Investments

An investment framework for responsible investing

Responsible investing

Beliefs | Policy | Process | Portfolio

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 stewards of our clients' investment success, we recognise the critical importance of sustainability and its transformative impact across industries. We believe that integrating ESG factors into our investment and stewardship decisions supports our goal of delivering enhanced, sustainable returns. Our framework - rooted in beliefs, policy, process, and portfolio - offers a transparent and practical approach to understanding how responsible investment principles are embedded within our strategy and reflected in our portfolios.

Beliefs

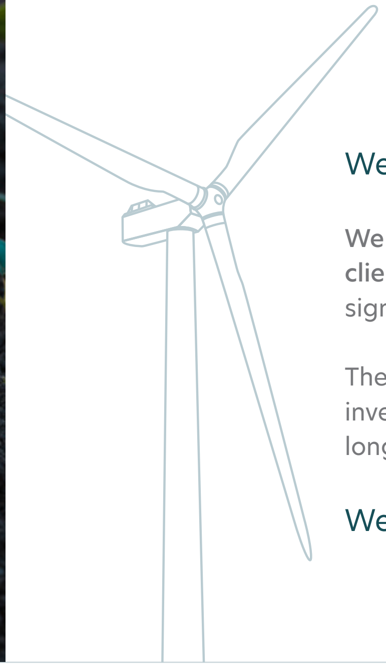
Responsible investing beliefs that underpin our approach

We help our clients reach their investment destination with our financial products and services.

Socio-economic empowerment is crucial 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 approach that includes factors affecting the long-term performance of assets, and the interests of our clients and communities. These factors are ESG aspects, along with broader issues like climate change, sustainable development and active ownership. We believe that for investments to stay profitable long-term, societies and financial systems must develop fairly and sustainably. Ultimately, investment processes should measure the impact on society and the economy.

RI practices with ESG considerations are now widely accepted globally. We believe responsible investment will evolve to include impact measurement of assets.



We have a set of responsible investing beliefs that guide our approach.

We take a broader and longer-term perspective on risk, considering the long-term interests of our clients and ultimately pension fund members and future generations. ESG risks and opportunities significantly impact long-term investment outcomes.

Therefore, a sustainable investment approach that considers these factors is preferred. A sustainable investment view, through active ownership and stewardship, is more likely to create and preserve long-term investment capital and realise shareholder value.

We focus on long-term returns and themes rather than short-term price movements.

ESG factors also directly affect the short-term and long-term operational and financial performance of companies.

We separate the financial impacts, such as risks and costs, related to ESG factors. These are often influenced by changing public opinion and regulations. We also look at growth opportunities in industries directly affected by sustainability challenges, such as increasing populations and limited natural resources.

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.

By including ESG factors in the investment process, we can better achieve sustainable and responsible investment outcomes. This provides a more holistic view of the risks involved.

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 they operate in.

We recognise that voting alone does not secure better outcomes, and resolutions tabled at a company's annual general meeting do not always address ESG-specific risks.

A commitment to continuous engagement and monitoring is required 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.

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, all United Nations (UN) member states adopted the Sustainable Development Goals (SDGs). These 17 goals guide global priorities for sustainable development in critical areas for humanity and the planet. We support this framework and actively participate in processes to improve SDG-aligned impact and reporting from listed companies. As a signatory of the UN Global Compact, the world's largest corporate sustainability initiative, we further demonstrate our commitment to 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 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

Our policy details how our beliefs about responsible investment are considered in the investment process.

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

Our policy and its application remains consistent, but will evolve over time. 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.

Furthermore, we have robust procedures in place to identify, manage and mitigate any conflicts of interest (see **appendix** for policy outlines) that may arise, ensuring that all investment decisions are made in the best interest of our clients.

The following key principles underpin this policy:

Clear communication
to asset managers of our ESG expectations.

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

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

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

Our policy continually evolves as we deepen our understanding of its connection to 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.

Our investment beliefs and approach are shaped by leading global frameworks and initiatives, including:

- The Paris Agreement on Climate Change
- The Task Force on Climate-related Financial Disclosures (TCFD) by the Financial Stability Board
- The United Nations Sustainable Development Goals (SDGs)
- Creating Shared Value (CSV) principles

We also participate in the Impact Management Project (IMP), established by the World Bank Group's International Finance Corporation (IFC). This initiative aims to:

- Support the development of common standards for impact management and disclosure
- Promote the IFC's Operating Principles for Impact Management, which provide a consistent approach to managing investments for impact across the industry

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 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.

