



Discovery Group



Responsible Investment Policy





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1. Introduction

Discovery Limited (“Discovery” or “Discovery Group”) is a signatory to the United Nations’ Global Compact and subscribe to the Sustainable Development Goals (SDGs) which call for strategies and operations to align to universal principles that advance societal goals. This policy sets out Discovery’s principles for Responsible Investment to further align the investment philosophy to best practice and positive contribution towards corporate sustainability.

1.1 PURPOSE

The purpose of this policy is to set out Discovery’s principles for Responsible Investment, which aim to align the investment philosophy with the relevant principles and industry codes of best practice.

Responsible Investment requires the recognition, evaluation and incorporation of material Environmental, Social and Governance (ESG) risks and opportunities into investment and ownership decisions by subsidiaries across the Group.

Discovery is a financial services group with funds held in accounts, deposits, bonds, unit trusts, shares and other investments either on behalf of policyholders, unit trust holders, shareholders or other stakeholders who place their trust and confidence in us to manage and protect their money.

It is therefore our duty to invest these funds responsibly, and to support this, we have formulated this Responsible Investment Policy, which applies to all Discovery policyholder, client or accountholder assets, investible shareholder assets and assets held within unit trusts. The principles of this policy include:

- Requiring our external asset managers to incorporate ESG factors into their investment process.
- Requiring our external asset managers to be active owners through proxy voting and engagement.
- Requiring internal functions and staff responsible for investing assets (including bank deposits, bonds and other investible assets) to incorporate ESG factors into their investment process.
- Committing to public disclosure about our responsible investment policy and implementation.

This policy will be given effect through investment mandates and engagements with external asset managers and controls and monitoring processes applied to internally managed assets. The Capital Currency and Investment Committee (CCIC) is responsible for ensuring that the requirements of this policy are met.

1.2 SCOPE

This policy is applicable to Discovery Limited and all South African and international subsidiaries. This policy applies to all investable assets.

The application of these policy principles may be impacted by a particular investment mandate, such as those based on specific asset classes or investment styles.

Responsible investment should not be confused with socially responsible investment or impact investing. Responsible investment does not require ruling out investment in any sector or company. It simply involves including ESG factors in investment decision-making to ensure that all relevant factors are accounted for when assessing risk and return.

The legislation and industry codes on which this policy is based, summaries of which can be found in Annexure C, are:



- [United Nations] Principles for Responsible Investment (PRI)
- The Code for Responsible Investing in South Africa (CRISA)
- King IV Code on Corporate Governance.
- Regulation 28 of the Pension Funds Act
- Financial Sector Charter (FSC)

2. Policy principles

As prescribed by the King IV Code on Corporate Governance, the Board of Directors of Discovery Limited (the Board) is ultimately responsible for setting the direction on how responsible investing should be approached and conducted by Discovery. Where an institutional investor outsources investment decisions or investment activities to custodians, nominees, consultants or other service providers, the Board should oversee that the outsourcing is regulated by formal mandate which reflects and gives effect to its responsible investment policy.

When selecting and appointing asset managers, the extent to which responsible investment is embedded in their investment and ownership practices must be considered.

2.1 INCORPORATION OF ESG FACTORS BY ASSET MANAGERS INTO THE INVESTMENT PROCESS

Asset managers (incorporating both external asset managers and internal Discovery staff responsible for allocating investments) must consider ESG factors when identifying risks and opportunities associated with their investments that fall under this policy. Responsible investment also encourages investee companies to conduct their operations in a way that meets the interests of their stakeholders in a long-term sustainable manner through sound governance practices, good labour and human rights practices as well as managing their impact on the environment and local communities.

ESG factors applicable to asset managers and different asset classes can be found in Annexure A while ESG factors applicable to investee companies can be found in Annexure B. These factors should be used as guidelines or frameworks (and not as exhaustive lists).

We do not insist that investments should be selected or rejected solely on the basis of ESG factors, however, ESG factors must be considered in the overall investment process. Asset managers' individual investment styles and philosophies must be respected, and as such, the manner in which ESG factors are incorporated will vary. Whilst still upholding the principles of responsible investment and this policy, Discovery's ownership of securities in a company does not automatically imply approval of that company's policies, products and actions.

2.2 MANDATE AND ACTIVE OWNERSHIP BY OUR ASSET MANAGERS

In line with this policy, the progress made by investment managers in considering ESG factors in their investment decisions must be monitored and reviewed, and remedial action recommended where necessary.

Asset managers should be active owners of their assets, which includes voting on proxies and engaging with management of investee companies on material ESG matters. Guidelines on proxy voting and management engagement are provided below.



