TOMORROW

As invested as you are

DO GREAT THINGS

OLD MUTUAL INVESTMENT GROUP

FOREWORD

We are proud to present the second edition of *Tomorrow As Invested As You Are*. This year's publication continues our efforts to explore and engage with the main environmental, social and governance (ESG) themes that we believe are critical to engendering stable long-term economic growth. As in 2015 the range of issues covered highlights the scale and complexity of some of the challenges facing the economy. We don't believe we have all the answers but do know that open and collaborative engagement is essential if we are going to come up with the kinds of solutions and innovation required to achieve long-term results.

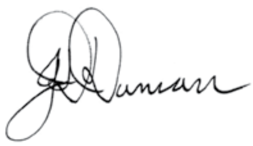
From governance failures of listed corporates to social issues impacting workers along with the physical effects of drought, South Africa has seen a number of material ESG issues playing out in the last two years and it is within this context that we remain committed to our responsible investment journey.

We continue to build onto the evidence base that confirms ESG data can be supportive of enhanced returns in the listed markets and in this regard are pleased with the growth of our ESG index products. Additionally, we are forging ahead with our investments in renewable energy, affordable housing, schools and agriculture.

Old Mutual Investment Group's Responsible Investment drive remains at the heart of the broader Responsible Business strategy of Old Mutual. We recognise that the goal of long-term economic growth will always be deferred if people do not save and insure and so naturally the first focus of this Responsible Business strategy is on financial education, inclusion and wellness. However, this alone is not sufficient to deliver a sustainable economy, and so the second focus of the Responsible Business strategy is about ensuring that our clients' long-term savings are put to work in a manner that generates good returns while also ensuring socially inclusive, low-carbon and resource efficient growth. This virtuous cycle of prudent savings practice, coupled with responsible investment, is at the heart of how we partner with our clients to enable positive futures.

Responsible investment is not only a necessary evolution of the investment industry, it is also the smart response to an increasingly volatile future. Please join us in this conversation and together we can do great things.

Janina Slawski
Director of Marketing and Distribution
Old Mutual Investment Group



Jon Duncan
Head of Responsible Investment
Old Mutual Investment Group

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OLD MUTUAL INVESTMENT GROUP

SHAPING TOMORROW

R30bn

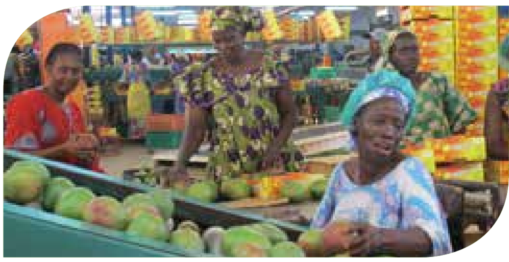
COMMITTED ON **BEHALF OF OUR CLIENTS**

R14bn
GREEN ENERGY
2 715 MW

R1.2bn
QUALITY EDUCATION
22 SCHOOLS
15 741 LEARNERS

R9bn
AFFORDABLE HOUSING
6 213 GREENFIELD UNITS
4 546 RENTAL UNITS
9 349 STUDENT BEDS

R4.5bn
START-UP FINANCE
10 132 TAXIS
32 525 MORTGAGE & HOME IMPROVEMENT LOANS
211 445 UNSECURED LOANS



R1.5bn
AGRICULTURE
10 FARMS
12 579 HECTARES
652 PERMANENT WORKERS

Figures as at 30 June 2016

AUTHOR **BIOGRAPHIES**

EXTERNAL CONTRIBUTORS*

Ansie Ramalho, King IV Project Lead: Institute of Directors in Southern Africa (IoDSA)

Previously the CEO of the IoDSA, Ansie was appointed the project leader and editor for the update of the King Report on corporate governance by IoDSA in 2014. Ansie regularly consults, writes and presents on the various aspects of corporate law, directors' duties and governance. She also serves on a number of technical committees in these areas, including the King Committee for Corporate Governance in South Africa, the Integrated Reporting Committee South Africa and the Global Reporting Initiative Focal Point Advisory Group.

Prof Arnold Smit, Head of Social Impact and Associate Professor of Business in Society: University of Stellenbosch Business School (USB)

Prof Smit's expertise is in the integration of ethics, responsibility and sustainability in management education and organisational practices. He is a member of the Board of the Globally Responsible Leadership Initiative, the president of the Business Ethics Network of Africa and a trustee of SEED Educational Trust, a non-profit organisation that builds leadership and change management capacity in the educational and social sectors.

Dr Daniel Malan, Director of the Centre for Corporate Governance in Africa and Senior Lecturer in Business Ethics and Corporate Governance: USB

Dr Malan's focus areas are corporate governance, business ethics and corporate responsibility. He is a member of the World Economic Forum's Global Agenda Council on Values, the International Corporate Governance Network's Integrated Business Reporting Committee and the Anti-Corruption Working Group of the United Nations (UN) Principles for Responsible Management Education. He is also a portfolio partner at the International Centre for Corporate Governance at the University of St Gallen.

Justin Smith, Group Head Of Sustainability: Woolworths Holdings

Justin is responsible for the business delivering on its targets across transformation, social development, environmental issues and climate change.

He is a member of the National Business Initiative Western Cape Board, is a director of the Green Building Council of South Africa and a trustee on the Table Mountain Fund.

Dr Katherine Hyman, Researcher: African Centre for Cities

With a PhD in Architecture and Urban Planning from the University of Cape Town, Dr Hyman is currently based at the African Centre for Cities as an independent sustainability consultant researching sustainable urban infrastructure and transitions in relation to policies and practices in Cape Town.

Prof Marc le Menestrel, Co-Director of the Africa Directors Programme and Visiting Professor from INSEAD Business School (France)

Prof Menestrel is especially interested in the articulation of economic values with subjective values such as ethical values, aesthetic feelings, cultural tastes or spiritual concerns.

He is also Associate Professor at the Department of Economics and Business at the University Pompeu Fabra (Barcelona, Spain).

Prof Mark New, Director: African Climate and Development Initiative

Prof New sits on the SA Global Change Science Committee, the Africa Future Earth Science Committee and the editorial board of Environmental Research Letters.

His research focuses on climate change detection, processes, scenarios, impacts and adaptation.

* The views expressed by these authors are not necessarily those of Old Mutual Investment Group.

Michael Judin, Senior Partner at Judin Combrinck

Michael is a director of, and legal adviser to, the American Chamber of Commerce in South Africa, an admitted attorney in Botswana, Lesotho and Swaziland, and a member of the International Bar Association.

He is also an associate member of the American Bar Association, where he acts as Co-chairman of the Corporate Governance International Developments Sub-Committee. Michael is a member of the e-commerce advisory committee of the Financial Services Board of South Africa and is also on the task team writing King IV.

Saliem Fakir, Head of the Policy and Futures Unit: World Wide Fund for Nature South Africa

Prior to joining the WWF, Saliem was a senior lecturer at the University of Stellenbosch's Department of Public Administration and Planning, where he lectured on renewable energy policy and financing.

He was also the Associate Director for the university's Centre for Renewable and Sustainable Energy Studies and Director of the International Union for the Conservation of Nature office for eight years.

Trevor Chandler, Chairperson and Director of Research and Policy: Alternative Prosperity

Trevor is a leading expert on black economic empowerment (BEE), with more than 20 years' experience in assurance, finance, risk management and corporate governance related professions.

He currently represents the Association for Savings & Investment South Africa (ASISA) on the Financial Sector Charter Council Board.

AUTHORS FROM OLD MUTUAL INVESTMENT GROUP

Dafne Nienhys, Environmental, Social and Governance (ESG) Manager: UFF African Agri Investments

With over 15 years' worldwide experience in ground breaking social accountability and development projects, Dafne is a qualified registered social systems auditor. She has been active in the fresh produce industry since 1999. At UFF African Agri Investments she monitors social responsibility issues around each of the funds' investments and coordinates the ESG assessments at farm level.

Feroz Basa, Boutique Head: Global Emerging Markets

Feroz is the boutique head of Global Emerging Markets and is responsible for managing and building this Old Mutual Investment Group boutique. Prior to setting up Global Emerging Markets, he was a portfolio manager and analyst at ELECTUS equity specialists.

He became portfolio manager of the Old Mutual High Yield Opportunity Fund in 2007 and assisted in implementing a philosophy and process for the Old Mutual High Yield Opportunity Fund and Old Mutual Value Fund.

Hywel George, Director of Investments: Old Mutual Investment Group

Hywel is responsible for the delivery of performance across the listed asset management cluster of investment boutiques. Prior to joining Old Mutual Investment Group, he was a founding partner of Integral Asset Management, a UK-based boutique wealth management firm.

Hywel has worked in institutional and private client asset management in Europe and the Middle East for over 25 years. In his career he has managed the UK and European Equity business for Goldman Sachs, managed Morgan Stanley's asset management equity business in Europe, and was CEO of the public equity business of Dubai International Capital, with clients throughout the Middle East.

Jon Duncan, Head of Responsible Investment: Old Mutual Investment Group

With over 20 years of experience in the field of sustainability research and engagement, Jon leads the Responsible Investment Programme at Old Mutual.

His focus is on driving the systematic integration of material ESG issues across Old Mutual. Jon also heads up the Sustainability Research and Engagement function for Old Mutual Investment Group.

Jonathan de Pasquallie, Responsible Business Manager: Old Mutual Emerging Markets

Jonathan is responsible for managing projects relating to responsible business.

Prior to joining the responsible business team, he was an ESG analyst at Old Mutual Investment Group. Jonathan also worked for the UN Principles of Responsible Investment as the South Africa Network Manager.

Kim Johnson, Portfolio Manager: Customised Solutions

Kim is responsible for local and international portfolio management, optimisation and implementation. She has a range of asset management experience, with exposure to both active and passive management.

She began her asset management experience as a Client Relationship Manager (CRM) at Coronation Asset Managers, then joined Sanlam Investment Management (also in the CRM role) and later transferred to Satrix as an Investment Analyst.

Lala Steyn, Manager of the Schools and Education Investment Impact Fund South Africa: Old Mutual Alternative Investments

As a member of the Impact Funds team, Lala is responsible for the Schools Investment Fund and the School and Education Grant Fund. She joined Old Mutual in 2010. She has over 25 years of experience in African countries in management and implementation of development programmes in various sectors.

She has worked in the NPO sector against forced removals and on land and housing issues. In 1995, she joined the Mandela government within the National Department of Land Affairs. Thereafter, she worked as a sustainable development consultant.

Leanne Micklewood, Quantitative Analyst: Old Mutual Equities

Leanne leverages quantitative research in order to complement our Old Mutual Equities' research and enhance its alpha-generating capability.

She has extensive experience at Old Mutual Investment Group, including working as a member of the Asset Allocation team and the Quantitative and Risk unit.

Lenore Cairncross, Investment Professional: Old Mutual Alternative Investments

Lenore's focus is on rental housing developments within Old Mutual Alternative Investments' Impact Funds team.

Her responsibilities include origination, analysis, due diligence, execution and management of residential property investments. Lenore has been leading the implementation of EDGE, a green building certification system developed by the International Finance Corporation, a member of the World Bank Group, on new housing developments, as part of the ESG initiatives within Old Mutual Alternative Investments.

Paul Semple, Portfolio Manager of the Power Debt Fund: Futuregrowth Asset Management

Paul manages the Power Debt Fund and is responsible for the origination, structuring and management of a range of debt transactions, including a specific focus on infrastructure and developmental assets.

He performs fundamental credit analysis and research, and produces investment proposals for the credit committee.

Robert Lewenson, Governance and Engagement Manager: Old Mutual Investment Group

Robert is responsible for proxy voting and engagement, representing Old Mutual Investment Group on various industry bodies and championing responsible investment for the Old Mutual group.

Prior to joining the Responsible Investment team, he was a legal advisor at Old Mutual Investment Group for seven years.

Tracy Brodziak, Head of Research: Old Mutual Equities

An award-winning portfolio manager, Tracy is responsible for the fundamental analysis of the commercial banks. In addition she also analyses the oil and gas sector.

Tracy is an experienced analyst and brings unique insight into the financial sector. Prior to joining Old Mutual Equities, she was Sector Head: Financials for Old Mutual Investment Group's former Equity Research team.

Wium Malan, Investment Professional: Global Emerging Markets

Wium's role is to assist in emerging market stock selection and analysis in the telecommunications, internet, media and other industrial sectors.

Wium previously spent a brief time at Oasis as an investment analyst, after which he worked at AllianceBernstein for six years. His investment experience includes covering the global telecommunication, media, healthcare, pharmaceutical and industrial sectors, both in the emerging and developed markets.

COMPELLING **RETURNS**

Hywel George, Director of Investments, Old Mutual Investment Group

There is often a misperception from investors (as well as asset managers and advisers) that responsible investment practices detract from investment performance.

The claim is that the consideration of environmental, social and governance (ESG) factors in the investment process, coupled with active stewardship of assets, is costly, potentially constraining and detracts from performance.

However, the emerging academic and industry evidence, supported by our own analysis, paints a very different picture.

So how can investing responsibly give investment managers and their clients an edge? And what are the keys to getting it right?

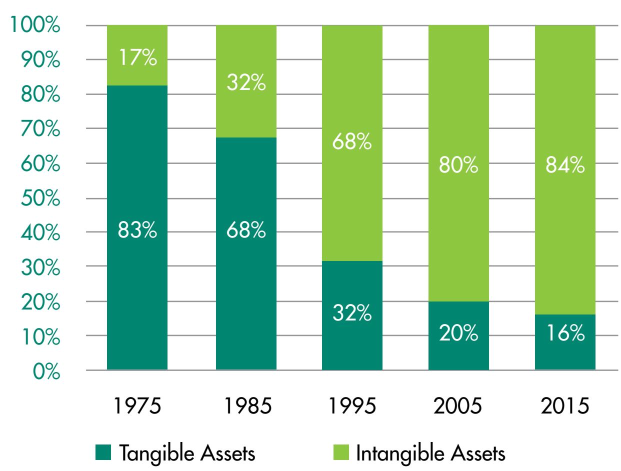
WHAT DO WE VALUE?

Responsible investment is often confused with the simple process of excluding stocks based on ethical criteria. The reality is that responsible investment is a far more nuanced approach that is primarily concerned with the long-term impact of ESG-related risks and opportunities on a company's cash flows and valuations.

Perhaps one of the more striking points to consider is that in the modern era most company values are derived from **intangible assets** – such as goodwill, intellectual property rights, product safety, reputation, innovation, management quality, staff loyalty, social licence to operate etc. – rather than **tangible assets** such as plant and equipment. Recent estimates indicate that the market value of the S&P 500 arising from intangible assets sits at 84%, up from less than 20% in 1974 (see Figure 1 below). Given that many ESG issues directly influence a company's intangible value, it makes sense to understand how exposed a company is to ESG issues, and how capable the leadership team is of managing these risks and opportunities.

Figure 1: Making Sense of Intangible Value

Components of S&P 500 Market Value



Source: http://www.oceontomo.com, March 2016

Components of Intangible Value

1. **Brand value** (price premium, brand awareness)
2. **Reputation** (social media profile, opinion research)
3. **R&D pipeline** (# patents)
4. **Customer satisfaction** (retention, loyalty, boycotts)
5. **Health & safety** (product recall, incidents, accidents, near misses)
6. **Environmental performance** (pollution, penalties, fines, enviro capex)
7. **Social license to operate** (production delays, costs overruns, labour protests)
8. **Governance** (board composition, bribery, pay, ethics)

"…more recent studies indicate that, if correctly applied, **ESG integration can be additive to investment performance."**

In essence, sustainability is a trend shaping the competitiveness of firms across all sectors, and companies that can respond early relative to their peers will show lower cost of capital, better resource efficiency, stronger innovation, better social license to operate, stronger staff retention and, ultimately, stronger competitive advantage. The most compelling research in this regard is from Harvard Business School over a 20-year period – their findings show that companies with strong sustainability performance showed both market and accounting based outperformance against their peers with weak sustainability performance[1].

BUILDING OUT THE EVIDENCE

Over 300 academic and industry studies have now been published analysing the impact of ESG strategies on investment performance. We have assessed many of these studies and the evidence to date suggests that through full market cycles and across markets the consideration of ESG issues in investment strategies does not negatively impact returns. Indeed, what is interesting is that many of the more recent studies indicate that, if correctly applied, ESG integration can be additive to investment performance.

Much of the analysis undertaken to date has been on global markets, with very little available in the South African context. To remedy this, Old Mutual's Responsible Investment team tested the MSCI ESG data set for the South African market over the past four years using an approach consistent with similar international studies. While the data set only extends over four years, the results look promising, with highly rated ESG firms performing better than poorly rated ESG firms over the period assessed. These findings are consistent with work undertaken by MSCI on both the global and emerging market data sets over a nine-year period[2]. We still have much work to do in this regard but we believe the best way to get ahead is to get started.

At present our Customised Solutions investment boutique is already leveraging these insights into our newly launched South African Responsible Equity Index. This work builds on the analysis we undertook in 2015 that supported the launch of the Old Mutual MSCI World and Emerging Market ESG Index Funds (see the article by Kim Johnson on our range of ESG products on page 68). Building on this, Old Mutual Equities – our fundamental equity capability – already integrates ESG analysis into its fundamental company analysis and is now exploring the best method to leverage this information in the context of its factor model (see the article from Tracy Brodziak and Leanne Micklewood on the potential to leverage ESG data in the South African market on page 52).

CONVERGING FORCES

We see three powerful forces converging which make responsible investing not only a necessary response to the changing nature of global risk and opportunity, but also an important evolution in the role and function of the asset management industry:

1. The myriad of interconnected ESG issues present a material impact to stable, long-term economic growth at a local, national and global level[3]. Governments alone will not solve these issues and all sectors, including the financial sector, can and must play a role in addressing these issues. Coupled with this, expectations are changing across society as company stakeholders – employees, customers, shareholders, regulators, civil society etc. – increase their demands in respect of company ESG performance. In our connected world, how a company responds to these issues will influence its market competitiveness. The good news is that the evidence shows that profitably and low carbon, socially inclusive and resource-efficient growth can co-exist (see Jon Duncan's article regarding Green Growth on page 22).

2. The asset management industry faces an existential crisis as critics question its societal value and push back against fees, while on the flip side there is a growing investor base seeking to align their portfolios with their personal values and make the world a better place[4] (see finding from our online survey on page 11). Responsible investment has the potential to serve as a powerful catalyst for realigning the asset management industry with societal concerns while at the same time meeting investor expectations.

3. Lastly, there is a growing understanding that continued short-termism is problematic at a systemic level. Primarily short-termism undermines future economic growth due to the lack of long-term capital investment, which ultimately leads to slowing GDP, higher unemployment levels and lower future investment returns for savers[5] — implications that could hurt everyone. Global asset owners are now turning to responsible investment as a means of driving long-term value creation.

A deep understanding of these secular trends, along with hands-on tangible evidence of the positive value that can be derived from an analysis of material ESG issues, supports our view that responsible investment can and does add value to long-term client outcomes.

[1] http://www.hbs.edu/faculty/Publication%20Files/12-035.pdf
[2] Can ESG Add Alpha? – MSCI June 2015
[3] WEF annual risk assessment survey
[4] TIAA Global Asset Management survey of investors and advisers 2016 – Over three quarters (77 percent) of the affluent US investors say that they want their assets to have a positive impact on society
[5] Focusing Capital on the Long Term 2015 Report

WHAT SA'S SAVERS REALLY THINK ABOUT **RESPONSIBLE INVESTING**

In November 2015 Old Mutual Investment Group posed some key questions about responsible investment to working South Africans* in an online survey. And this is what they said…

KEY **INSIGHTS**

82% …of retirement savers say it is important that asset managers apply the principles of responsible investing when investing retirement fund money.

83% …of Old Mutual Investment Group's customers say it is a responsible investor.

50% …say that governance failure is the biggest risk to their savings and investments.

Top 3 ESG risks to investments are governance related:

- 50% Governance failure
- 48% Political & social instability
- 43% Rising government debt

Bottom 3 ESG risks to investments are environment related:

- 19% Food crisis
- 13% Extreme weather
- 12% Failure of climate change mitigation & adaptation

AND WHEN ASKED:
All else being equal (i.e. performance, risk and fees), would you switch to an asset manager who offered a similar investment comprising shares that are less detrimental to the planet and society?**

1 in 3 say YES

*A sample of 812 respondents aged 18 years+ and earning <R5 000 completed the survey.
**Separate survey of 150 respondents earning R40 000+

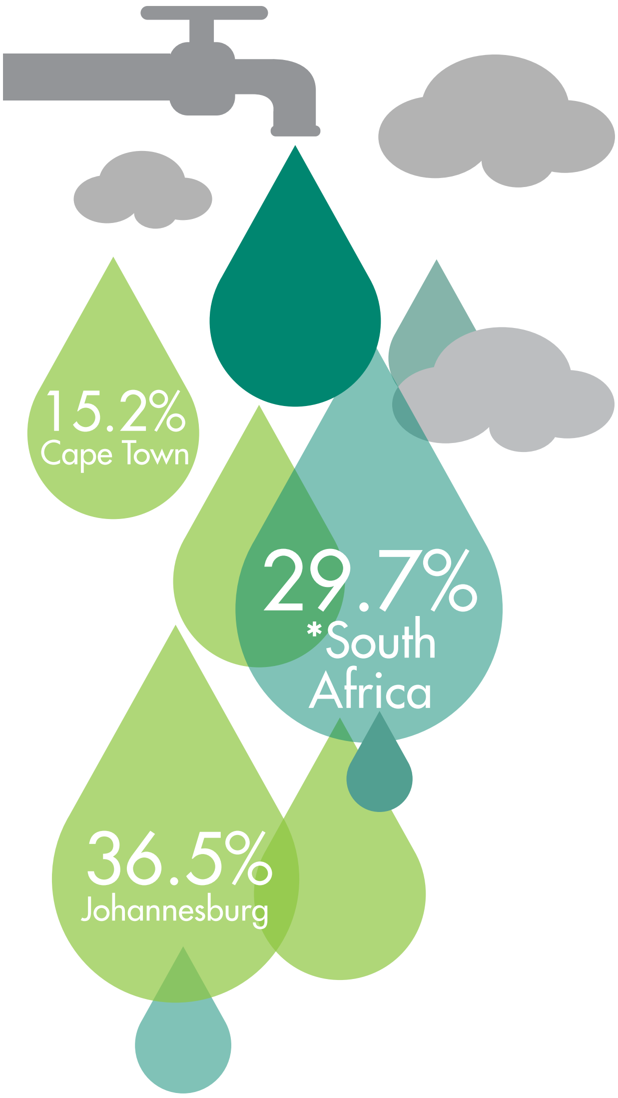
RECONCEIVING THE WATER CHALLENGE – **TURNING SCARCITY INTO ABUNDANCE**

Saliem Fakir, Head of Policy and Futures Unit, World Wide Fund for Nature South Africa

179770418 – Gallo Images/Getty Images/Timothy Allen

While there may be sufficient physical sources of water, **behavioural patterns often lead to water scarcity.** That which may be abundant effectively becomes scarce through waste, poor pricing, inefficient allocation or the inability of human systems to keep up with the latest technologies. **However, institutions can foster decisions** that take us on a path from scarcity back to abundance.

To assess the true sustainability of a resource you have to look at both sides of the coin to fully appreciate water risk and security as material issues on a country's water balance sheet.



Average water leakage
* 8 largest metropolitan areas

South Africa has done well in building engineering infrastructure to get water where it is needed. It has produced abundance from scarcity. For instance, because of the uneven distribution of water, South Africa has a very high rate of basin transfers to get water to where it is needed. There are 28 inter-basin transfer schemes with a total transfer capacity exceeding 7 billion m^3/annum. South Africa is the 30th driest country in the world, although water resources are principally available in the eastern part of the country.

The water scarcity in South Africa has been reduced through significant engineering infrastructure. While water access is close to 94% for the entirety of South Africa's population, leaks and water theft place a lot of pressure on management systems and the future availability of water.

Fixing these problems can offer lower cost options to build additional dams and transfer schemes, even though in some areas transfer schemes and dams will help alleviate water scarcity problems. South Africa needs to do much more to improve incentives that drive a shift in water consumption behaviour, and spur new innovation and technology in the water sector to improve efficiency and productivity in the use of water.

This raises profound questions about the exact nature of water scarcity, as physical scarcity (what you can squeeze out of nature) can be enhanced through good infrastructure and technology and, in turn, turn scarcity into abundance.

Yet, the behavioural characteristics of the human system can turn availability from abundance into scarcity simply by under-pricing the resources; managing the infrastructure and reticulation system poorly; and being unable to invest in new infrastructure, innovation and technology.

It would seem that a system's susceptibility to either scarcity or abundance is a function of the degree to which human systems are degraded or not sufficiently advanced, and that the dependence on supply purely from the functioning of the natural system makes the problem of water security and access more pronounced.

We should shift away from solely focusing on water as a physical resource, to how institutions can foster decision-making that creates conditions that take us on a path of scarcity to abundance. Both sides of the equation tell us the extent to which water is a truly scarce resource, due to physical limitations or human behavioural characteristics. These two sides have to be connected better when planning for water-related risks.

