Sanlam

SIM Responsible Investment Policies and Procedures Document

September 2016

Investments

Asset Management | Capital Management | International | Multi-Manager

Index

1.	Governance Policy (G)		
	1.1	Overview	p 2
	1.2	Governance Policy	4
	1.3	Proxy voting guidelines	12
	1.4	Escalations	16
	1.5	Incentive Schemes	26
	1.6	Retention Schemes	36
2.	Environmental Policy (E)		38
3.	Social Policy (S)		42
4.	Conflict of Interest Management Policy		50
5.	Appendices		
	5.1	The Principles for Responsible Investment (UN PRI)	57
	5.2	CRISA principles	60
	5.3	Comparison of Principles	61
	5.4	WFE ESG metrics	62

SIM'S RESPONSIBLE INVESTMENT POLICIES

OVERVIEW

Our philosophy is to make use of the investment opportunities created when prices differ from their fair value. To do this, we estimate what investments are intrinsically worth, as opposed to what investors are willing to pay for them because of greed or fear, and invest accordingly. We believe that by applying this pragmatic-value approach consistently over the long term, we will deliver long-term investment performance for our clients.

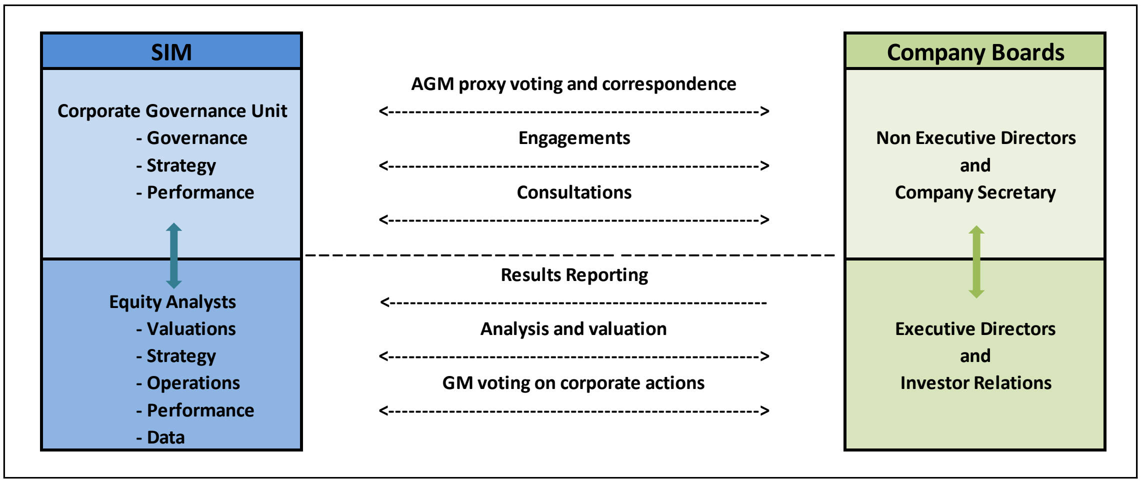
We also acknowledge that non-financial issues may influence valuations and capital allocation decisions. These issues typically relate to the quality of companies' relationships with their broader stakeholders and their responsible stewardship of natural resources, as well as their own governance.

The Sustainable Stock Exchanges Initiative lists these financial consequences of how well companies manage their non-financial sustainability issues. They can impact:

- Access to capital
- Cost savings and productivity
- Risk management
- Revenue growth and market access
- Brand value and reputation
- Licence to operate
- Human capital
- Employee retention and recruitment
- Company value as an acquisition target
- Ability to acquire companies.

The implication is that companies that manage their sustainability issues well will outperform their peers. Accordingly, we embed sustainability into our core investment process in order to better understand the potential for companies to deliver their cash flows into the future. This entails broadening and extending our investment horizons. To guide this process, SIM subscribes to the UN Principles of Responsible Investment (PRI) and the CRISA principles. (Both sets of principles are included in an appendix).

In 2006, we formed a committee to drive implementation of our Responsible Investment initiatives on behalf of clients. The Corporate Governance Unit (CGU) consists of senior investment, company secretarial and front office staff. We have increased our points of contact with companies as a result, so that a governance channel complements the established analysis channel, as depicted below:



We should ensure that company disclosure is sufficient and material enough for us to make informed investment decisions. We will engage management where this is not the case. We also have a responsibility to ensure the credibility and integrity of investment markets. To do this we will scan the regulatory and legal environment and contribute where we can add value.

We publish our responsible investment policy and procedures on our website to promote transparency of both content and implementation: **SIM Corporate Governance Website**

We report to our stakeholders annually via Responsible Investment reports, to enable them to make informed assessments of how we apply CRISA.

Each year, SIM's policy framework and implementation is assessed by the PRI against its six principles. By comparing our progress with that of international peers, we are able to continuously improve our approach.

Over time, we expect the focus of Responsible Investment to shift from installing implementation processes to measurement of impacts (or from inputs to outputs). Our aspiration is that these outputs will contribute to achieving the planet- wide Sustainable Development Goals.

SIM'S GOVERNANCE POLICY

1. Context

One of the most important rights of shareholders is the right to vote. A shareholder meeting is a company's ultimate decision-making forum. The annual general meeting is a regular forum for shareholders to exercise their rights and to influence the direction of the company.

These guidelines set out how we vote proxies on behalf of clients who have not included their own voting instructions in their investment mandates. They are based on the SA Companies Act (2008), and the JSE Listings Requirements, which incorporate the King Codes on Corporate Governance (King).

They are not exhaustive, but reflect our values on shareholder powers and responsibilities which we exercise in consultation with our clients, who are the asset owners.

They will be updated periodically, to reflect local and global developments.

These policies are not applicable to all Sanlam Group businesses, as SIM manages a portion of the Sanlam Group's total assets under management.

2. Benefits

Careful consideration of social responsibility issues by companies and their Boards will enhance the sustainability of the business, improve their competitive position in the market, create short term benefits in terms of Return on Invested Capital (ROIC) and Weighted Average Cost of Capital (WACC) and, advance long-term shareholder value (UN PRI Principles).

Better measurement of a company's quality, performance, value and impact will lead to better decision-making (on the basis of what is measured is managed). Companies will thereby improve their strategies, build trust and identify risks earlier. (SAICA on King).

In order to benefit from an inclusive approach, King recommends that Boards "consider the legitimate interests of the company and not merely…serve the interests of the shareholder". Companies should be more accountable to non-traditional stakeholders and, likewise, company success re-defined as lasting positive effects for all stakeholders.

It follows that a company's sustainability report should be combined with financial reporting. The integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term (SSE definition). King describes the integrated report as a holistic representation of a company's performance in terms of both its finances and its sustainability.

3. Requirements of companies

The role of the Board is to serve as a link between management and stakeholders, particularly shareholders. Boards also set the appetite for risk, approve strategy and oversee management, to ensure that the company adds value for stakeholders.

King requires that every Board should have a formal Charter setting out how it will fulfil its responsibilities. At a minimum, the Charter should confirm the Board's responsibility for the adoption of strategic plans, and monitoring of operational performance and management, as well as determination of policy and processes to ensure the integrity of the company's risk management and internal controls, communications policy, and director selection, orientation and evaluation. The Charter should also express the Board's commitment to ethical standards, to guide the company's relationship with its stakeholders.

The JSE listings requirements require that listed companies apply the principles of the King Code on corporate governance. The King 4 principles will be applied on an apply and explain basis. There are a number of factors which are likely to contribute to effective governance by Boards:

Separation of the roles of Chairman and CEO

The Chairman is responsible for coordinating the activities of the Board and setting the ethical tone. In turn, the Board is responsible for evaluating the performance of the company and its CEO. The CEO is responsible for the day-to-day operations and management of the company.

We believe there is an advantage to the company, the CEO, and the directors to have an independent non-executive Chairman, who can deal with matters and oversee management from the Board's point of view. If the Chairman is not independent, we will support the appointment of a Lead Independent Director.

The CEO should be a person other than the Chairman who is responsible for the executive direction of the company, answerable to the Board, including the Chairman, and ultimately to the shareholders.

Board independence and non-executive directors

'Independence' is the absence of undue influence and bias, underpinned by behavioural and structural factors. A director acts independently if that director:

- expresses opinions, exercises judgment and makes decisions impartially;
- is not related to the company or to any shareholder, supplier, customer or other director of the company in a way that would lead a reasonable and informed third party to conclude that the integrity, impartiality or objectivity of that director is compromised by that relationship.

We believe that a Board with a majority of independent directors (as defined in the King Report), and whose key committees are staffed with independent directors, is better positioned to direct and support the CEO and also to critically evaluate management and the performance of the company against set indicators.

We therefore support independent Boards. We will vote for proposals that the Board comprise of a majority of independent non- executive directors, and that key Board committees, such as the Audit committee, are comprised wholly of independent directors.

Optimal size

There should be sufficient members to enable the Board to function efficiently and effectively, given the size and complexity of the business, without being so large that it becomes cumbersome.

Appointment – expertise, balance, dedication, contribution

Directors with varying skills and backgrounds bring different perspectives that contribute to a more varied approach and analysis of issues. In order to foster the long-term success of a company, the Board should include directors with a variety of backgrounds and expertise, <u>including people from differing racial, gender, cultural and economic backgrounds.</u>

<u>Director appointments should be confirmed at the next shareholder meeting.</u> Appointed directors should be able to make a meaningful contribution to the Board. Directors should be able to devote sufficient time, energy and expertise to the company. (Indicators include the number of other boards served on, other positions held and attendance record).

We will vote against the appointment of a director who already has numerous board appointments, or has executive responsibilities at another company, if their ability to devote sufficient time and expertise is affected, or there is potential for interests to conflict.

Re-election and tenure

We support director re-election at least <u>every 3 years</u>. Independent directors, prior to standing for re-election, should be evaluated by the Board to confirm their independence.

We will vote against the re-election of directors who have poor attendance records.

While we do broadly support proposals to limit the tenure of directors, either through term limits or mandatory retirement ages, we will actively engage with Chairmen in this regard. <u>We advocate that directors should be re-elected annually after 9 years of service, or once they reach the Board's retirement age.</u>

Continuous development

Where necessary, directors who have limited experience in certain areas, but who are able to make a meaningful contribution in others, should be given the opportunity to develop and learn from their more experienced colleagues, or to receive specialised training. Director training and education are important elements of continuous development.

Evaluation

We support regular self-evaluations of Board, committee and director functioning (Board reviews), as well as independent evaluations to promote candid responses. Board Chairman should ensure that evaluations are carried out regularly and that results are reported to shareholders.

To facilitate this process, the Board should consider establishing key performance indicators for itself and its committees, and periodically review and report its performance against them.

Board Committees

Boards will appoint sub-committees to facilitate their functioning. Board committees of most interest to shareholders include:

- **Accountability and Audit**

  The Board must have an audit committee responsible for oversight of the preparation of the integrated report, internal controls and risk management, management information systems, the annual independent audit of the company, and statutory duties. (Some Boards may appoint a separate Risk committee). There are now a number of frameworks which may be used to identify which sustainability factors to report on (see SSE Model Guidance p26).

  <u>All members of the audit committee must be independent non-executive directors, appointed individually by shareholders</u>. They should be financially literate and collectively capable of discharging their duties. Financial literacy is essential for the committee to oversee the complexities of the annual audit and to deal with the technical aspects of the financial information.

  An independent audit process is a condition of good governance. Our preference is that the audit committee retains the services of a <u>well-known and reputable auditing firm</u>. We also prefer that a significant majority of the revenue generated by the auditing firm from the company come from the audit function, in order to preserve independence.

- **Remuneration**

  Boards should have a remuneration committee comprised of a majority of independent directors, who are knowledgeable in the field of director and senior management remuneration and chaired by an independent non-executive director.

  The remuneration committee is responsible for development of <u>remuneration policy</u>. The policy should be comprehensive, fair, consistent with market norms and aligned to achievement of company strategy. The updated remuneration policy, and details of its implementation, should be tabled for approval annually at the AGM.

- **Social and Ethics**

To implement the social responsibilities of Boards, the Companies Act requires listed companies to appoint a Social and Ethics Committee (SEC).

The function of the SEC is to monitor and report on the company's achievement of social and economic goals, draw social matters to the attention of the Board, and report through its nominee to shareholders at the AGM.

In monitoring the company's activities, the SEC should consider compliance with legal requirements or codes of best practice relating to:

- Social and economic development,
- Good corporate citizenship,
- The environment, health and public safety,
- Consumer relationships; and
- Labour and employment.

