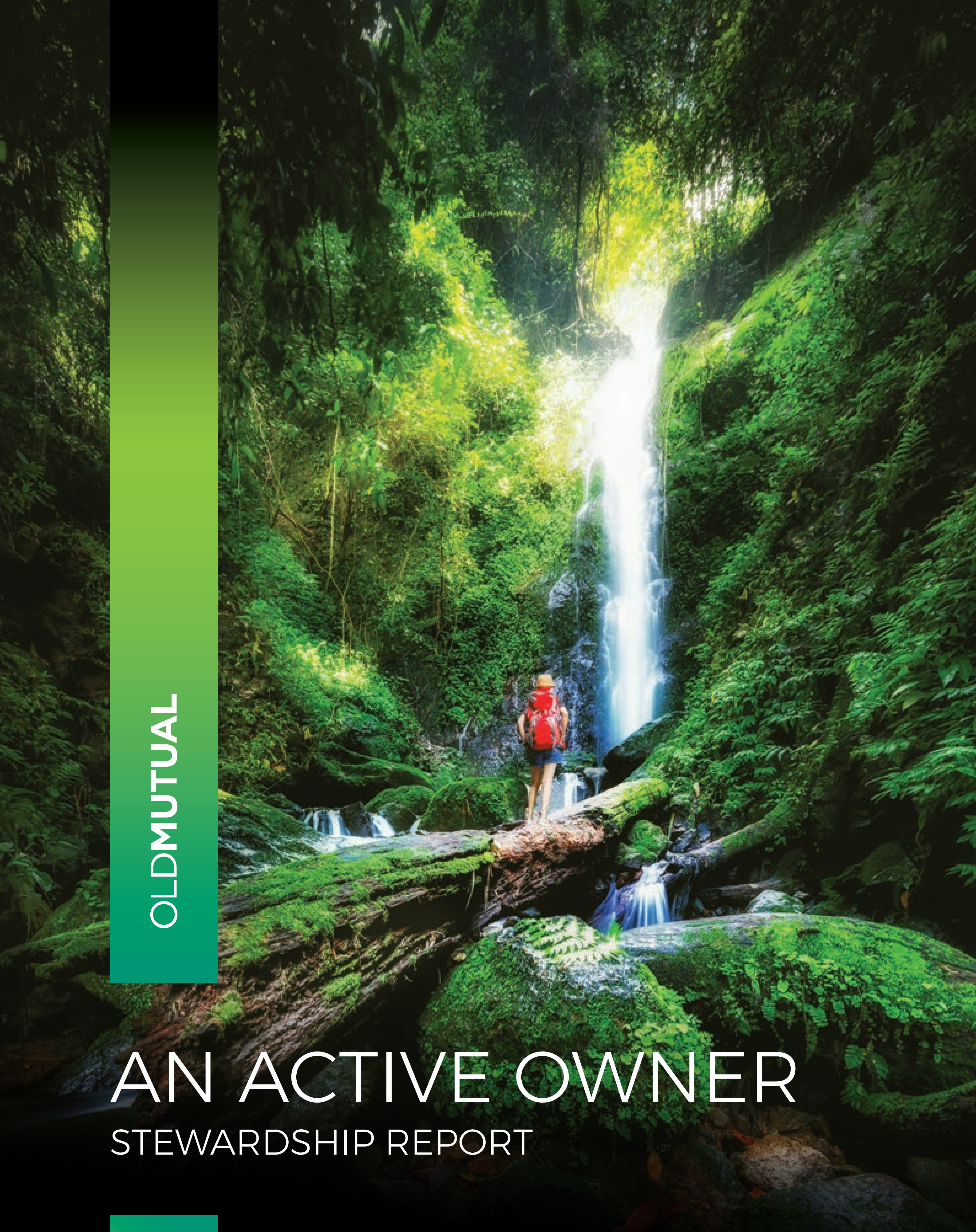

OLD MUTUAL

AN ACTIVE OWNER

STEWARDSHIP REPORT

INVESTMENT GROUP

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INCORPORATING ESG INTO OUR DNA

Khaya Gobodo, Managing Director,
Old Mutual Investment Group

COVID-19 has had devastating impacts on both societies and economies around the world. So far, we have been sheltered from the worst of the healthcare crisis due to swift and decisive leadership. We must thank President Ramaphosa and all spheres of government leadership, for the tough decisions they have had to make over the recent months. We must continue to give them the support over the coming months, as we work through what might still be the worst of the crisis. It is at times like these when our focus should be maintained and ESG should become the centre of our processes. There are several ESG related factors that will guide us and facilitate a better outcome.

Our focus to invest in a future that matters is more relevant than ever today. We live in a world that is more connected than it has ever been. This interconnectedness spans our societies, markets and environment. A fundamental principle of Responsible Investing (RI) is that it considers the impact of unpriced externalities. By recognising these, we essentially force participants to consider the common wisdom of pursuing short-term returns at the expense of long-term resilience of social and environmental systems.

The lockdown in South Africa, put in place to help reduce the spread of COVID-19, has had a devastating impact on our society. There were scores of people lining up, sometimes for kilometres, to receive food parcels. Now more than ever, the urgency of creating an economy around the concept of shared value comes to the fore. There is a need for a stakeholder inclusive model where value is shared across participating shareholder groups. This requires business leaders and management to consider a broad range of stakeholders and the associated impact on business in the decisions they make.

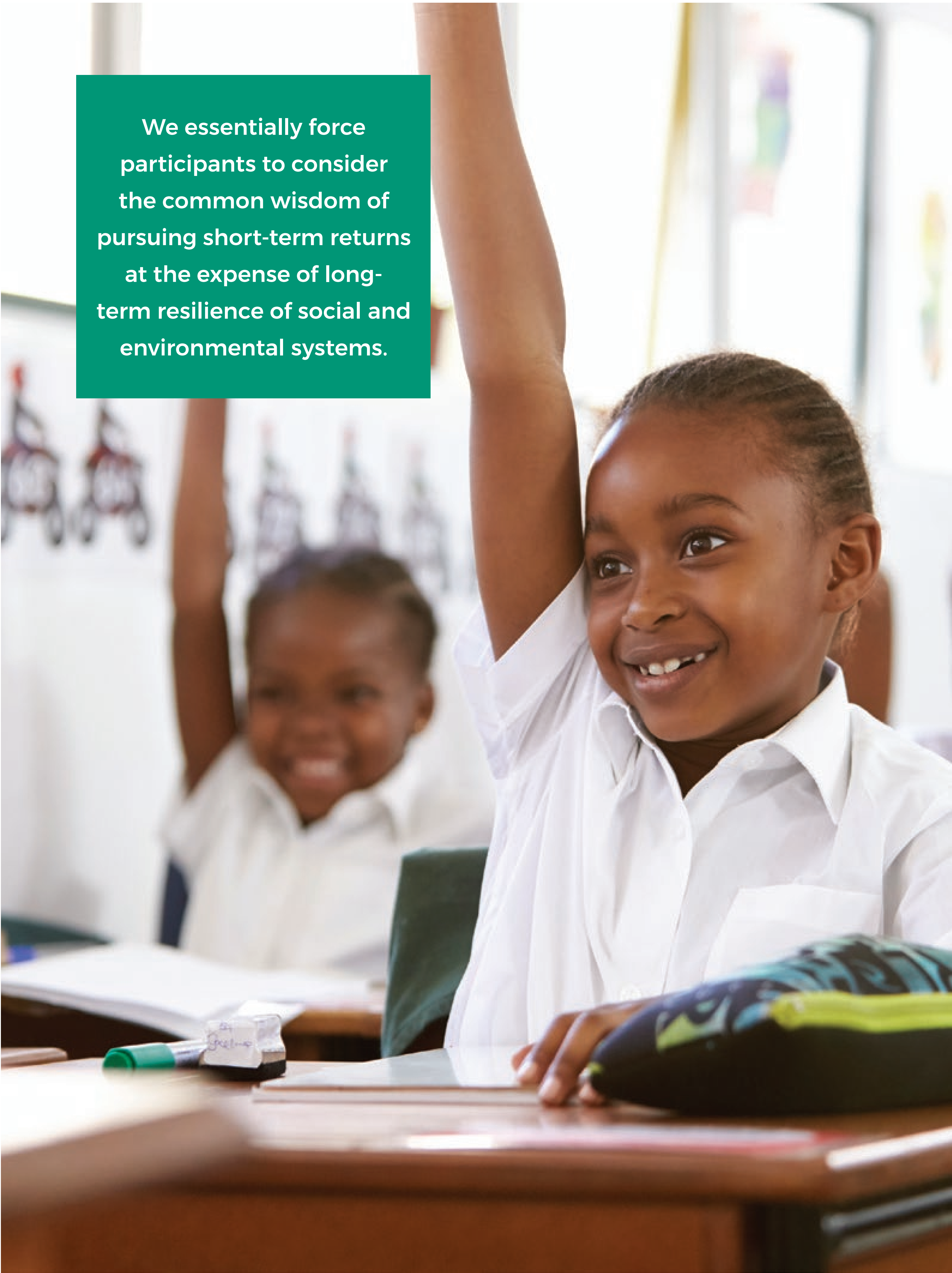
In the current age of populist politics, the role of science has increasingly taken a back seat. This is increasingly concerning, as scientific research documenting the impact we have had on the environment is often overlooked or not taken seriously. Within an RI framework we need to understand the underlying scientific workings behind climate change, allowing us to better position ourselves to the risks and opportunities that present themselves.

