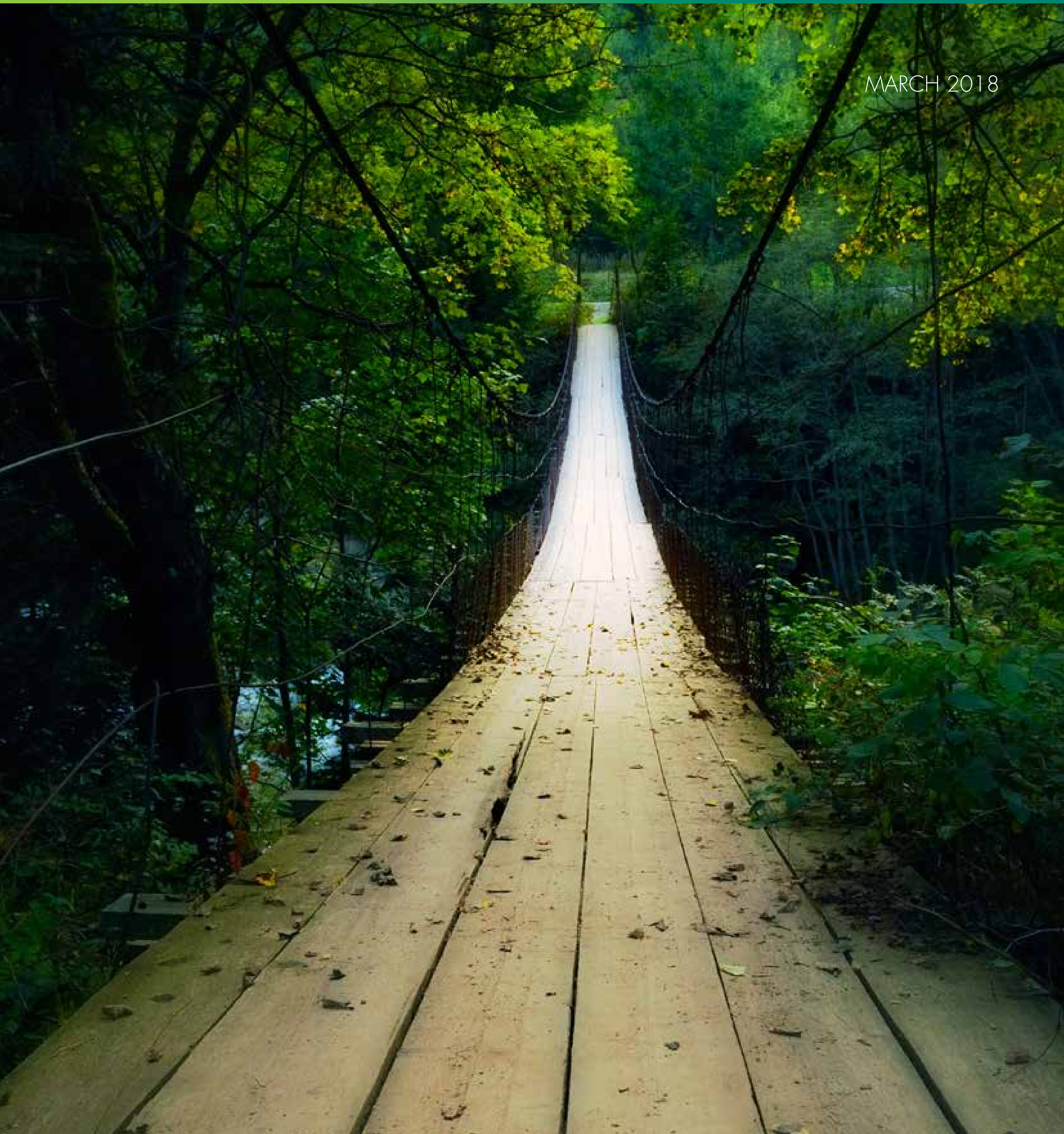


RESPONSIBLE OWNERSHIP REPORT 2017
LISTED EQUITY

DO GREAT THINGS

OLD MUTUAL INVESTMENT GROUP

CONTENTS

The notions of responsible ownership and stewardship have never been more relevant to investments than they are today as asset managers struggle to balance the present and future interests of our clients.

