# CLUSTER REPORT: SANLAM INVESTMENT GROUP

## About SIG

SIG is one of South Africa's largest investment management businesses. We are deliberately building out the depth and breadth of our capability beyond traditional active management to offer a comprehensive range of local and offshore investment products to end-investors, financial planners and institutions. Investment options include passively and actively managed unit trusts, hedge funds, segregated portfolios and pooled retirement funds. We are strengthening our alternative capability through real assets, with a focus on impact investing.

The cluster consists of the following sub-clusters:

- Sanlam Investments, which acts as the cluster's third-party asset manager
- Sanlam Specialised Finance (SanFin), which is responsible for managing the Sanlam Group's assets and includes the former Sanlam Capital Markets business
- Sanlam Private Wealth
- International

**SIG contributed 11% to the Group net result from financial services and 14% to GEV.**

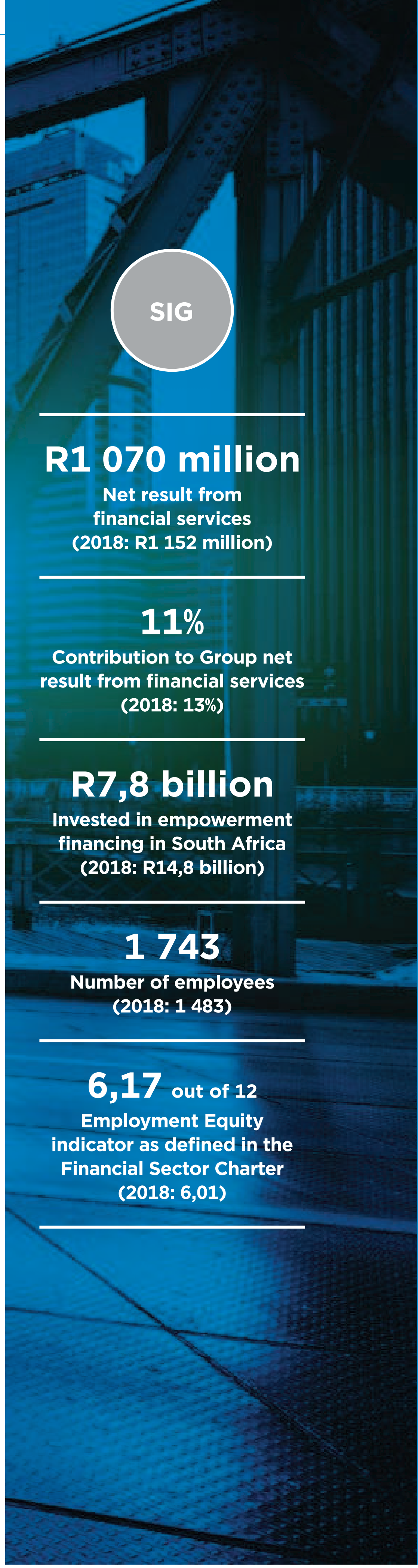
SIG has a leading position in private wealth management in South Africa. It pioneered index-tracking investment capabilities in South Africa with Satrix since 2000. Satrix launched ETFs in South Africa with its flagship Satrix Top 40 ETF. Since then, SIG has launched several new and innovative index-tracking products to meet client needs.

### Key strengths

- SIG's longevity and innovation: we have been around for almost a century and have always successfully adapted to investors' needs. For example, we now use an Artificial Intelligence (AI) and machine learning (ML) investment engine as part of our investment solutions. As part of some of our investment solutions, the predictive investment engine analyses and interprets available data to identify and predict evolving market behaviour to supply improved investment outcomes.
- People, teamwork and values: our employees are driven by passion and actively strive to be transparent and innovative.
- A culture of diversity and commitment to growing SIG's own timber: At SIG, transformation is imperative, and internal programmes help develop tomorrow's black investment professionals and business leaders.
- Our robust, tested and proven pragmatic investment process and philosophy: our performance history highlights the success we have achieved for our clients by committing to our investment philosophy.

### Strategic intent: growing third-party market share

SIG is defending its leading position in private wealth while building on the success in attracting retail fund flows. The cluster focuses on growing corporate and third-party fund flows, where it does not have its fair market share. Improved cost efficiency is a priority. Transforming the employee profile to reflect South African and client demographics is a specific focus area, and supports the corporate and third-party growth initiatives, with specific emphasis on portfolio management. These initiatives are supported by key drivers: digital innovation in the areas of product development, client experience and value proposition, and intermediary service levels. The proposed B-BBEE transaction, whereby Ubuntu-Botho Investments (UB) will be introduced as an anchor investor in SIG's third-party asset management business, will result in the third-party asset management business becoming black owned. This will position it well to attract new institutional mandates.



