

OLDMUTUAL

# OLD MUTUAL SUPERFUND INVESTMENT SUSTAINABILITY DISCLOSURE REPORT

Old Mutual SuperFund Pension Fund and Old Mutual SuperFund Provident Fund

1 July 2022 - 30 June 2023



**CORPORATE**

**DO GREAT THINGS EVERY DAY**



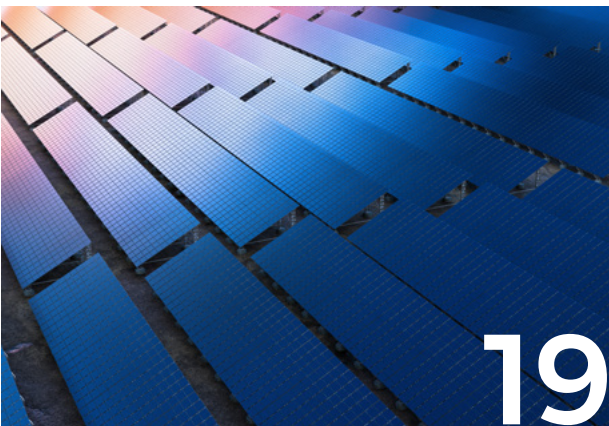
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Old Mutual SuperFund is an umbrella retirement fund made up of pension and provident fund offerings, as well as preservation and deferred retirement solutions. Unless stated otherwise, the use of the term Old Mutual SuperFund in this report refers to both the Old Mutual SuperFund Pension Fund and the Old Mutual SuperFund Provident Fund.



# INTRODUCTION AND MESSAGE FROM THE MANAGEMENT BOARD



Old Mutual SuperFund represents a diverse range of members and participating employers across South Africa and beyond. It is therefore an imperative to pursue a positive impact on environmental, societal and governance-related matters in the context in which the Funds operate. Sustainability and good stewardship of the Funds' assets enable positive outcomes which address South Africa's unique environmental and social challenges, while also enabling enhanced risk adjusted returns.

The Funds play a key role in enabling members to achieve their future hopes and dreams, providing a stable anchor in the midst of instability. To do this, we have set stewardship and sustainability as key pillars of our investment approach. We believe that the sustainability and stewardship of our investments has a profound impact on the world in which we live. Both concepts are key to retirement savings:

- ▶ We need our savings to be **sustainable and focused** on the long-term view. We need to be sure that the wealth we are building can be depended on in our far distant future, in a future world worth living in.
- ▶ We need our savings to be **well-stewarded**, both in a financial sense and in a broader sense. Our money needs to be at work to build a better future for us and our children.

We have a fiduciary duty to act in the best interest of our members, whose benefits depend on the responsible management of Fund assets. We need a sustainable and responsible investment approach that will earn adequate risk adjusted returns suitable for the Funds' specific member profile, liquidity needs and liabilities. This is described in more detail in the Funds' Responsible and

Sustainable Investment Policy, which is set out in Section 7 of the Investment Policy Statement.

Responsible and sustainable investment requires a collaborative approach. We are committed to working jointly with other stakeholders to promote acceptance and implementation of responsible investment, sustainability and sound governance. In particular, we highlight our gratitude to the Funds' investment consulting team from Old Mutual Corporate Consultants, which conducted the excellent and extensive analysis and research work underpinning much of this report.

This Investment Sustainability Disclosure Report has been prepared as a supplement to the SuperFund Integrated Annual Report:

- ▶ It provides additional detail regarding the Funds' stewardship activities and sustainability focus.
- ▶ It sets out the Funds' responses during the review period to the requirements of Regulation 28 and Guidance Note 1/2019.
- ▶ It summarises recent changes to the Funds' Investment Policy Statement.



**Nhlanhla Nene**  
Chairman: Old Mutual  
SuperFund Management  
Board



**Gary Hartwig**  
Chair of the Investment &  
Actuarial Sub-Committee  
(In Loving Memory, 1977 - 2024)

## Why do we prioritise sustainability, stewardship & responsible investment?

As a Management Board, we support a responsible and sustainable investment approach to complement the existing investment strategy for the following reasons:

**1** Prudent investing should carefully consider any factor which may materially affect the sustainable long-term performance of the Funds' assets. This includes factors of an environmental, social and governance (ESG) character. This concept applies across all assets and categories of assets.

**2** Considering environmental, social and governance factors when we make investment decisions enables better management of risk and is expected to generate superior sustainable, long-term investment returns.

**3** We have a fiduciary duty towards both the Funds and the membership, and we must exercise our powers in the best long-term interests of both. Investment decisions must consider both short- and long-term risks. This makes it critical to consider

environmental, social and governance factors (including specific factors like transformation and climate risk) in our investment approach.

**4** The Funds represent a very wide range of members and participating employers across South Africa and beyond. Good stewardship can enable positive outcomes which address South Africa's unique environmental and social challenges, including poverty, inequality, unemployment and transformation, as well as global challenges, while also pursuing appropriate risk adjusted returns.

**5** Old Mutual as Sponsor places a high emphasis on responsible investment. Old Mutual seeks to constructively contribute to creating a sustainable and inclusive future for all, without sacrificing return outcomes for its clients.

# WHAT DO THESE TERMS MEAN?

## RESPONSIBLE INVESTMENT



is “an approach to investing that aims to **incorporate environmental, social and governance (ESG) factors into investment decisions**, to better manage risk and generate sustainable, long-term returns”.<sup>1</sup>

## ESG FACTORS



refer to the environmental, social and governance issues that investors consider in the context of corporate behaviour.<sup>2</sup>

In the South African context, and specifically in respect of assets located in South Africa, a key factor includes the manner in which Broad Based Black Economic Empowerment is advanced.<sup>3</sup>

## SUSTAINABILITY



refers to “the ability of an entity to conduct its business in a manner that primarily meets existing needs without compromising the ability of future generations to meet their needs. **Conducting business sustainably includes managing the interaction of the business with the environment, the society and the economy in which it operates towards a better long-term outcome.**

Evaluating the sustainability of the business of an entity includes the consideration of economic factors and ESG factors. The ‘sustainability of an asset’ implies the sustainability of the entity giving rise to the underlying value of the asset.”<sup>4</sup>

