

COMMUNICATION OF PROGRESS
TO THE UN GLOBAL COMPACT



COVERING LETTER FOR THE
2021 ANNUAL SUBMISSION

1. Statement of continued support by the Chief Executive Officer

In September 2020, Alexander Forbes initially confirmed its support of the Ten Principles of the United Nations Global Compact (UN Global Compact) in the areas of human rights, labour, environment, and anti-corruption and the United Nations Sustainable Development Goals (UN SDG). We are also committed to supporting the principles of the UN Global Compact by reporting on our progress annually, in a manner that is consistent with the UN Global Compact Communication of Progress (CoP) guidelines and to share this information with our stakeholders.

In our first annual CoP, we describe our effort to integrate the UN Global Compact Principles into our business strategy, culture and daily operations. We have included our Integrated Report in our submission. This document shows how we align our activities to the UN SDGs.

Sincerely,



Dawie de Villiers
Chief Executive Officer

2. Our approach to sustainability

Alexander Forbes Group Holdings Limited is a company listed on the Johannesburg Stock Exchange in South Africa. It is therefore bound by the rules of the exchange and by South African law. Legislation, regulations and guidelines referred to in this document are therefore South African unless otherwise mentioned. As a financial services company we aim to use our expert insights to advise our customers to have a positive impact on their lives.

In 2020 Alexander Forbes became a signatory of the UN Global Compact programme. Two of our senior employees participated in the UN SDG Ambition Accelerator programme and three employees participated in the Young SDG Innovators programme. This displays our commitment to the UN Global Compact initiatives and ambitions to integrate sustainability into our everyday business management.

We aim to make progress by aligning our goal-setting, monitoring and measuring process to strategic business priorities, focussing on goals in which we can have the biggest positive impact. We believe that this will bring business value by building resilience and enabling long-term sustainable growth.

We formed a Sustainability Committee to oversee our sustainability approach and to ensure an integrated approach across the business. As we continue to refine our goals for Alexander Forbes, we will be guided by the UN's guidelines on how to approach this task:

- Consider strategic priorities and our core business to help identify areas where we can have the biggest impact

- Aim to prioritise goals based on maximising positive impact or minimising negative impact

We pledge to integrate these ambitions into our business by embedding them into our organisational culture, thus becoming part of the way we do things and what our customers and other stakeholders experience.

Alexander Forbes' customers are individuals and organisations. All our customers have a right to understand their products and services so that they can make informed decisions. Our customers have differing levels of financial capability, many are financially vulnerable or previously disadvantaged. Our approach is to use research-based insights to connect and communicate effectively to prepare all our customers with the capabilities and provide the support they need to make decisions that are right for them.

We accomplish this by using effective communication strategies, relevant information, tools and advice and savings solutions to support customers along their financial journey. Individual and corporate customers who make use of these services experience better outcomes because they make more informed choices. Our challenge is to increase the extent to which all our customers have access to these impactful services and solutions.

3. Human rights and labour

Human rights principles

Alexander Forbes is committed to ensuring that all our stakeholders adhere to our Universal Declaration of Human Rights and Environmental Protection. We do this by ensuring that we adhere to the relevant Employment and Labour Legislation across all the regions within which we operate. We also have internal company policies, directives, guidelines and procedures which include our Company Code of Conduct, Code of Ethics, Whistle Blower Policy and Grievance Policy. Our Social Ethics and Transformation Committee (Setco) - a sub-committee of the Board - oversees and monitors policy compliance and the protection of human rights within the group, with a focus on transformation in a South African context. Given South Africa's history of inequality, transformation refers to appropriate representation of all racial groups and females within the organisation. Going beyond representation, we have implemented various initiatives that aim to get maximum benefits from organisational diversity and enhance the experience of all employees at work.

To ensure that we can harness the benefits of diversity, a transformation strategy was approved for implementation over the next three years. The strategy, which covers hiring, promotion, development and retention practices within the group, is aligned to the Employment Equity (EE) plan to ensure effective succession pipeline development. We aim to improve our EE stats at middle and senior management level, where we have the greatest opportunity to improve our performance and are in the process of setting targets for this.

