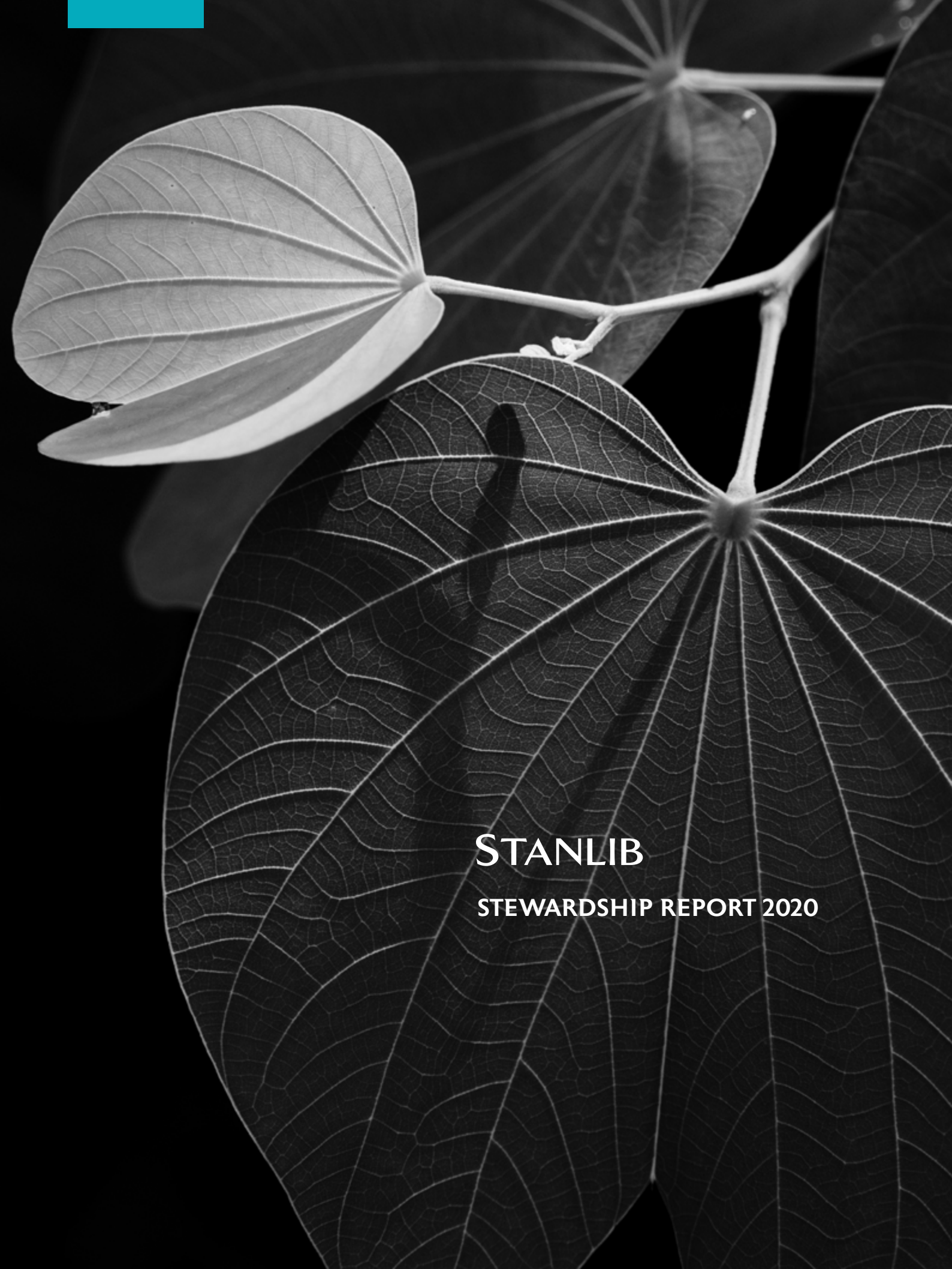


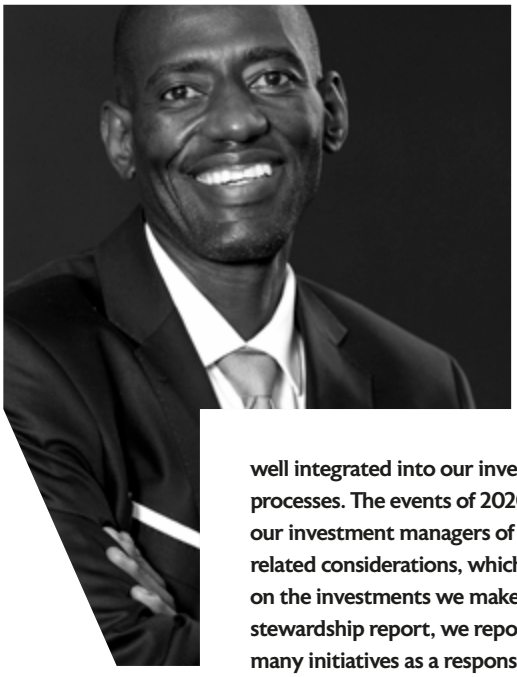
STANLIB

STEWARDSHIP REPORT 2020

STANLIB

CONTENTS

CEO FOREWORD



At STANLIB, we understand that we are a fiduciary of our clients' savings and wealth. As such, we have a responsibility to consider both returns and risk when building our clients' portfolios. Environmental, social and governance (ESG) risk factors are an important part of this consideration, and are well integrated into our investment decision-making processes. The events of 2020 were a reminder to our investment managers of the importance of ESG-related considerations, which have a direct impact on the investments we make and consider. In this stewardship report, we report back to you on our many initiatives as a responsible investor.

The sudden impact of COVID-19 on societal health and economic well-being was devastating across the world, particularly in emerging markets, where financing to achieve the United Nations (UN) Sustainable Development Goals (SDGs) had already fallen short.[1] Impact investing – the idea that returns can be measured not just by profit, but also through the upliftment of people, communities, the environment and greater society – is gaining traction in a post-pandemic world, and STANLIB is proudly active in this space through the activities of our Infrastructure and Credit Alternatives teams.

During this period, we embraced employee well-being and encouraged the STANLIB community to play their role in adopting and following COVID-19 prevention protocols. On a broader level, our contribution to the Solidarity Fund helped support the economic health of our country through the funding of small South African businesses. It has been a challenging year, with a critical focus on the overall well-being of our people and the communities in which we operate, our partners and clients, and the sustainability of businesses.

As the world has moved forward from managing the immediate crisis brought on by the pandemic, the challenge of climate change remains, and has potentially become more urgent. As a society, we are in a unique position to shape the world's recovery, and must pursue a "Great Reset" to build new foundations for our economic and social systems.[2] Positive developments have occurred at a global level, such as the new United States (US) president's stronger commitment to environmental sustainability, and the stringent targets set by China to reduce its carbon emissions. However, the pandemic has impeded what countries aimed to achieve via the Paris Agreement, and a commitment to more stringent targets during the Conference of Parties 26 (COP26) in November 2021 is expected. The decisions made, and the revised targets, will set the tone for businesses and investors, and at STANLIB, we are on board to align with these goals.

We intend to progressively improve our efforts as a responsible fund manager in 2021. Overall, we are pleased with our learnings and achievements over the past year; however, we remain committed to further and consistent progress. We understand the tragic implications of this pandemic, and our condolences go out to all those who have lost friends and family during this time. We believe 2020 will be pivotal for driving the change the world needs, and expect that 2021 will see an acceleration of ESG trends, especially as companies begin to understand the link between ESG and value creation. We are ready for the challenge, and will continue to play our part in shaping a better future.

Derrick Msibi – STANLIB Asset Management CEO

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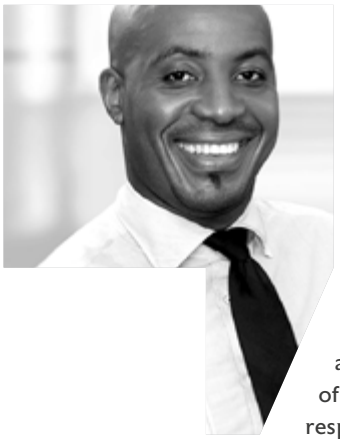
[1] Source: http://www.oecd.org/coronavirus/policy-responses/the-impact-of-the-coronavirus-covid-19-crisis-on-development-finance-9de00b3b/

[2] Source: https://www.weforum.org/agenda/2020/06/now-is-the-time-for-a-great-reset/

AN UPDATE FROM HEAD OF INVESTMENTS



As reflected in the introduction from our CEO, we will always remember 2020 as a year of great disruption. The world was reminded of the importance of sustainability and, in the investment world specifically, ESG and impact investing were thrust into the global spotlight. At STANLIB, we have long considered ESG factors and issues as part of our approach to investing, and we continue to support industry initiatives to enhance the adoption of these principles.

Under the all-encompassing umbrella of sustainable investing, the industry witnessed and evolved across the full spectrum of activities, from socially responsible investing (SRI) to ESG integration and impact investing. SRI's initial focus was niche and premised on exclusion, for example, excluding sin stocks from client portfolios. ESG integration broadened the scope and incorporated these risk factors into investment processes, largely to value assets. Impact investing has taken sustainable investing even further, and deploys investment strategies that have measurable financial, social and economic benefits using independent metrics, such as the 17 SDGs.

In this report, we explain how STANLIB participated in this journey. We have incorporated ESG into our investment philosophies and processes for a number of years now, and have taken the opportunity to expand our responsible investing activities to impact investing – both approaches are outlined in this report. We also profile our active engagements during the year (page 6) and elaborate on topical issues, including the ongoing green initiatives in the property sector, despite the challenges brought on by COVID-19 (page 20).

Given the increased urgency to address climate change, we present a case study on Sasol and what an appropriate glide path to sustainability entails, highlighting the company's efforts to strike a delicate balance between addressing the climate challenges it faces, while also considering its social responsibility as a significant employer in South Africa. The fight to save our planet has intensified, and we at STANLIB, are both excited and ambitious about helping to drive this needed change. On page 12, we captured some thoughts on the upcoming COP26, which builds on insights we shared on the Paris Agreement in our inaugural stewardship report last year.

