Sanlam

Live with confidence

Sustainable Investment and Impact Report 2021

Investments

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Foreword by Nersan Naidoo, Chief Executive of Sanlam Investments

At Sanlam Investments, the heart of our purpose is rooted in our journey towards long-term sustainability. As agents of change, everything we do is anchored in this greater purpose and we measure our success by the positive impact we have on people, communities and the planet. I am therefore extremely proud to present Sanlam Investment's Sustainable investment and Impact Report for 2021. This report highlights the meaningful strides that we have made toward our sustainable investing objectives and the positive impacts they've had over the course of 2021.

Looking back, we know that the 2006 edition of the World Economic Forum Global Risk Report alerted the world to the impact that global pandemics could have on countries, along with other health related risks. The report warned that "a lethal flu, its spread facilitated by global travel patterns and uncontained by insufficient warning mechanisms, would present an acute threat." With the advent of Covid-19 in 2020, the risk of a global pandemic became our reality.

Looking forward, the findings of this year's 16th edition of the same report could be highly instructive and helpful as we seek to orientate ourselves in a world that has become increasingly complex and interconnected. Prime amongst all themes are the risks from societal fractures, and the consequences of widening global wealth and income inequality. There are instances where the outcomes – when it comes to health, technology and employment opportunities – are directly attributed to the pandemic. In other instances, outcomes have worsened from their already stressed positions before the pandemic, placing further strain on weak safety nets and economies. This resonates strongly with all of us as South Africans. For us to build a more inclusive and accessible future, it is important that we appreciate how our decisions and actions now are vital to our future, especially as we emerge from the Covid-19 pandemic.

Sanlam Investments, as part of the greater Sanlam Group, contributes to a sustainability friendly, compliant and conscious operational organisation. Our staff are incredibly important stakeholders and we have worked hard to promote their ongoing emotional, physical and mental well-being during this difficult time. We also continue to invest in their skills development and education. Our risk and governance frameworks remain strong and we are proud that our sustainability practices have earned us inclusion into the JSE sustainability index basket.

This year also marks Sanlam Investments' first year as a black-owned asset manager. It represents an important marker in our journey towards our greater purpose and highlights our intent to contribute significantly to transformation of the asset management industry. The advancement of broad-based black economic empowerment in our country is a vital component of what we believe makes up a complete sustainable investing framework. It speaks directly to the need for addressing societal fractures, and widening wealth and income inequalities. It is an important step for our corporate profile to be underpinned by an ownership base that is more reflective of the South African country that we live in.

The world faces a complex web of environmental, social and governance risks. It is clear that in navigating this new world of change to create positive outcomes and mitigate or eliminate negative ones, asset managers need to be more proactive and practical as we mobilise capital toward a greater purpose.

Our Journey

Sanlam Investments is committed to playing a strategic role in securing a sustainable future for South Africa and all those who live in it, as well as those beyond our borders. We believe that safeguarding economic, environmental and social assets is the foundation of a healthy economy that generates sustainable returns for the future. Accordingly, we promote the incorporation of environmental, social and governance factors into investment frameworks in order to make better, more informed decisions about our investments.

Sanlam Investments subscribes to the global Principles for Responsible Investment which are supported by the United Nations and we have adopted the Code for Responsible Investing in South Africa. We acknowledge the need and importance of the United Nations Sustainable Development Goals and our country's National Development Plan. As part of our commitment to this agenda, we will report on our progress each year.

Our impact on sustainable investing

Sustainable investing is the foundation of our vision, mission and values – it is what makes us who we are.

The world has changed. To remain relevant, we need to change with it. As a global phenomenon and trend, sustainable and impact approaches to investing have grown significantly. Business leaders and investors are faced with an entirely new set of questions. Can we still rely on old business models? Will investor preferences change? How can we determine the risks of climate change on the businesses we invest in?

At Sanlam Investments, our ultimate aim is to be more than just an asset manager; we want to be agents of change. We want to help bring financial independence to all South Africans by boosting financial literacy, investing in job creation, reducing our carbon footprint and helping clients retire with dignity. We are looking out for the next generation in a way that goes beyond wealth creation. We are leading the way towards sustainable investing.

WE ACKNOWLEDGE THE NEED AND IMPORTANCE OF THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS AND OUR COUNTRY'S NATIONAL DEVELOPMENT PLAN.

Our purpose

Empowering generations to be financially confident, secure and prosperous.

Our vision

To distinguish ourselves as the leading sustainability-driven asset manager on the African continent.

Our mission

We are aligned with the United Nations' Sustainable Development Goals and sustainable investing frameworks are anchored into our investment processes. We measure our success by the positive impact we have on people, communities and the planet.

Our values

- Growing shareholder value through innovation and superior performance.
- Caring because there is respect for one another.
- Serving with pride.
- Leading with courage.
- Acting with integrity.

Oversight of Sustainable Investment and Impact Matters

Governing sustainable investment

In 2021 we formed an oversight committee to drive our sustainable investment initiatives and monitor and evaluate the implementation progress of the agreed priorities: The Sustainable Investment Steering Committee. This committee is a sub-committee of the Sanlam Investment Exco and reports to the Sanlam Investment Holdings board of directors through the Sanlam Investments CEO.

The committee's role is to drive the Sanlam Investments vision on sustainable investing and impact, by setting the general strategy, priorities and goals of proper implementation for the respective sustainable investment strategies that have been adopted by business areas within Sanlam Investments. Key areas of progress relating to our sustainability integration efforts include the following:

- Adopting organisational key performance indicators that range from the maintenance and improvement of the Principle for Responsible Investing score for our reporting modules, to forming a holistic governance function and implementing our sustainable investment framework.
- Increasing the share of our assets across the product spectrum that have sustainable investing features embedded into their investment processes, relating to sustainable investing or impact goals.
- Continuing to invest in our partnership with Robeco, a world-leading expert in sustainability. This will support and accelerate our advice, solution-creation and investment framework implementation, in line with global best practices.

Governance structure

Composition of the committee:

Chief Executive of Sanlam Investments, Head of Sanlam Investments Distribution, SIG Head of Legal & Company secretariate.

ESG specialist representation for listed and unlisted assets.

→ **Chair of the Sustainable Investment Steering Committee**

→ **Sanlam Investments Exco** → **Sanlam Investments CEO** → **SIH Capital Holdings Limited Board**

Key matters for the committee

- Drive the vision on sustainable investing and impact.
- Development of ESG work plan.
- Set the general sustainability strategy, priorities and targets.
- Establish and enhance a sustainable investing policy.
- Monitor and evaluate the implementation of agreed priorities, outcomes, targets and policies.

Matters for approval by the committee

- Sustainable investment policies.
- ESG integration frameworks.
- Stewardship approach.
- Developments and improvements in ESG research, active ownership, and ESG integration.

Launch of Sustainable Investment Steering Committee and governance structure in Q1 2021

Over the next few years the Sanlam Investments Steering Committee will continue to play a central role in establishing and driving the sustainability agenda of Sanlam Investments. Our journey towards sustainability integration will continue to focus on the first upstream integration phase, underpinned by environmental, social and governance integration and the stewardship function. This places specialist emphasis on setting the agenda, bringing scale to the investment process and reporting practices. The solution-creation phase will follow, focusing on data and technology, identifying outcomes, setting policy targets and devising product solutions. Reporting forms our third and final phase and is a key outcome. We are excited for the future to come.

Organisational KPIs

Focus areas:

ESG integration

Achieve an 'A' score for the Principles for Responsible Investment on all reporting modules.

Stewardship

Successfully start at least three strategic engagement programmes in South Africa over the next three years.

Governance

- Establish a sustainable investment oversight committee for Sanlam Investments.
- Develop an overarching Sustainable Investment Policy.
- Include environmental, social and governance KPIs in the Sanlam Investments executive team's balanced scorecard.

OUR JOURNEY TOWARDS SUSTAINABILITY INTEGRATION WILL CONTINUE TO FOCUS ON THE FIRST UPSTREAM INTEGRATION PHASE, UNDERPINNED BY ENVIRONMENTAL, SOCIAL AND GOVERNANCE INTEGRATION AND THE STEWARDSHIP FUNCTION.

Overall philosophy and investment policy

- ESG to be embedded in philosophy and investment policy
- Establishment of organisational focus areas, priorities and KPIs

Fundamental analysis

- Subscription to niche ESG research to develop a materiality framework and incorporate material ESG factors in the valuation process
- ESG controversy screening on existing investments
- Internal ESG assessments to identify ESG risks, opportunities and areas of concern for stewardship

Portfolio construction

- Company ESG profiles considered when deciding level of exposure
- Innovative active and index-linked ESG products

Active ownership

- Proactive and responsive engagement on material ESG issues, utilizing direct methods and collaborations
- Commitment to leveraging the power of voting at AGMs

Reporting

- Annual Sustainable Investment and Impact Report
- Quarterly proxy voting reporting and disclosure of annual engagement activity
- Disclosure of all sustainability themed policies on website
- Transparency of progress through the UN PRI reporting framework

Our Overarching Approach to Sustainability Integration

Our philosophy and beliefs

We believe that by evaluating environmental, social and governance factors, asset managers can better understand the risks and opportunities in their investments and make better-informed decisions. We encourage investee companies to conduct their operations in a way that meets the interests of their stakeholders in a sustainable manner, without compromising the needs of future generations. We believe that considering environmental, social and governance factors as part of our investment decision-making and ownership practices will impact the value, performance and reputation of the investments we make on behalf of clients. Furthermore, we believe the following:

- ESG factors that are financially material must be incorporated into our investment process and decision making.
- We need to engage and seek appropriate disclosure from all market participants on material ESG matters, as active owners.
- We can create socio-economic benefits, in addition to competitive financial returns.

