

## **Responsible investment at Old Mutual:**

### **A case of institutional entrepreneurship**

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In late October 2017, Jon Duncan, the head of responsible investment (RI) at Old Mutual, was finishing a conversation with the managing director of the wealth and investment cluster, Dave Macready, about the future of Old Mutual Ltd. After being listed on the London Stock Exchange under the Old Mutual plc group since 1999, the company was set to be separated from its UK, US and Nedbank businesses and relisted on the Johannesburg Stock Exchange in South Africa under the new entity, Old Mutual Ltd. Duncan and Macready both felt excited that a recent board meeting had challenged the new Old Mutual CEO to make use of the relisting in South Africa as an opportunity to reignite the sense of purpose that the business had. But in so doing, some difficult questions were being asked: What did Old Mutual actually stand for? In 2015, the business had launched its positive futures plan, which aimed to “contribute to positive futures” by addressing sustainability issues relevant to its business and the markets in which it operated. But what did a “positive future” really look like for its clients? How was this reflected in its products and services? Duncan wondered what this would mean for the strategic objectives of the responsible investment programmes he had worked so hard to put together over the past six years.

Duncan had been hesitant to take the position offered to him at Old Mutual Investment Group in 2011. Initially the role had been mostly focussed around corporate governance, but drawing on his experience within the field of sustainability, he had managed to

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convince management of the need for a broader mandate in terms of ESG (Environmental, Social and Governance) issues. During his time working as an environmental and sustainability consultant, Duncan had come to recognise the level of influence that large financial institutions had on economic, environmental and social outcomes. Being one of South Africa's leading financial powerhouses, and a life insurance business which inherently had longer time horizons, Duncan saw an opportunity to leverage Old Mutual's influence as a mechanism for driving positive change around sustainable business practices.

Duncan looked out the window where the shape of Table Mountain looming over the city of Cape Town never ceased to give him pause. The city was currently experiencing one of the worst droughts in history; an all too real reminder of the potential future impacts of climate change. As he turned and began walking back to his open-plan office which he shared with the four other members of the responsible investment team that he had built over the last six years, he wondered what contribution Old Mutual's investment activities could make towards mitigating these impacts. While he was satisfied with the progress the team had made, he knew there were still huge opportunities for improving the impact of the company's responsible investing activities. How could they direct more capital towards environmental and social objectives? How could they overcome the stigma within the financial services sector attached to ESG integration? How could Old Mutual increase its level of influence with respect to promoting sustainable business practices?

### **1. Old Mutual Investment Group: A complex organisation**

One of the challenges for Duncan when he had first arrived was getting to grips with the intricacies of his new environment. Coming from a smaller consulting background, he had at first worried that he may be frustrated with the slower and more bureaucratic nature of life at a large corporate. But ultimately the opportunity to make a shift within the financial services sector towards a more inclusive consideration of ESG issues won him over. Old Mutual Investment Group was a leading African investment manager and a wholly owned subsidiary of Old Mutual Emerging Markets Limited, in turn a part of the group of companies listed under Old Mutual plc, an international savings, insurance and banking group. Founded in South Africa in 1845, Old Mutual plc was a Fortune 500 company listed on the London Stock Exchange. In March 2016, Old Mutual plc

announced a new strategy it called “managed separation” which sought to separate the four underlying businesses of the Old Mutual Group into four independent business units (Exhibit 1). The decision was motivated by a strategic review of the group which found limited synergies between the business and additional costs, complexities and constraints being imposed by evolving regulatory environments in Europe and South Africa. The managed separation was set to be completed in 2018 with the relisting of the Old Mutual Emerging Markets on the Johannesburg Stock Exchange in South Africa, under the new entity, Old Mutual Ltd.

Old Mutual Investment Group represented the asset management arm of the emerging markets business. At December 2016 it had almost R600bn in assets under management<sup>1</sup>, including 14% in equities, 26% in interest-bearing assets, 54% in multi-asset class investments, 3% in alternatives, and 2% in property. These assets were held through eight autonomous investment businesses, each specialising in different asset classes and investment philosophies (Exhibit 2). As part of the managed separation strategy, Old Mutual Investment Group (OMIG) was to be combined with the Old Mutual Wealth Business, which provided asset management services to retail investors under the new banner of the wealth and investment cluster. The integration of these businesses would create one of the largest private wealth and investment managers in Africa, with R695 billion in funds under management.<sup>2</sup>

## **2. Motivating for change**

When Duncan first joined Old Mutual in 2011 he had his work cut out for him. While the business had started to think more clearly about governance and proxy voting in the listed equity part of the business, there was little recognition of the importance of other ESG issues within the formal investment processes. Responsible investing activities were seen mostly as a compliance issue and not recognised as a value-adding activity.

But Duncan thought that responsible investing practices could play a key role in creating shareholder value in three ways: RI was additive to the businesses’ ability to deliver appropriate risk-adjusted returns by giving them deeper insight into risk, additive to their ability to attract and retain clients, and additive to their ability to innovate in terms of both product and process.

His first hurdle was to convince the various executives, senior portfolio managers, and investment analysts of the value of formally integrating ESG considerations into the investment processes of the business. In an industry that hired trained sceptics, Duncan quickly learned that being passionate about sustainability issues wasn't enough to convince people. He had to make rational and well-reasoned arguments, framed in the language of investment professionals. While responsible investment was starting to gain mainstream acceptance in developed market countries, there was still scepticism of its applicability in emerging markets. To address this scepticism, Duncan began compiling a portfolio of academic and practitioner research on the materiality of ESG issues. Through constant emailing, giving presentations, and making use of other internal forums and publications, he used every opportunity to build the case for why responsible investment was important for Old Mutual. Duncan also worked closely with the marketing team to promote activities and achievements around responsible investment, and arranged talks by external thought leaders such as the chairman of the United Nations-supported Principles for Responsible Investment (UNPRI).

