Investments

An investment framework for responsible investing

Policy

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Policy

Once we have established our beliefs regarding responsible investment and sustainability, our policy details how they are considered in the investment process.

This policy sets out how we implement our beliefs on responsible investment within the pooled portfolios that we manage on behalf of our clients. We do not directly select investments; instead, we select and combine complimentary asset managers and strategies into multi-managed portfolios.

Our policy, however, is constantly evolving as we continue to better understand the link between our policy and our level of ESG integration. We acknowledge and live up to the need to have continuous engagement with our appointed asset managers to assess their level of ESG integration and the impact that they make.

The following key principles underpin this policy:

Clear communication to asset managers of our environmental, social and governance (ESG) expectations.

Engagement with asset managers to improve ESG practices over time and to foster a culture of collaborative RI practices.

Active monitoring of asset managers' ESG integration and stewardship activities.

Transparency on the implementation of this policy to our clients and on the promotion of enhanced disclosure from asset managers.

Our policy is constantly evolving as we continue to better understand the link between our policy and our ESG outcomes.

Our approach

We are a signatory to the Principles for Responsible Investment (PRI) and we endorse the Code for Responsible Investing in South Africa (CRISA), indicating our commitment to regional and global guidance on stewardship.

The Paris Agreement on Climate Change and frameworks such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the United Nations' Sustainable Development Goals and creating shared value (CSV) informs our investment beliefs and approach. We are also part of the Impact Management Project (IMP) – a project established by the World Bank Group's International Finance Corporation (IFC) to assist organisations in establishing common standards for management and disclosure. The IFC have created a set of Operating Principles for Impact Management that support the development of the impact investing industry by establishing a common discipline on the management of investments for impact.

Both the Operating Principles and the IMP dimensions complement each other, as they have a shared objective in guiding investors globally on how to invest their capital in a way that creates financial return simultaneously with measurable positive social and environmental impact.

We recognise the responsibility we have to not only achieve the best possible returns at acceptable levels of risk, but also to act in the best interests of the society and environment within which we operate. Managing investments that consider these risks and opportunities is a beneficial way to create shared value for our clients and all stakeholders.

We manage assets with a holistic view of all the relevant risks and opportunities throughout the investment process for the benefit of our clients' investment outcomes.

ESG integration

We expect our underlying asset managers to include and assess ESG opportunities and risks respectively in their stock selection and portfolio construction.

Examples of **ESG factors** include:

Environment

- Climate change
- Sustainable land use
- Pollution
- Renewable energy
- Water usage
- Adequate sanitation and hygiene consideration

Social

- Human rights
- Racial and gender inequality
- Labour relations
- Health and safety
- Employee relations
- Transformation and inclusion
- Infrastructure maintenance and development

Governance

- Auditors
- Remuneration policy
- Directors' election and remuneration
- Share issuances and buybacks
- Financial assistance
- Board structure
- Risk management

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ESG integration

ESG ratings are reviewed through due diligence engagements with asset managers where there is a focus to seek positive momentum and progress on ESG integration. Expectations are set at an ESG rating of ESG3 or above, where it is practical and relevant to the strategy (with ESG1 being the highest rating and ESG4 being the lowest rating). Comparisons are also made against the appropriate universe of strategies in our research database.

We believe that ESG factors can be applied across the different asset classes. These asset classes include listed equity, fixed interest, unlisted property and hedge funds. The level of ESG integration, however, can vary across the different asset classes as does the availability of attractively-themed investable opportunities within each asset class. Themed opportunities are more prevalent in unlisted assets and less so in other asset classes. These considerations, summarised below, inform our requirements for asset managers in our selection and monitoring processes.

There are varying degrees of ESG factor integration across the different asset classes. The second column shows the level of integration of ESG factors in the asset class (indicated in the first column) that asset managers have achieved.

The third column indicates the availability of the asset class – and its respective level of ESG integration – for incorporation into investment strategies. The higher the manager progress on integration is, the more likely the manager has ESG factor integration in their standard portfolios. See appendix for further details.

We believe that ESG factors can be applied to a range of different asset classes, but with varying levels of integration.

Asset Class	Asset manager level of ESG integration	Availability of sustainability themed strategies
Listed equity	Medium to high	Low to medium
Listed fixed interest	Low to medium	Low
Listed property	Low to medium	Low
Unlisted property	Low to medium	Low to medium
Private equity & debt	Low to medium	Low to medium
Infrastructure	Medium	Medium to high
Africa (ex SA) listed equity & debt	High	Low
	Low	Low
Hedge funds	Low	

In addition to the “typical” sustainability investments such as renewable energy and infrastructure, we invest in a range of broader sustainability allocations such as education, direct property, developmental finance and the provision of goods and services to lower-income communities. Where applicable, the identification of these unique opportunities forms part of the requirements of our asset manager selection and ultimately, portfolios are constructed with these opportunities in mind.

