

2016 RESPONSIBLE **INVESTMENT REPORT**

RESPONSIBLE
INVESTMENT



**POSITIVE
FUTURES**



DO GREAT THINGS



OLD MUTUAL
INVESTMENT GROUP

CONTENTS

01/ABOUT OLD MUTUAL INVESTMENT GROUP

- 2 WHO WE ARE
- 3 OUR MULTI-BOUTIQUE APPROACH

02/OUR APPROACH TO RESPONSIBLE INVESTMENT

- 4 OUR COMMITMENT TO RESPONSIBLE INVESTMENT
- 5 OUR PROGRESS IN 2016
- 6 CONTRIBUTING TO THE GREEN ECONOMY
- 8 PROXY VOTING AND ENGAGEMENT – LISTED EQUITY
- 10 OUR IMPACT AT A GLANCE

03/LISTED CAPABILITIES

- 12 **OLD MUTUAL CUSTOMISED SOLUTIONS:** INDEXATION DEMOCRATISES RESPONSIBLE INVESTING
- 13 **MARRIOTT:** CAN THE PURSUIT OF RELIABLE DIVIDENDS ALIGN WITH ESG SUSTAINABILITY?
- 14 **OLD MUTUAL EQUITIES:** DETERMINING ESG SIGNALS IN THE SA EQUITY MARKET
- 16 **MACROSOLUTIONS:** TAKING ON THE RESPONSIBILITY
- 18 **GLOBAL EMERGING MARKETS:** GOVERNANCE IN AN EMERGING MARKET ENVIRONMENT

04/UNLISTED CAPABILITIES

- 20 **FUTUREGROWTH:** BECAUSE THE FUTURE MATTERS
- 24 **OLD MUTUAL ALTERNATIVE INVESTMENTS:** PART OF OUR DNA
- 28 **OLD MUTUAL SPECIALISED FINANCE:** A PRINCIPLED APPROACH

05/2017 AND BEYOND

- 29 LOOKING AHEAD

06/APPENDIX

- 30 OUR RESPONSIBLE INVESTMENT GUIDELINES
- 32 GLOSSARY

ABOUT THIS **REPORT**



This report highlights Old Mutual Investment Group's Responsible Investment (RI) commitment, which includes our established processes and guidelines, investment initiatives and, ultimately, some of the impact our RI efforts have delivered on behalf of our clients and to the communities in which we operate. This document articulates, according to each investment boutique, how we have integrated environmental, social and governance (ESG) factors into our investment philosophy and practices to bring about positive outcomes on a broader scale. Our RI strategy is part of a larger Old Mutual Responsible Business approach, contributing to Old Mutual's greater vision to do great things.

USING THIS **REPORT**

PAGE REFERENCES

REFERRING READERS TO RELATED INFORMATION ELSEWHERE IN THE REPORT



ONLINE REFERENCES

INDICATE ADDITIONAL INFORMATION AVAILABLE ONLINE

01 / WHO WE ARE

Old Mutual Investment Group is a leading African investment manager with R599.3 billion (as at 31 December 2016) in assets under management (AUM). We offer a full range of investment capabilities, spanning the listed and unlisted universe. We are committed to delivering market-beating returns in a socially responsible and sustainable manner – a commitment that is enshrined in our Investment Partnership agreements with our investment boutiques.

We are focused on being a responsible steward of the assets we manage and benefiting the communities in which we invest.

OUR CUSTOMER CHARTER

- We are committed to growing your wealth by delivering market-beating returns.
- We invest our money alongside yours, which means our investment goals and aspirations are closely aligned with yours.
- We invest responsibly for the long term, delivering good returns while also contributing to the greater good.

THE NUMBERS

AUM

R599.3BN

DECEMBER 2016

ASSETS UNDER MANAGEMENT BY CAPABILITY

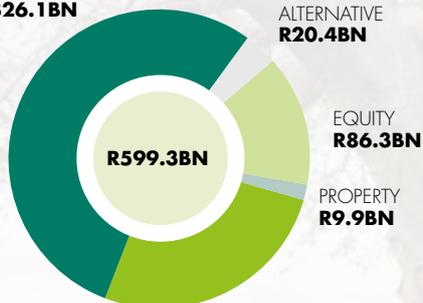
MULTI-ASSET CLASS
R326.1BN

ALTERNATIVE
R20.4BN

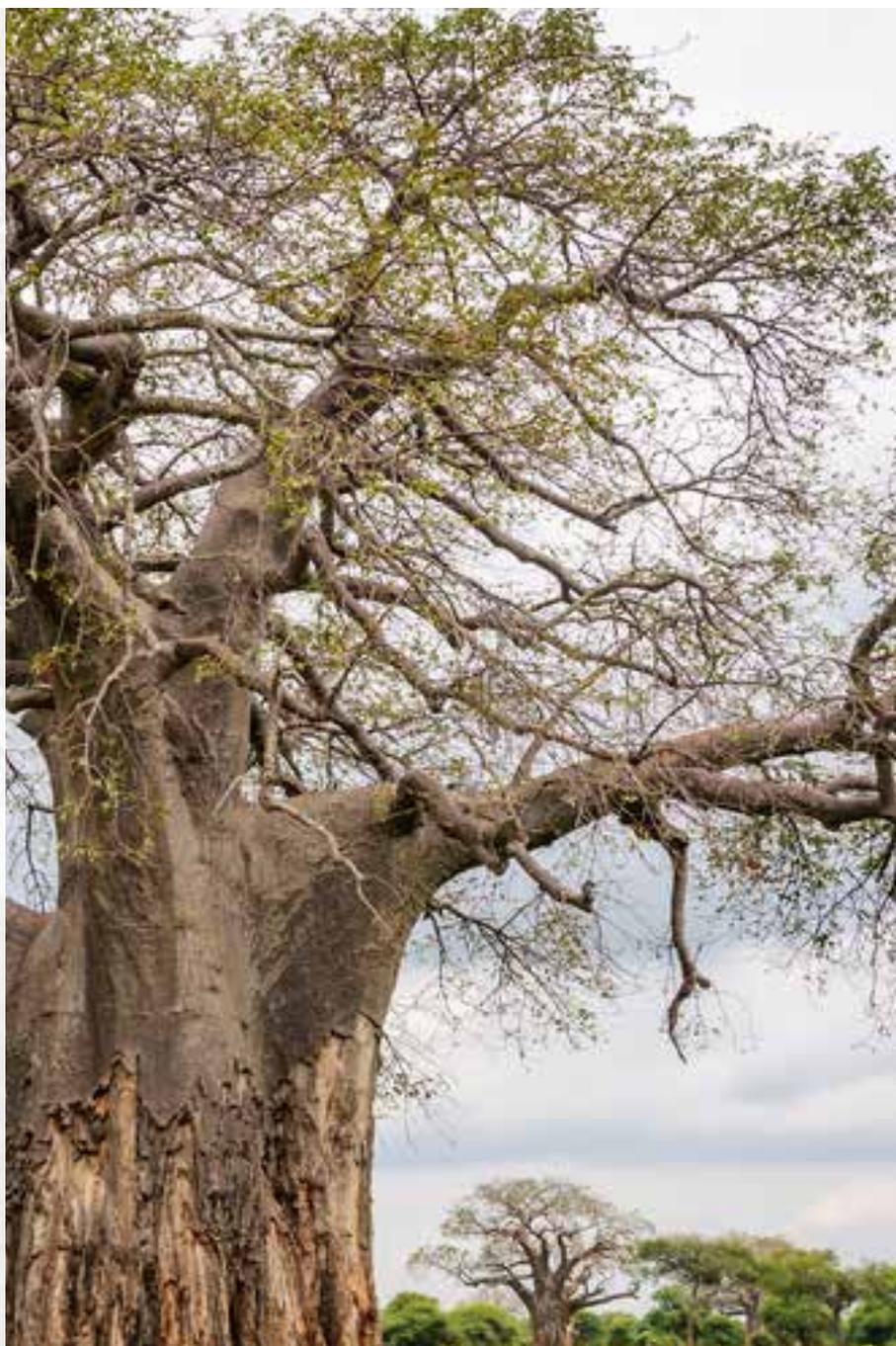
EQUITY
R86.3BN

PROPERTY
R9.9BN

INTEREST-BEARING ASSETS
R156.7BN



All figures as at December 2016, unless otherwise stated.
Source: Old Mutual Investment Group



01 / OUR MULTI-BOUTIQUE APPROACH

Our investment capabilities are managed by a range of independent investment boutiques, each focusing on its own specialist investment area. **Each boutique has its own unique philosophy, proprietary research capability and robust investment process.** This gives our investment boutiques the autonomy and focus required to deliver what is expected of them consistently over the long term. And it gives our clients a single point of access to world-class, specialist expertise in a comprehensive range of investment capabilities.

As an award-winning pan-African investor, we are dedicated to implementing responsible investment (RI) practices across our boutiques. In respect of this application across our business, we recognise:

- the responsibility of boutiques to adhere to their client mandates; and
- each boutique has its own independent investment philosophy, style and asset class speciality, and hence the approach to RI commitment will vary from boutique to boutique.



02 / OUR COMMITMENT TO RESPONSIBLE INVESTMENT

Old Mutual Investment Group's commitment to responsible investment (RI) is founded on an understanding of the growing sustainability trend and its potential to impact the competitive landscape across sectors. Consequently, we believe that incorporating the consideration of relevant material environmental, social and governance (ESG) factors into our investment and ownership decisions is aligned with the pursuit of superior long-term risk-adjusted returns for our beneficiaries, clients and society at large.

Across Old Mutual Investment Group, we are focused on driving progress in the following two areas:

- Embedding the appropriate mechanisms to **incorporate the consideration of material ESG risks and opportunities** into our investment and ownership practices across all asset classes in a manner consistent with our duties to clients. We see this as central to the delivery of our professional client service.
- Offering our clients access to a **world-class suite of green economy investment capabilities**. We see a growing opportunity to invest in socially inclusive, resource-efficient and low carbon growth assets.