Duncan realised early on that to properly entrench responsible investing practices as part of the organisational culture at Old Mutual and overcome resistance to change, it needed to be driven from the top. By repurposing a sustainability diagnostic framework that he had used in his previous work as a consultant, Duncan conducted an exercise with the executive committee in the OMIG<sup>3</sup> boardroom which helped him to frame the case for responsible investment in a way that both emphasised its value and motivated leadership to support its implementation. As part of the exercise each executive had to score a set of statements in terms of where they thought the business was currently in terms of responsible investment and where they needed to be in three years' time. Duncan recorded the data and played the responses back on the screen for everyone to see. The results of the exercise enabled him to prompt discussion around defining what the business' responsible investment strategy should be and how it fit in with the business' existing value proposition and the core values of its leadership (Exhibit 3). Duncan also pointed out that according to Regulation 28 of the Pension Funds Act, trustees were expected to ensure that ESG issues were considered throughout both portfolio construction and management processes (Exhibit 4). Having a patient capital provider in the form of the Old Mutual life assurance business, which had inherently longer liability

horizons, also allowed Duncan to position conversations around long-range sustainability in a manner which resonated with the corporate culture.

The boardroom exercise portrayed a clear gap in current responsible investment practices in the business while at the same time demonstrating a desire amongst the executive committee to position the business as a leader of responsible investment within the South African investment community. Old Mutual Investment Group was one of the founding participants in the drafting of the Code for Responsible Investing in South Africa (CRISA) in 2011 (Exhibit 5), and the executive committee recognised the need to give effect to these principles in a more formalised way within its investment systems and processes.

The exercise also helped Duncan to better position the group's responsible investing activities as a key pillar of the Old Mutual Group's responsible business programme, and led to the formalisation and publication of the investment group's responsible investment guidelines in early 2012 (Exhibit 6).

Encouraged by the success of these early efforts, Duncan's next goal was to build a case and a mandate for Old Mutual plc to become a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI) (Exhibit 7). This was an incredible opportunity for Duncan, because with the signatory status residing within Old Mutual plc at highest level as an asset owner, the mandate for responsible investment would effectively grow out from being just an OMIG activity to impacting on the entire Old Mutual group, including its UK and US businesses. Working closely with the UNPRI and its network of signatories, Duncan was able to demonstrate the value of obtaining signatory status to the CEO of Old Mutual plc, with the group becoming a signatory in early 2012. The signing of the PRI was a major milestone for the business, as in addition to publicly stating its commitment to responsible investment, the mandate for Duncan and his team had effectively been endorsed at the highest levels within the organisation.

### **3. Implementing change**

To give effect to their signatory status to the UNPRI, as well as to CRISA and their own responsible investment guidelines, Duncan needed to ensure that the business was

following best practice in terms of both its ESG integration practices, as well as its responsible ownership practices. Adding to the complexity of this task was the autonomous nature of the group's various investment boutiques. Each boutique was independently managed by its own executive committee and each had its own set of systems and processes developed over many years in line with their different mandates, asset classes, and investment philosophies. A complete overhaul and one-size-fits-all approach wasn't going to work.

### *3.1 ESG integration*

ESG integration required that risks and opportunities related to Environmental, Social, and Governance factors based on appropriate research sources were explicitly and systematically included into financial analysis and investment decisions. The rationale for ESG integration into the investment process was not just a corporate social responsibility initiative. Duncan and his team believed that including ESG issues into the analysis process gave a deeper insight into risk and would ultimately contribute to shareholder value by enabling the delivery of superior risk-adjusted returns to their clients. The growing importance of intangibles in market valuations also meant that identifying companies that performed well on managing ESG factors could represent the potential for generating higher future returns (Exhibit 8).

The first challenge that Duncan faced here was the lack of reliable and comparable year-on-year ESG data for companies in the South African market. To build out the coverage of ESG research in the South African market, Old Mutual partnered with MSCI, a leading international provider of ESG research and investment decision support tools, who employed a team of around 200 dedicated ESG analysts. In addition, Duncan hired an internal ESG analyst, the first new addition to the responsible investing team, to build up a proprietary ESG ratings system which could complement the data acquired from MSCI. A significant challenge for the RI team was finding a way to ensure that ESG data was treated as a fundamental part of the investment decision process and not simply as an additional compliance issue for the sake of corporate social responsibility.

To be fully integrated into the traditional financial analysis process, Duncan and his team designed the ESG analysis process to focus on issues which could pose a risk to future

cash flows for a specific business or industry. The analysis process started by identifying key ESG issues specific to each sector. This helped to narrow down the multitude of data to only those issues which were a material consideration in projecting future cash flows. Once these issues had been isolated at a sector level the analyst would then focus on a company's performance on these issues relative to its peers. Additionally, the analysis would look to uncover macro-thematic ESG drivers that may lead to a shift or disruption in an industry, such as the regulation of carbon emissions through a carbon tax. A key element of this process was understanding the externalities (ESG impacts) that a business generated and assessing their ability to internalise the projected costs of these impacts. Having an in-house ESG analysis competence meant that for every company that was relevant to Old Mutual's fund managers, a summarised ESG report could be provided to support the investment analysts' financial projections.

In addition to supporting the various investment boutiques with ESG analysis, Duncan also worked with each different boutique to incorporate ESG considerations into their own systems and processes in a way that made sense for each boutique's philosophy and asset class. This meant that ESG integration practices became an internal focus for each boutique and not something done merely in compliance with the RI team.

### *3.2 Responsible ownership*

Responsible ownership meant that ESG issues needed to be considered even at a post-investment stage through activities such as proxy voting and engagement with investee companies. It was based on the premise that long-term value was destroyed by companies that did not manage and respond to ESG issues. By engaging with companies on relevant ESG concerns, the RI team could encourage action that could reduce investment risk or capitalise on opportunities while supporting positive social and environmental outcomes. Responsible ownership was therefore a crucial element of Old Mutual's RI strategy, and this was reflected in the hiring of a dedicated ESG engagement manager in 2014. Responsible ownership activities were also supported by the ESG analysis conducted by the RI team. If a company became a part of Old Mutual's portfolio, the ESG report would inform how the RI team would choose to engage with the company or how they would cast their proxy votes at AGMs<sup>4</sup>. The process and guidelines for active ownership practices were published on the group's website in a

formalised policy document that detailed the process in terms of proxy voting and the ESG expectations towards investee companies (Exhibit 9), and it was an important achievement for the team when Old Mutual Investment Group was able to publicly disclose its proxy vote results on its website. While Old Mutual carried out proxy voting prior to the appointment of dedicated RI resources, each fund manager decided separately on how and what to vote on. The initial challenge for Duncan and his team was in centralising these activities to ensure that communications with companies were aligned and representative of Old Mutual's RI principles.

