

**SI Responsible Investment
Report**

December 2019



Table of Contents

Overview.....	2
SIM broadens its investment responsibilities.....	3
Proxy voting.....	4
Engagements.....	5
Reporting.....	5
Policy development.....	6
ESG data scoring.....	6
Managing conflicts of interest.....	7
Activities in 2019.....	7
Changes made in 2019.....	8
SIM’s application of the CRISA principles.....	9

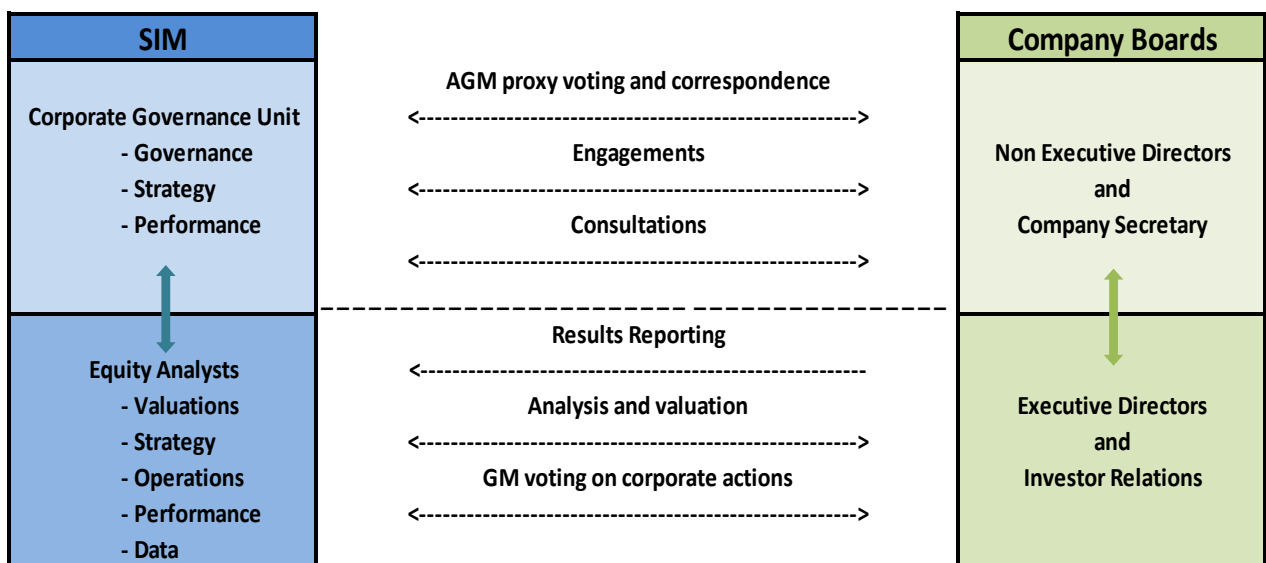


Overview

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 impact (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 2006, 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 interest 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 unabridged policy document on website
2018		Responsible debt investment policy (G)	Updated policy document, placed public voting record and approach to remuneration policy on website.
2019			Started incorporating ESG data scores in our investment process

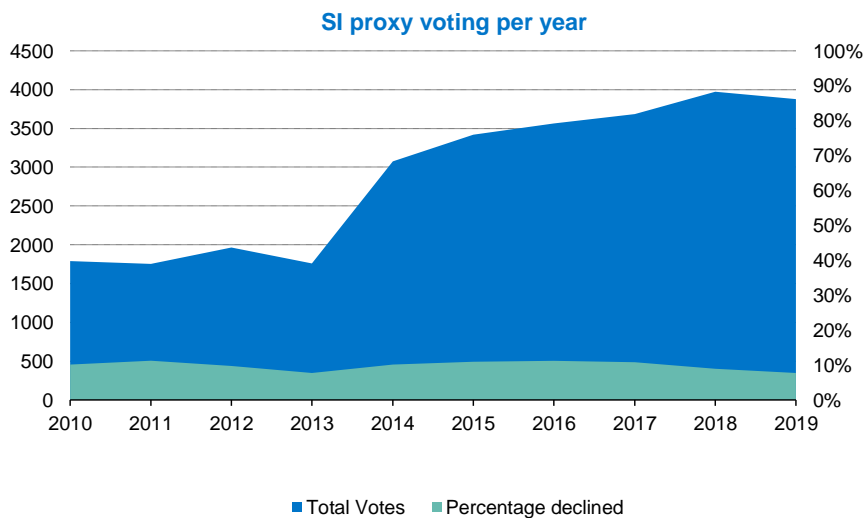
In 2006, we formed a committee to drive implementation of our governance responsibilities on behalf of clients. The Corporate Governance unit (CGU) then consisted solely of senior investment staff, but membership has since broadened to include Company Secretarial as well as client facing representation. There are currently 10 members.



