



OLDMUTUAL

# THE FUTURE MATTERS



INVESTMENT GROUP



# THE RESPONSIBLE INVESTMENT DICTIONARY

**ACTIVE OWNERSHIP** *v* When shareholders exercise their rights, actively engaging with the investee companies on business strategy, including sustainability issues, to reduce investment risk and/or enhance long-term shareowner value.

## CODE OF RESPONSIBLE INVESTING IN SOUTH AFRICA

**(CRISA)** *n* Principles that give guidance on how institutional investors should promote sound governance. The code came into effect in February 2012. See Principles Of Responsible Investment (PRI).

**ENGAGEMENT** *v* A purposeful dialogue between shareholders and boards with the aim of ensuring a company's long-term strategy and day-to-day management is effective and aligned with shareholders' interests. See Engagement & Responsible Ownership.

## ENVIRONMENTAL FACTORS

*n* Issues related to resource use, pollution, climate change, energy use and other environmental challenges and opportunities that do or could impact the shareholder value. See ESG.

**ESG** *n* Stands for environmental, social and governance factors, the three categories of factors investors consider with regard to an investment's sustainable practices. See Environmental Factors, Social Factors & Governance Factors.

**FIDUCIARY DUTY** *n* The legal duty of one party (the fiduciary) to act in the best interests of another (the principal). In the investment chain there are a number of these relationships, including the duty that boards have to shareholders, the duty between trustees and beneficiaries and the duty between asset managers and their clients.

**GOVERNANCE FACTORS** *n* Issues related to a company's internal structure and practices, its consideration for shareholder rights, its accountability and wider transparency framework. Measures of governance can include board structure and independence, executive remuneration or auditor independence. See ESG.

**GREEN ECONOMY** *n* A low-carbon, resource-efficient and socially inclusive economic growth path for improved human well-being and social equity while reducing environmental risks. It is an alternative concept to typical industrial economic growth, which focuses on increasing GDP above all other goals.

**IMPACT INVESTING** *v* Investing with the primary goal of achieving specific, positive social benefits, while also delivering an attractive investment return. Typically, these are investments in projects with clear social goals, for example, education or housing.

**INTEGRATION** *n* An approach to investing which considers integrating ESG issues into the research, valuation and portfolio construction processes to improve the risk/return characteristics of a portfolio.

## PRINCIPLES OF RESPONSIBLE INVESTMENT (PRI)

*n* Founded in 2006 in partnership with the United Nations (UN), this is an investor initiative that supports a global network of signatories to incorporate ESG factors into their investment decisions. Old Mutual has been a signatory to the PRI since June 2012.

**PROXY VOTING** *v* A form of voting whereby a shareholder with voting rights delegates his or her voting power to a representative (in this case, the asset manager) to enable a vote in absence at a company's annual general meeting or special meeting.

**RENEWABLE ENERGY** *n* Electricity harvested from resources that are naturally replenished, such as sunlight, wind, water and geothermal heat.

**RESPONSIBLE BUSINESS** *n* The collective term Old Mutual uses to describe the broad set of management processes and activities that we undertake in response to the material ESG issues facing our business.

## RESPONSIBLE INVESTMENT

*n* An approach of allocating and stewarding our clients' capital in a manner that factors in ESG issues and drives low-carbon, socially inclusive and resource-efficient growth. This is central to achieving appropriate risk-adjusted returns while building resilience in the economies in which we operate.

## RESPONSIBLE OWNERSHIP

*n* Speaks to how ownership of shares brings with it important responsibilities, particularly the right to vote and engage on key matters influencing how an investee company operates. See Stewardship & Engagement.

**SOCIAL FACTORS** *n* Issues related to social themes, such as demographic changes, social trust and transformation. Investors may use the analysis of these factors to gauge the contribution a company makes to society or assess a company's ability to adapt to the social pressures.

**STEWARDSHIP** *n* The important responsibilities that come with the ownership of shares, particularly the right to vote and engage on key matters influencing how an investee company operates. .

**SUSTAINABILITY** *n* A focus on considering ESG factors to generate long-term stability and financial returns as well as a positive societal impact.

## SUSTAINABLE DEVELOPMENT

**GOALS** *n* A UN-endorsed set of 17 goals adopted in September 2015, aimed at ending poverty, preserving the planet and ensuring prosperity for all.



# A MESSAGE FROM KHAYA

**KHAYA GOBODO**  
Managing Director



In South Africa, we are faced with a unique set of challenges, ranging from extreme social inequality, poor economic growth and lagging infrastructure to increasing environmental stress. These challenges have created an important opportunity for us as we believe we have a responsibility to constructively contribute to creating a sustainable and an inclusive future for all, without sacrificing return outcomes for our clients. As custodians of our clients' wealth and acting on their behalf, we have a real commitment to this responsibility, which is encapsulated in our overall approach to responsible investing across all our asset classes.

## MAKING ESG OUR BUSINESS

Environmental, social and governance (ESG) factors have become increasingly important considerations for both asset owners and investors. This isn't surprising, because the nature of the world as we know it is at stake. We face a very real existential crisis if our impact on society and the environment continues unabated. There is a recognition that we all have a responsibility in creating a sustainable future for all.

What is becoming clearly apparent is that integrating ESG considerations does not have to come at a cost to returns. To the contrary, there is emerging evidence these factors can make a positive contribution to client returns.

For example, the MSCI Emerging Market ESG Leaders Index, which focuses on companies with higher sustainability performance than their peers in their sector, outperformed the MSCI's standard emerging markets index on a total return basis by 103% during the past decade.

## FOR A FUTURE THAT MATTERS

In this publication, our team details our Responsible Ownership programme, our contribution to the green economy and our integration of ESG into our investment processes.

We define responsible ownership, or stewardship, as the active and responsible management of our clients' assets to ensure ESG risks are reduced and opportunities are captured. We do this through our active approach to proxy voting at company meetings, engaging with companies and by ensuring that we

drive positive change with regulators and industry bodies. On this note, we've supplied a few case studies to demonstrate our on-the-ground approach to active ownership.

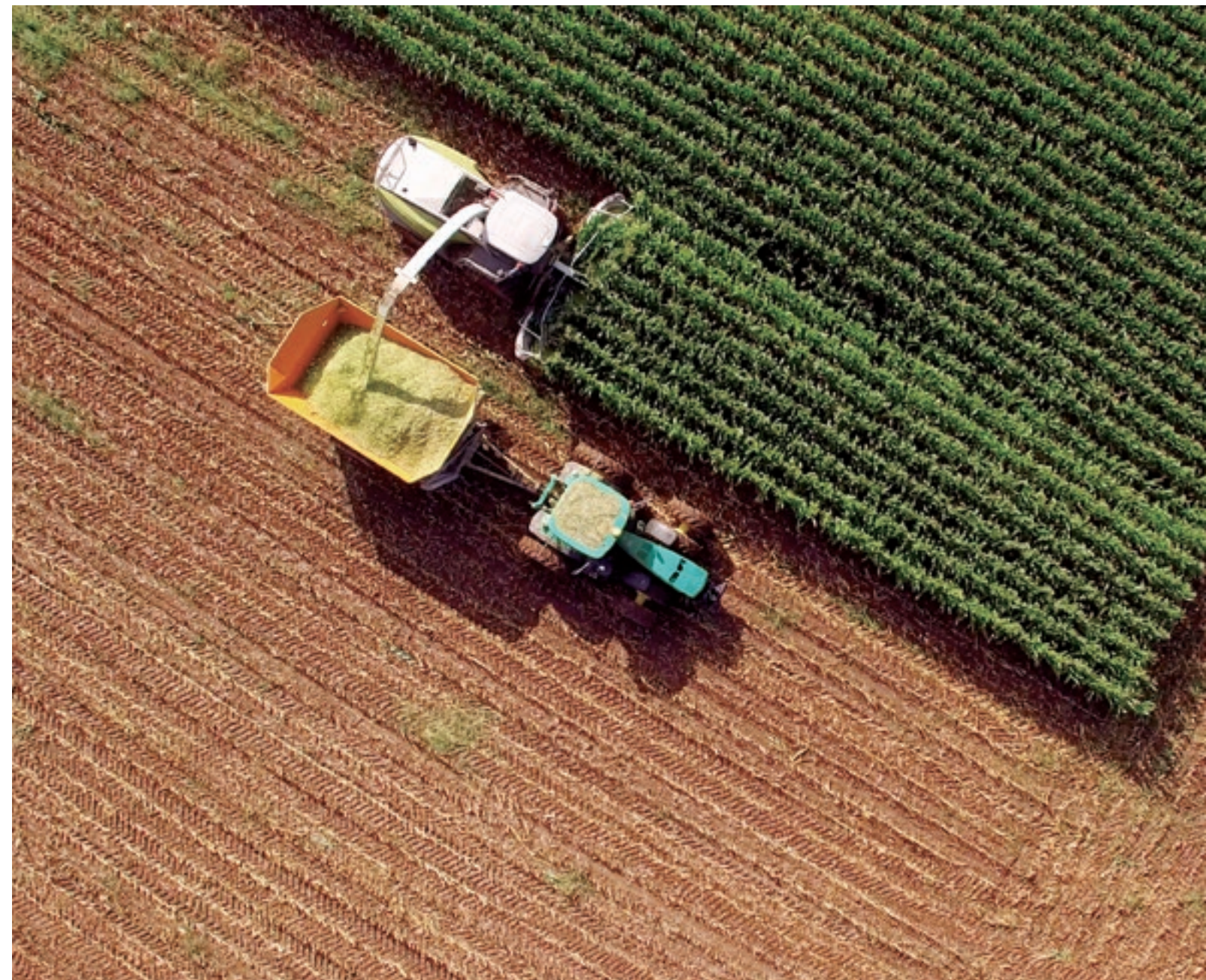
We also highlight where the R122 billion we committed, on behalf of our clients, has been put to work in Africa's green economy. This is another illustration of how we've long moved from just thinking or talking about sustainability to tangible action.

## YOUR THOUGHTS?

With all the progress we've achieved so far, it's important to note that we are part of a greater ecosystem and so cannot redirect the ship alone. With that said, we would love to hear your views on how we can contribute more or differently towards a sustainable tomorrow for us all. Please email us at [listening@oldmutualinvest.com](mailto:listening@oldmutualinvest.com).

I hope you enjoy the read! 🌱

**RESPONSIBLE INVESTING AFFORDS US THE OPPORTUNITY TO PURSUE SUPERIOR, RISK-ADJUSTED RETURNS FOR OUR CLIENTS; WHILE AT THE SAME TIME POSITIVELY IMPACTING THE COMMUNITIES AND ENVIRONMENT THAT WE OPERATE IN.**





**JON DUNCAN**  
Head of Responsible  
Investment



# OUR APPROACH TO RESPONSIBLE INVESTMENT

Our approach to Responsible Investment is motivated by a clear understanding that environmental, social and governance (ESG) issues can and do impact returns. We are bound by a fiduciary duty to our clients to address these issues and, importantly, by a belief that it's both the right and smart thing to do.

Old Mutual Investment Group is guided by a publicly available Responsible Investment policy that commits us to integrate ESG issues across all of our investment and ownership capabilities.

See our policies at [www.oldmutualinvest.com](http://www.oldmutualinvest.com)

From a responsible investment perspective, 2018 was a milestone year for the South African market. The investment community became acutely aware of the need to work collectively to address ESG issues, the JSE developed new market regulation to strengthen governance, and the Financial Sector Conduct Authority (FSCA) launched pension fund sustainability reporting guidelines for comment.

For Old Mutual Investment Group, our resolve and commitment to responsible investment is as strong as ever. The journey we began in 2010 is gaining momentum, yet remains focused on two priority areas:

1. Deepening our ESG research and integration practices.
2. Focusing our capabilities on investment solutions that address long-term sustainability issues (for example, renewable energy, education, ESG indices).

## SPECIALIST SKILLS

We have a team of 11 full-time professionals working on a range of ESG issues across our investment capabilities. These specialists all bring deep insight into their respective areas of practice, which cuts across our private equity, infrastructure, development impact, agriculture, fixed income and listed equities capabilities. The team works across a range of sectors and geographies and brings a unique insight into investment risk and opportunity.

