OLD MUTUAL SUPERFUND

MEMBER INVESTMENT UPDATE

March 2021 | Q1

This quarter we turn our focus to **responsible and sustainable investment** approaches. There is no single agreed definition for these terms, but the Responsible Investment and Ownership Guide for SA retirement funds suggests that these terms can be used interchangeably. Their description is as follows:

Sustainable investment or Responsible investment or ESG-integrated investment means...

- *The **integration of environmental, social and corporate governance (ESG) considerations** (and other relevant long-term economic risks and opportunities)...*
- ***into investment management processes** and ownership practices...*
- ***in the belief that these factors can impact financial performance.***

If we want to be conscious of where we invest our money (i.e. be a responsible investor), then we need to place more importance on ESG factors. The Pension Funds Act requires Funds to consider three parts under sustainable investing: the effect the investment has on the **environment** and the people (**social**) and whether the principles of good **governance** are applied. These factors culminate in what we call ESG factors and need to be considered in addition to considerations regarding risk and potential return of the investment relative to alternatives.

Responsible Investments; the Right Way

We believe the current pandemic has awakened the necessity of Business purpose rapidly changing from "profits for shareholders at all cost" to "sustainable value-add for all stakeholders".

Who are the stakeholders and why do they matter?

From a long-term sustainability perspective, a company:

- which treats **staff** poorly, will soon have no good staff and high staff turnover;
- which depletes and damages the **environment**, will soon have no resources;
- which abuses the **community** in which it operates, will soon have hostile relationships;
- which extracts hidden fees from **clients**, will soon be exposed; and
- which derives no value for shareholders, will not be investible.

If businesses therefore abuse any of these important and critical stakeholders, their relative success is limited to the boundary of that resource or stakeholder.

What does that have to do with my retirement savings?

Portfolio managers invest your savings on your behalf. The way that your retirement savings are invested can therefore be a driver of change and support responsible and sustainable businesses. Where a business is acting in a way that is not sustainable, shareholders can engage with the company management to improve their governance, societal and environmental impact. The argument is not only that it is the right thing to do, but this thinking also ensures the sustainability of these businesses for future generations.

"A society grows when old men plant trees, whose shade they know they will never sit in." Greek Proverb

What needs to be considered to make my investments sustainable?

The United Nations Principles for Responsible Investing (UNPRI) defines responsible investments as incorporating Environmental, Social and Governance (ESG) factors when investing. The themes per factor are:

ENVIRONMENTAL

- **climate change**
- **resource depletion**
- **waste**
- **pollution**
- **deforestation**

SOCIAL		GOVERNANCE	
	◆ human rights ◆ modern slavery ◆ child labour ◆ working conditions ◆ employee relations		◆ bribery & corruption ◆ executive pay ◆ board diversity & structure ◆ political lobbying & donations ◆ tax strategy

So how is ESG incorporated in investments?

There are three basic ways to incorporate Environmental, Social and Governance factors into the investment process.

1. **ESG factor integration.** This approach is followed by the majority of reputable South African asset managers. The asset manager will consider Environmental, Social and Governance factors when making investment decisions, so they are integrated into portfolio construction. This approach does not exclude companies, but rather uses the ESG factors to rate their sustainability and ultimate investment merit. They are also used to drive engagement with the respective companies.
2. **ESG Screening.** This approach means deliberately excluding certain sectors and weak ESG companies from investment through screening and filters. Shari'ah compliant portfolios are an example of this, as are some 'green'-focused portfolios.
3. **Targeted Investment.** This approach uses the deliberate selection of stocks to achieve a particular outcome, e.g. infrastructure investments

Note that all investors are encouraged to be "active" owners of assets through constant engagement with management on ESG issues, and by voting through proxy votes to encourage change. Active ownership can be applied to all asset classes, not just equities and bonds.

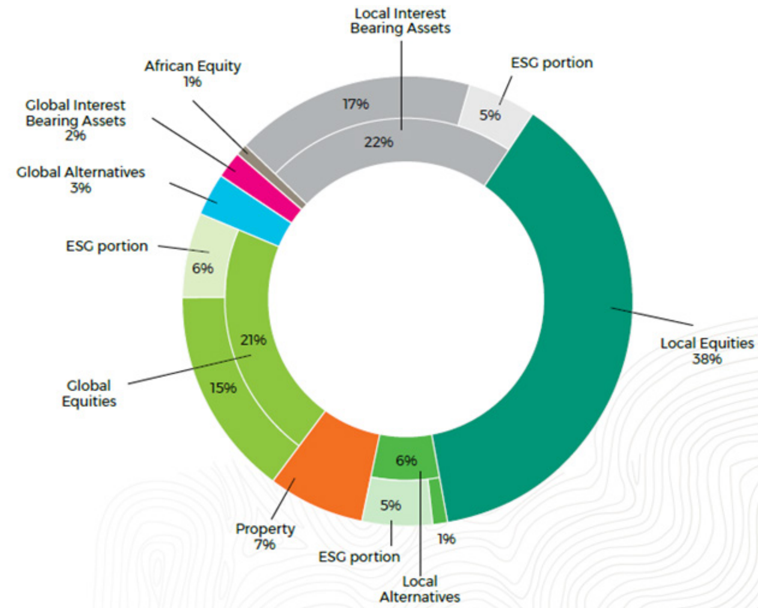
Will I be losing out on investment returns because of ESG?

There is a large body of evidence that shows that integrating ESG factors into investment processes does not detract from investment returns, if correctly applied. In fact, considering ESG makes investors responsible owners and ensures the sustainability of companies in the future, and in many cases can result in better returns. Considering ESG matters does not take away the responsibility of managers to provide good risk adjusted returns. Rather, it forces portfolio managers to be more deliberate and responsible with the investments they manage.

How does Old Mutual SuperFund stack up?

The SuperFund Management Board requires all of our investment managers to incorporate Environmental, Social and Governance factors into their investment processes. We engage annually with all our asset managers in detail about how they approach sustainable and responsible investing. We score the managers on their ESG processes and philosophy so that we can identify areas that may need further development.

We have set particularly stringent criteria for the primary default portfolio used by SuperFund (the Old Mutual Absolute Stable Growth Portfolio, or AGP). As a first step, we require AGP to thoroughly integrate ESG factors into investment decisions for all asset classes. The local and global equities and bonds are managed with ESG factor integration in mind, accompanied with active ownership through voting. However, we also require AGP to incorporate assets which have directly targeted ESG outcomes (or put simply, 'investing for good'). Approximately 16% of the underlying assets are directly targeted to ESG outcomes across the different asset classes as illustrated below:



Where can I find out more about how my assets are managed?

For more information on responsible investment on any of the portfolios on the SuperFund platform please refer to the SuperFund Investment Providers Profiles. You can find these profiles **here**:

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DO GREAT THINGS EVERY DAY