#### **4. Leadership in RI**

The formalisation of ESG integration and responsible ownership practices within the investment group were important steps in defining Old Mutual's commitment to responsible investment. But Duncan saw these efforts as just the beginning. He felt strongly that a large institution such as Old Mutual needed to take a leadership role in promoting the aims of responsible investment, both through directing capital to positive social and environmental outcomes and by influencing positive corporate citizenship. In deciding on the strategy for the group's responsible investment activities going forward, two main aims were identified: increasing exposure to sustainability themes, and increasing the level of influence that Old Mutual had within the market towards ESG issues (Exhibit 10).

While Old Mutual was exposed sustainability-themed assets (like affordable housing and renewable energy) through some of its fixed income and private equity-focused investment boutiques, little had been done in the listed equity space. Duncan saw listed equity as an opportunity to drive investment into "green growth" or sustainability themes by offering investors access to higher liquidity than was available through unlisted asset classes such as private equity or fixed income. One of the challenges in building these types of products lay in the misperception around the philosophy of integrating ESG criteria into the investment process as being more about social responsibility and ethical screening than about optimising risk-adjusted returns. Duncan had often encountered this view amongst the investment consulting community in discussions around responsible investment and ESG integration. Investment consultants were a key stakeholder in promoting RI products, as by acting as intermediaries between asset owners (pension



funds and other institutional investors) and asset managers, they played a direct role in influencing the demand for different investment products.

#### *4.1 ESG product innovation*

In 2014 an opportunity presented itself to Duncan and his team through the pending closure of a R1.2 billion fund managed by the Customised Solutions boutique which specialised in quantitative portfolio management and index tracking. Due to the withdrawal of R1 billion from the fund by a major investor putting the remaining clients' money at risk, the boutique had two choices: either it could close the fund and return the client's money or it could change the mandate of the fund and look to attract new investment by offering something new and unique.

After having just returned from a UNPRI-sponsored event in London, and seeing the level of interest demonstrated by the South African institutional investment space around responsible investing, one of the boutique's investment analysts, Josh Abrahams, suggested to his boss the idea of creating an ESG product offering. Being sceptical of the value of ESG data to the investment process, Abrahams nonetheless recognised an opportunity when he saw one as he explained enthusiastically to his boss:

*“Many South African investors, pension fund consultants were at this event. This is a clear opportunity to capitalise on. Consultants and clients are moving in that direction, so from a product perspective we really need to be moving there, too!”*

Not convinced, Abrahams's boss nonetheless told him to do some research into the kind of ESG-related products they might be able to offer. While searching for an ESG product that would make sense for the fund's investors and also align with best practice responsible investment principles, Abrahams noticed that the two remaining investors were both CRISA signatories. Being unfamiliar with the CRISA principles, he called Duncan to ask him what it was all about. After Duncan had explained the rationale and purpose behind the principles, Abrahams told Duncan about the research he was doing around ESG investment products.

Duncan had himself been considering building ESG indexes as a means of evidencing that ESG integration did not come at the expense of returns, and after talking to Abrahams he immediately recognised the chance to put these plans into action.

After further discussion it was decided that a passive fund that tracked an established and proven ESG index would be something that would work for all parties involved. The idea was to construct a fund that tracked the MSCI World ESG Leaders Index, which was a capitalisation weighted index that provided exposure to companies with high ESG performance relative to their peers. The index provided broad and diversified sustainability exposure with a low tracking error to its parent index, the MSCI World Index, which consisted of large and mid-cap companies from developed markets countries (Exhibit 11). A low tracking error to its parent index was important, as with it being an institutional fund, the fund's investors would not want to be exposed to too much benchmark risk.

Satisfied that they had found something that might work, Abrahams asked Duncan to join him at the next meeting with one of the fund's two remaining investors. The next week over coffee with the client, Abrahams explained that they were thinking of changing the fund into an ESG-focussed product. The client immediately looked up.

*"ESG? So that's why you're here, Jon Duncan!" she chuckled. "I think it's a great idea. I'll chat to my boss and see how long we can keep this on the watchlist, but you guys have to try this out."*

Encouraged with the response, Abrahams raised the suggestion with the other remaining investor in their next meeting. The client looked at Abrahams and said:

*"You know what, we've been trying to get into ESG for the longest period and it's so difficult because everyone speaks about unlisted, and we don't want to be in unlisted, we don't want the liquidity risk. If you guys have a serious opportunity for us..."*

He trailed off as he left the room to fetch his investment consultant. The consultant was busy in an investment committee meeting at the time, but the client interrupted the meeting to speak with his consultant.

*"I want to do a due diligence on what these guys have to offer in the next week."*

What had started as an idea the week before had suddenly turned into something tangible.

The next week, after working furiously to put something together for the investment consultants, the Old Mutual MSCI World ESG Index Fund was presented. It turned out that the consultants were themselves also signatories of CRISA and liked the idea of supporting the first African-based ESG tracker fund. At the end of the presentation, Duncan concluded:

*“Once you get your head around the idea that you can get exactly the same market returns by holding a basket of companies that are better for the planet, you know, the obvious thing is like, well, why not? There is very little risk.”*

After obtaining additional support from Old Mutual’s life company who agreed to seed the fund, the Old Mutual World ESG Index Fund launched in 2015 with around R2 billion committed by institutional investors.

Duncan saw the launch of the fund as a significant milestone for Old Mutual, as it provided the evidence to show that new sustainability-themed product innovations could attract capital and at the same time provide investors with competitive risk-adjusted returns.

The success of the fund also inspired the customised solutions team to start looking harder at ESG data for emerging markets companies. To their surprise they found that the emerging market ESG index actually significantly outperformed its parent index (Exhibit 12). This was a turning point for many within the investment group, as there was now clear evidence of the materiality of ESG data to financial performance. Duncan’s view was that the way management responded to ESG issues was a good proxy for measuring the quality of management in general for a company, particularly in emerging markets.