As we continue our journey, we strive to incorporate ESG principles into our DNA. Our investment processes afford us the opportunity to pursue superior risk-adjusted returns whilst at the same time positively impacting the communities and environment we operate in. At Old Mutual we have integrated ESG into our daily lives, with both our Cape Town and Johannesburg offices being awarded with a four-star green building rating.

In this publication, we cover ESG integration in our various investment processes, from our Alternative Investments to our Quantitative Investments teams. We focus on our stewardship approach and the services we offer covering case studies and lessons learnt from our past experiences. Through our proxy voting and engaging with companies, regulators and industry bodies, we look to drive the impact of ESG research across our market for a future that matters. Because what RI asks of us isn't new. It is a resounding truth that we all know, that "Umntu ngumntu ngabantu – I am because we are". In this journey, going it alone will not take us far. It is important that we work together as colleagues, an industry, a community, a country and the world, so that we may go far into sustaining our ecosystem.

With all the progress we've made so far, it's important to note that we are part of a greater ecosystem and so cannot redirect the ship alone. With that said, we would love to hear your views on how we can contribute more or differently towards a sustainable tomorrow for us all. Please email us at listening@oldmutualinvest.com. I hope you enjoy the read!

KHAYA GOBODO
Managing Director



We essentially force participants to consider the common wisdom of pursuing short-term returns at the expense of long-term resilience of social and environmental systems.

A DECADE OF VALUE ALIGNMENT AND GROWTH

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

OUR CORE BELIEF

We believe that it is in the interests of all participants in the financial ecosystem, to play a proactive role in creating long-term sustainable outcomes for all stakeholders. As investment managers and the stewards of our customers' capital, our approach to RI is founded on the understanding that sustainability issues can and do influence long-term investment outcomes. Issues such as resource depletion, climate change, poor governance and social inequality, pose both investment and systemic risks to our customers' goals. As investment specialists, we focus our attention on the material ESG factors that affect long-term outcomes. Therefore, fundamental alignment on long-term sustainability and the broader interests of society, creates a virtuous circle among customers, custodians and the firms in which we invest. Our approach to RI is further informed by the long-term nature of many of our investments, and our size and ability to influence RI practices – not only in financial services, but across industry through leadership and stewardship.

FOCUSED APPROACH

The core elements of our approach to RI are:

a. Integration of material ESG issues into our investment decision-making processes. Each capability has its own approach to integration to ensure alignment with the specifics of the asset class and investment philosophy. ESG skills and resources are embedded in each of the capabilities and are responsible for consideration of ESG issues in the research, valuation and portfolio construction process.

b. Responsible stewardship through proactive engagement with boards and management teams, as well as voting at company annual general meetings. Additionally, we champion cross-market sustainability issues such as say on pay, climate risk disclosure and transformation. Our approach to stewardship is guided by a desire to reduce both company specific risks and long-term market risks.

c. Supporting industry RI initiatives such as the:
- CRISA working group
- ASISA RI Committee
- UNPRI Reporting and Assessment Committee
- Shareholders Responsibility Committee of the International Corporate Governance Network (ICGN).

d. Public transparency of RI policies and practices through annual disclosures.

OUR RESPONSIBLE INVESTMENT JOURNEY IN 2019

2019 was another landmark year for RI in South Africa – notable milestones include the growing number of collaborative engagements by asset managers on ESG issues, the publication of the Financial Sector Conduct

Authority (FSCA)'s sustainability guidelines and growing pressure from civil society for the investment community to act on climate issues. Additionally, during 2019, we saw growing demand from both institutional and retail investors for products that align with sustainability outcomes.

As a business, we remain focused on our two RI priority areas:
1. Deepening our ESG research and integration practices
2. Focusing our capabilities on investment solutions that address long-term sustainability issues (e.g. renewable energy, education and agriculture).

CORE AREAS OF PROGRESS IN 2019 INCLUDE:

ESG DATA IN LISTED EQUITY

Through 2019, we continued to build out the strength and quality of our proprietary ESG data signal. We leverage this signal to track ESG issues as they arise in the listed markets and to guide the focus of our fundamental equity research. Additionally, we initiated the process of testing this ESG signal in various strategies with the view to developing a low carbon-high conviction ESG product suite.

LISTED EQUITY STEWARDSHIP

Our Listed Equity Stewardship programme cuts across some R300 billion of client holdings and provides an important platform to champion for change on key ESG issues. During 2019, we again communicated with the market setting out our clear expectation for the businesses we invest in regarding ethical leadership, tackling transformation and integrating ESG issues into their long-term business strategy. We worked proactively with the management teams of our key holdings on high-risk ESG issues and undertook engagements at 31 companies on 93 ESG issues. During 2019, we stepped up collaboration across the industry and tabled a Just Transition resolution at the Sasol AGM with five other asset managers. Additionally, we launched our Listed Equity Stewardship Service to a select group of third-party clients. The service targets large pension funds who are seeking a professionally delivered and consistent stewardship outcome across their holdings. We see this service as an opportunity to build a coalition of investors who have a shared interest in long-term sustainability outcomes.

DRIVING GREEN GROWTH

Across Old Mutual Alternative Investments (OMAI), Old Mutual Specialised Finance and Futuregrowth – all part of Old Mutual Investment Group Holdings – we manage approximately R131 billion of our clients' capital in green economy investments, both debt and equity. These businesses are an important voice across a range of national interest issues such as renewable energy, land reform, education infrastructure, and governance at state-owned entities. During 2019, we continued to build out our capability to report the way the investment we make on behalf of our clients contributes to the United Nations Sustainable Development Goals (SDGs).

STRENGTHENING OUR POLICY

Our RI policy was first published in 2012 and has been reviewed on an annual basis. In 2019, we went through a process of renewing and ensuring alignment with the Code for Responsible Investing in South Africa (CRISA), Regulation 28 of the Pension Funds Act, the Financial Sector Charter (FSC), the King IV Code on Corporate Governance (Principle 17), and the United Nations backed Principles for Responsible Investment (UNPRI).

PARTICIPATING IN INDUSTRY INITIATIVES

We remain actively engaged with the CRISA Committee, the ASISA RI Committee and the National Advisory Body for Impact Investing. Globally, we are members of UNPRI where we remain a member of the Global Reporting and Assessment Committee. Additionally, we are active members of the International Corporate Governance Network.

In 2020 and beyond, we will continue to place responsible investment at the heart of our business, with an unrelenting focus on adding value to our clients' portfolios, while at the same time contributing towards a future that matters.

JON DUNCAN
Head – Responsible Investment

THE STRENGTH OF OUR STEWARDSHIP APPROACH

Rob Lewenson, Head – ESG Engagement, Old Mutual Investment Group

The end of 2019 marked a personal milestone for me, having been in charge of OMIG's stewardship programme for five years. An important milestone such as this afforded me the opportunity to reflect on the progress we've made in respect of realising our vision for a deeply embedded stewardship practice within our listed equity capabilities. Our track record has many achievements to be proud of – in terms of our stewardship with listed companies as well as our engagement with the market on key ESG issues aimed at strengthening our shareholder rights (you will find some examples of these successes in our previous annual reports).

In summary, our stewardship practice at OMIG is in a strong position to take advantage of the strong global growth in ESG assets as shown in the figure titled "Global growth in ESG assets". No matter what ESG strategy is employed, stewardship will sit at the core. South Africa is no different, and as the focus moves to responsible investment products, more active investors and stronger legislative enforcement, we anticipate both the demand for stewardship from investors to increase as the focus to shift to the on results of our stewardship efforts.