In practice, the SEC monitors and measures the achievement of employment equity targets, B-B BEE performance in terms of dti scorecards, and progress in skills and other development programmes, in order to embed legislation and best practices into company policies, values, culture and strategy (V Pillay, 2011).

4. The investor response

Investors should require that companies adhere to laws, guidelines and codes of good practice applicable to them in the countries in which they operate, and promote governance policies and practices which protect or create long term shareholder value.

To do this, they should be active investors on behalf of their clients. They should vote at shareholder meetings and engage with Boards where they can make a contribution. They may also wish to participate in consultations regarding regulations and laws which will affect corporate governance.

5. SIM's required actions

We will obtain a mandate from our clients in the form of a written policy on Proxy voting. We will vote on all material shareholdings held on behalf of Sanlam, third parties and collective investment schemes. Where requested or appropriate, we will refer to clients prior to voting. We will report to clients on the outcome of our voting activities on their behalf.

We will give particular consideration to resolutions which require the approval of governance policies and implementation - for us to support these resolutions, they should accord with evolving best practices. To do this, we will establish constructive dialogue with company Boards, to share views and to discuss areas of potential conflict, should our objectives differ from management's.

Because we will mostly vote by proxy, we will always inform companies of our reasons for declining resolutions on behalf of clients. In some cases, we may also signal our intention to decline resolutions in future, should requested changes not be implemented.

In certain cases, we will seek to limit the powers of directors:

We will limit issuance of shares for general purposes to 5% of shares in issue in any one year, either by way of shares issued for cash, or by placing unissued shares under control of directors for placements. (In the case of listed property funds, where earnings are not retained, we will limit issuance of units to 10% in any one year).

We will vote against resolutions which provide for new shares to be issued at a price discount of more than 10% (or 5% for listed property funds), other than to facilitate B-B BEE.

We support one class of shares. We will vote against the creation of share classes with more (or fewer) voting rights, which mis-match voting and economic rights. We will be pragmatic in considering further issuance of existing classes, based on the nature and circumstances of the company and its shareholders.

We will limit share buybacks if the majority has abused dominance; or the company has destroyed value or over-limited the public free-float of shares in the recent past. We will apply judgement in the light of financial benefits and the company's track record, and will seek not to limit the buy-back of shares provided that it meets Listings and solvency criteria, and, does not unduly increase the dominance of majority shareholders.

We will generally support resolutions seeking authority to provide financial assistance (normally inter-company loans and guarantees) to corporate entities, which include incentive schemes. However, we do not support provision of such assistance to individuals by companies, unless to facilitate approved incentivisation or empowerment.

We will oppose any measures which are aimed at restricting the ability of shareholders to vote unambiguously. Accordingly, we will vote against the bundling of resolutions, as this may result in our not being able to give clear direction on a portion of the bundled resolution.

We will pay particular attention to the level and composition of remuneration.

Executive directors should be fairly and responsibly paid, so that they are motivated to act in the best interests of the company. Their remuneration should be structured to enhance company value, aligned to strategy and commensurate with company performance. This is best achieved through a mix of base and variable pay.

Base pay should not be more than necessary, because of the multiplier effect it has on variable remuneration. For that reason, when base pay is increased, the increase should be contextualised with that of other staff levels as well as other indicators such as inflation and dividends, so that reasonability can be assessed.
We support variable pay that is aligned with shareholder objectives. *Our approach to incentive schemes is documented separately, in detail.*

Executive directors should be required to hold sufficient shares (through minimum shareholding requirements, or MSRs) to align with shareholder interests. Best practice for the value and accumulation period is still emerging. A reasonable requirement is to own shares worth 2x base pay within 5 years of appointment, excluding unvested shares. A portion of vested shares should be retained to meet this requirement. Minimum shareholdings should not be hedged or pledged.

We will use a remuneration database to establish fair ranges for remuneration, and will seek to approve remuneration arrangements, including targeted mix of base and variable pay, in advance.

Companies should also be transparent in disclosing details of the remuneration of their non-executive directors, to enable shareholders to determine whether the levels of remuneration are justified in terms of the overall performance of the Board and individual contributions. Non-executive directors may not participate, in share schemes, although exceptions may be granted to facilitate empowerment.

To promote good corporate governance, we aim to:

- Encourage companies to report on their material governance issues;
- Monitor how Boards manage their governance challenges;
- Require that companies adhere to laws, guidelines and codes of good practice applicable to them in the countries in which they operate;
- Research investment-related governance risks and opportunities;
- Incorporate sustainability considerations into our investment process;
- Vote on all company resolutions where clients have a right to vote, either by proxy vote or representation at meetings:
- We will vote on all material shareholdings held on behalf of Sanlam, third parties and collective investment schemes;
- We will vote for, or against, each resolution. We will not abstain, nor decline to vote, as this may imply a tacit acceptance of the resolution;
- We will ensure that all resolutions are voted on by poll, and will oppose voting by show of hands.

- Communicate by email with a representative of the Board preferably by company secretary, should we intend to decline a resolution;
- In terms of our escalation policy, we may engage with Boards on governance issues, either alone or collaboratively, and participate in consultations regarding regulations and laws which will affect corporate governance;
- Report on our proxy voting and engagement efforts to clients;
- Promote industry best practice, including management of conflicts of Interests, should they occur.

Originated: December 2006 | **Approved**: November 2008, by SIM's Board | **Updated**: July 2008, October 2010, November 2011, August 2012, September 2015, September 2016

SIM'S PROXY VOTING GUIDELINES

The purpose of these guidelines is to standardise our voting responses to company resolutions, which we vote on on behalf of clients who have not included their own voting instructions in their investment mandates. The underlying purpose is to protect and grow our clients' equity base.

They are not exhaustive, but reflect our values on shareholder powers and responsibilities which are exercised in consultation with our clients who are the equity owners. We apply them pragmatically. In some cases though, our requirements are more restrictive than the applicable listing requirements or country practice.

Voting will be done either by the responsible analyst, centrally by specialist nominees of the Corporate Governance Unit (CGU), or escalated in terms of SIM's escalation policy, which is contained in a separate document.

RESOLUTION	Policy Guideline	Comment
Board and Directors – appointment and re-election of directors		
TERM	Subject to initial election and re-election at 3 year intervals.	After 9 years of service, the Board should endeavour to replace the director. We should hold the Chairman accountable for independence if not.
ATTENDANCE	Re-election should be subject to satisfactory attendance of board and sub-committee meetings. Vote against re-election if attendance remains low.	Monitor attendance report in IR, and engage Chairman where attendance is low (<75%).
PERFORMANCE	We encourage excellence.	Engage Chairman where see underperformance.
RETIREMENT AGE	Some MOI's may require a maximum age limit. (An internal guide is that directors should retire at age 70).	Exceptions will be granted unless performance or independence becomes a concern.
INDEPENDENCE	Independent non-execs should be truly independent.	Familiarise yourself with the Companies Act (as amended), the JSE Listings Requirement and King criteria for independence, by consulting with SI's lawyers.
BOARD CHAIRMAN	We prefer that incumbents be independent.	Where not, insist on Lead Independent Director.

RESOLUTION	Policy Guideline	Comment
Limitation of Directors' powers		
SHARE ISSUANCE FOR GENERAL PURPOSES	Max 5% (10% for property funds) of issued shares may be placed under directors' control or issued for cash, per year.	Authority renewed annually. Prefer to grant specific authority.
DISCOUNT ON SHARE ISSUES	Max discount of 10% on the 30 day VWAP (JSE). (5% for property companies).	Ensure that value is not diluted.
SHARE BUY-BACKS	Process is governed by listings requirements. Max. 20% of issued shares per annum (JSE).	Apply judgement in the light of financial benefit and company's track record. Decline if majority has abused dominance; company destroyed value or over-limited liquidity.
BUNDLING OF RESOLUTIONS	Vote against all bundling (into single resolutions) and request that resolutions be unbundled prior to voting.	For example, the grouped re-election of directors or committees. Directors should be individually elected.
FINANCIAL ASSISTANCE	Support assistance to company entities (including approved incentive and B-B BEE schemes).	Vote against general financial assistance to staff. Request combined resolutions be split between company and individual assistance.
MEETING NOTICE PERIODS	Vote against shortening from 21 days.	Vote pragmatically. (Our voting process is extended and problematic to shorten).

RESOLUTION	Policy Guideline	Comment
Remuneration - general		
REMUNERATION COMMITTEE COMPOSITION	Membership should be mainly independent NED's, chaired by an independent non-executive director.	Request composition change or vote against remuneration policy if not the case.
POLICY AND IMPLEMENTATION	We concentrate on remuneration inputs (policy) more than outputs. Directors' remuneration should be disclosed in the IR by law. (See inventivisation below).	SIM's approach to incentive schemes is contained in a separate document. Refer to pay data. Escalate to CGU if query reasonableness.
HOURLY PAY AND CONSULTANCY FEES FOR NON-EXECUTIVE DIRECTORS	We support base and meeting fees only.	Vote against if becomes sufficiently material to increase individual dependence on the company.
BUNDLING OF RESOLUTIONS	Request that resolutions be unbundled in future so that we can express individual preferences.	For example, if all pay requests are made in one resolution.

Remuneration - Share Incentivisation		
APPROVAL OF NEW SCHEMES AND AMENDMENTS	SIM's approach to incentive schemes is contained in a separate document.	Escalate to the CGU.
NOT FOR NON-EXECUTIVE DIRECTORS (NEDS)	For executive staff only. May affect NED independence.	Exceptions may be granted by the CGU, for B-B BEE.
FINITE LIFE	Not evergreen	May be dilutive into perpetuity. Request replacement of schemes over 10 years old.
SIZE LIMITATION	Incentive schemes should take up max. 10% of issued shares, irrespective of source, and max. 0,5% per participant.	Exceptions may be granted by the CGU, for B-B BEE.
PERFORMANCE HURDLES	Shareholders can add most value to performance hurdles, of which a significant proportion should be based on returns in excess of cost of capital, plus a margin. Details of hurdles should be agreed with shareholders in advance.	We will be pragmatic in considering performance hurdles, based on the nature and circumstances of the company.
MINIMUM SHAREHOLDING REQUIREMENTS	Executive directors should hold sufficient shares to align with shareholder interests.	

RESOLUTION	Policy Guideline	Comment
Variable voting rights		
SHARES ISSUED WITH DIFFERENT VOTING RIGHTS	Vote against the creation of share classes with more (or fewer) voting rights than economic rights.	We will be pragmatic in considering new issuance of existing classes, based on the nature and circumstances of the company.

Audit		
COMMITTEE COMPOSITION (APPOINTED BY SHAREHOLDERS RATHER THAN THE BOARD)	Audit committees must consist of at least three members all of whom must be independent non-executive directors (according to King).	Members should be individually elected. Engage Board Chairman before voting against a member's nomination.
MEMBERSHIP OF BOARD CHAIRMAN	Approve pragmatically for small Boards, or if Chairman has proven expertise.	Board Chairman may become over-dominant.
AUDIT FEES	Authorise payment if fees have been reasonable. (Audit committee should establish reasonableness).	Escalate to CGU if query reasonableness against peer companies, or previous fees.
MIX	Non audit fees should not be more than 25% of total fees paid to auditor/s.	We will be pragmatic in considering the nature of the work done.
RE-APPOINTMENT/ ROTATION OF AUDITORS	Re-appoint subject to satisfactory performance. The audit partner should rotate after 5 years.	Query directors on their policy. Escalate to CGU if have concerns.

Approval of Integrated report		
INTEGRATED REPORTS	SIM's approach to sustainability is contained in separate documents. Approve if disclosure is sufficient and material enough to make informed investment decisions. Vote against if audit is qualified.	Engage directors on an ongoing basis to improve disclosure. Give examples from other companies. Escalate to CGU if have concerns.

Political donations		
MAKING OF POLITICAL DONATIONS	Decline.	We do not consider it to be an advisable company practice.

SIM'S ESCALATIONS POLICY

1. Proxy voting

SIM voting specialists vote on resolutions according to the SIM proxy voting guidelines, which do not permit abstention.

- **Escalation of resolutions**

At their own discretion, specialists may escalate resolutions for consideration by the Head of equity research, or Chairman of the Corporate Governance Unit (CGU).

If necessary due to importance or lack of precedence, resolutions may be escalated further to the full CGU.

- **Escalation of incentive scheme resolutions**

SIM specialists and analysts should escalate resolutions proposing new incentive schemes to the Chairman of the CGU for consideration in terms of the SIM approach to incentive and retention schemes.

