Investec
Wealth & Investment

OUT OF THE ORDINARY

ESG and responsible *investing Guidebook*

START

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The What 01.

Introduction and Purpose

The role of business as a key societal and economic contributor has evolved over time. From the more well-known historic focus on maximising financial returns and shareholder primacy, the role of business has shifted to a more considered stakeholder model that sets out to achieve long-term sustainable returns.

Not only does this model incorporate environmental, social and governance (ESG) considerations, it also encourages an additional focus on achieving a 'dual impact'. This refers to the direct impact these organisations intend to make, as well as the indirect impact that can be achieved through the way their capital is invested. This has elevated responsible investing as a primary consideration for decision makers – trustees, investors and fund managers alike.

This document aims to guide Investors in understanding responsible investing, including the impact of ESG risks on the long-term value of capital, and offers strategies for mitigating these risks.

The Why 02.

Why *(is responsible investing necessary?)*

The material impact of environmental, social and governance risks on long-term company profitability is becoming increasingly understood and factored into investment-making processes as systemic risks, such as climate change and societal issues, begin to eventuate.

As investors, considering sustainability and ESG risk in the investment process, is important in the long-term for the following reasons:

Financial materiality

- Increasing quantifiability and acknowledgement of ESG risk on investments by the market
- Increased understanding and findings that companies which mitigate and address material ESG factors perform better in the long-term than those that disregard these
- ***Click here for more information***

Investment Norm

- Global trend towards ESG considerations with over 5000 fund managers subscribing to the Principles of Responsible Investment which govern minimum ESG standards
- As this continues, markets are and will continue to price this into valuation

Global Trends

- Global move towards policy and regulation governing ESG incorporation
- Whilst not yet law in South Africa, this is mitigation against a potential future scenario

Double materiality

- This involves asking what is the impact of the company on the world and what is the impact of the world on the company?
- Companies, investors and trusts have a moral obligation to protect the environment and society, as without them, the functioning of these entities would be impossible
- ***Click here for more information***

The How 03.

Five steps towards responsible investing for investors

1

Education and Understanding

- Gain a comprehensive understanding of responsible investing, its history (Page 6), and the why (Page 4) and the Terminology (Page 7).
- Embrace the double materiality approach, which considers both the financial materiality (impact on investment returns) and the environmental and social materiality (impact on the planet and society) (Page 11).

2

Exploration of the Investment Spectrum

- Familiarize yourself with the spectrum of capital, which spans from philanthropic grants to financial-returns-only investments (Page 8).
- Stay updated on the expanding strategies related to Environmental, Social, and Governance (ESG) investing (Pages 13-14).

3

Understanding the Frameworks and Initiatives

- Explore existing frameworks and initiatives related to responsible investment such as the UN PRI and King Code, amongst others (Page 12).

4

Development of a Responsible Investment Strategy

- Learn to evaluate and select funds based on ESG criteria (Page 13).
- Develop a responsible investment policy (Page 19)
- Be ready to monitor and evalute the investment portfolio according to your established Responsible Investment Strategy.

5

Continual Evaluation and Learning

- Take time to perform self-evaluation using tools such as a Investor Questionnaire (Page 21).
- This will help you identify areas for improvement.
- Keep learning and stay updated with the evolving landscape of responsible investing. The field of responsible investing is rapidly evolving, and continual learning is key to staying ahead.

Additional resources 04.

The History

Responsible investing has a rich history, originating in the 17th and 18th centuries with religious groups. Early examples of socially responsible investment (SRI) were initially driven by exclusionary policies that prohibited investment into any company or industry deemed to be causing harm. These days, it is more about ESG factors being factored into investment decision-making than only excluding areas of the market. Global challenges such as climate change, Covid-19, high levels of inequality and the invasion of Ukraine are testing the depth and robustness of ESG integration, including its application by fund managers.

1890-1920s

Ethical/ Exclusionary

- **"No Sin"** investments ie. avoid unethical industries.
- **"Quakers"** ban investments in slave trade.

1920-1990s

Social Responsible Investing

- Socially responsible investing (SRI)
- Investors divest from South Africa during apartheid.
- Activists demand university funds divest from defence contractors

1990-2000s

Shareholder Activism & Impact Investing

- Investors use power to influence company decisions
- Impact investing emerges, seeking social and environmental benefits.

2000s-current

ESG and Sustainble Investing

- UN's 17 SDGs influence investment strategies.
- Investors prioritise companies addressing climate change.

Responsible Investing should not be seen as a one-size-fits-all, exclusionary process but rather as a framework that overlays risk analysis, with an additional focus on quantifying stakeholder impact. We believe the most efficient and effective approach is one that enables investors to assess the environmental and social impact of their investments. However, the measurement of that impact is not as easy to define in practice; you can't manage what you can't measure.

