THE LA RETIREMENT FUND
(The Fund)

RESPONSIBLE INVESTMENT POLICY SUMMARY

Last updated August 2024

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INTRODUCTION

The Board of Trustees is entrusted with the stewardship of the Fund members' long term savings. We have been active stewards of member capital for more than 70 years and have incorporated an ethos of responsible and sustainable investment into our Investment Policy since 2016 when the Fund became a signatory of the United Nations Principles of Responsible Investing (UNPRI) Whilst the Fund is no longer a signatory, the Trustees still support the UNPRI's global best practice responsible investment guidelines and principles. The Trustees also endorse the Code for Responsible Investing in South Africa (CRISA 2).

The Trustees are committed to continuous enhancement and improvement of the Fund's approach towards responsible and sustainable investment. It is the goal of the Trustees to continue to be a leader in sustainability among retirement Funds.

The core objective of Responsible Investment (RI) is to act in the best interests of the Fund's members. By recognising that environmental, social and governance (ESG) factors can influence both investment risk and return, the Trustees consider them in all investment decisions. Protecting and enhancing financial returns by incorporating such factors is consistent with our fiduciary duty.

Environmental Factors:

Environmental factors are paramount to sustainability. Climate change, deforestation, pollution, water use, waste management, energy efficiency and carbon emissions are all examples of environmental factors that we consider as part of the Fund's RI framework.

Social Factors:

Social factors such as human rights, community impact and employment, working conditions, health and safety standards, anti-corruption, empowerment of minorities or previously disadvantaged groups, poverty, poor education, and modern slavery are considered within our RI framework. Economic sustainability and long term growth will be determined by the ability of asset owners such as the Fund to address social issues and to direct capital towards investments that yield superior long term risk adjusted returns but which also have a positive social impact.

Governance Factors:

Factors such as anti-corruption, alignment of interest, executive compensation, board independence and strength, shareholder's rights, data security and privacy and ethical conduct are considered within our RI framework. A focus on good governance will promote healthy corporate management. Proxy voting and management engagement via the Fund's appointed investment managers are two tools which are used to address governance issues (promote improved governance and address issues such as tax avoidance, executive pay and corruption). Proxy voting and management engagement are effective in forcing change in the companies in which our appointed investment managers invest.

Regulation 28, promulgated in terms of the Pension Funds Act, makes it clear that RI is not only consistent with the Board's fiduciary duty, but is in fact a core element of good governance for retirement Funds in South Africa. Regulation 28 states:

"a Fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of Fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the Fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a Fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a Fund in a stable and transparent environment."

Regulation 28 currently does not provide detailed instructions on how to include RI concepts in the investment decision-making process. The UNPRI provides guidance material on key ESG issues that are considered by the Board (https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues). This ensures that the RI policy remains up-to-date on key ESG issues.

The Financial Sector Conduct Authority (FSCA) Guidance Notice 1 of 2019: sustainability of investments and assets in the context of a Retirement Fund's Investment Policy Statement (IPS) provides guidance to Trustees of Retirement Funds on how a board's investment philosophy, as encompassed in its IPS, aims to ensure the sustainability of its investments and assets. It also sets out the FSCA's expectations regarding disclosure and reporting on issues of sustainability.

The Fund meets such requirements:

- The Fund has implemented this standalone RI Policy which is reviewed at least annually;
- The Fund communicates the RI Policy (in summary form) on the Fund's website. This detailed RI Policy is accessible by any member of the Fund, upon request, from the Principal Officer;
- Before making any investment, the Trustees consider any factor which may materially affect the sustainable long term performance of the Fund's assets including, but not limited to, those of an environmental, social and governance (ESG) character;
- The Fund has implemented a Proxy Voting Policy;
- ESG is a standard agenda item on every Board of Trustees meeting agenda;
- As part of the Fund's RI project framework, the Fund continuously considers best practice in terms of the adoption of sustainable reporting practices; and
- In the context of considering social factors, the Fund also considers the broad based black economic empowerment (BBBEE) of the investment managers who manage the Fund's assets.

This RI policy provides the Fund with a dynamic framework within which to make informed, prudent, long-term investment decisions taking into account RI factors. This policy will be updated regularly with the Fund's current status and adjusted to align with the Fund's needs and objectives.

Evidence of the Fund's ability to yield superior risk adjusted returns over the long term is encapsulated within our superior performance versus our respective peer groups. Such outperformance is supported by investments that the Fund has made as a result of the responsible investment approach which has been adopted by the Trustees.