As a leading African asset manager, we take very seriously our role as custodians of our clients' wealth for the long term. This is why we have prioritised the ways in which we engage with the companies in which we invest. Our role cannot be to simply rubber-stamp the decisions the companies' boards make. We owe our clients far more than that. And our clients must rightly demand more from us. Effective stewardship is a big aspect of investment performance – having influence over what companies do can add real value for our clients. On occasion this may even require joint or collaborative engagements with other investment managers or governing bodies to ensure the best outcomes are achieved.

Old Mutual Investment Group sees Responsible Ownership as:

1) Additive to our pursuit of superior risk-adjusted returns
2) Central to our professional and fiduciary commitment to our clients
3) Part of our commitment to being a responsible investor.

We conduct our stewardship activities both in terms of proxy voting and engagement with listed investee companies, locally and internationally, as well as with investee companies in unlisted markets. We aim to ensure that the management teams of investee companies are accountable for company performance and conduct in the long term. Additionally, we extended our stewardship activities to issues that impact market conduct and stability.

This report covers our Responsible Ownership activities in the listed environment for 2017 and is structured as follows:

- A summary of our voting activity for 2017
- Insight into our engagements, both on a company and an industry level
- An overview of our thought leadership activity
- An outline of our 2018 plans

We trust you will find this report interesting and invite your valued feedback on any aspect of the contents.

ROBERT **LEWENSON**

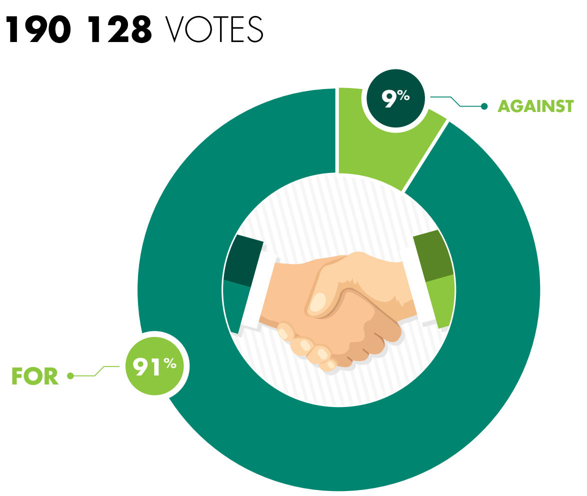
HEAD OF ESG ENGAGEMENT:
OLD MUTUAL INVESTMENT GROUP

2017 RESPONSIBLE OWNERSHIP AT A GLANCE

PROXY VOTING

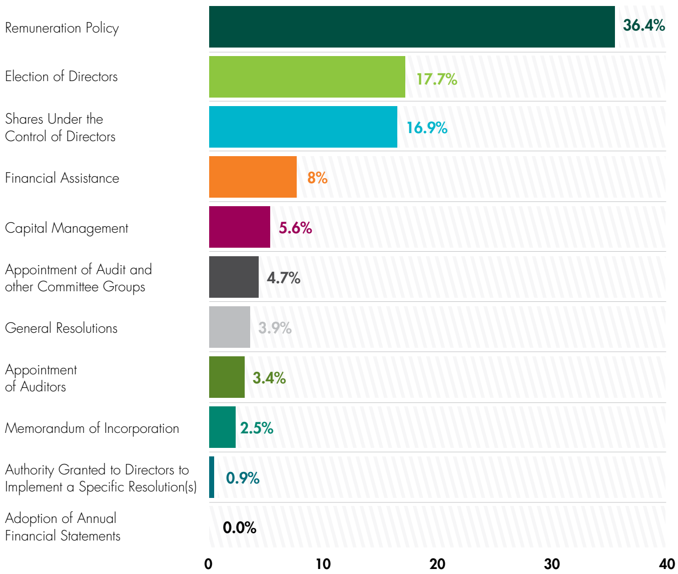
During 2017 we voted 100% of our listed equity holdings globally, either directly via our Responsible Investment team or via our investment management agreement with Russell Investments, who manages some of our offshore listed investments. In the case of the latter, we've ensured alignment of our proxy voting policies, which can be found here: http://ww2.oldmutual.co.za/old-mutual-investment-group/about-us/responsible-investing/ri-resources.

