



INVESTING RESPONSIBLY IN DEVELOPED MARKETS

OLDMUTUAL

INVESTMENT GROUP



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 Rob Lewenson, 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 R131+bn IN LOCAL AND GLOBAL INDEX TRACKING CAPABILITIES. THIS INCLUDES MORE THAN R33bn 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



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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 5 person ESG team, headed by Jon Duncan, who strongly endorses MSCI's comprehensive approach.
- **CONTINUOUS PRODUCT INNOVATION:** We have managed complex international mandates for clients since 2011, which coupled with our relentless pursuit of best-in-class processes, has led to the development of proprietary systems, allowing for electronic oversight, operational leverage and tight differentials against the benchmark. 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. We have a successful 20 year track record.
- **SCALE:** As one of South Africa's largest index managers we:
 - Have invested in the best people and global systems.
 - Have the strength of balance sheet and business continuity.
 - Operate within a stringent governance framework and according to global best practice.
 - Operate on a scale that translates into higher efficiencies, lower costs and ultimately lower fees for our clients.
- **CUSTOMISED END-TO-END SOLUTIONS:** We offer you a high-touch, client-centric investment management service to solve your investment challenges and assist you in efficiently accessing market returns.

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 a Portfolio Management System.

The Portfolio Manager will effect changes to the strategy based on any index changes and corporate events. Our team 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. Our systems forecast what the index will look like in the case of a rebalance or corporate actions, which enables us to sell illiquid stocks 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

Throughout our trading and portfolio implementation processes, we have stringent risk control measures in place. Order processes are automated, with a further electronic sign-off by two authorised signatories with clear segregation of duties, before being submitted for execution.



STEP 5: RISK MANAGEMENT

On completion of the trading process, the strategy is run through a global portfolio analytics and risk management system, 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:

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