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.

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
- Transformation and inclusion
- Infrastructure maintenance and development

Governance

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

ESG ratings are assessed through due diligence engagements with asset managers, with a strong emphasis on driving positive momentum and progress in ESG integration. Expectations are set at an ESG rating of 3 or higher, where practical and relevant to the investment strategy (with 1 being the highest rating and 4 the lowest). Comparisons are also made against the appropriate universe of strategies in our research database.

We believe ESG factors can be integrated across various asset classes, including listed equity, fixed income, unlisted property and hedge funds. However, the degree of ESG integration varies by asset class, as does the availability of attractively themed investment opportunities. Themed opportunities are more commonly found in unlisted assets and are less prevalent in other asset classes.

These factors, guide our selection and monitoring of asset managers. The second column outlines the level of ESG integration achieved by asset managers for each asset class listed in the first column. The third column indicates the availability of each asset class - and its respective level of ESG integration - for incorporation into investment strategies. Generally, asset managers demonstrating greater progress in ESG integration are more likely to incorporate ESG factors into their standard portfolios. See **appendix** for further details.

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
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.

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 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.

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.

Read our proxy voting guidelines **here**

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 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 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.

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

Through our private markets portfolio, 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. 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.

Climate Change Policy 2024

Policy implementation: traditional asset classes

Asset class:	Listed equity	Listed fixed interest
Monitoring	• Monitor the asset 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 asset 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.

Policy implementation: alternative asset classes

Asset class:	Private markets	Africa (ex SA) listed	Hedge funds
Monitoring	• Monitor the asset 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 asset 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 asset 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.

Industry-wide commitment

Across asset classes, there is an industry-wide commitment to the following 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)

We evaluate asset managers on their ESG integration practices to ensure alignment with our responsible investment principles.

Through ongoing monitoring and engagement, we assess how ESG factors influence their investment decisions and stewardship activities. This structured process allows us to continuously refine our investment practices and advocate for responsible investment in the industry.

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.

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

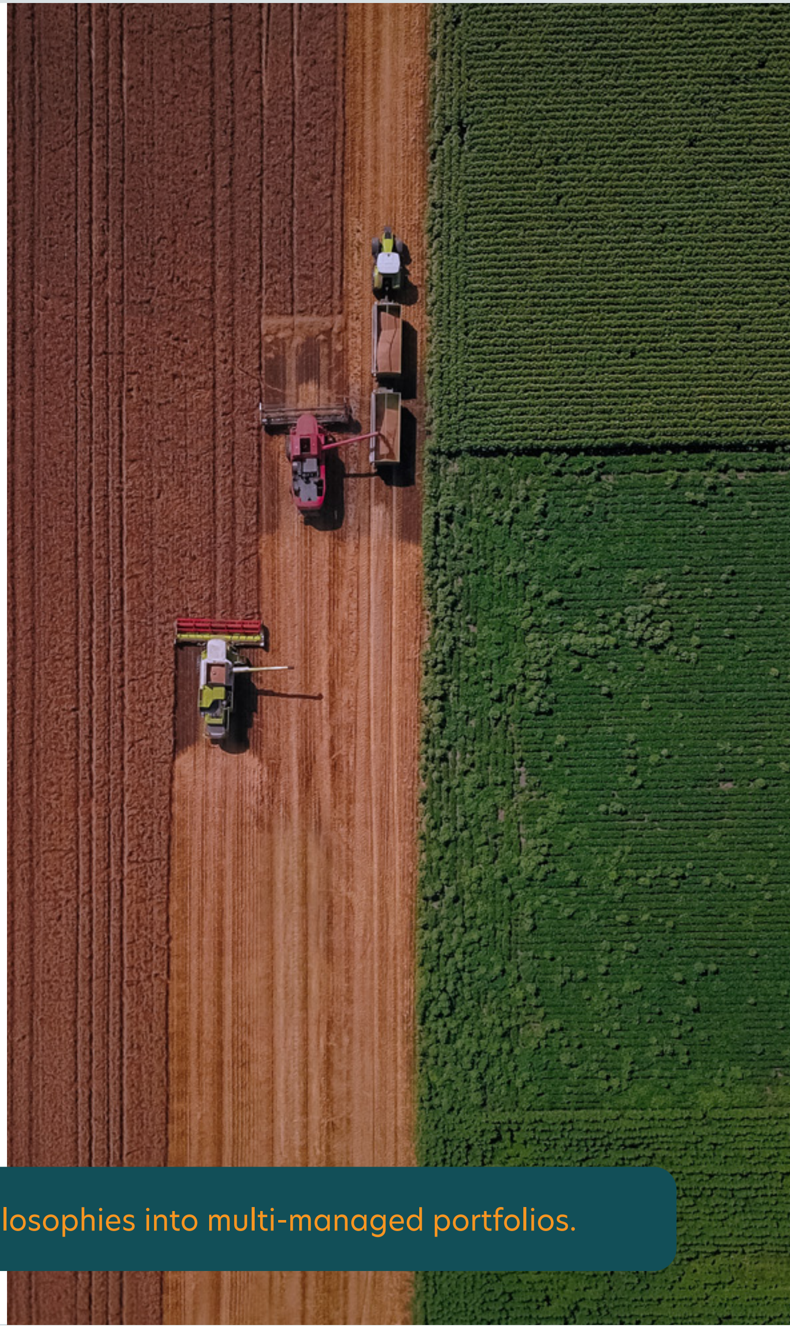
A rating of 4 reflects little or no evidence of ESG integration or active ownership into core investment processes and no indication of future integration of ESG factors. You may refer to the **appendix** for more detail on the different levels of ESG integration for active and passive strategies.

