

Responsible investment

Rating our investment managers

Responsible investment (RI) practices contribute to our greater purpose, which is to enable businesses and people from all walks of life to achieve their financial goals and life aspirations. We help people grow their savings, protect what matters to them and invest for their future.

Our RI rating model for investment managers establishes the level of RI practices applied by the various investment managers we appoint. It is important that investment managers that invest on our behalf implement RI practices and our principles should be aligned.

While our findings show that most investment managers recognise the importance of RI practices, there is still work to be done. The ratings enable us to engage with the investment managers and we provide them with recommendations that should improve their RI approaches. The goal is to bring our appointed investment managers along with us on the RI journey.

Our approach to investment management explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors and of the long-term health and stability of the market as a whole. We recognise that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems.

Through our involvement in the RI committee of the Association for Savings and Investment South Africa (Asisa), our support for the Code for Responsible Investing in South Africa (Crisa), being a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and being a member of the International Corporate Governance Network (ICGN), we strive to encourage other investment managers, service providers, asset consultants and investment owners to apply RI practices in their daily operations.

Why an investment manager RI rating?

We appoint investment managers that apply RI practices and, through our due-diligence processes, assess how ESG integration is done. We created an investment manager RI rating model to establish the level of RI practices applied by the various investment managers. This model complements the appointment, monitoring and reviewing process of the investment managers.

We have different portfolio and business offerings, which provide various ways for clients to gain access to investments, as follows:

- For direct investments and, where we have investment management agreements in place with underlying investment managers, we are able to direct strict compliance with the principles.
- Where we outsource to external investment managers, their approach to ESG is a core consideration in our assessment of their capabilities.
- The appointment process will always consider our investment manager research team's due-diligence report, with the RI rating score.
- Clients have access to execution and advisory services, which allow them to select their own investment managers. In some instances, these investment managers may not comply with the extent we believe they should, but they do meet our minimum requirements.

Our RI rating approach

Our investment manager RI rating model consists of the following indicators:



Investment management organisation

This indicator guides us in understanding the RI culture within the investment management company. Company values should inform their policies and lead to fair and transparent information for their stakeholders.



Investment management resources

The level of expertise required to interpret how ESG risks translate into investment decision making and outcomes determines the level of quality of ESG integration. This expertise may be outsourced to research companies specialising in ESG analysis or be found internally within the organisation through a dedicated resource or senior investment professionals.



ESG integration

This indicator helps us understand to what extent investment managers integrate ESG into their investment process. The key point is the extent of ESG integration rather than the type or form being implemented.



Active ownership

This indicator provides insight into the extent to which the investment manager contributes to a well-balanced economy for investors. It is used to assess to what degree the fiduciary's formal rights are used to influence the activity and behaviour of invested companies.

We assessed

We assessed 41 South African investment managers and grouped them as follows:

Insurance/bank/financial
investment manager group



consisting of
10 companies

Large and established asset owners owned by insurance companies or banks or are part of large financial services groups.

Large boutique
investment manager group



consisting of
7 companies

Established, owner-managed boutique with assets under management of above R50 billion.

Small boutique
investment manager group



consisting of
24 companies

Small owner-managed boutique still in its early stages of growth and relatively few clients and assets under management of below R50 billion.

UN PRI signatories
group



consisting of
22 companies

Signatories to the PRI and have been assessed by the PRI.

Non-UN PRI signatories
group



consisting of
19 companies

Not signatories to the PRI or have not yet been assessed by the PRI.

How should the RI rating be interpreted?

- 5 The investment manager is a market leader when it comes to RI practices.
- 4 The investment manager has demonstrated above-average application of RI practices.
- 3 RI practices are inherent in the investment manager's investment culture.
- 2 The investment manager is in the process of embedding RI practices within its organisation and processes.
- 1 The investment manager has not demonstrated enough RI practices within the organisation and processes.