FIGURE 1 – TOTAL PROXY VOTING RESULTS FOR 2017



Source: Old Mutual Investment Group

FIGURE 2 – TOTAL PERCENTAGE OF VOTES CAST AGAINST MANAGEMENT PER ISSUE



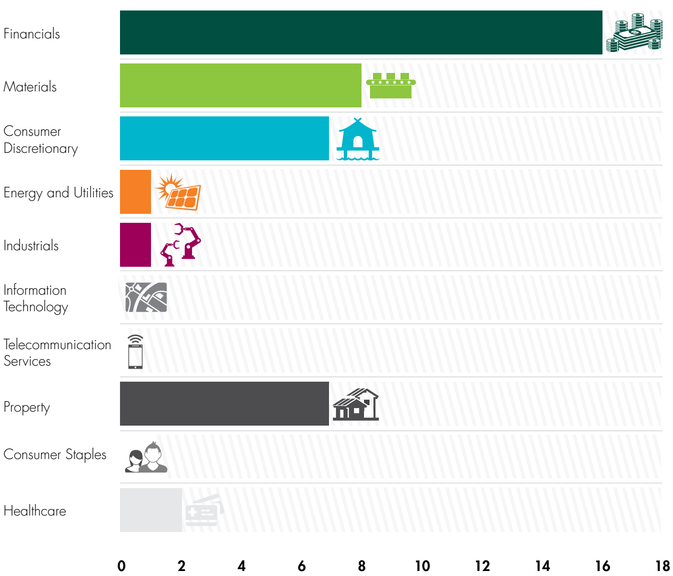
Source: Old Mutual Investment Group

ENGAGEMENTS

There are many ways in which we engage with our investee companies – including through management meetings and general discussions, via teleconferences or face-to-face meetings.

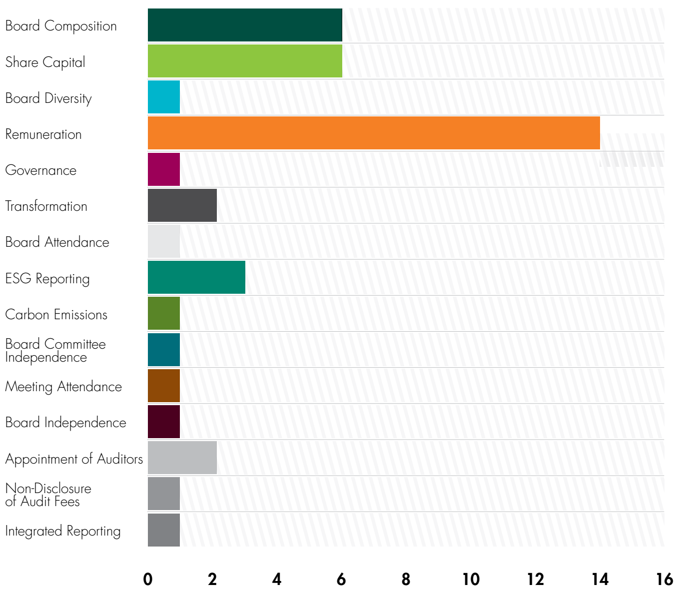
In Figures 3 and 4 we show the key ESG engagements with the boards of our investee companies by sector and by ESG theme. It must be noted that these engagements may have resulted in further correspondence or meetings, as our approach is to have ongoing engagements until the issue is successfully concluded.

FIGURE 3 – ENGAGEMENTS PER SECTOR IN 2017



Source: Old Mutual Investment Group

FIGURE 4 – ENGAGEMENTS PER ESG THEME FOR 2017



Source: Old Mutual Investment Group

COMMITMENT TO **RESPONSIBLE OWNERSHIP**

At the beginning of 2017, we once again reviewed our Responsible Ownership Policy to ensure that both local and global developments and best practice continue to be applied by our business teams. We concluded that our policy remains robust and it gives effect to our commitments to practice responsible ownership in terms of the Code for Responsible Investing in South Africa (CRISA) and the United Nations Principles for Responsible Investment (UNPRI).

