

# Responsible Investment

Sanlam Investments, as a subsidiary of a parent founded in 1918, understands the importance of long-term thinking. Along with our commitment to responsible stewardship of our client's assets, we believe we have an essential role to play in building a more sustainable and equitable economy and society.

Sanlam Investments UK recognises and embraces our duty to act as responsible long-term stewards of our client's assets. We believe that environmental, social and governance (ESG) risk and opportunity factors can have a material impact on investment returns and client outcomes. As such, we believe our decisions must support, and not undermine, the long-term sustainability of capital markets, economies, and society. At present, we believe the risks to our financial offerings posed by material ESG risks to be low.

## Responsible Investment Policy

This policy is a living document and aims to set out Sanlam UK's approach to responsible investing; integrating environmental, social and governance (ESG) factors into our investment research and decision making process; our risk management framework; as well as our stance on stewardship. It applies across all our businesses, funds, and product offerings.

The policy is reviewed on a regular basis by the business and the product oversight committee. It will be updated when needed or deemed appropriate.

### Roles, Responsibilities and Resources:

This policy is ratified by the Board and the Board will be provided with ESG management information by the group Executive Committee (EXCO).

The group EXCO assumes ultimate responsibility for ensuring that the principles and actions laid out in this policy are implemented and complied with.

The product oversight committee is responsible for monitoring and reporting on adherence to this policy.

The risk reporting function of the business will be responsible for monitoring product compliance to their individual ESG risk integration policies as well as reporting on any perceived underlying material risks within the individual products.

All investment teams have full access to external ESG risk factor data providers, currently MSCI ESG Research and Bloomberg, to ensure they can access the data required to incorporate ESG risk factors into their investment processes as well as cross reference internal metrics being used.

### Responsible Investing - Our interpretation

We believe there are three mutually reinforcing strands of responsible investing, all of which are practiced and offered to clients as products, across our organisation:

- **Ethical investing:** Investments that filter out certain stocks or industries in line with defined (but varying) ethical guidelines.
- **Sustainable and impact investing:** Screening companies or industries with the aim of promoting environmental, social and governance characteristics, or achieving defined (but varying) social or environmental objectives.
- **Environmental, social and governance integration (ESG):** Investing that integrates ESG factors into fundamental investment analysis to the extent that they are deemed material to investment returns.

### Our Philosophy - Crafting financial futures

We believe that we are responsible for crafting financial futures for our clients and, as such, need to be responsible stewards of our clients' assets. Our primary aim is to provide our clients with investment solutions and strategies that meet their unique needs and deliver sustainable risk-adjusted, long-term performance. Whilst different areas of our business employ differing investment processes based on the nature of their underlying investment offering, they have a commonality in that they are all designed to achieve this primary aim. To this end, our process includes an integrated evaluation of environmental, social and governance factors. We acknowledge that relevant and material ESG issues can meaningfully affect investment performance and we need to incorporate critical factors in our research, decision-making, ongoing monitoring, and reporting processes.

As part of a larger Group, Sanlam Pty Ltd, we acknowledge, embrace, and follow the positioning of our parent company.

- **Environmental** < <https://www.sanlam.com/investorrelations/sustainability/sustainability2019/groupandclusterresiliencereports/sanlamgroup/Pages/playing-our-part-to-reduce-environmental-related-risk.aspx>> – Unsustainable or controversial environmental policies may lead to financial penalties, compromised reputation, competitive disadvantage, and negative implications for growth.
- **Social** < <https://www.sanlam.com/investorrelations/sustainability/sustainability2019/hottopics/Pages/protecting-all-forms-of-human-rights.aspx>> – Poor labour practices or human rights violations may put companies or countries at risk of unrest or upheaval, impairing economic progress.
- **Governance** < [https://www.sanlam.com/investorrelations/downloadscentre/Documents/Governance/Sanlam\\_Governance%2520Report%25202019.pdf](https://www.sanlam.com/investorrelations/downloadscentre/Documents/Governance/Sanlam_Governance%2520Report%25202019.pdf)> – Insufficient governance may promote an environment that ignores investor rights and interests while enabling fraud or corruption, limiting investment returns and exacerbating risks.

#### Our Process - ESG integration

The Sanlam group has been a signatory to the United Nations Principles for Responsible Investment (PRI) since 2009. As such, we implement ESG integration into our business using the framework provided by the broad parameters of the PRI's six principles:

**Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3:** We will seek appropriate disclosure on ESG issues by entities in which we invest.

**Principle 4:** We will promote acceptance and implementation of Principles within the investment industry.

**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** We will report on our activities and progress towards implementing the Principles.