THE WORLD **TODAY**

IN A DRY SEASON

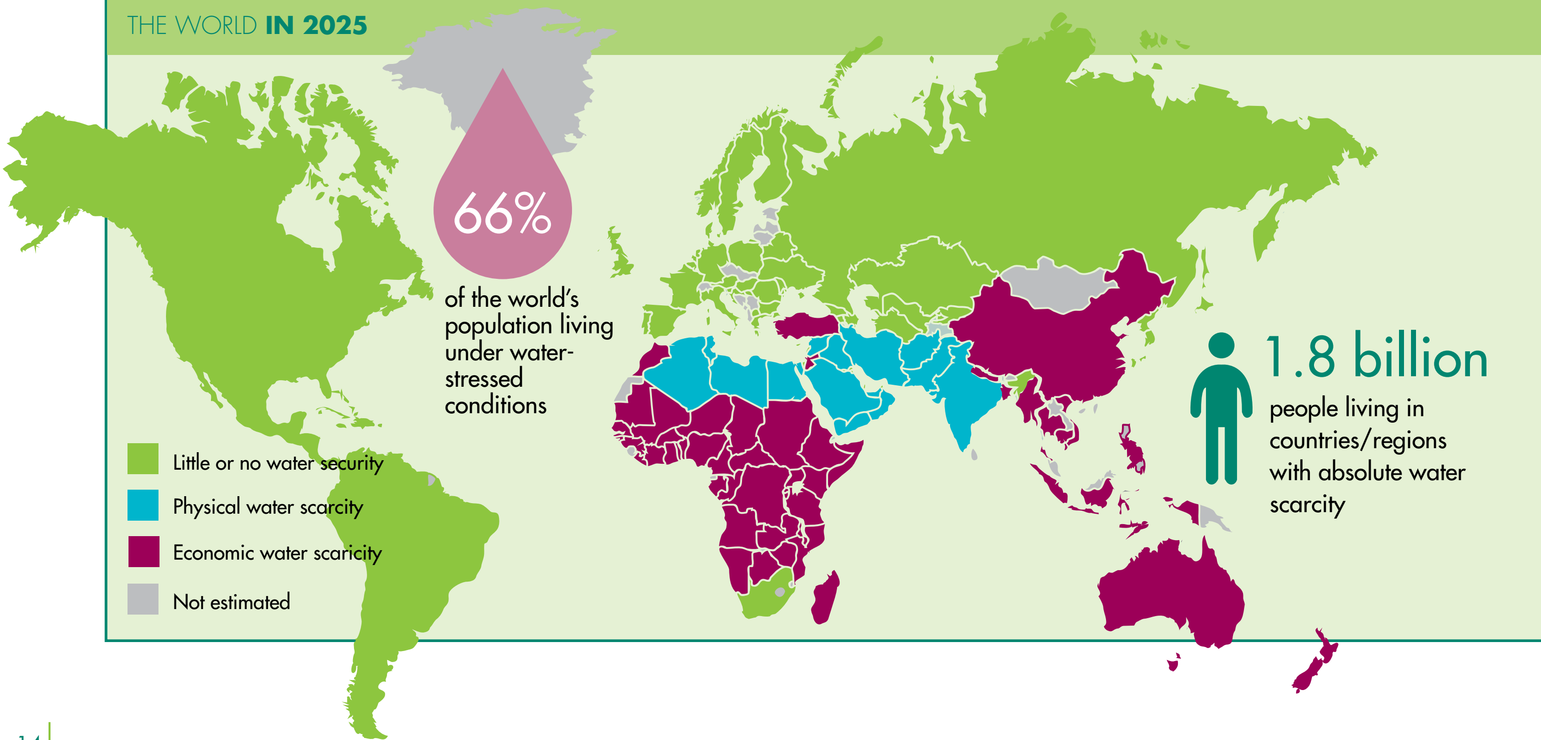
The world, and more specifically Africa, faces severe economic water scarcity and unfortunately institutional, financial and human capacities for managing water are currently lacking.

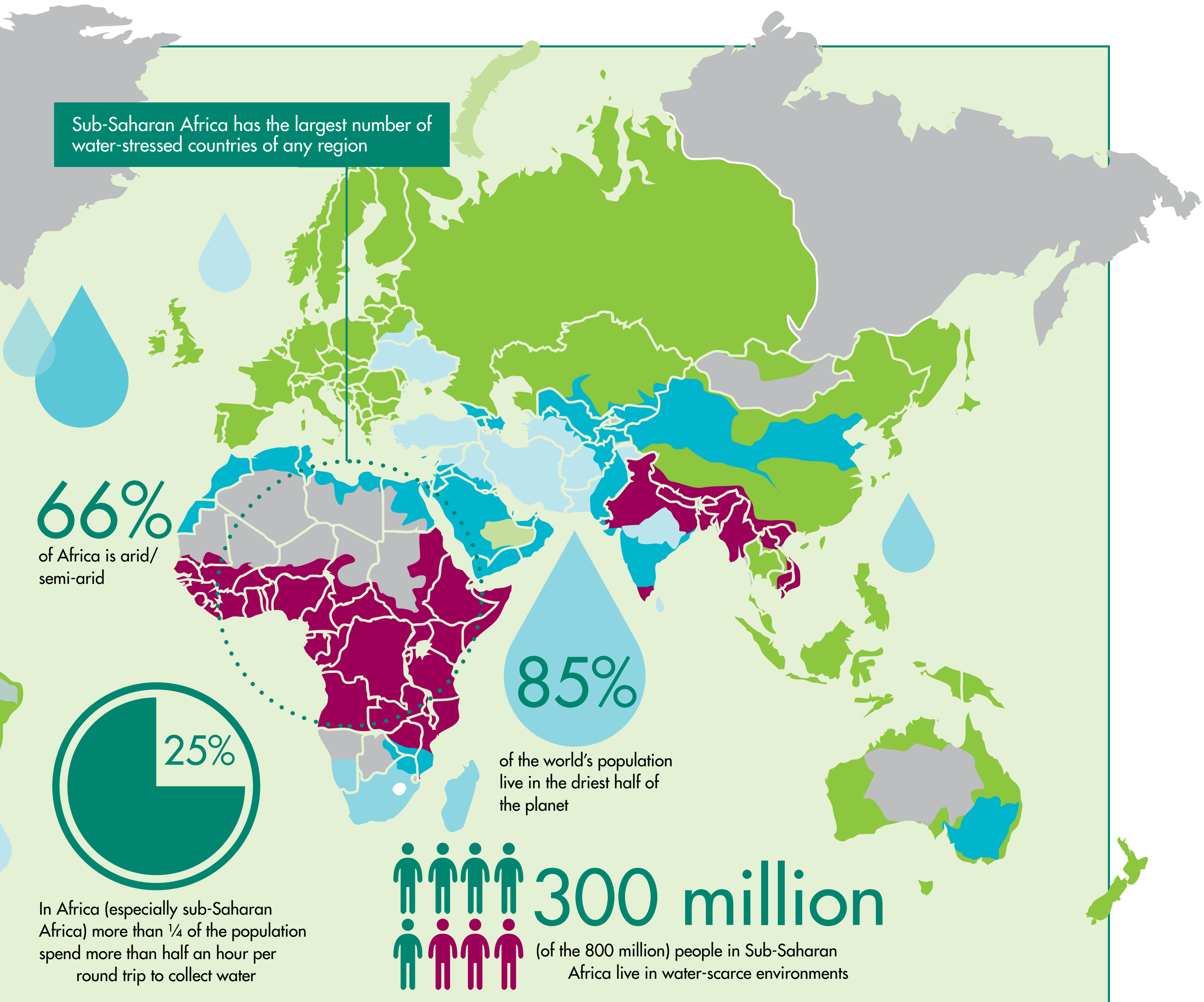
In Africa, financing is insufficient and the institutional capacity to absorb what is available is limited. According to the United Nations, over 80% of Sub-Saharan countries on the continent are reportedly falling significantly behind the trends required to meet their defined national access targets for sanitation and drinking water.

There is a real danger of backsliding on the progress already made against the Millennium Development Goals on water and sanitation.

- Little or no water scarcity
- Physical water scarcity
- Approaching physical water scarcity
- Economic water scarcity
- Not estimated

THE WORLD **IN 2025**





THE WORLD **IN 2030**

50% of the world's population living in areas of high water stress (75-250 million people in Africa)

Water scarcity in arid and semi-arid places displaces 24 to 700 million people

THE WORLD **IN 2050**

9 billion people to feed

70% more food needed

19% increase in agricultural water consumption (both rain-fed and irrigated)

Sources: World Water Development Report 4. World Water Assessment Programme (March 2012); UNWater.org; UN.org

It is easy to think of the scarcity problem as a question of resource or material scarcity. What behavioural economics teaches us is that material scarcity can also be a result of psychological and behavioural characteristics that filter through decision-making. Material scarcity can be a paradoxical outcome of resource abundance.

In other words, our desires and wants comprise a greater proportion, and perhaps an infinite amount, compared to what we can generate and satisfy from all these wants and demands that society makes on the government and the economy, and even individuals make on themselves.

Different attributes of the physical-human environment interactions suggest that different management solutions need to be devised to create more holistic outcomes.

For instance, abundance of water supply can be improved with the construction of new infrastructure or through more efficient technologies. But the slow pace at which these solutions are introduced is often the result of institutional inertia, or simply planners adopting a mindset that does not allow new ideas to enter the realm of decision-making.

We also have the problem of bounded rationality – the way information on new innovations or ways of doing things flows and is assimilated within organisations. This also influences how new ideas make their way into decision-making. A certain cognitive block preserves the existing path dependence and restricts the ability of the human system to be open to new ways of doing things.

It is also possible that the simple intervention of introducing water pricing could signal to firms that water is becoming a constrained resource and leave it up to firms to come up with the best way to introduce efficiencies or new sources of water into the system. Pricing as a strategy may also induce firms or utilities to break their path dependence on an existing system and develop new management or technological innovations in an existing water management system.

The point to recognise here is that, while tapping into the physical resource through extensive engineering may have been exhausted, there is still scope to create abundance from scarcity if we also shift the focus to the institutional and behavioural side of the water management system.

By all accounts South Africa is a rich country compared to many African and other developing countries. That said, it does not have infinite resources nor unlimited time. Poor decisions, misallocation and misappropriation of funds merely entrench us in a scarcity trap and become the cause of further impoverishment in our material well-being.

"There is still scope to create abundance from scarcity if we also shift the focus to the institutional and behavioural side of the **water management system."**

And so it is that material abundance can live paradoxically and side by side with scarcity. This is why some countries do more with less and other countries do less with more.

PARTNERING IN SUSTAINABLE BUSINESS:

Following the success of a three-year sustainable business partnership, the World Wide Fund for Nature South Africa (WWF-SA) and Woolworths have extended their partnership to accelerate sustainable business action through selected Woolworths' products and operations.

The outcomes of the first partnership proved that the private sector and the NGO sector can work together on common interests, with far-reaching benefits for both sectoral organisations and their stakeholders.

This second partnership will seek to improve the stewardship of water resources nationally; explore low carbon pathways; reduce the potential negative impacts of agriculture; improve seafood and in particular aquaculture sourcing; and reduce food waste throughout the supply chain. Because the greatest negative environmental impact occurs at the beginning and end of the value chain, the partnership will focus on these stages in the chain.

Read more about Woolworths' sustainability journey on page 65.

Source: World Wide Fund for Nature South Africa (WWF-SA), August 2016

OLD MUTUAL INVESTMENT GROUP

WITH GREAT POWER COMES GREAT RESPONSIBILITY

R14 BILLION INVESTED IN RENEWABLE ENERGY ON BEHALF OF OUR CLIENTS

Limpopo

2 Solar Projects (58MW)
OTHER: 1 Solar Project (60MW)

North West

OTHER: 5 Solar Projects (275MW)

Mpumalanga

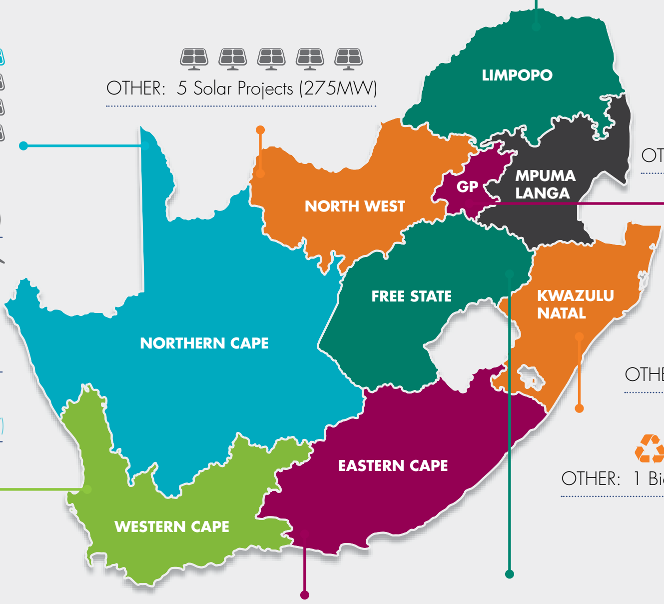
OTHER: 1 Biomass Project (62MW)

Northern Cape

14 Solar Projects (858MW)
OTHER: 22 Solar Projects (1 336MW)

5 Wind Farms (569MW)
OTHER: 6 Wind Farms (753MW)

1 Small Hydro Project (12MW)



Gauteng

OTHER: 1 Landfill Gas Project (18MW)

KwaZulu Natal

OTHER: 1 Biomass Project (17MW)

Western Cape

3 Solar Projects (130MW)
OTHER: 3 Solar Projects (116MW))

2 Wind Farms (201MW)
OTHER: 3 Wind Farms (150MW)

Eastern Cape

1 Solar Project (75MW)

9 Wind Farms (748MW)
OTHER: 6 Wind Farms (617MW)

Free State

1 Solar Project (64MW)
OTHER: 1 Solar Project (60MW)

OTHER: 2 Small Hydro Projects (8.9MW)

OUR MANAGERS: Old Mutual Investment Group participates in the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) on behalf of our clients via our investment boutiques, namely Old Mutual Alternative Investments; African Infrastructure Investment Managers; Futuregrowth Asset Management; and Old Mutual Specialised Finance.

WIND
SOLAR
LANDFILL GAS
SMALL HYDRO
BIOMASS
Old Mutual Investment Group

Figures as at 31 March 2016
Sources: Old Mutual Investment Group and Minister of Energy Departmental Budget Speech 2016/17, 11 May 2016.

FUTUREGROWTH: ALLOCATING CAPITAL TO **RENEWABLE ENERGY INVESTMENTS**

Paul Semple, Portfolio Manager: Power Debt Fund, Futuregrowth Asset Management

While the debate over the use of nuclear power continues, the renewable energy sector is quietly forging ahead and independent power producers are adding much-needed capacity to the grid. Since the Department of Energy (DoE) embarked on its alternative energy drive in 2012, capital investments in renewables have totalled almost R200 billion.

South Africa has some of the best natural resources available for solar and wind power. This, together with a reputationally strong and well-run independent power procurement programme, has created opportunities for institutional investors like Futuregrowth – which is now a leading funder of the programme.

Investment into this renewable energy asset class is motivated by:

- The reality that South Africa needs more megawatts on the grid to support and grow our economy.
- The need to reduce our carbon intensity – South Africa is one of highest carbon-producing countries in the world.
- A need to transition South Africa to a sustainable energy mix and a greener economy.

THE POWER OF STRONG PARTNERSHIPS

The growth of the renewable energy sector reflects the success of the DoE's Renewable Energy Independent Power Producers' Procurement Programme (REIPPPP). In addition to the 6 327 megawatts (MW) which is under construction or already in production, Government has confirmed that it plans to procure a further 6 000 MW from independent producers over the next couple of years, doubling the currently contracted renewable energy capacity.

This programme is a strong model for private-public participation, and that has a lot to do with Government's commitment to transparency and the efficiency with which it is run. All the projects in the programme have a 20-year power offtake agreement with Eskom, in which the parastatal will purchase all power generated. This provides producers with the revenue stream to repay the debt and shareholder funding that has been used to build the power plants. Approximately 70% to 80% of the almost R200 billion invested in the 92 projects under the programme so far, has been funded by debt, with most of this having been provided by the private sector.

South Africa has historically been dependent upon electricity generated by coal-fired stations. Given the economic growth since 1994, the country's power demand has increased significantly and Government estimates that the installed capacity will need to grow by 40 gigawatts (GW) (i.e. double) over the next 20 years to meet forecast demand.

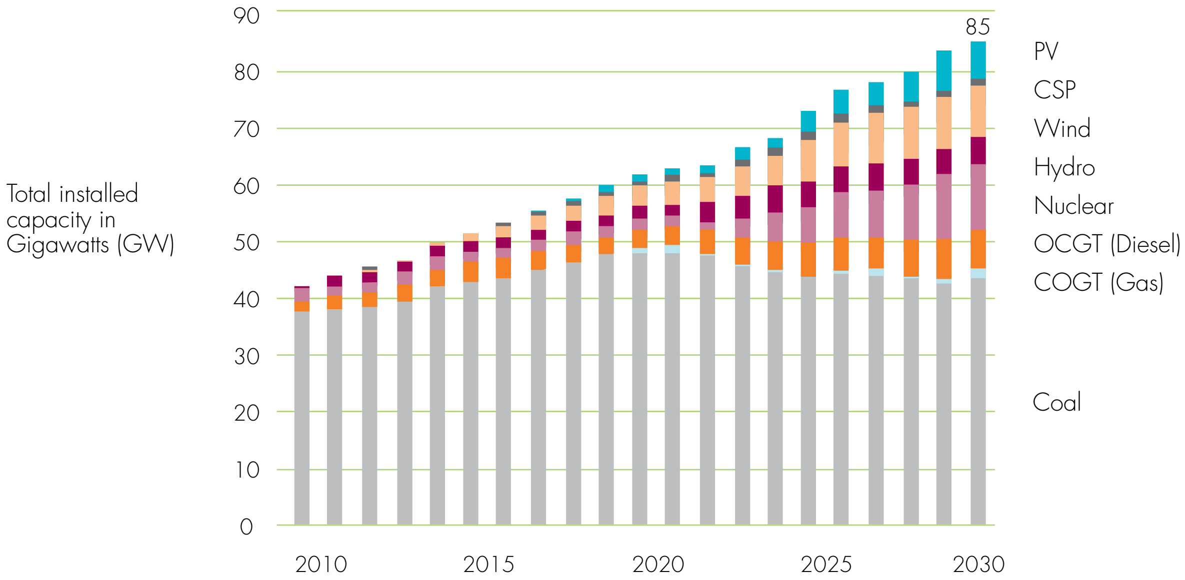
Government's Integrated Resource Plan (IRP), updated in 2011, leads the way for the energy sector in South Africa. It outlines the proposed new power generation roll-out requirements and the mix of generation technologies, including procurement from independent power producers.

Approximately 17.8 GW (42%) of new generative capacity over the period to 2030 is targeted from renewable energy, split between solar photovoltaic (PV) generating 8 400 MW, concentrated solar power (solar CSP) generating 1 000 MW and wind generating 8 400 MW.

20-YEAR ENERGY MIX OUTLOOK

Renewable Energy is prominent

Integrated Resource Plan 2010 – 2030
Total additional new capacity until 2030

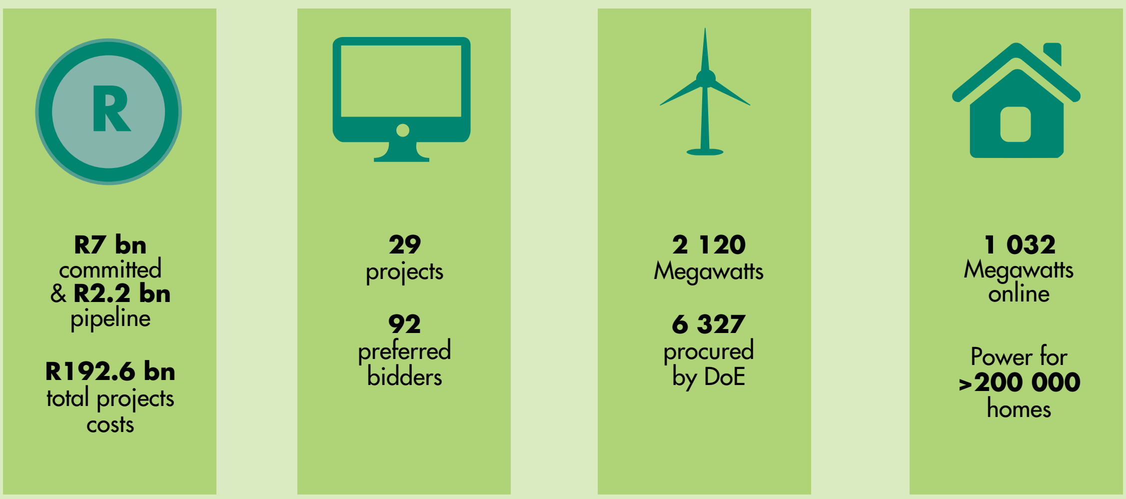


Source: Department of Energy, Integrated Resource Plan for Electricity 2010-2030

FUTUREGROWTH'S PARTICIPATION IN REIPPPP

Futuregrowth is one of the largest fixed income institutional investors in the REIPPPP and was the first to invest in scale from commencement of the procurement programme. So far, Futuregrowth has funding commitments to 23 renewable projects, including solar PV, wind and solar CSP technologies in Limpopo, Northern Cape and Eastern Cape. These projects were awarded preferred bids by the DoE in rounds 1 to 3 of the REIPPPP and, to date, 17 projects have achieved commercial operation and are generating power to the grid.

FUTUREGROWTH'S PARTICIPATION IN REIPPPP



Figures as at 30 June 2016

"Government's Integrated Resource Plan (IRP) **leads the way for South Africa's energy sector."**

ROBUST CREDIT ANALYSIS

To date, more than 50 projects across bid rounds 1 to 4 of the REIPPPP have been considered by Futuregrowth for investment and were subjected to our credit assessment and due diligence process. Of these, more than 21 projects did not meet our credit criteria.

Included in our analysis is a combination of financial and non-financial issues, such as environmental, social and governance (ESG) factors that are relevant to our credit risk analysis process. The key motivating factor for Futuregrowth is to understand the risks associated with each project in order to price for and appropriately mitigate these risks. We see ourselves as a long-term funding partner and, as such, we take a view on which issues could materially impact the sustainability of each project, to better understand the overall risks.

CLEAN AND RENEWABLE GENERATION

Renewable energy projects do not use fossil fuels, nor do they create toxic emissions or hazardous waste. With the cost of fossil fuel-generated electricity rising all the time, it is vital that we invest in cleaner, alternative energy sources.

- Each project requires an Environmental Impact Assessment (EIA) as a key criterion of the bid. This looks at the suitability of a proposed site and the impact of the project on the surrounding area, the environmental resources and the community.
- Projects have to meet the Equator Principles (a risk management framework used by financial institutions worldwide to assess a project's environmental and social risks).

EMPLOYMENT AND SKILLS TRANSFER

Important qualifying criteria for projects under the REIPPPP are the creation of sustainable local jobs and the transfer of skills to communities surrounding the project sites. This includes:

- Job creation
  - Employing local labour to build and maintain the plants.
  - Short- and long-term job creation.
  - SMME development through employing contractors.
- A high level of mentorship and skills transfer from international developers.
- Local technology and subcontractors to be used in all projects according to Government's minimum requirements.
- International developers partnering with local firms that have a strong knowledge of the South African market.
- There is a minimum requirement of 40% of local procurement for every project and this threshold is anticipated to increase in later bidding rounds.

INFRASTRUCTURAL INVESTMENT AND EMPOWERMENT

- There is a strong emphasis on investment by the projects into local socio-economic infrastructure and services, as well as employing local labour to build and maintain the plants.
- Many of the projects are in remote, arid areas and civil engineering is needed for the construction and operation of the project (including access roads). Every project has a minimum BEE equity requirement that must include participation by a trust representing the local community.
- Projects are required to report on their socio-economic development spend and milestones each quarter with termination points given if targets are not met.

WILL GREEN GROWTH SPELL **THE END OF CAPITALISM?**

Jon Duncan, Head of Responsible Investment, Old Mutual Investment Group

Scientists tell us that earth is overshooting its planetary boundaries at a rate far quicker than the average person would believe. This situation becomes rapidly compounded by the significant challenges of population growth, urbanisation, unemployment and rising socio-economic inequality. To complicate things further, the most rapid change is occurring in those parts of the world with the least resources and capacity to manage these effects.

The argument goes that the current capitalist system is out of control, with no moral compass, that our economic steamroller needs to be stopped dead in its tracks, and that nothing short of a revolution will save us. In this light, it is sometimes thought that the notion of green growth is nothing more than a veiled attempt to drive a left-wing agenda that has the redistribution of wealth as its central objective.

SEEKING THE MIDDLE PATH

A leftist Green agenda proposes that the route to avoiding this apocalyptic outcome is the rapid reduction in the levels of resource consumption and, consequently, a slowdown of growth in developing countries. Proponents argue that this would allow developing economies the room to increase their quality of life and gross domestic profit (GDP)/capita, and so stave off the collapse of the world as we know it.

When sketched out in this way the case for green growth becomes polarised with shrill doomsday enviro-/socio-activists on one end, and rabid free-market capitalists on the other. So it is no surprise that neither side can see the wood for the trees.

Having spent time in both camps, I've come to see that at either end of the spectrum lie a number of assumptions. These assumptions are both dangerous and, in some cases, incorrect, and keep the protagonists locked out of seeing the emerging green economy as the natural evolution of our current capitalist system. A system which, at its heart, rewards scarcity and is driven by efficiency. In my view, both these elements are compatible with green growth.

INSIDE THE GREEN ECONOMY

What exactly does green growth mean and how can we be sure that it is indeed occurring? The World Bank and other organisations present the green economy as a low-carbon, resource-efficient and socially inclusive form of growth. Is it happening? Yes it is. Take, for example, the case for renewable energy – despite the arguments against climate change, the need for baseload supply in emerging economies and the current low prices for fossil fuels, renewables still continue to make progress.

Numbers reported by the United Nations (UN) indicate that 2015 was a record year for spending on renewable energy, reaching US$286 billion – over double the amount of investment in fossil fuels. Additionally, for the first time, developing countries invested more in renewable energy infrastructure than the developed world.

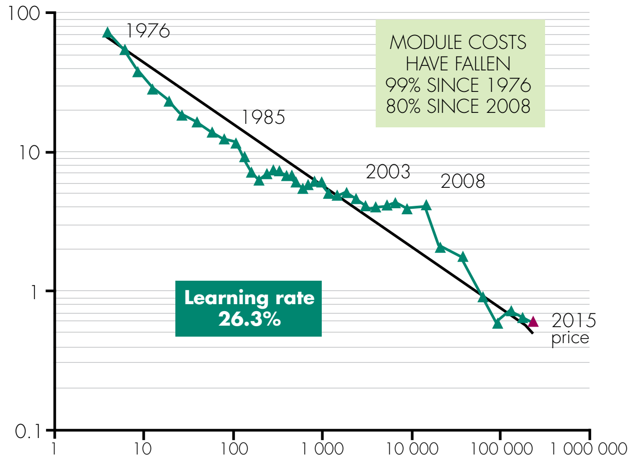
THE NEW ENERGY REVOLUTION

Bloomberg New Energy Finance (BNEF) goes further and says that "cheaper coal and cheaper gas will not derail the transformation and decarbonisation of the world's power systems. By 2040, zero-emission energy sources will make up 60% of installed capacity. Wind and solar will account for 64% of the 8.6 terawatts (TW) of new power generating capacity added worldwide over the next 25 years, and for almost 60% of the US$11.4 trillion invested".

