

Nedgroup Investments Responsible Investment Guidelines



INTRODUCTION

“Investment that considers sustainability isn’t about changing the world – it’s about understanding how the world is changing” – Mercer¹

Nedgroup Investments is a wholly owned subsidiary of Nedbank Group Limited. Nedbank has adopted the United Nations Sustainable Development Goals (SDGs) as its strategy for integrating sustainability across the full breadth of business activities. It is a strategic enabler of our group’s purpose to use our financial expertise to do good for individuals, families, businesses and society.

Nedgroup Investments’ approach to fund management is becoming increasingly relevant and synonymous with the strategic direction of Nedbank Ltd. Nedbank has adopted the SDGs as a guiding framework, and to fulfil its promise as a purpose-led and values driven organisation. This will place Nedbank firmly at the centre of the sustainability agenda and its related challenges, and in the context of asset management, this largely takes the form of Responsible Investing.

The decision to embark on our Responsible Investment (RI) drive is manifold, below are three of the main motivators behind the increased focus:

- the desire to create positive social impacts,
- the alignment that RI has with our internal organisational values, and
- the business case of shifting investor demands

At Nedgroup Investments we believe that generating a perspective on sustainability provides important insight into existing or emerging environmental, social and governance (ESG) risks and opportunities. Furthermore, we believe that this important source of information should be considered by asset owners (corporations; pension funds; medical schemes; insurers) and asset managers.

As asset managers, Nedgroup Investments is a fully committed core component of the Nedbank Wealth Responsible Investment Committee (RIC). This body meets quarterly to address issues of development and application of the responsible investment (RI) policy in a consistent manner across the investment businesses within the Nedbank group.

This document presents guidelines for RI and ownership practices at Nedgroup Investments. The content of the document derives from the approach agreed by the Nedbank Wealth RIC. The guidelines recognise:

- The investment principles that govern each of our investment teams;
- The diversity of asset classes managed by the various appointed Best of Breed™ managers;
- The unique value proposition of each manager and the independent nature of their investment styles;
- The mandated responsibility of managers to pursue superior risk-adjusted returns on behalf of our clients.

The remainder of this document describes our understanding of RI and the manner in which the guidelines will be given effect within the scope of our investment and ownership practices. Nedgroup Investments’ Responsible Investing policy applies to our actively managed Best of Breed™, Fund of Funds, Cash Solutions and internally managed Nedgroup Asset Management products; as well as our rules-based investing Core range of products.

NEDGROUP INVESTMENTS AND RESPONSIBLE INVESTING

The Nedgroup Investments RI Guidelines draw on the key elements of the United Nations-backed Principles of Responsible Investment (UN PRI); the requirements of Regulation 28 of the Pension Funds Act (Reg. 28); the King Code; the Code for Responsible Investing in South Africa (CRISA); and any other applicable responsible investing code. The guidelines also build on Nedbank Group’s existing Sustainability Governance Structures and Policies Framework, which recognises that in leading by example we accept responsibility for managing and limiting the direct impact that our operations have on the environment and society.

As long-term investors, we believe that incorporating environmental, social and governance (ESG) factors into investment and ownership decisions will support the pursuit of superior risk-adjusted returns for clients. Not only does this make sound business sense, but as the custodian of our unit-holders’ and beneficiaries’ long-term future it is also the right thing to do.

¹ “An Investment Framework for Sustainable Growth”, Mercer, 2014, <https://www.mercer.com>

Based on the above, the Nedgroup Investments approach to RI is guided by the following core aims:

The appropriate consideration of environmental, social and governance factors through the investment manager selection and monitoring process

At Nedgroup Investments we look to identify investment managers with specific traits that we believe will enable them to deliver superior results over the long term. Stewardship is at the heart of everything that we do, and we pay just as much attention to qualitative factors, such as a manager's approach to ESG factors in decision-making, as we do to the quantitative factors.

To act as a responsible steward and custodian of assets

Nedgroup Investments takes its responsibility towards client assets seriously; as a result, we aim to ensure that management is ultimately accountable for company performance and conduct.

We view constructive engagement with our appointed managers combined with consistent proxy voting as the best means to produce positive outcomes. Historically, our policy has been to disclose manager and fund specific voting records to clients upon request, from January 2020 these will be available to the public on our website and fund landing pages. Further to this, we will manage potential conflicts of interests through our existing conflict of interest management processes.

