



QUANTIFYING RISK, ENABLING OPPORTUNITY

Shainal Sukha

ASSA Investment Seminar - November 2020

Responsible Investing - Case Study of a Retirement Fund

SHORTCOMINGS OF THE CURRENT SYSTEM

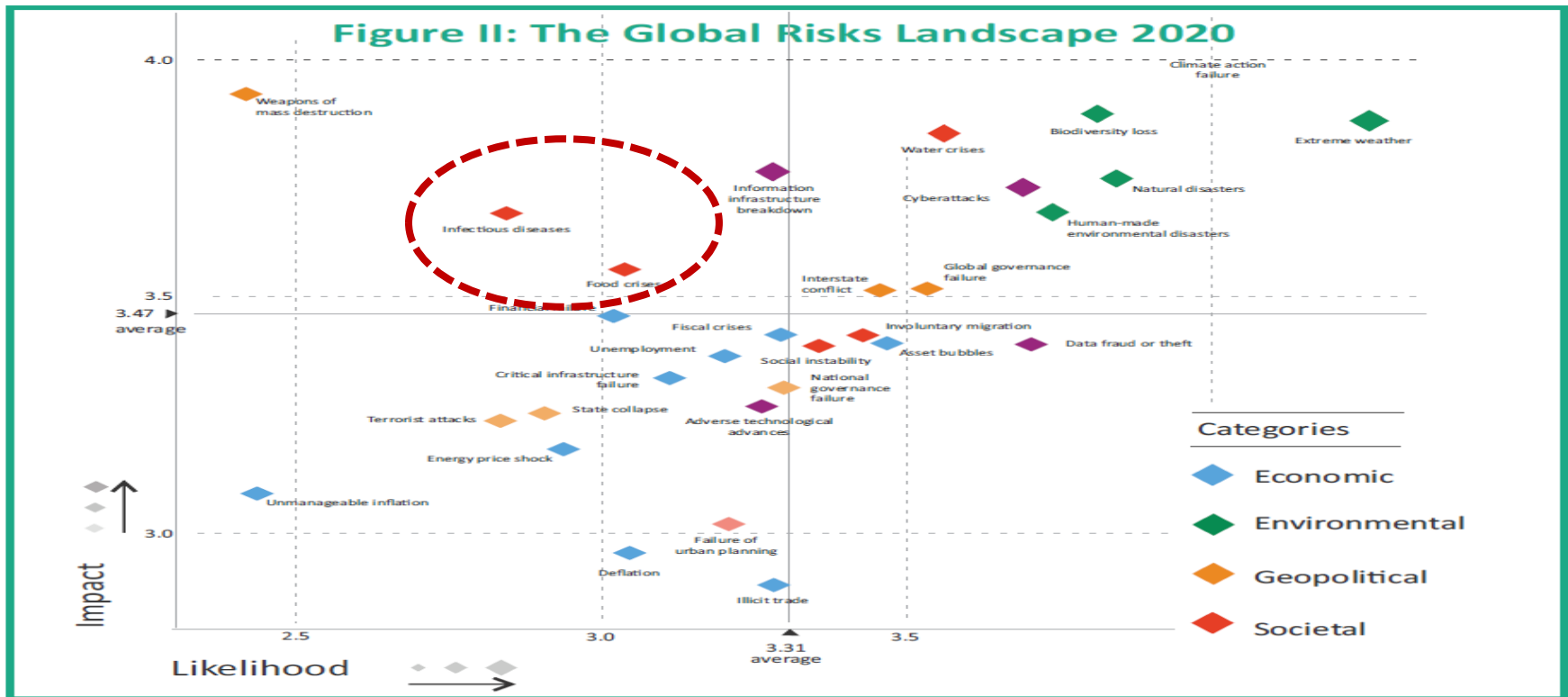


NON-FINANCIAL RISKS ARE IMPORTANT



Source: Max

EXAMPLES OF ESG RISKS



Source: World Economic Forum Global Risks Report 2020

The World Economic Forum's 2020 global risks report (released before COVID-19) showed that – for the first time – the top 5 risks in terms of likelihood are all environmental risks. In the chart, notice how social risks such as water crises, food crises and infectious diseases were mentioned as having a high impact. Just a few months after the report, an infectious disease has indeed had a high impact, causing one of the worst global economic crises in our history.