## STEWARDSHIP



“Diligent and effective stewardship means **managing investment arrangements and activities towards the creation of long-term value for the economy, the environment and society** as part of the delivery of superior risk-adjusted returns to clients and beneficiaries”.<sup>5</sup>

Stewardship includes “investment decision-making, monitoring assets and service providers, engaging with issuers and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities.”<sup>6</sup>

<sup>1</sup> Definition from UN Principles of Responsible Investing (UNPRI)

<sup>2</sup> Definition from the Responsible Investment and Ownership Guide

<sup>3</sup> FSCA Guidance Note 1 of 2019

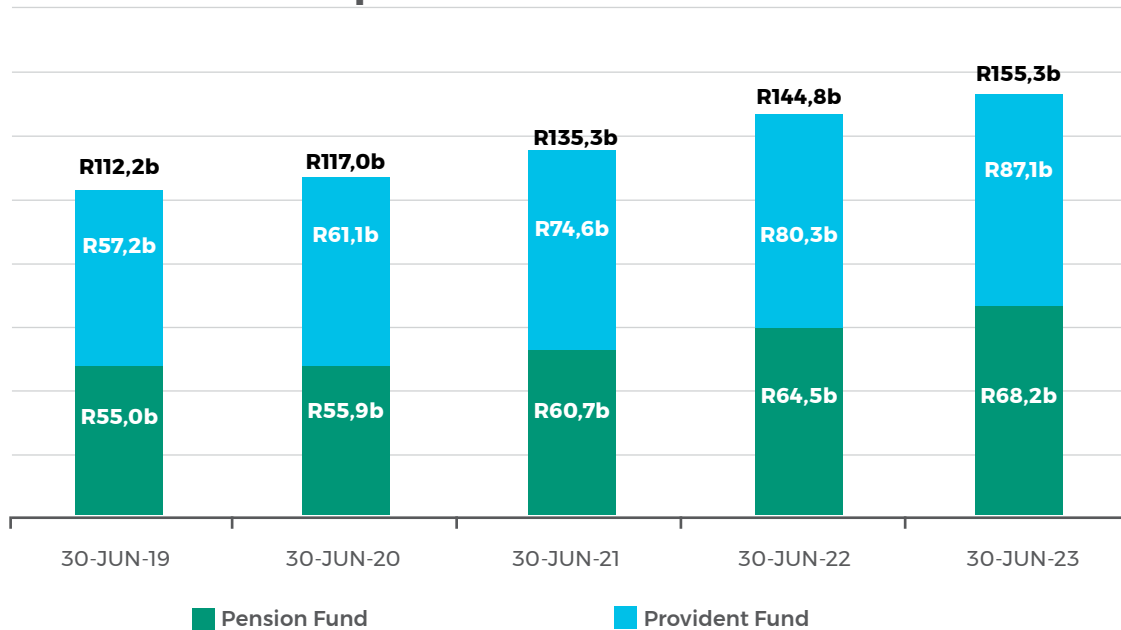
<sup>4</sup> Definition from Guidance Note 1 of 2019 issued by the FSCA

<sup>5</sup> Definition from the Code for Responsible Investing in South Africa 2.0 (CRISA 2.0).

<sup>6</sup> Definition from the Financial Reporting Council: The UK Stewardship Code 2020



## SuperFund Total Investments



Note: The chart above reflects the total value of the Funds' investments over the last 5 years, excluding accruals and cash at bank. It therefore differs slightly from the total value of assets reflected in the financial statements and recent integrated reports. It is a reflection of the value of assets placed with the Funds' asset managers at a given point in time.

WE BELIEVE THAT THE  
SUSTAINABILITY AND  
STEWARDSHIP OF OUR  
INVESTMENTS HAS A  
**PROFOUND IMPACT**  
ON THE WORLD IN  
WHICH WE LIVE.





# SUPERFUND'S STEWARDSHIP AND SUSTAINABILITY WORK DURING 2022/23



## HOW DOES SUPERFUND “DO” STEWARDSHIP AND SUSTAINABILITY?

SuperFund has a long-established practice of primarily utilising pooled investment portfolios. These are either constituted as collective investment schemes or policies of insurance. We do not directly own the underlying assets in respect of these pooled investment portfolios<sup>7</sup>, and so we experience some limitations in the exercise of active ownership practices.

We have therefore adopted a tailor-made approach to stewardship, sustainability and responsible investing for these assets. This includes the following:<sup>8</sup>

- ▶ We clearly communicate our views and requirements about responsible and sustainable investment and active ownership, to ensure our investment providers understand our priorities.
- ▶ Our investment providers are expected to adopt the CRISA 2 principles and practices<sup>9</sup>, and/or be signatories to the UN Principles for Responsible Investment (UNPRI).
- ▶ Our investment providers must provide us with detailed information about their responsible investment policies and practices and active ownership approach, and how these are implemented. They must report about the potential impact of ESG risks and ESG factors on the assets. They must report about their approach to climate risk, and how this is accounted for in managing the investment portfolio. The relevant investment mandates are expected to incorporate these details.
- ▶ Our investment providers are expected to implement active ownership practices in respect of all asset classes. They are expected to provide the Funds with their voting policies and annual stewardship reports, including details about how votes have been exercised.
- ▶ The Funds analyse in detail how our investment providers consider and apply responsible and sustainable investing policies and active ownership. We consider this as a key factor when selecting and reviewing managers.
- ▶ The SuperFund Investment Sub-Committee engages actively with investment providers where concerns are identified regarding their responsible and sustainable investment approach or their active ownership approach

<sup>7</sup> SuperFund owns units in the collective investment scheme or the policy of insurance. The pooled collective investment scheme or life insurer in turn owns the assets.

<sup>8</sup> The full approach is set out in Section 7 of the SuperFund Investment Policy Statement

<sup>9</sup> The Code for Responsible Investing in South Africa 2.0 (CRISA 2.0) was published in September 2022, with the expectation that entities will commence reporting using the CRISA 2 framework from February 2023 onwards.

## 1. Annual Investment Review

Every year, the Funds conduct a detailed review of all investment portfolios utilised by SuperFund, with the assistance of our investment consultant, Old Mutual Corporate Consultants (a division of Fairbairn Consult). The 2023 review<sup>10</sup> included:

- ▶ Analysis of the suitability of the default investment portfolios for the applicable Member categories.
- ▶ Analysis of all investment portfolios available to members. This considered:



**Quantitative factors** such as historic risk-adjusted performance over rolling periods, using appropriate peer and benchmark comparisons.



