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What to ask your manager: Responsible Investing

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Futuregrowth is a fiduciary asset manager and we believe that responsible investment (RI) practices should include the consideration of non-financial issues like Environmental, Social and Governance (ESG) matters. These impact sustainability and should be considered as part of a holistic investment and decision-making process.

As third party asset managers, our overarching duty is to our clients and the individuals' pensions that we manage.

The fund management industry is awash with jargon, acronyms and catchy phrases. There is also a plethora of regulations and guidelines that asset managers need to comply with as part of their fiduciary duty.

One such recent theme is that of RI. Regulation 28 of the Pension Funds Act (PFA) requires that pension funds and their asset managers apply RI practices. While many asset managers have endorsed or signed up to various (voluntary) codes and principles for responsible investing[1], not many have embedded these into their investment process. Therefore, it is important to distinguish between applying RI principles to investment decision-making and merely performing a tick box exercise.

With an increased prevalence of corporate governance failures, environmental non-compliance, corruption and fraud in the headlines, it has become apparent that non-financial issues (including ESG) are increasingly impacting the long-term, sustainable performance of companies.

Here are some useful questions and checks for your asset manager, collated from a combination of client interactions, the UNPRI investor tool-kit and Futuregrowth's own experience. These aim to assist pension funds when assessing the integration of RI practices and ESG into their investment decision-making process and in fulfilling their reporting requirements as outlined in the Guidance Notice 1 of 2019 (PFA): Sustainability Reporting for Pension Funds.

1. RI policies

- Do you have a policy, or set of policies, that make specific reference to RI practices and, in particular, ESG issues? If yes, provide an outline of the policy objective.
- Do you have a corporate governance and voting policy? If yes, provide an outline of the policy objective.
- Is ESG a board agenda item, or a subcommittee agenda item reported to the board?
- Is there a board member responsible for ESG?
- Do you have an exclusion list or policy that references specific exclusions, e.g. controversial weapons, human rights violations etc.? If yes, list the exclusions and rationale.

2. Integration of ESG and decision-making

- Have there been any changes to your ESG integration process over the reporting period (e.g. additional resources, information sources)? If so, why?
- What are some specific examples of how ESG factors are incorporated into your investment analysis and decision-making process? Outline which ESG factors were relevant to the investment company/sector and why.

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[1] For example: CRISA (Code for Responsible Investing in South Africa); UNPRI (United Nations Principles of Responsible Investing)

- Provide some specific examples of major ESG risks that you identified in the portfolio over the reporting period, and what you have done to mitigate the risk/s.
- Do you assess the exposure to climate risk of the investments in your portfolios? If yes, then provide a recent example.

3. Active ownership and voting

- What public disclosures are available on your proxy voting policies and voting outcomes, and how frequently are your voting decisions reported and disclosed?

4. Bond holder and equity engagement

- Do you have an engagement policy or other document that outlines direct engagement with fixed income or equity on ESG issues? If yes, then describe your approach to ESG engagement:
  - ✔ How is the engagement defined?
  - ✔ What is the objective?
  - ✔ How is the engagement measured?
- How many fixed income or listed equity issuers have you engaged with in total on ESG issues during the last year and what were the issues of engagement?

5. Reporting

- What type of ESG reporting is available to clients? Are any of these reports available on your website? If so, please provide a link.

6. Collaboration and capital market development

- What industry bodies/associations do you belong or subscribe too? What sub-committees and working groups do you participate in to drive change at an industry level?

  Asset managers have the opportunity to belong to ASISA[2], which has a number of sub-committees, including the Fixed Income Standing Committee (FISC) and the Responsible Investing Standing Committee (RISC), which meet at least quarterly to review matters of interest to the industry as a whole. They also comment on proposed regulatory changes and participate in broader industry discussions. When assessing your asset manager's commitment to RI, it is worth reviewing their participation and level of involvement in these committees and working groups - and to ask for evidence or examples of particular sub-committees, working groups or pertinent issues that they have involved themselves in.

A sample of the issues that Futuregrowth has been vocal about – either as part of ASISA FISC and other ASISA bodies, or by independently providing our views and commentary to our clients and the market, include (click to view):
- JSE Debt Listings Requirements
- Debate about prescribed assets
- Economic Reform
- Land Bank default
- African Bank default
- Credit Ratings Agencies
- COVID-19 and the impact on credit markets
- Governance at SOEs
- Renewable energy

[2] Association for Savings and Investments South Africa

– When new legislation or proposed amendments to existing legislation are circulated for public comment, what is the process internally for submitting comments and ensuring that the investor's viewpoint is considered?

  Legislation and regulation is continuously changing, and a cornerstone of our democracy is the ability to participate in the legislative process. While many of these discussions are held within the auspices of ASISA, its subcommittees, working groups and other industry/regulatory bodies, it is worth asking your asset manager about the extent of their individual participation in public comment processes and how they view their responsibility to raise awareness of investors' concerns about the proposals.

  A recent example of this is National Treasury's request for comments on their proposed amendments to the Financial Markets Act, where Futuregrowth commented extensively in a submission directly to National Treasury, and also included our comments in the ASISA-led process. While our comments are not public, the Futuregrowth investment team coordinated the ASISA response to the 71-page document, to ensure that we uphold our fiduciary duty to our clients.

  Similarly, even though there is no proposed legislation on this contentious issue, we think it is important to raise our view when the topic of prescription raises its head, periodically. Our view on Prescription is well known and has been widely and publically communicated.

Conclusion
One requirement of being a responsible investor is to be a vocal and active participant in ensuring that regulation, legislation and industry changes consider the investor's viewpoint and the protection of investors' hard-earned savings. It is important to ask these questions, to hold your asset managers accountable and to ensure that they are not paying lip service to the principles of RI.

"The only thing necessary for the triumph of evil is for good men [and women] to do nothing."[3]

Futuregrowth is a signatory to the **PRI** and we endorse **CRISA**.

PRI | Principles for Responsible Investment

Source: UNPRI; Futuregrowth

Published on www.futuregrowth.co.za/newsroom.

[3] https://www.brainyquote.com/quotes/edmund_burke_377528