SUSTAINABLE FINANCE

FSCA and IFC Webinar
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Agenda

1. Who is the GEPF
2. GEPF’s Approach to Responsible Investing
3. How the GEPF invests
4. Green assets
5. Research
6. Sustainable development goals
7. Conclusion
Who is the GEPF?

- Largest Pension Fund in Africa
- 480,615 pensioners and beneficiaries
- 1.2 million contributing members
- ZAR 1.8 trillion
- Founding signatory (2006)
GEPF’s Approach to Responsible Investing

**STRATEGIC**
- Responsible Investment Policy

**TACTICAL**
- RI Management Framework

**OPERATIONAL**
- ESG Investing Integration
- Engagement
- Collaboration
- Thematic Reporting
GEPF Responsible Investment Policy

- Investment screening using ESG factors as part of due diligence
- Monitor the ESG activities of companies
- Evaluate ESG risks
- Measure how companies improve over time
- Create a dialogue for deeper ESG engagement
- Engage with companies when risks are identified
- Report to all stakeholders
HOW DO WE INVEST

RESPONSIBLE INVESTING POLICY APPLIED TO ALL ASSET CLASSES

LISTED EQUITY
PRIVATE EQUITY
BONDS
PROPERTY
CASH

LISTED INVESTMENTS
UNLISTED INVESTMENTS
DEVELOPMENTAL INVESTMENTS
## NEXUS

The economy’s largest investor and the goal of investing for financial return and positive social, economic and environmental return

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<thead>
<tr>
<th>Step</th>
<th>Question</th>
<th>Answer</th>
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<tbody>
<tr>
<td>01</td>
<td>What do you believe in?</td>
<td>Dual goals of investing for financial return and positive social, economic, environmental return</td>
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<tr>
<td>02</td>
<td>What cannot you comprise on?</td>
<td>Financial returns</td>
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<td>03</td>
<td>What are the needs?</td>
<td>What are the key economic and social developmental needs of South Africa?</td>
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<td>04</td>
<td>Evidence</td>
<td>Is there lack of funding shortfall in any of these areas?</td>
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<td>05</td>
<td>Execution</td>
<td>Which asset class?</td>
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WHERE IS THE GEFPF

A Quick Breakdown

- R440 million
- R4.4 billion
- R5.1 billion
- R2 billion
- 50% R23 billion
- R5 billion

Wind
Solar
Renewable Energy
Environmental Sustainability Fund
Energy Fund
IDC Green Bond

Monitored via Mandate
If we knew what it was we were doing, it would not be called research, would it?

— Albert Einstein —
WHAT DO THE FACTS SAY?

Widely accepted finance theories are concerned with systematic and not idiosyncratic risks (Jackobsson and Lunberg, 2018).

The exploration for a positive correlation between ESG criteria and financial performance can be found in the early 1970s (Friede et al., 2015).

Companies with high ratings for ESG and corporate social responsibility have a lower cost of capital in terms of debt and equity (Deutsche Bank, 2012).
WHAT DO THE FACTS SAY?

2,250 ESG and financial performance academic studies that have been published since 1970 which resulted in 90% of these studies displaying a positive ESG - financial performance relationship.

Companies which perform better in ESG factors present less risk than companies within the same industry through lower volatility in their stock performance.

ESG practices improve the risk-adjusted return investments hypothesizing that lower risks mean higher returns.

University of Hamburg & Deutsche Bank 2015

Kumar et al., (2016)

Kumar et al., (2016)
The Evolving Risks Landscape: Likelihood

The economic cost of climate change could be equal to a 5-10% decrease in global gross GDP. The impact on the environment and health will cause a 20% reduction in per capita consumption. Developing countries in excess of 10% will be disproportionately affected.
Climate risks are increasing the cost of capital for developing countries: for every ten dollars these countries pay in interest payments, an additional dollar is due to climate vulnerability [and further] exacerbate the economic challenges already faced by poor countries around the World.

UN Environment Programme, 2018
YOUR PORTFOLIO

“Energy sub-sectors, utilities, and materials will have the most impacts. The minimum impact for the coal sub-sector is likely to be a reduction in expected returns from 6.6% p.a. to 5.4% p.a. averaged over the next 35 years.

Mercer, 2015

Image Source: David Goldman, LA Times, 2016
“There is increasing recognition, however, that investors have so far given insufficient attention to the social consequences of climate change.”

Climate change and the just transition: a guide for investor action, 2018
WHY CLIMATE CHANGE?

Food Security  Water Security  Economic Inequality  Social Inequality  Poor Infrastructure

(UNFCCC, 2011; IPCC, 2018; Amnesty International, 2019)
THE RISKS

South Africa is 10% - 20% poorer

Diffenbaugh & Burke (2019), Stern (2006:92)
A NEW WAY: MAINSTREAMING OF SDGS INTO INVESTMENT
CONCLUSION

ITERATIVE PROCESS

QUANTITATIVE & QUALITATIVE MEASURES

01. BELIEFS
   WHAT DO YOU BELIEVE IN

02. FACTS
   WHAT DO THE NUMBERS SAY

03. RESEARCH
   RISKS TRENDS

04. STRATEGY
   SET STRATEGY POLICY DEVELOPMENT FRAMEWORK DEVELOPMENT CAPACITY BUILDING

05. EVALUATE
   MONITOR EVALUATE ACTIVE OWNERSHIP
THANK YOU

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