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# FOR BETTER RISK-ADJUSTED RETURNS

The integration of environmental, social and governance (ESG) issues in fundamental analysis, valuation and portfolio construction has become increasingly important in recent years given the growing number of corporate events which have adversely impacted companies' ability to sustainably generate quality earnings and positive returns for shareholders. The recent large-scale governance failures in the state and listed corporates has highlighted that investors need to consider more than the "quantitative" assessment of "fundamental value" in investing clients' funds.

Old Mutual Equities' (OME's) approach to ESG integration is in principal guided by our investment philosophy and approach. We believe in an enhanced value approach which entails complementing rigorous bottom-up fundamental valuation work in the research portion of our process with three confirming quantitative factors: quality, growth and sentiment in our portfolio construction process. The portfolio construction process is where we combine our bottom-up research with risk considerations alongside our quantitative factors to construct portfolios that expose clients to our best ideas while protecting them from unintended risks. With this perspective, we understand the macro-thematic business case for sustainability and the underlying company value drivers associated with ESG issues. As such, we

leverage both quantitative and qualitative ESG research inputs into our processes. We do not apply hard exclusions unless mandated by our clients.

Our approach to ESG integration is a structured and repeatable process that is led by our portfolio managers and investment analysts in conjunction with our dedicated specialist ESG research unit. The first step in the process involves screening our investment universe with a proprietary ESG quantitative tool developed by our specialist ESG team. This tool highlights a company's exposure to accounting and governance related risks, external and internal exposures to environmental and social risks (taking into account the firm's capability in managing these risks), as well as a company's history of controversial events. We use these insights to focus our qualitative/fundamental ESG research, which aims to give dimension to the identified risks in terms of materiality and financial impact over a short, medium and long-term time horizons. Depending on the availability of data, we may also engage directly with company management to better understand the issues in more detail.

For example, our ESG risk screening may identify climate change risk as a concern to a particular company. In this case, we will undertake deep-dive research on how the issue may impact the company's core financial metrics and competitive positioning

- this may translate to an adjustment of our base case and/or bull-bear case analysis. In each instance the analysts on the company are required to prepare a detailed note on how the material ESG issues have been considered in the overall company valuation and buy/hold/sell recommendation.

When it comes to ownership, we are active stewards of our clients' assets and exercise voting rights and regularly engage with management teams and boards. A more detailed summary of our proxy voting and company engagement is provided in our Responsible Ownership Report. [🌱](#)