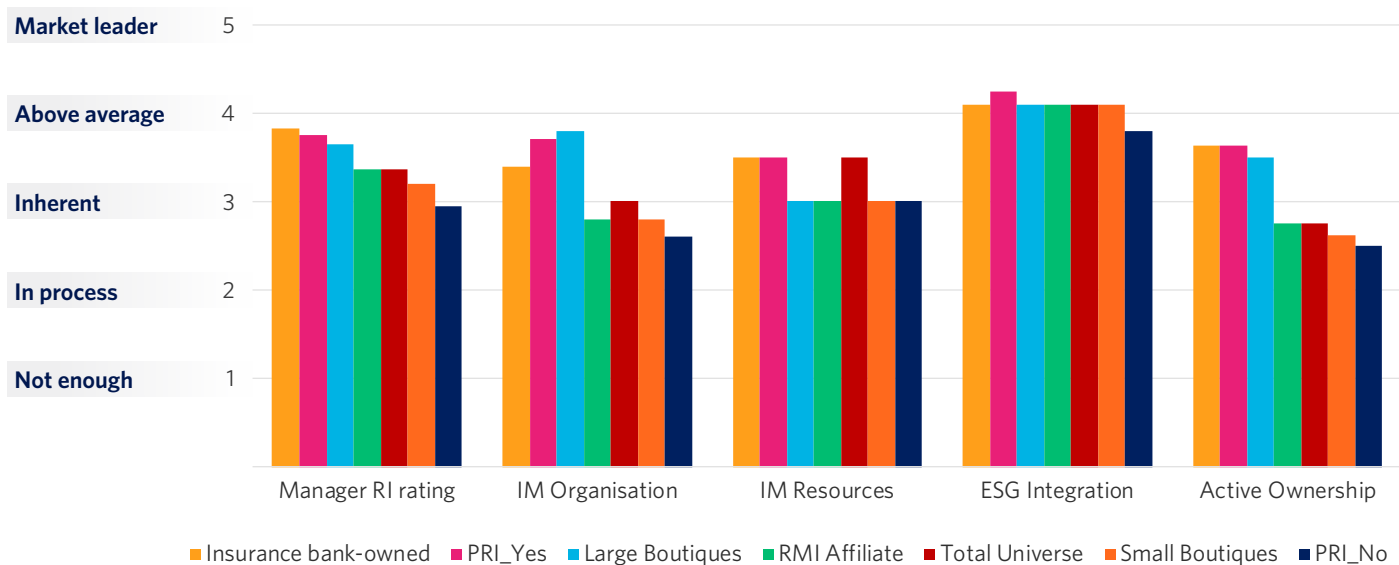
We learned

Most investment managers recognise the importance of RI practises. There were **29%** of the assessed investment managers that rated **below a level three**, which means they are not aligned to what we believe to be an inherent RI culture.

When investment managers invest on our behalf, it is important that they implement RI practices and our principles should be aligned. The results enabled us to have better engagements with the respective investment managers.

The median scores of large and established asset owners, PRI signatories and large boutique investment managers tended to be higher than the universe median. Smaller boutique investment managers have limited resources, which may play a role in them not being signatories to the PRI or delivering on the same transparency practices as their larger peers. The median comparison also showed that non-PRI signatories lagged behind all the comparative investment manager groups.

We believe that to support the PRI or endorse Crisa creates a sense of accountability on the investment manager's part to illustrate how they've implemented these respective principles.



Source: Momentum Investments

Through the **rating assessment on organisations**, we learned that only **32% of all investment managers publicly disclose their adherence to Crisa**. Only **40% of insurance or bank-owned investment managers disclose how they support Crisa** on their website. It is important to support our local RI code and show our various stakeholders how we adhere to these principles.

We should empower our clients and other stakeholders to have a foundation of information to engage from, which would benefit both parties. A concerning **10%** of the investment managers assessed had **no RI policy** in place. An RI policy serves to communicate the belief system and principles the investment manager stands for and gives direction of the desired culture the company should embrace.

Overall, the **resources indicator** showed positive results. All the investment managers agree that as a minimum standard they should take ownership of all ESG research in-house and will occasionally use external ESG research input to complement their existing approach. Almost all (**98%**) of the investment managers believe that as a minimum standard the **whole investment team should apply RI practices** and not just certain roles within the team. Only **34%** of investment managers appoint a **dedicated RI team or ESG analyst**. **41%** of the investment managers **appointed an oversight function** (i.e. committee or executive committee) that monitors the RI practices in the organisation. The insurance or bank-owned and PRI signatory investment managers' medians were higher than the other comparative investment manager groupings because they appoint dedicated RI staff and include RI practices in their staff performance appraisals.

The **ESG integration rating** was an assessment to establish the extent to which ESG integration is applied across the investments managed, rather than assessing the quality of ESG integration. We also reviewed the investment managers' PRI ESG integration assessment score and engaged with them if their scores were below the median of their peers.

The ESG integration outcome across the assets under management (AUM) was:



On the **active ownership rating**, the median was disappointingly lower than a level three rating, meaning only **39%** of the investment managers were **aligned to our expected active ownership practices**. Almost **60%** of investment managers **do not disclose their proxy voting results** on their website and **29%** **do not have a proxy voting policy**. More than half (**53%**) of investment managers **do not maintain or are able to share an engagement register** with their clients.

The Financial Sector Conduct Authority (FSCA) guidance note published on 14 June 2019 expects the retirement fund's board to have certainty that the appointed investment managers comply with their investment policy statement and uphold RI practices. Transparency should form the heart of RI practices and allow all relevant stakeholders to easily access the necessary information to establish whether RI principles are applied by keeping each other accountable to report accordingly. Individual investors should also have the right to have easy access to reporting that confirms their appointed investment manager(s) upholds RI practices. Transparency through reporting creates an environment of accountability across the investment industry.

We engaged

We engaged with each of the participating investment managers during our assessment. The goal is to bring our appointed investment managers along with us on the RI journey. With every engagement, we recommended three considerations specific to each investment manager. These considerations should improve their RI approach and align our principles closer to each other. The investment manager RI ratings complement our appointment, monitoring and reviewing processes.

We believe in delivering a sustainable outcome for our clients

We commit to continually encourage, engage and support our investment managers on their RI journey, thereby contributing to our clients' investment experience and build on a sustainable investment outcome.

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