Investments

An investment framework for responsible investing

alexforbes.com

:alexforbes

insight · advice · impact

alexforbes.com

Responsible investing

An approach to investing that aims to incorporate environmental, social and governance (ESG) factors, broader systemic themes (climate change and sustainable development), and stewardship (active ownership) in the investment decision-making process in a way that enables managers to manage risk better and generate sustainable long-term investment outcomes.

As the custodian of our clients' investment success, we understand the sustainability imperative and the role it plays in changing the landscape of every industry. To this end, we believe that incorporating ESG factors into our investment and stewardship decisions will support our pursuit of enhanced, sustainable returns for our clients. We have adopted a framework that follows a beliefs, policy, process and portfolio approach and that aims to provide our clients with a transparent and practical pathway to understand and identify where responsible investment considerations sit within our investment approach and how they are incorporated in our investment portfolios.

Beliefs
Responsible investing beliefs
Environmental and social integrity
Policy
Process
Portfolio
Appendix

Beliefs

Responsible investing beliefs that underpin our approach

We aim to help our clients achieve their investment objectives through our portfolio of financial products and services.

Socio-economic empowerment is an imperative for South Africa, which we believe we are well positioned to contribute to. The power of investing responsibly is that not only can it help our clients reach their investment goals, but, through deploying those investments responsibly and sustainably, it can also help promote a better quality of life for South Africans and South African communities.

We define responsible investment (RI) as an investment practice that integrates factors that may materially affect the sustainable performance of assets and the best interests of the clients and communities we serve. These factors include environmental, social, corporate governance (ESG) aspects and broader systemic issues such as climate change, sustainable development and active ownership. We believe that for investments to remain profitable in the long term, societies and financial systems must develop in an equitable and sustainable way. Ultimately, we believe investment processes should evolve to a point where the impact of any investment on society, and the economy around it, can be measured.

RI practices that incorporate ESG considerations have seen widespread acceptance globally as part of the mainstream investment approach. We believe that the evolution of responsible investment from a risk and return approach of ESG integration will include a third dimension - the impact measurement of assets.

We hold a set of responsible investing beliefs that underpin our approach:

A broader and longer-term perspective on risk
Members in pension funds increasingly demand that all parties in the investment chain take their broader long-term interests, and those of future generations, into account. ESG risks and opportunities have a material impact on long-term investment outcomes.

A sustainable investment view is more likely to create and preserve long-term investment capital through active ownership and stewardship and it helps realise long-term shareholder value. Long-term streams of returns and long-term themes, rather than short-term price movements, are more likely to achieve desired investment outcomes.

Considering ESG risks and opportunities
ESG considerations present risks and opportunities to investors that can have a material impact on long-term risk and return outcomes. Consequently, a sustainable investment approach, which considers such risks and opportunities, is preferred.

ESG factors are not only about corporate responsibility and good reputation management. They also directly affect the short-term and long-term operational and financial performance of companies.

We distinguish between financial implications (such as risks and costs) associated with ESG considerations where there is often shifting public sentiment and regulation and growth opportunities in industries more directly affected by sustainability challenges (such as growing populations and natural resource constraints).

We believe a key feature of a quality asset manager is its ability to consider any factors that may affect the sustainability of an investment. We believe we can better achieve our goal of achieving sustainable and responsible investment outcomes when ESG factors are considered in an asset manager's investment process. This provides a more holistic view of the risks associated with the investment.

We embrace the principles of active ownership. We believe that the asset managers we select have an important role to play in positively influencing the underlying companies they invest in and enhancing the value of the markets within which they operate. We appreciate that voting alone does not secure better outcomes and resolutions that are tabled at a company's annual general meeting do not always address ESG-specific risks. What is required is a commitment to continuous engagement and monitoring in order to evaluate asset managers' efforts in enhancing the value of companies and markets.

We believe we can better achieve our goal of achieving sustainable and responsible investment outcomes when ESG factors are considered in an asset manager's investment process.

alexforbes.com

Environmental and social integrity

We have a duty to act in the long-term interests of our beneficiaries.

