

# FUTUREGROWTH

/ ASSET MANAGEMENT



## **Futuregrowth's transformation story**

Developing and transforming South Africa for over 20 years

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## The Futuregrowth story

### A vision unfolding

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Would the founders of Futuregrowth in 1994 recognise the leading asset management company it's become today?

Originally, Futuregrowth was founded to bring Michael Leeman's honours thesis to life. Backed by Southern Life, the initial suite of funds focused on social development and empowerment. The aim was to make money for pension funds while investing in disadvantaged communities.

Fast forward more than 20 years and today Futuregrowth manages around R170 billion of clients' assets, across the full range of fixed interest and development funds, and plays a key leadership role in the asset management industry in South Africa.

During this time, and under the leadership of Paul Rackstraw and Andrew Canter, we have not waived from our purpose: "to protect and grow investors' savings through skill and diligence in a way that engenders trust and sustainably enriches people's lives, while being a positive force in society, markets and for all our stakeholders".

This purpose is based on the belief that investors can genuinely make a positive difference in society while earning sound investment performance for pension fund members.

This belief is what inspires us to pioneer development funds in sectors such as infrastructure, rural and township retail property, agriculture and renewable energy, channeling funds into innovative deals including low-income housing construction, a church in Soweto, urban regeneration projects and taxi finance, to name a few.

Because of our commitment to our clients, Futuregrowth has on various occasions taken action that has not necessarily been in our own best interests. Take the furore that ensued in 2016 after we announced that we could no longer in good conscience invest pension fund members' assets in certain SOEs until we had concluded a governance review.

On another occasion, we identified unfair and unsustainable practices within the micro-lending industry as non-developmental and ceased further investments from our development funds into this sector.

So to answer the question raised at the outset, we believe the answer is yes. The original concept of Futuregrowth is still alive, and thriving, in the Futuregrowth of today. Because even though the company has developed into a large and successful asset management brand, the philosophical belief on which the business was founded is still at the core of everything we do.

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# Futuregrowth's transformation story

Futuregrowth has been a leader in transformational and developmental investments for over 20 years via our range of development funds which make a real difference to people's lives in South Africa, while delivering sound investment returns.