Highlighting the shifting focus of stewardship, the UNPRI article "Active Ownership 2.0" makes the case for a vision of an evolved standard in stewardship which explicitly and actively prioritises critical systemic goals and collective effort aimed at concrete outcomes, rather than processes and activities or narrow interests. It identifies three areas of focus:

- Outcomes are key, not inputs or processes.
- The need for common goals that are not individual but society and economy wide.
- Improved collaboration – not just with investors and capital allocators, but among communities as well.

Leaders in stewardship will be the ones that actively participate across all these focus areas. For OMIG, this is reassuring because we have indeed been doing the right things in our stewardship programme. We have publicly disclosed our listed equity stewardship guidelines, which detail our approach, proxy voting guidelines, company engagement and investor collaboration procedures, market engagement to promote and protection shareholder rights, script lending practices, conflicts of interest and disclosure and transparency. In addition to this, we report on responsible investment and stewardship annually.

With approximately R300 billion in listed equity under management and recent additions of significant third-party stewardship capital via a listed equity stewardship service (described in more detail below), proof of our effective listed equity stewardship lies in evidencing: 1) the outcomes of our proxy voting and company engagements (noting valuable insights from the data in 2019); 2) the common goals we subscribe to; and 3) collaboration with other institutional investors to achieve a joint ESG goal. We hope you will enjoy reading about our stewardship journey during 2019 and the results we've achieved in the rest of this report.

GLOBAL GROWTH IN ESG ASSETS

Region	2012 Assets	2018 Assets
Total	**US$13.3 trillion**	**US$30.7 trillion**
Europe	US$8.8 trillion	US$14.1 trillion
US	US$3.7 trillion	US$12.0 trillion
Japan	US$0.01 trillion	US$2.2 trillion
Canada	US$0.59 trillion	US$1.7 trillion
Australia & New Zealand	US$0.18 trillion	$0.7 trillion

ROBERT LEWENSON
Head – ESG Engagement

OUR PROGRESS – BY THE NUMBERS

PROXY VOTING 2019

Figure 1: Proxy voting results 2019

- We engaged with a total of 120 705 ballots at 359 company meetings.
- Whilst the number of ballots decreased from 2018 owing to repositioning of the listed equity businesses, the percentage of votes against increased marginally from 9% to 10% in 2019.

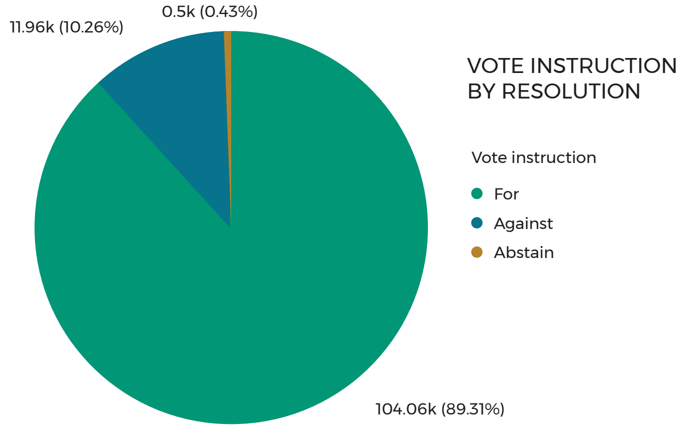


Figure 2: Resolutions we voted against – split by ESG category and sector

- In 2019, we voted against mostly the election of directors and remuneration across all sectors. Board effectiveness (independence, attendance, experience and diversity) and reward are critical factors for companies' sound governance practices – this is a similar trend from 2018.
- We also noted a significant increase from 2018 in votes against audit committee appointments, particularly in the materials and IT sectors. This is following accounting scandals and financial irregularities during the year in these sectors and the result is therefore not surprising.

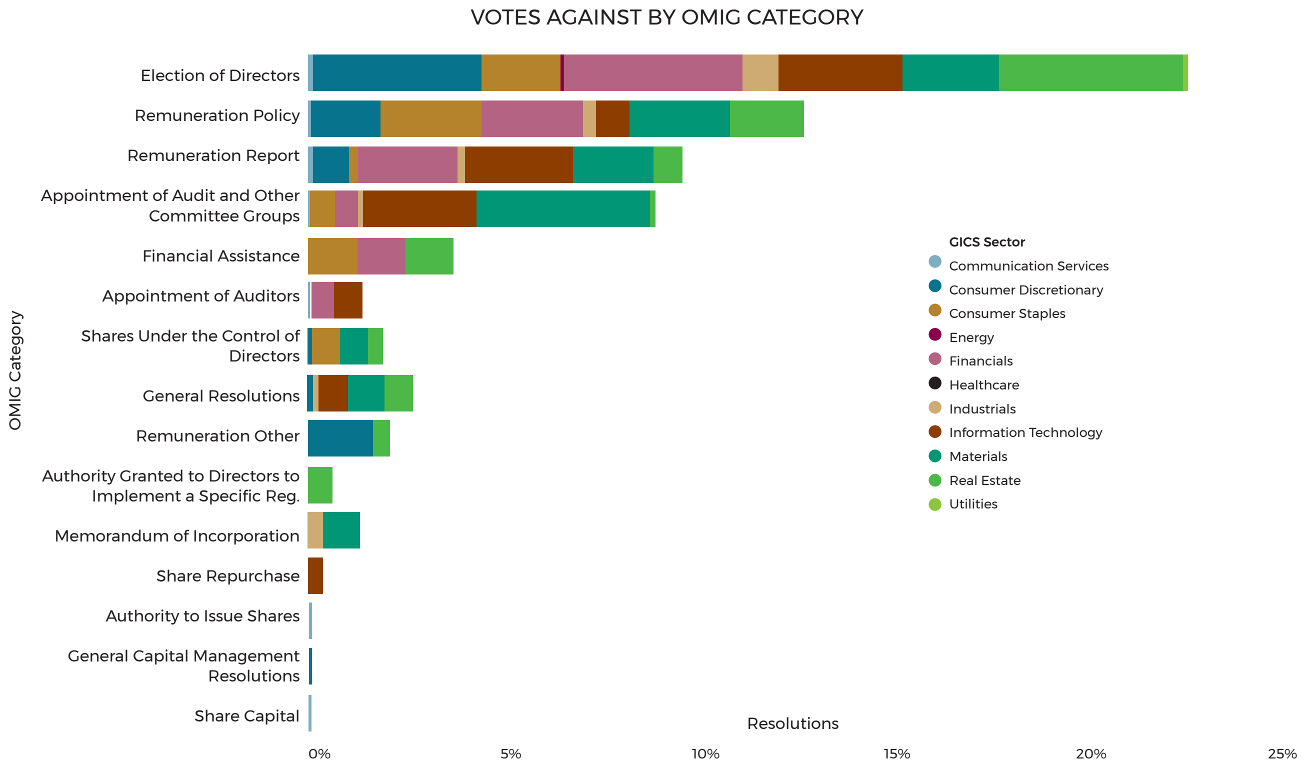
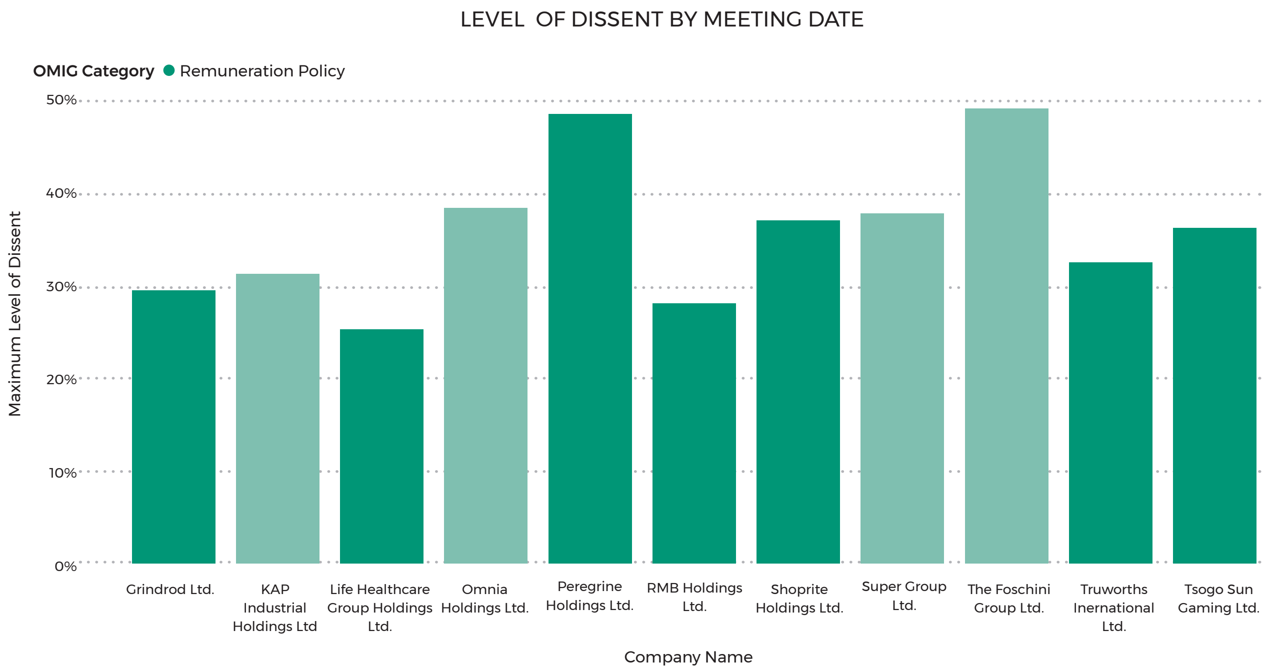


Figure 3: Companies receiving material votes against their remuneration policies in 2019

- We voted against the remuneration policies for most of these companies (shown in dark green).
- The companies in light green received material votes against but we voted in favour because we engaged with them and received commitment from their boards that they will change their policies going forward. We expect more votes in favour of remuneration policies for these companies in future.