## HARNESSING ESG DATA IN LISTED EQUITY

Leveraging both quantitative and qualitative insights means that we can stay on top of ESG issues as they arise in the listed markets. During 2018 we developed an algorithm that processes ESG data into a proprietary ESG score. We can then use this ESG score in our quantitative equity strategies and separately to focus qualitative ESG research across our fundamental equity strategies.

## LISTED EQUITY STEWARDSHIP

Another important component of our responsible investment commitment is our Listed Equity Stewardship programme, which cuts across some R300 billion of client holdings. In July 2018, we set out a clear position concerning our expectations of listed companies in relation to ethical leadership, tackling transformation and integrating ESG issues into their

long-term business strategies. Our position was communicated in an open letter to the CEOs of the largest listed companies in South Africa and supported by direct engagements thereafter.

## DRIVING GREEN GROWTH THROUGH ALTERNATIVES

Across Old Mutual Alternative Investments (OMAI), Old Mutual Specialised Finance and Futuregrowth – all part of Old Mutual Investment Group – we manage approximately R122 billion of our clients' capital in green economy investments, both debt and equity. These businesses are a constructive voice across a range of national interest issues such as renewable energy, land reform and governance at State-owned entities. Across OMAI we further enhanced our ESG integration practices by investing in additional specialist skills and through investments in the systems to track and report on impact data. We now have the

systems to track and report on the contribution our clients' capital makes towards the United Nations Sustainable Development Goals (SDGs).

## DRIVING INNOVATION

A standout innovation that we brought to the market in 2018 was our ESG Index Fund range for retail investors. This range was a first for South Africa and was built on our experience of offering similar products to the institutional market – where we currently have in excess of R10 billion of our clients' capital in ESG index products. These passive, low-cost products are designed to offer investors the opportunity to achieve benchmark-like returns by holding a basket of companies that is measurably better for the planet. In 2019 we'll continue to place responsible investment at the heart of our business, with an unrelenting focus on adding value to our clients' portfolios while at the same time contributing towards a future that matters. 🌱

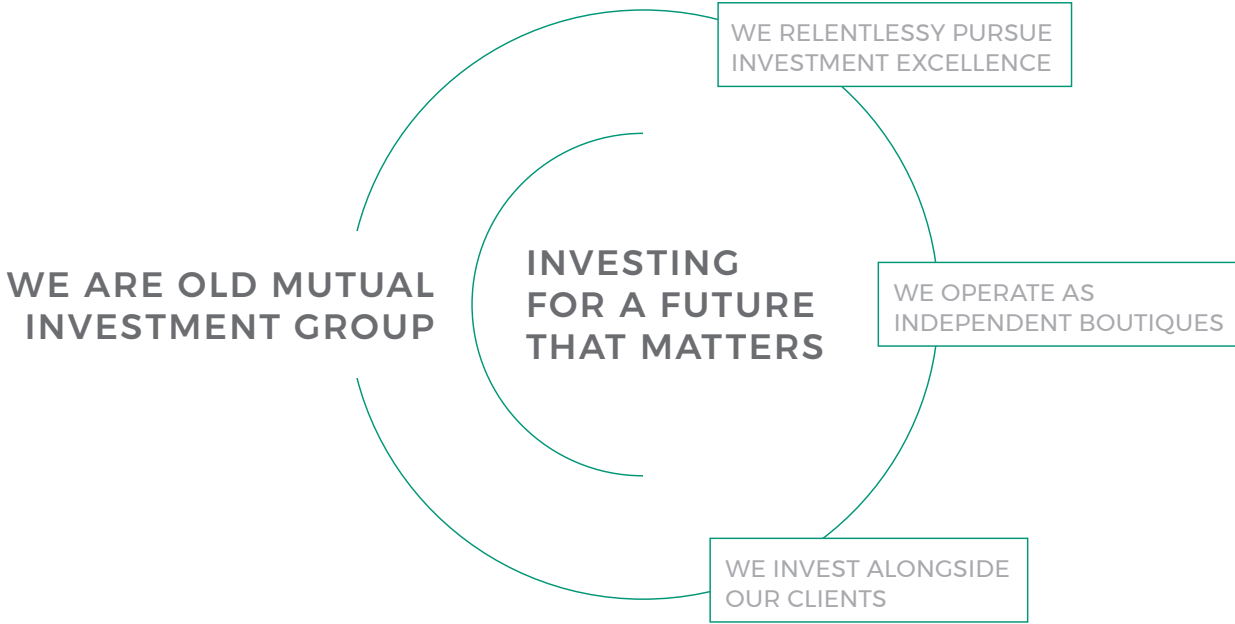
# ABOUT US

OUR VISION

TO GENERATE SUSTAINABLE LONG-TERM RETURNS THAT MAKE A DIFFERENCE IN OUR CLIENTS’ LIVES.

OUR MISSION

To relentlessly pursue investment excellence, within and across our boutiques, to help our clients achieve their investment goals.



# FOR BETTER RISK-ADJUSTED RETURNS

The integration of environmental, social and governance (ESG) issues in fundamental analysis, valuation and portfolio construction has become increasingly important in recent years given the growing number of corporate events which have adversely impacted companies’ ability to sustainably generate quality earnings and positive returns for shareholders. The recent large-scale governance failures in the state and listed corporates has highlighted that investors need to consider more than the “quantitative” assessment of “fundamental value” in investing clients’ funds.

Old Mutual Equities’ (OME’s) approach to ESG integration is in principal guided by our investment philosophy and approach. We believe in an enhanced value approach which entails complementing rigorous bottom-up fundamental valuation work in the research portion of our process with three confirming quantitative factors: quality, growth and sentiment in our portfolio construction process. The portfolio construction process is where we combine our bottom-up research with risk considerations alongside our quantitative factors to construct portfolios that expose clients to our best ideas while protecting them from unintended risks. With this perspective, we understand the macro-thematic business case for sustainability and the underlying company value drivers associated with ESG issues. As such, we

leverage both quantitative and qualitative ESG research inputs into our processes. We do not apply hard exclusions unless mandated by our clients.

Our approach to ESG integration is a structured and repeatable process that is led by our portfolio managers and investment analysts in conjunction with our dedicated specialist ESG research unit. The first step in the process involves screening our investment universe with a proprietary ESG quantitative tool developed by our specialist ESG team. This tool highlights a company’s exposure to accounting and governance related risks, external and internal exposures to environmental and social risks (taking into account the firm’s capability in managing these risks), as well as a company’s history of controversial events. We use these insights to focus our qualitative/ fundamental ESG research, which aims to give dimension to the identified risks in terms of materiality and financial impact over a short, medium and long-term time horizons. Depending on the availability of data, we may also engage directly with company management to better understand the issues in more detail.

For example, our ESG risk screening may identify climate change risk as a concern to a particular company. In this case, we will undertake deep-dive research on how the issue may impact the company’s core financial metrics and competitive positioning

– this may translate to an adjustment of our base case and/or bull-bear case analysis. In each instance the analysts on the company are required to prepare a detailed note on how the material ESG issues have been considered in the overall company valuation and buy/hold/sell recommendation.

When it comes to ownership, we are active stewards of our clients’ assets and exercise voting rights and regularly engage with management teams and boards. A more detailed summary of our proxy voting and company engagement is provided in our Responsible Ownership Report. 🌱



**PETER BROOKE**  
Boutique Head,  
MacroSolutions



# WHAT IT TAKES TO BE RESPONSIBLE CUSTODIANS OF OUR CLIENTS' CAPITAL

“WHEN MATERIAL ISSUES ARISE THAT WE THINK COULD DAMAGE OR ENHANCE SHAREHOLDER VALUE, WE ACTIVELY LOBBY FOR CHANGE.”

Responsible investment is important. It is relevant. And we engage with it on a daily basis. We are committed to incorporate ESG factors into our investment and ownership decisions. We deliver to our commitment by considering two sides of responsible ownership: firstly, whether to own an asset (pre-trade) and, secondly, influencing the outcomes on assets that we already own (post-trade).

## RESPONSIBLE INVESTORS: PRE-TRADE

The first stage of incorporating ESG factors into our decision-making happens when we review an investment for inclusion in our portfolios. Our philosophy incorporates a uniquely two-dimensional investment approach of “Theme” and “Price”, on an equally weighted basis. Under Theme, in addition to considering the macroeconomic environment that drives the performance of the investment, we also consider industry dynamics and company specifics. In doing so, we look for any environmental, governance or social issues that may impact the

investment now or in the future. Most often, these issues screen as negative themes and form part of our decision not to own a company.

For instance, as part of our investment process we had decided to place a negative Theme score on Steinhoff’s corporate governance as far back as 2015. While this meant that since then we became active sellers of the shares, it also stopped us from buying shares when they got cheaper. This is a good example of our philosophy in practice, given what ensued from a corporate governance perspective for the company. As another pre-trade example, we don’t own commodity producer Sibanye, based on a negative Theme score arising from social impact concerns. Deep-level mining is very risky from a fatality point of view and Sibanye has been among the worst in this regard. Coupled with the company’s antagonist relationship with labour, we are presented with a sizeable hurdle to ownership. Of course, the factors raised in these examples are dynamic and they can be resolved. We therefore do not regard such hurdles to be permanent and monitor for any thematic improvement with the same diligence as we would monitor Price action.

## OWNERS: POST-TRADE

Given the small universe of shares in South Africa, it is in our interests to actively engage with companies in order to get the best long-term outcomes for our clients. We invest in a company with an expected time horizon of around five to 10 years. As long-term investors, we need those companies to do the right thing – whether that be how they allocate capital, remunerate themselves or invest to grow. Decisions made by companies today impact their longer-term sustainability and hence the investment outcomes for our clients.

While we are able to draw on the expertise of our Responsible Investment team as specialists on ESG-related engagement, the responsibility to ensure that companies do the right thing sits with the portfolio manager. As active custodians, we regularly vote on company resolutions (see our Responsible Ownership Report), but our level of engagement is much more than just proxy voting.

When material issues arise that we think could damage (or enhance) shareholder value, we actively lobby for change. For instance, following the listeriosis outbreak at Tiger Brands’ meat processing factories, we felt the company’s focus was only on the short-term cost of potential payouts and loss of sales. We pushed the board of directors to address the damage to brand value, as it could impact the long-term profitability of the business. You can read more about our approach in our Responsible Ownership Report.

By integrating ESG considerations into our investment framework we have managed to avoid owning a number of “landmines”. For those companies that we do own, we actively engage with their leadership, through voting and lobbying for change, to drive the best possible outcome for long-term value. As custodians of our clients’ wealth, we are focused on delivering returns sustainably and our philosophy of “theme” and “price” has worked well in growing and protecting our clients’ capital. 🌱





# FOR THE TRUE LONG-TERM INVESTOR

As a boutique that offers bespoke investment solutions, our commitment to responsible investment involves examining appropriate mechanisms to integrate relevant and material ESG factors into our investment decision-making processes.



“ THIS FUND ALLOWS INVESTORS THE OPPORTUNITY TO VOTE WITH THEIR FEET BY REWARDING COMPANIES THAT VALUE ESG ISSUES AHEAD OF THEIR PEERS WITHOUT COMPROMISING BROAD MARKET EXPOSURE. ”

**GRANT WATSON**  
Boutique Head,  
Old Mutual Customised  
Solutions



**FRANK SIBIYA**  
Portfolio Manager



Our goal as a manager is to provide our clients with superior investment returns over the long run, regardless of the mandate. In this pursuit of long-term returns, we pay careful attention to the analysis and management of risk across all our portfolios, including ESG risks. Our business works closely with the dedicated Old Mutual Investment Group Responsible Investment team who support us with ESG data inputs. We leverage this ESG data into our adaptive strategies, which vary exposure to sources of excess return on a dynamic basis. Additionally, we have leveraged ESG data insights as the basis of launching a series of ESG index based funds. Across all our products we undertake an active ownership approach, which includes proxy voting and engagement so that we proactively drive positive change and long-term sustainable outcomes

## OUTPERFORMANCE WITH ESG INDICES

Markets have been experiencing an increase in low-cost indices that offer ESG-led mandates and champion responsible investment. ESG-led index-tracking products can offer investors the opportunity to send signals to capital markets that sustainability considerations are of prime importance, without adversely affecting the risk-return characteristics of an investor's financial returns while also benefiting from substantially lower fees.