We are particularly pleased to present our impact investing section from page 24, where we explain our approach to responsible investing and our commitment to the SDGs. While this space has become relevant against the backdrop of COVID-19 and the South African government's efforts to boost economic growth through infrastructure, it is an area that we have been active in for a while. To demonstrate this, we detail some of our Infrastructure team's activities and investments. Another significant highlight for STANLIB was the Credit Alternatives team's launch of the Khanyisa Impact Investment Fund, which will also target investments with measurable economic and social benefits. For both our Infrastructure and Credit Alternatives teams, we employ the framework of the UN SDGs to demonstrate measurable impact.

We also strengthened our ESG committee during 2020. The committee, chaired by our

deputy head of investments, aims to better align our central overarching principles with underlying ESG activities within our investment teams. Our UN Principles of Responsible Investing (PRI) submission, which benchmarks our activities against our peers, produced a satisfactory result and has given us a solid platform to improve our future reporting and disclosure.

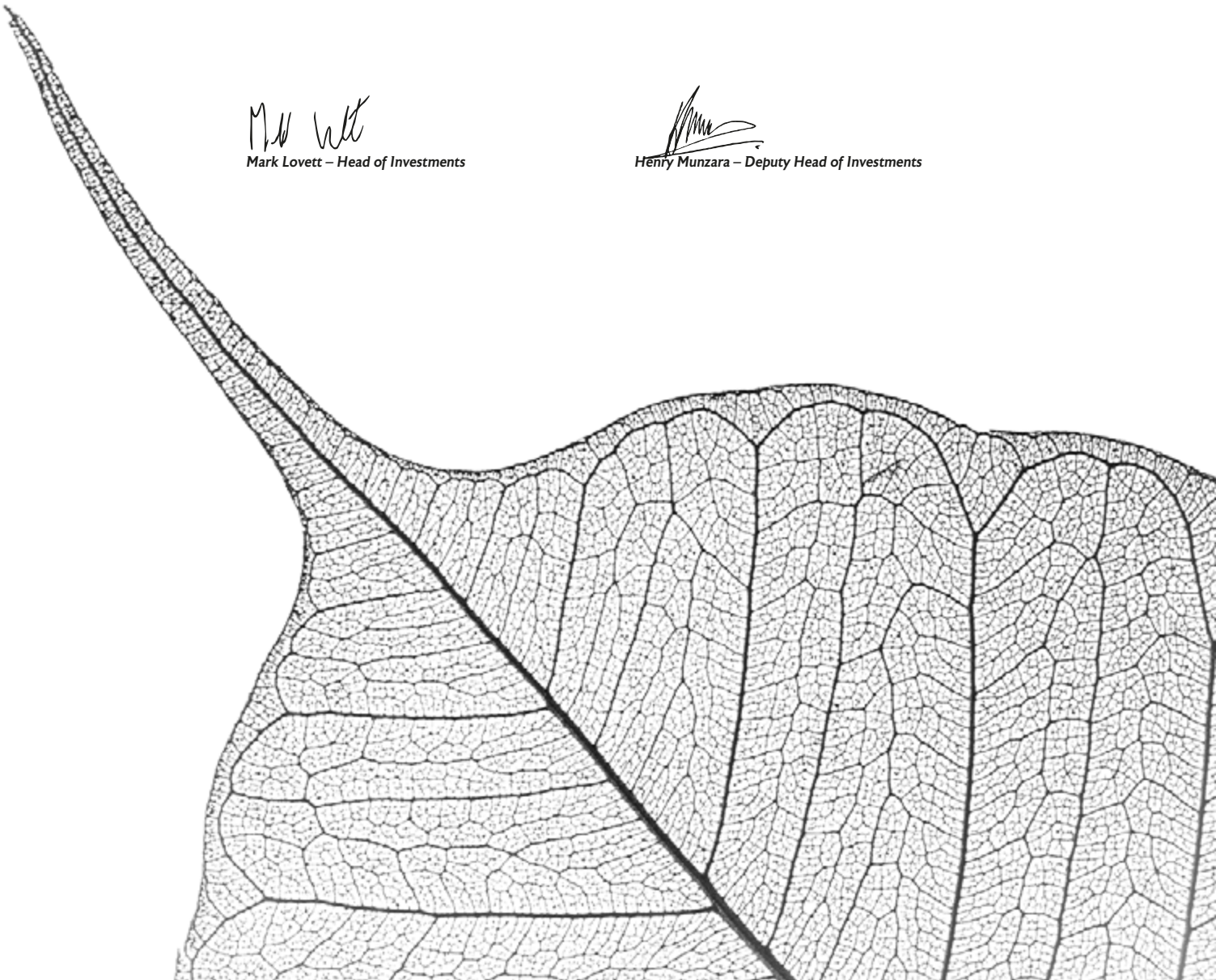
As signatories to the PRI and endorsers of the Code for Responsible Investing in South Africa (CRISA), we seek to follow the principles set out in these codes. This will ensure that we contribute to addressing urgent ESG issues and building a more prosperous and inclusive society. Looking ahead, we will focus on:

- Improved disclosure and reporting, particularly adhering to the Task Force on Climate-related Financial Disclosures (TCFD) framework.
- Reporting measurable impact against UN SDG metrics, where applicable, to demonstrate tangible impact in our investment activities.
- From a governance perspective, we will continue to drive:
  - Board independence
  - Representation by way of improved gender and racial diversity
  - ESG and climate reporting (aligned with the TCFD) by investee companies

We hope you enjoy reading our 2020 Stewardship Report.

Mark Lovett – Head of Investments

Henry Munzara – Deputy Head of Investments



ACTIVE OWNERSHIP

Our approach

STANLIB has a fiduciary duty to protect and grow our clients' savings and wealth. We are also a significant player in the South African investment landscape. As such, our voice carries weight when we comment and engage on important issues, including the companies that we invest in. Our preferred route to effect change is through active engagement and exercising our ownership rights by voting. Collaborating with industry participants has also proved to be a powerful tool for engagement, given the concentrated nature of the investment industry.

STANLIB's responsible investing principles

ESG is a material investment consideration

STANLIB believes that the consideration of ESG is essential to value creation and capital protection in driving risk-adjusted returns for clients.

Integration of ESG factors

STANLIB considers ESG factors in its investment processes to ensure an understanding of the risks associated with investment opportunities.

Active engagement

STANLIB's ESG approach is to actively engage business stakeholders to effect change. STANLIB believes engagement is a powerful tool to drive optimal client outcomes.

Ownership rights

STANLIB exercises voting rights in the best interests of its clients. Voting guidelines appear in the proxy voting policy.

Collaboration

STANLIB is open to collaboration where the collective efforts of all relevant stakeholders are more likely to result in a positive client outcome.

Disclosure

STANLIB communicates its policies and responsible investing activities to its stakeholders.

ESG oversight

STANLIB monitors and challenges investment professionals on ESG issues. Governance structures ensure accountability, tracking and measurement.

Active ownership: 2020 overview

Our preferred approach to addressing identified ESG concerns is to actively engage business stakeholders to effect change. Through voting processes, we can ensure that the rights of our clients as shareholders in a company are well represented, while our engagement with stakeholders is a critical tool to drive positive change.

Over the year, we improved our data-driven approach to active ownership and are pleased to report on voting and engagements by theme, together with their outcomes.

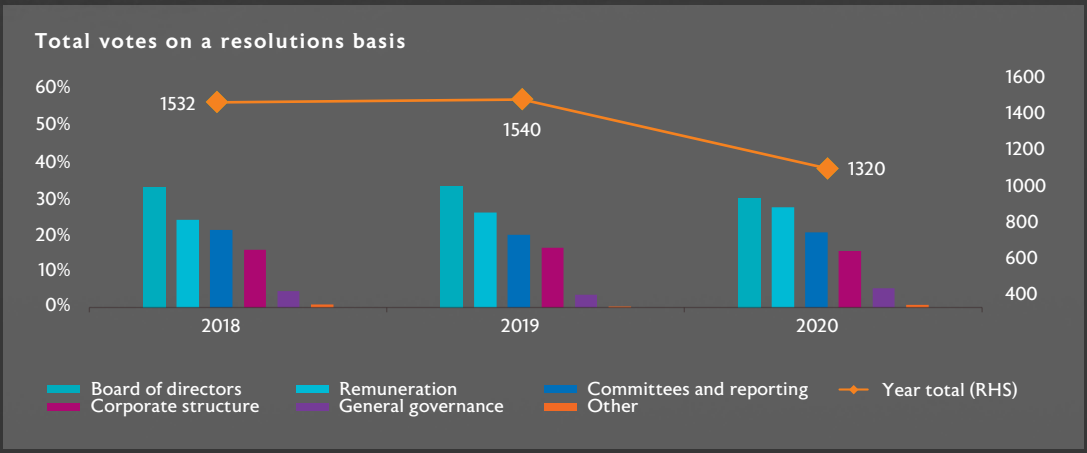
South African assets under management

1 320	12%	116	19
RESOLUTIONS	DISSENTING VOTES ACROSS RESOLUTIONS	ESG ENGAGEMENTS	ESG ENGAGEMENT THEMES

Voting in 2020

In 2020, the total number of resolutions and annual general meetings (AGMs) reduced from prior years. This is in line with our portfolio construction, which decreased the number of shares held in our South African equity portfolios.

The composition of the total votes is similar to prior years. Board composition (30%) dominated the number of resolutions, followed by remuneration (28%), committees and reporting (21%), corporate structure (16%), general governance (4%), and other, including social and environmental resolutions (1%).



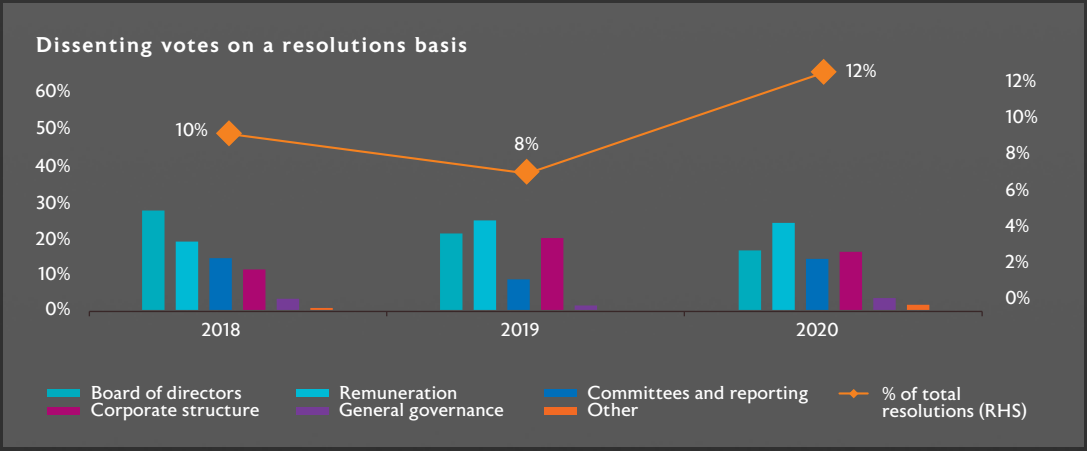
Dissenting votes increased from 8% to 12% of total votes in 2020

32% of dissenting votes were against remuneration

Dissenting votes mostly related to lack of transparency or unclear key performance indicators (KPIs), sustainability not being included in executive KPIs, or misalignment with shareholder objectives. A case study on Shoprite Holdings' (Shoprite) remuneration is discussed on page 10 as an example.

