

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.

Momentum Outcome-based Solutions performs an annual RI rating assessment of investment managers to allow us to better understand how far along these investment managers are on their responsible investment journey. The scope of responsible investment practices is wide, and we have therefore assessed the investment companies' overall responsible investment framework and the level of transparency confirming their actions.

As supporters of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, it is in our interest to encourage investment managers to adopt a climate change focus for a sustainable and just transition future. We have included a new question to assess if climate-related risks were acknowledged and evident in the respective investment manager's policies. The recently published report by WWF South Africa, ['The emerging importance of the TCFD framework for South African companies and investors'](#) emphasised that "Climate change has been described as one of the biggest challenges of our time and the most pressing Environmental, Social and Governance (ESG) issue facing our global society and economy today. The impact of climate change on organisations is still to be fully understood as both companies and investors grapple with quantifying both the risks and opportunities presented by climate change."

While our findings show that most investment managers recognise the importance of RI practices, there is still the odd manager who does not have a responsible investment policy or believes that ESG integration is only possible in the listed equity space. During our annual RI rating assessment process, we use this as an opportunity to engage with the investment managers and bring them along with us on the RI journey. We give recommendations to the investment managers that we believe will positively contribute to their responsible investment practices.

Through our involvement with 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 supporter of the recommendations of the TCFD, it is important to us to encourage other investment managers, service providers, asset consultants and investment owners to apply RI practices in their daily operations.

Jana van Rooijen
Responsible Investment Specialist



Why an investment manager RI rating?

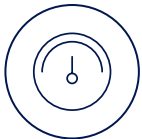
Momentum Outcome-based Solutions created an investment manager RI rating model to establish the level of RI practices applied by the various investment managers. This model complements the appointment, monitoring and reviewing process of the investment managers.

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 compliance with our principles.
- Where we outsource to external investment managers, their approach to ESG is an important consideration as a part of our assessment of their capabilities; with a focus of active engagement on their approach, advocating and mandating alignment where practical and monitoring progress. 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 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 an understanding of 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

This indicator gives insight into the level of oversight and accountability assigned to management and investment staff to ensure RI practices are upheld within their organisation. To assess the level of ESG expertise or function that can interpret how ESG risks translate into investment decision making and outcomes, which determines the level of quality of ESG integration.



ESG integration

This indicator helps us understand to what extent investment managers integrate ESG across their assets under management. 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 46 South African investment managers and grouped them as follows:



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 engaged

We engaged with each of the participating investment managers and provided recommendations which we believe will positively contribute towards their responsible investment practices. It is important that we achieve alignment with our appointed investment managers when it comes to responsible investment principles.

Engagements conducted on each indicator (%)