By adopting a RI approach into the way we invest, we are able to improve our ability to meet our commitments to all our stakeholders and better align our investment activities with the broader interests of society. This is a commitment that is consistent with our fiduciary responsibilities.

Measuring the impact of investments, particularly those made in listed markets, has become increasingly important.

In September 2015, the global community - represented by all member states of the United Nations (UN) - adopted the Sustainable Development Goals (SDGs). The 17 SDGs seek to guide the global community's sustainable development priorities in areas of critical importance for humanity and the planet. We are supportive of this framework and we are an enthusiastic participant in the engagement processes aimed at fostering and influencing better SDG-aligned impact and reporting outcomes from listed companies. We are a signatory of the UN Global Compact, the world's largest corporate sustainability initiative, to further signal our support for more sustainable business practices and operations.

Unlisted markets can offer investment opportunity sets where investors can directly make a difference.

Through the Alexander Forbes Investments South Africa Private Markets (AFISAPM) portfolio, we have partnered with established providers using the strength of our manager research capability and the depth of our asset manager network. Through these networks, we have been able to source suitable sustainable investments. The portfolio has a clear focus on environmental impact where it invests in the development of renewable sources of energy such as solar, wind and hydro power. The portfolio also has exposure to social infrastructure assets such as education, student accommodation, community property development and healthcare facilities. These investments explicitly cater for the infrastructure and developmental needs of South Africa while providing a compelling investment return objective to meet our clients' investment goals.

In our commitment to create positive environmental and social change, we leverage investment opportunity sets that are aimed at fostering and influencing the needed changes our country needs.

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.

alexforbes.com

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.

alexforbes.com

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

alexforbes.com

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 integation, 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.

alexforbes.com

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.

alexforbes.com

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.

alexforbes.com

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.

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.

alexforbes.com

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.

alexforbes.com

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.