Empowering women

Achieving gender equality is more than an issue of fairness or morality, it is an economic imperative. Helping women fully participate in the economy not only promotes growth; it also diversifies economies, reduces income inequality, mitigates demographic shifts and contributes to financial sector stability. This could increase GDP by up to 50% in some African countries.

Through policies such as our Employment Equity Policy and Code of Conduct, we strive to ensure that women are treated fairly at work, that their health and safety is protected, and that they have access to education, training and development. Our policies on procurement contribute to ensuring that women are included in our enterprise development and supply chain activities. In addition, women represent one of our key target groups for our corporate social investment initiatives. During 2020 we took a further step to show our commitment by signing up to the United Nations Women's Empowerment Principles initiative.

Implementation and measurement

All colleagues are required to adhere to our company policies, procedures, directives, and guidelines as part of their terms and conditions of employment. We also run a comprehensive induction and orientation programme that focuses on ethics and key policies across the group.

All colleagues are also required to register on the online policy management system managed by the governance, legal and compliance team and familiarise

themselves with the content of all policies contained within the platform, formally acknowledge this, and where required, pass tests based on the content of the policies.

We have a confidential Ethics Line and a Whistle-Blower hotline managed by external companies to ensure independence and confidentiality. Any matters reported on these hotlines are investigated and feedback is provided to the “complainant” as well as Setco.

We are also subject to audits from the South African Department of Employment and Labour in respect of compliance with the following:

- Basic Conditions of Employment
- Minimum wage
- Occupational Health and Safety
- Employment Equity

We have had clear audits across all our branch networks.

Labour principles

All colleagues have the right to become members of any trade union of their choice. We work in close partnership with the Department of Employment and Labour to ensure we have sound employment practices underpinned by fair labour practices and a zero-tolerance approach to unfair discrimination within the Alexander Forbes environment. We are consistently monitoring our environment to ensure we remain flexible to the changing global employment and labour market requirements.

Implementation

Our policy management system outlines both the company’s and the employees’ roles and responsibilities as it relates to fair and ethical treatment of all stakeholders, as well as the elimination of unfair discrimination practices. We consistently consider risks, barriers and employment-related practices through the human capital and transformation teams as well as the internal risk and audit teams. The group is subject to both internal and external audits, the findings of which are presented at board level. In the event of any adverse findings, there are several channels for corrective action that include the health and safety team, training interventions, employee engagement survey action plans, analysis of barriers with internal stakeholders (such as the Diversity and Inclusion Forum), revised standard operating procedures as identified in our audit action plans, and supportive policies which give effect to labour principles and priorities.

We have dedicated policies that focus on health and safety, employment rights and a sound remuneration philosophy that support the protection of employee rights within the group. A culture of respect and collaboration is encouraged through a formal recognition system. Adherence to conduct and culture expectations is part of the performance management process. No employee can achieve a good performance rating without demonstrating the core values of respect and collaboration in their day-to-day dealings with colleagues.

Permanent employees are entitled to benefits that form part of their employment contracts. These include retirement fund membership, insurance benefits including life assurance cover, disability cover, funeral benefits and

compulsory medical aid cover. Alexander Forbes employees also have free access to 24/7 support from clinicians and healthcare professionals through our Employee Assistance Programme.

The Employee Assistance Programme provides information and professional advice or guidance on different life challenges such as: stress, financial, legal, relationship, addiction, health, work, family, loss or trauma. This resource is accessible at all times for employees and their immediate family.

Our financial well-being programme allows employees to access support to understand their employment benefits and financial advice to make decisions based on their personal circumstances.

As we adapted to our new ways of working, we also used the opportunity to review our Employee Value Proposition (EVP), particularly how we describe the employee experience we seek to create. We recognise the value of creating meaningful employee experiences, providing opportunities for employees and helping our employees feel connected to our business purpose. Our people development initiatives will be guided by these goals during the years ahead.

Measurement

Employee engagement has always been a key focus, with monthly reporting and check-ins. Ongoing communication on our employee initiatives, supplemented by CEO townhall sessions, have become a regular feature in which we communicate information on resources to support employee health and safety, find out how our people are coping, and learn where we need to provide additional support.

