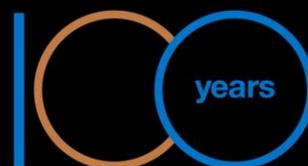




SIM Responsible Investment Report
December 2017



Investments



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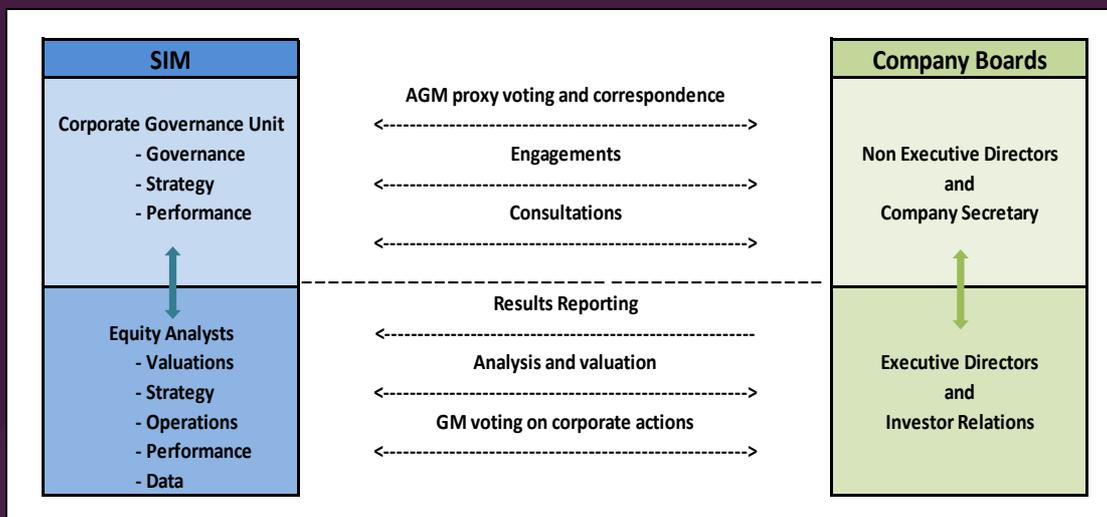
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Overview

Our philosophy is to make use of 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 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 subscribed to the UN Principles of Responsible Investment (PRI) and the CRISA principles, and formed a Corporate Governance Unit. 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:



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 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:

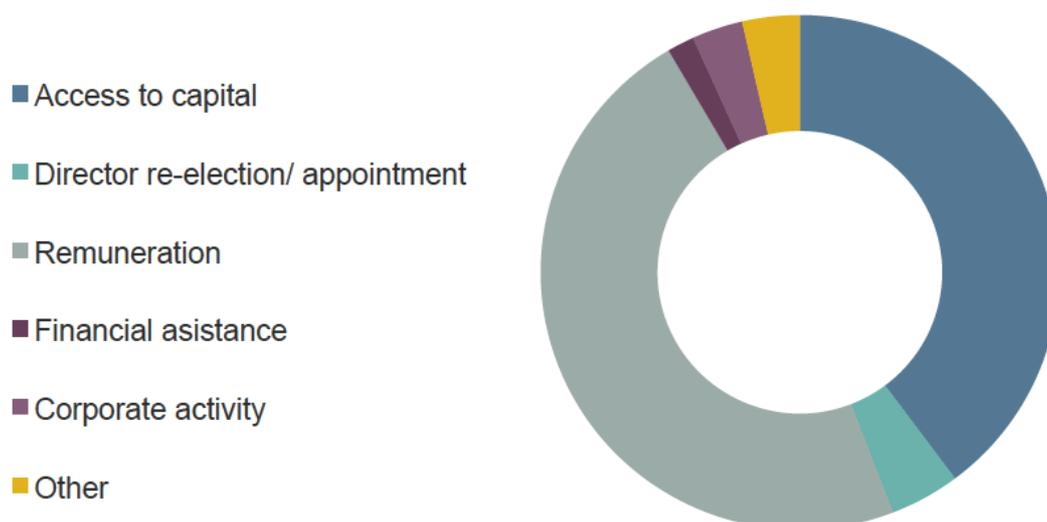
1. *An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.*
2. *An institutional investor 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.*
6. We believe we are well placed to do this, due to steps taken over the last ten years.
7. 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.
8. 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** were 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*).