Active stewardship – proxy voting and engagement

We support the notion that long-term value is realised when shareholders are afforded an opportunity to contribute to how a company is governed.

Engaged shareholders have a greater chance of ensuring that the management of a company acts in ways that are aligned with stakeholder interests. Stewardship can also provide investors with an opportunity to enhance the value of companies and markets and foster greater transparency in the investment decision process.

Currently, we believe that the asset managers we appoint to directly select and manage assets are best equipped to fulfil active stewardship duties by making meaningful decisions on proxy voting and engagement. For example, voting on resolutions at company annual general meetings (AGMs) or meeting with company management on issues. We expect asset managers to have a deep understanding of the companies they invest in and to be aware of any potential issues that may materially affect the value of the company.

Most shares are held directly by Alexander Forbes Investments **through segregated investment management agreements**[1]**.** The appointment of asset managers may be by either segregated mandates or investments in pooled vehicles, or by a combination of both.

However, the application may vary depending on the degree of discretion available (which is expected to be higher in segregated mandates relative to pooled vehicles in which our portfolios invest).

We accept all ownership responsibilities and acknowledge that they are an extremely important right and obligation.

As stewards of our clients' capital, we proactively engage with asset managers on issues relating to ESG considerations. We utilise proxy guidance and **sell-side research**[2] conducted by our asset manager research team to assess how asset managers have balanced their views on ESG within the portfolio construction and implementation aspects of their processes.

We expect the asset managers we appoint to comply with this policy and the proxy voting guidelines included in our investment management agreements. For pooled investment vehicles, we will engage with the asset managers with the aim of improving their ESG practices in accordance with the principles underlying this policy.

Segregated investment management agreements[1]

A formal arrangement between an asset manager and an investor stipulating the terms under which the manager is authorised to act on behalf of the investor to manage the assets listed in the agreement.

Sell-side research[2]

ESG research obtained from stock brokerage firms who analyse and rate ESG practices of companies listed on the JSE. Sell-side research is not based on assets invested but rather for greater ESG coverage of companies, and is typically for sale.

We believe that the asset managers we appoint to directly select and manage assets are best equipped to fulfil active stewardship duties by making meaningful decisions on proxy voting and engagement.

We expect all our underlying asset managers to assess and consider ESG opportunities and risks in stock selection and portfolio construction. Examples of active stewardship include:

Share voting

- All shares to be voted on
- Quarterly reports on "for", "against" and "abstained" votes with reasoning

Corporate engagement

We expect that appointed asset managers engage on ESG issues noted despite their size and perceived levels of influence

Transparency

- Voting and engagement activities of asset managers to be reviewed regularly and reported on, including voting records
- Reporting on voting with summary information that is useful in decision-making

Public policy participation

Engagement with industry regulatory bodies, global and local shareholder rights organisations, and government to express our views may be necessary at times to protect the rights of our clients and shareholders

We proactively engage with asset managers on issues relating to ESG considerations and we expect them to assess and consider ESG opportunities and risks.

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Proxy voting guidelines

To ensure asset managers vote proxies in accordance with our requirements, we have developed a set of proxy voting guidelines.

The guidelines are informed by the King IV Code on Corporate Governance which provides a philosophical framework we use to stipulate how an asset manager should vote proxies on our behalf. The fundamental purpose of the guidelines is to ensure that asset managers act in the best interest of our clients.

The following tables highlight the main categories of resolutions covered and informed by the guidelines.

Board composition and directorship

Independent directors

Board membership should comprise of a balance of executive and non-executive directors who have extensive experience and are able to act independently.

Separate CEO and chair positions

We support the election of an independent non-executive chairperson so that the board represents the interests of shareholders, and not only the interests of executive management.

Share capital

Placing unissued ordinary shares under the control of the directors

The asset manager should consider opposing resolutions that place unissued ordinary shares under the control of the directors, as any further issuances would dilute existing shareholdings.

Authority to repurchase shares

The asset manager should consider opposing resolutions that allow share repurchases to affect the "free float" of the company, which may have a material negative effect on liquidity.

Re-pricing or issuing options at a discount

The asset manager should consider opposing proposals that allow the repricing or issuing of options at a discount.

Providing directors with the authority to issue shares for cash

The asset manager should consider opposing resolutions that give directors the authority to issue shares for cash, as any further issuances would dilute existing shareholdings.

