




# SUSTAINABLE FINANCE PRACTICES IN SOUTH AFRICAN RETIREMENT FUNDS

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

IN PARTNERSHIP WITH



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*Creating Markets, Creating Opportunities*

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This report was produced by IFC, part of the World Bank Group, on behalf of the Financial Sector Conduct Authority (FSCA) of South Africa. It is based on a joint survey of South African retirement funds between January and August 2020. Analysis and report preparation were undertaken by Intellidex.

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**Cover image:** Family Gathering for a Group Hug by August de Richelieu

**Financial Sector Conduct Authority and IFC**

# Sustainable Finance Practices in South African Retirement Funds

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

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December 2020

An initiative of IFC's Green Bond Market Development Program in partnership with the Swiss State Secretariat for Economic Affairs (SECO) and Swedish International Development Cooperation Agency (Sida)



The Financial Sector Conduct Authority (FSCA) is the market regulator in South Africa of financial institutions that provide financial products and financial services; financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds, retirement fund administrators, and market infrastructures.

The FSCA aims to enhance and support the efficiency and integrity of financial markets and to protect financial customers by promoting their fair treatment by financial institutions, as well as providing financial customers with financial education. The FSCA will further assist in maintaining financial stability.

In June 2019, the FSCA published Guidance Notice 1 of 2019 relating to sustainability of investments and assets in the context of a retirement fund's investment policy statement (GN 1 of 2019) to provide guidance to boards of retirement funds on how to comply with Regulation 28 of the Pension Funds Act, No. 24 of 1956 (Regulation 28), including how a fund's investment philosophy and objectives, as reflected in its investment policy statement, should seek to ensure the sustainability of its investments and assets. GN 1 of 2019 also sets out the FSCA's expectations regarding certain disclosure and reporting requirements relating to sustainability.



IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. IFC works in more than 100 countries, using its capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2020, IFC invested \$22 billion in private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity. For more information, visit [www.ifc.org](http://www.ifc.org)

IFC is also a global leader in developing and applying environmental, social and governance (ESG) standards to financial sector transactions, and has been one of the earliest and leading green bond issuers and an investor in green bonds in emerging markets. IFC is a founding member of the international Green Bond Principles Executive Committee.

IFC launched a green bond program in 2010 to help catalyse the market and unlock investment for private sector projects that support renewable energy and energy efficiency. In 2018, IFC partnered with European asset manager Amundi to establish the Amundi Planet Emerging Green One (EGO) Fund, the world's largest green-bond fund dedicated to emerging markets. As of June 30th, 2020, IFC has issued US\$10.387 billion across 172 bonds in 20 currencies. For more information, visit [www.ifc.org/greenbonds](http://www.ifc.org/greenbonds)

IFC's Green Bond Market Development Program provides advisory services to help strengthen the development of the private sector in South Africa and is managed by IFC's Financial Institutions Group Department. It is delivered in partnership with the Swiss State Secretariat for Economic Affairs (SECO) and Swedish International Development Cooperation Agency (Sida).

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## ABBREVIATIONS, DEFINITIONS AND GLOSSARY

|              |  |
|--------------|--|
| AUM          | Assets under management  |
| CBI          | Climate Bonds Initiative   |
| CRISA        | Code for Responsible Investing in South Africa                     |
| ESG          | Environmental, social, and governance                              |
| FSCA         | Financial Sector Conduct Authority                                 |
| ICMA         | International Capital Market Authority                             |
| IFC          | International Finance Corporation                                  |
| IRIS         | Impact Reporting and Investment Standards                          |
| JSE          | Johannesburg Stock Exchange  |
| PE           | Private Equity   |
| PRI          | Principles for Responsible Investment                              |
| Reg 28       | Regulation 28 of the Pension Funds Act, No 24 of 1956              |
| REIPPP       | Renewable Energy Independent Power Producers Procurement Programme |
| SASB         | Sustainability Accounting Standards Board                          |
| SDGs         | Sustainable Development Goals                                      |
| TCFD         | Task Force on Climate-related Financial Disclosures                |
| VC           | Venture Capital  |
| GN 1 of 2019 | Guidance Notice 1 of 2019  |
| PFA          | Pension Funds Act, No. 24 of 1956                                  |