## **5. Promoting RI in South Africa**

Encouraged by the successful launch of its first two ESG index products, Duncan turned his attention to the South African market. At the time there were no ESG-focussed products available to investors that centred specifically on the South African market. One of the challenges Old Mutual faced was the lack of suitable indexes to track. While the Johannesburg Stock Exchange had published a socially responsible investment index (SRI) in 2004, widespread criticism over its lack of transparency, selection criteria, and underperformance relative to its parent index had left very little confidence from

investors as to the quality of its screening methodology. As a portfolio manager at Old Mutual noted, the failures of the initial JSE SRI were demonstrated most clearly by the inclusion of stocks such as Lonmin and African Bank, both of which had suffered severe repercussions in the wake of corporate governance scandals. In 2015, in response to criticism of its index, the JSE partnered with global index provider FTSE Russell to establish the FTSE/JSE Responsible Investment Top 30 Index; however, due to the low ESG hurdle for inclusion, the index still contained major CO<sub>2</sub> emitters such as Anglo American and Sasol. In addition, the FTSE/Russell Index's ESG coverage only related to large and mid-cap securities.

Duncan felt that Old Mutual had both the expertise and the experience necessary to introduce a sound alternative offering to the local market. Through their work with MSCI, Old Mutual now had coverage of over 97% of the South African investment universe in terms of ESG data. Using a similar methodology to its emerging market and world ESG indices, the customised solutions teams built a South African responsible investment index. It used the best-in-class selection methodology which selected stocks in each sector that performed the best on ESG issues relative to their peers (Exhibits 13 and 14). The index construction methodology was vindicated when back testing the performance of the index showed a significant outperformance relative to the market, and in April 2016, the Responsible Equity Index Fund was launched to institutional investors (Exhibit 15).

## 6. Looking ahead

As Duncan returned to his desk, he put down a copy of the latest *Tomorrow, as invested as you are* magazine. The publication was a compendium of sustainability essays which represented Old Mutual's views and thought leadership around responsible business and responsible investment. He had just been interviewed by a journalist for a popular investment magazine on the state of ESG integration within the South African investment community and had been referring to an article in the magazine detailing research on the link between ESG screening and financial performance in the local SA equity market. In discussing how ESG issues might represent a material consideration to future cash flows for investments, the topic of the impending carbon tax had come up, and the impact this might have on South African companies (Exhibits 16 and 17).

As Duncan reflected on the interview he wondered what his next strategic priorities should be. How could he further increase Old Mutual's exposure to "green growth" themes amongst the listed equity investing activities? While ESG-focussed products and sustainability-themed investments in listed assets were common in developed markets, South African-based investors had few opportunities outside of unlisted asset classes. Was there enough of a demand amongst retail investors for ESG index tracking products or should he focus on developing new sustainability-themed investment products such as low-carbon portfolios? What was the best way to position these new investment products to investment consultants and other clients?

Duncan's mind was racing. With the managed separation of Old Mutual plc set to be completed in 2018, the new Old Mutual Emerging Markets business would no longer be a signatory of the UNPRI. How could he ensure that the responsible investment agenda he had worked so hard to build did not fall off the table once the separation was materially completed? What opportunities did the relisting and new corporate structure bring to the RI team, and how could responsible investment contribute to the organisations purpose and values?

## Appendix

### Glossary of terms and abbreviations

**Asset managers:** Service providers who act under the mandate of institutional investors with respect to investment decisions and activities.

**Asset owners:** Institutional investors such as pension funds or insurance companies who delegate investment decisions and activities to external service providers (i.e. asset managers).

**Benchmark risk:** The potential for the returns of a mutual fund portfolio to differ from the returns of its parent index against which it is measured.

**ESG:** Environment, Social, and Governance.

**ESG analyst:** A specialised financial analyst focussed on analysing ESG risks and opportunities as they relate to investment activities.

**Financial analyst:** An investment role focussed on assessing the financial condition of a business or asset to inform the investment decisions of an investor.

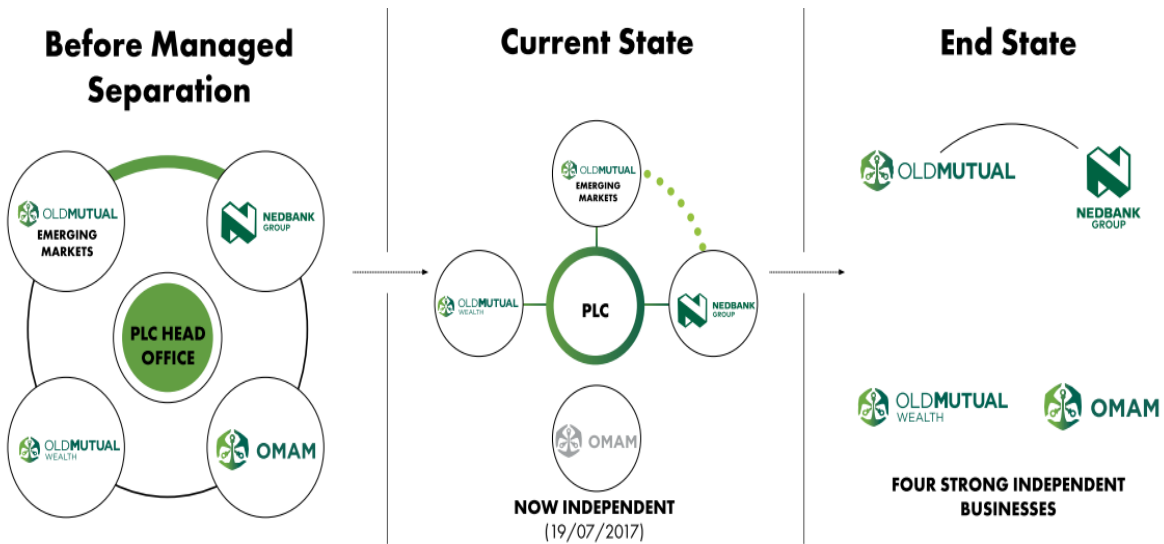
**Index fund:** A mutual fund with a portfolio of stocks constructed to track the portfolio of a market index.

**Institutional investor:** A legal entity that has obligations in terms of investment analysis, activities, and returns to ultimate beneficiaries. Examples of institutional investors include pension funds, insurance companies, sovereign wealth funds, and asset managers.

**Market index:** A hypothetical portfolio of stocks constructed to be representative of a specific market or segment thereof.

