



SIM Responsible Investment Report

December 2014

Investments



SIM broadens its investment responsibilities

SIM 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.

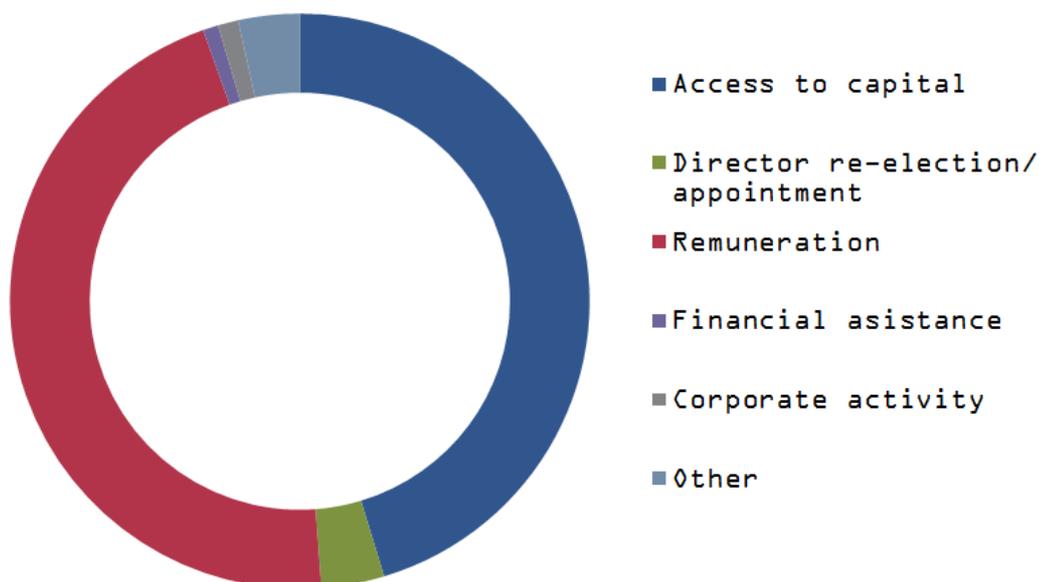
In 2006, we formed a committee to drive implementation of our governance responsibilities on behalf of clients. The Corporate Governance unit (CGU) then consisted solely of senior investment staff, but membership has since broadened to include company secretarial as well as front office representation. There are currently 8 members.

The first task of the CGU was to draw up a framework for voting proxies (as envisaged in *principle 1*). **SIM's policy and guidelines for proxy voting** was signed off by the SIM Board in 2008. Where mandated, we vote all proxies of companies in which clients are materially invested, without abstaining (as addressed in *principle 2*). In 2014, we voted on 3028 proxy resolutions.



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

Reasons for declining resolutions (% 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, SIM's progress in implementing the responsible investing principles is updated on the Sanlam website ([SIM Corporate Governance Website](#)). We posted our first “apply or explain” report on the CRISA principles after SIM’s 2012 December year end.

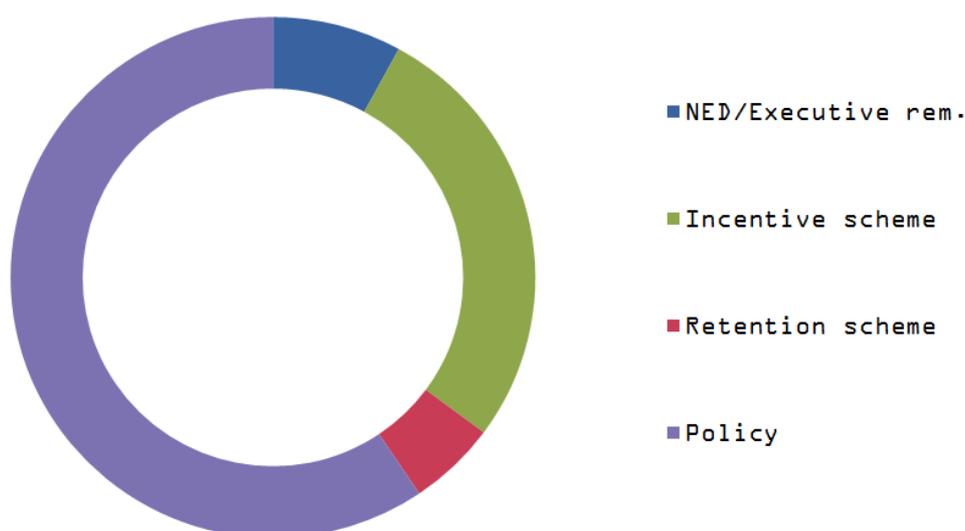
Our journey as responsible investors was formalized in 2009, when SIM signed the UN Principles of Responsible investing (UN PRI) on which CRISA is based. We recognized then that further policy development was required to implement the UN principles.