Sustainability policy and framework

The Sanlam Investments capabilities adopt different sustainable investment strategies and are appropriate for various investment objectives and client needs. Our organisation's overarching philosophy is that we should act in a sustainable way towards the environment, society and all its stakeholders. There are three types of sustainable investment strategies that are adopted: financial integration, exclusions and impact or thematic strategies.

Building internal capacity

Training and capacity building are integral to effectively embedding sustainability strategies, policies, commitments and management systems into the relevant capabilities. Training and capacity building will be specifically targeted at building a sustainability culture and creating awareness around such issues, as well as developing and enhancing key competencies to support the effective implementation of sustainability policies, guidelines and development systems at a capability level.

ESG integration techniques	Description
Financial integration	This strategy involves the systematic inclusion and analysis of ESG criteria as part of the decision making for a portfolio's investment process. This is based on the view that ESG factors can have a considerable impact on a security's future risk/return profile in the same way that traditional financial factors can.
Exclusions	This strategy is also referred to as negative screening. It entails adopting an exclusion criterion which may exclude certain sectors, companies or countries from a portfolio's investment universe. Common examples include tobacco, weapons, alcohol, nuclear power, gambling and pornography.
Impact/thematic	This thematic strategy targets specific beneficial outcomes that are linked to sustainability challenges. Common examples include challenges like affordable housing, food scarcity, population health, energy or climate change.

Equities

Our ESG integration framework

The Sanlam Investments equity capability has primarily adopted a financial integration approach to fostering a deeper understanding of company and industry specific issues. Through this, we are able to integrate material and measurable matters into our valuation process. The financial integration approach is constantly evolving and quality research remains the backbone, allowing investment professionals to integrate financially material issues into the investment process and discipline. Engagement and monitoring of environmental, social and governance issues is a critical step of the incorporation process as it allows us to address and track priority issues with investee companies. This dialogue is conducted by both investment and ESG professionals with investee company boards and senior management teams. Issues to date include the alignment of shareholder interests through remuneration structures, quality and efficacy of boards, company-specific controversies and the level of overall ESG disclosures.

Combining external research with proprietary tools

Sanlam Investments subscribes to third party environmental, social and governance data providers to obtain ESG risk ratings, consistent sectoral research, company-specific research and controversy feeds. This ensures a robust and continuous data source. In addition to this, we have developed a proprietary flagging system to assess ESG risk. This assessment is conducted by our analysts to ensure a thorough coverage of ESG matters by complementing third-party research.

Spotlight with Marlo Scholtz, Head of Equity Research

Environmental, social and governance issues are becoming more financially material

We always have a big focus on corporate governance and place high value on the integrity of annual accounts and management. The most material impact on our valuation has historically been due to bad corporate governance. Carbon emissions, carbon tax and other environmental hazards are also becoming increasingly material factors in our research process.

The differences between external and internal ESG ratings

External ESG rating providers are normally global companies that follow global best practice. Local companies that don't have the right disclosure or lack the right documentation are often heavily penalised. In a South African context, certain factors such as unemployment, BEE or inequality often have an increased importance versus a global context. Our analysts interact on a one-on-one basis with the management teams of the companies we invest in. This allows them to get clarity on items that might be lacking in disclosure and get context for ESG factors that might have less or more of a material financial impact in a South African context.

External ESG rating providers are therefore a good starting point, but having our own proprietary internal ESG scorecard allows us to have an intelligent overlay for the South African market.

Key progress areas

As a team we have improved our internal scorecard to make it more user friendly. The scorecard is used to assess ESG risk and is a practical tool used by our in-house analysts to identify key issues. Providing expert ESG guidance to our analysts has led to better informed ratings and greater consistency in the scoring.

EXTERNAL ESG RATING PROVIDERS ARE THEREFORE A GOOD STARTING POINT.

Equity Case Studies

Sasol

The issue at hand

Sasol's emissions from its synthetic fuel facility create significant risks to the long-term future of the business. These risks are difficult to quantify at this point and include the rising cost of carbon, potential regulations to reduce emissions and the potential cost of lowering those emissions.

In our valuation we allow for depleting gas reserves and also the likely impact of specific ESG related issues such as Sasol's emissions, carbon tax and clean fuel regulations. Over time, to comply with the Paris Accord, Sasol could even lose its license to operate its Synfuels facility in South Africa, which would adversely affect the profitability and value of the business. Sasol is pursuing a number of mitigation options, which include the increased use of renewable energy, increased use of natural gas and the potential introduction of green hydrogen. At this point, the company has not provided any cost estimates of the mitigation options being pursued but the costs could be significant, in our view. We estimate that if the plant ceases to operate in 2035 (compared with the accounting life to 2050) the value lost would be material.

Impact to valuation driver

Sasol addressed a number of these issues at its Capital Markets Day, which was held in September 2021. The long-term concerns over emissions and the company's plans, its ability to reduce emissions and secure the long-term future of its South African assets, will remain an overhang on the investment case for several years.

Consequent investment decisions in light of the ESG issues at hand

Taking these factors into account, we have reduced our intrinsic value for the counter.

Tiger Brands

The issue at hand

ESG controversy: Recall of KOO and Hugo's cans produced from 1 May 2019 to 5 May 2021 due to faulty packaging.

Impact to valuation drivers

Although the financial impact to our intrinsic value was not that material, the bigger concern is that this is another controversy in a growing list of controversies within the Tiger Brands Business. Class action due to Listeriosis outbreak, the bread price-fixing saga, fraud in its Kenyan business Haco, the disastrous Dangote deal and a trademark dispute in Nigeria, are just some of the issues that have plagued the business over the last number of years. It raises concerns around the controls inside the business and if an investment in this counter requires a bigger margin of safety.

Consequent investment decisions in light of the ESG issue at hand

Intrinsic value is reduced and portfolio managers now require a higher margin of safety to invest in this counter.

SASOL COULD EVEN LOSE ITS LICENSE TO OPERATE ITS SYNFUELS FACILITY IN SOUTH AFRICA, WHICH WOULD ADVERSELY AFFECT THE PROFITABILITY AND VALUE OF THE BUSINESS.

Fixed Income

Our integration framework

Sanlam Investments manages the fixed income universe with the view that environmental, social and governance factors can be incorporated in a variety of ways to help generate enhanced returns, mitigate risk and meet specific client objectives within a portfolio. We believe that this approach can support better-functioning capital markets and have a positive impact on the communities in which we operate and on our planet. Consequently, we encourage investee companies to conduct their operations in a way that meets the interests all of their stakeholders, without compromising the needs of future generations.

There are three main ways in which ESG factors are incorporated into the investment process. Firstly, through screening out non-mandated instruments or issuers, secondly, integration of financially material ESG risks, and lastly, investing thematically (for example, in support of green projects). We believe, as custodians of assets, that we have a fiduciary duty to hold companies accountable and encourage them to uphold and improve their standards on all ESG factors. In addition to financial integration, our stewardship activities of engagement and voting form the backbone of our overall approach. We do not apply an exclusion policy, unless mandated by clients. ESG factors are addressed at both the credit analyst and investment level.

Pre-investment

- No exclusions are applied, unless mandated by clients.
- Sustainalytics company / sectoral research is utilized to identify financially material issues.
- ESG factors are incorporated into the decision making process (valuation and position sizing).

Post-investment

- ESG portfolio reporting is applied to monitor ESG profiles.
- Responsive ‘engagement’ on ESG matters is conducted with management on ESG controversies or severe ongoing issues.

ESG integration framework

Investment research

Identifying material ESG factors (at the issuer level, as well as for individual securities) that may impact downside risk (or provide topics for engagement).

Security valuation

Integrating the material ESG factors into financial analysis and valuation, e.g. through internal credit assessments/investment analyst assessments.

Portfolio management

Including the ESG analysis in decisions about risk management and portfolio construction, e.g. through sector weightings.

Spotlight with Mokgatla Madisha, Head of Fixed Income

The main ESG concerns for fixed income investments

Governance remains the number one concern between environmental, social and governance factors within fixed income. We believe that strong, knowledgeable and ethical management teams should translate into strong governance. Strong governance in turn leads to strong social and environmental performance. We are also concerned that the social aspect of ESG is not emphasised enough in the South African market, given the country's high unemployment rate and social difficulties.

Therefore, we have engaged both issuers and originators to focus on this and highlight the need to grow the social bond segment of the market.

Secondly, we note that the issuance of sustainability-linked bonds has increased in the South African market (sustainability linked bonds are bonds where the proceeds are not ring-fenced to green or sustainable purposes. Instead, an issuer has certain pre-defined key performance indicators, which are assessed against certain sustainability performance targets). We are concerned that some of these issuers might apply greenwashing (greenwashing is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound than they really are. Greenwashing is considered an unsubstantiated claim to deceive consumers into believing that a company's products are environmentally friendly).

To try and prevent the occurrence of this, we have engaged with both issuers and originators to highlight the need to focus on relevant, measurable and material metrics. Where metrics do not meet our criteria, we have either decided not to participate or to price the bond as a vanilla unsecured bond (giving no pricing benefit to the metrics provided). We provide feedback to originators and issuers when we arrive at that conclusion.

STRONG GOVERNANCE IN TURN LEADS TO STRONG SOCIAL AND ENVIRONMENTAL PERFORMANCE.

Fixed Income Case Studies

Governance risk impact on investment decisions

Investment opportunity

The opportunity exists to roll-over or renew existing exposure to a financial services company that operates in Sub-Saharan Africa.

