STANLIB

# STANLIB Responsible Investment Policy

## AUGUST 2022

*“The purpose of STANLIB’s Responsible Investing policy is to set out to our clients and stakeholders how we approach investing for a sustainable world as stewards of our clients’ investments for their long-term financial well-being. The scope includes our responsible investing principles, how we integrate ESG factors into our investment processes across our investment teams, and how we organise ourselves to ensure we apply our responsible investing principles across all our investment capabilities.”*

# 1. Introduction

Corporates are being challenged worldwide to consider the sustainability of their business models and act as responsible corporate citizens. We believe that the true success of an investment manager means a holistic approach to the sustainability of all investments, and making a positive impact for all our stakeholders and society as a whole.

STANLIB is entrusted to act on behalf of individuals, groups and corporations to safeguard their funds and deliver consistently to their objectives. These objectives must be achieved by taking into account not only the financial returns, but also the consideration of factors that could either enhance or undermine the overall outcome. Other than the financial returns, we believe that incorporating sustainability and societal outcomes in our decision-making is critical to long term financial outcomes. There is growing evidence that environmental, social and governance (ESG) issues can affect the performance of investment portfolios and have implications for an entity's earnings and prospects as well as broader economic functioning.

# 2. Purpose and Scope of this Policy

The purpose of STANLIB's Responsible Investing policy is to set out to our clients and stakeholders how we approach investing for a sustainable world as stewards of our clients' investments for their long-term financial well-being. The scope includes our responsible investing principles, how we integrate ESG factors into our investment processes across our investment teams, and how we organise ourselves to ensure we apply our responsible investing principles across all our investment capabilities.

STANLIB has adopted a specialist approach to managing investments. The investment platform is made up of focused teams of investment professionals who are specialists in their respective disciplines/ asset classes and who are responsible for managing client assets in their areas of expertise.  Each investment team is guided by the STANLIB Responsible Investment policy and adopts their own detailed methodology to integrate ESG into their investment process.

STANLIB's Responsible Investment policy is reviewed annually to ensure we incorporate a changing landscape into our approach and principles whilst keeping track of global and domestic developments.

We are signatories of UN PRI[1] and endorsers of CRISA[2] and we seek to follow the principles set out in these codes.

[1] *Annexure C: UN Principles For Responsible Investment (UN PRI)*
[2] *Annexure D: Code For Responsible Investing In South Africa (CRISA)*

# 3. Policy Statements

STANLIB's Responsible Investment Guiding Principles provide our investment teams with an overarching guide and approach. Each STANLIB investment team adopts their own detailed methodology to integrate ESG into their investment process.

### 3.1. Policy Statement 1: STANLIB believes that ESG is a material investment consideration

ESG forms a material element in driving risk adjusted returns for our clients. As stewards of their funds and to deliver on client financial outcomes we believe that the consideration of sustainability is essential to value creation and capital protection.

### 3.2. Policy Statement 2: STANLIB integrates ESG factors into the investment process

Active ownership means careful consideration of ESG factors in the investment process across all our investment capabilities. This ensures that we understand the related risks associated with investment opportunities.

Each investment team as detailed in Annexure A undertakes both qualitative and quantitative assessments on ESG factors as part of their investment research process providing a detailed understanding of the related risks and opportunities. Focus areas depend on the nature of the asset class and each specific investment.

Analysis is typically based on company disclosures and reporting during investor presentations, integrated reports and financial statements and via third party ESG research providers. Interaction between investment teams within STANLIB also provides an opportunity to debate and understand ESG concerns across investments.

ESG ratings derived from tools and methodologies will be individual to each investment team and supplement ESG research. It is critical that investment research informs our investment decision making across the business and effectively considers the risks and opportunities relating to ESG factors. Investment teams are encouraged to remain abreast of developments in the ESG arena.

### 3.3. Policy Statement 3: STANLIB favours active engagement

Our preferred approach to dealing identified ESG concerns is to actively engage business stakeholders to effect change. We believe engagement with boards of directors, company management, and key stakeholders is a powerful tool to drive optimal outcomes for our clients.

ESG research and ratings serve as a basis for our engagement with company boards of directors, management or key stakeholders. A poor ESG rating does not automatically exclude an investment but the investment will be made with the knowledge that ESG is a concern and needs to be raised with the investee company and constantly monitored to ensure improvement. ESG engagement categories for example, may include, board structures and independence, executive remuneration, climate change, health and safety, B-BBEE and transformation etc.