**Qualitative factors** such as investment philosophy and approach, systems, research, ownership structures, remuneration, team dynamics, stewardship, resources, and transformation.

- ▶ Analysis to ensure that all investment portfolios continue to comply with the due diligence requirements and responsible investment requirements set out in our Investment Policy Statement (IPS).
- ▶ Analysis of investment management fees.
- ▶ Confirmation that investment providers have complied with the investment mandates of each investment portfolio.

The Funds' investment consultant also conducts a detailed review of the bespoke investment structures utilised by large sub-funds participating in the SuperFund Customised offering.

<sup>10</sup> The review referred to here as the “2023 review” is based primarily on qualitative data received from investment providers in March/April 2023, and quantitative data as at 31 December 2022. Additional qualitative data collected during 2022 and 2023 is included where appropriate.



## 2. Focus on Responsible Investment, Climate Risk, Infrastructure & Transformation by SuperFund's Asset Managers

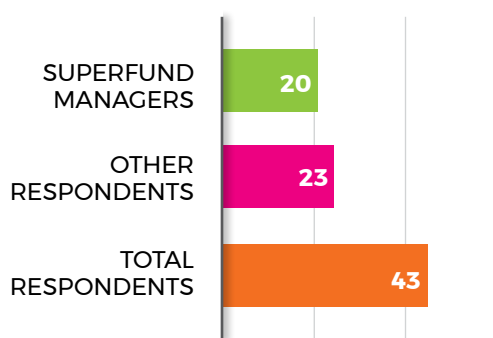
The annual investment review includes a detailed survey of how each investment manager approaches responsible investing and sustainability, as well as transformation and Broad-Based Black Economic Empowerment. This survey informs the Funds' engagement with investment managers regarding areas for development and continuous improvement.

The survey enables us to track progress by investment managers from year to year in respect of key metrics. These metrics measure each manager's approach to responsible investing, climate risk, infrastructure investment and transformation.

# R153.1 BILLION

TOTAL SUPERFUND ASSETS  
INCLUDED IN THE SURVEY

### Survey Respondents (2023)



### DATA AND METHODOLOGY UNDERPINNING THIS ANALYSIS

The analysis set out here summarises responses to some of the key questions posed to investment providers. The data was sourced using the following approach:

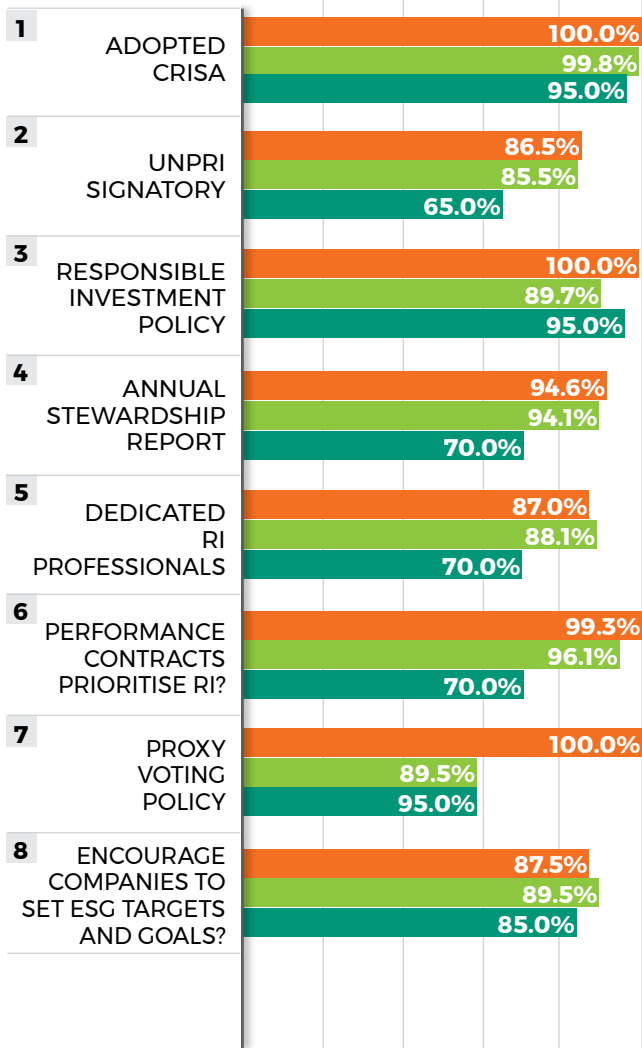
- ▶ A carefully structured set of survey questions was sent to all investment managers in South Africa which met relevant IPS criteria and which offered Regulation 28-compliant pooled investment portfolios with institutional pricing which are appropriate for the needs of the Funds.<sup>11</sup> The survey addressed both qualitative and quantitative factors. Managers were required to provide supporting documentation to support their responses.
- ▶ The "2023 review" is based primarily on qualitative data received from investment providers in March/April 2023, and quantitative data as at 31 December 2022. Additional qualitative data collected during 2022 and 2023 is included where appropriate.
- ▶ For the 2023 review, there were 43 respondents (2022: 43). Graphs in this report headed "All Respondents" therefore provide an industry-wide perspective.
- ▶ The 2023 review included responses from 20 of the Funds' investment managers (2022: 22), responsible for managing R153.1 billion (98.6%) of SuperFund assets. Graphs labelled "SuperFund Managers" provide a perspective of these 20 investment managers utilised by the Funds. 5 investment managers (2022: 8) managing R2.2 billion (1.4%) of the Funds' assets were not included in the survey, as they are primarily internationally domiciled. The responses included investment managers utilised in SuperFund Easy, SuperFund Choice and SuperFund Customised. For the managers utilised by SuperFund, a weighted response (weighted by proportion that they make up of total SuperFund assets under management) is included.
- ▶ SuperFund utilises investment portfolios from 3 different Old Mutual investment providers (Old Mutual Investment Group, Old Mutual Life Assurance Company (South Africa) and Old Mutual Multi-Managers). Each business unit has unique characteristics, and so their survey responses are treated as 3 separate investment managers in the data. Futuregrowth Asset Management is also treated as a separate investment manager.