Proxy voting

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*). Our voting activity over the last 10 years is depicted below.

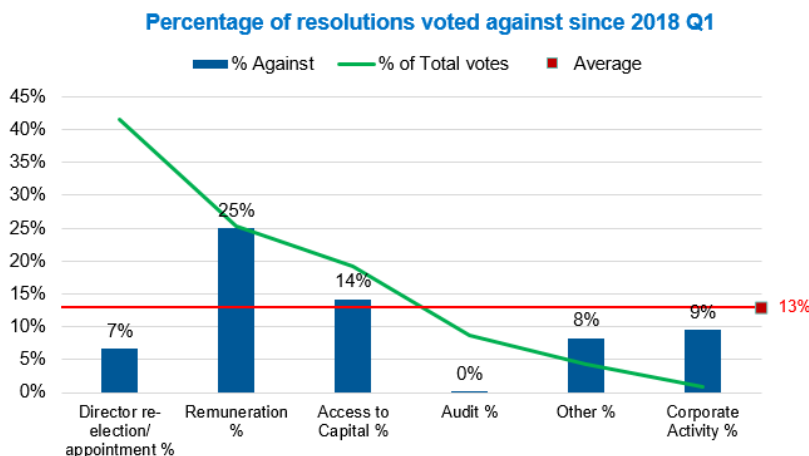
SIM proxy voting activity since 2010



- We vote on up to 3960 resolutions per annum
- We have declined 10% of resolutions historically

The chart below categorises resolutions and shows the proportion of votes declined in each category over the last two years. The majority of resolutions concern director appointments and re-elections on an individual basis, with remuneration-related resolutions the second most frequent. Over this period, we declined 13% of all resolutions. The categories most declined are remuneration-related (24%), as well as resolutions seeking authority to access capital on a general basis (12%).

Proportion of all votes (line, ranked) contrasted with proportion of votes declined per category (bars)



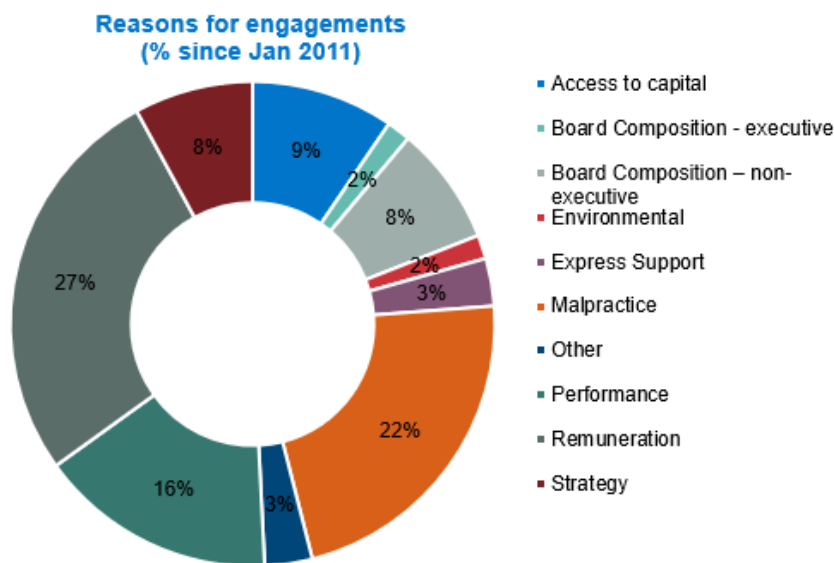
- We decline 25% of remuneration resolutions, which are 25% of all resolutions



Engagements

As further envisaged in *principles 1 and 2*, we **engage Boards** on behalf of clients in terms of our escalations policy, which was approved by the SIM Board in 2012, and to date, we have held over 60 engagements.