However, if engagement and discussions with the relevant stakeholders does not yield the desired outcome, we are willing to reduce our exposure or disinvest of an investment. There are also instances in which STANLIB will outright exclude investment in a particular company where there is no confidence that management actions will resolve the outstanding ESG issues.

This would include companies undertaking activities deemed illegal. STANLIB may also set specific guidelines to ensure a firm-wide investment approach where specifically identified ESG topics, such as investing in coal-based power projects, have been considered and debated. Investment professional or Portfolio Manager must inform STANLIB Risk/ Compliance function in writing to restrict trading in the affected instrument or issuer.

Our engagement action points are tracked and monitored by each investment team and recorded in the STANLIB Engagement Register which serves as the management tool for oversight, implementation, and reporting.

### 3.4. Policy Statement 4: STANLIB exercises its ownership rights

STANLIB exercises voting rights in the best interests of our clients. STANLIB's proxy voting policy sets out our voting guidelines. STANLIB publicly discloses our proxy voting decisions and voting records each quarter to our clients and stakeholders via our website.

### 3.5. Policy Statement 5: STANLIB is prepared to collaborate where it drives desired outcomes

STANLIB believes that active engagement with all stakeholders within the industry is key to driving positive change. STANLIB actively collaborates with other stakeholders and investors to resolve specific and material ESG concerns to ensure resolution is in the best interests of our clients. This may also involve seeking legal protection for clients.

We are open to collaboration where we believe the collective efforts of all relevant stakeholders around an ESG topic are more likely to result in a positive outcome for our clients. Such instances would include engaging with investee companies in which we have a relatively small holding or joining other shareholders and stakeholders to influence change.

STANLIB, as signatories of UN PRI and endorsers of CRISA, seeks to follow the principles set out in these codes and engages in relevant forums initiated by industry bodies to learn from and contribute to the development of responsible investing practices and improved outcomes. STANLIB is a member of ASISA (The Association for Savings and Investment in South Africa), and our fixed income team has membership of SASF (The South African Securitisation Forum) and GFII (The Global Fixed Income Institute). Through these forums we are able to raise ESG concerns and influence responsible investing principles as part of debt listing requirements and standards of best practice as well as learn from global Fixed Income managers.

### 3.6. Policy Statement 6: STANLIB communicates its responsible investing activities

STANLIB communicates its policies and responsible investing activities through the publication of policy documents, proxy voting reports and reporting on key engagement activities.

We believe it is critical for our investors and other stakeholders to understand how we approach ESG and the outcomes of responsible investing practices. Measurable and tangible deliverables are crucial. STANLIB therefore aims to proactively report and communicate its policies and responsible investing activities by reporting and disclosing to our clients and stakeholders against the implementation of:

- STANLIB's ESG-related policy documents,
- STANLIB's proxy voting records, including reasons for voting decisions

The following investor and stakeholder information is currently made publicly available:

- Quarterly: Proxy voting decisions are reported quarterly and made available on our website. STANLIB's proxy voting records includes the rationale for all decisions
- Annually: Our annual Stewardship report highlights activities for the year, including company engagements and case studies.