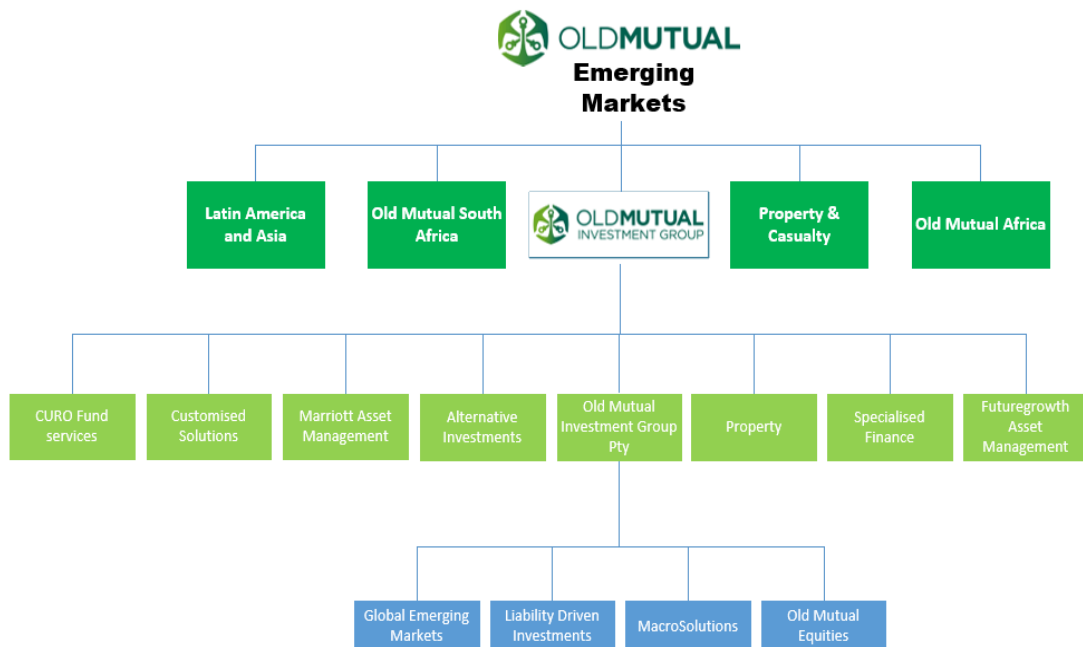
Case exhibits

Exhibit 1: Managed separation of Old Mutual plc



Source: Old Mutual plc company documents (Old Mutual plc, 2017)

Exhibit 2: Old Mutual Emerging Markets current organisational structure



Source: Constructed from company documents (Old Mutual Investment Group, 2017a)

*Exhibit 3: Old Mutual vision and values*

## VISIONS, VALUES AND CULTURE

Our vision is to become our customers' most trusted partner - passionate about helping them achieve their lifetime financial goals.

## VALUES

- **Accountability:** Honour commitments and keep promises
- **Respect:** Demonstrate through actions and attitude, care for the feelings and rights of others
- **Integrity:** Act and behave according to the highest ethical and moral standards
- **Pushing beyond boundaries:** Committed to transforming the future into something all South Africans can look forward to

## CULTURE

- There is diversity both in the people that we employ, and the various businesses within Old Mutual
- We have a strong brand with quality products and services
- We have a vision that inspires shared purpose and values
- Personal growth and innovation is encouraged
- Enables you to have a work-life balance
- An environment where talent, passion and performance is rewarded
- High performance culture

Source: Company documents (Old Mutual Life Assurance Company (South Africa), 2017)



*Exhibit 4: Excerpt from Regulation 28 of Pension Fund Act*

<b>Amendment of regulation 28 of the Regulations</b>
<p>2. Regulation 28 of the Regulations is hereby amended, by the substitution for regulation 28 of the following regulation:</p> <p><b>“28. Asset spreading requirements</b></p> <p><b>Preamble</b></p> <p>A fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment.</p>

Source: South Africa National Treasury, 2011

*Exhibit 5: Code for Responsible Investing in South Africa (CRISA)*

<p>The 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. There are five key principles:</p> <ol style="list-style-type: none"> <li>1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.</li> <li>2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.</li> <li>3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.</li> <li>4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.</li> <li>5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.</li> </ol> <p>CRISA applies to:</p> <ul style="list-style-type: none"> <li>• Institutional investors as asset owners, for example, pension funds and insurance companies (see page 9 for a definition of institutional investor).</li> <li>• Service providers of institutional investors, for example, asset and fund managers and consultants (see page 9 for a definition of service provider).</li> </ul>
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Source: The Institute of Directors in Southern Africa, 2011

*Exhibit 6: Old Mutual Investment Group responsible investment guidelines*

1. ESG Integration into investment management practices
2. Stewardship through responsible ownership
3. Leadership in responsible investment
4. Transparency and Disclosure
5. Reporting and communication

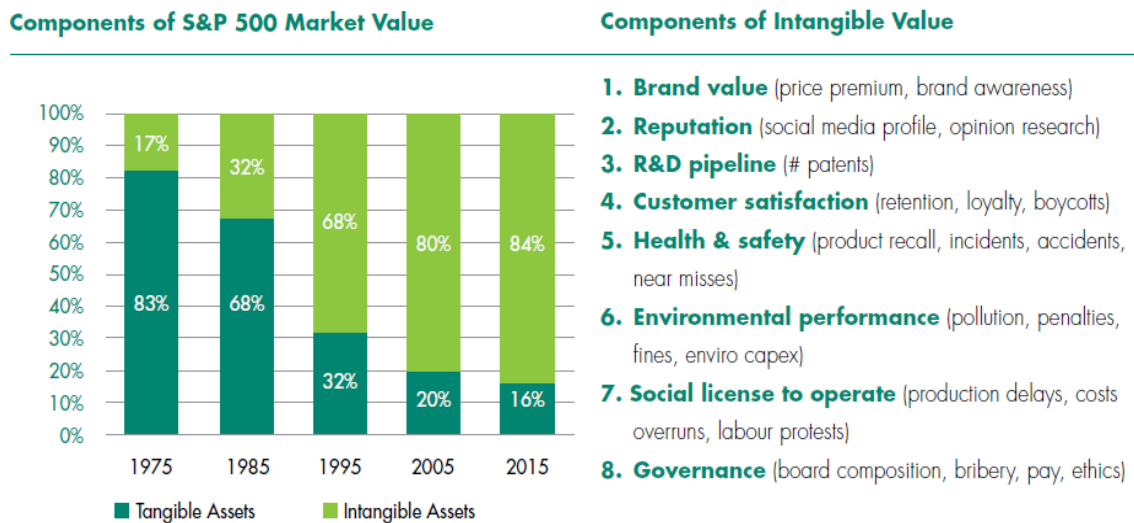
Source: Old Mutual Investment Group, 2017b