Later that year, 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 required to approve non-binding resolutions on company remuneration policy as a whole. Our reasons for declining remuneration-related resolutions are shown below. They are mainly to do with policy, because we concentrate on remuneration inputs more than outputs. Our preference is for the majority of hurdles in long term incentive schemes to measure operational returns in excess of cost of capital, plus an appropriate margin, and that they be agreed with shareholders in advance. We also prefer incentive to retention schemes.

**Reasons for declining Rem. resolutions
(% since March 2013)**



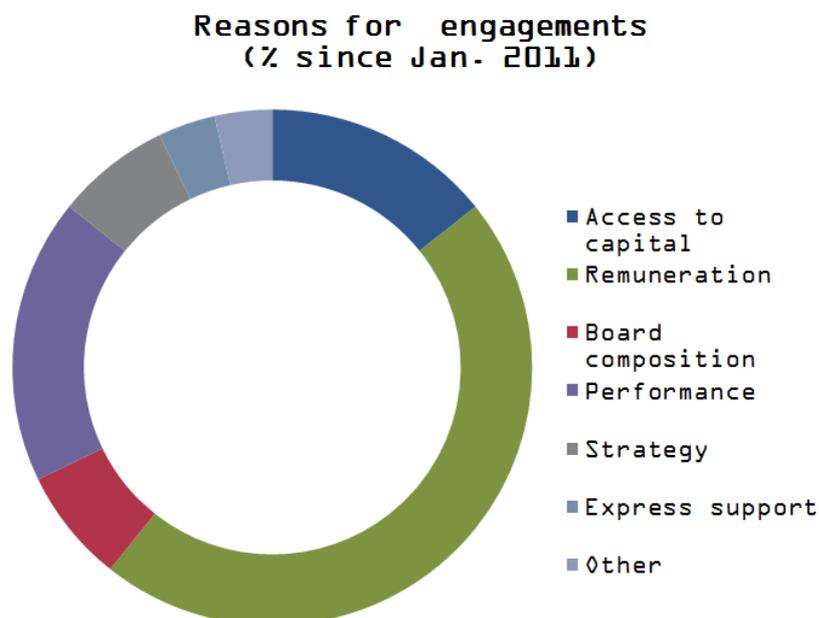
SA companies produce annual integrated reports, which combine traditional financial reporting with comment on sustainability issues of interest to all stakeholders. This has required us to develop **policies to guide our approach to social** (currently in draft form) **and environmental sustainability** (approved by the SIM 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 valuations.

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*). The Sanlam Credit Risk Framework undertook to incorporate these principles in lending decisions from 2013.

Over this period, we 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 SIM Board in November 2012. We have tentatively started to collaborate with other investors on engagements (as recommended in *principle 3*).



The reasons for engagements, which have been mainly to do with remuneration, 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. A 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 that this be approved in advance. Another domestic broker, Legae, has started providing reports on responsible investing. Multinational stockbrokers may also incorporate SA companies in their responsible investment research reports.