Policy implementation: alternative asset classes

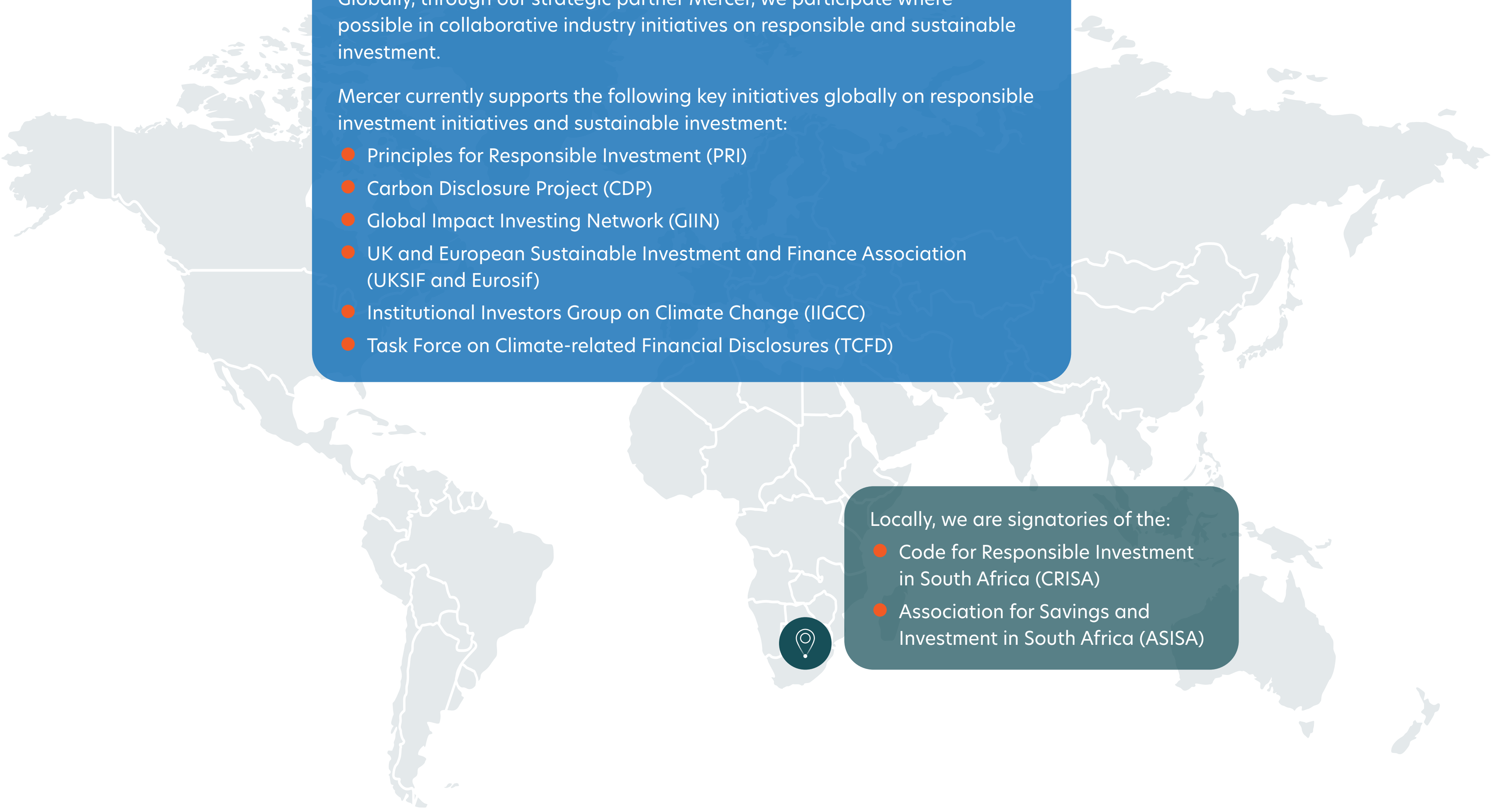
Asset class	Private markets	Africa (ex SA) listed	Hedge funds
Monitoring	• Monitor the manager's ESG capabilities using our ESG ratings. • Monitor if the asset manager employs dedicated ESG advisory service providers or if they have a dedicated capability. • Monitor portfolio holdings for ESG issues, 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.

alexforbes.com

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)

Beliefs
Policy
Process
Evaluating ESG
Promoting active stewardship
Encouraging asset managers to adopt a collaborative approach
Promoting enhanced disclosure
Portfolio
Appendix

alexforbes.com

Process

To incorporate the belief that responsible investment matters, an organisation's policy should be expressed throughout each stage of the investment process, including investment analysis and decision-making. Organisations should continually review their investment practices to ensure that responsible investing is effectively incorporated throughout the investment process and remains appropriate and relevant.

We do not directly select investments. Instead, we select and combine top-rated asset managers across asset classes, styles, and philosophies into multi-managed portfolios. However, as most shares are held directly in our name, we have ownership responsibilities that are an important right and obligation. Our investment process is therefore primarily focused on assessing asset managers on their approach towards integrating ESG considerations into their investment decision-making process.

The ESG research process is part of our broader asset manager research function.

This allows for ESG integration to be effective in the consideration of asset manager and investment strategy selection. To determine the rating for most asset managers and underlying investment strategies, our manager research team performs a review based on four specific factors:

- **Idea generation**
- **Implementation**
- **Portfolio construction**
- **Business management**

Our investment process is focused on assessing asset managers on their approach towards integrating ESG considerations into their investment decision-making process.

Asset managers also receive a separate ESG rating based on four ESG-specific considerations:

ESG integration

How asset managers integrate ESG into their investment process (including examples).

Resources

What internal and external resources relating to research, systems and staff are used.

Engagements

What policies and procedures around engagements and proxy voting are in place and examples and outcomes of those engagements.

Firm wide commitment

Whether their process is formalized through a responsible investing policy and if the firm has a commitment to industry bodies and codes and public disclosure of RI activities.