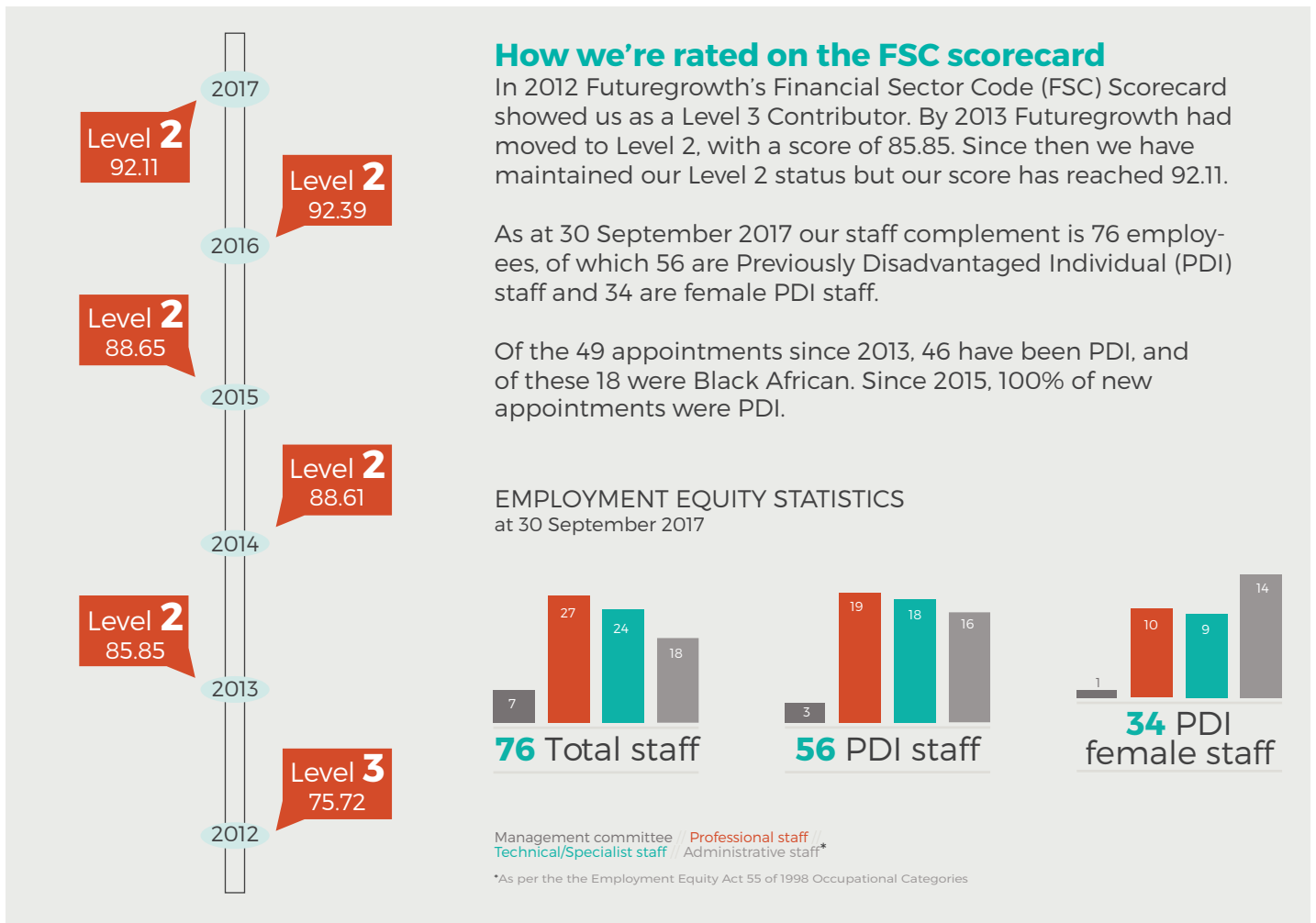
The information covered in this report includes the key criteria against which transformation is generally measured. At Futuregrowth, however, we consider transformation to be far broader than this. Therefore, as part of our assessment, we include the impact our business and investments have on the broader environment in which we operate.

## Internal transformation//

the transformation of our business to reflect the racial and gender diversity of our country.

## External transformation//

the impact that our business and investments have on our clients, communities, the investment industry, capital markets and the economy as a whole.



## Employment Equity (EE) Committee

Futuregrowth's EE Committee was formed in 2015 to ensure equitable representation in all occupational categories and levels of employment in the company. The EE Committee monitors the implementation of the transformation and EE strategies. The committee consists of staff members from across the organisation who are passionate about Futuregrowth and its people.



Our investment team

## Shareholding structure

Old Mutual Investment Group (OMIG) South Africa has been the majority shareholder of Futuregrowth since 2008. The current shareholding structure is tabled below. It is worth noting that Futuregrowth's BEE shareholding is **35.18%**.

	Breakdown of total shareholding %	Actual BEE allocation %	Total target allocated to staff % (OMIG/FG)	Weighted BEE shareholding %
OMIG ownership	74.70%	*33.25%		24.84%
OMIG/FG Management Trust	12.00%		12.00%	
OMIG/FG Black (PDI) Management Trust	8.00%	**5.04%	***6.88%	5.04%
Imfundo SP Holdings	5.30%	5.30%		5.30%
<b>Total Futuregrowth BEE shareholding</b>	<b>100.00%</b>			<b>35.18%</b>

\*33.25% as reflected in the Futuregrowth FSC Scorecard, and also used in this table, is the flow through calculation from OMIG's BEE shareholding calculated in accord with current DTI scorecard requirements. // \*\*5.04% is held by 26 Futuregrowth PDI staff. // \*\*\*An additional 1.84% has been allocated to PDI staff and is in the process of being purchased. A minimum of an additional 1.12% is reserved for new allocations to PDI staff.

Imfundo SP Holdings is an education trust that provides financial assistance to previously disadvantaged students who pursue a tertiary qualification relating to the asset management field. Futuregrowth thus contributes to broadening the knowledge base and skills development, therefore benefiting the South African economy and society more broadly.