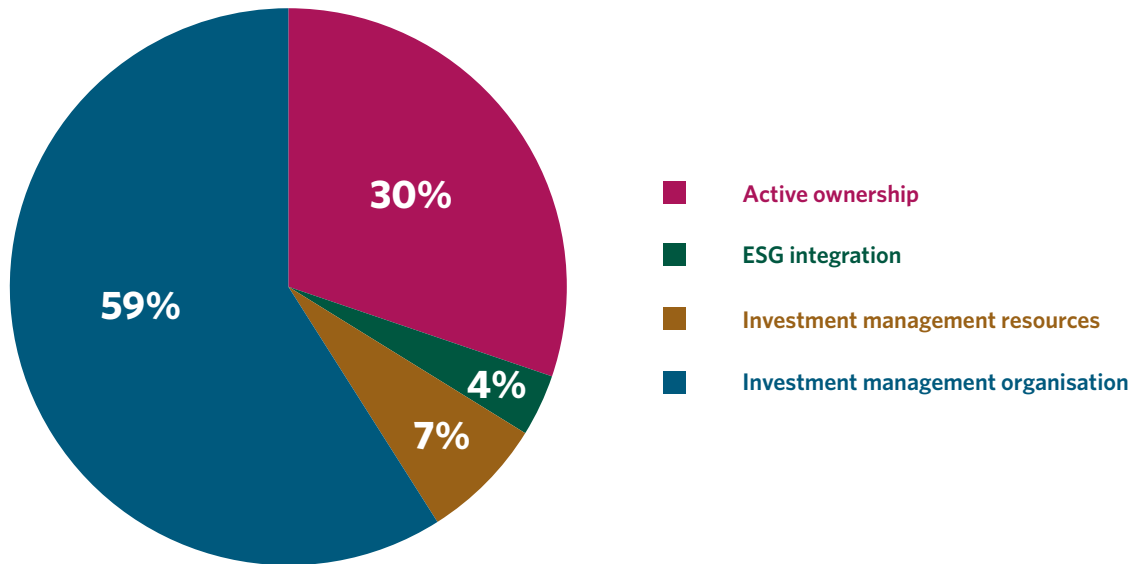


Diagram 1: % of engagements conducted on each sub-indicator

Diagram 1 provides a percentage breakdown of the recommendation points we engaged on with the investment managers categorised under the sub-indicators. From an organisational approach, we mostly encouraged managers to publish a climate change investment policy; to consider becoming a PRI signatory, and publish a CRISA statement that explains how they comply with the respective principles. We encouraged 43 investment managers to publish a climate change investment policy. 96% of the investment managers agreed and recognised climate change as a real risk.

Investment managers policy commitments on climate-related risks

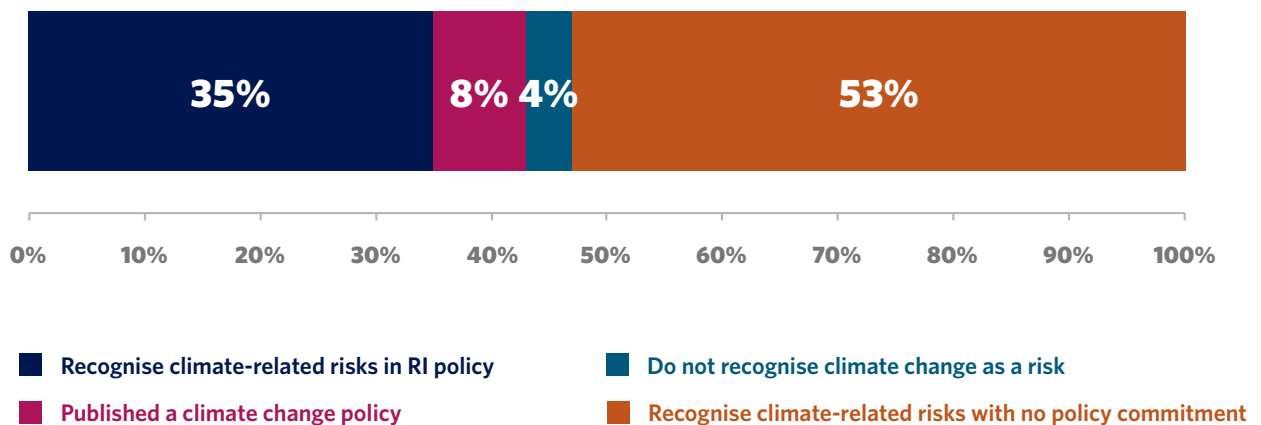


Diagram 2: Investment managers policy commitments on climate-related risks

The active ownership recommendations mainly focused on encouraging the investment managers to disclose their proxy voting activities on their websites and sharing their engagement register with their investors. We encouraged 48% of the investment managers to disclose their proxy voting records on their websites. This information gives comfort that the shareholder resolutions voted on are aligned to the respective investment managers voting principles and expresses their view to companies. As investment managers, we need to consider the records' readability, accessibility and ease of interpretation by clients, beneficiaries and other stakeholders as recommended by the PRI's publication "[Making voting count.](#)"

We are making progress

Comparing the two annual RI rating assessments of 2019 and 2020 shows that the number of managers rated below a level three rating decreased from 29% to 11%. The ratings have improved across the respective indicators (see diagram 3 below). The active ownership indicator's average rating was below a three in 2019, which has improved to a rating of 3.3. This improvement was due to more managers disclosing their proxy voting activities on their website and making their engagement registers available to investors. In 2019, 44% of investment managers made their engagement registers available in comparison to the 63% of investment managers who now maintain an engagement register and publish or at least make it available on request to investors. Reporting on these stewardship duties gives us as investors insight into the important ESG issues that were addressed with the investee companies and enhances the quality of ESG reporting and accountability to our clients.