Dual capitalisation and preferential voting rights

Resolutions either dividing share capital into two or more classes or creating classes with unequal voting or dividend rights should be opposed.

Environmental issues

Environmental hazards

The asset manager should support resolutions seeking the adoption of a policy that makes information available to enable the public to assess a company's potential environmental impact.

Environmental reports

The asset manager should support resolutions that require companies to prepare general reports explaining their environmental management plans. It should also encourage companies to disclose current or potential environmental liabilities.

Election of directors

Regarding the election or re-election of directors, the asset manager should consider the:

- effectiveness of the board
- relevant knowledge, skills and experience of current and proposed new directors.
- number of other directorships held by current and proposed new directors
- attendance records of directors with respect to board meetings.

Members of asset managers' investment teams having directorships on the boards of listed companies

We believe an asset manager must preserve the independence and flexibility of its investment team and process. Therefore, it should not appoint members to its investment team that are on the board of listed companies.

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Remuneration

Levels of remuneration should attract, retain and incentivise directors. Given that remuneration has implications for corporate performance and shareholder returns, shareholders have an important role in approving remuneration policies set by formal and independent procedures.

Items the asset manager must consider include:

- detailed disclosure of director and employee compensation, particularly if the company does not have a majority independent board.
- the independence of the remuneration committee and its recommendations.
- whether compensation is reasonable, especially regarding:
  - the CEO total annual remuneration
  - "golden parachutes" for early termination of service or if triggered by a takeover
  - executive severance pay (particularly where the company's performance was poor during the particular executive's tenure)

Auditors

The audit process must be objective, rigorous and independent to maintain the confidence of the market. The asset manager should consider any issues that may have compromised the appointed audit firm's independence and objectivity with respect to the company over the past year.

Empowerment equity

The asset manager should encourage the development of an employment equity plan and the reporting on empowerment, with specific focus on:

- shareholders
- board of directors
- executive and senior management
- staff and labour force
- suppliers and contractors

King Report on Corporate Governance

We support the principles and guidelines proposed in the King Report on Corporate Governance. Where issues arise that are not addressed or are insufficiently covered in the regulatory document, the principles and intentions of the King Report will be used as guidelines to address them.

We monitor and assess the voting activity of asset managers at a high level on a quarterly basis to gain insight into the managers' voting activities and to understand and evaluate inactivity. A summary of voting activity within our flagship portfolios is disclosed on our website.

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Climate change

We believe that limiting the global average temperature increases this century, according to the 2015 Paris Agreement, is aligned with the best economic outcome for long-term investors.

This belief is informed by our overarching approach to sustainable investment which has its foundations built on research, thought leadership and global best practice. We are cognisant of the fact that climate change risks and the intensity with which investors consider these risks are perhaps more prevalent in developed markets. Social, economic and inequality concerns are arguably more pressing within the South African context. However, as a signatory to the 2015 Paris Climate Agreement, South Africa has a commitment to reduce greenhouse gas emissions by 2030. Considering this, we recognise South African-specific climate change risks and social concerns as importantly as governance concerns. Accordingly, we look to influence and encourage environmentally responsible change through the approach we have adopted.

Sustainable investing may not yet be as mainstream locally as it is globally, but it is gaining momentum. Mercer published a report titled *Investing in a time of climate change* which is aligned with the framework outlined in the Financial Stability Board's 2017 TCFD framework. As a signatory to the PRI, we have access to the research and practical approaches that their platform provides which form a strengthened foundation to build our policies and approaches on.

Asset classes

We recognise that the climate change risks posed are a longer term (multi-decade) consequence, although its effects are evident already. As an investment multi-manager that manages a range of asset classes, we have identified that the time horizon for pension funds overlaps with the Task Force on Climate-related Financial Disclosures (TCFD) climate change timelines. Long-term asset class assumptions require the consideration of climate change modelling and scenario analysis to ensure that the long-term fund returns remain on track for investors. Given the complexity of the topic, from a scientific and economic point of view, we are at a stage where we need to consider how it might be applied in a local context. As climate change expertise continues to evolve, we will review and update this aspect of our process so that it remains relevant and contextually appropriate.

As an asset owner that manages a range of asset classes, we have identified that the time horizon for pension funds overlaps with the TCFD climate change timelines.

How we apply our climate change policy

We believe that limiting the global average temperature increases this century, according to the 2015 Paris Agreement, is aligned with the best economic outcome for long-term investors.

ESG integration
Climate change considerations are included in our assessment of ESG integration in an asset manager's process.