Evaluating ESG

Based on the four ESG specific considerations, asset managers are assigned an ESG rating between 1 (the highest rating) and 4 (the lowest rating).

A rating of ESG 1 represents leadership in the integration of ESG factors and active ownership into core investment processes.

A rating of ESG 4 reflects little or no evidence of ESG integration or active ownership into core investment processes and no indication of future integration of ESG factors. You may refer to the **appendix** for more detail on the different levels of ESG integration for active and passive strategies.

We do not directly select investments. Instead, we select and combine top-rated asset managers across asset classes, styles, and philosophies into multi-managed portfolios.

alexforbes.com

Promoting active stewardship with private market and listed fixed interest asset managers

Where asset managers manage private markets mandates, investments have additional risk considerations such as liquidity, concentration, and regulatory risks.

As a result, ESG considerations need to be more robust. Therefore, we consider the asset manager's ability to have adequate board representation and their ability to influence the management committees (audit, remuneration, social and ethics) of companies included in their portfolios. We consider if the asset manager can positively influence the company with respect to ESG compliance and project implementation and ensure that all investments are managed actively from idea generation through to the exit stage such that value is not lost throughout the investment process.

Fixed interest investments have little avenue for activism once investment allocations are made. It is therefore an imperative that our process incorporates thorough due diligence of fixed interest ESG integration. We consider the asset manager's idea generation strength in assessing credit risk, such as default risk. Related to this, we assess the depth of the investment team, their ability to assess credit risk, price appropriately for it, and protect themselves through legal agreements where possible. We consider asset managers who play an active role in advancing equal listing requirements for listed bond and equity asset classes. Participation in driving change within the industry with regulators and listing exchanges aligns with stronger ESG credentials.

These tools are increasingly being pursued to reduce risk and enhance long-term financial value. Studies have shown that companies with good corporate citizenship and ESG practices are better managed and therefore, are likely to outperform in the long-term.

We consider if an asset manager can positively influence the investee company with respect to ESG compliance and implementation and ensure that all investments are actively managed.

alexforbes.com

Encouraging asset managers to adopt a collaborative approach in promoting the development of responsible investment practices within the industry

We believe that the primary tenet of collaboration is being an active investor. We promote collaboration amongst asset managers and actively engage with managers we have invested with and those we invest and engage with as part of our broader manager research coverage.

Ad-hoc engagements outside of regular report-backs and due diligence trips are also held to gain further insight on any topical issues. This continuous engagement allows for deeper insight and understanding of the industry.

We actively participate in industry events, alongside asset managers on topical local and global themes, contributing to the discourse of responsible investment practices.

In addition to voting and active ownership practices detailed above, we have collaborated with other market participants and experts on climate change and the associated impact measurements. We also actively formulate strong market views against regulation that hinders the sustainability of investments, together with other industry bodies, brokers and other market participants.

alexforbes.com

Promoting enhanced disclosure on responsible investing from asset managers

Succeeding the monitoring of managers and their engagement activities, the next step is to document evidence and records of their responsible investment practices.

Details pertaining to which resolutions asset managers have voted on and what they had voted for is reported back to us. We assess the results on a quarterly basis so that we can monitor their proactivity and assess them in line with our understanding of their investment approach and philosophy. Summary reporting on the voting actions of incumbent asset managers in our flagship portfolios is disclosed on our website. Detailed reporting on proxy voting results is also available on request.

In our private markets programme, our intention is to explicitly quantify and track the associated impact metrics aligned to the United Nation's Sustainable Development Goals (SDGs). Examples of these impact metrics include clean energy produced (MW), number of enrolled school-going learners and gender diversity to name a few. Monitoring and reporting across both investment and impact performance aligns with our holistic investment approach.

As part of our commitment to all regulation applicable to responsible investment activities such as the CRISA Code of Conduct, the PRI principles, and the FSCA guidance notes, we encourage asset managers to disclose their policy, practices and stewardship activities so that we can observe the efforts they are making in the quest for greater transparency.