So, what is driving this? In the solar energy arena, the rapid increases in technology efficiency and the reduction of costs mean that for every doubling of the number of solar panels produced, the costs fall by 26%. BNEF calls this cost solar's "learning rate", and is the formula driving the new energy revolution. They point out that rapid efficiency increases and cost decreases are enabled by the fact that solar is a technology and not a fuel.

THE BEAUTIFUL MATH OF SOLAR POWER

Every time the world's power solar doubles, the cost of panels falls 26%



Source: Bloomberg New Energy Finance

Seen in this light, roof-top solar is to traditional electricity what mobile phones were to fixed line telephony.

"By 2040, zero-emission energy sources will make up **60% of installed capacity."**

THE DEMOCRATISATION OF ENERGY

Take the example of Mkopa – a firm focusing on off-grid energy solutions in East Africa, which has a 350 000 customer base that is growing rapidly. They provide roof-top installed solar units in rural areas for less than a dollar a day. Daily energy requirements are purchased via cellphone, which the company also uses as a direct channel to maintain customer relationships. Here is a perfectly capitalist business that is driving both social inclusion and low-carbon energy outcomes.

On the utility scale level, costs are also decreasing. A good example is the recent auction for the development of solar plants with the combined capacity of 100 megawatts (MW) in Zambia, which is supported by the Word Bank Group's "Scaling Solar Initiative". The result is an all-time African low of 6US¢/kilowatt hour (kWh) – circa 0.84 SA cents (currently the average residential consumer pays upwards of 120 cents/kWh). Dubai wins hands down with the current rate of 3US¢/kWh.

Above is a picture of an emerging technology that is set to disrupt traditional energy systems – and this is to say nothing of the potential impact of emerging battery and storage technology that will enable solar to provide reliable baseload power (refer to Prof Mark New's article, Understanding the Forecast: African Climate Change, on page 72); and electric vehicles that are set to change the transport landscape.

MAINSTREAMING THE LEFT FIELD

Outside of these specific examples, one of the more interesting pieces of work being done around the green economy is by the FTSE, which has developed its own green economy taxonomy as means to witness the transition to such an economy. Being an index provider, they are interested in market taxonomies in order to construct various baskets of companies for investors to use as benchmarks.

Traditionally, the main method for creating an index is the use of international securities identification numbers (ISIN) and the stock exchange daily official list (SEDOL) numbers used by issuers. These 'market number plates' contain within them the geography, sector and sub-sector details of each company, and were developed using the industrial classification system – which, of course, does not reflect the emergent green growth agenda. What this means is that, until now, it would not have been easily possible to select a basket of companies producing goods and services that are part of the green economy, since the existing taxonomy did not provide for it.

The FTSE has remedied this situation, and their taxonomy for the green economy identifies 60 green economic sub sectors. The beauty of their approach is that they have tagged the green economy revenue lines within a company. This means that you can, for example, create a basket of emerging market companies that produce 40% or more of their revenue by participating in the green economy.

To illustrate this, thanks to the FTSE's new taxonomy, it is now possible to identify a Chinese coal company that actually derives 40% of its revenue from renewable energy . In essence, it yields a new understanding of investee company revenue streams.

IS GREEN A MACRO THEME?

If we extend this thinking to the idea that the green economy is a macro thematic trend that is reshaping growth, it would stand to reason then that a basket of companies with such revenues should show some kind of outperformance over time.

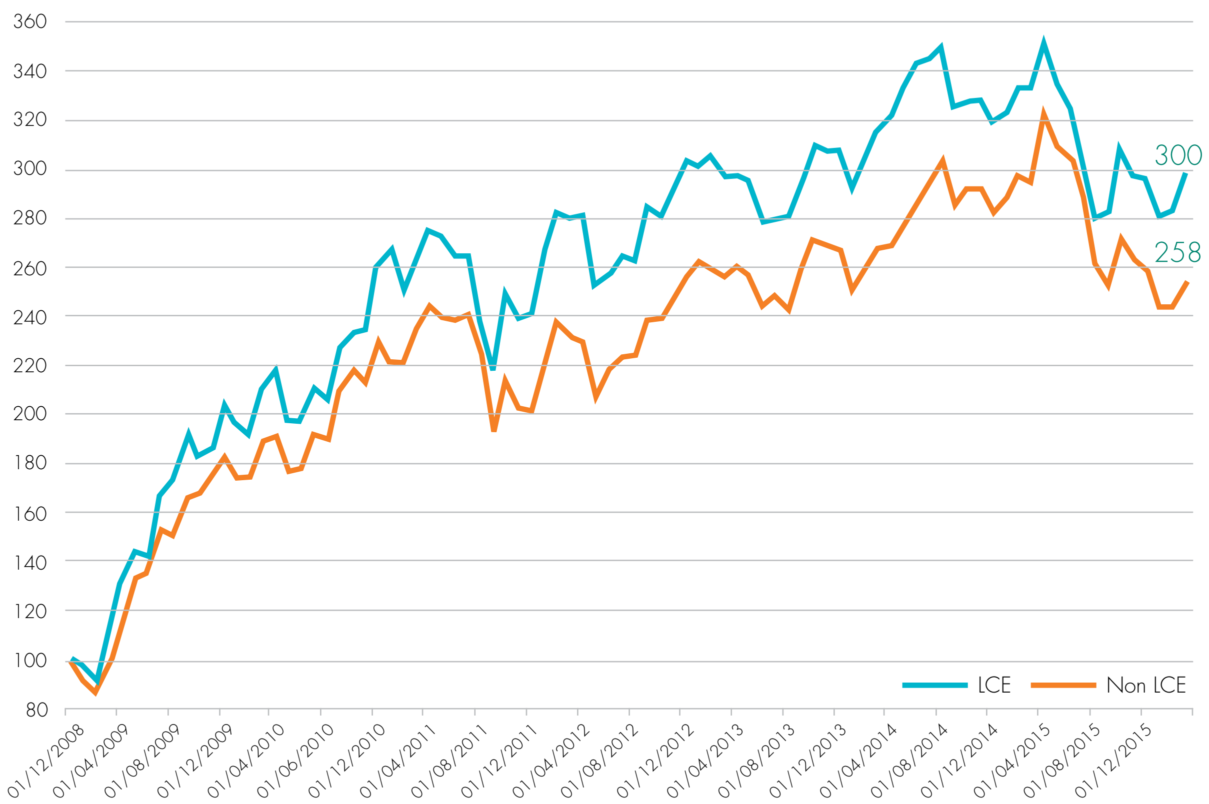
In order to test this, we used the MSCI Emerging Market (EM) Index to assess the difference in performance between companies that generate their revenue from the low-carbon economy compared to those companies that do not. We sourced data from FTSE and used the constituents of the MSCI Emerging Markets Index to create two portfolios:

- A low-carbon economy portfolio which includes al constituents of the EM Index that have a low-carbon economy score.
- A non-low-carbon economy portfolio, comprising all the constituents in the EM Index that do not have a low- carbon economy score.

We then back tested the performance of the two portfolios over seven years, and the outcome showed that the low-carbon economy portfolio significantly outperformed the non-low-carbon economy portfolio.

LOW-CARBON EMERGING MARKET ECONOMIES VS NON-LOW CARBON ECONOMIES*

BACK TESTED 1.12.2008 – 1.12.2015



* Non low-carbon companies that do not have a low-carbon economy score in that they scored zero because >40% of their revenue derives from low-carbon economy activities, or they have not been researched yet.

Sources: Russel FTSE; MSCI and Old Mutual Investment Group

A DYNAMIC SYSTEM

Pondering developments such as these, it is true to say that capitalism is not a static thing – history shows that it has evolved over time and across continents in ways that are neither uniform, nor complete. In fact, from the emergence of the 19th century debtors' prison to the limited liability company, through to the protection of intellectual property rights, capitalist structures morph according to the times.

We are currently in the midst of a transformation that is driven by several behavioural shifts that are turning a number of long-held capitalist ideals on their heads, for example:

- Venture philanthropy – challenges the profit motive
- Open source – challenges competition
- Sharing economy – challenges ownership rights
- Shared value across a broad stakeholder base – challenges the notion of shareholder primacy.

Innovation, changing public sentiment and emerging policy are also important drivers in the emergence of the green economy – but they are happening in the capitalist context, adding a more accountable and socially-inclusive nuance to the basic drivers of capitalism, and so it continues to evolve.

So, no – green growth is not the end of capitalism, but rather, a natural extension of its evolutionary path. Seeing this opportunity requires a willingness to learn from history and the courage to think differently.

SOURCES

i. Standing on the Sun: How the Explosion of Capitalism Abroad Will Change Business Everywhere

ii. 2016 New Energy Outlook – Bloomberg New Energy Finances

iii. Bloomberg - http://www.bloomberg.com/features/2015-mkopa-solar-in-africa/

iv. http://www.ftserussell.com/index-series/index-spotlights/green-revenues?_ga=1.146163764.1224979750.1456731619

A WORLD HUNGRY **FOR SOCIAL INCLUSION**

Dafne Nienhuys, Environmental, Social and Governance (ESG) Manager, UFF African Agri Investments

The **exclusion of the poor** from participating in, and getting access to, opportunities and activities is a major dimension of poverty that needs to be recognised and addressed. As allocators of capital, we believe that **social inclusion considerations must be an integral component** of our investment and ownership decisions.

Agriculture remains the predominant source of livelihood for Africa's rural poor, engaging 65% of the labour force. And the population continues its ascent. The world's largest labour force will be in Africa, with an estimated working age population of 1 billion by 2040. And with poverty on the continent highly concentrated in the rural areas, in particular among women and other excluded groups, it stands to reason that agriculture may be the sector that unlocks Africa's full potential.

Food security is a key element in ensuring sustainable human development. Factors contributing to food insecurity are unsustainable land use practices, lack of land rights and tenure, poor governance and social exclusion.

The consequences of social exclusion can be seen in terms of low agricultural growth, low quality employment growth, low human development, gender and social inequalities, and regional disparities etc. And so social inclusion aims to empower poor and marginalised people to take advantage of opportunities. Social inclusion is central to ending extreme poverty and fostering shared prosperity. It is a goal that is of value to our current and future investments – creating skilled workers, ensuring quality production, enjoying sustainable livelihoods.

With few economic opportunities in rural areas, inclusive agricultural growth would contribute materially to poverty reduction. On the farms Old Mutual Investment Group is invested in, the expansion and investments in farmland provide long-term quality employment growth.

As the Fund Advisor of the agricultural suite of funds managed by Futuregrowth Asset Management (an investment boutique within Old Mutual Investment Group), we safeguard shared prosperity by employing affirmative measures and sustainable farming – at fund, operator and farm level. This approach is empowering people through education and skills development, which helps secure quality employment growth.

ACCESS TO EDUCATION

The farms invested in are engaged in broad-based economic empowerment, including the provision of literacy, numeracy, technical, managerial and financial education and skills transfer, with the aim of empowering workers and creating independent emerging farmers. The social initiatives on the individual farms are based on the needs and skill levels of the workers concerned. Regional demographics also play a part; therefore each investment has a distinct strategy and approach.

In August 2012, 19 women employed by Marble Hall farm wrote their first literacy and numeracy exams. Previously, three of these ladies had been unable to read or write. Two of the learners went on to complete a three - month computer training course in 2014, which enabled them to assist in the office and gain on-the-job office training and experience. Four of the literacy graduates have made it to Level 4 and are qualifying to write matric exams in 2016!

Social inclusion – the process of improving the terms for individuals and groups to take part in society.

Source: The World Bank

In conjunction with the Imfundo Trust, an Old Mutual scholarship initiative, it was also arranged for eight previously disadvantaged agriculture students from across South Africa to travel to the Piketberg farm for a three-day working visit in April 2013. During their stay, the students were introduced to various aspects of the fruit farming operation. They then completed a project consisting of counting, evaluating and recording each tree in every orchard on the farm. An experience in which sharing of information and knowledge was the main focus, for both the students and the farm.

Interns have also been engaged since 2016. These are typically students completing their honours or masters' degrees. Mbali Dayel started her internship with UFF African Agri Investment in 2014. A financial analysis and portfolio management honours student at the University of Cape Town, Mbali has a passion for African development and impact investing and the internship gave her the opportunity to bring these two interests together. Mbali says: "It feels good to know that the work I'm doing positively impacts society while earning returns for shareholders. My role involves all aspects associated with the implementation of an investment project. This includes everything from market and company research, financial modelling and analysis to drafting investment documentation." Post her internship, Mbali decided to stay on and is currently employed as one of our analysts.

"Through investing in farmland, we effectively convert land **from individual ownership into collective ownership."**

ADDRESSING THE GENDER DIMENSION

Though women dominate the African agricultural workforce, they are still precluded from giving technical inputs as they are not considered "farmers". In general, they are excluded from employment opportunities, basic education and land ownership. The same thing can be said for people with disability – they are often excluded from education, livelihoods, social life and medical care. How can agricultural programmes help in addressing this?

Gender and social inequalities are addressed by eliminating unfair discrimination and implementing affirmative action measures, providing equitable representation at all occupational levels of the workforce. It is a priority at the farms invested in to include female and "differently abled" workers and employees at all levels – among farm workers, supervisors and management, with the operators and at fund level.

ENVIRONMENTAL CONSIDERATIONS

We believe agriculture's long-term viability and profitability correlate with the way we treat the natural environment. We promote sustainable methods of agriculture on the farms, including conserving water, reducing soil erosion and making use of renewable natural resources.

On all farms, we install waterwise irrigation, drip irrigation and new tech spray technology on the newly developed land – to ensure we use water more efficiently, which is essential in water-scarce areas.

All the farms also have a waste management programme and use integrated pest management (IPM) systems that are tailored to the local climate and conditions, and aim to prevent infestation or ensure intervention without poisons where possible. The current farms are not high-emission greenhouse gas producers, with less than 25 000 tons of CO_2 emitted per year. Nevertheless, monitoring systems are in place for water, electricity and petrol usage. The aim of this is to improve fuel efficiency and reduce particulate and gas emissions, diminish the impact on climate change and preserve nature for future generations.

TOWARDS EQUITABLE ACCESS

As custodians of the pension fund capital invested by large groups of employees, the Agri-funds' constituency is a reflection of African society and its employee base. By investing in farmland, we effectively convert land from individual ownership into collective ownership, resulting in land reform of a different and sustainable nature.

Agriculture can provide many marginalised people with food, income and a respectable life. The challenge is to convert the food security crisis facing Africa into genuine investment opportunities that change people's lives and positively impact the continent as a whole.

ABOUT UFF:

UFF is Old Mutual Investment Group's **strategic partner** in agri-investments. Futuregrowth Asset Management, one of the specialised boutiques within Old Mutual Investment Group, **manages the agri-funds on behalf of clients.**

INVESTING IN AGRICULTURAL ASSETS AND INFRASTRUCTURE **ON BEHALF OF OUR CLIENTS**

Total committed capital:
R1 562 million

Number of farms:
10

775 hectares of **TABLE GRAPES**
Northern Cape, Saron (WC)
Bonathaba (WC), Brandwacht (WC)

12 hectares of **BANANAS**
Eshowe (KZN)

100 hectares of **MACADAMIA NUTS**
Eshowe (KZN)

1023 hectares of **CITRUS**
Marble Hall (Limpopo), Eshowe (KZN), Saron (WC), Bonathaba (WC)

140 hectares of **DECIDUOUS & STONE FRUITS**
Piketberg (WC)

2935 hectares of **CATTLE, PASTURE & MAIZE FOR FODDER**
Swaziland

Total size of all farms:
12 579
hectares

102
workers receiving adult education

Housing built/renovated for
633
workers

Permanent employment for
652
workers

Receiving pre-paid healthcare
253
workers

Source: Futuregrowth Asset Management

Figures as at 31 March 2016

HOLDING OUT **FOR A HERO**

Prof Arnold Smit, Associate Professor in Business in Society, University of Stellenbosch Business School &
Prof Marc le Menestrel, Co-Director of the Africa Directors Programme and Visiting Professor from INSEAD Business School (France)

In thinking about a vision for leadership in Africa, we do not want to fall into the despondency trap, lamenting the dearth of enough good leaders on the continent. Instead, we want to highlight the leadership capital that the continent has blessed the world with over the years, from a Nelson Mandela from the Cape to a Kofi Anan from Cairo.

It is by creating responsible leaders of this ilk that we will make our way towards a peaceful and sustainable world.

Nelson Mandela once wrote: "What counts in life is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the life we lead." Is this not true about leadership as well, namely that it should never be done with self-interest in mind, but always with a view on the positive dividends that can be created for others? For Africa to achieve its full promise, we need both: leaders with a big heart, and inclusive well-being for all her people.

However, we need to balance optimism and opportunity surrounding Africa's abundance and youthful human dividend with realism and caution about some serious challenges that stand in the way. Among the latter are the systemic risks that place our economic, social and environmental systems in jeopardy and threaten to rob us of the dream that Thabo Mbeki so eloquently described in his "I am an African" speech: "Whatever the difficulties, Africa shall be at peace! However improbable it may sound to sceptics, Africa will prosper!"

BOARDROOMS VS CLASSROOMS

Achieving prosperity needs many factors to work together, one of them being leadership. From an African perspective, we need leadership of a special kind, namely men and women suitably able to guide the continent's progress towards a sustainable future by exercising wisdom and courage in decision-making and good stewardship of the continent's resources and identity. The Third King Report on Governance for South Africa (2009) calls such leadership responsible leadership and ties it to a set of values, namely responsibility, accountability, fairness and transparency. Such leaders are mindful of the impact of their organisations on the economy, society and the environment, and therefore they are ethically fit, future and sustainability minded and sensitive to the needs and interests of all their stakeholders.

RESPONSIBLE LEADERSHIP – KING III (2009)

For a continent of a billion people, we need a multitude of responsible leaders, probably about 10 million of them (working with a 1:100 ratio). We need them across all sectors of African societies and we need them in all layers of management. This is where our challenge becomes real: we are indeed short of numbers and we are short of quality institutions to produce such a big pipeline of high quality leaders and managers. We do not have the requisite capacity to develop enough of these leaders if we keep relying on conventional bricks-and-mortar type approaches. As such, we need to develop multi-level approaches.

Here is where we want to focus on the contribution that boards can make to the multiplier effect in the leadership development for Africa that we are looking for. Due to their very role in governing their organisations, boards can build organisational cultures that will equip others to lead, even in the absence of them having had sufficient formal management education. We expect the ethos and example of the board to infuse the organisation with values, disciplines and practices that will cascade down the leadership levels and ripple throughout the various functions and units.

We tend to make two mistakes in leadership development, namely relying too much on individual brilliance and classroom learning. Research has confirmed that the development of leaders also requires real-life contexts and interaction with others. It is in these settings that core values can be revealed,

responsibilities be clarified and the counsel of others can be sought in the face of difficult choices. Organisations offer these living classrooms to leaders on a daily basis. Offered to us on the proverbial tray, this is an opportunity we should seize.

AN INHERENTLY AFRICAN APPROACH

The Africa Directors Programme is offered through a partnership between Stellenbosch Business School, the INSEAD Corporate Governance Initiative, the Old Mutual Investment Group and the Institute of Directors of South Africa. For us, as the co-directors, this programme is firstly about developing directors as ethical and responsible leaders; people who govern their organisations with competence and moral integrity. In presenting this programme, we hold on to the ideal that every director can lead from an inner authenticity, while at the same time governing the organisation effectively in the interests of good corporate citizenship and stakeholder value protection. If we get this right at a board level, it sets the pace for what is possible at other levels in the organisation.

For our vision of leadership in Africa, we want to leverage the positive value of an Ubuntu approach. In this expression Africans say: "I am because you are; you are because we are." Emphasising our humaneness, Ubuntu refers to mutual support, respect, interdependence, unity, collective work and responsibility. Leadership in this context is understood in relational terms and attentive to the needs and interests of stakeholders. Such leadership will not shy away from addressing society's fault lines regarding inequality, racism, poverty, unemployment and corruption, or the environmental precariousness manifested in climate change, non-renewable energy utilisation, deforestation, land degradation and water pollution. The leaders we envision for Africa are those with the wisdom and courage to choose against what is corruptible and unsustainable and, instead, stand on the side of the best that Ubuntu represents.

We agree with Sir Adrian Cadbury, who already in 1992 declared that "the governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society." We believe that we need to align the interests of directors, executives and managers as well. If we can get these right and we can scale it from the boardrooms on the continent as a launching pad, we may succeed in creating virtuous organisations where leaders will learn to lead responsibly and sustainably. In this manner, Africa's prosperity may not be a mere reflection of others but will itself lead the way towards a peaceful and sustainable world.

"The leaders that we envision for Africa are those with the wisdom and courage to choose against what is corruptible and unsustainable and, **instead, stand on the side of the best that Ubuntu represents."**

ARE MILLENNIALS THE LOST GENERATION? **A GLOBAL PERSPECTIVE**

Millennials are often portrayed in the media as lazy, narcissistic and entitled, but these harsh generalisations could not be further from the truth. According to the Rise of the Millennials survey conducted in October 2015 by Standard Life Investments, which seeks to find what motivates millennials, it was found that 61% of the millennials interviewed were worried about the state of the world and felt that they were personally responsible for making a difference.

WHO ARE THE MILLENNIALS?

Millennials are generally characterised as individuals born from 1980 to 2000. These individuals have grown up in a period of profound technological change, globalisation, climate change and economic disruption. This has shaped their world view, behaviour and experiences.

GENERAL TRENDS OF MILLENNIALS ON BUSINESS

Sharing economy

For millennials, the idea of ownership is no longer prevalent. They are reluctant to buy items such as cars, homes and luxury goods. They would rather spend money on services that provide access to what they need without necessitating ownership. This has given rise to the "sharing economy".

Social justice and equality

According to *Forbes*, 75% of interviewed millennials said it's important that a company gives back to society instead of just making a profit. To millennials brands are no longer as important as the impact their products have on society and the environment.

IMPLICATIONS FOR THE INVESTMENT INDUSTRY

According to asset manager BlackRock, 45% of millennials are more interested in investing now than they were five years ago. And millennials are increasingly looking for investments that reflect their social and environmental concerns.

The graphic below highlights the millennials' clear interest in integrating sustainability into their investment portfolios, according to Morgan Stanley's Sustainable Signals report of February 2015:

84% of millennial investors are **interested in sustainable investing.**

x2 Millennials are nearly twice as likely to invest in companies/funds that **target specific social or environmental outcomes** (22% of millennial investors, compared to 12% of the total individual investor population).

20% Millennials are 5% more likely to **conduct their finances according to ESG principles** than Generation Xers, and nearly 20% more likely to do so than Baby Boomers.

x2 They are nearly twice as likely to invest in companies/funds that aim to use environmental, social or governance **(ESG) practices to create a value differentiator** (15% of millennial investors, compared with 7% of the total individual investor population).

x2 They are over twice as likely to **exit an investment position because of objectionable corporate activity** (15% of millennial investors, compared with 7% of the total individual investor population).

ON THE GROUND **IN AFRICA**

Jonathan de Pasquallie, Manager of Responsible Business, Old Mutual Emerging Markets, in conversation with Marjorie Mayida, Chairperson of Old Mutual Africa Responsible Investment Committee

As a long-term investor and responsible steward of the assets it manages on behalf of its customers, Old Mutual Africa is on course to becoming the leading responsible investor on the continent, where it has offices in Kenya, Malawi, Zimbabwe and Namibia. Old Mutual Africa's Responsible Investment Committee spearheads this initiative, ensuring that we continue to incorporate environmental, social and governance (ESG) considerations in the assets in which we invest. **Marjorie Mayida** shares some of the learnings along her ESG journey into the African investment landscape.

Jonathan: Describe your role and what you're most passionate about in your position.

Marjorie: I am the chair of the committee, which is a platform where responsible investment representatives from Namibia, Malawi, Kenya, Zimbabwe and South Africa can share their experience and discuss their challenges. In this role it is my responsibility to support my colleagues in embedding responsible investment (RI) into the DNA of our investments across selected Old Mutual Africa businesses.

In addition, I am the responsible investment ambassador for the Zimbabwean business, and thus play an active role in developing Old Mutual Zimbabwe's responsible investment initiatives and building these out in the broader Zimbabwean business arena.

We do this by spearheading responsible investment thought leadership in the country as part of our commitment to making a positive contribution to the Zimbabwean economy.

This is important for us, as we believe that Old Mutual should be the voice of change in influencing the way in which investments are made. Part of this is ensuring that people become aware of the materiality of ESG factors in the investment process.

Jonathan: What do you think it means to be a responsible investor?

Marjorie: It means ensuring not only the creation of sustainable businesses and economic systems through good corporate citizenship, but the generation of long-term, superior, risk-adjusted returns by seriously considering ESG factors, when we invest and engage with the management of investee companies.

Jonathan: Why is responsible investment so important, and particularly for Africa?

Marjorie: The global investment themes have been evolving and the 2007-2008 global financial meltdown brought to the fore the increasing demands from both institutional and individual investors to play a more active role in how companies are managed. The importance of responsible investment in Africa can never be overemphasised, as it presents an overarching framework for the future of a healthy investment environment in Africa. Africa is part of the set of emerging frontier economies with huge growth potential and is a major destination for capital flows from developed nations. As a leading African business and asset manager, if we are to harness and leverage the potential capital flows into the African continent, Old Mutual Africa needs to epitomise responsible investment, thereby boosting our influence on Africa's corporate governance frameworks and our impact on our society as a whole.

> **"... we are encouraging Old Mutual Africa countries** to develop their own internal ESG ratings on their investee companies as a stop-gap measure."

159109292 – Gallo Images/Getty Images/Harry Hook

Jonathan: Is there a business case for responsible investment?

Marjorie: Yes, definitely. Contemporary research on the impact of responsible investment on performance indicates that companies that incorporate ESG thinking into their operational and strategic plans, are operationally efficient and are able to attract debt and equity funding more effectively than companies that don't. When it comes to adding alpha (excess performance ahead of a benchmark or the market), companies that are committed to embedding responsible investment in their businesses tend to be winners, and thus attract more foreign capital. So responsible investment is an important strategy for African businesses. Our colleagues in South Africa have developed an ESG indexation product that is based on their responsible investment thesis. They use a best-in-class approach and select the best 50% in each sector based on their ESG screening. Their research illustrates and endorses the outperformance of the ESG index relative to the market index.