DEFINITIONS

- **"Responsible Investment" (RI):**

  RI describes the investment management processes and ownership practices that take environmental, social and governance (ESG) considerations into account in the belief that these factors can have an impact on long-term financial performance.

- **"Sustainability":**

  As per the FSCA's guidance notice 1 of 2019, "sustainability" means the ability of an entity to conduct its operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs.

- **"Sustainable Reporting":**

  As per the FSCA's guidance notice 1 of 2019, "sustainable reporting" means a report produced by an entity to inform stakeholders about its policies, programmes and performance regarding ESG factors.

- **"Environmental, Social and Governance Factors":**

  As per the FSCA's guidance notice 1 of 2019, "Environmental, Social and Governance" (ESG) factors means environmental, social and governance factors. In the South African context these factors include, but are not limited to, the manner in which broad based black economic empowerment is advanced.

- **"CRISA" and "CRISA 2":**

  The Code for Responsible Investing in South Africa (CRISA): a list of five principles for RI specifically, in line with UNPRI, aimed at the South African investment community. CRISA2, the updated Code replaced CRISA in September 2022.

- **"King":**

  The King report: report on governance principles for South Africa. The current version (since 2017) is King IV.

- **"UNPRI":**

  The United Nations-backed Principles for Responsible Investment (UNPRI): a list of six principles for RI defined by the international investment community.

INVESTMENT BELIEFS

As a Board of Trustees, we are of the opinion that the integration of RI into investment decision making does not contradict the objectives of maximising financial returns but is rather based on the argument that including ESG factors into our decision making process improves our risk management process and the chances of more sustainable long term returns.

Research indicates that RI integration into our investment process is in the long-term interest of our members and the wider society. We are and aim to continue to be a leader in the South African retirement fund industry in terms of being an active responsible investor. Our commitment and approach to being a responsible investor is underpinned by this RI policy.

A six-pronged approach guides the Fund’s investment work and priorities:

- RI integration;
- Listed equity active ownership;
- Investing for impact;
- Investing thematically;
- Collaboration; and
- Continuous Trustee training.

RI Integration

The role of the Trustees is to develop a RI framework for the selection, appointment and ongoing monitoring of the investment managers who manage assets on behalf of the Fund. This RI framework needs to ensure that the Fund appoints investment managers who actively incorporate RI into their investment decision-making process to ensure superior, sustainable long-term risk adjusted returns. The RI framework needs to ensure that the RI policies of the appointed investment managers aligns with that of the Fund, that the appointed investment managers are mandated to manage the Fund’s assets in line with the Fund’s stated RI Policy, and that the investment managers report on RI activities with enough transparency to allow the Fund to monitor adherence to these polices.

The RI framework requires RI integration into the investment process across asset classes:

- **Fixed Interest**

  The Fund requires the appointed fixed interest investment managers to, where relevant, integrate RI into their assessment and valuation of bonds and to also, where relevant, consider infrastructure development in South Africa including roads, water and energy generation.

- **Listed Equity**

  The Fund requires the appointed listed equity investment managers and hedge fund managers to integrate RI into the fundamental earnings forecast, and discount factors used for the calculation of the fair value of the companies in which they invest. The investment managers need to engage with the management of the companies in which they invest in order to enhance and increase value to the Fund as an institutional investor. Our South African equity managers now report on their carbon intensity for the first time, and we will require them to continuously improve on such reporting to reflect their progress and real world change. We will also be requesting our offshore equity managers to report on their carbon intensity.

- **Property**

  The Fund requires the appointed listed property and direct property investment managers to, where relevant; include the consideration of an investment into local community property development.

Listed Equity Active Ownership

As per the FSCA's Guidance Notice 1 of 2019, "active ownership" means the prudent fulfilment of responsibilities relating to the ownership of, or an interest in, an asset. These responsibilities include, but are not limited to:

- Guidelines to be applied for the identification of ESG concerns in that asset;
- Mechanisms of intervention and engagement with the responsible persons in respect of the asset when concerns have been identified, and the means of escalation of activities as a holder of that asset if these concerns cannot be resolved; and
- Voting at meetings of shareholders, including the criteria that are used to reach voting decisions and the methodology for recording voting.