Our efforts in RI form an important component in enabling the broader Old Mutual Responsible Business programme, which is focused on unlocking shared value opportunities across our business. This programme is central to our Group goal of enabling positive futures.

Our business has a boutique operating structure, which means the individual boutiques each have their own approach to RI that is aligned with their specific asset class and investment philosophy.



BRADLEY **KALIL**
ACTING CHIEF EXECUTIVE OFFICER



MORE DETAIL REGARDING OUR BOUTIQUE MODEL ON PAGE 3

Our RI Guidelines for Old Mutual Investment Group, which draw on the UN-backed Principles of Responsible Investment (UNPRI), the requirements of Regulation 28 of the Pension Funds Act and the Code for Responsible Investing in South Africa (CRISA).



MORE ON OUR RI GUIDELINES ON PAGE 30

This report fulfils our annual CRISA disclosure requirements, and provides a summary of key issues addressed in our annual UNPRI disclosure.



VISIT WWW.UNPRI.ORG FOR THE FULL REPORT

02 / OUR PROGRESS IN 2016

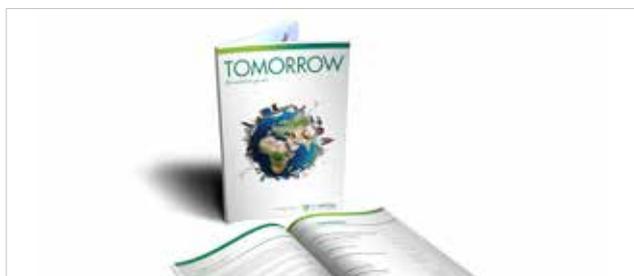
Old Mutual Investment Group made some notable progress on its responsible investment (RI) journey in 2016. Our achievements include:

RECOGNITION AT NATIONAL BUSINESS AWARDS

Old Mutual Investment Group won the Sustainability category at the 14th Annual National Business Awards – the award recognises “the company that has shown a strong adhesion to ESG policies and practices. Evidence of achievements of set targets in these areas must be demonstrated. The winning entrant must also show active involvement in promoting ESG policies and, by doing so, set an example for other corporations in South Africa to follow.”



TOMORROW AS INVESTED AS YOU ARE



Old Mutual Investment Group’s premier annual conference – Tomorrow As Invested As You Are – was hosted for the second year. This event is a platform to promote RI among our institutional clients through dialogue and presentations about the green economy and RI. Our annual thought leadership publication, *Tomorrow*, was also launched at the event. The second issue comprised a collection of thought leadership essays by leading minds on topics ranging from the role of

responsible organisations in addressing financial and social inequalities to the rise of conscientious green investors.



Access our latest *Tomorrow* publication at <http://ww2.oldmutual.co.za/old-mutual-investment-group/insights/magazines/tomorrow-2016>

RAISING THE BAR ON GOVERNANCE

We recognise the importance of good governance and the significant role this plays in the investment ecosystem. To contribute to the development of these skills, in 2015 Old Mutual Investment Group partnered with the INSEAD Corporate Governance Initiative and the University of Stellenbosch Business School to create the African Director Programme. This programme is about developing directors as ethical and responsible leaders. 2016 had 16 programme participants from three countries, representing a range of private, public and social sector institutions.

LEADING RESPONSIBLE OWNERSHIP PRACTICES

In 2016 we made great progress on shifting our listed equity engagement programme to focus on the proactive engagement on a smaller set of key ESG risks and opportunities with companies that are material across our collective holdings. We also focused our engagements on key market-related governance issues such as “Say-on-Pay” and the King IV process.



READ MORE ON **PAGE 8**

EVIDENCING THE ESG ALPHA SIGNAL IN SOUTH AFRICA

The bulk of ESG Alpha research that has been undertaken has been focused broadly on developed markets and some emerging markets. During 2016 we focused on producing the first quantitative research study on ESG factors and the South African market.



READ MORE ON **PAGE 14 AND PAGE 18**

02 / CONTRIBUTING TO THE GREEN ECONOMY



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 and the Group's collective efforts in the green economy.

In addition to our commitment to professionalising responsible investment (RI) practices across our business, we are also active in allocating capital to investment opportunities that contribute to the development of a long-term sustainable economy. These include key themes such as low carbon electricity, agriculture, affordable housing, water and education, to name a few. Collectively we call this investing in the green economy – which the World Bank defines as “low carbon socially inclusive and resource-efficient growth”.



SEE THE IMPACT WE MAKE ON BEHALF OF OUR CLIENTS ON **PAGE 10**

AN ALTERNATIVE FUTURE?

From an investment perspective, getting exposure to green growth has required domestic investors to look to the alternative investment arena. It is in this space that Old Mutual Investment Group has unparalleled capability and experience. For example, we are one of the leading local investors in the Department of Energy's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), providing equity participation and debt funding to wind and solar projects across the country. Our participation in this programme not only brings capital to bear in addressing an important environmental issue, but it also provides an appropriate risk-adjusted return for our investors.

Beyond the alternative arena there has traditionally been little available for domestic institutional investors looking to invest in the green economy in the listed equity space. This is where Old Mutual Investment Group has been a pioneer, offering a range of developed, emerging and local market ESG indices that offer clients benchmark performance.



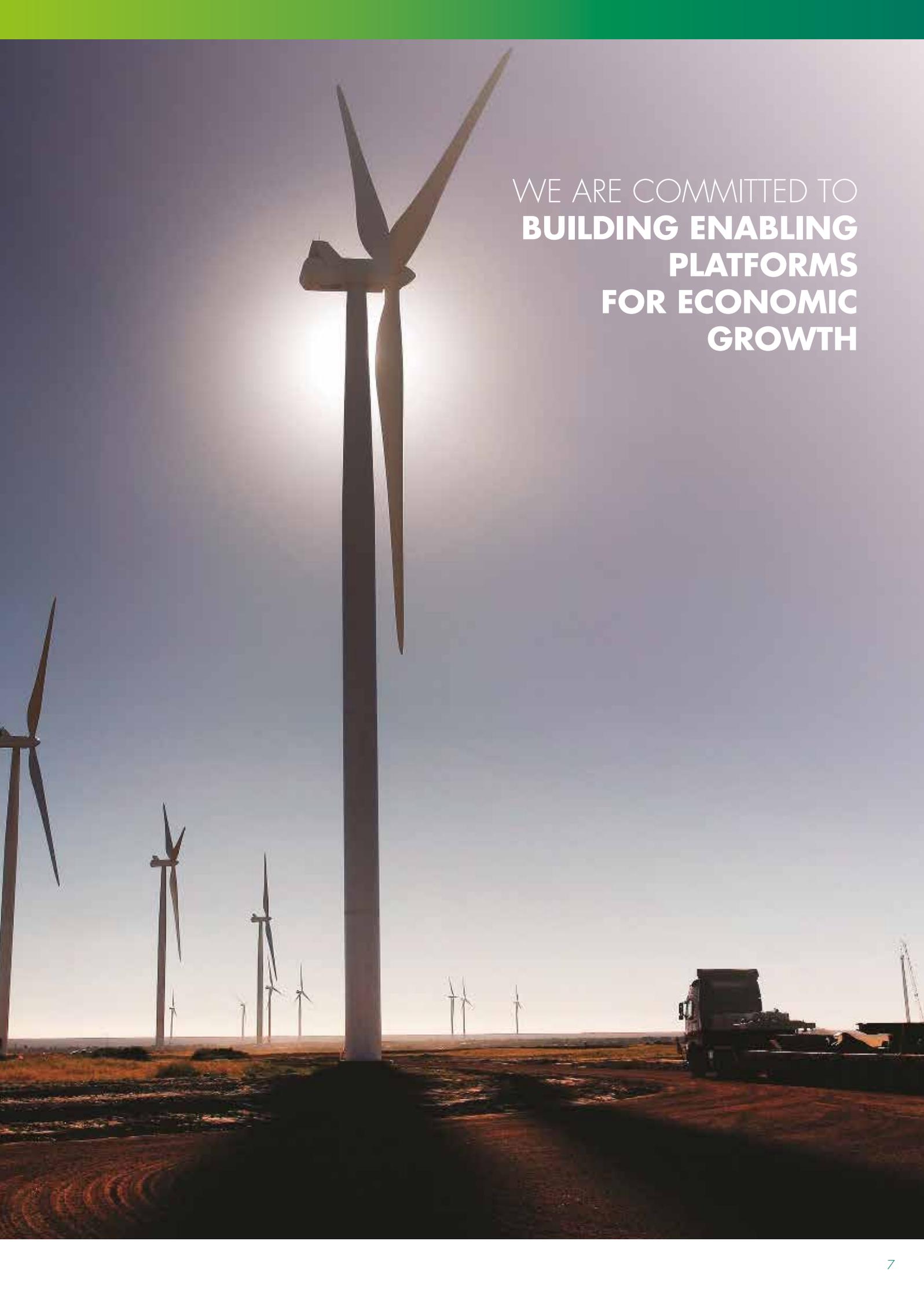
READ MORE ABOUT INDEXATION ON **PAGE 12**

In 2015 we made a Group commitment to focus on and measure our contribution to the green economy. During 2016 we developed a Green Economy Taxonomy that allows us to tag our unlisted securities regarding their green economy attributes.

BELOW IS AN EXAMPLE OF HOW THE TAXONOMY IS STRUCTURED

CATEGORY 1	CATEGORY 2	CATEGORY 3
Infrastructure & Social Services	Water & Sanitation	Local Water Reticulation
		Water Boards/Water Sources
		Water Borne Sanitation
		Water Purification
		Solid Waste

The taxonomy was applied to our AUM as at 31 December 2016 and we are able to account for approximately R112bn of our clients' capital, both debt and equity, that is at work in the green economy.



WE ARE COMMITTED TO
**BUILDING ENABLING
PLATFORMS
FOR ECONOMIC
GROWTH**

02 / LISTED EQUITY PROXY VOTING AND ENGAGEMENT



ROBERT LEWENSON

HEAD OF ESG ENGAGEMENT, 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.

