



SI Responsible Investment Report
December 2018



Investments



Contents

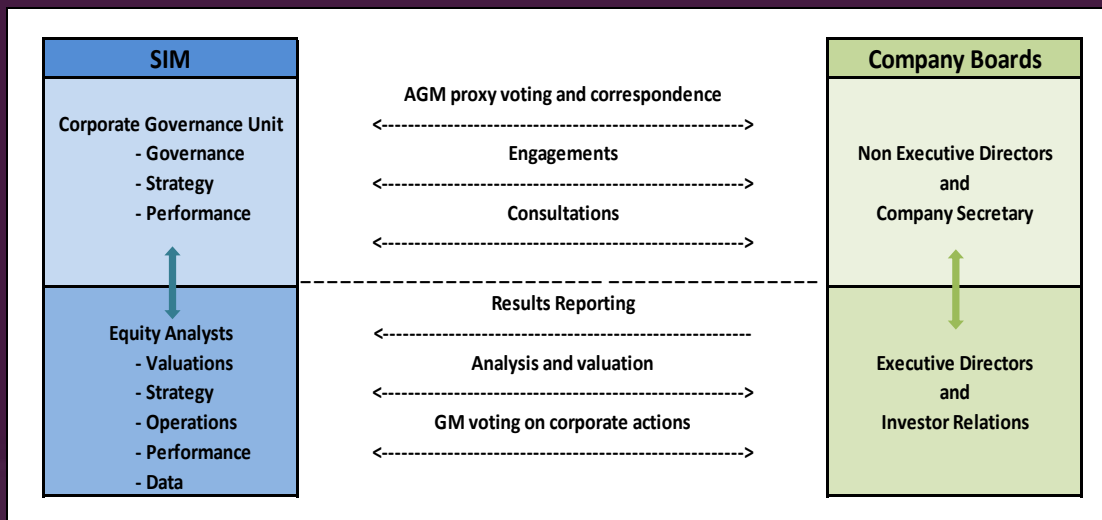
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Overview

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 subscribes 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.*



We believe we are well placed to do this, due to steps taken since 2016, as depicted below.

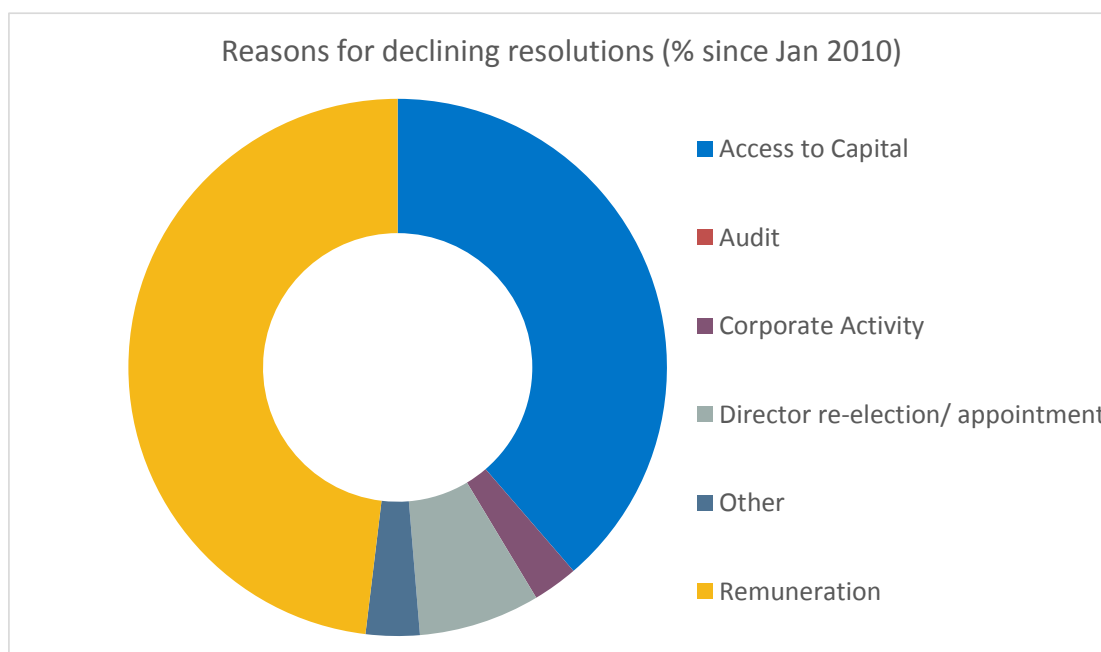
	Milestones	Policy Development	Actions
2006	Formed CGU		
2007			Started voting proxies
2008		Policy and guidelines for voting (G)	
2009	Joined UNPRI	Approach to incentive and retention schemes (G)	
2010			
2011	Joined CRISA	SIM's conflict of interests management policy (G)	First engagements
2012	New regulation 28 of Pensions Fund Act	Environmental policy [E] and escalations policy (G)	Started responsible investment website
2013			First responsible investment annual report published on website
2014			
2015		Social policy (S)	Credit committee approved incorporation of ESG criteria in credit approval framework
2016			Increased proxy voting staff
2017	King IV code		Placed unabridge policy document on website
2018		Responsible debt investment policy (G)	Updated policy document, placed public voting record and approach to remuneration policy on website.

