

Media release

Power and influence: Retirement funds are uniquely positioned to drive ESG

South Africa, 9 June 2022: In South Africa, as with most countries, retirement fund assets represent the largest source of invested assets in the country by a significant margin. This puts them in a singularly strong position to drive the shift to investing sustainably and for positive impact.

According to National Treasury, South Africa has slightly over 5 000 active retirement funds that preserve the long-term assets of more than 16 million contributing members and retirees. And South African retirement funds account for around 100 percent of the country's annual gross domestic product (GDP). To date, retirement funds have been able to spend an estimated R4.4 billion in various sustainability initiatives, such as renewable energy and affordable housing projects.

Within this context, this year's Sanlam [Benchmark](#) Survey – an annual body of research into the state of retirement funds and retirees in South Africa – has revealed an increased focus on ESG. The Benchmark Survey results will be released on 14 June.

Sanlam, through its investment arm Sanlam Investments, has partnered with leading global sustainable investment firm, Robeco, to tap into its decades long experience in sustainable investing. Darryl Moodley, Head: Tailored Investments at Sanlam Corporate and Lucian Peppelenbos, Climate Strategist at Robeco will consider the moves South Africa's retirement and investment industry must make to accelerate the journey to sustainability, especially as it pertains to the issue of climate change.

Moodley says, "We are hoping that the findings of the 2022 survey encourage more meaningful and widespread discussions and co-ordinated action around the impact of ESG and climate change on the environment, and retirement funds in particular."

In the lead up to this, Moodley and Peppelenbos shared their thoughts on the current state of ESG in SA, from the context of retirement funds.

The role the retirement fund industry play in driving ESG in a country

It is notable that the retirement fund industry manages a significant pool of assets and, therefore, has a large role to play in driving ESG forward. Moodley says that "As long-term

investors, retirement funds are innately exposed to ESG risks and should have strategies in place to address it. Wider than the direct financial impact on their members, retirement funds are custodians of a significant amount of capital, and therefore are influential stakeholders in the determination of economic and strategic policy. Peppelenbos agrees that the stewardship responsibility of retirement funds is huge as they can influence policymakers and the companies they invest in. Funds can certainly exclude some companies that they believe are not up to standard and send a strong signal to the market. However, he adds that they will remain invested in most companies – and this is where a strong approach to voting and engaging with companies to advance sustainability practices is vital.

Additionally, there are several elements to consider, most importantly the asset allocation of a fund:

- Not all assets will be invested in their home country. In Europe, for example, most funds invest globally, which makes the potential impact in the home country limited.
- Most assets will be invested in liquid markets, where the impact on ESG is more indirect (influencing share prices and bond yields) than, for example, if a retirement fund invests directly into clean energy or microfinance projects. It also requires a lot of management attention and building up skills to invest in those asset classes.

So, Peppelenbos highlights the importance of considering the impact you can have and where it ends.

The global sustainable investment trends

Peppelenbos noted how Robeco's sustainable and impact investing strategies were growing much faster than traditional investment strategies. Robeco's biannual climate survey has shown that 75% of institutional investors globally see climate at the centre of, or a significant factor in, their investment policy.

Moodley added that, in the SA context, he has seen that retirement fund decision-makers are developing their knowledge around ESG, and are beginning to actively engage their advisers, asset managers and investee companies. Climate change has been extremely topical, and he expects that the Benchmark Survey will reveal that it will rank as one of the more significant factors in the construction of an investment strategy.

Peppelenbos explained how three clear trends have driven – and continue to drive – the surge of sustainable investment in European retirement funds:

1. The importance of ESG issues, particularly climate change, has become very clear. Sustainability is driving a change in markets that companies and investors must adapt to.
2. An increase in scrutiny from society into the business practices of companies.
3. Currently in Europe, regulation is an important driver. The implementation of the EU plan for financing sustainable growth has had a large impact in terms of transparency, and on the ESG practices of asset managers and pension funds.

The impact of regulation

Currently, there is no requirement to invest sustainably either in SA or Europe. There is however EU regulation which focuses mostly on transparency and accountability, and, through these, the end investor should be able to compare apples with apples. The regulator expects that with enhanced transparency all practices will also improve.

With the recent launch of the SA Green Finance Taxonomy, Moodley agrees that a common reporting framework will drive enhanced transparency and, ultimately will foster more sustainable investing practices, particularly as it pertains to investing for positive impact. And despite the challenging investment environment experienced in 2022, he is increasingly seeing clients consider impact as a “double-bottom” line strategy – one that is able to deliver both tangible positive impact as well as competitive commercial returns.

Navigating a “just transition”, bearing in mind the social impact

Moodley explains how navigating a “just transition” is a complex issue, as our economy is highly dependent on fossil fuels and will likely remain dependent over the next few decades. SA firms that are significant carbon emitters are also big employers, so it is important to be able to re-skill individuals as we navigate to an economy that is less carbon intensive. And for a country with significant unemployment and inequality problems, these issues are far more pressing. Additionally, emerging market countries (such as SA), emit far less greenhouse gases than developed countries, and should therefore be afforded a longer runway to transition away from fossil fuels.

It is trite that many investors, including retirement funds, are considering “exclusionary” criteria and disinvesting from listed companies who are significant carbon emitters. However, Moodley believes that simply disinvesting does not address the problem – it merely shifts it to the

unlisted space where there is less oversight and a lack of disclosure requirements. Peppelenbos agrees, in that the key is rather foster meaningful engagement and vote, to exert influence on companies to address material ESG issues.

For the 2022 Sanlam Benchmark Survey findings, register [here](#). The event is from 10.00 to 12.00 on 14 June and can be attended in person or virtually.

Ends.