SUSTAINABLE FINANCE PRACTICES IN SOUTH AFRICAN RETIREMENT FUNDS

Opportunities to unlock investment in green and climate finance and support a resilient economy

Tuesday, 8 December 2020
Overview

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3. Profile of respondents
4. Nascent interest in green and climate-focused finance
5. Investments in sustainability-themed bonds
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9. Capacity building needs
74%  
Percentage of retirement assets under management that responded to the 2020 FSCA-IFC Sustainable Finance Survey

R40bn  
Current reported investments by retirement funds in green assets

R4.26tn  
Total assets under management (AUM) by SA retirement funds

81%  
Weighted percentage of responding retirement funds that have invested in renewable energy

99%  
Weighted percentage of responding retirement funds that have an investment policy statement which integrates the management of environmental, social, and governance (ESG) aspects of investments.

82%  
Weighted percentage of responding retirement funds that would be willing to increase allocations to green and climate-focused investments.
## Main challenges and opportunities

<table>
<thead>
<tr>
<th>Challenges identified</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. There is a lack of agreed and consistent industry <strong>definitions</strong> and <strong>data</strong> for tracking green, social, and sustainability-focused assets and investments.</td>
<td>An agreed national taxonomy for green, social, and related sustainability-focused finance would facilitate harmonized monitoring and reporting, which could reduce the costs and increase the value of data provided to retirement funds.</td>
</tr>
<tr>
<td>2. There is insufficient pipeline of green, climate, and sustainability-focused investments that meet the requirements of funds (e.g., sufficient projects, good governance, liquidity).</td>
<td>A suitable pipeline is needed to match the growing interest and appetite among South African retirement funds to allocate capital to sustainable assets.</td>
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<tr>
<td>3. Constraints were expressed by pooled and retail funds in being able to influence ESG mandates of investments.</td>
<td>There is a need for coordination between retirement funds and asset managers to agree on collective ambitions.</td>
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<tr>
<td>4. Green and climate-focused investing aspirations need to consider social development in South Africa’s economy.</td>
<td>More than half of funds indicated a willingness to reduce their exposure to coal-related assets and increase allocations to green and climate-focused finance. This needs to be achieved through a just and gradual transition and related job creation in new green sectors.</td>
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<tr>
<td>5. Integration of ESG and sustainable finance strategies requires new expertise.</td>
<td>Continued efforts are needed to build awareness and capacity among retirement fund trustees, principal executive officers, asset consultants, and asset managers.</td>
</tr>
</tbody>
</table>
Profile of respondents

- 139 respondents answered a questionnaire from February – August 2020
- R3.1 trillion in AUM, representing approx. 74% of the industry assets

Q5: What is your role in the pension fund?

n=138
Profile of partial respondents

22 funds (with R111 bn AUM) did not respond to the survey but sent letters with important insights.

Their top reasons for not submitting the survey:
1. Fund strategy
2. Scarcity of detail
3. Availability
4. Time and cost
5. Relevance

3.1.3.1 Fund types and subtypes

- Private: 85%
- Underwritten: 15%

- Ordinary: 45%
- Preservation: 35%
- Umbrella: 20%
Funds’ approach to green/climate-focused finance

Most of the funds surveyed do not have a specific policy that supports investments in green/climate finance. This is accentuated on a weighted basis.

Q41: Does your fund have a specific policy (or component of an IPS) that supports investment in green and/or climate finance?
Green/climate assets

Renewable energy is the most popular category for green investment, with one third of funds indicating they invest in large renewable energy generation, 22% investing in smaller projects off-grid projects, and 21% in green buildings.

Q45: Which of the following green/climate assets does your fund invest in? Select all that apply. n=102
Green/climate assets investment allocation

<table>
<thead>
<tr>
<th>Green/climate investments</th>
<th>Amount (R’ billions)</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total value from</td>
<td>Number of</td>
</tr>
<tr>
<td></td>
<td>responses</td>
<td>respondents</td>
</tr>
<tr>
<td>Utility scale renewable energy generation</td>
<td>28.91</td>
<td>89</td>
</tr>
<tr>
<td>Public transportation</td>
<td>4.41</td>
<td>94</td>
</tr>
<tr>
<td>Green building/ green housing</td>
<td>2.89</td>
<td>91</td>
</tr>
<tr>
<td>Green/ climate smart water management</td>
<td>1.38</td>
<td>91</td>
</tr>
<tr>
<td>Small off-grid renewable energy generation</td>
<td>1.26</td>
<td>90</td>
</tr>
<tr>
<td>Waste management</td>
<td>1.18</td>
<td>90</td>
</tr>
<tr>
<td>Climate resilient agriculture</td>
<td>0.41</td>
<td>91</td>
</tr>
<tr>
<td>Industrial energy efficiency</td>
<td>0.32</td>
<td>90</td>
</tr>
<tr>
<td>Electrical vehicles</td>
<td>0.24</td>
<td>90</td>
</tr>
<tr>
<td>Forestry</td>
<td>0.22</td>
<td>90</td>
</tr>
<tr>
<td>Renewable energy equipment manufacturing</td>
<td>0.10</td>
<td>90</td>
</tr>
<tr>
<td>Smart-grids</td>
<td>0.05</td>
<td>89</td>
</tr>
<tr>
<td>Climate-smart water management</td>
<td>-0.73</td>
<td>90</td>
</tr>
</tbody>
</table>