The Terminology

Sustainable investing, corporate social investing, ESG and impact investing are terms that are often used interchangeably. While there is no single agreed definition, these approaches all fall under the umbrella term of **responsible investing.**

While Corporate Social Responsibility (CSR) and Philanthropy contribute to ethical and sustainable practices, they are not typically classified as investment strategies. They are a part of a company's overall responsible approach but may not directly fall within the strictest definitions of responsible investing is an approach that integrates careful consideration of material ESG factors into investment decisions to balance risk management with the potential for sustainable long-term performance. It is crucial to understand and distinguish the subtle differences involved in this process, as it involves a deliberate focus on ESG factors when making investment choices and constructing portfolios. This strategy not only mitigates risks but also aims to achieve sustainable growth over time.

Figure: ESG factors

	Environmental	Social	Governance
Principle/Concept	Sustainability and resource efficiency	More equitable societies and respect for human rights	Accountable governance and transparent operations
	Climate change	Safety & quality controls	Corporate governance
	Natural resources	Privacy & data security	Board practices
Example Issues	Pollution, water and waste	Gender & diversity policies	Corporate behavior
	Greenhouse gas energy efficiency emissions	Human rights & labour standards	Accounting practices
	Biodiversity	Health & safety labour rights	Board executive pay Independence
Example Metrics	Carbon intensity (tCO_2e Scope 1 + 2 + 3/Rm)	Percentage of female representation at Board, management, and employee level	Board independence ratios
	Science-based Targets Initiative approved?	Community spend in mining towns as percentage of revenue	Executive pay ratio & disclosures. Effective use of Return on Invested Capital (ROIC)
	Water use (m3 per Rm EVIC)	Total fatalities	Percentage of women on board

The spectrum of capital

This illustration shows the different approaches to investing and how they vary in terms of considering ESG factors. On one end of the spectrum, there is a strictly "finance-only" investment process that does not take ESG factors into account. On the other end, this is an investment process where there is a willingness to accept returns below market value in exchange for the significant positive impact generated by the projects and companies in the portfolio. The largest segment of responsible investing is ESG integration investing. This is not really a differentiated category anymore in the institutional asset management space. At its heart ESG integration is really just about understanding the risks and opportunities associated with a particular investment and adequately pricing these. Where possible engaging with the company to ensure that is it being managed effectively to ensure its longevity and sustainability. ESG at its heart is about risk management and value creation.

The spectrum of capital

Traditional Investing	Responsible Investing			Philanthropy
Limited or no ESG practices	ESG Integration	Sustainable Investing	Impact First Investing	Address societal challenges through the provision of grants
	FOCUS: select investment by incorporating environmental, social, and governance (ESG) factors to reduce potential risks and discover opportunities	**FOCUS:** Begins with the integration ESG values as its cornerstone. It aims to reduce detrimental effects on humanity and the environment by focusing on themes of sustainability	**FOCUS:** Investment approach seeks to generate positive, measurable, reportable social and environmental impact	
	Sustainable Investing strategies can further be expanded to:			
	Exclusion or Screening Screening of companies, sectors or countries involved in non-ESG activities	**Best in Class** Investments in companies with higher ESG score/ performance	**Thematic** Considering ESG thematic factors in the investment decision making process	

How does ESG and sustainability link with UN SDGs?

Understanding the different approaches to investing is crucial for investors to align their beliefs with their investment strategies.

Investing with "impact" carries weight. Impact investments are specifically designed to generate measurable social and/or environmental impact alongside financial returns. They prioritize clear and tangible outcomes, aiming for additionality – creating a positive impact beyond what would have happened without the investment. These investments vary across categories, balancing financial returns with specific societal or environmental goals. In some cases, the focus is placed on achieving impact goals, even if it means sacrificing maximum financial gains.

One framework that highlights the importance of impact investing is the United Nations Sustainable Development Goals (SDGs). The SDGs serve as a global call to action, addressing challenges such as poverty reduction, gender equality, clean energy access, and sustainable communities. Achieving these goals requires significant financial investment.

Impact investing plays a crucial role in funding enterprises that aim to improve social and environmental welfare. It unlocks capital to address pressing societal issues. In impact investing, it is crucial for investors to adopt a strategic approach by setting clear impact objectives and employing industry frameworks to guide their investments. Among the various frameworks available, the Sustainable Development Goals are frequently utilised to align their investments with broader global objectives.

Despite the potential challenges related to liquidity and risk, impact investing allows investors to align their investments with their values and contribute to a more sustainable future. By integrating the principles of impact investing and considering the UN SDGs, investors have the opportunity to generate financial returns while making a meaningful difference. This dual approach not only enables investors to support the achievement of a more sustainable future but also showcases the transformative power of capital in driving long-term positive change in society and the environment.