- **Escalation of corporate actions, including B-B BEE transactions**

Analysts vote on resolutions proposing corporate actions. They should escalate such resolutions to the Head of equity research, or his nominee should they require assistance.

In instances where SIM is approached on a confidential basis prior to any proxy voting requirement, the Head of equity research, or his nominee, will represent SIM clients' interests.

Receipt of inside information will be disclosed by affidavit to SI Compliance by all recipients.

- **Communication**

Should we decline a resolution at a shareholder meeting, we will communicate by email to the company secretary, and store the email on SIMportal.

We will be transparent to clients on our governance policy and implementation. We will advise clients of all resolutions declined on their behalf and the reasons therefor in their quarterly documents.

Some governance issues will reach the public domain, and the media may request SIM's view. Analysts should escalate our response to a designated SIM spokesman (currently Gerhard Cruywagen, Patrice Rassou, or Andrew Kingston). If we have not fully formed our view, we should preferably advise the press that the matter is under consideration. In the case of B-B BEE issues, the

SIM MD will be the spokesman, once she has been briefed on our view and any associated valuation issues by the CIO.

2. Engagements

The aim of engaging with Boards is to better understand their point of view, and to try to persuade them to act in a way which benefits our clients, or does not prejudice them.

Engagements will be initiated by writing to the Board Chairperson. SIM will be represented in ensuing engagements by the Head of equity research and Chairman of the CGU, and possibly the analyst concerned, who will draw on SI legal and Company secretarial resources for guidance, as required.

Engagements will be conducted on a confidential basis. We will advise clients and will only publicise an engagement issue should that further the interest of clients.

3. Collaborations

Principle 3 of CRISA recommends a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

Where collusion, leading to the making of a mandatory offer, is not an issue, we will collaborate with other shareholder representatives in expressing our viewpoint to Boards. We prefer to do this 'after the fact', e.g. after voting proxies, to reduce the risk of being perceived as acting in concert.

We may also participate in consultations regarding regulations and laws which will affect corporate governance. The appropriate forum to do this is via ASISA.

<u>The SA PRI network has published guidelines for collaborations, as outlined in *Appendix 1*</u>. We should ensure that such collaborations comply with regulations on concerted action, including the requirement to use a TRP 84 form to disclose to the Takeover Regulation Panel and investee company. <u>Legal guidance from SI's legal advisors</u>, that parties act in concert only when the aim of their plan is to enter into or propose an "affected transaction" or an "offer", is attached in *Appendix 2*. <u>We will only collaborate after taking advice from SI's legal advisors.</u>

4. Legal action

As a final resort, we will pursue a legal route to resolve issues with Boards. This would signal failure of any previous communication, escalation or dispute resolution methods.

Originated: December 2010 | **Approved**: November 2012, by SIM's Board
Updated: August 2012, September 2016

Appendix 1 Extract from SA PRI network guidance on collaborations

Participate in Networks and information platforms

South Africa has a number of committees, interest groups and networks that meet from time to time to discuss Responsible Investment issues and the governance of underlying investee companies. These include:

- PRI South Africa Network Engagement Working Group
- The ASISA Responsible Investment committee
- The CRISA committee
- Informal meetings of asset owner and asset manager individuals to discuss ESG concerns relating to investee companies

Purpose of these meetings includes:

- Developing and sharing an awareness of the PRI
- Defining Responsible Investment
- Encouraging PRI membership
- Building understanding and awareness of Responsible Investment
- Understanding South African regulation affecting investor collaboration
- Responsible Investment and retirement fund reform
- Relevance of Responsible Investment in South Africa
- Environmental, Social and Governance (ESG) issues in South Africa
- Implementing the UN-backed PRI principles
- Encouraging academic research on Responsible Investment
- Participating in the development of policy, regulation and standard setting (e.g. promoting and protecting shareholder rights)
- Discussing ESG disclosure of investee companies
- Discussing investee company shareholder resolutions
- Discussing and developing an engagement plan
- Discussing shareholder initiatives and engagement proposals
- Developing possible shareholder resolutions

It was considered important to establish whether the Companies Act of 2008 and the Companies Regulations 2011, restricted or required specific disclosure when investors participated in the above activities.

Pursuing the collaborative engagement process

Preliminary guidance was obtained from the Securities Regulation Panel (SRP) as to whether the following actions will be classified as 'acting in concert' and when and what market disclosure is required. It is important to note that beneficial interest includes the right to acquire, vote and dispose of shares. The new Companies Act and Companies Regulations therefore include shares managed under a partially discretionary mandate for purposes of the 35% mandatory offer requirement.

The Companies Act 2008 and the Companies Regulations 2011 became effective from 1 May 2011. The Regulations include Chapter 5 – *Fundamental Transactions and Takeover Regulation.* This chapter incorporates the 'acting in concert' regulation that was developed by the TRP. We have made some changes to the examples below as result of our discussions with the Executive Director of the TRP after the publication of the Regulations.

Examples

These examples should merely be regarded as guidelines and not a ruling of the Executive Director

1. *Two or more shareholders meet to discuss their ESG concerns of investee companies*
2. *They agree that action is required to improve ESG practices or disclosure.*

   a) *The action will be developed and implemented independently by the individual shareholders [N]*

   b) *A joint strategic plan will be developed to improve ESG disclosure and practices. (See 3 & 4)*

3. *The shareholders develop a joint strategic plan (see chart in Annexure 1)*
4. *The shareholders implement the plan*

   a) Two or more shareholders with less than 35% in aggregate of investee voting securities develop the strategic plan and take action. (No disposal or acquisition of voting securities) [☑].
      - <u>Consequence</u> – Acting in concert if they jointly develop a strategy but no mandatory offer is triggered. Disclosures by all shareholders on form TRP 84 are required.

   b) Two or more shareholders individually holding less than 35%, but in aggregate holding more than 35% of investee voting securities, develop the strategic plan and take action. (No disposal or acquisition of voting securities) [☑]
      - <u>Consequence</u> – Acting in concert, disclosure by each on form TRP 84. No mandatory offer is triggered.

   c) Two or more shareholders with less than 35% in aggregate of investee voting securities develop the strategic plan and take action. (Voting securities disposed of or acquired, joint holding of voting securities remains below 35%) [☑] Note 1

- Consequence – Acting in concert, disclosure by each on form TRP 84. No mandatory offer is triggered.

d) Two or more shareholders with less than 35% in aggregate of investee voting securities develop the strategic plan and take action (Voting securities acquired, joint holding moves above 35%) [☑] * Note 2
   - Consequence – Acting in concert, disclosure by each on form TRP 84. **Mandatory offer is triggered**, jointly and severally by all shareholders.

e) Two or more shareholders individually holding less than 35%, but in aggregate holding more than 35% of investee voting securities develop the strategic plan and take action (Shares acquired) [☑]* Note 3
   - Consequence – Acting in concert, disclosure by each on form TRP 84. No mandatory offer triggered, however, **if subsequent to coming into concert any additional voting security is acquired a mandatory offer is triggered.**

f) Two or more shareholders, already in concert, individually holding less than 35%, but holding more than 35% in aggregate of investee voting securities, develop the strategic plan and take action (Shares disposed of which results in holding moving below 35%) [☑]
   - Consequence – No mandatory offer triggered. Note 3

g) A shareholder, already holding more than 35% of investee voting securities, develops a strategic plan to take action with a shareholder holding less than 35% of investee voting securities (Voting securities acquired).
   - Consequence – Acting in concert, disclosure by each on form TRP 84. **No mandatory offer triggered unless shareholder with less than 35% acquires voting securities which reach 35%.**

☑ = Acting in concert with required disclosure

N = Not acting in concert, no disclosure required

Disclosure will be on a prescribed form to the TRP & Investee Company (form TRP 84)

* Mandatory offer to all shareholders if 1 additional share is acquired after 35% level

NOTES

Parties coming together should take note of the consequences of acting in concert.

Note 1

If at the time they come together they hold in aggregate less than 35% of the voting securities of a particular company and the agreement allows for the acquisition of additional voting securities. After coming together one or more shareholders acquire additional voting securities taking the aggregate holding over 35%.

[If the intention was always to acquire shares that will take the aggregate over 35%,]

The guidance from the executive director of the SRP is that they would be considered to have come into concert for purposes of entering into an affected transaction. All disclosures would be required and a mandatory offer would be triggered as soon as the 35% aggregate has been attained.

Note that if less than 35% of shares are held in aggregate and parties agree that although they may purchase shares the holding will not at any stage go through 35%, concert party requirements may apply but no mandatory offer would be triggered. The disclosure of the concert party arrangement is required on form TRP 84.

Note 2

It will be deemed that the strategic plan is to acquire shares that will take the aggregate holding through 35%, the parties will be considered to be coming into concert for the purposes of entering into an affected transaction and a mandatory offer will be triggered.

Note 3

If shareholders who individually hold less than 35% of investee voting securities come together and in aggregate hold greater than 35%, even if only one additional share is acquired, an offer will be triggered to all shareholders. If instead of any acquisition of shares, one or more shareholders sell shares, whether the aggregate stays above or falls below 35%, no mandatory offer is triggered.

If shareholders sell down below 35% and then again acquire shares while still in concert with the aggregate going over 35%, a mandatory offer is triggered.

Note 4[1]

Making representations to the board by shareholders together, on its own would not lead to a concert party relationship;

A discussion between the shareholders about matters to be raised with the board on its own does not lead to a concert party relationship

NOTE[2]: THE FACT THAT PERSONS ACT IN CONCERT ON ITS OWN DOES NOT RESULT IN THE TRIGGER OF A MANDATORY OFFER EVEN IF AT THE TIME THEY COME INTO CONCERT EACH HOLDS LESS THAN 35% AND AS A RESULT OF COMING INTO CONCERT THEY CAN VOTE 35% OR MORE, UNLESS ANY OF THEM ACQUIRES ADDITIONAL VOTING SECURITIES.

Annexure 1 | The collaborative engagement process

Identify
- Research
- ESG Analysis
- Voting
- News flow
- Crises
- Client concerns
- Industry associations
- Discussion groups

ESG Analysis
- Analysis of public information
- Pin point concerns
- Identify engagement goals
- Develop possible remedies

Develop Plan
- Discuss remedies
- Develop a plan
- Revise plan
- Communicate final plan

Engage
- Begin dialogue with the company
- Explain concerns
- Discuss remedies
- xsReview plan
- Revise plan
- Encourage change
- Brief participating shareholders

Monitor & report
- Pursue plan
- Monitor progress
- Report on goal progress
- Adapt plan
- Realize goals
- Brief press where appropriate

A collaborative engagement plan can include:
- Dialogue with investee company executives
- Dialogue with Chairman, Board members including chairs of committees
- Presentation to the full board
- Aligning proxy voting with the plan
- Attending AGMs and asking questions
- Maintaining relationship with the press and briefing where appropriate to move the engagement forward
- Briefing shareholders
- Developing and presenting shareholder resolutions to an AGM
- Calling an extraordinary general meeting

Appendix 2 Advice on "acting in concert" from SI's internal lawyers

What the law actually provides

1. The concept "act in concert" is created in the Companies Act, 2008, for the purposes of the Companies Act. There is no general definition in law of "act in concert", nor does the concept "act in concert" have any relevance for the purposes of the South African law other than the specific provisions in the Companies Act and the regulations issued under the Companies Act.

2. The concept "act in concert" is defined in section 117 of the Companies Act:

   'Act in concert' *means any action pursuant to an agreement between or among two or more persons, in terms of which any of them co-operate for the purpose of entering into or proposing an affected transaction or offer;*

3. This definition clearly sets out the elements that must all be present before a person will "act in concert":

   a. There must be an act by the person concerned.

   b. The act must be performed pursuant to an agreement between the person concerned and at least one other person, (note that it is not required that any of the parties must be shareholders of the company concerned).

   c. The purpose of the agreement is to govern the relationship between the parties in relation to a specific aim.

   d. The parties' aim is to enter into an "affected transaction" (see 4 below) or to propose an "offer" (see 5 below).

