ANNEXURE B

GEPF

your investment, your future

GEPF RESPONSIBLE INVESTMENT POLICY

2017

The Government Employees Pension Fund (GEPF), through its Responsible Investment Policy, commits to the following actions. This Policy Statement contains the GEPF's policy to integrate environmental, social and governance (ESG) issues in investment decisions and ownership practices. It includes the GEPF's commitment to address socioeconomic imbalances through support for the Financial Sector Charter and other industry-specific Black Economic Empowerment Charters and the financing of B-BBEE initiatives. It defines the institutional framework and basic strategies for implementation-related activities. The Policy Statement defines how the GEPF will act as a responsible investor in a manner consistent with its views on ESG issues. This policy should be read in conjunction with the GEPF Proxy Voting Guidelines & Principles and the GEPF Engagement Policy

THE TABLE BELOW OUTLINES THE KEY TERMS AND THE RELATED DEFINITIONS OF THE FUND'S RESPONSIBLE INVESTMENT POLICY

Key Terms	Definitions
ESG	Acronym for Environmental, Social and Governance. This refers to a broad definition of sustainability which includes economic, social and environmental factors that affect current and future generations. These include but are not limited to climate change, pollution, labour matters and remuneration. Refer to 2.1.1 to 2.1.3 on page 7 for detailed information on ESG aspects.
ESG Working Committee	The working group of the Fund and the Public Investment Corporation (PIC) that is responsible for responsible investment and ESG matters.
Materiality	Materiality is the relevance and importance placed on context-specific identified topics, themes, issues and factors that have a direct or indirect impact on the Fund's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.
Passive investment	Passive management (also called passive investing) is an investing strategy that tracks a market-weighted index or portfolio.
Responsible Investing	Responsible investing is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.
Responsible Investment Management Framework	A framework for operationalising and managing the responsible investment policy and associated guidelines.

Preamble

This policy provides an understanding of the rationale, objective and scope for the GEPF's establishment and implementation of a strategy to integrate environmental, social and governance (ESG) issues in investment decisions and ownership practices. GEPF as a founding signatory to the United Nations Principles of Responsible Investing, has committed to:

1. Incorporate ESG issues into investment analysis and decision-making processes;
2. Be active owners and incorporate ESG issues into the Fund's ownership policies and practices;
3. Seek appropriate disclosure on ESG issues by the entities in which the Fund invests;
4. Promote acceptance and implementation of the Principles within the investment industry;
5. Work together with other signatories to enhance the Fund's effectiveness in implementing the Principles; and
6. Report on activities and progress towards implementing the Principles.

The GEPF's commitment is informed by the beliefs that:

- Sound environmental management forms an essential part of sustainable economic growth and social development – the basic ingredients for corporate sustainability.
- The mismatch between social and private financial returns is not sustainable as the two need to be aligned if the market system is to be sustainable.
- Enhanced governance mitigates risks of total corporate failure, which ultimately leads to enhanced long-term returns.

The GEPF is also committed to addressing socio-economic imbalances in South Africa through support for the Financial Sector Charter, other industry-specific Black Economic Empowerment Charters, and the financing of Broad-Based Black Economic Empowerment (B-BBEE) investments. The Fund is committed to making investments that can help to address gaps in economic development and job creation, particularly transformational infrastructure projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources.

Table of contents

1. Rationale, objective and scope

Responsible investing is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. The momentum around responsible investment is driven by:

- recognition by the financial community that ESG factors play a material role in determining risk and return;
- understanding that incorporating ESG factors is part of investors' fiduciary duty to their clients and beneficiaries;
- concern about the impact of short-termism on company performance, investment returns and market behaviour;
- legal requirements protecting the long-term interests of beneficiaries and the wider financial system;
- beneficiaries becoming increasingly active and demanding transparency about where and how their money is being invested;
- value-destroying reputational risk from issues such as climate change, pollution, working conditions, employee diversity, corruption and aggressive tax strategies in a world of globalisation and social media.

Within pension funds, this approach frames active, considered voting of shareholdings and engagement with companies when issues of concern have been identified, as fundamental to fiduciary duty. ESG matters cannot be addressed effectively without detailed policy, implementation procedures, and performance monitoring, and pension funds cannot be held accountable on these matters by their stakeholders without adequate transparency. Such an approach is integral to maximising long term stakeholder value as well as addressing any underlying ethical concerns regarding investment behaviour.

