



Live with confidence

# SUSTAINABLE INVESTMENT POLICY

Sanlam Investments

2022

Investments



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## Sanlam Investments Philosophy and Beliefs

Sanlam Investments believes that by evaluating environmental, social and governance (ESG) factors, asset managers can make better informed investment decisions and improve the sustainability of investment returns for clients – a responsibility conferred to us by regulation and governance drivers and mirrored by our beliefs. To guide our ESG efforts, we subscribe to the global United Nations-supported Principles of Responsible Investment (UNPRI) and have adopted the Code for Responsible Investing in South Africa (CRISA) principles. We also acknowledge the need for and importance of the United Nations Sustainable Development Goals (SDGs) and aspire to direct our investments towards these goals to achieve a measurable positive social or environmental outcome.

In line with Sanlam Investments' overarching view, we have adopted the following beliefs:

- As part of the fiduciary duty to our clients of pursuing sustainable investment returns, we have a responsibility to:
  - evaluate ESG factors to better understand the risks and opportunities in our investments and make better informed investment decisions; and
  - hold the investee entities that we invest in accountable, and encourage them to uphold and improve their standards across all ESG factors.
- The focus on sustainability has become commonplace in investment markets and will increasingly be a key driver of structural change in countries, companies and the markets in which we operate, as a result of the requirement for improvements in governance, environmental and positive social impacts.
- An investee entity's attention (or lack thereof) to ESG factors can impact the value, performance and reputation of the investments made on behalf of clients. Therefore, ESG considerations that are financially material must be included in our investment process and decision-making.
- As a large investor in local markets, we hold an above-average ability to influence investee entities and hence have a responsibility to include active engagement with investee entities as part of our ESG strategy.
- Our ESG efforts, including the engagement with investee entities, should focus on more than just ESG considerations that are financially material. We believe that our influence can generate socio-economic benefits in addition to sustainable and competitive financial returns.

## Scope and Purpose

This document outlines our organisational sustainable investment philosophy and overarching approach. Its application is across the business, providing guidance to our investment teams covering multiple asset classes and capabilities. In addition to this overarching approach, our intention is to develop capability specific frameworks and review them on an annual basis. At this stage we have the following capability frameworks in place and aim to expand these frameworks in time:

- Public Equity
- Fixed Income
- Indexation
- Private Equity
- Multi-asset; and
- Multi-manager funds.

This document has been approved by the Sustainable Investment Steering Committee (SISC) which has the oversight on matters relating to sustainable investment.



## Sustainable Investment Oversight

In 2021, Sanlam Investments established an oversight committee, the SISC, to drive our sustainable investment initiatives and monitor and evaluate the implementation progress of the agreed priorities. Key elements of the committee's mandate include the following:

- Drive the vision on sustainable investing and impact;
- Set the overarching sustainable investment approach, priorities and targets for Sanlam Investments;
- Establish and enhance sustainable investing related policies, guidelines and position statements; and
- Monitor and evaluate the implementation of agreed priorities, outcomes, targets, policies and impact measurements.

The SISC is a sub-committee of the Sanlam Investments Executive Committee, and via the Sanlam Investments Chief Executive, reports to the Sanlam Investment Holdings (Pty) Ltd board of directors.



# Sustainability Integration

## Sustainable investment strategies

Sanlam Investments' solution-specific capabilities adopt differentiated sustainable investment strategies which are appropriate for their respective investment objectives and clients' needs. There are four key types of strategies that are adopted, which can be described as follows:

**Table 1**

<b>Sustainable Investment strategy*</b>	<b>Description</b>
<b>Financial Integration</b>	This strategy involves the systematic inclusion and analysis of ESG criteria as part of the decision-making for a portfolio's investment process. This is based on the view that ESG factors can have a considerable impact on the security's future risk/return profile in the same way traditional financial factors can.
<b>Screening (Positive/ best-in-class or negative/norms-based screening)</b>	<b>Negative screening:</b> This approach excludes entire sectors or industries from the investable universe. Examples could include tobacco, alcoholic beverages, armaments, or gambling. In addition, negative screening could also be employed on a geographical level should investors feel that a political change is required (e.g. against oppressive or hostile regimes). <b>Norms-based screening:</b> This approach incorporates minimum standards of business practice based on international norms as benchmarks for investing (e.g. the International Labour Organisation or the UN Global Compact). <b>Positive/best-in-class screening:</b> This approach incorporates investing in sectors, entities or projects that are chosen for their positive ESG performance or contribution.
<b>Impact Investing</b>	This is a thematic strategy where funds target specific outcomes that are linked to sustainability problems or goals as well as a financial return. Examples could include sustainability challenges such as affordable housing, food scarcity, population health, and issues relating to water, energy or climate change.
<b>Active Ownership</b>	Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee entities. Active ownership can be applied differently in each asset class. For example, for listed equities it would include engagement and voting activities.



## Sustainable Investment strategies

**Table 1**

Asset class	ESG Integration techniques			Active ownership	
	Financial Integration	Impact/ Thematic	Exclusions	Engagement	Voting
Public Equity	✓			✓	✓
Fixed Income	✓			✓	
Private Equity		✓	✓	✓	
Private Debt		✓	✓	✓	
Indexation				✓	✓

Sanlam Investments' sustainability policy framework is constantly evolving and further detail regarding asset class-specific strategies will be made available through their respective operational frameworks. Sustainable investment strategies are mandate driven.

### Public Equity

The Equity sustainability framework primarily adopts a “financial integration” approach through the integration of financially material factors in the investment valuation process. This is done by leveraging off niche third-party research and our own internal research to develop a materiality framework on a sectoral basis. The issues are discussed on an investment analyst level and consequently integrated into valuation models and the broader investment process. ESG issues therefore impact our investment decision-making through the impact they have on valuation and the margin of safety required for the perceived ESG risk inherent in the investment. This will typically initiate an engagement dialogue with the company concerned.

Active ownership is a backbone of sustainability integration efforts as it allows us to address thematic and more qualitative matters such as remuneration practices, board strength and diversity, climate risks and opportunities, and other social matters.

### Fixed Income

The Fixed Income sustainability framework adopts a financial integration approach through the incorporation of financially material ESG factors in the overall investment process. Currently we leverage the research of third-party providers to identify material ESG factors.

Other techniques are also adopted for specific mandates such as thematic (e.g. job preservation and creation) and screening techniques.

Active ownership, particularly company engagement, is also utilised to address ESG issues with investee entities.

### Private Equity

The Private Equity business consists of assets that are managed purely with commercial investment objectives in mind, as well as a recently launched fund (“the SPE Mid Market Fund I”) that adopts an ESG and impact strategy to enhance portfolio company performance and contribute towards key national and international development impact objectives.



To drive ESG integration the fund uses a comprehensive ESG management system. The system seeks to fully integrate ESG considerations into each stage of the investment process (from deal origination, through pre-investment screening and due diligence, to post-investment monitoring and final exit). The Private Equity team adopts an extensive exclusion list for the fund that outlines the types of investments that it will not finance through the fund. The list of prohibited activities, which are based on ESG principles and may be updated from time to time, will be applied to future investments made by the Private Equity team beyond the current fund.

An Impact framework was established to guide the fund's intended path to delivering on its impact objectives and assessing its contribution to positive impact outcomes. The Impact framework is applied pre-investment to understand an investment's potential contribution to the fund's impact objectives and to support decision-making processes during the life of the investment in the pursuit of these objectives.

### Private Debt

The Private Debt business also consists of assets that are managed purely with commercial investment objectives in mind, as well as funds that adopt impact strategies to contribute towards key national and international development impact objectives:

Fund	Objectives
GenX Credit Opportunities Fund	Commercial fund
Sanlam Resilient Investment (SRI) Fund	Fund with broad impact mandate
Investors' Legacy SME Debt Fund	Fund with mandate focused on jobs

The Private Debt team adopts an exclusion list for these funds that outlines the types of investments that it will not finance through the funds. The list of prohibited activities, which are based on ESG principles and may be updated from time to time, will be applied to all of the above funds as well as any new investments.

