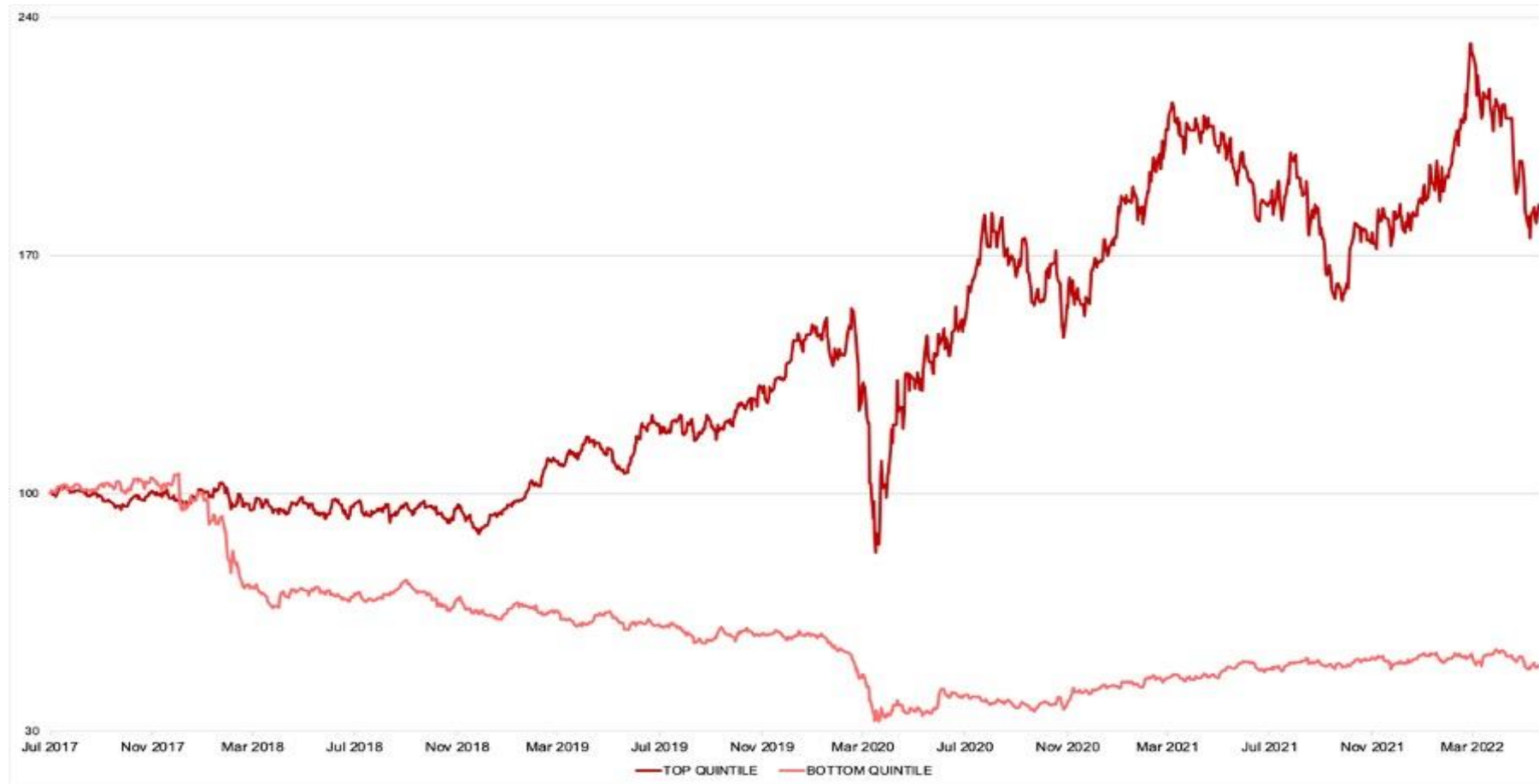
2010s

Developed the FarSight model
For rating Leadership Quality

Commercial launch of FS model in 2017

Portfolio analysis

FS Leadership Quality Long/Short, Market neutral Portfolio since July 2017



Top Quintile by
FarSight
Leadership
Quality

Bottom Quintile
by FarSight
Leadership
Quality

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Portfolio analysis

Table 1: Top 10 and Bottom 10 companies rated for FarSight ESG Leadership Quality

TOP	2017 / 18	2019	2020	2021
1	Lonmin	Kumba Iron Ore	Kumba Iron Ore	Kumba Iron Ore
2	Anglo Gold Ashanti	Lonmin	Amplats	Amplats
3	Gold Fields	Amplats	BHP Billiton	Capitec
4	Kumba Iron Ore	Gold Fields	Goldfields	Quilter
5	Vodacom	Anglo Gold Ashanti	Exxaro	Impala Platinum
6	Hammerson	BHP Billiton	Impala Platinum	Gold Fields
7	Exxaro	MTN	Nedbank	Netcare
8	Intu Properties	Sibanye	Sibanye Stillwater	MTN
9	Amplats	Sappi	MTN	Vodacom
10	BHP Billiton	Nedbank	City Lodge	Fortress
BOTTOM				
91	Hyprop	Multichoice	Woolworths	Glencore
92	Steinhoff	Massmart	Massmart	Oceana
93	MTN	Sun International	Dis-Chem	Redefine
94	AB InBev	Nepi-Rockcastle	Ascendis	Dischem
95	Ascendis	Merafe	Supergroup	Anheuser-Busch
96	Merafe	Tongaat	Anheuser-Busch	Ascendis
97	Nepi-Rockcastle	Fortress	Brait	Supergroup
98	New Europe	Resilient	Aspen Pharmacare	Adcock Ingram
99	Fortress	Ascendis	Sun International	Tongaat
100	Resilient	Rhodes Food Group	Rhodes Food Group	Rhodes Food Group

FarSight's Leadership Quality Model

Imperative is to deliver sustainable returns to investors

ESG industry imperative to drive a moral agenda

Which is the ultimately moral?

Understanding the role of stakeholders

What interest does each stakeholder have in the business, short- to long-term?