WHAT NEEDS TO BE DONE AND WHY

- Climate change is escalating at an alarming rate with little time left to ensure that temperature increases remain **below 1.5 degrees** as per the Paris Climate Accord
- At some point, we will reach a **point of no return** and this will be catastrophic for all life on the planet
- In our opinion, we have **10 years** to reduce and reverse greenhouse gas concentrations in our atmosphere and meet the UN Sustainable Development Goals
- Investment-decision making must be long-term and **multi-generational**
- **Integrate ESG risks** into your investment decisions so that social and environmental risks are better priced into the market, reducing its fragility
- Improve capital allocation and utilise **blended finance funds** to provide commercial returns but also achieve our social and environmental goals
- The **transition must be “just”** to ensure that we don’t leave anyone behind
- Regulatory pressures will force change at some point so **be proactive** to avoid being blindsided
- Let’s use this 10-year timeframe to start taking **individual action** in our respective areas of influence to change the system permanently for the better

A Just Transition

Multi-Generational Investing

Reduce Inequality

Regulatory Pressure

Build Robust Financial Systems



HOW TO GET STARTED

1. Realise that this is a **journey**
2. **Free** resources are available – not costly to build capacity
3. Field is evolving rapidly so **don't be overwhelmed**
4. The best way forward is to just **start** and begin the journey
5. **Read** and **learn** something new every day
6. Become a **PRI signatory**
7. **Collaborate**
8. Appoint a **RI champion**
9. Use consultancies and **experts** where required
10. **Do not let perfection be the enemy**

Responsible Investment and Ownership

A Guide for Pension Funds in South Africa

September 2013



SUSTAINABLE RETURNS

for pensions and society

an industry-led initiative



IN PARTNERSHIP WITH



International Finance Corporation

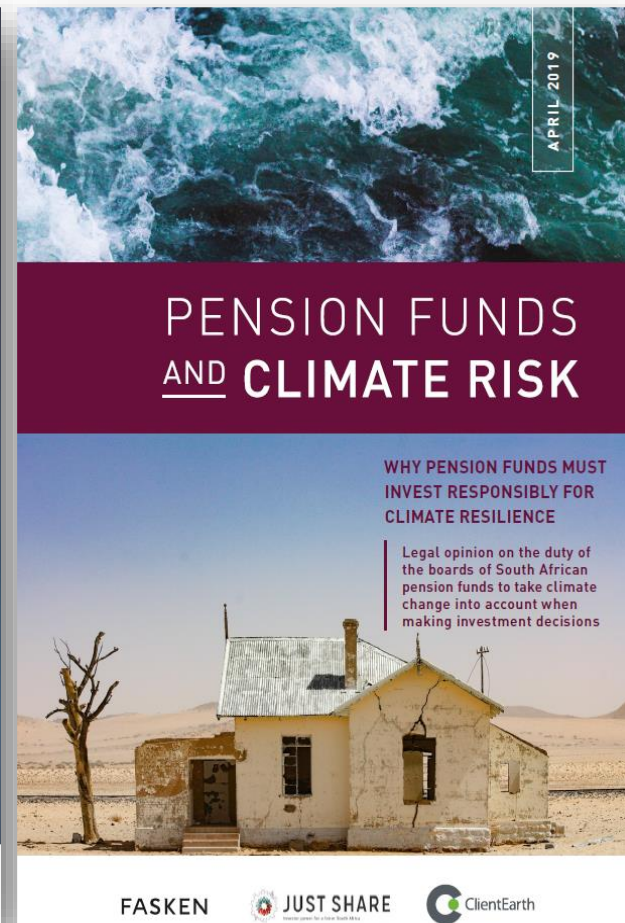
IN PARTNERSHIP WITH



generation
foundation

FINANCE
UNEP INITIATIVE

PRINCIPLES
FOR RESPONSIBLE
INVESTMENT



APRIL 2019

PENSION FUNDS AND CLIMATE RISK

WHY PENSION FUNDS MUST
INVEST RESPONSIBLY FOR
CLIMATE RESILIENCE

Legal opinion on the duty of
the boards of South African
pension funds to take climate
change into account when
making investment decisions