The SIM 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 **SIM 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 SIM 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 investment 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 fund managers, 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 2014:

- We voted on 3028 (1708) shareholder resolutions by proxy;
- We opened engagements with 3 (2) companies;
- We supported 2 collaborative investor lobbying initiatives. By signing the Global investor Statement on Climate Change, we joined other investors in calling on policymakers to provide policy certainty to encourage low-carbon investment. We also signed a statement which highlighted the need for the International Organisation of Securities Commissions (IOSCO) to work with its regulatory and exchange members to improve the availability and quality of ESG information issued by companies;
- We participated in projects to develop in-house Best Execution policy, as well as related subordinate policies and guidelines;
- We set up internal procedures to respond to the JSE on proposed changes to its listings requirements, as well as to monitor legislative changes, those that affect social practice in particular;
- We progressed a project to gauge the extent of environmental risk to company and portfolio valuations, and
- We attended meetings of the SA PRI network.

Changes made in 2014:

- We included SIM's conflict of interest management policy in our suite of Responsible Investment policies and procedures.



SIM's CRISA "apply or explain" commentary – end December 2014

Once a year, after SIM'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 (doubling denotes change in 2014)	Comment
<p>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.</p> <ul style="list-style-type: none"> • 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 • Encourage academic and other research on this theme • Advocate ESG training for investment staff. 	<p style="text-align: center;">√</p> <p style="text-align: center;">√√</p> <p style="text-align: center;">X</p> <p style="text-align: center;">X</p> <p style="text-align: center;">√√</p>	<p>We progressed a project to gauge the extent of environmental risk to company and portfolio valuations.</p> <p>In general, stockbrokers do not cover ESG issues yet. We obtain ESG-related data from specialist data providers, such as Avior and Trucost.</p> <p>We provide training to analysts to incorporate environmental damage data in valuations.</p>



<p>2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.</p> <ul style="list-style-type: none"> • Exercise voting rights • Develop an engagement capability • 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 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) 	<p>√</p> <p>√</p> <p>√</p> <p>X</p> <p>√</p> <p>√</p> <p>√√</p> <p>√</p> <p>X</p>	<p>We make inputs into the JSE's public consultation process on listings requirements, when appropriate.</p> <p>This is not market practice in SA yet.</p> <p>We are wary of acting in concert, and prefer to collaborate 'after the fact'.</p> <p>See IOSCO Statement under Activities in 2014.</p> <p>Integrated reporting requires ESG disclosure. See IOSCO Statement under Activities in 2014.</p> <p>We need to raise our knowledge base first.</p>
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<ul style="list-style-type: none"> • Support shareholder initiatives and resolutions promoting ESG disclosure. 	X	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) • 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 	<p>Initiated</p> <p>XX</p> <p>X</p> <p>√</p> <p>√√</p>	<p>We have given clients copies of our ESG policies, and encouraged them to develop policies of their own, to form part of our mandate.</p> <p>We have not contemplated doing this, as it is too early in the ESG implementation process.</p> <p>Our principal tool is feedback from the annual PRI assessment questionnaire, which benchmarks SIM against ESG integration by peer signatories.</p> <p>See Climate Change Statement under Activities in 2014.</p> <p>Both Sanlam and SIM are members of ASISA, which participated in setting the CRISA principles.</p>



<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 	√	This is done via the SA PRI network and ASISA.
<ul style="list-style-type: none"> • Collectively address relevant emerging issues • Develop or support appropriate collaborative initiatives. 	√√	This is done via the PRI network and ASISA.
<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>	√√	We included SIM's conflict of interest management policy in our suite of policies and procedures.
<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 • Disclose active ownership activities (voting, engagement, and/or policy dialogue) • Disclose what is required from service providers in relation to the Principles 	√ √ X	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	√	We report to beneficiary representatives quarterly.
<ul style="list-style-type: none">• Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach	√	
<ul style="list-style-type: none">• Seek to determine the impact of the Principles	X	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.	√	We place responsible investing information on our website.



call us 

Investments

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