<sup>11</sup> Note that investment managers which do not offer Regulation 28 compliant, pooled portfolios suitable for the needs of the Funds were not included. This means that managers with a focus on only one or two asset classes would typically not have been included. Similarly, managers with only a retail offering would typically not be included.



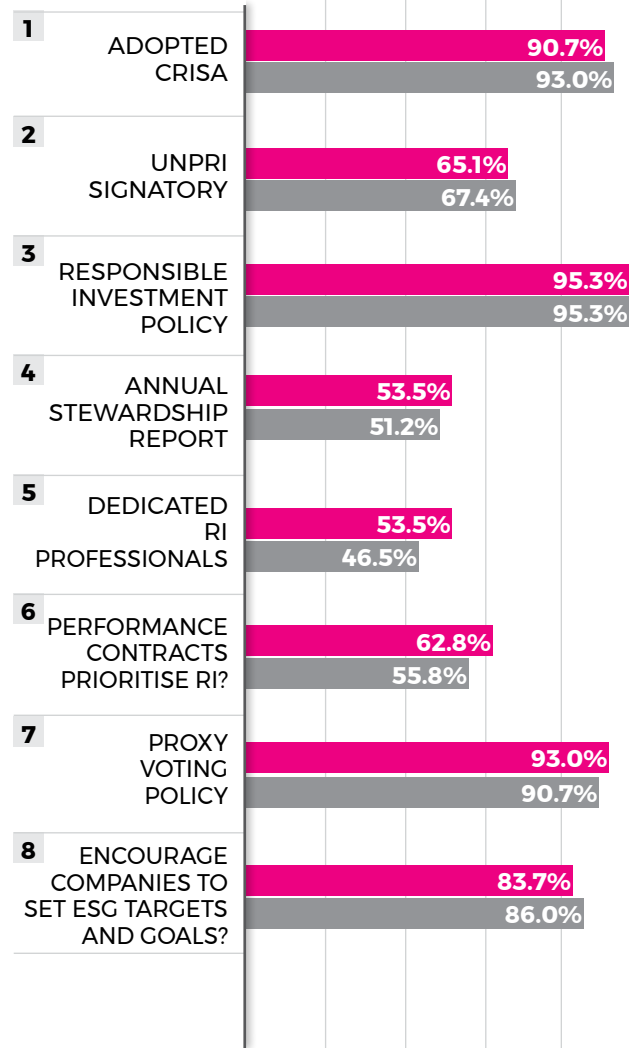
# RESPONSIBLE INVESTMENT PRACTICES

## Responsible investment practices SuperFund managers



■ 2023 - Weighted by AUM  
■ 2022 - Weighted by AUM  
■ 2023 - Unweighted

## Responsible investment practices All respondents



■ 2023 - Unweighted  
■ 2022 - Unweighted

# SUPERFUND MANAGERS: HOW ARE WE DOING?

During the year under review, the Funds conducted a detailed review of Responsible Investment policies and stewardship reports of all managers utilised within SuperFund Choice, with the assistance of our investment consultant. The quality and scope of the policies and related reporting continues to improve from year to year.

## AREAS OF SUCCESS



# 99.96%

(rounded to 100.0% in the graph above) of the Funds' assets are managed by investment providers which have adopted the CRISA 2 (Code for Responsible Investing in South Africa) principles.

# 86.5%

of the Funds' assets are managed by UNPRI (United Nations Principles of Responsible Investing) signatories.

# 94.6%

of the Funds' assets are managed by asset managers which produce an annual stewardship report.

# 99.96%

(rounded to 100.0% in the graph above) of the Funds' assets are managed by investment providers which have appropriate proxy voting policies in place.

Following engagement, an index-tracker manager utilised in SuperFund Customised has indicated that they are in the process of formally adopting the CRISA 2 principles (whereas previously they did not support these principles).

Furthermore, they intend to develop a proxy voting policy and publish a stewardship report going forward, indicating progress in addressing these matters.

## ROOM FOR IMPROVEMENT



# ONLY 17 OF THE FUNDS' 20 MANAGERS

encourage the companies they invest in to set ESG targets and goals



The Funds have engaged with certain managers regarding the focus and detail in their responsible investment policies.



## MARKET TRENDS: WHAT DID WE FIND?

In general, there has been a significant increase in the adoption of responsible investment principles and practices by managers in the industry over the period 2020 to 2023.

Becoming a signatory to the UNPRI is more onerous than adopting CRISA 2 principles. To become a signatory to the UNPRI there is an annual cost involved, based on asset size in pounds, and an extensive annual submission. Some small asset managers therefore cite the cost and time involved as reasons not to become a UNPRI signatory. Nonetheless, 65.1% of respondents indicated that they are signatories to the UNPRI for the 2023 review. This is largely consistent with the 2022 review, but a significant increase from the 2021 review.

### SUPERFUND BEST PRACTICE: CRISA AND UNPRI

Investment Providers appointed by the Funds are required to adopt the principles and practice recommendations set out in CRISA 2, and/or be signatories to the UNPRI. The Funds seek to utilise investment providers which operate responsibly and sustainably, and which have fully integrated sustainability and criteria for responsible investment practices into their investment decisions.

### SUPERFUND BEST PRACTICE: RESPONSIBLE INVESTMENT POLICIES

Investment Providers are required to provide the Funds' investment consultant with detailed information about their responsible investment policies and practices, and how these are implemented. This information is analysed and included in scoring when a due diligence is conducted to consider the addition of an Investment Portfolio, and on an annual basis when the Funds conduct their annual investment review.

**Well-written reports/policies tend to include at least the following:**

- ▶ RI reports clearly show understanding of the role the investment manager plays and demonstrate tangible reportable actions by the manager in achieving different ESG Outcomes.

- ▶ RI reports make reference to how companies were rated and how the ratings affected the investment manager's implementation, and an indication of escalation steps i.e. engagement, consideration for exclusion, media, etc.
- ▶ Some managers have separate engagement, ESG and RI Policies which each reflect views and tangible escalation processes to be followed.
- ▶ Sustainability reports record proxy votes and number of engagements per ESG category, outcome of the engagements with some case studies.
- ▶ Sustainability/Stewardship reports include achievements and shortfalls for the year and a roadmap/journey for the way forward.
- ▶ Proxy voting policies not only include Governance factors, but also Environmental and Social guidelines.