SIG

**R1 070 million**
Net result from financial services
(2018: R1 152 million)

**11%**
Contribution to Group net result from financial services
(2018: 13%)

**R7,8 billion**
Invested in empowerment financing in South Africa
(2018: R14,8 billion)

**1 743**
Number of employees
(2018: 1 483)

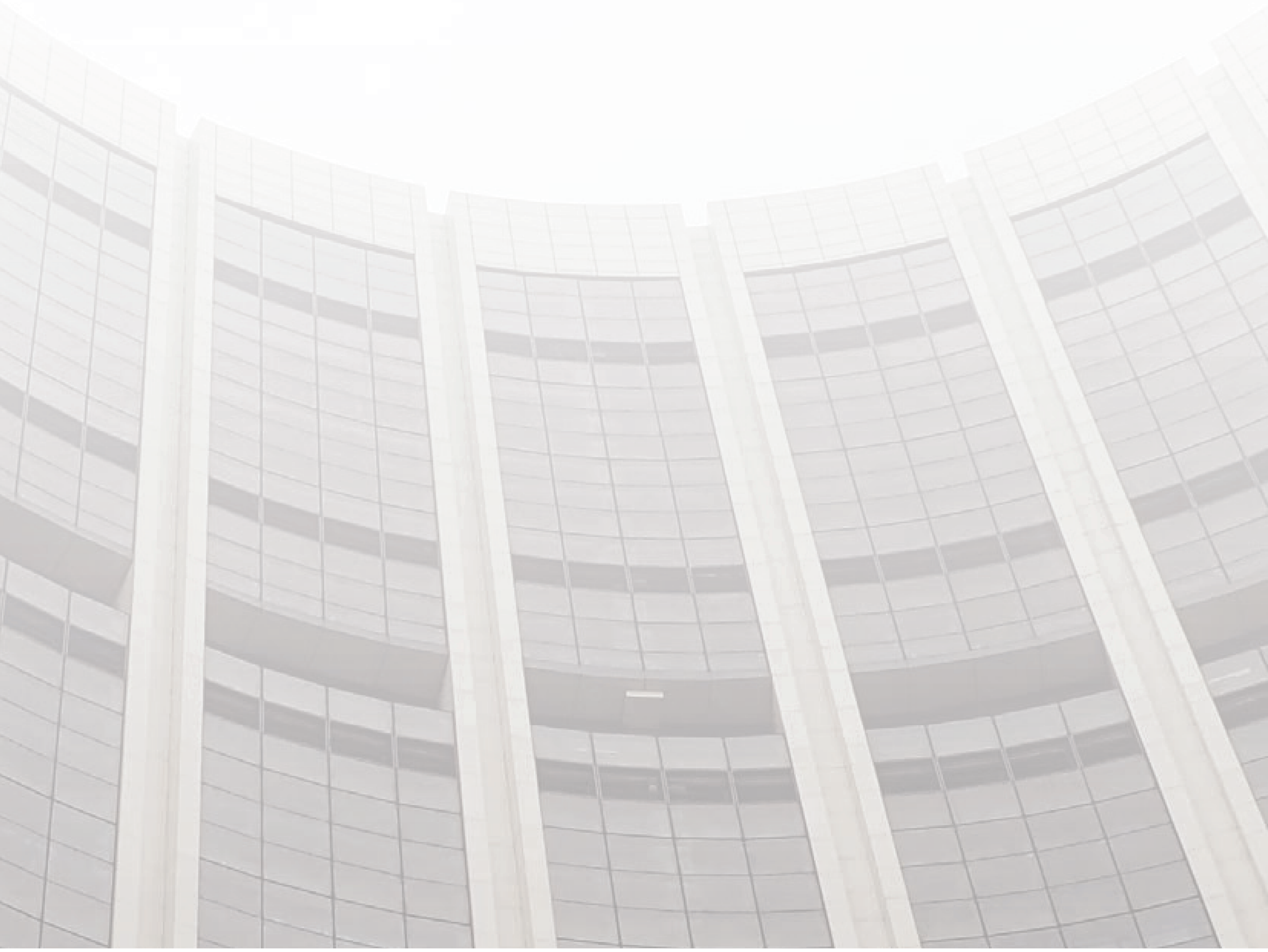
**6,17** out of 12
Employment Equity indicator as defined in the Financial Sector Charter
(2018: 6,01)

## 2019 operational performance overview

The subdued local equity markets for most of the year, ongoing economic uncertainty and subsequent pressure on clients' disposable income placed strain on fee income, the level of assets under management and the profitability of the cluster. Despite the tough environment, record overall net fund flows were achieved in 2019.