### ICMA Sustainable Finance High-level definitions (May 2020)<sup>1</sup>.

|                    |  |
|--------------------|--|
| Climate Finance    | Climate Finance is financing that supports the transition to a climate resilient economy by enabling mitigation actions, especially the reduction of greenhouse gas emissions, and adaptation initiatives promoting the climate resilience of infrastructure as well as generally of social and economic assets. |
| Climate Transition | Climate Transition is the pathway supported by targeted policies and initiatives to a climate resilient economy with low greenhouse gas emissions in line with the targets of the Paris Agreement on Climate Change.   |

<sup>1</sup> Visit <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainable-Finance-High-Level-Definitions-May-2020-110520v4.pdf>.

|                               |  |
|-------------------------------|--|
| Impact Finance                | Impact Finance is financing of businesses or economic activities which produces verifiable and direct positive impact on society and/or environment, based on agreed metrics and benchmarking while also seeking market aligned or better financial returns.   |
| Responsible and ESG Investing | Responsible Investing, also known as ESG Investing, refers to strategies and practices that incorporate material environmental, social and governance (ESG) factors in investment decisions and active ownership with a view to minimize risks and maximize returns. It can be pursued by all investors as part of their fiduciary duty on the basis that ESG factors are considered as having a material impact on returns.   |
| Social Finance                | Social Finance is financing that supports actions mitigating or addressing a specific social issue and/or seeking to achieve positive social outcomes especially but not exclusively for a target population(s). Social finance project categories include but are not limited to, providing and/or promoting affordable basic infrastructure, access to essential services (such as health and healthcare), affordable housing, employment generation including through the potential effect of SME financing and microfinance, food security, and socioeconomic advancement and empowerment. |
| Sustainable Finance           | Sustainable Finance incorporates climate, green, and social finance while also adding wider considerations concerning the longer-term economic sustainability of the organisations that are being funded, as well as the role and stability of the overall financial system in which they operate.   |
| Taxonomy                      | Taxonomy, in the context of sustainable finance, is a classification system identifying activities, assets, and/or project categories that deliver on key climate, green, social or sustainable objectives with reference to identified thresholds and/or targets.   |



## FOREWORD

In early 2020, the Financial Sector Conduct Authority (“FSCA”) requested registered retirement funds to participate in a survey in respect of sustainable finance practices in South Africa.

The survey is a collaboration between the FSCA and IFC, part of the World Bank Group, to take stock of progress on sustainable investing by South African retirement funds and identify barriers and opportunities to unlock the significant potential for green investments in the coming years.

Retirement funds have an important role to play in channelling capital to investments that are responsible or have a positive impact on the environment, society, and the governance (ESG) of institutions. In turn, such ESG-factored investments will enable sustainable returns for beneficiaries.

Despite the disruptions of COVID-19, we are very pleased with the response from over 150 retirement funds, including almost 100 that provided insights on their green finance allocations.

Representing over R4 trillion in assets under management (AUM), South Africa’s retirement industry is a major driver and influencer in our economy and plays a stronger role than in many other emerging markets. Consequently, the industry has a responsibility and opportunity to contribute to a sustainable economy that will secure benefits not only for current retirement fund members, but for generations to come.

As the world shifts to adjust to climate change, COVID-19, and other environmental and social challenges on the horizon, retirement funds need to be prepared and proactive. Green, social, and sustainability-focused

investments offer South Africa’s retirement funds an opportunity to direct investments towards building a green, inclusive, healthier, well-educated, resilient, and low-carbon economy that aspires to achieve the United Nations Sustainable Development Goals (SDGs) and commitments under the Paris Agreement on Climate Change.

The global green bond market now represents US\$754 billion in cumulative issuance since 2007 and continues to grow. In South Africa, the Johannesburg Stock Exchange is paving the way for more local green bond issuances as well as anticipated innovations in social and sustainability bonds. Similarly, South Africa’s Renewable Energy Independent Power Producer Procurement (REIPPP) programme has shown what is possible in terms of public-private partnership to open new green sectors and structure suitable investments that fit the needs of retirement fund portfolios.

Testimony to this is the close to R40 billion exposure to renewable energy investments cited by the respondents to this survey.