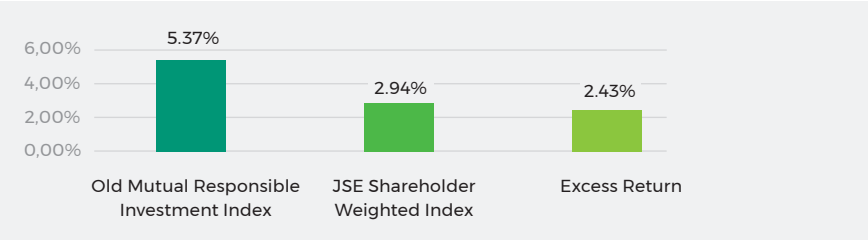
Old Mutual Customised Solutions, with its scale and depth of experience, launched the very first responsible investment equity index fund in South Africa in 2016. The Old Mutual Responsible Investment Equity Index Fund invests in companies that have measurably better ESG performance than their sector peers. This is particularly attractive to long-term investors that value sustainable economic themes, given their extended investment time horizon. Looking through the lens of sustainability gives better insight into the risks and opportunities a company faces.

## CREATING THE RESPONSIBLE INVESTMENT EQUITY INDEX

To produce the responsible investment equity index, we took Morgan Stanley Capital International's (MSCI's) ESG-related data – collected through its in-house research capability – and through a proprietary weighting methodology, built an index that has exposure to the most sustainable companies in South Africa. Chart 1 shows the annualised return of the index relative to the JSE Shareholder Weighted Index (SWIX).

Table 1 illustrates how the excess return depicted in Chart 1 was also achieved at a similar volatility to the SWIX.

CHART 1 ANNUALISED RETURN SINCE INCEPTION



Source: Old Mutual Investment Group. Figures as at January 2019.  
Old Mutual Responsible Investment Index's inception date is 1 April 2016.

TABLE 1: OLD MUTUAL RESPONSIBLE INDEX VS THE SWIX

INDICES	VOLATILITY SINCE INCEPTION*
Old Mutual Responsible Investment Index	10.35%
JSE Shareholder Weighted Index	10.68%

Increasing awareness of the importance of ESG factors in an investment approach is translating into strong demand for sustainability-themed investment products. And ESG-led indices in particular offer the savvy investor meaningful exposure to these solutions. 🌱



ANGELIQUE KALAM  
Manager: Sustainable  
Investment Practices,  
Futuregrowth Asset  
Management



# AN UNWAVERING COMMITMENT TO ESG INTEGRATION

## KEY TAKEOUTS

- ESG risks can impair an issuer’s credit quality
- There is no standard set of ESG risk parameters for fixed income, it differs across issuers and sectors
- ESG is full of judgement and biases; as managers we should exercise judgement
- Build investment processes that earn sustainable returns
- ESG should never compromise risk/return principles

Futuregrowth manages approximately R185 billion of assets in the fixed income space, ranging from money market, vanilla and inflation-linked bonds to high-yielding credit bonds, and a suite of developmental (impact) funds across a variety of asset classes.

As defined by our Responsible Investment philosophy, we seek to promote sustainable environmental, social and governance (ESG) best practice in our investee companies.

We believe that ESG issues are key components in managing investment risk. A lack of attention or management of ESG issues can have a negative impact on risks and rewards – as evidenced in many recent headlines relating to governance failures in the South African market.

## APPLYING ESG ANALYSIS TO FIXED INCOME

Our primary objective is to earn appropriate risk-adjusted returns at all times for our clients. As such, it is necessary that ESG screening and analysis forms part of an integrated investment process across our wide range of mandates. In this way, non-financial ESG indicators are assessed along with financial and credit indicators in order to produce a holistic risk profile of any new or existing loan, at a given point in time. We use a variety of tools and inputs for this purpose, and these are constantly fine-tuned as new learnings arise. The fixed income asset class is complex due to the wide variety of issuers, and therefore there is no “one-size-fits-all” solution to analysing companies on sustainability issues. Therefore, there will be variances in our approach to, for example, issuers in the listed space versus those in private debt.

## EXAMPLES OF SCREENING CRITERIA COULD INCLUDE:

### ENVIRONMENTAL

Does the company assess the environmental risks arising from its operations, and what processes are in place to do this and how do they mitigate these risks?

### SOCIAL

What impact do the company’s activities have on local communities and other stakeholders?

### GOVERNANCE

Does the company routinely disclose material transactions that involve conflicts of interest of any directors, and any fines or regulatory non-compliance – and is there a record of how these situations have been addressed?

## ENGAGEMENT IS KEY

We have a large, skilled credit team and we’re able to negotiate specific terms in loan agreements on behalf of our clients – and have the added benefit of being able to structure many of these loans internally. As lenders, we seek strong covenants in order to protect our clients during the term of a loan, for example, we require borrowers to report timeously on any material events that could affect the credit quality of the loan. Examples of such events could be reputational damage to the company due to a failure to respond timeously to poor product quality that resulted in harm to consumers, extreme weather incidents that caused unforeseen production losses, or unanticipated expenditure relating to health and safety non-

compliance, among others. On these occasions, we engage with the borrowers to ensure that the risk is minimised as far as possible, and, importantly, that long-term, proactive strategies are devised and implemented to manage the risk and the impact on future revenues. Learnings from these events are shared internally and applied across all our investments, where applicable, to the benefit of all our clients in the end.

## A COMPETITIVE ADVANTAGE

In our rapidly changing environment where responsible investment practices are gaining momentum and evolving, the financial services industry continues to grapple with risks of an ESG nature. We believe

that our focused and dynamic approach has set us apart in this field. We add value to our clients’ portfolios by integrating ESG into our investment processes and engaging borrowers on material issues that affect the sustainability of their business. We also strive to add value to our industry by engaging the market around improving capital market standards while being mindful of the issues summarised in this article’s key takouts aforementioned. 🌱





DEAN ALBOROUGH

Head of ESG,  
Old Mutual  
Alternative  
Investments



# ESG INTEGRATION INTRINSIC TO ALTERNATIVE INVESTMENTS

Old Mutual Alternative Investments (OMAI) is one of the largest alternative investment managers in Africa, with over R58 billion under management in infrastructure, private equity and impact investing. As well as delivering sustainable, superior returns to investors, we also seek to create a positive, long-term impact in the communities we live, operate and invest in.

At the heart of OMAI's investment objectives and processes is a commitment to responsible investment. We take into consideration the environmental, social and governance (ESG) factors that accompany our investment and ownership decisions.

To this end, we've developed and implemented an integrated **Environmental and Social Management System (ESMS)** – a robust and an embedded system that addresses environmental and social management requirements across all our fund portfolios. It is also a mechanism for efficient and transparent ESG reporting to our stakeholders.

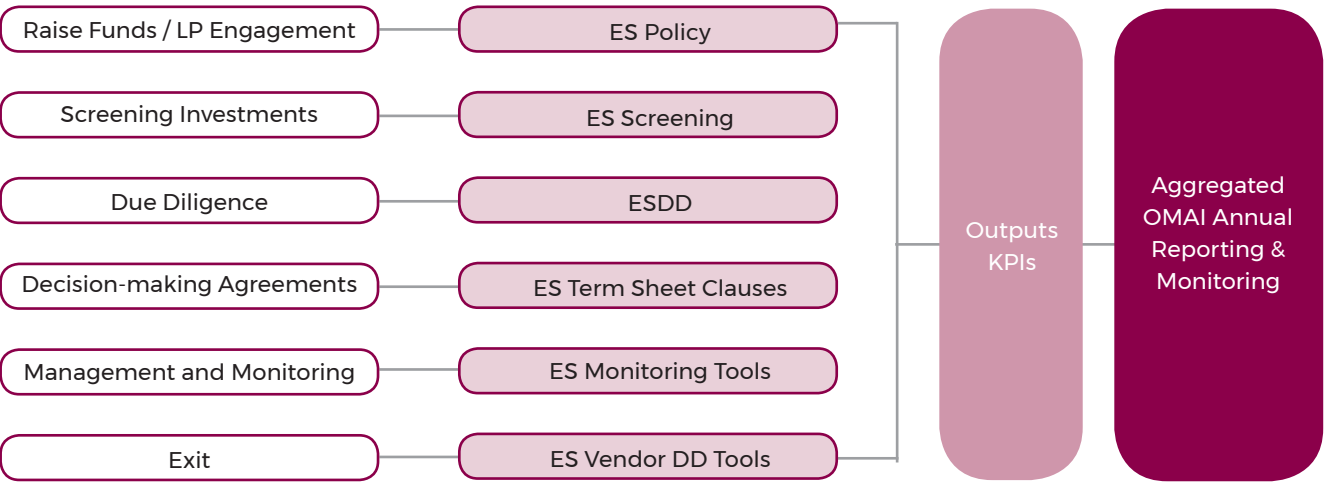
## ABOUT OMAI

We operate under four capabilities:

- African Infrastructure Investment Managers (AIIM) invests in infrastructure assets across Africa.
- Private Equity (OMPE) invests in unlisted businesses across a number of sectors.
- Fund of Funds (OMFoF) invests in African and international private equity funds.
- Impact investing in affordable housing, schools and retirement accommodation.

The ESMS is tailored for each OMAI business capability and comprises a set of policies, procedures, tools and reporting guidance that have been customised for the various funds. This enables each fund to identify, assess, manage and report on ESG risks associated with their assets and portfolio companies, and to identify opportunities for positive impact. The ESMS fully integrates ESG into the OMAI investment lifecycle.

## AN OVERVIEW OF OUR ESMS



### The ESMS enables us to:

- Integrate ESG issues directly into investment decision-making processes;
- Set clear requirements for portfolio companies to develop and implement ESG systems to ensure they meet OMAI's ESG standards;
- Provide a framework for reporting and disclosure on ESG aspects to OMAI by portfolio companies; and
- Work in partnership with portfolio companies to help them identify and implement ESG opportunities and create sustainable value-add that enhances their overall financial performance.

We receive specific ESG quantitative and qualitative information from portfolio companies as part of the asset management/monitoring phase of the investment cycle. This allows us to measure and track ESG performance against key performance indicators (KPIs) for the portfolio company while driving positive outcomes benchmarked against United Nations Sustainable Development Goals.

OMAI investment professionals use this information to produce better outcomes in their portfolio companies. 🌱



## CASE STUDY | BBOXX CAPITAL – A SOLAR POWER HOME SYSTEMS COMPANY

In December 2018 the African Infrastructure Investment Fund 3 (AIIF3) acquired a minority stake in BBOXX's operations in East Africa, as part of a US\$31 million investment plan.

BBOXX Capital is a pay-as-you-go solar electricity service company that designs, manufactures and distributes plug-and-play solar home systems for off-grid rural and peri-urban communities. AIIF3 has a minority interest in BBOXX's subsidiaries operating in Kenya, Rwanda and the Democratic Republic of Congo, referred to as Next Generation Utilities (NGUs).

BBOXX's vision is to provide 20 million people with electricity by 2020. BBOXX focuses on satisfying the fundamental need for electricity as well as providing superior customer service.

To date:

### **OVER 250 000 PEOPLE**

have been positively impacted by BBOXX solar products

### **4 GWH OF ENERGY**

have been generated using BBOXX solar home systems

### **63 000 SCHOOL-AGED CHILDREN**

can now study comfortably

### **US\$2.4 MILLION**

has been saved in energy expenses

### **40 000 TONNES OF CO<sub>2</sub>**


has been offset



At the start of the deal ESG screening was undertaken to identify key risks and opportunities. We also ensured the deal was aligned with the AIIF3 mandate, identifying the standards and guidelines to be applied. We then defined the scope of the due diligence phase and the skills and experience required by advisers undertaking it. We appointed Ibis ESG Consulting to conduct the environmental and social due diligence (ESDD) for the transaction.

Ibis ESG Consulting undertook a full ESDD, including paying site visits and conducting detailed interviews with BBOXX management. Findings from the ESDD then informed an environmental and social action plan (ESAP), which would be implemented in the business once the transaction had been finalised. ESG implementation clauses were also incorporated into legal

documents and contracts to ensure that the portfolio company meets OMAI's ESG requirements.

From a company structure perspective, AIIF3 and BBOXX have invested into a holding company called Beyond, which holds equity in each of the NGUs. BBOXX also maintains a direct equity holding in each of the NGUs. Three AIIM investment professionals sit on the Board of Beyond, and at NGU level in each country two AIIM representatives sit on boards, including an AIIM-appointed independent director on two of the NGU boards. Within NGUs there are also audit and risk, remuneration and ESG subcommittees. It is through these governance structures that AIIM drives ESG performance. 