Jonathan: What are some of the key regulatory drivers and governance codes that drive responsible investment in Africa?

Marjorie: Each country must comply with its own laws. For example in Zimbabwe, the Companies Act guides the conduct of and relations between companies and their stakeholders. However, the Act is porous when it comes to a number of the softer ESG issues, as it was enacted in 1951 and times have changed since then. For listed companies, the Act is assisted by the Listing Rules, which largely promote governance aspects for all listed companies. The Act is currently under review and improvements are expected. A positive milestone in Zimbabwe's responsible investment space was achieved in April 2015 when the country launched its own National Code on Corporate Governance, which provides the framework for corporate conduct for both public and private sectors. Governance drivers are also being developed in Kenya, such as the Code of Corporate Governance Practices for Issuers of Securities to the Public. However, despite this step in the right direction, there is still a lot that needs to be done to bolster the responsible investment initiative throughout Africa. A number of our local companies also subscribe to the King III Code on Corporate Governance in South Africa and, as a member of the Old Mutual Group, we have adopted the corporate Responsible Investment Standard.

Jonathan: What are some of the initiatives of the committee?

Marjorie: During 2016, the committee stepped up its efforts to increase awareness of responsible investment across all the African business units, and we have launched proxy voting policies for Malawi, Kenya and Zimbabwe. The committee will also be responsible for embedding ESG issues in the valuation models for analysts and in ensuring that all Old Mutual Africa countries speak with the same voice when it comes to responsible investment. Engagement with companies on ESG issues has been in full swing in 2016, as we continue to pioneer responsible investment in Africa. Efforts will also be made to improve and increase the ESG research of listed companies and increase ESG capacity building.

Jonathan: Is ESG research limited in African markets?

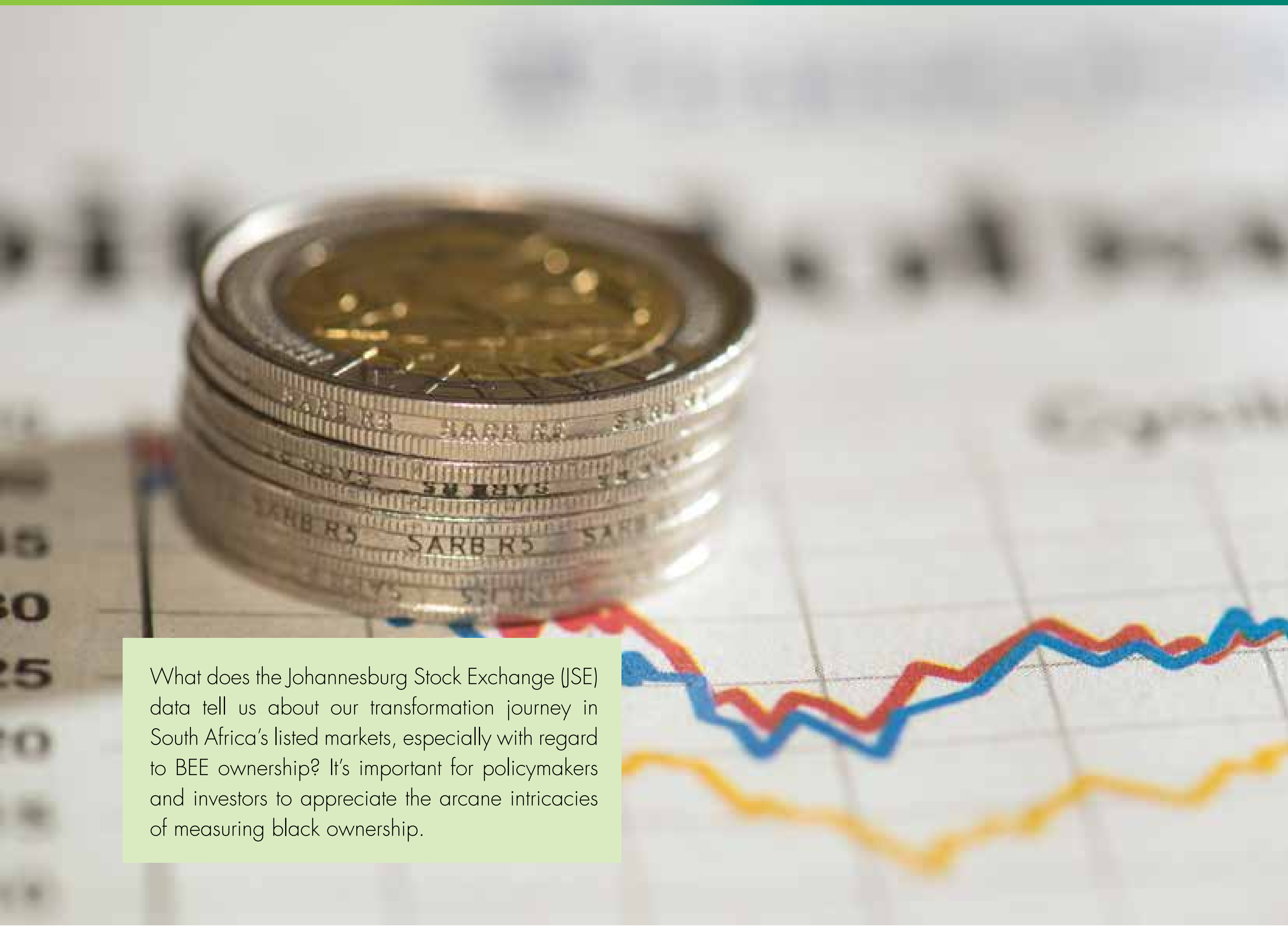
Marjorie: Yes, unfortunately coverage is still limited in Africa. However, we are not letting that slow our momentum and we are working closely with MSCI to deepen ESG research in the markets in which we operate. Over and above this, we are encouraging Old Mutual Africa countries to develop their own internal ESG ratings on their investee companies as a stop-gap measure. This will complement the research that will later come through from MSCI. We strongly believe that this is the course of action we should take, as it is in firm support of our responsible business agenda for 2016 and beyond.

Jonathan: How will this change the way that Old Mutual Africa does business?

Marjorie: Responsible investment practices will place us on an equal footing with how business is conducted in developed nations, as these are the same issues that investors and businesses in first-world countries are grappling with. In addition, these initiatives will greatly increase the human face of all our investments and enhance our competitive edge across the African continent. I strongly believe that responsible investment is the way of the future, and ensuring that we deliver on the long-term goals of our customers in a sustainable and responsible way.

WHO **OWNS THE JSE?**

Trevor Chandler, Chairman of Alternative Prosperity



What does the Johannesburg Stock Exchange (JSE) data tell us about our transformation journey in South Africa's listed markets, especially with regard to BEE ownership? It's important for policymakers and investors to appreciate the arcane intricacies of measuring black ownership.

The Johannesburg Stock Exchange (JSE) is in essence a global platform that operates in the context of the global market. It thus enables companies operating from virtually anywhere in the world to list and trade capital between investors domiciled in almost any jurisdiction. Think AB InBev, British American Tobacco, Naspers, SABMiller, Anglo American etc. All of these extremely large-cap stocks by South African market standards do most of their business in value terms outside of SA, more often than not employ most of their staff outside SA, and are logically also predominantly owned by foreigners.

Despite the above facts, aggregate transformation statistics across the market are often cited by policymakers and others as indicative of the levels of transformation across the South African economy. In figures quoted last year by the National Empowerment Fund, and endorsed by the Presidency, it was claimed that 3% of the JSE is in black hands. This study did not take into account various categories of black participation in the exchange, most notably black membership of pension funds, often referred to as indirect ownership or ownership through mandated investment schemes.

In studies published by the JSE, based on research performed by Alternative Prosperity, the following aggregate statistics were revealed, using the JSE Top 100 and the Shareholder Weighted (SWIX) Indices as a basis:

A SLOW TRANSFORMATION - BLACK OWNERSHIP OF THE JSE

	2011	2012	2013
Direct black ownership	9%	10%	10%
Black ownership through mandated (institutional) investment schemes	12%	13%	13%
Total black ownership as a % of total JSE equity	21%	22%*	23%
Total black ownership after adjusting for foreign operations (DTI method)	31%	35%	39%
Percentage of market not yet measured	23%	15%	16%

* 2012 does not add up due to rounding

Sources: Alternative Prosperity, Johannesburg Stock Exchange (JSE)

The above statistics, however, only reveal a very small part of the story that policymakers and investors should take note of.

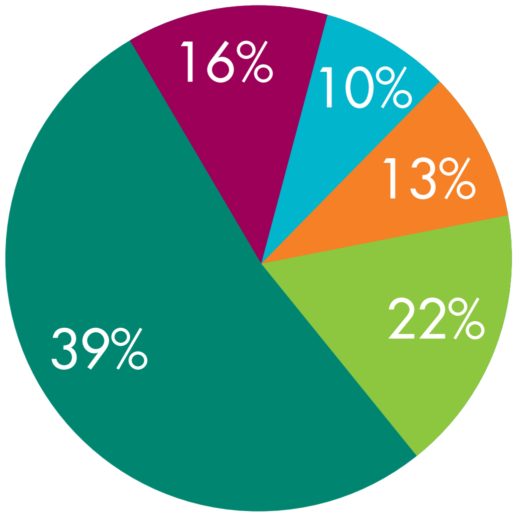
The first aspect worth considering is the significant foreign portfolio investment on the exchange. According to our research, foreigners own approximately 40% of the market when SWIX is used as a basis. Alternatively, they own in excess of 60% of the market when the foreign registers of dual-listed multinationals are taken into account.

This is an entirely logical outcome of the fact that many foreign companies have chosen to list on the JSE to take advantage of our well-regulated, transparent and relatively liquid market. In addition, many South African companies have significantly diversified their operations outside South Africa post 1994.

This expansion, it could be argued, has largely been funded by foreign shareholders. Stated differently, South Africans only own 40% to 60% of the market, dependent on which basis is used for the analysis. This dynamic is in all likelihood very different in the unlisted part of the economy.

"South Africans only own 40% to 60% of the market, dependent on which basis is used for the analysis. This dynamic is in all likelihood very different in the unlisted part of the economy."

JSE OWNERSHIP (AS AT END OF 2013)



- Direct black investor ownership (largely through BEE schemes)
- Black ownership through mandated (institutional) investment
- White South African investors
- Foreign investors
- Market not yet measured

Sources: Alternative Prosperity, Johannesburg Stock Exchange (JSE)

The second dynamic that should be taken note of is that pension funds are the predominant South African owners of listed equity. In aggregate, institutional investors, who invest on behalf of the "man in the street" (principally members of employer-sponsored pension funds, life insurance policyholders and unitholders of unit trusts), own around 39% of the SWIX.

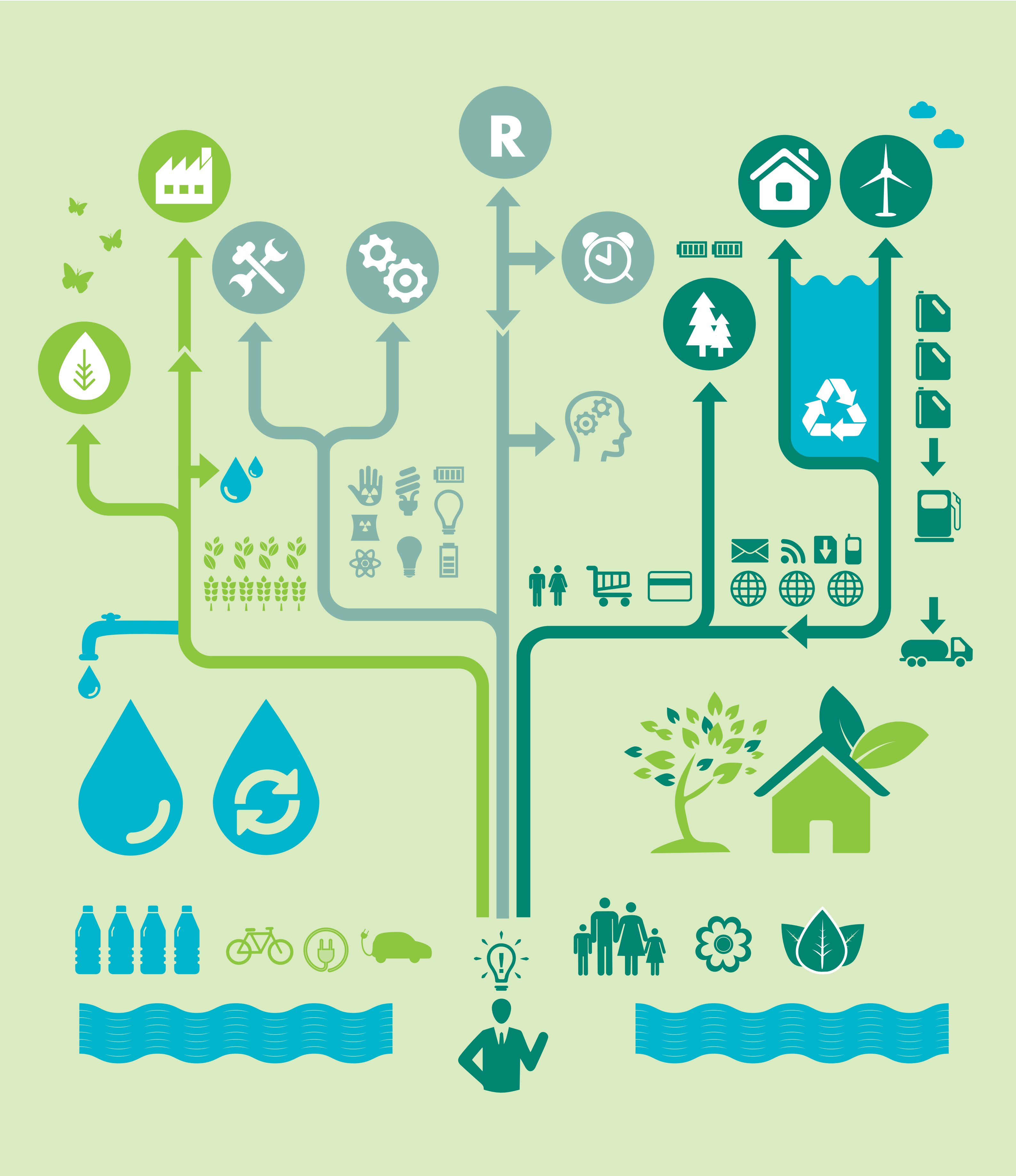
Individuals, private investment companies and the like own a very small percentage of the market in aggregate, other than in the minority of instances where the founders of the business still hold a substantial equity stake.

The various BEE consortia are by far the largest category of private/direct owners. However, the extent to which individual black shareholders can influence the activities of companies through these structures, varies between consortia.

It is thus imperative that policymakers actively monitor the aggregate extent to which previously disadvantaged individuals are participating in pension funds and the like, as this arguably represents the only reliable market statistic that can be used as a proxy for the transformation of asset ownership within the economically active population as a whole.

The third important dynamic, with respect to policymakers and investors, is the potential effect of significant BEE exits from listed companies (principally miners and financials), post the publication of the above research. Some of these companies are being actively lobbied to do replacement transactions. Others may require replacement transactions for commercial or licensing reasons. Some of these companies (financials) will be required to increase levels of "below-the-line" empowerment in the form of equity-equivalent financing. In our view, investors should actively engage with affected investee companies on a proactive basis – vis-à-vis their respective takes on "where to from here" regarding BEE ownership. As if to complicate matters further for investors, the mining, fuel and construction sectors currently face an uncertain future, vis-à-vis broad-based black economic empowerment (B-BBEE) regulations pertinent to their sectors.

Finally, it should also be noted that the above statistics merely represent averages across the market. Within the average, there are many listed entities that significantly exceed regulatory BEE targets, as well as many that fall far short. Most companies publish BEE statistics in the public domain. Some, curiously, don't. Active investors should, in our view, be engaging with listed entities in the portfolios – to encourage transparency and comprehensive disclosure of B-BBEE credentials, and with a view towards interrogating the reputational, legal and commercial risks that companies with inadequate B-BBEE credentials may be subject to. In this context, it should also be borne in mind that regulators are increasingly scrutinising listed companies operating in all sectors, BEE credentials, and will shortly be compelling listed entities to report transformation credentials to the office of the BEE Commissioner.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A PROXY FOR THE **NEXT GENERATION**

Robert Lewenson, ESG Engagement Manager at Old Mutual Investment Group, in conversation with Michael Judin, Attorney and Senior Partner at Judin Combrinck Inc

We spoke to **Michael Judin** about the nature of fiduciary duties in the 21st century. What became clear is that ESG issues and fiduciary duties are not mutually exclusive.

Robert: In their published report Fiduciary Duty in the 21st Century, the UN Principles of Responsible Investment (UNPRI), United Nations Environment Programme (UNEP) Finance Initiative, UN Global Compact, and UNEP Inquiry investigated the South African legal landscape to determine whether fiduciary duty is a legitimate barrier to investors integrating environmental, social and governance (ESG) issues into their investment processes.

The report recommends that "the Financial Services Board should clarify that compliance with the requirements of Regulation 28, in particular those relating to ESG issues, should be seen as an integral part of the fiduciary duties imposed by the Pension Funds Act". In your view, does current South African law on fiduciary duty support or prohibit investors integrating ESG issues into their investment processes? Furthermore, would the report's recommendation, if implemented, develop South African law such that fiduciaries other than pension fund trustees would need to consider integrating ESG issues into their investment processes?

Michael: The "new" South African Companies Act, which became effective in 2011, has indirectly dealt with the matter. Section 7 of the Act states that one of the objectives of the Act is to promote compliance with the Bill of Rights.

The Act still requires directors to act in the best interests of the company, but this section implies that, in making decisions in the best interests of the company, directors should consider the rights of others. Therefore the legitimate needs of the community, the environment and other stakeholders cannot be ignored in board decision-making. The application of the section has not yet been tested in court, but some are of the view that this section creates a strong "hook" to keep directors accountable for the impact of their decisions beyond the company. In South Africa, we also have an extended suite of legislation that deals with environmental protection and community responsibility – for example, our mining companies' legal duty to execute a pre-approved social and labour plan, labour practices, broad-based black economic empowerment etc. It is obviously part of a director's fiduciary duty to ensure that the company complies with legislation.

We also have a corporate governance code, currently King III. The King Code strongly addresses the board's duties insofar as matters such as the environment, the community and its broader stakeholders are concerned. While there is no requirement in law that directors should comply with the King Code, it should be borne in mind that as a result of at least 14 decisions of the High Court of South Africa, the King Code is now part of South Africa's common law and as a result thereof falls to be followed in the same way as one is required to comply with a statute.

However, our stock exchange rules require listed companies to apply the King III principles or explain why and to which extent they did not comply with every one of the individual principles. We have also seen numerous instances where our courts use the King Code to measure directors' action and decision-making. So it has become a yardstick for "the reasonable director" and has become part of our common law.

"… the legitimate needs of the community, the environment and other stakeholders **cannot be ignored in board decision-making."**

In as far as trustees of pension funds are concerned, ESG matters are included in their fiduciary duty. However, similar to the King Code, we have the Code for Responsible Investment in South Africa (CRISA), which deals with the application of such broader good governance from an investor perspective. Unfortunately, the take-up of this is not at as a high level as the King Code. It would be useful for the pension fund regulator to have a requirement similar to our stock exchange rules in this regard.

Robert: Given the current legal landscape in terms of opportunities and obstacles, what guidance from a responsible investment (RI) perspective could you offer to those whose duties as trustees or agents include a fiduciary duty of care over their clients'/ beneficiaries' assets?

Michael: In short, RI hinges on a single measurement – sustainability. What does this mean? The trustee of a pension fund, or the institutional investor more generally, has a duty towards the pension fund beneficiaries or the investment fund investors. If they want to best serve these beneficiaries, they need to have a long-term perspective on investment and thus on the companies they choose to invest in.

A long-term investment view has a very different perspective on risk, quality of earnings, skills and ethics of the board and management team in the underlying investment, and other matters. Unfortunately, there is still a lot of "short-termism" when it comes to investment, even at an institutional investment level. This is often evident in the fact that short-term performance, profits, cash flow and dividends are still the key criteria on which many investment decisions are based. If sustainability becomes the measure, the investor will ask whether this company has built a strategy and business model that will sustain value creation for investors in the long term.

If this is the criterion, the company's interaction with its community and its labour force becomes relevant, as it can result in future risks or benefits, Marikana being an example. Also, the company's view on environmental matters becomes relevant, as a high level of risk taking, albeit at a business or an operational level, can have negative consequences, as illustrated by the oil spill in the Mexican Gulf or, more recently, the VW debacle.

The institutional investor should also bear these principles in mind when setting performance targets and incentive schemes. Often,

the right things are said when it comes to investment policy, but these are not adequately supported by structures and actions that drive the appropriate behaviour.

Robert: In your opinion, in which areas can the legal community support the ongoing development and training of fiduciaries to ensure they are properly apprised of the scope of their fiduciary duties?

Michael: There is a huge need for ongoing training for directors of companies and public entities, as well as for trustees of pension funds and also other structures. To use pension funds as an example, 50% of the trustees are employee selected and are often employee representatives. People selected often come from their own specialist areas, but they are unaware of their fiduciary duties and may believe that they have a duty as a "representative". So I like your suggestion that the legal community should support such training and development objectives.

The legal fraternity is in a privileged position where they are not only close to the theory of the law, but also familiar with the application thereof. The application side is not just the challenges and realities of the practical implementation of law. It also includes knowledge obtained through court judgments as well as arbitration rulings etc.

There are lots of lessons to be learnt from the application side and it brings the letter of the law to life. It is often very difficult for non-legal people to really get to grips with legal requirements in the absence of such practical examples and experiences. If the legal fraternity starts sharing this technical and practical knowledge we will have stronger directors, which will result in better and stronger companies, to the benefit of the community at large.

Not only in South Africa, but across the globe, regulators are looking carefully at what steps entities have taken in regard to compliance and training when disciplining, levying fines or prosecuting entities and individuals.

One of the best mitigating factors is to be able to show that the offending entity has in place strict compliance and adequate training (including policies) and that despite these, the offence was committed. Fiduciaries are in the firing line of activism, which will become all-pervasive, and being able to show the adequacy of training, compliance and policies will become of critical importance in helping to avoid severe criminal and civil sanctions.

"Unfortunately, there is **still a lot of 'short-termism'** when it comes to investment, even at an institutional investment level. This is often evident in the fact that short-term performance, profits, **cash flow and dividends are still the key criteria** on which many investment decisions are based."

Who has fiduciary duties? What UNPRI says

In investment, the most common fiduciaries are the trustees of trusts or pension funds. Beyond trustees, different jurisdictions have different interpretations of who exactly holds fiduciary obligations and who simply has duties of care.

This question of who holds fiduciary duties is likely to change. The shift in many countries to contract-based defined contribution (DC) pensions raises the question of who is responsible for protecting the interests of these savers. The specific question that policy makers will need to address is what duties are owed by insurance companies, asset managers and sponsoring organisations (i.e. employers) in contract-based schemes (i.e. where the pension provider does not have fiduciary or equivalent obligations to the beneficiary in the way that a trustee would in a trust-based scheme).

For example, the board members of a pension fund can have a statutory duty to – in the performance of their duties – follow the interests of the scheme members, deferred members, the pension beneficiaries and the employer, and the board would then ensure that these parties can feel that the consideration of their interests is balanced.

Source: United Nations Principles of Responsible Investment (UNPRI)

GREENING AFFORDABLE **HOUSING WITH EDGE**

Lenore Cairncross, Investment Professional for Impact Funds, Old Mutual Alternative Investments

The built environment is a dominant resource consumer and a prime sector within which to achieve green efficiencies. By implementing EDGE (Excellence in Design for Greater Efficiencies) in its housing projects, the Housing Impact Fund South Africa (HIFSA) is making a positive contribution towards reducing the ever-increasing demand on our limited energy and water resources.

WHICH HOUSE WOULD YOU RATHER LIVE IN?

Source: Similan, Aug 2016.

In deciding on a new home, there are a number of factors that are typically taken into account: affordability, location, efficient and functional design, aesthetic appeal and more. In the affordable housing market in South Africa, developers have often dictated the design of a home because keeping costs down is the biggest concern, while little consideration is given to how the space would be used by the homeowner. This has often resulted in unattractive "cookie-cutter" housing units with unimaginative streetscapes. However, in a tough economic environment where new home buyers find it increasingly difficult to obtain a bond, a house needs to be appealing and aspirational to attract their interest. In this kind of market, developers are being challenged to create innovative, attractive designs to remain competitive.

With environmental sustainability high on the agenda of investors both locally and globally, Old Mutual Alternative Investments' Impact Funds team has engaged with the International Finance Corporation (IFC) and the Green Building Council of South Africa (GBCSA) in developing a vision to implement, where possible, a new green building certification standard – EDGE – on all future housing projects for sale and rental.

Impact Funds manages funds in excess of R14 billion, as at 30 June 2016. The largest fund is HIFSA (R9.15 billion, as at 30 June 2016), which aims to address the housing shortage. Old Mutual Life Assurance Company South Africa is co-invested in HIFSA alongside the Government Employees Pension Fund (managed by the Public Investment Corporation), the Development Bank of Southern Africa and the Eskom Pension Fund. HIFSA has a dual mandate: firstly, to deliver a market-related, risk-adjusted return on investment to investors, and secondly, to create new affordable housing stock. The affordable housing market is defined by the Financial Sector Charter (FSC) as having a maximum monthly household income of R20 800 (2016).

EDGE is simultaneously, a software, a standard, and a green building certification system. The EDGE software empowers developers to choose the most cost-effective options for building green and take their projects forward for certification. IFC has been working in partnership with the GBCSA for the last two years to tailor EDGE to the South African environment to account for South African climatic conditions, the standard of local building materials and local development costs. In November 2015, EDGE was launched in South Africa at the annual Green Building Convention, making it possible to register local projects for EDGE certification.

Impact Funds had a delegation of 10 participants at the Green Building Convention, consisting of five developers and five investment professionals, who came away enthused by the possibilities that EDGE presents. Old Mutual Alternative Investments has since developed a good working relationship with IFC's EDGE team, having a shared view to promote green buildings in the affordable housing sector.