*Exhibit 7: United Nations Principles for Responsible Investment (UNPRI)*

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

Source: United Nations Environment Programme Finance Initiative (UNEP FI) & UN Global Compact, 2016

Exhibit 8: Components of S&P 500 market value



Source: <http://www.oceantomo.com>, March 2016

Source: *Tomorrow, as invested as you are* magazine (George, 2016)

Exhibit 9: Old Mutual approach to stewardship guidelines

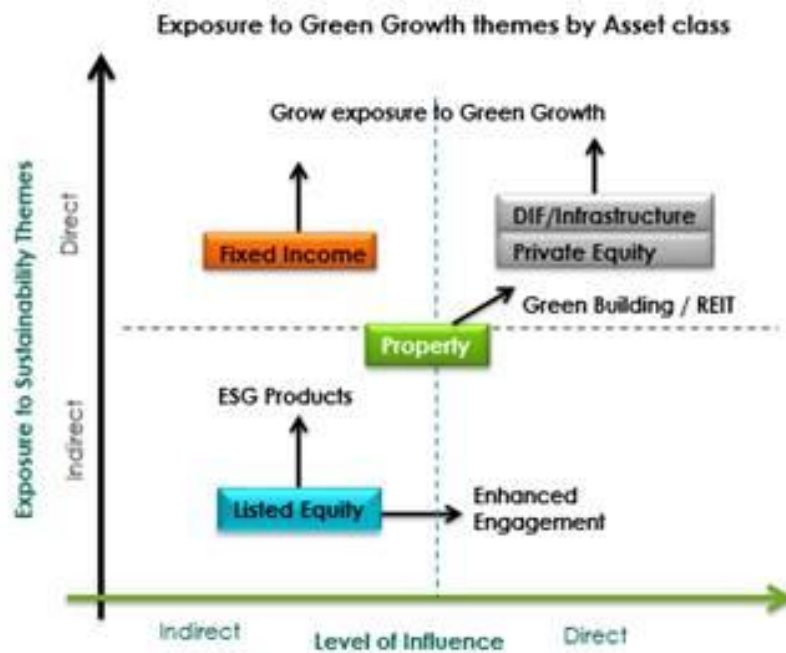
**Approach to stewardship**

Old Mutual Investment Group's investment teams meet regularly with management on operational and company specific issues, as well as on issues related to governance performance. Old Mutual Investment Group prefers not to take a public route when seeking change at companies. Our preference is to constructively engage with Boards and management in a non-public manner to achieve positive change. However, where no progress is made over an extended time period, Old Mutual Investment Group may, as a last resort, after consulting with stakeholders, use the media and other public forums to drive change. We will normally notify a company in advance of briefing the media before taking this approach.

Where we believe it will be in the best interests of our clients, and where we have exhausted our engagement with management, we will seek out opportunities to collaborate with co-investors on material issues as a means to drive change. Where such collaborative efforts are undertaken, we will ensure that conflicts of interest and issues relating to "acting in concert" and competition law are appropriately addressed.

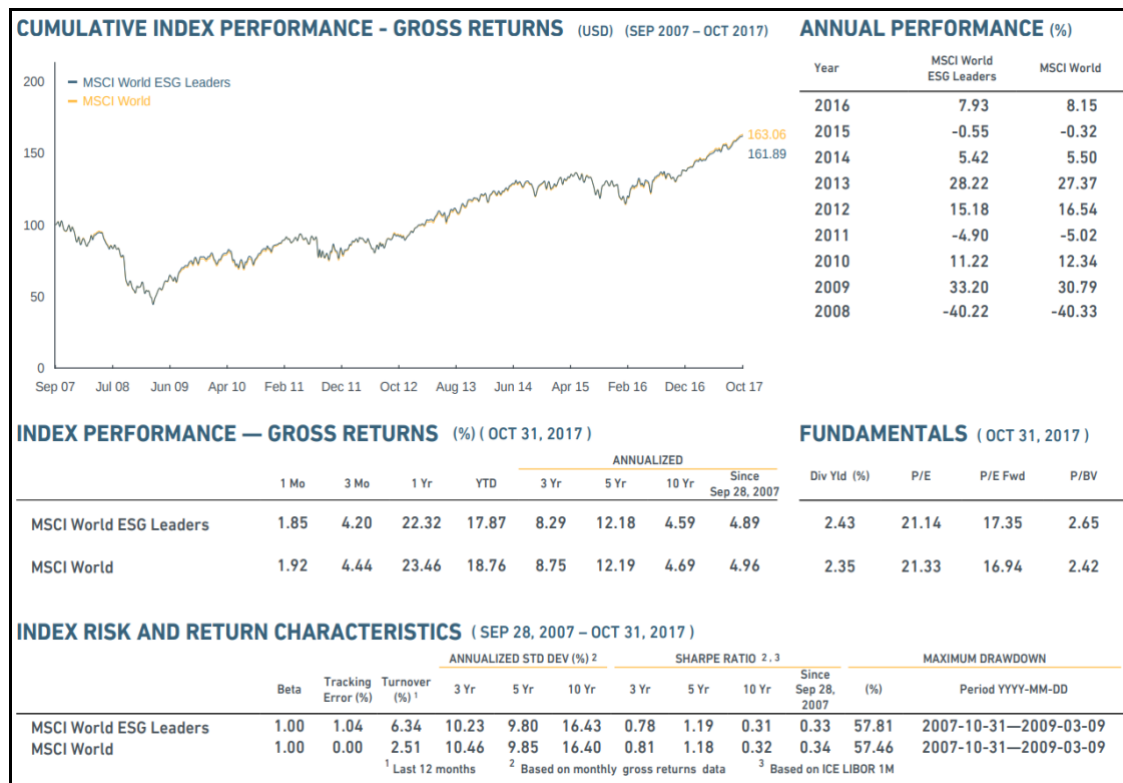
Source: Company documents (Old Mutual Investment Group, 2017b)