More is needed. Sustainable investing is essential to achieving a sustainable development path for South Africa. Notably, retirement funds in this survey indicated support for collective commitments to increase allocations to green and climate-focused assets and impact investing.

IFC estimates there is US\$588 billion in climate mitigation investment potential in selected sectors in South Africa up to 2030, and US\$29 trillion investment potential across 21 emerging markets representing 48 percent of global emissions. This does not include investments needed to support adaptation and resilience.



Industry stakeholders continue to confirm that South Africa can't do "green" without accounting for the social side of development. South Africa needs a just and gradual transition to a low-carbon economy and a broad-based approach to achieving positive impacts aligned with the SDGs. The country also needs to revitalize the economy after COVID-19.

Regulation 28 established the basis for South Africa's retirement funds industry to embed consideration of ESG risks and performance across all investment decisions. We are glad to see that progress is being made by retirement funds in doing so and we welcome the work of the industry associations, industry champions, and partner organizations to increase capacity and awareness.

This survey shows retirement funds where to target their efforts next. There is appetite among retirement funds to do more, but the pipeline of suitable

investments needs to grow, and the asset management industry needs a clear mandate from the retirement industry to design investment options that incorporate sustainability criteria and ambitions. We also need to maintain our efforts to educate trustees and industry practitioners about this new global trend.

We would like to thank the Swiss State Secretariat for Economic Affairs (SECO) and the Swedish International Development Cooperation Agency (Sida) for their support of this survey, jointly produced between FSCA and IFC's Green Bond Market Development program.

The FSCA will consider the findings carefully as we tailor our continued engagement with retirement funds on this important topic over the next few years to address both the opportunities and constraints that have been articulated through the survey responses.



**Olano Makhubela**

Divisional Executive for Retirement Funds Supervision  
Financial Sector Conduct Authority (FSCA)



**Adamou Labara**

Country Manager for South Africa, Eswatini, Lesotho  
and Namibia – IFC

# 01

## KEY FIGURES

**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.

## 02

## INTRODUCTION

From January to August 2020, South Africa's Financial Sector Conduct Authority (FSCA) and IFC, part of the World Bank Group, collaborated to survey how well South Africa's retirement funds industry is positioned to unlock significant investment opportunities in the new global trend towards green and climate finance.

IFC estimates South Africa's climate-smart investment potential in selected sectors to be more than US\$588 billion from 2016–2030<sup>2</sup>, compared with more than US\$29 trillion in climate investment opportunity that IFC estimates across emerging market cities by 2030 in just six urban sectors<sup>3</sup>: green buildings, public transport infrastructure, electric vehicles, improved management of water resources, renewable energy, and better handling of waste.

Given South Africa's reliance sectors with high levels of greenhouse gas emissions – such as mining and coal – particular opportunities exist in shifting to renewable and clean energy. There is also a need for investment in sustainable urban infrastructure and to strengthen water infrastructure and management, among other things.

The survey also captured progress by South African retirement funds in adopting responsible investing practices in line with Regulation 28 of the Pension Funds Act, No. 24 of 1956 (PFA), and FSCA's Guidance Notice 1 of 2019 relating to sustainability of investments and assets in the context of a retirement fund's investment policy statement.

Despite the challenges of COVID-19, 139 retirement funds completed the survey, representing roughly 74% of the total assets under management (AUM) and 28% of total retirement funds in the industry. In addition,

22 retirement funds submitted information explaining the barriers they faced in completing the survey. These included the availability of data and the constraints of certain structures, such as pooled and retail retirement funds.

Even with these challenges, the results signal a pivotal moment for South Africa's retirement funds to take a leading role on sustainable finance in South Africa. This is also timely due to related developments, such as the European Union's (EU) Sustainable Finance Action Plan<sup>4</sup>, the global adoption of the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)<sup>5</sup>, and collective international efforts to meet commitments under the Paris Agreement on Climate Change, which South Africa ratified in June 2018.