22% of dissenting votes were against board appointments

These were mostly on the grounds of tenure exceeding 10 years, independence, and suitability of directors on statutory committees including, for example, the audit committee. A case study on Pepkor Holdings' (Pepkor) board independence is discussed on page 11 as an example.



Shareholder resolutions

We continue to see a rising trend of South African shareholder resolutions aligning with global trends, especially in areas of climate change and community impact. A case study on the environmental and social issues at Sasol, which is topical, is discussed on page 15.

ESG engagements in 2020

23% of engagements were related to COVID-19's ESG impact

The effects of COVID-19 extended across health, social and environmental spheres, with the most vulnerable in our societies feeling the worst impacts. The pandemic highlighted how companies interact with employees, customers, shareholders and the broader community. Driven to safeguard their people, management teams and boards stepped up to protect and, sometimes, save businesses in the face of lockdown measures that impeded business as usual. Companies invested significantly to protect their employees, with some sacrificing salaries and bonuses and donating to those in need, including vulnerable communities and people who lost their jobs.

The impacts of the pandemic are, however, still with us and shareholders need to remain vigilant. Poverty and inequality will likely worsen, and it is critical that we consider the impacts of COVID-19 on all stakeholders as we recover.

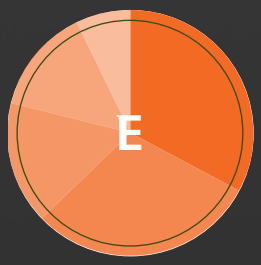
16% of our engagements last year had a positive outcome, while 36% are ongoing

There were overlapping issues across ESG factors and, as a result, 48% of outcomes were neutral. A neutral engagement outcome is usually when the objective is to gain understanding of a particular ESG topic, and no further action or engagement is required. This reflects engagements designed to gain clarity on a particular issue, or engagements that are ongoing.

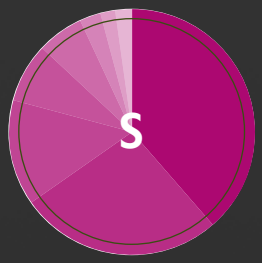
Virtual engagements are likely to stay

Similar to prior years, the majority (85%) of engagements were in the form of meetings. However, the pandemic changed the nature of engagements from one-on-one, in-person meetings to virtual engagements. While the difficulties of the year necessitated a change in how we operate and engage with stakeholders, we seek to continue leveraging improvements in virtual communication to improve our environmental footprint by, for example, reducing the need for travel for both ourselves and the companies we invest in.

ESG engagement themes



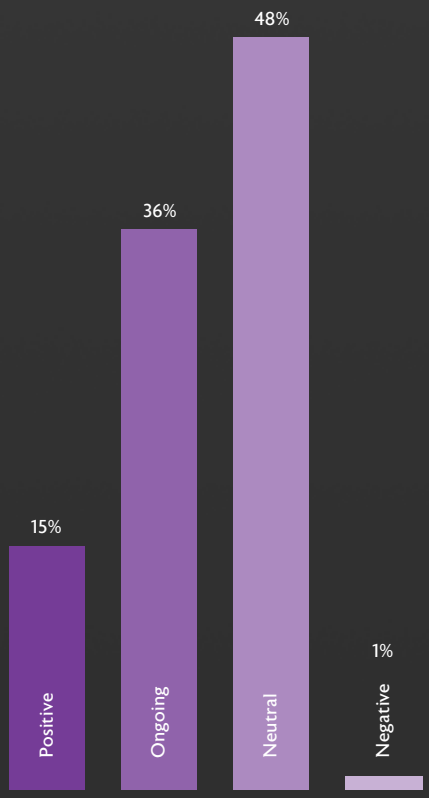
- Environmental excl. climate risk, **33%**
- Climate risk, **30%**
- COVID-19, **16%**
- ESG approach/policy, **14%**
- Sustainability reporting, **7%**



- COVID-19, **39%**
- Other social, **27%**
- ESG approach/policy, **14%**
- Diversity and employment equity, **8%**
- Health and safety, **6%**
- Anti-bribery and corruption, **3%**
- Labour practices and supply chain management, **2%**
- Human rights, **2%**

- Other governance, **20%**
- COVID-19, **16%**
- Executive remuneration, **16%**
- Company leadership issues, **16%**
- ESG approach/policy, **14%**
- Corporate structure and funding, **12%**
- Committees and reporting, **5%**
- Shareholder/bondholder rights, **2%**

ESG engagement outcomes



Case studies:

SPOTLIGHT ON GOVERNANCE

Remuneration: Shoprite

Objective

We encourage transparency in remuneration reporting and rewards that align with shareholder interests.[3] We also closely monitor the balance between fixed pay and pay-at-risk to ensure rewards are consistent with performance.

With this in mind, STANLIB engaged Shoprite's remuneration committee (Remco) to address executive remuneration. We submitted a list of questions and key focus areas ahead of the meeting, which included:

- The independence and structure of the Remco.
- Concerns around their remuneration policy, including an inappropriate balance between short- and long-term incentives and the need for inclusion of sustainability targets and metrics.
- Proposed disclosure improvements consistent with peer group disclosures.

Outcome: Positive

- The Remco chairman indicated that there is a significant amount of work planned in collaboration with independent service providers over the next 18 to 24 months. Areas that will be addressed include refining and improving the executive remuneration policy and strengthening the Remco. This will potentially include the appointment of new directors.
- There was a commitment to improve disclosures and refine targets or KPIs in line with peer disclosures; with improvements expected in FY21 and to conclude in FY22.
- The lack of sustainability targets was noted, and Shoprite will work to include these going forward.
- The Remco will continue to address the mix between variable (pay-at-risk) and base pay, given historic concerns of an imbalance in favour of base pay.
- STANLIB will monitor the progress and implementation of the above.

Board independence: Pepkor

Objective

We recognise the importance of board independence to ensure objective and unfettered decision-making. An independent board also ensures that appropriate checks and balances are in place for company governance.

As part of our efforts to strengthen Pepkor's board, we expressed our concerns about the lack of board independence, and our preference for the incumbent chairman not to make himself available for re-election. The incumbent chairman also had a financial interest in Pepkor and there was a related-party transaction, raising potential conflicts of interest.

Outcome: Positive

- On 18 November 2020, a Stock Exchange News Service (SENS) announcement confirmed that the incumbent chairman would not make himself available for re-election as chair. A new chairman was appointed, effective 1 December 2020.
- On 18 December 2020, it was announced that another director would not make themselves available for re-election at the next AGM.
- We view these developments as positive, as they create a great opportunity for Pepkor to appoint new board members and strengthen board independence, skill set and diversity.
- STANLIB will engage with the board further during 2021*.

Board diversity: AVI Limited (AVI)

Objective

We believe in the diversity of boards and representation, especially given the history of our country, which ensures effective and inclusive decision-making. We seek diversity across race, gender, skill set and experience.

The events around the Clicks Group's racially insensitive marketing campaign highlighted the importance of addressing diversity – particularly with those companies we believe lack adequate diversity at senior management and board levels. As part of our usual semi-annual meeting with management, we discussed the matter with AVI's management team.

Outcome: Ongoing

- We highlighted our concern around the lack of diversity at board and executive management level, as well as the potential implications of this for the business.
- AVI recognised our concerns. We discussed the complexity of these situations and asked that AVI consider disclosing firm commitment and timelines around this topic.
- Engagement and monitoring of progress is ongoing.

[a] Source: https://stanlib.com/wp-content/uploads/2020/01/STANLIB-Proxy-Voting-Policy.pdf
*In early 2021, an additional announcement was released indicating that the incumbent chairman will be resigning from the board, effective 1 February 2021

GROWING STAKEHOLDER AMBITIONS TO ADDRESS CLIMATE CHALLENGES

Introduction

Climate change presents a very real and urgent threat worldwide. While some progress has been made to combat the effects of climate change, action from all stakeholders needs to be accelerated to reduce harmful carbon emissions and bring about transformational change.[4]

The WEF's 2021 Global Risk Report states that extreme weather, climate action failure and human-led environmental damage are among the highest risks of the next decade.[5] As such, climate change is one of the most critical ESG-related issues facing investors today. It is expected to impact portfolio returns, asset valuations and asset allocation processes.[6] At STANLIB, we understand that responding to the risks posed by climate change, and capturing any new investment opportunities that arise, forms part of our fiduciary duty to consider long-term investment value drivers and protect our investment portfolios.

A universal vision to protect the world climate

Addressing the critical aspect of climate change on a global level, COP represents countries that signed the UN Framework Convention on Climate Change (UNFCCC) in 1994. In 2015, France hosted the most recent meeting, COP21, heralding the signing of the now well-known Paris Agreement. In our 2019 stewardship report, we examined the Paris Agreement to provide insight into the broader environment, and the collaborative commitments being driven by many nations to protect the sustainability of our planet. This report can be accessed on our website HERE.

The next COP, known as COP26, will be hosted by the United Kingdom (UK) in November 2021 – a key event in the climate change timeline. The signatories to the Paris Agreement endeavour to limit the earth's increase in temperature to below 2°C compared with pre-industrial levels, by reducing the harmful greenhouse gases (GHGs) emissions and increasing the use of renewable energy sources. The signatory countries also pledged to review progress against the agreement every five years.

While COP21 was instrumental in getting countries to agree to address climate change by reducing GHG emissions, COP26 aims to introduce a more stringent temperature rise cap of 1,5°C through a more concerted effort to transition energy use from fossil-based carbon-emitting fuels to alternative renewable sources of energy. The conference will also be key to understanding the effectiveness of the Paris Agreement to date, and will allow parties to refine some of the detailed elements, such as the creation of common timeframes. Furthermore, several reports indicate that smaller countries have been more effective than larger ones in adapting to a greener economy through policy changes and social behaviour. We hope to see other larger nations playing catch-up.

