



SANLAM INVESTMENTS' RESPONSIBLE INVESTMENT REPORT

DECEMBER 2013



Investments

We are increasingly expecting investors to start asking, “how did you make your profit” as opposed to “how much profit did you make”. In the words of Albert Einstein, “We cannot solve problems by using the same kind of thinking we used when we created them”.

Cora Fernandez

SI BROADENS ITS INVESTMENT RESPONSIBILITIES

Sanlam Investments (SI) subscribed to the Code for Responsible Investing in SA (CRISA) in 2011. In doing so, we committed to integrating the following 5 principles into our investment process, as service providers 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.

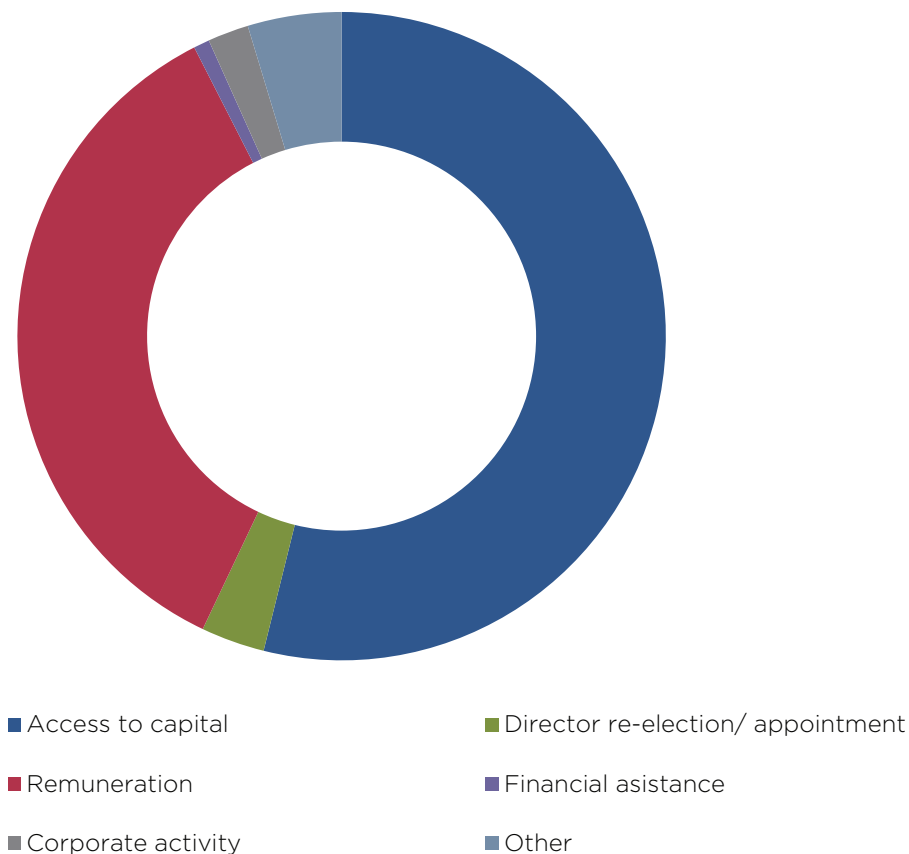
We believe we are well placed to do this, due to steps taken in the recent past.

In 2006, we formed a committee to drive implementation of our governance responsibilities on behalf of clients. The Corporate Governance unit (CGU) then consisted solely of senior investment staff, but membership has since broadened to include company secretarial as well as front office representation.

The first task of the CGU was to draw up a framework for voting proxies (as envisaged in principle 1). **SI's policy and guidelines for proxy voting** was signed off by the SIM Board in 2008 and has been used since by SI analysts to vote proxies of the companies with whom they have a research relationship. Where mandated, we vote all proxies of companies in which clients are invested, without abstaining (as addressed in principle 2). In 2013, we voted on 1 708 proxy resolutions.

We decline some 10% of resolutions, and have recorded the reasons as follows:

Reasons for declining resolutions (quarterly averages , % since Jan. 2010)



Transparency is a requirement of principle 5.

We disclose reasons for declining resolutions to clients as part of their written quarterly reporting. We also store full voting records, and disclose them to clients on request. Before declining resolutions, we contact a Board representative of the company concerned, preferably by email, to record and explain our logic, and where possible, to discuss the issue further. We do not disclose our proxy voting activity to the wider public.

To increase transparency further, SI's progress in implementing the responsible investing principles is updated on the Sanlam website (SI Corporate Governance Website). We posted our first "apply or explain" report on the CRISA principles after SI's 2012 December year end.