Both the Management and Black Management Trusts are vehicles that house the Futuregrowth shares set aside for senior staff. Over time, up to 20% of the shares will be held by staff via a staff incentive scheme consisting of these Trusts. The Management Trust shareholding of 12% can be allocated to all senior staff including PDI employees but the Black Management Trust shareholding of 8% are exclusively held for PDI employees.

Those PDI staff who are eligible are offered the opportunity to take up a prescribed share allocation if they so wish. The size of the share allocation is dependent on the individual role. This will be increased as the employee moves to a higher level of responsibility. Take up of shares can be spread over a number of years until the full allocation has been reached. The share allocations occur once a year at bonus time.

**Graduate Acceleration Programme  
Learnership (GAP) & TSIBA**

Futuregrowth recognises the need to encourage skills transfer which best takes place within the workplace. We therefore look to grow our current staff within these areas as well as participate in the Old Mutual GAP. In this programme students are offered an internship for eighteen months. These students are recently graduated individuals who have expressed an interest in the financial industry and who are particularly keen on pursuing a career in asset management.

Futuregrowth also participates in the TsiBA bursary programme, which is offered in conjunction with

ASISA. The purpose of this programme is to create a pool of graduates who have developed some basic skills in client services and administration in the financial services industry. These students have the opportunity to gain relevant and valuable work experience in the client reporting and business development areas of the business during their five month placement with Futuregrowth. The selected individual is also given a bursary for eighteen months for the completion of his or her studies in client servicing and administration. The student is paid a salary while completing his or her internship.

**12** GAP INTERNS APPOINTED SINCE 2011. 3 STARTED IN 2016 & 2 IN 2017.

ALL ARE PDI AND **7** ARE BLACK AFRICAN.

ALL **7** WHO JOINED BEFORE 2016 HAVE BECOME PERMANENT EMPLOYEES.

**4** HAVE BEEN PROMOTED TO ANALYSTS IN THE INVESTMENT TEAM, **2** OF WHOM ARE BLACK AFRICAN.

GAP LEARNERSHIPS SINCE 2011

**SKILLS DEVELOPMENT SINCE 2013**

Futuregrowth encourages staff to continue learning, upskilling and developing themselves. Since 2013 we have financially supported:

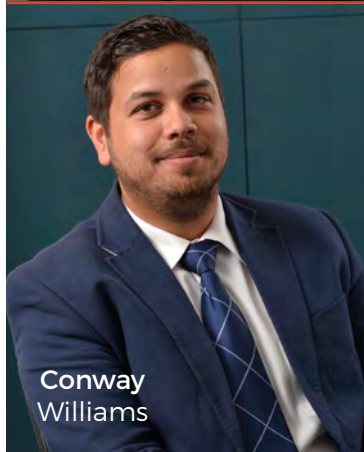
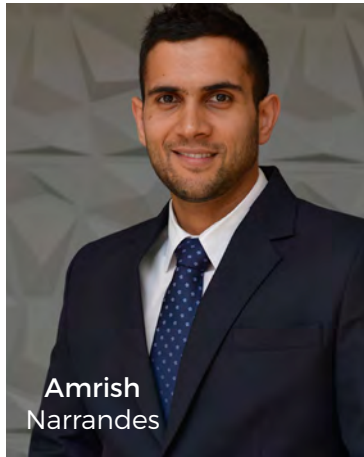
**34**

PDI staff who are studying or studied towards a formal qualification (CFA, CIPM, CAIA, post graduate degrees, FMI).



## Portfolio management mentorship initiative

Meet the candidates participating in the portfolio management mentorship initiative. These candidates were nominated from within the investment team to participate in the programme. This initiative was borne out of a need for additional portfolio managers to manage the vast number of funds under management at Futuregrowth and will equip analysts to take on a portfolio management role once they have successfully completed the programme.



## People are at the heart of what we do

- / We grow our own trees at Futuregrowth -- allowing people to learn and expand in their career, both here and, sometimes, elsewhere.
- / We all contribute towards achieving the purpose of the organisation.
- / We've chosen to stay small -- to have a unified, connected, trusting, sharing culture.
- / Futuregrowth has a culture of openness and sharing of information, ideas, and learnings.
- / It's a learning place -- questions are answered willingly and openly.
- / We're a family.