1.1 The GEPF's approach to of Responsible Investing and its objective

The GEPF was established under the Government Employees Pension Law, 1996 to manage and administer pension matters related to eligible employees of the Government of the Republic of South Africa. The GEPF is a vehicle through which government employees and pensioners can improve their financial security, and has a mission to effectively manage and invest member assets to meet current and future liabilities. The GEPF believes that it can achieve these objectives by ensuring that ESG issues are integrated into investment decisions and ownership practices. A number of key factors support this belief, as presented in the investment case for responsible investment below, and are important in defining the GEPF's strategy.

The overarching objective of the GEPF's strategy to integrate ESG issues into investment decisions and ownership practices, is to protect and enhance the long-term value of the GEPF's investments.

1.2 Scope of the Responsible Investing Policy

The GEPF takes a portfolio-wide view on ESG issues. The policy of integrating ESG issues in investment decisions and ownership practices applies across the GEPF's investment portfolio, which includes equities, fixed income securities and property. The GEPF's Responsible Investment Policy statement is forward-looking. Its implementation takes place through a number of steps and may evolve with the market's changing understanding and increasing awareness of the relevance of ESG issues.

2. Investment Case for Responsible Investment

The investment case for responsible investment is made through four principles:

- the GEPF's investment beliefs which are linked to the duty to consider ESG issues,
- the link between responsible investment and the Fund's investment strategy,
- a broader responsibility to consider corporate governance for responsible investment to encourage change,
- addressing imbalance in socio-economic development.

2.1 GEPF's Investment Beliefs

The GEPF's investment beliefs support the Fund's responsible investment policy objectives. Through its investment beliefs, the Fund recognises its role in society, specifically the commitment to:

- Integrate ESG factors into its investment policies for the long-term sustainability of the Fund;

- Recognising that the Fund's investments should play a developmental role in the South African and African economy; and

- Taking cognisance of societal inequality and its negative effect on the economic system in which investors participate, and the world in which GEPF members and beneficiaries live.

ESG issues are important to society and in the investment context. The manner in which institutional investors manage ESG issues has important implications for the creation or destruction of value, over the long term.

ESG has many aspects which are continually shifting depending on the context in which they are applied. In the South African investment context, material ESG issues include, but are not limited to:

2.1.1 Environmental aspects such as

- Climate Change
- Pollution and waste management
- Resource depletion (water and others)
- Greenhouse gas (GHG) emissions
- Energy

2.1.2 Social aspects such as

- Working conditions, including forced labour and child labour
- Local communities human rights,
- Conflict
- Health and safety, especially HIV / AIDS
- Human capital issues including employee relations, skills development
- Broad-based black economic empowerment (B-BBEE) and diversity

2.1.3 Governance aspects such as

- Remuneration
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategies

The GEPF believes that integrating ESG issues in investment decisions can assist in creating more ethical companies and ultimately offer improved long-term risk-adjusted returns. According to the GEPF's investment policy, the GEPF's assets are invested to deliver optimal returns at acceptable levels of risk. The Board of Trustees of the GEPF are the fiduciaries entrusted with the achievement of the investment objectives.

It is a fundamental principle that trustees, as fiduciaries must at all times act with the utmost good faith and in the best interests of the Fund and its beneficiaries and with the proper degree of prudence, skill, care and diligence.

In addition, the Trustees' fiduciary duty requires striking a balance in acting in the best interests of both present and future beneficiaries. Prevailing and anticipated future economic realities must be taken into account when determining whether an investment decision is justified. Integrating ESG issues into investment analysis and decisions enables decision makers to more reliably predict the long-term performance of a particular business entity.

Trustees also have a fiduciary duty to exercise their ownership rights and responsibilities so as to signal concerns and encourage change where they believe it necessary to protect the investment value over the long-term in entities in which their fund has an interest – thereby enhancing the fund's ability to meet current and future liabilities.

These fiduciary duties are at the forefront of all decisions the GEPF takes and Trustees endeavour to reflect them. As fiduciaries, Trustees have a duty to act on their views on the materiality of ESG issues and to do so according to a strategy aimed at enhancing and protecting the GEPF's portfolio investment value.

The ESG issues deemed material to the Fund will be recommended to the Trustees through a GEPF-PIC ESG Working Committee which will determine materiality as guided by a Responsible Investment Management Framework. The ESG issues will take a long term view i.e. a 3 year to 5 year horizon.

