



RESPONSIBLE INVESTMENT AND OWNERSHIP


Action Steps for Pension Funds in South Africa

SUSTAINABLE RETURNS

for pensions and society

an industry-led initiative






Responsible investment is an increasingly important concept for pension funds and other institutional investors around the world.

The Sustainable Returns for Pensions and Society initiative aims to help pension funds to respond effectively to the business case for responsible investment, with specific reference to Regulation 28 of South Africa's Pension Funds Act and complementary frameworks, including the Code for Responsible Investing in South Africa (CRISA).

INTRODUCTION



Responsible Investment (RI) can be defined as investment management processes and ownership practices that take environmental, social and corporate governance (ESG) considerations into account in the belief that these factors can have an impact on long-term financial performance.

*Source: Responsible Investment and Ownership -
A Guide for Pension Funds in South Africa*

Recommended timetable

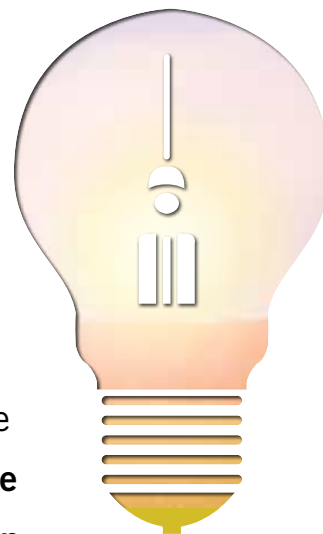
The business case for Responsible Investing (RI), combined with the regulatory imperative of Regulation 28 and the expectations set by the Code for Responsible Investing in South Africa (CRISA), means that pension fund boards should now be placing a priority on timely planning for implementation.

Adopting RI policies and putting in place the management systems to implement them takes time, and this requires a phased, strategic approach. Pension funds are therefore encouraged to take a **multi-year perspective** on phased implementation and **to report on progress annually**.

Four stages of progress have been identified to provide fund boards with typical action steps for setting and monitoring targets.

This timetable is intended as a guide rather than a precise formula, and, in practice, the best sequence of steps will vary from fund to fund.

In consultation with the National Treasury and the Financial Services Board (FSB), the Sustainable Returns Steering Committee recommends that pension funds should regard the following timetable as being both desirable and achievable.



YEAR 1

YEAR 2

YEAR 3

YEAR 4



CRISA PRINCIPLES

The Code for Responsible Investing in South Africa (CRISA) gives guidance on how the institutional investor should execute investment analysis and investment activities and exercise rights so as to promote sound governance. There are five key principles:

1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.
5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

For more on CRISA, visit
<http://www.iodsa.co.za/?crisasummary>

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POLICY

The fund's Investment Policy Statement (IPS) incorporates a general statement explaining the fund's commitment to RI.

CAPACITY

The Principal Officer and/or selected Trustees have taken initial steps such as participation in training, breakfast briefings or conferences to familiarise themselves with general RI concepts and the new requirements introduced by Regulation 28 and CRISA.

FORWARD PLANNING

The board has developed a preliminary plan for achieving Stage 2.

REPORTING

The fund has published an Annual Report on Progress providing information on all of the above and consistent with CRISA Principle 5.



YEAR 1

YEAR 2

YEAR 3

YEAR 4



POLICY

The fund has a board-approved RI policy (or policies) in place to expand upon the general RI commitments contained in the IPS. The RI policy (or policies) explain:

- The scope of application with respect to asset classes
- How the fund incorporates sustainability considerations, including ESG, into its investment processes (CRISA Principle 1)
- How the fund defines its responsibilities and approach to active ownership, including voting and engagement (CRISA Principle 2)
- The fund's arrangements for the prevention and management of conflicts of interest (CRISA Principle 4).

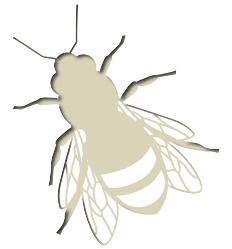
The policy (or policies) are publicly available and have been:

- Published on the fund's website (if the fund has one)
- Communicated to the fund's members and service providers

CAPACITY

The Principal Officer and the Chair of the board (at minimum) have participated in an appropriate training course. A plan is in place for further training and development for all other trustees in the year ahead (including induction training for new trustees).

The Board has reviewed the extent to which it requires external expert support on RI and, if relevant, has made any necessary arrangements with its investment consultant(s) or other advisors.





OPERATIONAL ROLL-OUT

The board has an adequate overview of the extent to which RI issues and practices currently apply to its existing portfolio and mandates, covering the Equities asset class at minimum.

The board has taken proactive measures to gain at least a general understanding of the following:

- Whether and how the fund's existing asset managers are currently following good practice in RI, including ESG analysis, proxy voting and shareholder engagement.
- The fund's potential exposure to ESG related risks and opportunities in its Equities portfolio. This might include a review of the fund's most important holdings by company and/or sector; lessons of experience from the fund's asset managers on particular issues they have encountered in recent years; and/or a forward-looking analysis of future sustainability pressures and trends relevant to the fund's asset-liability management (ALM).
- Strengths, weaknesses, opportunities and threats arising for the fund as a result of the above.