Key contributors to the fund flows include Infraworks and the SIM unit trust funds, which reported strong inflows. There was a positive turnaround in the Glacier Invest solution range, which is an important distribution channel for the cluster as it looks to further focus SIG as a third-party asset manager and optimise Group distribution networks. The joint venture with Glacier is also a strong example of effective internal collaboration across the Group that leverages business-wide skills and resources to maximise value for clients. The Alternatives business in particular reported outstanding results, with noteworthy new business inflows and high operating profits. This demonstrates that SIG is focusing its efforts in the right strategic areas to produce real returns for clients.

We are especially proud of our long-term track record of delivery. Over a decade, our moderate and aggressive funds (SIM Top Choice/SIM Aggressive Equity) both beat the Shareholder Weighted (SWIX) Indices convincingly. This puts SIM in the select 15% of managers in South Africa who have beaten their benchmark over the long term. On the institutional side, the SIM Aggressive Fund has dominated the rankings over a three-year period and is in the top quartile over 10 years. On the retail side, the SIM Top Choice and SIM General Equity funds are both in the top 15 retail funds in South Africa when measured over the past decade.



We continue to recognise the quality of our line managers as one of the single biggest factors to ensure our long-term success. In 2019, we launched a new Leadership in Action Line Manager Programme as well as a graduate programme to establish a diverse talent pipeline of young people who will become future leaders and fill scarce and critical roles in the business.

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| **Sanlam Investments** | The South African investment management business is seeing the benefits and extracting synergies from the separated Sanlam-focused and third-party investment model in South Africa. This is evident in terms of its ability to service Sanlam, which benefits from lower costs and an aligned distribution force.<br><br>Sanlam Investments recently launched Sanlam Smart Invest, a free-to-use enhanced digital investment and transactional platform that will help new and current investors achieve their financial goals. Smart Invest equips clients with tools and guidance tailored to their specific investment goal and to learn more about money basics. The user experience is uniquely geared to any beginner investor and requires little or no investment knowledge. Underpinning the entire system is an industry-leading Artificial Intelligence Marketing Automation platform that enables Sanlam Investments to track and engage with potential clients in real time and monitor client behaviour. Significantly, Smart Invest is one of the first Sanlam platforms to build a collaborative Sanlam experience for clients, regardless of the product they buy. |
| **Sanlam Specialised Finance (SanFin)** | SanFin continued to build its corporate credit management capabilities in the current challenging economic and credit markets. The business increased provisioning in respect of certain corporate credit exposures, detracting from SanFin's net result from financial services. |
| **Sanlam Private Wealth** | Sanlam Private Wealth has significant equity market exposure, which has impacted earnings growth in recent years. On a positive note, the sub-cluster made solid progress to stabilise and upgrade its aging IT infrastructure and systems. This will enable improved service delivery to clients. |
| **International** | Returns from the UK operations remain low despite seeing improved internal flows. Management reviewed the UK strategy during the year and remains focused on streamlining this business through vertical integration and by optimising distribution. This includes outsourcing functions where possible.<br><br>Achieving scale remains key and some acquisitions were concluded during the year. Most notably, the Thesis Group was acquired in the second half of 2019 and will augment the scale of the Group's private wealth, advice and asset management operations in the UK. Management's focus is now on bedding down these operations with no further acquisitive growth to be considered in the short term. |

Read more about SIG's financial performance in the Financial Review from page 79.

## Recognising the value of responsible investment

> SIG's intention is to play a strategic part in securing a sustainable future for South Africa and all those who live in it. We nurture and grow clients' wealth while making a meaningful contribution to the transformation, growth and development of the country's economy and society.

Our investment philosophy is based on rational decisions and thorough research, which informs our position as a value investor focused on the long term.

By taking the long-term view, we recognise that non-financial issues may play a greater role in our valuations. These issues typically relate to the quality of companies' relationships with their broader stakeholders and their responsible stewardship of natural resources, as well as their own governance approach. Accordingly, we embed sustainability into our core investment process to better understand the potential for companies to deliver their cash flows into the future. This entails broadening and extending investment horizons guided by our responsible investment policy.