COP26 will be held against a backdrop of positive change from the world's largest carbon emitters. China has committed to carbon neutrality by 2060 and the US has re-joined the COP under its newly elected president, Joe Biden, with a commitment to be carbon neutral by 2050. The European Union (EU) and the UK have also committed to carbon neutrality by 2050. However, these target dates are potentially too far into the future, and the lack of alignment across countries poses a challenge.

Investment in fossil fuels continues to exceed investment in climate activities,[7] and the progression of finance for climate change will also be on the COP26 agenda. The Paris Agreement saw countries committing to spend US$100 billion annually by 2020 to help poorer countries fight climate change. The impact of the COVID-19 pandemic has likely disrupted this goal, however, the pandemic in itself has driven more urgency in addressing climate challenges. Having learnt that viruses thrive in a radically altered environment, the world has now experienced first-hand the devastating effects of this phenomenon. The impact of the pandemic across the world may have provided harsh lessons to governments, businesses and investors, but it has also provided opportunities to rebuild and sustain our earth.

We anticipate positive outcomes from COP26 that set a clearer, stricter path for countries to achieve carbon neutrality by a common date. This is particularly critical for those nations responsible for the highest emissions, including China and the US. A firm and united commitment, and the delivery of plans at a worldwide level, will set the tone for corporates, asset owners and investors who, through their activities, play a crucial role in supporting change.

South Africa's ambitions for a just transition

South Africa is a signatory to the Paris Agreement and has committed to carbon neutrality by 2050. The goal is to constrain the country's emissions to follow a peak-plateau-decline trajectory. Under this approach, emissions peak in 2025 and meaningful decline is meant to occur post 2030. Research from Climate Action Tracker, an independent scientific analysis that tracks governments' climate action measures against the Paris Agreement, rates South Africa's efforts to reduce GHG emissions as "highly insufficient".[8]

South Africa has clearly stated that coal will remain an important component of the country's energy mix. The needs of the still-developing economy are prioritised as part of the country's just transition

to a low-carbon economy. A just transition is not only about ensuring a responsible decarbonisation process, but also about credible alternatives for inclusive and sustainable growth.

Today, South Africa is a growth-constrained economy held back by many legacy issues, but looking forward to accelerated growth. In the short term, the growth envisaged cannot be achieved without the use of a legacy coal-based power system.

Addressing the path to carbon neutrality while managing legacy energy sources, as a developing nation, South Africa has the opportunity to build and reform for a sustainable future. Through necessity, South Africa has embraced renewable energy, which continues to grow in the public and private sector. Creating exciting new opportunities for growth, the renewables sector is a standard bearer for innovation in finance and sustainability due to its impact on workers, communities, consumers and citizens. Highlighted on page 27, our Infrastructure Fund is a significant participant in this area.

Our commitment to do more, use less

At STANLIB, we continue to participate in managing the harmful effects of climate change, and we believe that the following will be our critical success factors:

1. **Adhering to a global disclosure framework**

   We support and promote the use of the TCFD framework. In 2021, we aim to advance our disclosure and reporting in this regard.

2. **Our engagement stance**

   STANLIB's climate change initiatives will accelerate in 2021. We will engage with our investee companies on a journey to a just transition and to do more with less: less carbon-based energy, less water usage, less packaging, less waste, and a more productive use of limited resources. We will work hard to minimise the risk of creating stranded assets, communities and workers in an already economically strained economy, by ensuring continuous progress on our journey to net zero.

3. **Collaboration**

   Importantly, joining climate change initiatives under the auspices of the PRI enables collaboration that drives policy advocacy, and supports investing that aligns with the target of net-zero emissions by 2050. We are all in this together, and 2020 has revealed that the climate change challenge cannot be achieved by one nation, or one business, alone.

In 2021, we join the world with heightened ambition to be more effective in driving positive, impactful outcomes.

Conclusion

STANLIB, as an asset manager and PRI signatory, is committed to being a part of the transition to carbon neutrality by 2050. When considering climate risk in investment decision-making processes, one of the most critical factors for us as asset managers, is the ability to measure a company's climate impact – both now and in the future. Aligned with this, we must understand and endorse management's strategies to mitigate climate risk, and their measurement metrics and targets to reduce GHG emissions. We can then evaluate climate risk with reference to our premise of a transition that is equitable to communities and workers, but also provides investors with sustainable long-term value. Our engagements with the company's management provides a powerful opportunity to collaborate and drive change, in alignment with the broader global and national commitments to carbon neutrality. Our case study on Sasol (page 15) is a good example of this.

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[4] Source: https://www.weforum.org/projects/climate-ambition-initiatives
[5] Source: http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf
[6] Source: https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-climate-change-for-asset-owners/5981.article
[7] Source: https://sdgs.un.org/goals/goal13
[8] Source: https://climateactiontracker.org/countries/south-africa/

CASE STUDY:

BALANCING ENVIRONMENTAL AND SOCIAL IMPACT

The company: Sasol

Sasol, a global integrated chemicals and energy company, delivers energy supply to the developing economies of South Africa and its neighbours. Established over 50 years ago, the company employs more than 31 000 people, paid R2 billion in taxes and substituted approximately R21 billion worth of imports in its 2020 financial year. These figures highlight the significant contribution Sasol generates towards the growth and sustainability of South Africa's economy, which is particularly critical during a period characterised by fiscal challenges and social vulnerability.

The nature of its business, however, makes Sasol the second-largest GHG emitter in South Africa through its Secunda plant[9] and the largest emitter listed on the JSE Limited (JSE), exceeded only by Eskom, the national power utility. As seen in the charts below, Sasol emits more than 50 000 tonnes of carbon dioxide (CO2) per annum. There has been a marginal decrease over the last three years in the face of the increasing threat of climate change and the global drive to address it.

Chart: Sasol's total carbon emissions

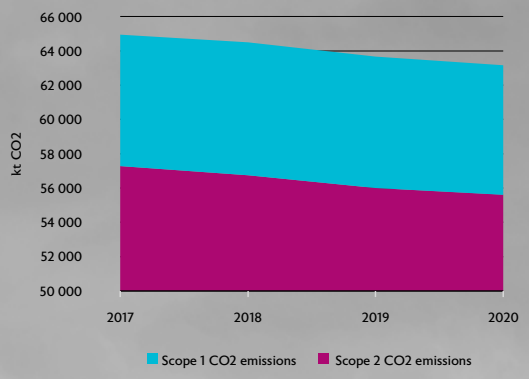
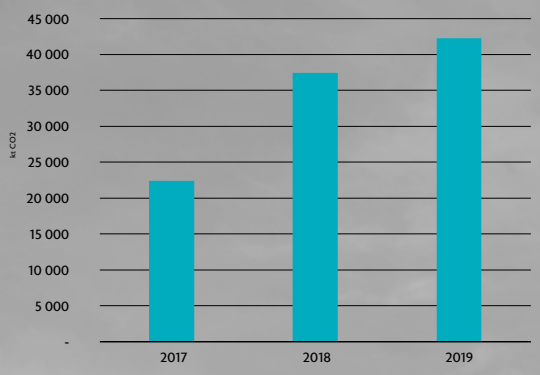


Chart: Sasol's scope 3 emissions



Source: Sasol Climate Change Report 2020

Scope 1, 2 and 3 emissions: Scope 1 refers to direct emissions from owned or controlled sources. Scope 2 refers to indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.[10]

STANLIB recognises that businesses and investors have an important role to play in supporting the CO2 emission reduction targets for South Africa, as highlighted in this report. We are concerned about Sasol's environmental impact and, particularly, its significant impact on South Africa's ability to reach its targets for a cleaner environment. We also support the UN SDGs*, while being aware that Sasol employs many South Africans and plays a critical role in the energy value chain, providing a foundation for socio-economic development.

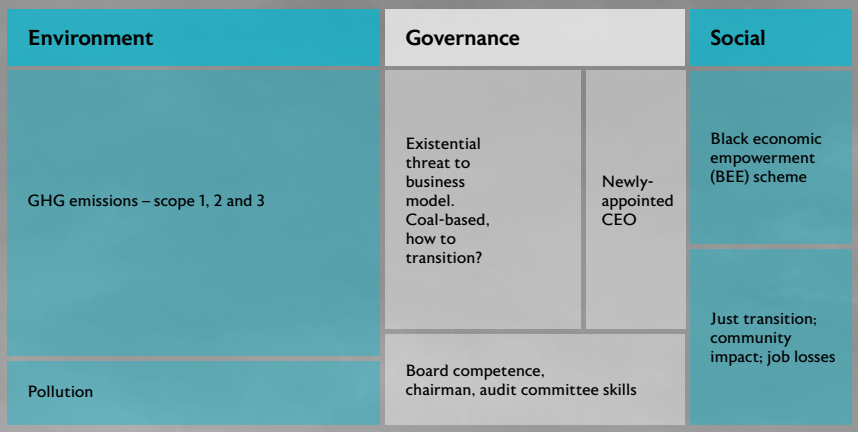
It is critical that when we invest on behalf of our clients – while also addressing the heightened risk of climate change – that we balance the competing needs of other stakeholders. For the sustainability of the investment case, we need to consider communities, customers, employees and suppliers when engaging companies like Sasol to drive behaviour change and build a sustainable business model.

The challenge: driving an engagement agenda to support the transition to lower GHG emissions and a sustainable business model.

ESG screening, scoring and assessment is fully integrated into our investment decision-making process. Through our proprietary research process, we identify both ESG risks and opportunities when investing in a specific company.

The materiality map below highlights key ESG issues for Sasol. The size of the block in the heat map reflects the importance of the issue. GHG emissions and the lack of sustainability in a business model that uses coal-based energy are the primary challenges for Sasol. Sasol's stated commitment to GHG reduction is guided by South Africa's committed range in terms of COP21. In our assessment, we found that the company's reduction targets are too low.

SASOL Sustainability Materiality map



To address the ESG risks at Sasol, we created a framework to drive engagement for change and ensure that, as an investor, we can make an impact. As shareholders of Sasol, our aim is to engage firmly on the issues of climate change, governance and its business model, which is under threat as a result of its coal-to-synfuel** operational process.