High interest in
Business
profitability



Low interest in
Business
profitability



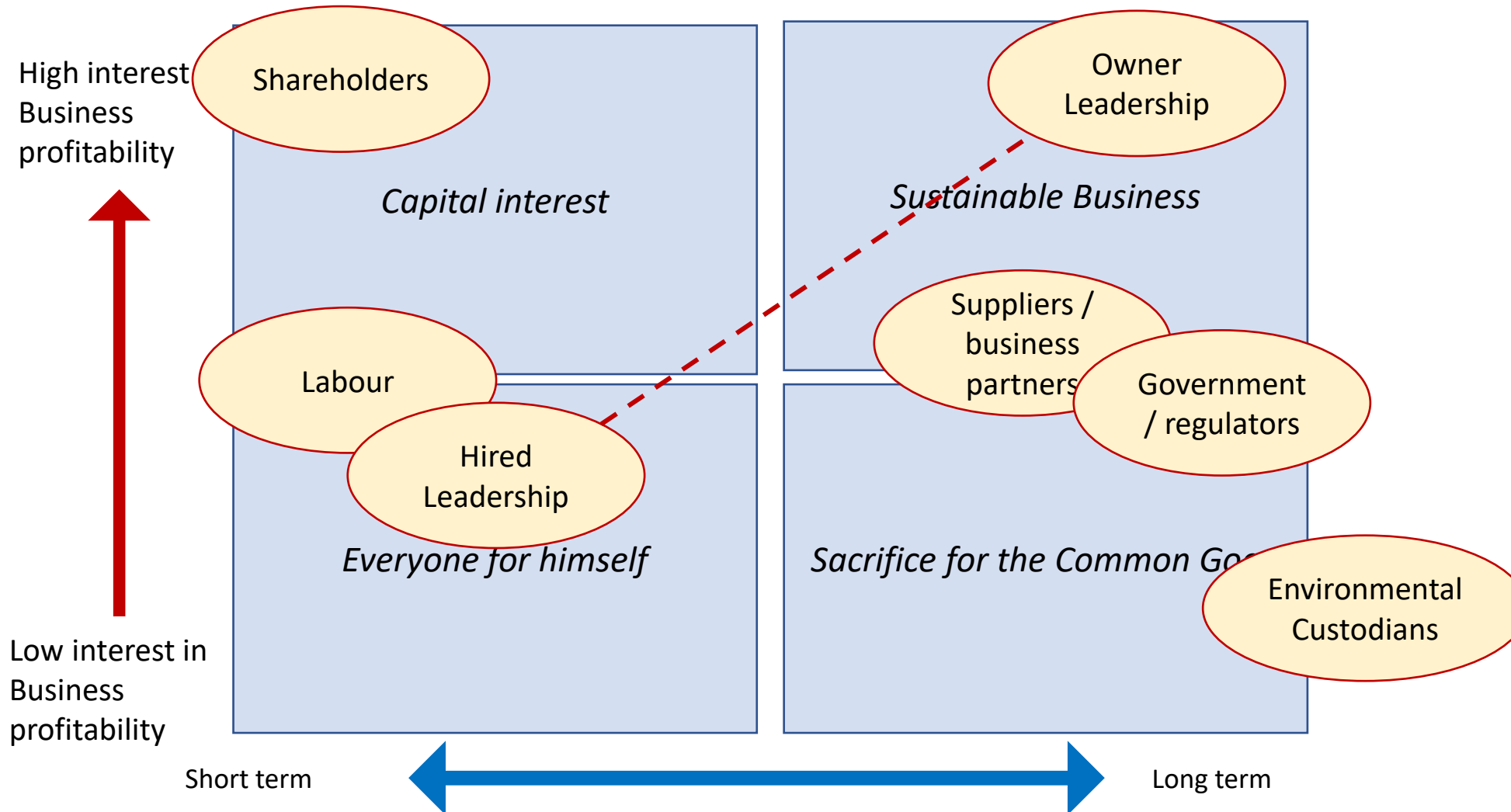
Short term



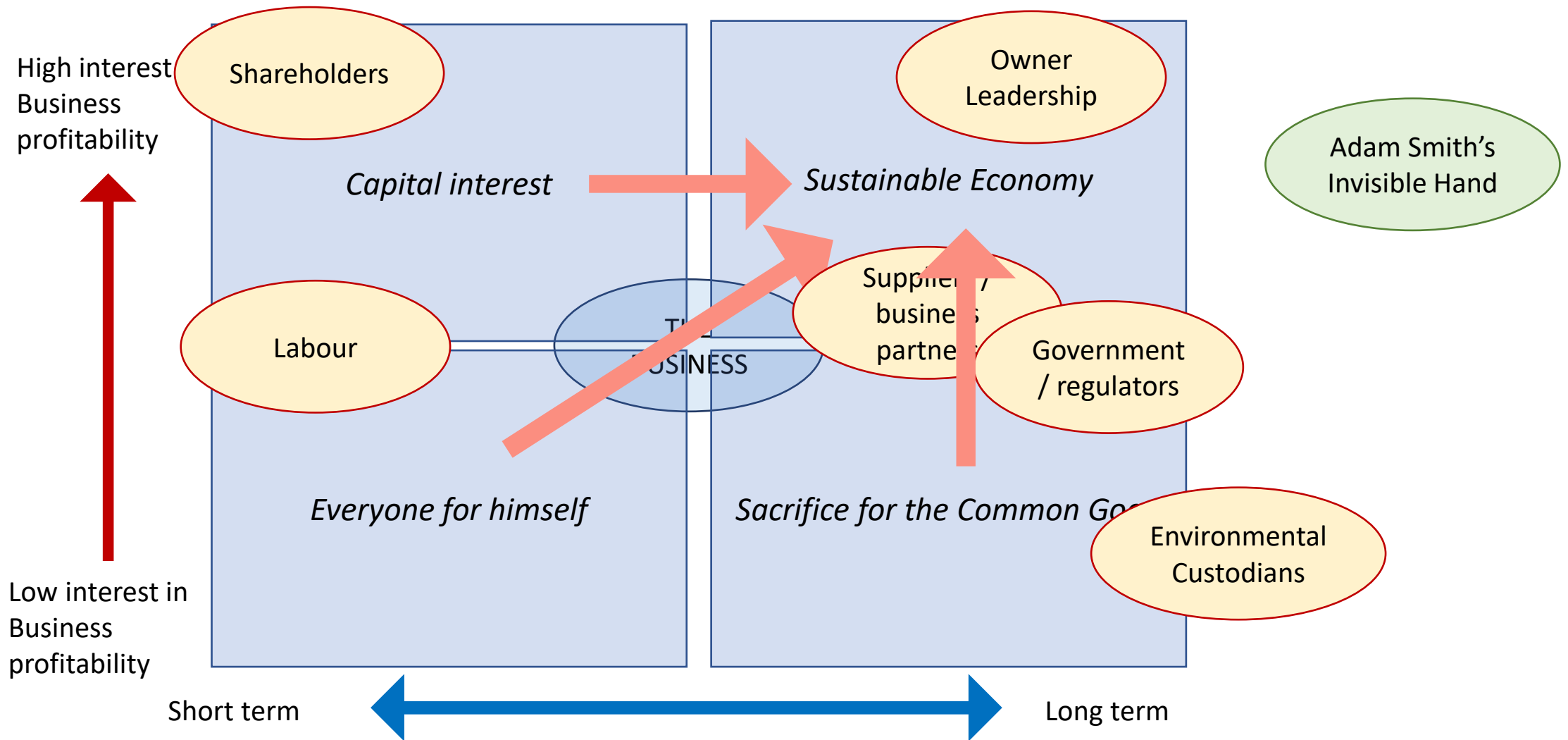
Long term

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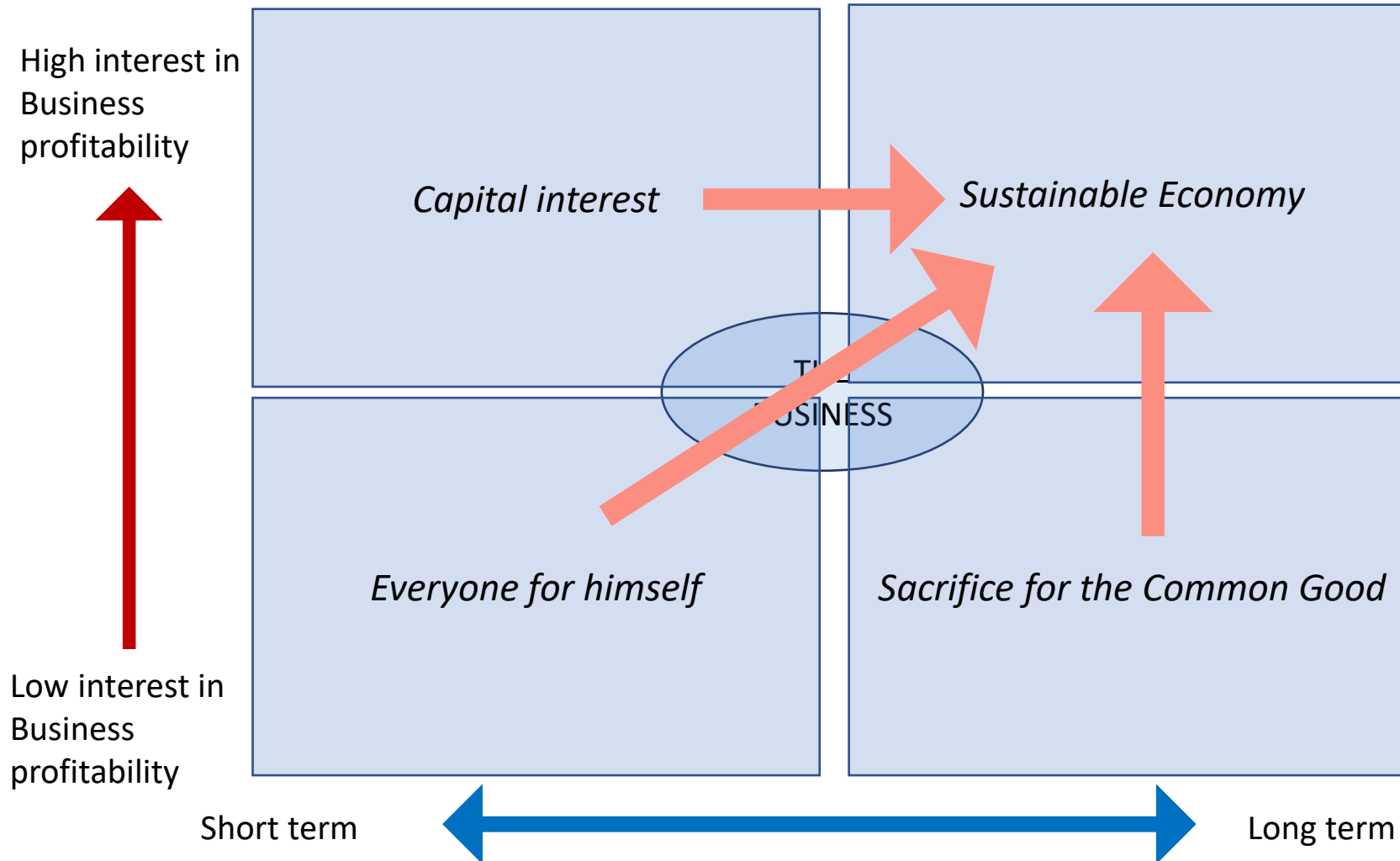
Understanding the role of stakeholders



Understanding the role of stakeholders



Understanding the role of stakeholders



Capitalism at its best

Adam Smith's
Invisible Hand

A fair and efficient marketplace

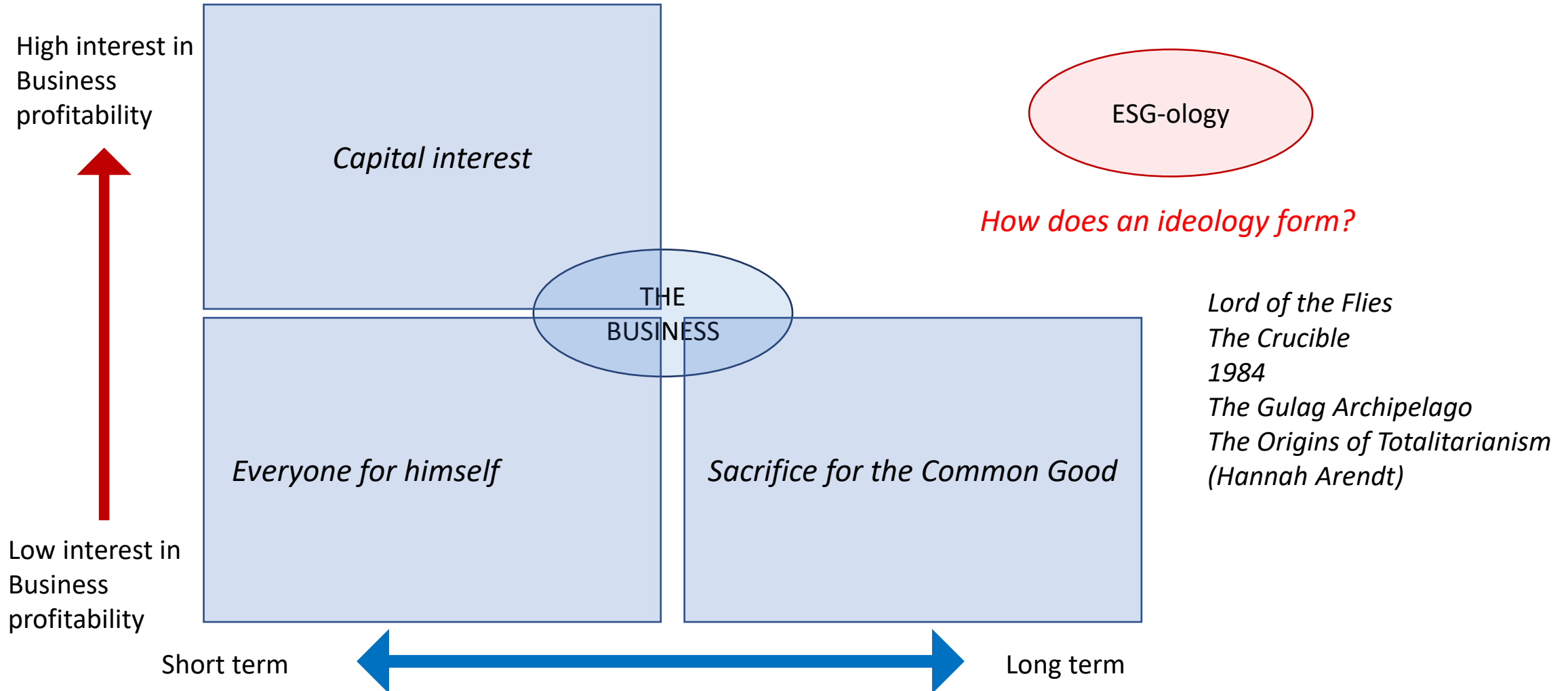
Free exchange of ideas

Free exchange of goods and services

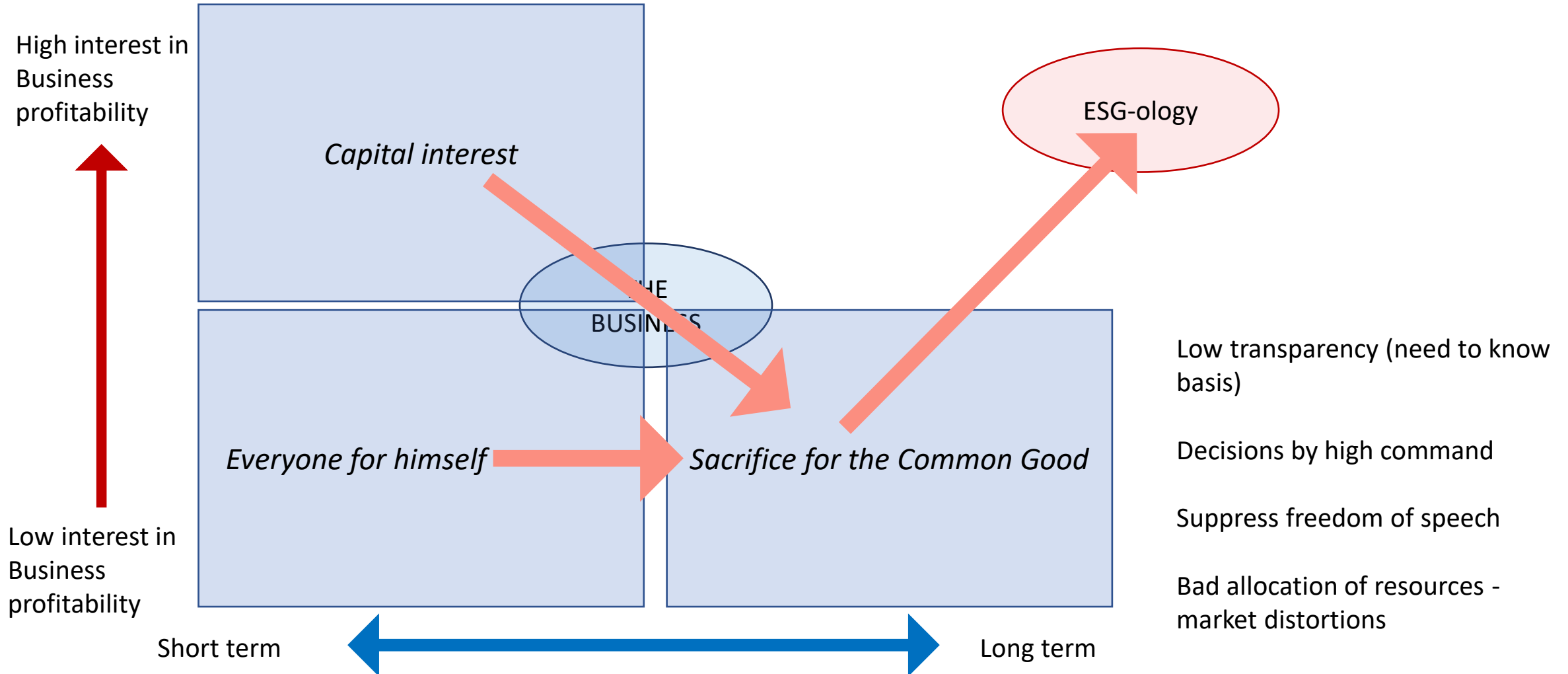
Sensing and responding to issues relevant to the business