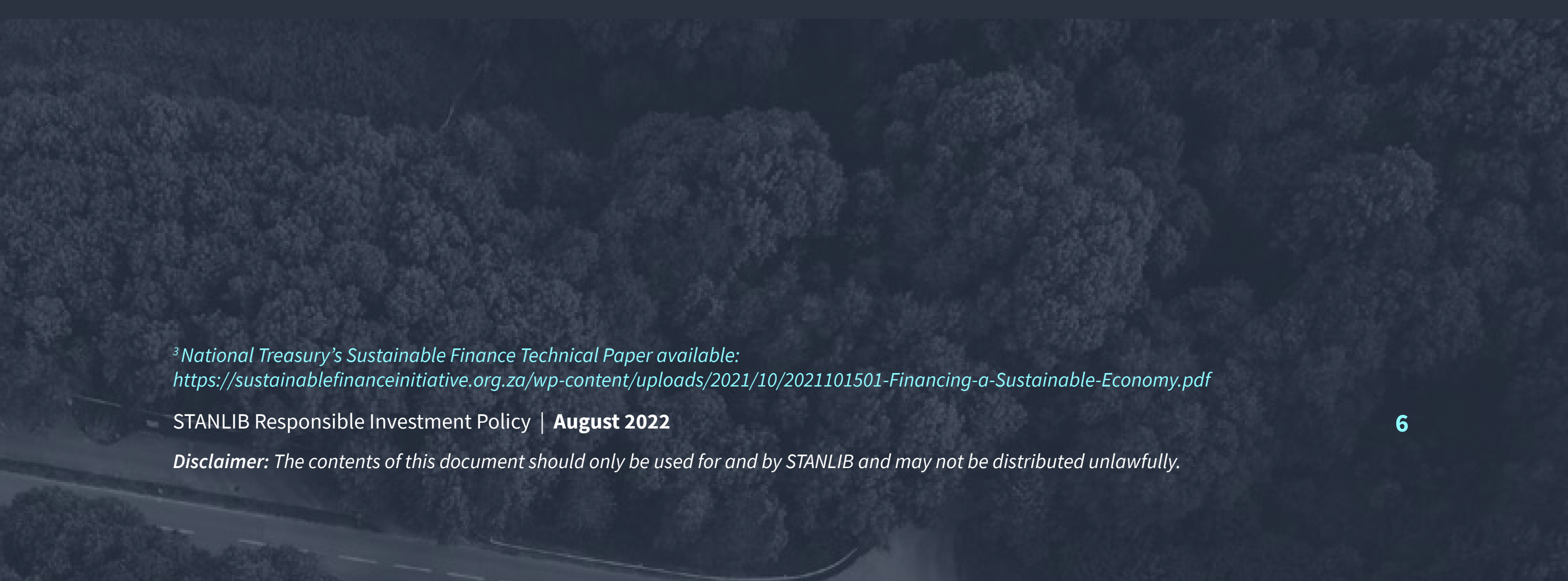
### 3.7. Policy Statement 7: STANLIB applies ESG oversight to its investment capabilities

STANLIB believes that to ensure the appropriate outcome for clients we need to monitor and challenge investment professionals on ESG issues. Our governance structures ensure accountability, tracking and measurement of ESG related issues including potential conflicts of interest.

### 3.8. Policy Statement 8: Climate change and achieving a Just Transition

STANLIB recognises and values the importance of increased disclosures to effectively manage climate change and aims to report on climate-related financial disclosures going forward. STANLIB is supportive of sustainable finance[3] which seeks to encourage the reallocation of capital to have a more positive impact and the raising of new and dedicated funds to finance a just transition to a climate resilient and lower carbon economy.

Furthermore, we encourage investee companies to disclose relevant climate-related information in their reporting. Most notably, the Task Force for Climate Related Disclosure (TCFD), a global initiative on behalf of the Financial Stability Board, has developed recommendations for more effective climate-related disclosures that should promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.



[3] *National Treasury's Sustainable Finance Technical Paper available: https://sustainablefinanceinitiative.org.za/wp-content/uploads/2021/10/2021101501-Financing-a-Sustainable-Economy.pdf*

# 4. Accountabilities and Responsibilities

Accountability for ESG integration at STANLIB can be seen through the lens of ultimate investment performance and the governance structures in place. Within the overarching STANLIB ESG framework, each investment team is responsible for incorporating ESG into their investment processes by adopting their own detailed methodology to integrate ESG into their investment process. All ESG processes are reviewed by the ESG[4] Committee on a regular basis to ensure that they are fit for purpose and reflect leading industry practices.

We believe that designated ESG roles in STANLIB ensure ESG risks are sufficiently interpreted and translated into investment decision making and analysis.

**These roles include:**

### 4.1. Analysts

Responsibilities are:

i) ESG research and implementation

### 4.2. Portfolio managers

Responsibilities are:

i) Ensures oversight and execution

### 4.3. STANLIB ESG committee

Responsibilities are:

i) ESG governance and oversight across STANLIB

### 4.4. STANLIB Investment Exco

Responsibilities are:

i) Investment performance

*[4] The Terms of Reference document for ESG Committee is available upon request*

# 5. Related Information

This Policy must be considered in conjunction with the frameworks and policies listed below:

| Type | Name |
|---|---|
| Policy | STANLIB Proxy Voting Policy |
| Policy | STANLIB Conflict of Interest Policy |