**139 RETIREMENT FUNDS COMPLETED THE SURVEY, REPRESENTING ROUGHLY 74% OF THE TOTAL ASSETS UNDER MANAGEMENT AND 28% OF TOTAL RETIREMENT FUNDS IN THE INDUSTRY.**

In South Africa, there is also a convergence of efforts across the financial sector around sustainable finance. This includes the National Treasury Technical Paper on Financing a Sustainable Economy (May 2020) and subsequent implementation efforts<sup>6</sup>, the anticipated Climate Change Bill, roll out of the new Carbon Tax, and the Johannesburg Stock Exchange's leadership in promoting a market for green, social, and sustainability-focused instruments.

2 IFC, (2016), Climate Investment Opportunities in Emerging Markets An IFC Analysis.

3 IFC, (2018), Climate Investment Opportunities in Cities An IFC Analysis.

4 See [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en).

5 See <https://www.fsb-tcfd.org/>.

6 See <http://sustainablefinanceinitiative.org.za/>.

In this context, the survey findings can be used to better prepare and coordinate South Africa's retirement fund industry to take full advantage of sustainable investing as a new trend that can unlock investment opportunities and strengthen retirement fund resilience in changing times.

The following key challenges and opportunities emerged from the survey:

1. The lack of agreed and consistent industry definitions of green, social, and sustainability-focused assets, projects, and sectors currently makes it a costly exercise for funds to require asset managers to track and report on these asset allocations in fund portfolios. **An agreed national green and social taxonomy would facilitate harmonized monitoring and reporting across the retirement fund industry and enable retirement funds to make more informed decisions about asset allocation and the selection of investment products.**
2. There is growing interest and appetite among South African retirement funds to allocate capital to sustainable assets. **However, there is insufficient pipeline of investments that meet the requirements of retirement funds, such as good governance, liquidity, ESG credentials, and financial returns.**
3. The constraints expressed by pooled and retail retirement funds, such as being able to influence the ESG mandates of their investments, points to **a need for coordination between retirement funds and asset managers to agree on collective ambitions for green, social, and sustainability-focused investment options and targets.**
4. **Green and climate-focused investing aspirations need to consider social development in South Africa's economy.** While more than half of the retirement funds indicated a willingness to reduce their exposure to coal-related assets, industry stakeholders confirm that this needs to be achieved through a just transition and related job creation in new green sectors.
5. **Ongoing efforts are needed to build awareness and capacity among retirement fund trustees and principal executive officers.** Integration of ESG and sustainable finance strategies requires new expertise among retirement funds, asset consultants, and asset managers. More training is needed on a wide range of related topics. The updated Responsible Investment and Ownership Guide<sup>7</sup> which provides practical tools for trustees to integrate ESG factors into their investment decisions is a welcome contribution. Findings from this survey provide additional guidance on the types of training needed and topics to be covered.




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**THERE IS GROWING INTEREST AND APPETITE AMONG SOUTH AFRICAN RETIREMENT FUNDS TO ALLOCATE CAPITAL TO SUSTAINABLE ASSETS.**

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<sup>7</sup> See <https://rioguide.batseta.org.za/>.

## 03

## OVERVIEW OF RESPONSES

Participation in the survey was voluntary. To be representative of the South African retirement funds industry the survey deliberately targeted those retirement funds with significant assets under management (AUM).

As a result, the 139 retirement funds who participated in the survey make up only 2.6% of the registered retirement funds in South Africa but account for 74% of aggregate assets of retirement funds. They hold 32% of the total assets when excluding assets held by the Government Employees Pension Fund (GEPF) (R1.8tn). The retirement funds that participated had 6.2 million members, or about 28% of the total beneficiaries of all retirement funds.

The sample includes some of the largest retirement funds in the industry, such as the Government Employees Pension Fund, South African Retirement Annuity Fund, Central Retirement Fund, Old Mutual Superfund Provident Fund and Old Mutual Superfund Pension Fund. Both weighted and unweighted results are reported, with weightings calculated according to the relative AUM of each respondent.