**Engagement:** We have a formal engagement policy which is Board-approved and listed on our website. Investment teams may engage in direct communication with company management, which is an invaluable practice for gaining a better understanding of how management perceives and addresses risks. Open dialogue allows the company to answer specific questions and provides a forum where the investment team may offer feedback on areas of concern, particularly issues where we may disagree with the company's approach. We will release the product level log of these engagements to clients upon request.

**Proxy Voting:** We have a formal Board-approved general guideline for proxy voting which is listed on our website. However, portfolio managers have discretion to determine the best course of action to maximise shareholder value in accordance with our fiduciary duty. Proxies and shareholder proposals of an environmental, social, or governance nature are reviewed carefully. Final vote execution is based on the best economic interests of our clients. We will release this information to clients upon request.

**Investment Teams:** Each investment team has its own ESG procedures to ensure best fit with their underlying investment mandate and commitment to clients, whilst still adhering to the overarching principles laid out in this statement.

**Transparency & Disclosures:** Sanlam UK is committed to providing timely and relevant communication and reporting of its ESG integration efforts. Sanlam UK will produce annual reporting on sustainability which will outline progress and the steps we have made for the period in question. Where possible, ESG information will be made publicly available, for instance on the Sanlam UK corporate website ([www.sanlam.co.uk](http://www.sanlam.co.uk) < <https://www.sanlam.co.uk/>> ).

**Managing Conflicts of Interest:** The business has robust compliance, risk-management, and internal audit systems, and controls in place to identify and manage potential conflicts of interest. As part of this, there is a conflicts of interest policy to promote ethical conduct, combat financial crime and gratifications. The compliance team is responsible for the insider and personal account trading policies. We have a Board ratified Conflicts of Interest Policy.

**Protecting all forms of Human Rights:** Sanlam Group has policies & procedures in place that forbid any form of harassment in the workplace.

**The Sanlam Foundation** < <https://www.sanlam.com/sanlam-foundation>>

#### Integration process

We see ESG integration as a holistic approach to investment analysis, where material factors - ESG factors and traditional financial factors – are identified and assessed to form an investment decision.

We integrate environmental, social and governance considerations into our research and decision-making process and our fiduciary duties.

We will manage and be transparent on environmental, social and governance considerations in our portfolios.

We may engage companies on their material environmental, social and governance issues and may collaborate with other investors in engaging companies.

We encourage companies to be transparent and report, either in a sustainability report or their financial statement, on their material environmental, social or governance issues and develop responsible stewardship strategies.

We require companies we invest in to employ sufficient resources to meet environmental, social and governance challenges, including outsourcing if required.

We monitor how companies manage their environmental, social and governance challenges and encourage them to strive for continual improvement.

We require that companies adhere to laws, guidelines, and codes of good practice applicable to them in the countries in which they operate.

We will endeavour to invest in effective and accountable institutions that reflect the values of society.

We encourage companies we invest in to embrace responsible and environmentally friendly methods of production and consumption.

We vote most proxies where clients have investments and vote in the best interests of clients.

We promote industry best practice, including management of conflicts of interests, should they occur.

In terms of our escalation policy, we may engage with companies on their material environmental issues and collaborate with other investors in engaging companies.

#### **Process:**

##### 1. Research:

- a. Information gathering: We gather financial and ESG information from multiple sources (including, but not limited to company reports, data providers and third-party investment research).
- b. Materiality analysis: We analyse relevant financial and ESG information to identify material financial and ESG factors affecting a company, sector, and/or country.
- c. Active ownership assessment: We engage with companies on material traditional financial factors and ESG factors/issues and monitor the outcome of engagement and/or voting activities.

##### 2. Security and portfolio analysis: We assess the impact of material financial and ESG factors on the corporate and investment performance of a company, sector, country, and/or portfolio. This can lead to adjustments to our forecasted financials, valuation-model variables, valuation multiples, forecasted financial ratios, internal credit assessments, and/or portfolio weightings.

##### 3. Investment decision: The material traditional financial factors and ESG factors identified and assessed influence a decision to either buy/increase weighting, hold/maintain weighting, sell/decrease weighting, or do nothing/not invest.

#### **Common misconceptions:**

Our ESG integration does not mean that:

- investment in certain sectors, countries, and companies is prohibited
- portfolio returns are sacrificed to perform ESG integration techniques
- immaterial ESG factors affect investment decisions
- traditional financial factors are ignored

Some ESG issues might be material for companies in a specific industry (e.g. water stress can disrupt the operations of mining or beverages companies, which rely heavily on clean water in their production processes), but not for other sectors (e.g. water stress has little impact on media or financial companies).