STANLIB sustainability engagement for positive change

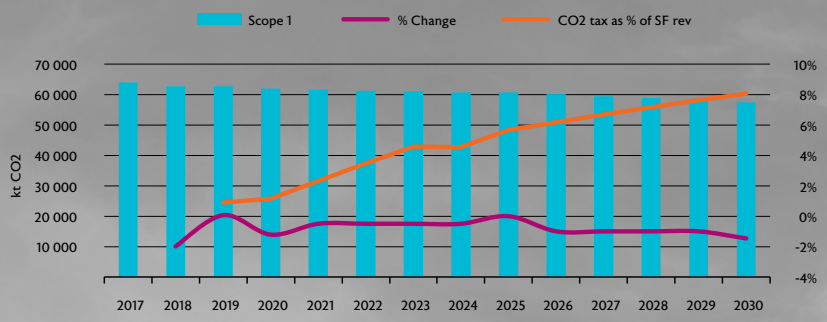
	Financial Year 2020	Financial Year 2021
Reduction of scope 1, 2 and 3 emissions to combat GHG emissions and other pollutants	CEO	CEO
Transitioning Sasol from coal to hydrogen	CEO	Board
Separation of chemicals and fossil fuels businesses		CEO
Board and management alignment with shareholders and accountability		Board
Appropriate management given cost overruns at Lake Charles Chemicals Project	Chair	

During 2020, our engagement process aimed to address Sasol's poor carbon emission reduction goals, and ensure that the business was working towards a sustainable business model. We engaged with the CEO, chief financial officer (CFO) and the transformation executive vice president on Sasol's climate change strategy on multiple occasions.

Reducing Sasol's environmental impact

STANLIB recognises that the introduction of carbon tax, and the regulatory changes to be implemented by the Department of Mineral Resources and Energy (DMRE) and Department of Environment, Forestry and Fisheries (DEFF), will expedite lower GHG emissions at Sasol. However, as shareholders, we can also influence the emissions glide path.

Chart: Sasol scope 1 emissions glide path



Source: Sasol's annual financial statements for the year ended 30 June 2020, STANLIB multi-asset and equity research

The chart above illustrates Sasol's gradual decline in GHG emissions. The company has committed to a 10% reduction by 2030 from its 2010 baseline (as indicated in its 2020 sustainability report), but is yet to disclose its targets post 2030, which will only be disclosed in 2021.

STANLIB concluded that Sasol's reductions of scope 1, 2 and 3 GHG emissions are not meaningful enough, and we have further engaged with its management on this. We have urged management to be bold and do more to reduce its GHG emissions sooner than its initial 2019 goal of a 10% reduction by 2030, from a 2010 baseline.

The 2021 Capital Markets Day (CMD) will deal with Sasol's shareholders' requests for more urgent and near-dated interventions for Sasol to reduce its emissions and provide clarity on the viability of longer-dated options, such as transitioning to a hydrogen economy.

Outlook: continued engagement and firmer targets

Sasol requires a number of changes to improve the speed and extent of its reduction in CO2 emissions. We believe that ongoing engagement to explore options to address the problem will initiate faster improvements. It is key that Sasol continues to drive initiatives to reduce its carbon emissions, and provides full disclosure on its targets. It is also critical that the company measures and reports its environmental impact data, allowing all stakeholders to measure and assess impact.

In 2021, we will continue to engage on how to rapidly adapt Sasol's business model. We will also engage the board and hold it accountable for its oversight role, ensuring that the business applies the relevant skills and experience to navigate this transition.

The following environmental issues at Sasol will be prioritised in 2021:

- The need to establish a climate change committee, which will be responsible for the revision to more aggressive emission reduction targets.
- The longer-term climate change impact on the sustainability of the business, and the roadmap to a hydrogen economy mooted in the company's 2020 climate change report.

While we continue to engage with Sasol, we expect the following targets at the company's August 2021 CMD:

1. Clear evidence of a commitment to accelerate the reduction of GHG emissions beyond the 10% reduction by 2030 from the 2010 baseline, as indicated in the 2020 sustainability report. These targets must specifically include timelines on the roll-out of the 900 MW renewable power installations.
2. Additional detail on the transition from coal to natural gas as feedstock. Gas availability, economic viability and time horizon will be critical to assess the success of the proposed interim transition.
3. Greater clarity on how Sasol will unlock the potential of hydrogen as an energy carrier. Scenarios need to be presented around likely success and alternatives to sustain the business in the event that hydrogen is not economically viable.

These are critical milestones for Sasol's management. Unsatisfactory guidance and targets at the 2021 CMD will force firm re-engagement with the board, and require STANLIB to vote against the key resolutions at Sasol's AGM in November 2021, including the remuneration report and the re-appointment of directors to the sustainability committee.

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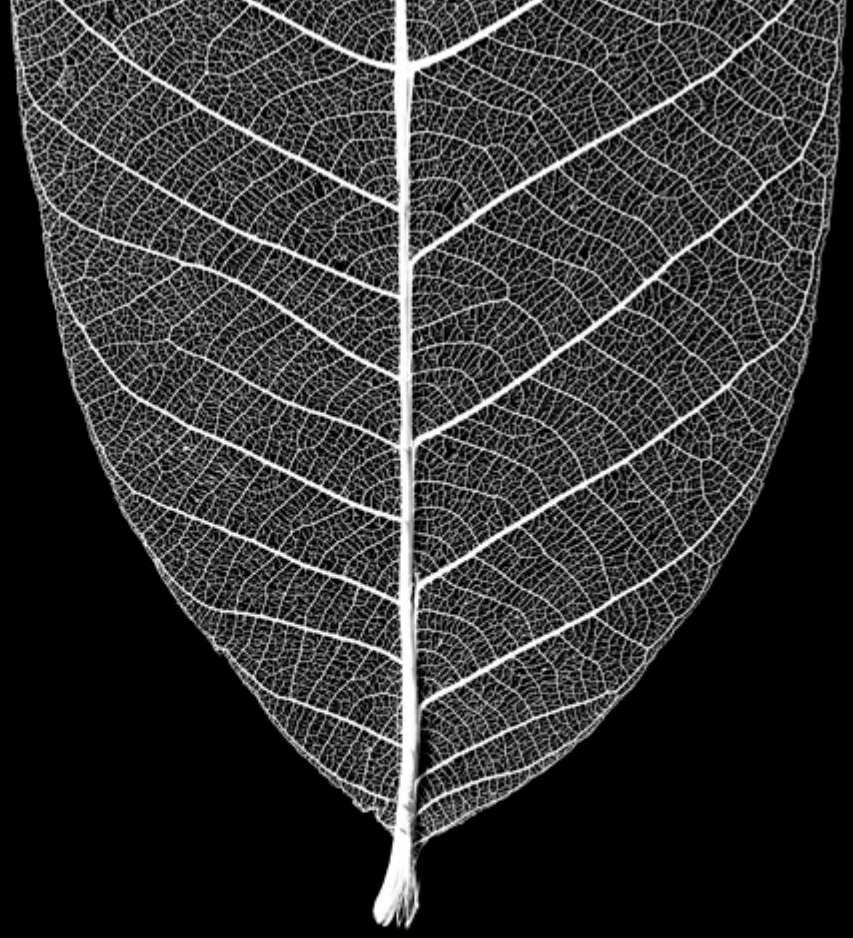
[9] Source: https://www.iisd.org/articles/south-africans-are-paying-pollution-pump
[10] Source: www.carbontrust.com › resources
*We align with the UN SDGs 7 and 1.
**Synfuel – the petroleum product made by Sasol from coal instead of using crude oil.



CASE STUDY:

GREEN INITIATIVES CONTINUE

IN PROPERTY SECTOR AMIDST COVID-19 CHALLENGES

Property has been, and continues to be, severely impacted by lockdown restrictions imposed globally due to the COVID-19 pandemic. This is especially the case for the retail and office segments, necessitating property companies to focus on financial health in the short term. Despite this, there remains strong commitment from listed property companies to minimise their environmental impact and continue with their green building initiatives.

In a post-COVID-19 environment, we expect the growing focus on environmental factors to gain further traction as it is evident that tenants and investors are increasingly demanding more efficient and sustainable buildings. Most listed property companies are entrenched on this journey, and many are members of the Green Building Council of South Africa (GBCSA).

The environmental case for green buildings

Green buildings offer several social, environmental and economic benefits, and effectively contribute to the achievement of the UN SDGs. Green buildings reduce or eliminate adverse environmental effects through the efficient use of water, energy and other natural resources, and contribute to the overall health and well-being of the tenants that occupy them. The motivation to pursue green buildings is also economic, due to the financial savings in lower utility bills, lower construction costs and increased property values.

STANLIB has encouraged property companies to obtain green building certifications and ensure that buildings ultimately become certified as net zero for carbon, waste, water and ecology. The commitment to increase the pipeline of green building development has been followed through by a number of companies. Our engagements with, for example, Growthpoint, Redefine, Hyprop, Fortress and Vukile, have yielded positive results, as highlighted in the following assessment of their plans. These companies are core investments in the STANLIB Property Fund.

Table: Summary of key initiatives by major listed property companies in SA

	Commitment to increasing pipeline of green buildings	Improving consumption efficiency	Driving renewable energy mix	Utilities management
Growthpoint	✓	✓	✓	✓
Redefine	✓	✓	✓	✓
Hyprop	✓	✓	✓	✓
Fortress	✓	✓	✓	
Vukile	✓	✓		✓

Source: STANLIB Property

Our engagements with Growthpoint

Growthpoint has made substantial progress on their green building initiatives. The company has been innovative when it comes to green building alternatives, as is evidenced by their small-scale urban farming project in Brooklyn Mall. Growthpoint's green building focus areas include the following:

Table: STANLIB's assessment of Growthpoint's green initiatives

Growthpoint green building focus areas	Description	Assessment of progress during the year
Smart meters	Smart meter electricity installation results in more efficient management of electrical costs, allowing savings. Water meters also produce significant savings.	A total of R919 000 was invested in smart electricity meters, and R4 million in smart water meters. Most have been installed in Growthpoint retail and office buildings.
Heating, ventilation and air conditioning (HVAC)	Reduce the use of harmful refrigerants with the installation of efficient equipment and systems, such as variable speed drive or ice plants.	Growthpoint aims to improve efficiency of HVAC systems by increasing the effectiveness of the heating and cooling systems in 30 buildings.
Electric vehicle (EV) charging station	When electric cars become mainstream, Growthpoint will need to future-proof buildings in this regard.	New buildings in the Growthpoint portfolio are making provisions for EV charging stations. Good progress is being made.