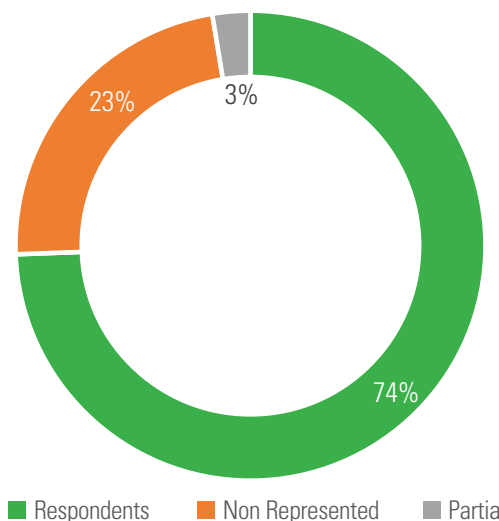
For the unweighted data, the results from the survey were added or aggregated – depending on the specific question – with no further adjustment. For the weighted results, each retirement fund was weighted by its proportion of total assets to the respondent base. The weight was capped so that no retirement fund was given more than 25% overall<sup>8</sup>. The weights were applied to each response, then totaled or aggregated (depending on the context). Further notes are provided with some of the specific results to provide further insight.

### 3.1. Respondents

The South African retirement fund industry manages R4.26 trillion. The 139 funds that participated in the survey have a combined AUM of R3.17 trillion, which represents 74% of this total<sup>9</sup>.

22 additional retirement funds provided official statements and reasons for not completing the survey. These have been grouped into a special group referred to as “partial” respondents. Even though they did not complete the survey, their feedback on the survey and their challenges have been particularly valuable. Together these funds represent R111 billion, or 3% of the country’s retirement AUM. The feedback from this group is detailed at the end of this section.

#### 3.1.1. Respondents as a percentage of total industry AUM

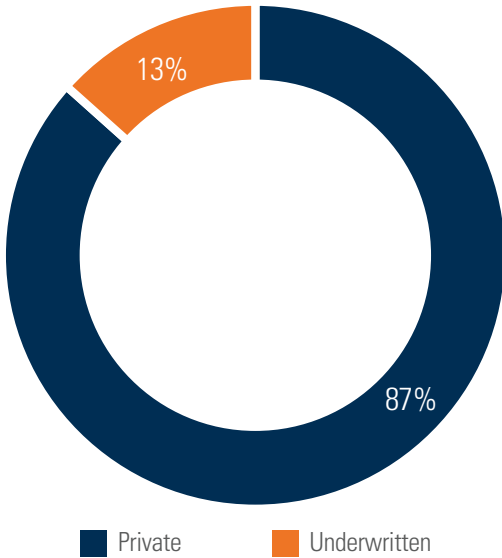


<sup>8</sup> This restriction is particularly important with the GEPF, which manages over a quarter of the total pension assets.

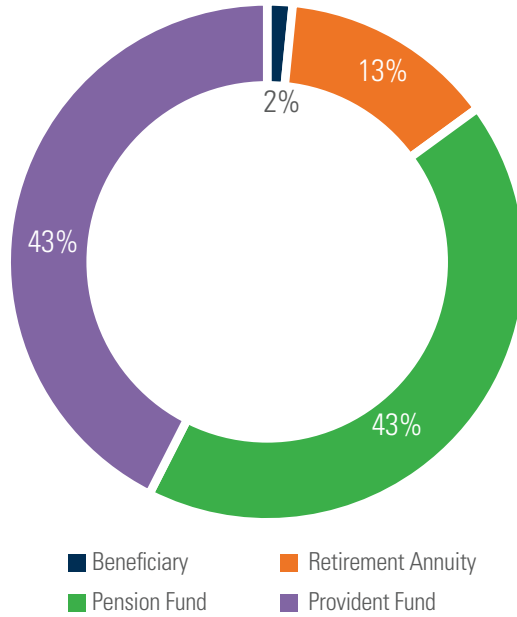
<sup>9</sup> The FSCA annual report (2018) indicates that the aggregate value of assets of retirement fund is R4.26 trillion, of which, R1.94 trillion are held by privately administered funds. The report is available here: <https://www.masthead.co.za/wp-content/uploads/2019/01/Registrar-of-Pension-Funds-Annual-Report-2017.pdf>.