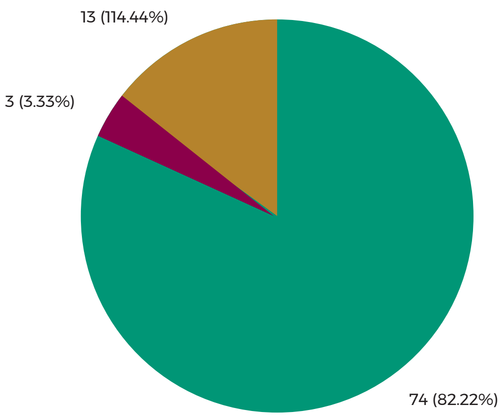


COMPANY ENGAGEMENTS – 2019

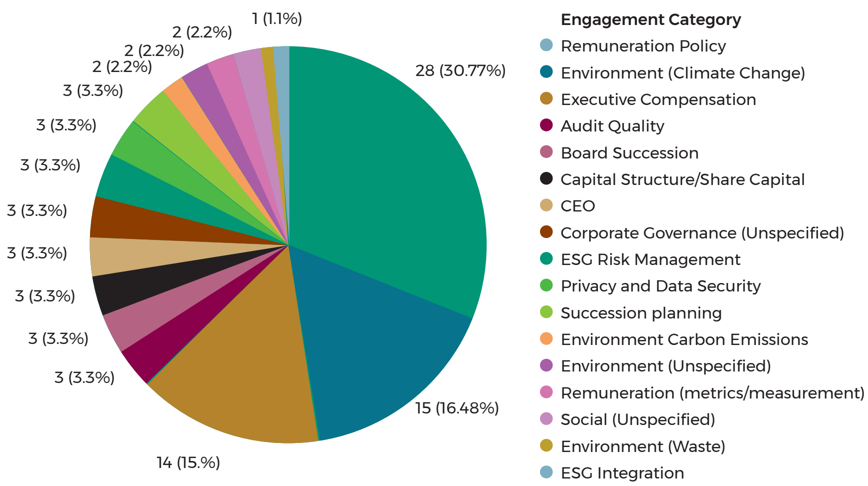
Figures 4 and 5: Engagement status

- During 2019, we engaged 31 companies on 93 key ESG issues.
- We closed out approximately 20% of all 2019 engagements by year-end, per figure 4.
- As in 2018, 2019 remuneration engagements still make up most ESG engagements.
- It is interesting to see environment engagements having the second highest number for 2019 – this is evidence of our key commitment to address environmental risk in our investee companies.

ENGAGEMENT STATUS



ENGAGEMENT BY ENGAGEMENT CATEGORY



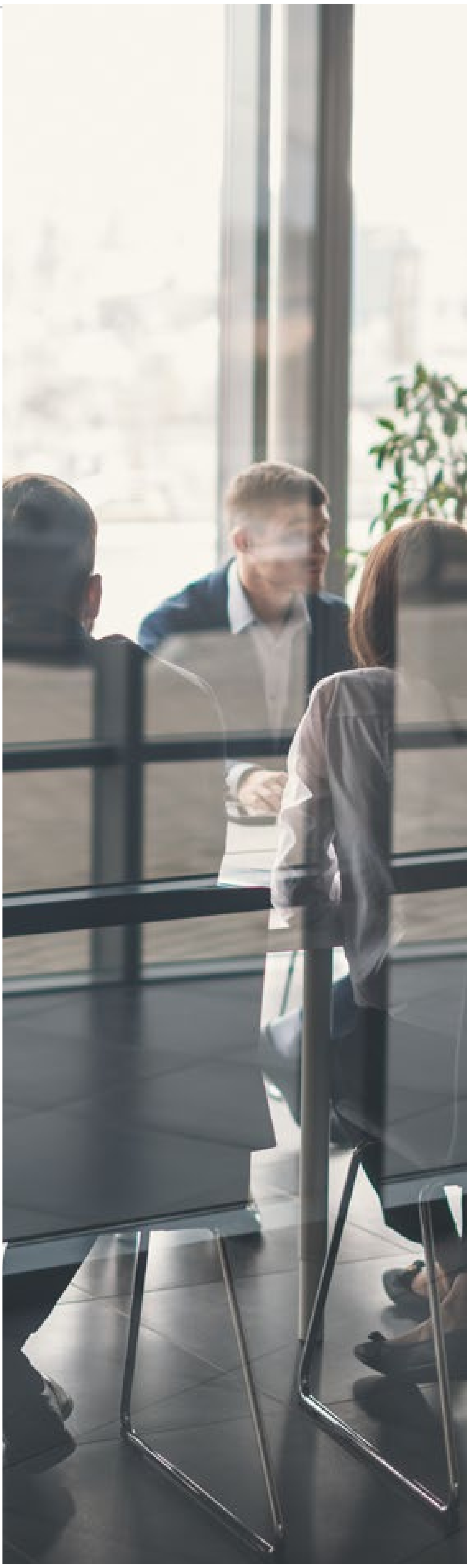
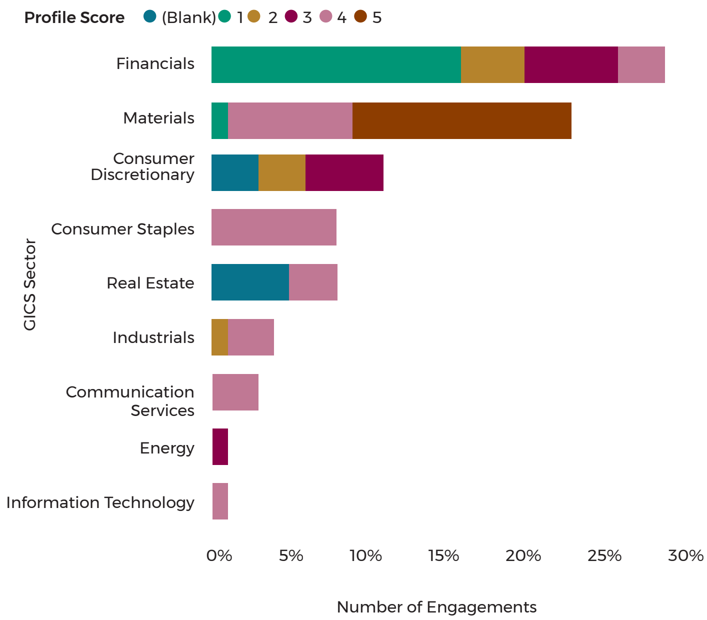


Figure 6 – Engagements by sector and by scoring ESG risk

- Our stewardship commitment is to proactively engage companies in all sectors which display the highest ESG risk.
- This graph shows the sectors of the companies with which we engaged most, along with our proprietary ESG score of these companies (by quintile – companies in quintile 1 scored as having the lowest ESG risk, whilst companies in quintile 5 scored as having the highest ESG risk).
- Whilst we engaged companies mostly in the financial sector, the graph also indicates that we engaged companies with an ESG score mostly in quintiles 4 and 5, i.e. displaying higher ESG risk. This is especially true in the materials sector, where the most engagements were with companies in quintiles 4 and 5.

ENGAGEMENT BY GICS SECTOR



CASE STUDY:
SASOL LIMITED

Siboniso Nxumalo, Head – Old Mutual Equities, Old Mutual Investment Group and
Rob Lewenson, Head – ESG Engagement, Old Mutual Investment Group

SASOL LIMITED

What is the investment case for Sasol?