We also completed our annual Proxy Voting Policy revision. In summary, with the recognition that reporting in terms of King IV would become a mandatory reporting requirement in terms of the JSE Listing Requirements, we reviewed our Proxy Voting Policy to incorporate the governance principles described in King IV. Key voting decisions we focused on were auditor appointments, definitions of independence and the approach on remuneration. As the South African market continues to mature in terms of its proxy voting practices and as we see more shareholder activism arising at company meetings, we continue to ensure our approach to proxy voting incorporates best practice for all types of ESG company resolutions.

In addition to revising our key Responsible Ownership policies, we also mapped out our Responsible Ownership process in terms of how research into environmental, social and governance (ESG) factors on material holdings may influence proxy voting decisions and engagements with our investee companies.

The diagram on the next page illustrates how this process works in our everyday investment management practice.

RESPONSIBLE OWNERSHIP PROCESS

RESEARCH › **PROXY VOTING** ‹› **ENGAGEMENT**

ESG RESEARCH

- ESG research summaries for the top holdings per boutique are loaded into the investment management system.
- The boutiques are responsible for how their ESG issues are considered in valuations and/or portfolio weighting.

NOTE: ESG summaries are updated/amended when material ESG events or company annual results are released.

PROXY VOTING

NOTE: The proxy voting details are posted on our proxy voting online platform (http://ww2.oldmutual.co.za/old-mutual-investment-group/about-us/responsible-investing/proxy-voting) at least one week before the AGM date.

- After reviewing the proposed resolutions, the proposed actions will be:

PROPOSED VOTE	Propose voting against a "grey" issue	Propose voting against an issue that is binary in respect of our Proxy Policy	Propose voting with management in alignment with our Proxy Policy
FURTHER ACTION?	Yes. See below	No	No

ENGAGEMENT

- Engaging to highlight our concerns and proposing remedial action on the relevant resolution will take place at least one week before the AGM.

ENGAGEMENT OUTCOME	**SUCCESSFUL**	**SUCCESSFUL**	**UNSUCCESSFUL**
COMPANY ACTION	Company revises the resolution	Company doesn't revise the resolution	Company doesn't revise the resolution
OUR PROXY VOTE	We vote in favour	*We vote against the resolution; advise the company – noting their efforts to resolve the issue – that going forward, the issue will be tracked ahead of following AGM	*We vote against the resolution; the issue will be tracked ahead of following AGM

*Engagement note sent to company with timeline to conclude engagement.

KEY ENGAGEMENT THEMES IN 2017

2017 presented a host of ESG issues in the South African market which required proactive engagement with most of our clients' material holdings. This resulted in engagements on approximately 50 ESG issues in the listed space. It was also clear that many ESG issues could only be dealt with on a sectoral or regulatory level, which entailed collaborative or beta types of engagement – some of which are described below.

Climate change reporting

Following the ratification of the Paris Agreement on the mitigation of the global effects of climate change, the obligations of companies to manage the risks of climate change to their business as well as to take advantage of the transition to a low-carbon economy became more pressing. Many investors want disclosure from companies about their response to climate change, as well as the financial implications thereof, as part of their long-term strategy.

As a concerned investor, we support the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) – published in June 2017. In essence, our expectation is for companies to have governance, strategic and risk management processes to identify, assess and manage climate-related risks and opportunities, as well as metrics and targets for transitioning to a low-carbon economy. We also expect companies to build scenarios for their forward-looking business strategies for operating in a low-carbon world. Lastly, we expect companies to report their efforts in terms of internationally recognised frameworks from the International Integrated Reporting Council (IIRC) and the Global Real Estate Benchmark (GRESB). In 2017 we engaged with industry bodies as well as various companies directly to encourage reporting in terms of these frameworks (further detail on these engagements can be found on pages 8 and 9) and will continue to do so.