The United Nations Sustainable Development Goals (SDGs), adopted by all member nations in 2015, strive to tackle critical global problems such as climate change, inequality, and poverty. Importantly, they provide a sustainability framework to which investors can align. They also help investors identify sustainable industries and businesses.

ESG integration evaluates different assets', (Equities, Fixed Income and Alternative Investments) risk management and opportunities. It is a deeper level of research around how well a company identifies, measures, and mitigates its non-financial risks that can potentially impact future profitability of assets.

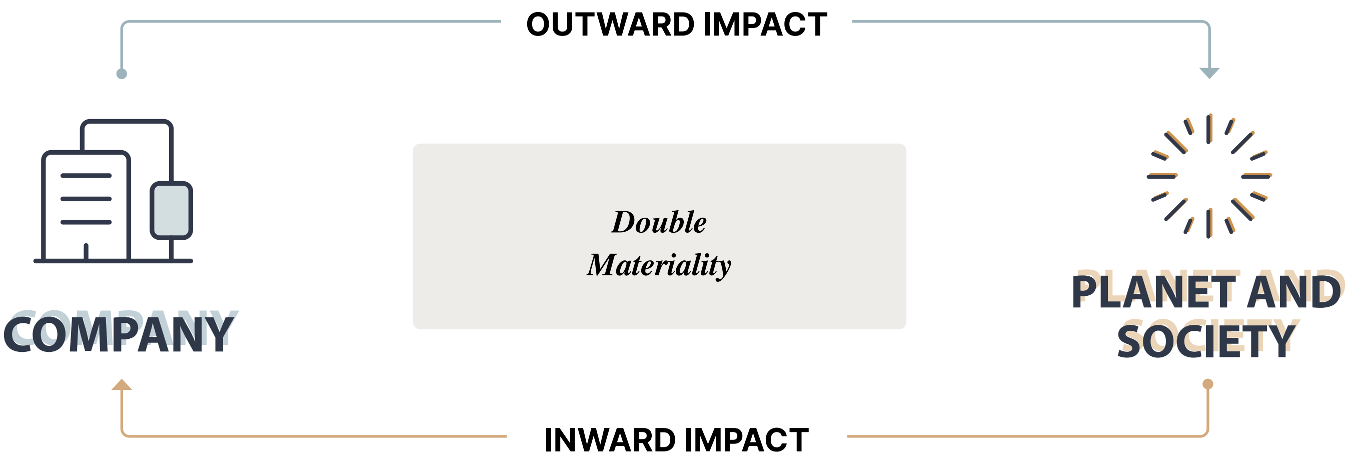
Another clear way of having an impact within the listed-company space is through stewardship and engagement activities. In particular, shareholders and those with savings invested in a particular company can wield significant influence through their corporate votes at annual meetings, driving change and holding management to account. In this respect, it is important to note that many investors take it for granted that their asset manager will vote on their behalf in line with their wishes, but this is not necessarily a given particularly in the case of passive investments, such as exchange-traded funds.

The importance of the double materiality approach

Investors allocate funds to investment managers, who then invest in a variety of assets such as listed companies and fixed income. It's important that investors understand the risks and impacts of each assets' operations on its financial stability, as well as recognise the assets' wider implications on society and the environment.

This holistic perspective is at the core of the double materiality approach, which examines both internal risk management and external impact. Internal risk management entails how a company manages the potential financial risks of its actions, including legal liabilities, operational efficiencies, and reputation management. External impact refers to the societal and environmental consequences of a company's actions, considering factors such as carbon emissions, labor practices, and community engagement.

Double Materiality



There is also the concept of 'additionality' which reflects the ability to derive multiple benefits from a single action or investment, extending beyond monetary gains. In other words, the impact of an investment isn't just financial, but also encompasses larger considerations such as the society and the environment.

While it is generally acknowledged that a listed corporate could have a positive impact through the products it sells or the way it operates – such as by being conscious of environmental impacts or through its adoption of favorable labour polices – it is not necessarily clear that any impact is produced through the act of owning or buying shares in these businesses. For example, when such shares are purchased in the secondary market, no new capital is being raised through the purchase – the money paid goes to the seller of the shares, not the company itself. This is where the concept of additionality arises – the additional impacts that may accrue from one's ownership of the shares rather than someone else's.

Single Materiality

What is the impact of the world on the company

\+

Double Materiality

What is the impact **of the company** on the world

\+

What is the impact **of the world** on the company

\+

Additionality and intent

Would this have happened without me ?

