



SIM Responsible Investment Report
December 2016

Investments

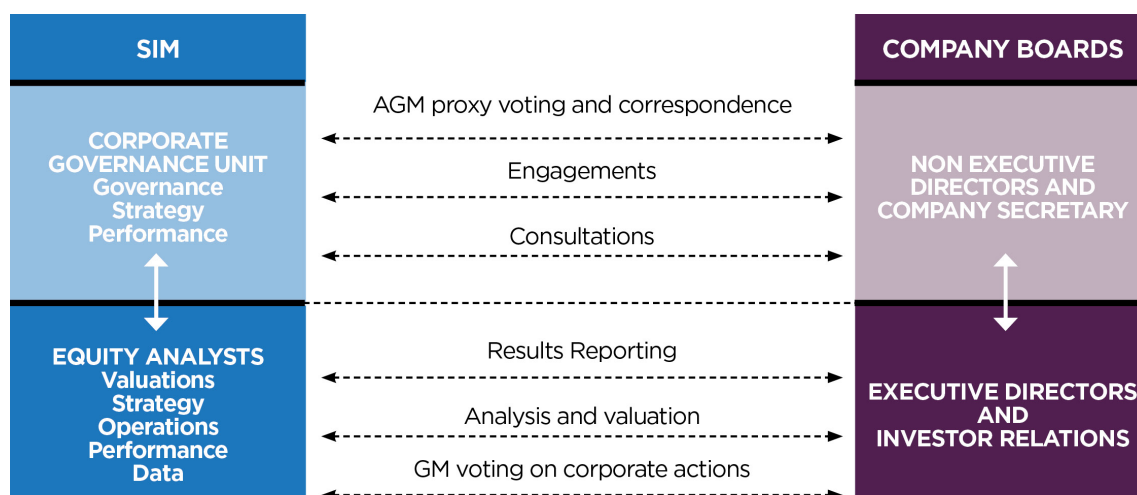


Overview

Our philosophy is to make use of the 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.*

We believe we are well placed to do this, due to steps taken over the last ten years.

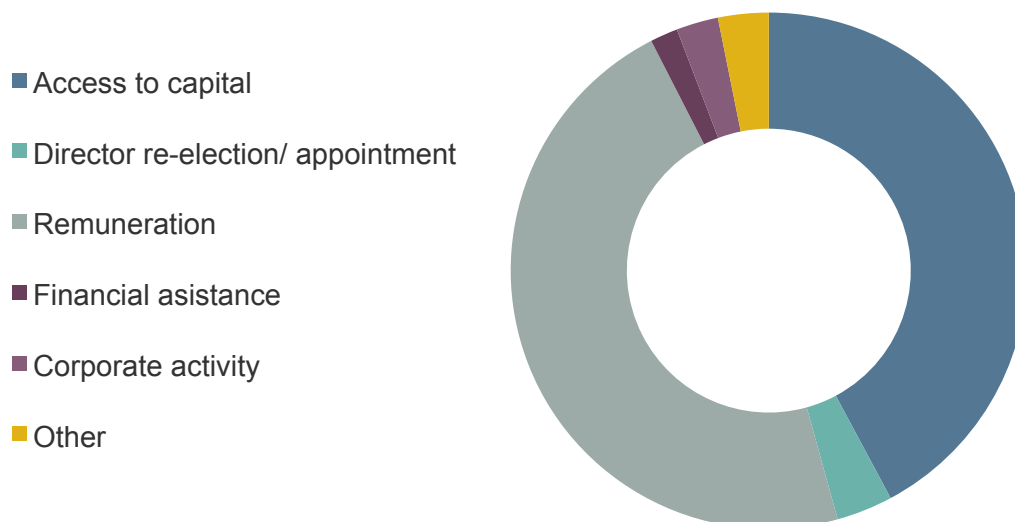
In 2006, we formed a committee to drive implementation of our governance responsibilities on behalf of clients. The Corporate Governance unit (CGU) then consisted solely of senior investment staff, but membership has since broadened to include company secretarial as well as front office representation. There are currently 8 members.

The first task of the CGU was to draw up a framework for voting proxies (as envisaged in *principle 1*). **SIM's policy and guidelines for proxy voting** was signed off by the SIM Board in 2008. Where mandated, we vote all proxies of companies in which clients are materially invested, without abstaining (as addressed in *principle 2*). In 2016, we voted on 3564 proxy resolutions.

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



Reasons for declining resolutions: (% since January 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 Corporate Governance Website](#)). We posted our first “apply or explain” report on the CRISA principles after SIM's 2012 December year end.

