



# INVESTING RESPONSIBLY IN DEVELOPED MARKETS

OLDMUTUAL

INVESTMENT GROUP  
CUSTOMISED SOLUTIONS



The current environment has strengthened the investment case for responsible investing, as it further emphasises the need for you to ensure that ESG is incorporated into your investment portfolios. As aptly described by Jon Duncan, OMIG's Head of ESG:

"ESG funds favour companies with better ESG credentials and as such they can be expected to manage their environmental impacts, treat their stakeholders well, and govern themselves in an ethical way. It appears that such businesses have been more resilient during this crisis and are showing themselves to be the new 'quality companies' of the 21st century. The COVID-19 crisis has provided a good litmus test for the quality management argument around ESG investing, and provides further support to the idea that ESG integration is not just a nice-to-have, but also a good-to-have."

**WE ARE ONE OF THE LARGEST INDEX TRACKER MANAGERS IN SOUTH AFRICA WITH R90+bn IN LOCAL AND GLOBAL INDEX TRACKING CAPABILITIES. THIS INCLUDES MORE THAN R24bn IN ESG TRACKER SOLUTIONS, WHICH WE HAVE BEEN SUCCESSFULLY MANAGING SINCE 2013. NICHE EXPERTISE AND ECONOMIES OF SCALE ARE SECURED FOR OUR CLIENTS.**

## INDEXATION INVESTMENT TEAM



**KIEYAM  
GAMIELDIEN**  
**Boutique Head &  
Head Of Indexation**  
(20YRS)  
B Com (Honours),  
HDip Tax, CA (SA)



**FRANK  
SIBIYA**  
**Portfolio Manager**  
(11YRS)  
B Sc (Mathematical  
Science)



**BERNISHA  
LALA**  
**Portfolio Manager**  
(15YRS)  
M Sc (Advanced  
Analytics & Decision  
Sciences),  
B Sc (Financial  
Engineering)  
Honours, CFA



**STANLEY  
BISHO**  
**Portfolio Manager**  
(10YRS)  
B Sc (Actuarial  
Science), CFA



**ANELISA  
BALFOUR**  
**Portfolio Manager**  
(8YRS)  
B Economics



**THOBILE  
MFELANG**  
**Jnr Investment  
Analyst**  
(6YRS)  
B Com (Honours),  
Investment  
Management

The **OLD MUTUAL MSCI WORLD ESG LEADERS INDEX STRATEGY** aims to achieve long-term capital growth by gaining exposure to the MSCI World ESG Leaders Index, a free float-adjusted market capitalisation weighted index consisting of approximately 800 companies with high relative ESG scores across 23 developed markets. The index is designed to measure the equity market performance of companies with high ESG performance relative to their sector peers across developed markets worldwide.

The strategy employs a traditional index tracking approach by investing all, or substantially all, of its assets in the securities constituting the benchmark index in order to replicate its performance and minimise costs.

EVIDENCE SUGGESTS THAT ESG CAN ASSIST IN MANAGING RISKS. AN **ESG OVERLAY CAN PROVIDE "SAFER" RETURNS**, BY INCLUDING COMPANIES WITH **FEWER CONTROVERSIES** AND WHICH ARE MORE ADEPT AT MANAGING ESG ISSUES RELEVANT TO THEIR SPECIFIC INDUSTRIES.

## WE DO THINGS DIFFERENTLY

- **IT'S ALL ABOUT ESG:** We were the first South African manager to track global ESG equity indices. The selection of the **MSCI WORLD ESG LEADERS INDEX** benchmark was completed after extensive research and consultation with OMIG's dedicated 4 person ESG team, headed by Jon Duncan, who strongly endorses MSCI's comprehensive approach.
- **AUTOMATION AND INTELLECTUAL PROPERTY:** We have managed complex international mandates for clients for many years, which has led to the development of proprietary systems, allowing for electronic oversight, operational leverage and tight differentials. Our process works, whether it is applied to tracking vanilla or highly complex and illiquid indices.
- **PERFORMANCE IS EVERYTHING:** We add value by consistently delivering tight and predictable differentials and tracking errors to our clients. We achieve this by actively managing best execution, corporate events, and optimisation.
- **STRINGENT COMPLIANCE AND GOVERNANCE FRAMEWORK.** We manage our strategies within OMIG's stringent compliance and governance framework, and leverage OMIG's infrastructure and support services. This translates into economies of scale for our clients.