4. An "affected transaction" is defined in section 117 of the Companies Act:

   'Affected transaction' *means -*

   (i) a transaction or series of transactions amounting to the disposal of all or the greater part of the assets or undertaking of a regulated company, as contemplated in section 112, subject to section 118 (3);

   (ii) an amalgamation or merger, as contemplated in section 113, if it involves at least one regulated company, subject to section 118 (3);

   (iii) a scheme of arrangement between a regulated company and its shareholders, as contemplated in section 114, subject to section 118 (3);

   (iv) the acquisition of, or announced intention to acquire, a beneficial interest in any voting

securities of a regulated company to the extent and in the circumstances contemplated in section 122 (1);

(v) *the announced intention to acquire a beneficial interest in the remaining voting securities of a regulated company not already held by a person or persons acting in concert;*

(vi) *a mandatory offer contemplated in section 123; or*

(vii) *a compulsory acquisition contemplated in section 124.*

5. An "offer" is defined in section 117 of the Companies Act:

   ***'offer'**, when used as a noun, means a proposal of any sort, including a partial offer, which, if accepted, would result in an affected transaction other than such a transaction that is exempted in terms of section 118 (3);*

6. If any one of the elements set out in 3 above is absent, no person will "act in concert".

Application

7. I have set out the typical scenario where the issue about "acting in concert" is raised in the first paragraph of this email. If I apply the elements set out in 3 above in this scenario, I reach the following conclusions:

   a. Merely discussing anything about a company with a fellow shareholder is not "acting in concert", as a discussion is not an agreement.

   b. If the discussion leads to an agreement in terms of which the parties agree to act in a certain manner, the mere fact that a party entered into the agreement is not "acting in concert", as entering into an agreement is not an act pursuant to the agreement.

   c. If an agreement does exist but a party does not act as agreed (because the party does not act at all or the party acts in a different way than agreed upon), the party does not "act in concert" because (i) the party did not act or (ii) the party's act is not pursuant to the agreement.

   d. If the aim of the parties in entering into the agreement is not to enter into an "affected transaction" or to propose an "offer", then a person acting pursuant to the agreement does not "act in concert".

8. It follows from 7d above that SIM, once it has decided to enter into an agreement with a fellow shareholder, must consider the list of what constitutes an “affected transaction” to determine if there is a risk that SIM will “act in concert” if it acts pursuant to the agreement. This requires that SIM must be clear on what the aim of the agreement with the other person is.

9. I do not have a comprehensive list of matters relating to corporate governance that SIM would want to discuss with a fellow shareholder. But none of the “usual suspects”, being composition of the board, executive remuneration, dilution of shareholders through the issue of new shares placed under the control of directors, are an “affected transaction”.

What this advice does not cover

10. I do not deal with the broader question whether SIM will contravene the provisions of any act, agreement, or the common law by entering into a discussion with, or reaching an agreement with, a fellow shareholder.

11. In particular, SIM needs to be aware of the risk that the matter that SIM wants to discuss with a fellow shareholder may result in SIM passing “inside information” to the other person. The law governing the disclosure of “inside information” by an “insider” is completely separate from the law governing parties “acting in concert”. The one has nothing to do with the other.

Pieter Joubert | Head of Legal: Sanlam Investments | June 2012

SIM'S APPROACH TO INCENTIVE SCHEMES

We support three levels of remuneration of employees:

- Base pay (salary and benefits)
- Annual performance bonus
- Long term incentivisation.

Incentive schemes form part of variable compensation and are used to attract, retain and motivate staff. Their purpose is to foster sustainable performance, or value creation, over the long term, which is aligned with the Company's strategy and which enhances shareholder value. Their main characteristic is that they conditionally promise to deliver value over a future vesting period once performance hurdles are exceeded.

This document aims to set out our interpretation of what current best practice is for some of the associated details of incentive schemes. It is intended to serve as a template for assessing scheme proposals from listed companies. Relevant extracts from the King 3 report are also shown in Appendix 1. We should ensure that schemes are approved in advance and not retrospectively.

1. Scheme features

These are some features to look out for:

- Is the Remco. correctly constituted, in terms of experience, independence, attendance, service and then age of members?
- Does the scheme fall within approved remuneration policy? It should not overlap with remuneration from other sources or schemes, lest there be duplication.
- Is the proposed mix of base, short and long term incentive pay reasonable for executive directors, in terms of quantum and risk-taking?
- Are schemes for incentivisation and retention either separate, or separately identifiable? We support limited use of retention schemes only.
- Are scheme details fully disclosed and approved in advance?
- Are cumulative scheme issues limited to 10% of shares in issue in total, and 0.5% per participant, <u>irrespective of whether shares are bought in or not</u>?
- Is the life of the scheme less than 10 years? We want there to be scope for companies to refresh schemes.
- Are awards made consistently and regularly (preferably annually) to motivate value creation over rolling periods at acceptable risk?

- What are the scaled performance hurdles of the scheme? 100% of awards should be subject to hurdles which have been approved by shareholders in advance. Hurdles should be ‘fair and achievable’, yet challenging (as per King 3).
- There should be a performance and a vesting period. Does vesting take place after a performance period of at least 3 years? Settlement may be in cash or shares over the vesting period, once the performance hurdles have been exceeded. The source of shares, whether from buybacks or new issues, should be disclosed.
- Is there scope for companies to modify vesting terms if the outcome is not warranted or excessive, for example by deferral or clawback, or for malus?

2. Participation and limits

Participants should be limited to those individuals who most influence performance – both executives and key employees. Independent Non-executive directors must not participate, nor should employees of other companies.

We will support schemes that are limited to 10% of shares currently in issue which have a 10 year maximum lifespan. If there is more than one scheme, the overall limit should be 10%. The limit for schemes with a shorter life should be pro rata to this, so a five year scheme should be limited to 5% of shares in issue. Exceptions may be granted to facilitate BEE.

The need for limits, especially in the largest companies, is shown in *Appendix 3.* No one individual should be awarded more than 0.5% of shares in issue. (As a measure of concentration, a suggestion is that the top 5 participants should not be awarded more than 15% of a scheme).

The proposed mix of base, short and long term incentive pay should be reasonable for executive directors, in terms of quantum and risk-taking. A suggested mix for CEOs is equal thirds in each, so that bonuses and incentive awards individually match base pay.

3. Awards

Awards may be made in deferred cash payments, shares – either ordinary, forfeitable, restricted or even phantom - or equity derivatives (options).

If shares are used in settlement, the source, whether new issue or buybacks, should be disclosed – we favour buybacks.

Awards should be made frequently. Our preference is that they be made annually in order to incentivise rolling performance, and to smooth receipts (i.e. reduce risk of receiving awards advantageously or disadvantageously). One way to achieve regularity and consistency (King 3 terms) is to determine the issuance or “flow” rate in advance. So, for a scheme with an 8 year award period, the flow rate could be set at 1,25% of shares in issue (10%/8) per annum. An alternative would be to establish flow rates in terms of award values.

Further conditions of awards should be:

- They should be made at current market value (or 30 day VWAP), not at a premium or discount, nor backdated;
- The valuation methodology and present/face value should be disclosed in advance, together with anticipated/ fair value;
- They should not be geared. (For example, 1 option = 1 share);
- no backdating;
- no repricing or regranting or softening of hurdles. (Further awards should address retention concerns);
- hedging should not be allowed until awards have vested.

Best practice is increasingly to grant shareholder rights to voting and dividends with awards, where appropriate, or pay accumulated dividends on vesting.

4. Performance hurdles

100% of awards should be subject to performance hurdles. The intention is to link pay with company (and individual) performance. We pay particular attention to the use of hurdles in long term incentive schemes, in the belief that that is where shareholders can add the most value.

Required features of performance hurdles are:
- Performance should be verifiable. Ideally, public information should be used. For this reason, we do not support the use of budgeted figures to construct hurdles;
- They should be relevant (controllable),
- ‘fair and achievable’ and
- long term in nature (King 3);
- They need to be exceeded for vesting to occur;
- Best practice is that they should not be reset or retested.

Vesting should best take place according to a <u>sliding scale</u>. In this context, King 3 recommends hurdles for ‘threshold’, target or ‘expected’ and ‘stretch’ performance. By placing achievement at risk, full vesting should be improbable. Best practice is that hurdles should be agreed with shareholders in advance and not be reset or retested.

Companies currently adopt <u>3 paradigms for performance hurdles</u>: earnings growth, operational returns and shareholder returns. (The last two are sometimes mixed by using change in NAV plus dividends). They may be expressed in relative or absolute terms. Best practice is to use them in combination.

We will support a combination of 2 hurdles – one an absolute measure, and the other relative – because as capital allocators, we require that companies create value for shareholders over rolling time periods in absolute terms first, and then in relative terms. We suggest that these hurdles be weighted in favour of the absolute criterion.

We recommend that the first hurdle measure operational returns in excess of cost of capital, plus a margin. Appropriate metrics are ROA for banks, ROEV for Insurers, and ROIC for other companies. For companies that do not meet this “economic profit” requirement, a recommended approach is to measure improvement in returns (or average increase for cyclical companies), to retain the important link between earnings growth and capex, or between the income statement and balance sheet. Likewise, measurement of the sub-drivers of value may be more appropriate for specific business models, for example in companies exposed to commodity prices.

The second could be expressed in terms of total return to shareholders (TSR) relative to a benchmark of named peer companies (peers in terms of size or complexity and industry segment). The TSR hurdle mainly measures share price performance, which is beyond managements’ control, but when used on a peer relative basis, it does have the advantage of rewarding outperformance only.

We do not support the popular earnings growth hurdle, as there is no association with the productive use of the capital required to generate it. Alternatively, provided returns are positive, earnings retention alone will produce growth. So could encashment in the short term.

ESG specific hurdles are likely to be introduced should responsible investing continue to gain momentum. They may be expressed in the form of overriding conditions or “gatekeepers”, or of balanced scorecards.

5. Variations: awards without performance hurdles

There are several creative applications of awards which are not conditional on achieving performance hurdles. Amongst them are:

- **Deferred bonuses**

Where bonuses in any one year exceed their cap, the excess may be deferred into, and retained in, shares without further performance hurdles for a holding period. We prefer that hurdles succeed rather than precede share awards, and that they be measured over a performance period of at least 3 years.

- **Matching shares**

To reward staff shareholdings, companies may match shares held for a specified period with further grants. We prefer that awards are not geared in this way.

- **Allowances**

Shares awarded in the form of allowances do not have performance hurdles, but rather extended holding periods. In response to regulations that cap the ratio of variable to base pay, allowances may be deemed not to constitute variable pay. Because they do not have hurdles, we regard them as being for retention, and so will favour limited use only.

- **Retention Schemes**

We also support limited use of retention schemes only, as they do not have performance hurdles, being solely time based.

6. Scheme life (performance and vesting periods)

The life of a scheme would ideally be 8-10 years, divided into 2 discrete periods, consisting of a performance period of at least 3 years (this could vary with the operating cycle of the company), and a vesting, or exercise, period for the balance. A depiction is shown in *Appendix 2*. There could also be provision for a holding period thereafter.

Awards vest during the vesting period, once the scaled performance hurdles have been exceeded. Vesting should take place on a reasonable sliding scale in order to smooth the relationship between benefit and risk, for both participants and shareholders.

Where awards are irregular, vesting should take place over a reasonable phasing period, normally 3 years, in order to smooth the relationship between benefit and risk, for both participants and shareholders. Where awards are made annually, we favour ‘cliff’ vesting after the performance period, for simplicity.

We will vote against evergreen schemes that reserve a specified percentage of shares for award into perpetuity. Such awards may maximise transfer of shareholder value and minimize the frequency that companies seek shareholder consent.

7. Grounds for adjustment

If an employee resigns or is dismissed before awards vest, there should be no settlement. Disability and retrenchment are grounds to negotiate settlement.

A change to a company’s capital is grounds for adjustment to awards, which should be made to preserve the value of awards, rather than restore the proportion of equity awarded.

In the case of change of control, we favour a rollover of the scheme into a new scheme rather than accelerated settlement (which could influence the judgement of scheme participants). If not possible, the scheme should be settled pro rata to performance and time, in cash.

There should be no scope for companies to change the terms of schemes without shareholder approval, other than to modify vesting terms if the outcome is not warranted, for example by deferral or clawback, or for malus.

"Clawback" is the recovery of sums already paid, for example for fraud or unjustified windfalls, while "malus" is forfeiture of a short or long term incentive award before it is paid, on grounds of deficient performance. (Source: The Investment Association, UK). The circumstances of each should be disclosed to shareholders.

There should also be limits on the extent of individual participation on vesting. A cap to consider is a multiple, say 3x, of current cost to company of participants. Amounts receivable in excess of this in any one year should be deferred.

8. Disclosure and review

The remuneration committee should ensure that a scheme is 'justified, correctly valued and suitably disclosed' (King 3). Disclosure of long term incentivisation should form part of reporting on the value of total remuneration awarded to, and realised by, executive directors per financial year, resulting from implementation of remuneration policy.
Realised remuneration should be compared with the targeted mix of base pay and short and long term incentive payments, as well as proportionally against the stretch targets for short and long term incentivisation.