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

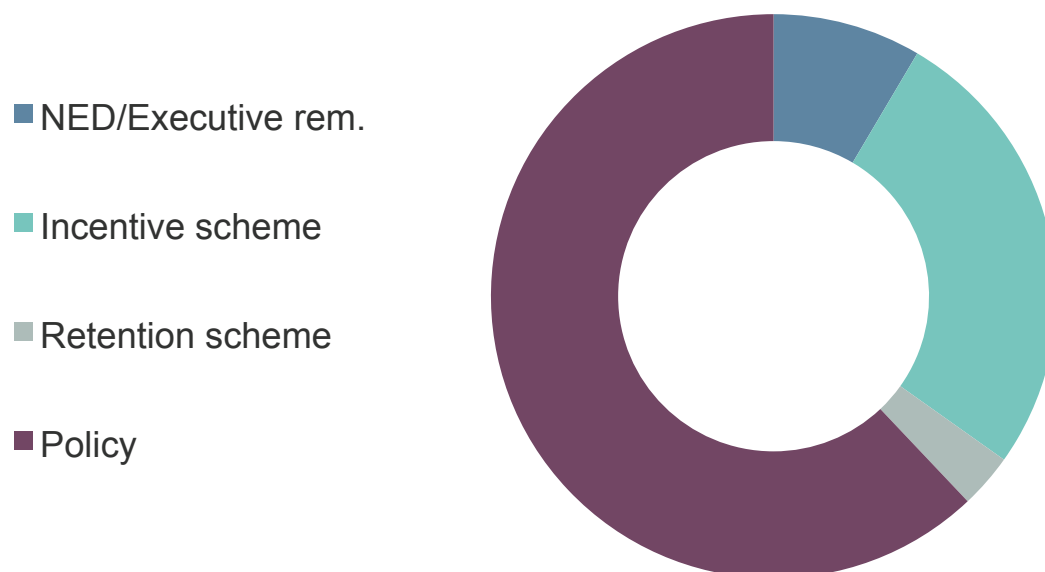
Later that year, the global financial crisis focused investor attention on variable remuneration (which was perceived to be incentivizing unwarranted risk-taking, particularly in financial companies). In response, we wrote a **policy to guide our approach to incentive and retention schemes**.

In addition, we are required to approve non-binding resolutions on company remuneration policy as a whole. Our reasons for declining remuneration-related resolutions are shown below. They are mainly to do with policy, because we concentrate on remuneration inputs more than outputs. Our preference is for 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.

Reasons for declining remuneration-related 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*. More recently, we initiated a pioneering project to make use of environmental data purchased from a firm of environmental economists based in the UK. Once completed, this will enable us to assess the materiality of externalities, compile environmental 'footprints' of portfolios, and gauge the extent of environmental risk to company and portfolio valuations.

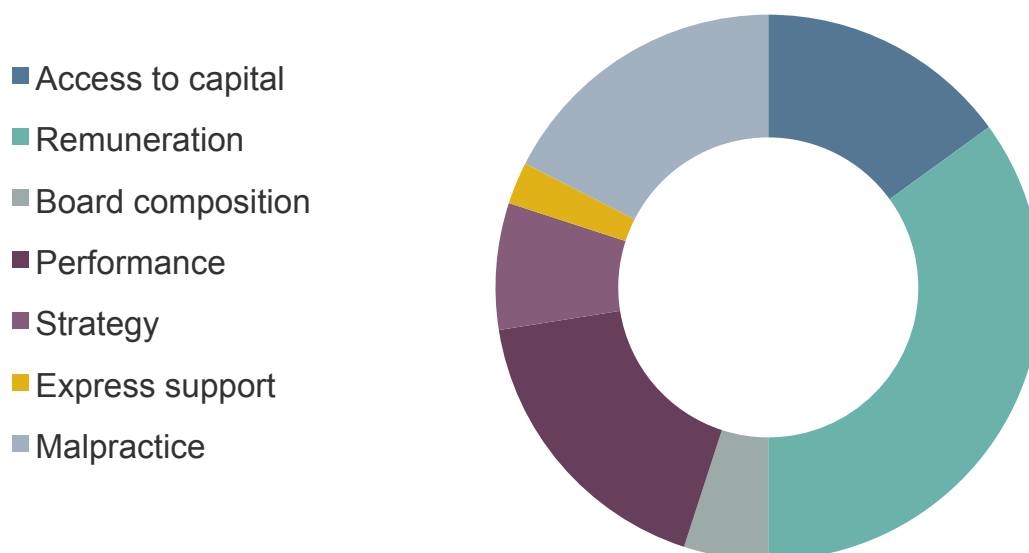
We have also sought the best way to incorporate environmental, social and governance principles and data into our **non-equity investment processes** (as envisaged in *principle 1*). In 2015, the SIM fixed interest team obtained approval from the Sanlam Central Credit Committee for their proposal to start incorporating ESG criteria into the credit approval process.