### SUPERFUND BEST PRACTICE HOW CAN OUR MANAGERS MAKE A DIFFERENCE?

South Africa experiences the triple social challenges of inequality (with the greatest GINI coefficient globally), poverty and unemployment. While there is still debate on specific definitions and metrics on social aspects globally, we believe that investment managers and asset owners can play a crucial role in reducing these threats through appropriate engagement with the underlying companies they hold.

Through a thorough understanding of the workforce and employment policies, investment managers may be able to support businesses during phases of restructure with regards to reskilling, redeployment and compensation of workforce potentially left unemployed otherwise. We expect that this will be especially prevalent with respect to Net Zero alignment and implementation of a Just Transition.

In addition, through encouraging appropriate disclosures, purposeful analysis of remuneration statistics and engagement with intent, we can work towards addressing inequality by narrowing the pay gaps such as executive pay gaps, racial pay gaps and gender pay gaps.

# 53.5%

of managers producing  
stewardship reports.

# 65.1%

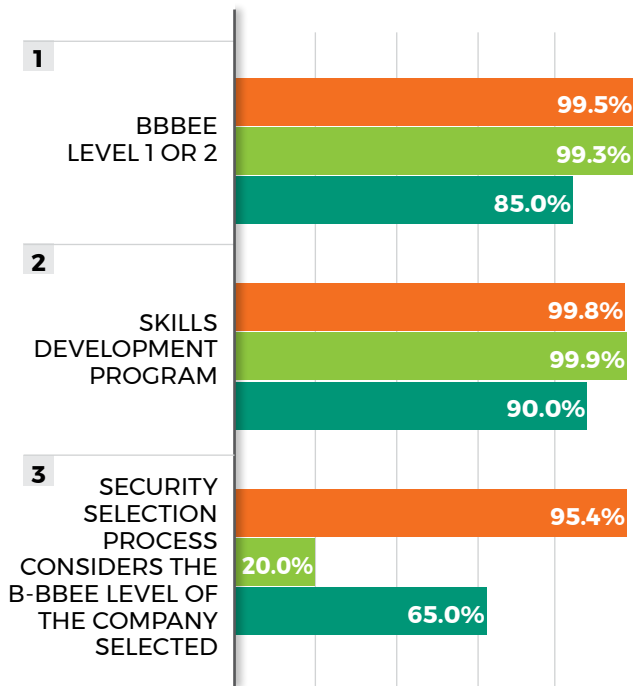
of respondents indicated  
that they are signatories to  
the UNPRI

There has been a significant increase over time in the number of managers producing stewardship reports, up from **33.3%** of respondents in 2021 to **53.5%** in 2023.



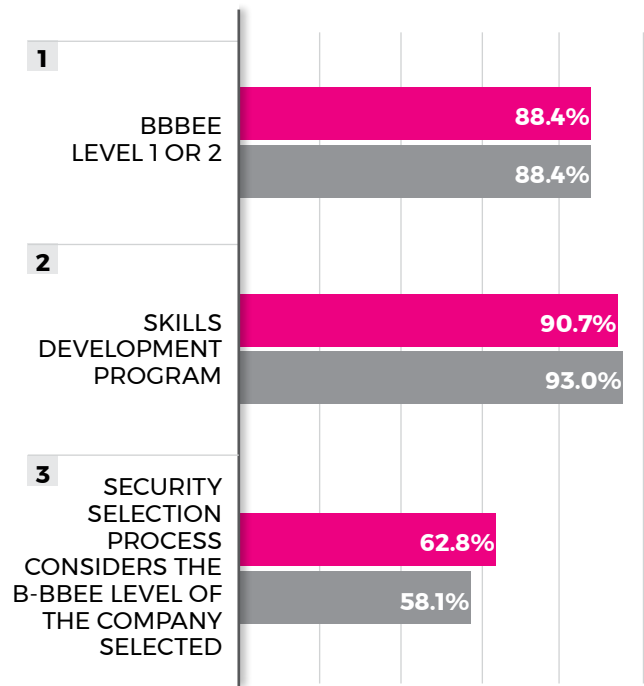
# TRANSFORMATION PRACTICES

## Transformation SuperFund managers



■ 2023 - Weighted by AUM  
■ 2022 - Weighted by AUM  
■ 2023 - Unweighted

## Transformation All respondents



■ 2023 - Unweighted  
■ 2022 - Unweighted





# SUPERFUND MANAGERS: HOW ARE WE DOING?

## AREAS OF SUCCESS



# 99.5%

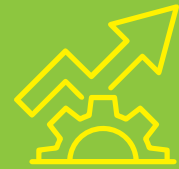
of the Funds' assets are managed by asset managers which are Level 1 or Level 2 BBBEE contributors. All of the Funds' asset managers utilised in SuperFund Choice are Level 1 contributors.

# 99.8%

of the Funds' assets are managed by asset managers with skills development programmes in place.

During the year under review, the Funds' largest asset managers have incorporated the consideration of B-BBEE level into their stock selection process. This resulted in an increase in this metric from 20% of the Funds' assets in 2022 to 95.4% of the Funds' assets in 2023. This metric must be understood in context, however. Prior to 2023, these asset managers had a process of actively engaging with investee companies regarding transformation (i.e. rather than applying a scorecard approach during the stock-selection process).

## ROOM FOR IMPROVEMENT



# ONLY 8

OF THE FUNDS' MANAGERS REPRESENTING ONLY

# 6.62%

OF THE FUNDS' ASSETS

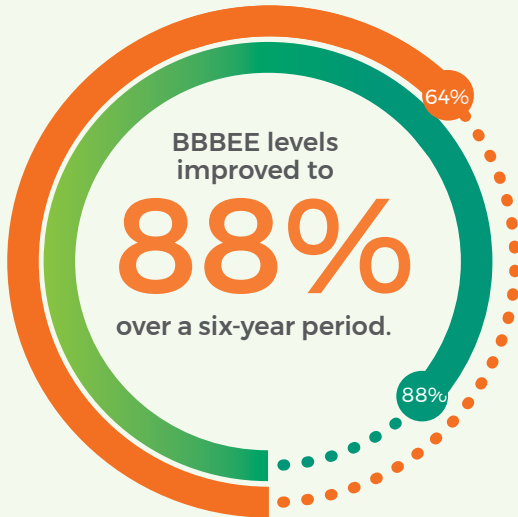
are more than 51% Black-owned. However, if a look-through approach is applied in respect of the Fund's smoothed bonus investments, this figure increases to

# 69.88%

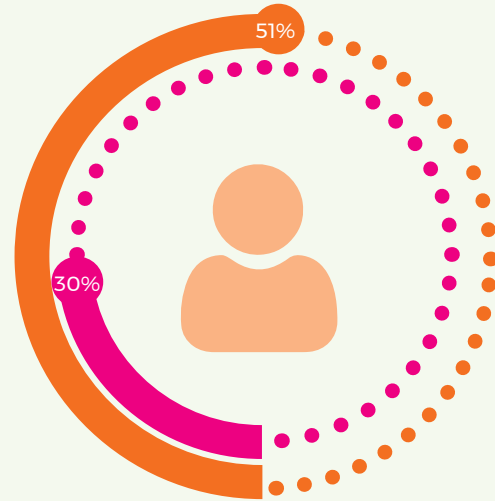
OF THE FUNDS' ASSETS.