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Growthpoint green building focus areas	Description	Assessment of progress during the year
Waste-to-value opportunities	Recycling and reusing waste to generate sources of heating, cooling or energy for the building.	Growthpoint has specifically focused on transforming waste into biogas. At N1 City Mall they have successfully done this with a small-scale waste transformer.
Lighting projects	Lighting remains one of the most feasible ways to achieve energy savings.	Growthpoint invested R243 000 in various projects, achieving a saving of 37 900 kWh. The company has committed to several additional lighting projects in 2021.

Green building certification continues to be a primary objective for Growthpoint. For the year ahead, Growthpoint has identified 20 buildings to be certified net zero for carbon, waste, water and ecology. To date, Growthpoint has achieved 112 green building certifications, including its Waterfront property.

Our engagements with Redefine

Redefine has a holistic approach to green buildings, targeting a few key areas – such as renewable energy sources in their new buildings, green spaces, indoor air quality and waste-to-value opportunities. We highlight the progress they are making on some of these initiatives:

Table: STANLIB's assessment of Redefine's green initiatives

Redefine green building focus areas	Description	Assessment of progress during the year
Heating, ventilation and air conditioning (HVAC)	Reduce the use of harmful refrigerants with the installation of efficient equipment and systems, such as variable speed drive or ice plants.	Meaningful progress during the year has been made by Redefine. Increased data availability and measurements to improve management and ongoing implementation of policy, dictating gradual replacement of harmful refrigerants.
Renewable energy source	Alternative energy sources reduce the carbon footprint.	Redefine did well to install 25 913 kWp (2019: 23 662 kWp) solar capacity to date. Redefine also reduced 33 607 tCO2e emissions in 2020.
Indoor air quality and thermal	Measurement of volatile organic compounds (VOC) such as carbon dioxide, to improve air quality and thermal comfort for buildings.	Redefine achieved pre-certified GBCSA-approved internal air quality management plan, implemented in 82 buildings to date. A big improvement of 58 buildings from the previous year.
Biodiversity	Review and manage impacts on ecological systems and biodiversity.	Redefine met all internal compliance biodiversity processes for their new developments.

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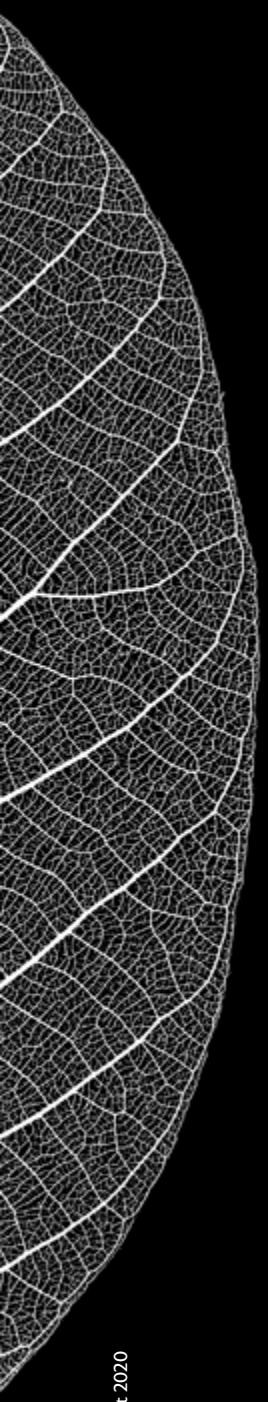


Redefine green building focus areas	Description	Assessment of progress during the year
Green spaces	Green roof spaces may reduce energy use, while community garden projects integrate green spaces into communities.	Redefine started and completed this project at Rosebank Link development. Additional spaces planned for 2021.
Waste-to-value opportunities	Recycling and reusing waste to generate sources of heating, cooling or energy for the building.	Very good progress was made, with almost 30% of all waste collected from buildings being recycled.

Our recent ESG disclosure engagements with Redefine have been very positive, with the company willing to target Green Star Certification on certain new building developments. Buildings in the Rosebank and Sandton precincts will incorporate most of the features of HVAC and renewable energy sources and will recycle a large amount of waste generated. Redefine set a target of 100 certified buildings by FY2020, and have, to date, achieved 101. Impressively, 57% of Redefine office gross leasable area (GLA) is already Green Star certified.

Our engagements with Hyprop

Hyprop has focused on monitoring their impact on the communities and environment in which they operate. The company has committed to reducing consumption of natural resources at all their retail centres, with their green building focus being on solar and waste recycling.

Table: STANLIB's assessment of Hyprop's green initiatives

Hyprop green building focus areas	Description	Assessment of progress during the year
Solar installations	Alternative energy sources reduce high electrical costs and allow costs savings.	Hyprop managed to achieve 12 232 GJ direct renewable energy consumption for solar photovoltaic (PV). Hyprop also installed solar PV plants at their Hyprop Gauteng malls.
Green design	Retrofitting green design principles to existing buildings.	Managed to achieve 5-star green rating for Canal Walk.
Waste-to-value opportunities	Recycling and reusing waste to generate sources of heating, cooling or energy for the building.	77% of waste in SA portfolio recycled. One of the highest in the property sector to date.

Hyprop is also a part of the SA Biodiversity Project (BDP), a platform that provides companies with a practical avenue to report on their annual biodiversity performance.

Conclusion

Value creation through sustainability has become more significant in recent years. Companies in the property sector are already setting science-based targets for emissions, reducing organic waste, investing in renewable solar, and obtaining green building certifications. These are captured in well-communicated sustainable change governance frameworks – which we support and request more property companies to publish. STANLIB has received a commitment from certain companies that they will provide improved disclosure on their ESG value creation initiatives and will benchmark their progress in 2021. To date, investments in green buildings have been significant from the property companies, with all of them well-established to deliver future value in this segment.

THE 17 UNITED NATIONS

SUSTAINABLE DEVELOPMENT GOALS

PUBLIC-PRIVATE PARTNERSHIPS TO BOOST GROWTH

Introduction

During the past five years, the South African economy has not grown at the pace needed to meaningfully increase employment opportunities (especially within the private sector), reduce inequality and eliminate poverty. At the same time, public finances have become more constrained, limiting the ability of government to enhance its investment in economic and social development.

Recently, there has been an attempt to restore fiscal discipline, but the split between consumption and capital expenditure remains problematic. Over the past 10 years, government has tended to shift spending away from capital products, such as infrastructural renewal, in favour of consumption, such as government salaries. This has clearly undermined economic growth over the longer term, resulting in a deterioration in many vital areas of service delivery.

Infrastructure advancing positive socio-economic outcomes

Infrastructure is a critical factor in the health and wealth of a country; it improves the living standards of the population while, at the same time, enabling private businesses and individuals to produce goods and services more efficiently. Increased

infrastructure spending by the government results in higher economic output in the short term by stimulating demand directly, and also over the long term by increasing overall productivity, as well as the well-being of the population.

Investments in business infrastructure, defined as roads, railways, airports, and utilities (such as water and energy), produce large economic multiplier benefits which are approximately two times the value of the initial project within a year of completion. For instance, according to the World Bank, if sub-Saharan Africa closed the infrastructure quantity and quality gap relative to the best performers in the world, the region could increase growth in gross domestic product (GDP) per capita by 2,6% per year.

In terms of road infrastructure, research conducted by the World Bank finds that a one-day decrease in overland travel time leads to a 7% increase in Africa's exports. Furthermore, upgrading primary road networks connecting major cities would increase trade within sub-Saharan Africa by US$250 billion over five years.

In addition to the economic benefits, road infrastructure has been shown to have social benefits. Another study by the World Bank found that rural road development in Brazil's Jalapão and north-east regions decreased the distance to the nearest populated area by 25 kilometres. The educational impact of improved roads was also found to be positive, with the number of girls attending school in the south-east region increasing by an average of 0,59 per household. In general, the number of households with children who cannot attend school due to poor road conditions experienced a statistically significant decline.

Critically, investment in social infrastructure such as hospitals, schools and housing also provides a very tangible positive impact to people's quality of life, while increasing social mobility within the country. In terms of education, additional research by the World Bank showed that introducing solar power to schools in Sudan and Tanzania increased the completion rates at primary and secondary schools from less than 50% to almost 100%.

From schools and hospitals to roads, power and water networks, sustainable infrastructure enables governments and the private sector to provide services that contribute to sustainable livelihoods and broader economic growth, while improving quality of life, enhancing human dignity and stimulating social development.

How infrastructure contributed to South Korea's development

On a broader scale, South Korea's developmental success is an important case study for the positive impact of infrastructure investment. South Korea achieved rapid economic growth, reduced its poverty rates and made significant strides towards achieving the Millennium Development Goals. The key drivers behind these successes include investment in human and infrastructure capital, strong macro-economic policies, a capable government with a long-term development vision, effective economic planning, strong business-government links, investment in research and development, adaptable economic policies, and an emphasis on tertiary education.

According to the Asian Development Bank, South Korea's infrastructure investment plan included building expressways to connect cities, ports and industrial complexes to reduce logistics costs. In addition, there was a rapid application of information and communication technology (ICT) that not only advanced internet access for citizens, but also improved competitiveness in many sectors by reducing costs and enhancing efficiency. Finally, investments in the energy sector contributed to competitiveness by providing the electricity needed for production, service provision to households, and transport.

Such initiatives have helped South Korea become one of the fastest growing economies in the world, with real GDP per capita increasing from US$3 679 in 1980 to US$28 675 in 2019. In addition, the South Korean government also used a combination of intensive investment in infrastructure, ICT and human capabilities to alleviate poverty, reduce inequality and increase household income levels, reducing the unemployment rate to only 3,8% in 2019.

Conclusion

For South Africa, government's plans to revitalise the economy and improve people's lives include infrastructural development. The government has set up an Infrastructure Fund, inviting the private sector to enter into meaningful partnerships with government and PPPs to start alleviating key infrastructural backlogs. STANLIB's Infrastructure team is well-placed to partner on these initiatives.

STANLIB INFRASTRUCTURE FUND: MAKING AN IMPACT

Introduction

STANLIB Infrastructure offers investors a compelling opportunity to invest across a range of infrastructure projects through various private equity funds. At the end of January 2021, funds under management totalled R8,3 billion, while over the past year R4,2 billion of capital was deployed. Investments focus on broad-based infrastructure and encompass a number of sectors, namely power, renewable energy, rail, roads, airports, water, storage, and logistics and telecommunication.

This year, we enhanced and updated our approach to responsible investment to ensure that we clearly articulate our commitment to those UN SDGs we can most effectively impact.