Over this period, we started to **engage Boards** of companies on governance and performance issues. We do this on behalf of clients in terms of our escalations policy, which was approved by the SIM Board in 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:

Reasons for engagements: (% since January 2011)



As the scope of the CGU's undertakings has broadened, we have drawn in further resources, including outsourced capacity, such as the data provider referred to above. A stockbroker has developed expertise in corporate governance. It scores Boards on their governance structures and practices and gathers data on Board pay. We store the Board score on our internal decision support system, for consideration in the process of portfolio construction, and use the pay data in considering whether to approve the remuneration of directors, both executive and non-executive. Best practice is that this be approved in advance. Another domestic stockbroker has started providing reports on responsible investing. Multinational stockbrokers may also incorporate SA companies in their responsible investment research reports.

The SIM business has itself established compliance, risk-management and internal-audit functions to identify and manage potential conflicts of interest (as required in *principle 4*). The **SIM conflict of interest management policy** provides a framework to promote transparency and fairness, while other Group policies provide guidelines for ethical conduct, combating financial crime, and gratifications. Compliance monitors the SIM insider information and personal account trading policies. Where required to prevent conflicts of interest, Sanlam Investments is structured into distinct clusters, and information flows between clusters is limited.

We see further development of our responsible investment capability being driven by our clients and their advisers. A challenge is to extend our activities into the other, non-equity, asset classes. Our approach is not to lead



the process amongst SA fund managers, lest we lose focus on our value-driven capital allocation process, but also not to lag, lest we lose the ability to set our own pace. Our intention is to play our part in securing a sustainable future for our land and all those who live in it.



Activities in 2016:

- We voted on 3564 (3347) shareholder resolutions by proxy, at 266 shareholder meetings;
- We opened engagements with 6 (6) companies;
- We participated in 2 collaborative lobbying initiatives – the PRI Statement on ESG in credit ratings, and the PRI Investor Statement on Fiduciary Duty.
- We participated in 4 consultations – with the PRI on Responsible Investment practices of Investment Managers; the World Federation of Exchanges on responses to their ESG guidance; the International Reporting Committee’s survey of SA investors’ usage of Integrated Reports, and with Climatewise on investment resilience from an insurance underwriting perspective.
- We progressed projects to gauge the extent of environmental risk to company and portfolio valuations, and to incorporate ESG criteria into the credit approval process; and
- We attended a meeting with UN PRI to discuss how to distinguish member leaders from laggards.

Changes made in 2016:

- We appointed and trained an additional staff member to vote proxies;
- We reviewed and updated our Responsible Investment Policy and Procedures document; and
- Renewed membership of the CGU. In particular, we thank Roy Chapman for his dedication to doing the right thing in equity research.

**May you always be courageous,
Stand upright and be true,
And may you stay,
Forever young — *Forever Young***

Bob Dylan, first musician to win a Nobel Literature prize, 2016



SIM's CRISA "apply or explain" commentary – end December 2016

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 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 ESG policies that have been approved by the SIM Board.</p> <p>We progressed a project to gauge the extent of environmental risk to company and <i>equity</i> portfolio valuations.</p> <p>We incorporate ESG criteria into the credit approval process.</p> <p>The PRI's statement on ESG in credit ratings called on rating agencies to include these criteria in their ratings. (Described under Activities in this Report).</p> <p>We provide input to graduate students on request.</p> <p>We provide training to analysts on environmental-damage valuations and 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 style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</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;">X</p> <p style="text-align: center;">X</p>	<p>We have participated in 40 engagements to date.</p> <p>We make inputs into the JSE's public consultation process on listings requirements, when appropriate.</p> <p>This is not market practice in SA yet.</p> <p>We have held several engagements on governance practices. We consult on environmental and social matters.</p> <p>We have participated in collaborative investor lobbying activities.</p> <p>We participated in the WFE ESG Guidance questionnaire. (Described under Activities in this 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>There have been no resolutions to date.</p>
---	--	---



<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>(See collaborative lobbying initiatives under Activities in this report).</p> <p>Both Sanlam and SIM are members of ASISA, which participated in setting the CRISA principles.</p> <p>This is done via the SA PRI network and ASISA, as well as a Sustainability Forum.</p> <p>This is done via the PRI network and ASISA.</p> <p>We have participated in collaborative investor lobbying activities.</p>
---	---	--



<p>4. An institutional investor should recognise the circumstances and relationships that hold a potential for 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.</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>



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