

Nedgroup Investments Responsible Investment Guidelines 2023



INTRODUCTION

"It's not just about investing for today, but also for a thriving future world that our clients can retire into."

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.

| 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 | |

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 and environmental outcomes,
- the alignment that RI has with our internal organisational values, and
- the shifting demands of our clients

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 an asset manager, 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™, Multi-Manager and Core (passive) 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. The Nedgroup Investments' Responsible Investment Guideline applies to our actively managed Best of Breed™, Fund of Funds, and Cash Solutions products; as well as our rules-based investing products, the Core Range.

CLIMATE CHANGE

Nedbank Group Ltd have set out clear targets regarding lending into the fossil fuel value chain, and alongside reporting into the Taskforce on Climate-related Financial Disclosures, has set an ambitious pathway for each of the clusters to align with. At Nedgroup Investments, we remain cognizant of a 1.5°C global warming target by 2100, as well as South Africa's pledges into the United Nations Framework Convention on Climate Change.

As of 2023, we do not enforce an exclusionary or divestment approach from our sub-investment managers, instead while celebrating their unique approaches to responsible investing, we champion pragmatic responses and measures from them and the high impact companies they invest in. With both regional and globally focused portfolios, we appreciate the context and evolution of the energy mix required over the short-, medium- and long-term as the world moves from traditional fossil fuels to a cleaner means of energy production.

With the above in mind, via MSCI, we periodically measure and assess the underlying portfolio holdings against their Paris alignment and / or 2050 net zero emission reduction initiatives. By focusing on materiality, we can identify high impact companies and importantly those that are insufficiently mitigating against future physical and transitional climate risks.

KEY SUSTAINABILITY FOCUS AREAS AND THE UN SDGs

Nedgroup Investments have highlighted four key sustainability focus areas for the decade leading into 2030.

1. **Climate Change**
2. **Biodiversity Loss**
3. **Labour & Human Rights**
4. **People Diversity & Inclusion**

The focus areas guide our efforts in several ways. First and foremost is the way we assess our investment portfolios. We aim to periodically review our suite of funds across several key metrics under each of the four sustainability focus areas.

Importantly, the metrics (or data points) need to satisfy the below criteria:

1. They must be material
2. They must be measurable
3. They must be trackable, and
4. If needs be, they must be actionable

Some examples of factors that we capture and track at an investee company level include carbon emissions and Paris alignment (Climate Change), operations near biodiverse sensitive areas and land use (Biodiversity Loss), corporate policies and value chain controversies (Human & Labour Rights), and gender representation and employee diversity training (People Diversity & Inclusion).

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.

REGULATORY BODIES AND MEMBERSHIPS

The Nedgroup Investments RI Guidelines draw on the key elements of the United Nations-backed Principles for Responsible Investment (UN PRI); the requirements of Regulation 28 of the South African Pension Funds Act; the King Codes on Corporate Governance in South Africa; the Code for Responsible Investing in South Africa (CRISA); the European Union Sustainable Finance Disclosure Regulation (SFDR), and the EU Taxonomy Regulation. 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.

Nedbank Wealth became members of the UN PRI in June 2022, with first reporting submissions due in the 3rd quarter of 2023. The motivation to join the body was based on the resources that it provides, the academic training, the ability to leverage the shareholder collaboration platform, and to stay abreast of the latest ESG trends and thinking.

As long-term investors, we believe that incorporating 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.

Considering 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 equal attention to qualitative factors, such as a manager's approach to ESG integration 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 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. Voting records are uploaded quarterly, and importantly we look to provide rationale whenever an 'against' vote has been cast. 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 AND REPORT

2023 saw the third iteration of our annual Nedgroup Investments RI Review. The assessment is not limited to Nedgroup Investments' sub-investment managers, but is also extended to participants in the South African and Global asset management industry. The aim is to advance the RI standing across the full range of Nedgroup Investments' funds, as well as to determine the changing role that ESG factors play in investment decision-making.

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 participating fund managers 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.

Our latest Responsible Investment Report can be found [here](#)

PROXY VOTING

The Nedgroup Investments Proxy Voting [Policy](#) 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 our assets under management with third party managers, we appreciate their individual perspectives and that ESG adoption is not prescriptive. We do however encourage the adoption of locally regarded guidelines such as the King Codes on Corporate Governance and the UK Stewardship Code.

Historically, our policy has been to disclose manager and fund specific voting records to clients upon request, from 1st quarter of 2020 these were made available to the public on our website and fund landing pages. Please see our Proxy Voting Policy documents for further detail, and links to the respective voting policies of our sub-investment managers.

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 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. Additionally where we conduct such implementation in-house, as is the case in the Core Range, we follow a comprehensive analysis to inform our engagements with issuers directly.
- 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. For the Core Range, we have an a proxy voting policy for cases where we directly vote on behalf of clients.
- We emphasize continuous development in the area of responsible investment for ourselves and our appointed external managers.

Multi-managed Fund of Funds

The portfolios within this range adopt a similar RI approach as our Best of Breed range. However, in certain cases, as shareholders 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 where concerns arise. 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 for international component and using an in-house implementation approach for the local component of the Funds.

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 Responsible Investment. 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 specialists.

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.