There should be an independent check that hurdles were met and that the scheme did not overlap with other forms of remuneration. The scheme should also be checked for compliance with risk guidelines. Ideally, we propose that company auditors should sign off incentive schemes at the end of their life.

9. Tax issues

The scheme should be tax efficient. For example, companies should ensure that charges to the income statement qualify for a tax deduction, especially where payments are made in cash. The scheme rules should also provide for the company to recover all taxes (e.g. PAYE), levies and other costs payable by employees as a result of vested benefits.

Appendix 1 Extracts from King 3 Report

The relevant provisions of the King 3 Report relating to remuneration of directors and senior executives, particularly the provisions relating to long term incentive schemes, are reproduced in this Appendix for ease of reference.

Remuneration of directors and senior executives

Principle 2.25: Companies should remunerate directors and executives fairly and responsibly.

147. Companies should adopt remuneration policies and practices for executives that create value for the company over the long term. The

policies and practices should be aligned with the company's strategy, should be reviewed regularly and should be linked to the executive's contribution to company performance.

148. Factors affecting company performance, but outside the control of senior executives, and to which they have made no contribution should only be considered to a limited extent. At lower levels in the company the effect of outside factors should be ignored.

149. The board should promote a culture that supports enterprise and innovation with appropriate short-term and long-term performance-related rewards that are fair and achievable.

....

151. In proposing the remuneration policy, the remuneration committee should ensure that the mix of fixed and variable pay, in cash, shares and other elements, meets the company's needs and strategic objectives. Incentives should be based on targets that are stretching, verifiable and relevant. The remuneration committee should satisfy itself as to the accuracy of recorded performance measures that govern vesting of incentives. Risk-based monitoring of bonus pools and long-term incentives should be exercised to ensure that remuneration policies do not encourage behaviour contrary to the company's risk management strategy.

152. The remuneration committee should scrutinise all benefits including pensions, benefits in kind and other financial arrangements to ensure they are justified, correctly valued and suitably disclosed.

....

Base pay and bonuses

157. In setting remuneration policies, the remuneration committee should ensure that remuneration levels reflect the contribution of senior executives and executive directors and should be rigorous-in selecting an appropriate comparative group when comparing remuneration levels. There should be a balance between the fixed components and the bonus component of total remuneration of executives so as to allow for a fully flexible bonus scheme.

158. Yearly bonuses should clearly relate to performance against yearly objectives consistent with long-term value for shareholders. Individual and corporate performance targets, both financial and sustainability related, should be tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

159. Depending on the nature of the business it may be appropriate to have overriding conditions for the award of bonuses (often termed 'gatekeepers'), such as achieving safety goals or minimum levels of financial performance. Targets for threshold, expected and stretch targets for performance should be robustly set and monitored and the main performance parameters should be disclosed.

160. Incentives may be given for both long-term and short-term goals. However, the performance drivers should not be duplicated, and a balance should be struck with the need to reward success over the long term. Multiple performance measures should be used to avoid manipulation of results or poor business decisions. Targets may be linked to bonuses.

….

Share-based and other long-term incentive schemes

166. The remuneration committee should regularly review incentive schemes to ensure their continued contribution to shareholder value. The committee should guard against unjustified windfalls and inappropriate gains from the operation of share-based incentives.

167. Participation in share incentive schemes should be restricted to employees and executive directors, and should have appropriate limits for individual participation, which should be disclosed.

168. All share-based incentives, including options and restricted or conditional shares, whether settled in cash or in shares, should align the interests of executives with those of shareholders and should link reward to performance over the longer term. Vesting of rights should therefore be based on performance conditions measured over a period appropriate to the strategic objectives of the company.

169. Highly leveraged incentive schemes should be used with care as they may result in excessive cost or risk for the company.

170. The regular and consistent granting of share incentive awards and options, generally yearly, is desirable as it reduces the risk of unanticipated outcomes that arise out of share price volatility and cyclical factors, allows the adoption of a single performance measurement period and lessens the possibility and impact of 'underwater' options or excessive windfall gains.

171. The price at which shares are issued under a scheme should not be less than the mid-market price or volume weighted average price (or similar formula) immediately preceding the grant of the shares under the scheme. There should be no re-pricing or surrender and re-grant of awards on 'underwater' share options.

172. The rules of a scheme should provide that share or option awards should not be granted within a closed period. No backdating of awards should be allowed.

173. Options or other conditional share awards are normally granted for the year in question and in expectation of service over a performance measurement period of not less than three years. Accordingly, shares and options should not vest or be exercisable within three years from the date of grant. In addition, options should not be exercisable more than 10 years

from the date of grant. For new schemes it is best practice to restrict the exercise period to less than seven years.

174. To align shareholders' and executives' interests, vesting of share incentive awards should be conditional on achieving performance conditions. Such performance measures and the reasons for selecting them should be fully disclosed. They should be linked to factors enhancing shareholder value, and require strong levels of overall corporate performance, measured against an appropriately defined peer group or other relevant benchmark where yearly awards are made. If performance conditions for share-based incentive schemes are not met, they should not be re-tested in subsequent periods. Where performance measures are based on a comparative group of companies, there should be disclosure of the names of the companies chosen.

175. Vesting of awards should be made on a sliding scale to avoid an 'all or nothing' vesting profile and should start at a level that is not significant compared with base pay. Awards with high potential value should be linked to commensurately high levels of performance. Full vesting should require significant value creation.

176. When companies face the risk of losing key employees, remuneration policies to retain them may be adopted. Incentive schemes to encourage retention should be established separately, or should be clearly distinguished, from those relating to reward performance and should be disclosed in the annual remuneration report voted on by shareholders.

177. There should be no automatic waiving of performance conditions in any of these situations:

177.1 a change of control;
177.2 a 'roll over' of options and awards for a capital reconstruction; and
177.3 early termination of the participant's employment.

Depending on the circumstances, it may be appropriate to pro rate the benefit both on time and performance, or to create new instruments to preserve the value of the outstanding awards. In the case of change of control, it may be appropriate to allow pro rata early vesting, to the extent that performance conditions have been satisfied, and the time for vesting periods has been served.

178. Where individuals leave voluntarily before the end of the service period, or are dismissed for good cause, any unvested share-based awards should lapse.

179. In other cases of the end of employment, where the remuneration committee decides that early vesting is appropriate, the extent of vesting should depend on performance criteria over the period to date as well as the time served of vesting periods."

(Extracted for reference from King 3 Report by JSE Pty Ltd, September 2009)

Appendix 2 Suggested life of a scheme

Ideal incentive scheme life											
Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Award period (start)	award 1 12.5%	award 2 12.5%	award 3 12.5%	award 4 12.5%	award 5 12.5%	award 6 12.5%	award 7 12.5%	award 8 12.5%			
Performance period (end)		award 1									
			award 2								
				award 3							
					award 4						
						award 5					
							award 6				
								award 7			
									award 8		
Vesting period (start)				award 1	award 2	award 3	award 4	award 5	award 6	award 7	award 8

For a scheme with a 10 year life, there is scope to make 8 equal annual awards. The 8 awards in this example vest from the start of year 3, to the start of year 11. However, if vesting is phased over 3 years, or a 2 year holding period is introduced, there is reduced scope for awards. To ensure vesting continuity, new schemes should commence awards before old ones run off.

Appendix 3 Incentive scheme award limits

Here we show the magnitude of a 10% scheme limit and 0,5% individual limit at current (September 2016) market capitalisations. So, for a company with a market capitalisation of R40b such as Mr Price, the total value available for incentivisation over 10 years would be R4b, and the maximum per individual R200m (or R25m pa in 8 equal awards). For a larger company such as FirstRand, which has a market cap. of R265b, the maximum available per individual rises to R1,3b (or R166m pa in 8 equal awards).

These amounts compare with the average pay for the CEO of a JSE Top40 company of R17.3m in base pay, and R13.3m in long term incentivisation (Avior data, September 2016).

For the amount that actually vests, we suggest a cap at 3 times base cost to company for each employee – amounts above this receivable in any one year should be deferred.

Incentive scheme awards - the need to limit participation			Sep-16	Value limits (Rm)	
				Overall	Individual
Share (TOP 40)	Spot (cps)	Shares in issue	Mkt Cap. JSE (Rm)	10%	0.5% for 1
BRITISH AM TOBACCO	89979	2 026 973 157	1 823 850	182 385	9 119
SAB	84097	1 681 251 240	1 413 882	141 388	7 069
NASPERS -N	244900	438 186 121	1 073 118	107 312	5 366
COMPAGNIE RICHEMONT	8845	5 220 000 000	461 709	46 171	2 309
BHPBILL	18640	2 112 071 796	393 690	39 369	1 968
STEIN NV	8118	3 921 551 000	318 352	31 835	1 592
FIRSTRAND	4725	5 609 488 000	265 048	26 505	1 325
SASOL	37718	651 389 516	245 691	24 569	1 228
VODACOM	15389	1 487 954 000	228 981	22 898	1 145
STANBANK	14115	1 618 632 999	228 470	22 847	1 142
MTN GROUP	11802	1 844 049 073	217 635	21 763	1 088
ANGLO	15278	1 405 467 840	214 727	21 473	1 074
OLD MUTUAL PLC	3665	4 929 502 000	180 666	18 067	903
ASPEN	33550	456 403 819	153 123	15 312	766
SANLAM	6328	2 166 471 000	137 094	13 709	685
MEDCLIN	17997	737 243 810	132 682	13 268	663
B-AFRICA	14631	847 750 679	124 034	12 403	620
REMGRO	25056	481 106 370	120 546	12 055	603
MONDIPLC	29930	367 240 805	109 915	10 992	550
AMPLATS	39594	269 681 886	106 778	10 678	534
SHOPRITE	18309	574 453 281	105 177	10 518	526
NEDBANK	21173	495 865 721	104 990	10 499	525
BIDCORP	28158	335 404 212	94 443	9 444	472
ANGLOGOLD ASHANTI	22889	408 160 473	93 424	9 342	467
WOOLIES	8300	1 046 970 752	86 899	8 690	434
RMB HOLDINGS	6010	1 411 703 218	84 843	8 484	424
DISCOVERY	11618	647 427 946	75 218	7 522	376
TIGERBRANDS	39106	192 069 868	75 111	7 511	376
INTUPLC	5510	1 344 737 319	74 095	7 410	370
GROWTHPOINT	2510	2 786 093 000	69 931	6 993	350
CAPITEC	60486	115 626 991	69 938	6 994	350
RMI HOLDINGS	4351	1 485 688 346	64 642	6 464	323
REINET INV SCA	3128	1 959 412 860	61 290	6 129	306
BRAIT	11504	521 012 174	59 937	5 994	300
INVESTEC PLC	8900	656 424 689	58 422	5 842	292
REDEFINE	1093	5 062 307 000	55 331	5 533	277
NETCARE LIMITED	3311	1 461 509 779	48 391	4 839	242
CAPCO	5397	845 464 435	45 630	4 563	228
MR PRICE	15833	255 195 880	40 405	4 041	202
MONDILTD	29775	118 312 975	35 228	3 523	176
FORTRESS B	3163	1 014 226 190	32 080	3 208	160
INVESTEC LTD	8793	298 173 370	26 218	2 622	131
FORTRESS A	1561	1 119 708 334	17 479	1 748	87

SIM'S APPROACH TO RETENTION SCHEMES

Where companies set up schemes for retention rather than incentivisation, King recommends that they be established in a separate scheme, or be distinguishable from the incentive scheme. "When companies face the risk of losing employees, remuneration policies to retain them may be adopted" (King, as quoted in *Appendix 1*, below). They may also be useful to attract new staff by buying them out of existing arrangements.

From a shareholder point of view, retention schemes differ from incentive schemes in that there are no performance hurdles, and therefore no performance period. Nevertheless, since retention is time based, vesting should still take place after a retention period of at least 3 years.

An alternative form is a share purchase scheme, whose main characteristic is that the company provides loans to specified employees, which are used to buy shares in the company. The shares are held to secure the loans. The loans (reduced by dividends accrued) are repayable over the life of the scheme, and as they are repaid, shares are released.

The life of a share purchase scheme should also be limited to 10 years, with vesting commencing after year 3, for retention.

The benefits to employees in buying shares this way are:

- the price is fixed,
- and may be discounted (SIM will not support this);
- loan to value, being 100%, is higher than otherwise obtainable;
- lower interest cost. (We will not support a cost lower than the company's weighted cost of debt).