We also expect companies to build scenarios for their **forward-looking business strategies for operating in a low-carbon world.**

Our Say on Pay

Has the company board or remuneration committee established a clear link between the value created by the company and the remuneration it has awarded to executive management during the financial year? This is the fundamental question we ask when we evaluate the remuneration policies and implementation reports companies present to shareholders at company meetings. In addition, we are guided by the King IV principles and practices on executive remuneration in assessing the disclosure by companies of their remuneration practices.

Often it is the case that a company's methodology and/or disclosures fall short of best practice and we would then follow the established process of proxy voting and engagement (as detailed on page 5) in relation to resolving the particular concern.

During 2017 the largest percentage of votes (36.4%) were cast against remuneration policies, which in turn generated the largest number of ESG engagements per ESG theme (see figures 2 and 4 on page 3).

While one could argue that companies do not engage in responsible remuneration practices, owing to King IV, we have increasingly seen a number of companies take the issue seriously. And upon engagement, sometimes over a few years, many companies have amended their remuneration practices (examples of some of these can be found on pages 8 and 9).

Transformation and B-BBEE transactions

Transformation of the South African economy in an inclusive manner that significantly reduces social inequality and creates sustainable work opportunities for the unacceptably high number of unemployed South Africans remains one of our most pressing social issues today. And South African companies play a critical role in ensuring a more equitable distribution of wealth and income, both in terms of their investment practices and the skills development within their own organisations.

We anticipated that in 2017 there would be significant tests of South Africans' commitment to B-BBEE, especially for companies in the mining sector. The publication of the third draft Mining Charter by the Department of Mineral Resources resulted in legal action on a number of controversial provisions contained in the draft and in respect of lack of consultation of key stakeholders in the mining sector. From an investment perspective, a robust Mining Charter with clear, achievable goals for transformation of the sector is essential to encourage investment in the industry. In our view, the draft terms did not contain such provisions and we engaged with the Association for Savings and Investment in South Africa (ASISA) to highlight our concerns. After the Minister of Mineral Resources stated that investors were in favour of the draft, ASISA, taking into account our input, published a response to the Minister detailing investors' concerns (https://www.asisa.org.za/media-release/investors-demand-consultative-process-mining-charter-2017).

And South African companies play a critical role in ensuring **a more equitable distribution of wealth and income**

In 2017 we also had the opportunity to review B-BBEE transactions for SASOL and Exarro, for which shareholder approval was sought. These two proposed transactions were presented as necessary for the companies to meet their transformation objectives. However, after reviewing the proposals by the companies there was a requirement for further engagement from our business and our Responsible Investment teams. The reasons for these engagements as well as the outcomes of the engagements are described in the following section on successfully concluded engagements (pages 8 and 9).

SUCCESSES IN 2017

How do we view a successfully concluded engagement? It can be a one-off change in a proposed AGM resolution or an amended remuneration policy disclosure. On the other hand, it could involve a final outcome after years of engagement around a specific ESG issue.

Below is a snapshot of our active ownership activity for 2017:

COMPANY ENGAGED	ESG THEME AND OBJECTIVE	OUTCOME OF ENGAGEMENT
Nedbank Group Limited	**Board Diversity –** Following our engagement in 2016, our objective was to change the composition of the board and encourage appointments of diverse candidates.	Following our engagement with the board, new directors were appointed. As a result, the company exceeded all of its diversity targets for the board by mid-year, leaving us satisfied with the company's progress towards diversity.
Gold Fields Limited	**ESG Reporting –** After our engagement with the company on material ESG concerns, our objective was to review and provide feedback on the company's ESG reports.	After engaging with the company, we received an update on the key elements of their ESG management strategy, including: • Charters and governance • ESG performance tracking • Priorities for the future • Social licence, energy and water • Value creation and distribution. We were satisfied with the outcome of the engagement and the company's approach to addressing key ESG risks.
Barclays Africa Group Limited	**Remuneration –** After a number of years of engagement, our objective was to ensure the company provides us with the structure and alignment to strategy, metrics, thresholds and quantum disclosure on remuneration post decoupling from Barclays.	The main outcome was a better understanding of the company's remuneration policy and practices, especially the following key areas: • The company will adopt a people-focused remuneration structure aligned to strategic outcomes. • Role-based pay is to change subject to regulatory approval. • The company will introduce a more transparent calculation of the Short-Term Incentive (STI) pool going forward. • For restricted shares, the company will disclose what strong performance looks like, both from a group and an individual perspective. • For the Long-Term Incentive Plan (LTIP), performance criteria for FY2017 will be: 1. Headline earnings per share (HEPS) growth (30% weighting) 2. Return on earnings (ROE) (30% weighting) 3. Transformation (20%) 4. Successful separation from Barclays (20% with exact KPIs for management to achieve). • The company will ensure the principles of King IV regarding fair and responsible remuneration will be practiced. Query: Golden handshake provisions – the remuneration committee (Remcom) has a discretion to accelerate vesting of awards for good leavers with malus and clawback provisions in place.