Looking ahead

We have been on a three-year journey to embed a client-centric operating model at Alexander Forbes. As we enter the final year of this initiative, our focus will be on encouraging expected organisational culture and behaviours through performance measurement and management, and ongoing engagement. We will continue to make progress on embedding transformation objectives across the group, with a specific focus on actions to improve employment equity. In addition, our focus will also be on implementing our strategy of people development and growth.

4. Environment

As a service-based business, our direct environmental impact is limited, coming predominantly from our network of offices. Nonetheless, we strive to make the most efficient use of our natural resources. Our greatest impacts lie in the electricity, water and paper consumed in our buildings as well as general office waste generated.

At Alexander Forbes we commit to perform our activities safely and manage our carbon footprint responsibly. We believe that businesses are responsible for their environmental impact and operating in a sustainable manner.

We are therefore committed to reducing our environmental impact and continually improving our environmental performance as an integral and fundamental part of our business strategy and operating methods. We do this by monitoring our environmental impacts and strive to efficiently use natural resources in our network of offices. Our impact is managed by the conscious use of electricity, water and paper, and processing of office waste. Our environmental impact is measured in relation to these categories and reported to and monitored by Setco. Measurement of water and electricity, diesel, paper consumption and waste recycling is limited to head office.

We also encourage our customers, suppliers and all business associates to do the same as it is a matter of delivering on our duty of care towards future generations.

Our greatest opportunity to positively impact the environment is through our investing activities in which we invest the savings our customers have entrusted to us to administer and manage on their behalf.

Responsible investing

We recognise our responsibility as a corporate citizen and as an active participant in the investment markets and, therefore, are progressively incorporating an Environmental, Social and Governance (ESG) overlay into our investment process. We seek to play a leadership role in driving transformative change across the investment management industry, with a particular focus on impact investing and a view to create employment and generate competitive long-term, risk-adjusted returns for our clients.

Our multi-management approach is central to our investment philosophy and provides clients with the benefits of best-of-breed product selection, positioning our portfolios in these volatile markets to continue to achieve superior returns on a risk-adjusted basis. We will continue to embed ESG principles in how our portfolios are managed, and to focus on improvements in monitoring and reporting.

The power of responsible investing goes beyond just helping our clients reach their investment goals. Deploying investments responsibly and sustainably can also help promote a better quality of life for South Africans.

Implementation

We hold a set of beliefs that underpin our approach to responsible investment:

- ESG factors can have a material impact on the long-term risk and return outcomes of an investment and should be integrated into the investment process.

- Having a longer-term perspective on risk is key. We believe that identifying long-term social and environmental themes can lead to improved risk management and new investment opportunities.
- Stewardship (or active ownership) supports the notion that long-term value is realised when shareholders are afforded an opportunity to contribute to how a company is governed. We have a firm consideration of continuous engagement with underlying asset managers regarding the investments they make on our behalf, and how these investments contribute to responsible investment initiatives.
- Climate change poses a systemic risk, and investors should consider its financial impact on investments across various asset classes, as well as new opportunities arising from the transition to a low-carbon economy.

Our investment framework for responsible investing details our approach to investing, which aims to incorporate ESG factors, and broader systemic themes such as climate change, sustainable development and stewardship (including active ownership), into our investment decision-making process. Incorporating these factors enables us to manage risk better alongside our appointed asset managers and generate sustainable long-term investment outcomes.

Principles for Responsible Investing (PRI)

Alexander Forbes Investments Limited has a fiduciary duty to achieve the best possible returns at acceptable levels of risk and act in the best interests of the wider community and environment. We do everything we can to protect our clients so that they can achieve their investment goals in the most responsible way possible. We have been a signatory to the Principles for Responsible Investment (PRI) for more than a decade and endorse the Code

for Responsible Investing in South Africa (CRISA). We recognise our duty to investigate the impact of ESG-related issues on the performance of assets. We promote responsible alpha investing (responsible and sustainable benchmark-beating returns) by ensuring that the asset managers we select in our multi-managed portfolio solutions consider and evaluate the risks and opportunities arising from ESG factors.