Another, implied, benefit is that because share purchase schemes no longer serve their intended purpose when they are underwater, the temptation may be to release employees from their liability by assuming it in the company.

For this reason, and because there are no performance hurdles, we will support such retention schemes if used in moderation only, by limiting the number of participants. A suggested limit is 1% of issued shares, other than to facilitate B-B BEE. New shares may be issued, but we would prefer that they be bought in the market. Retention payments may also be made in cash.
Schemes should be approved by shareholders in advance. Details of awards made should be disclosed in the remuneration report.

Appendix 4 Extract from King 3 Report

176. When companies face the risk of losing key employees, remuneration policies to retain them may be adopted. Incentive schemes to encourage retention should be established separately, or should be clearly distinguished, from those relating to reward performance and should be disclosed in the annual remuneration report voted on by shareholders.

Originated: November 2009 | **Updated:** August 2012, September 2016

SIM'S POLICY ON ENVIRONMENTAL SUSTAINABILITY

1. Context

In this document, we frame company sustainability in the context of its impact on the natural environment, both organic and inorganic. Environmental Policy addresses natural capital and its relationships with the other capitals, in the specific context of companies and their supply chains.

CRISA describes sustainability as "the ability of a company to conduct its operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs. Sustainability includes managing the impact that the business has on the life of the community, the broader economy, and the natural environment in which it operates. It also includes the converse, namely considering the effect that the society, the economy and the environment have on business strategy. Sustainability includes economic and ESG considerations."

Sustainability means meeting human needs and wants in a systematic, forward-looking and holistic manner, while staying within nature's limits. (The Sustainability Report).

SAICA identifies 13 environmental issues which are critical:

1. Climate change (from global warming)
2. Agriculture and food production (climate change and greenhouse gas)
3. Disease (from heat and floods)
4. Water (droughts, pollution)
5. Wetlands (which filter water and slow water flow)
6. Land degradation, deforestation and desertification (resulting in lower yields, poverty and starvation)
7. Ozone depletion
8. Acid rain (acidity kills vegetation and organisms)
9. Oceans (climate change, over-exploitation)
10. Population growth (resource depletion)
11. Poverty (survival trumps environment)
12. Biodiversity (and conservation of ecosystems)
13. Forests

2. Benefits

What is the argument for including sustainability concerns in the investment process? The GEPF, a thought-leader on practical responsible investing, argues that ESG issues impact portfolio values over the long term. Through researching and understanding these issues more completely, and by influencing companies to manage ESG issues more actively, investment managers reduce risk to investment asset valuations (particular risks that GEPF notes are short-termism and passing on externalities), as well as potentially improve long-term risk-adjusted returns, to meet beneficiary liabilities better. (GEPF brochure on Interpreting ESG issues in investments).

From the company perspective, sustainability means "delivery of long-term value in financial, social, environmental and ethical terms". (UN Global Compact: Blueprint for Corporate Sustainability Leadership). In addition to increasing their chances of survival, companies are likely to benefit from a lower cost of capital if they act in a responsible manner.

Host communities derive income and consumption benefits from environmental sustainability.

3. Requirements of companies

Companies are responsible for the responsible and efficient use of their resources. The sustainability perspective holds that to drive business by shareholder value alone is largely unsustainable. (White paper: a new Mindset for Corporate Sustainability). Profits should be harmonized with people and the planet (hence ESG).

Companies account for their activities through their disclosures. One purpose of sustainability reporting is to help us see if the ways we live and do business are making our environment and therefore our future more or less secure. (The Sustainability report).

It follows that a company's sustainability report should be integrated with financial reporting. King requires that the integrated report should contextualize financial results with ESG issues, by reporting on material positive and negative impacts of the company's operations on the economic, social and environmental wellbeing of the community. To achieve this, material sustainability issues should be linked to strategy and accountability. A useful source of guidance on ESG reporting is the Sustainable Stock Exchanges Initiative: **http://www.sseinitiative.org/.**

What sustainability aspects should be reported on in integrated reports? Amongst others, the Global Reporting Initiative (GRI) specializes in disclosure of ESG performance, by supplying a framework of principles and performance indicators that companies can use to measure and report on their ESG performance. GRI's performance indicators are relevant to investors because they communicate performance results by ESG category. They are standardized to facilitate global comparison, as well as track company progress.

The latest version of their Sustainability Reporting Guidelines is G4: https://www.globalreporting.org/Pages/default.aspx

Only the most material indicators should be reported on. It is interesting that as early as in 2008, environmental management issues dominated sustainability reporting by Top40 listed companies in SA. (Carrots and Sticks - Promoting Transparency and Sustainability, p83)).

The likely benefits of integrated reporting are that better measurement of a company's quality, performance, value and impact will lead to better decision-making (on the basis of what is measured is managed). Companies will thereby improve their strategies, build trust and identify risks earlier (SAICA on King 3).

4. The investor response

The objective of responsible ownership is to include all financially-material ESG issues systematically in investment analysis and activities, by focusing on how companies manage ESG issues strategically over and for the long term (GEPF). The UN PRI's third principle requires investors to seek appropriate disclosure on ESG issues by the entities in which they invest.

Actions the PRI suggests are to:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative);
- Ask for ESG issues to be integrated within annual financial reports;
- Ask for information from companies regarding adoption of/ adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact);
- Support shareholder initiatives and resolutions promoting ESG disclosure.

The GEPF recommends that investment managers use this information to develop economy-wide knowledge of investment-related ESG risks and opportunities, as well as specific knowledge of how companies manage them – whether to enhance or undermine portfolio value.

To achieve this, a useful concept in the environmental context is that of 'externalities', which are costs borne not directly by companies as they discharge emissions and wastes into air, water and onto land, but indirectly by society. Externalities are currently contingent liabilities to companies, but they are increasingly becoming internalised through regulations, taxes or the courts.

Environmental economist such as Trucost estimate the environmental damage costs of companies by multiplying their quantities of emissions and wastes by notional prices based on estimates or tax levels. The results are a measure of their exposure to environmental impacts as well as financial risk.

By subtracting their environmental damage costs from their economic profits, one obtains a broader measure of the value added by companies. The results show that conventional financial metrics significantly underestimate the full risks to companies.

Ominously, diversification may not provide full relief, as environmental exposures are likely to be correlated through common dependence on electricity sourced from fossil fuels. (The True Picture, published in Environmental Finance, July/ August 2006).

This broader measure is useful to investors as it quantifies the extent of company environmental exposures. Aggregation of company exposures at portfolio level enables investors to compare the 'environmental footprint' of portfolios to their benchmarks.

The usefulness of this type of information resonates with the preamble to regulation 28 of the Pension Funds Act, which states that a fiduciary duty of a retirement fund is to "support the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk-adjusted returns… Prudential investing should give appropriate consideration to any factor which may materially affect the sustainable long term performance of a fund's assets, including factors of an ESG character."

It should be noted that adoption of the sustainability perspective of responsible investing marks a change in the objective of investment management from maximizing returns, to earning adequate risk-adjusted returns.

5. SIM's required actions

To promote environmental sustainability, we aim to:

- Encourage companies to report on their material environmental issues
- Monitor how companies manage their environmental challenges over the life cycle of their products and services. We will encourage them to strive for continual improvements;
- Require that companies adhere to laws, guidelines and codes of good practice applicable to them in the countries in which they operate
- Encourage Sanlam itself to follow the requirements and standards that we require of other companies, and employ sufficient resources to meet the environmental challenge, including outsourcing if required;
- Research investment-related environmental risks and opportunities;
- Integrate sustainability considerations into our investment process;
- Vote all proxies where clients have investments;
- In terms of our escalation policy, we may engage with companies on their material environmental issues and collaborate with other investors in engaging companies or lobbying regulators;
- Disclose our environmental sustainability efforts to clients;
- Promote industry best practice, including management of conflicts of Interests, should they occur.

Originated: August 2011 | **Approved:** May 2012 - by SIM's Board | **Updated:** August 2012, September 2016

SIM'S SOCIAL POLICY

1. Global context

In this document, we frame sustainability in the social context of wealth creation through work. Social Policy addresses human and intellectual capital, as well as the relationships between companies and their stakeholders. The African Union notes that human capital is a key factor of production for promoting economic growth (Draft Social Policy framework for Africa, 2002, p12). They state that "the competitive advantage of the economy resides not in commodities, nor in low labour wages, but rather in expertise, spirit of enterprise and innovative research" (p13).

Work relationships are located within broader visions for society. Social development may be measured by the income, education and life expectancy of populations. In this regard, the **Sustainable Development Goals** (UNDP) serves as a roadmap to end poverty and hunger by 2030:

1. No poverty
2. Zero hunger
3. Good health and wellbeing
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnerships to achieve the goals.

The UN Global Compact translates this broad vision into the core values or Principles that corporates should uphold in the areas of Human rights, Labour, Environment and countering Corruption. Seven of the ten Principles deal with social policy. In order to promote social cohesion, companies should:

1. Support and respect the protection of internationally proclaimed human rights;
2. Make sure that they are not complicit in human rights abuses;
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. Uphold the elimination of all forms of forced and compulsory labour;
5. Uphold the effective abolition of child labour;
6. Uphold the elimination of discrimination in respect of employment and Occupation; ….

10. Work against corruption in all its forms, including extortion and bribery

Unethical practices such as fraud, corruption and 'tender-preneurship' undermine the vision of inclusive growth. The **OECD anti-corruption instruments** (2003) propose a framework through which governments can encourage companies to promote integrity. The OECD recommends that companies "undertake measures to make sure that their internal organisation and culture help prevent corruption", by having, amongst others, standards of conduct, internal control systems, and procedures for whistleblowing (p17).

2. SA context

South Africa has a heterogeneous society with a history of unequal opportunities and a legacy of discrepancies in education, skills, employment and income. The economy may be classified as being "middle income", and has the benefit of being endowed with natural resources (other than oil and rainfall), but is also characterised by poverty, high unemployment and income inequality, and poor health and literacy. As the economy diversifies, rising capital intensity contributes further to loss of employment opportunities.

Following inclusive democratic elections in 1994, the polity was restructured to target social inclusion (to overcome several forms of exclusion, including by class, race, gender, age, disability and illness), shared growth and redress of historical discrepancies. The aim is to establish a society based on democratic values, social justice and fundamental human rights.

Several means have been used to implement this, including the Constitution, RDP, Vision 2025 and the Medium term Strategic Framework and Programme for Action. A Human Rights Commission (HRC) was established in 1995 to "promote respect for, observance and protection of human rights for everyone"; and a range of social grants are paid as protection from vulnerability and poverty by the Social Security Agency.

The Medium term Strategic Framework serves to guide Government's programme from 2014 to 2019. It sets out SA's current economic growth and social development priorities as being:

- Radical economic transformation, rapid economic growth and job creation
- Rural development, land and agrarian reform and food security
- Ensuring access to adequate human settlements and quality basic services

- Improving the quality of and expanding access to education and training
- Ensuring quality health care and social security for all citizens
- Fighting corruption and crime
- Contributing to a better Africa and a better world
- Social cohesion and nation building.

This societal vision is led by a legal framework. SA labour legislation is described as amongst the most progressive in the world, in that it leads, rather than follows, social practice. The aim of at least eight Acts is to settle disputes and ensure fairness at work, as well as occupational health and safety. Nine institutions have been created to nurture industrial relations, including Nedlac, the CCMA, and the National Productivity Institute. Responsibility for employment policy and administration lies with the Department of Labour.

The Bill of Rights (Chapter 2 of the Constitution), aims to promote the values of human dignity, equality and freedom that underlie open and democratic societies. Everyone is equal before the law, but to promote the achievement of equality, measures designed to protect or advance people or groups disadvantaged by unfair discrimination may be taken (Point 9 of Chapter 2).

The affirmative action concept is advanced further by the **Employment Equity Act (1998)**. Its goal is to achieve a diverse workplace, broadly representative of the population, by eliminating unfair discrimination (addressed in Chapter 2), and implementing affirmative action measures (Chapter 3) to redress the disadvantages in employment, occupation and income experienced by *"*designated groups" (Africans, Coloureds, Indians, women and people with disabilities), through their equitable representation in all occupational categories and levels in the workforce.

Section 20 of Chapter 3 introduces the employment equity plan. Listed companies must "prepare and implement an employment equity plan which will achieve reasonable progress towards employment equity in that employer's workforce". The duration of the plan is 1 to 5 years. The steps required are to consult with employees, analyse requirements (profile the workforce, compare designated group numbers with demographics and other companies), prepare a plan, share the plan and its target dates with all stakeholders, and report on progress to the Director General of the Department of Labour. A summary of the report is required to be published in the Integrated Report.