<table>
<tr><td>Exxaro Resources Limited</td><td>Transformation –
Our objective was to review the proposed B-BBEE transaction, especially the broad-based component of the transaction, before committing our support to it.</td><td>During our engagement the company acknowledged that other shareholders have raised similar concerns and they valued our constructive engagement. Given the strategic importance of the proposed transaction, the company agreed to implement the following changes to the B-BBEE structure to appease our concerns:
<u>Collapsed BEE shareholding structure:</u> The reinvestment by BEE shareholders will be altered to ensure that no single shareholder controls the voting or economics of BEE SPV.
<u>Community/employee empowerment:</u> The company will establish appropriate broad-based empowerment trusts for the empowerment of relevant communities surrounding applicable operations and historically disadvantaged South African employees within three months after implementation of the proposed transaction, resulting in significantly greater broad-based empowerment.
These outcomes addressed our concerns about both the investment case and B-BBEE credentials of the company. While some reservations about the transaction remain, our view was that a vote in favour of the deal was warranted.</td></tr>
<tr><td>Coronation Fund Managers Limited</td><td>Remuneration –
Following on discussions with the company regarding strategic alignment and disclosure of remuneration practices, our objective was to obtain feedback on the measures the company will introduce in its remuneration reporting going forward, and discussing which relevant KPIs should be included.</td><td>The company provided an assessment of each executive's performance and disclosed non-market sensitive KPIs. Benchmarking will be provided against each KPI and relative weightings will be included in the assessment. KPIs will include details of strategic decision-making, outperformance generation, cost reduction etc., depending on the executive's primary performance criteria. We were satisfied with the company's willingness to engage and disclose performance criteria in its annual report.</td></tr>
<tr><td>Naspers Limited</td><td>Remuneration –
We sought a response on the following key issues:
<u>Disclosure:</u> More disclosure on the exact KPIs/metrics; we see benefits in providing Naspers shareholders with a better understanding of how Naspers management are trying to unlock the value of the rump.
<u>Valuation:</u> The lack of disclosure regarding the methodology used for the valuation of the "rump" in terms of calculating financial performance; the company used a Deloitte valuation as the basis of the calculation whereas we would prefer a clear objective determination based on disclosed metrics.
<u>Perception:</u> Our current assessment of the public perception is that management is apathetic to the fact that perception matters. We seek a proactive stance from management to address this issue more forcefully.</td><td>Main outcomes of discussion:
<u>Disclosure:</u> The company gave feedback in respect of STIs and LTIP for the rump. For the STI – better disclosure would be provided on each bucket of performance; financial performance would consist of 50% economic criteria and 50% towards business under control of the exec; non-financial performance criteria would look at areas specific to the exec's control, i.e. customer growth, increased IT metrics etc. NB: More than 65% of criteria exclude Tencent.
For the LTIP – the company is looking at the most appropriate way to incentivise the closure of the valuation gap. Remcom did not want executives to be incentivised from performance in each business unit but rather the division as a whole – performance would be looked at from three years for new acquisitions.
<u>Valuation:</u> The company's view was that the Deloitte valuation for the rump was not ideal; however, market value was not ideal either. It was noted that Deloitte is a third party valuer and would review business plans and discounted cash flow analysis. Then Naspers's own auditors, PwC, would cross-check those valuations. The valuation report would then be reviewed by a sub-committee of Remcom and this sub-committee has discretion to amend or accept the valuation report. We have requested disclosure from the company if there had been any trends towards amending the valuation report.
<u>Perception:</u> The company admitted that the feedback at the AGM and from the media wasn't the best and needed to change. We proposed using their existing online platforms to better communicate with stakeholders. They also intend to do more regular investor roadshows and follow-up engagements with us in due course – they would also consider introducing clawback provisions in the event that executives were paid but performance wasn't achieved.</td></tr>
</table>

