Regulation 28 puts responsible investing firmly on the agenda

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"We are living off the Earth's capital - we need to live off the interest."

Achim Steiner, Executive Director of the United Nations Environment Programme

The preamble of the new Regulation 28 of the Pensions Fund Act states that prudent investing means giving appropriate consideration to any factor that could materially affect the sustainable, long-term performance of a fund's assets, including environmental, social and governance factors. This means that responsible investing is no longer simply a nice-to-have, or the domain of some retirement funds, but not others. All trustees, irrespective of their existing mandates with fund managers, should now ensure that responsible investing is on the agenda.

What is responsible investing?

Responsible investing integrates any factor that affects long-term sustainability, including environmental, social and governance factors, into investment practice. Put simply, responsible investing is about integrating the goal of providing return-based benefits to investors with a broader consideration of the world and society in which they live.

Why is it so important?

There is no point providing pension incomes to beneficiaries if the world they retire into cannot provide them with food, potable water or a habitable climate.

Consider climate change and its predicted and evidenced impact on the region. With average temperatures rising, and average rainfalls decreasing, food production is under threat, which affects food prices. Globally, approximately 75 million people are malnourished as a direct result of food price increases. In South Africa, the majority of pension fund members, who can be classified as low-income wage earners, spend nearly 70% of their income on food. Continuing pressure on food supply could make this alarming situation potentially devastating.

The good news is Sub-Saharan Africa appears to be ahead of the curve on responsible investment implementation. According to the **2011 IFC-SinCo research** on Sustainable Investment in the region (RisCura was a research partner in this project), using a broad definition of ESG integration to estimate assets under management for responsible investment "…integration of ESG factors into fund investment policy and/or process, SI in South Africa, Kenya, and Nigeria is estimated at $ 125 billion AUM – equivalent to 20 percent of general asset management and 44 percent of PE [private equity] in Sub-Saharan Africa. This puts the overall SI market in Sub-Saharan Africa ahead of the U.S., Brazil or South Korea." The importance of responsible investment is clearly gaining traction.

An approach, not a product

Responsible investing is not an asset class that should be ring-fenced in a portfolio by investing in one of the many SRI products available on the market. It goes deeper than this – it's a way of considering all investments, and cuts across different investment mandates, asset classes and investment products. Responsible investing is an approach to investing, not just a product.

The issue of returns

A common belief is that investing responsibly affects returns negatively. Yet every year, more and more international research demonstrates that responsible investing does not, in fact, result in lower returns. In reality, responsible investing is being proven to affect fund returns positively. Because it calls for a deeper analysis of companies and their impact on markets and societies, considering ESG factors when making investment decisions should result in better decisions and reduced risk by uncovering key issues that traditional number-based analysis can miss.

Institutional investors, primarily pension funds, are in the perfect position to drive long-term thinking around responsible investing to parallel their long-term investment horizon. Pension fund investing should not be about 3-month, 12-month or even 3- year returns; it should be about 10- 20-year sustainable returns. It is becoming increasingly easy to argue, based on a significant volume of research, that sustainable long-term returns require the integration of ESG factors.

For more information on Regulation 28, **click here**.

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