As of July 2023, the Fund has appointed an independent Proxy Voting Agent to fulfil the active ownership role on behalf of all of the Fund's assets. The consolidation of the stewardship activities of the Fund, including proxy voting and shareholder engagement activities under one responsible entity ensures maximum fulfilment of the Fund's RI goals. The Proxy Voting Agent conforms in these activities to the requirements of this RI Policy as well as the Proxy Voting Policy and ensures that engagement activities are undertaken with "one voice".

Investing for Impact

Impact investments are investments made with the intention to generate positive and measurable social and environmental impact alongside a financial return.

The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education. Investing for impact means to make a meaningful difference in the lives of our members and their communities.

Investing Thematically

Thematic responsible investing includes highly targeted investments in which environmental and social impact themes and related needs create opportunities for investors (e.g., Water scarcity, climate change, energy efficiency, financial services). Investing thematically means to invest in a theme that relates to E, S, and G. For example, considering an investment into "green" projects.

Thematic investing can also be more general, for example investing in an investment manager that tracks an ESG index, where the underlying index constituents are weighted according to a quantitative ESG score. This ESG index will thus have superior ESG characteristics than the index as a whole.

Collaboration

The Fund will explore collaborative initiatives that are aligned with our approach to RI.

Trustee Training

The Trustees focus their understanding on the full spectrum of future risks and opportunities to which the Fund is exposed. The Fund's Investment Consultant provides the Trustees with continuous training, with specific insights into how their RI approach can be enhanced to ensure global best practice is considered and integrated where appropriate.

PRINCIPLES AND CODES

To guide our Responsible Investment process, the Fund subscribes to the global UN-supported Principles of Responsible Investment (PRI) and has also adopted the responsible investing of South Africa (CRISA 2) principles. Our approach is constantly evolving, and we will continuously consider other global best practice principles.

PRI

The PRI is the world's leading proponent of RI. It works to understand the investment implications of environmental, social and governance factors and to support its international network of investor signatories. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate, and ultimately of the environment and society as a whole.

The six principles of RI are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The Fund first became a signatory of the PRI in 2016 and made a public commitment to adopt and implement the principles (where consistent with the Trustee's fiduciary duties) and to evaluate and report on the RI initiatives of the Fund as required by the PRI. Whilst the Fund is no longer a signatory, the Board of Trustees continues to endorse the PRI's six principles.

The six principles are listed below as well as various action items which the Fund will consider as part of its long term plan to implement global best practice in terms of RI. Various action items have also been noted for consideration and potential implementation by the Fund.

Principle 1: Incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: Promote acceptance and implementation of the Principles within the investment industry.

Principle 5: Work together to enhance our effectiveness in implementing the Principles.

Principle 6: Report on our activities and progress towards implementing the Principles.

CRISA

The Code for Responsible Investing in South Africa (CRISA 2) provides that:

"… where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of this code and other codes and standards applicable to institutional investors".

This correlates with the UN-backed principles for responsible investment (PRI). These principles encourage collaborative engagement to better incorporate environmental, social and governance issues in decision-making and ownership practices.

Principle 1: The Fund incorporates sustainability considerations, including ESG, into their investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

Principle 2: The Fund demonstrates their acceptance of ownership responsibilities in its investment arrangements and investment activities.

Principle 3: The Fund considers a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

Principle 4: The Fund recognises the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.

Principle 5: The Fund is transparent about the content of their policies, how the policies are implemented and how CRISA 2 is applied to enable stakeholders to make informed assessments.

King IV ("The King Code")

Retirement Funds play an important role in the overall system of governance, and they have rights and responsibilities as shareholders. The Board of Trustees acknowledges that the way in which these rights are exercised can reinforce the corporate governance of the companies in which the Fund invests.

The King code seeks to provide a clear, coherent and integrated model for corporate governance and has been extended through its retirement supplement to provide principles applicable to Retirement Funds.

In King IV, 17 RI principles and practices are put forward as part and parcel of the good governance of retirement funds. These principles are outlined in annexure A.

The Board of Trustees will consider the King IV principles in conjunction with CRISA 2, as well as the FSCA circular pf 130 (pf 130), being complementary to the CRISA 2 code and Regulation 28.

ROLES AND RESPONSIBILITIES

Role of the Trustees

The Board of Trustees retains overall responsibility and accountability for RI, and must set the strategic direction, make the top-level decisions, and implement the necessary scrutiny, oversight and monitoring.