Responsible Ownership is one of the key pillars in the Responsible Investment (RI) stable as part of our professional commitment to our clients. Its importance lies in the impact we can make in the market by using the firepower of our clients' listed assets to drive change. Such impact is made in voting at company meetings and engaging with companies on important ESG matters to achieve positive outcomes, both from a management of risk and a value creation perspective. Not only do we engage companies on our own, but we also look for opportunities to collaborate with other large shareholders to increase the possibility of a positive outcome from the engagement. Additionally, other than company engagement, we also engage industry bodies on material ESG issues impacting the market, such as "Say-on-Pay". Below we summarise some of key impacts which have occurred as a result of our interventions, all with a view to supporting long-term value creation for our clients.

PROXY VOTING

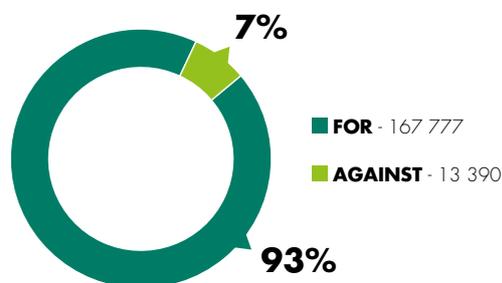
One of our key Responsible Ownership principles is to vote on all of our clients' shares on their behalf at company meetings. We recognise the importance of proxy voting in ensuring the protection of our clients' rights as shareholders (often in the minority). We are pleased to record that Old Mutual Investment Group voted all of its proxy votes during 2016.



THE OUTCOMES OF OUR VOTING DECISIONS ARE AVAILABLE AT WWW.OLDMUTUALINVEST.COM

A summary of our 2016 voting record is shown in Figure 1 and Figure 2 highlights some key governance areas where we express our concerns as shareholders. Furthermore, often the protection of shareholder rights informs engagement with companies to improve the position (we summarise some of our key engagement takeout points in the next section).

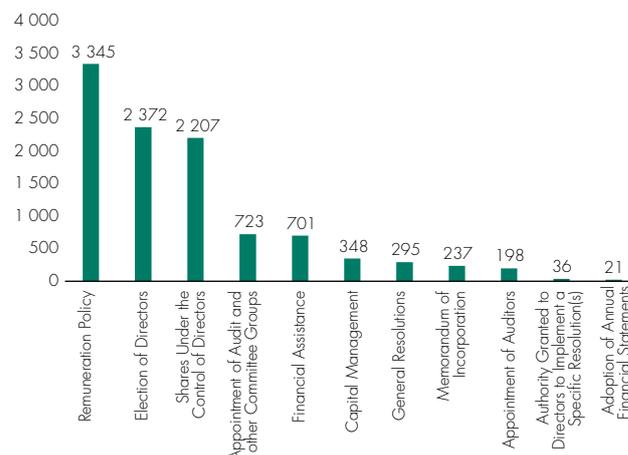
FIGURE 1: PROXY VOTE RESULTS FOR 2016



Source: Old Mutual Investment Group | Figure 1 shows the total number of and percentage of votes for and against recorded in 2016 at 2,783 company meetings.

Figure 2 shows the number of votes against for each specific resolution category. From a governance perspective we place a large emphasis on quality boards and the link between company performance and value creation. By voting appropriately in respect of director appointment and remuneration we ensure as far as possible the appointment of quality directors to company boards and linking the remuneration of executive directors to value creation.

FIGURE 2: 2016 VOTES AGAINST PER CATEGORY BREAKDOWN



Source: Old Mutual Investment Group

ENGAGEMENT

We undertook 42 engagements with companies and industry associations on approximately 70 unique ESG issues during 2016. Engagements with companies on material ESG issues are our primary and, in our view, most effective way of driving change in the management of ESG risk and finding ways to unlock value creation in those companies beyond financial performance. Furthermore, a growing body of research is starting to show the correlation between targeted engagement on specific material ESG issues in poorly performing companies and financial performance post engagement.

We therefore see it to be in our clients' best interests to research which ESG factors are material. We define material as the ESG factor which is most likely to affect the long-term financial performance of the company and broader stakeholders. When the precise impact of this material factor is researched, analysed and discussed between the ESG analyst and portfolio manager, an engagement with the company may follow to best take advantage of the opportunity to enhance performance.

In addition to our own set of engagements with companies, where appropriate and taking into consideration legal requirements, we will reach out to other large shareholders in a company to investigate the opportunity for a collaborative engagement on a material ESG issue. We see such collaborative engagements as having the potential to be a greater driver of change with the support of other key investors. Macro-thematic ESG matters such as climate change and social inequality lend themselves to concerned investors acting as a collective to address the issue and to achieve positive outcomes.

THE ROAD AHEAD

Our goal over the next few years is to continue to focus on material companies, looking for opportunities to engage and be proactive in addressing market risks and deepening our research and evidence base in respect of the link between Responsible Ownership and long-term value creation. We look forward to sharing some of these insights in upcoming publications.



FOR MORE ON OUR RESPONSIBLE OWNERSHIP PRACTICES IN 2016 VISIT WWW.OLDMUTUALINVEST.COM

GENERATING IMPACT

AGRICULTURE

R942 MILLION COMMITTED



Hectares Size of Land

12 579



Farms

11



Permanent Employees

698

Seasonal Employees

3 984

Workers Receiving Adult Education

1 987

Workers Receiving Pre-Paid Healthcare

399

AQUACULTURE

R2.5 BILLION* COMMITTED



MINORITY STAKE IN ABAGOLD LTD*

RENEWABLE

R20 BIL



Number of Jobs Created During Co

8 700

HOUSE

R21 BIL



Number of Student Beds

9 387



TRANSPORT INF



ON BEHALF OUR CLIENTS

RENEWABLE ENERGY

BILLION COMMITTED

- 2 HYDRO
- 1 LANDFILL GAS
- 21 SOLAR
- 16 WIND

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

Number of Jobs Maintained
4 600

FINANCING

BILLION COMMITTED



Number of Rental Units
5 552



Number of Housing Units Transferred
7 646

Granted Since End 2007
000

INFRASTRUCTURE

R20.7 BILLION COMMITTED

EDUCATION

R2.1 BILLION COMMITTED



Number of Learners Enrolled
15 640



Number of Staff Employed
1 074



Matric Pass Rate 2016
93.3%

START-UP FINANCING



Taxi Loans Granted
74 335

03 / OLD MUTUAL CUSTOMISED SOLUTIONS INDEXATION DEMOCRATISES RESPONSIBLE INVESTING



KINGSLEY WILLIAMS

CHIEF INVESTMENT OFFICER: INDEXATION, OLD MUTUAL CUSTOMISED SOLUTIONS

Kingsley is responsible for the performance of all the boutique's index funds. He is responsible for servicing clients as well as the overall indexation portfolio management process. His daily responsibilities include providing direction and oversight on various portfolio management activities, as well as coordinating interactions with clients.

As a responsible investment (RI) manager, Old Mutual Investment Group launched the very first responsible investment equity index fund in South Africa. The Old Mutual Responsible Investment Equity Index Fund invests in companies that have measurably better ESG performance than their sector peers.

Looking through the lens of sustainability gives better insight into the risks and opportunities a company faces. In fact, 80% of reviewed studies* demonstrate that prudent sustainability practices have a positive influence on investment performance. The application of ESG principles is important in assessing the long-term sustainability of companies in which to invest, as it indicates the longevity of financial performance given ESG pressures on the landscape in which the company operates. The Old Mutual Responsible Investment Equity Index Fund does not only incorporate RI in the stock selection process, but also benefits from Old Mutual's RI policy on proxy voting and management engagement. As one of the largest indexation managers in South Africa, this fund allows investors the opportunity to vote with their feet by rewarding companies that value ESG issues ahead of their peers without compromising broad market exposure.

*Sources: Oxford, Stanford, Maastricht & Arabesque, 2014

CASE STUDY: TRANSPARENT ACCESS TO RESPONSIBLE INVESTING

The Old Mutual Responsible Investment Equity Index Fund invests in a local universe of shares that are assessed using a two-step ESG screening approach: the MSCI ESG Controversy Screening Tool and the MSCI ESG Intangible Value Assessment (IVA) tool. These tools continually monitor the South African universe against both local peers and global peers.

This Fund is assisting in the evolution towards responsible investing by providing investors with low-cost access to a transparent, rules-based fund that invests in best-in-class ESG companies. The responsible investment credentials of the fund are further enhanced by Old Mutual Investment Group's internal proxy policy and dedicated ESG engagement specialist.



READ MORE ABOUT ESG ENGAGEMENTS
ON **PAGE 8**

Today, people care more than ever before about how financial returns are made. An increasing number of investors view sustainable investing as the new norm. As such, we believe that responsible investing should be transparent and accessible to everyone, not just large financial institutions. Including ESG index funds into an investor's overall portfolio allows them to make both responsible and cost-effective investment choices.

03

MARRIOTT INCOME SPECIALISTS **CAN THE PURSUIT OF RELIABLE DIVIDENDS ALIGN WITH ESG SUSTAINABILITY?**



DUGGAN **MATTHEWS**

INVESTMENT PROFESSIONAL, MARRIOTT INCOME SPECIALISTS

Duggan's responsibilities include the management of the investment team, the investment strategy and general portfolio management.

It's undeniable that questionable ESG practices could pose a significant risk to company dividends in the future. Consequently, the evaluation of these issues is built into Marriott's investment processes.

Marriott currently manages R20 billion of the savings of many South Africans through a diverse range of investment options, ranging from local unit trusts and investment products to international share portfolios and a UK property fund.

A key discipline of Marriott's income focused investment philosophy is to only invest in companies which produce reliable and consistent income streams, ideally growing. With this foundation Marriott is able to provide accurate investment projections from both an income and a capital perspective, allowing investors to effectively plan for their income needs now and in the future. Studies have also shown that companies which pay and grow their dividends tend to outperform the market over the long term. However, although historical dividend track records are useful for identifying investments with the ability to produce a reliable income, even the most reliable track record is no guarantee of future predictability. This is because dividend track records are backward as opposed to forward looking.

