## Responsible investing - where do you start?

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**Learn the regulatory frameworks on integrating ESG into investments**

Since 2007, PF130 has actually included sections on responsible investing and clearly states: “Funds should include a policy on socially responsible investments (SRI) in their investment policy statement.” The incorporation of ESG factors into the requirements of the **new Reg 28** further pushes trustees to integrate responsible investing into their thinking on a higher and broader level than simply SRI. In addition to regulation, the **Code for Responsible Investing in South Africa** (CRISA) – launched in July 2011 – sets the stage for action and “gives guidance on how the institutional investor should execute investment analysis and investment activities and exercise rights so as to promote sound governance.”

**Document your plan on responsible investing in your investment policy statement (IPS)**

There are many examples available of how you can begin to craft the language and philosophy of responsible investing and incorporate it into your investment policy statement. Integrating your ESG approach and principles into your IPS is an important step in formalising your Fund’s responsible investment plan.

**Ensure ESG expertise and focus is part of your process for selecting investment managers**

The presence of a responsible investing philosophy and practice should be high on a list of priorities when considering and selecting an investment manager or advisor. Indeed, probing managers on how they integrate environmental, social and governance factors into their investment process, policies and decision-making can be challenging. But with the advent of the new Reg 28, your Fund and its advisors can begin to require asset managers to outline their approach to ESG integration in the initial tender process. In addition, asset managers should be obliged to report periodically (every 6-12 months) on ESG issues and integration in line with the Fund’s investment policy. This can include reports on how a manager has exercised voting rights, how they have integrated ESG factors into their research process, how this has impacted the Fund’s portfolio and strategies the manager employs to encourage more in-depth ESG research from their service providers.

**Check on proxy voting by your asset managers**

RisCura sponsored an external and independent assessment of proxy voting policies and procedures within a number of South African asset managers. The results of which can be viewed online **here**. Asset managers should regularly be interacting and engaging with the companies they invest in. Backing up their engagement has the ultimate ability to bring about change through exercising the vote attached to the shares that they own or manage on behalf of their clients. There are a multitude of examples where motivated investors have worked to steer management on a path to improve financial performance and positively impact the company stakeholders. Many of these engagements have been motivated from the perspective of improving environmental, social or governance factors under the influence of the management. As a bottom line, it is worthwhile for trustees to request that they be made aware of the stewardship and/or proxy voting and engagement policy adopted by their investment managers and to receive regular reports on activities that relate to these policies.

**Ask your investment consultant about their ESG focus**

Investment consultants serve as intermediaries between institutional investors and money managers. Their familiarity with ESG integration and responsible investing (RI) approaches is crucial. With the new preamble to Reg 28, consultants should be the thought leaders on how ESG considerations impact idea generation, portfolio construction, management and implementation.

The areas that consultants should be addressing with their pension fund clients are:

- Trustee training and education on ESG issues
- Developing a long-term plan to deal with ESG issues for your Fund
- Assessing how to integrate responsible investment concepts into your investment policy statement
- Communication to Fund members about the importance of sustainable long-term returns and the fund's plan around responsible investment integration

**Incorporating ESG into investing shouldn't be overwhelming**

Despite the variety of approaches in the market for responsible investing, a response to the new Reg 28 requirement to consider ESG integration doesn't need to be overwhelming for trustees. Trustees do not need to undertake the cumbersome process of deciding on behalf of their members whether (for example) SAB is a socially responsible company and whether the Fund should or should not invest, or even to decide whether the Fund views social aspects above environmental aspects. There may be Funds who would like to get into this level of detail and they can, but the starting point (and meeting the requirements of Reg 28) is much less complex. **CRISA** provides a valuable roadmap for Funds to meet the regulatory requirements, and with the assistance of their services providers, trustees can follow an easy to execute plan to get started.

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

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