Embracing the double materiality approach prompts firms to look past immediate profits, advocating for sustainable growth, environmental care, social fairness, and strong corporate governance, to the benefit of all stakeholders.

Investors play a critical role in responsible investing by prioritising the double materiality approach and ensuring funds are invested in companies that prioritise both their impact on the world and their ability to be sustainably profitable and successful.

Responsible Investing and Regulation 28

How do investors effectively incorporate responsible investing into their practices while aligning with fiduciary responsibilities and Regulation 28 guidelines?

The first step is to use voluntary frameworks such as the UN's Principles for Responsible Investment (PRI) and Code for responsible investing in South Africa (CRISA) that serve to guide investors on comprehending and implementing ESG standards. They offer practical support by integrating Regulation 28 principles, developing resources, offering training, and providing tools for investors. These principles and tools should be used along with other relevant standards and best-practice codes, like the King Code, as well as guidebooks like this one focused on responsible investing.

The global PRI and the South Africa-specific CRISA are two significant frameworks in this realm. Additionally, the King Code plays a vital role in enhancing corporate governance practices and promoting ethical behavior within organisations.

The PRI is a global initiative to promote responsible investment. It encourages the disclosure of ESG integration, active ownership activities, and investor communication, with a vision to create a financial system that rewards responsibility and long-term value.

CRISA, specifically designed for South African institutional investors, was launched in 2011. It emphasises systematic ESG integration, diligent stewardship, and meaningful disclosures. The CRISA 2 is an updated version of the original and 2 enhances the framework for stewardship and responsible investment.

The King Code is primarily focused on governance and responsible investment practices within South Africa. It provides guidelines and principles that organisations can follow to ensure transparency, accountability, and ethical conduct in their operations. The Code was first issued in 1994 as King I. it has been revised and updated with the latest version being King IV.

Regulation 28 of the Pension Funds Act says that before investing in and while invested in an asset, you should think about anything that could significantly impact the asset's long-term performance. This includes ESG factors, but it's not limited to them. The regulation doesn't tell you which ESG factors to consider, but it does say that you should think about anything that could affect the asset's long-term performance.

These frameworks have their unique characteristics and objectives. The table below breaks down the key elements of each framework:

Framework	UN PRI	CRISA 2	King Code IV
Aim	Build a sustainable financial system rewarding responsible investments	Reaffirm stewardship and responsible investment in South African governance	Enhance corporate governance practices and promote ethical behavior
Jurisdiction	Global	South Africa	South Africa
Launched	2006	2011	1994
Key Principles	Enhance corporate governance practices and promote ethical behavior	Ensure systematic ESG integration, diligent stewardship, meaningful disclosures, and proactive conflict management	Ethical leadership, stakeholder inclusivity, integrated thinking, accountability and transparency, effective risk management, responsible remuneration, sustainable development

Responsible investment strategies

The choice of investment strategy depends on your objectives, considering both financial and non-financial factors. Nonetheless, the approaches are not mutually exclusive and can typically be used with one another. This can be discussed with your investment manager to ensure your interest and investment desires are aligned.

This section provides examples of how ESG principles can be applied in practice and offers recommendations for investors.

Fund	Screening	ESG Integration	Best in Class	Impact
Investment Strategy				
Asset class	Systematically exclude investments due to specific criteria. This can be based on ethics, industry norms or other preferences	Investment decision includes research which explicitly considers potential ESG factors impacts on company alongside financial factors in valuation	Uses an active management strategy to invest in investments of that demonstrate superior ESG performance compared to their industry peers, considering both financial factors and ESG credentials.	Seeking investments that generate measurable social or environmental impact alongside financial returns in areas like poverty alleviation, sustainable agriculture, education, or healthcare. This can also be thematic.
Investment strategy examples				
Listed Equity	Trustee will not invest in securities involved in weapon production, tobacco or that do not prescribe to certain industry codes	Trustee analyses securities based on financial metrics and on ESG metrics with a long-term view on ESG risks	Invest in mining company securities that are industry leaders across a range of ESG issues such as low fatalities and low CO2 emissions and good governance.	Invest in equities where there is an ability to influence companies, to drive capital growth by addressing for example gender equality or biodiversity.
Private Equity	Trustee will not invest in private companies involved in weapon production, tobacco or that do not prescribe to certain industry codes	Trustee values private company by assessing ESG risks alongside financial metrics	Invest in companies that display the best consideration of the environment in their industry	Invest in private companies who could have significant contribution to the SDG targets through for example tackle climate change

Fund	Screening	ESG Integration	Best in Class	Impact
Fixed income	Trustee will not invest in credit issued by certain countries or companies	Credit risk incorporates the impact of material ESG factors such as the vulnerability of issuing company to climate change risk	Invest in sovereign bonds relating to countries most actively addressing green energy in country operations	Invest in bonds that will be used to finance solar power to address climate change,
Asset manager selection	Trustee will not allocate funds to a manager involved in investments in certain industries, countries or is not a signatory of certain codes such as the Principles of responsible Investment	Select asset manager that includes ESG factors in their research and valuation as above	Select asset manager who does the most thorough financial and ESG integration in their valuation process	Select asset manager who pursues sustainability themes in their funds such as exposure to solar power or net positive SDG goals.