To ensure reliable income growth in the future from investments made today, a number of other questions need to be answered. Some of these questions include:

- What are the company's income growth drivers?
- Are these drivers under threat by current economic conditions, low barriers to entry or changes to regulation?
- Does the company have a solid balance sheet?
- What is the company's dividend policy?

The analysis process does not stop here. In the wake of the global financial crisis and numerous "big business" scandals, corporate behaviour which is unethical, irresponsible, harmful to the environment or exploitative in nature is no longer tolerated by regulators and consumers alike. Changes to industry regulations, or a damaged reputation, can prove extremely costly and pose a significant risk to company dividend payments down the line. And so, these issues must be evaluated when trying to identify reliable and consistent income streams. This is why the pursuit of reliable dividends aligns with ESG sustainability.

REPORTING AND DISCLOSURES

Marriott's investment team monitors and reports on ESG issues on a regular basis. An area of particular importance to Marriott relates to company reporting and disclosures. Companies with a reputation for withholding important shareholder information will not be considered for inclusion in a portfolio, as the future prospects of these businesses cannot be determined with a high degree of certainty.

Companies which take advantage of ill-informed consumers are also immediately excluded, not only from an ethical point of view, but also due to the unsustainability of exploitative business models.

In summary, being able to successfully identify risks to dividends is critical for Marriott, as this ensures we are able to produce a reliable income and predictable investment outcomes for our investors.

03

OLD MUTUAL EQUITIES ESG INTEGRATION TO GAIN IMPROVED RISK-ADJUSTED RETURNS



DAVID **LUMBY**, CHIEF OPERATING OFFICER, OLD MUTUAL EQUITIES

David is responsible for managing the business operations, product and the distribution strategy in the institutional market.

We are active equity investors with a fundamental, valuation-based investment approach that is enhanced by other select themes. As such, we have long been interested in better understanding the various factors driving stock market returns.

To understand these drivers, we took 25 years of data and tested around 300 factors that influence stock market performance. The end result is that, in addition to our analysts' calculation of intrinsic value, we now include 11 of these factors in constructing our stock rankings. These factors are grouped into three themes: **quality**, **growth** and **sentiment**.

While the fundamental calculation of intrinsic value remains the most important factor in considering a share for inclusion in portfolios, these themes provide important insights that improve portfolio management conviction and assist in guarding against excessive single-theme exposure. This 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.

OUR APPROACH TO ESG ISSUES

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

In respect of this, our fundamental equity analysis process allows for the consideration of ESG issues in a variety of ways: this could include the integration of specific ESG issues into a discounted cash flow forecast and/or the use of ESG scenarios to support bull and bear case assessments of a company. In this regard, our teams have access to proprietary ESG company tear sheets that are prepared by our dedicated Responsible Investment (RI) team. Additionally, we have built the MSCI Intangible Value Assessment (IVA) scores, rating environmental and social risk factors, into our share screening tool along with ESG controversy scores. Lastly, our RI team has developed a customised governance scoring tool that is based on quantitative inputs, which allows our team to have a cross-cutting view of governance practices for the FTSE/JSE Shareholder Weighted Index (SWIX) constituents. Governance and an assessment of management's stewardship of shareholder capital play a prominent role in both our investment selection process and ongoing engagements with company management. All of this information supports the robustness and quality of debate that is central to our fundamental valuation process.

DETERMINING ESG SIGNALS IN THE SA EQUITY MARKET

Given our interest in long-term factors driving the market, we were keen to better understand if there was a clear, consistent ESG signal in the South African equity market. International research is beginning to evidence the presence of an "ESG factor" in certain market conditions and jurisdictions. The challenge with undertaking this kind of research in SA has

been the lack of consistent ESG data. Recognising a lack of comparable year-on-year ESG data, four years ago Old Mutual Investment Group partnered with the MSCI to start building up ESG coverage in both the SA and broader African markets.

Using this emerging ESG data for the SA market, Old Mutual conducted quantitative research using MSCI's data and ranked the performance of companies across five measures. The approach leverages the methodology applied in research conducted using MSCI data in the US, European and Australian markets.

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 shows some interesting results. While four years of data is insufficient to see these as definitive trends, the results appear to indicate that in certain market conditions the MSCI

ESG data could potentially be leveraged as a factor through which risk premia can be assessed and captured in the SA market.

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.

We will continue to look for material trends in the ESG data and incorporate relevant factors into our investment processes over time. Notwithstanding this, we will continue to integrate ESG issues into our fundamental valuation processes and ensure that the management teams of investee companies are held accountable in respect of governance practices.

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.

Source: Credit Suisse (June 2015), Finding alpha in ESG.

03 / MACROSOLUTIONS TAKING ON THE RESPONSIBILITY



SATHYEN **MAHABEER**

CHIEF OPERATING OFFICER, MACROSOLUTIONS

Sathyen is responsible for managing the business, product, stakeholder and client relationships of the boutique.

As a long-term investor, we are cognisant of the fact that sustainable practices are changing the competitive landscape of every industry. Those companies and industries that respond to this trend and innovate early will reap the benefits of stronger growth prospects, enhanced operating efficiencies, improved staff retention, a stronger social licence to operate, a lower cost of capital and, ultimately, a stronger competitive advantage. Consequently, it goes without saying that incorporating ESG factors into our investment and ownership decisions will support the pursuit of superior long-term risk-adjusted returns for our clients.

ENTRENCHED IN OUR PROCESS

We regard RI as a cross-cutting issue that impacts multiple aspects of our business. As such, when analysing a company and/or selecting a specific manager we integrate the consideration of material ESG risks and opportunities into our decision-making processes.

Our investment philosophy evaluates buy-and-sell decisions in terms of two high-level factors: theme and price. Under “theme”, we consider the top-down macroeconomic environment that drives the performance of each investment. Under “price” we determine the fundamental value of an investment to assess whether it is trading at an attractive price. Using this two-dimensional approach, we aim to invest in opportunities that are attractively priced while enjoying tailwinds from the macro environment in which they operate (theme).

Within both the “theme” and “price” dimensions, ESG considerations play a crucial role. Our top-down process will consider prevailing ESG factors as part of the broader operating environment. For instance, the impact of new legislation affecting future profits within an industry (like mining rehabilitation requirements, minimum wages or BEE deals).

On the “price” dimension, our analysts further incorporate ESG-related risks and opportunities specific to the stock into their fundamental valuations in so far as they will materially affect the long-term value of a share. To assist us in establishing these impacts, our analysts have access to ESG-specific research and ratings provided by the MSCI Intangible Value Assessment (IVA).

These inputs are built into our in-house share analysis and FactSet systems. The intention is not to screen out poor ESG performers with this type of information, but to improve our decision-making process by testing our level of conviction.

As a further tier, the inclusion of and debate around the fade rate applied in HOLT keeps sustainability issues top of mind.

Our investment process also considers “risk” in determining the appropriate position size. Under risk, factors that may detract from the investment case are highlighted, including risks to sustainability.

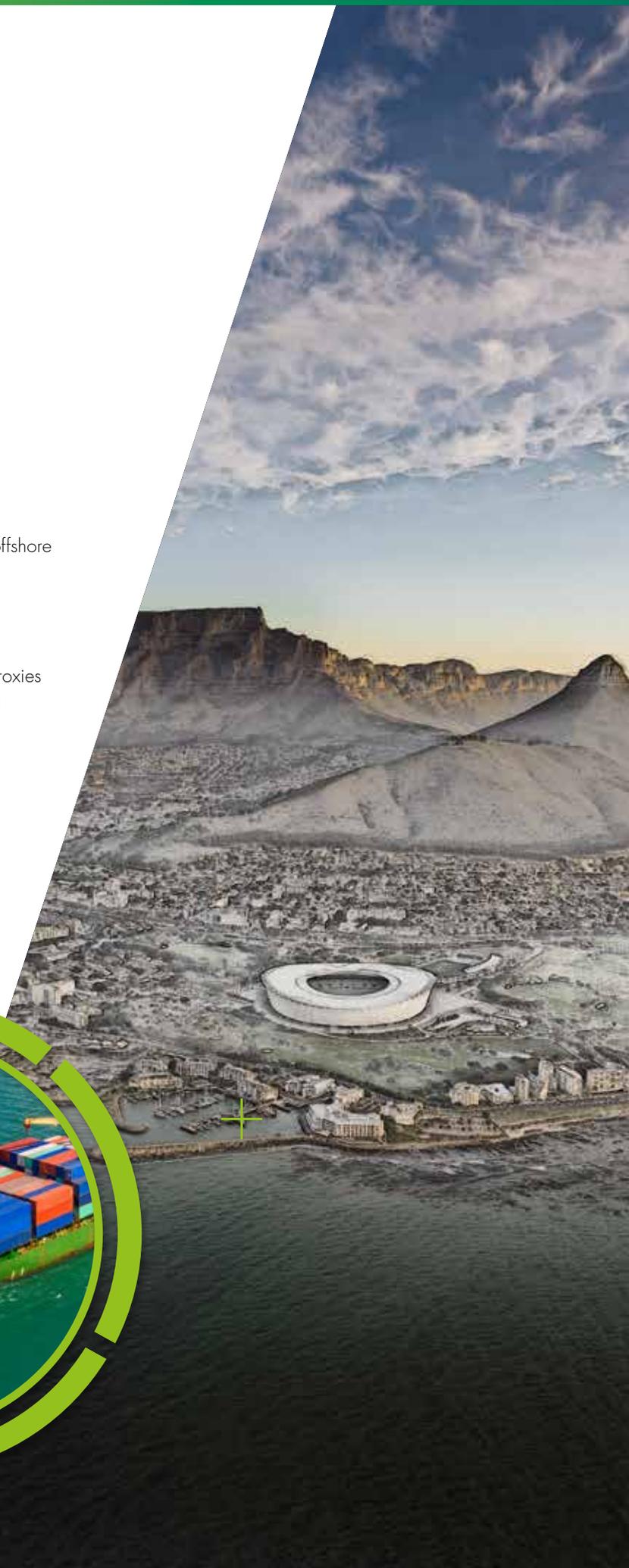
Where we outsource the management or analysis of investments to external teams, we interrogate the disciplines adopted around RI with the aim to satisfy the principles to which we adhere. As an example of progress in this regard, during 2016 we reviewed our RI due diligence questionnaire

and used this as a basis for a review of the RI practices of our offshore appointed managers.

