



**IRF WORKSHOP PRESENTATION:
THE CRISA CODE, RESPONSIBLE INVESTING AND ESG**

MARCH / APRIL 2012

**Brandon Furstenburg
Chief Operating Officer
Mergence Investment Managers
&
IRF Board member**





*Protecting, Promoting, &
Advancing the Interests
of retirement funds
and it's members.*

STRUCTURE OF PRESENTATION

- (1) Introduction to Responsible Investing
- (2) The United Nations Principles of Responsible Investing (UNPRI)
- (3) Definition and Regulation 28
- (4) CRISA (Code for responsible investing in SA) & implementing



INTRODUCTION TO RESPONSIBLE INVESTING

- Why care about responsible investing?
- Returns beyond financial returns (focus often short term)
 - Sustainability
 - Social returns
 - Humans care about the future and their children's future



- Environmental, social and governance issues (ESG) affect the performance of investments
 - **Environment:** Pollution, climate change, sustainable development
 - **Social:** poverty, employment, crime, disease etc
 - **Governance:** good governance improves financial returns; ENRON, WorldCom, Madoff etc failures have social consequences
 - E – S – G factors are interlinked

- ie. Caring / worrying about these issues is important and does matter not just regarding one's conscience but on financial return.
 - “good governance is good business”



*Protecting, Promoting, &
Advancing the Interests
of retirement funds
and it's members.*

UNITED NATIONS PRINCIPLES OF RESPONSIBLE INVESTING (UNPRI)

- A commitment by signatories to incorporate ESG issues and responsible investing into their investment processes and fiduciary duties.
- Hundreds of signatories, including some SA asset managers and pension funds (eg GEPF). Representing more that \$22trillion of institutionally owned assets.
- CRISA code is really the application of the UNPRI in the South African context.
 - The CRISA code also builds on the approach to good governance taken in **King III** and the idea of **integrated reporting**.



REGULATION 28

Preamble

“A fund has a fiduciary duty to act in the interests of its members whose benefits depend on responsible management of fund assets. This duty supports the adoption of a **responsible investment approach** that deploys capital into markets that will earn adequate risk adjusted returns that are suitable to the members’ profile, liquidity needs and liabilities.

Prudent investing should give consideration to any factors that may materially affect the **sustainability** long term returns on a fund’s assets, including factors of an **environmental, social and governance** character. This concept applies across all assets and categories of assets...”



RESPONSIBLE INVESTING DEFINITION (ASISA)

“Responsible investment in an investment practice that intentionally integrates any factor that may materially affect the sustainable performance of an asset or portfolio of assets, including factors of an environmental, social and governance character (ESG)”



RESPONSIBLE INVESTING DEFINITION (ASISA)

Responsible investment practices:

- build wealth in a **sustainable** manner and thereby preserve long term value for the ultimate beneficiaries
- Help align investor's objectives with stakeholders and the broader **developmental** needs of society
- Enhance delivery of long-term returns while reducing down-side risk
- **Disclose** responsible investment activities to stakeholders through regular reporting

Responsible investment, SRI and ESG issues are gaining massive recognition & momentum!



CRISA CODE

Who does it apply to?

Institutional investors (eg. retirement funds; insurance companies)

Service providers to institutional investors (eg. asset managers)

When did it come into effect?

1 February 2012

Do I sign up? Is it mandatory?

No. It is a voluntary code. In essence, trying to establish a “best or good practice”

Who is going to be checking implementation?

CRISA committee and industry bodies.

You can download a copy of the CRISA code from:
www.iodsa.co.za





*Protecting, Promoting, &
Advancing the Interests
of retirement funds
and it's members.*

CRISA CODE – 5 PRINCIPLES

(1) Incorporate responsible investing (including sustainability, ESG) into investment decision making and analysis

Possible actions:

- Develop a **policy on sustainability**. How do the companies you / your asset manager invest in incorporate sustainability and ESG issues?
- Is there a sustainability report by the Company?
- How does your asset manager **incorporate sustainability & ESG issues**; Is ESG ingrained in their philosophy & investment process? How does he/she monitor them on your behalf?



*Protecting, Promoting, &
Advancing the Interests
of retirement funds
and it's members.*

CRISA CODE – 5 PRINCIPLES

- Does asset manager consider ESG factors for **non-equity classes**?
- Have you incorporated sustainability / ESG into your **investment policy statement**?
- Obtain **feedback** from your asset manager on implementation periodically (ie. Monitor compliance)



CRISA CODE – 5 PRINCIPLES

(2) Demonstrate active ownership

Possible actions:

- Do you **exercise ownership responsibilities**? Is there a policy on how you will exercise them, or how you wish your asset manager to exercise them on your behalf?
- King III compliance; ESG issues at company level; proxy voting
- Reporting on proxy voting



*Protecting, Promoting, &
Advancing the Interests
of retirement funds
and it's members.*

CRISA CODE – 5 PRINCIPLES

- What is your stance on issues (eg executive remuneration) – is it fair and reasonable?
- Do you or your asset manager **engage Company management**?
- Does your **mandate** address sustainability and ESG issues?
- Even a passive investment strategy doesn't mean you don't vote!



CRISA CODE – 5 PRINCIPLES

(3) Collaborative approach to acceptance and implementation of CRISA and other relevant codes

Actions:

- Step 1! Review your **current practices** on ESG and responsible investing
- Do you or your asset manager engage others in implementing the CRISA code? Are there other standards / codes of good practice also applicable and have you taken them into account (eg. PF130)



CRISA CODE – 5 PRINCIPLES

(4) Declare & manage conflicts of interests

Actions:

- Should already have a **conflict of interest policy** in place (manage, avoid, address conflicts). Are you monitoring compliance?
- Does your asset manager have one? Do they avoid conflicts when they invest on your behalf? Can they assure you?



CRISA CODE – 5 PRINCIPLES

(5) Disclosure & transparency

Actions:

- “**Apply or explain**” basis of application
- Disclosure of how your fund / asset manager are complying with CRISA.
- Proxy voting (voting records) for example, should be **published**. (eg. on website)
- Get information on how your asset managers engaged with Companies – are you satisfied it was sufficient?
- If you are invested in SRI funds / products you should be asking for impact metrics (eg. jobs created; carbon reduced etc). The 5 Principles would apply even more acutely.



END OF PRESENTATION

Thank You.

Brandon Furstenburg

Contact details:

brandon@mergence.co.za

(021) 433 2960

