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Investments

An aerial photograph of a savanna landscape. The ground is covered in dense, dark green vegetation. A path of reddish-brown earth winds through the center of the image. Three giraffes are visible, walking along this path. The giraffes have characteristic spotted patterns. The overall scene is captured from a high angle, looking down on the animals and the terrain.

Sustainable Investing & ESG policy

Sanlam Investments 2024



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1. Introduction

Sanlam Investments sustainable investing philosophy and beliefs

Sustainable investing is strategically important to us and also lies at the heart of our DNA. Impact-first frameworks and environmental, social, and governance (ESG) metrics, aligned with the United Nations sustainable development goals (UN SDGs), are anchored into all our investment processes to ensure we accurately measure our sustainability.

Sanlam Investments firmly believes that the evaluation of ESG factors enables asset managers to make more informed investment decisions, ultimately enhancing the sustainability of investment returns for our valued clients. Recognising this responsibility, mandated by regulatory and governance drivers, we align our beliefs with these principles.

To steer our ESG endeavours, we actively subscribe to the globally recognised United Nations-supported Principles for Responsible Investment (UNPRI). Additionally, we have embraced the Code for Responsible Investing in South Africa (CRISA) principles, aligning our practices with local standards.

We also acknowledge the significance of the UN SDGs and our national development goals outlined in the National Development Plan 2030 (NDP). In our commitment to making a positive impact, we aspire to direct our investments toward these crucial goals.

In line with Sanlam Investments' overarching perspective on sustainable investment, we have adopted the following beliefs, which serve as guiding principles in our decision-making processes:

- The focus on sustainability has become commonplace in investment markets and will increasingly be a key driver of structural change in countries, companies, and the markets in which we operate, as a result of the requirement for improvements in governance, environmental, and positive social impacts.
- An investee entity's attention (or lack thereof) to ESG factors can impact the value, performance, and reputation of the investments made on behalf of clients. Therefore, ESG considerations that are financially material must be included in our investment process and decision-making.

As part of our fiduciary responsibility to our clients, we have a duty to do the following:

ESG integration

- Evaluate ESG factors to better understand the risks and opportunities in our investments and make better informed investment decisions; and
- Hold the investee entities that we invest in accountable and encourage them to uphold and improve their standards across all ESG factors.

Stewardship

- As a large investor in local markets, we hold an above-average ability to influence investee entities and hence have a responsibility to include active engagement with investee entities as part of our ESG strategy.
- Additionally, voting on matters related to ESG issues is an essential aspect of our stewardship responsibilities. We will exercise our voting rights to support sustainability efforts and drive positive change within investee entities.



Socio-economic benefits

- Our ESG efforts, including engagement with investee entities and exercising voting rights, should focus on more than just ESG considerations that are financially material. We believe that our influence can generate socio-economic benefits in addition to sustainable and competitive financial returns.

Scope and purpose

This document outlines our organisational sustainable investment philosophy and overarching approach. Its application is across the business, providing guidance to our investment teams covering multiple asset classes and capabilities. In addition to this overarching approach, our intention is to develop capability specific frameworks and review them on an annual basis. At this stage we have the following capability frameworks in place and aim to expand these frameworks over time:

- Public Markets
- Private Markets
- Indexation
- Multi-Asset; and
- Multi-Manager funds.

2. Governance

i. Sanlam Investment Group Sustainable Investments Strategy Committee

In 2021, Sanlam Investments established an oversight committee, the Sustainable Investment Strategy Committee (SISC), to drive our sustainable investment initiatives and monitor and evaluate the implementation progress of the agreed priorities. Key elements of the committee's mandate include the following:

- Drive the vision on sustainable investing and impact.
- Set the overarching sustainable investment approach, priorities, and targets for Sanlam Investments.
- Monitor and evaluate the implementation of agreed priorities, outcomes, targets, policies and impact measurements.
- Establish and enhance sustainable investing related policies, guidelines and position statements.

The SISC is a sub-committee of the Sanlam Investment Group Executive Committee, and via the Sanlam Investments Chief Executive, reports to the Sanlam Investment Holdings (Pty) Ltd board of directors.

ii. Corporate Governance Unit

The Corporate Governance Unit (CGU) is a working committee established to strengthen the practice and implementation of ESG and Impact within all business units in the Sanlam Investment Group. The CGU comprises representatives of the different business units within the Sanlam Investment Group. The CGU reports into the SISC.