Sasol consists of a cash generative South African energy and chemicals business, a cash generative European chemicals business and a 98% constructed ethane cracker chemicals plant in the US. At the spot rand oil price, the legacy operations are still cash generative. The issue is that Sasol paid for the construction of the US$13bn US ethane cracker largely with debt. The Saudi-Russia price war has put the oil price under pressure at a time when Sasol is at peak gearing (peak indebtedness) whilst its large project is just about to produce cash flows, creating a perfect storm. The share price collapsed by over 80% in less than a year by March 2020.

We believe that the market has efficiently priced Sasol as if the following were true:

- A sizeable highly dilutive rights issue coming
- The spot rand oil price will prevail indefinitely.

What is our Sasol exposure and what is our plan of action?

We spent more time debating Sasol than any other investment opportunity in 2019, given the risks which have now clearly materialised, and the opportunity which has yet to materialise. Whilst we did not envision the oil price war, we did run sensitivities which determined our investment case and position size.

The combination of COVID-19, economic growth risk and an oil price war has created many investment opportunities, including Sasol. Allocation of further capital in the event of a rights offer will be considered against other investment ideas.

We are not sellers of Sasol at these levels. Our philosophy centres on valuation and the use of quality, growth and sentiment factors to confirm our fundamental view. We believe Sasol is mispriced. Currently, it does not have a strong balance sheet, but there is a cash flow inflection point on the horizon which is tied to a discreet event, that is the completion of the US cracker. Earnings will grow as the US cracker ramps up production and the oil price normalises. Sentiment is at pessimistic levels and will improve with the oil price and project ramp-up. The risks were always near term with Sasol, while the investment opportunity to create significant value for clients is very evident on a longer-term basis.

SIBONISO NXUMALO
Head – Old Mutual Equities

ROBERT LEWENSON
Head – ESG Engagement

What were the ESG challenges we had to address?

- Sasol is primarily a chemicals and petroleum producer with operations in both the US and South Africa. Based on our ESG analysis, it falls within the highest categories of ESG risk, particularly in terms of its exposure to climate change-related risks.

- Although the company acknowledges climate change as a material risk to its future revenues, its existing disclosure, in our view, has not sufficiently set short-, medium- and long-term company-wide quantitative greenhouse gas targets (Scopes 1 and 2) aligned with the goals of the Paris Agreement.

- In addition, these targets must be linked to executive remuneration on both a short- and long-term basis to be effective.

- To align Sasol with global best practice, we furthermore saw the need for the company to publish its Scope 3 greenhouse gas emissions in its annual report. This report should include the emissions associated with the end use of Sasol's energy products, with an associated link to executive remuneration in the medium term.

What will relative success look like?

- Relative success would be the company producing a detailed climate risk report incorporating the TCFD principles and linked sufficiently to the goals of the Paris Agreement.

- The company would have a deep understanding of its exposure to climate risk and be able to sufficiently evidence to stakeholders its ability to mitigate these risks and transition its operations accordingly.

How did we engage?

Main issues discussed – pre-AGM engagement and filing of resolutions

- Call with the Board (Chair, Head of SEC, Head of Risk and Sustainability, Head of Climate Risk) on 18 October where Sasol explained its response to climate risk so far.

- The Board began to focus on building the governance necessary to address climate risk in 2017 – director training on climate risk and appointment of directors with climate risk knowledge.

- The Board wanted to better understand the concerns of stakeholders and so published the Climate Change Report dealing with matters not contemplated before – assured internally by the Group.

- Issues raised at the last AGM are issues of concern for the Board, which views climate risk as a concern to be resolved.

Main outcome of engagements – pre-AGM

Key issues raised with the company's executive on 15 November 2019

1. Capex as it relates to
   - i. Clean fuel II
   - ii. Air quality
   - iii. GHG reductions

2. Level of management focus and attention on solving for the GHG problem
   - iv. What specialist skills / capacity do they have or still need for this?
   - v. What formal structures are in place – who is leading the work and who do they report into?
   - vi. Which external stakeholders are they engaging with through this process?

3. How ambitious can we expect the 2020 Climate Risk Road Map to be?
   - i. What internal price of CO2 are they factoring in?
   - ii. What are they anticipating for Phase C Tax ?
   - iv. Are they expecting a revised C-budget from Government?
   - v. Have they got a worst-case scenario on climate risk and can they describe what that is?

Sasol's response to the aforementioned was as follows:

- Sustainability is an urgent strategic choice.

- Sasol is preparing a climate risk road map and reviewing a GHG peak, plateau and decline model as product risk increases in international markets.

- The Road Map will deal with three key areas of risk:

i. Emissions
ii. Clean fuel
iii. Paris Agreement on transition to green economy

Emissions
Sasol asked Government for a postponement on compliance related to this particular matter and scheduled abatement procedures on boilers, and plan to be finished by 2025. (Likewise, nitrate oxide emissions – issue is sulphur dioxide emissions – are currently well above standard of 1000 metric tonnes, which Sasol is trying to reduce. However, if the standard goes lower they could not change plants fast enough to meet deadlines for compliance.)

Clean fuel
Guidance has already been priced into the market.

Reduction in GHG emissions
The first 10% reduction commitment won't be a change from coal to gas mix at Secunda, but rather an energy efficiency drive, a process optimisation and an introduction of renewables. Post 2030 it will only be looking to shift teh process into gas only and look at hydrogen, an aggressive shift to renewables for process inputs seeing a carbon price at Secunda between R18 and R24 per tonne of GHG. It may use carbon credits to offset carbon tax – gas is not a viable option at present without securing long-term sources and logistics arrangements.

What was the result?

- An unsatisfactory response by the company regarding the key issues it faces on climate risks, notwithstanding the late publication of the Climate Risk Report. Sasol will provide an update on the Climate Risk Road Map in November 2020.

- A decision was made with other investment managers to collaborate on the filing of resolutions to promote greater transparency at the company. They also had to disclose key risks with plans to mitigate them and links to executive remuneration.

- The company refused to table resolutions at the AGM and OMIG responded in media [cross-link to our media position statement].

Main outcomes at AGM

Our Head of ESG Engagement attended the AGM on 27 November 2019 and asked the following questions to the Board:

1. Given that we consider climate risk as a critical shareholder matter and material risk for the company, does the Sasol Board consider a 10% reduction in GHG emission by 2030 to weaken the risks of carbon tax and cost of capital?
Response: The 10% target is only an initial number, which may change according to the business risk the climate transition presents.

2. What date will the Climate Risk Road Map be published this year (2019)?
Response: An update will be provided in November (2019) (Head of ESG Engagement wanted them to commit to a date publicly).

3. Other than the previous CEOs forfeiting their bonuses, are there any other payments going to be made to the former CEOs?
Response: Former CEOs will enter into a separation package once their terms expire under contract. This will follow the normal disclosure period and the amount would be finalised at the end of the notice period with disclosure in the next Annual Report – there will be no remuneration payable particularly because of their exit.

What were the key learnings for the future?

Head of Responsible Investment and Head of ESG Engagement to drive a follow-on engagement with the Board in Q1 2020 focused on:

- The key aspects of the Climate Risk Road Map strategy

- Linking all climate strategy aspects to executive remuneration per the resolutions.

ESG RESEARCH INTEGRATION LESSONS FROM GLENCORE AND STEINHOFF

Meryl Pick, Portfolio Manager - Old Mutual Equities, Old Mutual Investment Group

Glencore was a significant holding across our funds at the start of 2019, yet over the course of the year we sold the stock to zero. It's not a coincidence that 2019 was also a year in which the investment team drove a step change in how we integrate environmental, social and governance (ESG) research into our investment process.

By outlining how we came to our decision on Glencore, I will illustrate how integrating ESG research has enhanced the way we value companies and debate risk.

WHY DID WE BUY GLENCORE?

There are two aspects to our investment process. Firstly, we carry out detailed fundamental bottom-up research. We dedicate a significant amount of time and effort to analysing a company, examining in great depth the business model, the company's key drivers, its future growth prospects, its competitors, its profitability and balance sheet health. The purpose of this work is to determine an estimate of the long-term "intrinsic value" of the business. Our process is based on the philosophy of investing in businesses that trade at a discount to our estimation of "intrinsic value".

However, as Winston Churchill once said, "The future is unknowable, but the past should give us hope." We acknowledge that there are limitations and biases inherent in our estimates of intrinsic value. Therefore, we supplement our bottom-up research with a second aspect that seeks to independently, and in our case quantitatively, "confirm" our fundamental assumptions. The "confirmation" factors assess and score the quality of the company up to that point, its historical and prospective growth and market sentiment towards the share. This ensures that each share is scored and ranked quantitatively by its past independently of analyst input.