**HYWEL GEORGE**  
Director of  
Investments



# GLOBAL SHIFTS IN THE ASSET MANAGEMENT INDUSTRY – AND WHY RI MATTERS

**More than 40% of US asset owners have incorporated ESG factors into their investment decisions, up from just 22% in 2013, states the annual Callan ESG Survey Report (August 2018). The top two reasons cited for this ESG incorporation were expectations to achieve an improved risk profile and fiduciary responsibility.**

Many investment management advisers have also identified the need to launch “ESG funds”, for example, UBS Global Wealth Management is now offering its clients sustainable funds in cooperation with the Swiss giant’s asset management arm. From January to August 2018, UBS’s sustainable mandates, which the new strategies are built on, have doubled in size from CHF1.2 billion (€1.05 billion) to CHF2.45 billion (€2.15 billion).

From a real asset perspective, the Netherlands’ largest pension fund investor, APG, has set internal ESG targets. The €482 billion pension investment manager now invests €21.7 billion of its nearly €42 billion property portfolio in sustainable assets – an increase of €1.3 billion from 2017. The trend is similar in infrastructure, where €2.3 billion of the €11 billion portfolio is deployed in sustainable investments.

Responsible investment is evidently becoming an important part of institutional clients’ investment decision-making. So what are the key drivers causing the need for these responsible investment strategies? Well, we have identified some dominant global shifts that call for greater, more intentional ESG integration.

These shifts will define the future of the asset management industry, both globally and here in South Africa:

## **1 The growth of indexation (passive management)**

As indexation/passive funds continue to grow, pressure on active asset manager fees to be reduced will continue.

## **2 Technological transformation / Evolution**

Technology and digitisation are expected to be increasingly disruptive to the industry – this

will further put pressure on asset manager margins as well as the need for them to invest in technology.

## **3 Client-driven bespoke solutions / Partnerships**

Investors increasingly want specific outcomes rather than plain vanilla funds, e.g. bespoke multi-asset investment solutions for institutional investors, often with an ESG ethos. In the coming years, the value of active and passive

management will be more clearly defined. While passive investments may form the foundation of multi-asset solutions, active and alternative investments that deliver high and non-correlated alpha will be important components that boost performance.

## **4 Search for sustainable alpha**

The increased demand for alternative, non-traditional investment products continues to grow, particularly the demand for

impact investing, infrastructure investments, private equity, and credit (yield-enhancing) strategies.

These global shifts highlight two key pressures facing asset managers: lower fees and the need for sustainable profitability. Let’s now explore ways in which ESG could address these global shifts and their consequent pressures.





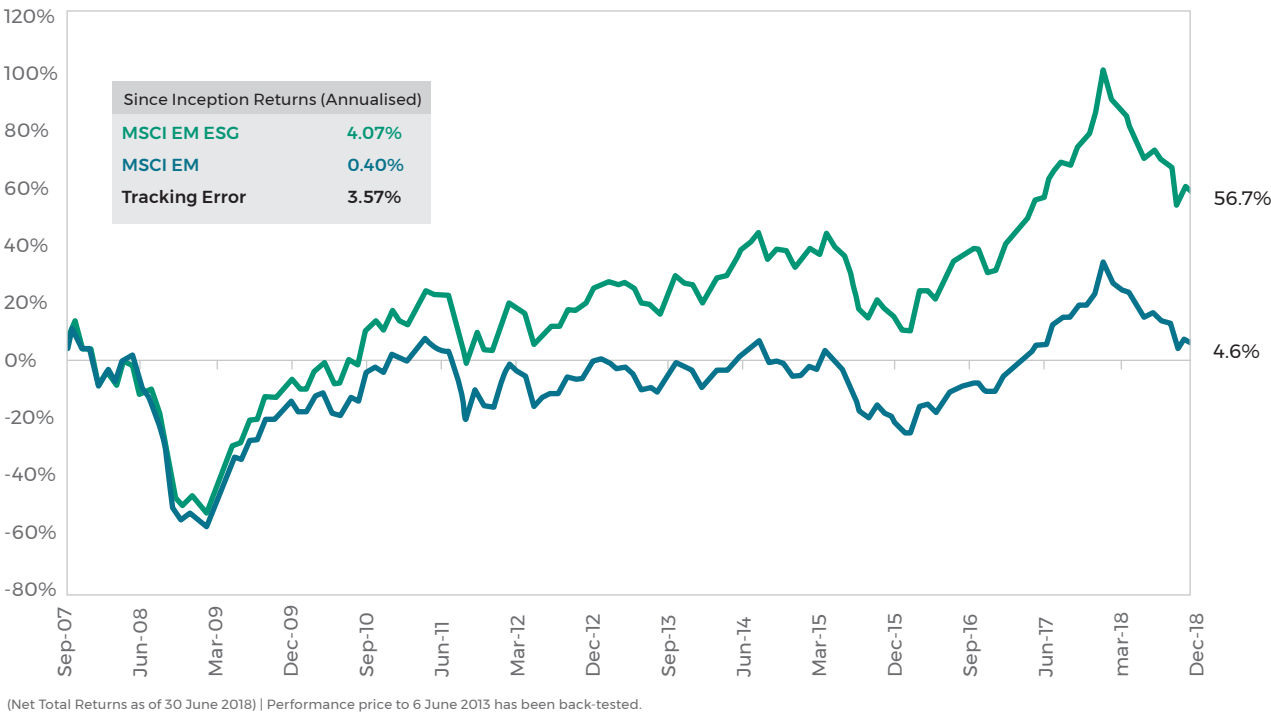
PASSIVE AGGRESSION?

With the growth of indexation, ESG can be used as a differentiator in terms of ESG passive offerings. In this respect Old Mutual Investment Group already offers a variety of both local and global ESG funds. Our Customised Solutions investment boutique manages the very first responsible investment equity index fund in South Africa. For active managers, we have incorporated ESG into the investment processes of our actively managed funds.

The search for sustainable alpha through alternative, non-traditional investment products is a strategy well known to Old Mutual Investment Group. Across our alternative strategies – including impact investing, infrastructure investments, private equity, and credit (yield-enhancing) investments – we apply an ESG filter/consideration to each investment offering. This incorporation of ESG is also often an essential component of a bespoke client solution.

Even with this increasing adoption of responsible investment practices, many critics still argue that ESG does not necessarily represent an alpha opportunity but that it is more effective as a risk management tool. In our view this is not necessarily true, as indicated by Chart 2 below, which compares the MSCI Emerging Markets ESG Leaders Index to the MSCI Emerging Markets Index (USD).

CHART 2: MSCI EMERGING MARKETS ESG LEADERS INDEX VS MSCI EMERGING MARKETS INDEX (USD)



So, as these global shifts continue to gain momentum, the need to look to ESG as a cornerstone to manage the impending changes to their landscape has never been more important to investors, which include millennials, many pension and provident funds, and asset managers. 🌱

THREE RESPONSIBLE INVESTMENT THEMES TO THINK ABOUT IN 2019

**In 2019, we expect that the “G” factor in ESG, which is governance, will remain front and centre for South African investors. We anticipate a greater amount of shareholder proposed resolutions at company annual general meetings, coupled with more vocal pushback from civil society organisations to corporate responses on ESG issues.**

TRANSFORMATION

The social challenges of unemployment, skills development and inequality still facing South Africa mean that transformation remains a priority issue for investors in 2019. Aside from Broad-Based Black Economic Empowerment score compliance, we see addressing this issue as central to building a stable and prosperous South African economy, and so we'll continue to champion progress through our engagement activities as we simultaneously drive inclusion and diversity within our own organisation.

SUSTAINABILITY AS AN IMPERATIVE

A driving force here will be the Financial Sector Conduct Authority Directive on Sustainability Reporting for pension funds. Our expectation is that this will drive a greater awareness amongst pension fund members of the sustainability practices in their funds. On the back of this, the retail market in South Africa is also waking up to the fact that they can and should have a choice when it comes to how their capital is managed. In this context, our expectation is that there will be growth in demand for ESG-themed products and, coupled with this, innovations in this area.

DEATH OR TAXES?

The South African Carbon Tax Bill was passed in Parliament on 19 February 2019. The Bill includes a R120 per tonne carbon tax for primary greenhouse gas emitters, a carbon tax on liquid fuels, economic incentives for energy efficiency and the use of carbon offsets as a means of reducing the tax burden. What is envisaged is a phased approach, with the first phase extending from June 2019 to December 2021, escalated at 2% above CPI annually. With the planned implementation of the national carbon tax this year, we expect that the climate change debate in South Africa will gain further traction and expect greater investor focus on costs, disruption and transition risks. 🌱





AN ACTIVE  
OWNER



**ROBERT LEWENSON**  
Head of ESG  
Engagement



# 2018 – A DEFINING YEAR FOR OUR LISTED EQUITY STEWARDSHIP

Old Mutual Investment Group's Responsible Investment team worked in tandem with our listed equity analysts and portfolio managers throughout the year to highlight the key ESG risks and opportunities with companies and across sectors. The focal point of our work in this regard was the themes identified in our letter to the CEOs of the JSE's Top 100 companies – namely transformation, long-term sustainability strategy and ethical leadership.

On reflection, 2018 was a watershed year for listed equity stewardship (here we mean primarily proxy voting at company meetings and engagement on ESG issues with company management). This was not only as a result of the various corporate controversies which plagued the South African market, but also an evolving sense of urgency to rectify gaps in corporate governance reporting, with changes being proposed to both the Companies Act (for the first time since enactment) and the JSE Listing Requirements.

We also saw a significant increase in the number of institutional investors taking their stewardship obligations more seriously, with collaborative engagements among institutional investors to address ESG concerns becoming ever more prevalent. On a market level we saw a revitalised Code of Responsible Investing in South Africa (CRISA) committee undertake significant action to push the investment value chain to adopt standardised reporting practices on responsible investment, including stewardship.



## THE STRENGTH OF OUR RESPONSIBLE OWNERSHIP APPROACH

For our clients it's essential that we build trust as the stewards of their long-term capital by showing the strength and conviction of our approach to the ESG issues which affect the long-term value of the assets we manage on their behalf.

In this year's report we show how we expect our investee companies to engage appropriately with the abovementioned ESG themes by sharing some of the experiences our listed equity investment teams had during the year. We ask our MacroSolutions portfolio managers how they responded to the tragic listeriosis outbreak at the operations of Tiger Brands Limited. Our Old Mutual Equities portfolio managers reflect on some of the progress