## OUR PHILOSOPHY

We believe that beta is the cornerstone of portfolio construction. Cost-effective, technology-dominated indexation solutions can add significant value to overall portfolio construction.

We aim to construct portfolios that deliver the return of the underlying benchmark with very low tracking error, and at very low cost.

## ESG SCREENING PROCESS

ESG research is performed by MSCI who conduct in-depth research, ratings and analysis of thousands of companies worldwide. The following ESG selection criteria are used to access constituent eligibility into the index:

**ESG CONTROVERSIES** determines a company's involvement in major ESG controversies and how well companies adhere to international norms and principles. Companies with significant controversies are stripped from the index before the assessment is done.

**ESG RATINGS** identifies key ESG issues that hold the greatest potential risk or opportunity for each sector. MSCI ESG Ratings analyses each company's risk exposure within each industry, measuring how well a company manages each key issue relative to industry peers. 50 % of the worst ranked stocks within each sector are removed, meaning that the top 50% of stocks in each sector are double weighted relative to the Parent Index (MSCI World Index)

**ESG BUSINESS INVOLVEMENT SCREENING RESEARCH** is used to screen companies from the index that are involved in specific business which have high potential for negative social and/or environmental impacts, such as alcohol, tobacco, gambling, nuclear power, conventional and controversial weapons, and civilian firearms.

The MSCI World ESG Leaders Index targets sector and region weights consistent with the Parent Index (MSCI World Index), which limits systematic risk introduced by the ESG screening process.

Once the index has been constructed by MSCI, our Indexation Team apply their process in tracking it.

THE **OLD MUTUAL MSCI WORLD ESG LEADERS INDEX STRATEGY** PROVIDES CLIENTS REQUIRING **COST EFFECTIVE** WORLD EXPOSURE WITH THE **ADDITIONAL BENEFIT** OF AN **ESG** OVERLAY.

## INVESTMENT PROCESS

We apply a mathematical, systematic approach to index tracking. We employ highly numerate, meticulous and experienced investment professionals to match indices with skilled precision.



### STEP 1: INVESTABLE UNIVERSE

The strategy's universe comprises all constituents of the underlying Index. With the use of analytical tools, and taking liquidity requirements into consideration, we assess whether it makes sense to fully replicate this universe.

In respect of the Old Mutual MSCI World ESG Leaders Index Strategy, we aim to do full replication with some optimisation for efficiency purposes.



### STEP 2: PORTFOLIO CONSTRUCTION

We set up and manage client portfolios with the use of the NX Manager system (previously known as Decalog), which is used for valuations and mandate compliance.

The Portfolio Manager will effect changes to the strategy based on any index changes and corporate events. Our team of analysts continuously assesses and monitors our positions relative to the market and the effect of any corporate actions on the index.



### STEP 3: SELL DISCIPLINE

Our sell discipline is a balancing act between incurring tracking error and reducing market impact costs. For illiquid securities that must be sold due to index rebalancing or corporate actions, we forecast what the upcoming index will look like, enabling us to sell illiquid counters before the index changes take effect. We also use post trade execution tools to ensure that the stocks being sold do not have a detrimental impact on the price relative to the close.



### STEP 4: TRADING & PORTFOLIO IMPLEMENTATION

Stringent risk control measures are in place throughout the process. All orders to trade must be signed off by two authorised signatories with clear segregation of duties before being submitted for execution.



### STEP 5: RISK MANAGEMENT

Risk management is integral to our investment process. On completion of the trading process, the strategy is run through MSCI-BARRA, which alerts us to any potential areas for slippage.

Tracking error reports are generated daily and best execution on our strategies is monitored daily.

On a weekly basis, the strategy is reviewed by the indexation investment team, who is responsible for ensuring all strategies' tracking errors are maintained within mandate restrictions.

## CONTACT DETAILS

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### REGULATORY INFORMATION:

Old Mutual Customised Solutions (Pty) Ltd (2000/028675/07) is a licensed financial services provider, FSP 721, approved by the Financial Sector Conduct Authority ([www.fsca.co.za](http://www.fsca.co.za)) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Customised Solutions (Pty) Ltd is a wholly owned by the Old Mutual Investment Group Holdings (Pty) Ltd and is a member of the Old Mutual Investment Group.



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