

What is the colour of your money?

Reflections on sustainable investment

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Leaderex 2017

JSI

Did you know?



- Electronic communication and the internet have actually resulted in the cutting down of more trees
- Reusing plastic water bottles can be a health hazard and not a nifty way of recycling
- In the last 100 years, more than 50 species of animals have died off because of our impact on the globe
- The volume of waste deposited to landfill continues to grow
- If you are using recycled paper, there is 99% less water and 50% less energy used in the production process compared to new paper

How long term do we think?



- **What we do today, matters for tomorrow**
 - The world's future political, economic, social and environmental landscape lies in present day activities
 - Decision makers need to understand that nature, society and business are interconnected in complex ways
- **Economic growth versus environmental health**
 - Can we develop at the expense of the environment?
- **Environmental damage to economic significance/contribution**
 - How to solve the problem, large paybacks from large companies?

The world we live and invest in



- **Global economy characterised by global value chains (GVC)***
 - Trade in goods and services fragmented and internationally dispersed
 - Development contribution can be significant
 - ✓ Positive correlation between GDP growth and GVC participation in developing countries
 - ✓ Jobs, income, capacity, skills, technology

- **Capital markets play an important role in economic development****
 - Facilitate the reallocation of capital across economic value chain
 - Aiming to ensure financing and facilitation of valuable businesses / projects
 - Assumes that all relevant factors are incorporated into investment, lending and insurance activities

But what drives investment?

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- Mantras of the 20th century

*The business of
business is business*

Greed is Good



*What's worth
doing is worth
doing for money*

Show me the money!

Investment must change



- **Traditional focus on financial return, short-term result**
- **Whose money is it anyway?**
 - Democratisation of ownership
 - Natural long-term inclination
 - Fiduciary duty to ensure sustainable value of investments
- **Company issues become investor issues**

Responses: Global developments



- **International commitments to change**

- Sustainable Development Goals
- Paris Agreement
- G20 committing to setting policy architecture for green finance
- UNEP Inquiry reviewing rules of the financial system, make recommendations around alignment of financing and outcomes
- Sustainable Banking Network
- Reporting and disclosure initiatives

Global Investor Responses



Signatories	Global	South Africa
Asset Owners	325	7
Investment Managers	1066	36
Service Providers	213	11
Total	1604	54

- **PRI definition of responsible investment**
 - ❑ Relevance of ESG factors to long-term health and stability of market
 - ❑ Long-term sustainable return dependant on stable and well-governed social, economic and environmental systems
 - ❑ Effective research and analysis of ESG issues fundamental part of assessing value and performance of an investment
 - ❑ Should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting
- **Sustainable Stock Exchanges Initiative**

Local responses

- **Pension Funds Act Regulation 28**
- **CRISA**
 - July 2011
 - 5 principles around incorporation of ESG into investment
 - Voluntary
- ***Responsible Investment and Ownership – A Guide for Pension Funds in South Africa***
 - September 2013
 - Sustainable Returns for Pensions and Society project
- **King IV**
 - Enhanced focus on responsible investment and role of institutional investors