# 6. Policy Administration

### Policy Administrator

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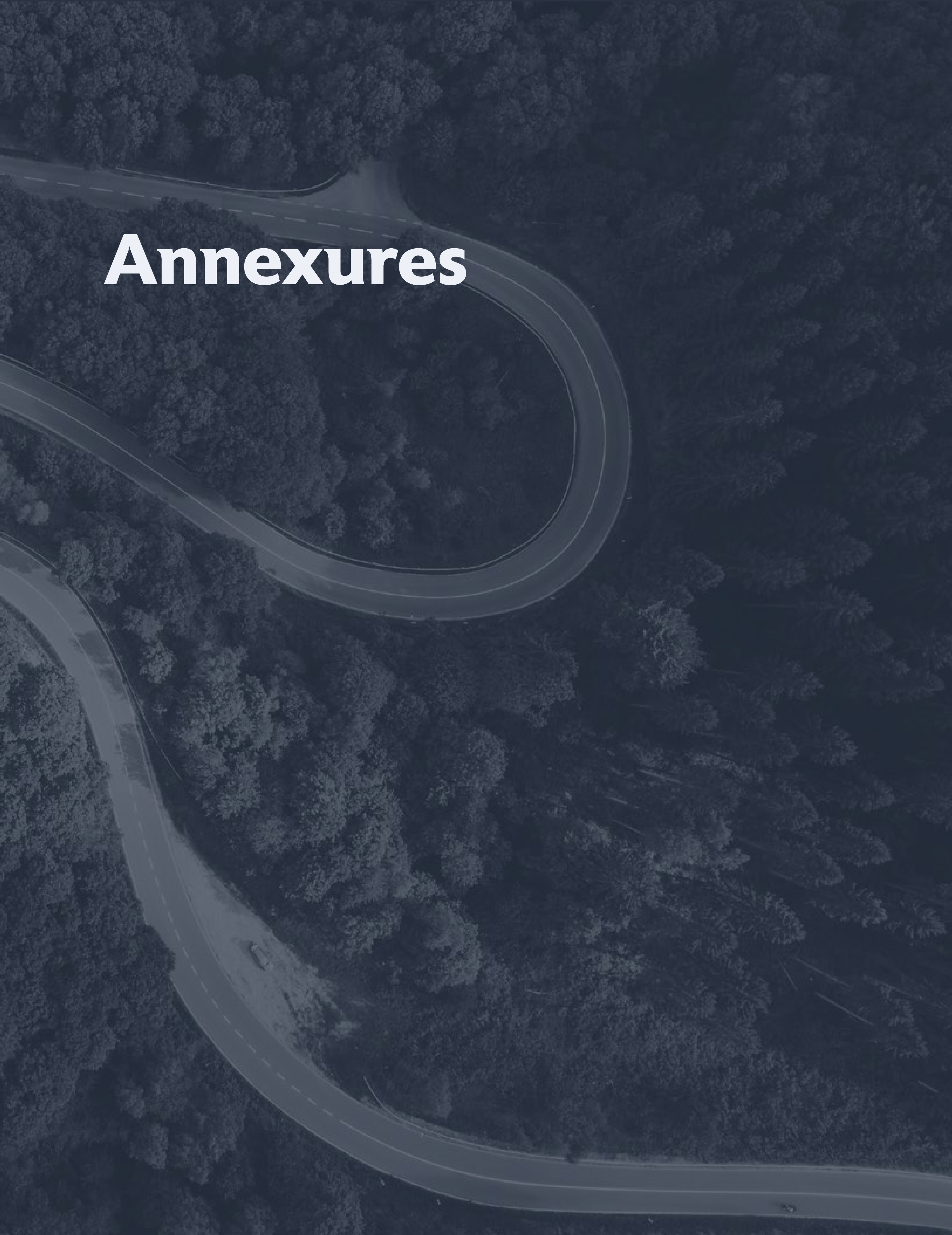
### Version Information

| Version | Date | Description of changes | Author/Editor |
|---|---|---|---|
| V1 | July 2022 | Draft Policy | Mufudzi Mutamuko |
| V1.1 | August 2022 | Compliance Review | Karabo Shole |

### Review

| Frequency of review | Next review date | Last review date |
|---|---|---|
| Every 1 year | July 2023 | July 2022 |