2.2 The importance of Responsible Investment considering the nature and investment strategy of the Fund

There are four features of the GEPF and its investment strategy which make the Fund particularly sensitive to ESG considerations:

2.2.1 The GEPF is a long-term investor and therefore has to consider the impact of its investment decisions over the long term.

2.2.2 The Fund's investments are broadly diversified across the South African economy.

2.2.3 A large proportion of the investments are held in publicly listed equity, and a significant part of the portfolio is managed according to a passive investment strategy.

2.2.4 The GEPF is the largest retirement fund in South Africa and one of the largest in the world. As a large investor, the Fund has the capacity to make a significant difference through its investment decisions. The Fund therefore has a responsibility to consider the consequences of its investment decisions carefully.

The diversified nature of GEPF's portfolio means that the Fund has exposures to every economic sector. The Fund therefore has to consider ESG issues across its entire portfolio, as issues that are externalised in one portion of the portfolio are likely to reappear in another. Because a large component of the GEPF's portfolio is invested according to a passive investment strategy, the Fund cannot easily disinvest from one entity or sector and invest in another. This makes it difficult for the GEPF to avoid potential investment risks that may arise as a result of poor ESG management in its investee companies. It is therefore in the Fund's interest to ensure that its investee companies adhere to good corporate governance, and responsible environmental and social practices.

2.3 Responsible Investment and Corporate Governance

The GEPF believes that company boards, directors and managers must be accountable and take full responsibility for the consequences of their decisions. Through its financing and ownership of significant stakes in these entities, the GEPF believes that it also has a responsibility to consider whether the entities act in ways that protect investment value over the long term.

In order to exercise the Fund's ownership rights and privileges, the Fund is responsible for signalling concerns and encouraging change where necessary in the entities it owns. The Fund monitors how its investee companies manage ESG issues and signal and encourage change in a considered manner. Where deemed beneficial the Fund exercises its ownership rights and privileges. Responsible investment remains an imperative so that the GEPF may not only enhance and protect its investment value, but also encourage responsible business practices. It is therefore important for the GEPF to play a role in active ownership.

2.4 Addressing socio-economic imbalances

As a large investor managing the pensions of eligible current and past employees of the government of South Africa, the GEPF plays a role in addressing some of the pressing socio-economic challenges South Africa faces. These include, amongst others, poverty, extreme economic inequality and transformation. The GEPF believes that its participation in addressing these challenges will be beneficial for South Africa's future economic and social wellbeing. This will in turn yield significant benefits for the long-term prospects and investments of the GEPF. The GEPF pursues a number of socio-economic objectives relating to transformation through:

2.4.1 Specific investment mandates that encourage the creation of skills among Black South African asset managers;

2.4.2 Investment allocations to investment vehicles that advance B-BBEE;

2.4.3 Investments in asset classes targeted at delivering financial and social outcomes for previously disadvantaged members of South African society.

The allocations are significant and the GEPF is committed to making ongoing investments that target socio-economic development. Such investments must remain balanced and consistent with GEPF's duty to deliver optimal investment returns over the long term at acceptable levels of risk, in the interest of its stakeholders.

3. Laws and Guidelines that Inform the Fund's Responsible Investment Policy

The legislation and industry codes on which this policy is based are:

- United Nations Principles for Responsible Investment (UNPRI)
- The Government Employees Pensions Law
- The Code for Responsible Investing in South Africa (CRISA)
- Regulation 28 of the Pension Funds Act
- The Financial Sector Charter (FSC)
- King III Code of Corporate Governance

4. Overview of the GEPF's Responsible Investment Policy

The framework for the policy adopts international best practice guidelines as represented in the United Nations Principles for Responsible Investment. The four pillars addressing responsible investment are:

4.1 ESG investing; addressing the following

- Internal reporting
- Recording research undertaken
- Developing tools to formalise integration of ESG in investment decisions
- Research and training for identified stakeholders

4.2 ESG engagement; addressing the following

- Performance reviews of engagement practices
- Recording proxy voting and engagements
- Assisting with asset managers meeting preparation and disclosure
- Providing the investment case for improved ESG practices through engagement

4.3 Industry collaboration; addressing the following

- Knowledge sharing
- Stakeholder research to identified industry bodies
- Providing support to aligned stakeholder groups
- Engaging with industry on identified ESG topics

4.4 ESG reporting; addressing the following

- Benchmarking and feedback
- Public and internal reporting
- Developing data extraction and analytical tools
- Transparent reporting feedback

5. GEPF approach to responsible investing for long-term value

In order to achieve the objective of responsible investment i.e. ESG integration, engagement, industry collaboration and reporting, a roadmap of strategies, processes and policies are provided in the table below. While reporting responsibilities are numerous and are defined in a separate section, the table illustrates the ways in which integration, engagement and industry collaboration are addressed to demonstrate long-term value creation for the Fund.