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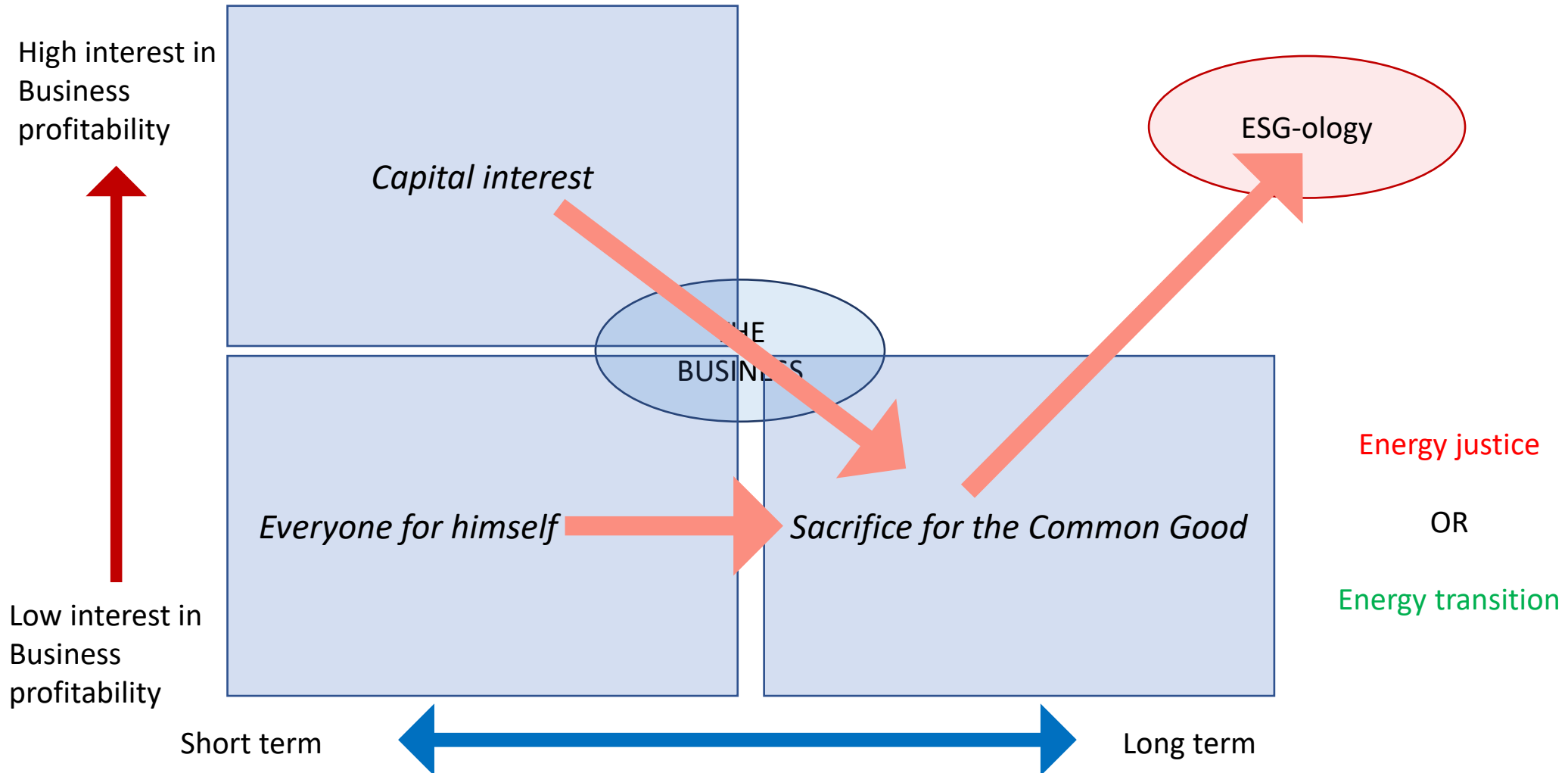
Understanding the role of stakeholders



Understanding the role of stakeholders

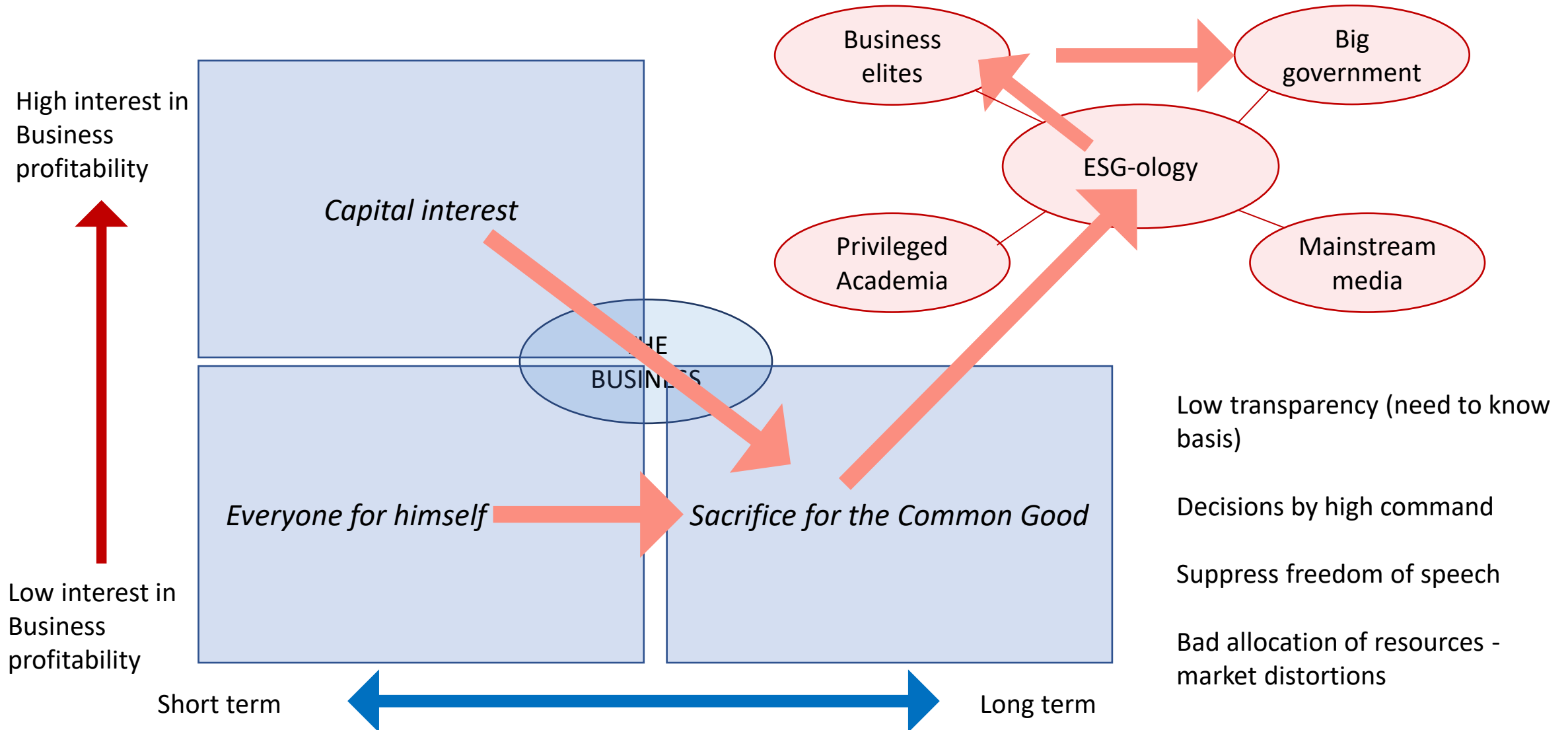


Understanding the role of stakeholders



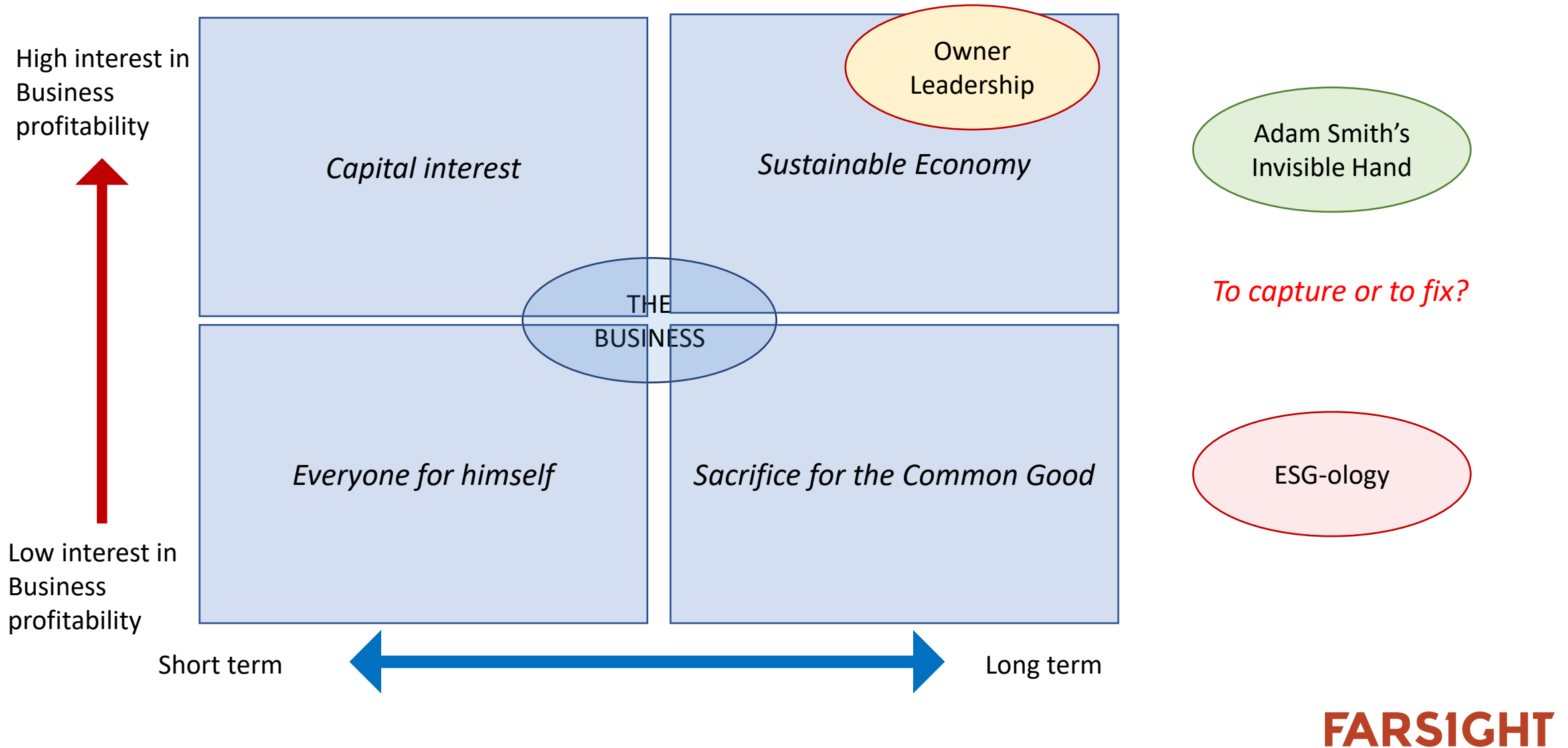
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Understanding the role of stakeholders