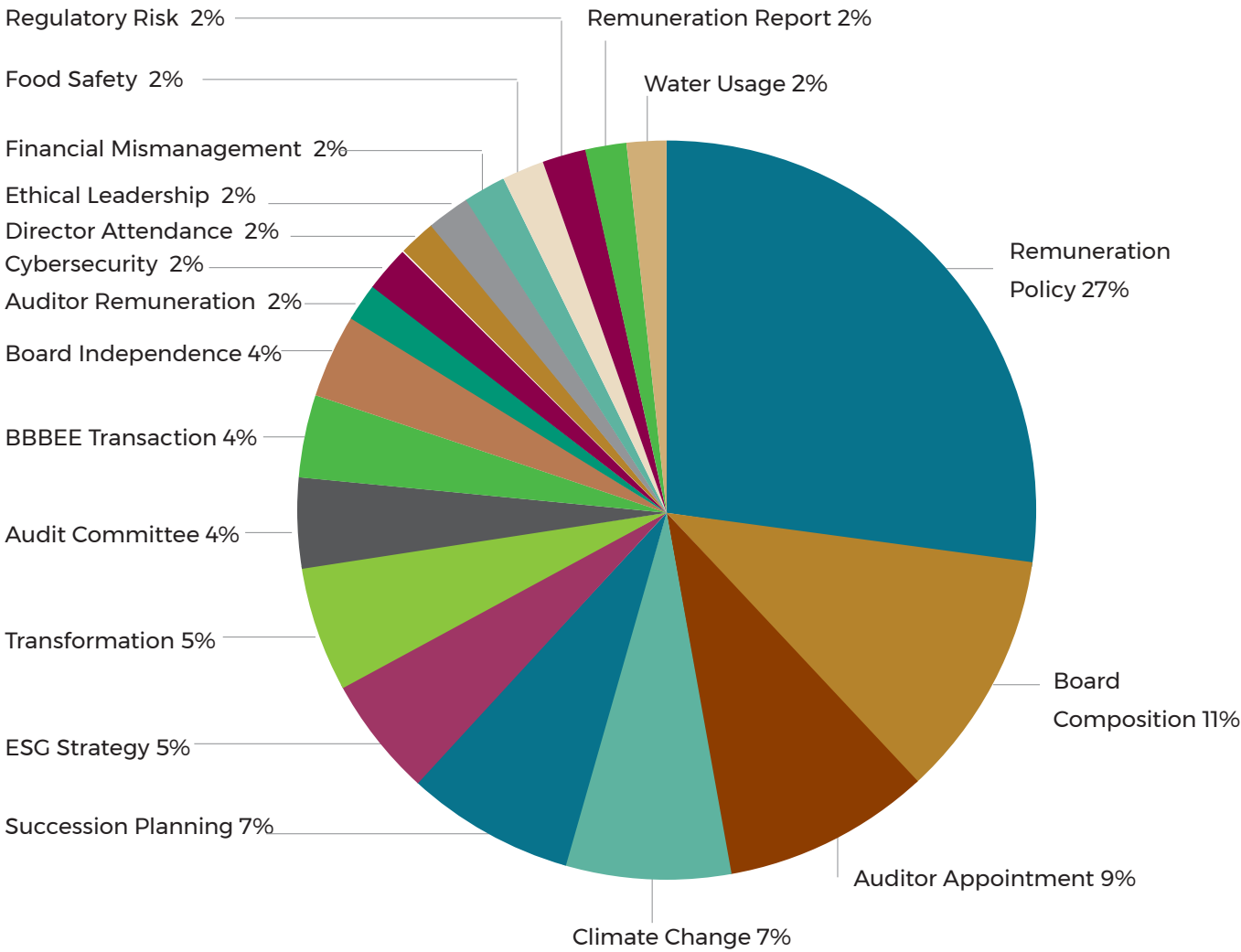
made regarding remuneration practices but also highlight where more work is still required. Lastly, our retail sector analyst will describe how research into the retail sector's previous poor performance on transformation led to engagements with key companies in the sector.

With the strengthening of our responsible investment research and valuable lessons learnt about the necessity of robust stewardship practices with our investee companies over the years, we've entered 2019 excited about the opportunity to continue working for our clients by engaging the market in a meaningful manner. Expanding our role in providing listed equity stewardship services to a broader client base will be an important part of this journey. 🌱



# OUR LISTED EQUITY STEWARDSHIP IN 2018

## ESG ENGAGEMENTS PER CATEGORY



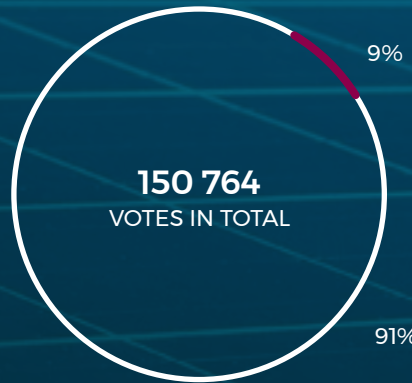
56%

ENGAGEMENTS WITH THE FINANCIAL SECTOR MOSTLY FOCUSED ON REMUNERATION ISSUES

## PROXY VOTING

Old Mutual Investment Group exercises each proxy on the merits of the case, and from the viewpoint of the client, without regard to any interests of Old Mutual Investment Group, its employees, officers, directors or its associated companies.

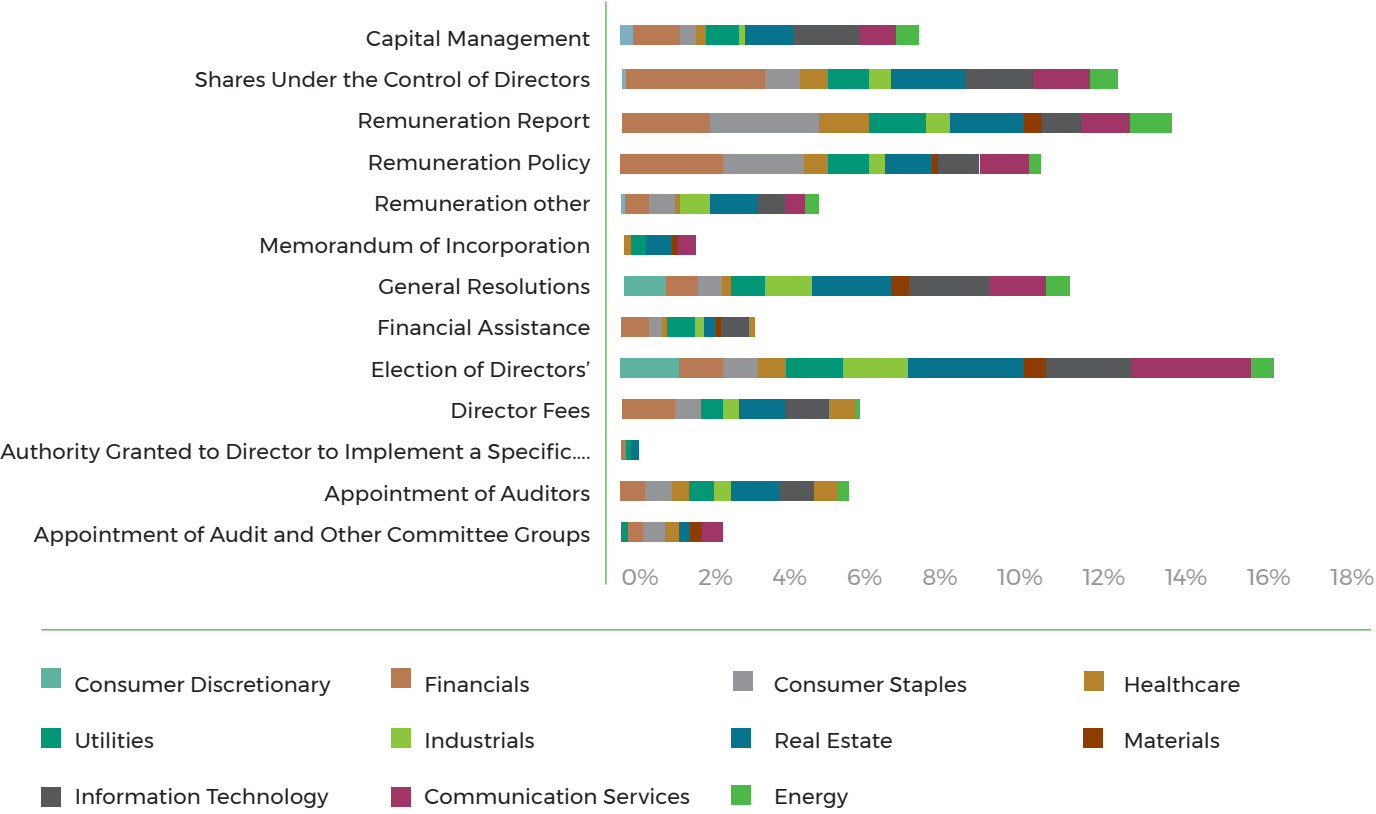
FIGURE 1:  
PROXY VOTE RESULTS FOR 2018



FOR - 141 900  
AGAINST - 10 864



RESOLUTIONS WE VOTED AGAINST – SPLIT BY SECTOR



Source: Old Mutual Investment Group

PROXY VOTING FOR 2018 ON REMUNERATION

Relative to the market, Old Mutual Investment Group is stricter when it comes to voting against the remuneration policies and reports of the companies in which we invest.

74%

How much Old Mutual Investment Group voted against the **remuneration policy** of our investee companies when the dissent level was immaterial (less than 25%).

68%

How much Old Mutual Investment Group voted against the **remuneration reports** of our investee companies when the dissent level was less than 25%.

90%

How much Old Mutual Investment Group voted against when there were material votes against remuneration (greater than 25%).

PROXY VOTING ON THE ELECTION OF DIRECTORS

- High priority issues:
- Independence
- Attendance and participation at meetings
- Experience
- Qualifications – including diversity.

SECTORS WHERE WE WERE MOST ACTIVE IN RESPECT OF REMUNERATION IN 2018

Most represented sector	Count
Real Estate	18
Materials	16
Financials	15
Consumer Discretionary	9
Industrials	7
Consumer Staples	4
Communication Services	4
Information Technology	3
Healthcare	1
Energy	1
Total	78

KEY TAKEOUT FOR PROXY VOTING ON THE ELECTION OF DIRECTORS

High priority issues were independence, attendance and participation at meetings, experience and qualifications – including diversity. 🌍



**ALIDA JORDAAN**  
Portfolio Manager



**WARREN VAN DER WESTHUIZEN**  
Portfolio Manager



## AFTER A TRAGEDY A Q&A WITH MACROSOLUTIONS

The deadly listeriosis outbreak was first noted in SA in October 2017 and after some investigating, processed meat products – such as polony and viennas – from a production facility owned by Enterprise Foods (a division of Tiger Brands) was identified as the source of this bacterial infection.

Tiger Brands had a lot to account for. So why would our portfolio managers decide to invest in this food producer post listeriosis? We asked MacroSolutions portfolio managers, ALIDA JORDAAN AND WARREN VAN DER WESTHUIZEN.

**Q: The listeriosis tragedy was a setback for Tiger Brands in a generally challenging 2018 – why did you choose to invest in the food producer beyond this point?**

A: We were looking for shares that would benefit from an improving South African operating environment and still offer a valuation underpin. Tiger Brands has a portfolio of excellent brands, in many cases being the number one brand in a category, for example, tomato sauce, rice, pasta, bread and baby food. Previously, Tiger Brands had always been deemed too expensive and this setback created an entry point. We believed the market had priced in the event. The listeriosis outbreak was, however, very tragic and we engaged with management around the issue. With that said, we believe this company will continue to be part of SA's recovery story.

**Q: What were the priority ESG risks you decided to engage Tiger Brands on first after the listeriosis tragedy?**

A: For us and our clients, the biggest, most urgent concern was of course the tragic loss of lives and illnesses which ensued. We wrote a letter to the Tiger Brands board from our investment analyst and Head of ESG Engagement calling for an urgent response to areas of attention for Tiger Brands – both

in the short and long term. For the short term, we called for improved communication, settling of the class action lawsuit in a responsible and empathetic manner, as well as ensuring that no other business units were or would be affected by the outbreak. For the long term, we wanted special attention paid to food safety across their product range – including attention to reporting practices.