Active ownership and voting practices
We use our influence as shareholders to positively affect a company's conduct in relation to climate change through engagement and proxy voting. The disclosure of voting outcomes provides improved consistency and fosters transparency and objectivity.

Allocation to thematic investments
We invest in assets specifically related to sustainability, such as solar and wind energy, sustainable infrastructure, impact investing and green bonds that yield commercially sustainable returns and create social impact through our private markets portfolio. Additionally, it is important to ensure that there is a reporting framework in place that assists in monitoring and measuring the material impact these investments are making in society and the environment.

Transition risks

The next phase of identifying the effects of carbon intensity is to be able to transition to more sustainable forms of energy.

Managing these transitionary risks are critical to the investment process so that the objectives of the investment portfolio are not compromised. In our role as active stewards, we are currently engaging with asset managers and the industry on an adequate transition. We advocate for collaboration with industry bodies such as the PRI and Batseta, rather than divestment strategies from locally concentrated markets as these do not foster the intended change.

In applying our climate change policy to our responsible investing approach, we ensure that climate change considerations are included in our assessment of an asset manager's level of ESG integration in their investment process.

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Policy implementation: traditional asset classes

Asset class	Listed equity	Listed fixed interest
Monitoring	• Monitor the manager's ESG capabilities using our ESG ratings and stewardship assessments, including assessments for passive and quantitative strategies. • Monitor voting and engagement activity. • Monitor portfolio holdings for ESG issues, including sectors sensitive to climate change. • Monitor turnover frequency of company holdings by strategy and seek exposure to some low turnover strategies.	• Monitor the manager's ESG capabilities using our ESG ratings. • Monitor for ESG integration within the investment process in the context of country and credit decisions. • Monitor for ESG integration within the investment process in the context of State-Owned Entities and Companies (SOE and SOC) classified outside of sovereign ratings. • Monitor portfolio holdings for ESG issues, including sectors sensitive to climate change and high credit risks.
Engagement	• Engage with asset managers on areas of weakness identified through the monitoring of ESG and stewardship. • Maintain regular interaction with sell-side research providers to obtain company-level ESG research. We use these interactions as a basis to engage and challenge managers on their views. • Engage managers on ESG issues and evaluate how they are managed through the portfolio construction and implementation processes.	• Engage with asset managers on areas of weakness identified through the monitoring of ESG integration and stewardship. • Maintain regular interaction with sell-side research providers to obtain company-level ESG research. We use these interactions as a basis to engage and challenge managers on their views. • Engage managers on debt issuances and credit. We also evaluate how they are managed through the portfolio construction and implementation processes.
Transparency	Reporting of all policies and stewardship activities will be updated annually on our website.	Reporting of all policies and stewardship activities will be updated annually on our website.

To ensure that our appointed asset managers implement the adequate responsible investment policies across all asset classes, we continuously monitor and engage with them.

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Policy implementation: alternative asset classes

Asset class	Private markets	Africa (ex SA) listed	Hedge funds
Monitoring	• Monitor the manager's ESG capabilities using our ESG ratings. • Monitor if the asset manager employs dedicated ESG advisory service providers or if they have a dedicated capability. • Monitor portfolio holdings for ESG issues, including sectors sensitive to climate change. • Monitor reporting of ESG sensitive issues on an ongoing basis.	• Monitor the manager's ESG capabilities using our ESG ratings. • Monitor for ESG integration within the investment process in the context of country and credit decisions as the asset class lends itself to higher ESG risks.	• Monitor the manager's ESG capabilities using our ESG ratings.
Engagement	• Engage with asset managers on areas of weakness identified through the monitoring of ESG integration and stewardship. • Engage with asset managers on progress made in ESG processes and reports on impact metrics and sustainable development targets. • Engage managers on ESG issues and evaluate how they are managed through the portfolio construction and implementation processes.	• Engage with asset managers on areas of weakness identified through the monitoring of ESG integration and stewardship. • Engage with asset managers on progress made in ESG processes and how they balance opportunities identified, liquidity, credit, country and ESG risks in the particular asset class.	• Engage with asset managers on areas of weakness identified through the monitoring of ESG integration and stewardship. • Engage with managers on the need for stewardship.
Transparency	Reporting of all policies and stewardship activities will be updated annually on our website.	Reporting of all policies and stewardship activities will be updated annually on our website.	Reporting of all policies and stewardship activities will be updated annually on our website.

To ensure that our appointed asset managers implement the adequate responsible investment policies across all asset classes, we continuously monitor and engage with them.