Q49-Q61: If available, please indicate the amount that your fund invested in waste management/ utility scale renewable energy generation/ small off-grid renewable energy generation/ public transportation/ climate-smart water management / electric vehicles/ green building / green housing/ smart-grids/ renewable energy equipment manufacturing/ industrial energy efficiency / climate resilient agriculture /green/climate friendly supply chains/ forestry in the last reporting period.
If your fund invests in utility scale renewable energy generation, please indicate the types of renewable energy from the list below (select all that apply)

- Wind: 64%
- Solar: 57%
- Biomass: 7%
- Small hydro: 15%
- Geothermal: 4%
- Other/unknown: 36%

Most of the funds invest in wind and solar renewable energy. Fewer funds invested in geothermal compared to the other assets.
Current exposures to coal value chain

Most funds invest in coal mining, coal logistics, and/or coal fired power plants.

Q62: Does your fund currently invest in coal mining, coal logistics (e.g. transport), and/or coal fired power plants?
Current exposures to coal value chain

<table>
<thead>
<tr>
<th>Investments</th>
<th>Amount (R’ billions)</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total from responses</td>
<td>Number of responses</td>
</tr>
<tr>
<td>Coal mining</td>
<td>10.99</td>
<td>97</td>
</tr>
<tr>
<td>Coal fired power plants</td>
<td>4.69</td>
<td>92</td>
</tr>
<tr>
<td>Coal logistics</td>
<td>2.02</td>
<td>94</td>
</tr>
</tbody>
</table>

Q63-Q65: If you answered “Yes” to the question above, please indicate your fund’s total investment exposure to coal mining/coal logistics (e.g. transport)/ coal fired power plants as of the end of the last reporting period.
A greater number of the retirement funds do not invest in green, social, or sustainability-themed bonds.

Q67: Does your fund invest in bonds that have been officially labelled as green, social, or sustainability-themed in line with a recognized standard?

Q68-Q71: If you answered "yes" to the question above, please indicate your fund’s total investment exposure to green/social/sustainability/vanilla bonds as of the last reporting period.
Reducing exposure to coal-related investments

Q80: Would your fund be willing to commit to reduce its exposure to coal-related investments? (e.g. due to climate change impacts or risk of stranded assets)

Larger retirement funds are more committed to increasing their allocation to green and climate-focused investments.

Q81: Would your fund be willing to commit to increasing its allocations to green and climate-focused investments?

The majority of the retirement funds are willing to increase their allocations to investments with positive social impact

Q82: Would your fund be willing to commit to increasing its allocations to investments with positive social impact?

n=127

n=119

n=127
Alignment with official targets under Sustainable Development Goals

A majority of the retirement funds have not yet aligned with any of the targets under Sustainable Development Goals.

Q85: Has your fund aligned with any of the 169 official targets under the 17 Sustainable Development Goals (SDGs)? You can access these targets here: [http://tiny.cc/cy9ljz](http://tiny.cc/cy9ljz)  
n=127

Medium to long term support for pledge by the South Africa pension fund sector on sustainability-focused investments

The majority of the respondents are willing to support a collective target or pledge by the SA pension fund sector on sustainability-focused investments in the medium to long term.

Q89: Would your fund support a collective target or pledge by the South African pension fund sector on sustainability-focused investments by 2025 and 2030?  
n=118
Funds with an IPS that includes ESG integration

Q24: Does your fund have an investment policy statement (IPS) that includes how its investment philosophy and objectives seek to ensure the ESG sustainability of its assets?  
\( n=127 \)

ESG monitoring

Larger retirement funds have IPS that detail how they make and monitor strategic decisions about ESG sustainability.

Q30: Does your fund's IPS include details on how the fund intends to monitor, evaluate, and make strategic decisions about the ongoing ESG sustainability of the assets which it owns and which it is intending to acquire?  
\( n=129 \)

ESG Active Ownership

Larger funds include Active Ownership policy in their IPS compared to the smaller funds.

Q31: Does your IPS include an Active Ownership policy? This refers to your fund’s approach to identifying sustainability concerns related to assets and engaging with responsible parties to address those concerns, such as by voting at shareholder meetings or engaging directly with investee companies.  
\( n=128 \)
Q34: Does your fund have any of the following elements in place to implement an ESG integration strategy? Select all that apply

n=127

When implementing an ESG strategy, funds mostly engage in periodic review of ESG risks at portfolio level, followed closely by having a formal inclusion of ESG integration in asset manager mandates.
Other key findings to explore

• For green/climate investment, funds say they lack **products and pipeline**, and have difficulty in **monitoring and reporting**.

• Retirement funds are starting to ask asset managers to align with **Sustainable Development Goals**.

• For ESG integration, retirement funds say they are most limited by poor-quality **data**, followed by lack of **best practice guidelines**.

• Funds say they require support to establish **appropriate monitoring and reporting systems** and **systems to assess ESG risk**.
Thank you

Any questions?

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