Determining which ESG issues are most material is not an exact science, and there might be important differences between what we consider most material when analyzing different companies, sectors or countries. This is because it is typically a forecast of judgement on how much one ESG or risk factor will impact a financial metric.

#### **Sustainability risks that could have a material impact on the value of a Fund**

## Environmental Risk

- Carbon Emissions Risk
- Climate Change Risk
- Natural Resource Depletion Risk
- Pollution and Waste Risk

## Social Risks

- Human Capital Risk
- External Social Risk
- Megatrends Risk

## Governance

- Board Diversity and Structure Risk
- Inadequate External or Internal Audit Risk
- Fair Tax Strategy Risk
- Shareholders' Rights Risk
- Bribery and Corruption Risk
- IT Safeguards Risk
- Employee Safeguards Risk

## Signatory credentials

- 2009 signatory of the UN Principals of Responsible investments - PRI
- 2007 signatory of the Carbon Disclosure Project (CDP)
- 2009 Member of ClimateWise
- Signatory on the Principles of Sustainable Insurance

## Our Philosophy

We believe that we are responsible for crafting financial futures for our clients and, as such, need to be responsible stewards of our clients' assets. Our primary aim is to provide our clients with investment solutions and strategies that meet their unique needs and deliver sustainable, risk-adjusted, long-term performance. Whilst different areas of our business employ differing investment processes based on the nature of their underlying investment offering, they have a commonality in that they are all designed to achieve this primary aim.

## Our Process

As a 2009 signatory and strong advocate of the United Nations Principles for Responsible Investment, we have implemented our environmental, social and governance (ESG) integration off the principles provided by them.

All our funds and investment services be they in the equity, fixed income, or alternative space, integrate ESG risk factors into their research and decision-making processes. Given that we are a boutique asset manager, our approach is Fund Manager led. Each investment team has their own methodology and we don't prescribe a 'one size fits all approach' to them. We also believe this approach best respects the varied views of our clients and gives them the opportunity to express their aspirations. The two constants we do have are firstly, client transparency to any underlying ESG considerations and secondly, a risk function that holds the managers accountable to their processes on an ongoing basis.

## Engagement

We do not rely on third-party entities or disconnected departments for engagement. Rather the investment team who implemented and holds the underlying asset is responsible for leading the engagement both through

interactions with the management of the underlying asset and in voting the rights of our client's assets in line with our client's expectations. This means that our engagements are consistent, ongoing, and fully integrated into the team's investment process. We have both an **Engagement Policy < <https://www.sanlam.co.uk/getmedia/19e8ec17-025e-457b-9a80-83c69c324ad7/Sanlam-Engagement-Policy-June-2019.pdf>>** and a **Voting Policy**. The results of our voting can be made available, upon request, to clients and potential clients.

## Stewardship

We are advocates of responsible investing, and as such, endeavour to support businesses and organisations that promote responsible finance and sustainable investments. As custodians of our client's assets, we continue to invest on their behalf in a manner that ensures responsible long-term capitalism and stable functional public markets. We also see it as our responsibility to keep our clients informed and abreast of ever-evolving responsible and sustainable practices.

## Principle Adverse Impacts

We believe that in order to truly reflect our commitment to responsible investment, our stewardship of our clients' assets, and the core role we wish to play in building a more sustainable and equitable economy and society, we cannot focus solely on the financial risks associated with ESG. As such, we are committed to reporting on Principle Adverse Impacts at entity level (Sanlam Investments UK being the entity). However, we fall below the 500-employee head count for mandatory compliance with the EU deadline dates and, as such, have decided we will implement PAI reporting once more clarity on reporting requirements has been issued by the regulatory authorities. The likely time frame will be 12 months behind the EU start dates.

## Data

Our investment teams have access to third-party data providers that report on companies' underlying ESG risk factors which they incorporate alongside their own fundamental bottom-up analysis to assess potential risks to performance or ensure they are investing in a company that display characteristics associated with responsible financial practices. Many of the teams have also developed their own proprietary rating methodologies and scorecards they use in conjunction with third-party data providers.

## Policies

- **Engagement policy**
- **Shareholder engagement Annual disclosure < <https://www.sanlam.co.uk/getmedia/8c85ad46-2bb9-4264-81d5-3ea38461220f/SHAREHOLDER-ENGAGEMENT-ANNUAL-DISCLOSURE-2020.pdf>>**
- **Remuneration Policy disclosure**