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Understanding the role of stakeholders



FarSight's mission to (make a humble contribution to) Fix Capitalism

First imperative is to deliver sustainable returns to investors

The Value Reporting Foundation's concept of the Business Model

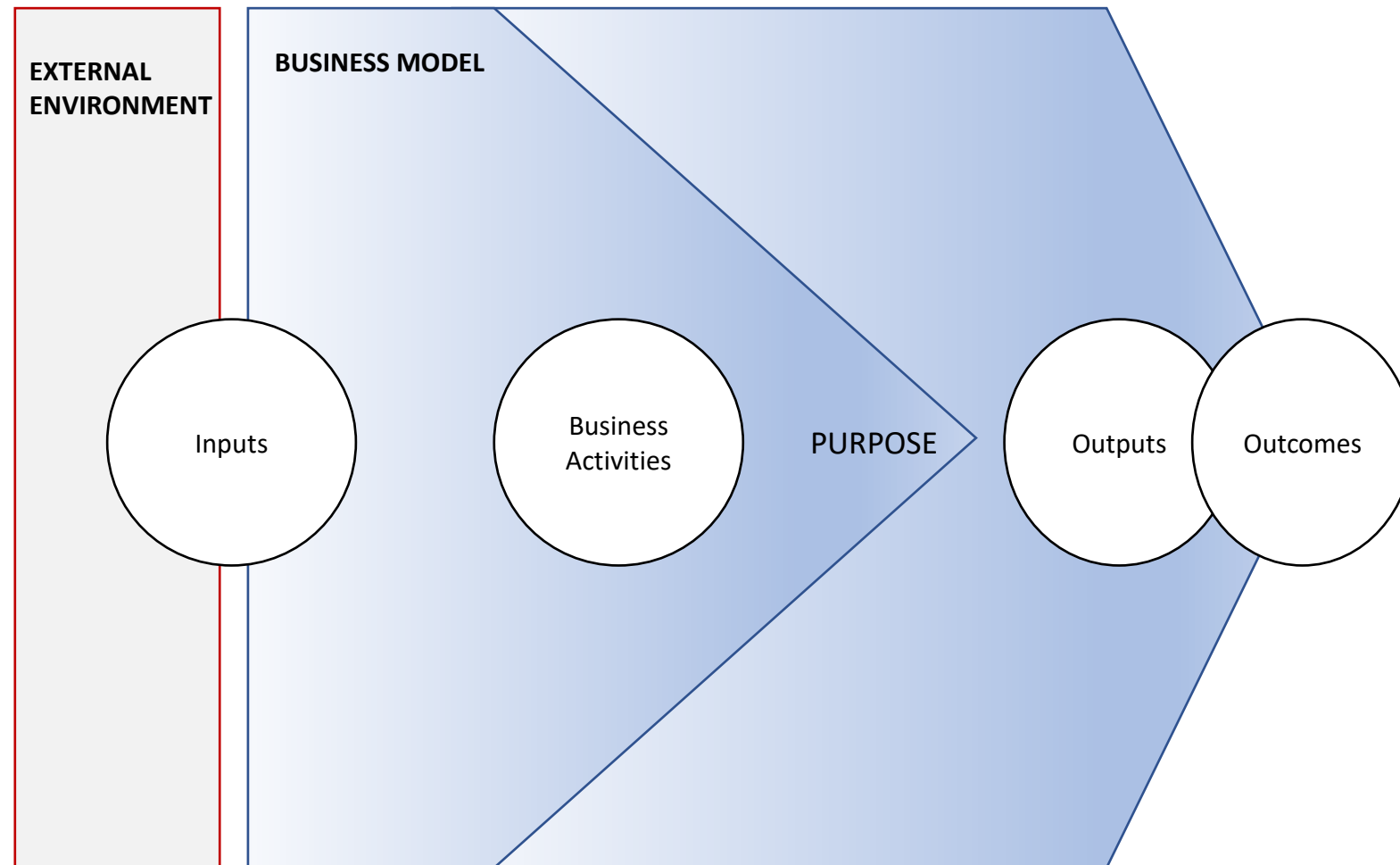
The Value Reporting Foundation's Integrated Reporting Framework starts with the concept of the business model:

"Business activities include the planning, design and manufacture of products or the deployment of specialized skills and knowledge in the provision of services.

"Encouraging a culture of innovation is often a key business activity in terms of:

- generating new products and services that anticipate customer demand,
- introducing efficiencies and better use of technology,
- substituting inputs to minimize adverse social or environmental effects, and
- finding alternative uses for outputs."

Continuous monitoring and analysis of the external environment in the context of the organization's purpose, mission and vision identifies risks and opportunities relevant to the organisation, its strategy and its business model."



The Value Reporting Foundation puts the Business Model in the context of Exposures and Capitals

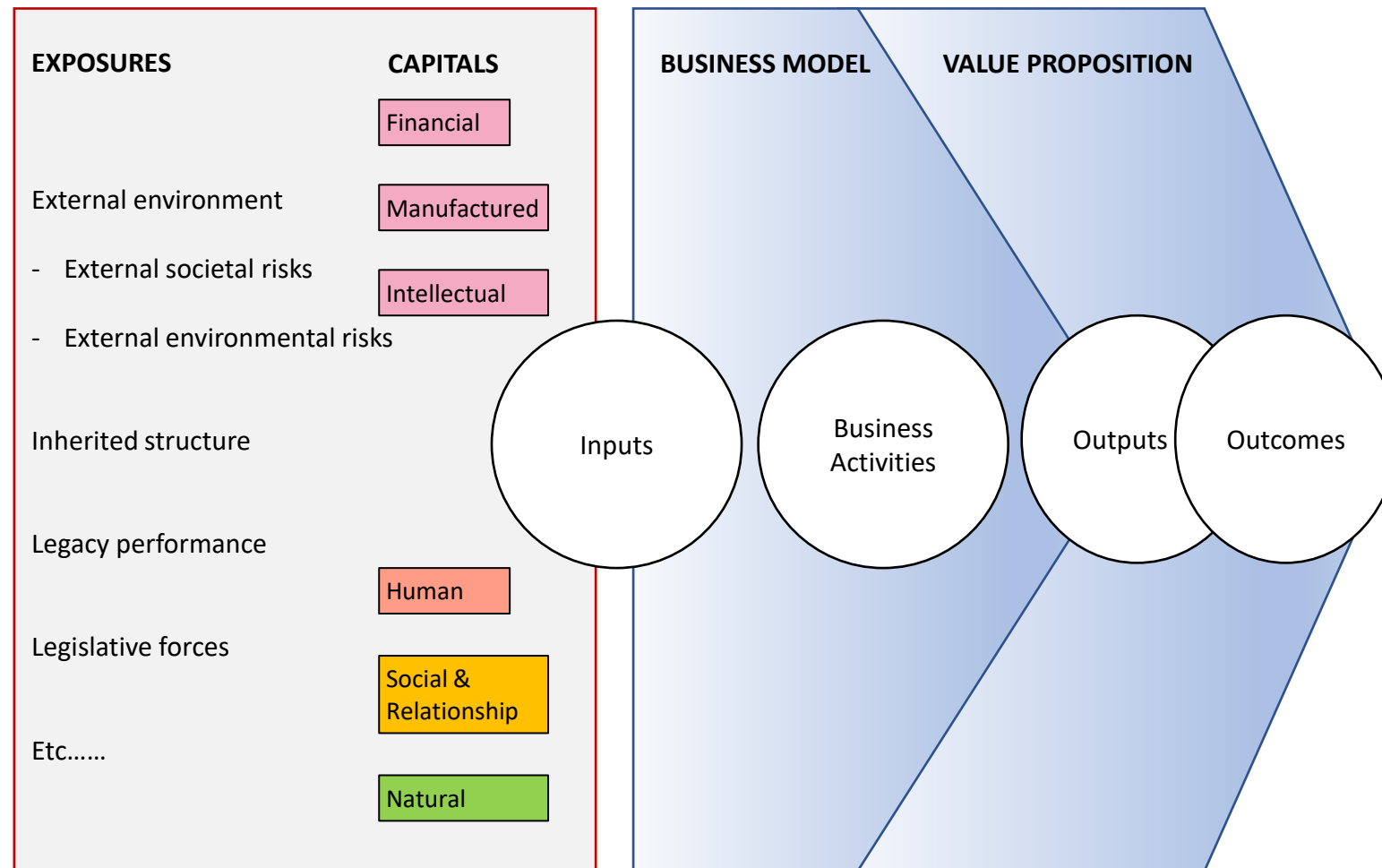
The Value Reporting Foundation's Integrated Reporting Framework acknowledges the importance of the External Environment and its capitals:

"The external environment, including economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organization operates.