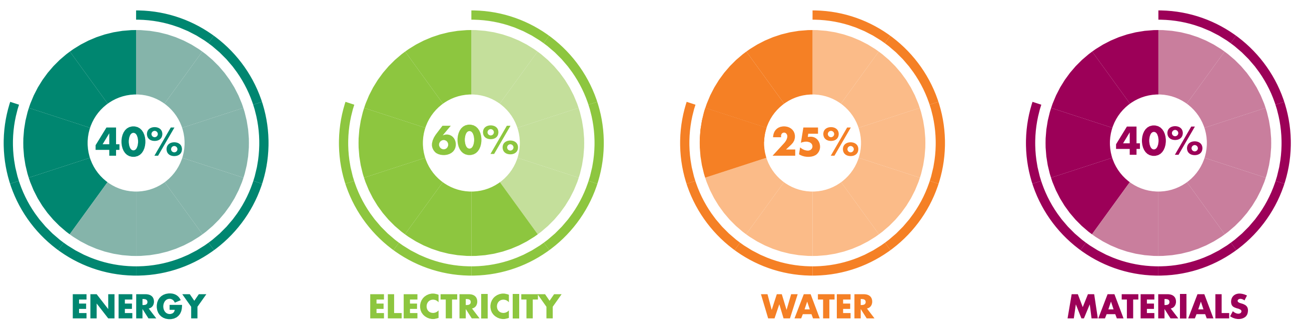
In April 2016, an IFC EDGE team from Washington travelled to South Africa and hosted two bespoke seminars in Johannesburg and Cape Town for Old Mutual Alternative Investments, alongside the GBCSA, which included housing developers, investment professionals and senior management, to discuss implementation strategies for new housing projects. These EDGE seminars were well received and there was particular enthusiasm from housing developers about the potential cost savings and green branding opportunities presented by EDGE.

the lowest recorded rainfall since 1904, with five out of nine provinces being declared drought disaster areas. Countrywide the costs of water supply are increasing and there are water restrictions in many parts of the country.

South Africa is in the top 20 countries in the world with unacceptably high levels of CO_2 emissions and is also facing an impending waste crisis as landfill space becomes increasingly limited. Therefore, conservation of natural resources to ensure sustainable solutions to these resource challenges becomes much more of a business imperative. Cruickshanks argues that "building greener homes is an opportunity to use resources more efficiently and to address climate change, while creating healthier and more productive environments to live in".

While the current Green Star Rating system, developed by the GBCSA, is a holistic green building standard, it was designed more for commercial buildings and therefore could be quite costly, time-consuming and inappropriate for affordable housing projects. EDGE is much easier to implement for free-standing residential houses or blocks of apartments.

Global consumption of resources by buildings



Source: UNEP SBC1 2011

According to Grahame Cruickshanks, EDGE Executive from the GBCSA, their purpose is to inspire a built environment in which people and the planet thrive. "As a platinum founding member, Old Mutual has played an important and a consistent role in supporting the GBCSA from the very beginning. The majority of the work and support for the Council has been through Old Mutual Property and it is very exciting to see that this relationship is now extending into Old Mutual Alternative Investments."

BENEFITS OF RESOURCE EFFICIENCIES FOR SOUTH AFRICA

The ongoing energy crisis and the increasing water scarcity have driven up the costs of utilities and all indications suggest that this trend will continue. In 2015, South Africa experienced

The GBCSA has set a seven-year target to certify 20% of the homes brought to market with the EDGE certification system by 2022. For a project to meet the EDGE certification criteria, it needs to meet its 20/20/20 protocol, which is 20% increased efficiency in three measures: energy, water and embodied energy in the building materials (in South Africa this is relative to the SANS 10400-XA building standard). This green standard can be achieved through typical green features, such as ceiling insulation, energy-efficient lighting, low flow taps and shower heads, dual flush toilets, solar water heating and heat pumps.

"EDGE proves in a measurable way that simple, practical solutions are all that is needed in South Africa in order to build better residences for low-income families," says Prashant Kapoor, IFC's Principal Green Building Specialist and the inventor of EDGE. "Old Mutual Alternative Investments and its clients are demonstrating to the rest of the world the competitive value of resource-efficient homes."

PILOT EDGE PROJECT

HIFSA is in the process of registering its first project for EDGE certification, Fourleaf Estate in Port Elizabeth, to pilot the certification process. Thereafter it will endeavour to roll this out in future housing developments for both sale and rental. Initial indications on the pilot project showed that the developer, Similan, had already designed for most of the green efficiencies, with 20% less energy usage and 20% less embodied energy in the building materials. Slight modifications in the design were needed to achieve 20% less water usage, with the introduction of low flow taps and shower heads. These modifications did not increase the building costs.

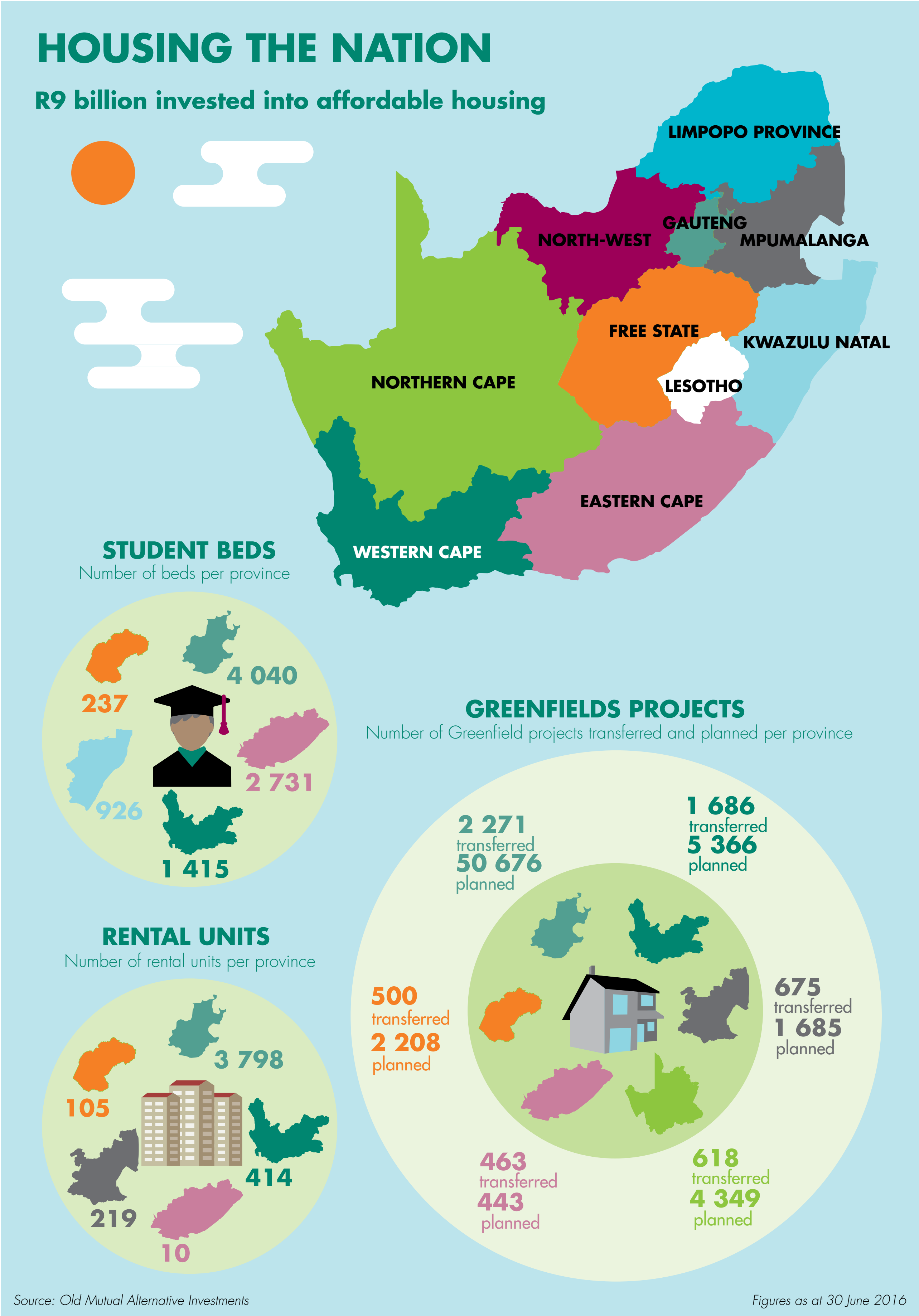
When choosing a development partner for the first EDGE pilot, HIFSA considered Similan an ideal candidate because of their innovative and attractive designs within the affordable price bracket, as well as their attention to designing cohesive communities within a housing development. Harold Spies, CEO of Similan, says "the term 'affordable housing' can often be viewed in a negative light by potential home buyers and could be associated with cheap, thoughtless design, built to accommodate the 'masses' with little regard for the families who will occupy them." His company prefers to refer to "affordable luxury" and their vision is to create, living, growing, thriving communities. The Similan team is strongly opposed to the notion that quality is associated only with expensive design. Their experience is that an additional 1% to 3% increase in cost can deliver a house that is of 20% to 50% better quality.

The pilot EDGE project in Port Elizabeth has 323 single-storey housing units with 127 units for rental and 196 for sale within a gated estate. Pieter du Toit, Similan's Development Manager for Fourleaf, says: "It is imperative that we integrate green efficiencies in our design, especially for our market segment, where the subsequent cost savings for less heating and cooling, and the water and electricity savings will have a direct effect on our customers' cash flow over the longer term and incrementally reduce the pressure on an already struggling national infrastructure."

These green efficiencies are likely to translate into operational efficiencies, which are a selling point for prospective buyers and rental tenants looking to reduce their electricity and water bills, especially in an environment of water and electricity shortages and where increases in electricity and water costs could escalate substantially. According to Nedbank, projects implementing green efficiencies using the EDGE standards could cost between R20 000 and R30 000 more per housing unit, which would represent around 3% – 5% or less of the total building cost of an affordable housing unit. Minimum savings of between R200 and R300 on the running costs are required to justify the additional expense, which appears to be achievable (Nedbank, July 2015).

While many HIFSA developers may already be implementing green initiatives for water and energy saving, these have not been measured or certified. By obtaining EDGE certification, these developers could benefit from being able to market their houses as "green homes" for either the sales or rental market. In an increasingly competitive market, a home with reduced utility costs could be a significant incentive for new homeowners or tenants.

The world is moving towards greater awareness and action on conservation and sustainability issues. South Africa is well placed to play a leadership role in affordable housing, a crucial sector in both developing and developed economies. EDGE seems to offer an effective and a productive framework for a fruitful collaboration between Government, the finance sector and industry that will better serve the community and meet its long-term housing needs.


HOUSING THE NATION
R9 billion invested into affordable housing
LIMPOPO PROVINCE
NORTH-WEST
GAUTENG
MPUMALANGA
FREE STATE
KWAZULU NATAL
LESOTHO
NORTHERN CAPE
EASTERN CAPE
WESTERN CAPE
STUDENT BEDS
Number of beds per province
237
4 040
2 731
926
1 415
RENTAL UNITS
Number of rental units per province
105
3 798
414
219
10
GREENFIELDS PROJECTS
Number of Greenfield projects transferred and planned per province
2 271 transferred
50 676 planned
1 686 transferred
5 366 planned
500 transferred
2 208 planned
675 transferred
1 685 planned
463 transferred
443 planned
618 transferred
4 349 planned
Source: Old Mutual Alternative Investments
Figures as at 30 June 2016

GRADING THE INDEPENDENT **SCHOOL SECTOR**

Lala Steyn, Manager: Schools and Education Investment Impact Fund South Africa, Old Mutual Alternative Investments

Despite a turbulent and an agitated economic and political context, the growth of fee-paying independent/ private schools continues across South Africa's different income groups.

The tertiary education crisis and the spectre of racial intolerance continue to intensify in South African society. Tough times lie ahead, with forecasts predicting only 1% GDP growth for 2016.

South Africa's workers and middle class are feeling the weight of increasing costs, inequality and indebtedness. Youngsters from the black aspiring, middle and elite classes are at the vanguard of the #FeesMustFall campaign, which ignited in 2015 across our tertiary institutions. Restlessness is rife. And yet the growth of independent schools in the country has continued unabated.

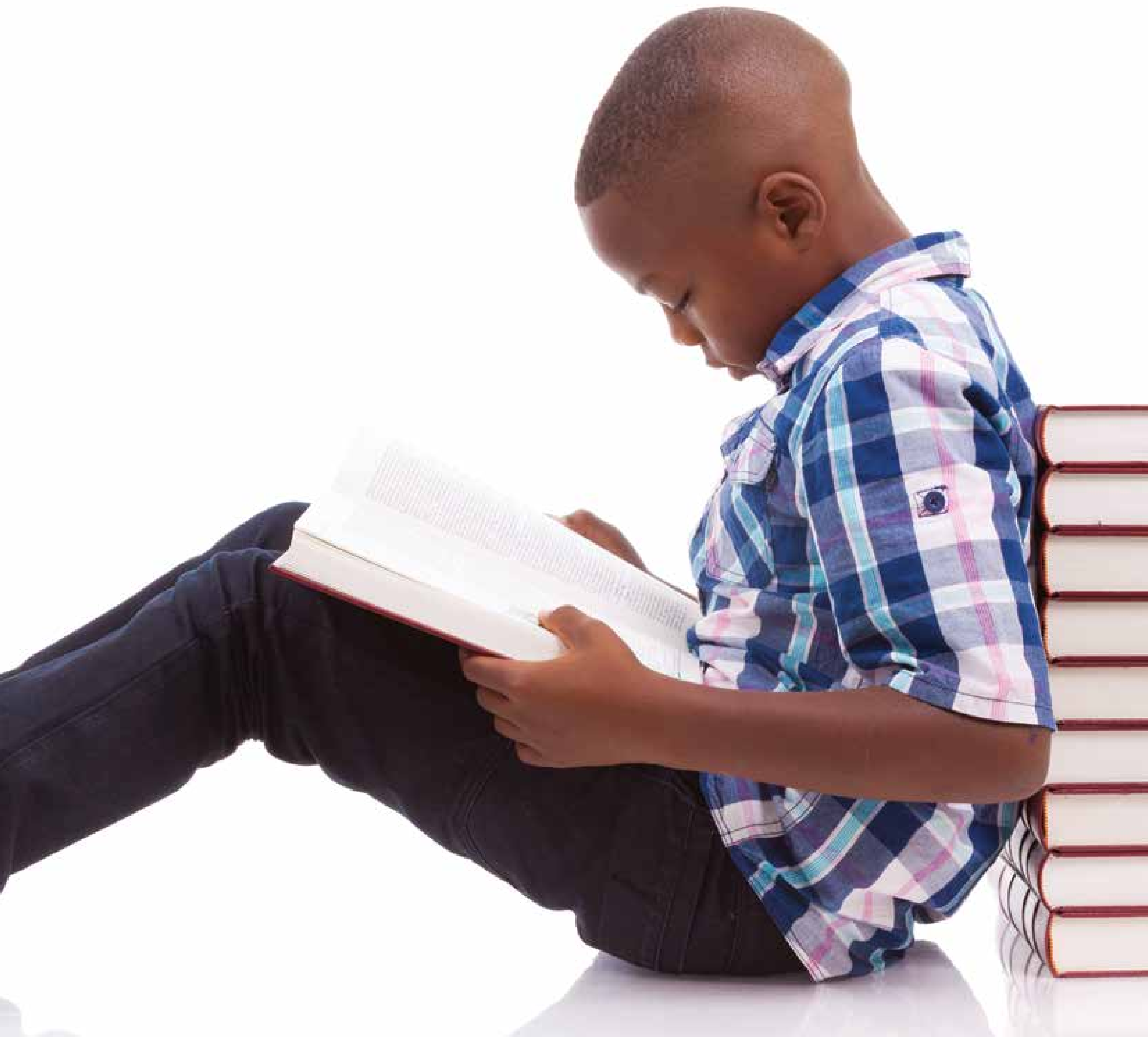
"Parents are prepared to pay for quality education because of the **huge challenges facing the education sector."**

The Department of Basic Education (DBE)'s latest education statistics reveal that the number of learners in independent schools has increased by 120.9% over the past 15 years, although the total learner numbers remain only 566 194 compared to those in public schools at 12.3 million. During the same period, enrolment at public schools increased by 5.2%. The new schools financed by the Schools and Education Investment Impact Fund South Africa (Schools Fund) that opened over the past two years in Gauteng did so with record high numbers of between 900 and 1 000 learners. In 2016, all existing schools located in Gauteng increased their learner numbers, while those in more rural locations grew at a slower pace. Curro Holding's 2015 results, released in February, show a 16% increase in learner numbers from 2015 to 2016 and they remain upbeat about future growth. The Independent Schools Association of Southern Africa (ISASA) indicates that its membership numbers continue to grow year on year across all market segments.

A MARCH AGAINST FEES?

Despite these strong growth figures and due to recent events at the universities, concerns have been raised about whether an #IndependentSchoolFeesMustFall campaign will emerge. In the short to medium term, this is not the most likely challenge the independent school sector will need to withstand, for three reasons.

Firstly, independent schools are scattered across thousands of school sites countrywide, unlike the concentrated sites of the 25 universities (traditional and technology) in SA. Secondly, a diffuse group of schools, many of whom are embedded within communities, does not provide the ground for significant gains. In the case of widescale non-payment of fees at independent schools, there is no recourse to Government for a bail-out. The school will simply not be able to pay its teachers and will close. Thirdly, the high value parents place on their children's education is the driving force behind the growth of the independent school sector. This sentiment was well expressed by Ms Phumzile Sikhosana, whose motivation for sending her child to an affordable independent school is: "I want the best. I am prepared to pay for quality." Writing on education and black upward social mobility, Roger Southall, Head of the Sociology Department at the University of the Witwatersrand, says: "… levels of black access to educational opportunities have been massively increased. These openings are being seized upon by black parents and students themselves, who recognise the crucial role played by education in enhancing life opportunities. A good education is explicitly perceived as necessary for staying within, or entering, the middle class."



Parents are prepared to pay for quality education because of the huge challenges facing the education sector. Only half of the learners who start school will complete Grade 12; and only a third of those who reach Grade 12 will pass well enough to qualify for admission to bachelor's level university studies. South Africa's numeracy and literacy levels at primary school are much lower than those of comparable countries. In 2015, South Africa's education sector ranked 139th out of 143 countries in the World Economic Forum's Global Information Technology Report, while the standard of Mathematics and Science education was ranked last (143th out of 143).

TOWARDS EQUITABLE ACCESS TO EDUCATION

In response to our education crisis, the Schools Fund was established by Old Mutual and the Government Employees Pension Fund and its asset manager, the Public Investment Corporation (PIC). As the first impact fund of its kind in South Africa, it has already spent over half a billion rand on behalf of its investors to develop affordable independent schools in South Africa. The Fund is an innovative initiative that utilises pension finance, in the form of debt and equity, to create additional quality schooling opportunities for learners at affordable independent schools. These schools work alongside public schools and Government in delivering quality education for learners from previously disadvantaged backgrounds.

For the 2015 National Senior Certificate (NSC) exam results, the Schools Fund schools achieved a 97.6% pass rate, well ahead of the national NSC pass rate for South African schools, which was 70.7%. And 57.7% of the Schools Fund's students obtained university exemption (Bachelor pass), 31.9% higher than the national average of 25.8%. This is an important achievement as it means that the quality of the matric pass is good enough to afford these youngsters an opportunity for a university education.

This much is clear – to be successful, the Schools Fund needs to provide both quality education and an acceptable commercial return. But there is a third critical factor to be considered when measuring success: impact. This year there are approximately 15 600 learners at 22 schools with 1 000 staff in which the Schools Fund has invested. By the time the R1.2 billion funds under management have been spent, learner numbers should reach about 40 000. The number of youngsters needing education in SA presently stands at 12 million. To reach just 3% of these learner numbers as they increase, an estimated R7.2 billion will need to be invested. This is the time for additional finance to be allocated to the country's independent schooling.

The key value that impact investing in education offers is that it aligns the creation of economic value and social value. Through the mobilisation of long-term commitment of capital,

"The key value that impact investing in education offers is that it aligns the **creation of economic value and social value."**

the private sector is invested in the future as it only sees returns in 10 to 15 years' time. Parents, learners, teachers, businesses and investors become excited about this approach when they see the possibilities, and this creates the kind of hope that helps drive change. The scale of investment can be significant and an impact can be created for large numbers of learners.

The challenges facing education are many, but so too are the opportunities that arise. An African proverb states: "Smooth seas do not make skilful sailors." Let's move skilfully into this space.

EDUCATION – A KEY INVESTMENT FOR OUR FUTURE

SA'S DROPOUT RATES

Of 10 learners that started school in 2003

4.8 wrote grade 12 in 2014

And 3.6 of these passed grade 12

And 1.4 received a bachelor pass

Sources: South African Department of Basic Education (DBE), School Realities 2014; DBE: 2015 National Senior Certificate Examination Schools Performance Report & The 2015 Annual Report; Statistics South Africa: 2014 General Household Survey; World Economic Forum's Global Information Technology Report 2014

THE RISE OF INDEPENDENT SCHOOLS

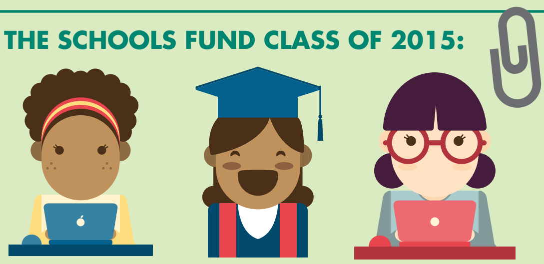
120.9%	= Enrolment increase at independent schools from 2000 – 2015
5.2%	= Enrolment increase at public schools from 2000 – 2015
566 194	= total learner numbers in SA's independent schools in 2015
12.3 mill	= total number of learners in SA's public schools in 2015

Sources: DBE: Education Statistics in South Africa at a Glance, February 2002, p.4; School Realities 2015, October 2015

INVESTING IN AFFORDABLE, QUALITY EDUCATION

The Schools Fund, managed by Old Mutual Alternative Investments, has R1.2 billion FUM.

THE SCHOOLS FUND CLASS OF 2015:



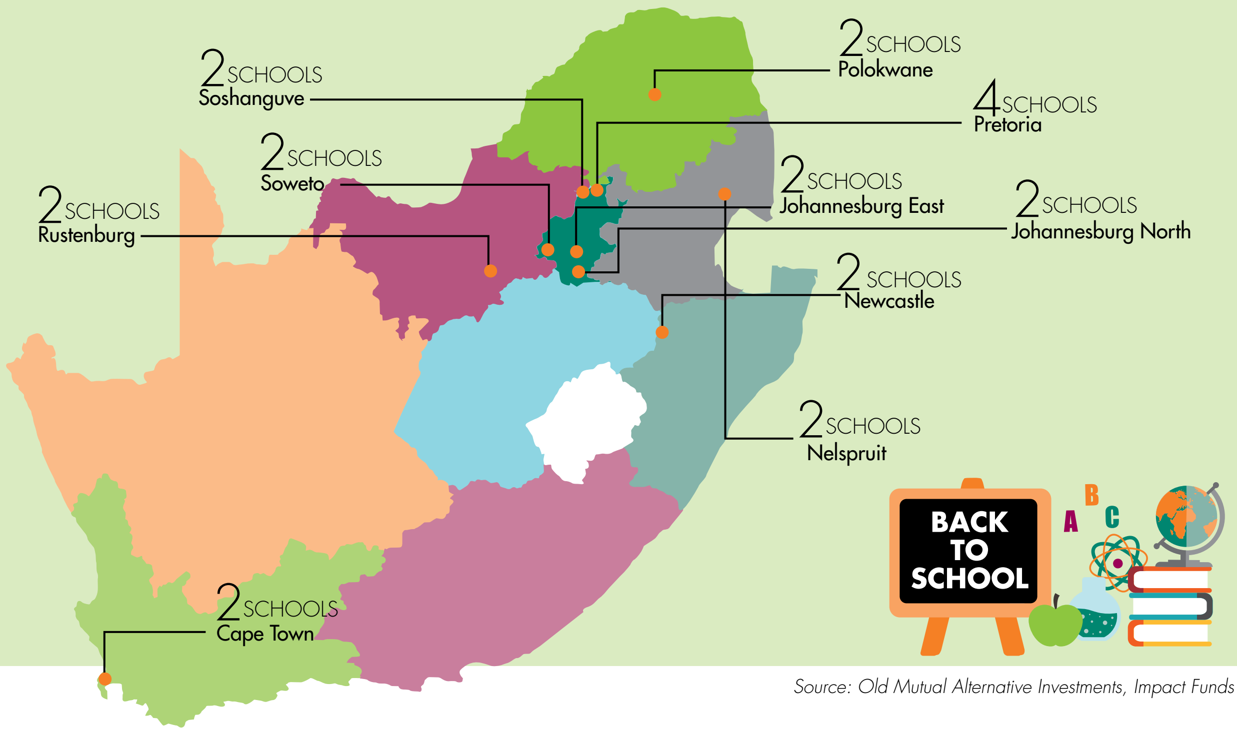
97.6% Grade 12 pass rate

57.7% Bachelor Pass

562 Distinctions

MAP OF SCHOOLS

As at 31 March 2015



Source: Old Mutual Alternative Investments, Impact Funds

DETERMINING ESG SIGNALS IN THE **SA EQUITY MARKET**

Tracy Brodziak, Head of Research and Leanne Micklewood, Quantitative Analyst, both at Old Mutual Equities

We have long been interested in better understanding the various factors driving stock market returns – as we recognised the subjectivity involved in the fundamental valuation of stocks. This led to us researching the drivers of returns on the JSE, and subsequently evolved into providing the framework that we now use in selecting shares.

In building this framework, we tested around 300 factors that influence stock market performance. Using 25 years of data, we looked for factors that delivered consistent, long-term outperformance as well as those having no or a negative correlation with each other (to reduce downside volatility). The end result is that, in addition to our analysts' calculation of intrinsic value, we now include 11 factors in constructing our stock rankings.

While the fundamental calculation of intrinsic value remains the most important factor in considering a share for inclusion in portfolios, the final weighting is influenced by considering the multifactor ranking of a share. These factors are grouped into three themes:

1. Quality: companies with strong cash flow and improving returns on assets, margins and asset turns.
2. Growth: companies showing potential to deliver stronger earnings growth than the market.
3. Sentiment: short- and longer-term market sentiment indicators give us a sense of the market's attitude towards a specific company.

These three themes provide important insights that improve portfolio management conviction, assist in guarding against excessive single-theme exposure (such as potential "value traps") and alert our analysts by highlighting various market information, including sentiment.

