

STANLIB's approach to Environmental, Social and Governance Factors

Our clients have entrusted us with their wealth and savings to deliver long-term returns through the protection and growth of their capital. We believe that ESG is a material consideration in delivering risk adjusted returns to our clients.

We believe that as active owners we have the ability to influence corporates and entities that we invest in to incorporate ESG factors, thereby making for sustainable businesses.

We are signatories of UNPRI and endorsers of CRISA and we seek to follow principles set out in these codes.

STANLIB's ESG principles

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.

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.

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. 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 identified ESG topics have been considered and debated. Refer to the Appendix for specific ESG guidelines.

STANLIB exercises its ownership rights

STANLIB exercises voting rights in the best interests of our clients. Our policy on proxy voting sets out our voting guidelines.

STANLIB is prepared to collaborate to drive desired outcomes

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 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.

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.

Appendix: Specific ESG guidelines

Our preferred approach to dealing identified Environmental Social Governance (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. However, if engagement and discussions with the relevant stakeholders does not yield the desired outcome we are willing to disinvest of an investment. STANLIB may set specific guidelines to ensure a firm-wide investment approach where identified ESG topics have been considered and debated.

1) 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 was 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 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 Environmental Social Governance 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 who 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.

Adoption of ESG principles through incorporation of ESG factors into investment processes and engagement on ESG issues is driven individually by each investment team within STANLIB and reviewed at a firm-wide level by the Environmental, Social, Governance Committee. This Committee is chaired by the Head of Investments to ensure a robust and collaborative (where required) approach.

*International Energy Agency: Coal Report 2018

** A supercritical coal plant (as opposed to a traditional coal plant) will decrease waste heat produced by 25%, and cut pollution and CO₂ by roughly the same amount according to the World Coal Association.