FORWARD PLANNING

The board has developed a two-year plan for achieving Stage 4. The priorities, goals and objectives addressed in this plan should focus primarily on RI implementation with respect to the fund's investments and ownership practices in the Equities asset class.

REPORTING

The fund has published an Annual Report on Progress providing information on all of the above and consistent with CRISA Principle 5.



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POLICY

The board has considered whether the fund requires a more detailed Voting Policy and the options available to achieve this, and has begun to put appropriate arrangements and policies in place. The board has also considered whether the fund needs more detailed policies on specific sustainability issues such as climate change, water, education, human rights, etc.

OPERATIONAL ROLL-OUT

The fund has begun to roll out its RI policy at the operational level, focusing primarily on the Equities asset class. Depending on the fund's RI policy and implementation strategy, this may include the following:

- (A) *current mandates***
- (B) *mandate renewals and new mandates***
- (C) *collaborative approaches***

(A) *current mandates*

The board has continuing dialogue with the fund's current managers to encourage and track their progress in implementing RI as exemplified by CRISA and, if applicable, PRI.

This may be done informally or, ideally, as part of the fund's periodic performance evaluation of its current managers.

It includes, but may not necessarily be limited to, consideration of each manager's public disclosures and progress reports under CRISA (and, if applicable, the PRI Reporting Framework).

(B) *mandate renewals and new mandates*

Where mandates come up for renewal or new mandates are created, the board has taken appropriate steps to integrate RI considerations in those requests for proposals (RFPs) and management agreements. Typical options may include the following:

- RFPs and management agreements include **general expectations and references to RI**, ESG integration, proxy voting and shareholder engagement





YEAR 1

YEAR 2

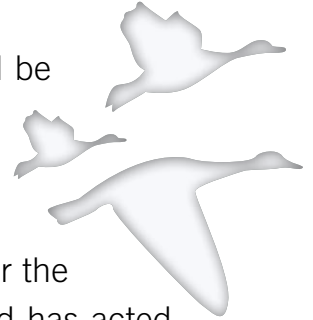
YEAR 3

YEAR 4



- RFPs and management agreements include general expectations and references to RI, ESG integration, proxy voting and shareholder engagement plus **specific and detailed instructions on proxy voting.**
- RFPs and management agreements include **specific and detailed instructions on the ESG integration approach** to be employed, potentially including the key norms and standards to be applied and/or the benchmarks to be used.

Information on the actual approach(es) taken should be included in the fund's Annual Report on Progress.



(C) collaborative approaches

The board has considered whether it is appropriate for the fund to involve itself in collaborative RI initiatives, and has acted accordingly (CRISA Principle 3). Examples at the international level currently include the UN Principles for Responsible Investment and the Carbon Disclosure Project.

CAPACITY

The Principal Officer and all trustees have participated in appropriate training courses. RI is routinely included in the induction training offered to new trustees.

FORWARD PLANNING

The board has reviewed and updated its plan for achieving Stage 4 (focusing at minimum on its investments in the Equities asset class). This takes into account any issues and new goals that may arise from:

- Experience gained from operational roll-out to date
- New developments in the market and/or in public policy
- Any feedback received from key stakeholders such as pension fund members, service providers and FSB.

REPORTING

The fund has published an Annual Report on Progress providing information on all of the above and consistent with CRISA Principle 5.



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POLICY

The board has conducted a periodic review of the implementation and impact of its RI policies, or has firm plans to do so within the next 12 months.

CAPACITY

RI-related training and development for the Principal Officer, Chair and other trustees is ongoing as and when needed.

OPERATIONAL ROLL-OUT

RI is routinely incorporated into manager selection, evaluation and performance management in at least the Equities asset class. Effective mechanisms are in place for the quarterly disclosure of voting records.

Summary information/highlights in relation to shareholder engagement activities and results are routinely disclosed through the Annual Report on Progress or other suitable mechanism such as the fund's website.

The fund is engaged in collaboration with other investors and investment initiatives in a manner appropriate to the fund's requirements and opportunities.





FORWARD PLANNING

The board has a medium- to long-term plan in place for maintaining the fund's RI implementation through effective monitoring and continuous improvement.

If it has not already done so before, the board should now be actively considering whether (and if so, how) the fund might:

- Measure and report on active ownership outcomes and/or ESG risks in the Equities portfolio level. This may include, for example, estimating and benchmarking the carbon intensity of the portfolio.
- Extend RI implementation across other asset classes such as Fixed Income, Private Equity and Property.
- Engage in thematic investment-grade opportunities targeting specific sustainability issues such as climate finance, sustainable energy, energy efficiency, clean technology, infrastructure, SME development and/or social impact investment.

The board's forward planning takes into account any issues and new goals that may arise from:

- Experience gained from operational roll-out to date
- New developments in the market and/or in public policy
- Evolutions in national and international RI good practice
- Any feedback received from key stakeholders such as pension fund members, service providers and FSB
- Any top-level strategic reviews by the board.

REPORTING

The fund has published an Annual Report on Progress providing information on all of the above and consistent with CRISA Principle 5.





www.sustainablereturns.org.za

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Developed for the Sustainable Returns Initiative by