We have maintained our strong rating and are proud to have scored above our global peers across most of the reporting modules. Overall, the results demonstrate our continued efforts and commitment towards ESG risk management and compliance with the spirit of the PRI.

Global footprint

Alexander Forbes Investments invests in a range of Mercer Global Investment Funds. Through our strategic relationship, Alexander Forbes draws from Mercer's intellectual capital to help our clients take advantage of opportunities and stay ahead of regulatory and public policy decisions around responsible investment, globally.

Mercer currently supports the following key initiatives globally on responsible investment initiatives and sustainable investment:

- Principles for Responsible Investment (PRI)
- Carbon Disclosure Project (CDP)
- Global Impact Investing Network (GIIN)
- UK and European Sustainable Investment and Finance Association (UKSIF and Eurosif)
- Institutional Investors Group on Climate Change (IIGCC)
- Task Force on Climate-related Financial Disclosures (TCFD)

Helping to shape the future

We proudly endorse and uphold the CRISA principles, which align to the global PRI principles. As one of the leading financial services providers in South Africa, we have heeded the call for submission to comment on the CRISA 2.0. The updated code expands on the scope of guiding principles set out in 2011, in an attempt to address changing responsible investment practices.

The responsible investment landscape has shifted dramatically, and we have observed the changes in investor demand, strategy availability and the regulatory environment in this context. No one can afford to stand still, and we have committed to leading the change.

Our recommendations touched on essential issues, including responsible and sustainable finance objectives, governance themes encompassing stewardship, disclosure and reporting, as well as accountability on the part of asset owners and asset managers who have made their pledges. Our recommendations also included key lessons and considerations from global stewardship codes that could be localised for a South African context, helping to steer the code in the right direction and with the right momentum.

Engaging and participating in initiatives like this is fundamental to the progress of the industry, as well as its position in creating a sustainable and inclusive economy and society. It speaks directly to our vision of a better future for all, better aligning the interests of all stakeholders and extending our licence to engage the industry as a fiduciary on our clients' behalf.

Climate change

We are cognisant of the fact that climate change risks and the intensity with which investors consider these risks are perhaps

more prevalent in developed markets. Social, economic and inequality concerns are arguably more pressing within the South African context. However, as a signatory to the 2015 Paris Climate Agreement, South Africa has a commitment to reduce greenhouse gas emissions by 2030. Considering this, we recognise South African specific climate change risks and social concerns as importantly as governance concerns. Accordingly, we look to influence and encourage environmentally responsible change through the investment approach we have adopted.

Measurement

How we apply our climate change policy:

- **ESG integration:** climate change considerations are included in our assessment of ESG integration in an asset manager's process when we are selecting asset managers.
- **Active ownership and voting practices:** we use our influence as shareholders to positively affect a company's conduct in relation to climate change through engagement and proxy voting. The disclosure of voting outcomes provides improved consistency and fosters transparency and objectivity.
- **Allocation to thematic investments:** we invest in assets specifically related to sustainability, such as solar and wind energy, sustainable infrastructure, impact investing and green bonds that attract commercially sustainable returns and create positive social impact through our private market portfolio.

Due diligences and ongoing engagements

A formal ESG assessment is produced based on the responsible investment due diligence questionnaire and our engagements with asset managers. Assessments are included in all managers' research reports. Based on a four-factor ESG rating framework, asset managers are assigned an ESG rating. Our portfolio managers are encouraged to appoint asset managers with high ESG ratings, but also to take a proactive approach in influencing better ESG practices within the industry. Here, we use our leading position in the market to work alongside asset managers with low ratings and improve their rating within twelve months, or risk having their appointment terminated.

Asset managers are required to comment on any ESG enhancements to their investment process, key ESG risks and opportunities affecting current holdings and investment decisions, engagements with company management and proxy voting reporting in the course of their regular reporting to us. Where there are contentious issues relating to any holdings, we engage with asset managers on any areas of concern. Asset managers' responses are compared and rated based on their level of disclosure and understanding of ESG concerns. Proxy voting results are also monitored quarterly. We believe that vote outcomes are only one part of the stewardship process.