Exhibit 10: Old Mutual's responsible investment strategy



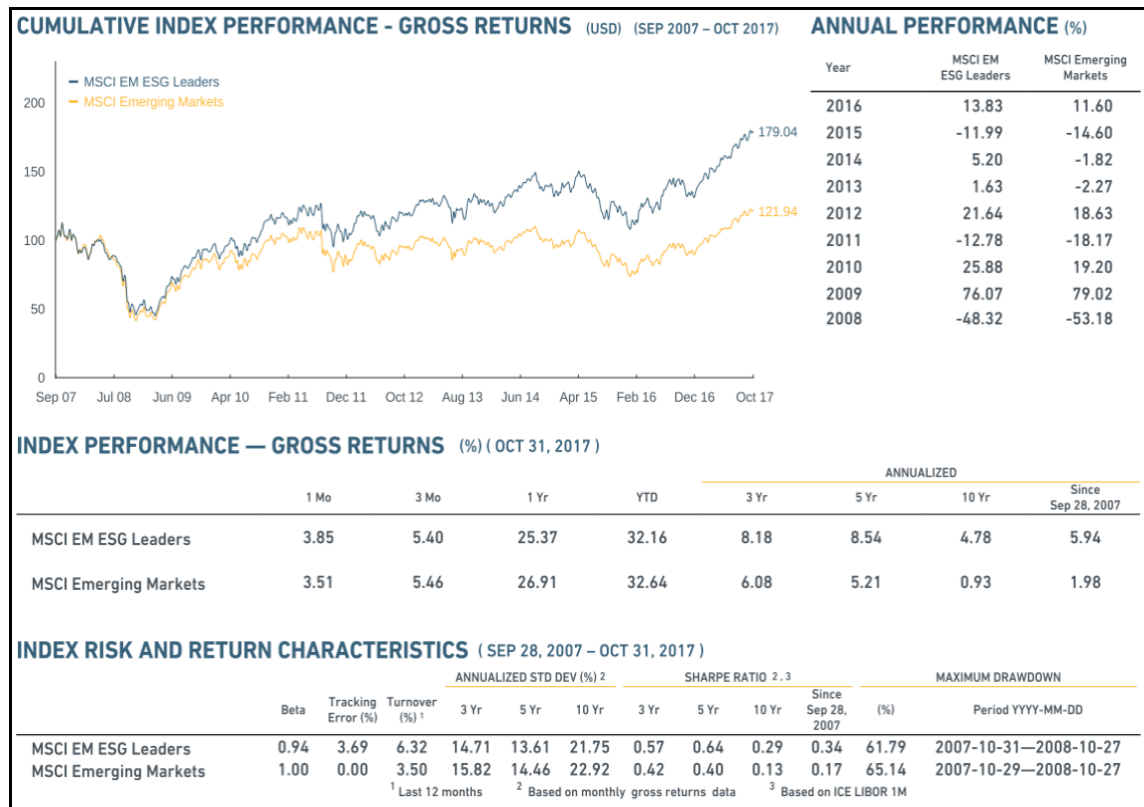
Source: Company documents (George, 2015)

Exhibit 11: MSCI World ESG Leaders Index performance



Source: MSCI, 2017b

Exhibit 12: MSCI Emerging Markets ESG Leaders Index performance



Source: MSCI, 2017a

Exhibit 13: Comparison of Old Mutual Responsible Investment Equity Fund top 10 holdings

**TOP 10 SWIX HOLDINGS**

HOLDING	SECTOR	% OF FUND
1 Naspers	Consumer Discretionary	21.5%
2 British American Tobacco	Consumer Staples	4.4%
3 MTN Group	Telecommunication Services	3.9%
4 Sasol	Materials	3.5%
5 Standard Bank Group	Financials	3.5%
6 FirstRand	Financials	2.9%
7 Steinhoff International	Consumer Discretionary	2.7%
8 Anglo	Materials	2.4%
9 Sanlam	Financials	2.0%
10 Remgro	Financials	1.8%

Source: Old Mutual Investment Group

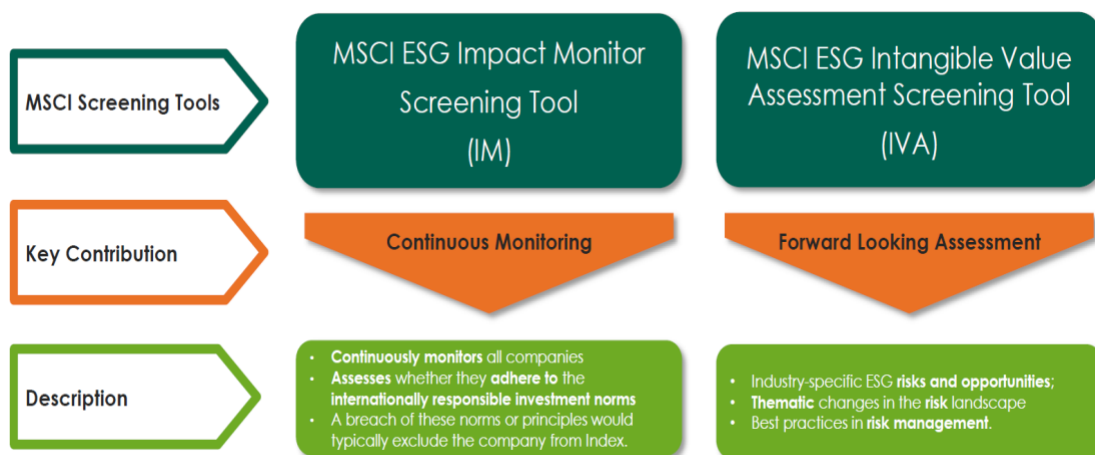
**TOP 10 FUND HOLDINGS**

HOLDING	SECTOR	% OF FUND
1 Naspers	Consumer Discretionary	21.6%
2 MTN Group	Telecommunication Services	7.4%
3 Standard Bank Group	Financials	6.6%
4 Sanlam	Financials	3.8%
5 Richemont	Consumer Discretionary	3.5%
6 Old Mutual	Financials	3.4%
7 Bid Corporation Limited	Consumer Staples	3.3%
8 Vodacom	Telecommunication Services	3.2%
9 Barclays Africa Group	Financials	3.0%
10 Growthpoint Property	Real Estate	2.2%