	Integrate ESG into Investment Decisions	**Actively Engage as Owners**	**Make an Impact Through Collaboration**
Implement focused strategies	All GEPF investments integrate material ESG factors into their due diligence, investment analysis, monitoring and asset management.	GEPF acts as a constructive, active owner by advocating for progress on GEPF defined engagement focus areas and exercising the GEPFs voting rights as shareholders.	GEPF collaborates with other global investors to advocate for better performance on ESG factors in companies and markets in which the Fund invests.
	In-House ESG Professionals	**Research**	**ESG Approach and Processes**
Dedicate resources and processes	GEPF professional in-house policy and mandate monitoring of Responsible Investing activities of asset managers supporting ESG integration, engagement and proxy voting.	Our asset managers undertake responsible investing activities in conducting and reviewing ESG research into sectors, companies, issues, standards and best practices.	The ESG Working Committee reviews current and emerging ESG best practices to continually develop and refine how the GEPF considers ESG.
	Policy on Responsible Investing	**Proxy Voting Guidelines & Principles and Engagement Policy**	**ESG Working Committee**
Establish governing policies	Establishes how GEPF approaches ESG factors within the context of mandates to maximize long-term investment returns without undue risk of loss.	Establishes how GEPF will exercise voting rights and advance responsible shareholder practices as owners in public companies. RI in unlisted investments is achieved using Key Development Indicators.	GEPF's ESG Working Committee recommends all ESG-related matters to the Board through INV-C for noting or approval.

Guided by the United Nations-supported Principles for Responsible Investment

The GEPF provides feedback on the Responsible Investment activities to the Board through the Investment Committee on a regular basis (at least quarterly). More information is provided in the Responsibilities and Reporting section.

5.1 GEPF expectations of asset managers regarding different asset classes

As the scope of the policy covers all asset classes, the Fund's expectations of asset managers with regard to ESG considerations is demonstrated in the table below. This includes how ESG should be integrated within

- equities,
- fixed income,
- property,
- alternative investments (including private equity and infrastructure), and
- foreign investments.

Equities	Asset managers should make use of ESG - related tools, metrics, and analysis to develop a better understanding of ESG risks and opportunities when assessing individual companies and constructing portfolios.
	GEPF has a requirement that managers integrate ESG issues into active ownership practices.
	Research is encouraged into the construction of indices where constituents' weights are influenced by ESG criteria.
Fixed Income	Asset managers need to consider ESG factors when evaluating the credit risk of corporate bonds, especially for bonds that are illiquid. ESG issues should be considered when setting debt covenants. Asset managers need to consider country specific ESG criteria when evaluating sovereign debt.
Property: direct and shares in property companies	GEPF requires appropriate due diligence on direct property investments which includes an analysis of ESG risks and opportunities. Environmental impact assessments are also required. In the construction and development phase, it is required that assessments of energy and water efficiency strategies are undertaken so as to reduce future maintenance and resource costs, and to protect against cost of potential regulatory changes requiring retrofitting and refurbishment. Where properties are already developed, asset managers are required to consider the long-term financial benefits of retrofitting and

	refurbishment to improve water and energy efficiency. This is especially relevant given the long-term and illiquid nature of these investments.
	Asset managers managing property shares (property unit trusts, property loan stock and Real Estate Investment Trusts (REITs), whether listed or unlisted, need to engage actively with property management and asset management companies around the material ESG issues raised above in respect of their direct property holdings.
Alternative investments including private equity and infrastructure	Asset managers must conduct thorough due diligence before investing and should consider material ESG issues as part of the due diligence process. The GEPF is committed to monitoring and understanding the ESG risk exposures in alternative investments. It is a requirement that the GEPF will seek disclosure from alternative investment managers around ESG risks for both new and existing deals.
	Asset managers managing private equity investments are expected to actively engage in ESG issues so as to positively influence long-term company performance.
	Environmental risk can be significant for infrastructure assets, based on their location and the type of asset. GEPF requires its asset managers to understand the expected environmental and social impacts on assets during investment analysis and decision making.
Foreign investments	When investing offshore, asset managers are required to consider the ESG criteria of the country in question when evaluating the investment case for listed or unlisted entities and sovereign debt. This is especially relevant for investments in emerging markets.