In addition, companies are required to progressively reduce disproportionate income differentials, and must submit a prescribed statement to the **Employment Conditions Commission** on remuneration per occupation and level.

The Broad-Based Black Economic Empowerment Act (2003, and amended in 2013), the Department of Trade and Industry's (dti's) **Broad-Based Black Economic Strategy Document** and the **Codes of Good Practice** provide the legal framework for the implementation and measurement of B-B BEE in SA (Empowerdex). The Act advocates B-B BEE as a strategy for transforming the economy by enabling the meaningful participation of designated groups, and introduces Codes of Good Practice and Sector transformation Charters.

The Codes provide a standardised means of measuring the five elements of B-B BEE across different economic sectors, using scorecards. Scorecard points earned result in recognition of a B-B BEE status level. Verification by an accredited agency or audit firm became mandatory in 2010.

Codes may be developed in two phases, by using the dti's generic sector codes initially, and then replacing them with specific Sector Codes (or Charters, depending on which section of the Act they are gazetted under). Sector Codes/ Charters are statements of intent, drawn up and agreed on by the major stakeholders in an industry. They are binding on all companies in that Industry.

Changes to the Codes of Good Practice were implemented in 2015. This is the latest Generic Scorecard:

Points	Element
25	Ownership
15	Management control
20	Skills development
40	Enterprise and Supplier development
5	Socio-economic development
= 105	

B-B BEE is spread through the interlinkages between companies in the supply chain.

The resources sector is singled out for further attention due to its strategic significance. The **Minerals and Petroleum Resources Development Act (2002)** provides a regulatory framework for "equitable access to, and sustainable development of, the nation's resources". It mandates the Department of Mineral Resources (DMR) to promote and regulate the Minerals and Mining Sector for transformation, growth and development and "ensure that all South Africans derive sustainable benefit from the country's mineral wealth". The vision of the DMR is to be a leader in the transformation of SA through economic growth and sustainable development by 2025, by which time the sector is expected to be competitive, sustainable and meaningfully transformed.

The business model of the DMR is to grant separate conditional rights (or licences) for prospecting and mining to approved companies, and then monitor compliance with the conditions. In this way, the twin goals of B-B BEE and employment equity, discussed above, may be met. The key leverage is that the natural resources underlying the licences are separately owned by the State.

Investors seeking information on social matters might find the right to access information in terms of the **Promotion of Access to Information Act (2010)** useful.

3. Benefits

What is the argument for including sustainability concerns in the investment process? The GEPF, SA's thought-leader on practical responsible investing, argue that ESG issues impact portfolio values over the long term. Through researching and understanding these issues more completely, and by influencing companies to manage ESG issues more actively, investment managers reduce risk to investment asset valuations, as well as potentially improve long-term risk-adjusted returns, to meet beneficiary liabilities better. (GEPF brochure on Interpreting ESG issues in investments).

In terms of wealth creation through work, companies act responsibly by providing decent work, as a means for achieving equitable, inclusive and sustainable social development.

'Decent work' is work that is productive and delivers:

- fair income,
- security in the workplace,
- social protection for families,
- prospects for personal development and social integration,
- freedom for employees to express concerns, organise and participate in decisions that affect their lives, and
- equality of opportunity and treatment of women and men.

(As developed by the International Labour Organisation (ILO) to sum up people's aspirations in their working lives).

4. Requirements of companies

Integrating sustainability and social transformation in a strategic and coherent manner will give rise to greater opportunities, efficiencies, and benefits, for both the company and society (King 3 Code, p.13).

King's social focus is on stakeholders, which it recommends be treated inclusively and fairly by Boards. "Inclusivity of stakeholders is essential to achieve sustainability and the legitimate interests and expectations of stakeholders must be taken into account in decision-making and strategy. Fairness is vital because social injustice is unsustainable" (p.13). The Board should strive to achieve the appropriate balance between the various stakeholder groupings in the best interests of the company (Principle 8.3).

It further recommends that Boards collaborate with stakeholders to promote ethical conduct and good corporate citizenship. Not only should Boards ensure that companies comply with applicable laws and consider adherence to non-binding rules, codes and standards (Principle 6.1), but their leadership should be based on an ethical foundation. The company's ethics performance should be assessed, monitored, reported and disclosed. In response, companies such as Sanlam have adopted a Code of ethical conduct.

What should be reported on in the social sustainability portion of integrated reports? The Global Reporting Initiative (GRI-G4) advocates that companies identify their key social performance aspects, and disclose their strategies and procedures to achieve these goals. They provide several standardised indicators to measure companies' commitment to social aspects as well as impacts on the social systems in which they operate. These are grouped into the areas of:

- Labour practices (application of universal standards for decent work and labour practices to employment, industrial relations, occupational health and safety, training and education, diversity and equal opportunities);
- Human rights (application of these rights in company operations);
- Society (impacts on host communities, anti-competitive behaviour, attitude to corruption, influence on public policy-making), and
- Product responsibility (customer health and safety, marketing communication, labelling, privacy).

To implement their social responsibilities, the Companies Act requires Boards of listed companies to appoint a **Social and Ethics Committee** (SEC), whose function is to monitor and report on the company's achievement of social and economic goals, draw social matters to the attention of the Board, and report through its nominee to shareholders at the AGM.

In monitoring the company's activities, the SEC should consider compliance with legal requirements or codes of best practice relating to:

- **Social and economic development,** including the company's standing in terms of the goals and purposes of:
  - the 10 principles set out in the United Nations Global Compact
  - the OECD recommendations regarding corruption
  - the Employment Equity Act
  - the Broad-Based Black Economic Empowerment Act.

- **Good corporate citizenship,** including the company's:
  - promotion of equality, prevention of unfair discrimination, and
  - reduction of corruption
  - contribution to development of the communities in which its
  - activities are conducted or within which its products or services
  - are marketed
  - record of sponsorship, donations and charitable giving.

- **The environment, health and public safety**, including the impact of the company's activities and of its products or services.

- **Consumer relationships**, including the company's advertising, public relations and compliance with consumer protection laws; and

- **Labour and employment,** including the company's:
  - standing in terms of the International Labour Organization
  - Protocol on decent work and working conditions
  - employment relationships and its contribution to the education
  - development of its employees.

For resource companies, corporate citizenship is not only a moral responsibility, but also a condition of the licence to mine.

5. The investor response

The objective of responsible ownership is to include all financially-material ESG issues systematically in investment analysis and activities, by focusing on how companies manage ESG issues strategically over and for the long term (GEPF). The UN PRI's third principle requires investors to seek appropriate disclosure on ESG issues by the entities in which they invest.

Actions the PRI suggests are to:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative);
- Ask for ESG issues to be integrated within annual financial reports,
- Ask for information from companies regarding adoption of/ adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact), and
- Support shareholder initiatives and resolutions promoting ESG disclosure.

The UN principles of responsible investment have been adopted in SA in the form of CRISA. Likewise CRISA requires that the 'push' to "apply and explain" of King is met with the 'accountability pull' of investment managers.

Investment guidelines in SA have been updated to take these principles into account. The preamble to **regulation 28 of the Pension Funds Act** states that a fiduciary duty of a fund is to "support the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk-adjusted returns… Prudential investing should give appropriate consideration to any factor which may materially affect the sustainable long term performance of a fund's assets, including factors of an ESG character."

It should be noted that adoption of the sustainability perspective of responsible investing marks a change in the objective of investment management from maximizing returns, to earning adequate risk-adjusted returns.

6. SIM's required actions

To promote social sustainability, we aim to:

- Encourage companies to report on their material social issues;
- Monitor how companies manage their social challenges. We will encourage them to strive for continual improvement;
- Require that companies adhere to laws, guidelines and codes of good practice applicable to them in the countries in which they operate. In particular, we will not condone employment of child labour;
- Encourage Sanlam itself to follow the requirements and standards that we require of other companies, and employ sufficient resources to meet the social challenge, including outsourcing if required;
- Research investment-related social risks and opportunities;
- Integrate sustainability considerations into our investment process;
- Vote all proxies where clients have investments;
- In terms of our escalation policy, we may engage companies on their material social issues and collaborate with other investors in engaging companies or lobbying regulators;
- Disclose our social sustainability efforts to clients;
- Promote industry best practice, including management of conflicts of interests.

Given that social policy is led by legislation, we should also be prepared to contribute to debate ahead of legislation that may affect the sustainability of investment returns or other client interests. The appropriate forum to do this is via ASISA. Our approach will be guided by the principle that shareholders are "first amongst equals" when it comes to weighing stakeholder interests.

<u>Furthermore, SIM recognises that the investment process itself is a social act</u>, subject to individual behavioural biases as well as social forces such as swings in sentiment (which, as author Malcolm Gladwell has pointed out, are subject to tipping points) and "groupthink". Accordingly, SIM has adopted a logically-defensible investment philosophy (pragmatic value), and the investment process has incorporated structural elements such as separating equity research from portfolio construction, splitting responsibility for model portfolios between fund managers, and decision-making by voting rather than consensus.

Originated: November 2012 | **Approved**: June 2015, by SIM's Board | **Updated**: September 2016

SIM'S CONFLICT OF INTEREST MANAGEMENT POLICY

(with specific reference to the FAIS General Code of Conduct)

Principle 4 of CRISA states that an institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur. While the policy outlined below addresses conflicts of interests primarily at the level of retail clients, the approach is of interest to institutional clients as well.

Where investment managers are owned by asset owning companies, their third-party institutional clients will be particularly alert to ensure that their interests are not subordinated to those of the parent company. Their main protection in this regard is the fiduciary obligations of their investment manager. Another is that common responsible investment policy forms part of their investment mandate. We will indeed be proactive in managing conflicts when they are likely to occur.

1. Definitions

"<u>Conflict of interest"</u> means any situation in which a person has an actual or potential interest that may, in rendering a financial service to a client:

(i) influence the objective performance of their obligations towards such client;

(ii) prevent a person from rendering an unbiased and fair financial service to that client, or from acting in the interests of that client, including but not limited to –

(a) a financial interest;

(b) an ownership interest;

(c) any relationship with a third party.

[Other definitions removed for brevity.]

2. Introduction

Sanlam Investment Management (Pty) Limited (SIM) is committed to ensuring that all business is conducted in accordance with the standards of good corporate governance.

Accordingly, the manner in which SIM conducts business is based on integrity and ethical and equitable behaviour.

This policy aims to emphasise the interests of all stakeholders by minimising and managing all actual, potential or perceived conflicts of interest.

3. Objective

Various regulatory measures have been developed, including the FAIS General Code of Conduct and the Financial Institutions (Protection of Funds) Act (No. 28 of 2001) which is directed towards, *inter alia:*

(i) the duties of persons dealing with the funds of clients and financial institutions;

(ii) observing the utmost good faith and exercising proper care and diligence with regard to the funds of such clients and institutions; and

(iii) ensuring a consistent manner of dealing with conflicts of interest and the disclosure thereof.

One of the consequences of implementing this legislation is that consumers will be exposed to fewer conflicts of interest and where such conflicts have been identified, (but could not be avoided) these would be effectively mitigated (managed), and adequate disclosure would have been made to all impacted parties.

The objective of the SIM Conflict of Interest Management (COI) Policy is to provide a framework within which to address areas where conflicts of interest may arise. It aims to establish broad principles and guidance, and it prescribes processes that are essential to ensuring compliance with the Code of Ethical Conduct applicable to SIM as well as other regulatory measures (e.g. the FAIS Act).

In conjunction with the Code of Ethical Conduct, this policy aims to promote transparency and fairness in the interest of consumers, employees, providers and SIM.

4. Policy Statement

Whilst the Group COI policy sets the high level standards for Sanlam, SIM has formulated and implemented detailed measures to proactively ensure compliance with these standards, having due regard for the specific business environment within which SIM operates.

<u>This policy is related to and must be read with the Code of Ethical Conduct, the Sanlam Group Financial Crime Combating Policy (SGFCCP) and the SIM Gratifications Policy, which is aligned with the Sanlam Group Policy on the Giving and Receipt of Gratifications.</u>

This policy applies to all employees and associates as defined.

This policy has been approved by the SIM Board of Directors.

5. Managing The Risk Of Conflicts Of Interest Developing

Once a conflict of interest has been identified, it needs to be appropriately and adequately managed.