"We want to be part of the long-term solution in South Africa. To be a key player in solving collective challenges to afford a better life for all people in this country. For us, this means empowering people to retire with dignity, providing access to financial services to underprivileged markets through affordable investment, and continuing to pursue opportunities in the real economy – especially those with a strong impact on society.

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| We subscribed to the Code for Responsible Investing in South Africa (CRISA) in 2011 and are committed to integrating the five principles into our investment approach. | ✓ |
| We subscribe to the United Nations Principles for Responsible Investments (UNPRI), upon which CRISA is based. We annually assess our policy framework and implementation against the CRISA principles to compare our progress with that of our international peers. | ✓ |
| In 2006, we formed the Corporate Governance Unit (CGU) committee to drive the implementation of our governance responsibilities on behalf of clients. This includes considering and incorporating environmental, social and governance related principles and data into non-equity investment processes. | ✓ |

Impact investments are made into companies, organisations, vehicles, and funds with the intent to contribute to measurable positive social, economic and environmental impact alongside financial returns. The Global Impact Investing Network 2019 survey identified the main impact investing trend as asset allocation to energy, microfinance and other financial services. We have played a part in each of these key areas as well as across the broader impact investment spectrum.

We focus on the following impact investment categories, which provide alternative sources of return to reward investors for risk:

- Affordable housing
- SMME Financing
- Job creation
- Healthcare
- Education
- Sustainable agriculture
- Infrastructure and development
- Renewable energy

## Case study: A global climate fund partnership

Climate Investor One was launched in partnership between FMO and Sanlam InfraWorks in 2017. The facility also enjoys support from the EU through its External Investment Plan, as well as cornerstone support from the Ministry of Foreign Affairs of the Netherlands, the Nordic Development Fund (NDF) and USAID's Power Africa programme.

Climate Investor One has a mandate to invest in clean energy projects in emerging markets. With the support of broad public and private sector commitment, Climate Investor One has been able to mobilise commercial funds to reach $US850 million.

Climate Investor One comprises two separate, but operationally linked funds:

- The Climate Investor One Development Fund is mandated to provide development loans to fund the early stage development of a project lifecycle.
- The Climate Investor One Construction Equity Fund is mandated to finance the construction stage of a project's lifecycle with an all equity solution.

The funds are structured with a 15-year investment period with a mechanism to recycle capital. Cash flows received by the fund via repayment of development loans will be reinvested in additional projects over the course of the 15-year investment period. This recycling of capital mechanism enables a greater number of projects to become operational, in a faster time and through the same commitment of capital by investors, resulting in a greater global societal and environmental impact.

Climate Investor One is invested in the development of a number of projects, with two assets having received construction financing: Cleantech Solar, currently a 116MW pan-Asia Corporate and Industrial rooftop solar platform, and Africa Hydro Holdings, a 42MW run-of-river hydro platform in Uganda.

Climate Investor One gives our clients the opportunity to invest in a fund that has a positive impact on the environment, while benefiting from the unique profile of an asset class that delivers long-term assets to meet the long-term cash-flow needs of clients.

## Transparency on proxy voting and engagement activity

Since 2010, the number of shareholder meetings SIM votes at varies seasonally between 40 and 90 per quarter. Of those, 74% are annual general meetings. Over the nine years, the number of resolutions per meeting increased due to unbundling, with an average of up to 1 300 resolutions per quarter. Over the period, SIM voted against 10% of resolutions, of which 94% were approved by meetings. Of those not approved, some resolutions were withdrawn.

SIM's reasons for declining resolutions are mostly related to remuneration and limiting general access to capital. SIM declined 25% of remuneration resolutions, which are 25% of all resolutions. Reasons for declining remuneration resolutions relate mostly to policy where inputs are prioritised over outputs, and a preference for incentive rather than retention schemes. Since 2011, SIM's reasons for engagement have mainly been on remuneration arrangements, followed by malpractice and performance.

SIM's proxy voting disclosure per resolution, responsible investment approaches and annual responsible investment report are available on www.sanlaminvestments.com

## Strategic short to medium-term opportunities

- Continue to develop capabilities in the alternative space.
- Look for opportunities to increase scale.
- Exploit the value of Group-wide collaboration to make better use of capabilities within the cluster.

## Resilience focus areas


*www.sanlam.com/investorrelations/sustainability/*