## MARKET TRENDS: WHAT DID WE FIND?



There has been a strong improvement in B-BBEE levels over a six-year period. Our 2018 survey showed 64% of managers were Level 1 or Level 2 -BBBEE contributors, which improved to 88% in the 2023 survey.



For the 2023 survey, **60% of respondents** were more than **51%** Black-owned, and **28% of respondents** were more than **30%** Black-women-owned.



### SUPERFUND BEST PRACTICE: TRANSFORMATION

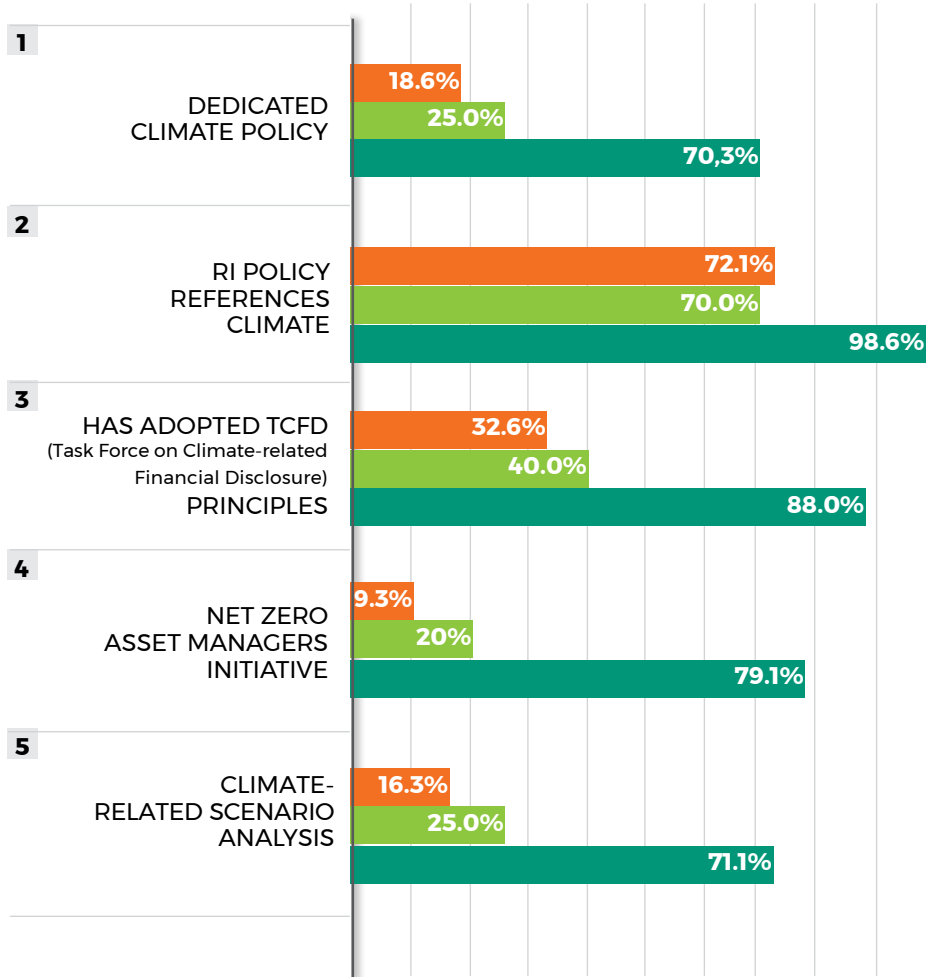
The overall empowerment rating of the investment manager provides a good proxy measure of the firm's overarching commitment to transformation and BBBEE. The Funds consider the trend in respect of the empowerment rating over a period of 5 years, to identify progress in respect of transformation over time.

The Funds also consider a number of factors to understand the investment manager's transformation approach in more detail. The Funds consider the diversity of the investment team, and the ownership make-up of the firm. Attention is paid to the skills development programmes that are in place, what progress in respect of these programmes is made over time, and whether the firm has measurable, time-specific goals to increase these levels.



# CLIMATE RISK AND INFRASTRUCTURE INVESTMENT PRACTICES

## Climate Risk SuperFund vs all respondents



- 2023 - All Respondents (Unweighted)
- 2023 - SuperFund Managers (Unweighted)
- 2023 - SuperFund Managers (Weighted by AUM)



# SUPERFUND MANAGERS: HOW ARE WE DOING?

## AREAS OF SUCCESS



5 icons → **70%**

**SUPERFUND:** While only 5 of the Funds' managers have dedicated climate policies in place, these 5 firms manage more than 70% of the Funds' assets. 14 of the Funds' managers (managing 98.6% of the Funds' assets) address climate issues in their responsible investment policies.

8 icons → **88%**

**SUPERFUND:** 8 SuperFund managers managing 88% of the Funds' assets promote disclosures in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD).

4 icons → **79%**

**SUPERFUND:** Only 4 SuperFund managers have joined the Net Zero Asset Manager or Net Zero Asset Owner initiative, but these 4 firms manage 79% of the Funds' assets.

**INDUSTRY TRENDS:** There has been a general improvement from 2022 in respect of climate focus by the rest of the industry. For example, the number of firms which address climate issues in their responsible investment policies has increased from 58% to 72%.

## ROOM FOR IMPROVEMENT



**SUPERFUND:** Although a high proportion of SuperFund's assets are managed by firms with a strong focus on climate risk, many of the smaller managers utilised by SuperFund have significant work to do in their approach to managing and measuring climate risk.