The issues at hand

Governance

- Key management positions remain vacant for a number of months.
- Management instability.
- Timeliness of communication.

Social

- Regulatory risks exist in the countries in which they operate. Changes to regulations could change the business dramatically.

Impact to valuation driver

Subsequent to various engagements with new management, we are comfortable to retain the current internal credit rating.

This is due to the fact that there were strong new appointments and strengthening of the risk function. However, we are still very much aware of the existence of external risks.

Consequent investment decisions in light of the ESG issues at hand

We were of the opinion that the proposed spreads for the new issuance did not compensate us for the risk. Therefore, we did not participate in the issuance and our exposure matured.

Social unrest impact on business models

Investment opportunity

Discussion with a REIT is currently underway with regard to an upcoming auction.

Issues at hand

Social and inclusive growth

The recent civil unrest was discussed, highlighting the broader socio-economic issues experienced in South Africa. This has emphasised that ignoring social issues poses a large risk to REITS and that these issues should be addressed adequately going forward. This is especially relevant for this company due to the geographic location of their properties and them focusing largely on rural community shopping centres.

Impact to valuation drivers

During previous engagements with this counterparty, we shared our opinion that the REIT should reserve a portion of their malls to cater for local entrepreneurs. Although they do have many small local tenants and they understand the need for that offering, they also noted that their team still need to have a high proportion of national tenants, as this creates stability in income and leads to lower costs. The REIT also mentioned the need for rural communities to have access to large national retailers. After a recent engagement with this counterparty, we noted that they were the REIT with the largest exposure to damaged property during the civil unrest. However, they were confident that they could restore activity to most of the shopping centres within a matter of days. They stated that they had a good relationship with the communities in surrounding areas and had no intention of changing their business model.

They established an academy to train and create jobs in the property sector. They are also starting an initiative to identify certain SMEs with potential and mentor them to ensure future success. We believe that this counterparty has a good understanding of the social issues impacting their business, distinguishing them from some of their peers. Therefore, we have not deemed it necessary to change our view of the internal credit rating.

Consequent investment decisions in light of the ESG issues at hand

After deriving comfort from our discussion with this counterparty, we are confident to participate in the upcoming auction.

Index Tracking

Introducing the Satrix Inclusion and Diversity ETF

As the people's brand, Satrix wants to help facilitate change and drive greater inclusion and diversity across South African companies. Satrix's new, one-of-a-kind Inclusion and Diversity ETF is ideal for like-minded investors who value companies with high levels of inclusion, diversity and people development, and low levels of controversy. It provides an opportunity to select companies with a greater chance at innovation and long-term growth.

The initial public offering of the Satrix Inclusion and Diversity ETF opened on Tuesday, 20 July 2021. The ETF gives investors exposure to the top 30 JSE-listed companies that best demonstrate and promote the values of inclusion and diversity in the workplace. The ETF uses key metrics such as gender, race, physical ability and background to make up four categories that form the pillars of inclusion and diversity.

How the ETF works

The ETF tracks the Refinitiv Satrix South Africa Inclusion & Diversity Index. This index only consists of stocks listed on the Johannesburg Stock Exchange. The index identifies JSE companies that meet a specific set of economic, social and governance criteria. The index then measures those companies against four pillars: diversity; inclusion; people development; and news & controversies. Together the pillars incorporate 25 factors that each support a diverse and inclusive environment.

Each company is assigned a score for each of the four pillars. Companies with a positive score on all four pillars are assigned an overall score, which is simply the average of the pillar scores. They are then ranked based on their overall score in descending order, and the top 30 are included in the index.

The 30 resultant companies are subsequently weighted according to their free float market capitalisation and adjusted for liquidity. Following this, they are capped at 10%. A sectoral cap of 30% is also applied.

Investing in change, because diversity wins

As part of owning the market, this is an opportunity to drive further change. By supporting companies that are more inclusive and diverse, we encourage other companies to pursue more inclusive and diverse strategies, policies and practices. Now more than ever, a greater spectrum of strong voices is able to contribute to the greater good, catalysing unprecedented success. By choosing to invest in companies based on a combination of inclusion and diversity factors, we are able to drive the change we wish to see in the world.

Step 1

JSE universe

Step 2

Refinitiv ESG criteria applied

Step 3

Index's inclusion and diversity criteria applied

- Companies assigned four pillar scores.
- Companies ranked on score average.
- 30 companies with highest inclusion and diversity scores selected for index.

Step 4

Index weighting

- Companies weighted by free float market capitalisation.
- Companies adjusted for liquidity.
- Company allocation capped at 10%.
- Sectoral allocation capped at 30%.

Alternative Investments

Thought leadership with Mervyn Shanmugam, Chief Executive

Investing for impact and commercial returns: can one have both?

Over the past decade the fiduciary responsibilities of retirement fund trustees have expanded significantly to the extent that responsible investing, including sustainable investing and impact investing, is now part and parcel of their role – delivering sound risk-adjusted returns for retirement fund members, while at the same time building a better world for these members to retire to. However, some scepticism remains around responsible investing's ability to match traditional assets in terms of investment performance. We, on the other hand, have no doubt that responsible investing – specifically in the form of impact investing through unlisted investments – is able to deliver suitable risk-adjusted outcomes for retirement fund members. And the body of evidence supporting this viewpoint is growing.

The future is in the hands of today's trustees

In September 2015, 193 countries signed and adopted the 2030 United Nations Agenda for Sustainable Development, with the UN estimating that the global gap to implement the 17 sustainable goals ranges from US$3 trillion to US$5 trillion annually.

Already in 2011, the global commitment to sustainable investing was marked locally by the introduction of the Code for Responsible Investing in South Africa, and in 2012 by subsequent changes to the regulation governing South African retirement funds (Regulation 28). These set out prudential guidelines for retirement fund investments to incorporate environmental, social and governance factors into their overall risk mitigation and investment decision-making process.

RESPONSIBLE INVESTING HOLDS THE KEY TO BETTER RISK-ADJUSTED OUTCOMES FOR RETIREMENT FUND MEMBERS.

Responsible investing is not philanthropy

It is important to note that responsible investing is not the same as philanthropy, the quest to do good without concern for profit or the expectation of a monetary return. On the opposite end of the capital deployment spectrum from philanthropy is traditional investing, for example chasing returns without considering the environmental, social and governance by-products of a particular investment strategy.

In between these two opposites sit various strategies that can be called on when implementing a sustainable investing framework, of which we list a few below:

Negative screening: filtering out assets deemed to have a negative effect on society, for example tobacco, arms and gambling.

ESG integration: overlaying traditional asset selection with consideration of ESG factors.

Thematic investing: aligning a portfolio with a specific sustainability theme, such as climate change or job creation, based on an economic motive or investors' need to align the portfolio with their specific values.

Impact investing: choosing specific investments, typically made in private markets, aimed at achieving measurable social and environmental impact.

Sustainable investing: adopting progressive environmental, social or governance practices to enhance value.

Responsible investing: aiming to counteract risky environmental, social or governance practices to protect value.

With impact investing, social and environmental impact is usually defined globally as aligning with the UN's 17 sustainable development goals.

Alternatives are a great fit for impact, responsible and sustainable investing

Impact investing traditionally entails private (unlisted) investments made into companies or real assets with the purpose of making a significant social and environmental impact alongside strong financial returns.

This type of investment falls squarely within the ambit of alternative investments, particularly private equity, private debt as well as infrastructure and unlisted property. The benefits of allocating part of a retirement portfolio to alternative asset classes are well documented and it is not our intention to present the entire case for investing in alternatives here. We will focus on the importance of allocating to impact investments specifically within the broader alternatives class.

Impact investing can and has generated market-beating returns

Investors who have not yet allocated to impact investing sometimes hold the view that responsible investing sacrifices returns for the 'do good' factor. But this is perhaps a moot point. As US-based firm The Carlyle Group points out, internationally the same companies often receive financing from both traditional asset managers and dedicated impact funds. In fact, what Carlyle found when researching a variety of impact investments is that 'it is precisely the societal goals of the impact investor – diversity and inclusion, environmental sustainability, responsible governance – that increasingly generate the above-market returns sought by the market as a whole.'

Carlyle also argues that it is no longer possible to generate the type of returns investors have become accustomed to without investing for impact, as the tailwinds from falling finance costs, recovering economies, or rising valuations have all but disappeared. In the new economic climate, investors have to generate their targeted returns by assisting with consistently building better businesses.

IT IS NO LONGER POSSIBLE TO GENERATE THE TYPE OF RETURNS INVESTORS HAVE BECOME ACCUSTOMED TO WITHOUT INVESTING FOR IMPACT.

Even when supporting companies with bigger payrolls, impact investing still delivers higher returns

For Carlyle, their past seven years' performance data proves the ability of impact investing to deliver superior returns, specifically where the investment also led to job creation. Among all Carlyle's US investments completed since 2013, every 10% increase in payrolls (excluding the effects of mergers) has been associated with a 21.4% increase in cumulative returns. Among investments where employment growth exceeded 15%, average returns were nearly 60% higher compared to investments where headcount declined, on average.

Bringing this closer to home, our experience within the impact funds within the Sanlam Investments' Alternatives stable has also demonstrated similar resilient investment performance, particularly during times of crisis.

More evidence that impact investments do not have to stand back when it comes to performance can be found in the Global Impact Investing Network report of 2017, Perspectives: Evidence on the Financial Performance of Impact Investments.

The report independently reviews over a dozen studies produced by a wide range of organisations on the returns of the three asset classes commonly used for impact investing: private equity, private debt and real assets.

