

VALUES BASED INVESTMENTS, RETURNS AND FEES



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All investing starts off with a set of beliefs. Investors believe that companies with a certain set of attributes will outperform. In the mid-60s, Harry Markowitz published his model based on the idea of maximising returns for a certain level of risk. Academics and practitioners have identified and isolated investment factors that enable investors to pursue risk-adjusted investment returns. Most asset managers and investors believe that characteristics like size, value, momentum, quality and low volatility, among others, will deliver maximum returns.

A key tenet of active investing is that there is a difference between price and value. As Warren Buffett says, price is what you pay, value is what you get. The low return environment of the last five years has challenged investors, investment managers and other stakeholders to grapple with the price vs value relationship. We believe that any debate around price and value should consider broadly what customers value and indeed if price captures all things which clients value. For example, up until the 1970s national accounts excluded the finance industry contribution and as such it was excluded from GDP. Similarly, today, the home building and caregiving

many women provide to families, whilst extremely valuable, is not assigned a price and, consequently, is not included in GDP.

VALUES BASED INVESTING

Customers have values that are about ethics, morals and principles. It therefore follows that values based investing is about using one's ethical principles and moral codes as the primary filter for the selection of investments. Globally, the growing threat of climate change, resource depletion, rising pollution and unethical practices in the private and public sector, has led to an escalation in demand for more ethical practices and products from companies and governments

alike. Values based investing can be divided into Environmental Social Governance (ESG) and Faith Based Investing. Faith Based Investing refers to investment solutions that are consistent with religious principles such as Christianity, Judaism, Islam and Hinduism etc. as part of the investment process.

FAITH WILL IMPACT GLOBAL SYSTEMIC CHALLENGES

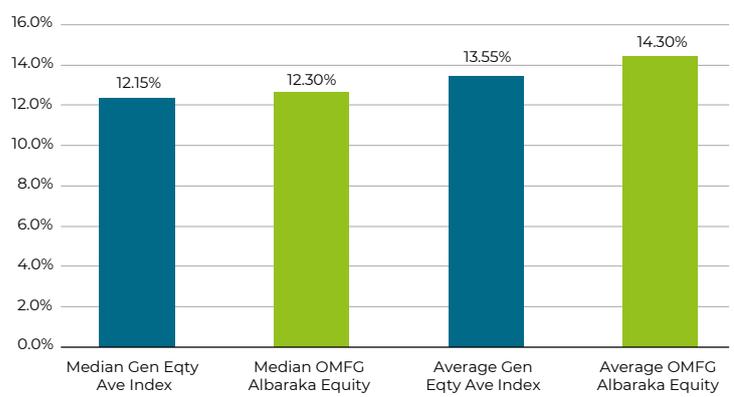
The World Economic Forum (WEF) estimates that 84% of the world believes in something greater than itself and concludes that the faith factor will influence and impact global systemic challenges. Faith communities have the desire to do the right thing by

future generations, serve as early warning systems to unethical behaviour and contribute to an inter-generational common good. Considering the challenges, and the Global Compact as expressed in the Sustainable Development Goals (SDGs), it therefore stands to reason that we share more than just the need for profit. With goals such as zero hunger, good health and wellbeing, education, responsible consumption and production, peace, justice and decent work, among others, the SDGs read like a religious script of how to treat our neighbours. In addition, it sounds like the process we go through, if based on value, will contribute wider to the greater wellbeing of society. Therefore it is important that we focus on these shared values, as opposed to the labels that highlight our differences.

An example of a great alignment in shared values, is that of the Old Mutual Shari'ah funds. These funds' social impact, which is significant in communities, is a dimension that is not captured in the pure return on investment (ROI). Over the past seven years, the board has donated R52 million to healthcare, education and maternity care projects. The



SHARI'AH COMPLIANT FUND OUTPERFORMED CONVENTIONAL FUNDS
5-year rolling annualised returns to November 2019



donations are not only to Muslim communities, but benefit South Africans of different faiths and social backgrounds across the country. Even though the social impact is before pure ROI, the Old Mutual Shari'ah funds have outperformed their peers in the General Equity category on a 5-year rolling average and median basis from November 1992 to November 2019.

Shari'ah compliant funds continue to attract investors from all religious backgrounds. The shared value lesson here is that companies whose core business is frowned upon by Shari'ah, such as alcohol, tobacco, gambling, adult entertainment, and the weapons sector, are frowned upon by most religions. At Old Mutual, almost 30% of the Shari'ah clients are non-Muslim, and the majority are under the age of 40 years. They are the future and are giving us more than just a strong signal of what they value.

OUTLOOK

Investing based on shared value means that the measurement of success or progress is different. Investors are less guided by market bulls and bears, but more by whether the investments are aligned with their values and how much value can be created, for the greater good. It is about uniting in one objective, and committing towards broader definitions of performance and impact. It seems this is the only way we will meet the SDGs by 2030, and be able to achieve a better and sustainable future for all.

As values based investing continues to grow in South Africa and across the world, I am hopeful that the measurement of success will start to reflect our evolved thinking. We will no longer confuse price with value, asset managers will start to understand what their customers value, and the discussion on fees will be appropriately located.

Saliegh is responsible for the Shari'ah proposition and has been the lead portfolio manager of Shari'ah products (equity, multi-asset and global equity) since 2007. Over more than a decade, he spearheaded efforts to grow the award-winning Shari'ah proposition to a significant player in the market.