In 2018 we started to engage with companies jointly with other investment managers, due to increased complexity of topics (per *principle 3*). We commenced our first environmental engagement in 2019. The reasons for engagements are shown below.



- Reasons for engagements are mainly to do with remuneration arrangements
- We are also alert to malpractices such as anti-competitive behaviour and fraud allegations
- We started an environmental engagement in 2019

Most engagements have been for governance reasons

Reporting

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 also disclose our proxy voting activity to the wider public at quarter ends, via our website. We disclose our engagement activity to the 3 audiences as well.

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 **Responsible Investment Report** after SIM's 2012 December year end, and have updated them annually since.



Policy development

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. Integrated reporting sustainability disclosures have 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 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.

ESG data scoring

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. In 2019, we started subscribing to ESG data scoring from a global supplier, for use in research, portfolio construction as well as client reporting. We supplement this data with our own scoring systems for both equities and credit.

As required by principle 1, we incorporate ESG into our core investment processes via the equity and fixed interest teams, which support the SI businesses with model portfolio building blocks.

In the equities team, ESG scoring is incorporated into both the equities research and portfolio construction processes. We have developed our own ESG scores and are in the process of incorporating them into our equity research process. Our internal scores are compared with those of the external service provider for interpretation and analysis. Interpretation is required because, for example, the materiality of ESG factors varies between sectors. ESG scoring highlights areas for further analysis and enhances the research process. Scores are used implicitly as screening tools in the construction process, to mitigate risk. The investment horizon is broadened and extended as a result.

The fixed interest team has found that while the financials of a company give an indication of current credit quality, other factors need to be considered in order to determine its sustainability. Governance considerations are important, and environmental and social considerations are starting to play a bigger role in our credit assessment process. We therefore incorporate ESG considerations as inputs into determining a borrower assessment rating. Both qualitative and quantitative measures are considered in our Moody's Risk Analyst tool. ESG considerations affect the qualitative measures used as inputs. By incorporating ESG scoring and using it as a risk-management tool, we believe we are in a better position to invest in issuers where current credit quality is more sustainable. Inclusion of ESG factors also highlights certain risks that are not traditionally considered. We now focus specifically on ESG related risk factors when we meet with management teams.



Managing conflicts of interest

The SI 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 2019

Under Incorporation (Principle 1), we:

- Attended seminars and presentations on climate change, Governance, voting using block chain, and mission-aligned investing;
- Subscribed to receive ESG data scoring and set out to incorporate it into our investment processes in the equity and fixed interest teams.

We demonstrated ownership responsibilities (Principle 2) by:

- Voting on 3876 (3970 in 2018) shareholder resolutions by proxy, at 231 (250) shareholder meetings;
- Participating in proposing shareholder resolutions regarding climate change at an investee company AGM;
- Opening engagements with 6 (8) companies, as well as 1 State Owned Enterprise;
- Responding to final proposals for new equity Listings Requirements;

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 on 3 of the 6 company engagements undertaken as the range and complexity of topics increased, including our first environmental engagement regarding climate change transparency;
- We joined the PRI Africa discussion group;
- We also attended remuneration policy discussions arranged by PwC.



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

In terms of transparency (Principle 5), we:

- Completed client, intermediary and PRI questionnaires to report on our Responsible Investment activities;
- Continued to support a project to confirm votes cast using block chain technology.

Changes made in 2019

- We started to incorporate use of ESG data scoring, both external and internal, in our core equity and fixed interest processes;
- We employed an additional staff member in a temporary capacity to assist with Board consultations, on remuneration matters in particular.

The notion that we can ... get our regulator to focus on an amorphous set of qualities other than the long-term financial value of a corporation, I think we're fooling ourselves.

Having corporations accountable to one group, and that is shareholders, is a really valuable way to make sure they are doing the most that they can do for society. I don't think trying to give corporations and their managers multiple targets and multiple audiences to please is really a very wise idea.

SEC commissioner Hester Peirce, talking on CNBC



SIM's application of the CRISA principles

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.