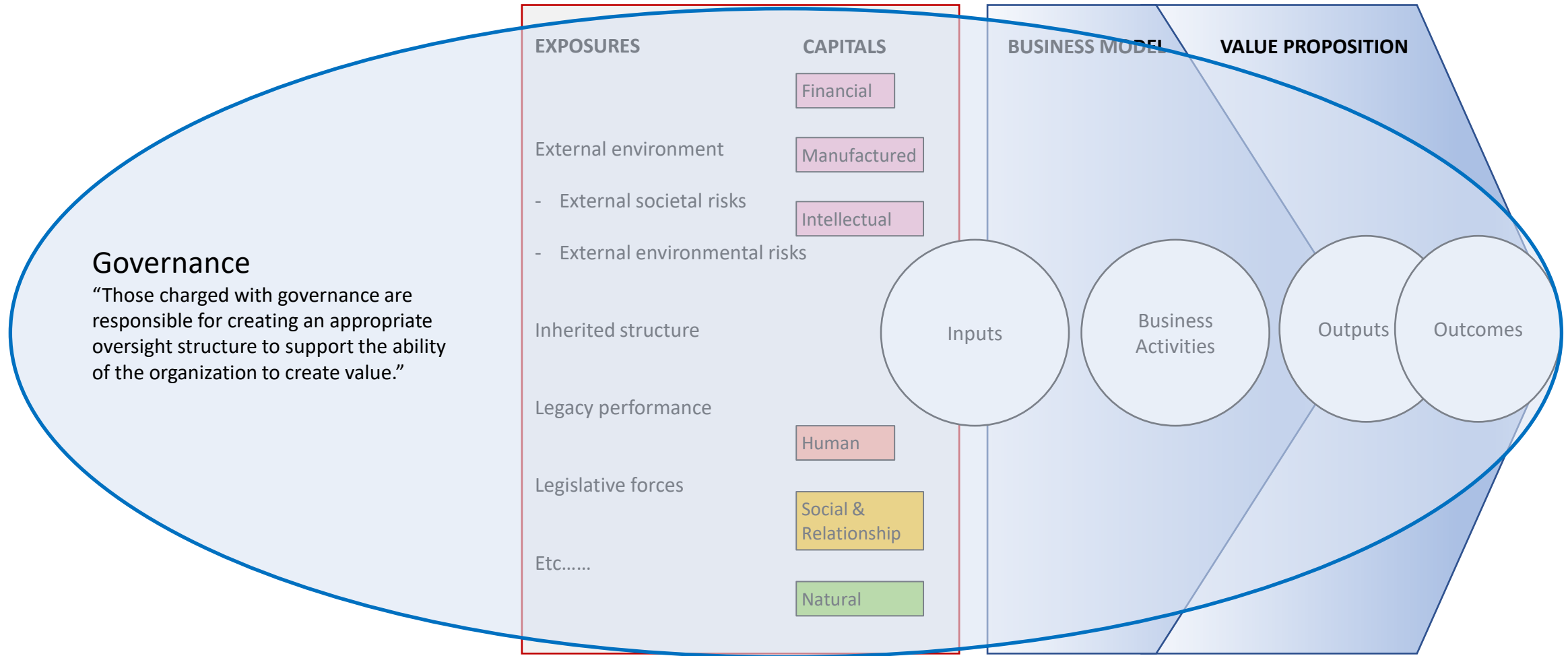
"The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation.

"There is a constant flow between and within the capitals as they are increased, decreased or transformed.

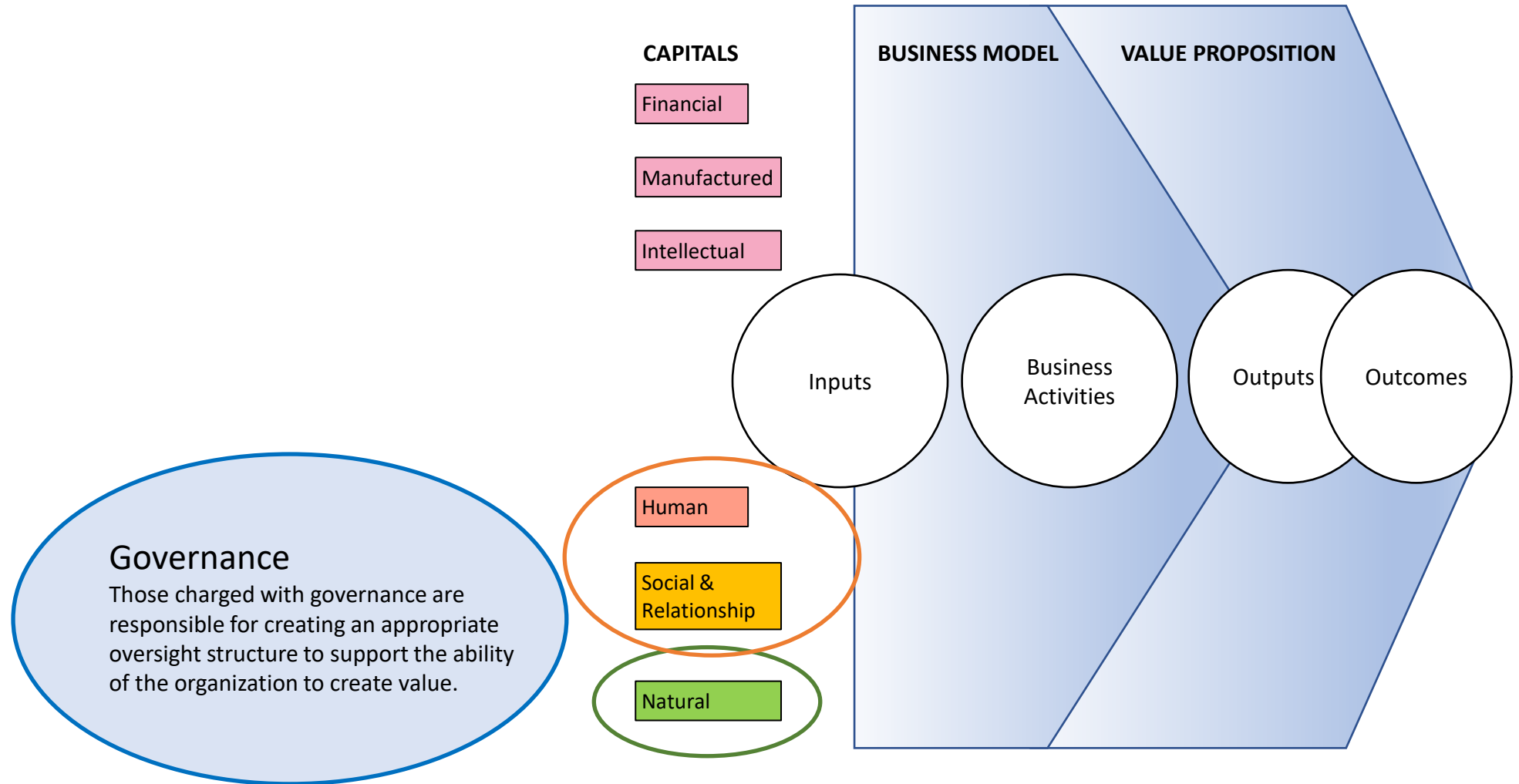
"The <IR> Framework does not require an integrated report to adopt the categories identified above or to be structured along the lines of the capitals."



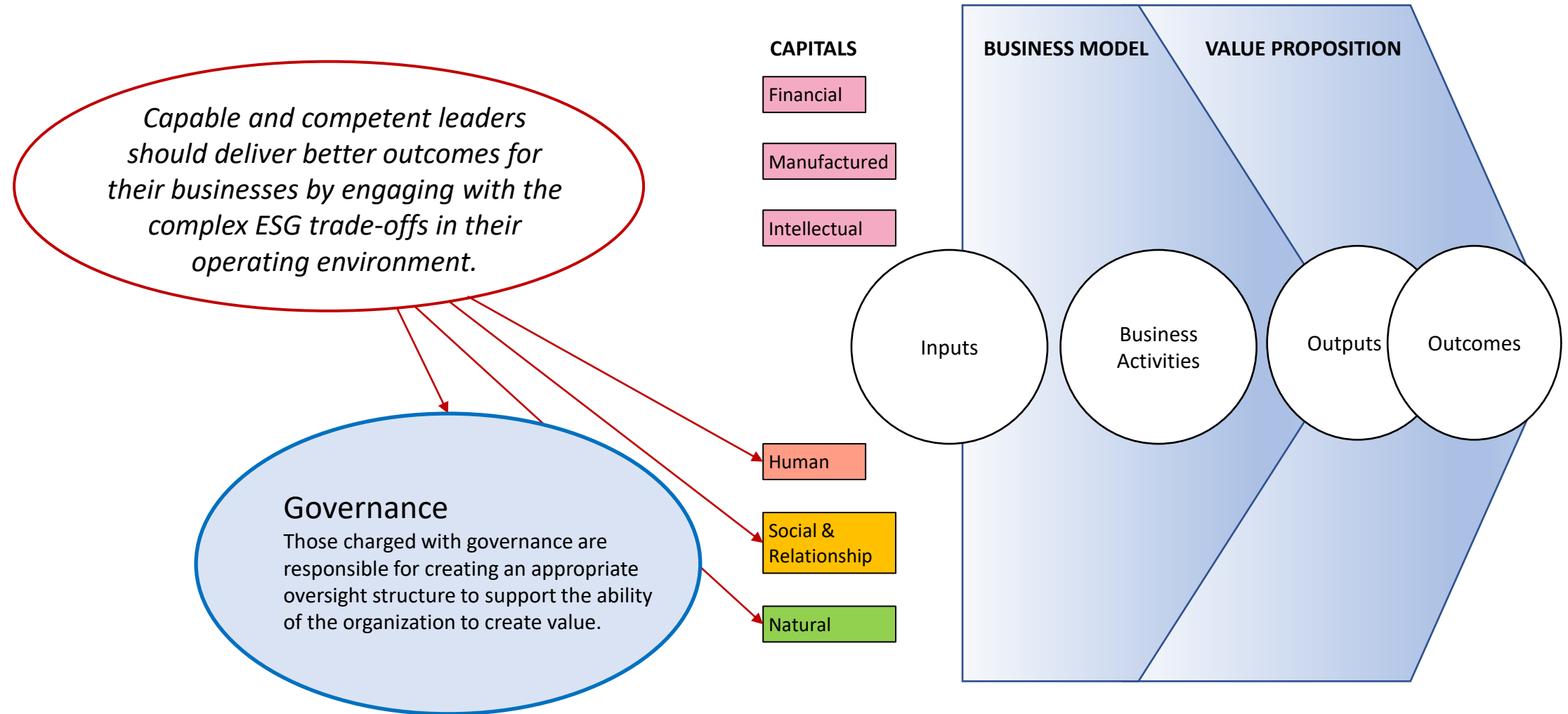
Governance is an oversight structure for creating value



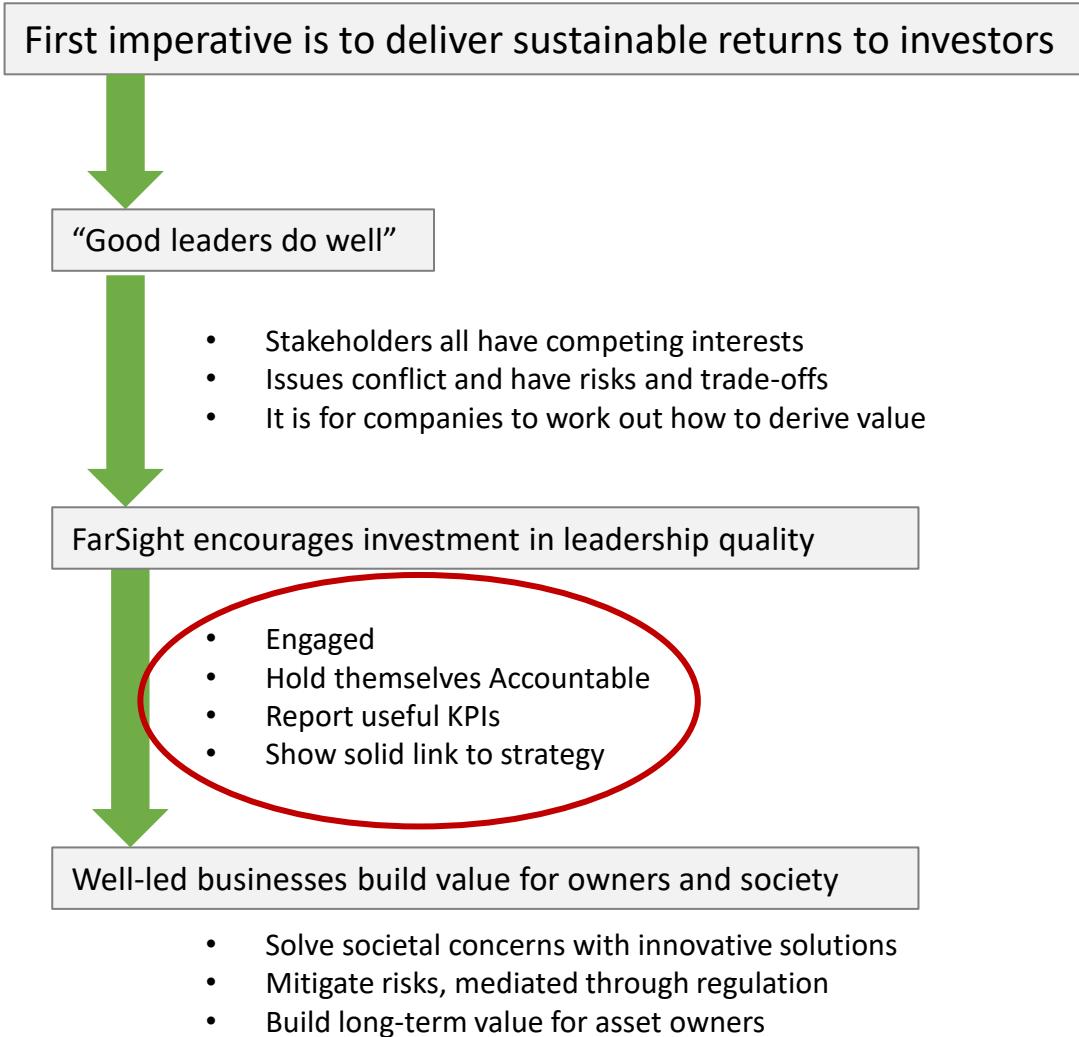
ESG: How leaders engage with and respond to material issues