Remember: Not every fund manager incorporates ESG factors in the same manner. In fact, there are a range of qualitative and quantitative approaches for embedding ESG analysis across investing strategies, spanning asset classes and active-to-passive strategies. Furthermore, fund managers use different sustainability tools to integrate ESG.

Focusing on material ESG issues can lead to better returns

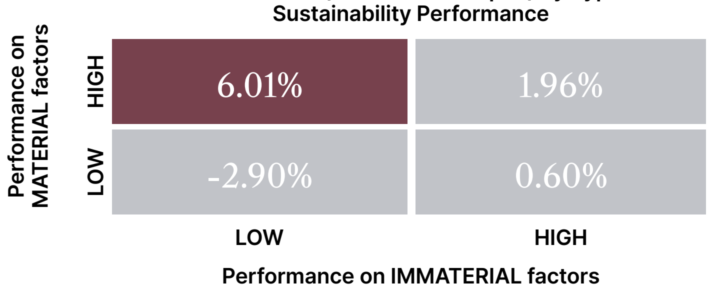
The “First Evidence on Materiality” paper by Khan, Serafeim, and Yoon demonstrates the value of ESG in contributing to risk-adjusted returns. The study uses material factors based on the SASB Standards, which differentiate between material and immaterial sustainability factors.

Issues	Health Care	Financials	Technology and Communications	Non-Renewable Resources	Transportation	Services
Environment						
GHG emissions						
Air quality						
Energy management						
Fuel management						
Water and wastewater management						
Waste and hazardous materials management						
Biodiversity impacts						
Social Capital						
Human rights and community relations						
Access and affordability						
Customer welfare						
Data security and customer privacy						
Fair disclosure and labeling						
Fair marketing and advertising						
Human Capital						
Labor relations						
Fair labor practices						
Employee health, safety and wellbeing						
Diversity and inclusion						
Compensation and benefits						
Recruitment, development and retention						
Business Model and Innovation						
Lifecycle impacts of products and services						
Environmental, social impacts on core assets and operations						
Product packaging						
Product quality and safety						
Leadership and Governance						
Systemic risk management						
Accident and safety management						
Business ethics and transparency of payments						
Competitive behavior						
Regulatory capture and political influence						
Materials sourcing						
Supply chain management						

Source date: 8 August 2023

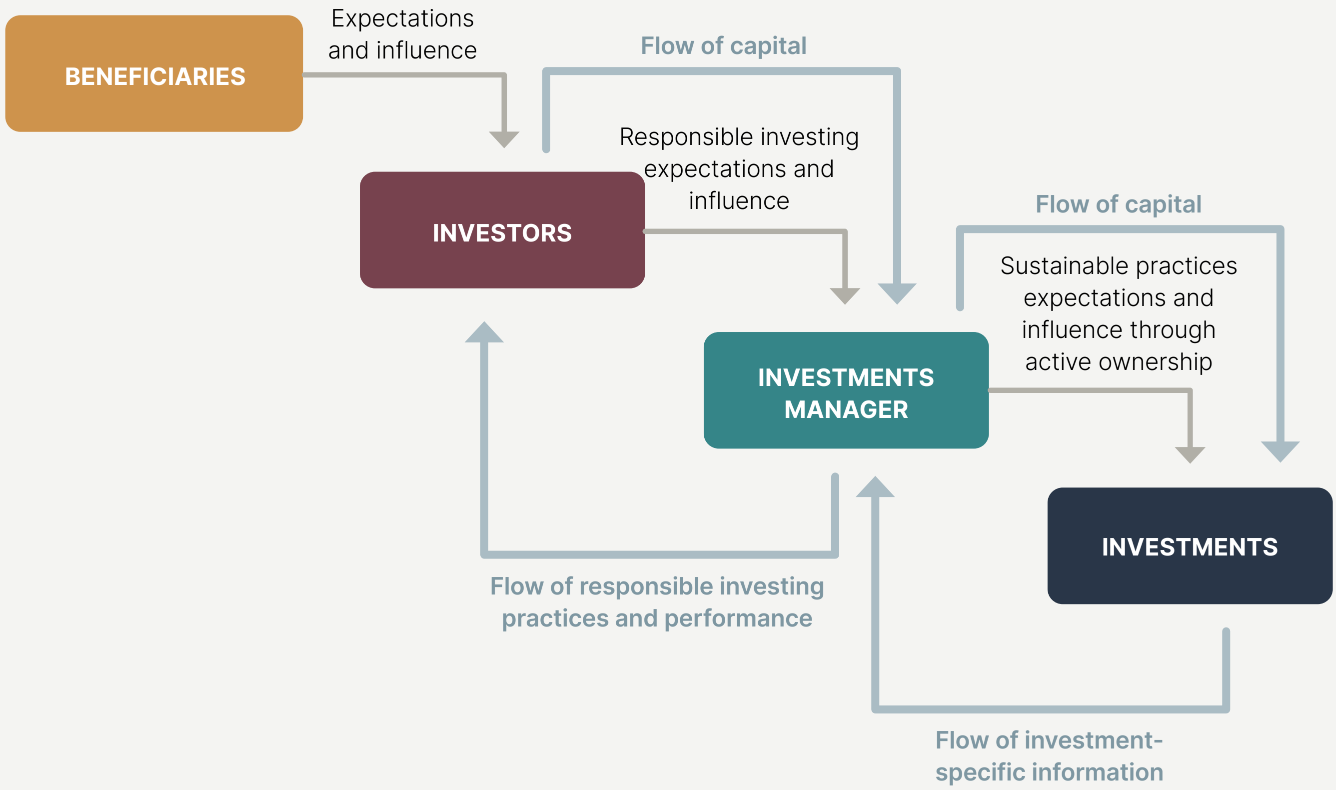
The finding of the study is that firms with good performance on material sustainability issues, using the SASB framework, and low performance on immaterial issues have the best future stock performance. This generates an annualized alpha of 6.01%. Therefore, it’s important to focus on material ESG issues in order to increase returns.