# Annexures



# Annexure A:
## Overview of ESG Integration Approach per STANLIB Franchise[5]

| | Equities | Listed Property | Fixed Income | Credit Alternatives | Asset Allocation |
|---|---|---|---|---|---|
| **ESG integration** | The consideration of ESG factors is part of our investment process and is taken into account when assessing each company's fundamentals. The ESG frameworks aim to ensure that return and earnings projections appropriately reflect the risks and opportunities associated with ESG issues. Active ownership through engagements and exercising voting rights is a critical aspect of driving long-term sustainable value in the companies in which we have invested on behalf our clients. | | In fixed income investing ESG factors are intertwined with credit risk and as such the Fixed Income ESG framework ensures that ESG risks are sufficiently incorporated in the credit process and ultimately the internal credit ratings that determine position size. | In private debt investing, ESG factors are integral to investment due diligence and credit risk assessment, and as such the Credit Alternatives ESG framework is aligned to best practice for credit investment houses, detailing ESG integration in the Alternatives asset class. | Our tactical asset allocators leverage off the bottom-up ESG frameworks for integration that the underlying asset class investment teams have put in place, which specifically focus on detailed company analyses, direct engagements, and proxy voting. |
| **Methodology** | • ESG factors are integrated into the active investment process using a scorecard which aims to capture such risks and their materiality by translating a standardized questionnaire of qualitative elements across E, S and G factors into a rating that is considered with other fundamentals. A greater weighting is applied to governance factors. The company ESG ratings are reviewed and updated systematically on an ongoing basis.<br>• A poor rating does not automatically exclude an investment but the investment will be made with the knowledge that ESG is a concern/ demand a greater margin of safety and needs to be raised with the company and constantly monitored to ensure improvement.<br>• The engagement agenda for individual companies is based on a Materiality Map of ESG issues identified in the fundamental research. The weighted score of a particular element is considered in determining materiality, together with qualitative judgement by the analyst | • ESG is incorporated in the fundamental analysis of individual shares in the universe and it involves adjusting the cost of equity with an ESG spread and the result used in the ranking of the universe for portfolio construction.<br>• The ESG spread is based on a scorecard with the following six factors and weightings:<br>1. A strong board with experience (20%)<br>2. Quality of assets (30%)<br>3. Disclosure and reporting (10%)<br>4. Strength of balance sheet and quality of earnings (20%)<br>5. Social contribution (10%)<br>6. Environmental adherence (10%) | • The assessment of the credit risk of all new and existing exposures includes a qualitative and quantitative counterparty analysis. The ESG factors are assessed in the qualitative analysis. This analysis is the basis for the internal credit rating process and ultimately determines the counterparty credit limit presented to and approved by the STANLIB Fixed Income Credit Committee.<br>• Qualitative analysis is performed on all potential deals submitted to the Credit Committee across all the asset classes in the fixed income investment space (sovereign, state-owned enterprises, corporates, financial institutions, conduits and securitisations). All existing exposures are reviewed annually and a qualitative analysis is also done as part of the review and presented to the Credit Committee.<br>• Greater weighting is applied to Governance factors. | • Potential transactions not on the 'Exclusions' and 'Restricted' lists are passed through the Pre-Screening Committee (PSC) where ESG factors are also considered in the qualifying criteria.<br>• Qualifying transactions are then evaluated based on the proprietary ESG assessment tool which represents a combination of qualitative and quantitative factors translated to a Red/Amber/Green status on each category of E, S and G.<br>• The results of this assessment are presented along with analyst motivations to either pursue or deter from proceeding with a transaction, on the grounds of ESG factors<br>• Enhanced due diligence is conducted where the ESG assessment is adverse<br>• Credit and ESG watchlists are reviewed by the Investment Committee as well as the STANLIB Investment Risk Oversight Committee. | • Ultimate responsibility for ESG risks and opportunities in asset allocation portfolios lies with the asset allocation teams who in turn are expected to have in place monitoring processes such as regular feedback from the underlying asset class investment teams<br>• Proxy voting is also conducted by the underlying asset class teams but the asset allocators can vote in a different manner on behalf of their clients as they see fit |
| **Research & Data** | Investment analysts within our specialist teams are responsible for ESG research and mainly rely on internal research which is based on information shared by investee management teams through engagements, as well as integrated reports and financial statements. There are instances where third party ESG research is required such as the need for expert/ specialist knowledge or available ESG data is insufficient or costly; it is the responsibility of the investment analyst to ensure that high quality research is utilized. Research and data are decentralized but our investment teams are expected to responsibly collaborate and share material ESG information, directly or through the ESG Committee. The ESG Committee also seeks to keep investment professionals at STANLIB up to date on topical ESG matters by coordinating external research and speakers. | | | | |
| **Monitoring** | The ESG Committee reviews the robustness of each investment teams' approach to ESG integration at least once a year and conducts continuous monitoring. The investment process at STANLIB requires the ongoing assessment of investment risks to portfolios which include ESG risks. Our specialist teams are required to maintain ESG watchlists which are overseen by the ESG Committee and are part of regular reporting into other investment risk governance structures. Reviewing ESG watchlists sensitises senior leadership about ESG risks in our client portfolios across asset classes and collectively, also allowing interrogation of whether enough is being done to manage these risks. This includes active engagements with companies and proxy voting, both with data maintained centrally and monitored by the ESG Committee. In instances where funds are allocated to external managers, we rely on regular report backs where key investment risks, including ESG, are discussed. | | | | |