The Private Debt team establishes an Impact framework to guide each impact fund's intended path to delivering on its impact objectives and assessing its contribution to positive impact outcomes. The Impact framework is applied pre-investment to understand an investment's potential contribution to the fund's impact objectives and to support decision-making processes during the life of the investment in the pursuit of these objectives.

### Indexation

The Indexation incorporation framework consists largely of active ownership to address material long-term systemic issues in the markets that we are invested in. We can however also incorporate a variety of ESG techniques within specific ESG-themed strategies or the design of our bespoke strategies.

As part of our active ownership ambition, we strive to increase our voting coverage for all material holdings where it is feasible to do so. We have adopted this policy as indexation funds can typically be very large, and it may in some cases be less practical or costly to vote on all investments made.

### Multi Asset

Our multi-asset portfolios primarily use our single asset class solutions in their portfolio construction. Additionally we, at times, include some bespoke asset selection and the use of



internal and external foreign unitised solutions. The sustainability frameworks of the multi-asset solutions focus on:

- Understanding, influencing and monitoring the ESG strategies of the unitised solutions we invest in.
- Engaging with all stakeholders, including underlying investments, clients, consultants and others, to consider/advance initiatives that would enhance the sustainability of investments, such as potential mandate revisions that will better define the ESG aspirations of clients and/or enable a higher degree of impact investing.
- Working with external service providers (such as Robeco and Bloomberg) to define additional ways to enhance the ESG impact of multi-asset solutions over and above the sum of the impact of the underlying solutions included in our portfolios.
- Contributing to the integrity and integration of ESG data used across asset classes and underlying solutions.
- Developing ways to report on ESG progress at a multi-asset level, in a way that enables meaningful interpretation and is relevant to our clients.

### **Multi Manager**

Sanlam investments' Multi-Manager business is a client-focused business that structures solutions in accordance with clients' objectives, requirements and mandates. We therefore recognise that our approach to ESG investing must be flexible and will change with respect to each client's differing requirements. That said, we categorise and acknowledge the various sustainable investment strategies as noted in table 1 .

However, in all cases, we will include ESG integration and corporate engagement and shareholder action in our approach. As such, our default and minimum ESG practice for any mandate is:

- ESG integration: the systematic and explicit inclusion of environmental, social and governance factors into financial analysis and decisions; and, where possible,
- Engagement (and shareholder action): the use of shareholder power to influence corporate behaviour, including direct engagement such as communicating with board members, filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

### **It is important to note that:**

- As a multi-manager, in almost all cases, we are not directly analysing underlying securities or directly making investment decisions on underlying securities ourselves, but rather selecting fund managers which carry out the former functions on our behalf; and
- The Sanlam Multi-Manager's portfolio construction process aims to achieve the required return outcome with the most appropriate risk. In terms of risk, which is usually concerned with volatility, drawdown risk or other such similar risk measures, we envisage including ESG risk as an added dimension of risk in the optimisation process, and would use ESG risk ratings as a risk input into the portfolio construction optimisation process.

### **Organisational level exclusions policy**

As South African investors we are faced with a limited investment universe and concentrated investment options per sector or sub-sector. Blanket exclusions from client portfolios would even further limit the opportunity set. It would also reduce our ability to exert influence through active ownership. Hence in our view it would not be in our clients' best interests to apply blanket sectoral or thematic exclusions at an organisational level – albeit this would be possible if mandated by clients or if it is part of the product design.

### **Building internal capacity**

Training and capacity building are integral to effectively embedding sustainability strategies, policies, commitments and management systems into the relevant capabilities. Training and capacity building will be specifically targeted at building a sustainability culture and creating awareness around such issues, as well as developing and enhancing key competencies to





support the effective implementation of sustainability policies, guidelines and systems developed, at a capability level.