Exclusion criteria

As part of our ESG assessment, we also incorporate exclusion criteria where necessary and in compliance with the prevailing regulation where assets are being managed. This, to ensure alignment with our responsible investment principles.

While exclusions can be an effective tool in promoting responsible investment, we acknowledge that a rigid exclusionary approach may not always be feasible, particularly in concentrated markets like South Africa.

We therefore adopt a flexible approach, balancing exclusions with broader ESG integration to ensure our investment decisions align with long-term sustainability goals.



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.

Promoting active stewardship

in private markets and fixed interest investments

Private market investments carry unique risks, such as liquidity, concentration and regulatory challenges.

To manage these effectively, asset managers must adopt a stronger ESG approach, ensuring responsible and sustainable investment practices. 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.

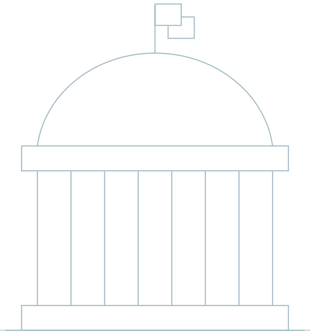
Unlike equity investments, fixed interest investments offer limited opportunities for activism after allocations are made. This makes it essential to conduct thorough due diligence on how asset managers integrate ESG factors into their fixed interest strategies.

We assess an asset manager’s ability to generate investment ideas and evaluate credit risk, including default risk. This includes reviewing the depth of their investment team, their expertise in pricing credit risk appropriately, and their ability to mitigate risks through legal protections.

We also prioritise asset managers who actively advocate for equal listing requirements across bond and equity markets. Their involvement in industry-wide ESG advancements, including engagement with regulators and exchanges, reflects a strong commitment to responsible investing.

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.



Promoting collaboration
to advance responsible investment practices

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 market participants.

Promoting collaboration
on responsible investing

Succeeding the monitoring of asset 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 SDGs. Examples of these impact metrics include clean energy produced, 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 continuously review our ESG research process to better anticipate and respond to market developments in sustainable investing. Our rigorous research process enables our clients to have confidence that the asset 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.

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.

Impact and risk mitigation

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 (namely beliefs, policy and process) forms the embodiment of responsible investment within our multi-managed portfolio solutions.

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 5 000 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 lower ESG ratings 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.

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.