The role of the CGU is *inter alia* to facilitate effective review and input on the following:

- Responsible investing policies
- Climate related statements and alliance; and
- Alignment of investor engagement, proxy voting ESG integration and materiality frameworks.



3. Active ownership

Engagement

Sanlam Investments' stewardship activities are a fundamental part of its ESG incorporation approach and consist of engaging with investee entities on material ESG matters. This includes actively voting at the Annual General Meetings (AGMs) of companies in which we invest. It is our belief that active ownership is an essential activity that helps address systemic challenges and protects the value of our investments.

i. Engagement approach

When engaging with investee entities, our purpose is to either seek additional understanding or, where necessary, seek change that will protect and enhance the value of the investments for which they are responsible. Sanlam Investments systematically tracks and records the progress of engagements and takes both an active approach to engagement and responds to key issues relating to sustainability and governance matters that have a material impact on long-term financial performance. We commit to making both our proxy voting and engagement activity for listed instruments publicly available on our governance website.

Sanlam Investments' engagement approach involves a combination of proactive and responsive engagements by fostering a constructive dialogue with boards and management of investee entities. This may be conducted either directly or in collaboration with other investors. Through our partnership with Robeco, we are able to scale engagement efforts and focus on strategic themes to seek change and improve practices through their engagement programmes. Specific engagement themes are captured in our stewardship policy.

ii. Monitoring and evaluation

All engagements are carefully monitored and tracked with specific objectives in mind, to achieve targeted positive outcomes. Engagement outcomes are classified as positive, neutral or negative post the engagement process. The duration of engagements may differ, with proxy voting/AGM related engagements lasting for six months and deeper thematic and value-based engagements taking up to three years.

iii. Escalation process

Where engagements do not lead to the targeted results, Sanlam Investments may cast votes against the board and management at AGMs. Escalations may also contribute to a decision to decrease or exit a holding in severe situations. In addition, we may elect to pursue a legal route to resolve issues with boards. This would signal failure of any previous communication, escalation or dispute resolution methods.

Proxy voting

Sanlam Investments advocates Responsible Investment and are active owners. We encourage good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting guidelines have been developed and are designed to ensure that we vote proxies in the best interests of our clients and in a consistent manner.

These guidelines are based on the Companies Act of 2008 as amended, and the JSE Listings Requirements, which incorporate the recommendations made in the King Report on Corporate Governance for South Africa (King IV).

Sanlam Investments votes on all material shareholdings held on behalf of Sanlam, third party clients and collective investment schemes. Where requested or appropriate, we will consult with clients prior to voting. Sanlam Investments considers resolutions in line with our proxy voting guidelines and only supports these resolutions if they are congruent with market practice and governance standards. Voting guidelines and governance topics are disclosed in our stewardship policy.



4. Climate change

At Sanlam Investments, we believe that all aspects of ESG investing are equally important as per the overall policy and commitment of South Africa. The South African Just Energy Transition Investment Plan (JET IP) is about enabling the development of an effective climate change response, and a just transition to a low-carbon economy and a climate resilient society.

Our organisation is committed to acting urgently, but in a just manner, to ensure greenhouse gas emissions are minimised through companies switching to clean energy systems and environmentally friendly resources that mitigate the impacts of climate change.

	Key milestone	Action plan
#1	Call for climate action through active ownership	Proactive and direct engagements with investee companies on their climate response and disclosure levels Collaboration with other investors and platforms for climate action (e.g., Climate Action 100+)
#2	Systematic integration of climate matters into the investment process	Financial integration of climate-related risks in investment processes. Where this is not possible (e.g., indexation), other methods are recommended (e.g., stewardship) Evaluating both climate-related risks and opportunities for investment Internal fund-level reporting on climate-related matters by subscribing to niche ESG data Disclosing appropriate carbon-related metrics and targets, where applicable
#3	Investment toward climate solutions through a partnership with Climate Fund Managers (CFMs)	Investing in funds that invest in climate-related solutions and respond to the impacts of climate change Direct combination of expertise and ideas on effective response and adaptation to climate change issues
#4	Investment into renewable energy projects through our Sustainable Infrastructure Fund	Launched our Sustainable Infrastructure Fund Direct investments in energy solutions or investments Effective implementation and management of energy projects



5. Sustainable Investment Strategies

Sanlam Investments' solution-specific capabilities adopt differentiated sustainable investment strategies which are appropriate for their respective investment objectives and clients' needs.