Source: Old Mutual Investment Group

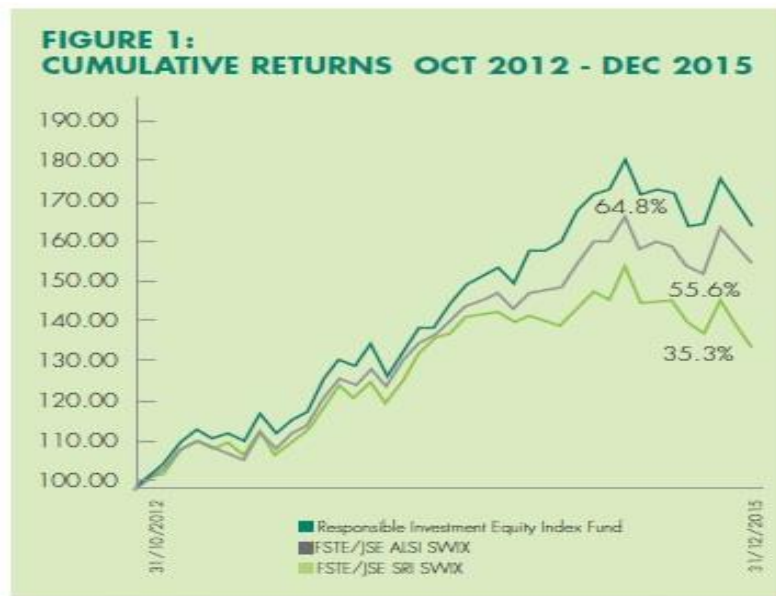
Source: Company documents (Old Mutual Investment Group Customised Solutions, 2016)

Exhibit 14: MSCI ESG Index screening tools



Source: Company documents (George, 2015)

Exhibit 15: Old Mutual Responsible Investment Equity Fund performance



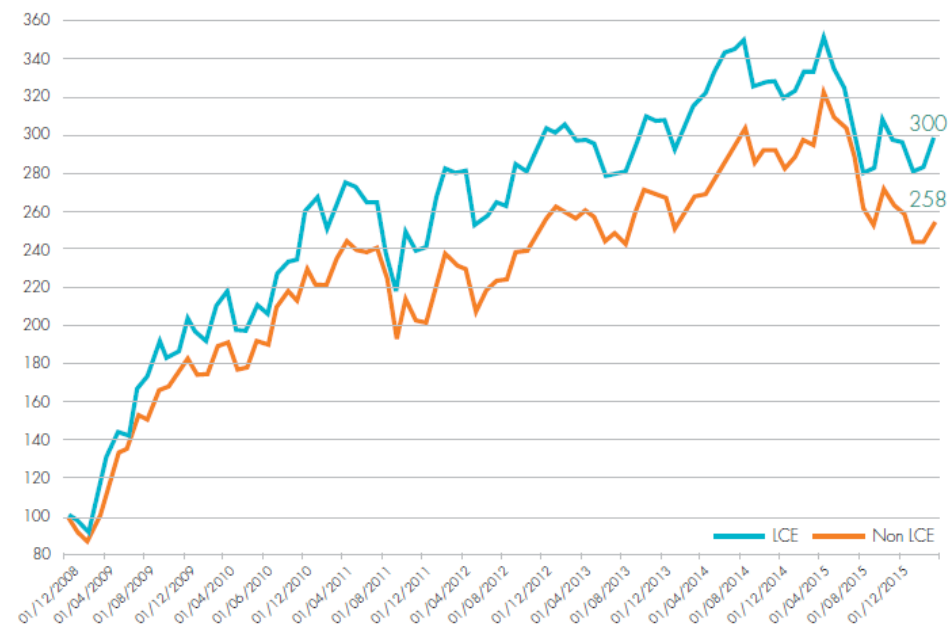
Source: Old Mutual Investment Group, Customised Solutions – Based on Backtested Results and INET BFA.

Source: *Tomorrow, as invested as you are* magazine (Johnson, 2016)

Exhibit 16: Low-carbon emerging market vs non-low carbon economies

**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

Source: *Tomorrow, as invested as you are* magazine (Duncan, 2016)



*Exhibit 17: JSE stocks at highest risk from direct carbon costs*

Table 3: Ranking of companies with highest EBITDA at risk from direct carbon costs	
Company	Sectors
Sasol Ltd	Oil & Gas
Harmony Gold Mining Co. Ltd	Basic Resources
Foschini Group Ltd	Retail
Mondi Group	Basic Resources
Remgro Ltd	Industrial Goods & Services
AngloGold Ashanti Ltd	Basic Resources
Imperial Holdings Ltd	Industrial Goods & Services
BHP Billiton Ltd	Basic Resources
Anglo American Plc	Basic Resources
Gold Fields Ltd	Basic Resources

Source: Dirty Feet: Portfolio Carbon, December 2011; Trucost; JSE; SinCo 2011

Source: Sinclair, Dell'Aringa, & Van Ast, 2011



Exhibit 18: Survey of Responsible Investment among Old Mutual retail clients

# 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:



### Bottom 3 ESG risks to investments are environment related:



### 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+

Source: *Tomorrow, as invested as you are* magazine (George, 2016)

**Additional reading and related news articles**

Collinson, P. (2015). Fossil fuel-free funds outperformed conventional ones, analysis shows | Environment | The Guardian. Retrieved 13 November 2017 from [www.theguardian.com/environment/2015/apr/10/fossil-fuel-free-funds-outperformed-conventional-ones-analysis-shows](http://www.theguardian.com/environment/2015/apr/10/fossil-fuel-free-funds-outperformed-conventional-ones-analysis-shows)

Old Mutual tops responsible investment ranking | IOL Personal Finance. (2017). Retrieved 13 November 2017 from [www.iol.co.za/personal-finance/old-mutual-tops-responsible-investment-ranking-9362898](http://www.iol.co.za/personal-finance/old-mutual-tops-responsible-investment-ranking-9362898)

Planting, S. (2016). New responsible investing index outperforms ALSI SWIX - Moneyweb. Retrieved 13 November 2017 from [www.moneyweb.co.za/investing/avoiding-the-less-obvious-obstacles/](http://www.moneyweb.co.za/investing/avoiding-the-less-obvious-obstacles/)

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<sup>1</sup> Source: Old Mutual Investment Group 2016 Responsible Investment Report

<sup>2</sup> Source: Old Mutual Ltd Showcase Presentation 2017

<sup>3</sup> Old Mutual Investment Group

<sup>4</sup> Annual general meetings