Read our Stewardship Report 2024 here

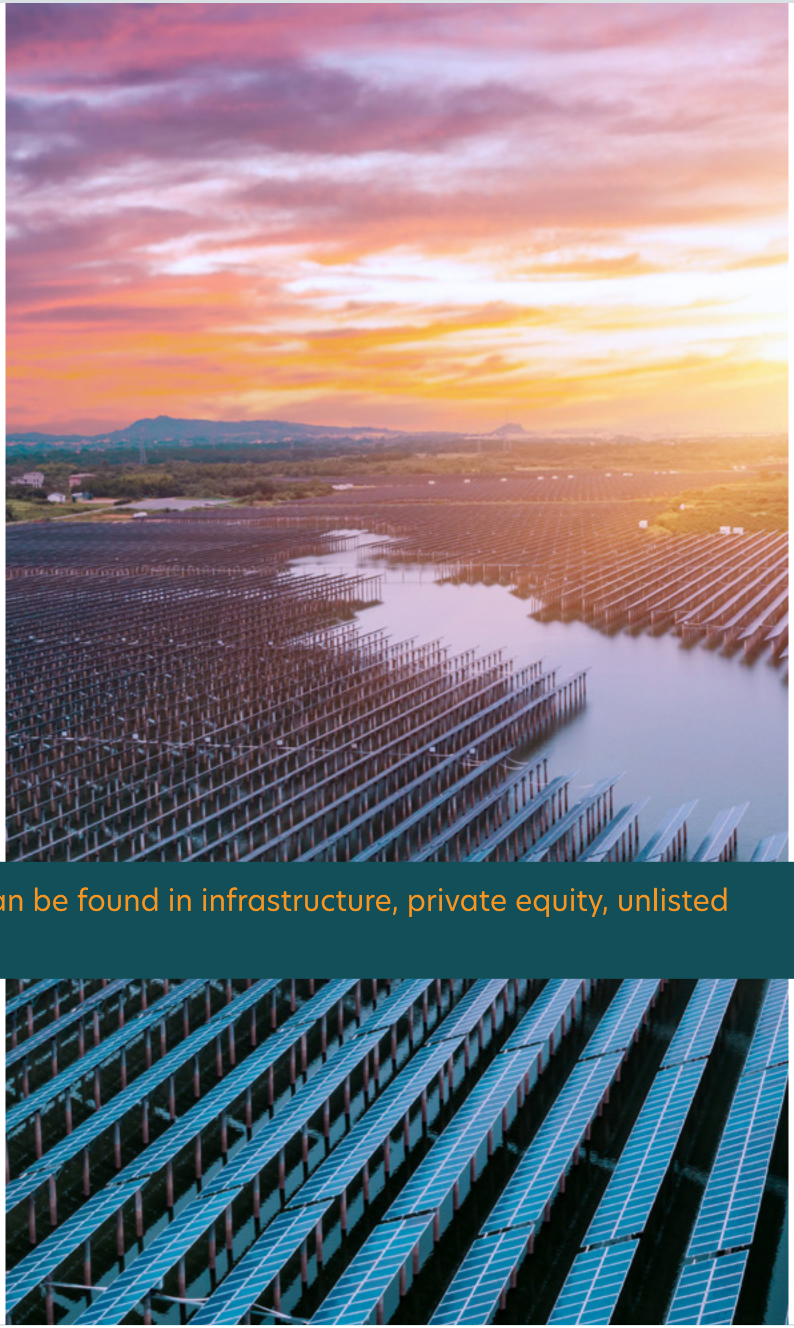
Impact investing

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 asset 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 4: Well-developed focus on G factors; less consistency on E&S; stewardship process is ad-hoc, but there is an indication of progress.

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

ESG 3: Little or no integration of ESG factors or stewardship into core processes and no indication of future change.

Passive (equities) strategies

Aspects that we consider when rating asset 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

Passive (equities) strategies

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.

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).

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.

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

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Securities lending

The group's securities lending activities are limited in scale and do not compromise our ability to exercise voting rights or undertake engagement on ESG matters. Mechanisms are in place to recall securities where required, ensuring our stewardship obligations remain fully intact.

Click **here** to read more

Conflict of interest policy

The policy has the following purposes:

- to ensure consistency and alignment of practices across the group
- to provide guidance on the behaviours expected according to the group's values
- to promote transparency and avoid business-related conflicts of interest
- to ensure and maintain fairness in the interest of employees and the group
- to document the process for the disclosure, approval and review of activities that may amount to actual, potential or perceived conflicts of interest
- to provide a mechanism for the objective review of personal outside interests
- to provide measures to identify, manage, mitigate and avoid existing, perceived and potential conflicts of interest within our environment, and set out the roles and responsibilities of the relevant parties, in terms of the FAIS Act

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.

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

To view our policies and practices, **click here**