Asset managers may be signatories and endorsers of PRI, CRISA and the United Kingdom Stewardship Code and as such are likely to have robust ESG policies and meet the general requirements of incorporating ESG factors into their investment analysis and decision-making in investments.

Some investments and entities may not comply with Discovery's investment criteria, as they may not meet Discovery's ethical standards and criteria, examples of which can be found in the Sanctions Policy and Anti-Money Laundering and Counter-terrorism Financing Policy. These specific exclusions should be communicated to our asset managers. Asset managers should flag both direct and indirect exposure to all entities that do not meet our ethical criteria so as to exclude them.

2.2.1 Proxy voting guidelines

- Proxy voting by asset managers should be exercised and combined with engagement with management especially if an asset manager has voted against a resolution.
- Asset managers should have a proxy voting policy in place that aligns to good practice and legislation that includes the requirements of the Companies Act, JSE Listings Requirements and the King IV Report on Corporate Governance in South Africa 2016 (King IV).
- Asset managers should submit the results of their proxy votes and Discovery should review the proxy voting policy of its asset managers on a periodic basis.
- Discovery's asset management may be delegated to multiple asset managers with differing proxy votes and engagement activities which we will monitor for consistency.

2.2.2 Management engagement guidelines

- Asset managers should have an engagement policy in place that outlines their engagement process and expectations of investees.
- Discovery should review the engagement policy of its asset managers on a periodic basis.
- Asset managers should meet regularly with investee management on overall and ESG matters. Where issues are identified or arise, asset managers should engage with management in a constructive and meaningful manner, in a private forum, to effect positive change. Only as a last resort should the press and public forums be used to drive change.
- Asset managers should engage in a manner that is consistent with proxy voting activities.
- Asset managers should submit to Discovery an annual report including a summary of their engagement on ESG matters.

2.3 PUBLIC DISCLOSURE ABOUT OUR RESPONSIBLE INVESTMENT POLICY

Responsible investment codes and King IV endorse the approach where investment activities and decisions are delegated to a service provider by mandate.

Discovery should, at a minimum, disclose the responsible investment code or principles that it has adopted and the application of its principles and practices.

CRISA recommends, in the case of delegation of investment activities to service providers, disclosure of:

- the extent to which investment activities (or aspects thereof) have been delegated to a service provider;



- details of the processes and procedures on how service providers are selected and monitored in respect of those investment decisions and activities that have been delegated per the mandate.

The overarching principle that applies to disclosure by Discovery through the mandate with service providers is that the disclosure by Discovery, as asset owner, and its respective service provider should when read together cover the complete disclosure required.

3. Compliance with this Policy

Discovery views any non-compliance to this policy and its obligations in terms of legislation in a serious light.

Compliance with this policy will be monitored. Any breach of, or non-compliance with this policy must be communicated to the policy owner as soon as reasonably practical. The policy owner, with input from key stakeholders, will consider the appropriate action(s) required. If agreement on the appropriate action(s) cannot be reached, the matter will be escalated to the chairperson of the Social and Ethics Committee. The chairperson of the Social and Ethics Committee will decide whether the breach or non-compliance is sufficiently material to be escalated further, and if so, to which Board/committee/person.

All instances of non-compliance with this policy will be included within the regular risk reporting process.



Annexure A: ESG Factors that may be applicable to asset managers and different asset classes

EQUITIES	<ul style="list-style-type: none"> - In the assessment of individual companies and portfolios, ESG related tools and metrics should be used for a better understanding of risks and opportunities - Integration of ESG factors into active ownership practices where relevant
FIXED INCOME	<ul style="list-style-type: none"> - Consider ESG factors when evaluating credit risk of corporate bonds - Consider ESG factors when setting debt covenants for corporate bonds - Consider country-specific ESG criteria when evaluating sovereign debt
PROPERTY (Incl. direct and shares)	<ul style="list-style-type: none"> - Analysis of ESG risks and opportunities on direct property investments through due diligence - Environmental impact assessments where relevant - For property in the construction and development phase, an assessment of energy efficiency strategy - For property already developed, consider long-term benefits of improving energy efficiencies - In terms of property shares, active engagement with property management companies around material ESG matters, in terms of their direct property holdings
ALTERNATIVE INVESTMENTS (Incl. private equity, hedge funds etc.)	<ul style="list-style-type: none"> - Due diligence prior to investment of ESG matters in addition to monitoring and understanding of ESG risk exposures in alternative investments - Active engagement with private equity investments in ESG matters to positively influence long-term company performance - Consideration of environmental risk for infrastructure assets
FOREIGN INVESTMENTS	<p>Consider country-specific ESG criteria when evaluating investments. Examples for each component include:</p> <ul style="list-style-type: none"> - Environment: Laws, policies, climate-related, deforestation, pollution, development - Social: Labour laws, poverty, inequality, healthcare, access to basic services, inclusive economy - Governance: Bribery, corruption, corporate governance standards, property rights, leadership, political stability
COLLECTIVE INVESTMENT SCHEMES AND MULTI-MANAGERS	<ul style="list-style-type: none"> - Due diligence to be conducted on the collective investment scheme with active engagement on ESG matters - ESG due diligence conducted on underlying fund managers in the case of multi-managers



