Local managers respond to Fossil Free SA's call for fossil fuel-free funds

The asset managers that the campaign will target are Allan Gray, Coronation Fund Managers, the Government Employees Pension Fund, Old Mutual, the Public Investment Corporation, Sanlam and Stanlib.

Justin Brown 22 February, 2021 at 04:30

Non-profit organisation Fossil Free South Africa (FFSA) is putting together petitions that it will submit to large local fund managers urging them to offer funds free of fossil fuels.

The institutions that the campaign will target are Allan Gray, Coronation Fund Managers, the Government Employees Pension Fund (GEPF), Old Mutual, the Public Investment Corporation (PIC), Sanlam and Stanlib.

'No retail interest'

'We want asset managers to give retail investors the option of avoiding fossil fuels,' said FFSA coordinator David le Page (pictured).

'We do not rule out the usefulness of ESG funds,' he added. 'We encourage people to invest in those funds as an interim step. Most of the local ESG funds we are aware of are indexed based on offshore assets. [But] there are no South African equity funds that are fossil fuel-free.'

He said that these asset managers had however indicated that their clients were not interested in funds free of fossil fuels.

'We want to show that people want to divest from fossil fuels,' said Le Page.

‘We understand that this is probably a small minority, but a growing one.’

When FFSA talked to asset managers about divesting, Le Page said that their response was that if they divested, then they could not engage with the company concerned.

‘Our response is: show us the evidence that your engagement produced results.’

He added that evidence showed that exiting fossil fuel investments improved returns.

‘Asset managers accommodate Sharia-compliant investors in South Africa,’ Le Page said. ‘I think there is a good reason for them to accommodate people with an ethical concern about climate change.’

‘Growing demand for sustainability outcomes’

Old Mutual Investment Group head of responsible investment Jon Duncan (pictured) said that the group had pioneered local sustainability and lowcarbon listed equity products.

‘We are well aware of the growing demand for funds that capture various sustainability outcomes. Last year we launched the Old Mutual ESG Equity fund, which is mandated to achieve a 40% reduction in carbon intensity relative to the Capped Swix.

‘For that fund we have not adopted a hard exclusionary approach and this position is informed by the idea of a just transition. We recognise the social dimension of a hard stop to fossil fuel use.’

Duncan said he nevertheless saw the potential merit of some investors adopting a hard exclusionary investment approach to producers of fossil fuels.

‘We do not offer fossil-free funds’

Allan Gray ESG analyst Raine Naude (pictured) said that the asset manager’s funds had broad mandates such as equity, balanced and stable to keep its offering simple.

‘While we do not offer fossil fuel-free funds, we take our responsibility as stewards of our clients’ capital seriously. We integrate ESG factors into our investment research and engage with companies on their approach to climate change as well as other environmental and social impacts,’ she said.

‘To accommodate clients such as FFSA, we have added a non-Allan Gray specialist ESG fund to our offshore platform, which does not invest in fossil fuel companies. We communicated this to FFSA in early 2020.’

Coal mining companies targeted

Le Page said that the companies that FFSA would like excluded from any local fossil-free funds were those included in the Carbon Underground 200. This is an index of the the top 100 coal and 100 oil and gas publicly-traded reserve holders globally. They are ranked by the potential carbon emissions in their reported mineral reserves.

The South African companies with the highest exposure to fossil fuels are African Rainbow Minerals, Anglo American, BHP Billiton, Exxaro, Glencore and Sasol.

‘Those are the companies in South Africa that present the biggest risk.’

‘Not a binary approach‘

Ducan said in response to FFSA’s call for the exclusion of these companies that the fund managers within the Old Mutual Investment Group did not, as a rule, take a ‘binary approach’ to ESG issues.

‘If any of our large clients wanted to have hard exclusions and included that in their mandate, we would fulfil it,’ he said. ‘There may come a time when these [fossil fuel] companies become uninvestable. We are acutely aware of that.’

Allan Gray’s Naude said that the JSE was ‘small and concentrated’ and the fund manager did not think exclusions of sectors were in their clients’ best interests.

‘The top 40 JSE-listed companies, which includes many fossil fuel-related companies, accounts for 80% of the JSE’s total market capitalisation,’ she said.

Carbon reduction

Le Page added that companies that any fossil-free fund should include would be those that committed to reducing their carbon emissions by 7% a year.

This is because the United Nations (UN) Environment Programme showed that, to prevent the globe warming by over 1.5 degrees, the world needed to cut emissions by 7.6% every year from 2021 to 2030.

Response from other fund managers

The PIC and Sanlam Investments did not respond directly to the questions sent by email. Instead, they issued statements about their ESG positions.

PIC spokesperson Sekgoela Sekgoela said: ‘As a signatory to the UN Global Compact and Principles for Responsible Investment, the PIC is committed to the 2030 Sustainable Development Goals and considers ESG factors in its investment decisions.’

Sanlam Investments ESG analyst Jonathan de Pasquallie said that ESG was a focus, and that the group had partnered with asset manager Robeco to enhance its commitment to sustainable investment practices.

Coronation Fund Managers spokesperson Fiona Kalk declined to comment about the FFSA campaign.

The GEPF and Stanlib both did not respond to questions sent by email.