There are four key types of strategy that are adopted, which can be described as follows:

Sustainable investment strategy	Description
i. ESG integration	This strategy involves the systematic inclusion and analysis of ESG criteria in the decision-making process when considering investing in a portfolio. This is based on the view that ESG factors can have a considerable impact on the security's future risk/return profile in the same way traditional financial factors can.
ii. Sustainability-themed investing	Sustainability-themed investing seeks to align financial objectives with broader sustainability objectives. These funds target specific outcomes that are linked to any of the 17 sustainable development goals. Examples include addressing issues such as inequality, water, energy, etc.
iii. Impact investing	Impact investing refers to an investment approach that aims to generate both financial returns and measurable positive social or environmental impact. It involves directing capital towards businesses or projects that address predefined impact objectives set out by the fund while still providing an appropriate return for the investor.
iv. Stewardship	<p>Stewardship involves ensuring responsible management of investee entities through active ownership.</p> <p>Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee entities.</p> <p>It can be applied differently in each asset class. For example, for listed equities it would include engagement and voting activities.</p>



6. ESG Integration – Public Markets

Sanlam Investments drives value creation by incorporating ESG considerations into its investee company valuations. Our portfolios adopt varied approaches to their ESG integration processes depending on the portfolios' investment objectives and clients' needs. Based on the investment solution and the mandated investment strategy, ESG is incorporated into the investment process to ensure ESG risks and opportunities are appropriately accounted for.

The integration includes assessing a company's ESG risks and opportunities, determining its actions and activities, and communicating future plans to its stakeholders on improving ESG-related business activities.

i. Public Equity

The equity sustainability framework primarily adopts a “financial integration” approach through the integration of financially material factors into the investment valuation process. This is done by leveraging off niche third-party research and our own internal research to develop a materiality framework on a sectoral basis. The issues are discussed at an investment analyst level and consequently integrated into valuation models and the broader investment process. ESG issues therefore influence our investment decisions through the impact they have on valuation and the margin of safety required for the perceived ESG risk inherent in the investment. This will typically initiate an engagement dialogue with the company concerned.

Active ownership is a backbone of sustainability integration efforts as it allows us to address thematic and more qualitative matters such as remuneration practices, board strength and diversity, climate risks and opportunities, and other social matters.

ii. Fixed Income

The fixed income sustainability framework primarily adopts a “financial integration” approach through the integration of financially material ESG factors into the investment valuation process. It involves analysing and evaluating ESG risks and opportunities alongside traditional financial metrics to enhance risk management and align investments with sustainable objectives.

We rely on both internal assessments as well as third-party research and expertise to identify and measure appropriate risk factors. By using third-party ESG research providers, we can also incorporate independent insights on sector-specific risks and opportunities into our investment decisions.

In addition to the integration of risk factors into the investment process and utilising third-party research, techniques such as thematic approaches and screening methods are applied. Thematic approaches focus on investing in securities that address specific sustainability themes, while screening techniques involve including or excluding securities based on predefined ESG criteria.

Furthermore, active ownership through company engagement is used to drive positive change and improve ESG performance within investee entities. By actively engaging with issuers, investors aim to mitigate risks and create long-term value in their fixed income portfolios.

iii. Indexation

Our indexation framework allows us to actively address material long-term systemic issues in the markets that we are invested in. We can, however, also incorporate a variety of other ESG techniques within specific ESG-themed strategies or in the design of our bespoke strategies.

As part of our active ownership ambition, we strive to increase our voting coverage for all material holdings where it is feasible to do so.



iv. Multi-Asset

Our multi-asset portfolios primarily use our single asset class solutions in their portfolio construction. Additionally, we, at times, include some bespoke asset selection and use internal and external foreign unitised solutions. The sustainability frameworks of the multi-asset solutions focus on:

- Understanding, influencing and monitoring the ESG strategies of the unitised solutions in which we invest
- Engaging with all stakeholders, including underlying investments, clients, consultants and others, to consider/advance initiatives that would enhance the sustainability of investments, such as potential mandate revisions that will better define the ESG aspirations of clients and/or enable a higher degree of impact investing
- Working with external service providers (such as Robeco and Bloomberg) to define additional ways to enhance the ESG impact of multi-asset solutions over and above the sum of the impact of the underlying solutions included in our portfolios
- Contributing to the integrity and integration of ESG data used across asset classes and underlying solutions
- Developing ways to report on ESG progress at a multi-asset level, in a way that enables meaningful interpretation and is relevant to our clients.

v. Multi-Manager

Sanlam Investments Multi-Manager business is a client-focused business that structures solutions in accordance with clients' objectives, requirements, and mandates. We therefore recognise that our approach to ESG investing must be flexible and will change depending on each client's differing requirements. That said, we categorise and acknowledge the various sustainable investment strategies as noted.