We also critically review our ESG research process on an ongoing basis to ensure we anticipate and respond to market developments on sustainable investing better. Our rigorous research process enables our clients to have confidence that the managers we rate highly have been closely scrutinised and are, in fact, those with the highest likelihood of delivering sustainable outperformance.

We encourage asset managers to disclose their policy, practices and stewardship activities so that we can observe the efforts they are making in the quest for greater transparency.

Beliefs
Policy
Process
Portfolio
ESG integration
Active stewardship
Impact investing
Thematic investing
Appendix

alexforbes.com

Portfolio

We consider incorporating responsible investment practices into our investment portfolios through proactive allocations for impact and risk mitigation aligned with our responsible investing beliefs.

ESG integration

Assessing asset managers on their approach towards integrating ESG considerations into their investment decision-making processes.

Active stewardship and impact and thematic investing

Monitoring asset managers' proxy voting and engagement activities by leveraging our ESG research and rating criteria.

The culmination of the first three steps of our framework (i.e. Beliefs, Policy and Process) forms the embodiment of responsible investment within our multi-managed portfolio solutions.

alexforbes.com

ESG integration

Across both listed and unlisted markets, we leverage our ESG ratings for asset managers.

This is standard within our asset manager research process where ESG has been included as an explicit factor in assessing the quality of an asset manager.

There are now over 5000 strategies with an ESG rating on our global research database, MercerInsight™, which captures to what extent an asset manager includes ESG factors and active ownership principles throughout their investment process.

As detailed in the **process section,** our asset manager selection process includes ESG research. The inclusion of ESG factors as part of the investment decision-making process is considered when our portfolio managers seek asset managers or strategies to deploy in the portfolio solutions that they manage. We do not completely exclude asset managers from the investment universe if they score poorly on an ESG basis, but we do recommend that portfolio managers invest with asset managers with an ESG rating of 3 or above.

We recognise that ESG integration is evolving in the industry and instead of adopting an exclusionary strategy, we are willing to work with asset managers with less favourable ESG ratings in order to improve their process. Consequently, if an asset manager with an ESG rating of 4 is appointed, the asset manager is required to improve to a rating of 3 or above in the following 12-month period from the date of their appointment. Failing to do so means that the asset manager risks having their appointment terminated. This process aims to assist asset managers in improving their ESG rating and increase our collaborative effort in shaping the industry to embrace risk-led investing.

alexforbes.com

Active stewardship

As stewards of our clients' capital, we proactively engage with asset managers on issues relating to responsible investing.

Given our scale, we are in a unique position to engage with asset managers and others in the industry to influence change so that our portfolios are resilient to associated risk factors.

We believe that the asset managers we appoint are adequately equipped to assess responsible investment risks and opportunities and make meaningful decisions on proxy voting and engagement as they are required to have a deep understanding of the companies they invest in and any potential issues that may materially affect share prices. However, we still maintain oversight on their voting activity and actively engage with them on how proxies are voted upon.

While we are not prescriptive on how asset managers should vote, we do provide them with proxy voting guidelines that are included in our investment management agreements. The guidelines provide a philosophical framework within which we stipulate how an asset manager should vote proxies on our behalf.

In improving our stewardship role in the South African market, we have obtained proxy voting guidance from rated sell-side research providers. Stock specific and thematic research is also obtained which collectively informs our ESG research process.

It has allowed us to formulate more informed views which have defined our engagement process with the asset management industry.

The engagements held with the asset managers are then compared to our views and the proxy voting guidance that we have provided to them. We record these engagements and provide portfolio managers and advisory colleagues with anecdotal views and evidence regarding the incumbent managers and strategies within our portfolios.

In the unlisted space, and as part of the Alexander Forbes Investments South Africa Private Markets (AFISAPM) portfolio, we critically review strategies that isolate one or more environmental and social demands or risk drivers and approve investments that are best positioned to benefit from these strategies. Using our discretion, we channel investments into portfolios associated with environmental and social benefits. This is deliberate in addressing the sustainability and the environmental and social impact of investment management.