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 client facing 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** 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*). Principal reasons for declining resolutions have been to do with remuneration and capital access.



> Categories of resolutions declined



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 now also disclose our proxy voting activity to the wider public at quarter ends, via our website.

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, and have updated them annually since.

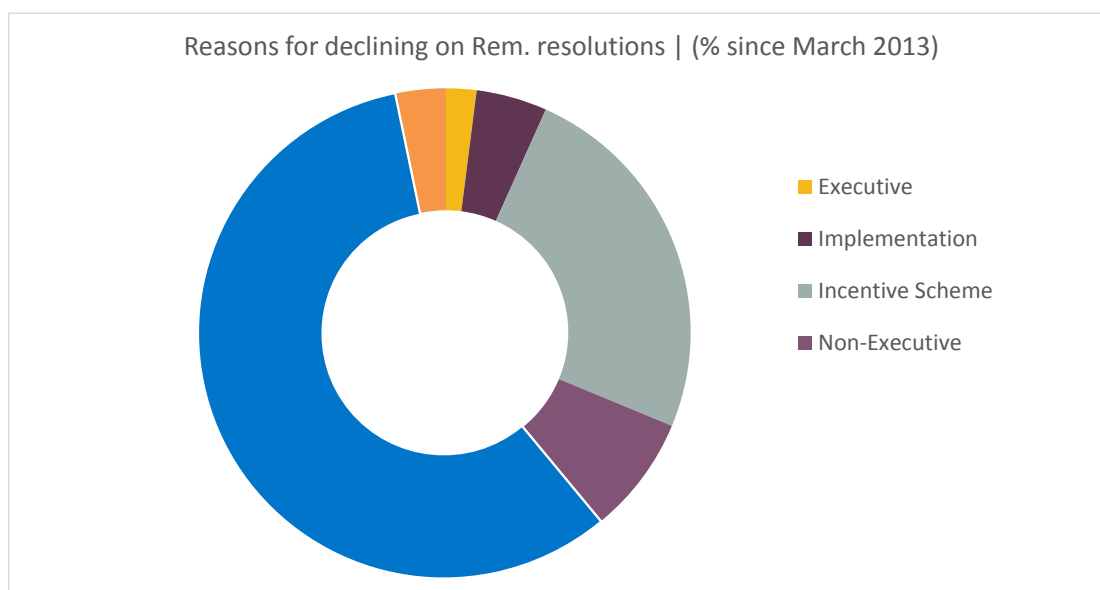
Our journey as responsible investors was formalized in 2009, when SIM signed the UN Principles of Responsible investing (UN PRI) on which CRISA is based. We recognized then that further policy development was required to implement the UN principles.