However, in all cases, we include ESG integration and, where possible, corporate engagement and shareholder action in our approach. As such, our default and minimum ESG practice for any mandate is:

- ESG integration: the systematic and explicit inclusion of environmental, social and governance factors into financial analysis and decisions; and, where possible,
- Engagement (and shareholder action): the use of shareholder power to influence corporate behaviour, including direct engagement such as communicating with board members, filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

It is important to note that:

- As a multi-manager, in almost all cases, we are not directly analysing underlying securities or directly making investment decisions on underlying securities ourselves, but rather selecting fund managers which carry out the former functions on our behalf; and
- The Sanlam Investments Multi-Manager's portfolio construction process aims to achieve the required return outcome with the most appropriate risk. In terms of risk, which is usually concerned with volatility, drawdown risk or other such similar risk measures, we envisage including ESG risk as an added dimension of risk in the optimisation process and would use ESG risk ratings as a risk input into the portfolio construction optimisation process.



7. Sustainability-themed Investing

Sanlam Investments believes in giving financial support to projects or businesses that address the UN SDGs – particularly those goals that align to our Local National Development Goals 2030. Thus, our sustainable themed strategy is used in funds and approaches which provide solutions to address these sustainability issues.

i. Sanlam Investments Sustainable Infrastructure Fund

Our local Sanlam Investments Sustainable Infrastructure Fund has a broad mandate that invests across the capital structure into a broad spectrum of essential infrastructure assets. These assets can be operational or in construction.

The fund invests in assets across renewable energy, conventional energy, transportation, communication, water, and waste-related assets. Strict ESG criteria are applied to support sustainable development.

ii. Climate Fund Managers

Climate Fund Managers (CFM) is a joint venture between FMO (the Dutch development bank) and Sanlam InfraWorks. CFM uses blended finance to mobilise private and public sector capital at scale to respond to the world's climate crisis by investing in climate mitigation and adaptation solutions.

8. Impact Investing – Private Markets

i. Private Equity

The Private Equity business consists of assets that are managed purely with commercial investment objectives in mind, and includes a fund (“the Sanlam Private Equity Mid-Market Fund I”) that adopts an ESG and impact strategy to enhance portfolio company performance and contribute towards key national and international development impact objectives.

To drive ESG integration the fund uses a comprehensive ESG management system. The system seeks to fully integrate ESG considerations into each stage of the investment process (from deal origination, through pre-investment screening and due diligence, to post-investment monitoring and final exit). The Private Equity team adopts an extensive exclusion list for the fund that outlines the types of investments that it will not finance through the fund. The list of prohibited activities, which are based on ESG principles and may be updated from time to time, will be applied to future investments made by the Private Equity team beyond the current fund.

An Impact framework was established to guide the fund's intended path to delivering on its impact objectives and assess its contribution to positive impact outcomes. The Impact framework is applied pre-investment to understand an investment's potential contribution to the fund's impact objectives and to support decision-making processes during the life of the investment in the pursuit of these objectives.



ii. Private Debt

The Private Debt business consists of assets that are managed purely with commercial investment objectives in mind, as well as funds that adopt impact strategies to contribute towards key national and international development impact objectives.

The Private Debt team adopts an exclusion list for its funds that outlines the types of investments that it will not finance through the funds. The list of prohibited activities, which are based on ESG principles and may be updated from time to time, will be applied to all of the funds as well as any new investments.

The Private Debt team established an Impact framework to guide each impact fund's intended path to delivering on its impact objectives and assess its contribution to positive impact outcomes. The Impact framework is applied pre-investment to understand an investment's potential contribution to the fund's impact objectives and to support decision-making processes during the life of the investment in the pursuit of these objectives.