Our approach to responsible investing

STANLIB Infrastructure believes investment in the infrastructure asset class in South Africa not only offers investors diversified, risk-appropriate, stable and long-term returns, but is a powerful means of making a tangible and sustainable difference to South African communities. We support ethical governance as well as socially responsible and environmentally sustainable business practices, and invest in projects that deliver appropriate risk-adjusted returns to our investors. We believe that by including ESG into the lifecycle of our investments, we can better understand and manage inherent project risks.

Our commitment to the SDGs

An important tenet of our responsible investment policy is our commitment to the UN SDGs. The 17 SDGs are designed to help organisations and people across the world create a better and more sustainable future for everyone. Each SDG focuses on addressing global challenges, including poverty, inequality, climate change, environmental degradation, peace and justice.

We support the objectives of the UN SDGs and use these to assess our contribution towards addressing ESG challenges. While all 17 SDGs are critical to achieving global goals, we have identified four SDGs that we believe we can support and positively influence through our investments:

SDG 4: Quality education

SDG 4 aims to ensure inclusive and equitable quality education, and promote lifelong learning opportunities for all. We believe it is important for organisations to help achieve this, as education feeds into many other SDGs. Quality education leads to social upliftment and alleviates poverty – ultimately reducing inequalities, promotes healthier and more sustainable living, creates better job opportunities, encourages tolerance between people, and contributes to more peaceful societies.

With mandates that predominantly focus on South Africa, we are committed to addressing the country's economic challenges. We aim to do so by investing in education initiatives through investee companies' CSI and socio-economic development (SED) projects. These projects improve early childhood development (ECD), provide equal access for all women and men to affordable, good-quality technical and vocational education and training (TVET), including tertiary education at universities, and increase the number of people with relevant qualifications for decent employment and entrepreneurship.

The collective impact of our funds through investee companies has seen an average of R3,1 million invested annually in CSI and SED, and over R164 million total, since 2018.

An example is a bursary programme started by Kouga Wind Farm (RF) (Pty) Ltd (KWF), an investee company, in 2018. It currently has 25 beneficiary students studying various disciplines across 10 tertiary institutions, including universities, private academies and public TVET colleges. During the 2020 COVID-19 lockdown, together with Musinyusane Development Organisation, KWF delivered laptops to students to ensure continued online learning. Visit ***http://kougawindfarm.co.za/category/education/*** for more information about KWF's contribution to quality education in South Africa.

Elsewhere, another investee company, N3 Toll Concession (RF) (Pty) Ltd (N3TC), has been supporting PROTEC Pietermaritzburg Academy (PROTEC) by offering additional support in Mathematics, Physical Science, English and Career Guidance to secondary school children from disadvantaged communities in the KwaZulu-Natal Midlands. PROTEC's grade 12 success rates stabilised at 100% for the matric pass rate and close to 100% for the bachelor admission rate. The number of key subject distinctions in Mathematics, Physical Science, Life Sciences and English opened the door for many PROTEC matriculants to access university courses such as engineering, medicine, actuarial science, accounting, forestry, IT and teaching. PROTEC works with learners to develop the life skills they need to ensure tertiary education acceptance and instil support and collaboration between learners, parents and teachers. Refer to ***http://n3tcjournals.co.za/wp-content/uploads/2020/03/n3tc-tl-education-2019.pdf*** for more information about the N3TC's Touching Lives initiatives.

SDG 7: Affordable and clean energy

SDG 7 aims to ensure access to affordable, reliable, sustainable and modern energy for all. Reliable and affordable energy is necessary to support many sectors, from business, medicine and education to agriculture, infrastructure, communications and technology. If South Africa does not have access to energy supplies and infrastructure, our human and economic development will be impacted.

Energy is the main contributor to climate change, producing approximately 60% of the GHGs. STANLIB Infrastructure invests in renewable energy projects not only because they provide good returns for our investors, but also because of the added benefit of reducing GHG emissions in the South African energy mix. In addition, we promote investments in surrounding communities through investee companies' CSI or SED spend, which encourages the use of affordable and clean energy.

Our renewable energy portfolio comprises over 21% of all renewable energy projects in South Africa. At 31 December 2020, STANLIB Infrastructure's energy portfolio included 17 power plants, generating an average of 3 200 000 MWh of renewable energy per annum, mitigating over 3 100 000 tonnes of GHGs annually.

SDG 8: Decent work and economic growth

SDG 8 promotes inclusive and sustainable economic growth, employment and decent work for all, which is only possible through the generation of stable and well-paying jobs. Globally, nearly 2,2 billion people live below the poverty line (US$1,90 per day).

Through investee companies' CSI projects or SED spend, we promote initiatives that reduce the proportion of unemployed people without access to education or training. In addition, we protect labour rights and promote safe and secure working environments for all workers in our investments.

The collective impact of our funds created a total of 3 293 employment opportunities in 2020, comprising 1 928 permanent employees and 1 365 contractors.

SDG 9: Industry, innovation and infrastructure

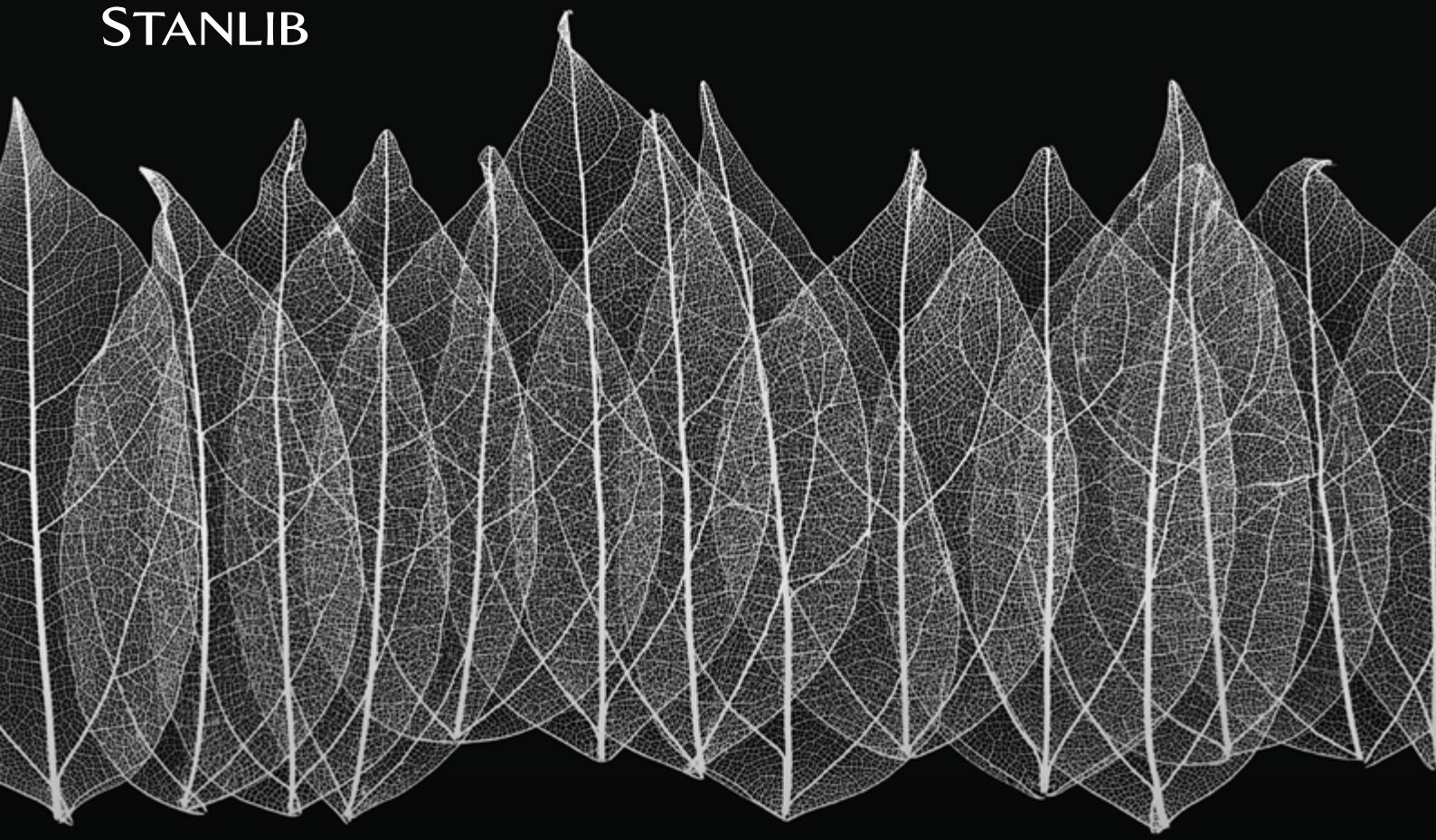
SDG 9 aims to build resilient infrastructure, promotes inclusive and sustainable industrialisation and fosters innovation. Economic growth, social development and climate action rely on investments in infrastructure, sustainable industrial development and technological progress.

In line with our mandate, we will invest in quality, reliable, sustainable and resilient infrastructure to support economic development and human well-being, upgrade infrastructure with greater resource-use efficiency, adopt clean and environmentally-sound technologies and increase access to ICT.

An example is our investment in Trans African Concessions (Pty) Ltd (TRAC), which has several construction and rehabilitation contracts that contribute to infrastructure development. These include: rehabilitating the carriageway on the N4 Montrose to Schagen, Mpumalanga, through milling and replacement from January 2019 to May 2020, to the value of R115 million; upgrading the intersection to a split-level interchange on the N4 Karino interchange near Nelspruit, Mpumalanga from February 2019 to February 2021, to the value of R350 million; ongoing rehabilitation of the carriageway on the N4 from Bronkhorstspruit to Bossemanskraal, Gauteng, through milling and replacement, with a contract value of R137 million; and the ongoing upgrade of the N4 from Belfast to Machadodorp, Mpumalanga, through lane additions, with a contract value of R650 million.

Conclusion

STANLIB Infrastructure's well-established investment processes mean we have long considered ESG factors when identifying both investment opportunities and risks. This allows us to understand the impact of our investing decisions above and beyond financial returns. We are excited and well-positioned to capture the opportunities presented by government's infrastructure plans, as well as the current regulation 28 discussions that seek to direct increased pension fund capital into this area and asset class. In pursuing these opportunities, we continue to drive a positive and long-term impact on society, as measured by the UN SDGs.



