OPINION

CAN INVESTORS MAKE RESPONSIBLE INVESTING MAINSTREAM?

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By taking a more active interest in the management of their portfolios, socially conscious investors can make the market more responsible and earn profit with principle.

Sustainability issues are front of mind in South Africa today, as the country attempts to address the interrelated challenges of climate change, urban development and access to resources. Both business and government are active in laying the groundwork for change, but individuals also have a role to play.

By choosing to put their money where their principles are, to support sustainable projects, organic options and fair trade businesses, every person with an investment portfolio can now drive change.

An instrument for social change

Global trends show that socially responsible investors are increasingly attracted to portfolios that align their ethics with their investments. According to a recent survey from PricewaterhouseCoopers (PwC) of US asset managers with a significant portion of investments in markets across the globe, four out of five international investors have considered these concepts in one or more investment contexts in the past year. About 85% said they expected to consider them three years from now.

A new study from the UCT Graduate School of Business (GSB) backs this up. In a survey of 100 full-time retirement-fund-contributing employees and fiscal beneficiaries at the GSB, 77% believed their investments could be used as an instrument for social change. If presented with the opportunity to do this, through a Sustainable and Responsible Investment (SRI) portfolio for example, more than 65% said they would most probably sign on.

But according to the PwC report, a lack of options and poor corporate reporting about sustainability are preventing investors from acting on their beliefs. "They are still not getting the information they're looking for. Investors want to be a part of the sustainability dialogue. And they want direct engagement with the companies in which they invest," write the authors of the report.

The role of financial planners and employers

More genuine dialogue is also needed between investors and their financial planners. According to the GSB study, limited engagement between the two parties is preventing conversation about SRI, and as a result the market for SRI products remains under-developed.

The study found 69% of respondents with an active retirement portfolio had simply expected their trustees to take into account ethical, environmental, social and governance criteria when investing their funds. But that doesn't mean employees have confidence in their appointed trustees. More than 82% of respondents were concerned about the kinds of portfolios in which their retirement funds were invested.

The GSB study further suggests that part of the problem is that the structure of modern retirement fund plans makes it difficult for even the most socially minded investor to direct the make-up of their portfolio.

In the defined-contribution model of retirement fund investment, which has become widespread all over the world, fixed contributions are paid into an individual account by both employers and employees. These funds are then invested, in the stock market for example, and returns – whether they are positive or negative – are credited to the individual's account.

Despite the fact that the employee in a defined-contribution plan has the right to direct investment decisions, the employer retains a significant degree of fiduciary responsibility over the investment of plan assets, including the selection of investment options and financial providers. Thus, the make-up of their portfolio is left to full-time professionals appointed by the employer, whose aim may be to secure the best financial performance rather than ensure ethical practices.

The principles for responsible investment

The push for employers to act responsibly in their investments hit headlines in the US earlier this year. In April, nearly 100 members of Harvard's faculty signed an open letter to the university president and fellows calling for a divestment of the oil, gas, and coal holdings in its $33-billion endowment. Harvard, which has the largest university endowment in the US, was the first university in the world to become a signatory of the UN's Principles for Responsible Investment (PRI) in 2014.

The Principles for Responsible Investment were launched by Kofi Annan in 2006 at the New York Stock Exchange. The six aspirational principles include commitments to incorporate environmental, social and governance issues into investment decision-making and ownership practices. Signatory institutions also commit to encouraging transparency from the entities in which they invest, and to being transparent themselves. Since their launch in 2006, numbers have grown from 560 global investment institutions to 1 200 signatories who manage assets valued at approximately $34 trillion.

As noted by James Gifford, senior fellow at the Initiative for Responsible Investment at the Harvard Kennedy School, the PRI have a strong focus on shareholder engagement – that is, engaging proactively with investee companies on environmental and social issues.

Issues in which to invest

Divestment of fossil fuel is becoming the flagship of a new generation of SRI activists. In a *Guardian* editorial just days before this year's Intergovernmental Panel on Climate Change report was released, Archbishop Emeritus Desmond Tutu called for an anti-apartheid-style boycott and disinvestment campaign against the fossil fuel industry for driving global warming.

"People of conscience need to break their ties with corporations financing the injustice of climate change," he wrote. "We can actively encourage energy companies to spend more of their resources on the development of sustainable energy products."

Gifford says that climate change is hugely important and disinvestment can be a powerful tool to tackle it, but there are also many other challenges that responsible investors can engage with investee companies on, including human rights and labour standards in supply chains, gender diversity on corporate boards, anti-corruption, biodiversity loss, excessive executive remuneration, and conflict minerals, for example.

The more widespread SRI becomes, the more inclusionary it becomes. As managers of sustainable and responsible investment funds begin to see greater value in the practice, they will seek out and engage with companies that strive to minimise their carbon footprint, for instance, or companies that actively promote good corporate governance, or that invest in low-income communities and inclusive businesses.

In South Africa, the value of SRI does not have to come from international trends or news headlines. With Africa's biggest institutional investment market, the country has a total of R4-trillion assets under management, of which retirement funds represent about half. This is a substantial sum with which to send a message of change.

After all, there is money to be made from sustainable and responsible investments, but the only way to prove that is to demand it is done. Whether that means engaging with employers on their practices, or taking the reins on their personal portfolio, investors are the ones who can move SRI into the spotlight and from niche to mainstream investing.

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