2019 versus 2020 average ratings

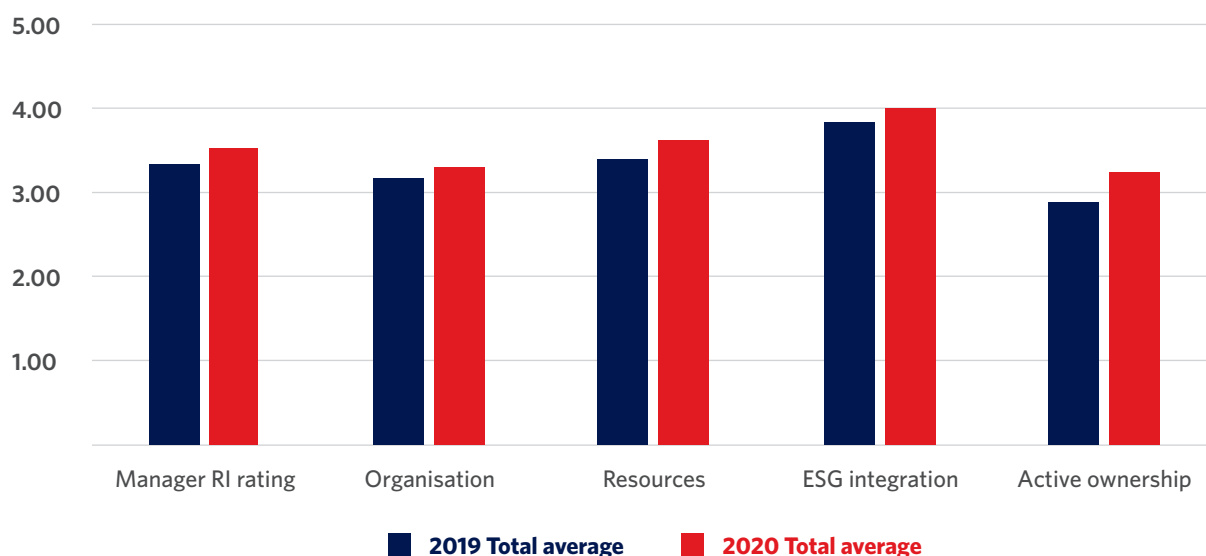


Diagram 3: Average rating comparison of assessed investment managers

Comparing the averages across the respective groups (diagram 4) it remains apparent that larger institutions are better positioned with their responsible investment framework approach. That is mostly due to their available resources and infrastructure that enables them to implement and report on their RI activities. To become a PRI member is also an expense that not every investment manager can afford, and they might not have the resources to spend on completing the PRI annual assessment, which is a laborious reporting process.

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Average comparison across respective investor groups