**INDUSTRY TRENDS:** Responses from the rest of the industry show that the majority of managers do not yet have a strong focus on climate risk.

**INDUSTRY TRENDS:** The "just transition"<sup>12</sup> (i.e. this has been a difficult element to quantify as it relates to affected staff and hence the majority of managers are not yet able to fully quantify its effect).

## INFRASTRUCTURE

The July 2022 amendments to Regulation 28 are intended to enhance reporting on infrastructure investment, effective from 2023. However, the industry's current confusion stemming from the ambiguous definition of "infrastructure" in the amendments hinders the extraction of meaningful insights from survey responses. We anticipate forthcoming clarity on this matter.

<sup>12</sup> A "just transition" refers to the idea that the transition towards a green economy must be done in a fair way. It seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically - be they countries, regions, industries, communities, workers or consumers.



### 3 Engagements with investment managers

The Investment Sub-Committee meets with all investment providers utilised in SuperFund Choice over a two- to three-year cycle. For those providers which manage key default investment portfolios, meetings are held up to twice a year. During these engagements, we address a range of matters, including issues highlighted by our investment consultant's research, and discuss the Funds' investment objectives and priorities.

Where clients in SuperFund Customised utilise other investment providers (i.e. outside of the range of managers utilised in SuperFund Choice), their Management Committees are required to engage regularly with these investment providers and hold them to account regarding sustainability and stewardship.

During the period 2022 to 2023, the Funds communicated with all relevant investment providers, setting out the views and requirements of the Funds regarding responsible and sustainable investment as well as transformation and BBEE in respect of pooled investment portfolios. The goal was to ensure clarity and enable further dialogue on these key issues.

### 4 Support for Management Committees and Investment Consultants

Within SuperFund Customised, Management Committees and their appointed investment consultants play a key role in the investment governance process. The Management Board has provided a comprehensive guidebook for these stakeholders, setting out detailed requirements regarding the governance of sub-fund investment matters.

Representatives from the Management Board are engaged in a cycle of meetings with the Management Committees of large sub-funds, to better understand their needs and to strengthen channels of communication.

### 5 Stewardship and sustainability in respect of directly held assets

Two large sub-funds within SuperFund Customised utilise investment strategies which invest in assets directly owned by the Funds, held in segregated portfolios. In such cases, the Management Committee is required to implement an active ownership approach. The approach to responsible investment and sustainability factors must be documented in their Sub-Fund Investment Plan and must be approved by the Management Board. It must address the following matters:

- ▶ A written proxy voting policy in respect of such assets;
- ▶ Guidelines to ensure that votes are cast in line with such proxy voting policy; and
- ▶ How such votes are recorded and reported.

The Management Committee and their appointed Investment Consultant are required to provide the Funds' investment consultant with details regarding the exercise of voting rights on a regular basis. This information is assessed in the annual compliance review of SuperFund Customised.

### 6 Responsible Investment and transformation in the Funds' smoothed bonus investment portfolios

The Funds' total allocation to smoothed bonus investment portfolios (Old Mutual Absolute Growth Portfolios and Coregrowth) as at 30 June 2023 was R94.6 billion (60.9% of the Funds' total assets). The Absolute Smooth and Absolute Stable Growth Portfolios are used as the Funds' primary default investment portfolios. As a result, the Management Board places additional emphasis on the responsible investment approach of these portfolios. [The Smoothed Bonus Funds Responsible Investment Report 2023](#) sets out extensive detail regarding the high focus on sustainability and stewardship in respect of these portfolios.

## IN THEIR OWN WORDS

#### Extract from the Smoothed Bonus Funds Responsible Investment Report 2023:

"For the Smoothed Bonus Funds, Responsible Investment means considering material ESG risk and opportunity when making investment decisions. It also means being responsible stewards of our customers' money. This entails actively engaging with companies around ESG issues and voting on company resolutions (proxy voting). This helps to ensure that companies follow sound governance practices and good labour practices, and active management of their impact on the environment and local communities.

In addition to this commitment to monitoring the extent to which all our asset managers invest responsibly, the Smoothed Bonus Funds actively invest in the building blocks of a sustainable economy, including renewable energy, housing, schools and agriculture. Our Responsible Investment approach recognises the requirements of the Code for Responsible Investing in South Africa (CRISA), Regulation 28 of the Pension Funds Act, and the UN-backed Principles for Responsible Investment, to which Old Mutual is a signatory."



# REGULATORY COMPLIANCE



# 1 Regulatory developments

There have been several recent regulatory developments which are expected to impact the investment environment in the near-term.

REGULATORY DEVELOPMENT	IMPLICATIONS FOR SUPERFUND'S INVESTMENTS
<p><b>The Conduct Standard on Conditions for Investment in Derivatives Instruments for Pension Funds was published on 12 May 2023, and will take effect from 11 May 2024.</b></p> <p>The Authority recognises that there is a role for the use of derivatives within pension funds' portfolios, however, there are a number of major risks inherent in these instruments. Three major risks with the use of derivatives are market transparency, counterparty risk and liquidity risk. Such investments are often complex, illiquid or opaque, and therefore require close monitoring, analysis and intrusive supervision than most traditional investment products. This is more so when potentially vulnerable investors, such as pension fund members and beneficiaries, are involved.</p>	<p>The Conduct Standard sets out overarching principles for the uses of derivative instruments by funds. SuperFund's asset managers will be required to comply with the Conduct Standard from May 2024. However, SuperFund managers are already required to manage the use of derivatives very carefully, and therefore no major impact is expected.</p>
<p><b>Amendments to Regulation 28</b> of the Pension Funds Act were gazetted on 1 July 2022, to take effect from 3 January 2023. These include the following changes:</p> <ol style="list-style-type: none"><li>The amendments introduce a definition of infrastructure, and set a limit of 45% for exposure to infrastructure investment.</li><li>The limit between hedge funds and private equity has been split. There will now be a separate and higher allocation of 15% to private equity assets with hedge fund allocations up from 10%.</li><li>A limit of 25% has been imposed across all asset classes to limit exposure to any one entity (with the exception of SA government debt).</li><li>Retirement funds continue to be prohibited from investing in crypto assets</li><li>The reporting exclusion on look-through of Collective Investment Schemes, insurance policies and guaranteed products has been removed to enable the regulators to collect statistics on underlying exposures.</li></ol>	<p>SuperFund already has significant exposure to infrastructure investments, particularly via its smoothed bonus investment portfolios. The gazetted changes in respect of infrastructure therefore do not have a significant impact on the Funds.</p> <p>The changes in respect of hedge funds and private equity, concentration limits and cryptocurrency limitations are not expected to impact the Funds' investment strategy.</p> <p>The removal of the reporting exclusion on look-through of Collective Investment Schemes and insurance policies is expected to result in a significant amount of extra audit and financial reporting work and costs for the Funds. However, the Prudential Standards setting out details regarding how information should be provided in quarterly reporting and annual financial statements will only be published in 2024.</p>
<p>The 2022 and 2023 draft Revenue Laws Amendment Bills contain significant proposed amendments to the retirement fund environment, dealing with the <b>"Two-Pot" retirement system</b>. This system will create two separate components of retirement savings going forward, one which would be accessible before retirement, and the other only accessible at retirement.</p>	<p>SuperFund fully supports the aims of the Two-Pot system. The Management Board is working extensively with the Funds' sponsor, investment consultant, administrator and other stakeholders to address the wide-ranging changes required.</p> <p>The Two-Pot system may require an investment approach which can address the differing characteristics of each "pot", balancing both a long-term focus and shorter-term liquidity needs.</p>