KEEPING IT RELEVANT

While the success of this well-researched process is evident in the relative outperformance of our funds, it is by no means a static model. We constantly monitor market trends and evaluate the robustness of our model. One trend that is gaining increasing global attention is the inclusion of environmental, social and governance (ESG) factors into investment processes. This involves, amongst others, looking at a company's environmental impact, the health and well-being of its employees (social) and the alignment of management with its shareholders (governance).

Governance and an assessment of management's stewardship of shareholder capital plays a prominent role in both our investment selection process and ongoing engagements with company management. We have also built the MSCI Intangible Value Assessment (IVA) scores, rating environmental and social risk factors, into our share screening tool.

However, while South African listed companies have comprehensive and standardised financial data, insightful ESG data is not widely available nor is there a consistent reporting framework. As such, we are aware of the need to monitor the potential longer-term impacts of these factors as well as motivate management to provide relevant E, S or G data, where necessary.

It is worth highlighting Credit Suisse's research conducted in the Australian listed market. Titled Finding Alpha in ESG, the research aimed to determine the value of integrating ESG factors into an investment process.

The research used MSCI's data and ranked the performance of companies across five measures:

FINDING ALPHA IN ESG: COMPANY PERFORMANCE RANKED ACROSS FIVE MEASURES

1	Environmental: included biodiversity & land use, toxic emissions & waste and carbon emissions.
2	Social: included health and safety, employee engagement and supply chains.
3	Governance: was primarily based on board structure, remuneration, ownership & control and accounting policies.
4	ESG Rating (Industry Adjusted): The weighted average of the scores for each of the above three pillars was ranked on an industry basis.
5	ESG Rating (Raw Scores): Similarly, stocks were rated based on the weighted average of the E, S and G pillars without an industry adjustment.

The research used data from May 2008, the time from which the MSCI has been providing quantitative ESG ratings for the S&P/ASX 200 Index. At the end of every month, stocks were ranked from highest to lowest for every one of the five factors listed on the previous page, and split into five quintile portfolios of 40 stocks each.

Broadly, the research rankings showed that "strong management of environmental issues 'pays' and weak management of environmental issues 'costs' at the portfolio level". Governance analysis revealed similar results, while social data showed "that companies which have overall the weakest management capabilities and highest exposure to social issues significantly underperform all other companies, i.e. poor social performance 'costs' at the portfolio level. However, we find that there is no benefit from a strong social pillar score at the portfolio level."

Ranking companies on an industry basis provided insight into, for instance, optimal industry diversification as well as the best stocks within poorly rated ESG industries.

The emerging wisdom from this research suggests that ESG ratings are a good proxy measure for a company's management quality. Simply put, management teams that handle ESG issues well are typically also responding well to many other strategically important business issues.

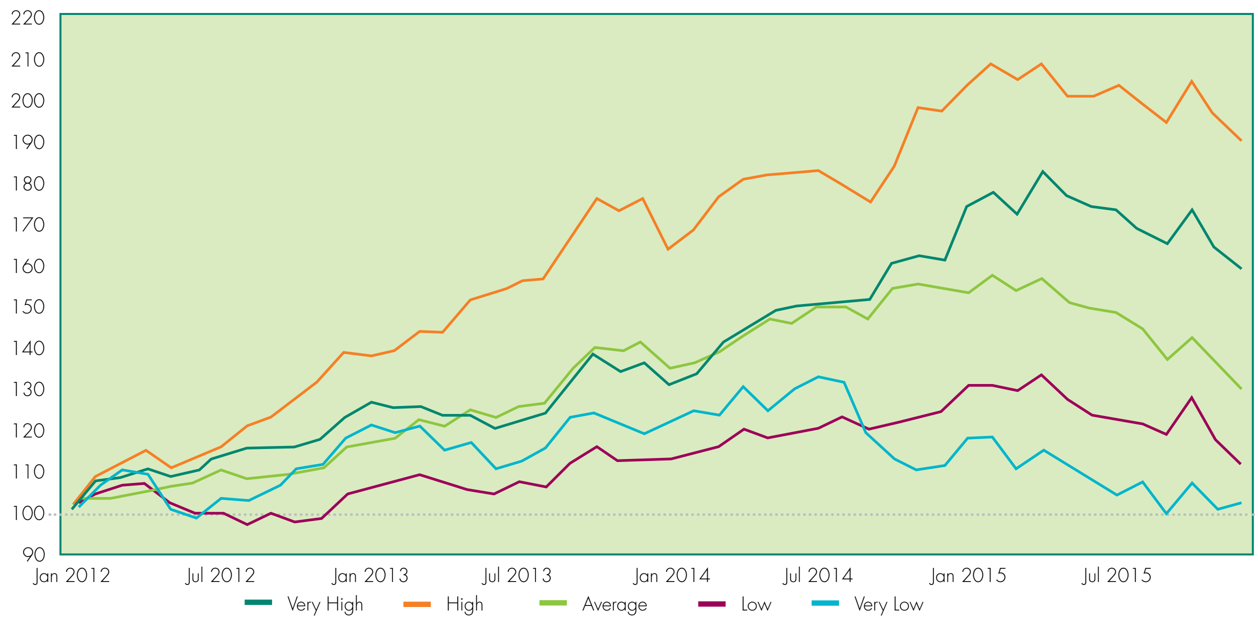
This was further reinforced in a meta-analysis that referenced over 200 global studies reviewing ESG issues. The 2014 report entitled From Stockholder to Stakeholder was compiled by Arabesque Asset Management in partnership with Oxford University. The key outcome was that 88% of reviewed sources find that companies with robust sustainability practices demonstrate better operational performance, which ultimately translates into cash flows. The second part of the report builds on this, where 80% of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance.

BRINGING IT HOME

One of the challenges of undertaking similar research in the South African market is the lack of comparable year-on-year ESG data. Recognising this, four years ago Old Mutual Investment Group partnered with the MSCI to start building up the ESG coverage in both the South African and broader African markets. Since 2012, the MSCI ESG coverage has been extended from 4 659 securities to now well over 6 153 stocks.

Using this limited ESG data, Old Mutual conducted similar quantitative research to what Credit Suisse did in Australia. South African shares were ranked into quintiles on a monthly basis using equally weighted rolled-up ESG scores. The spread between highly rated ESG companies and lower-rated companies is significant, as indicated in the chart below. While the timeframe is still too short to see these as definitive trends, the results appear to mirror those of international findings that suggest ESG as a factor through which risk premia can be assessed and captured.

ESG PERFORMANCE USING EQUALLY WEIGHTED QUINTILES



Sources: MSCI, Old Mutual Investment Group

With four years of data being insufficient for the ESG factor to be formally considered in our investment process, we will nevertheless continue to pursue our ESG research agenda in the local market using MSCI ESG data. As the depth of data deepens and we are able to assess the ESG factors through different investment cycles, our goal would be to develop a level of confidence in the ESG signals that could be used as an input into the 'Quality' theme of our investment process. This accords well with our thinking that ESG is a proxy measure of management quality and thus the overall quality of the company.

This further aligns with our overarching view that sustainability (ESG) is a macro-thematic trend that is reshaping the competitive landscape, and that companies that are able to respond to this trend and innovate early, will reap the benefits of stronger growth prospects, enhanced operating efficiencies, stronger social licence to operate, enhanced staff retention, lower cost of capital and, ultimately, stronger and longer competitive advantage.

We will continue to look for material trends in the data and incorporate relevant factors into our investment process.

"The **emerging wisdom... suggests** that ESG ratings are a good proxy measure for a company's management quality. Simply put, management teams that handle ESG issues well are **typically also responding well** to many other strategically important business issues."

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WHAT WILL KING IV MEAN FOR SOUTH AFRICAN INVESTORS?

Ansie Ramalho, King IV Project Lead: Institute of Directors in Southern Africa

There have been mixed reactions to the announcement that the King Report on Governance for South Africa (2009) (King III) is about to be updated, some welcoming it in light of recent corporate governance developments that have outpaced King III and others bemoaning "more regulation".

Consider the following realities of the South African governance landscape: municipalities struggle to meet service delivery demands amid allegations of corruption or incompetence, or both. Questions are being raised regarding perceived irregularities with the appointment of senior officials at our public institutions, and a number of these officials being on what is seemingly a protracted suspension on full pay.

Claims of anti-competitive and collusive practices in the private sector surface with regularity, and as predictable is the controversy around the quantum of executive pay and the wage gap. The governance failures in these instances are patently obvious: deficient executive appointment processes; an inability to deal effectively with management oversight and disciplinary issues; lack of clarity on accountability and reporting lines; and the absence of constructive engagement between the company and its shareholders and other stakeholders.

Many more examples can be cited. What these realities demonstrate is that things go wrong as a result of a lack of proper governance. Organisations that regard corporate governance as a matter of grudge compliance do so at their peril. Difficult economic conditions, depressed business and a potential ratings agency downgrade are just some of the challenges facing business leaders today. Business leadership has become as much about navigating the external environment as it is about a focus on the organisation itself. Good corporate governance (and particularly the way that it is understood in the King tradition as going beyond structures, processes and procedures to encompass leadership in the context of the economy, society and the environment) is indispensable.

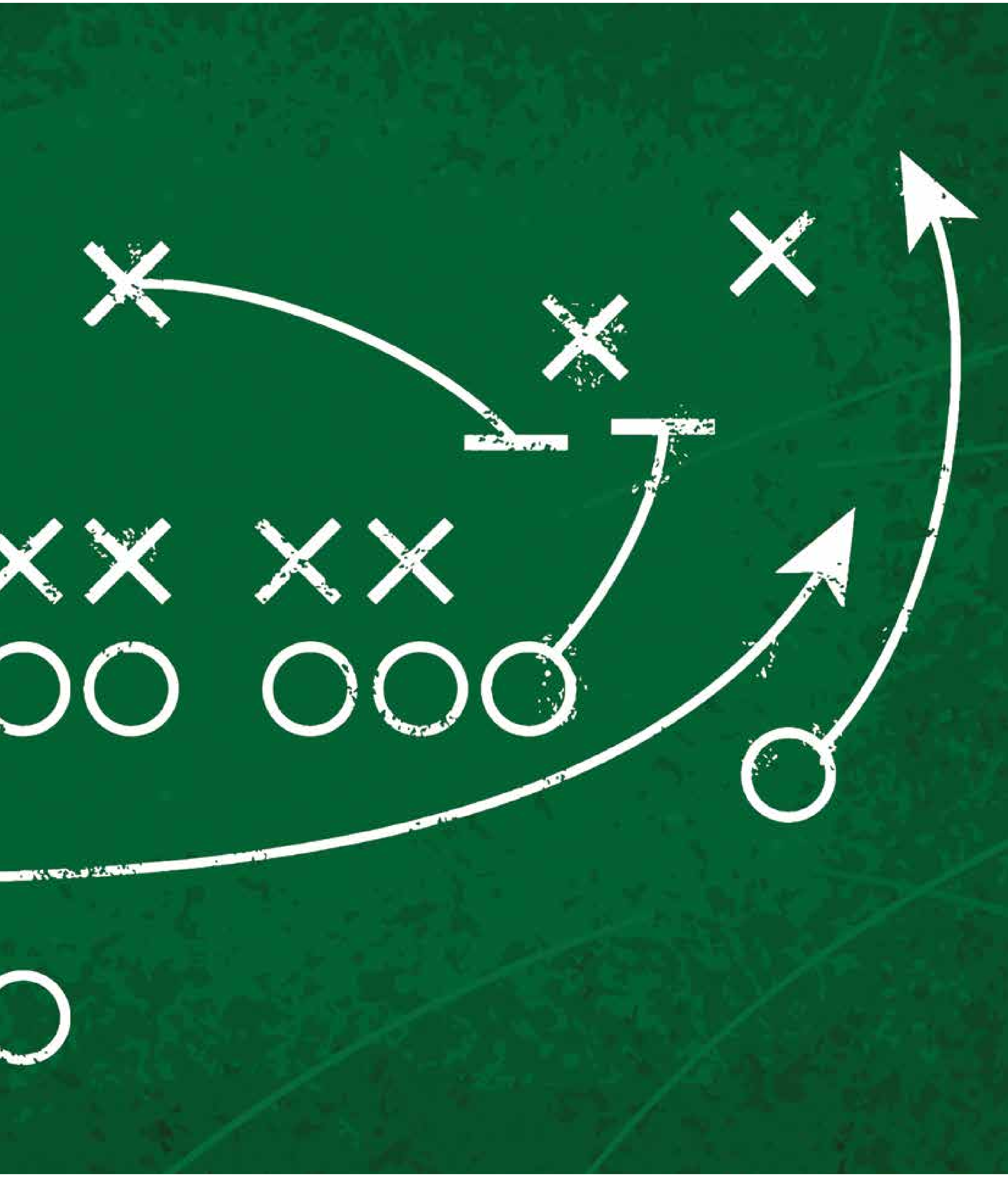
Good corporate governance ensures that the necessary arrangements are in place so that those charged with governance duties are poised to capture new opportunities and are more resilient to face risks in an ever-increasing complex and unpredictable environment. Seeing corporate governance in this light, it is not a barrier to enterprise but the way to successful enterprise.

AN OUTCOMES-BASED APPROACH

King IV will not constitute a significant departure from the solid foundations and philosophy set by King III and organisations need not prepare for a host of additional principles and practice recommendations.

To the contrary, in the draft King IV the number of principles are reduced from the 75 principles in King III to a mere 16 (with an additional 17th principle, which is applicable to institutional investors such as retirement funds and insurance companies).

Reducing the number of principles is a consequence of a different approach to corporate governance principles. In the draft King IV, principles are stated as aspirations and ideals that are fundamental and basic to good governance. Principles are also clearly differentiated from practice recommendations in that the practices are about what needs to be done to give effect to these aspirations and ideals. Achieving these aspirations and ideals will, according to the philosophy followed in the draft of King IV, lead to corporate governance outcomes, which include: an ethical organisational culture; performance and value creation; adequate and effective control; and trust, a good reputation and legitimacy.



“The truth is that notwithstanding its popularity, **legislation has proved not to be the cure of bad governance.”**

This outcomes-based approach addresses box-ticking compliance, which is one of the major stumbling blocks towards achieving governance that adds value to an organisation. It is said that inflexibility is evidence of a lack of understanding. This is indeed true as far as the implementation of governance practices in a box-ticking fashion is concerned. Understanding and insight assists with mindful and judicious application, which is the opposite of taking the easier route of box-ticking. As the principle serves as the guide for what the practices should achieve, it is easier to apply judgement to what and how practices should be implemented. Simply put: practices are the means and the principles the end.

The notion of ‘commander’s intent’ developed by the US army illustrates the thinking behind this approach well. Chip and Dan Heath explain in their book *Made to Stick* that plans for military operations are very thorough, detailing the scheme of manoeuvres, equipment required, how munitions will be replaced and so forth. Despite these having become a marvel of communication and planning there is still one catch: no plan survives contact with the enemy. The unpredictable and unexpected happen, such as weather changes or a surprise move by the enemy. Articulating the commander’s intent has been devised as a way to deal with these eventualities. The idea is that generals, officers and soldiers should all understand what the intended outcome is so that they are able to improvise accordingly when plans go awry.

The principles and outcomes in King IV are meant to depict the intent, so that organisations and those charged with their governance are able to adapt practices. This way the emphasis shifts from a compliance mindset to corporate governance that achieves the intended outcomes and benefits.

APPLY AND EXPLAIN

As principles are stated as aspirations and ideals that are fundamental and basic to good governance, application thereof is assumed. For this reason, the application regime that is advocated in the draft of King IV is that of ‘apply and explain’, which is a departure from ‘apply or explain’ in King III. The rationale of assuming application becomes evident when one has regard to how the principles are phrased. There is, for instance, the principle that the governing body should set the tone and lead ethically and effectively. Another principle says that the governing body should serve as the focal point and custodian of corporate governance in the organisation. And still another that the governing body should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives. Due to the way, and the level at which, these principles are stated, it is difficult to contemplate a reasonable explanation of why these principles are not applied.

The ‘explain’ part of the application regime is an explanation in the form of a narrative of the practices that have been implemented and the progress made towards giving effect to each principle.

VOLUNTARY CODE OR LEGISLATION?

Following an “apply and explain” and outcomes-based regime means that the flexibility of a voluntary code of corporate governance is leveraged to the full. The question is whether this flexibility will affect the efficacy of King IV. There are many who deem voluntary codes of corporate governance not being a sufficiently strong intervention and especially one that provides for flexibility around implementation to the extent that King IV does.

Using regulation to address the cause of corporate failure and to restore confidence is not new and can, in fact, be traced back to the 17th century. A more recent example is the draconian and infamous Sarbanes-Oxley legislation that was signed into law a mere nine months after Enron had collapsed and which served as the catalyst for stricter governance regulatory measures around the world. The truth is that, notwithstanding its popularity, legislation has proved not to be the cure of bad governance. The fact that the boom-bust-regulate cycle has been repeating itself for centuries is enough reason to question its value, not to mention its cost. A case in point is the swift and decisive action taken after Enron in 2002, which did not prevent the global financial crisis in 2008.

It would be a mistake to conclude that voluntary codes of governance carry no sanction when contravened. The principles and practices that are recommended in these codes become the norm for behaviour as soon as they are generally and widely adopted. These adopted norms are then enforced by social and market forces and sanctions. A prerequisite for these forces and sanctions to work, though, is transparency. Society and the market can only respond to what is known to them. It is for this reason that King IV places so much emphasis on meaningful disclosure that enables stakeholders to assess the quality of corporate governance, rather than a binary account of which recommended practices have been followed and which not. More flexibility and judgement are allowed for in the implementation of King IV but in exchange the onus is on organisations to be more transparent on how that judgement has been exercised.

Another prerequisite for social and market forces to work is that shareholders and other stakeholders should be active in holding organisations accountable for good corporate governance. Institutional investors in particular have an important role to fulfil in this regard. This is addressed in King IV by virtue of the 17th principle that requires institutional investors to exercise their rights as holders of beneficial interest in the securities of companies responsibly. This includes being active owners.

GOOD CORPORATE GOVERNANCE FOR ALL ORGANISATIONS

Institutional investors are addressed in King IV, but so are other organisations beyond the traditional listed company audience. Listed companies are dependent on the infrastructure provided by the public sector. Listed companies are being held accountable by civil society for the impact of their operations on society and the natural environment.

Small and medium enterprises (SMEs) form part of the supply chain of listed companies. Retirement funds invest directly or indirectly in equities and have an interest in holding investee companies accountable for good governance. To be able to do so effectively and with credibility those retirement funds should in turn be well governed.

It should be clear that it cannot be expected of listed companies alone to follow good governance. Listed companies are part of a bigger system of interdependent relationships. For corporate governance to truly work, all of the participants in the system should adhere to good corporate governance.

Another way in which the applicability of King IV to a wide range of organisations and entities is addressed is to provide for proportionate application. Implementing corporate governance practices is not an end in itself but should be harnessed for the creation of value. This means that implementation should be appropriate to the size, nature and complexity of the organisation. Some guidance on this has been included in the King IV Report.

THE ENDGAME

Our corporate governance code should not belong only to the King Committee or the Institute of Directors in Southern Africa but to all South Africans, corporations and individuals to whom good corporate governance matters. To this end, the drafting process has been widely consultative and subjecting the draft report to the rigour of public comment is a further step in this process. The launch of the final King IV Report is planned for 1 November 2016.

Should King IV be welcomed as making the application of corporate governance accessible and understandable beyond the circle of consultants, technicians and academics, the King Committee will be able to take a bow for a job well done. Should King IV be adopted by all organisations across all sectors in a way that does not add a compliance burden but, instead, helps organisations to flourish, we can all take a bow.

"Institutional investors, in particular, have an important role to fulfil... This is addressed in King IV by virtue of **the 17th principle that requires institutional investors to exercise their rights as holders of beneficial interest in the** securities of companies responsibly. This includes being active owners."

INVESTING IN HEALTH – **BEYOND THE BLEEDIN' OBVIOUS**

Dr Daniel Malan, Director of the Centre for Corporate Governance in Africa and Senior Lecturer in Business Ethics and Corporate Governance, University of Stellenbosch Business School

In a famous scene from Fawlty Towers, the classic 1970s BBC comedy, Basil Fawlty (played by John Cleese) argues with his wife, Sybil. In a moment of desperation, he says: "Can't we get you on Mastermind[1], Sybil? Next contestant: Sybil Fawlty from Torquay. Special subject – the bleedin' obvious."

This quote aptly describes how, since the introduction of the triple bottom line into business language, one of the most obvious so-called non-financial factors has largely been disregarded by stakeholders, including investors, namely employee health. Research provides evidence that companies with healthy workforces appear to have a competitive edge in the stock market. A study published in the February 2016 issue of the *Journal of Occupational and Environmental Medicine (JOEM)*[2] compared the performance of ten of the healthiest companies in South Africa to the market at large[3]. Nine different investment scenarios were tested and, in all nine scenarios, the healthy companies outperformed the FTSE/JSE All Share Index (ALSI).

"By 2020, workforce health metrics will be an integral indicator of overall organisational **performance within the broader corporate accountability framework."**

WHAT LOCAL RESEARCH REVEALS

The South African research follows on from a similar study that was completed in the United States (US) by Ray Fabius and colleagues.

The Fabius study tracked the performance of a group of US companies that had won awards for their health and safety programmes. Between 1999 and 2012, theoretical investments into these companies outperformed the S&P 500 Index's average return.

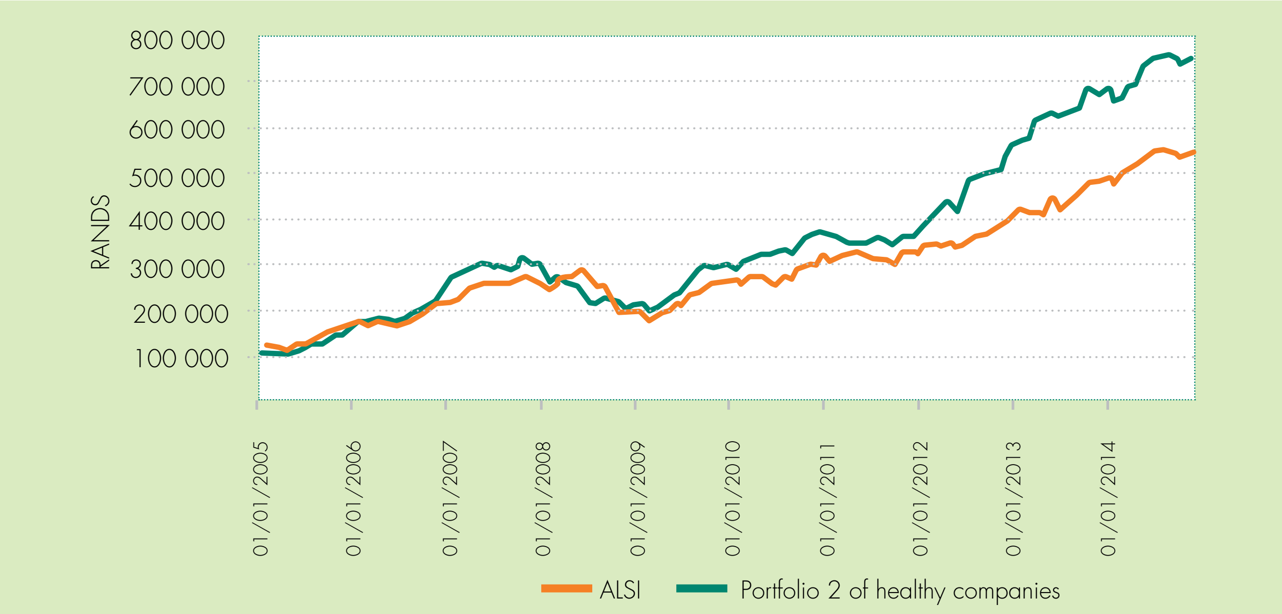
The arithmetic average annual excess return ranged from 3.03% to 5.27%, based on four of the 'portfolios' that were considered. It is no surprise that the study concludes that companies engaging in efforts to promote workforce well-being and safety yield greater value to investors, as a result of reduced healthcare costs, increased productivity and improved financial performance[4].

The South African research methodology also involved the creation of hypothetical investment portfolios. The list of healthy companies was based on Discovery's Healthy Companies Index, and included Cadiz Holdings Limited, Cargo Carriers Limited, Discovery Holdings Limited, Ellies (Pty) Limited, Group Five Construction, JSE Limited, Mediclinic International, Mr Price Group Limited, Sasfin Bank Limited and Tongaat Hulett Limited. An initial theoretical investment of R100 000 was made into various portfolios, simulated over a chosen period and benchmarked against the ALSI. By way of example, Portfolio 2 covered the 10-year period from 1 January 2005 to 31 December 2014, with rebalancing performed annually, and at the time of new healthy company listings. An initial investment of R100 000 grew to R774 211 during this period, equivalent to a total return of 674.21%. Over this same period, the equivalent ALSI investment grew to R532 303, which translates into a total return of 432.30%. The annualised return over the 10-year period was 22.71% for Portfolio 2 and 18.20% for the ALSI.

THERE IS MUCH WORK TO BE DONE

More research will be conducted in the future to explore and refine our understanding of the link between health and financial performance. Accurate data will be required for this task, and there is a need to relook the ways in which companies measure and report on health. Traditionally, this has been dealt with under the heading of 'occupational health and safety' in the sustainability report, but there is growing consensus that it is necessary to look beyond metrics like 'days lost due to injury or illness'.

HEALTHY COMPANIES OUTPERFORM



In October 2014, a working group of health experts and corporate leaders were convened by the Vitality Institute to apply their minds to the following vision: "By 2020, workforce health metrics will be an integral indicator of overall organisational performance within the broader corporate accountability framework. These metrics will be core to existing corporate social responsibility, sustainability and integrated reporting, and critical for consideration by all shareholders and potential investors." The employee health and well-being metrics identified by the working group fall into three equally weighted categories:

- Governance based on leadership style, which sets the tone for corporate culture.
- Management, reflective of the culture through programmes, policies and practices.
- Evidence of success, looking to specific metrics measuring the impact of the aforementioned policies and practices on health risks and outcomes.