### 3.1.2. Profile of respondents

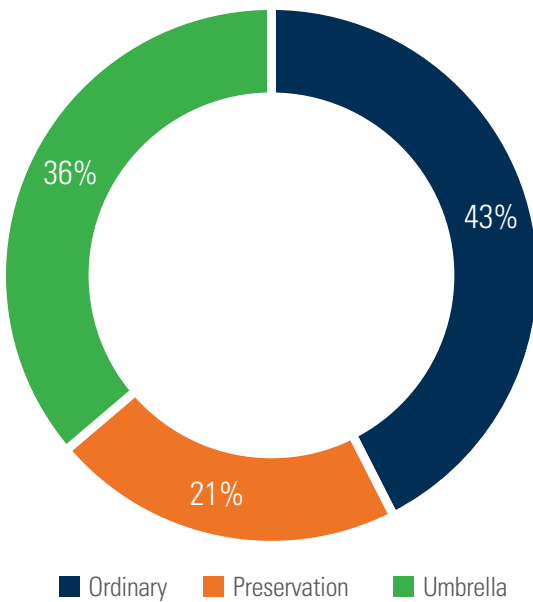
3.1.2.1. Retirement Fund types



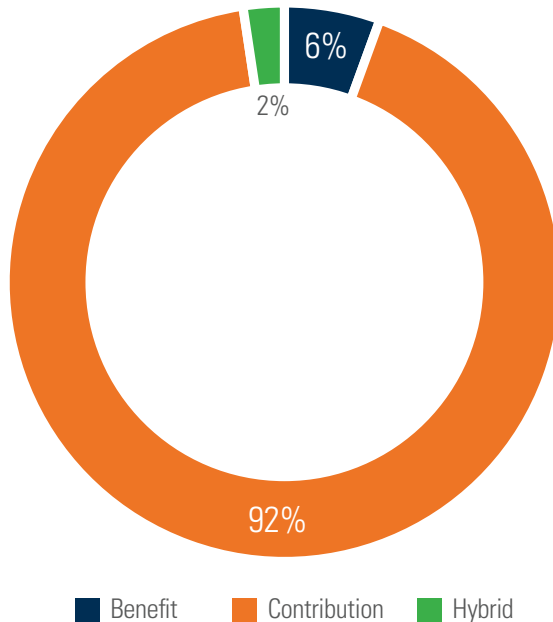
3.1.2.3. Respondents according to retirement fund class