Impact investing achieves market-like returns for a variety of risk appetites

From the data in the Global Impact Investing Network report (2017), three key insights emerge that reinforce the credibility of impact investing. First, market-like returns are indeed achievable in impact investing, with returns from impact investments comparable to those of similar conventional investments. Second, small funds do not necessarily underperform relative to their larger peers. And third, the impact investment market includes opportunities for investors with varied risk appetites, investment strategies and targeted returns.

Impact investing also comes with lower volatility

As trustees are well aware, it is not only the returns of an investment that count, but also the associated risk with which those returns are achieved. In a study by Oxford University in 2014, Clark, Gordon, Feiner and Viehs found that not only is there a positive relationship between stock performance and good sustainability practices, but businesses that are focused on sustainability are also more likely to better manage environmental, financial and reputational risks, which is more likely to lead to lower volatility of cash flows.

Without sustainable growth there is no future to invest in

It is encouraging that trustees are already thinking beyond traditional approaches to asset class returns, and considering new approaches. Trustees have a fiduciary duty to act in the best interests of those whose assets they are responsible for. Part of this responsibility is anticipating the impact of future trends such as alternative energy and climate change, which materially affect investment performance as well as the quality of life of retirees.

Sanlam Investments has a track record of tackling sustainability with impact funds

Sanlam Investments has several years' experience in the area of impact investing, notably in education, empowerment and SME financing. We have also played a significant role in combatting climate change through Climate Fund Managers, our partnership with the Dutch development bank FMO. Sanlam Investments is rolling out a range of alternative strategies explicitly aimed at investing for impact, such as: the preservation, creation and quality of jobs, reduced inequality and environmental sustainability.

To combat the current SA economic crisis, three new impact fund strategies were launched

Arguably the biggest challenge that South Africa currently faces is the economic fall-out from Covid-19 that exacerbated an enduring unemployment crisis. To combat this downward economic spiral Sanlam Investments launched our Investors' Legacy impact range in 2020 to help small to large corporations pull through the next few years and minimise the rise in unemployment.

The three funds in the Investors' Legacy Range are available to institutional investors with an impact investing mindset. Sanlam has also invested R2.25 billion of its own capital to seed the three funds. Each of the funds has a different mandate and different targeted returns, which will meet the needs of a wide range of investors.

It has been nearly a decade since the Code for Responsible Investing was introduced in South Africa and the long-term savings industry is increasingly stepping up to its commitment to allocate capital towards the achievement of the United Nations Sustainable Development Goals. Still, not only locally but also globally, it will likely take the industry much more than the next decade to close the funding gap that remains. At Sanlam Investments, through our various alternative investment strategies, we align with 14 of the 17 United Nations Sustainable Development Goals and are looking to deploy R35 billion over the next 10 years via climate change projects, water initiatives and our Investors' Legacy impact range.

Alternative Capabilities

Commitment to the United Nations Sustainable Development Goals

Sanlam Investments is committed to making a real, sustainable difference by delivering solutions to people, communities and the environment we operate in. Embracing impact strategies in line with the United Nations Sustainable Development Goals through our existing range of impact funds, we aim to invest R35 billion in capital towards achieving 14 Sustainable Development Goals.

SUSTAINABLE DEVELOPMENT GOALS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Resilient Investment Fund	●			●			●	●		●	●						
Investors Legacy SME Debt Fund	●							●		●							
Investors Legacy Corporate Debt Fund	●							●		●							
Investors Legacy Private Equity Fund	●		●					●		●							
Climate Investor One					●		●	●	●				●				●
Climate Investor Two					●	●	●		●			●	●	●			●
Sustainable Infrastructure Fund						●	●	●	●		●		●				

Sanlam Investors' Legacy Impact Range

In response to the sharp economic downturn and significant job losses experienced as a result of the Covid-19 pandemic, the Sanlam Investors' Legacy impact range was created to place job creation and preservation front and centre in Sanlam Investments' pursuits over the next decade.

The Investors' Legacy impact range looks to find investable opportunities that enable South Africa to grow in a more equitable and inclusive manner while aligning with the government's developmental agenda of job creation. At the time of writing, the range has invested nearly R800 million into companies which, in addition to supporting the people currently employed in those businesses, is projected to lead to more than 2 000 new jobs over the life of the respective investments.

Sanlam Investors' Legacy Private Equity Fund

The alleviation of poverty and inequality and the pursuit of economic growth and decent work for all are the United Nations' Sustainable Development Goals that guide the Investors' Legacy impact range in ensuring that South Africans recover from the severe economic impact of Covid-19. The Investors' Legacy Private Equity Fund specifically provides equity type finance to medium-sized South African companies in support of business growth and to ensure jobs are retained in the short term and increased in the longer term. The investment team believes that, with the high unemployment rate in South Africa, an important component in seeking to achieve socio-economic stability in the country is to focus on job preservation and job creation.

Cavalier Group

In December 2020, the Sanlam Investors' Legacy Private Equity Fund acquired a majority stake in the Cavalier Group of Companies. The Group is the largest employer in the Cullinan region of Gauteng and employs over 1 400 staff, of which the majority are women from the surrounding township areas. During the national lockdown, Cavalier was able to continue to trade as an essential service to the economy and managed to retain all of its workforce and continue to pay salaries to its staff at full-pay rates.

Cavalier has built a state-of-the-art meat processing, deboning and packing facility for its AAA-grade red meat business and is strategically positioned to take advantage of opportunities in the red-meat market in future. In line with the core objectives of the Investors' Legacy Impact Range (to create and preserve jobs) Sanlam Investments' Private Equity capability is committed to supporting Cavalier in its aim to add a further 200 jobs to its labour force over the life of the investment and to contribute to the upliftment of the people situated in the nearby communities.

The Sanlam Investments Private Equity team were awarded Deal of the Year (Mid/Large Acquisition category) in the inaugural SAVCA Industry Awards in 2021.

PROJECTED TO LEAD TO MORE THAN 2 000 NEW JOBS OVER THE LIFE OF THE RESPECTIVE INVESTMENTS.

Absolute Pets

Absolute Pets is South Africa's largest specialist pet food and product retailer with over 105 stores across the country and 425 employees. Before Sanlam Investments took an equity stake in the business, they had 92 stores and 375 employees. Absolute Pets were able to trade successfully through the Covid-19 lockdowns with no job losses or retrenchments. In order to avoid retrenchments, the company reduced hours and provided staff with extra leave. They also offered employees an interest free loan facility and provided food parcels to staff in need.

Since the Investors' Legacy Private Equity Fund's investment into Absolute Pets in April 2021, the business has opened 14 new stores in four months. Based on stores that have already been approved, we expect to open 25 new stores in the first year of investment (well above the 15 store target for the year). Absolute Pets has created 42 direct jobs over the last six months and based on the plan to open 25 stores, at least 75 direct jobs should be created during the first year.

The profile of Absolute Pets' employees is worth noting:

- 92% previously disadvantaged
- 69% female
- 66% under 35 years old

We are proud to be creating job opportunities in those groups most affected by unemployment in South Africa. Absolute Pets plans to open at least 15 new stores per year over the next five to seven years. These stores will be located across the country as the business expands its presence into new regions such as Nelspruit, the Eastern Cape and Garden Route.

Each new store creates at least three new direct jobs, excluding suppliers, in the value chain and Absolute Pets head office support staff. Over the five-year investment term, we expect Absolute Pets to create around 300 direct jobs and 950 indirect employment opportunities nationally.

More than job creation

While job creation and job preservation is important, it is equally important to catalyse inclusive growth and to positively impact the quality of jobs created. Where we are in a position of control or influence, our approach is, and will continue to be, the active implementation of strategies that support the workforce through:

- Skills and development training programmes.
- Remuneration and wealth building opportunities.
- Wellness and employee benefits programmes.

IT IS EQUALLY IMPORTANT TO CATALYSE INCLUSIVE GROWTH AND TO POSITIVELY IMPACT THE QUALITY OF JOBS CREATED.

Sanlam Investors' Legacy SME Debt Fund

One of the first beneficiaries of funding from the Investors' Legacy SME Debt Fund was Mettle Administrative Services ("Mettle"). Mettle is a non-banking financial institution which offers support to many small businesses such as panel-beaters.

Mettle, which has been operating for over 15 years, provides working capital finance by way of discounting invoices. The lockdown had a significantly negative impact on the turnover of Mettle and its clients. Furthermore, an existing loan facility for one of their clients came to an end during lockdown. The new funding was extended to assist Mettle and its clients in returning to full capacity, enabling them to re-hire staff or increase working hours.

The Investors' Legacy SME Debt Fund also supported the black-owned specialist retailer Oilstar. The funding provided job security to around 630 employees, mainly from low-income households. Oilstar now expects to open additional sites which will lead to the creation of further onsite jobs as well as indirect employment through its range of service providers.

Resilient Investment Fund

South Africa continues to face significant challenges to economic development. Economic growth is slow and unemployment continues to rise, reaching above 30% in 2021. SMEs act as catalysts for economic development, creating swift opportunities for employment. In order to grow these companies sustainably, they require flexible forms of funding that banking institutions are often unable to supply – due to the large demand for funding and the stringent lending requirements banks have. This results in a significant funding gap, creating an opportunity for the Resilient Investment Fund to support SME development in South Africa.

The Resilient Investment Fund is a private debt fund that focuses on lending to established SMEs in South Africa and which require capital to continue to grow, but are not able to access finance from traditional sources, due to the constraints of the lender.