Stock specific and thematic research allows us to formulate more informed views which have defined our engagement process with the asset management industry.

alexforbes.com

Impact investing

Investing for financial return and societal and environmental benefit.

The Global Impact Investing Network (GIIN) defines impact investments as "investments made into companies, organisations and funds with the intention to generate measurable social and environmental impact alongside a financial return." Impact investing aims to achieve commercially viable sustainable impact. In the context of investment strategies, impact investing can include thematic investments across private equity, debt, infrastructure and property with a vast spectrum of sectors or types of investments.

A recent global development has shown that several providers of investment products have begun creating products in the public markets that are linked to making a positive public impact. These products can be developed with specific reference to the 17 UN SDGs.

We observe that measuring the impact of investments is becoming increasingly important. The Global Impact Investing Rating System (GIIRS), the GIIN, the IRIS+ impact measurement system and the Impact Management Project (IMP) are prime examples of ongoing work to create a taxonomy to report impact metrics. We have observed managers beginning to self-report at this stage. We have begun the process of engagement and will, in time, provide reporting of these aspects within the AFISAPM portfolio.

Thematic investing

Most themed funds have a focus on sustainability.

Funds with a social theme can be found in microfinance, urban regeneration, property and social infrastructure. Themed funds can be found in infrastructure, private equity, unlisted debt and direct property.

The AFISAPM portfolio allocates capital to environmental and social investments. It has a focus on environmental impact where it invests in the development of renewable sources of energy such as solar, wind and hydro power. There are also investments made into social infrastructure assets such as education, student accommodation, community property development and credit access for lower-income communities. These investments explicitly cater for the developmental needs in South Africa, while providing a compelling investment return objective for our clients.

Impact investing can include thematic investments across private equity, debt, infrastructure and property with a vast spectrum of sectors or types of investments.

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.

Active (all asset) strategies

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.

Disclaimer

Alexander Forbes Investments Limited is a licensed financial services provider, in terms of section 8 of the Financial Advisory and Intermediary Services Act 37 of 2002, as amended, FAIS licence number 711 and is a registered insurer licensed to conduct life insurance business.

This information is not advice, as defined and contemplated in the Financial Advisory and Intermediary Services Act 37 of 2002, as amended.

Note

The value of a portfolio can go down, as well as up, as a result of changes in the value of the underlying investments,or of currency movement.

An investor may not recoup the full amount invested. All policies issued or underwritten by us are linked policies under which no guarantees are issued.

The policy benefits are determined solely on the value of the assets, or categories of assets, to which the policies are linked.

Past performance is not necessarily an indication of future performance.

Forecasts and examples are for illustrative purposes only and are not guaranteed to occur. Any projections contained in the information are estimates only. Such projections are subject to market influences and contingent upon matters outside our control, so may not be realised in the future.

Please be advised that there may be supervised representatives.

Company registration number: 1997/000595/06
Pension Fund Administrator number: 24/217
Insurer number: 10/10/1/155

Postal address: PO Box 786055, Sandton 2146
Physical address: 115 West Street, Sandown 2196
Telephone number: +27 (0) 11 505 6000

The complaints handling procedure and conflict of interest management policy can be found on our website: **www.alexforbes.com**.

Disclaimer for qualified investor hedge funds

Risks (portfolio specific)

Derivatives: There is no assurance that a portfolio's use of a derivative strategy will succeed. A portfolio's management may employ a sophisticated risk management process, to oversee and manage derivative exposures within a portfolio, but the use of derivative instruments may involve risks different from, and, in certain cases, greater than, the risks presented by the securities from which they are derived.

Exposure to foreign securities: Foreign securities within portfolios may have additional material risks, depending on the specific risks affecting that country, such as: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks; and potential limitations on the availability of market information. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Investors are reminded that an investment in a currency other than their own may expose them to a foreign exchange risk.

Hedge fund of funds: A hedge fund of funds is a portfolio that invests in portfolios of collective investment schemes (unit trusts) that levy their own charges, which could result in a higher fee structure for the fund of funds.