**Q: What has been the company's response to the engagement? Have they addressed the ESG risks appropriately?**

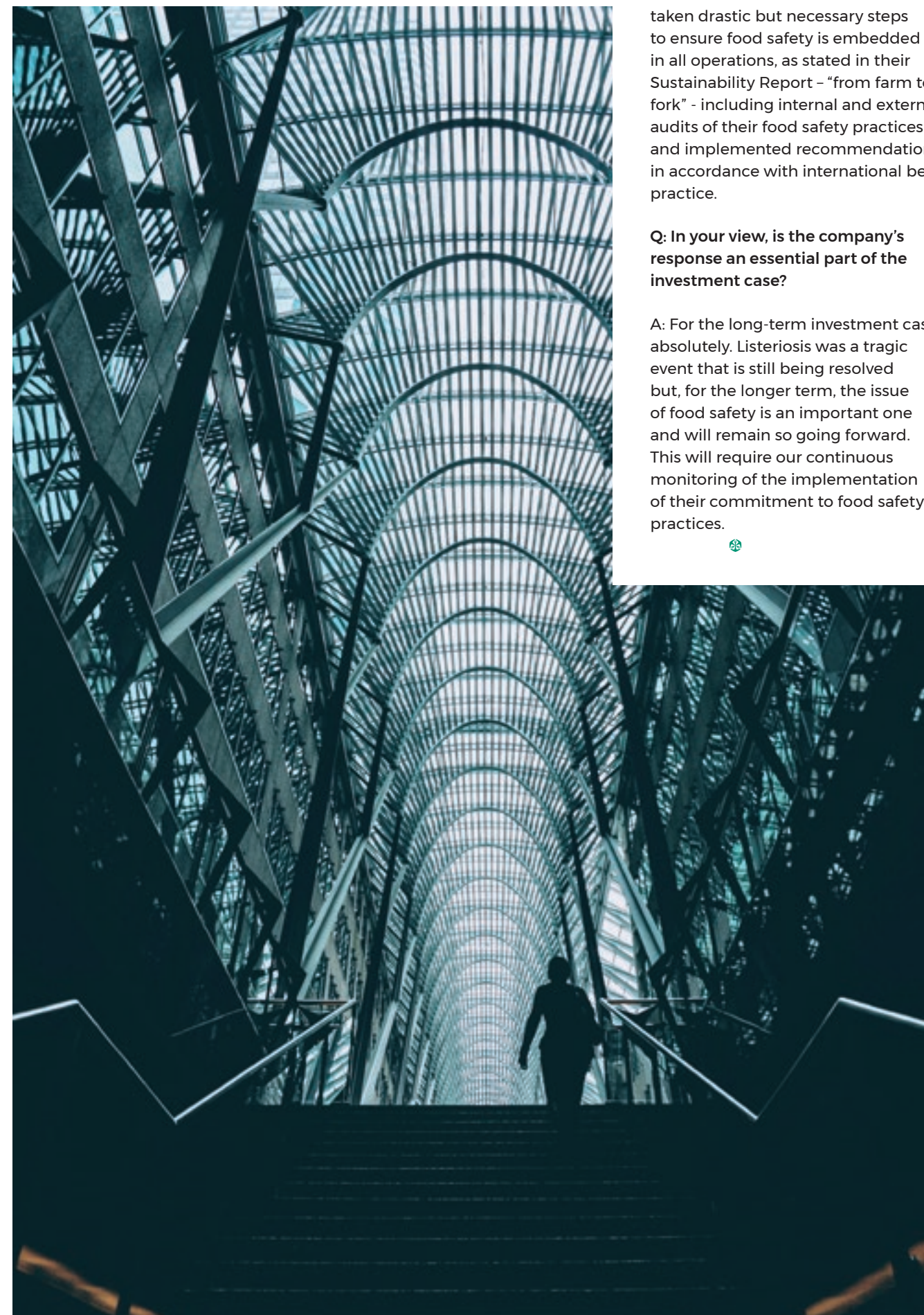
A: The company responded to our concerns, highlighting the actions they had already taken to address the crisis. This included the nation-wide recall of products and suspension of operations to undergo extensive, deep cleaning and structural upgrades. To address food safety concerns, they decided to increase the frequency of monitoring and added further quality control measures at all their manufacturing sites. Food safety and quality training was conducted for all staff at the facilities. As we would have expected, the company's management took accountability and indicated the class action would be handled with sensitivity, with a view to resolving it in a fair and responsible manner.

Since the tragedy, the company has

taken drastic but necessary steps to ensure food safety is embedded in all operations, as stated in their Sustainability Report – “from farm to fork” - including internal and external audits of their food safety practices and implemented recommendations in accordance with international best practice.

**Q: In your view, is the company's response an essential part of the investment case?**

A: For the long-term investment case, absolutely. Listeriosis was a tragic event that is still being resolved but, for the longer term, the issue of food safety is an important one and will remain so going forward. This will require our continuous monitoring of the implementation of their commitment to food safety practices.





PHILIP SHORT  
Portfolio Manager



# CASE STUDY NASPERS: INCENTIVISE UNLOCKING THE RUMP

## COMPANY DESCRIPTION AND INVESTMENT CASE

While the bulk of Naspers's value resides in its investment in China-based internet giant Tencent, its unlisted (or rump) assets are in global classifieds, online food delivery and online payments. In sub-Saharan Africa the company provides video entertainment.

The majority of the unlisted businesses are not yet profitable, but we believe there is significant value that can be added via this diverse portfolio of assets. Given that we are significant shareholders on behalf of our clients, we need to know that Naspers has the appropriate targets and employee incentives are in place to unlock this value. This motivated us to engage with the company on a number of key issues regarding the remuneration policy.

### FIRST ENGAGEMENT (20 OCTOBER 2017)

**Old Mutual representatives:**  
Robert Lewenson (Head of ESG Engagement), Philip Short (Portfolio Manager),

**Company representatives:**  
Chief People Officer and Head of Investor Relations

### FOLLOW-UP ENGAGEMENT (2 MAY 2018)

**Old Mutual representatives:**  
Robert Lewenson (Head of ESG Engagement), Philip Short (Portfolio Manager), Peter Linley (Head of Old Mutual Equities)

**Company representatives:**  
Chief People Officer and Head of Investor Relations



### CONCERN RAISED

We believe that shareholders can benefit from a better understanding of what is required from Naspers management to unlock the value of the unlisted rump assets (excluding Tencent). As such, we requested more detailed information on key performance indicators and metrics used in determining executives' remuneration – as we did not agree with Naspers's stance at its previous annual general meeting (AGM) that disclosing this information could undermine its competition position.

### OUTCOME

Following our discussions, Naspers agreed to provide better disclosure on short-term incentives, including:

- Financial performance would consist of 50% economic criteria and 50% on the business under control of each executive.
- Non-financial performance criteria would include areas specific to the executive's

control (for instance, customer growth and increased IT metrics).

We were pleased to note that more than 65% of the criteria listed excluded Tencent.

With regard to long-term incentives, the company was looking at the most appropriate way to incentivise the closure of the valuation gap between the rump and Tencent and sees e-commerce share appreciation rights as the best answer. The remuneration committee did not want the executives to be incentivised for performance in each business unit, but rather the division as a whole. For new acquisitions, performance would be looked at from three years onwards.

It was further agreed that Naspers would consider introducing clawback provisions in the event that executives were paid, but performance wasn't achieved.

In our follow-up engagement, Naspers confirmed that the valuation process and performance metrics for each division would be disclosed in their next Integrated Report. This would include more detailed disclosure on e-commerce share appreciation rights (SARs) versus other business units' schemes and each executive's overall performance criteria. The company further confirmed that clawback provisions were introduced from 1 April 2018. These would be backward looking for a period of two years and relate primarily to financial misreporting of information in terms of pay. It was also agreed that minimum shareholding requirements would be introduced for the CEO equal to 10 times basic salary and would be achieved gradually from share incentive schemes and awards and not from the issuance of shares.



CONCERN RAISED

In calculating the valuation of the rump (used for calculating financial performance), Naspers uses a Deloitte valuation. Our concern was that the methodology and metrics of this calculation were not disclosed.

OUTCOME

While Naspers conceded that the Deloitte valuation was not ideal, they said was the best option available and that Deloitte would review the business plans and discounted cash flow (DCF) analysis. Naspers's auditors, PWC, would cross-check the valuations and a sub-committee of the remuneration committee would then review the report. This committee would have discretion to amend the valuation report if need be. We further requested Naspers to inform shareholders of any trends towards amending the valuation report.

CONCERN RAISED

Perceptions matter and ultimately impact share prices. We believed that the public perceived Naspers's management to be disinterested in engaging with shareholders and the media. We requested that management adopt a more proactive approach to address this perception.

OUTCOME

Naspers was aware of the negative perceptions following its previous AGM and conceded that there was room for change. We proposed using existing online platforms to better communicate with stakeholders. In addition, the company decided to do more regular investor roadshows and follow-up engagements with shareholders.

These were fruitful discussions and we found Naspers receptive to our suggestions, and they actively addressed our concerns. We are further encouraged by the appointment of a new remuneration committee chair, Craig Enenstein, and the inclusion of new members with technological backgrounds and more diverse skill sets. We believe these initiatives will support the unlocking of value within the rump assets and look forward to further engagements with the board on ESG issues. 🌱



NEELASH HANSJEE  
Portfolio Manager



# A TALE OF TWO BANKS

## COMPANY DESCRIPTION AND INVESTMENT CASE

As a long-term investor, we believe that incorporating relevant environmental, social and governance (ESG) factors into our investment and ownership decisions ultimately leads to improved risk-adjusted returns for our clients. Identifying issues that currently or at some point in the future may materially impact the long-term value of a company, gives us insight into a business's ability to grow sustainably. As shareholders on behalf of our clients, we regularly engage with companies' executive teams as well as actively exercising our voting rights.

With me being a financial services sector analyst, Robert Lewenson (Head of ESG Engagement) and I engage with companies across this sector, specifically on governance issues. Given that a significant portion of financial services companies' expenses is remuneration, it is our responsibility to ensure that the remuneration policies of companies in which we invest are aligned to shareholders by being appropriate, transparent and set against clearly defined and sufficiently challenging targets.

By way of example, two financial services companies with which we have had numerous engagements are Standard Bank and ABSA. While these discussions have been constructive, we have not always voted in favour of their remuneration policies.





**STANDARD BANK** is the largest South African banking group ranked by assets and earnings. It has a strong market position in corporate and investment banking, and in retail banking and operations in 20 African countries. It has a controlling stake in Liberty Holdings. Given the diverse nature of the business, we need to clearly understand remuneration, compliance and policy decisions taken by its remuneration committee.

**ABSA GROUP** is one of Africa's largest diversified financial services groups. It has a presence in 12 African countries. The group offers a range of retail, business, corporate and investment, and wealth management solutions. Apart from the share's current extremely low valuation and its solid dividend yield, the investment case also lies in the benefit of Barclays plc no longer being a controlling shareholder. We believed this move would give management greater scope to drive growth without the constraint of the parent company.



STANDARD BANK ENGAGEMENTS





Over the years, we have met with Standard Bank to better understand a number of key remuneration issues, including special incentives, performance-related pay targets and adjustments to targets relative to profits. The outcome of these engagements influenced how we voted at the AGMs as follows:

2015		<b>QUALIFIED VOTE IN FAVOUR</b> The performance measurements for the long-term incentive plan seemed easily attainable over the near term, but we concede that over the longer term this may not be the case. <b>Action:</b> To monitor the stretch of the metrics over the next year.
2016		<b>QUALIFIED VOTE IN FAVOUR</b> Our concerns listed in 2015 remain. <b>Action:</b> Continue to actively engage with the company on these issues.
2017		<b>VOTED IN FAVOUR</b> Appropriate changes were made to the stretch of performance targets.
2018		<b>VOTED IN FAVOUR</b> Our concerns were satisfactorily addressed in the remuneration policy.

We appreciate the frankness with which Standard Bank responded to our queries and the consequent amendments it has made to its remuneration policy and reports. We continue to view Standard Bank as a valuable holding in our client portfolios and are comfortable that its remuneration structures are sufficiently aligned with shareholders' interests.

ABSA ENGAGEMENTS

We have engaged with the bank both under the Barclays plc brand and, subsequently, as an Africa-only organisation. Our engagements have largely concerned executives' long-term incentive plans and revisions to its remuneration structure after decoupling from Barclays plc (ABSA was previously constrained by the UK regulatory framework, which calls for role-based pay). Specific issues addressed with ABSA include clarity on performance targets, the appropriateness of the stretch criteria used and the calculations used for short-term incentives. The outcome of these discussions influenced how we voted at the AGMs as follows:

2015		<b>VOTED AGAINST</b> We were concerned by the lack of disclosure on key performance criteria for the long-term incentive plans. <b>Action:</b> Continue to engage with the company to improve disclosure and better understand how incentives link to company strategy.
2016		<b>QUALIFIED VOTE IN FAVOUR</b> While the long-term incentive targets were disclosed, they were unclear in some respects. The company explained that the remuneration policy would change after its separation from Barclays plc. <b>Action:</b> Monitor changes to the remuneration policy post the separation.
2017		<b>QUALIFIED VOTE IN FAVOUR</b> Our concerns listed in 2016 remained. <b>Action:</b> Actively engage with the company for greater clarity on targets post the separation from Barclays plc.
2018		<b>VOTED AGAINST</b> Previous remuneration concerns were not addressed. <b>Action:</b> Review the performance criteria that were disclosed to ensure remuneration targets align to performance.

We understood that when Barclays plc was the majority shareholder, UK legislation bound its remuneration policy. However, we expected amendments to be made thereafter. We viewed the separation from Barclays as a significant change that provides opportunity to unlock value over the longer term, as it is now in control of its own destiny. It gives ABSA management full control of the company's risk appetite and frees the bank up to lend more appropriately to drive growth. As such, we are keen to see remuneration that is better aligned to management achieving these growth targets.