## Being a Responsible Investor: With great capital comes great responsibility

**As fiduciaries representing investors' interests we take our role of responsible investor very seriously.**

The issue of sustainable and responsible investment practices are not new in South Africa. Regulation 28 of the Pension Funds Act requires pension funds to consider issues that could materially affect long-term performance, including environmental, social and governance (ESG) factors.

### Our Approach

#### Integrating non-financial analysis into our investment process

Futuregrowth manages approximately R170 billion of assets across a range of fixed income and development funds. We believe integrating non-financial analysis makes for better investment decisions and also more sustainable returns.

**“Consciously seeking to invest client funds in a responsible manner.”**

Financial analysis in isolation is not sufficient to assess companies which are exposed to many non-financial risks that could affect their prospects. Through the investment process we seek to identify non-financial risks (ESG, governance, management, operational, etc) that could impair the quality of our investments. The purpose of integrating these factors

is to improve the analysis of all investments, promote improving standards of practice, and to assist the investment process in assessing the risks.

### Engagement

Futuregrowth believes that engagement with investee companies on matters of ESG is appropriate to ensure long-term sustainability. We believe in collaboration with investee companies and engaging management to encourage companies to think about their approach to integrating, disclosing and reporting on ESG issues.

Some of our engagement activities include filing shareholder resolutions, attending annual general meetings, debt-holder meetings, negotiating debt-related terms, lender-related issues and voting our shareholder proxies.

We believe that our role within the investment community is to engage companies on these issues, to encourage improved standards and aspire to responsible ways of doing business.

### Examples of investor activism Effecting sustainable change in capital markets

Acting as fiduciaries for our pension fund clients, Futuregrowth actively engages with the capital markets and raises issues in public to bring about fairer capital markets and investment practices for all, often raising issues that need debate.

Examples of pro-active engagements are:

- JSE takeover of BESA (2008): Lack of fair and transparent price discovery
- Credit Ratings Agencies (2008): Conflict with ratings agencies
- Bond Covenants (2009): Fighting for better investor protections
- Bank failures (2011): Lack of accountability when banks fail
- Bond pricing (2011): Bond pricing problems
- Prescription (2009 + every 18 months): Hostile to prescription in SA

- Micro-lending (2013): Identify unfair and unsustainable practices of microlenders
- Bond Indices (2015): Argued indices are fundamentally flawed
- Covered Bonds (2015): Hostile to covered bonds introduction in SA
- ACSA (2015): Oppression of minorities
- SOE governance (2016)

**“As fiduciaries, Futuregrowth seeks fairer capital markets and investment practices, often raising issues that need debate”**



## Industry involvement

### ASISA committees and working groups

We have representation on the ASISA Fixed Interest Standing Committee as well as its various sub-committees focusing on the development of the bond and credit market, responsible investments and infrastructure.

These sub-committees are:

- Responsible Investing Standing Committee
- Covered Bonds Working Group
- Debt Issuer Services Work Group
- Securitisation Working Group
- Infrastructure Working Group
- Project Bonds Working Group
- Money Market Sub-committee
- Commercial Paper Review

### Principles for Responsible Investment (PRI)

- We chair the PRI Awareness Working Group in South Africa

### Chartered Financial Analyst (CFA)

Futuregrowth has been a supporter of CFA South Africa since its founding, through active Board membership during its first 13 years as well as by supporting its mission with sponsorships, education initiatives hosted by the CFA and continued participation in various forums.

## Partnership with Government & State Owned Enterprises in National Development

Acting for our investor clients, Futuregrowth is one of the longest-serving and largest private sector funders of national development in South Africa. Often this is in conjunction with national government initiatives, such as infrastructure (transport, water, alternative energy), taxi recapitalisation, urban renewal, affordable housing, utilisation of ocean resources, student accommodation, and much more.