Stock Returns (in annualized alpha) by Type of Sustainability Performance



Source: Corporate Sustainability: First Evidence on Materiality Study

An Illustration in Practice



Recommendation

It is crucial to evaluate the relevance and suitability of each fund on a case-by-case basis, taking into consideration the associated costs of implementation. Negotiations between investors and asset managers will be necessary for many of these matters, and continuous evaluation will be required throughout the relationship. In addition, investors should consistently assess the implementation of responsible investment practices, seeking ways to improve them. Asset owners must also pro actively monitor the broader investment market to enable their practices to align with industry best practices. This ongoing review and alignment process allows investors and asset owners to uphold responsible investment principles, stay proactive, and remain up-to-date with evolving industry standards.

Busting some myths about responsible investing

MYTH	REALITY
ESG is all about "saving the world" over generating profits, suggesting that businesses must save the world first and then only think about making money thereafter	It's not about "saving the world". The focus is on how businesses embed sustainability into their operating models. It's about the method of generating revenue that simultaneously ensures profitability, while fostering enduring long -term positive societal and environmental outcomes.
Responsible investing equates to lower performance	Academic research suggests responsible investing can generate sustained and robust financial returns over time. * Academic Research
Responsible investing is only focused on climate and the environment.	Responsible investing recognises the significance of social and governance issues. The E, S and G issues are often interrelated and can affect the long-term success of businesses
Responsible investing is just a passing fad	Responsible investing is a long-term trend driven by increased awareness of sustainability issues, regulatory changes, and shifting investor preferences. It is expected to continue growing as more investors recognise the importance of integrating ESG considerations into their investment decisions with a focus on long-term returns. ** see litigation risk below

Responsible investing requires sacrificing diversification

Or

Limits investment choices

Responsible investing offers diverse investment opportunities across sectors and regions, allowing for portfolio diversification. By considering ESG factors, investors can gain exposure to innovative and sustainable companies that may enhance portfolio resilience.

Responsible investing lacks standardised metrics and reporting.

While there is ongoing work to improve standardization, the availability of ESG data and reporting has significantly improved in recent years. Initiatives such as the ISSB (International Sustainability Standards Board) and IFRS 1 and 2 (International Financial Reporting Standards) will be helpful in further improving standardization and ensuring consistency in ESG reporting.

Non-Financial ongoing work to improve standardization, the availability of ESG data and reporting has significantly improved in recent years. Initiatives such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) provide frameworks for consistent ESG disclosure.

* See, for example, Mozaffar Khan et al. (2016) Corporate Sustainability: First Evidence on Materiality and Robert G Eccles et al (2014), The Impact of Corporate Sustainability on Organizational Processes and Performance :

** https://www.wsj.com/articles/a-bellwether-climate-case-in-montana-seeks-more-action-under-state-constitution-88847825

** https://fortune.com/2019/11/13/esg-environmentally-friendly-green-pension-fund-lawsuit-australia/

How do I develop a responsible investment policy for my trust?