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



> Categories of resolutions declined

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 Responsible Investment 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 a substantial proportion 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.



Categories of remuneration-related resolutions declined

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** (approved by the SIM Board in 2015), **and environmental sustainability** (approved in 2012), to bolster our response to *principle 1*. We have the capability to assess the materiality of environmental 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 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. Responsible debt investment is likely to lead to more conditional lending practices.

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 2012. We have tentatively started to collaborate with other investors on engagements (as recommended in *principle 3*), mainly through participating in collaborative lobbying initiatives. The reasons for engagements, which have been mainly to do with remuneration, are shown below:



Categories of engagements

Reasons for engagements | (% since Jan. 2011)



As the scope of the CGU's undertakings has broadened, we have drawn in further resources, including outsourced capacity. Stockbrokers are increasingly incorporating responsible investment commentary in their 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 them is limited.

We see further development of our responsible investment capability being driven by our clients and their advisers. We are extending 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, so that we can set a pace dictated by our stakeholders. Our intention is to play our part in securing a sustainable future for our land and all those who live in it.



Activities in 2017

Under Incorporation (Principle 1), we:

- Conducted a study of how the allocation of their Value Added between stakeholders has varied over the last 20 years in a sample of 5 companies;
- Decided to suspend purchases of environmental data, while retaining capabilities to make use of the data in company and portfolio valuations;
- Attended seminars and presentations on water, fossil fuels, climate change risks and executive pay;
- Participated in a consultation on ESG integration with the PRI and CFA Institute.

We demonstrated ownership responsibilities (Principle 2) by:

- Voting on 3669 (3564) shareholder resolutions by proxy, at 259 (266) shareholder meetings;
- Opening engagements with 7 (6) companies, as well as State Owned Enterprises, where lending is likely to become more conditional;
- Participating in discussion on mandatory audit firm rotation with SAICA, and engaging with KPMG on malpractice within their firm;
- Supplying data from the Sanlam property portfolio to the Climada climate model to highlight inherent climate risk exposure.

Under collaborations (Principle 3), we promoted acceptance of the Principles:

- Internally amongst parent Sanlam, Santam, as well as Sanlam Investments Africa and East Africa; and
- Externally we networked with the Centre for Environmental Rights, a legal NGO, and the Helen Suzman Foundation.

We identified and managed potential for conflicts of interest between clients (Principle 4).

In terms of transparency (Principle 5), we:

- completed client and PRI questionnaires to report on our Responsible Investment activities;
- commissioned more comprehensive reporting on our proxy voting activity to clients
- supported a project to confirm votes cast using blockchain technology.



➤ Changes made in 2017

- We placed the full Responsible Investment Policy and Procedures Document on the Sanlam website for the first time (previously it was abridged);
- We wrote a draft Approach to Broad-Based Black Economic Empowerment Schemes in preparation for approving second-generation replacement Schemes;
- A staff member attended a course run by the PRI Academy to commence formal training in Responsible Investment.



“This is our home.”