Principle 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.		
CRISA Principles (incorporating possible actions form UN PRI)	Status	Comment
<ul style="list-style-type: none"> Address ESG issues in investment policy statement. 	√	We have ESG policies that have been approved by the SIM Board, including a new one for Responsible Debt Investment.
<ul style="list-style-type: none"> Support development of ESG-related tools, metrics, and analyses. 	√√	<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>
<ul style="list-style-type: none"> Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis. 	√	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.
<ul style="list-style-type: none"> Encourage academic and other research on this theme. 	√	We provide input to graduate students on request.
<ul style="list-style-type: none"> Advocate ESG training for investment staff. 	√	A staff member has completed a PRI Academy course. We provide training to analysts on credit scoring.

*A double tick denotes a change in previous year.



Principle 2: An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.

CRISA Principles (incorporating possible actions from UN PRI)	Status*	Comment
<ul style="list-style-type: none"> • <i>Exercise voting rights.</i> 	√	We vote on all resolutions for all investee companies, without abstaining on an ongoing basis.
<ul style="list-style-type: none"> • <i>Develop an engagement capability.</i> 	√	We have participated in 55 engagements to date.
<ul style="list-style-type: none"> • <i>Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).</i> 	√	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.
<ul style="list-style-type: none"> • <i>File shareholder resolutions consistent with long-term ESG considerations.</i> 	√√	We co-filed climate change resolutions for an AGM.
<ul style="list-style-type: none"> • <i>Engage with companies on ESG issues.</i> 	√√	We started a collaborative engagement on climate change transparency in a company.
<ul style="list-style-type: none"> • <i>Participate in collaborative engagement initiatives.</i> 	√	We have participated in collaborative investor lobbying activities, and collaborative engagements.
<ul style="list-style-type: none"> • <i>Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).</i> 	√	We participated in the WFE ESG Guidance questionnaire. (Described under Activities in the 2016 Report).
<ul style="list-style-type: none"> • <i>Ask for ESG issues to be integrated within annual financial reports.</i> 	√	Integrated reporting requires ESG disclosure. (See IOSCO Statement under Activities in the 2014 Report). It is standard practice in SA.
<ul style="list-style-type: none"> • <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> 	X	Companies do disclose this information in their integrated reports. We need to raise our knowledge base first before we engage further with them.
<ul style="list-style-type: none"> • <i>Support shareholder initiatives and resolutions promoting ESG disclosure.</i> 	√	We have supported Australian shareholder resolutions.

*A double tick denotes a change in previous year.



Principle 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.

CRISA Principles (incorporating possible actions from UN PRI)	Status*	Comment
<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). 	√√	<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>
<ul style="list-style-type: none"> Communicate ESG expectations to investment service providers. 	X	
<ul style="list-style-type: none"> Revisit relationships with service providers that fail to meet ESG expectations. 	X	We have not contemplated doing this.
<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 SIM against ESG integration by peer signatories.
<ul style="list-style-type: none"> Support regulatory or policy developments that enable implementation of the Principles. 	√	<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>
<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 mainly via the SA PRI network and ASISA, but we also attend seminars and are building up our network.
<ul style="list-style-type: none"> Collectively address relevant emerging issues. 	√	This is done via the PRI network and ASISA.
<ul style="list-style-type: none"> Develop or support appropriate collaborative initiatives. 	√	We have participated in collaborative investor lobbying activities.

*A double tick denotes a change in previous year.



Principle 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.

CRISA Principles (incorporating possible actions from UN PRI)	Status*	Comment
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.	√	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.

Principle 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.

CRISA Principles (incorporating possible actions from UN PRI)	Status*	Comment
<ul style="list-style-type: none"> Disclose how ESG issues are integrated within investment practices. 	√	Shown on website in our Responsible Investment Policies and Procedures Document, as well as in these Annual Reports.
<ul style="list-style-type: none"> Disclose active ownership activities (voting, engagement, and/or policy dialogue). 	√√	Shown on website under Proxy Voting. We now disclose our voting record publicly, as well as to clients and investee companies.
<ul style="list-style-type: none"> 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, or on request.
<ul style="list-style-type: none"> Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach. 	√	We update these Responsible Investment reports annually.
<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.

*A double tick denotes a change in previous year.

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