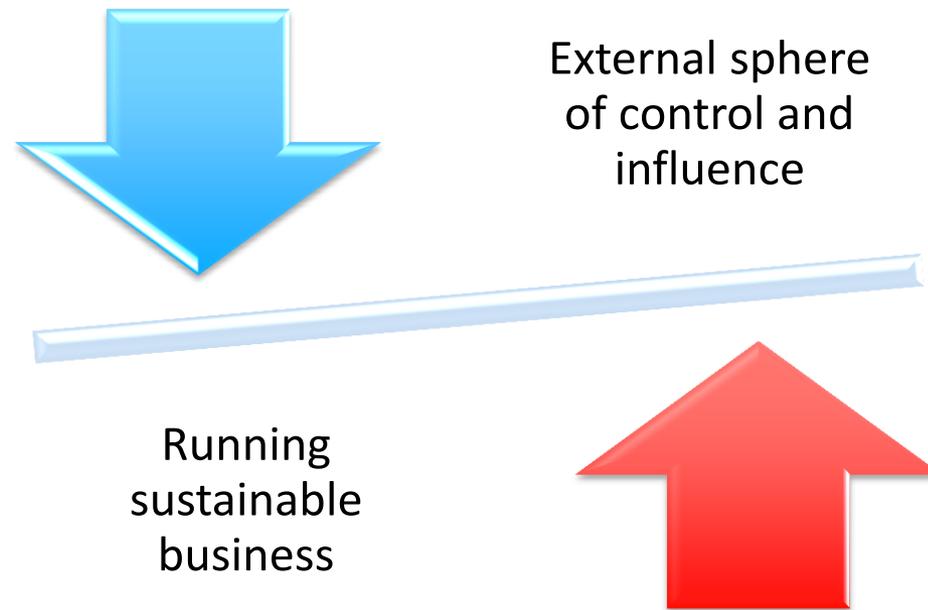
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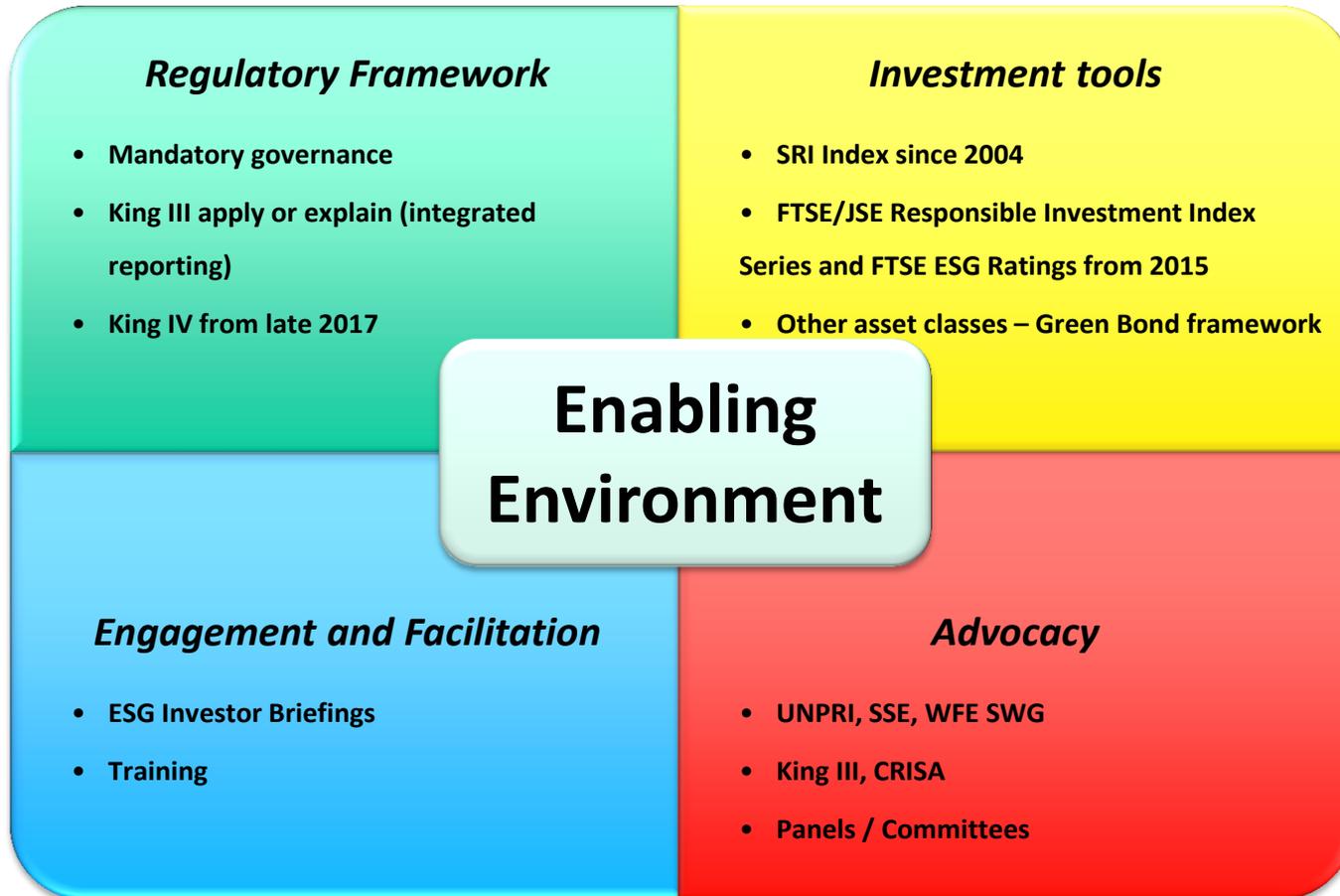


So where does the JSE fit in?

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- Central player in local economy, global reach
- Sustainability is multifaceted, requires balancing various pressures