**Al Gore, environmental advocate and previous US Vice President,
in *An Inconvenient Sequel: Truth to Power*.**



▶ **SIM's CRISA "apply or explain" commentary – end December 2017**

Once a year, after SIM's year-end, we 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 past year)	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"> • <i>Address ESG issues in investment policy statement.</i> • <i>Support development of ESG-related tools, metrics, and analyses.</i> • <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> • <i>Encourage academic and other research on this theme.</i> • <i>Advocate ESG training for investment staff.</i> 	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√√</p>	<p>We have ESG policies that have been approved by the SIM Board.</p> <p>We have capability to gauge the extent of environmental risk to company and equity portfolio valuations.</p> <p>We incorporate ESG criteria into the credit approval process.</p> <p>We participated in formulating the PRI's statement on ESG in credit ratings, which called on ratings agencies to include these criteria in their ratings.</p> <p>We provide input to graduate students on request.</p> <p>A staff member commenced a PRI Academy course. We provide training to analysts on credit scoring.</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"> • <i>Exercise voting rights.</i> • <i>Develop an engagement capability.</i> • <i>Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).</i> • <i>File shareholder resolutions consistent with long-term ESG considerations.</i> • <i>Engage with companies on ESG issues.</i> • <i>Participate in collaborative engagement initiatives.</i> • <i>Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).</i> • <i>Ask for ESG issues to be integrated within annual financial reports</i> • <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> • <i>Support shareholder initiatives and resolutions promoting ESG disclosure.</i> 	<p>√</p> <p>√</p> <p>√</p> <p>X</p> <p>X</p> <p>√</p> <p>√</p> <p>√</p> <p>X</p> <p>√√</p>	<p>We have participated in 47 engagements to date.</p> <p>We make inputs into the JSE's public consultation process on listings requirements, when appropriate. We participated in formulating the PRI report on Fiduciary duty.</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 WFE ESG Guidance questionnaire. (Described under Activities in the 2016 Report).</p> <p>Integrated reporting requires ESG disclosure. (See IOSCO Statement under Activities in the 2014 Report).</p> <p>Companies do disclose this information in their integrated reports. We need to raise our knowledge base first, before we engage further with them.</p> <p>We supported Australian shareholder resolutions for the first time.</p>
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<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"> • <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> • <i>Communicate ESG expectations to investment service providers</i> • <i>Revisit relationships with service providers that fail to meet ESG expectations.</i> • <i>Support the development of tools for benchmarking ESG integration.</i> • <i>Support regulatory or policy developments that enable implementation of the Principles.</i> • <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> • <i>Collectively address relevant emerging issues.</i> • <i>Develop or support appropriate collaborative initiatives.</i> 	<p>Initiated</p> <p>X</p> <p>X</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>	<p>We have given clients copies of our Responsible Investment policies, and encourage them to develop policies of their own, to form part of their 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> <p>We do. (See collaborative lobbying initiatives under Activities in previous reports).</p> <p>Both Sanlam and SIM are members of ASISA, which participated in setting the CRISA principles.</p> <p>This is done mainly via the SA PRI network and ASISA, but we also attend seminars and are building up our network.</p> <p>This is done via the PRI network and ASISA.</p> <p>We have participated in collaborative investor lobbying activities.</p>
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<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>√</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 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"> • <i>Disclose how ESG issues are integrated within investment practices.</i> • <i>Disclose active ownership activities (voting, engagement, and/or policy dialogue).</i> • <i>Disclose what is required from service providers in relation to the Principles.</i> • <i>Communicate with beneficiaries about ESG issues and the Principles.</i> • <i>Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach.</i> • <i>Seek to determine the impact of the Principles.</i> • <i>Make use of reporting to raise awareness among a broader group of stakeholders.</i> 	<p>√√</p> <p>√</p> <p>X</p> <p>√</p> <p>√</p> <p>X</p> <p>√</p>	<p>Shown on website in our Responsible Investment Policies and Procedures Document, as well as in these Annual Reports.</p> <p>Shown on website under Quarterly proxy voting.</p> <p>We have not specified our requirements yet (other than for proxy voting administration).</p> <p>We report to beneficiary representatives quarterly.</p> <p>We update these Responsible Investment reports annually.</p> <p>It is too early in the process to measure impacts.</p> <p>We place responsible investing information on our website.</p>



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