The Resilient Investment Fund has been running since 2013, is female managed and has a broad mandate that supports SMEs which operate in growing or mature markets, and which provide basic needs such as housing, education, energy and access to financing. The Resilient Investment Fund provides finance with the vision of creating jobs, promoting economic growth, reducing inequality and creating a more sustainable and inclusive society.

Beneficiaries of the Resilient Investment Fund's lending include:

- **Camalus Developments** - a black-owned property developer of human settlement projects in the Western Cape.
- **Oasis Water** - a leading supplier of clean water outside of the public sector that primarily purifies and supplies clean water. The funding will be used to support Oasis's strategy which includes new stores in township and rural areas.
- **Capital Harvest** - a specialist non-bank financial institution providing financing to farmers and the broader agricultural sector.
- **Energy Partners** - a utilities provider of solar, refrigeration, steam, fuel and water, with unique energy-saving solutions which enable their clients to free up capital to grow their businesses.

The Resilient Investment Fund is led by Vukile Themba-Mketo, who has grown the private debt business alongside Erica Nell, head of Private Debt at Sanlam Investments, for many years. In 2019, Lilly Shabangu joined their team as a credit analyst followed by Rachma Ismail, portfolio manager, in 2021. South Africa suffers from a notable lack of female representation in asset management. It is essential that female-led teams and majority female teams, such as the private debt team at Sanlam Investments, are acknowledged not only for their excellent performance, but also for their inspiration to other women across various fields.

Climate Fund Managers

Climate Fund Managers, our joint venture with the Dutch Development Bank, FMO, is committed to using innovative blended finance methods to combat the climate crisis by developing, constructing and operating long-term sustainable infrastructure in developing markets across the globe.

Core to their responsible investment mandate is the delivery of net positive impact for every dollar committed. Climate Fund Managers recognises that it can play an important role in realising positive sustainable development outcomes, which in turn can support host countries in which the managed funds are invested to progress towards achieving the UN SDGs.

Our impact in numbers

Capacity

Total renewable power production (GWh per year)

2018
20.73

2020
546

2019
296

Employment

Total number of jobs created during reporting period

2020
7 357

2019
3 272

2018
1 409

Climate impact

Annual avoided GHG Emissions (tCO2eq/year)

2020
228 770

2019
130 363

2018
17 417

Total number of people with improved access to renewable energy

2018
21 631

2020
1 148 224

2019
638 045

Number of new grid and off grid actual direct connections

2018
65

2020
77

2019
43

Climate Investor One

Climate Investor One, Climate Fund Managers' first facility, is focused on renewable energy infrastructure.

Climate Investor One's notable investments

Africa Hydro HoldCo Limited

A run-off river hydro project in Uganda with the capacity to produce 113MW.

566
GWH/year clean power production

79 007
tCO_2e/year emissions avoided

965
Jobs

1 684 481
People served

- The Ugandan portfolio currently consists of four run-of-river hydro projects, namely,Achwa 1, Achwa 2, Kikagati and Bugoye.
- Investment gives Climate Investor One's Construction Equity Fund an opportunity to participate in a run-of-river hydroplatform that currently includes three operational assets and one construction site.
- Achwa 1 has commenced commissioning activities and achieved commercial operation date in July 2021.
- Kikagati Power Plant achieved commercial operation end of November 2021.

Ampyr Energy India Pte Limited

Wind projects in India with the capacity to produce 138MW.

412
GWH/year clean power production

361 681
tCO_2e/year emissions avoided

126
Jobs

404 888
People served

- The two projects (Balenahalli 38 MW and Mangoli 100 MW) are seeking to operate under a group captive scheme in the state of Karnataka.
- In August 2021 the Balenahalli project commissioned all 19 turbines (full 38 MW).
- It is supplying electricity to the grid and off-takers under the respective off-take contracts.

Tra Vinh

A near-shore wind project in Vietnam with the capacity to produce 48MW.

258
GWH/year clean power production

99 277
tCO_2e/year emissions avoided

540
Jobs

181 327
People served

- The wind project is located in South Vietnam, approximately 130 km from Ho Chi Minh City, in a region which has the best wind resources in South-East Asia.
- The project includes construction of 12 wind turbines located 4 km from shoreline, a 20 km overhead line connecting the Wind Farm Substation to the Local Grid Operator, substation, civil works and operations and management warehouse buildings.
- The Tra Vinh project is near the end of the construction process.

Climate Investor Two

Climate Investor Two is a financing facility mandated to invest in water, sanitation and ocean infrastructure projects. A number of new project approvals and development agreements have been signed by Climate Investor Two across the water, oceans, and sanitation sectors.

In May 2021, Climate Investor Two announced an agreement to co-finance and co-develop a project focused on the protection of the oceans and the sustainable development of the blue economy. The project was designed to oversee a significant expansion of the 133,000 KM2 Galapagos Marine Reserve, protecting one of the most undisturbed and scientifically significant natural ecosystems on the planet.

Kelp Blue

Under the development agreement with Kelp Blue, CI2 will co-finance the development of a large scale kelp farm in Namibia. The initial focus is on the establishment of a pilot project producing 3 500 tons/year of Kelp 4 km offshore. The project represents an opportunity of USD 48.8 million to the CI2 Construction Equity Fund.

At full scale the project is seeking to produce 241 000 tons of Kelp per year over an area of 820 hectares.

Solar Water Solutions

Under the development agreement with Solar Water Solutions (SWS), CI2 will co-finance the development of 200 stand-alone solar PV-powered desalination units in Kenya from 2020-2023. The current focus includes piloting 8 additional systems. Five funded by DF2 and three by SWS. The project represents an opportunity of USD 12.8 million to the CI2 Constuction Equity Fund.

At full scale the project will treat 1 667m³ of water per day, benefiting 400 000 people.

AZUR

Under the development agreement with AZUR, CI2 will co-finance the development of two waste-to-energy facilities under Build Operate Own (BOO) contracts in Thailand. The two projects represent a combined opportunity of USD 66 million to the CI2 Construction Equity Fund.

When complete, the facilities will each treat 570 tons per day of municipal solid waste, generating 63.36 GWH per year and avoiding 185 000 tCO2e annually.

Spectainer

Under the development agreement with Spectainer, CI2 will play a critical role in the final development of a patented collapsible shipping container technology. The project represents an opportunity of USD 75 million to the CI2 Construction Equity Fund.

At full scale, the project has the potential to catalyse industry adoption of collapsible shipping containers, with the overall objective of reducing the carbon intensity of global cargo transport.

Putting a gender lens on Climate

According to Climate Fund Managers, climate is experienced differently and more severely by women than men. Sanlam Investments is proud to be affiliated with an investment manager contributing towards mitigating and building resilience to climate change in areas most affected through a gender lens perspective. Climate Fund Managers invested in the Africa Hydro Holdco Limited platform, comprising four run-of river hydropower projects across Uganda of which two are operational assets and two are currently under construction.

As part of its community development programme, the project focuses on the empowerment of girls and women through a sustainable farming intervention. Included in the training is the provision of agricultural seeds, oxen and ox-ploughs to the farmer groups. Monitoring has revealed that the community farmer groups have been successful in harvesting their produce.

With one of the assets in northern Uganda already in operation, and the second one which became operational in late 2021, the project is preparing for the next phase of its community programme. The aim of every programme in which Climate Fund Managers invests is to deliver a lasting and positive legacy.

Supporting Government's push towards infrastructure development

On 1 September 2021, we launched the Sustainable Infrastructure fund. Through this fund we will source, assess and invest in assets across renewable energy, conventional energy, transportation, communication, water and waste-related assets. Strict ESG criteria are applied to support sustainable development. Infrastructure development contributes to faster, easier, better access to markets, health and educational services. Our strategy invests capital with the intention of also generating a social / environmental impact. The projects we select provide additional benefits to our communities and country. Short-term benefits include: job creation, increased economic activity, improved consumer and business confidence, while long-term benefits include: increased economic capacity and high forward linkages to the wider economy for future generations.

THE PROJECTS WE SELECT PROVIDE ADDITIONAL BENEFITS TO OUR COMMUNITIES AND COUNTRY.

Amplify Investment Partners

Preserving our wildlife heritage and uplifting communities

Amplify offers access to a range of unit trusts and hedge funds which are managed by independent next-generation asset managers with proven track records. In addition to helping our clients grow their money to achieve their goals, we are equally committed to making a meaningful social and environmental impact.

Preserving the environment for future generations is extremely important to us. To ensure that our contribution is meaningful, we support conservation initiatives that focus on protecting and saving wildlife, and uplifting the communities living alongside these conservation areas.

Throughout 2021, Amplify Investment Partners continued to make a deep impact on the environment through social and environmental initiatives. Our primary focus remains the protection of rhinos and uplifting those communities adversely impacted by rhino poaching.

Over the past year, Amplify made direct financial contributions to Environmental Crime Intelligence Services, who collect forensic evidence on rhino poachers which led to arrests and prosecution.

Giving life and hope by de-horning rhinos

In 2021 Amplify added to their initiatives by providing funding for the de-horning of rhinos, to protect them from poachers and prevent their inhumane slaughter. It is an ongoing process, as the horn regrows after removal. It is essential that the public is educated to understand the importance of rhino dehorning and to help spread awareness about this conservation approach. De-horning extends animals' lifespans, giving rhinos the chance to breed and regrow their population. Another measure Amplify funded was the installation of security cameras to catch poachers. We hope that these initiatives will help to preserve the rhino species in a sustainable manner for generations to come.

Bursaries and funding

Amplify continues to contribute substantial funding to the Goodwork Foundation. The 2021 contribution will be used for skills development programmes in the foundation's Hospitality Academy and bursaries for their IT Academy. By investing in education initiatives Amplify is able to support the local communities by enhancing their access to existing opportunities.