Exclusions

Exclusions at Sanlam Investments only pertain to our alternatives business, particularly our impact funds. We recognise that responsible investment in this sector goes beyond simply choosing positive impact opportunities; it also entails abstaining from financing activities that contradict our sustainability principles. In our alternatives business, we adopt an exclusion strategy to harmonise our investments with ethical, social, and environmental considerations.

Exclusion lists:

Guided by the International Finance Corporations exclusion list, we maintain exclusion lists for our Private Debt and Private Equity funds. These lists outline specific activities and industries that are ineligible for financing due to their potential adverse effects on society, the environment, and human rights. We keep these exclusion lists up to date to reflect emerging sustainability challenges.

Prohibited activities:

Our exclusion lists encompass a range of activities, including, but not limited to:

- Production involving forced or child labour.
- Trade in illegal products according to host country laws or international regulations.
- Production or trade in weapons, nuclear products, and certain hazardous chemicals.
- Activities that contribute to deforestation, unsustainable fishing, and the degradation of natural habitats.
- Projects that infringe upon human rights, curtail individual freedoms, or involve serious abuses.

Responsible Investment decision-making:

Our investment decisions follow a thorough due diligence process. We evaluate potential investments against our exclusion lists to ensure they meet our ethical and sustainability criteria. Investments aligning with our values contribute to positive outcomes for society, the environment, and our stakeholders.



9. Monitoring and reporting

Alignment with best practice

In addition to national requirements, Sanlam Investments' approach is guided by current best practice with regards to sustainable investing and ESG matters. This includes, but is not limited to:

- The UNPRI, CRISA and UN SDGs as mentioned at the beginning of this report
- The International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (dated January 2012)
- The IFC Interpretation Note on Financial Intermediaries (dated November 2018)
- The King IV Report on Corporate Governance (dated November 2016); and
- The IRIS + System and Impact Standards.

These principles, frameworks and standards are considered and applied where relevant, or adapted to accommodate the realities and priorities of the local context in which we operate, based on the strategy, capacity and priorities of the capability in question. Furthermore, the specific capabilities may invoke other international standards and/or guidelines as deemed appropriate.

Sanlam Investments recognises that the application of the UNPRI may better align investors with the broader objectives of society. Therefore, where consistent with Sanlam Investments' fiduciary responsibilities, Sanlam Investments commits to the following:

Principle 1: Incorporating ESG issues into investment analysis and decision-making processes

Principle 2: Being active owners and incorporating ESG issues into ownership policies and practices

Principle 3: Seeking appropriate disclosure on ESG issues by the entities in which we invest

Principle 4: Promoting acceptance and implementation of the principles within the investment industry

Principle 5: Working together* to enhance effectiveness in implementing the principles

Principle 6: Reporting on activities and progress towards implementing the principles

*Working together may be defined as collectively addressing relevant emerging issues through collaborative initiatives or platforms with the PRI.

10. Transparency and disclosure

Sanlam Investments reports to our clients on the outcome of voting activities on their behalf. Because Sanlam Investments mostly votes by proxy, companies are informed of reasons for declining resolutions on behalf of our clients. In certain instances, we may also signal our intention to decline resolutions in future, should requested changes not be implemented. We make the outcome of our voting activities *public* via our website.

Should Sanlam Investments decline a resolution at a shareholder meeting, this decision will be communicated to the company secretary of the company concerned, and record of such communication will be kept. Sanlam Investments is transparent to clients on its governance policy and implementation. We advise our clients of all resolutions declined on their behalf, and the reasons therefore, in our quarterly report published documents.



i. Organisational KPIs

In light of our current priority, our initial Key Performance Indicators (KPIs) refer to our sustainable investing efforts. These KPIs will be evaluated annually and expanded as we progress through our roadmap.

Focus Area	Organisational KPI
ESG integration	Achieve '5 stars' for all Principles for Responsible Investment reporting modules in 2024/25.
Stewardship	Successfully draw and conclude our engagement programme and plan for the following year with at least three strategic collaborative partners.
Governance	Include environmental, social and governance KPIs in the Sanlam Investments executive team's balanced scorecard.

ii. Organisational disclosures

Sanlam Investments is committed to sharing its progress on sustainable investment. In line with this, the following reporting commitments have been made:

- Disclosure of ESG efforts to clients and stakeholders through the annual Responsible Stewardship and Investment Report and the PRI Transparency Report
- Implementation of the prescribed principles of the CRISA and provision of annual disclosure of these practices; and
- Disclosure of proxy voting and engagement records and analysis on a quarterly basis.



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