FASKEN

JUST SHARE
SOUTH AFRICAN JUST SHARE

ClientEarth

ACTUARIAL
SOCIETY
OF SOUTH AFRICA

QUANTIFYING RISK, ENABLING OPPORTUNITY



FINANCING THE SUSTAINABLE DEVELOPMENT GOALS: **IMPACT INVESTING IN ACTION**



HM Government

Aligning your Pension Scheme with the TCFD Recommendations

A Guide for Trustees on Integrating
Climate-related Risk Assessment and
Management into Decision Making and
Reporting

Public consultation version - March 2020

The Pensions Climate Risk
Industry Group

Pensions Climate Risk
Industry Group





International Actuarial Association
Association Actuarielle Internationale

Importance of Climate-Related Risks for Actuaries

Climate Risk
Task Force

September 2020

Risk	Description	Impact
Physical Risk	Can be event-driven (acute) or longer-term (chronic) shifts in climate patterns	Extreme weather events eg windstorm, sea-level rises Social conditions eg droughts, wildfires
Transition Risk	Transitioning to a lower-carbon economy may entail extensive policy, technology and market changes	Policy risk Technology risk Market risk
Legal / Reputation Risk	An increase in climate-related claims being brought before the courts by eg property owners	Failure to mitigate Failure to adapt Insufficiency of disclosure

Source: IAA

FURTHER RESEARCH

- Sustainable Development Goals Knowledge Platform:
<https://sustainabledevelopment.un.org/>
- WEF Global Risks Report 2020: <https://www.weforum.org/reports/the-global-risks-report-2020>
- Lalu, B., Murulana, T., & Mathys, M. (2019). Africa Impact Report 2019. Cape Town: Impact Investing South Africa
https://cisp.cachefly.net/assets/articles/attachments/80700_africa_impact_report_2019.pdf
- Actuaries Climate Index: <https://actuariesclimateindex.org/>
- Bertha Centre for Social Innovation & Entrepreneurship, Innovative Finance in Africa Review:
http://www.gsb.uct.ac.za/Downloads/InnovativeFinanceAfrica_1.pdf
- International Finance Corporation:
https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/promise-of-impact-investing
- United Nations Environment Programme Finance Initiative (UNEP FI):
<https://www.unepfi.org/>



CHALLENGES

- RI can't be reduced to a “buy, hold or sell” recommendation – it is a **subjective process**
- Even data providers have **different ESG scoring methodologies**
- **Helping our asset owner clients build capacity** will allow them to communicate what is important for their beneficiaries so that asset managers can respond effectively
- **RI is not about negative screening** and avoiding tobacco, alcohol or coal
- The **failure to see a bigger picture** and get caught in a debate over the small things can derail the process
- There is also a **lot of jargon**, no standard definition for many of the concepts and no standard way of reporting, although this is improving
- The **principal-agency conflict** is another challenge - there can be a culture of idolising company management and not really challenging them on issues

Sector	Rank	
	MSCI	Sustainalytics
Comms services	9	4
Consumer discretionary	8	2
Consumer staples	6	8
Energy	10	11
Financials	7	5
Health care	5	6
Industrials	2	7
Materials	11	9
Real estate	3	1
Technology	4	3
Utilities	1	10

Source: BlackRock, MSCI and Sustainalytics. The table uses ESG ratings from MSCI and Sustainalytics and is current as of Feb. 15, 2020

The core objective of Responsible Investment (RI) is to act in the best interests of the Fund's members by recognising that Environmental, Social and Governance (ESG) factors can influence both investment risk and return and must therefore be considered by the Trustees in all investment decisions.

Protecting and enhancing financial returns by incorporating such factors is consistent with fiduciary duty.

2011

2019

CRF recognises that the triple threat of poverty, unemployment and inequality in South Africa are significant. CRF aims to mitigate such social risks in order to ensure greater social stability for the benefit of its members.