OUR PRIMARY FOCUS REMAINS THE PROTECTION OF RHINOS AND UPLIFTING THOSE COMMUNITIES ADVERSELY IMPACTED BY RHINO POACHING.

Active Ownership

Value of stewardship

As long-term investors, we consider our stewardship activities to be the backbone of our approach to environmental, social and governance factors. It is a core driver of change. Through our engagement and proxy voting, we are able to address systemic issues for both our active and passive investments and ultimately improve the quality of our returns and the market we invest in.

Engagement

When engaging with companies, 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 we are responsible. We systematically track and record the progress of engagements and take both an active approach to engagement and respond 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 publicly available on our governance website.

Engagement approach

The Sanlam Investments approach to engagement involves a combination of proactive and responsive engagements by creating a constructive dialogue with company boards and management. This can be done 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 a value-enhanced engagement programme.

Engagement themes

Value engagements led by Robeco

Value engagement is a proactive approach focusing on long-term, financially material ESG opportunities and risks which can affect companies' valuation and ability to create value. The primary objective is to create value for investors by improving sustainability conduct and corporate governance. The value engagement process identifies potential areas for engagement using knowledge of trends in the sustainability and corporate governance arenas, assisted by the Sanlam Investments Centre of Expertise and service providers. The final selection of engagement areas focuses on financial materiality and engagement impact, and is made following consultation with portfolio managers, analysts and clients. We set SMART objectives for all engagement cases based on our research. Key engagement themes that were launched recently include biodiversity, lifecycle management of mining, net-zero carbon emissions, corporate governance in emerging markets and responsible executive remuneration.

New engagement themes through the value engagement programme led by Robeco

	Outcomes targets
Biodiversity	In line with the Finance for Biodiversity Pledge, we aim for companies to reduce their negative impact and increase their positive impact on biodiversity.
Lifecycle Management of Mining	We call on mining companies to improve disclosures on their performance on key environmental issues at the asset level, and urge them to take further action to mitigate adverse impacts.
Net-Zero Carbon Emissions	We focus on smooth decarbonization journeys for the four key emitting industries: oil and gas, electric utilities, steel and cement, by encouraging companies to take climate change mitigation actions and secure their long-term license to operate.
Corporate Governance in Emerging Markets	With targeted objectives for engagement in each market, we aim to improve governance standards to create value by reducing the risk premia for the equity markets and companies targeted.
Responsible Executive Remuneration	We aim to ensure that remuneration committees align executive incentives with shareholder interests, regulatory requirements, and other stakeholder expectations.

Monitoring and evaluation

All engagements are carefully monitored and tracked with specific objectives in mind: to pursue targeted positive outcomes. All engagements can be classified as either a positive, neutral or negative outcome. The duration of engagements may differ; proxy voting or AGM related engagements might last up to six months while deeper thematic and value-based engagements could take up to three years.

Escalation process

Where engagements have not been receptive or do not lead to the targeted results, Sanlam Investments may cast votes against a board or management at their AGMs. Escalations may also contribute to a decision to decrease or exit a holding in severe situations. In severe cases we will pursue a legal route to resolve issues with boards.

Proxy Voting

Our approach to proxy voting

Sanlam Investments considers proxy voting to be a crucial responsibility of being an active shareholder. It is an important part of our environmental, social and governance framework and an opportunity to influence the investee company.

Our approach to proxy voting has been governed by our proxy voting guidelines to ensure minimum standards are met and governance preferences are addressed. The guidelines are based on the SA Companies Act (2008) and the JSE listing requirements which incorporate the King Report on Corporate Governance. These guidelines establish a systematic approach to voting on company resolutions, which we vote for on behalf of our clients, particularly where clients do not have their own voting instructions in their investment mandates. These guidelines are not exhaustive, but reflect our values on shareholder powers and responsibilities which are exercised in consultation with our clients who are the equity owners. We apply our guidelines pragmatically and communicate via the company secretary prior to the AGM, informing stakeholders of our voting intentions and highlighting our governance preferences to the resolutions we vote against.

Our process and oversight mechanisms

The Sanlam Investments voting process is governed by an in-house proxy voting guideline. It highlights our preferences on governance matters and expectations on sustainability themes for investee companies. Voting is conducted centrally within the ESG team and governed by our corporate governance unit. The mandate to vote lies with our proxy voting analysts and the chair of the corporate governance unit to ensure consistency.

We encourage a constructive dialogue prior to and post AGMs, to gain a deeper understanding of, and make progress on, the matters at hand.

Disclosure and transparency

We commit to making our voting records and proxy voting guidelines publicly available on our website. For the period 1 July 2020 to 31 June 2021, we voted on 3976 resolutions; 11% of these we voted against. Key issues we have voted against for this period are as follows:

- **Remuneration practices 49%**
- **Director re-election 27%**
- **Access to capital 18 %**

IT HIGHLIGHTS OUR PREFERENCES ON GOVERNANCE MATTERS AND EXPECTATIONS ON SUSTAINABILITY THEMES FOR INVESTEE COMPANIES.

Engagement Case Studies

As we take part in proxy voting efforts, Sanlam Investments is guided by our partnership with Robeco. The following case studies indicate our clear intention to engage companies on sustainability practices and initiatives.

AngloGold Ashanti

Robeco has engaged with AngloGold Ashanti on mining-related ESG issues for around 18 months. In the first half of our three-year engagement, we encouraged AngloGold Ashanti to build on its robust water risk-related disclosure and management. In particular, we sought more transparency from the company on varying water-reuse levels at operations in water-stressed regions. Through our dialogue, we were able to ascertain that the company has an advanced asset-level water management system and shows exemplary transparency towards investors and the public on granular water use and quality performance information. We will continue our engagement with the company with a focus on ensuring this sophisticated monitoring translates into comprehensive, time-bound water efficiency and quality targets.

Large international precious mining group

Since 2020 Robeco has engaged with a large international precious metal mining group on the responsible lifecycle management of its operations. Over the first year of our dialogue, we focused on our engagement objectives related to water management. We conducted several conference calls with the company's senior ESG experts and have achieved some important outcomes. These include more detailed disclosure on operational water efficiency and consumption targets, linking long-term executive compensation to these targets and agreeing to respond to the CDP Water questionnaire. The latter was a key request of our engagement, as standardised reporting to CDP is vital for investors' ability to assess water-related risks across peers. Our engagement continues around water risk management as well as tailings safety and asset-retirement planning.

Royal Dutch Shell

Royal Dutch Shell was the first oil and gas company to state its ambition to reduce its carbon footprint, stretching out to 2050. On its 2021 Strategy Day in February 2021, Shell tightened its net-zero emissions targets and announced it was giving shareholders an advisory vote on Shell's climate transition plan at the year's AGM. This was a first in the oil and gas sector. The ongoing engagement with Shell under the CA100+ umbrella, along with having a frequent and continuous say on the company's climate strategy, allows investors to keep a finger on the pulse of the company's progress throughout the energy transition. We welcomed Shell's move and our engagement has continued with a focus on the Energy Transition Plan that was approved at the AGM in May 2021.

Our objectives are aimed at Shell meeting the requirements of the CA100+ Net-Zero Benchmark.

Significant Votes

Company	Meeting date	Proposal	Vote decision	Rationale	Vote outcome
EXXON MOBIL CORP.	26/05/2021	Elect dissident nominees	For	The nominations were part of a campaign to enhance climate oversight on the board. The nominees had expertise in sustainability, energy transition and business transformation. Given Exxon's lagging climate strategy, we believe the dissident nominees would bring much-needed expertise and impetus to the company's board.	Three out of four dissident candidates were elected to the board.
Pfizer, Inc.	22/04/2021	Shareholder proposal regarding report on political expenditures and values congruency.	For	Transparency and accountability for corporate political expenditure is vital. There is a significant risk that current practices appear misaligned with company values and policies, and could cause reputational damage. Additional reporting is therefore in shareholders' best interests.	The proposal was not passed, with 47% of votes cast in favour.
Toshiba Corporation	18/03/2021	Shareholder proposal regarding AGM investigation	For	Following insufficient resolution of outstanding concerns regarding inadequate internal investigations into the integrity of votes cast at previous AGMs, we supported the shareholder resolution to appoint an independent investigative committee.	The resolution was passed. Following the investigative report's publication, the Chair and a member of the audit committee received a majority of votes against their re-election at the 2021 AGM.
HSBC Holdings plc	28/05/2021	Approval of Climate Policy	For	The company made significant strides in committing to phasing out financing of coal-fired power and thermal coal mining, and the strengthening of its coal policy later in the year. It has also committed to Paris-aligned financing targets across all sectors. This aligns with best practice and forms an important foundation for further engagement.	The proposal was passed with 99% of votes cast in favour.

Climate Action 100

In 2021, after three years of intensive engagement, Robeco's Climate Action engagement theme reached its conclusion. A key element of our engagement programme has been our collaboration with global investors through the Climate Action 100+ initiative. Since its launch in December 2017, this initiative has grown into one of the world's largest investor-led engagement initiatives, backed by more than 545 institutional investors with more than 52 trillion US dollars in assets under management. Under the umbrella of this investor-led initiative, global asset owners and asset managers jointly engage with the world's largest corporate greenhouse gas emitters. Robeco is an active member of Climate Action 100+ initiative, acting as lead or co-lead investor in engagements with companies like Enel and Royal Dutch Shell.