**“Through our efforts, we seek to be on the right side of history.”**

## Codes of Standards

### We adhere to the following standards and guidelines:

- FAIS Code of Conduct for Administrative and Discretionary Financial Services Providers
- FAIS General Code of Conduct for Authorised Financial Services Providers and Representatives
- Futuregrowth is a signatory to the PRI
- Code of Responsible Investment in South Africa (CRISA) (2011)
- Global Investment Performance Standards (GIPS) (2000)
- CFA Asset Manager Code of Professional Conduct (2006)
- International Finance Corporation (IFC) standards (2010)
- GLOBALG.A.P. standards (2010)

## Directorships and members of investment committees

Various members of the investment team are involved in external investment committees or hold directorships showing positive engagement with investee companies.

Examples of investment committees are:

- South Africa Infrastructure Fund
- The Masisizane Fund
- ASISA Enterprise Development Fund

Examples of investee companies are:

- Infrastructure Finance Corporation (INCA)
- South African Enterprise Development
- N3 Toll Concession
- National Urban Reconstruction and Housing Agency (Nurcha)
- National Housing Finance Corporation
- Open Learning Group
- Eduloan

## Trustee training

Given the fiduciary role that trustees play in pension fund management and the importance of having the appropriate skills and knowledge, Futuregrowth has compiled a series of workshops on various topics including bonds, responsible investing, credit and compliance.

## Development investments that serve the nation

### Our philosophy

Futuregrowth is dedicated to the development and empowerment of South Africa and its people, with many of our products geared towards supporting change. We are passionate about improving the lives of all South Africans and are always striving to identify opportunities that will not only yield optimal financial returns for investors, but also make recognised contributions to society. Futuregrowth has become a reliable channel for investors' savings that assist in funding national development. Our belief is that thriving communities result in thriving businesses, therefore, business can and should develop the communities in which they operate.



Supporting **investments** into infrastructure development

**20 years** of consistent, long-term performance

Tangible **social impact**

**R45bn** invested in infrastructure & developmental investments\*

Active in all **9 provinces**

Renewable energy exposure of **R9.20bn** in committed & pipeline deals

\*At December 2016

**“We bring energy and creativity to developmental finance -- assessing and making investments that others don't, and actively engaging to assist companies on their journey.”**

While our primary role is to provide a retirement benefit for members, improving the lives of individuals and their families while they are still working is also critically important.

We define developmental investing as that which provides investors with both commercial returns and tangible social and developmental impact. In South Africa, the primary development focus is around the provision of basic services and infrastructure development.

### Our process & track record

Futuregrowth has a 20 year track-record of investing in developmental investments. We use a fundamental investment approach with active decision making and judgement applicable in all processes.

## Developmental sectors

Futuregrowth has invested a total of **R45bn\*** in various infrastructure and developmental sectors on behalf of our third party clients.

### / Exposure across various infrastructure sectors



**and** local water reticulation, airports, rail, harbours, DFIs, education and tourism.

### / Exposure across various developmental sectors



**and** other developmental sectors.

**“Invest profitably and responsibly. Align your investments with your humanity.”**

#### **Our suite of development funds**

Our suite of development funds forms part of our overall Responsible Investment (RI) strategy and reflects the intentions of investors to do good by consciously investing to make a positive impact in society and the broader environment for current and future stakeholders.

#### **Our developmental suite of funds consists of:**

- Infrastructure & Development Bond Fund
- Development Equity Fund
- Community Property Fund
- Agri-Fund
- Development Balanced Fund (Fund of Funds)
- Power Debt Fund
- Power Inflation-linked Bond Fund
- Infrastructure & Development Inflation-linked Bond Fund

\*At December 2016

## Caring for communities

Futuregrowth allocates 1% of its after tax profits to Corporate Social Investment (CSI). Our key focus areas of support fall within the three broad CSI categories of social development, health and education. An internal CSI Committee vets the projects under review. Committee members are invited to serve on the committee based on their passion for, and interest in, social development work in and among socio-economically deprived communities, and all staff are encouraged to participate in the various projects that we engage in.

**During 2016 we funded 22 projects across all three CSI categories.**

Our purpose is to make a meaningful, tangible difference to communities and in so doing fulfil our purpose of effecting positive change in South Africa. A secondary purpose is to provide Futuregrowth employees with a platform to live the brand and further enrich their own lives by doing good for others as members of the CSI Committee.

Read our latest report - Corporate Social Investments 2015 - which can be found on our website.



# FUTUREGROWTH

/ ASSET MANAGEMENT

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