THE KHANYISA IMPACT INVESTMENT FUND: INVESTING FOR GOOD

Introduction

We take this opportunity to introduce the Khanyisa Fund, a seven-year, R3 billion private debt fund that will be managed by our Credit Alternatives team. Khanyisa means to spark, illuminate or make brighter, and our objective is that the fund will spark economic and social benefits by investing in the country's infrastructure, inclusive financial services and agricultural sectors.

The idea that returns can be measured not only by profit, but by the upliftment of people, communities, the environment and greater society was a compelling motivation for the launch of this fund.

The Khanyisa Impact Investment Fund

The fund aligns its impact objectives with the UN SDGs. Our aim of investing in the fund includes the reduction of poverty and inequality, increasing access to basic services and goods, increasing financial inclusion (especially of traditionally marginalised groups) and reducing the barriers to entrepreneurship. All of these aims and objectives link thematically to a stated SDG.

The fund tracks 11 of the 17 SDGs. The fund has been established in a way that allows the investment strategy to seamlessly integrate with the relevant

SDGs, representing a wide range of impact benefits for investors in the following areas:

- Economic inclusion
- Good health and well-being
- Reduced inequality
- Sustained cities and communities
- No poverty
- Climate change
- Decent work and economic growth

While targeting a return of consumer price index (CPI) plus 4,5%, the fund will focus on investments that achieve the twin aims of attaining a sustainable financial return for investors, while adhering to its stated impact outcomes. There is no tension between the stated fund financial objectives and the desired impact outcomes. Part of the investment outlook is underpinned by the thesis that investment strategies with a high ESG and impact adherence tend to perform better over the long term. Within a South African context, we have seen the importance of strong governance within corporate South Africa and state-owned enterprises (SOEs) in determining overall financial health.

The COVID-19 crisis has revealed the need to place more emphasis on social sustainability as a key part of the investment outlook. To help in the fulfilment of the various SDGs outlined above, Khanyisa, by definition, helps catalyse impact through social impact.

Thematic investing

To achieve these goals, objectives and allocations have been divided into three key themes that speak to maximising both impact and financial outcomes.

The first theme is infrastructure, which we dissect into social and economic sub-categories. Social infrastructure activities will focus on building and developing sustainable communities by investing in areas like affordable housing, education and healthcare. Economic infrastructure projects will focus on creating jobs, new business growth opportunities and economies of scale in telecommunications, utilities, transportation, and SOEs and municipalities. In line with the UN SDGs and South Africa's efforts, the pursuit of sustainable and clean energy solutions will be prioritised. As part of our focus on renewable energy opportunities, for example, we consider the objectives of SDG 7 (affordable and clean energy) and SDG 13 (climate action). In considering healthcare investments, the fund helps fulfil SDG 3 (good health and well-being) and SDG 11 (sustainable cities and communities) objectives.

The second theme is financial inclusion, where the key objective is to increase the penetration rate of financial services usage. The aim is to lower economic barriers to entrepreneurship and increase financial literacy and access to financial services, which will collectively lead to greater economic activity. The focus will be on wholesale financing into the micro-loan, small and medium-sized enterprises, black employment equity (BEE), and payment and remittances sectors. Within this sub-theme, the fund covers a wide range of SDGs, from SDG 1 (no poverty), to SDG 8 (decent work and economic growth) and SDG 10 (reduced inequalities).

The final theme is agriculture, which is critical to food security in the country. We aim to support local agriculture, ensuring access to land through informed redress and encouraging sustainable practices, leading to greater food security and access to wholesome nutrition. Agriculture within an African and South African context is a key impact theme informing various SDG outcomes, including SDG 2 (zero hunger), SDG 12 (responsible consumption and production) and SDG 13 (climate action).

Measuring outcomes

To give effect to the twin objectives of financial return and impact outcomes, we formulated an overall portfolio measurement framework that encompasses the following features:

- Measuring financial returns
- Measuring impact outcomes
- Tracking outcomes on a rolling basis against agreed impact benchmarks

The outputs from this framework will provide us and our investors with an integrated set of metrics that describe the economic and impact characteristics

of the fund's overall portfolio, all of which are validated by an independent third party.

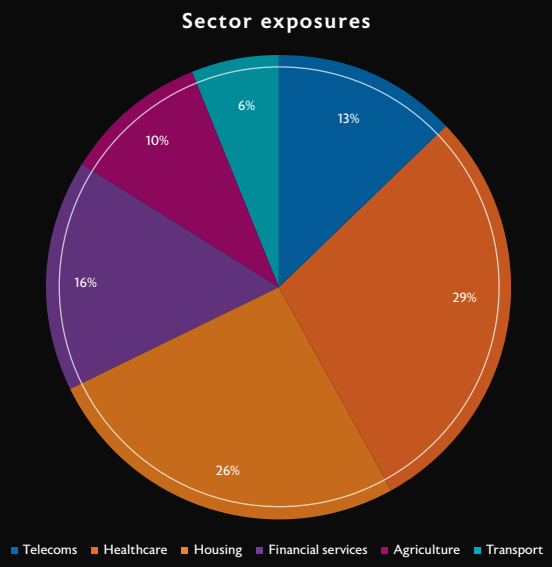
Measuring impact outcomes in line with the SDGs is both a qualitative and quantitative exercise. This involves the use of quantitative frameworks such as social return on investment (SROI), and various theory of change methodologies. The framework applied has the ability to measure and describe impact by tracking the following:

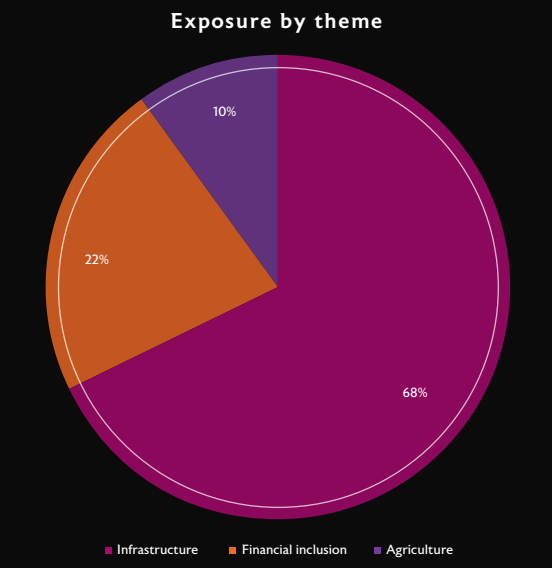
- Impact outputs, e.g. invest in a hospital and increase the number of available beds in a specified geographic area.
- Short-term impact outcomes, e.g. increase the number of people receiving HIV treatment, increasing public health initiatives in area- specified geographic area.
- Long-term impact outcomes, e.g. reduced HIV prevalence, and changes in life expectancy and morbidity.

In all instances, we track impact metrics at both a single transaction level and a portfolio level.

Some of the initial investments that the fund is considering include a highly-attractive proprietary pipeline of assets that is well-diversified across sectors. The underlying funding strategies vary across industries, and include growth finance, traditional project finance, balance sheet and wholesale lending. Thematically, there is an initial bias towards infrastructure, followed by financial inclusion and agriculture. As we reach full deployment of the fund, we expect the portfolio will re-balance to reflect a weighting of between 55% and 60% infrastructure; 30% and 35% financial inclusion; and 10% agriculture. We anticipate the total number of investments to be between 15 and 20 at full fund deployment.

Chart: Khanyisa Fund target impact exposures





Conclusion

As we journey into 2021 and start reshaping our struggling economy, we are excited to offer our clients an opportunity to partner with us, investing in key South African themes that will deliberately drive a positive and measurable impact on social well-being and the longevity of our environment.

2021 AND BEYOND

Last year, we noted that the concept of investing for a sustainable future was rapidly evolving. What was once an add-on to investment practices in asset management now forms part of the way we work and think every day. Policies and processes to embed the consideration of ESG factors into investment decision-making form the bedrock of the way we operate. In 2020, a year characterised by the devastating impact of the COVID-19 pandemic, these factors have become even more important. As asset managers, we are tasked with generating returns for our clients, while being mindful of the impact our investment decisions will have on the longevity of our planet and the well-being of our communities. Pandemic-led changes have threatened economic survival and significantly changed business models and routes-to-market, policy decision-making, and the way communities live and work together. Some changes are temporary in nature while others are lasting.

As we head into 2021 and beyond with hard learnings from a profound year, we recognise that we must adapt to a new normal. We will need to refine our investment processes and deepen our understanding of ESG risks and opportunities to inform our investment decisions. Our decisions will impact the transformation of businesses and society in a post-pandemic world and strengthen the global pursuit to address climate change.

We support ongoing key developments in the responsible investment arena, including the measurement of social and environmental impact through accurate data collection and reporting. This will create greater transparency for investors and allows a more meaningful and focused approach towards investing for impact. We support the TCFD, which aims to provide transparency on climate change and allows improved assessment of environmental risk, and better decision-making for capital allocation. Climate change remains a trending topic. We are mindful of ongoing changes at a universal level and realise that, as asset owners, we play a critical role in supporting national commitments.

During the year, the need for collaboration has become paramount. If managed correctly, the Infrastructure Fund along with PPPs, could be a catalyst for additional private sector investment. Investing in infrastructure will undoubtedly create income opportunities and increase employment.

Most importantly, there is a vital link between infrastructure development and the quality of life experienced by most people in the country. This is especially true if infrastructural development also focuses on the provision of clean sources of water, accessible health, education facilities and affordable housing.

While government has a vital role to play in initiating, scoping and driving the various infrastructural projects, the successful implementation of the current infrastructure initiative will be highly dependent on the establishment of a close working relationship between private sector investors, contractors and the government.

We will continue to strive to work with and alongside all stakeholders to drive change for good, while adhering to our commitment to our clients to deliver satisfactory financial outcomes. We are able to make a meaningful impact across the spectrum by integrating ESG into our investment decision-making and through our investment offerings, supporting sustainable economic development while deliberately targeting social and environmental outcomes. We look forward to embracing the significant changes brought on by 2020 and continuing to make a relevant and meaningful impact across all our investment activities. As indicated earlier in this report, we have a number of focus areas for 2021:

- Our investment process: refining and enhancing investment processes to identify ESG risks and opportunities to incorporate the learnings of 2020.
- Climate change: refining metrics and providing more detailed disclosure on climate-related risks in line with the TCFD.
- Measuring our impact through the UN SDG framework, where applicable.
- Governance: continuing to drive various changes through active ownership.

We are mindful that the challenges are large. Collaboration with, and consideration of all stakeholders is paramount as we continue our journey to support a sustainable future.

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