In the final assessment of progress made on our engagement objectives under our climate action theme, we considered the insights gained during our dialogue and the results of the Climate Action 100+ initiative Net Zero Benchmark assessment that came out in March 2021. From the 12 companies in the peer group, we were able to close our engagements successfully with six of them. We will continue pursuing active collaboration under our recently launched Net-Zero Carbon Emissions theme. The theme's objectives align clearly with the indicators of the Climate Action 100+ initiative Net Zero Benchmark. Collaborative engagement via the initiative will continue to be an important feature of Robeco's engagement approach.

Living wage industry collaboration

Robeco has also focused on living wages in the garment sector. This theme is underpinned by investor collaboration, which became all the more important during the Covid-19 pandemic. Robeco is an active member of the Platform Living Wage Financials investor coalition which encourages investee companies to address the non-payment of living wages in global supply chains.

In collaboration with other members, their engagement has urged companies to respond to the challenges posed by Covid-19 in a responsible manner. Key requests relate to upholding financial prudence while protecting labour and human rights standards in their own operations and across their supply chains. We believe that collaboration with multi-stakeholder initiatives aiming to protect worker rights and offer support to overcome the pandemic is crucial to rebuilding a more resilient and inclusive supply chain.

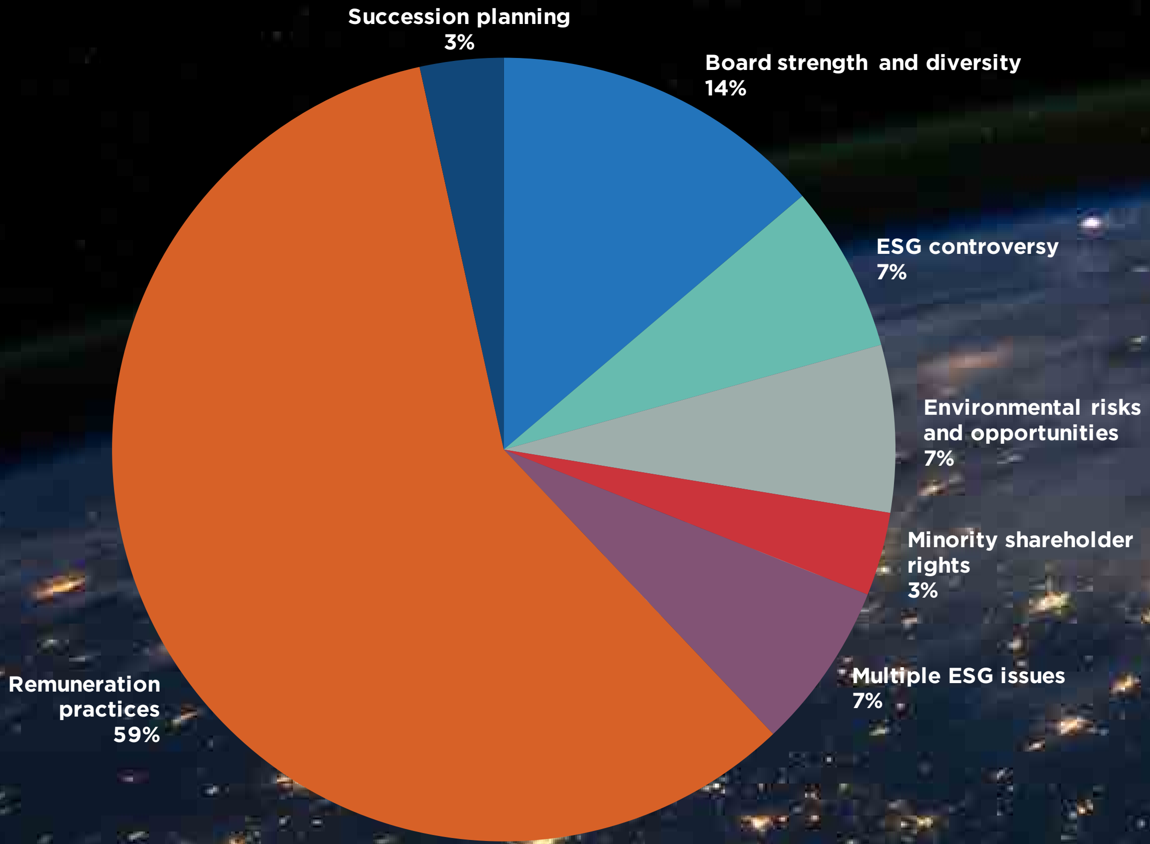
One of the main ways to encourage progress on living wage payments by companies is by assessing our investee companies against a robust assessment methodology. This analysis is carried out by Platform Living Wage Financials members on a yearly basis and the results are publicly disclosed.

There is no doubt that company responses to the Covid-19 pandemic will feature heavily in upcoming assessments.

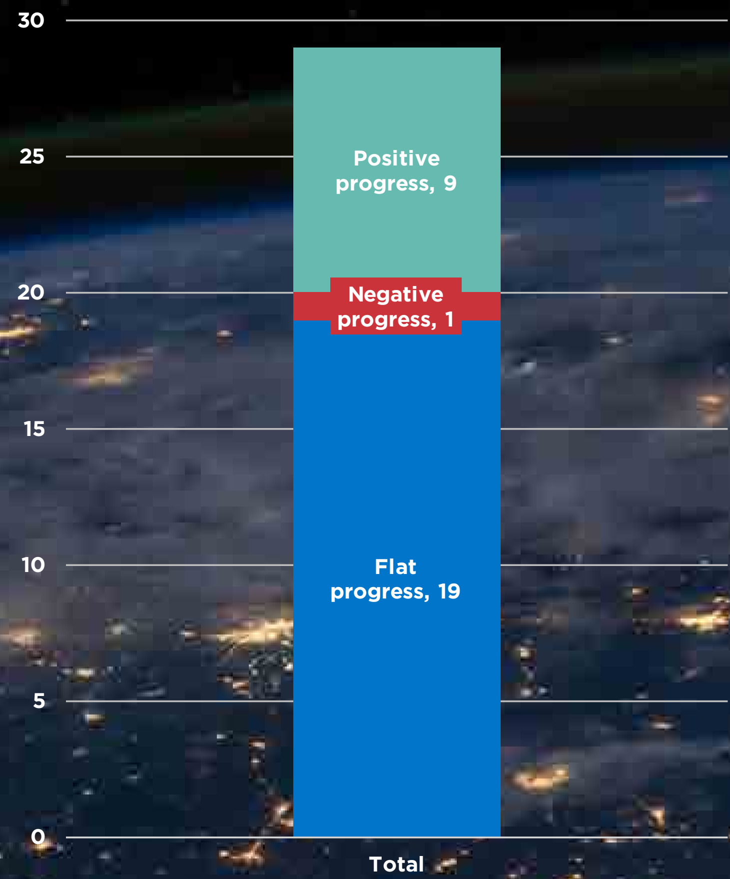
Engagement and Proxy Voting Analytics

In-house engagements

Engagement dialogue spread
(AGM consultations and engagements
with board and management)