RECOGNITION FOR OUR PRACTICES

Our responsible ownership performance was assessed by the UNPRI in terms of our 2017 UNPRI Assessment Report, available at www.unpri.org. For Responsible Ownership of listed equity, we received an "A" for both incorporation and active ownership – which rates well against the more than 1 500 other signatories of the Principles.

Locally, Kigoda Consulting launched the Kigoda Responsible Investment Ranking 2017, which can be found at **www.kigoda.com**. We ranked first with a score of 82/100.

The ranking uses Code of Responsible Investment South Africa's (CRISA's) five principles to independently assess whether 10 of the largest asset managers in South Africa have the policy frameworks and governance structures to implement sustainable and responsible investment, and to adequately disclose information on their responsible investment performance. The 10 managers assessed account for around two-thirds of the total assets under management in South Africa (including multi-managers).

The weighting of each CRISA principle was determined by the respective number of issues and their relative importance, with a view to giving each of the high-level categories approximately equal prominence. The Kigoda Responsible Investment Ranking 2017 is based solely on publicly disclosed information.

CONTRIBUTION TO **THOUGHT LEADERSHIP**

As 2017 unfolded, there were numerous requests to provide our insight on the importance of Responsible Ownership in building sustainable investment outcomes. These requests were across platforms and media formats – including radio, journals, online publications and presentations at events. Furthermore, as companies started to realign their annual reporting to King IV standards, there were more requests for the investor's perspectives on the need for reporting in terms of the King IV principles.

We also appreciate our partnerships with key stakeholders, which allows collaborative engagement work on key ESG issues to take place. Below are a few of the most topical thought leadership and collaborative highlights during the year.

King IV and "Say on Pay"

One of the key events in the South African corporate governance calendar was the launch of the King IV Corporate Governance Code. With the spotlight focused squarely on how King IV would be a positive change given the challenges South Africa has faced in the implementation of good corporate governance best practice in the past few years, we submitted an article for the March/April edition of the Institute of Retirement Funds Africa's publication, *Irfinity*.

The editorial gave our views on how King IV would provide the roadmap to continue our active ownership work to improve corporate governance standards in the market. Picking up the theme of "Say on Pay" in South Africa, we also noted the amendment of the JSE Listing Requirements incorporating the principles of King IV (including a non-binding vote on executive remuneration and enhanced engagement on remuneration) as a mandatory reporting requirement for listed issuers.

In our article on *Moneyweb* in June (https://www.moneyweb.co.za/moneyweb-opinion/soapbox/jse-amendment-for-king-iv-listing-rules-is-progress-for-corporate-governance/), we argued that while it is a good outcome for companies to engage publicly with shareholders regarding their pay practices (during the year we saw a number of companies inviting such engagements via SENS announcements), to properly give effect to the practice of responsible remuneration shareholders should have a binding vote on the company's pay practices and resultant changes to legislation should be made to enable a binding vote.

Key issues on Responsible Investment

In the June-August quarterly publication of *Today's Trustee* (https://www.totrust.co.za/20170524_11_res_inv.html), we contributed by answering the following questions:

- What sort of resources, in terms of time and personnel, should be devoted to Responsible Investment research?
- In the research, would there be a difference in the resources applied for larger investments?
- Having considered that the outlook for a share is bullish, would a decision be made to disinvest or not to invest for reason of a company's non-compliance with King IV?

Bearing in mind our approach to integration of Responsible Ownership into the investment process, we were confident to respond to each of these questions.

In August, we were invited to present at the MSCI Global Investment and Risk Management conference with the topic: "What aspects of ESG are most relevant to investors in South Africa?" The topic promoted a lively debate regarding the importance of analysing a company's practices and creating investible ESG products for the retail investor.