As the consideration of sustainability for your Trust becomes increasingly important, development of a Responsible Investment ethos and guideline can help ensure fundamental integration into both operations and investments.

Getting started is the most important part and the illustration below guides how this can be done:

1. Ethos and objectives

- Establish the ethos and objectives of the trust as this will guide the processes and principles established by the policy
- Consider the needs for the beneficiaries as well as what the trust seeks to achieve:
  - Who or what do we seek to achieve i.e. what is our philosophy?
  - Where on the Spectrum of investing would we like to sit?
  - Are there any pertinent issues we would like to address through operations?
  - Are there any regulatory requirements we need to achieve and report on?

2. Develop an overarching framework

- Document your overarching ethos and objectives to serve as the basis for specific policy elements
- This shoud include a brief description of the trust, the objectives of the trust's operations, the trust's objectives in integrating ESG into operations and the broad principles that it seeks to uphold. These ESG objectives could be:
  - Achievement of a specific Environmental, Social or Governance outcome e.g. Promote education
  - Mitigate material risks
  - Long-term and sustainable value creation for beneficiaries
- Potential principles could be:
  - Ensuring appropriate risk-adjustment when looking at financial returns
  - Contributing positively to society

3. Investment guidelines

- Document any ESG criteria for investments made and what your investments seek to achieve:
- Some ESG criteria that could be required:
  - Positive sustainable development goal impact scores of securities held
  - Sufficient ESG integration practices in chosen Investment Managers

4. Active ownership

- Part of sustainability is being an active owner. This involves monitoring of ESG within the trust on an ongoing basis, beyond the initial investment decision
- Active ownership specifically involves engagement and voting:
- 1) Engagement:
  - For direct holdings: Document how you intend to monitor your investments such as through annual screening.
  - For capital with Investment managers: Document how you intend to monitor investment manager's ESG practices and your holdings such as through annual reports
  - For both: Document how you intend to engage with management/issuer/investment manager should an issue arise. This can include the medium, documentation process of interactions, collaboration with other shareholders and monitoring of resolved outcomes.
- 2) Voting
  - If you hold securities, include how you intend to vote on this. Some potential methods:
  - Proxy voting rights to professional governance third parties- this would require prior assessment of their voting principles and practices
  - Proxy voting rights to Investment manager - this would require assessment of their voting policies
  - Development of internal voting principles and practices - this would need to be documented in your policy and executed accordingly

5. Reporting

- Document how you intend to report to inestors/beneficiaries and other stakeholders on the ESG practices of the trust
- Bearing in mind that reporting is a key element of responsibility, some considerations are:
  - Frequency
  - Metrics and information reported
  - How and who is this circulated to
  - Reguatory bodies reported to - if you are a PRI signaotry you will need to report to this body but might also consider voluntary reporting such as the TCFD

Challenges and limitations to responsible investing

It is crucial for investors to maintain a realistic perspective on the limitations of responsible investing. They must approach the subject with pragmatism, understanding what can and cannot be accomplished with their investments to effectively manage their expectations. However, investors should also bear in mind that responsible investing does not necessitate an all-or-nothing approach, especially considering that universal definitions for sustainability are still evolving. By gradually implementing small changes, investors can cultivate confidence in new investing philosophies and strategies over time. Ultimately, it is the responsibility of investors to equip themselves with the necessary knowledge and tools to achieve their investing objectives in a comprehensive and sustainable manner.

Challenges/ Limitations

Defining responsible investing:

Everyone has different ideas of what "responsible investing" means. We need to find a common definition that inspires fast action towards preserving our planet, managing resources wisely, and improving living standards

Value of sustainability:

Investors don't agree on how to measure the financial value of sustainable actions. It's hard to put a price on sustainability, and no standard way to do this exists yet.

Carbon tax is considered the closest approximation to investors reaching a consensus on quantifying the financial value of sustainable actions, as it provides a tangible metric for pricing the impact of carbon emissions.

Data quality and access:

Measuring ESG is complex due to different methods and inconsistent data. Reports aren't as reliable as other audited financial data. Those using ESG in their recommendations need to understand how the data is collected and updated.

Choosing effective actions:

It's difficult to know which actions will have the biggest positive impact, as the outcomes of our actions aren't always straightforward.