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**.

We are required to vote on non-binding resolutions on company remuneration policy as well as its implementation. 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



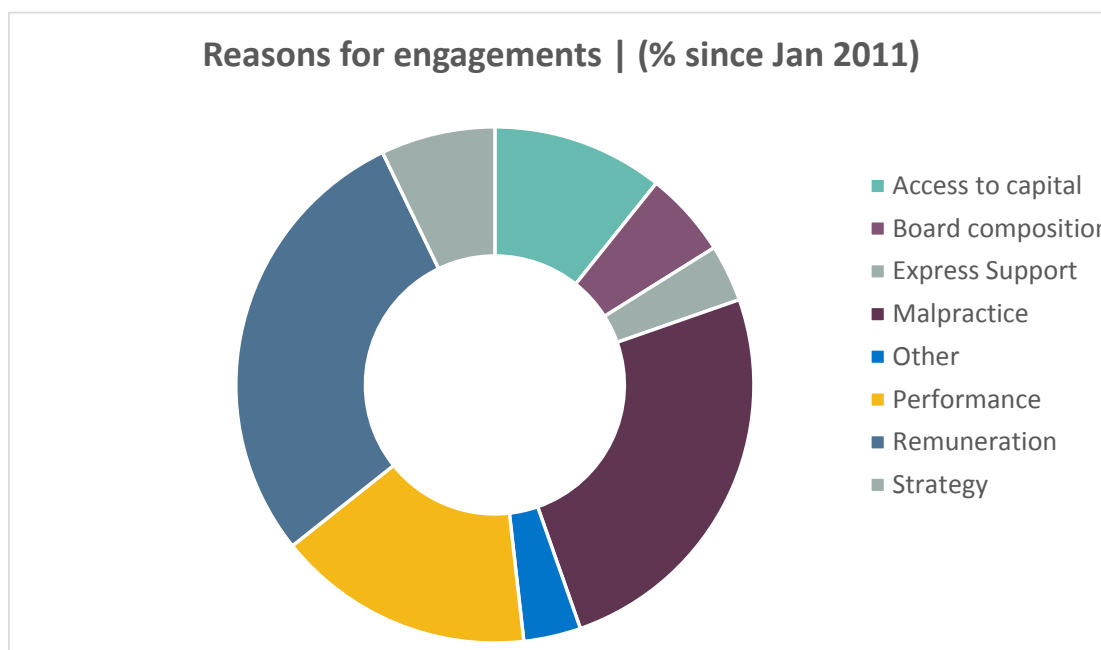
SA companies produce annual integrated reports, which combine traditional financial reporting with comment on sustainability issues of interest to all stakeholders. This has enabled us to develop **policies to guide our approach to Social** (approved by the SIM Board in 2015), **and Environmental sustainability** (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 Investment Group Central Credit Committee for their proposal to start incorporating ESG criteria into the credit approval process. Our **Responsible Debt Investment Policy** was approved by the SIM Board in 2018. 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. To date, we have held 55 engagements. While we have participated in industry lobbying initiatives, in 2019 we started to engage with companies collaboratively, due to increased complexity. The reasons for engagements, all to do with governance matters, mainly remuneration and malpractices, are shown below:



Categories of engagements



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. From 2019, we will subscribe to a leading **supplier of ESG data**, which we plan to use in portfolio construction as well as client reporting.