Our journey as responsible investors was formalized in February 2009, when SI signed the UN Principles of Responsible investing (UN PRI) on which CRISA is based. We recognized then that further policy development was required to implement the UN principles.

The global financial crisis focused investor attention on variable remuneration (which was perceived to be incentivizing unwarranted risk-taking, particularly in financial companies). In response, we wrote a **policy to guide our approach to incentive and retention schemes**. In addition, we are now required to approve non-binding

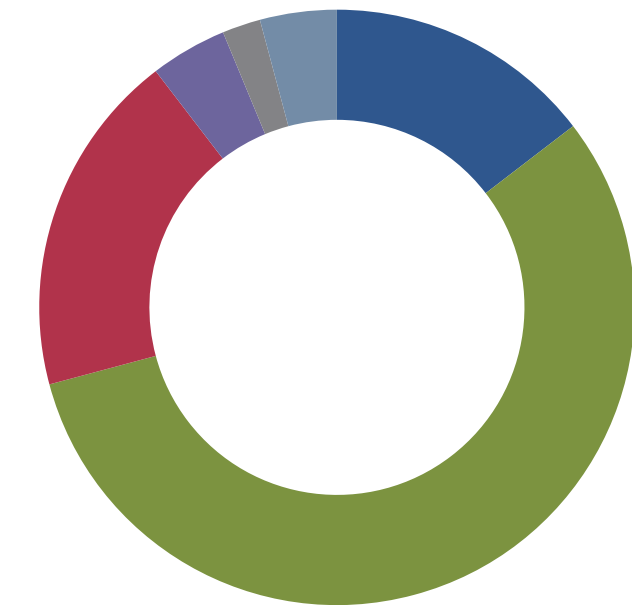
resolutions on company remuneration policy as a whole.

Companies are required to produce integrated reports, which combine traditional financial reporting with comment on sustainability issues of interest to all stakeholders. This required us to develop **policies to guide our approach to social** (currently in draft form) **and environmental** sustainability (approved by the SI Board in May 2012), to bolster our response to principle 1. More recently, we have initiated a pioneering project to make use of environmental data purchased from Trucost, a firm of environmental economists based in the UK. Once completed, this will enable us to assess the materiality of externalities, compile environmental 'footprints' of portfolios, and gauge the extent of environmental risk to company and portfolio valuation.

We are also investigating the best way to incorporate environmental, social and governance principles and data into our **non-equity investment processes** (as envisaged in principle 1). From 2013, the Sanlam Credit Risk Framework will incorporate these principles in lending decisions.

Over this period, we have started to **engage Boards** of companies on governance and performance issues. We do this on behalf of clients in terms of our escalations policy, which was approved by the SI Board in November 2012. We have tentatively started to collaborate with other investors on engagements (as recommended in principle 3).

Reasons for engagements
(quarterly averages, % since Jan. 2011)



■ Access to capital ■ Remuneration ■ Performance
■ Strategy ■ Express support ■ Other

The reasons for engagement are shown below:

As the scope of the CGU's undertakings has broadened, we have drawn in further resources, including outsourced capacity, such as the Trucost data referred to above. One stockbroker, Avior, has developed expertise in corporate governance. It scores Boards on their governance structures and practices and gathers data on Board pay. We store the Board score on our internal decision support system, for consideration in the process of portfolio construction, and use the pay data in considering whether to approve the remuneration of directors, both executive and non-executive. Best practice is now that this be approved in advance. Multinational stockbrokers are now starting to incorporate SA companies in their Responsible Investment research reports.

The SI business has itself established compliance, risk-management and internal-audit functions to identify and manage potential conflicts of interest (as required in principle 4). The **SI conflict of interest management policy** provides a framework to promote transparency and fairness, while other Group policies provide guidelines for ethical conduct, combating financial crime, and gratifications. Compliance monitors the SI insider-information and personal-account trading policies. Where required to prevent conflicts of interest, Sanlam Investments is structured into discrete clusters, and information flows between clusters is limited.

We see further development of our responsible investing capability being driven by our clients and their advisers.

A challenge is to extend our activities into the other, non-equity, asset classes. Our approach is not to lead the process amongst SA fundmanagers, lest we lose focus on our value-driven capital allocation process, but also not to lag, lest we lose the ability to set our own pace. Our intention is to play our part in securing a sustainable future for our land and all those who live in it.