As an investor, we also take proactive steps to ensure that the management teams of investee companies are accountable for company performance and conduct. We do this by voting all proxies in a manner consistent with our Group's proxy voting policy and specific client guidelines. Our policies and past proxy votes are published on our website.

ESG **EVOLVING**

We believe that integrating sustainable factors into our investment process will enable us to grow both our clients' wealth and our business responsibly. While the effective integration of ESG factors into our investment decisions is a "work in progress", we are nonetheless totally committed to making progress.



03

GLOBAL EMERGING MARKETS GOVERNANCE IN AN EMERGING MARKET ENVIRONMENT



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.

Ensuring that the companies we invest in meet our minimum corporate governance requirements is a key pillar of the Global Emerging Markets boutique's investment philosophy.

We have developed an internal proprietary framework to analyse the governance structures, policies and practices of all companies we consider investing in for our clients. Our mostly qualitative assessment is complemented by an independent, quantitatively based assessment that was developed by our Responsible Investment (RI) team. This unbiased assessment also allows us to benchmark a company's corporate governance assessment against its regional and sector peers as well as other holdings in our fund and the Global Emerging Markets Index as a whole.

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.

The Global Mediacom case study deals with a share in which we were invested but subsequently made the decision to disinvest, due to concerns about a deterioration in its corporate governance environment. This decision proved to be very beneficial to our clients.

CASE STUDY: **GLOBAL MEDIACOM**

Global Mediacom is the largest integrated free-to-air and pay-TV media operator in Indonesia. Apart from having more than 70% subscriber market share in pay-TV, it also commands about 40% audience share through its four nationwide free-to-air TV channels. The group also has interests in radio, print and online media and fibre-to-the-home communication infrastructure. This company has a proven track record of top-rated drama and reality TV shows, a massive backlog of exclusive content, exclusive agreements with the two top content producers in Indonesia and a very strong balance sheet to secure foreign content broadcasting rights. As the old saying goes, "content is king" and according to our assessment, Global Mediacom certainly had a strong competitive edge.

We invested in the stock because it was one of the best ways to harness the attractive structural growth story in advertising spend in Indonesia. The country was lagging far behind regional peer countries on a number of metrics, such as advertising spend as a percentage of GDP, advertising spend per capita and rate card (price for a 30-second TV ad slot). We believed that this provided sufficient support for above-average structural earnings growth over our three- to five-year investment horizon. The stock was also trading at very attractive valuation levels. We estimated that Global Mediacom was trading at a 47% discount to its net asset value and 65% below what we considered to be its fair value.



Our initial due diligence did highlight some corporate governance risks, which included a lack of sufficient independent board members and no clear remuneration targets for senior management. These concerns were, however, counterbalanced by the following: the company founder and CEO was aligned with our clients' minority interests through his 27% shareholding; there were minority representatives on the board; they had a fully independent audit committee and since 2013 company management had stepped up their efforts in improving both disclosure and the representation of data. So, this stock comfortably fitted in with the main tenets of our investment philosophy, namely good quality, reasonable valuation and satisfactory corporate governance.

Late in 2015 and early in 2016, however, we started picking up a few other red flags that revealed the company's corporate governance was in fact deteriorating:

- For seemingly inexplicable reasons, the company did not deliver their regular quarterly earnings release in the fourth quarter of 2015 nor did they host their regular analyst calls with management.
- Detailed disclosure of their cost structure became more limited.

Our proprietary analysis indicated that the company had experienced an unannounced change in investor relations personnel and that it had experienced delays in finalising audited accounts before the expected deadlines.

We concluded that this deterioration was not only at disclosure levels, but also included the credibility of management promises, guidance and trust, which greatly impeded our ability to effectively analyse the company and make prudent investment decisions on behalf of our clients. So, despite the significant valuation upside potential and improving growth prospects, we decided to exit our holding during May 2016.

Our team's attitude has also always been that when tough decisions come our way, we should opt for the preservation of capital over the pursuit of investment returns. This choice played out to our clients' benefit. At the time of writing this case study, the Global Mediacom share price had declined by 44% in local currency terms since selling the fund's holdings.

However, the "investment treadmill" never stops and now the question arises: Since this stock has become even more attractively valued, should we take a closer look at it again? The answer is simple: If corporate governance improves to a level that gives us confidence in our ability to analyse the investment and rest easy investing our clients' hard-earned savings in, we probably will.



04 / FUTUREGROWTH BECAUSE THE FUTURE MATTERS



ANGELIQUE **KALAM**

MANAGER: SUSTAINABLE INVESTMENT PRACTICES, FUTUREGROWTH ASSET MANAGEMENT

Angelique oversees the sustainability and responsible investment (RI) strategy at Futuregrowth. This includes all aspects of RI, such as ESG integration and the analysis of investments.

Futuregrowth Asset Management recognises that an effective investment strategy is all encompassing and should not be based solely on the financial assessment of a transaction. The inclusion of non-financial issues, particularly ESG factors, is thus crucial in the assessment of any potential investment.

Futuregrowth is a specialist investment company that manages approximately R170 billion of assets, across a range of interest-bearing and developmental investments, in a responsible and sustainable way. To fully understand the risks associated with an investment opportunity, we consider a range of investment criteria during the due diligence stage of the process. Our mandate is to be a long-term funding partner and, as such, we view sustainability as key to understanding the risks associated with a particular investment. For this reason, ESG integration – although a critical measure of sustainability – should not be a stand-alone process but should form part of the larger investment analysis process.

In addition to delivering risk-adjusted, sustainable returns for our investors, many of our funds are mandated to invest directly into development sectors. Through our development investments we aim to provide investors with access to infrastructural, social, environmental and economic development in South Africa, and to deliver on a variety of social impact requirements such as job creation, affordable housing and access to services, healthcare and agriculture.

AGRICULTURE

To date Futuregrowth has invested a total of approximately R342 million across debt and equity in agri-related investments. Some of the agriculture sectors in which we participate through a combination of debt and equity investments, mostly held in our range of Developmental funds, include:

- Agri fruit farming and processing
- Agri broiler farming and processing
- Agri fruit exporting

- Aquaculture, which includes pelagic fishing, mariculture and agriculture

FUTUREGROWTH AGRI-FUNDS

In addition to investing in the above sectors, Futuregrowth also manages agri specific funds (Agri-Funds), which invest in agricultural land, biological assets, agricultural infrastructure and other related farming implements. The total amount of capital committed across all the Agri Funds is R1.46 billion, with R916m invested as at the end of December 2016.

The Agri-Funds' investments are in the actual farmland and infrastructure, which is leased to an approved large scale commercial agricultural business to manage and run the farm. The farmland will be developed and managed in partnership with these large-scale agricultural businesses to further enhance its value. All farms acquired have further development potential. According to a planned expansion programme, the Funds invest capital into farms to develop additional arable land. This may include the acquisition of adjacent farmland.

SOCIAL IMPACT

The Funds aim to provide investors with a developmental vehicle that facilitates agricultural development, farming infrastructure, social, environmental and economic development in southern Africa, and incorporates a proven investment model to address sustainable rural development and agricultural initiatives that lead to:

- Land development and conservation
- Environmental reform
- Employment
- Health care
- Housing
- Education
- Food security
- Skills transfer

CASE STUDY: LETTIE'S STORY

Lettie Marcus, a worker on the Piketberg farm, describes how life has changed for her since the Agri-Funds acquired the farm.

"I started working on the farm 10 years ago. I thought I would always be cleaning and in the kitchen. But (with the Agri-Funds) I was given the opportunity to develop myself and I took the opportunity to learn. I had no understanding in the past of things about our land, where cities were or how the climate worked. Now I know all these things and it makes me look at things in a new way. Now I can assist my daughter with her mathematics and geography."

Today, Lettie is a social development worker and one of four trained community healthcare workers on the farm. She is also a member of the farm's health committee, housing committee, women's forum and school board.

Lettie has been an outstanding ambassador for the Agri-Funds' Adult Education and Training programme. In 2015 she achieved in her three level four exams and is planning to complete three matric subjects by June 2017. She completed her ancillary healthcare training in November 2015 and is proud to be able to work together with formal health services to promote health in the farming community.

"The empowerment of the community is for real on this farm. All people involved make you feel respected. In the workers'

committee people listen to each other. It doesn't matter what your formal qualifications are, your voice matters.

"We have a farm shop, run by ourselves. This gives access to basic needs so we don't have to go to town for everything. We have an adult education and meeting room where we can have meetings and where the older children can also sit after school if they know how to work on a computer. We have a crèche, so people with young children can also go to work safely. The crèche ladies had training and the Agri-Funds purchased a minivan we can use to fetch the children from their houses to get to the crèche safely."

Lettie has raised her five children on her own since her husband died in a car accident. Her eldest son has completed his farm management training and is now working at the Cape Agency for Sustainable Integrated Development in Rural Areas (Casidra) and her eldest daughter is a packhouse supervisor on a neighbouring farm.

Her words "working with people is my passion – that's where my heart is" are borne out in all her endeavours. And she is not done yet. "I want to stay on the farm when I grow old. I want to start a mentorship camp for young people, ensuring they don't go astray. Also, for the elderly I want to organise community based activities, like playing dominos and other activities to keep the brain active. The future looks good to me."

AFFORDABLE HOUSING

Futuregrowth, on behalf of retirement fund investors, has been a long-standing funder of Trust for Urban Housing (TUHF), a financier of property entrepreneurs that – for over 12 years – has pursued the business potential of the inner-city property market. TUHF provides finance to emerging entrepreneurs to purchase high-density residential property in inner-cities to refurbish buildings and rent out apartments, making affordable housing more accessible. More importantly, TUHF has focused on the people occupying that space, affording the entrepreneurs among them the opportunity to create businesses that provide safe, affordable and decent accommodation in the blighted neighbourhoods.