## Alignment with Best Practice

In addition to national requirements, Sanlam Investments' approach is guided by current best practice with regards to sustainable investing and ESG matters. This includes, but is not limited to:

- The UNPRI, CRISA and UN SDGs as mentioned in section 1 of this report
- The International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (dated January 2012)
- The International Finance Corporation (IFC) Interpretation Note on Financial Intermediaries (dated November 2018)
- The King IV Report on Corporate Governance (dated November 2016); and
- The IFC Operating Principles for Impact Management.

These principles, frameworks and standards are considered and applied where relevant, or adapted to accommodate the realities and priorities of the local context we operate in, based on the strategy, capacity and priorities of the capability in question. Furthermore, the specific capabilities may invoke other international standards and/or guidelines as deemed appropriate.

Sanlam Investments recognises that the application of the UNPRI may better align investors with the broader objectives of society. Therefore, where consistent with Sanlam Investments' fiduciary responsibilities, Sanlam Investments commits to the following:

**Principle 1:** Incorporating ESG issues into investment analysis and decision-making processes.

**Principle 2:** Being active owners and incorporating ESG issues into ownership policies and practices.

**Principle 3:** Seeking appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** Promoting acceptance and implementation of the Principles within the investment industry.

**Principle 5:** Working together\* to enhance effectiveness in implementing the Principles.

**Principle 6:** Reporting on activities and progress towards implementing the Principles.

\*Working together may be defined as collectively addressing relevant emerging issues through collaborative initiatives or platforms with the PRI.

## Active Ownership

Sanlam Investments' stewardship activities are a fundamental part of its ESG incorporation approach and consist of engaging with investee entities on material ESG matters. This includes actively voting at the Annual General Meetings (AGMs) of companies that we invest in. It is our belief that active ownership is an essential activity that helps address systemic challenges and protects the value of its investments.

### Engagement approach

When engaging with investee entities, our purpose is to either seek additional understanding or, where necessary, seek change that will protect and enhance the value of the investments for which it is responsible. Sanlam Investments systematically tracks and records the progress of



engagements and takes both an active approach to engagement and responds to key issues relating to sustainability and governance matters that have a material impact on long-term financial performance. We commit to making both its proxy voting and engagement activity publicly available on its governance website.

Engagements are not restricted to listed equity and we will look to engage with bond and debt issuers as well as unlisted investment counterparties, and will communicate any specific concerns we may have in respect to ESG practices.

Sanlam Investments' engagement approach involves a combination of proactive and responsive engagements by creating a constructive dialogue with boards and management of investee entities. This may be conducted either directly or in collaboration with other investors. Through our partnership with Robeco, Sanlam Investments is able to scale engagement efforts and focus on strategic themes to seek change and improve practices through their engagement programs.

### **Monitoring and evaluation**

All engagements are carefully monitored and tracked with specific objectives in mind, to pursue targeted positive outcomes. Engagements may either be classified as a positive, neutral or negative outcome post the engagement process. The duration of engagements may differ, with proxy voting/AGM related engagements lasting for six months and deeper thematic and value-based engagements which can take up to three years.



### Escalation process

Where engagements do not lead to the targeted results, Sanlam Investments may cast votes against the board and management at AGMs. Escalations may also contribute to a decision to decrease or exit a holding in severe situations. In addition, we may elect to pursue a legal route to resolve issues with boards. This would signal failure of any previous communication, escalation or dispute resolution methods.

### Proxy voting

Sanlam Investments advocates Responsible Investment and are active owners. Sanlam Investments encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. A proxy voting guideline has been developed and designed to ensure that we vote proxies in the best interests of its clients and in a consistent manner.

These guidelines are based on the Companies Act of 2008, and the JSE Listings Requirements, which incorporate the recommendations made in the King Report on Corporate Governance for South Africa (King IV).

Sanlam Investments 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. Sanlam Investments considers resolutions in line with our proxy voting guidelines and only supports these resolutions if they are congruent with market practice and governance standards.