[5] *Respective ESG frameworks are available upon request*

[6] *Negative screening is applied to companies involved in: Production or activities involving harmful or exploitive forms of labour; Any form of child labour; Manufacture of weapons, weapons support or warfare systems for terrorist related activities; Production and/or distribution of narcotic drugs; Production and/or trade of any product or activity deemed illegal by laws, regulations and/or international conventions (animal poaching, illegal harvested timber; environmental pollution, oil operations, pornography, etc.); A history of serious health and safety breaches*

***Index investments*** *has representation on the ESG committee and continues research on the viability of specific strategies of incorporating ESG into their investment processes while meeting client objectives that include tracking certain index benchmarks.*
***STANLIB Infrastructure*** *supports 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.*

# Annexure B:
## Specific Guidelines on Investing in Coal-Based Power

### Investing in coal-based power

#### Background

South Africa is one of the largest coal producers in the world with coal remaining a strategic resource globally and approximately 41% of total energy produced emitting from coal*. Coal based power is considered the greatest risk to the sustainability of our environment of all fossil fuels, given the impact on climate change through high rate of CO2 emissions, which are the most significant contributor to Greenhouse Gas (GHG) emissions. In 2016, the Conference of Parties 21 (COP 21), to which South Africa is a signatory, ratified the full enforcement of the agreement to combat climate change and accelerate actions and investments for a low carbon future. This includes a set target to reduce GHG, including CO2 emissions, and in so doing limit the rise of global temperature.

STANLIB has specifically considered and evaluated investing into coal assets in the context of the national priorities in South Africa for both developmental needs and climate change imperatives.

#### STANLIB's approach to investing in coal-based power

STANLIB will not in any way fund the development of new individual coal power plants that do not meet the OECD protocols with the exception of specific cases which have prior approval from the STANLIB ESG Committee. This allows for the potential financing:

- of coal power plants in IDA (International Development Association) rated countries,
- where coal power projects meet supercritical** and above technical specifications.

Investment in companies that derive a portion of their revenue through coal production or coal-based power is not currently restricted. In this instance we favour active engagement with company management to drive an optimal outcome on this topic aligned to reducing CO2 emissions from coal power generation whilst considering the developmental priorities of South Africa to alleviate poverty and address inequality.

# Annexure C:
## UN Principles for Responsible Investment “UN PRI”

STANLIB formally adopted the PRI Principles as a signatory on 20 March 2008. PRI signatories are listed on the PRI website.

PRI publishes an annual Transparency Report[7] of its signatories’ progress in implementing the PRI Principles based on signatories PRI Reporting and Assessment tool submissions to PRI each year.

### PRI signatory commitments:

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- **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 the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.”

[7] *STANLIB’s latest PRI Transparency Report is available upon request*

# Annexure D:
## Code For Responsible Investing In South Africa "CRISA"

The Code for Responsible Investing in South Africa (CRISA) gives guidance on how the institutional investor should execute investment analysis and investment activities and exercise rights so as to promote sound governance.

**CRISA's 5 principles:**

1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.
5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

**CRISA applies to:**

- Institutional investors as asset owners, for example, pension funds and insurance companies
- Service providers of institutional investors, for example, asset and fund managers and consultant

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