Diversified portfolios are carefully constructed by selecting shares that rank best on both valuation and confirmation factors, while managing overall portfolio volatility. Where valuation meets confirmation, we find our highest conviction ideas.

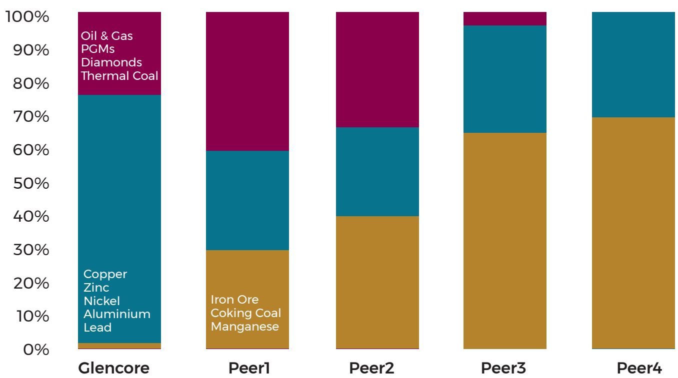
Our initial investment in Glencore was in 2014. Our fundamental research concluded that Glencore offered significant value relative to the price it was trading at. Glencore is different from the other mining houses listed on the JSE. It has no exposure to iron ore, which in 2014 had risen to levels beyond our estimates of what was sustainable and presented risk of capital loss in investing in other miners.

Glencore has a commodities trading business referred to as the Marketing division – an opaque but a stable and profitable business. Due to the Marketing division's business model, Glencore relies on higher leverage than traditional mining houses. This is a point often misunderstood by the market, which created a further buying opportunity in 2015 when balance sheet fears created panic and overly pessimistic expectations. We continued to invest client funds into Glencore as the price fell to lows of R19 in 2015, and subsequently earned great returns for clients as the price rose to peaks of R68 in 2018. Throughout these years, our quantitatively driven confirmation factors ranked Glencore as a potentially high return investment.

WHAT WAS DIFFERENT THIS TIME?

Glencore had made headlines for crossing the line before. The company was born out of the private holding company of Holocaust refugee turned billionaire Marc Rich, who pioneered the disruption of the spot oil market by displacing the in-house traders of big oil producers in the 1970s. Rich's infamous legacy includes making the FBI's most wanted list. He left the US in the 1980s for Switzerland to avoid charges of tax fraud and trading with sanctioned nations. In 2017, Glencore's dealings

in the DRC with Dan Gertler, a controversial Israeli mining magnate, came under scrutiny. Earlier in 2018, the United States Department of Justice announced an investigation into money laundering and corruption focused on Nigeria, the DRC and Venezuela. The Katanga restatement was signalled the year before. So why was this headline troubling?



Source: Glencore investor presentation UBS estimates of contribution to 2018 EBITDA forecast

STEINHOFF CHANGED THE LANDSCAPE FOR DEALING WITH ESG RISKS

The post-Steinhoff era has been characterised by an elevated level of focus on ESG issues from clients and fund managers alike. Over the course of 2018, the investment team wrestled with this critical question: How did our process miss the Steinhoff risks?

When we invested in Steinhoff, the investment case was aligned with our philosophy and we had followed our process. Our detailed, bottom-up fundamental research concluded that Steinhoff was undervalued and supported a buy. Our conviction in our valuation was supported by our quantitative "confirmation" factors. We saw catalysts on the horizon to unlock that value. Yet our exposure had cost clients in 2017. Even as rumours of accounting irregularities emerged in the German press, we held a position believing that the discount to our valuation was compelling enough to compensate for the governance risks. That belief was proven incorrect. Were we making a similar mistake with Glencore in assuming the potential rewards justified the potential risks? The key lesson from Steinhoff was that there are times when the biggest risks cannot be adequately quantified.

INTEGRATING ESG RESEARCH INTO THE GLENCORE INVESTMENT CASE

As an investment team, we have grappled with integration of ESG issues into our investment and ownership process since 2012. We have built a credible process around proxy voting and engagement on key ESG matters. By contrast, consistently embedding ESG research into our investment process has proven more difficult. It was once not uncommon for ESG issues, particularly unquantifiable ones, to be treated as a "margin of safety" consideration with more quantifiable valuation work being the primary focus. In 2019, we ratcheted up our ESG integration efforts by revisiting the investment cases of our key holdings while paying specific attention to ESG issues.

Glencore was one of the holdings reviewed and several issues were highlighted. I will expand on two of significance: the structural headwinds facing coal and the accounting risk inherent in the Marketing division.

COAL SUBSTITUTION – AN ENVIRONMENTAL ISSUE AFFECTING GLENCORE'S FUTURE CASH FLOW

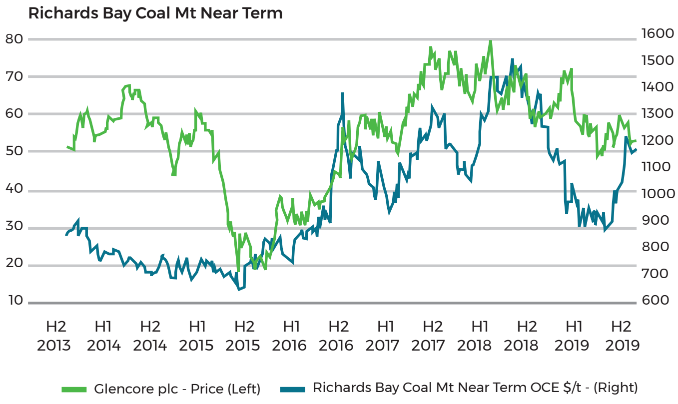
Coal is a substantial part of Glencore's commodity mix, and the share price often weakens in tandem with coal price weakness. Our ESG analysis emphasised the risk of the uncertainty of coal's future as a source of energy. As more natural gas fields have been exploited, the price of gas has fallen. Natural gas is a less carbon-intensive source of energy relative to coal. As gas has become cheaper, many countries have pivoted away from thermal coal towards natural gas to meet their energy needs with a smaller carbon footprint. This shift has created a structural ceiling on coal prices. While miners often make up for lower prices with increased volume, Glencore cannot employ that strategy in this case. Climate Action 100+, an investor initiative that ensures the world's largest corporate greenhouse gas emitters take necessary action on climate change, includes Glencore on its list as contributing the most. In response to pressure from the activist investor group, Glencore committed to capping its coal production at 2019 levels, thereby limiting further volume growth. This environmental issue is having a tangible impact on future cash flows.

GLENCORE'S MARKETING DIVISION FLAGGED FOR RISK OF ACCOUNTING IRREGULARITIES

Glencore's Marketing division accounts for 15% to 30% of the group's EBITDA depending on the profitability of the mining operations. The Marketing division was expanded around the commodities trading business that Marc Rich established in the 1970s. Ivan Glasenberg, company CEO and owner of 9% of listed shares, rose through the ranks in Marketing, as did many of the senior executives. Marketing's business model is to broker sales between commodity producers and customers globally and manage the logistics involved.

Revenue is derived from high volumes of transactions across more than 90 commodities, derivatives are widely used and discretion is required to determine when a sale has taken place under long-term contracts held with customers. The nature of these contracts means that the accounting is complex and opaque. Revenue recognition has been flagged as a key audit risk by the auditors over many years.

GLENCORE'S SHARE PRICE IS INFLUENCED BY THE COAL PRICE



SELLING GLENCORE – NOT EVERYTHING THAT COUNTS CAN BE COUNTED

We took the decision to switch our Glencore shares into Anglo American, which at the time offered value – though less so than Glencore – with significantly lower risk. We arrived at this decision after weighing up the valuation work, the confirming quality, growth and sentiment factors, the coal price scenarios and the growing list of governance concerns.

Our job as fund managers is not to avoid risk altogether but to balance risk appropriately with potential reward. A coal price in a peak coal world? This can be estimated to inform a judgement call. But when it comes to valuation, how cheap is cheap enough to compensate for poor governance and the risk of accounting irregularities? As the common quote says, "Not everything that can be counted counts. Not everything that counts can be counted."

