



SIM Responsible Investment Report  
December 2015

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 over the last ten years.

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 9 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 2015, we voted on 3329 proxy resolutions.

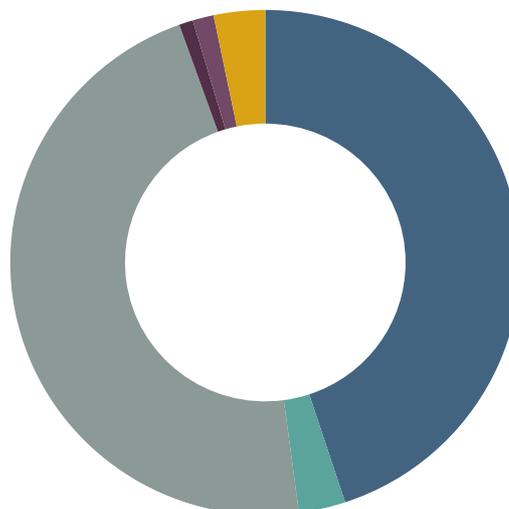
We decline some 10% of resolutions, and have recorded the reasons as follows:



## Reasons for declining resolutions:

(% since Jan. 2010)

- Access to capital
- Director re-election/ appointment
- Remuneration
- Financial assistance
- Corporate activity
- Other



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.

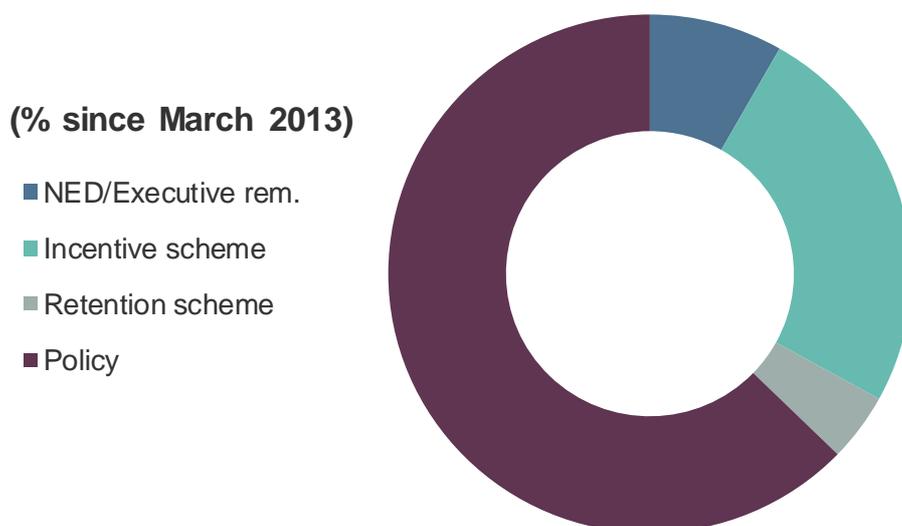
Our journey as responsible investors was formalized in 2009, when SIM signed the UN Principles of Responsible investing (UN PRI) on which CRISA is based. We recognized then that further policy development was required to implement the UN principles.

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 remuneration-related resolutions:



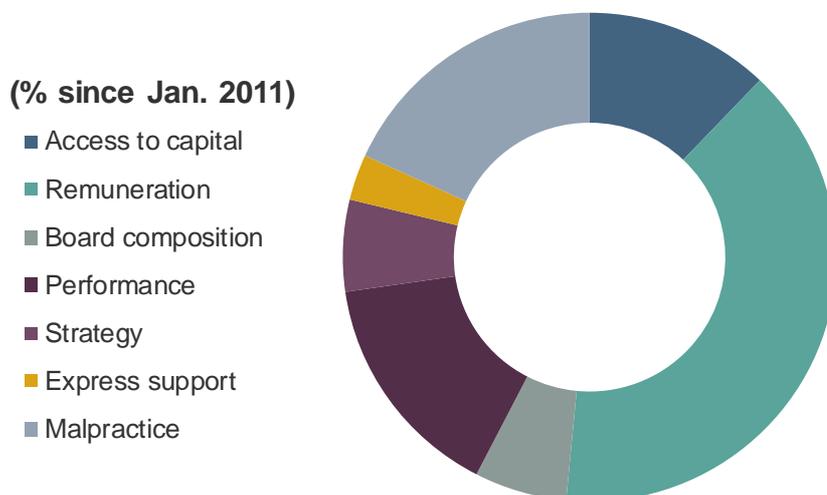
SA companies produce annual integrated reports, which combine traditional financial reporting with comment on sustainability issues of interest to all stakeholders. This has required us to develop **policies to guide our approach to social** (approved by the SIM Board in June 2015), **and environmental sustainability** (approved 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 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 have also sought the best way to incorporate environmental, social and governance principles and data into our **non-equity investment processes** (as envisaged in *principle 1*). In December 2015, the SIM fixed interest team obtained approval from the Sanlam Central Credit Committee for their proposal to start incorporating ESG criteria into the credit approval process.

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:



## Reasons for engagements:



As the scope of the CGU's undertakings has broadened, we have drawn in further resources, including outsourced capacity, such as the data provider referred to above. A stockbroker 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 stockbroker 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 distinct 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 2015:

- We voted on 3329 (3028) shareholder resolutions by proxy;
- We opened engagements with 6 (3) companies;
- We responded to the JSE on proposed changes to its listings requirements. Our legal team's inputs to proposed amendments to the definitions of "price sensitive information" and "materiality" were accepted by the JSE, and became effective from November 2015;
- We progressed a project to gauge the extent of environmental risk to company and portfolio valuations, and showed environmental footprints of their portfolios to selected client representatives; and
- We attended a panel discussion of the EY Triologue Sustainability Forum on water scarcity.

## Changes made in 2015:

- The Sanlam Social Ethics and Transformation Committee, a Board sub-committee will monitor the activities of the CGU in future. Accordingly, we made written input to a committee meeting regarding our proxy voting policy and activity;
- The SIM Board approved our Social policy in June. All SIM Responsible Investment policies now have Board approval;
- In December, the SIM fixed interest team obtained approval from the Sanlam Investments Central Credit Committee for their proposal to start incorporating ESG criteria into the credit approval process.

**If business emphasises profit to the exclusion of social goals, it may find itself abandoned and destroyed by the people it has ignored - *Henry Ford II***



## SIM's CRISA "apply or explain" commentary – end December 2015

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 2015)	Comment
<p>1. An institutional investor should <b>incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities</b> as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.</p> <ul style="list-style-type: none"> <li>• <i>Address ESG issues in investment policy statement.</i></li> <li>• <i>Support development of ESG-related tools, metrics, and analyses.</i></li> <li>• <i>Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.</i></li> </ul>	<p>√</p> <p>√</p> <p>√√</p> <p>X</p>	<p>We have ESG policies that have been approved by the SIM Board.</p> <p>We progressed a project to gauge the extent of environmental risk to company and <i>equity</i> portfolio valuations.</p> <p>The Sanlam Investments Central Credit Committee has given approval to start incorporating ESG criteria into the <i>credit</i> approval process.</p> <p>Most stockbrokers do not cover ESG issues yet. We obtain ESG-related data from specialist data providers.</p>