Futuregrowth was the first institutional investment manager to partner with TUHF in 2007, providing a loan facility at a time when local banks refused to enter this market.



GO TO **PAGE 10** FOR MORE ON HOUSING INVESTMENTS

RENEWABLE ENERGY

Futuregrowth provides investors with a vehicle that facilitates infrastructural, social, environmental and economic development in Southern Africa through investments in energy-related businesses and sectors. These include electricity generation from renewable, alternative and traditional sources, power distribution and reticulation, and supporting industries and sectors. To date Futuregrowth has approved debt finance totalling R3 billion invested across 24 renewable energy projects, comprising investment in 11 solar photovoltaic (PV) plants, 10 wind farms and three concentrated solar power (CSP) plants.



GO TO **PAGE 10** FOR MORE ON OLD MUTUAL INVESTMENT GROUP'S RENEWABLE ENERGY INVESTMENTS

CASE STUDY: **FUNDING CLEAN ENERGY**

The Kathu Solar Park is a 100MWp concentrated solar power (CSP) plant currently being built 10km outside the town of Kathu, near the Sishen iron ore mine in the Northern Cape. The developer of the project, Engie (formerly known as GDF Suez), is one of the largest independent power producers in the world with 117GW installed power (21.5GW from renewable energy sources), which is approximately three times the installed capacity of Eskom.

PROVIDING INFLATION-LINKED DEBT

Futuregrowth is part of the lender consortium, which is predominantly made up of the major local banks and development finance institutions, providing the project with inflation-linked debt. This inflation-linked debt enables the project to better match its debt repayments to the tariff received from generating electricity, as both are linked to the Consumer Price Index (CPI). As such, the project is better able to optimise its capital structure, thus enabling it to charge a lower energy tariff to Eskom.

The Kathu project was awarded preferred bidder status in the Round 3 CSP bidding window of South Africa's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). To be awarded this status, Kathu Solar Park had to be one of the 17 projects selected out of 93 bids submitted in the third bid window. Projects were evaluated on the basis of both tariff charged for energy generated and local content (procurement and employment).

The project applies CSP technology – specifically, parabolic trough technology. This technology uses a field of curved mirrors which focus the sun's heat onto a thin pipe with heat transfer oil running through it. The oil is heated to over 350°C and this heat is used to create steam. The steam is then used to generate power similarly to a typical thermal power plant using a steam

turbine. The key difference between a coal-fired power station and the parabolic trough CSP power station is the way in which the steam is produced; one from coal, the other from the sun.

STORAGE: **THE GAME CHANGER**

The Kathu plant, being a CSP plant, has a key feature that makes it unique compared to other renewable energy technologies – storage. The plant is able to generate power at maximum power output for 4.5 hours after the sun has set. This is achieved by heating up molten salt during daylight hours from 228°C “cold” salts up to 382°C hot salts. The salt is stored in thermal storage tanks which maintain the high temperature. After sunset, the plant uses the molten salt to generate steam instead of the heat transfer fluid.

CSP plants like Kathu address the major drawback to traditional renewable energy plants, namely timing. The intermittent nature of the wind and solar resource can result in power being generated at a time when it is not necessarily required. For example, solar PV plants' peak production is at noon while South Africa's peak demand time is after 5pm. In order to “transfer” this energy generated to the peak demand time, a pump storage facility is required. But this comes at an additional cost that is not often factored in.

Through its built-in storage capacity, the Kathu project is able to produce at peak capacity during this peak demand time. In effect, the plant is able to bridge the gap between traditional renewable energy technologies (solar PV and wind) and “dirty” base load power such as coal. The Kathu project is able to generate electricity when the economy requires it and is able to do this in an environmentally sustainable way!

Investing in this project via an inflation-linked debt instrument gives our clients the advantage of protecting purchasing power while earning appropriate risk-adjusted returns, an important consideration for our pension fund clients.



PRODUCING POSITIVE DEVELOPMENT
OUTCOMES **WHILE GENERATING**
RETURNS TO INVESTORS



04 / OLD MUTUAL ALTERNATIVE INVESTMENTS PART OF OUR DNA



DOUG THOMSON

HEAD OF INVESTOR RELATIONS, OLD MUTUAL ALTERNATIVE INVESTMENTS

DEAN ALBOROUGH

ESG ADVISER, AFRICAN INFRASTRUCTURE INVESTMENT MANAGERS (AIIM)

Doug is responsible for engaging with investors and advisers. His background enables him to share the benefits of over 20 years of experience in managing clients' investments, both listed and private. Dean is responsible for managing ESG activities throughout the investment lifecycle of AIIM's transactions.

Old Mutual Alternative Investments is committed to being a responsible steward of its clients' assets. We make investment decisions to achieve competitive returns for our clients in a sustainable and responsible manner.

Old Mutual Alternative Investments has a combined focus on risk-adjusted returns and positive impacts. The funds and investments we manage across infrastructure, development impact funds and private equity have a significant, positive impact on countries and communities while generating superior investment returns. Responsible investment (RI) principles therefore deeply resonate with our own personal values. RI is inherent to who we are and what we do.

IDENTIFYING OPPORTUNITIES AND CREATING VALUE

As the largest private alternative investment manager in Africa with R54.2bn* in AUM, our investors expect us to be a force for positive change on the continent. This is not a responsibility that we take lightly.

The African opportunity is touted as the cornerstone of future global growth. Through our local knowledge, "boots on the ground" and decades of experience, together with our partners we continue to find, develop and manage opportunities across Africa. And in this process, RI significantly informs how we approach investments on the continent. We are committed to having a measurable, positive impact on the economies and the communities in which we invest.

WHAT ENABLES OUR SUCCESS

Recognising that ESG factors are critical to achieving our clients' goals, enables us to be successful RI stewards for our clients. RI is not supplementary, it is an integral investment philosophy and practice at Old Mutual Alternative Investments.

We manage a range of investments that are great engines of employment, skills development and economic growth. We also undertake active stewardship by working with management to create positive impacts, often through board participation. The impact of RI is therefore more real and tangible in the alternative investment space.

MINIMISING RISK

Alternative investments involve having a direct investment in an enterprise or project, often as a majority shareholder. This means alternative asset classes do not allow for a quick exit, which makes the consideration of risks that much more vital. For us RI is not just about value creation, it is also crucial to risk management.

RI practices allow us to identify the non-financial risks at each phase of our investment process and enable us to achieve a competitive, risk-adjusted return.

*As at 31 December 2016

CASE STUDY: ACCESS TO EDUCATION

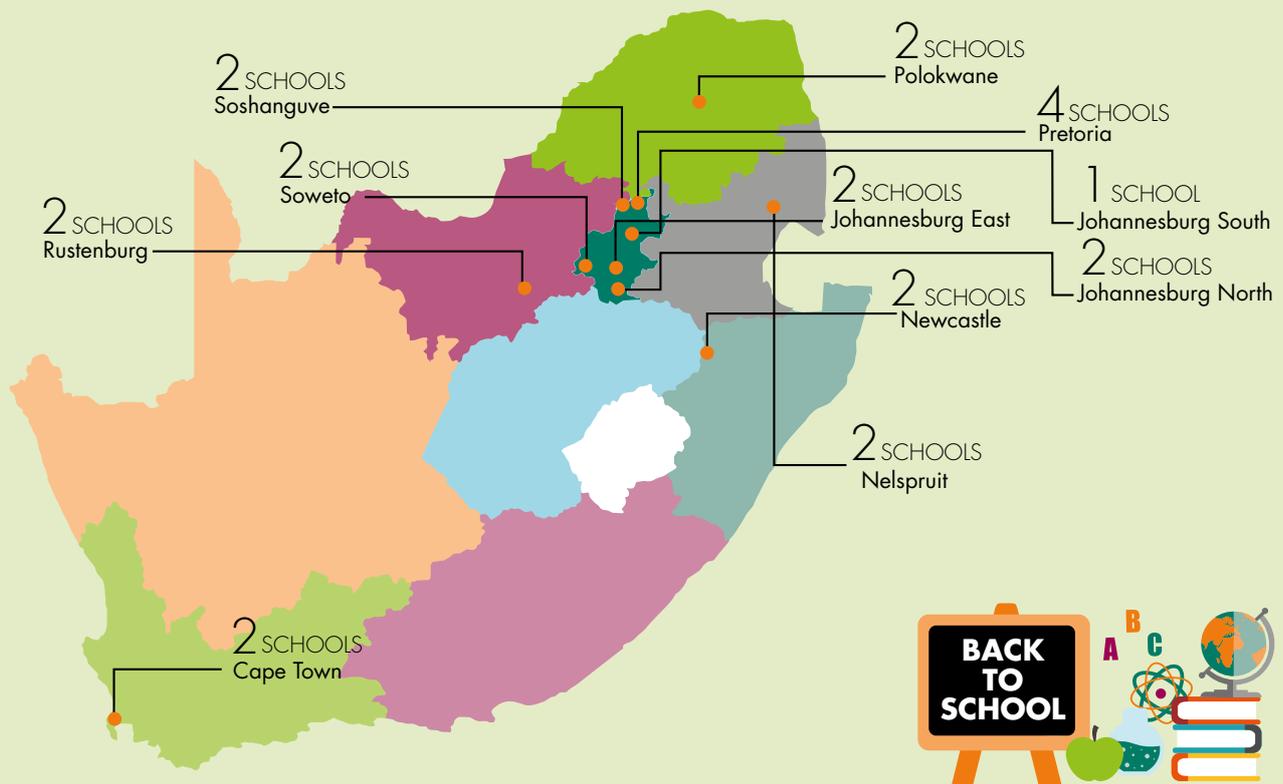
Impact investments are a response to the growing global awareness that the private sector can assist in addressing socio-economic challenges. The Schools and Education Investment Impact Fund of South Africa (Schools Fund) was the first impact fund of its kind in South Africa and is a shining example of impact investing for quality education. Funded by Old Mutual Life Assurance Company of South Africa, the Government Employees Pension Fund (managed by the Public Investment Corporation) and the Eskom Pension and Provident Fund, the Schools Fund is managed by Old Mutual Alternative Investments' Development Impact Funds team and aims to improve the level of education by creating access to affordable independent schools.