CRF members should retire in communities that are prosperous, stable and productive.

2013

Separate RI Policy set.
Switch to MSCI ESG Indices.
World ESG shown to have
23% lower carbon exposure

2016

CRF becomes a PRI
signatory

2018

Steinhoff - CRF sent a letter to its asset
managers requesting them to strengthen
their due diligence process, supporting
Board diversification not only in terms of
race but also gender and to consider the
issue of Board refreshment

2011

Journey starts.
Specific time
reserved for ESG
matters in
meetings and
report backs

2015

Considered equity market
concentrations.
Decided to allocate more to the
real economy.
CRF decides to use its influence
to address large youth
unemployment.
First investment in an unlisted,
blended finance fund that targets
job creation

2017

CRF wrote a letter to the DOE on
the IRP and requested certainty in
the renewable energy sector so that
CRF could deploy its outstanding
capital commitments to the REIPPP
program

2019

FSCA issued
Sustainability Notice.
CRF completely revised
its RI policy to take into
account the National
Development Plan & the
SDGs



CRF's EXPECTATIONS FOR ASSET MANAGERS

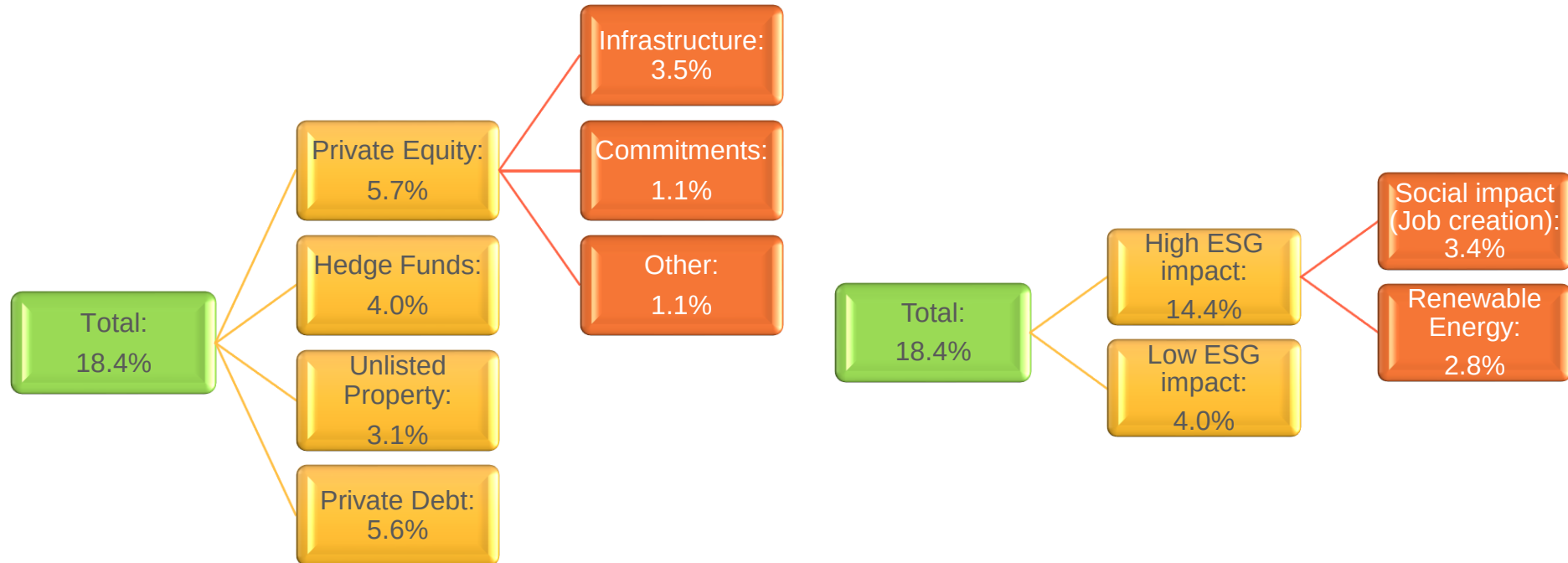
- The CRF has set **Job Creation** and a **Just Transition** as two key initiatives in their Responsible Investing Policy that they will support
- CRF has made investments that **explicitly support** both initiatives already
- To **enable a just transition**, as CRF increases its exposure to the green economy, it will seek to match this allocation with investments that explicitly create jobs (where available)
- Currently, CRF has exposure to **three blended finance** funds
- CRF's RI policy explicitly states that it expects its **asset managers to create products** that support their initiatives and that products which support such initiatives will receive preferential allocations