To provide thought leadership and collaborate with our peers

We are mindful of our role within the broader investment community and the fact that collaboration with peers is paramount to our commitment to expand and improve RI practices. Our efforts range from addressing ESG issues in our portfolios, enhancing ESG disclosure on our funds and providing research and analysis to advance industry best practices in the field of RI.

ANNUAL RESPONSIBLE INVESTMENT REVIEW

2019 was the inception year for our annual Nedgroup Investments RI Review of assets under management. The assessment is not limited to internally managed funds, but also extended to external sub-advised portfolios and the role that environmental, social and corporate governance ESG factors play in investment decision-making. The aim is to advance the RI standing across the full range of Nedgroup Investments' funds.

By incorporating ESG factors into our investment oversight, we are holistically able to monitor the financial and non-financial risks of our portfolios. **We believe ESG data serves as an enabler for deeper and more constructive engagement with the companies that we invest in.** Furthermore, the companies that embrace sustainability will show outperformance over the long-term, and thus align themselves with the investment horizons of our fund offerings.

With all this in mind, the assessment process measured our fund management across the following six pillars:

- Commitment to responsible investing.
- Integration of ESG factors into the investment decision-making process.
- Proxy voting participation.
- The depth and quality of corporate engagement.
- ESG transparency and disclosure.
- Overall support and presence in the broader RI community.

The 2019 review saw R271bn of clients' assets being assessed against these RI pillars. The collective effort, undertaken between Nedgroup Investments analysts and our partner asset managers, covered the entire range of funds. This included SA-domestic and global portfolios across multiple asset classes, while covering both active and passively managed unit trusts.

PROXY VOTING

The Nedgroup Investments Proxy Voting Policy document ([insert link](#)) sets out a guideline for the voting of shareholder resolutions as they pertain to listed equity. Nedgroup Investments takes its responsibility towards client assets seriously; as a result, we aim to ensure that management is ultimately accountable for company performance and conduct. With most of our assets under management with third party managers, we appreciate their perspectives and that ESG adoption is not prescriptive. However, we encourage the use of King IV codes on corporate governance, and critical assessment when voting on key governance resolutions such as remuneration, board composition, director independence, auditor rotation etc.

Historically, our policy has been to disclose manager and fund specific voting records to clients upon request, from 1st quarter of 2020 these will be available to the public on our website and fund landing pages.

NEDGROUP AND THE U.N. SUSTAINABLE DEVELOPMENT GOALS

As part of our annual RI review, and via continual engagement with our internal and external investment teams throughout the year, we commit to overseeing the impact that we have under the 17 United Nations Sustainable Development Goals. We interrogate our investment teams and the relevant fund's exposure to climate change, atmospheric emissions, stranded fossil fuel assets, contribution to plastics, health of the oceans, and social impacts to name a few. We remain cognizant of a 1.5°C global warming target, and via awareness we champion pragmatic responses and measures from our fund managers and high impact investee companies.

We encourage our fund managers to actively engage companies on their key areas of environmental and social impacts, as we place a high watermark on a company's social license to operate. Secondary to this, we require our sub-advisors to report on a quarterly basis their corporate engagements and the results thereof.

Adopted by Nedbank	Remaining goals
Quality Education	No Poverty
Clean Water and Sanitation	Zero Hunger
Affordable and Clean Energy	Good Health and Well-being
Decent Work and Economic Growth	Gender Equality
Industry, Innovation and Infrastructure	Climate Action
Reduce Inequalities	Life below Water
Sustainable Cities and Communities	Peace, Justice and Strong Institutions
Responsible Consumption and Production	Partnerships for the Goals
Life on Land	

Source: United Nations Sustainable Development Goals 2030

DISCLOSURE

To ensure that all stakeholders can make informed decisions, we will report annually on our progress and performance regarding RI activities across the business. We will review and, if necessary, update this guideline document on an annual basis.

The Nedgroup Investments guidelines for RI provide an overarching framework for integrating ESG issues into investment selection and ownership processes across the business. At the core of these RI guidelines is the consideration of material ESG risks and opportunities - this approach differs from ethical, targeted or SRI, which aims to align the investment universe with the investors' desired ethical or social outcomes.

NEDGROUP INVESTMENTS RI PRACTICES

There are a number of investment styles that we offer, and these implement our core aims in similar ways.