Drawdown: The potential magnitude of loss - the largest peak-to-trough decline in returns over the period, also known as the maximum drawdown.

Liquidity: The risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).

Equities: The value of equities may vary according to company profits and future prospects, as well as more general market factors. In the event of a company default, the owners of their equity rank last in terms of any financial payment from that company.

Bonds: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates and/ or inflation rises. Bonds issued by major governments and companies, will be more stable than those issued by emerging markets or smaller corporate issuers. If an issuer experiences financial difficulty, there may be a risk to some, or all, of the capital invested. Any historical or current yields quoted should not be considered reliable indicators of future performance.

For a detailed description of these risks, and other risks that are relevant to the portfolio, please refer to the CIS **RISK DISCLOSURE DOCUMENT**, available on the website.

General

Collective investments (unit trusts) are generally medium-term to long-term investments, but a hedge fund may have short-term strategies and practices. The value of participatory interests (units) or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Hedge funds trade at ruling prices and prices may fluctuate post publication. Hedge funds can engage in scrip borrowing and scrip lending. The manager does not provide any guarantee, either with respect to the capital or the return of a portfolio. Any forecasts and/or commentary in this document are not guaranteed to occur. Different classes of participatory interests apply to these portfolios and are subject to different fees and charges. **A SCHEDULE OF FEES AND CHARGES**, with maximum commissions, is available on request from us or from your financial adviser. Forward pricing is used. Hedge funds are CIS with a strategy that allows for leveraging and short-selling strategies. Hedge fund strategies can result in losses greater than the market value of the fund, but investors' losses are limited to the value of the investment or contractual commitments. Hedge funds can also invest in illiquid instruments. While CIS in hedge funds differ from CIS in securities (long-only portfolios) the two may appear similar, as both are structured in the same way, and are subject to the same regulatory requirements. Further risks associated with hedge funds include: investment strategies may be inherently risky; leverage usually means higher volatility; short-selling can lead to significant losses; unlisted instruments might be valued incorrectly; fixed income instruments may be low-grade; exchange rates could turn against the fund; other complex investments might be misunderstood; the client may be caught in a liquidity squeeze; the prime broker or custodian may default; regulations could change; past performance might be theoretical; or the manager may be conflicted. For a detailed description of these risks, please refer to the **HEDGE FUND RISK DISCLOSURE DOCUMENT**, available on the website.

Redemptions

A Qualified Investor Hedge Fund (QIHF) can borrow up to 10% of the value of the portfolio, for redemptions of participatory interests. The ability of a portfolio to repurchase, is dependent upon the liquidity of the securities and cash of the portfolio. A manager may, in exceptional circumstances, suspend repurchases for a period, subject to regulatory approval, to await liquidity, and the manager must keep the investors informed about these circumstances.

Performance fees

Performance fees are not levied on the portfolio, although they have been provided for. Investors will receive three months' written notice, if performance fees will be levied in the future. The rate of return is calculated on a total return basis, and the following elements may involve a reduction of the investor's capital: interest rates, economic outlook, inflation, deflation, economic and political shocks or changes in economic policy.

Performance returns

Lump-sum performance returns are being quoted. Income distributions, prior to deduction of applicable taxes, are included in the performance calculations. NAV to NAV figures have been used for the performance calculations, as calculated by the manager at the valuation point defined in the deed, over all reporting periods. Investment performance calculations are available for verification upon request by any person. Reinvestment of income is calculated on the actual amount distributed per participatory interest, using the ex-dividend date NAV price of the applicable class of the portfolio, irrespective of the actual reinvestment date. The performance is calculated for the fee class. The individual investor performance may differ, as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. The rate of return is calculated on a total return basis, and the following elements may involve a reduction of the investor's capital: interest rates, economic outlook, inflation, deflation, economic and political shocks or changes in economic policy. Annualised returns are period returns re-scaled to a period of one year. This allows investors to compare returns of different assets that they have owned for different lengths of time. All period returns greater than one year have been annualised. Returns for periods less than one year have not been annualised. A cumulative return is the aggregate amount an investment has gained or lost over time, independent of the period of time involved. Actual annual figures are available to the investor on request.