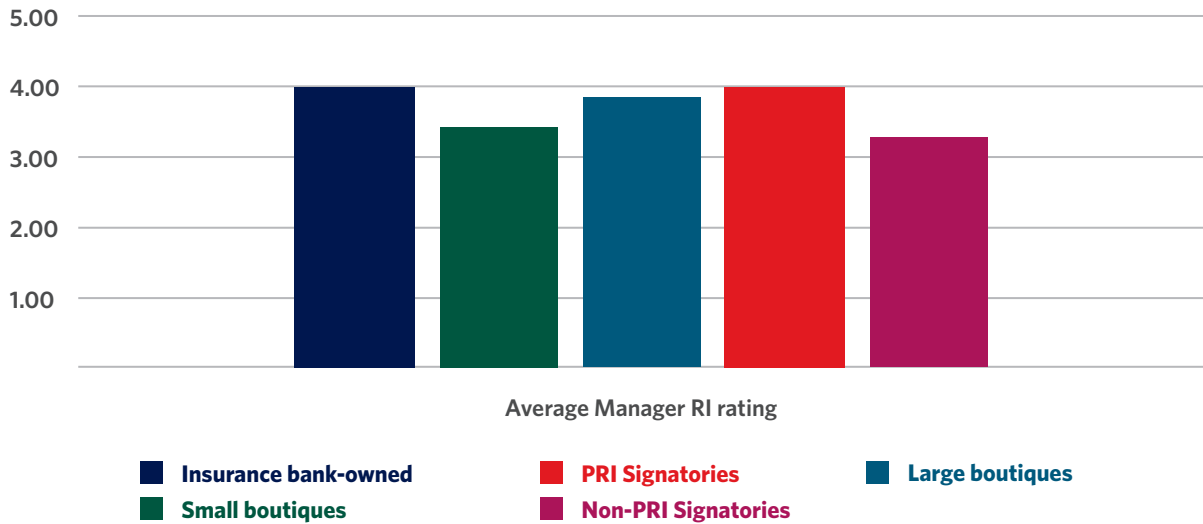


Diagram 4: Average comparison

Diagram 5, with the sub-indicator comparison across the investor groups, shows how the Insurance bank-owned group rated highest in the resources and active ownership indicators, while PRI signatories and large boutique managers were almost aligned and leading in the ESG integration indicator. The large boutique investor group reported higher PRI assessment scores on their ESG integration module in comparison to the insurance bank-owned investor group. The PRI signatories group received the highest rating in the organisation group, which makes sense due to its advisory role and its signatories that need to annually report to show alignment to those best practice guiding principles. All the investor groups managed to achieve a rating of at least three and have shown improvement across the two years of assessment. In the future, we will need to better understand how our portfolios are positioned to manage any potential climate-related risks and how they play a role in solving for the sustainable development goals (SDGs) as guided by the United Nations. For more information on the SDGs visit [‘THE 17 GOALS’](#).

Comparison of averages across sub-indicators

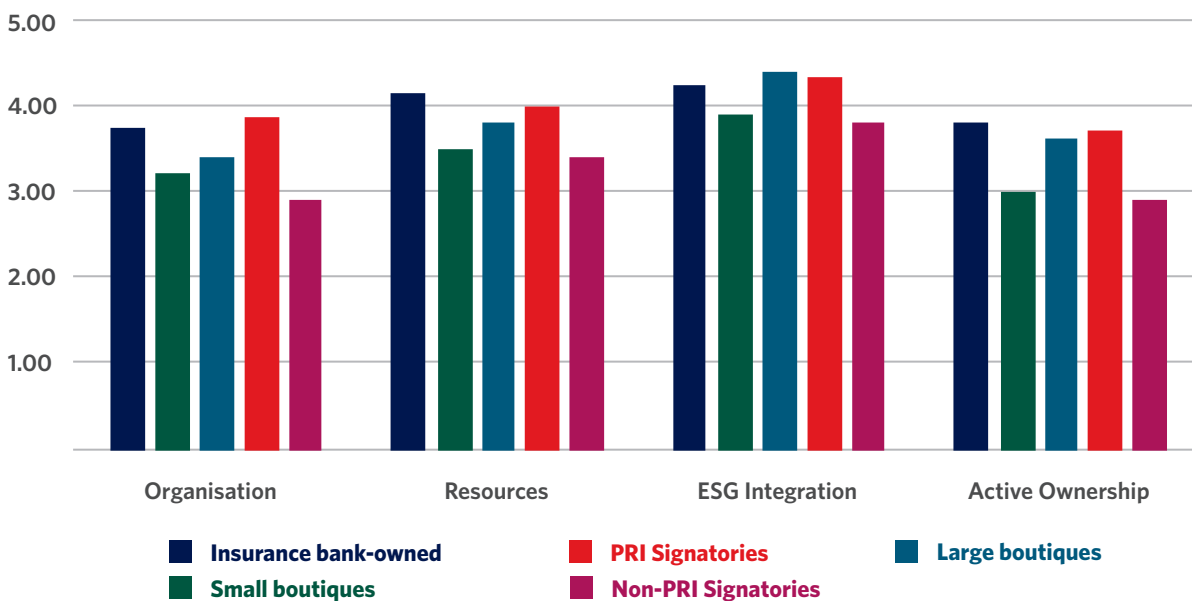


Diagram 5: Average comparison

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.