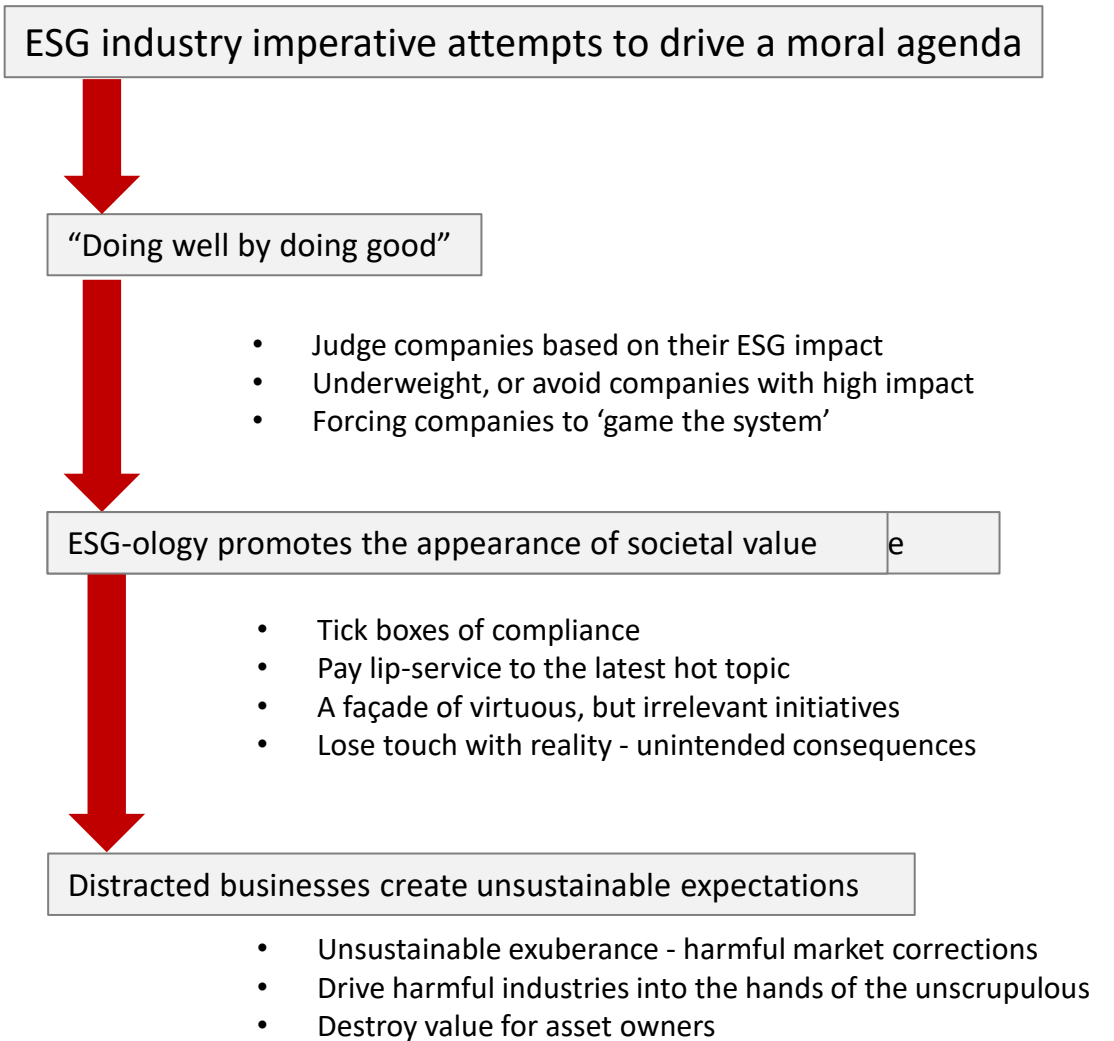
ESG: How leaders engage with and respond to material issues



FarSight's Leadership Quality Model



ESG-eology



How FarSight rates each issue

The FarSight Model

Leadership Quality is a rating of leadership response to material issues (the risks taken on by the company)



Rating leadership

Table 2: Scoring of leadership response to each issue across four aspects															
Context & recognition	Dismissive/ Insincere			None /Irrelevant /inadequate			Partially relevant /Dawning			Sincere & Substantiated + Stakeholder engagement			+ Strategic & quantifying business impact		
Taking charge Accountability	None or pretense			Delegated without authority			Unclear / Policy compliance			Decisive leadership with action			+ embedded in org. DNA with exec accountability		
Performance reporting	Misleading / Deceptive / Cherry-picking			None or Isolated highlights / Lacking transparency			KPIs emerging, but poor relevance			Relevant KPIs Fair balance			Material Comparable Reliable		
Strategic response Innovation & progress	Irrelevant / non-compliant			Vague link to strategy			Tick-box strategy			Strategy links to issues / Evidence of progress			Innovative, far thinking, competitive strategy		
SCORING	-7	-6	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5	+6	+7

Question One:

Text in governance report regarding board evaluation: “In accordance with Principle 9 of King IV, board members are held accountable through formal external board evaluations that take place at least once every two years. As part of these evaluations the board conducts an assessment of its own performance and the appropriateness and effectiveness of its procedures and processes. In compliance with this principle, the board scheduled an opportunity to consider, reflect on and discuss its performance and found it to be functioning effectively.”

Choose one answer from the following four options:

- 1) Dismissive / deceptive
- 2) Inadequate
- 3) Sincere / engaged
- 4) Strategic, with leadership commitment

Rating leadership

Question Two:

Following a mining accident at XXX company that kills three employees, the following is written in the annual report: “Safety is of strategic importance to us, as we can only create value from our mining activities if we can do so without endangering the lives of our people. In this context, we are sorry to have to report the loss of three of our colleagues that died in a fall-of-ground incident at No.2 shaft. We have a zero tolerance for fatalities and this was the first such incident in three years. We measure the frequency of injuries and also categorise near misses so that we can better understand where our people are at greatest risk. Our injury frequency rate has been decreasing every year (see graph) as a result of our safety awareness programmes. Following this incident, we closed the shaft for a week and following an investigation, have redoubled our efforts to ensure worker safety. For example, all vehicles are now fitted with sound alarms and undercarriage sensors alerting drivers in proximity to their pedestrian colleagues. Considering the importance of safety, the board has withheld the short-term cash bonus from the executive team for this financial year.”

Choose one answer from the following four options:

- 1) Dismissive / deceptive
- 2) Inadequate
- 3) Sincere / engaged
- 4) Strategic, with leadership commitment

Rating leadership

Question three:

A retailer, known for its high moral value proposition relating to environmental responsibility reports: “This year we saved 450 million tonnes of CO2 emissions through our renewable energy initiatives (head office only).”

Choose one answer from the following four options:

- 1) Dismissive / deceptive
- 2) Inadequate
- 3) Sincere / engaged
- 4) Strategic, with leadership commitment

Rating leadership

Question four:

"Following our recent acquisition of the Black Sea Armament company, we have inherited a business that sells land and sea mines, and this division has just landed a lucrative contract with the Ukrainian military to protect its sea lanes outside the port of Odessa. We are aware that the manufacture of mines is in contravention with the Hague Convention on armaments. If we refuse to supply these mines, the Ukrainians will buy them from our competitors. Having engaged with Transparency International, we have negotiated a compromise: Considering our expertise in electronics, we will be fitting each mine with a GPS device, with its location logged in a secure database, monitored by Transparency International. A timer is set to deactivate each mine and render it harmless after six months. While we recognise mines remain a heinous weapon, our strategy is to help our clients defend their territory while causing the least harm."

Choose one answer from the following four options:

- 1) Dismissive / deceptive
- 2) Inadequate
- 3) Sincere / engaged
- 4) Strategic, with leadership commitment

Rating leadership

Question five:

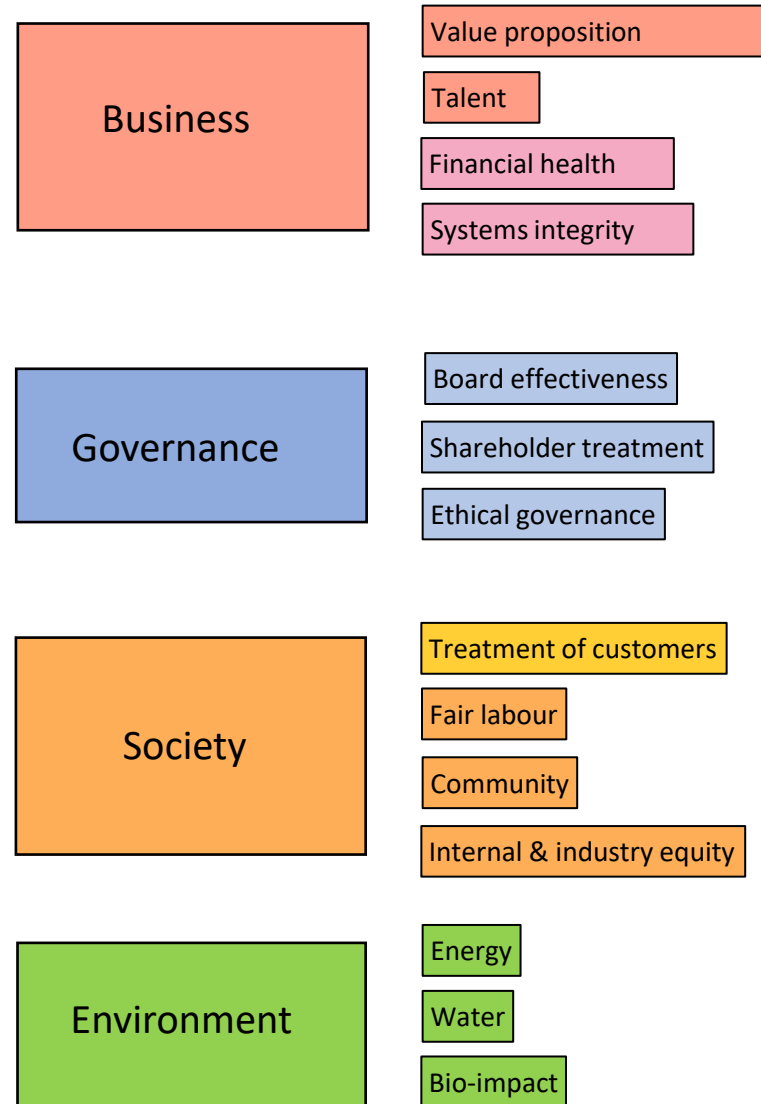
"Coal is the pathway to a greener future. It can provide the reliable and affordable energy that industrial enterprises need to enable the transition to net-zero. In addition, the question of affordable and reliable power is often downplayed, but coal actually supports renewables by providing stability when the sun does not shine and the wind does not blow. We need to ensure that we can continue to supply reliable energy. That is the role coal producers play to ensure that this transition can happen in a responsible and coordinated manner. This is not about a binary choice between coal and renewables, but how these technologies combine in an innovative way to combat the single largest threat of our time."