"CRF believes in the risks arising from climate change and seeks to invest in the green economy in order to limit greenhouse gas emissions and global warming, provided that these investments provide competitive risk-adjusted returns. CRF believes that climate change could amplify social and other risks. CRF also understands that coal is currently one of South Africa's top exports and the local coal industry supports many jobs. CRF believes that a "just transition" must be supported in order to ensure that South Africa addresses its high social and environmental risks simultaneously in a balanced and pragmatic manner.

As a large retirement fund, CRF recognises its role as a steward of capital and how its capital allocation decisions can create positive externalities and support economic development and growth. With Government currently constrained fiscally and Corporates seeking certainty and confidence to invest, CRF believes that it along with other retirement funds have an important role in identifying and investing in viable opportunities, which not only provide competitive risk-adjusted returns but also enable local growth and investment. Failure to do so will retain the status quo, reinforce the "circle of blame" and exacerbate our significant social and environmental risks."

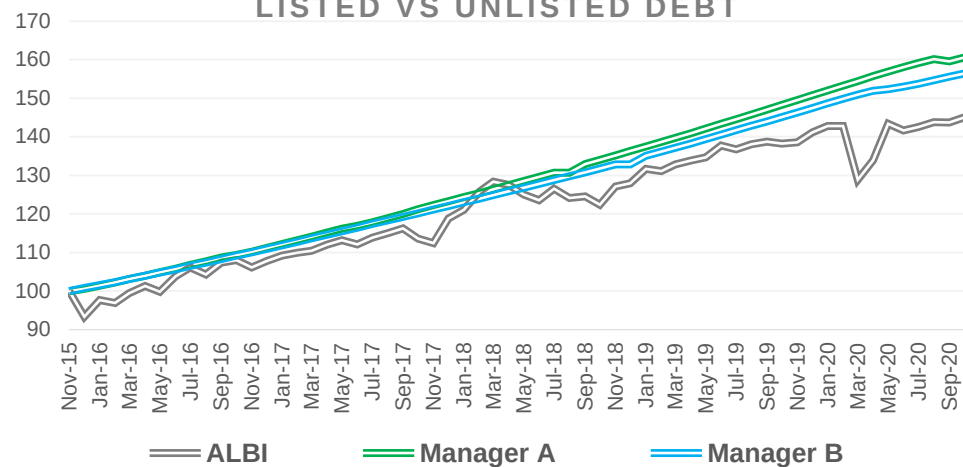
The Challenge Has Been Set!