Prices

PRICES are published daily in the Business Report (South Africa's National Financial Daily) and are made available on the website.

Valuation and cut-off time

The QIHFs are valued on the last day of each calendar month. The pricing date is the last day of each calendar month. The withdrawal instruction must be received before 13:00, at least five business days (or shorter, as determined by the manager) prior to the pricing date, failing which, the pricing date in the following calendar month will apply.

Closure of the portfolio

The manager shall, in its absolute discretion, without notice or on such notice as it may determine, be entitled from time to time to close the portfolio to new investments and/or to close the portfolio to investments from new investors and/or to accept new investments only from certain persons or groups of persons and/

or to limit or suspend the creation and issue of new participatory interests, in each case on such terms as it may determine, if such restrictions will, in the manager's view, benefit the portfolio or the effective management thereof or for any other reason whatsoever. The manager shall, in its absolute discretion, determine the date from which any such restrictions shall take effect, the date from which any such restrictions shall cease to apply and/or the date on which any such amended restrictions shall apply.

Structure of the portfolio

The portfolio was established as a collective investment scheme trust arrangement on 26 May 2016, with the conversion process being completed on 1 November 2016. All prior information was in an unregulated environment. The portfolio will not change its investment strategy or investment policy without prior approval from the Financial Sector Conduct Authority and investors. The ballot procedure, as prescribed in CISCA and the Deed, will be followed.

Counterparties and prime brokers

We do not enter into counterparty or prime broker arrangements, but the underlying portfolios may enter into such arrangements. We receive reporting on counterparty exposure levels from the underlying portfolio managers and this information can be provided on request.

Additional information

For more information on the portfolio, refer to the following documents, available from your financial adviser, or on request from the manager, at no additional costs.

- MINIMUM DISCLOSURE DOCUMENTS
- PORTFOLIO SUMMARY
- ANNUAL REPORT
- FEE AND CHARGES SCHEDULE
- APPLICATION FORM (LEGAL ENTITIES)
- APPLICATION FORM (INDIVIDUAL INVESTORS)

Complaints

The COMPLAINTS POLICY AND PROCEDURE, and the CONFLICTS OF INTEREST MANAGEMENT POLICY are available on the website. Associates of the manager may be invested within certain portfolios, and the details thereof are available from the manager.

Contact details

CIS Manager

Alexander Forbes Investments Unit Trusts Limited is registered as a manager, in terms of the Collective Investment Schemes Control Act, and through Alexander Forbes Group Holdings Limited, is a member of the Association for Savings and Investment South Africa (ASISA).

Registration number: 2001/015776/06

Physical address: 115 West Street, Sandown, 2196

Postal address: PO Box 786055, Sandton, 2146

Telephone number: + 27 (0)11 505 6000

Email address: afinvestments@alexforbes.com

Website: www.alexforbes.com

Trustee, Custodian and Depository

FirstRand Bank Limited, acting through RMB Trustee Services

Registration number: 1929/001225/06

Physical address: No 3 First Place, Corner Jeppe and Simmonds Streets, Johannesburg, 2001

Postal address: PO Box 7713, Johannesburg, 2000

Telephone number: +27 (0) 87 736 1732

Email address: info@rmb.co.za

The trustee is registered, as a trustee, in terms of the Collective Investment Schemes Control Act.

Investment manager hedge funds

Caveo Fund Solutions (Pty) Limited, registration number 2003/017504/07, is a licensed authorised Financial Services Provider (FSP), as a hedge fund FSP, in terms of section 8 of the *Financial Advisory and Intermediary Services Act 37 of 2002*, as amended, FAIS licence number 24297. The address is the same as the manager. This information is not advice, as defined in the Act.

Please be advised that there may be supervised representatives.