Annexure B: ESG Factors that may be applicable to investee companies

ENVIRONMENTAL ISSUES

- Compliance to environmental legislation.
- Environmental management system in place and monitoring thereof.
- Efficient use of resources including reduction of greenhouse gas emissions, water use and energy efficiency.
- Pollution prevention through effective management and recycling.
- Biodiversity conservation that protects habitats and manages the impact on fauna and flora.
- Prevention of or adaptation to climate change.

SOCIAL ISSUES

- Compliance to legislation around labour, working conditions, health and safety.
- Social management system in place and monitoring thereof.
- Fair and equitable treatment of workers including basic human rights, wages and training.
- Monitoring and addressing of staff turnover and worker grievance mechanisms.
- Diversity of workforce and gender pay ratio.
- Adequate health and safety mechanisms in place with subsequent monitoring thereof.
- Company's potential adverse impact on the community: management of human rights in the value chain; security force impact; operations near indigenous people; and human rights violations.
- Integration of environmental and social consideration in products and services, for example, product design, energy intensity, packaging, recalls, adverse materials and product safety.
- Policies and practices of collection, use and retention of customer information and related data privacy.
- Environmental and social considerations in the use of suppliers and sub-contractors.
- Conflict free minerals and materials.

GOVERNANCE ISSUES

- Governing body and governance practices that comply with legislation and relevant Codes such as King IV.
- Governance framework in place as well as a code of ethics and/or conduct.
- Independent, diverse and functioning Board of Directors that is supported by a structure and committees in line with best practice, such as noted in King IV.
- Adequate control environment that includes an internal audit, risk management and compliance function.
- Disclosure and transparency through, for example, an annual report and/or sustainability report.
- Fair and equitable treatment of minority shareholders.
- Related party policy and disclosure.
- Dividend policy.
- Remuneration disclosure and consultation process in line with King IV Remuneration Report requirements.
- Disclosure of ultimate beneficial ownership.
- Governance of stakeholder engagement.
- Appropriate ethics and anticorruption practices and management in place.



Annexure C: Principles and Codes for Guidance

[UN] PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

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

The six principles that signatories sign up to are:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

CODE FOR RESPONSIBLE INVESTING IN SOUTH AFRICA (CRISA)

CRISA is a voluntary industry code overseen by the CRISA Committee which came into effect in 2012. CRISA recognises that institutional investors may outsource some or all of their investment decision-making processes and activities to service providers. Notwithstanding this, the institutional investor (who is the asset owner) has fiduciary duties towards the ultimate beneficiaries of these investments and is accountable in this regard. If an institutional investor appoints a service provider to make investment decisions or to execute any aspect of the investment activities, that relationship should be regulated by a mandate.

CRISA has five main elements, namely that institutional investors should:

- Incorporate sustainability considerations, including ESG issues, into their investment process as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
- Demonstrate acceptance of ownership responsibilities in their investment arrangements and investment activities.
- Consider, where appropriate, a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
- Recognise the circumstances and relationships that hold the potential for conflicts of interest and proactively manage these when they occur.
- Be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

KING IV CODE ON CORPORATE GOVERNANCE

King IV Principle 17 addresses 'Responsibilities of Institutional Investors': The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests. It defines an institutional investor as: "Any juristic person or institution referred to in the definition of financial institution in section 1 of the Financial Services Board Act, No. 97 of 1990, to the extent that these juristic persons or institutions are the holders of beneficial interest in the securities of a company. It includes retirement funds and insurance companies as well as the custodians, nominees and service providers who act under mandate in respect of any investment decisions and investment activities exercised in relation to these securities."



REGULATION 28 OF THE PENSION FUNDS ACT

Under the “Principles” section of Regulation 28 of the Pension Funds Act, section c (ix) considers it part of the fiduciary duty of Trustees to require ESG consideration during investment decision-making. In particular, the regulation expressly states:

“...before making an investment in and while invested in an asset consider any factor which may materially affect the sustainable long term performance of the asset including, but not limited to, those of an environmental, social and governance character.”

FINANCIAL SECTOR CHARTER (FSC)

The FSC is based on a harmonisation of the Generic Codes and the Financial Sector Charter as gazetted under section 12 of the B-BBEE Act. The Code commits all participants to actively promote a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, and which contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investment into targeted sectors of the economy.