CRF's ALLOCATION TO ALTERNATIVES

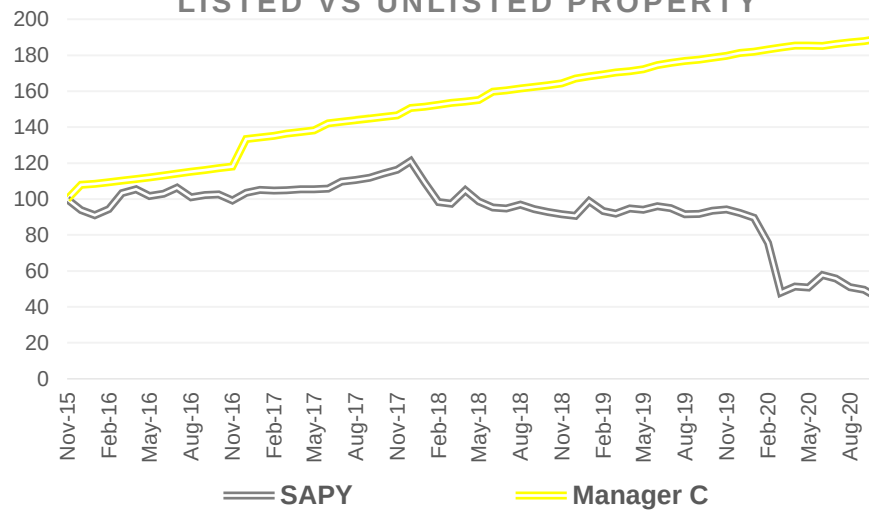


IMPACT AND PERFORMANCE

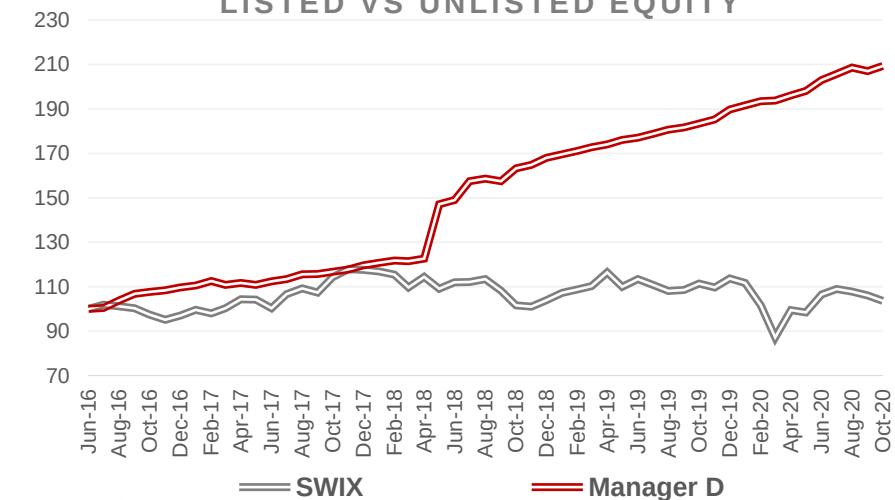
LISTED VS UNLISTED DEBT



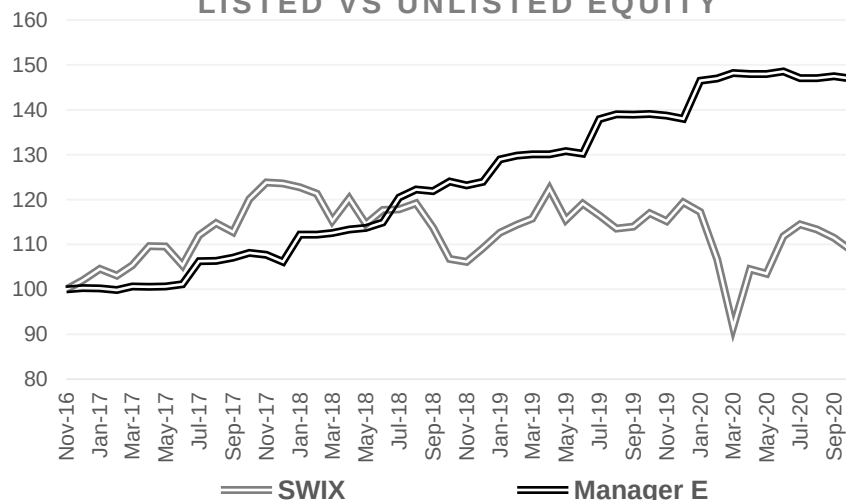
LISTED VS UNLISTED PROPERTY



LISTED VS UNLISTED EQUITY



LISTED VS UNLISTED EQUITY



Source: CRF, S&A Research

CONCLUSION

- Everyone is on their **own RI journey** – if not, then start!
- In a **rapidly evolving field**, its not possible to be on top on everything all the time
- Your clients will start to demand more from you and if you haven't started your RI journey, you **could get left behind**
- Asset managers should **be authentic** in their responses and show how that you are addressing ESG risks at the system, business and portfolio level
- Managers will get overlooked for mandates if they lack a **credible ESG process**
- We do not claim to know everything and expect managers to push back **if they don't agree** with our approach or thinking
- ESG integration is now a **non-negotiable**
- We are already moving to the next phase of Responsible Investing, which is the **mainstreaming of Impact Investing**