## 2 Compliance with Regulation 28

During the reporting period, Old Mutual SuperFund complied with asset limits set out in Regulation 28 of the Pension Funds Act. It complied with principles in Regulation 28(2) as follows:

- ▶ Emphasis was placed on continuous development of the Management Board with respect to fund investment, governance and other related matters.
- ▶ The Management Board regularly monitored compliance by advisors and service providers with Regulation 28 and other applicable legislation.
- ▶ The Funds sought to promote Broad-Based Black Economic Empowerment by service providers.
- ▶ The Management Board ensured that the Funds' assets were appropriate for liabilities.
- ▶ The Management Board conducted appropriate due diligence in respect of all relevant factors for new investment portfolios, and for reviews of existing investment portfolios.
- ▶ The Management Board sought to understand the changing risk profile of assets of the fund over time.
- ▶ Before selecting new investment portfolios, and in respect of existing portfolios, the Management Board considered factors which may materially affect the sustainable long-term performance of the asset including, but not limited to, those of an environmental, social and governance character.

## 3 Compliance with Guidance Note 1 of 2019

The Fund's Responsible and Sustainable Investment Policy (a sub-section of the Investment Policy Statement) responds comprehensively to the requirements of the FSCA's Guidance Note 1/2019.

- ▶ The Investment Policy Statement (IPS) reflects how the Funds' general investment philosophy and objectives seek to ensure the sustainability of assets, including its active ownership policy.
- ▶ The IPS addresses how the Funds deal with factors that limit the application of ESG factors, sustainability criteria or an active ownership policy. As a member investment choice offering, the Funds have a long-established practice of primarily utilising pooled unitised investment portfolios, which are either constituted as collective investment schemes or policies of insurance. The Funds experience some limitations in the exercise of active ownership practices in respect of pooled investment portfolios, because the Funds do not directly own these investments. The Funds' active ownership approach is therefore focused on ensuring that investment providers in turn apply an active ownership approach in respect of these pooled portfolios.
- ▶ A truncated version (i.e. excluding annexures) of the Funds' updated IPS was made available during the financial year to all members, participating employers, representative unions and other stakeholders (including the general public) on the Funds' website. Email communication to this effect was sent to all parties for whom the Fund has contact details.
- ▶ The Management Board is not aware of any direct requests during the financial year from members for a copy of the IPS. However, any member who does request the IPS via appropriate channels will be provided with a copy or directed to the Fund's website.
- ▶ A summary of the changes made during the financial year to the IPS (including changes to the Fund's responsible and sustainable investment approach) was published together with the Investment Policy Statement. This summary of changes is also included in this report.
- ▶ The Annual Financial Statements as at 30 June 2023 include extensive disclosure regarding the Funds' responsible and sustainable investment approach.
- ▶ In the interests of transparency and accountability, the Management Board has prepared this Investment Sustainability Report for the financial year ending 30/06/2023, as a supporting document to the Fund's Annual Integrated Report. This is available to all members, participating employers, representative unions and other stakeholders for whom the Fund has contact details.



# IPS CHANGES DURING THE 2022/23 FINANCIAL YEAR



**The Investment Policy Statement (IPS) sets out the investment objectives and strategy of Old Mutual SuperFund. The Management Board reviews the IPS at least once a year, or more frequently as required. Regular review is necessary within the ever-changing socio-economic and regulatory environment within which the Funds operate. It enables us to ensure that the SuperFund investment strategy remains relevant and up to date.**

The following changes were made to the IPS during the Financial Year ending 30 June 2023:

- ▶ Section 1.3 of the introduction was amended to remove the special commentary regarding the COVID-19 pandemic, since the Funds' response to COVID-19 is now embedded into its general investment approach.
- ▶ Sections 2.4 and 5.1 were amended to acknowledge the changes to Regulation 28 gazetted on 1 July 2022, and that Investment Providers will be required to provide additional information from 2023 onwards.
- ▶ Section 9 was added, setting out comprehensive detail regarding the roles and responsibilities of the various role-players in the SuperFund investment framework.

- ▶ Annexure B (SuperFund Choice) was amended to clarify that the Management Board permits a Shari'ah-compliant Investment Portfolio as an alternative default "Trustee Choice" selection for those Participating Employers which specifically require a Shari'ah-compliant investment approach.
- ▶ The table in Annexure B summarising available investment portfolios under SuperFund Choice was updated.
- ▶ Annexure C (SuperFund Customised) was revised extensively to clarify the requirements for SuperFund Customised, to include a new section summarising the Customised Governance Framework, to provide additional detail regarding the appointment of an accredited Investment Consultant, to set out the process for crafting the investment strategy and Sub-Fund Investment Plan, to expand on the communication requirements, and to describe the accreditation process for Investment Consultants. A comprehensive guide for SuperFund Customised Management Committees and accredited Investment Consultants, which describes these requirements, was distributed to improve governance of these sub-funds.

Additional updates to the IPS were approved in September 2023. The updated IPS is available on the SuperFund website.