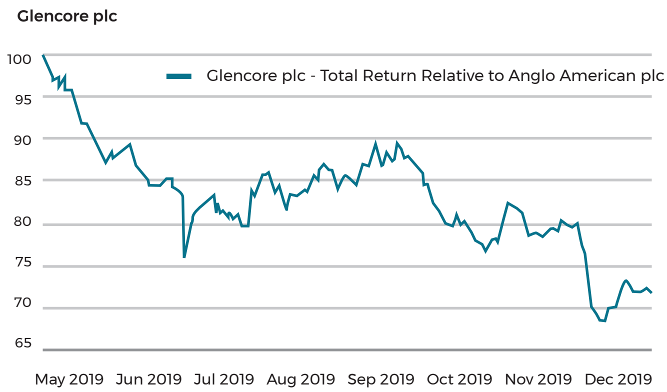
INTEGRATING ESG RESEARCH WILL ENHANCE OUR ABILITY TO DELIVER SUPERIOR RISK-ADJUSTED RETURNS

The goal with integrating ESG research into the investment process is to reach a point where there is no longer "ESG research" and "bottom-up research", but just research. The encouraging shift is the extent to which ESG issues have been elevated in investment debates. They are blending into conversations with company management alongside topics like competitor activity and managing working capital. Addressing ESG issues has the potential to become a box-ticking exercise, but we believe that integrating ESG authentically has the power to enhance our process.

Starting with bottom-up analysis, considering the cash flow impacts of ESG issues has sharpened our ability to forecast cash flows, assess companies' ability to service debt and to pay dividends. ESG research has expanded our vision range in spotting unrealistic market expectations implied in share prices. As with valuation work, ESG research is forward-looking and subjective in nature, hence we believe in confirming our fundamental research by evaluating stocks on quantitative quality, growth and sentiment factors based on historic data.

Most importantly, ESG research has cast a spotlight on unquantifiable risks that need to be considered when constructing portfolios. We select shares that rank best on both valuation and confirmation factors while managing overall portfolio volatility. Where valuation meets confirmation, we find our highest conviction ideas. However, neither our valuation nor our confirmation factors can always "count everything that counts".

Therefore, integrating ESG research will enhance our ability to deliver superior risk-adjusted investment performance to clients.



MERYL PICK
Portfolio Manager,
Old Mutual Equities

CASE STUDY: TONGAAT LIMITED

Tongaat Hulett (Tongaat) applied for a suspension and was ultimately suspended from trading on the Johannesburg and the London Stock Exchanges in June 2019. They explained this move as an effort to protect clients after uncovering irregularities that resulted in inflated prices and profits.

When considering the Tongaat case, it appears as if the Tongaat combined audit function did their job properly when it picked up the financial irregularities within the company, but it could take a significant amount of time to determine what (and if) fraudulent activity took place, to what extent and for how long. However, the question remains: did the Tongaat internal audit function and its audit committee do enough when the discrepancies first emerged?

However, long before the irregularities emerged, we had started engaging Tongaat on their ESG proprietary scorecard, from as far back as 2017.

What was the ESG problem we were trying to solve?

From 2016 to 2018, our ESG proprietary score card started to indicate a steady decline in the company's governance practices. Along with poor financial performance, we began to lose faith in the Board's ability to drive a sustainable long-term outcome for the company. In addition, the company was rewarding its executive teams for consistent underperformance. This evidenced in our view a complete misalignment between the company's strategic performance and its remuneration practices.

What did relative success look like?

During 2018, we wanted the company to address shortcomings in its governance and remuneration as well as focus on succession planning to ensure a better outcome for investors.

In our view, a refreshed board with a new strategic vision would be able to turn the company around.

How did we engage – identify steps chronologically?

- During 2017, we engaged the remuneration committee on the company's misaligned remuneration policy and poor remuneration implementation. When there was no significant improvement in remuneration practices, we voted against the remuneration resolutions at the company's AGM.

- In 2018, our focus went beyond remuneration to succession planning:

    Financial performance and remuneration – there was a clear need, communicated to and acknowledged by the company, to link the Long-Term Incentive Plan (LTIP) to restoration of a positive economic profit position and disclosure of key thresholds to incentivise management appropriately by introducing asset efficiency and sustainability measures into Short-Term Incentives STIs. This was to ensure that proper strategic decisions are made in the short term. They had to differentiate sugar production and land conversion key metrics for the executives directly responsible for making these decisions.

    Board succession and communication – we communicated that the company needed appropriate board succession planning for both executive and non-executive directors. They had to provide regular updates to investors from the chair of the nominations committee. In addition, they also had to provide clear communication on material risks such as land expropriation.

- We also supported calls by other institutional investors for the company to change the CEO.

What was the result?

In 2019, financial irregularities came to light. Whilst we couldn't have predicted all of them, we had sold out of our active positions in the company before these financial irregularities were announced to the market. We sold out, in a large part, because of the lack of progress by the company in addressing the governance issues it was facing as shown above.

What were the key learnings for the future?

Using the ESG tools at our disposal, as well as proactive engagement with company boards on material ESG risks, plays a significant role in the investment case for a company and how it effectively manages for long-term investor value.

OUR SOLUTION TO THE COMPLEXITY OF STEWARDSHIP

Regulation 28(2)(c)(ix) was promulgated in February 2011 and was groundbreaking at the time. South Africa was at the forefront of development in financial services, punching above its weight globally. After Regulation 28(2)(c)(ix) was promulgated, other industry agreements on practice were crafted which should have supported its implementation. These included the Code for Responsible Investing in South Africa (CRISA), effectively also South Africa's version of a stewardship code. This was drafted with the backing of the Institute of Directors and the Association for Savings and Investment South Africa (ASISA). CRISA provides the investment industry with the guidance to help it implement the United Nations Principles for Responsible Investment (UNPRI) and King IV – the King Report on Corporate Governance, which came into effect in November 2016. CRISA is not law, but signatories commit to practising its recommendations and are accountable to the trustee boards and therefore their members. King IV recommended that retirement funds have a requirement for ESG in their investment mandates to asset managers.

However, the groundbreaking regulation, despite supporting agreements, has been lacking in implementation.

MORE ESG GUIDANCE

The Guidance Notice issued by the Financial Sector Conduct Authority (FSCA) on 14 June 2019 deals with the sustainability of investments and assets in the context of a retirement fund's investment policy statement. This notice again served as a call to boards of trustees and management committees to start paying attention to ESG. It also provides guidance on how and why they should comply with regulations relating to sustainable investing. Compliance requires boards to study investment policy statements, ensure the sustainability of investments and set out disclosure and reporting. In addition, boards of trustees are required to be stewards or active owners of the assets in their members' fund portfolios, a noble idea but one that is way more involved than it seems.

THE NEED TO GIVE A VOICE TO THE SILENT INVESTOR

With all that is involved in stewardship, it is no wonder that many shareholders lack confidence to hold companies to account. In a poll conducted among 1 000 investors by The Share Centre, 79 percent said that they do not attend the annual general meetings of the companies in which they invest. A third said that they do not vote on company resolutions, while around six in 10 said they don't feel their vote makes any difference. Shareholders could be seen to have a better understanding and more market knowledge than the average trustee. Their reluctance and lack of confidence to participate in active ownership, points to a gap in ensuring that the engagement is meaningful.

THE OMIG STEWARDSHIP SERVICE AS A SOLUTION

At OMIG, we've run a fully fledged Responsible Investment Unit for ten years. Our approach to active

ownership / stewardship draws from the King IV Code on Corporate Governance (King IV), the governance provisions in the South African Companies Act 71 of 2008, the JSE Listing Requirements and the Code for Responsible Investing in South Africa (CRISA), and incorporates the definition of “active ownership” in the Guidance Notice 1 of 2019 (PFA) issued by the Financial Sector Conduct Authority, as well as international guidelines such as the United Nations Principles for Responsible Investment, and the International Corporate Governance Network (ICGN) Global Governance Principles (2017) and Global Stewardship Principles (2020).

We work hand in hand with our portfolio managers pre and post investment to:

- Assess and monitor material ESG risks across clients’ portfolios, using ESG risk screening through a proprietary ESG Profile Score;
- Engage with companies on material ESG issues;
- Engage in proxy voting;
- Vote at AGMs to reinforce active ownership; and
- Engage on key public policy issues to help build resilience in the market place.

We recognise the complexity of active ownership and had a specific focus on RI and ESG over the past ten years. We built the RI unit and proprietary ESG screening models, and have automated most of the processes. We have now built further capacity to offer the service to third parties, companies and asset managers alike.

WHY CHOOSE OUR LISTED EQUITY STEWARDSHIP SERVICE?

Our Listed Stewardship Service value proposition includes:

- Allowing clients to leverage full value of their holdings and speak with one voice;
- Lowering the risk and driving positive change on material ESG issues – both at a company and a portfolio level;
- Supporting development of long-term market resilience; and
- Working in conjunction with asset managers' investment practices.