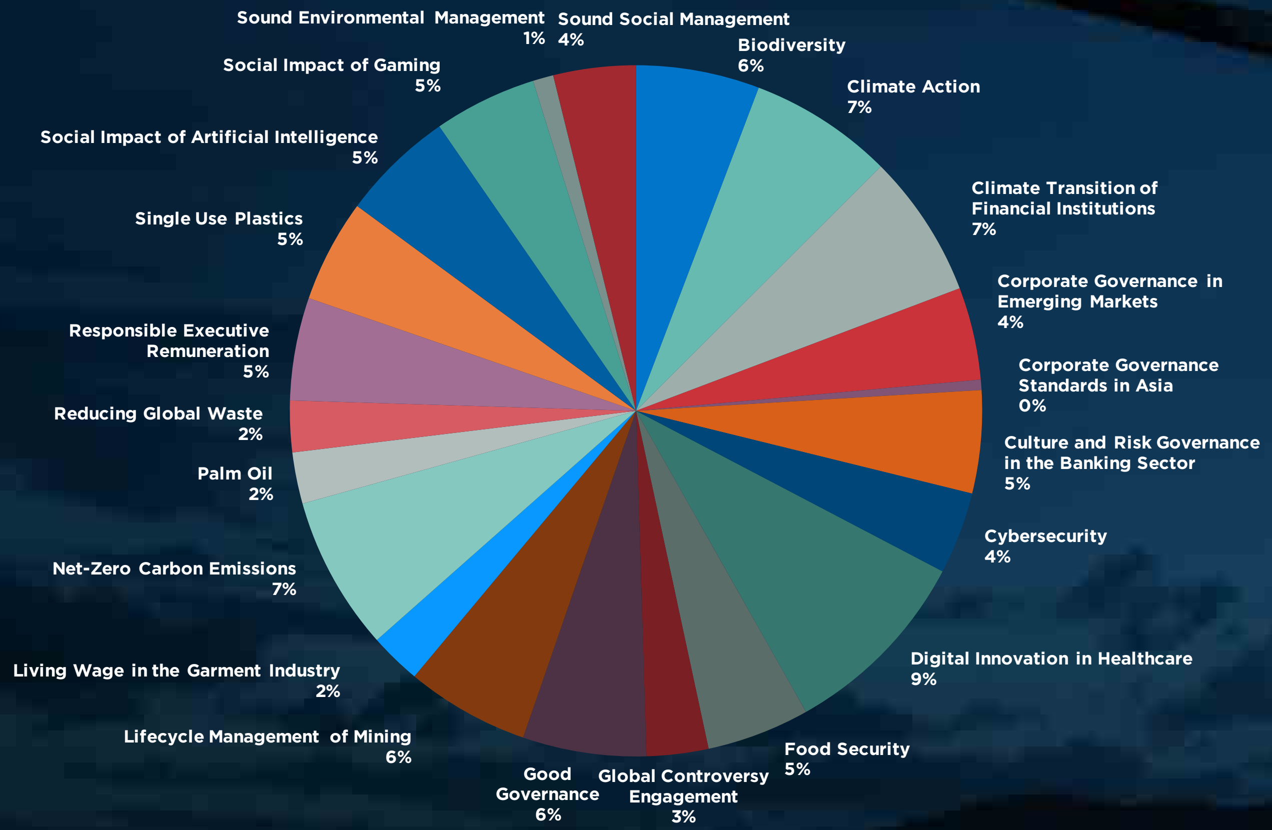


Outcome analysis

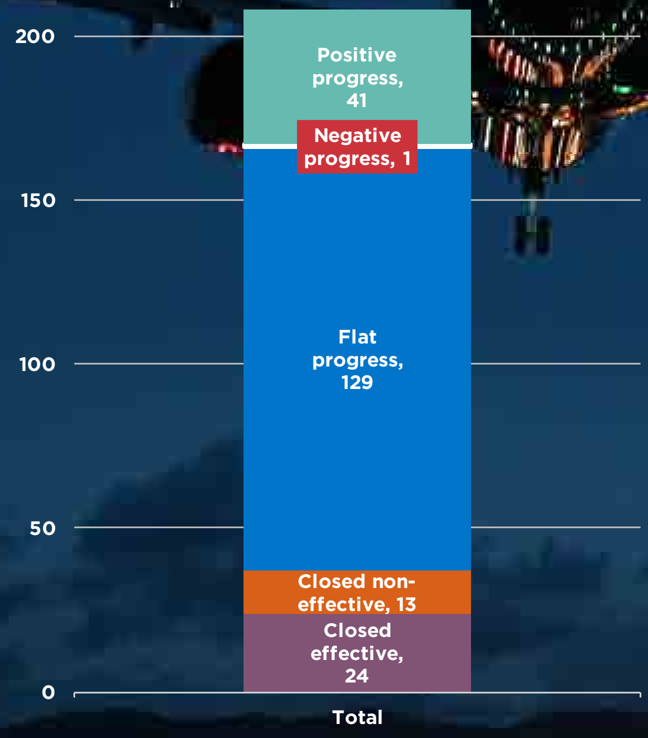


Robeco-led Engagements

Engagement topic spread

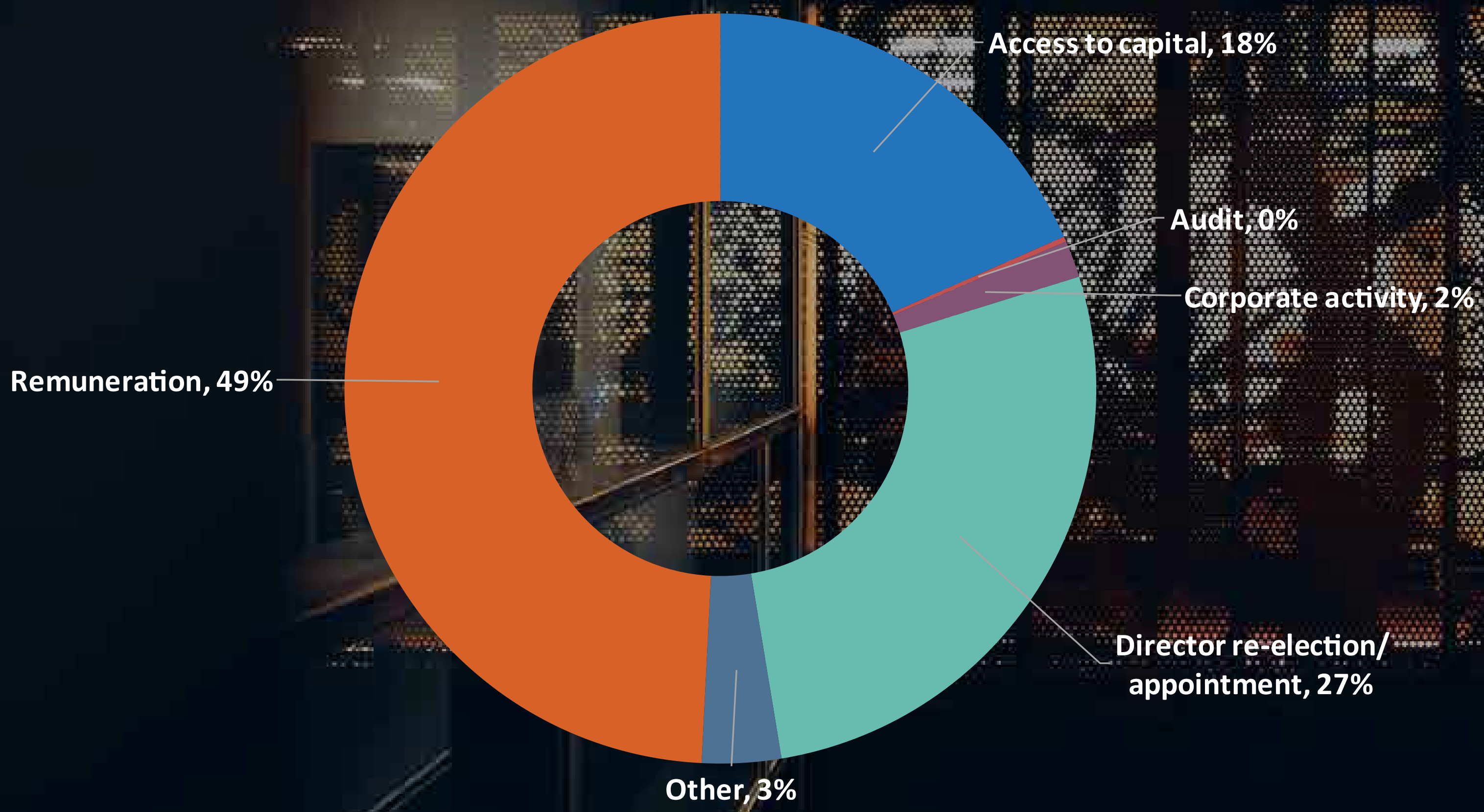


Outcome analysis

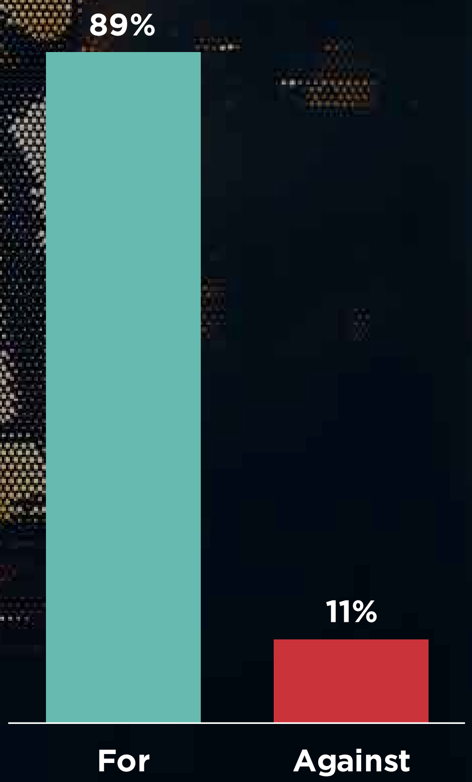


Proxy Voting Analytics

Reasons for declining resolutions (Q3 2020-Q2 2021)



Q3 2020-Q2 2021 resolutions voted for versus resolutions voted against (3 976 resolutions)



Roadmap for the Future

Our roadmap for 2022

At Sanlam Investments, we follow a clear roadmap, with distinct goals and objectives that we can align with and measure ourselves against. We will steadily advance these goals, improving ESG incorporation and fostering partnerships with other like-minded organisations such as Robeco and Climate Fund Managers. These partnerships help catalyse and boost our efforts to meet greater sustainability objectives. Together, we focus our efforts on where we can make the greatest impact.

Over the next year we will continue to be part of select key memberships. We remain focussed on:

Identifying outcomes and targets

Mapping existing investments to the SDGs and other potential regiments.

Setting policies and positioning statements

Setting relevant ESG themed and asset class policies, and position statements.

Ensuring consistency throughout investment disciplines

Development of oversight mechanisms to ensure that risk management of sustainability matters is applied to all investments.

Our aggregated contribution to the collective reporting framework, considering the United Nations Sustainable Development Goals

Monitoring, tracking and measuring the extent of our aggregated contribution over time to the United Nations Sustainable Development Goals, local NDP or other goal frameworks.

Our Partnerships

1

Signatory to the United Nations Principles of Responsible Investment (UN PRI), https://www.unpri.org/ the world's leading proponent of responsible investment.

2

We have adopted the principles of the Code for Responsible Investment South Africa (CRISA), https://www.iodsa.co.za/page/CRISACode

We fully support CRISA's five principles which emphasize the importance of integrating sustainability factors, such as ESG, into long-term investment strategies. They also provide guidance on how institutional clients can exercise and put in place sound governance principles around their investment activities.

3

We are a member of the Global Impact Investing Network (GIIN), https://thegiin.org/

GIIN membership provides impact investing organisations with access to a diverse global network of leading impact investors as well as industry information, tools and resources to enhance practitioners' ability to make and manage impact investments effectively. Through our membership with GIIN, we intend to further develop impact measurement and management strategies, identify deal opportunities and access expert training. Above all, we hope to retain glimmers of an inclusive, sustainable future for us all.

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