The SIM business has a robust 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 Sanlam Group policies provide guidelines for ethical conduct, combating financial crime, and gratifications. The Compliance department monitors the SIM insider information and personal account trading policies. Where required to prevent conflicts of interest, the Sanlam Investment Group 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. 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 2018

Under Incorporation (Principle 1), we:

- Had a Responsible Debt Investment Policy approved by the SIM Board;
- Attended seminars and presentations on water scarcity, land reform, climate change, electricity generation, Governance and investor contributions to the SDGs, as well as certain company sustainability briefings;
- Included Responsible Investment principles in a client mandate and will extend this to other clients in 2019;
- Launched a Temperance fund under the Sanlam umbrella;
- Subscribed to receive ESG data from 2019.

We demonstrated ownership responsibilities (Principle 2) by:

- Voting on 3970 (3669 in 2017) shareholder resolutions by proxy, at 250 (259) shareholder meetings;
- Opening engagements with 8 (7) companies, as well as State Owned Enterprises, where lending is likely to become more conditional;
- Responding to proposals for new Listings requirements for both equities and debt instruments;
- Receiving a petition from Fossil Free SA, advocating decarbonized investment products;
- Arranging with a recruitment firm to source Non-executive Director candidates for investee companies, if required;
- Placing our approach to remuneration on our website, for access by companies receiving <75% voting approvals of their remuneration resolutions.

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

- Internally amongst our ultimate holding company Sanlam, Santam, Satrix as well as Sanlam Investments Africa and East Africa;
- Externally we collaborated with other investment managers in class action against Steinhoff International, as well as to engage with the Resilient family of property companies;
- We also attended remuneration policy discussions arranged by PwC.

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

In terms of transparency (Principle 5), we:

- Completed client and PRI questionnaires to report on our Responsible Investment activities;
- Commenced reporting on our proxy voting and engagement activities publicly on our website at quarter ends;
- Supported a project to confirm votes cast using block chain technology.



➤ Changes made in 2018

The withdrawal of Steinhoff International's accounts at the end of 2017 set a new governance tone for 2018, as did the collapse of Enron in the US in 2001. The "Guardians of Governance" (described by the JSE as Boards, auditors, investment managers, shareholders as well as regulators) are re-assessing their roles, responsibilities and contributions as a result.

- We refreshed our website by showing updated Responsible Investment Policy and Procedures Documents, and adding our voting record during 2018 and our approach to remuneration for companies;
- Our Responsible Debt Investment Policy was approved by the SIM Board;
- We started our first collaborative engagements.

Profits are in no way inconsistent with purpose — in fact, profits and purpose are inextricably linked. Profits are essential if a company is to effectively serve all of its stakeholders over time — not only shareholders, but also employees, customers, and communities. Similarly, when a company truly understands and expresses its purpose, it functions with the focus and strategic discipline that drive long-term profitability. Purpose unifies management, employees, and communities. It drives ethical behaviour and creates an essential check on actions that go against the best interests of stakeholders. Purpose guides culture, provides a framework for consistent decision-making and, ultimately, helps sustain long-term financial returns for the shareholders of your company.

BlackRock CEO Larry Fink's 2019 letter to CEOs, urging sustainable practices.



▶ SIM's CRISA "apply or explain" commentary – end December 2018

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>We have ESG policies that have been approved by the SIM Board, including a new one for Responsible Debt Investment.</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 has completed 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 vote on all resolutions for all investee companies, without abstaining on an ongoing basis.</p> <p>We have participated in 55 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, and opened 2 collaborative engagements.</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). It is standard practice in SA.</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 have supported Australian shareholder resolutions.</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 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 style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</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 started including RI principles in client investment mandates.</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>Sanlam, the ultimate holding company of SIM is a member of ASISA, which participated in setting the CRISA principles and responds to Listing Requirements proposals. SIM staff members participate in the ASISA standing committees and working groups.</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. The Sanlam Investment Group 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>√√</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 Proxy Voting.</p> <p>We now disclose our voting record publicly, as well as to clients and investee companies.</p> <p>We have not specified our requirements yet (other than for proxy voting administration).</p> <p>We report to beneficiary representatives quarterly, or on request.</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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