Choose one answer from the following four options:

- 1) Dismissive / deceptive
- 2) Inadequate
- 3) Sincere / engaged
- 4) Strategic, with leadership commitment

The FarSight Material issue universe

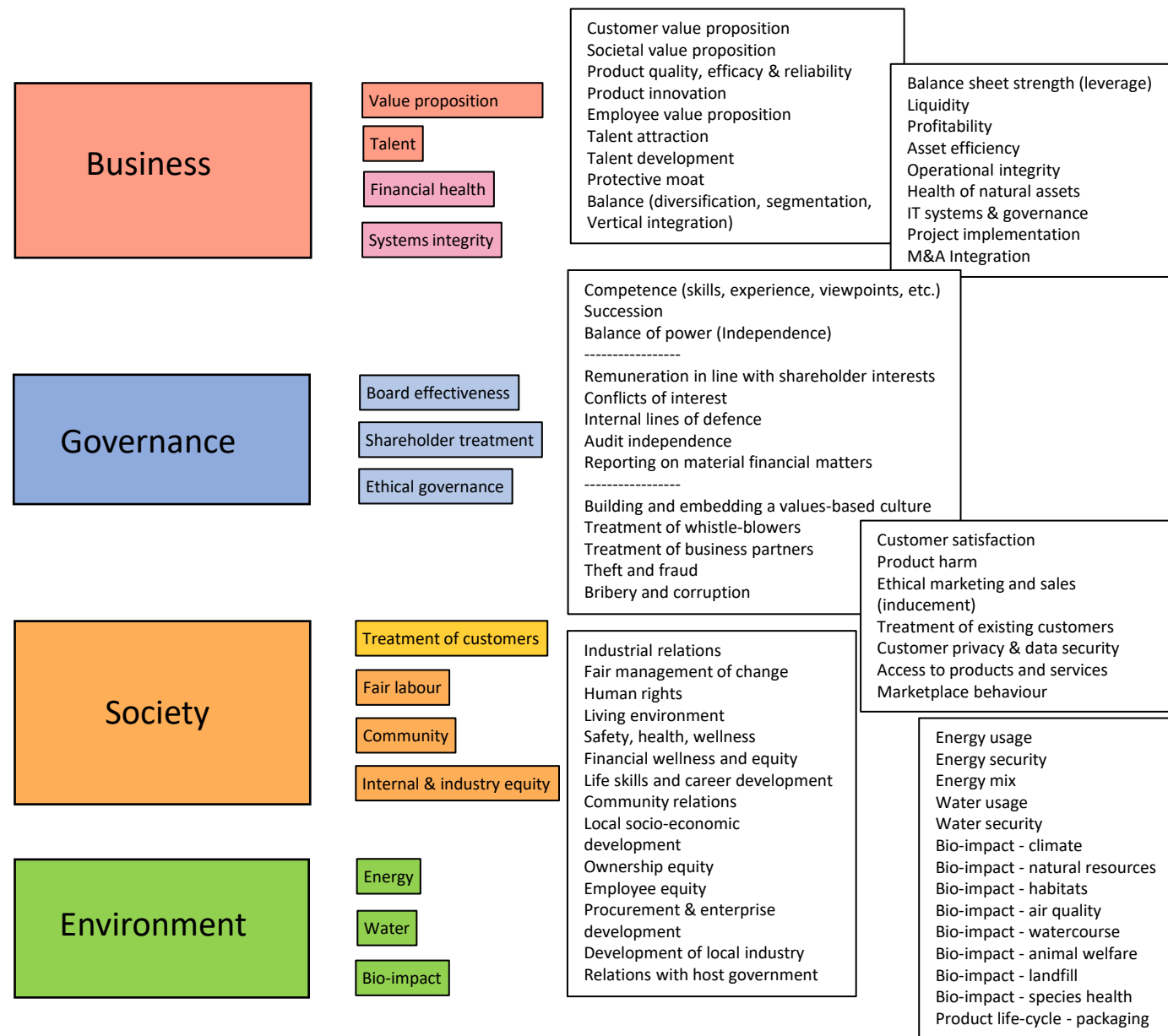
The FarSight model table of material issues



The weighting of an issue is affected by:

- *the probability and magnitude of its impact*
- *on the firm's relationships and resources, &*
- *how this may affect returns to shareholders*
- *through a three- to five-year window*

The FarSight model table of material issues - and - sub-issues



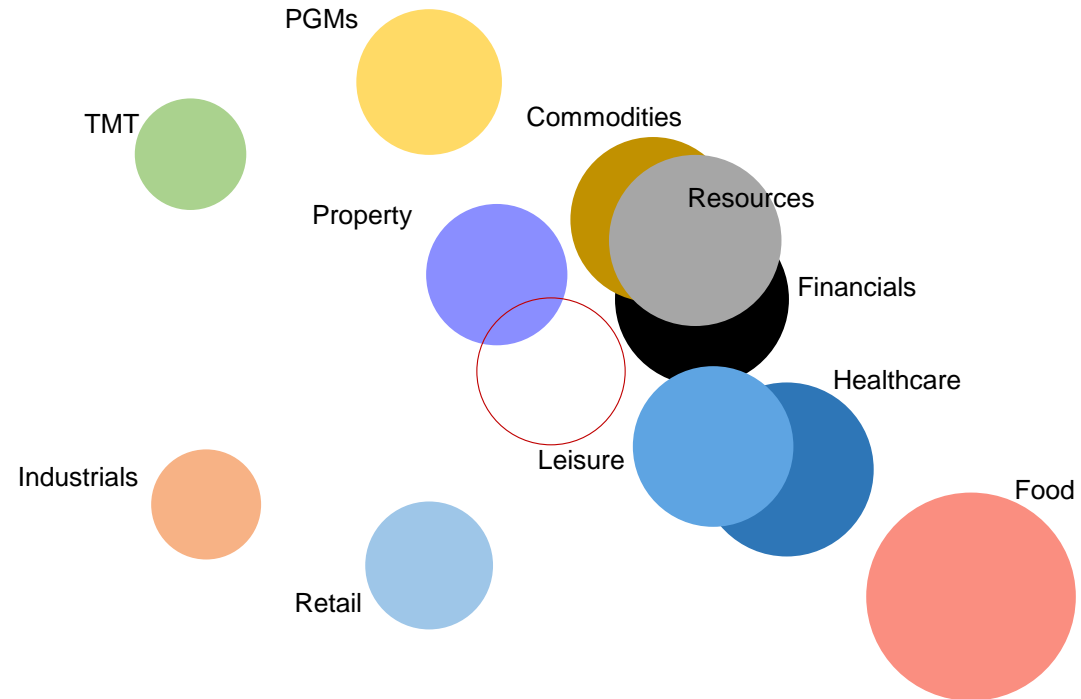
The FarSight Model

All companies take on ESG risk, what matters is how this risk is turned to competitive advantage

*“The role of business in the economy
is to take on societal and environmental challenges,
not avoid them.
Solving these challenges requires good leadership,
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and increases returns to the shareholder.”*

The FarSight Model

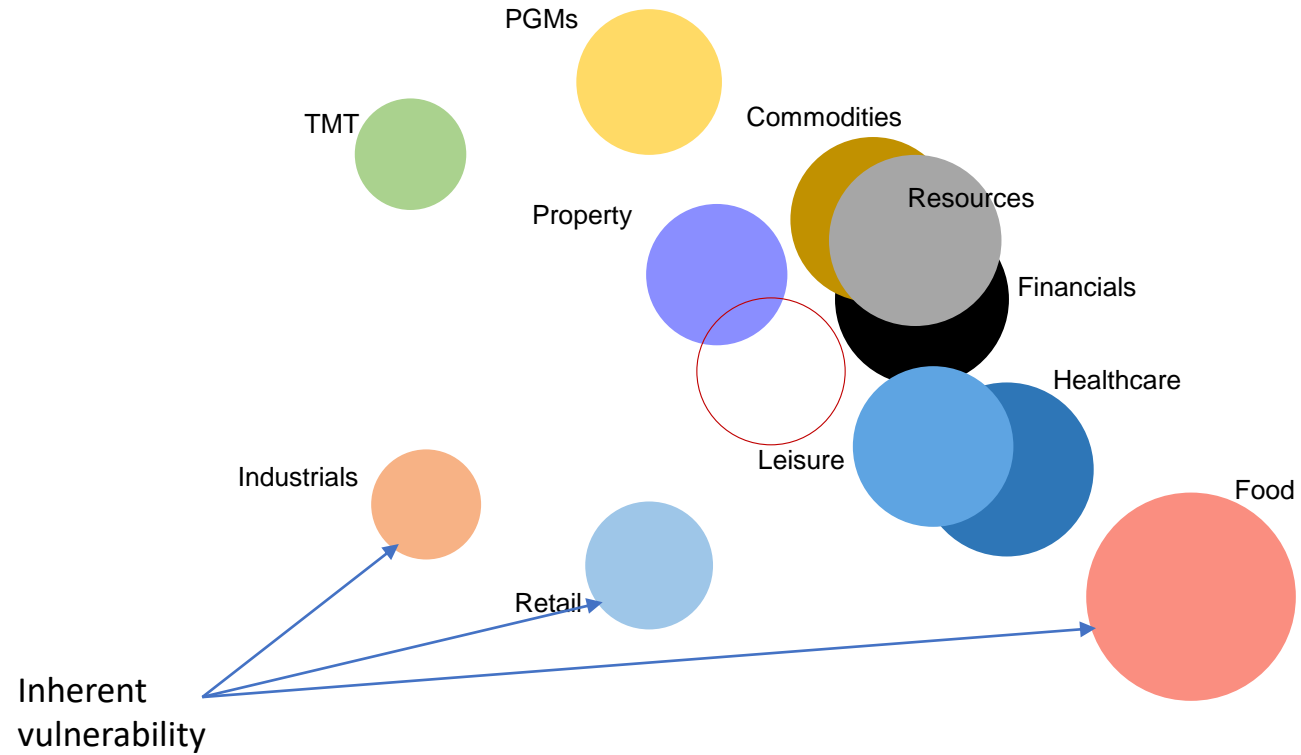
All companies take on ESG risk, what matters is how this risk is turned to competitive advantage