Two scorecards were developed: a core scorecard and a comprehensive scorecard[5]. The core scorecard includes 10 high-level questions that reflect the longer comprehensive list of metrics contained in the comprehensive scorecard[6]. The high-level questions are intended as indicators to be shared with top leadership groups such as the C-Suite and the Board of Directors, and also to be included in the integrated report. They may also serve as conversation starters with potential investors or shareholders who are interested in the health of employees as a company asset or material risk.

Although the questions are designed to be answered on a Yes/No/Not Applicable basis, the intent is for the emergent qualitative information to provide a fuller picture of how these questions reflect the health and well-being of employees and, therefore, of the company.

To some extent the business case, both for companies to invest in healthy employees and for investors to invest in healthy companies, is "bleedin' obvious". Healthy employees are more productive, spend more time at the workplace than unhealthy employees, and are less likely to retire early due to ill health.

For example, between 2002 and 2008, Johnson & Johnson experienced a return of US$2.71 for every dollar spent on employee wellness programmes[7]. Apart from the business case, it could be argued that employers have a duty of care from a moral perspective – another compelling reason to invest in the health of employees. Responsible investors will understand and support both the business case and the moral case, and benefit from both.

Table 1: Core Scorecard

Governance – Leadership and Culture	
1	Has your company conducted a confidential survey, audit or other assessment within the present reporting period that measures the degree to which the workplace culture and environment support health and well-being?
2	Are health, well-being, chronic disease prevention, or health promotion topics mentioned in the annual report, form 10-K or any other format reported to the board of directors at least once a year?
3	Is there a person responsible for employee health and well-being in your company?
Management – Programmes, Policies and Practices	
4	Does your company have an annual budget or receive dedicated funding for personalised health promotion and disease prevention programmes?
5	Does your company have a programme to address mental well-being, dealing with matters such as depression and stress management?
6	Does your company have an occupational safety and health (OSH) policy?
7	Does your company provide medical benefits for full-time workers, including recommended national preventive services such as tobacco cessation, screenings, and vaccinations?
8	Does your company maintain a smoke-free workplace?
Evidence of Success – Health Risks and Health Outcomes	
9	Has your company conducted a confidential survey, audit or other assessment within the present reporting period that measures the health status of employees?
10	What is the per-employee average absenteeism due to sick leave for the reporting period (unplanned leave or sick days)?

1 Mastermind is a popular BBC quiz show that originated in the 1970s. Contestants are tested on a specialist subject of their own choice as well as on general knowledge.

2 The official journal of the American College of Occupational and Environmental Medicine.

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4 Fabius, R., Thayer, R.D., Konicki, D.L., et al. 2013. The link between workforce health and safety and the health of the bottom line: Tracking market performance of companies that nurture a "culture of health." Journal of Occupational and Environmental Medicine, 55(9), 993-1000.

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SHOPPING WITH A DIFFERENCE: **CONSCIOUS CONSUMERISM IN RETAIL**

Justin Smith, Group Head of Sustainability, Woolworths Holdings

Conscious consumerism and innovation are on the rise in the retail space and customers are demanding that increased attention be paid to sustainability, ethical sourcing, community involvement and conserving scarce environmental resources when making their purchasing decisions.

In this regard, the retail industry can benefit from aligning their in-store offerings – and by extension, their buying and supply chain development – with their customers' needs. Retailers need to be increasingly sensitive to changing customer demands and support customers' ethical approach to the well-being of people and the planet.

More and more consumers are asking questions about the products they buy. They want to know the impact story behind the product they buy: is it environmentally friendly, is it locally sourced, and does it contribute towards a better future for those who were involved in growing or making it?

With this in mind, the retail industry should therefore focus on increasing its commitment to responsible sourcing. But it requires going one step further: retailers are in the position to help customers make informed decisions. The very nature of shopping is one of curated convenience – and the harder retailers work to match a convenient shopping experience with the knowledge and information needed for customers to make their ethical choices, the better supported they will be in the future.

Shopping and sustainability are linked in another way that makes a difference, and that is in the supply chain. Big South African retailers are in a unique position to facilitate the growth and development of their suppliers, but also to influence and support suppliers on a journey to becoming more sustainable and in tune with the end-consumer's wants and needs.

Many of the largest potential environmental and social impacts occur in the extended retail supply chain, rather than within the operational ambit of retailers, and any negative impacts that occur pose a significant reputational risk to the retailer involved. This has a knock-on effect on the future sustainability of their businesses. If retailers focus on this, then both the customer and the supplier are informed and involved in the process and the links between production and consumption become seamless.

SAVING ON SCARCE RESOURCES

2015 was marked by numerous challenges in our energy and water sectors, and this has put even more pressure on industry to make a concerted effort towards achieving sustainability.

The 2015 global climate change negotiations highlighted the retail industry in South Africa's ongoing responsibility to manage energy, water and other scarce resources in an efficient way.

The current severe drought we are experiencing is also indicative of the need to conserve and to ensure we use our resources responsibly, and to work with other stakeholders in finding short- and long-term solutions to water scarcity and addressing quality concerns.

Retailers, as real estate owners and tenants, need to look at resource consumption patterns – both in store and along the supply chain – to see where savings can be made. Cutting back on the use of scarce resources, and measuring and monitoring resources properly, has to become a critical part of doing business. And sharing this experience with suppliers to assist their progress, as well as engaging with customers on energy and water saving, is an important opportunity for retailers.

For Woolworths, our work within direct supply chains relies on participation from suppliers. Through programmes such as 'Farming for the Future', we work directly with our primary producers in managing, monitoring and transforming environmental performance with regard to sustainable pesticide and fertiliser application, efficient irrigation and soil conservation techniques, among others.

Creating simple ways for customers to support causes that they care about also forms an integral part of customer loyalty programmes.

"Cutting back on the use of scarce resources, and measuring and monitoring resources properly, **has to become a critical part of doing business."**

MYSCHOOLMYVILLAGEMYPLANET **PROGRAMME DONATES:**

Approximately
R5m/month

to over
8 300
schools and social/environmental charities,

on behalf of over
1 million
supporters

EDUCATION AND ENGAGEMENT CAMPAIGNS

Woolworths' tagline "The Difference" came to life in April 2015 with an announcement that transformed the traditional boundaries of retailer-customer engagement around sustainability. A first for a retailer in South Africa, Woolworths collaborated with the Grammy Award-winning musician, record producer and philanthropist Pharrell Williams. Pharrell is a global icon for social cohesion, advancement through education and environmental awareness. The strategic collaboration was identified through the alignment of these values.

The call to action from this collaboration to make a difference is captured in the Pharrell and Woolworths #Areyouwithus? campaign. In line with this vision, the campaign's intention is to make sustainability 'cool' to the next generation of South Africans, in order to create a better future for the country and the planet. The 18-month collaboration is a fully integrated 360° takeover of messaging across all media channels to engage customers around various issues of sustainability and education. The focus of the messaging changes periodically to consider important issues such as sustainable fishing and farming, ethical sourcing, sustainable fibres, ocean health etc.

Alongside this communication is a continual drive to raise funds for education through the MySchool programme, and Pharrell's challenge to customers to help Woolworths raise R100 million to donate to schools by swiping their free MySchoolMyVillageMyPlanet cards.

The new and innovative approach to communicating sustainability is to encourage the participation of a generation previously not easily accessible through traditional communication platforms, with the aim of supporting the goals of the Good Business Journey and inspiring action by the next generation of South Africans.

Staff education campaigns are another way of ensuring their actions harness the sustainability impact – and teaching employees how to save resources also has an impact on their bottom lines, while simultaneously supporting sustainability goals. According to Statistics SA, the retail industry employs roughly 23% of South Africa's labour force, which means the sector could make a profound difference.

Many employees are also developing an increasing affinity to companies that have strong environmental and social development programmes, giving a number of retailers an edge in attracting and retaining talent. Water, refrigeration, heating, fuel, power and lighting, packaging, food waste – all of these factors, and more – need to be considered in a retailer's journey to pursuing more sustainable business practices. Being a sustainable retailer means not only minimising any negative impact but also positively contributing to the livelihoods of people within its operations, as well as customers, the supply chain and the environment.

Most importantly, the move towards sustainability in the retail space requires good leadership – and it is this that will define the industry in years to come.

GREENING **THE SUPPLY CHAIN:**

Responsible Sourcing

- Facilitate the growth and development of suppliers
- Support suppliers towards becoming more sustainable
- Work directly with primary producers in managing, monitoring and transforming environmental performance with regard to sustainable pesticide and fertiliser application, efficient irrigation and soil conservation techniques, among others

Manufacturing & Packaging

- Cut back on the use of scarce resources
- Measure and monitor resources properly
- Ensure safety of employees, environment and consumers

Transport & In-store

- Use cleanest possible technology
- Save on fuel by travelling most direct routes
- Teach employees how to save resources
- Engage with customers on energy and water saving

Point of Sale

- Inform consumers about products' places of origin and any chemicals used
- Have social impact programmes to support surrounding communities

Consumer Use (and reuse) / End of Life

- Recyclable parts to be recycled

THE RISE OF **ESG INDICES**

Kim Johnson, Portfolio Manager: Customised Solutions, Old Mutual Investment Group

Institutional investors interested in sustainable investing are increasingly recognising ESG index tracker funds as a viable, cost effective solution that offers a practical alternative to the unsustainable practices of many listed companies across the world.

A trend is starting to emerge in the indexation space in which the spotlight is fixed on the growth of benchmarks offering environment, social and governance (ESG) principles-led mandates. Various factors have motivated for this trend. For one, the introduction of King III's principle of integrated reporting has impelled JSE-listed companies to report on ESG issues. In addition, Regulation 28 now states that institutional investors need to consider ESG factors in their investment process.

This retirement reform by Government has stimulated more interest in passive investing, and index tracker investment products in particular. The impact of major corporate scandals, the 2008 financial crisis and growing awareness of key sustainability challenges have also increased the focus on corporate sustainability.

This interest in ESG factors has however not always been so. Although it is a regulatory requirement to include ESG strategies when selecting stocks, it was in the past predominately reliant on the active managers' discretion. According to a survey done by Ernst & Young in 2013, the lack of ESG measurement tools was the main barrier deterring investors from considering ESG issues. The need for a benchmark became an apparent need in order to measure ESG application.

ESG indices are specialised analytical tools meant to reflect the prevalent ESG strategies. They offer an attractive low cost solution for investors to incorporate sustainability factors into their portfolios. And the transparency of the screening process allows investors to clearly understand the pillars being evaluated and how individual companies are rated to their peers in the same sector.

SCREENING RESPONSIBLY

In 2004, the Johannesburg Stock Exchange (JSE) became the first stock exchange in an emerging market to create a socially responsible investment (SRI) index. The intention was to provide investors with a means of identifying listed companies with sound ESG policies and practices. The index however received much criticism over the years around lack of transparency, the selection criteria and underperformance relative to the parent index.

The flawed selection criteria was demonstrated by the inclusion of stocks like Lonmin and African Bank in the index. And as the repercussions of the Marikana tragedy played themselves out and several issues emerged regarding Lonmin's financial stability, it continued to be part of the SRI Index. Similarly, African Bank remained in the index until its suspension in August 2014. This has left very little confidence from investors on the quality of the index's screening.

While SRI is motivated by ethical imperatives to shape the market, responsible investment needs to be clearly distinguished from SRI because its particular approach places emphasis on the financial materiality of ESG issues into mainstream investment decision making.

The responsible investment approach is therefore not premised on moral principles, but rather on the principle that ESG risks can affect the financial performance of investments and they therefore need to be carefully considered.

As the pioneering indexation managers to introduce a global ESG capability in both developed and emerging markets, Old Mutual Investment Group had the expertise and experience to introduce a sound offering to the local market. And we did.

On 1 April 2016 Old Mutual Investment Group launched the first responsible investment equity index fund in South Africa, the Old Mutual Responsible Investment Equity Index Fund. The Fund invests in companies that have high sustainability measures.

The Fund makes use of the MSCI research methodology and a best-in-class approach to target sector weights. In selecting the investment strategy, we consulted our RI team, who are very familiar with MSCI's ESG selection process and strongly endorse this approach.

MSCI was voted the best firm in ESG, corporate governance and emerging markets research in the 2015 IRRI (Independent Research in Responsible Investment) Survey. In Contrast to the aforementioned JSE SRI Index, the robust screening methodology of our index addressed both the Lonmin and African Bank issues. Lonmin was excluded from the index due to a low controversy score, while African Bank was dropped in June 2014 as their ESG scores were lower than that of their sector peers.

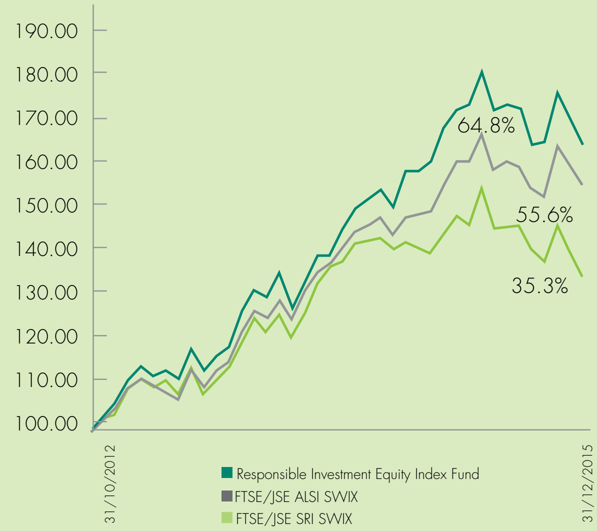
ANALYSING THE RETURNS

There has long prevailed an alleged trade-off between investment returns and allocation of capital towards companies that facilitate positive social and environmental impacts.

Research has however proven that 88% of reviewed sources find that companies with robust sustainability practices demonstrate better operational performance, which ultimately translates into higher cashflows[1]. And 80% of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance[1].

Though we cannot guarantee future outperformance, the trend below (Figure 1) endorses the fact that ESG has paid off relative to the market index. The returns of the ESG selection criteria are also far superior to that of the FTSE/JSE SRI SWIX, which has underperformed the parent index over its lifetime.

FIGURE 1:
CUMULATIVE RETURNS OCT 2012 – DEC 2015



Source: Old Mutual Investment Group, Customised Solutions – Based on Back-tested Results and INET BFA.

The robustness of the screening methodology is once again reflected in the return profile above. The outperformance of the Old Mutual Responsible Investment Equity Index Fund was attributed to two distinct outcomes from the screening process:

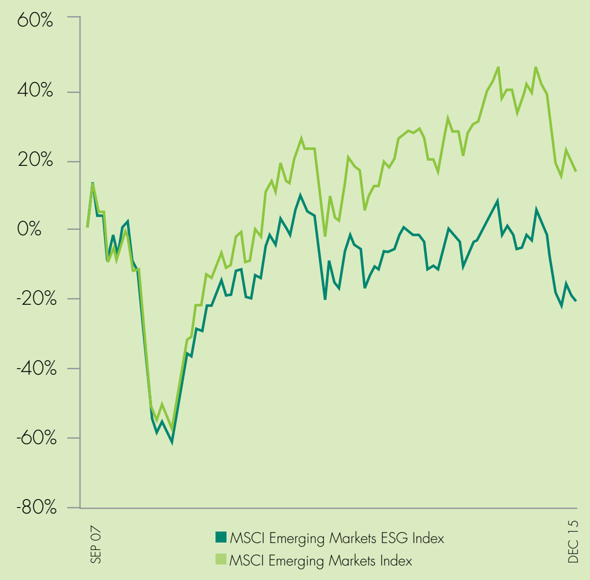
A) SABMiller was overweight due to being the best in its sector from an ESG perspective.

B) Sasol and Anglo American were not selected due to their low ESG scores and thus the fund benefited as they have both lost significant value over the period.

[1] Source: Oxford, Stanford, Maastricht & Arabesque, 2014

We can see a similar trend in emerging economies. When comparing the MSCI Emerging Markets Index to that of MSCI Emerging Markets ESG Index (Figure 2), there is clear value in applying ESG criteria to selecting the best stocks. Granted, South Africa is a more regulated emerging economy and the return differential is not as pronounced as in other emerging economies, however the data reflects that our market indeed behaves in a similar fashion.

FIGURE 2: MSCI EM ESG vs MSCI EM SEP 2007 – DEC 2015



Source: MSCI
**Performance prior June 06, 2013 has been back-tested.*

In January both the JSE and S&P launched their Sustainable Investment indices. We performed research on these respective indices and found some shortcomings and hence decided to create our own custom index.

CRITERIA ASSESSED

In doing our analysis we looked as the following criteria:

- Research methodology and quality
- Index construction.

KEY DIFFERENCES

- **Market coverage**

The MSCI ESG Research covers 97% of the South African universe, thus the largest coverage compared with the other indices, whereas Russell investments cover only the large- and mid-cap securities.

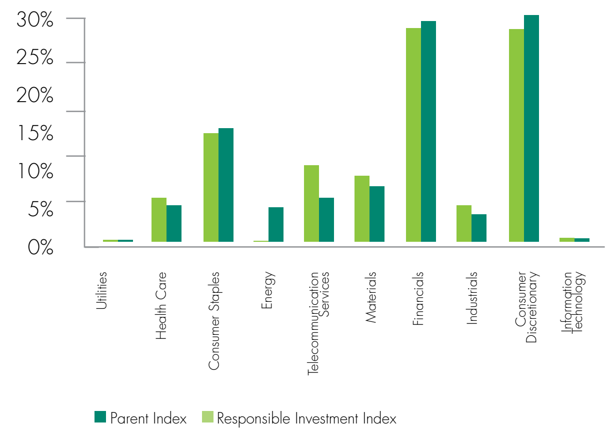
- **Selection criteria**

The Old Mutual Responsible Investment Equity Index Fund uses a best-in-class approach and thus selects the best 50% in each sector based on their ESG screening. The FTSE/Russell ESG Index uses an ESG scoring system where stocks with an ESG score greater than 2 are included in the index. This hurdle is very low as almost all stocks in their research universe are included in the index. S&P, on the other hand, selects the top 33% ESG companies in their universe for selection into the index, resulting in a very concentrated index of 24 stocks.

- **Sector exposure**

The FTSE/Russell is not sector neutral and thus could be biased to a specific sector. The S&P Index attempts to be sector neutral, however due to the way their capping methodology is applied, this objective is negated due to the underweight position in the industrials sector. From what is illustrated below, our index closely resembles the sector tilts of the market index.

FIGURE 3: GICS SECTOR EXPOSURE – DECEMBER 2015



We believe that responsible investing should be transparent and accessible to everyone on the street and not just large financial institutions. Having an ESG Index as part of their investment strategy allows investors to be able to make a responsible investment choice, be it with their pension fund or their savings. Today, people care more than ever before about how financial return is made. Awareness of ESG factors as being critical in the investment process will only continue to spread and, as it does so, more and more investors will view sustainable investing as the new norm.

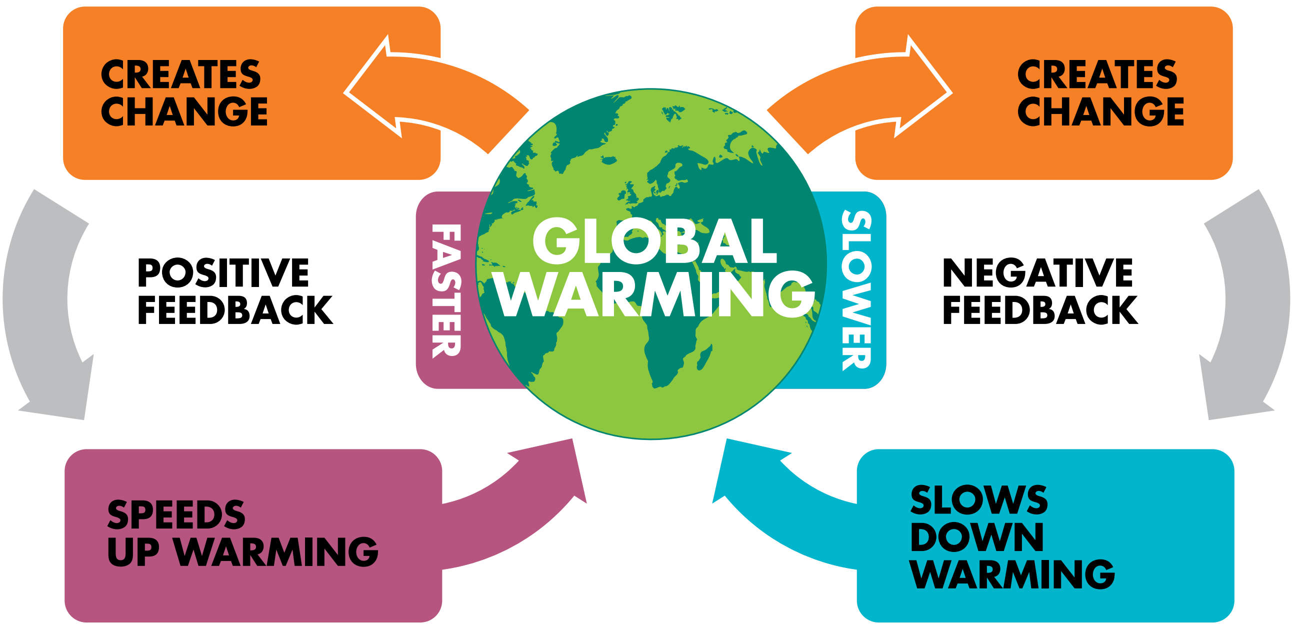
UNDERSTANDING THE FORECAST: **AFRICAN CLIMATE CHANGE**

Prof Mark New, Director: African Climate and Development Initiative, University of Cape Town

Apart from a few die-hard conspiracy theorists, there is worldwide acceptance that climate change is happening, and that it is caused by greenhouse gas emissions (GHG) mainly from fossil fuel burning, but also cement production, deforestation and agriculture.

To make a 'climate forecast' of the future, we need to know two key things: firstly, what will future emissions be, and secondly, how will global and regional climate systems respond to these emissions? Both are impossible to forecast precisely (or even close to precisely). But we can – and should – estimate likely possible futures and use these to plan responses.

FEEDBACK: THE IMPACT ON A SYSTEM BY ITS OWN EFFECTS



THE GLOBAL FORECAST

The climate response to GHG emissions is uncertain because science has not yet managed to pin down some key feedbacks and related processes in the climate system.

Most of these feedbacks are positive – that is, as the climate warms, they respond to make the climate even warmer. For example, as the atmosphere warms, it evaporates and retains more water vapour, which is itself a powerful natural GHG. This leads to more warming, and then more evaporation, and so on. Other positive feedbacks include the effects of melting snow and ice in the polar regions and probably natural CO_2 storage on land and in the oceans. Science has managed to scope the range of responses from the feedbacks, but this is still quite large. For example, for a doubling of CO_2, the likely global temperature change is in the range of 1.5-4.5 degrees Celsius (°C).

The extent of future emissions depends on the global political economy, and the way it responds to the threat of climate change. The worst case scenario is that of 'business as usual', where there is minimal action taken to reduce humanity's impact on the climate, with GHG emissions rising at the same compound rate as they have in the past, out to 2100, until all the easily mineable coal, oil and gas have been used or become too expensive. If this pans out, we are looking at a global temperature change of 3.5°C – 6.0°C over pre-industrial temperatures.

Thankfully, most organisations and people who are tracking action on climate change think this is unlikely. This is firstly because alternatives to fossil fuels are becoming cheaper. Solar electricity is already cheaper than coal-fired energy, and other renewables are approaching parity. Simple economics means that an increasing proportion of new electricity generation will be low carbon. It is likely that transport energy will also at some time in the future be fossil-fuel free, but this may only realistically occur at scale in the second half of this century. There is certainly unprecedented investment in alternative energy research, and at least some of the possibilities under investigation are likely to come good.

Also, political will seems at last to be shifting. The promises by governments at the 2015 Paris Climate Change Conference, if implemented, are on track to keep global temperatures in the range 2.2°C – 3.4°C, with a best estimate of 2.7°C. If one looks only at the policies that have actually been implemented, then this range creeps up to 2.6°C – 4.9°C, with a best estimate of 3.6°C. However, even the most optimistic analysts think it is unlikely that emissions will decline steeply enough to keep temperatures below the 2°C target, let alone the 1.5°C ambition agreed at Paris; so significant levels of warming are definitely on the cards.

THE AFRICA FORECAST

Climate change over Africa depends on how the global warming signal is propagated through regional climate processes to the different parts of the continent. Africa is likely to warm at one-and-a-half to two times the average global warming rate, because land areas warm faster than the oceans, and over land drier areas warm faster than wetter areas. Unfortunately, most of Africa outside of the tropics is pretty dry already. So, for example, the global warming of 2.9°C that might arise from the pledges of the Paris agreement would result in a warming of 4.3°C – 5.8°C over the interior of Southern Africa.

Changes in rainfall are harder to forecast, because rainfall is a function of many more interacting atmospheric factors than temperature. Nonetheless, there is a fairly consistent picture that across Africa, the sub-tropics will get drier and the tropics wetter. The Mediterranean climates at the northern and southern edges of the continent – watch out Cape Town – are also likely to become drier.

Sea level rise – expected to be between 20cm-40cm by 2050, and double that by the end of the century – poses severe risks to coastal settlements, with increased coastal erosion, inundation and salt water intrusion.

Weather extremes are likely to become more severe; climate scientists have already been able to show a human 'signature' in the changed risk of heat stress in heatwaves, and in some drought events. A remaining uncertainty is how El Nino and other natural drivers of year-to-year variations in weather and climate will change as the planet warms. However, they are unlikely to disappear, and so will continue to impose themselves on a warming background state of the climate. For example, the recent El Nino, superimposed on the underlying global warming trend, has made the 11 months up to June 2016 the hottest on record globally. Over southern Africa, four of the last six months are also the warmest on record.

INVESTMENT OPPORTUNITIES AND RISKS

Low carbon energy is an absolute no-brainer for Africa, and so is an immediate investment opportunity. As African economies develop, they are going to need energy, and lots of it. Currently, the whole of Africa generates less electricity than Spain, and half of that is produced and used in South Africa. Only one third of homes in Africa have an electricity supply.

This new energy will increasingly be low carbon, firstly because of the national policies and cost issues discussed above, but also because international climate funds will be preferentially investing in low-carbon energy and because renewable energy really is the best option for many areas of Africa where there are no electricity grids – why build an expensive national grid when local generation and micro-grids are the cheaper option?