INVESTING IN AFFORDABLE, QUALITY EDUCATION

The Schools Fund, managed by Old Mutual Alternative Investments, has R1.4 billion in FUM.

MAP OF SCHOOLS

As at 31 January 2017



Source: Old Mutual Alternative Investments, Development Impact Funds

CASE STUDY: RAISE YOUR GLASSES

Consol has been a direct private equity investment in since 2007. As the largest glass packaging manufacturer in Africa, Consol recognises its responsibility to drive environmental change in the packaging manufacturing industry and to reduce the carbon footprint or environmental impact of processed glass. Consequently, the company pioneered operational practices and holistic sustainability strategies to minimise its carbon footprint.

The cradle-to-cradle approach analyses emissions produced at every stage of a product's life cycle. Consol has adopted this best practice international standard of carbon footprint measurement. This approach evaluates the environmental impact of glass from the point where the sand is removed from the ground, through production processes and delivery to their customers, and finally to how it is recovered and recycled. The overall objective is for glass to be produced, used, recovered and eventually recycled with minimal impact on the environment.

Returnable (refillable) glass bottles, which can be used up to 30 times, result in a dramatically reduced carbon footprint. Since glass can be infinitely recycled with no compromise on quality or purity, recycling it saves on virgin raw materials, reduces the demand for energy and decreases emissions. Recognising its responsibility to drive and promote recycling, Consol has invested in excess of R240 million in capital equipment to recycle glass. Furthermore, Consol was instrumental in the establishment of The Glass Recycling Company, which has a mandate to promote consumer initiatives to encourage glass recycling.

Source: www.consol.co.za

benchmarking exercise to determine best practice among our global peers and measure ourselves against this standard. Our objective is to ensure that our practices, investment process and ESMS are effective across the various investment capabilities and asset classes, each with its own nuances.

THE FIVE STAGES OF OLD MUTUAL ALTERNATIVE INVESTMENTS' ESMS:

1. Investment screening – identify the risks and opportunities and define whether there is an alignment with the investment target
2. Due diligence – assess all ESG factors while considering local legislation and industry guidelines
3. Transition – stakeholders agree on the roadmap going forward and ensure that the ESG factors are embedded in the process and the strategy for managing the asset
4. Ongoing asset management – during this phase we are active owners, taking seats on the boards, establishing ESG board subcommittees and engaging with management
5. Exit – at the realisation phase our objective is to demonstrate our ESG strategy's effectiveness within the asset and how it has reduced the company's risk and enhanced its value to acquirers.

As a business we believe in the power of a deliberate investment approach that integrates ESG factors into our evaluation of investment opportunities to achieve the best returns for all stakeholders, from investors to clients and communities, at reduced levels of risk. This investment philosophy and approach makes responsible investment part of our very DNA.

ENHANCING PROCESSES

As a responsible steward of our clients' capital, we believe that employing a best practice approach is essential to optimally managing investments across asset classes and geographies. During 2016 we reviewed our RI practices and environmental and social management system (ESMS). We appointed a leading ESG consultancy to assist us, and undertook a

CASE STUDY: LETSATSI EMPOWERS MANGAUNG'S COMMUNITY

It's key for surrounding communities to share in the benefits from the renewable energy projects springing up as part of the Renewable Energy Independent Power Producer Procurement Programme. There are community trusts that act as vehicles through which socio-economic initiatives can be rolled out to deliver change to the communities. The Letsatsi Power Company, a solar PV project in the Free State, is one such project invested in by Old Mutual Alternative Investments that has enabled impactful development focusing on education, welfare, health and the environment.

The Lapologang Old Age Home in the Mangaung township was supported with:

- modifications to the entrance to **accommodate wheelchairs**
- **tables and cushioned chairs** in the dining and resting areas
- fitting the kitchen with a **geyser and built-in cupboards**
- the replacement of various **doorframes**.

Renovation of the **soup kitchen** facility at Kgalolosego School to ensure safe and hygienic operations of the facility

Renovation of the **Itireleng Luncheon Club** in Tshwaraganang township where elderly community members congregate

Security fencing around septic tanks at six pre-schools in Dealesville and Soutpan

Provision of **prefab classroom facilities** at four pre-schools (three in Dealesville and one in Soutpan)

Completion of **upgrades and repairs to three ablution blocks** at Tshomarelo Combined School in Dealesville. A **new prefab facility** was supplied for teachers to use as a staffroom. The support structure to the existing **elevated water tank was repaired** and designated for buffer storage to be used during interruptions of municipal water supply.

At Mangaung Primary in Bloemfontein:

- renovating all the **learners' toilets**
- installing a **new toilet facility** for the teachers in an existing building
- paving the area in front of the main admin block and **converting it into a multi-purpose** area for the school's daily assembly and a court for sports activities such as netball, volleyball etc.

Source: Old Mutual Alternative Investments

04 / OLD MUTUAL SPECIALISED FINANCE A PRINCIPLED APPROACH



ROLF CANTO

HEAD OF PROJECT FINANCE, OLD MUTUAL SPECIALISED FINANCE (OMSFIN)

Rolf is responsible for OMSFIN's project finance debt investments. He was previously at Rand Merchant Bank and ABSA Capital, where he worked on the structuring and execution of large project finance debt transactions across Africa.

Old Mutual Specialised Finance Proprietary Limited (OMSFIN) is an established specialist fixed income investor that focuses on unlisted debt investments, including project finance transactions. The project finance sector in particular has seen significant investment activity over the last five years, primarily driven by the roll-out of privately financed renewable energy projects in South Africa. Such projects are long-term in nature, and due consideration of ESG aspects is of critical importance to ensure a sustainable investment is made which not only benefits the country through a reduced carbon footprint, but is also implemented in an environmentally responsible manner that considers the interests and concerns of local communities where the projects are located.



GO TO **PAGE 10** FOR MORE ON OLD MUTUAL INVESTMENT GROUP'S RENEWABLE ENERGY INVESTMENTS

THE EQUATOR PRINCIPLES

OMSFIN has already supported 11 renewable energy projects, most of which are now operational, and is reviewing a number of potential future investment opportunities. Given the significant number of projects involved, it is sensible to apply a common ESG framework when assessing such investments. Internationally, the project finance sector has been following the so-called "Equator Principles" (developed by the International Finance Corporation, a division of the World Bank). These are a set of principles that provide guidance when assessing the environmental and social risks inherent in new projects.

As part of OMSFIN's initial investment due diligence process, projects must demonstrate compliance with the Equator Principles. Where shortfalls are identified, OMSFIN works with the project's advisers to develop action plans that are

documented and monitored. As an example, in one of OMSFIN's recent project investments an independent review identified a lack of ongoing public participation processes, which is a requirement of the Equator Principles. And so, prior to making a final investment decision, OMSFIN required that additional work be done, which has resulted in the development of consultation processes that allow affected stakeholders to continually engage with the project during construction and eventual operations.

BANKING ENGAGEMENTS

OMSFIN, together with Old Mutual Investment Group's Responsible Investment team, has also been engaging with all major South African banks – most of which have adopted the Equator Principles – to assess each bank's capabilities in detail and to stress the importance of ongoing responsible investing in the project finance sector.

OMSFIN has seen a broad acceptance of Equator Principles by both project developers and financiers, and the success of the South African renewable energy market is in part due to the rigour applied in ensuring that ESG factors are appropriately considered from the start of a new project and throughout its life.

05 / LOOKING AHEAD

We see the following 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. 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.
2. The asset management industry faces an ongoing challenges 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. RI 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 – implications that could hurt everyone. Global asset owners are therefore now turning to RI as a means of driving long-term value creations.

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 RI can and does add value to long-term client outcomes.

In 2017 we will continue to build onto our proprietary ESG research coverage and deepen our engagements on company and market level related issues. Our work continues in respect of professionalising RI practices across our investment boutiques and our operations in Africa. We will continue our leadership role in RI through support of industry associations such as CRISA, the Association for Savings and Investment South Africa (ASISA) RI Committee and the South African Chapter of the UNPRI. We will also be publishing the third edition of our *Tomorrow* thought leadership publication. We will also continue to provide disclosure on our RI practices, specifically focusing on deepening our ability to report impact.





OLD MUTUAL INVESTMENT GROUP RESPONSIBLE INVESTMENT GUIDELINES

INTRODUCTION

This document presents an agreed guideline for responsible investment practices at Old Mutual Investment Group's investment boutiques, namely, Old Mutual Equities, MacroSolutions, Customised Solutions, Global Emerging Markets, Old Mutual Alternative Investments and Old Mutual Specialised Finance (collectively defined herein as "Old Mutual Investment Group"). We acknowledge that other investment boutiques (for instance Futuregrowth and Marriott) may have their own responsible investment guidelines or specific client mandates containing responsible investment guidance. The Old Mutual Investment Group RI and Stewardship Guidelines are applicable to Old Mutual Investment Group, however, recognising:

- the diversity of asset classes managed by the various boutiques;
- the unique value proposition of each boutique and the independent nature of their investment styles; and the mandated responsibility of boutiques to pursue superior risk-adjusted returns on behalf of their clients.

OLD MUTUAL INVESTMENT GROUP'S UNDERSTANDING OF RI

The Guidelines draw on the key elements of the United Nations-supported Principles of Responsible Investment (PRI), the requirements of Regulation 28 of the Pension Funds Act (Reg 28), and the Code for Responsible Investing in South Africa (CRISA). The Guidelines also build on Old Mutual Investment Group's pedigree as a leading provider of RI products in South Africa and the existing OMEM Responsible Business policy, which recognises our role in creating shared value in South Africa.