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The FarSight Model

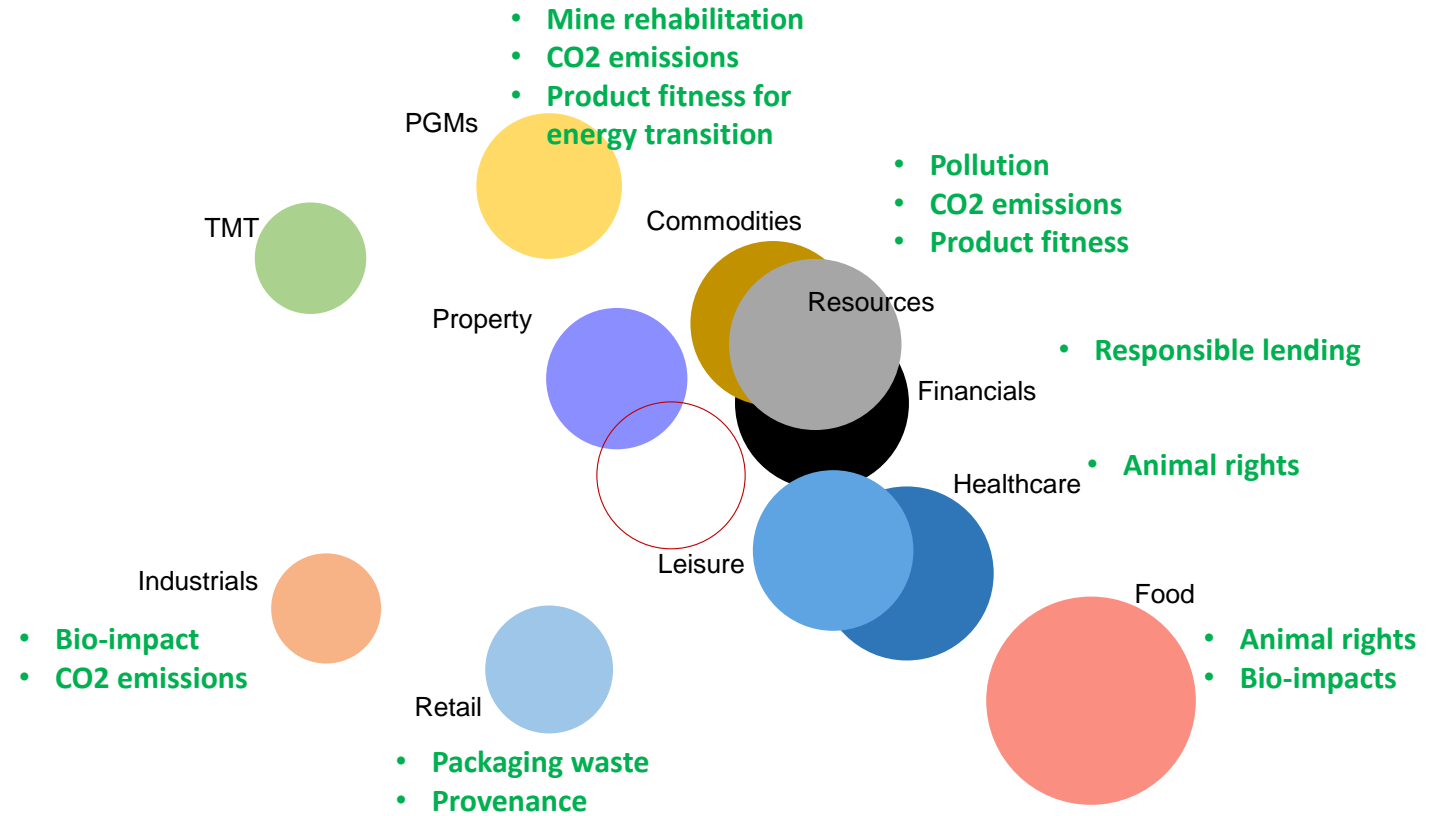
All companies take on ESG risk, what matters is how this risk is turned to competitive advantage



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The FarSight Model

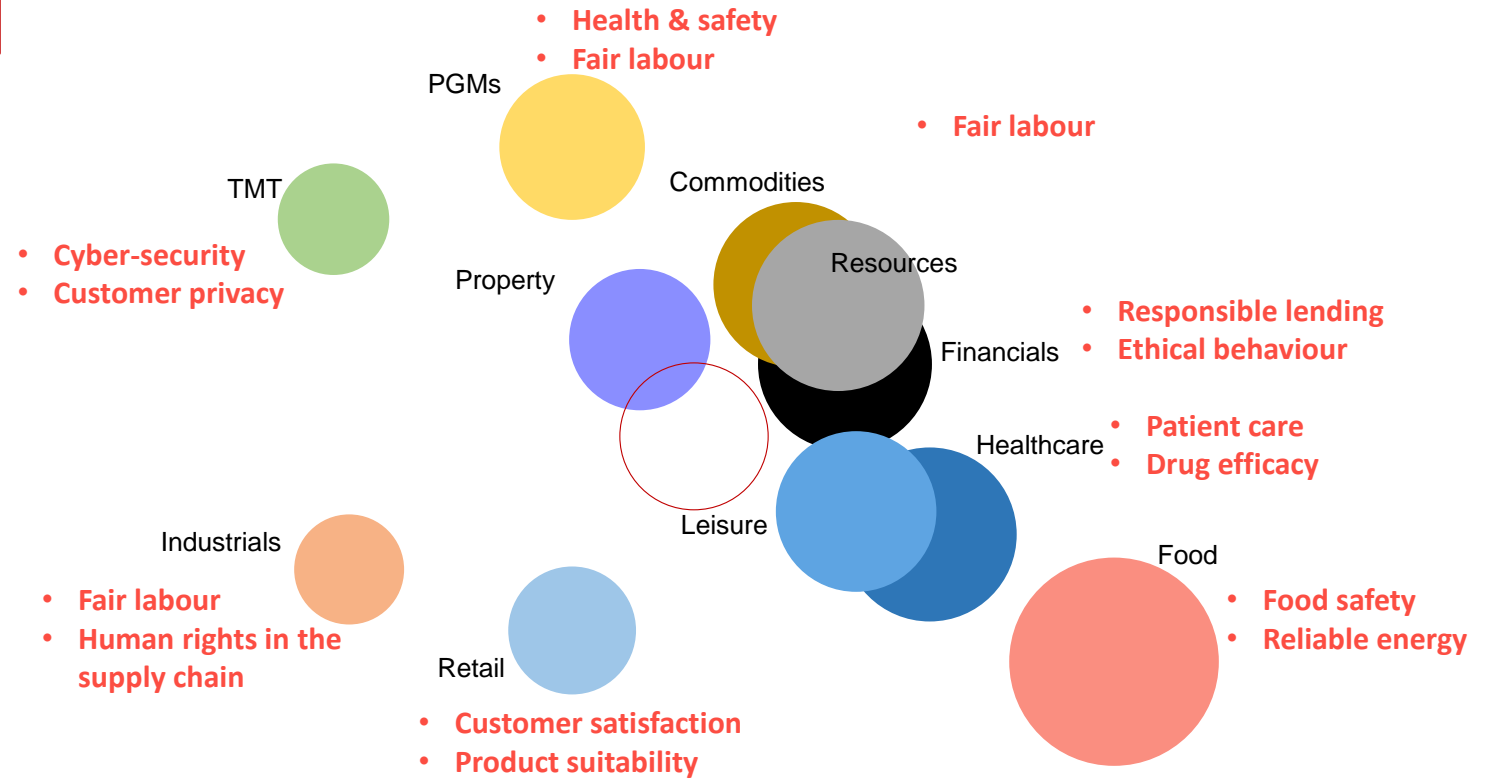
All companies take on risk, what matters is how it is turned to competitive advantage



The FarSight Model

All companies take on risk, what matters is how it is turned to competitive advantage

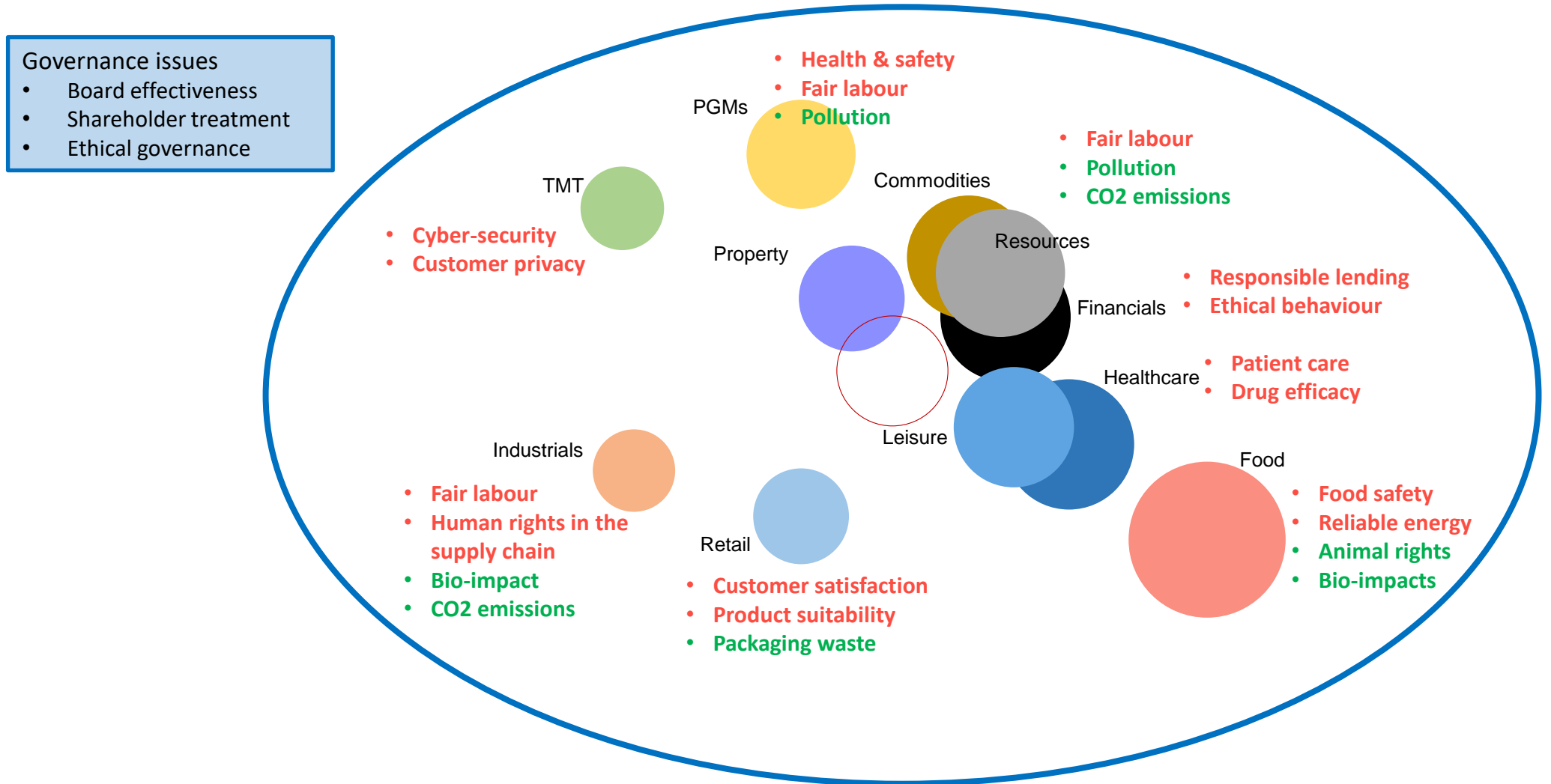
Societal issues



FARSIGHT

The FarSight Model

All companies take on risk, what matters is how it is turned to competitive advantage



FARSIGHT

THE END