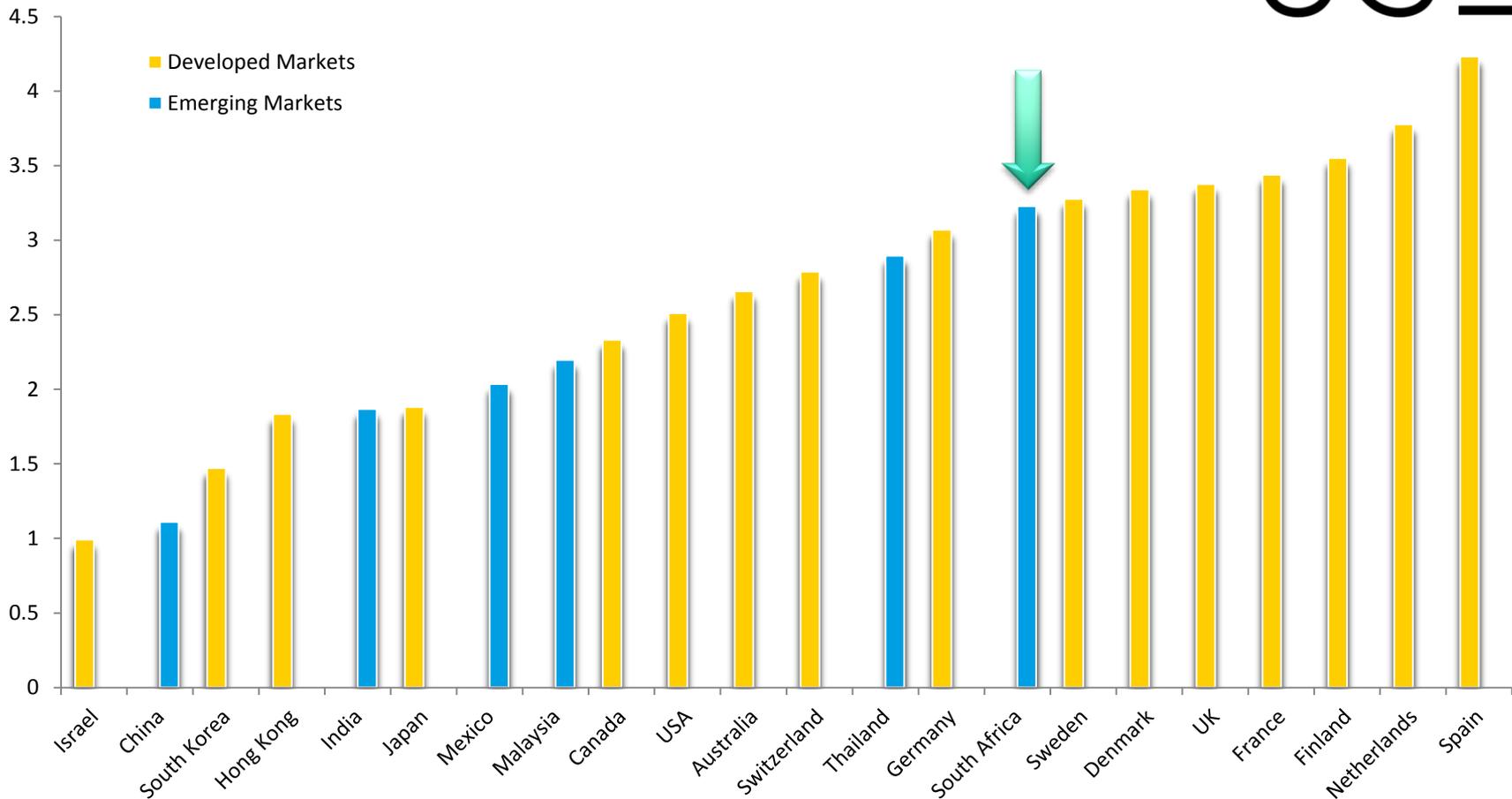
FTSE/JSE Responsible Investment Indices



- **Index Series launched October 2015**
 - ❑ Assesses ESG disclosure
 - ❑ Applies FTSE Russell ESG Rating
 - ❑ Focus on investor usability and access to data
- **FTSE/JSE Responsible Investment Index**
 - ❑ Benchmark index, market cap weighting, end of day
 - ❑ Minimum rating threshold for entry
- **FTSE/JSE Responsible Investment Top 30 Index**
 - ❑ Tradable Index, equal weighting, real time
 - ❑ Top 30 companies by FTSE ESG Rating

Average FTSE ESG Rating by country

Europe demonstrates strong ESG Ratings and South Africa leads Emerging Markets



All Medium and Large cap companies in FTSE ESG universe

(excluding those in countries with fewer than 10 stocks with updated scores: Austria, Belgium, Brazil, Chile, Czech Republic, Egypt, Greece, Indonesia, Ireland, Italy, New Zealand, Norway, Pakistan, Philippines, Poland, and Portugal, Russia, Singapore, Taiwan, Turkey, and UAE)

Company performance trends



- **Since 2015, consistent increase in ratings for JSE-listed companies**
 - New constituents enter RI Index at every review - despite entry threshold increase

- **ESG Ratings methodology uses global best practice**
 - Companies have had to adapt to ensure greater transparency across global themes
 - Focus on collecting quantified performance data

- **Theme performance**
 - Performance in the Governance theme remains very strong
 - A lot of focus on improving in climate change, labour relations and health and safety
 - Need for greater focus on supply chain and specialist sector areas

Green your money: Impact and opportunity



- **FTSE/JSE RI Indices offer channel between responsible investors and companies that have transparent practices – enhances accountability**
- **Helps companies along the path of sustainability - enables the assessment of risks and opportunities in this area**
- **Increasing evidence that it improves return**
 - Portfolios incorporating ESG criteria equal or outperform market benchmarks over the long term
 - Firms with good performance on material sustainability issues significantly outperform firms with poor performance on these issues

What can you do?



- **Speak to your pension fund about their policy on integrating sustainability**
- **Approach your broker about investment opportunities in responsible investment products such as the RI Index Series and Green Bonds**
- **Talk to the JSE about:**
 - Our growing product range
 - Opportunities to learn more about what companies do
 - Contact info@jse.co.za

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