How do you know an investment manager is walking the ESG talk?

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During my career in investments over the last two decades, there have been some key trends that have shaped the industry. A focus on fees, the impact of the Financial Advisory and Intermediary Services Act (FAIS), and the rise of passive and smart beta investing are just a few that come to mind. Over the last decade, taking environmental, social and governance (ESG) factors into consideration has also become far more central in investment decisions.

In South Africa, the ESG frontrunner was the governance factor but, over the years, the environmental and social factors have also risen to prominence. The impact of climate change is becoming increasingly apparent for all to see, and the deep levels of inequality in South Africa have made these factors impossible to ignore.

Globally, we have seen the massive rise in ESG themed investing, with Bloomberg estimating that at the end of 2021, $37.8tn[1] was invested in ESG themed funds.

In the South African market, ESG has followed a trajectory of integration rather than through specialist funds. There are some key features locally that have made this the appropriate mechanism. One of the main drivers has been the regulatory environment. The Financial Sector Conduct Authority (FSCA) pushes institutional investors (mostly retirement funds) to incorporate ESG considerations in their Investment Policy Statements. Regulation 28 of the Pension Funds Act also promotes responsible investing of fund assets.

The SA investment industry (excluding the global allocation of portfolios) has a rather limited universe of investment opportunities compared to the global investment landscape. This materially limits the ability to have specialist ESG funds that focus on a specific ESG factor.

The South African industry has largely moved to a space of integration – the preference of funds is to integrate and demonstrate ESG into their main portfolios rather than approach it as a bolt-on strategy.

Integration is the far more appropriate way to address ESG, which ultimately has the greatest impact. However, 'greenwashing' or masquerading investments as having an ESG angle when it does not, is also a temptation.

Two factors are important to assess whether there is real substance to the ESG approach: intentionality and evidence. Intentionality means that the goal must be stated upfront. Investing in clean energy infrastructure after defining climate action as an area to be addressed in a fund, is a good example of intentionality. Evidence covers the domain of reporting and tangible evidence. Public disclosure of proxy voting records when addressing governance issues is a good example of this.

At Momentum Investments, we follow an integrated approach and publish our Sustainability report as evidence of the achievements and challenges we face in addressing ESG in our portfolios.

I would encourage readers to seek out this type of reporting when evaluating whether their selected investment managers are walking the ESG talk. ESG is ultimately about not just addressing the investment returns of investors but also shaping the world within which they live.

We live this every day in our portfolios because with us, investing is personal.

[1] https://www.bloomberg.com/news/articles/2022-02-03/esg-by-the-numbers-sustainable-investing-set-records-in-2021

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