Guiding questions for investors

For investors	
Implementing principles	Are we implementing the responsible investment principles of Regulation 28, CRISA, and UN PRI?
Investment alignment	Do we believe our investment approach aligns with our responsible investment beliefs?
Staying updated	Do we stay updated on how ESG and stewardship are implemented in relation to fund management?
Guidelines and policies	Are there clear guidelines and policies in place to ensure compliance with responsible investment principles?
Monitoring mechanisms	Are there mechanisms in place to monitor and evaluate the effectiveness of ESG integration within the portfolio?
Policy revision	How frequently do we revisit and revise our responsible investment policy and strategies?
Stakeholder communication	How are we communicating our responsible investment strategies and performance to our stakeholders?
Conflict of interest	How are we managing conflicts of interest in relation to ESG matters?

For fund managers	
ESG integration & valuation	Are you a signatory of UN PRI or CRISA?
	How are ESG considerations integrated into the investment decision-making process?
	Can you provide examples of investments that demonstrate your ESG approach?
	Do you measure ESG Risk score of the fund vs the benchmark?
	What are the main ESG risks in the current portfolio and how have you mitigated them?
	Which companies have been verified by the Science-based Targets Initiative?
	What is the Temperature of the Fund vs the Benchmark?
	How do you measure and value ESG risks or considerations that are 'hard to measure'?
	Can you describe an investment that you rejected due to ESG risks?
	How do you monitor changes in ESG risks over time in your portfolio companies?
	How does the fund consider the potential impacts of climate change in its investment decisions?
Stewardship	What is your stewardship policy, and how is it implemented and tracked for success?
	How do you engage with portfolio companies on ESG issues? Can you provide examples of your engagement activities?
	Do you disclose how you vote?

The resource list below is not intended to be exhaustive, but rather to give an indication of some useful and publicly available tools should investors wish to explore specific issues further and deepen their understanding of ESG and responsible investing.

Name	Description	Website
United Nations Principles for Responsible Investment (UN PRI)	The UN PRI is an international network of investors committed to incorporating ESG factors into their investment practices. Their website provides valuable information on sustainable investing principles and best practices.	https://www.unpri.org/
Code for responsible investing in South Africa (CRISA)	CRISA is a local framework that guides institutional investors in South Africa on how they should execute investment analysis and activities to promote sound governance. It seeks to incorporate sustainability and ESG factors into investment practices.	https://www.crisa2.co.za/crisa2code/
Johannesburg Stock Exchange (JSE) Sustainability guidelines	The JSE Sustainability guidelines are a set of standards that companies listed on the Johannesburg Stock Exchange are encouraged to meet, covering aspects of environmental, social, and governance issues.	https://www.jse.co.za/
Financial Sector Conduct Authority (FSCA)	The FSCA is a South African regulatory body committed to promoting and maintaining a sound financial investment environment within South Africa. It sets the legal standards for responsible investing.	https://www.fsca.co.za/
Carbon Disclosure Project (CDP)	The CDP is an international non-profit organisation that provides a global disclosure system for companies, cities, states, and regions to manage their environmental impacts. It helps investors to understand their portfolio's carbon footprint.	https://www.cdp.net/
Transition Pathway Initiative (TPI)	TPI is a global initiative that provides assessments of companies' preparedness for the transition to a low-carbon economy. Its website offers valuable tools and data for investors.	https://www.transitionpathwayinitiative.org/

Name	Description	Website
World Wildlife Fund (WWF)	The WWF is an international non-governmental organisation focused on conserving nature and reducing the most pressing threats to the diversity of life on Earth. Their work informs environmental stewardship strategies for investors.	https://www.wwf.org/
United Nations Global Compact (UNGC)	The UNGC is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment, and anti-corruption. It provides guidelines for corporations looking to align their operations with sustainable principles.	https://www.unglobalcompact.org/
United Nations Sustainable Development Goals (UN SDGs)	The UN SDGs are a collection of 17 interlinked global goals designed to achieve a better and more sustainable future for all. They provide a framework for investors seeking to contribute to positive global change.	https://sdgs.un.org/
Organisation for Economic Cooperation and Development (OECD)	The OECD is an international organisation that shapes policies that foster prosperity, equality, opportunity and well-being for all. It provides research and guidelines for sustainable economic growth, including in the area of investment.	https://www.oecd.org/
International Corporate Governance Network (ICGN))	ICGN is an investor-led organisation with a mission to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies. Its website provides valuable information, best practices, and policy guidance on corporate governance and investment practices.	https://www.icgn.org/
Sustainability Accounting Standards Board (SASB)	The SASB is a non-profit organisation that sets standards to guide the disclosure of financially material sustainability information by companies to their investors. Its website offers information on sustainable accounting practices and standards.	https://www.sasb.org/

Examples of Sustainability product providers

Fundamental Data Provider	Comprehensive Data Provider
REFINITIV	ISS ESG
Bloomberg	CLARITY AI
FACTSET	MORNINGSTAR | SUSTAINALYTICS
	MSCI
	CDP

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