ACTIVITIES IN 2013:

- We gave clients copies of our Responsible Investment policies,
- We voted on 1708 shareholder resolutions by proxy,
- We opened engagements with 2 companies,
- We made a submission to the Parliamentary committee on Mineral Resources regarding the draft Mineral and Petroleum Resources Development Amendment Bill,
- We made inputs to the JSE on proposed listings requirements to facilitate REITs and content of external property entity management contracts,
- We initiated a project to gauge the extent of environmental risk to company and portfolio valuation,
- We attended the PRI in Person annual event, held in Cape Town.

CHANGES MADE IN 2013:

- The Sanlam Credit Risk Framework now includes Responsible investment principles in lending decisions,
- We drafted a Responsible lending policy for Hedge funds,
- We centralised our proxy voting implementation process, to improve consistency and free up the analysts to concentrate on research and valuation.

SI'S CRISA "APPLY OR EXPLAIN" COMMENTARY – END DECEMBER 2013

Once a year, after SI's year-end, we will disclose the extent to which we apply CRISA. The following table summarises our application of the CRISA principles, and provides reasons for cases of non-application. It also contains explanations of further possible future actions:

CRISA Principles (incorporating possible actions from UN PRI)	Status (double denotes change in 2013)	Comment
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.	✓	
• Address ESG issues in investment policy statements	✓	
• Support development of ESG-related tools, metrics, and analyses	✗	
• Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis	✗ ✗	In general, stockbrokers do not cover ESG issues yet. We obtain ESG-related data from specialist data providers, such as Avalor and Trucost.
• Encourage academic and other research on this theme	✗	
• Advocate ESG training for investment professionals	✓	We will provide training once we start to incorporate environmental damage data in valuations.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities	✓	
• Exercise voting rights	✓ ✓	
• Develop an engagement capability	✗	
• Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)	✓	We make inputs into the JSE's public consultation process on listings requirements, when appropriate.
• File shareholder resolutions consistent with long-term ESG considerations	✓ ✓	This is not market practice in SA yet.
• Engage with companies on ESG issues	✓	
• Participate in collaborative engagement initiatives	✓	While we are wary of acting in concert, and prefer to collaborate 'after the fact', we have initiated participation.
• 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	✗	Integrated reporting requires ESG disclosure.
• 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)		We need to raise our knowledge base first.

CRISA Principles (incorporating possible actions from UN PRI)	Status (double denotes change in 2013)	Comment
<ul style="list-style-type: none"> Support shareholder initiatives and resolutions promoting ESG disclosure 		There have been none to date.
<p>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.</p>		
<ul style="list-style-type: none"> Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate) 	Initiating	We have given clients copies of our ESG policies, and encourage them to develop policies of their own, to form part of our mandate.
<ul style="list-style-type: none"> Communicate ESG expectations to investment service providers 	Initiating	Curo, SI's investment administrators, implement our proxy voting instructions.
<ul style="list-style-type: none"> Revisit relationships with service providers that fail to meet ESG expectations 	X	We have not contemplated doing this, as it is too early in the ESG implementation process.
<ul style="list-style-type: none"> Support the development of tools for benchmarking ESG integration 	✓ ✓	Our principal tool is feedback from the annual PRI assessment questionnaire, which benchmarks SI against ESG integration by peer signatories.
<ul style="list-style-type: none"> Support regulatory or policy developments that enable implementation of the Principles 	X	Both Sanlam and SI are members of ASISA, which participated in setting the CRISA principles.
<ul style="list-style-type: none"> Support/ participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning 	Initiating	This is done via the SA PRI network and ASISA.
<ul style="list-style-type: none"> Collectively address relevant emerging issues 	Initiating	This is done via the PRI network and ASISA.
<ul style="list-style-type: none"> Develop or support appropriate collaborative initiatives 	✓ ✓	While we are wary of acting in concert, and prefer to collaborate 'after the fact', we have initiated participation.
<p>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.</p>	✓	
<p>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</p>	✓	
<ul style="list-style-type: none"> Disclose how ESG issues are integrated within investment practices 	✓	
<ul style="list-style-type: none"> Disclose active ownership activities (voting, engagement, and/or policy dialogue) 	X	
<ul style="list-style-type: none"> Disclose what is required from service providers in relation to the Principles 	✓	We have not specified our requirements yet (other than for proxy voting administration).
<ul style="list-style-type: none"> Communicate with beneficiaries about ESG issues and the Principles 	✓	
<ul style="list-style-type: none"> Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach 	X	
<ul style="list-style-type: none"> Seek to determine the impact of the Principles 		It is too early in the process to measure impacts.
<ul style="list-style-type: none"> Make use of reporting to raise awareness among a broader group of stakeholders 	Initiating	We have placed responsible investing information on our website.