

## UNISA CENTRE FOR CORPORATE CITIZENSHIP AND THE UN GLOBAL COMPACT REGIONAL LEARNING FORUM PROMOTES RESPONSIBLE INVESTMENT

On the 30<sup>th</sup> August, 2006, Unisa's Centre for Corporate Citizenship (CCC) in co-operation with the United Nations Global Compact (UNGC) Regional Learning Forum began its drive to educate the South African market about responsible investment with an interactive seminar featuring some of the most important players in responsible investment. The need to incorporate environmental, social and corporate governance (ESG) into investment decisions, the need to become active asset owners and the need to seek appropriate disclosure from the companies being invested in were among the key areas discussed.

CCC director, Derick de Jongh said that responsible investment is becoming an increasingly important issue globally, and was particularly relevant for South Africa. He said the Centre would continue to raise awareness of responsible investment by hosting seminars related to environmental, social and corporate governance (ESG) issues, and offering courses relating to ESG. "We are also undertaking academic research into responsible investment from a South African and African perspective, and believe that a responsible investment survey is needed," de Jongh said.

In April this year, US asset managers who administer \$4trillion in assets signed the United Nation's PRI at the New York Stock Exchange. UN Secretary General Kofi Annan invited institutional investors and their financial partners across the globe to adopt the six principles:

- we will incorporate ESG issues into investment analysis and decision-making processes
- we will be active owners and incorporate ESG issues into our ownership policies and practices
- we will seek appropriate disclosure on ESG issues by the entities in which we invest
- we will promote acceptance and implementation of the principles within the investment industry
- we will work together to enhance our effectiveness in implementing the principles
- we will each report on our activities and progress towards implementing the principles

"Developed by leading institutional investors, the principles provide a framework for achieving

better long-term investment returns and more sustainable markets,” Annan said.

Ellen Kallinowsky, Head of the United Nations Global Compact (UNGC) Regional Learning Forum, stated that April this year was very historic for the UN. “It was the first time that a UN Secretary-General visited a stock exchange and appeared before some of the world's leading financiers and investment professionals. It is increasingly clear that UN objectives go hand in hand with better investments in markets and more sustainable societies,” Ellen said.

One of the heavyweight participants in the seminar was Martin Kuscus, chief executive of the government employees pension fund (GEPF), the single largest investor in South Africa with over R600bn in JSE-listed assets and the only African representative to sign the PRI in April. As an investor which owns almost 30% of the local share market, Kuscus said the GEPF would become a far more active investor, and could greatly influence South Africa's social development agenda due to its size.

“On an economic front the GEPF and the Public Investment Corporation will become more vigilant in challenging executive pay. Pay must be commensurate with performance. On a social front the GEPF will assist black economic empowerment, job creation, poverty alleviation and SME development. Environmentally, the global agenda is being pushed by energy efficiency and the GEPF will start an equity fund that addresses environmental issues” Kuscus said.

During the seminar, Kuscus joined Frater Asset Management chief executive William Frater in a panel discussion on responsible investment from an asset management and pension fund perspective.

Frater said that ESG issues were all relevant in the long term, and should not be seen in isolation from investment decisions. “All issues are financial, and responsible investment is not a separate asset class. Non financial issues become financial over time. We can influence how entities invest in their operations. If we look at companies in the long term we have to look at measures beyond the balance sheet and accounting ratios and look at culture, ethics, systems, policies, learning and the licence to operate,” Frater said. We need to influence individual behaviour so that we unpack the vested interests of the short-term. Frater Asset Management is the only South African asset manager to sign onto the PRI initiative.

Corli le Roux, who was instrumental in the creation of the JSE Limited's Social Responsibility Index (SRI), said that the SRI and responsible investment is vital for positioning South Africa as an investment destination of choice. “It is important to position the index within the investment community. The SRI encourages companies to progress, disclose, implement and report on their

triple bottom line strategies and programs. The index is also there to facilitate debate and to encourage companies to internalize SRI” Coli said.

Nedbank’s Justin Smith, speaking on behalf of the United Nations Environment Programme Finance Initiative (UNEPFI) said that major shareholders and investors should exercise more activism, citing as an example a Norwegian pension fund that divested from Walmart due to staff policies that it did not agree with.

Gerhald Meharchand from Future Growth Asset Management stated that the South African environment is very different to other countries in terms of ESG issues. “There needs to be courses on how you integrate ESG in investment decisions from a South African perspective. Many books report on Socially Responsible Investment and Responsible Investment. We need to unpack these wordings to see what it means for us in South Africa” said Gerhald.

Some of the discussions amongst the participants centered on the following:

- There needs to be more positive and negative screening i.e. naming and shaming of companies.
- The media has a critical role in highlighting the importance of Responsible Investment.
- South Africa has a “voiceless civil society” and there is a need to have more stakeholder activism in proxy voting.
- Integrating ESG into investment decision making will only come about when there is behavioural change.
- Globalization, deregulation and the interconnectedness of world markets makes it imperative for South Africa to address ESG issues in investment decision making.
- There is a need to have follow up discussions on responsible investment.

This seminar was sponsored by Sasol, a member of the United Nations Global Compact and a role player in responsible investment.