5.2 GEPF expectations of asset managers regarding active ownership and engagement

The GEPF's expectations in this regard are outlined in the Fund's Proxy Voting Guidelines & Principles and its Engagement Policy. The GEPF requires asset managers to vote on proxies, and to engage actively with management and directors of investee companies on material ESG issues.

5.2.1 GEPF requirements regarding proxy voting

Proxy voting is a minimum requirement, although the Fund prefers to combine proxy voting activities with corporate engagement activities. If an asset manager has voted against a resolution, there should be subsequent engagement. Proxy voting should be consistent with engagement activities.

Asset managers are required to have a proxy voting policy that aligns to the relevant standards of corporate governance and applicable legislation. At a minimum, the policy must be consistent with King III Code on Corporate Governance, the corporate governance provisions in the Companies Act 71 of 2008, Regulation 28 of the Pension Funds Act 1956 and the JSE listing requirements. As with all policy documents, it must be a living document that is reviewed periodically in line with changes in legislation or specific trends. Asset managers are required to submit the results of proxy votes to the GEPF quarterly. The GEPF delegates asset management to multiple asset managers, and recognises the risk of conflicting proxy votes and engagement activities. The GEPF commits to monitoring voting and engagement activities and endeavour to ensure that they are carried out consistent with the Fund's guidelines.

5.2.2 Engagement with company management

The GEPF has an engagement policy which sets the expectations and mandates for engagement with company management. The GEPF will review the Engagement Policy periodically and in line with changes in legislation or specific trends. The GEPF also requires asset managers to have an engagement policy that describes the appropriate process for engagement and outlines a set of minimum requirements for investee companies. The policy must be a living document that is reviewed periodically. The GEPF encourages asset managers to meet regularly with company management on operational and company specific issues, as well as on ESG issues. Where a problematic ESG issue arises, the Fund prefers asset managers to effect positive change by engaging constructively with company boards and management in a non-public manner. However, if there is no progress over an extended time period, asset managers should seek opportunities to collaborate with co-investors on material issues as a means to drive change, at the same time ensuring that conflicts of interest and issues relating to "acting in concert" are appropriately addressed.

Asset managers are also required to:

- Engage in a way that is consistent with proxy voting activities;
- Factor in the responsiveness of companies to engagement when doing an investment analysis; and
- Provide the GEPF with a quarterly report summarising the engagement activities conducted.

In addition, the Fund requires asset managers to have a policy on managing conflicts of interest. The Fund commits to monitoring the extent to which asset managers are engaging with the companies in which they invest and the effectiveness of their voting activity. The Fund's asset managers should consider the principles above during engagement activity and proxy voting. These expectations are a guideline and are not exhaustive.

6. Responsibilities and Reporting

The GEPF Board of Trustees is committed to public transparency of the responsible investment activities by making this policy available to the public, providing disclosure of the Fund's proxy votes, producing an annual report on Responsible Investing which provides a review of the Fund's activities; and submitting an annual Responsible Investment report to the UNPRI. The UNPRI will in turn publish a responsible investing report that will be available on its website. The reporting activities of the Fund's ESG Working Committee will report to the Executive Committee and any updates or changes will be communicated to the Board of Trustees by the Investment Committee of the GEPF.

Companies should comply with all applicable accounting standards. Aside from traditional financial information, the Fund expects companies to report on sustainability and ESG issues. The range of ESG issues reported on may vary from company to company. The Fund supports the UN PRI and Global Reporting Initiative guidelines framework for reporting on these issues. It is considered good practice for companies to report on their organisational integrity and code of ethics. Companies are also expected to report on their commitments to transformation and B-BBEE.

RECOMMENDATION

It is recommended that the Board of Trustees approves the Responsible Investment Policy.

APPROVED / NOT APPROVED

DR RD MOKATE
CHAIRPERSON: BOARD OF TRUSTEES
GOVERNMENT EMPLOYEES PENSION FUND
DATE: 2017-11-16