Client benefits include:

- Access to an experienced team that actively stewards assets in a consistent and transparent manner;
- Scale of impact through pooling of stewardship firepower across the industry;
- Portfolio level reporting on all company engagement and vote outcomes – meeting FSCA requirements; and
- Alignment with best practice standards for responsible investment.

Our process is transparent in that our Listed Equity Stewardship Guidelines are publicly disclosed and updated annually, covering important areas of corporate behaviour such as:

- Board of Directors and their remuneration
- Financial reporting
- Audit committee
- Empowerment transactions
- Unissued shares under the control of directors
- Shareholder matters relating to capital management
- Share repurchases
- Changes to the memorandum of incorporation
- Political donations.

Companies we've recently engaged with include: Naspers, Sasol, Exxaro, Glencore, Tiger Brands, Sanlam, Old Mutual and others. We also engage with industry bodies – including the JSE, the International Corporate Governance Network, the UNPRI, the CRISA Committee, the King IV Working Group, Integrated Reporting Council, Focusing Capital on the Long Term – in order to strengthen the overall global stewardship environment with key inputs during the year on important pieces of regulation like the Integrated Resource Plan, amendments to the Global Stewardship Principles, the JSE Listing Requirements and the Companies Act, the FSCA Sustainability Guidance Notice, CRISA Code revision and others.

MEET THE TEAM

Robert Lewenson

Head – ESG Engagement

Jon Duncan

Head – Responsible Investment

Waleed Hendricks

ESG Investment Analyst & Quantitative Research Manager

CONCLUSION

We have heard the concerns regarding complexity of stewardship and we offer a price competitive solution to enable boards of trustees and other fiduciaries to meet their stewardship obligations through the OMIG Listed Equity Stewardship service.

WHAT TO EXPECT NEXT ON STEWARDSHIP

ROBert Lewenson, Head – ESG Engagement, Old Mutual Investment Group

At Old Mutual Investment Group, the past decade was that of formulating our Responsible Investment philosophy and process. We have taken the lead in ensuring that, as allocators of capital entrusted with responsibly investing our clients' money, we do so in a sustainable manner that aligns with the long-term horizon of most of those investments.

BUILDING THE LISTED EQUITY STEWARDSHIP SERVICE AS A STANDALONE CAPABILITY FOR THIRD-PARTY CLIENTS

As the demand for stewardship grows, we want to service asset owners who value ESG integration into their investment strategies, and help them meet the needs of their members.

FOCUS ON KEY MARKET CONCERNS

As OMIG evolves as a business, we want to continue our strong voice in the market, reflecting and participating in solving key concerns which affect the efficient functioning of markets on behalf of our clients.

CREATING A COALITION OF THE WILLING

We want to use our experience and track record of stewardship to rally both local and international asset owners to address key ESG risks and opportunities at a company, sector and market level.

A CHANGING CONTEXT

NEW STEWARDSHIP CODES

The next decade is hopefully going to be one of clarity because of the learnings from experience and the updating of guidance notes and codes. Locally and globally, we are expecting CRISA, the UK Stewardship Code, ICGN Global Stewardship Principles to be updated in 2020. However, from a macro perspective, we think the biggest changes will come in implementation, activism and action.

MORE CLIMATE, ENVIRONMENT AND SOCIAL-FOCUSED RESOLUTIONS AT COMPANY AGMS

2019 saw a significant growth in the number of environment and social-focused resolutions being proposed at company meetings, both internationally and locally. In advance of this anticipated surge in "so-called" ESG resolutions, we updated our proxy voting guidelines to include how we typically would assess these resolutions in accordance with global best practice.

In South Africa, we saw the shareholder proposal of resolutions that were typically focused on climate change and executive remuneration. Further, it was not only extractive industries that were targeted by shareholder proposed resolutions but also financial institutions. This is an interesting development, as it evidences the shift in thinking – that climate change is not only material to polluting companies, but also the financial institutions that finance them. We also scrutinised many proposed B-BBEE transactions to assess whether the nature of the proposed transactions was truly broad-based before we decided to approve the resolutions authorising the transaction.

We expect increased shareholder based activism during 2020 and have broadened our assessment of companies using our proprietary ESG to conduct a fundamental assessment of a company's ESG risk management. We use that assessment to take a strong view on ESG resolution proposals in accordance with our updated proxy voting guidelines.

ASSET MANAGERS LEADING IN ACTIVE OWNERSHIP

It is true that boards of trustees are ultimately responsible for their investment mandates and individual investors for their investment plans. However, at OMIG we think that a larger responsibility rests with asset managers who are managing these investments daily. That is why we have extended our Stewardship Service to other managers and companies, because we believe our clients deserve to be better active owners – even when time and resources may not allow it. We expect that asset managers, especially, are going to lead stewardship and this will be the norm going deeper into the next decade. In addition, the annual CEO letter, started in 2018, is a clear indication of the intent to engage and act according to the right environmental, social and governance principles that most of us have committed to. Today, over 1 200 asset owners, investment managers and professional service par billionaires have become signatories of the United Nations-backed Principles for Responsible Investment (PRI). We expect that every new asset manager that enters the industry, will have no choice in the future but to be a signatory. ESG is now a ticket to the game. And stewardship is at the core because we must admit, most of our listed companies have a long way to go.

ESG GLOSSARY

ACTIVE OWNERSHIP When shareholders exercise their rights, actively engaging with the investee companies on business strategy, including sustainability issues, to reduce investment risk and/or enhance long-term shareowner value.

CODE FOR RESPONSIBLE INVESTING IN SOUTH AFRICA (CRISA) Principles that give guidance on how institutional investors should promote sound governance. The code came into effect in February 2012. See Principles of Responsible Investment (PRI).

ENGAGEMENT A purposeful dialogue between shareholders and boards with the aim of ensuring a company's long-term strategy and day-to-day management are effective and aligned with shareholders' interests.

ENVIRONMENTAL FACTORS Issues related to resource use, pollution, climate change, energy use and other environmental challenges and opportunities that do or could impact the shareholder value. See ESG.

ESG Stands for environmental, social and governance factors, the three categories of factors investors consider with regard to an investment's sustainable practices.

FSCA The Financial Sector Conduct Authority is the market conduct regulator of financial institutions that provide financial products and financial services; financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds and administrators; and market infrastructures.

FIDUCIARY DUTY The legal duty of one party (the fiduciary) to act in the best interests of another (the principal). In the investment chain, there are a number of these relationships, including the duty that boards have to shareholders, the duty between trustees and beneficiaries and the duty between asset managers and their clients.

GOVERNANCE FACTORS Issues related to a company's internal structure and practices, its consideration for shareholder rights, its accountability and wider transparency framework. Measures of governance can include board structure and independence, executive remuneration or auditor independence. See ESG.

GREEN ECONOMY A low-carbon, resource-efficient and socially inclusive economic growth path for improved human well-being and social equity while reducing environmental risks. It is an alternative concept to typical industrial economic growth, which focuses on increasing GDP above all other goals.

GREENWASHING The practice of making an unsubstantiated or a misleading claim about the environmental benefits of a product, service, technology or company practice. It can make a company appear to be more environmentally friendly than what it really is.

SOCIAL WASHING The practice of overstating the impact of an investment on labour rights or human rights.

IMPACT INVESTING Investing with the primary goal of achieving specific, positive social benefits, while also delivering an attractive investment return. Typically, these are investments in projects with clear social goals, for example, education or housing.

INTEGRATION An approach to investing which considers integrating ESG issues into the research, valuation and portfolio construction processes to improve the risk/return characteristics of a portfolio.

PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) Founded in 2006 in partnership with the United Nations (UN), this is an investor initiative that supports a global network of signatories to incorporate ESG factors into their investment decisions. Old Mutual has been a signatory to the PRI since June 2012.

PROXY VOTING A form of voting whereby a shareholder with voting rights delegates his or her voting power to a representative (in this case, the asset manager) to enable a vote in absence at a company's annual general meeting or special meeting.

RENEWABLE ENERGY Electricity harvested from resources that are naturally replenished, such as sunlight, wind, water and geothermal heat.

OLDMUTUAL

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- Old Mutual Alternative Investments (Pty) Ltd (Reg No 2013/113833/07), FSP No: 45255.
- African Infrastructure Investment Managers (Pty) Ltd (Reg No 2005/028675/07), FSP No: 4307.
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FOR MORE INFORMATION

OLD MUTUAL INVESTMENT GROUP
Mutualpark, Jan Smuts Drive, Pinelands 7405
listening@oldmutualinvest.com
Tel: +27 (0)21 509 5022

www.oldmutualinvest.com

INVESTMENT GROUP