Integrated reporting

As the primary resource of ESG information, a company's Integrated Report should effectively present management's response to the key risks and opportunities the company faces and how the company has responded during the financial year under review. We are often the primary users of the Integrated Report in our ESG research and have developed a clear framework as to best practices from a reporting perspective. Given our experience, in October, we were invited to present the investor viewpoint on the importance of Integrated Reporting at the annual International Integrated Reporting Council (IIRC) conference in Amsterdam. We delivered some of the key investor perspectives, showed the ways we use the Integrated Report and encouraged companies to report in a standardised manner in accordance with the principles of the IIRC.

COLLABORATION WITH **KEY STAKEHOLDERS**

Africa Directors Programme

To contribute to the development of governance skills at a leadership level, in 2015 Old Mutual Investment Group partnered with the INSEAD Corporate Governance Centre and the University of Stellenbosch Business School (USB) to create the Africa Directors Programme (ADP). The INSEAD Corporate Governance Centre shared their expertise and learning, the USB Centre for Corporate Governance was responsible for the quality of material to be provided, and Old Mutual Investment Group added corporate insight, credibility and financial support to the programme. Adding credibility to the initiative, the Institute of Directors in Southern Africa (IoDSA) endorsed the programme as worthy of its competency framework requirements.

Programme outcomes:

- Exercise the duties of a director with self-awareness, professionalism and sound judgement.
- Contribute with fellow directors to a board culture characterised by effective collaboration, integrity and sound decision-making.
- Exercise effective board leadership in matters of corporate conformance, performance, strategy and risk management.
- Oversee public accountability for sustainable and responsible business development.

The ADP had participants from South Africa, Namibia and Botswana in a range of private, public and social sector institutions. Since its launch in 2015 the programme has strengthened in terms of presenter diversity and adjustments for the further improvement of the different modules. Botswana will be the first country for which the ADP will be customised.

For more information about the ADP, including course details and to enrol, visit http://www.usb-ed.com/Courses/Pages/Course-details.aspx?Course=Africa-Directors-Programme&CID=99

OBJECTIVES FOR 2018

Building on our successfully concluded active ownership and thought leadership work described in this report, we've set ourselves more challenging responsible ownership objectives for 2018.

At an internal organisational level we will be supporting Old Mutual Limited on its Responsible Ownership commitments as it re-lists in South Africa.

Externally, we continue to see the need to collaborate with our stakeholders in the investment industry, including but not limited to NGOs, academic and research institutions, regulatory authorities and even our asset management competitors, to achieve some of the following goals.

Establishing the link between responsible ownership and investment performance

In our third annual *Tomorrow* magazine, we summarised the results of an interesting international research article (http://ww2.oldmutual.co.za/old-mutual-investment-group/insights/magazines/tomorrow-2017/joining-forces-a-framework-for-value-creation). Among the insights, the important take-away points from the research were twofold:

a) Successful ESG engagements generate abnormal, positive returns.
b) Collaboration with other responsible owners contributes positively to successful engagements, particularly with regard to environmental and social issues.

As we deepen our responsible ownership practices and our investee companies improve their reporting practices and stakeholder engagements (as encouraged by King IV), our aim is to quantify the results of long-term engagement on their risk-adjusted returns. We are eager to ascertain whether the empirical evidence in the South African market supports the conclusions derived from the international research data set.

The work would require a significant amount of background research stretching over a number of years. We have considered partnering with an academic institution to review our past responsible ownership activities as part of the study, given the lack of complete information on South African active ownership practices. We look forward to sharing the results of this work once available.

Requiring climate change reporting as a South African standard

Following our engagements with companies and local/international reporting bodies in 2017, we want to have a standard approach to climate change reporting locally, especially in terms of the TCFD report as augmented by the other reporting framework. Simply put, we cannot have companies that see themselves as investors with long-term investment goals not consider a strategic response to climate change.

As an example towards this end, a key action item for 2018 would be to have CRISA issue a position statement on climate change reporting as a King IV requirement. Another example would be to include a clear set of guidelines regarding voting on environmental resolutions at AGMs in our Proxy Voting Policy.

We look forward to an exciting year ahead!

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