<ul style="list-style-type: none"> <li>• <i>Encourage academic and other research on this theme.</i></li> <li>• <i>Advocate ESG training for investment staff.</i></li> </ul>	<p>√√</p> <p>√</p>	<p>We provide input to graduate students on request.</p> <p>We provide training to analysts to incorporate environmental damage data in valuations.</p>
<p>2. An institutional investor should <b>demonstrate its acceptance of ownership responsibilities</b> in its investment arrangements and investment activities.</p> <ul style="list-style-type: none"> <li>• <i>Exercise voting rights.</i></li> <li>• <i>Develop an engagement capability.</i></li> <li>• <i>Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).</i></li> <li>• <i>File shareholder resolutions consistent with long-term ESG considerations.</i></li> <li>• <i>Engage with companies on ESG issues.</i></li> <li>• <i>Participate in collaborative engagement initiatives.</i></li> <li>• <i>Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).</i></li> <li>• <i>Ask for ESG issues to be integrated within annual financial reports</i></li> </ul>	<p>√</p> <p>√</p> <p>√</p> <p>X</p> <p>√</p> <p>√</p> <p>√</p> <p>√</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 have held several engagements on governance practices. We consult on environmental and social matters.</p> <p>We have participated in collaborative investor lobbying activities.</p> <p>We participated in the IOSCO Statement. (Described under Activities in 2014 Report).</p> <p>Integrated reporting requires ESG disclosure. (See IOSCO Statement under Activities in 2014 Report).</p>



<ul style="list-style-type: none"> <li>• <i>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).</i></li> <li>• <i>Support shareholder initiatives and resolutions promoting ESG disclosure.</i></li> </ul>	<p>X</p> <p>X</p>	<p>We need to raise our knowledge base first.</p> <p>There have been none to date.</p>
<p>3. Where appropriate, institutional investors should consider a <b>collaborative approach</b> 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"> <li>• <i>Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).</i></li> <li>• <i>Communicate ESG expectations to investment service providers</i></li> <li>• <i>Revisit relationships with service providers that fail to meet ESG expectations.</i></li> <li>• <i>Support the development of tools for benchmarking ESG integration.</i></li> </ul>	<p>Initiated</p> <p>X</p> <p>X</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.</p> <p>Our principal tool is feedback from the annual PRI assessment questionnaire, which benchmarks SIM against ESG integration by peer signatories.</p>



<ul style="list-style-type: none"> <li>• <i>Support regulatory or policy developments that enable implementation of the Principles.</i></li> <li>• <i>Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.</i></li> <li>• <i>Collectively address relevant emerging issues.</i></li> <li>• <i>Develop or support appropriate collaborative initiatives.</i></li> </ul>	<p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>(See Climate Change Statement under Activities in 2014 report).</p> <p>Both Sanlam and SIM are members of ASISA, which participated in setting the CRISA principles.</p> <p>This is done via the SA PRI network and ASISA, as well as a Sustainability Forum.</p> <p>This is done via the PRI network and ASISA.</p> <p>We have participated in collaborative investor lobbying activities.</p>
<p>4. An institutional investor should recognise the circumstances and relationships that hold a potential for <b>conflicts of interest</b> and should proactively manage these when they occur.</p>	<p>√</p>	<p>We included SIM's conflict of interest management policy in our suite of policies and procedures. SI also has a policy for Best Execution.</p>
<p>5. Institutional investors should be <b>transparent</b> 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"> <li>• <i>Disclose how ESG issues are integrated within investment practices.</i></li> <li>• <i>Disclose active ownership activities (voting, engagement, and/or policy dialogue).</i></li> </ul>	<p>√</p> <p>√</p>	



<ul style="list-style-type: none"><li>• <i>Disclose what is required from service providers in relation to the Principles.</i></li></ul>	X	We have not specified our requirements yet (other than for proxy voting administration).
<ul style="list-style-type: none"><li>• <i>Communicate with beneficiaries about ESG issues and the Principles.</i></li></ul>	√	We report to beneficiary representatives quarterly.
<ul style="list-style-type: none"><li>• <i>Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach.</i></li></ul>	√	We update these Responsible Investment reports annually.
<ul style="list-style-type: none"><li>• <i>Seek to determine the impact of the Principles.</i></li></ul>	X	It is too early in the process to measure impacts.
<ul style="list-style-type: none"><li>• <i>Make use of reporting to raise awareness among a broader group of stakeholders.</i></li></ul>	√	We place responsible investing information on our website.



**call us** 

## Investments

55 Willie van Schoor Ave, Bellville 7530 | Private Bag x8,  
Tygervalley 7536, South Africa

**T** +27 (0) 21 950 2500 **F** +27 (0) 21 950 2555