We have evolved the process of stewardship to formally engage on shareholder annual general meetings (AGM) for listed companies details before these meetings to gauge likely vote outcomes and apply pressure that furthers ESG objectives. Prior engagement enables us to challenge subsequent outcomes with a view to improving future outcomes. ESG matters often require monitoring beyond the results of voting at AGMs. We monitor material issues relating to ESG matters and engage proactively where needed.

Firm-wide commitment

It is the Chief Investment Officer's (CIO) role to ensure that responsible investing is integrated within the investment process and across the investment team. The investment team and portfolio managers are required to understand how asset managers incorporate ESG considerations into their investment process, as well as understand such risks within these portfolios. The investment team and portfolio managers are expected to engage with asset managers on such risks. The CIO has engaged specifically with the CEO and CIO of underlying asset managers to understand their approaches and beliefs. These meetings allow us to assess the "tone at the top", and whether a manager's approach to responsible investing is a tick-box exercise or a core tenet of the organisation.



5. Anti-corruption

The Alexander Forbes Group Holdings Limited board of directors is the highest governing body of the company. It is mandated to ensure that the company is led in an ethical and responsible manner. The board's governance approach, supported by the two core values of trust and integrity, enables the achievement of the business strategy while focusing on the long-term sustainability of the group. The actions of the board of directors set the tone throughout the organisation by demonstrating their commitment to the integrity and reputation of the company.

The board has implemented appropriate governance oversight and is committed to a Code of Ethics that is a key tenet of their governance efforts. Governance extends beyond achieving regulatory and legislative compliance to ensuring the board performs and adds value to the group through its oversight, leadership and strategic guidance.

The following policies have been implemented to apply anti-corruption principles.

Group Economic Crime and Fraud Risk Management policy

We are committed to a process of preventing crime, which is aligned to the King IV Report on Corporate Governance for South Africa, 2016 (King IV) and complies with other relevant legislation, regulation, and guidelines. The prevention of economic crime is recognised as being an integral part of good corporate governance. The policy is applicable across all operations, including business units across the group, as well as to strategic alliance and joint venture partners.

Risk Management and Compliance Programme (RMCP)

We are committed to act with integrity in the conduct of our business activities across the jurisdictions in which we operate, to contribute to a secure and robust financial services industry. This is achieved by being aware of our responsibilities in terms of legislation and by maintaining an effective anti-money laundering and counter-terrorist financing programme for our business that reflects the best practices for a diversified financial services group. Section 42 of the Financial Intelligence Centre (FIC) Act places an obligation on all Accountable Institutions, of which we are one, to develop, document, implement, approve, and maintain a RMCP and defines the requirements for this programme.

The purpose of the RMCP is to:

- Provide for a programme which incorporates the requirements of the FIC Act.
- Establish the risk appetite levels in the management of money laundering and terrorist financing (ML and TF) risk.
- Outline the financial crime control (FCC) governance structures and FCC reporting obligations with defined roles and responsibilities to enable adequate oversight of the key risks within approved risk appetite.
- Establish requirements for the training of employees at various intervals and the types of training to be provided in terms of job function.
- Outline the independent assurance to be conducted by combined assurance (internal and external audit) at least on an annual basis.

Our Group Anti-bribery and Anti-corruption policy

Any form of corruption, any potential legal implications aside, raises serious ethical and political concerns, undermines responsible approaches to management and prevents economic development, both in the public and private sector. It also distorts national and international competition. We are committed to conducting our activities free from any form of bribery or corruption. We have no tolerance for bribery and corruption activities and no appetite for our financial products or services to be used to facilitate bribery, or corruption, by employees, associated parties, clients, or counterparties.

We define corruption as the abuse of power for personal gain, or enrichment, or the abuse of position, to gain material, or personal, gain for a third party, or oneself, using unfair, or unlawful methods.

Group Anti-Money Laundering policy

Our RMCP outlines the anti-money laundering legislative processes and procedures that enable us to comply with our obligations as an Accountable Institution. It defines our risk-based approach when dealing with existing clients, or potential investors, the due diligence process that we would apply to high risk-rated clients, as well as how we would deal with domestic prominent influential persons and foreign prominent public officials.