The key practices and outcomes involved in RI include:

- Using RI insights to help manage investment risks and returns, particularly over the long-term;
- Engaging with investee companies on RI issues of particular concern;
- Ensuring that the voting rights conferred by share ownership are exercised diligently and are consistently aligned with the policies and procedures of the investment managers appointed by the Fund;
- Formalising these points through appropriate policies and service provider contracts and agreements;
- Being transparent and accountable;
- Collaborating with others to develop, share and promote best practice;
- Collaborating with others to engage with business and/or policy makers on strategic (macro) issues;
- Incorporating RI thinking into strategic portfolio allocation; and
- Building longer-term incentives into investment management agreements.

Role of the Investment Consultant

The Investment Consultant provides training, advice, and support with regards to the implementation of many aspects of RI. Many of the tasks outlined in the various RI principles are delegated to investment managers and other service providers as per their contracts/agreements/mandates.

The Fund, via its appointed Investment Consultant, applies a due diligence framework which includes the reviewing of the RI and engagement policies and procedures in order to understand and evaluate how the recommended or appointed investment managers integrate RI into their investment decisions.

The Investment Consultant conducts peer group surveys (scorecards) that are focused on responsible investment mandates.

Full transparency is provided to the Trustees to consider and debate the qualitative and quantitative reports as provided by the Investment Consultant.

The Investment Consultant provides training on RI to the Trustees. The asset manager research team undertakes annual due diligence interactions with the investment managers during which time their ESG scores are documented. When there are big changes worth considering regarding an investment managers score, this would be brought to the attention of the Fund on an ad-hoc basis The Investment Consultant reports back to the Board of Trustees on RI at each board meeting.

The Investment Consultant engages with the investment industry and collaborate in panel discussions, webinars and facilitate ongoing interactions to enhance RI in South Africa.

PROXY VOTING AND ENGAGEMENT

One of the key rights as an asset owner is the right to vote the shares of the public companies in which the Fund invests. Voting rights give the investor the power to elect directors at annual or special meetings and make our views known to company management and directors on those issues we believe may affect the value of our shares.

The Trustees consider the importance of voting rights attached to shares in which the Fund is invested by delegating this responsibility to their appointed investment managers. This delegation is by mandate and governed by the Proxy Voting Policy of the Fund. The appointed investment managers report back on their proxy voting and engagement activities to the Fund either by reporting on a quarterly basis or by publishing their active ownership activities on their websites.

The custodian provides a monthly proxy voting report for all the Fund's South African equity holdings.

CONFLICT OF INTEREST

In accordance with Circular PF no. 130 it is the fiduciary duty of the Board and Principal Officer to avoid (rather than manage) conflict of interest. The Board is required to not only deal with conflict of interest amongst the members of the board but also with respect to any service provider of the Fund. Conflict of interest will be avoided, removed or, if not possible, resolved transparently. Refer to the Fund's separate Conflict of Interest Policy.

CLIMATE CHANGE

Climate risk is unquestionably one of the largest risks facing humanity. Climate change is both a financial risk and an opportunity. The investment opportunities associated with the global response to climate change are material, as are the risks of ignoring them.

Under the 2015 Paris Agreement, more than 160 countries, including South Africa, have committed to limit increases in global average temperature to less than 2°c above pre-industrial levels, with further objectives to keep increases within 1.5°c of pre-industrial levels.

In this regard, the Trustees consider how the Fund's investment strategy could be impacted by climate change. There are two main risks:

Transition Risk

Transition risks are risks that arise from the realignment of the economy towards a lower carbon status.

Physical Risk

Physical risks relate to the impacts of climate change i.e. rising temperatures, changing rainfall, floodings and extreme weather.

The Trustees have started to monitor their appointed investment managers on their analyses and assessment of climate related risks in their investment management process. Investment managers will need to ensure that the Fund's investments are resilient under a range of climate change scenarios by adopting best global practices on climate risk management.

With such information the Trustees can decide whether they wish to directly influence the investment managers whom they appoint to act responsibly by taking into account all climate related risks. The Trustees can ensure that their appointed investment managers take the required pro-active actions to enable the transition to a lower carbon economy, to avoid the risks of transition and the physical risks of climate change, and ideally take advantage of the new investment opportunities that will be presented.

The Trustees will at this time not instruct their appointed investment managers to exclude any shares, but they will expect their investment managers to construct their portfolios to ensure reduced carbon and climate exposures and to justify the retention of any controversial holdings.

REVIEW

The Fund’s RI Policy is reviewed on at least an annual basis.