FAIS COMPLIANCE STATEMENT

- Sukha and Associates (Pty) Ltd (registration number 2010/015769/07), subsequently referred to as “S&A” is an authorised Financial Services Provider (FSP No: 42932), in terms of Section 8 of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS Act), as amended.
- S&A holds a category I FSP licence and is authorised to provide financial services with respect to the following products: Long-term Insurance: subcategory B1; Long-term Insurance: subcategory B2; Long-term Insurance subcategory B2-A; Long-term Insurance subcategory B1-A; Long-term Insurance: subcategory C; Retail Pension Benefits; Pension Fund Benefits; Securities and Instruments: Shares; Securities and Instruments: Money market instruments; Securities and Instruments: Debentures and securitised debt; Securities and Instruments: Warrants, Certificates and other instruments acknowledging debt; Securities and Instruments: Bonds; Securities and Instruments: Derivative instruments excluding warrants; Participatory Interests in Collective Investment Schemes; Participatory interests in a Hedge Fund; Long-term Deposits; Short-term Deposits and Structured Deposits.
- The information contained in this presentation is factual information and does not constitute financial advice as contemplated in section 1 of the FAIS Act, unless indicated otherwise. Some clients may have appointed S&A to furnish advice. A portion of the presentation may deal with the advice and this will be communicated to the client as such.
- Opinions and views expressed on various issues such as, but not limited to, economic, legal or regulatory overviews during this presentation should not be construed as advice nor should it be construed as express or implied recommendations, guidance, or proposals that any particular transaction in respect of a product or service is appropriate for your particular investment objectives, financial situation, or particular needs.
- Therefore, the opinions expressed during this presentation should not be relied on for the purposes of making any financial, investment or other decision and you should consult with your own independent expert advisor, such as an economist, legal or tax advisor.
- The following employee have been appointed as the primary Key Individual of S&A:
 - Key Individual and Representative:
 - Shainal Sukha
- The above Key Individual meets the fit and proper requirements as set out in the Board Notices to the Financial Advisory and Intermediary Services Act 37, 2002.
- S&A holds professional indemnity insurance cover, in excess of the minimum requirements of our clients.
- Any information disclosed to the authorised representative in their professional capacity will be treated as confidential and will not be disclosed to third parties without written consent, unless the disclosure of such information is required in the public interest or under a particular law.
- S&A has a Conflict of Interest policy in place and this is available on request. We strive to treat all customers fairly and if you feel that your rights have been prejudiced, or you have been aggrieved in any way, you have the right to lodge a complaint. A copy of the complaints process is available upon request.
- Moonstone Compliance (Pty) Ltd is S&A's appointed compliance officer.
- S&A is a signatory of the United Nations Principles of Responsible Investment.

DISCLAIMER

- The information contained in this document or presentation is the property of Sukha and Associates (Pty) Ltd ("S&A"). S&A reserves all proprietary rights to this presentation, including all content, formulas and statistics, used herein. Given that the information represents our intellectual property, it cannot be used or forwarded to another without S&A's prior written consent.
- All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity, unless indicated otherwise. As a result thereof, there may be limitations as to the appropriateness of any information given. Furthermore, all information in this document is intended solely for the use of its intended purpose.
- S&A endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. Data is obtained from various service providers. S&A shall not be liable for any damage, loss or liability of any nature incurred by any party resulting from the errors or omissions caused by incorrect information supplied to S&A. S&A does not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate.
- Performance figures for periods greater than 12 months are annualised. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance cannot be extrapolated into the future and is not an indication of future performance. The value of investments and the income from them may go down as well as up and are not guaranteed.
- S&A acknowledges and has appropriately referenced all sources of information and has used such material in a non-commercial manner without the intent on infringing on the rights of others.
- S&A and its/their employees are hereby indemnified from and against all and any loss, damage, costs and expenses, which may be sustained or incurred directly or indirectly for any damage or loss suffered resulting from any action taken by any person based on this presentation, information provided in it or any discussions relating to it.

Thank you



QUANTIFYING RISK, ENABLING OPPORTUNITY