5.1 Identifying Conflicts of Interest

5.1.1 No person (including SIM) may avoid, limit or circumvent, or attempt to avoid, limit or circumvent compliance with the SIM COI Management policy via an associate or an arrangement involving an associate.

5.1.2 SIM and its employees may only receive or offer the following financial interest from or to a third party. The financial interest includes but is not limited to –

(i) Commission authorised in terms of the Long-term Insurance Act (No. 52 of 1998), the Short-term Insurance Act (No. 53 of 1998) or the Medical Schemes Act (No. 131 of 1998).

(ii) Commission is strictly monetary amounts paid to a provider, designated as such and determined on a basis specified prior to payment.

(iii) Fees authorised in terms of the Long-term Insurance Act, the Short-term Insurance Act or the Medical Schemes Act if those fees are reasonably commensurate to a service being rendered;

(iv) Fees for the rendering of a financial service in respect of which commission or fees referred to in paragraph (i) or (ii) above is not paid, if those fees –

a) are specifically agreed to by a client in writing; and

b) may be stopped at the discretion of the client.

(v) Fees or remuneration for the rendering of a service to a third party, which fees or remuneration are reasonably commensurate to the service being rendered;

(vi) Subject to other legislation, an immaterial financial interest;

(vii) A financial interest not referred to in paragraphs (i) to (v) above, for which a consideration, fair value or remuneration that is reasonably commensurate to the value of the financial interest, is paid by SIM or its representatives at the time of receipt thereof.

(viii) Services that are not essential in enabling the provider to do business with SIM, but which offers the provider value in terms of enhancing or supplementing the provider's interaction with clients may be provided if there is clear proof of benefiting the client and it does not create a conflict of interest.

(ix) Services that do not form part of those described in (vii) or (viii) above may be made available to a provider at a fair market value.

5.1.3 SIM shall only provide bona fide training to providers on:

(i) Products or legal matters relating to those products;

(ii) General financial and industry information;

(iii) Specialised technological systems of a third party necessary for the rendering of a financial service;

(iv) SIM may provide reasonable costs directly related to the training provided, such as venue costs, speaker fees and meals. The reasonable costs associated with providing meals and refreshments should not be regarded as part of immaterial financial interests, and need not be recorded.

5.1.4 SIM shall not offer any financial interest to its representatives for:

(i) Giving preference to the quantity of business secured to the exclusion of the quality of the service rendered to clients; or

(ii) Giving preference to a specific product supplier, where a representative may recommend more than one product supplier to a client; or

(iii) Giving preference to a specific product of a product supplier, where a representative may recommend more than one product of that product supplier to a client.

5.2 Avoidance of Conflicts of Interest

Once an actual, potential or perceived conflict of interest has been identified, steps need to be taken to (wherever possible) avoid such a conflict. Should such avoidance not be possible, steps need to be taken to mitigate such an actual, potential or perceived conflict of interest and must be disclosed to all impacted parties.

5.3 Disclosure of Conflicts of Interest

5.3.1 SIM and its representatives must at the earliest reasonable opportunity disclose to a client any conflict of interest in respect of that client (and all other impacted parties) as well as to SIM Compliance.

5.3.2 The disclosure must be made in writing to the client and contain the following information which includes, but is not limited to:

(i) The measures taken, in accordance with this policy, to avoid or mitigate the conflict;

(ii) Any ownership interest or financial interest, other than an immaterial financial interest, that SIM or its employees may become eligible for;

(iii) The nature of any relationship or arrangement with a third party that gives rise to a conflict of interest. Sufficient detail in terms of the nature and extent of the relationship that creates or gives rise to the conflict should be disclosed to the client. Such disclosure should enable the client to make a reasonable assessment as to whether to proceed with a transaction;

(iv) Inform the client of the existence of a SIM COI Management policy and how this document may be accessed.

6. Processes And Procedures To Ensure Compliance

6.1 SIM, a licensed Financial Services Provider, and a business entity within the Sanlam Group, adopts this policy as the standard according to which it shall conduct its business in relation to the identification, avoidance and managing of conflicts of interest.

6.2 The Compliance Officer of SIM is responsible for managing (and updating) the SIM COI Management policy and will provide guidance to SIM management thereon (including the pre-clearance of business processes that potentially may cause a conflict of interest).

6.3 The onus is on the individuals subject to this policy to avoid creating conflicts of interest, and if this is unavoidable, to take effective steps to mitigate such a COI and ensure that proper disclosure is made in respect thereof;

6.4 All employees are responsible for identifying specific instances of conflict of interest and are required to notify SIM Compliance of any conflicts they become aware of. The SIM Compliance Officer will escalate the conflict of interest to the Chief Executive with a recommendation as to how the conflict should be managed (if it cannot be avoided);

6.5 Documented guidelines to management on providing "immaterial financial interest" have been compiled and are set out in Annexure C. These guidelines may be adapted from time-to-time to address specific business needs.

6.6 Documented processes to identify, avoid, mitigate and disclose conflicts of interest have been formulated.

(i) The framework to evaluate whether the providing of immaterial financial interests to providers create an actual or potential conflict of interest, and whether it is allowable in terms of the financial conditions imposed by regulation (R1000 per annum) is set out in Annexure C.

(ii) The central register for the recording of conflicts of interest, including the persons involved and the controls implemented has been created.

(iii) Measures will be implemented to ensure continuous monitoring of compliance to the SIM COI Management Policy.

(iv) Where monitoring has identified non-compliance with the SIM COI Management policy, the compliance risk should be assessed and escalated to the SIM Chief Executive with a recommendation as to the measures that will be taken to mitigate the compliance risk;

(v) Specific instances of conflict may require management intervention in addition to the documented controls already in place. This may include escalation to the SIM Chief Executive for a decision on how the conflict should be managed, for example, disclose to the client or decline to act.

6.7 Disciplinary procedures in SIM must provide for the review of any breach by employees and determine appropriate sanctions;

6.8 If employees are of the view that their own conduct has caused this policy to be breached, they should inform their line manager at the earliest available opportunity after they have become aware of the breach. Management should report this breach to SIM Compliance for further investigation;

6.9 When employees reasonably suspect that a co-worker or contractor is in breach of this policy, they should report it as soon as possible and in the strictest of confidence, to their line manager or SIM Compliance Office for further investigation.

7. Accessibility Of COI Management Policy

This policy document will be made available on the SIM intranet as well as the SIM landing page on the Sanlam website to ensure that it is easily accessible for inspection by employees, clients and third parties at all reasonable times. A hard copy of the policy will be provided upon request from SIM Compliance.

8. Training and Awareness

8.1 All SIM employees, contractors and temporary workers will annually receive appropriate training and awareness on this policy.

8.2 All newly recruited employees should attend a training session during their induction program;

8.3 SIM will co-ordinate and facilitate training interventions for SIM employees. Training and training materials provided to representatives must include a reference to, and information on the content and application of this policy.

9. Consequences Of Non-Compliance

9.1 The FAIS Act provides for penalties in the event that a person is found guilty of contravening the Act, or of non-compliance with the provisions of the Act. The penalty for non-compliance of specific provisions of the Act, is an amount of up to R1 million or a period of imprisonment for up to 10 years.

9.2 The Registrar of FAIS is empowered to refer instances of non-compliance to an Enforcement Committee that may impose administrative penalties on offenders.

9.3 The FAIS Act also gives the Registrar the powers to revoke the license of an FSP.

9.4 Employees' failure to provide disclosures will be seen as a transgression of the Code of Ethical Conduct and will be dealt with in terms of Sanlam's Disciplinary Code.

9.5 Certain transgressions of this policy may result in civil or criminal prosecution. Please refer to the SGFCCP in this regard.

9.6 All potential transgressions of this policy must be investigated fairly and objectively and be reported by the relevant compliance department to the relevant Chief Executive for a decision.

10. Revision

This policy document will be reviewed on an annual basis and submitted by the SIM Compliance Officer to the SIM Exco and the SIM Board for evaluation and adjustment, where necessary.

[Annexures removed for brevity.]

Annexure A: List of 3rd parties in which SIM holds an ownership interest.

Annexure B: List of 3rd parties that hold an ownership interest in SIM.

Annexure C: Guidelines to evaluate the providing of "immaterial financial" interests to providers.

Reviewed: April 2011, by SIM's Exco

THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (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 these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme

- Advocate ESG training for investment professionals

2. **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagements

3. **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

4. **We will promote acceptance and implementation of the Principles within the investment industry.**

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations

- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

5. We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

6. We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'[1] approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

[1]The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. We encourage other investors to adopt the Principles.

CRISA PRINCIPLES

(SIM is a service provider to institutional investors)

1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.

3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.

5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

UN PRI AND CRISA PRINCIPLES COMPARED

UN Principles for Responsible Investment (SIM is an investment manager)	**CRISA Principles** (SIM is a service provider to institutional investors)
1. We will incorporate ESG issues into investment analysis and decision-making processes.	1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices. 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.	2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
4. We will promote acceptance and implementation of the Principles within the investment industry. 5. We will work together to enhance our effectiveness in implementing the Principles.	3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
	4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.
6. We will each report on our activities and progress towards implementing the Principles.	5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

WORLD FEDERATION OF EXCHANGES ESG METRICS

The WFE recommends use of these 33 key performance indicators to measure ESG factors in companies: WFE ESG Recommendation Guidance and Metrics Oct 2015. Companies should use them to demonstrate progress in their strategies and the impacts of their practices.

ESG	Metric	Measurement annual, unless specified
Environmental	Direct & Indirect GhG Emissions*	Total amount, metric tons (Scope 1 & Scope 2)
Environmental	Carbon Intensity	Total Emissions relative to Revenue
Environmental	Direct & Indirect Energy Consumption*	Total amount, MWh (or GJ)
Environmental	Energy Intensity	Amount of Direct Energy Used per M3 of Space & per FTE
Environmental	Primary Energy Source	Cite Specific Energy Type in majority of direct usage
Environmental	Renewable Energy Intensity	Percentage of Direct Energy Consumption from Renewable Sources
Environmental	Water Management*	Total amount of water consumed, recycled, or reclaimed, M3
Environmental	Waste Management*	Total amount of waste generated, recycled, or reclaimed (by type and weight)
Environmental	Environmental policy	Does your company publish and follow an EP: Yes, No
Environmental	Environmental impacts	Did your company bear any legal/regulatory responsibility for an environmental impact: Yes, No
Social	CEO Pay Ratio	Ratio: CEO Salary & Bonus to Median FTE Salary
Social	Gender Pay Ratio	Ratio: Median Male Salary to Median Female Salary
Social	Employee Turnover Rate*	Pecentage of Change for FTEs, Contractors, Consultants
Social	Gender Diversity	Percentage of FTE, Contractor, and Consultant Positions Held by Women
Social	Temporary Worker Rate	Percentage of FT Positions Held by Part-Time/Contract/Temp Workers
Social	Non-Discrimination	Does your company publish and follow a non-discrimination policy: Yes, No
Social	Injury Rate*	Total number of injuries and fatalities relative to workforce
Social	Global Health	Does your company publish and follow a policy for occupational and global health issues: Yes, No
Social	Child & Forced Labour	Does your company prohibit the use of child or forced labour throughout the supply chain: Yes, No
Social	Human Rights policy	Does your company publish and a Human Rights policy or statement: Yes, No
Social	Human Rights violations	Number of grievances about human rights impacts filed, addressed, or resolved
Social	Board - Diversity	Percentage of Board Seats filled by Independents & Women
Governance	Board - Separation of Powers	Does your company allow the CEO to sit on the board, act as chairman, or lead committees?
Governance	Board - Confidential Voting	Are your board votes (individually or collectively) made public: Yes, No
Governance	Incentivized Pay	Are company executives formally incentivized to perform on ESG: Yes, No
Governance	Fair Labour Practices	Does your company (or supply chain) inhibit workers from organizing: Yes, No
Governance	Supplier Code (SC) of conduct	Does your company publish and follow a SC: Yes, No
Governance	Ethics Code (EC) of conduct	Does your company publish and follow an EC: Yes, No
Governance	Bribery/Anti-Corruption Code (BAC)	Does your company publish and follow an BAC: Yes, No
Governance	Tax Transparency	Does your company publish and follow a tax policy that is overseen by the Board: Yes, No
Other	Sustainability Report	Does your company publish a sustainability report: Yes, No
Other	Framework Disclosures	Does your company publish a GRI, CDP, SASB, IIRC, or UNGC disclosure?
Other	External Validation, Assurance	Are your company's ESG disclosures assured or validated by a third party: Yes, No
	* "First Generation" sustainability indicators	

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