### Transparency and disclosure

Sanlam Investments will report to clients on the outcome of voting activities on their behalf. Because Sanlam Investments mostly votes by proxy, companies will be informed of reasons for declining resolutions on behalf of clients. In certain instances, we may also signal our intention to decline resolutions in future, should requested changes not be implemented. Sanlam Investments reports to the public via its website.

Should Sanlam Investments decline a resolution at a shareholder meeting, this decision will be communicated by email to the company secretary of the company concerned, and such communication will be stored on Sanlam Investments' internal network. Sanlam Investments is transparent to clients on its governance policy and implementation. Sanlam Investments advises clients of all resolutions declined on their behalf and the reasons therefore, in its quarterly published documents.

### Road Map

At Sanlam Investments, we follow a clear roadmap, with distinct goals and objectives that we can align with and measure ourselves against. We will steadily advance these goals, improving ESG incorporation and fostering partnerships with other like-minded organisations such as Robeco and Climate Fund Managers. These partnerships help catalyse and boost our efforts to meet greater sustainability objectives. Together, we will focus our efforts on where we can make the greatest impact.



Over the next year we will continue to be part of select key memberships. We remain focused on:

Focus Area	Organisational KPI
Identifying outcomes and targets	Mapping existing Investments to the SDGs and other potential regiments.
Setting policies and positioning statements	Setting relevant ESG themed and asset class policies, and position statements.
Ensuring consistency throughout investment disciplines	Developing oversight mechanisms to ensure that risk management of the sustainability matters is applied to all investments.

## Organisational KPIs

In light of our current priority, our initial KPIs refer to our integration, stewardship and governance efforts. These KPIs will be evaluated annually and expanded as we progress through our roadmap.

Focus Area	Organisational KPI
ESG Integration	Achieve a Principles for Responsible Investment 'A score' for all reporting modules in 2022.
Stewardship	Successfully start at least three strategic engagement programs in South Africa over the next three years.
Governance	Establish a sustainable investment oversight committee for Sanlam Investments. Develop an overarching Sustainable Investment Policy. Include environmental, social and governance KPIs in Sanlam Investments' executive team's balanced scorecard.



## Commitment to Reporting

Sanlam Investments is committed to sharing its progress on sustainable investment. In line with this, the following reporting commitments have been made:

- Disclosure of ESG efforts to clients and stakeholders through the annual Responsible Stewardship and Investment Report and the PRI Transparency Report;
- Implementation of the prescribed principles of the CRISA and provision of annual disclosure of these practices; and
- Disclosure of proxy voting records and analysis on a quarterly basis.

### Sanlam Investments in partnership with Robeco

Sanlam Investments have been in proud partnership with Robeco, leaders in and pioneers in sustainability investing, for the past three years. As sustainability pioneers, Robeco were one of the first asset managers to take it seriously in the 1990s. Since the creation of the first Groencertificaten (Green Certificates) in 1995 to launch the first sustainable equities fund in 1999, its importance within the firm has only grown over the past two decades. ESG analysis has been integrated in the mainstream investment process since 2010, and is now routinely applied across the entire fundamental equities, fixed income and quantitative fund ranges.

It's not just about investment: Robeco have a dedicated active ownership team, with engagement specialists who enter into active dialogues with the companies in their portfolios, and those of their clients. They vote at almost 5,000 shareholder meetings per year, using voting policies that are based on the internationally recognized principles of the International Corporate Governance Network (ICGN). Robeco is also a signatory to the UN Principles for Responsible Investment – gaining the top A\* rating in 2017 – along with the UN Global Compact and other global and local initiatives. Their sister company RobecoSAM, founded as Sustainable Asset Management in 1995, is an investment specialist that focuses exclusively on sustainability investing. It offers asset management, indices, impact analysis and investing, engagement, voting, sustainability assessments and benchmarking services. Asset management capabilities cater for institutional asset owners and financial intermediaries and cover a range of ESG-integrated investments in public and private equity, with a strong track record in resource efficiency themed strategies.



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