In conclusion, I must stress that our engagements as shareholders are not an attempt to run the companies, but I do believe that we have a role to play in working with management to ensure remuneration policies are realistic and aligned to a company strategy where value is created for shareholders, being you, our clients. 🌱





OUR  
IMPACT



**TEBOGO NALEDI**  
Director of Institutional  
Business



# CONNECTING THE DOTS

**“I don’t care if I invest in companies that damage the environment, violate human rights and engage in fraudulent business practices.”**

This is a statement I have never heard from any investor. Ever.

It is a flagrant misconception that investors do not care about sustainability. Most long-term investors, be they pension funds, insurance companies and mutual funds, invest on behalf of long-term savers with a vested interest in long-term value creation, and many have clear sustainability-themed expectations of the companies in which they invest. However, the debate still exists over whether there is a price to pay for investing responsibly: whether the self-imposed environmental, social and governance (ESG) disciplines lead to lower returns. Is it really a case of choosing between your returns and your values?

## WHAT THE WORLD NEEDS NOW

Our society is facing some very real, very pressing challenges. South Africa’s unemployment rate is hovering at 27% – more specifically at 29.5% for women and 31.1% for the youth. Our education system is under strain, leaving some of our children to struggle in a society with scant opportunities within a long-term, low-growth economic landscape. An inclusive, equitable South Africa is seemingly further from reach.

What all this tells us is that we cannot turn a blind eye to our social issues – our economic prospects and social cohesion are unavoidably linked. And safeguarding our tomorrow unites us all with a common purpose. Such a recognition is evidenced by frameworks like the Sustainable Development Goals (SDGs). These 17 goals work as a to-do list for the global community to protect our planet, reduce poverty and encourage more wide-spread prosperity. Frameworks like the SDGs call on stakeholders, large and small, to align their strategies to help create a sustainable world in which we all can thrive. And there

are no exceptions or shortcuts for the investment industry in addressing these challenges too.

## OUR SHARED RESPONSIBILITY AND SHARED VALUE

At Old Mutual Investment Group, we are aware of the environmental threats and social challenges in our path. And more so, we recognise that these social and environmental conditions have a direct impact on the business operations of our investee companies and their long-term viability. The fact is that sustainable investments outperform over the long term because they are better at adapting to our changing world. Providing sustainable investing opportunities therefore not only enables investors to capture financial returns for clients, but also to realise intrinsic returns that make a positive difference in the world. As asset owners and allocators, we have a vital stake in how this world turns out.

The future is indeed becoming more complex – growing inequality in our communities, shifts in technologies and the volatility of our economies require us to do things differently.



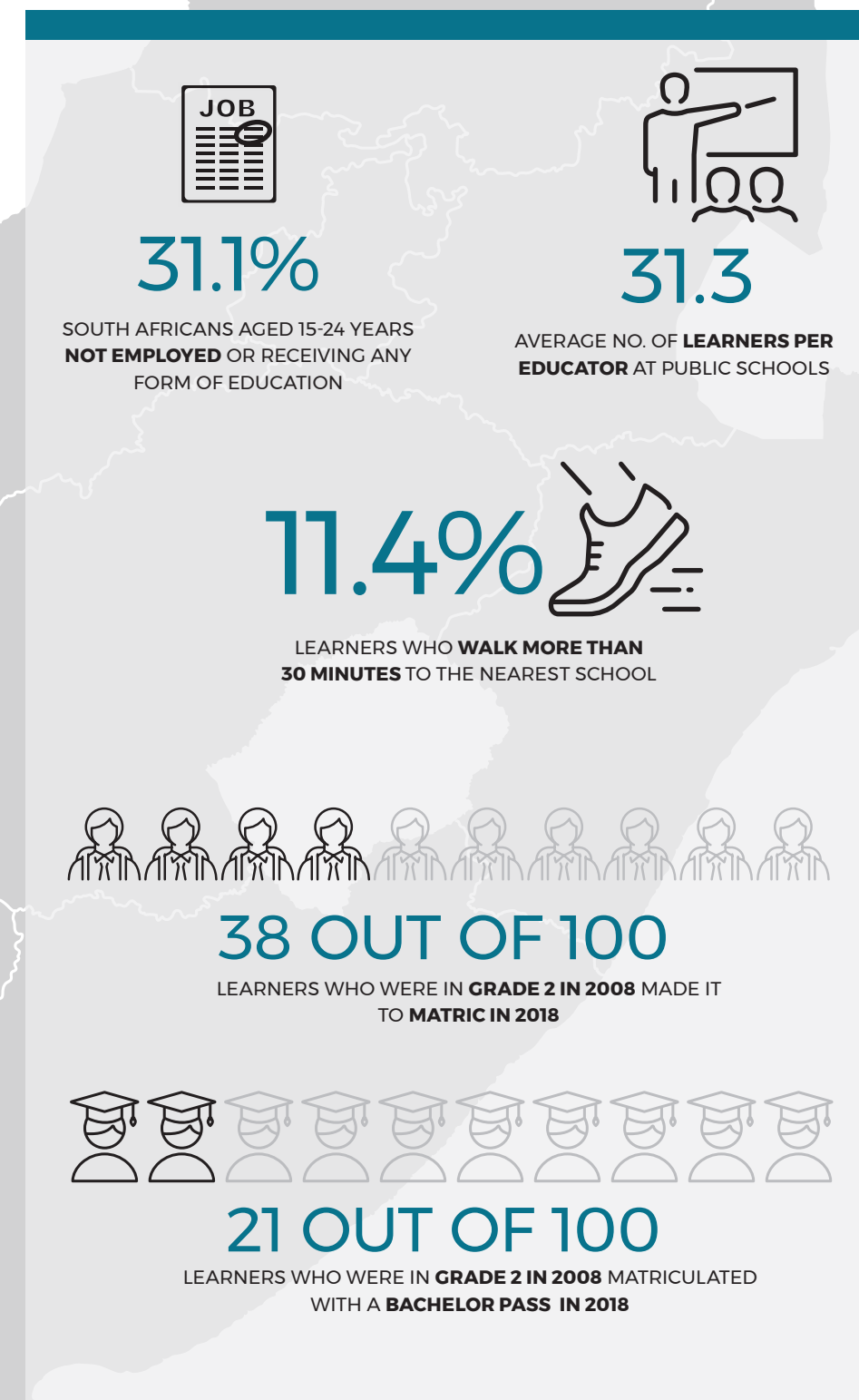
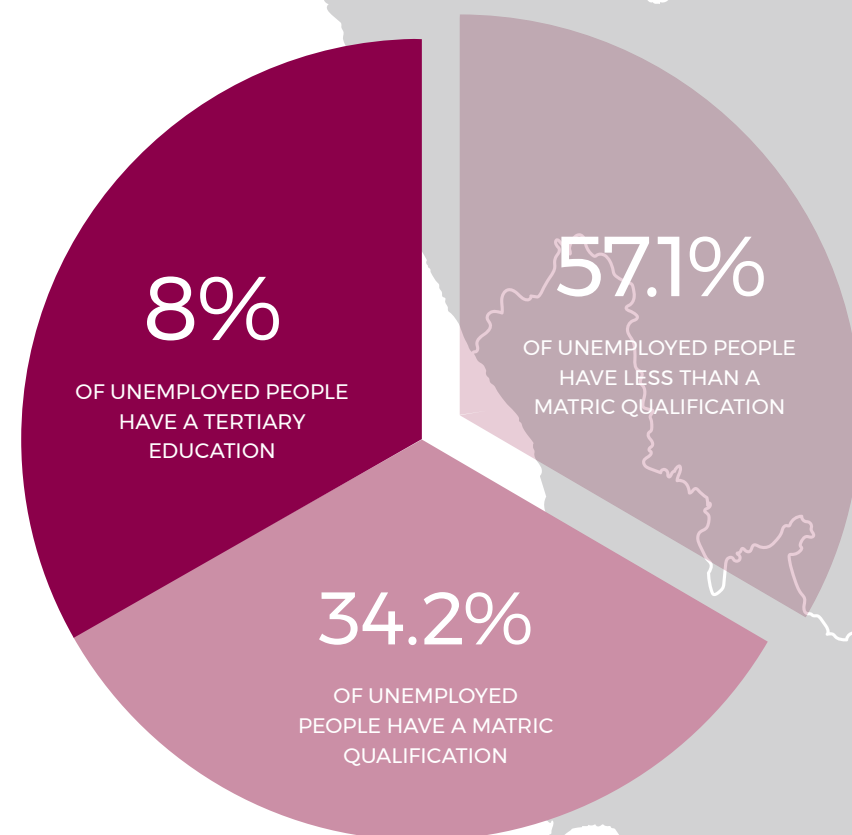
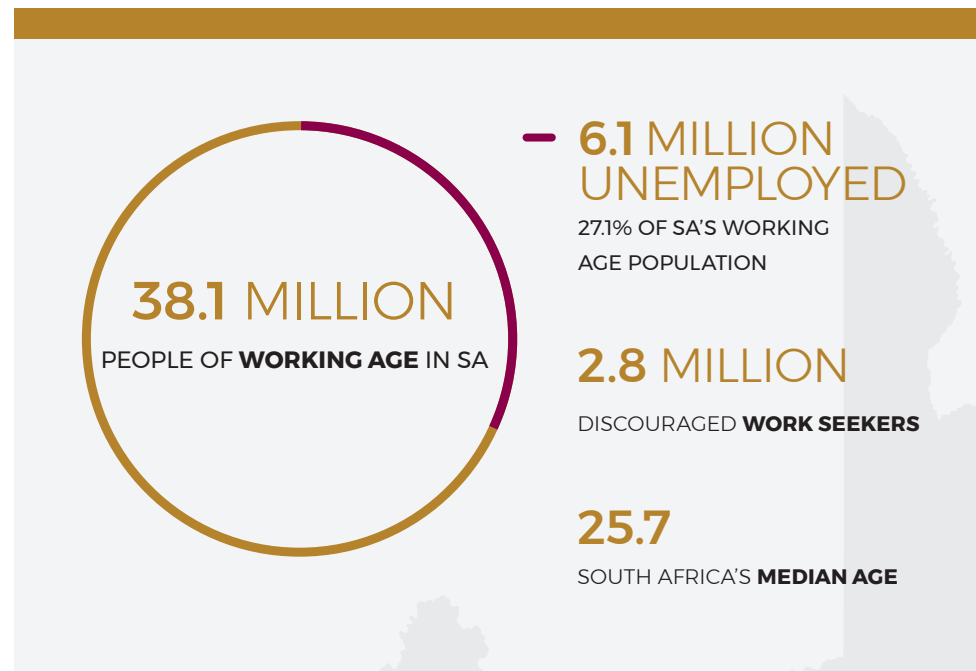
Responsible investing allows us to adapt to these changes. By shifting to a low-carbon economy, we can have a cleaner environment. By affording our young people quality education, we set them up to meet their full potential. And by fuelling job creation, we provide opportunities for our booming African population.

Responsible investing requires us to realise that economics is about people – where and how they work, their accommodation, their children’s future, their lived experience.

From our perspective, our clients’ long-term goals and society’s urgent needs are not mutually opposed. Which is why we have committed significant assets on behalf of our clients across various sectors, from renewable energy and infrastructure, to affordable housing, education and agriculture. And in this report we provide you with some tangible examples of how we are actively putting capital to work to deliver long-term returns and uplift communities to ultimately move our country, and continent, forward. 🌱



# THE STATE OF OUR NATION





# A GREAT STORY TO TELL

As a responsible investor, we've committed to sustainable investments to both generate long-term returns and positively impact our communities. Here's a glimpse at some of our impact on the green economy.



## R1BN IN AGRICULTURE



**5 658**

workers employed at  
15 mega-farms in AFRICA



**750**

employees with access to pre-paid  
primary healthcare



**167**

employees receiving  
adult education



## R19BN IN AFFORDABLE HOMES FOR LOW-INCOME FAMILIES



**9 620**

affordable homes built  
and transferred (incl 1 433  
RDP houses)



**7 347**

students with affordable  
accommodation



**7 016**

rental units



**1ST EDGE\***

certified residential  
project in SA

EDGE (Excellence in Design for Greater Efficiencies) is a green building certification system developed by the International Finance Corporation (IFC), a member of the World Bank Group.