Our approach to RI is founded on an understanding of the growing sustainability megatrend and its potential to impact the competitive landscape across sectors. Consequently, as a long-term investor, we believe that incorporating the consideration of relevant material environmental, social and governance (ESG) factors into our investment and ownership decisions is aligned with the pursuit of superior risk-adjusted returns for our beneficiaries and clients. Not only does this make sound business sense, but as an advocate for our shareholders and for the long-term futures of our beneficiaries, we believe it is also the right thing to do.

Old Mutual Investment Group sees RI as integral to the provision of our professional services. We will seek out the appropriate mechanisms to incorporate the consideration of relevant material ESG risks and opportunities in our investment and ownership decisions across all asset classes, where appropriate and consistent with our duties to clients.

APPLICATION OF THE RI GUIDELINES

The Guidelines are given effect through the Old Mutual Investment Group RI Team, which consists of five members, namely the Head of Responsible Investment, an ESG Analyst/ Programme Manager, an ESG Engagement Manager, an ESG Research and Systems Analyst, and a Marketing and Communications Specialist. The team is formally mandated to co-ordinate and drive the Group's approach to responsible investing, while the boutiques are responsible for implementing these Guidelines, as well as providing annual feedback on their progress.

On a day-to-day basis the Old Mutual Investment Group approach to responsible investing is driven by the RIT and the RIT reports quarterly to the Old Mutual Investment Group CEO and Executive Committee, with representation from the various boutiques and key Old Mutual Investment Group line functions (communications/distribution/compliance).

The Guidelines are implemented through the following key activities on behalf of our policyholders, customers and shareholders. These activities will be undertaken in a manner that is consistent with existing mandates:

- 1. ESG Integration:** We will incorporate the consideration of relevant material ESG factors into our investment management practices in a manner that is consistent with the relevant investment philosophy, investment approach and client mandate, as well as local business requirements and applicable regulations. In essence, this means that the manner in which ESG integration is undertaken varies by boutique and asset class.
- 2. Stewardship:** As a responsible investment manager, Old Mutual Investment Group's primary aim is to ensure the achievement of superior risk-adjusted returns in line with our client mandates. We recognise that confidence in the integrity and quality of management is essential to long-term value creation and investor confidence.

Old Mutual Investment Group aims to contribute to investment performance by supporting the application

of the highest standards of corporate governance in the investments we make on behalf of our clients.

Our approach to responsible ownership practices draws on aspects of the King IV Code on Corporate Governance; the governance provisions in the South African Companies Act 71 of 2008; the listing requirements of the JSE, as well as international guidelines such as the OECD Corporate Governance Principles (2015); the ICGN Global Governance Principles (2014); and the Association of British Insurers Guidelines, the UN PRI and CRISA. Details concerning Old Mutual Investment Group's approach to these key activities are provided in this document.

To act as a responsible steward of assets Old Mutual Investment Group takes its responsibility as a shareholder seriously; as a result, we aim to ensure that the management teams of investee companies are accountable for company performance and conduct. We conduct our stewardship activities both in terms of proxy voting and engagement with listed investee companies, locally and internationally, and with investee companies in unlisted markets.

- 3. Leadership in RI:** We are mindful of our role within the broader investment community and will seek opportunities to play a leadership role regarding responsible investment in situations where that is appropriate. For example, this may include, but is not limited to, working with regulators and or industry bodies on responsible investment-related issues, supporting academic work in the field of responsible investment, and engaging with issuers on ESG issues.
- 4. Transparency and Disclosure:** We will proactively manage potential conflicts of interest through our existing conflict of interest management processes. Old Mutual Investment Group has implemented a Conflict of Interest Management Policy, which is publically available on our website. The purpose of the Policy is to set out the parameters for managing any conflicts of interest that may arise in the rendering of financial services to customers. The policy is applicable to all of Old Mutual Investment Group and all of its employees, and is reviewed annually or as and when a need arises. The Policy was approved by Old Mutual Investment Group's Board of Directors, and any major amendments will require Board approval.

In addition, the Policy is compliant with the requirements of the Financial Advisory and Intermediary Services Act (FAIS).

Conflicts of interest manifest in a number of ways in the asset management industry. Once a conflict is identified, we either avoid such conflicts or mitigate them. We have identified key conflicts within our business, which we monitor in a number of ways. These include:

A Personal Account Trading Policy is in place and processes are set to monitor such activity and mitigate the conflict.

A Giving and Receiving Gifts and Benefits Policy governs the giving and receipt of gifts along with a gift register.

In addition, we have implemented a conflict of interest disclosure requirement in a number of our committees and processes as well as a Conflict of Interest register. Lastly, the Conflict of Interest Policy forms part of the Old Mutual Investment Group Code of Conduct, which is contained in employment contracts and is re-accepted annually by all employees.

These Guidelines are available on our website, as well as our Listed-Equity Proxy Voting Policy and annual Responsible Investment Impact and Responsible Ownership Report. This disclosure on Old Mutual Investment Group's responsible investment practices is done on an annual basis. Old Mutual Investment Group will review these Guidelines on an annual basis and update it where necessary.

- 5. Reporting and Communication:** In order to ensure that all stakeholders are able to make informed decisions, we will produce an annual report that discloses our progress and performance regarding responsible investment activities across the Old Mutual Investment Group. This disclosure will be undertaken in line with our annual reporting cycle.

We will make this responsible investment standard document publicly available and will review and, if necessary, update it on an annual basis.



VISIT WWW.OLDMUTUALINVEST.COM FOR OUR LATEST RI RESOURCES

06 / GLOSSARY

CODE FOR RESPONSIBLE INVESTING IN SOUTH AFRICA (CRISA)

– gives guidance on how the institutional investor should execute investment analysis and investment activities and exercise rights so as to promote sound governance.

ESG – stands for Environmental, Social and Governance and is used to describe the collective set of issues that sit at the heart of the sustainability challenge.

GREEN ECONOMIC GROWTH – describes a path of economic growth that is socially inclusive, resource efficient and low carbon. It is used globally to provide an alternative concept to typical industrial economic growth which focuses on increasing GDP above all other goals.

PRINCIPLES OF RESPONSIBLE INVESTMENT (PRI) – the world's leading independent proponent of responsible investment. The PRI works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. It engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations (UN). Old Mutual has been a signatory to the PRI since June 2012 and reports annually on its progress in implementing these principles.

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

RESPONSIBLE INVESTMENT (RI) – an approach to investing that aims to incorporate ESG factors into investment decisions to better manage risk and generate sustainable, long-term returns.

SHARED VALUE – a management strategy in which companies find business opportunities in social and environmental problems. The central premise behind creating shared value is that the competitiveness of a company and the health of the communities/environment around it are mutually dependent. Recognising and capitalising on these connections has the power to unleash the next wave of global growth and to redefine capitalism.

SUSTAINABLE DEVELOPMENT – a broad concept that can apply at a planetary, national, regional and firm level. Perhaps the most commonly referenced definition is from the Brundtland Report (1992): "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." It is important to understand that we cannot just add sustainable development to our current list of things to do but must learn to integrate the concepts into everything that we do.



CONTACT DETAILS

JANINA SLAWSKI

Director of Marketing and Distribution
jlawski@oldmutualinvest.com
Tel: +27 11 217 1873

JON DUNCAN

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

OLD MUTUAL INVESTMENT GROUP (PTY) LIMITED

Physical Address: Mutualpark, Jan Smuts Drive, Pinelands 7405
Telephone number: +27 21 509 5022



REGULATORY INFORMATION

The following entities are licensed Financial Services Providers (FSPs) within Old Mutual Investment Group (Pty) Ltd Holdings approved by the Registrar of Financial Services Providers (www.fsb.co.za) to provide advisory and/or intermediary services in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. These entities are wholly owned subsidiaries of Old Mutual Investment Group Holdings (Pty) Ltd and are members of the Old Mutual Investment Group.

- Old Mutual Investment Group (Pty) Ltd (Reg No 1993/003023/07), FSP No 604.
- Old Mutual Customised Solutions (Pty) Ltd (Reg No 2000/028675/07), FSP No 721.
- Old Mutual Alternative Investments (Pty) Ltd (Reg No 2013/113833/07), FSP No 45255.
- African Infrastructure Investment Managers (Pty) Ltd (Reg No 2005/028675/07), FSP No 4307.
- Futuregrowth Asset Management (Pty) Ltd (Futuregrowth) (Reg No 1996/18222/07), FSP No 520.
- Marriott Asset Management (Pty) Ltd (Reg No 1987/03316/07), FSP No 592.

Market fluctuations and changes in rates of exchange or taxation may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full amount invested. Past performance is not necessarily a guide to future investment performance. The investment portfolios may be market-linked or policy based. Investors' rights and obligations are set out in the relevant contracts. Unlisted investments have short-term to long-term liquidity risks and there are no guarantees on the investment capital nor on performance. It should be noted that investments within the fund may not be readily marketable. It may therefore be difficult for an investor to withdraw from the fund or to obtain reliable information about its value and the extent of the risks to which it is exposed. The value of the investment may fluctuate as the value of the underlying investments change. In respect of pooled, life wrapped products, the underlying assets are owned by Old Mutual Life Assurance Company (South Africa) Limited, who may elect to exercise any votes on these underlying assets independently of Old Mutual Investment Group. In respect of these products, no fees or charges will be deducted if the policy is terminated within the first 30 days. Returns on these products depend on the performance of the underlying assets.

Disclosures: Personal trading by staff is restricted to ensure that there is no conflict of interest. All directors and those staff who are likely to have access to price sensitive and unpublished information in relation to the Old Mutual Group are further restricted in their dealings in Old Mutual shares. All employees of the Old Mutual Investment Group are remunerated with salaries and standard incentives. Unless disclosed to the client, no commission or incentives are paid by the Old Mutual Investment Group to any persons other than its representatives. All inter-group transactions are done on an arm's length basis. We outsource investment administration of our local funds to Curo Fund Services (Pty) Ltd, 50% of which is owned by the Old Mutual Investment Group.

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