Industry-wide commitment

Across asset classes, there is an industry-wide commitment to the below investment regulatory bodies and conducts:

Globally, through our strategic partner Mercer, we participate where possible in collaborative industry initiatives on responsible and sustainable investment.

Mercer currently supports the following key initiatives globally on responsible investment initiatives and sustainable investment:

- Principles for Responsible Investment (PRI)
- Carbon Disclosure Project (CDP)
- Global Impact Investing Network (GIIN)
- UK and European Sustainable Investment and Finance Association (UKSIF and Eurosif)
- Institutional Investors Group on Climate Change (IIGCC)
- Task Force on Climate-related Financial Disclosures (TCFD)

Locally, we are signatories of the:

- Code for Responsible Investment in South Africa (CRISA)
- Association for Savings and Investment in South Africa (ASISA)

Appendix – ESG ratings

Our ESG ratings represent the manager research team's assessment of the degree to which ESG factors are incorporated within a strategy's investment process. Four factors are considered and documented within the research commentary and overall manager research rating.

Active (all asset) strategies

Aspects that we consider when rating managers include:

- Efforts to identify and integrate ESG factors into active fund positions as a source of added value. Identification of material ESG factors – skill of team members, data sourcing etc.
- Efforts to integrate ESG-driven views into the portfolio's construction.
- Engagement and proxy-voting activities (if applicable).
- Investment horizon aligns with ability to effectively implement ESG views.
- Firm-level support for ESG integration, engagement activities and transparency.

ESG 1: Leading approach to integration, where ESG is embedded in the investment philosophy; strong on stewardship, which is a core part of the process.

ESG 2: Consistent and repeatable process to ESG integration; well-developed evidence of stewardship.

ESG 3: Well-developed focus on G factors; less consistency on E&S; stewardship process is ad-hoc, but there is an indication of progress.

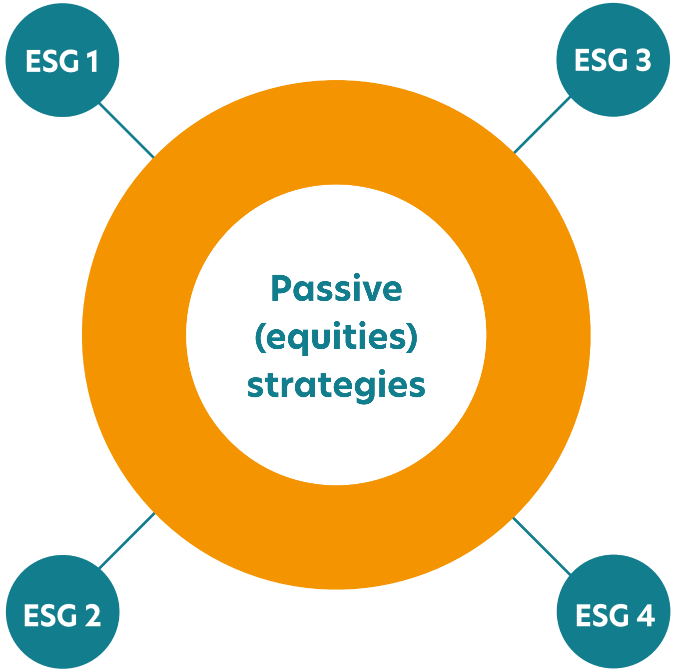
ESG 4: Little or no integration of ESG factors or stewardship into core processes and no indication of future change.

To incorporate the belief that ESG factors matter, our asset manager research process formally considers an asset manager's strengths and weaknesses in evaluating and understanding ESG issues.

Passive (equities) strategies

Aspects that we consider when rating managers include:

- Policy, process and prioritisation
- Quality of engagements
- Skillset and experience
- Effectiveness of engagement outcomes
- Data analytics to enhance active ownership
- Internal initiatives to further integrate ESG across the firm
- Collaborative initiatives and engagement with regulators and policymakers



ESG 1: Leaders in voting and engagement (V&E) across ESG, stewardship activities, and ESG initiatives undertaken consistently at a global level with a clear link between V&E.

ESG 2: Strong approach to V&E across ESG topics and initiatives at a regional level with progress made at a global level. Working towards a clearer link between V&E.

ESG 3: Focus of V&E tends to be around topics of governance only, or more regionally focused with less evidence of environmental and social (within V&E and other internal ESG initiatives).

ESG 4: Little or no initiatives taken on developing a global V&E capability, reactive engagements, little or no progress made on other ESG initiatives.

To incorporate the belief that ESG factors matter, our asset manager research process formally considers an asset manager's strengths and weaknesses in evaluating and understanding ESG issues.

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