While baseload supply at night when the sun isn't shining has often been cited as a need for continued reliance on coal, this is no longer strictly true. Baseload can be provided by other renewables, such as large hydropower and wind, coupled with new developments in night-time storage. Similarly, battery storage is becoming very competitive for micro-grids. For cities, grid-based electricity supply is probably still the best option, but this can also be supplied by renewable sources. Imagine the South African Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) scaled across all of Africa!

If one looks beyond energy at the wider economy, there are many climate-sensitive sectors and businesses that may be at risk from global warming, but that can be made more resilient and productive by incorporating climate risks into their strategies.

Agriculture, food and fibre will be one of the main sectors most affected by climate, as productivity is closely tied to climate via heat and water availability. More widely, any activity that is dependent on water, for example mining, urban development, energy, beverages or horticulture, may be impacted by climate change through changes in the reliability of water supply.

Climate change becomes particularly important for long-term investment decisions. On shorter timescales, less than 10 years, perhaps even 20, climate change will be a gradually emerging factor, superimposed on pre-existing climate risks. Apple farmers will still be able to grow apples in the Western Cape, and coffee producers will still be able to grow coffee in Kenya. But what about a coffee farm in 25 years' time? Climatic suitability might well have shifted, so existing areas will be less productive, and investments should target coffee production in new areas that will be suitable in the future rather than now. In 40 years' time sea levels might have risen by one third of a metre, coastal erosion might be accelerating, so where should new settlements in the coastal zone be located?

Screening long-term investment opportunities for climate risks, and thinking how climate change might alter the risk-return landscape is simply good practice. Many companies and investment agencies do this as a matter of routine already: the World Bank, the African Development Bank, SAB-Miller are all doing it; why not you?

FURTHER READING

CDKN (2015). The IPCC's Fifth Assessment Report: What's in it for Africa?

[http://cdkn.org/resource/highlights-africa-ar5]

Africa Progress Panel (2015). Power, People, Planet: Seizing Africa's Energy and Climate Opportunities. Africa Progress Report, 2015.

[http://www.africaprogresspanel.org/publications/policy-papers/2015-africa-progress-report]

National Business Initiative (2015). Climate change, Water and the Green Economy.

[http://www.nbi.org.za/focusarea-climate.html]

SABMiller and WWF (2014). The water-food-energy nexus: Insights into resilient development. [http://goo.gl/yc44K7]

"The promises by governments at the 2015 Paris Climate Change Conference, if implemented, are on track to keep global temperatures **in the range 2.2°C-3.4°C, with a best estimate of 2.7°C."**

REMEMBER COP 21

The 22nd session of the United Nations Conference of the Parties (COP 22) will be held on 7-18 November 2016 in Marrakech, Morocco. In anticipation of this meeting, we recap on last year's session in Paris.

For the first time, a global climate deal was reached - the world is united to cut the carbon pollution that's driving climate change by moving beyond the dirty fossil fuels of the past to the cleaner, smarter energy options that can power our future without imperilling the planet.

This sends a clear message to markets: we're moving to a low-carbon global economy where the future belongs to those who invest in ways to make our homes, cars and workplaces more efficient and to get more clean power from renewable sources like the wind and sun.

Source: United Nations Framework Convention on Climate Change, December 2015

THE AFRICAN CITY **AS AN ENGINE FOR GROWTH**

Dr Katherine Hyman, Researcher, African Centre for Cities

Discerning investors should be looking towards Africa's growing cities for sustained returns on investment and positive socio-environmental dividends.

The 'Africa Rising' narrative in its current iteration, along with its mainstream implications, is outdated for a continent that is home to unprecedented uncertainties. Positive sentiment regarding the outlook for the African market, which is attributed to sustained economic growth since the 1980s and accredited to policy reform and rising commodity prices, is wavering. Price volatility, sluggish growth, governance and security concerns, and humanitarian crises have all increased the perceived risk of Africa as an investment destination.

In the wake of these trends, discerning investors should now be looking away from financing the reckless consumption of an imagined emerging middle class and, instead, towards creating a competitive, productive economy that enhances shared value.

Cities are the engine room for both national and global growth. In the 21st century, we see the diminishing importance of national governing structures in determining urban economic resilience, and the rise of the City. The bulk of the global population wake up in cities, contributing about 80% of global GDP and as much as 70% of global resource and energy consumption (and the carbon-related emissions).

Understanding urbanisation and its implications for cities is critical if you want to gain a complete understanding of 'Africa Rising', and it is a fundamental requirement for savvy decision-making regarding investment opportunities.

Relatively resilient economic growth trends and an expanding urban labour force are seen as positive indicators that Africa will soon be able to leverage its underutilised urban demographic dividend associated with the agglomeration of markets and people. Yet, the specificities of African urbanisation remain poorly understood.

Prospects for positive rates of returns will be heavily influenced by how Africa manages the effects of rapid, unprecedented urbanisation. For now, population growth is concentrated in both rural and urban areas. But, every year, for the next three decades, 22 million people will shift from rural to urban settlements, and by 2050 the urban population will have increased threefold compared with 2010, and will amount to 1.34 billion people[1] .

Compared to the West, which urbanised over a period of about 200 years, this is a relatively short urban transition and is occurring in the absence of adequate financing models and governance systems to support such a rapid transition. The rate and scale of this transformation has profoundly transformed Africa's urban landscape, placing significant pressure on scarce public resources.

[1] Cartwright, A. 2015. Better Growth, Better Cities: Rethinking and Redirecting Urbanisation in Africa. NCE Cities, Paper 03. Online: http://2015 newclimateeconomy.report/wp-content uploads/2015/09/NCE-APP-final.pdf.

"Africa's urbanisation specificities and infrastructure requirements need to be interpreted in the context of global environmental change, **diminishing finite natural resources, and accelerated climate change."**

450299253 – Gallo Images/Getty Images/Nycretoucher

62%

of urban Africans live in informal, makeshift conditions (excluding North Africa)

Over

70%

of the population is stuck in vulnerable employment in the informal sector without a stable wage

81.7%

of Africans survive on less than US$4 a day and 60.8% fall below the US$2 a day mark

Sources: Mo Ibrahim Foundation. 2015; AfDB (Africa Development Bank). 2011

We simply do not yet understand how to harness the power of the informal economy, while creating inclusive, sustainable economies.

Growing urban populations[2] exert pressure on already overburdened, dilapidated infrastructure systems, increasing the demand for basic and social services. The physical manifestations are evidenced in heaving urban motorways scattered with potholes, city-wide blackouts that bring economic activity to a standstill, and a rising stench from uncollected waste and non-existent sanitation systems. Infrastructure deficits are present even in what are considered advanced, diversified economies[3].

To maintain their role as the drivers of economic growth, cities urgently require investment in infrastructure. A staggering US$93 billion[4] is needed annually for the next decade if we are going to make a dent in resolving infrastructure backlogs on the continent. Without the financial resources needed to meet the finance requirements – which can be attributed to the relationship between poverty, informality and the tax base – cities will have to look beyond their borders for financial support. Importantly, they should not rely on national transfers[5] from governments whose priorities generally exclude urban infrastructure.

Major international institutions have singled out infrastructure investment as a catalyst for sustained recovery in the global economy. Meanwhile, it has become evident that pension funds and insurance companies, among others, have an appetite for investing in infrastructure. Long-term liabilities and predictable returns are not only complementary to the infrastructure lifecycle, but these investments improve the capacity to raise capital from other sources of finance.

Over the past decade, financial flows from the private sector have grown continuously, yet cities still need more private participation in urban infrastructure financing. But allocations cannot continue to be ad hoc and uncoordinated. It is concerning that there is no comprehensive data set that clearly analyses how these financial flows are being allocated, nor is there any sort of integrated planning system.

2 OECD/AfDB/UNDP (forthcoming): African Economic Outlook 2016: Sustainable Cities and Structural Transformation. Paris: OECD Publishing

3 OECD/AfDB/UNDP (forthcoming): African Economic Outlook 2016: Sustainable Cities and Structural Transformation. Paris: OECD Publishing

4 Foster, V. and C. Briceño-Garmendia (2010). Africa's Infrastructure: A Time for Transformation. Africa Infrastructure Country Diagnostic. Washington DC: Agence Française de Développement and World Bank.

5 Pieterse, E. 2014. Filling the Void: an agenda for tackling African Urbanisation. In: Africa's Urban Revolution. Parnell, S. and Pieterse, E. (eds). London: Zed Books.

Compelling evidence demonstrates that while the needs of the elites, multi-national companies and the upper middle class are met by a patchwork of gated residential enclaves, modern shopping centres and sophisticated fibre-optic networks, elsewhere informality predominates within a splintered[6] urban landscape.

Mega-projects seem to hold a significant allure for even the most discerning investor despite the high risk of financial overruns and failure[7], not to mention the lack of social dividends. Examples include the pipeline of mega-power plants juxtaposed against negligible access to the grid and exorbitant, exclusive electricity prices, and expansive dams, in a context where improved water access is denied to over 30% of the population[8].

Sustained, equitable growth will be possible if there's a surge in infrastructure investment that facilitates the development across sectors and infrastructure categories, i.e. economic and urban infrastructure. But Africa's urbanisation specificities and infrastructure requirements also need to be interpreted in the context of global environmental change, diminishing finite natural resources, and accelerated climate change. The convergence of these trends is becoming increasingly visible, manifesting as environmental crises, while the associated risks of inaction significantly outweigh the cost of adaptation[9]. Valuable insights from academic research show us that the specific configuration of networked urban infrastructure ensures and determines urban economic reproduction[10]. Here is an opportunity for investors to contribute to an 'Africa Rising 2.0' narrative.

As Africa's urban landscapes are yet to be configured, there is a unique opportunity to leapfrog obsolete and unsustainable conventional technology of the 20th century and become world leaders in creating low-carbon, resource-efficient, productive urban spaces. Herein lies an attainable competitive advantage for the continent.

"Becoming a world leader in creating low-carbon, resource-efficient, productive urban spaces is **an attainable competitive advantage for the continent."**

Infrastructure, as the nexus between the impacts of urbanisation, economic productivity and the resolution of global environmental change, is a key intervention point. Much needed are investments into renewable energy, reliable public transport systems, efficient water and sanitation systems and, importantly, a sustainably built environment. The imperatives of meeting basic needs, while lifting economic productivity and growth, can simultaneously be materialised by targeted and coordinated infrastructure investments that take advantage of the opportunity offered by Africa's urbanisation.

6 Graham, S. and Marvin, S. 2001. Splintering urbanism: networked infrastructures, technological mobilities and the urban condition. Psychology Press.

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9 Stern, N. 2007. The economics of climate change: the Stern review. Cambridge University Press.

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Emerging Market Corporate Governance – Going Above And Beyond the Call of Duty

Feroz Basa, Joint Boutique Head, and Wium Malan, Investment Professional, both at Global Emerging Markets, Old Mutual Investment Group

Of all the many factors that we take into account when analysing companies within our emerging market universe, corporate governance is arguably the most important, given the chequered track record emerging market companies have in managing this risk. The importance of prioritising this was also highlighted by the fact that 'failure of national governance' was flagged as a broad emerging market risk in the World Economic Forum's Global Risks Perception Survey 2016.

THE GLOBAL FORECAST

Part of the issue is that emerging markets are relatively immature and there tends to be a lot of family, government and individual influence in the private sector, all of whom have different intentions and whose actions could undermine shareholder value.

Thus, we take governance risk very seriously because, as a fund manager entrusted with other people's money, we don't want to wake up one day and find that the value of a company in which we have invested has been adversely impacted by a failure of corporate governance.

To mitigate against this risk in our portfolios, we have developed an internal, proprietary framework that helps us determine whether the corporate governance environment of a company is adequate enough for us to invest clients' money in.

We also rely on an independent, quantitatively-based assessment of companies that was developed by our Responsible Investment team, which uses different sources and comes up with a corporate governance score against which we can compare our own qualitative assessment.

We are firm believers that certain minimum governance standards need to be in place in order to protect minority shareholders (i.e. our clients) and that it is not sufficient to discount governance risks into fundamental stock valuations – where the governance tail risk of a stock is significant we would rather avoid it completely.

GLOBAL EMERGING MARKETS' APPROACH TO MANAGING GOVERNANCE RISKS: GOING BEYOND TYPICAL ESG FACTORS

Although we do analyse factors such as ethics, social responsibility and environmental issues, our analysis goes beyond typical environmental, social and governance (ESG) factors. We assess companies based on Value Creation and Capital Management, Board and Shareholder Structure, Fair Information Disclosure and Management Access and Representation of Data. This enables us to identify and assess risks, evaluate whether company management and/or majority shareholders' interests are aligned with minority investors and to benchmark governance standards across various countries and sectors that the Fund invests in.

As an illustration of our corporate governance analysis process, we take you through two company case studies below. Both these companies appear to be high quality companies (another pillar in our investment philosophy), as measured by their Cash Flow Returns on Investment (CFROI), using Credit Suisse's HOLT model. However, as shown below, we decided to only invest in one of them, for corporate governance reasons.

CASE STUDY 1:

NMC Health – healthcare provider in the United Arab Emirates

We still felt comfortable investing client money in the company despite the following shortcomings:

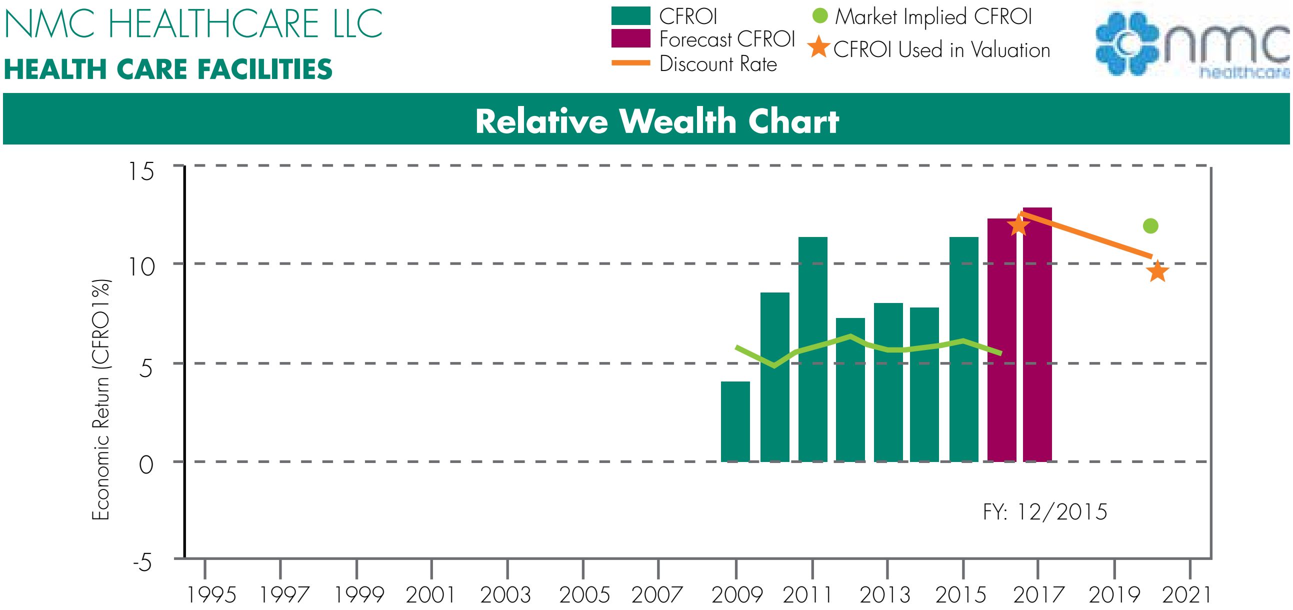
- The founder is the Chairman and CEO
- Only six of the 12 Board members are independent
- There is no specific disclosure of remuneration policies.

We invested client money in the company based on the following positives:

- The founder owns 26% and is aligned with our interests
- The Audit and Remuneration committees are fully independent, providing us with protection as minority shareholders
- Total Shareholder Return is a key part of the remuneration structure of top executives
- The company has very strong policies and practices around Information Disclosure, Management Access and Representation of Data.

NMC HEALTHCARE LLC

HEALTH CARE FACILITIES



Source: Credit Suisse HOLT

CASE STUDY 2:

BEC World – media company in Thailand

We decided not to invest because:

- The founding family controls 57% of the shareholder vote and seven of the 14 members of the Board are family members, providing limited protection to minority shareholders
- The father is the Chairman and his son is the CEO and thus there is no real separation of the CEO and Chairman functions
- The level of disclosure on remuneration policies is low and the remuneration committee is not sufficiently independent
- They have very poor policies and practices around Information Disclosure, Management Access and Representation of Data.

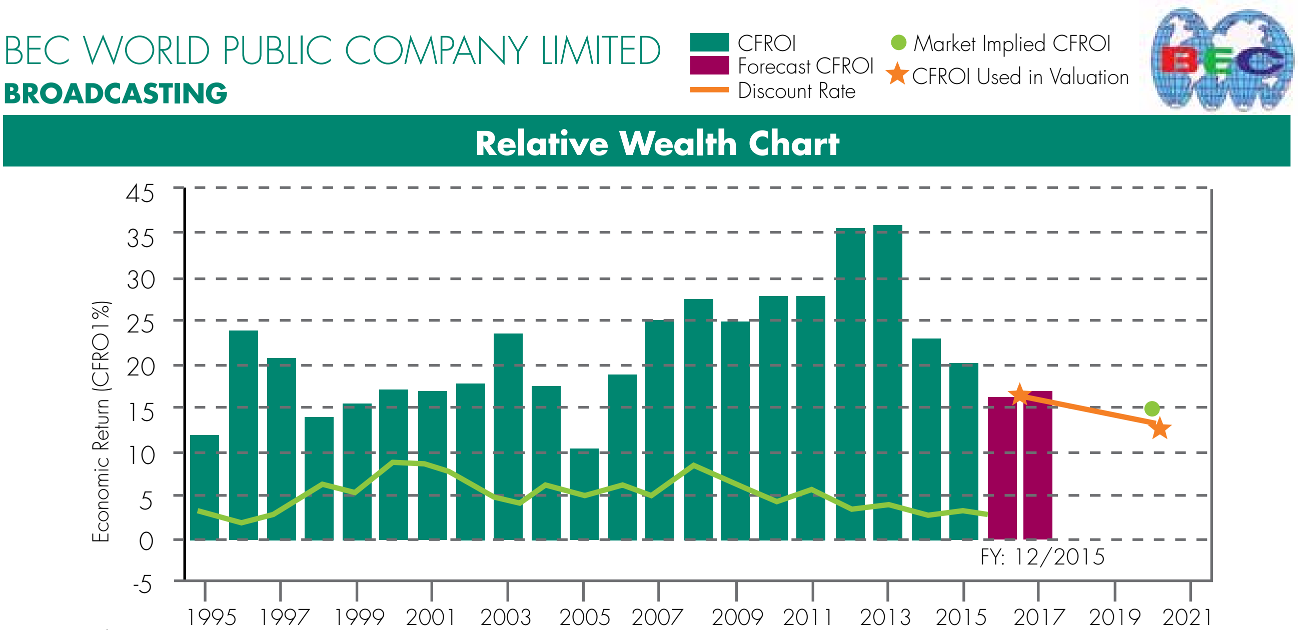
For instance:

- There is no investor relations (IR) section on their website or IR contact details
- There are no interim earnings releases, only an Annual Report
- They only give ad hoc presentations to shareholders, with very few key performance initiatives (KPIs) against which to measure the company.

Our assessments of these two companies, and resultant investment decisions, have worked in our clients' favour, as NMC Health's share price is up by 27% YTD, whilst BEC World is down 17% (both in local currency terms).

BEC WORLD PUBLIC COMPANY LIMITED

BROADCASTING



Source: Credit Suisse HOLT

Enlisting the Responsible Investment team to quantify governance best practice

In addition to this rigorous assessment process, we also factor in the governance support of Old Mutual Investment Group's Responsible Investment (RI) team at three different levels:

1) The ESG Engagement Manager votes 100% of our proxies across their listed equity holdings. Proxy voting is an important aspect of being a responsible steward of the assets we manage on behalf of our customers. It gives investors a voice in terms of how management teams and executive committees run their companies and set their policies on important issues such as executive pay and board composition. All our votes are publically disclosed on our website.

2) The MSCI ESG Accounting Governance Report is integrated into Global Emerging Markets' current research and company assessments. This is a statistical evaluation of corporate integrity, based on accounting and non-accounting metrics that have been associated with poor financial reporting and corporate governance. This score is then factored into the governance model that the RI team developed specifically for the Global Emerging Markets context, described below.

3) The Emerging Markets Governance Model is a proprietary assessment tool and is a purely quantitative, unbiased systems-based model.

This model is integrated throughout the Global Emerging Markets company and portfolio screening process, and is used for ongoing assessment of investee companies.

It consists of nine pillars the RI team has identified as the markers of good governance in the emerging market context. Each pillar is weighted according to its impact on the good governance of an emerging market company:

- Auditing and Accounting (10%)
- Board Structure and Experience (20%)
- Capital Structure (10%)
- Directors (15%)
- Remuneration (15%)
- Diversity (5%)
- Human Capital (4%)
- Governance of Environmental and Social Issues (11%)
- MSCI ESG Accounting Governance Report (10%)

Underlying each pillar is a selection of metrics, and it is from the rating of these that the pillar derives its overall score. For example, Auditing and Accounting with a weight of 10% in the overall model has three underlying metrics. Two of these are yes (=1) or no (=0) answers, while the other answer has a percentage ranking that is then scored between 0 – 4.

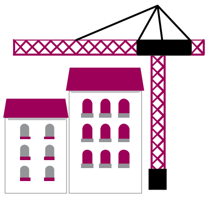
Auditing and Accounting

Does the company disclose non-audit fees?	**Is the audit committee fully independent?**	**Do they have whistle blowing and ethics policies in place?**
Possible answer and score **Yes = 1** **No = 0**	**Degree of independence and score** **0% - 65% = 0; 66% - 98% = 2%; 98% - 100% = 4**	**Possible answer and score** **Yes = 1** **No = 0**

THE BOTTOM LINE

We are confident sustainable investment growth potential can be realised in the emerging market investment space, provided proven good governance is a non-negotiable. That is why the integration of ESG factors into investment decisions is of great importance to us. These include openness, integrity, accountability, protecting shareholder rights and treating shareholders equally. As long as these factors are carefully considered in the investment process, the perceived risks of investing in emerging markets can be mitigated, unlocking significant long-term opportunities for investors in emerging market assets.

OUR RESPONSIBLE **INVESTMENT MILESTONES** (SO FAR)



1999

Established the IDEAS Managed Fund

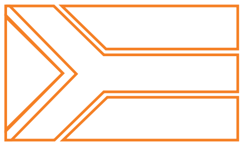
This fund, managed by Old Mutual Alternative Investments, would soon become SA's largest domestic infrastructure equity fund.

2010

Launched the Housing Impact Fund for South Africa (HIFSA)

The Fund's aim has been to fill the gap between government-provided housing and those with access to home loans.

(Read more on page 44)



2011

Participated in drafting of Code of Responsible Investing in SA (CRISA)

The launch of CRISA would make SA only the second country next to the UK to formally encourage institutional investors to integrate sustainability issues, such as environmental, social and governance (ESG) factors, into their investment decisions.

2012

Our RI guidelines + Proxy Voting Policy are published

A proxy vote is where we vote on a company resolution at the Annual General Meeting (AGM) on behalf of the people who have delegated that responsibility to us.

Established the Schools Fund, managed by Old Mutual Alternative Investments' Impact Funds team

Focused on independent, low-fee paying schools by financing infrastructure and education-related requirements with the objective of delivering quality education and commercially acceptable returns.

(Read more on page 48)

2013

Old Mutual's RI disclosure and RI standards are published.

2014

Public disclosure of proxy voting results

As active and engaged investors we have met our target of casting 100% of proxy votes in SA, and we are making good progress across the rest of the Group.

Launch of first African-based ESG tracker fund

Old Mutual Investment Group was to become a leader in this space – *Moneyweb* voted our ESG capability as one of the Top Ten innovative financial products launched in 2015.

Proprietary Governance research of JSE Top 100 completed

2015

Client ESG reporting implemented

Launch of *Tomorrow As Invested As You Are* Collaboration with USB & INSEAD on African Directors Programme

2016

Launched first responsible investment equity index fund in SA, the Old Mutual Responsible Investment Equity Index Fund
(Read more on page 68)

R14 billion invested on behalf of our clients in renewable energy
(Read more on page 17)

R9 billion FUM committed to affordable housing
(Read more on page 47)

R1.2 billion FUM committed to quality education
(Read more on page 51)

R4.5 billion FUM committed to start-up financing

R1.5 billion FUM committed to Africa's agriculture
(Read more on page 29)

Incorporation of Corporate Governance Model into Global Emerging Markets methodology
(Read more on page 80)

Proprietary Governance research on the SWIX completed along with company specific ESG tearsheet data

Implementation of pro-active listed equity engagement roadmap

Source: Old Mutual Investment Group, as at 30 June 2016

TOMORROW

As invested as you are

CONTACT **DETAILS**

JANINA **SLAWSKI**
Director of Marketing and Distribution
jslawski@oldmutualinvest.com
Tel: +27 11 217 1873

JON **DUNCAN**
Head of Responsible Investment
jduncan@oldmutualinvest.com
Tel: +27 21 509 1014

www.oldmutualinvest.com

Arjowiggins Cocoon Silk. Inspired by Green Technology.
Cocoon Silk 100% recycled (PCW) coated papers are FSC 100%. Recycled certified, endorsed by Forest Ethics, NAPM – National Association of Paper Merchants, The European Ecolabel, ISO 14001 – International Environmental Management Standard, ISO9001 Quality Management System and ISO 9706 Age Resistant Standard suitable for archives certified. It is PCF (Process Chlorine Free) made without Chlorine. Arjowiggins has pioneered a unique process of producing high quality de-inked pulp. The recycled pulp undergoes three separate cleaning loops specially designed to effectively de-ink the paper without the use of chlorine, resulting in an extremely environmentally friendly process. This reduces CO_2 emissions by 55% in comparison to incinerating the paper or sending it to landfills. Recycling paper ensures that the life span of the waste paper can be extended and energy saved as we fight global warming and reduce and delay the impact of carbon emissions. Local communities have benefited through job creation by means of collecting the 191 000t of waste paper every year from the surrounding areas. 650kg of recycled paper is produced from one ton of waste paper and the residual is used in the construction industry.

Old Mutual Investment Group (Pty) Limited
Physical Address: Mutualpark, Jan Smuts Drive, Pinelands 7405
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