**R122bn**

COMMITTED TO A  
SUSTAINABLE ECONOMY ON  
BEHALF OF OUR CLIENTS



## R34BN IN CLEAN ENERGY



**3 052 638**

tonnes in carbon emissions reduction  
(equal to taking 587 963 cars off the road for a year)



**800 000**

homes powered



## R2.3BN IN QUALITY EDUCATION



**18 600**

learners enrolled  
at 33 schools



**94.4%**

average matric  
pass rate



**1 300**

teachers employed



**50.2%**

average bachelor  
pass rate

Figures as at 31 December 2018 | Sources: Old Mutual Alternative Investments, African infrastructure Investment Managers (AIIM), Old Mutual Specialised Finance, Futuregrowth Asset Management, UFF African Agri Investments, Old Mutual Investment Group.



# GOAL ORIENTED

THE SUSTAINABLE DEVELOPMENT GOALS ARE A UNIVERSAL CALL TO ACTION TO END POVERTY, PROTECT THE PLANET AND ENSURE THAT ALL PEOPLE ENJOY PEACE AND PROSPERITY. HERE IS A SNAPSHOT OF OUR CONTRIBUTION TOWARDS SOME OF THESE GLOBAL GOALS.



**THE NEED:** One in nine people in the world today (815 million) are undernourished.

**OUR CONTRIBUTION:** We have committed over R1bn on behalf of our clients to agricultural investments at 15 farms on the African continent.



**THE NEED:** More than half of the 57 million children that have not enrolled in schools globally live in sub-Saharan Africa.

**OUR CONTRIBUTION:** The R2.3bn committed to education affords access to quality education to more than 18 000 children across SA.



**THE NEED:** Energy is the dominant contributor to climate change, accounting for around 60% of total global greenhouse gas emissions.

**OUR CONTRIBUTION:** Our investments in renewable energy projects power over 800 000 homes with clean energy.



**THE NEED:** 470 million jobs are needed globally for new entrants to the labour market between 2016 and 2030.

**OUR CONTRIBUTION:** The investments we make on behalf of our clients fuel job creation in various sectors, including agriculture, education and construction, to name a few.



**THE NEED:** For many African countries, particularly the lower-income countries, the existing constraints regarding infrastructure affect firm productivity by around 40%.

**OUR CONTRIBUTION:** Our commitment to the green economy includes a R20bn transport infrastructure investment, which includes rail, road and airports.



**THE NEED:** 95% of urban expansion in the next decade will take place in the developing world.

**OUR CONTRIBUTION:** Our housing investments have provided over 20 000 affordable homes in SA cities.



**THE NEED:** Global emissions of carbon dioxide (CO<sub>2</sub>) have increased by almost 50% since 1990.

**OUR CONTRIBUTION:** The renewable energy projects we have invested in help us avoid 3 052 638 tonnes of carbon dioxide from the environment every year.



**THE NEED:** 52% of the land used for agriculture is moderately or severely affected by soil degradation.

**OUR CONTRIBUTION:** Our agricultural investments prioritise water conservation, reduced soil erosion and limiting emissions that contribute to global warming.



# MAKING THE GRADE

## EDUCATION IMPACT INVESTMENTS CONTINUE TO OUTPERFORM NATIONAL AVERAGE MATRIC RESULTS.

Eleven out of 33 schools invested in by Old Mutual Alternative Investments' (OMAI's) Schools and Education Investment Impact Fund of South Africa (Schools Fund) wrote the National Senior Certificate exams in 2018. These schools achieved an average matric pass rate of 94.4% (up from 92% in 2017), compared with South Africa's national matric pass rate of 78.2%.

### TOP ACHIEVERS

These four out of the 11 schools achieved 100% matric pass rates:

- Princess Park College (Pretoria)
- Royals Alberton (Johannesburg)
- Meridian Cosmo City (Johannesburg)
- Meridian Pinehurst (Cape Town)

All of these schools also achieved bachelor pass rates above 65%, with Meridian Pinehurst topping the list at 84.3%.



### INCREASING STUDENT ELIGIBILITY TO HIGHER EDUCATION

Despite an incremental year-on-year improvement in national average pass rates, access to tertiary education remains an obstacle in South Africa's education system as evidenced by last year's average bachelor pass rate of just 33.6%. OMAI-funded schools take a long-term view of success, focusing on readiness for tertiary education and aiming to equip learners with the necessary skills to succeed in their career and life, far beyond school. The average bachelor pass rate for our schools was 50.2% (a significant uplift from 2017's 42.8%) compared to the national average of 33.6%.

We are delighted that so many of our learners are eligible to be accepted to study at a tertiary university. This is a particularly

important achievement in the context of our country's education system, which has much more work to do in improving access to higher education for all.

### ABOUT THE SCHOOLS FUND

OMAI's Schools Fund, the first and largest education impact fund in South Africa, was launched in 2011 with a mandate to improve the quality and access to affordable education for lower-income families largely in inner city communities. To date, the fund has committed over R1.4 billion in affordable education across South Africa, providing access to quality schooling for 18 000 learners in 33 schools across the country and employing about 1 300 teachers. Our mission is to enrol up to 30 000 students, which is especially important in South Africa with its young and fast-growing population. 🌱



OTLOTLENG  
MOTSWADI



# OTLOTLENG'S STORY

**EDUCATION IS A GIFT THAT CANNOT  
BE TAKEN AWAY FROM YOU.**

My name is Otlotleng Motswadi and I'm 20 years old. I am currently studying at the University of South Africa and I'm also an assistant teacher at Meridian Rustenburg.

The reason why I chose to be a teacher is because I believe that teachers are God's angels that are there to guide, listen and teach you. I lost my mother when I was in grade 2 and at the time I thought that it was the end of the world. Luckily, my primary school teachers were there for me through thick and thin. When I had to go to high school I had to leave my surrogate parents – my teachers – and attend a new school. In the year 2011, I started grade 8 at Meridian Rustenburg and everything fell in place. For me every school has been a second home.

In my matric year I lost my second mother, my aunt who took me in when my mother passed away, and I wanted to drop out of school so that I can help around the house. My matric year was really the hardest of my life so far. My classmates were very supportive and again my teachers were there for me during all my troubles. They encouraged me to have faith and not drop out of school. If it wasn't for them, I do not even want to imagine how my life would be.

Based on what I have been through, I strongly believe that I will also get to help and change someone's life as a teacher, just as my teachers changed my life. I stand here today proud and tall to say that I am a product of Meridian Rustenburg. I truly want to be a role model to someone who has gone through the same scenarios or who feels like giving up. At the end of every dark and scary place there will be light and happiness, and God will always prove you wrong whenever you feel as if He has left you.



## PARTNERING FOR BETTER QUALITY EDUCATION

Otlotleng's story of hope is just one of thousands that have been made possible by the Schools Fund. Managed by Old Mutual Alternative Investments, the Fund invests in independent schools that provide quality education, while capping the school fees to make them more affordable for parents. The aim behind such an impact fund is to ultimately support Government in delivering quality education for learners from historically disadvantaged backgrounds through independent schools. This objective requires partnership with independent providers that have a track record of providing quality education, engaging in sound financial management and having good governance practices.

To provide this quality education, the Schools Fund has partnered with the following school operators across the country:

- BASA Management
- Royals Management
- Meridian (managed by Curro Holdings)
- Prestige (managed by Barnstone Education)
- EdInvest
- Two Oceans Foundation
- Blue Hills Management
- St Christopher's.

These school operators provide quality education and engage in sound financial management and good governance practices. Meridian Rustenburg, a school based in the North-West province that caters for Grades R to 12, is where Otlotleng found her support system and a start to fulfilling her potential. It is just one of the 33 School Fund schools that are working to unlock the shackles of poverty. 🌱



# CASE STUDY

## UMOYA ENERGY WIND FARM

125km north of Cape Town is Umoya Energy Wind Farm, the first utility scale wind farm in South Africa to have achieved commercial operation. It did so on 1 February 2014, just over a year after construction started.

### UMOYA BY NUMBERS

37 Vestas V100 1.8 MW wind turbines

A capacity of 67 MW

Spanning about 900 hectares

Supplies approximately 176 600 MWh of clean renewable energy to the national grid every year.

Enough green electricity to supply approximately 49 000 low-income or 22 000 medium-income South African homes.

To produce the same amount of electricity, a South African coal-fired power station would emit approximately 183 000 tonnes of carbon dioxide every year = equivalent to taking over 37 000 cars off the road.



### THE ROLE PLAYED BY INFRASTRUCTURE INVESTMENT

African Infrastructure Investment Managers (AIIM), part of Old Mutual Alternative Investments and Africa's largest and most experienced infrastructure equity fund manager, identified the strong investment opportunity presented by the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) – a government initiative to increase the country's renewable energy production, and channel private investment and expertise into the sector. The South African government launched REIPPPP in 2012 with the first bidding round of a planned 7 000 MW programme.



AIIM's managed funds represent one of the largest investors in the programme, with more than R1 billion committed across 28 projects.

Having been an active investor in the infrastructure sector since 2000, the AIIM funds entered the Umoya project at an early stage of the development, managing the project to financial close.

AIIM oversaw the establishment of the project company with the inclusion of best practice environmental, social and governance (ESG) structures with the development of an Environmental and Social Management System (ESMS) in compliance with the internationally recognised Equator Principles and IFC Performance Standards.

## A POWER FOR GOOD

Beyond its contribution to sustainable and environmentally friendly power generation, Umoya is focused on supporting the socio-economic development of the communities within which it operates. It achieves this through beneficiary programmes that address local skills gaps, such as the Hopefield Home Improvement Project.

This project was designed to improve the energy efficiency of low-cost homes as well as the lives of their residents.



During Phase 1 of this project, from 2014 – 2016, 19 previously unemployed residents of Hopefield were trained in plumbing, electrics or carpentry and employed to make improvements to more than 600 homes in Hopefield. The second phase of the project, which started in 2017, includes the upgrade of 351 more homes over a three-year period. The three local contractors identified for Phase 2 were selected from the pool of 19 artisans who were originally involved in Phase 1.

In addition to training, the programme also includes business mentoring and coaching. Umoya's ultimate objective for the project is to create sustainable contracting businesses that are able to service the local community for years to come. 🌱



# STARTING EARLY



In the early morning in Olifantshoek - South Africa's Northern Cape, excited children between the ages of one and four gather to attend school. In a humble classroom, dedicated, professionally trained teachers are transforming the children's life opportunities through foundational education.

The children's classroom is part of an Early Childhood Development (ECD) centre - a hub for teacher training, parental involvement programmes, education materials and food for the children.

## NO CHILD LEFT BEHIND

The ECD centre at Olifantshoek is just one of the 13 ECD centres we oversee alongside our investment in the REISA Solar Farm. By the end of last year, over 1 800 local children had benefited from the training of ECD teachers, which was made possible by REISA's commitment of around R4.7 million towards education projects in 2018.

As one of the largest and most experienced private alternative investment managers in Africa, Old Mutual Alternative Investments (OMAI) plays an influential stewardship role that supports positive outcomes for the communities in which we invest. The benefits from our investments might include raising living standards, better education, more employment opportunities and the protection and active management of local ecosystems.

Our investing model is based on making sustainable, risk-adjusted returns that can be achieved over the longer term. We also build environmental, social and governance (ESG) risk management into each investment, and ensure we meet the requirements to

achieve sustainable performance. Of course, meeting these objectives requires the dedicated stewardship of investors' capital through our portfolio companies.

## GLOBAL GOALS

OMAI has adopted the United Nations Sustainable Development Goals (SDGs) as the high level goal-orientated framework that drives both the achievement and the reporting of positive outcomes in our portfolio companies.

There are 17 SDGs in total, and we have selected the ones most likely to influence outcomes across our broad portfolio or the ones that apply best to particular projects. Our guiding philosophy is to focus on areas where we can practically make the most positive difference. Within each of the SDG categories selected, we have chosen specific metrics that guide our efforts in these areas. From a risk management perspective, OMAI adopts a framework of adhering to local legislative requirements, Equator Principles, International Finance Corporation (IFC) Performance Standards and IFC Environmental, Health and Safety Guidelines, while also using sector specific guidelines where applicable.

Today, through OMAI's responsible investment stewardship practices, we have contributed to a brighter future for the children of Olifantshoek. But this is only the start; there is so much more work to be done to drive positive outcomes. 🌱



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