Implementation

Whistle-blower policy and procedure

We are committed to providing a professional working environment that is free of any form of unethical, unlawful, or irregular activity. This

policy introduces a mechanism to facilitate the reporting of any unethical, unlawful, or irregular activity by an employee or stakeholder who engages with us and ensures that any employee or stakeholder who reports such activity, is not prejudiced in any way for making the disclosure.

How we track employees' understanding of our policies and procedures

As mentioned above, we use an online document monitoring and tracking tool, to manage the policy training and acknowledgement process, internally, for employees. The system:

- electronically alerts our employees when they must read a policy
- tracks our employees' progress
- requires employees to acknowledge that they understood the content and acknowledge the policy
- where relevant, employees must meet minimum performance requirements on tests relating to policies and procedures
- provides detailed reports for audit purposes that are monitored and managed

The board has taken a proactive role in governance matters during the past year. This has resulted in several in-depth investigations into risk matters, the effectiveness of first line (within business area) compliance, business continuity management, market conduct and fraud risk management practices with a view to overseeing the implementation of any recommended improvements.

During the past twelve months, we approved or revised the following policies and frameworks that contribute to an ethical culture, effective control environment and business governance objectives including anti-corruption and bribery:

- economic crime and fraud risk management policy
- gift and entertainment policy
- group tax policy
- group information technology governance policy
- group information technology cyber security policy
- group information technology disaster recovery policy
- comprehensive stakeholder relationship framework and processes and principles to assess the risk associated with the establishment or continuation of relationships with potentially compromised stakeholders, especially suppliers

Measurement

How we manage risk

Sound risk management is a component of our strategic intent. It is about doing the right thing, managing the actual and potential risks we may face to create value and preserve that value for our stakeholders, including yourself. This enhances our ability to perform against stated objectives and deliver on your goals.

We manage our risks, and the achievement of our business strategies and objectives, through our group enterprise-wide risk management strategy. The principles outlined in the strategy are incorporated into risk management related policies and procedures to ensure that risk management is embedded into day-to-day management activities.

The enterprise risk management process includes:

- communication and consultation requirements
- understanding the internal and external context or environment
- processes for:
 - identifying risks
 - analysing and assessing risks by considering the likelihood and impact of the risks
 - managing and controlling risk through key risk and control indicators
 - the ongoing monitoring and review of risks and controls and the reporting thereof

External auditor

PricewaterhouseCoopers Inc. is our appointed external auditor. The audit partner rotates every five years. The external auditor performs procedures and expresses an opinion on whether the Annual Financial Statements are presented fairly, in all material respects, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Internal auditor

The Alexander Forbes Group internal audit function is headed by our Chief Audit Executive.

The internal audit function reports functionally into the group audit and risk committee, a sub-committee of the board, and administratively into the Group Chief Financial Officer (CFO).

All audit findings are tracked and monitored by the internal audit function on an ongoing basis to ensure that all audit findings have been appropriately and sustainably resolved.

The function provides regular reporting to senior and executive management on progress towards corrective action. The internal audit function provides quarterly feedback to the group audit and risk committee.

6. Looking forward

We invest in our people and our stakeholder relationships to develop innovative products and solutions that will have a meaningfully positive impact on the lives of our customers, supported by advice that affords our customers the best chance of making decisions that are right for them. In the integrated, advice-led way we consult, engage and provide services to our customers, we maintain the highest standards of integrity and respect. We embed these behaviours, across the group, through our ESG frameworks, codes of conduct, performance management, monitoring and training. This strong focus on doing the right thing and doing things right is fundamental to our industry where compliance and trust are critical success factors. We continuously strive to show that our stakeholders' faith in us is deserved.

During 2020 we strengthened our commitment to sustainability ambitions by joining the UN Global Compact and becoming a signatory to the United Nations Women's Empowerment Principles. In the year ahead, we will focus on people development, prioritising sustainability goals and setting measurable targets. We will embed these in our reporting processes to ensure accountability to our stakeholders.