Best of Breed™ Funds

For our actively managed sub-advised assets, our core aims are implemented through analysis and continuous engagement and training:

- Our appointed managers are periodically engaged on their evolving ESG approaches and internal documentation is kept updated with what we learn.
- We work alongside leading third-party data providers to build as complete a picture as possible of ESG risks embedded in the shares in our portfolios. We then engage with our asset managers on their holdings that do not meet acknowledged ESG standards.
- While we have delegated the proxy voting function to our external managers, we still oversee that function. This is done by ensuring the managers have a proxy voting policy that is reasonably designed to prevent violations of important legislation that governs proxy voting. Proxy votes for each Fund are collected quarterly and monitored to ensure they are consistent with the manager's stated proxy voting policy. If there is a gap in coverage by an investment manager for any listed companies, the Nedbank Wealth Responsible Investment Committee will deploy resources to ensure that the proxy is voted on our clients' behalf.

- We emphasize continuous development in the area of responsible investment for ourselves and our appointed external managers.

Fund of Funds

The portfolios within this range adopt a similar RI approach as our Best of Breed range. However, in certain cases as unit-holders of third-party managed funds, there is a reduced possibility to positively influence the adoption of RI practices. The team does seek to interrogate the RI practices of third-party managers prior to and during investment, with the intention to educate and encourage a move to increased adoption.

Core Funds

Our rules-based Funds track a series of custom benchmarks which consist of a range of local and global asset classes. The asset classes follow tailored indices to provide prudent, balanced and low-cost exposure to their respective investment universes.

While the assets managed under rules-based strategies are not mandated to exclude shares on the basis of ESG concerns, our appointed managers are able to use proxy voting and engagement with company management to try to make an impact on those concerns. Our biggest emphasis in the case of these assets is in monitoring proxy voting as described in the third bullet point of the previous section.

Nedgroup Asset Management Funds

For our internally managed assets our aim is to integrate environmental, social and governance (ESG) criteria into all our investment making decisions, in line with our commitment to the Codes for Responsible Investment South Africa (CRISA). Our investment process takes a long term and well considered approach to investing. In this regard, we assess each investment opportunity's merits on a risk adjusted basis. Our risk assessments consider any potential ESG concerns that could in time not only erode returns but could also negatively impact the sustainability of the businesses in which we invest.

In terms of the governance consideration, we assess each proxy form resolution on its merits and vote in the best interest of clients without undue influence from staff, officers, directors or any associated companies within the Nedbank Group. In certain scenarios it may be the case that more needs to be done to protect the interests of investors. In such instances the investment team may need to further engage with the investee companies to address concerns. In addition, the Companies Act of 2008 affords shareholders, owning at least 10% of the voting rights of a company, the right to call a special general meeting of shareholders. Should the investment team assert this right on behalf of its investors, it can propose a variety of resolutions, including removing or appointing directors to manage the company in the best interests of stakeholders.

Cash Solutions

Debt holders do not vote at AGMs, and access to management of issuers is infrequent. This means that the options for fixed income asset owners to be heard are more limited than equity owners. Most of the instruments held in our cash solutions strategies are issued by the biggest four banks in South Africa and thus have high credit ratings, but we are of the view that there is always more to be done in terms of RI. In light of this, we use whatever avenues we can to continually increase ESG into our investment decision-making and are continually seeking new ways to ensure our RI values are reflected in the Cash Solutions portfolios. This includes being vocal when necessary, engaging with issuers and other fixed income managers on ESG best practices, and in certain cases not supporting issuers who do not subscribe to ESG even where their yields may be attractive.

RESPONSIBLE INVESTING GOVERNANCE STRUCTURES

The Nedgroup Investments Responsible Investment Guidelines are given effect through the Nedgroup Wealth Responsible Investment Committee (RIC), which is responsible for driving the overall policy approach to RI across the group.

The RIC includes members from each investment range detailed above and is chaired by the Head of Investments. On a day-to-day basis, the Nedgroup Investments approach to RI is driven through our nominated representatives on the Nedgroup Wealth RIC, supplemented by consultation with the group's RI/ESG specialist.

The nominated representatives have responsibility for driving the overall approach to RI across their respective Nedgroup Investments range, ensuring the guidelines are implemented, as well as providing regular feedback on their progress towards implementation.