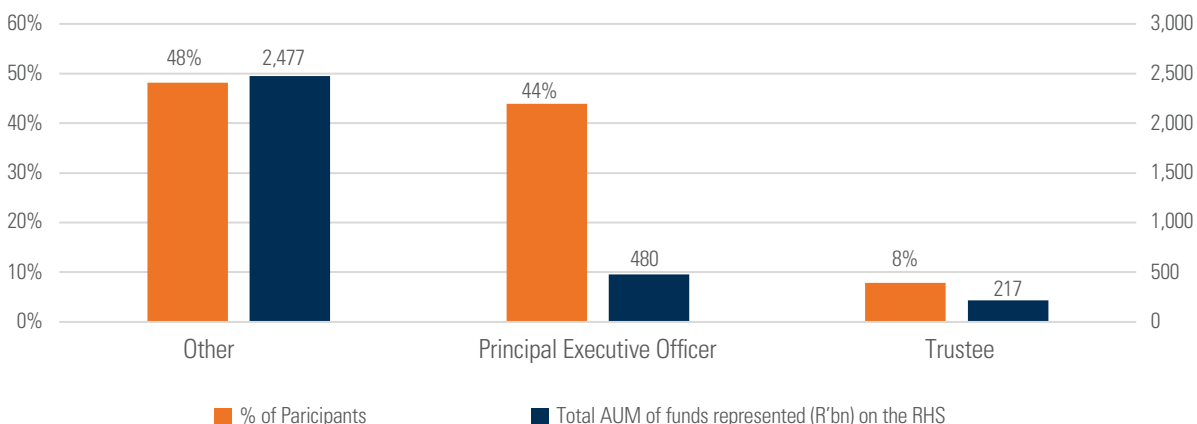
3.1.2.2. Retirement Fund subtypes



3.1.2.4. Respondents according to retirement fund benefit structure



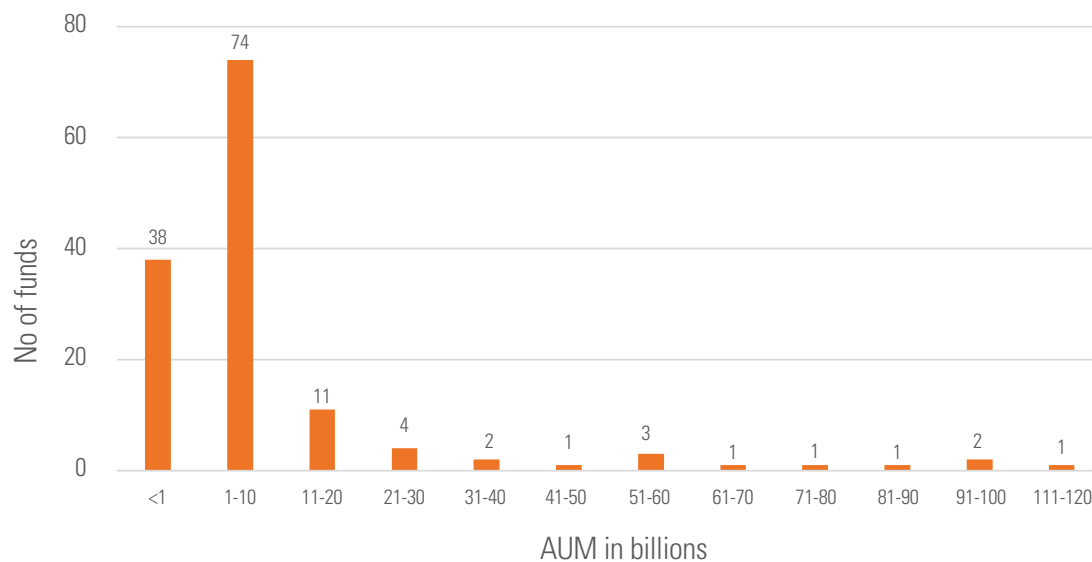
### 3.1.2.5. Main function of respondents



*Q5: What is your role in the pension fund?*

*n=138*

### 3.1.2.6. Assets under management



*Q8: What were your fund's total assets under management*

*(AUM) at the end of the last reporting period?*

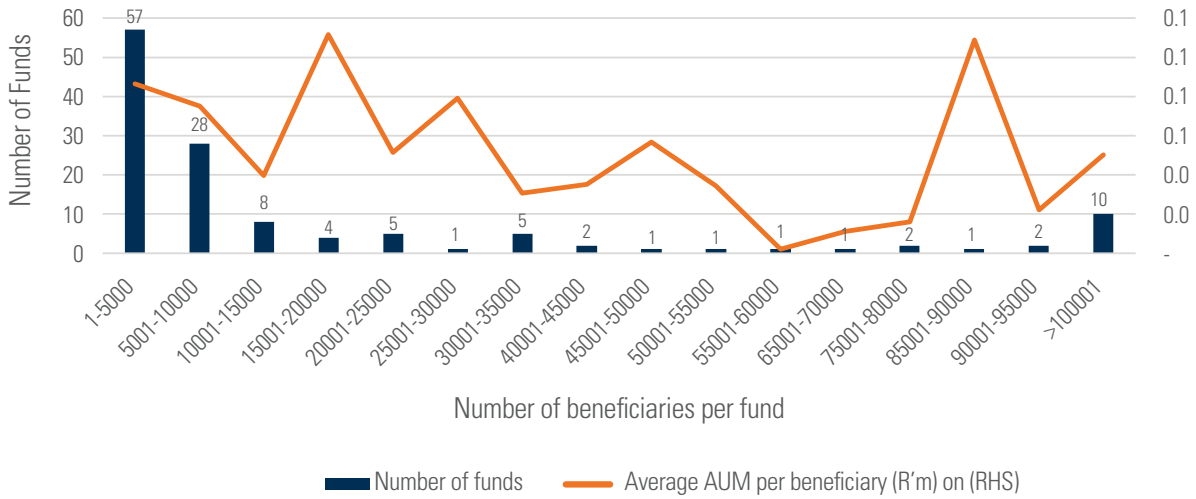
*n=139*

The 139 surveyed retirement funds manage a combined AUM of R3.17 trillion. The majority manage assets up to R10 billion.

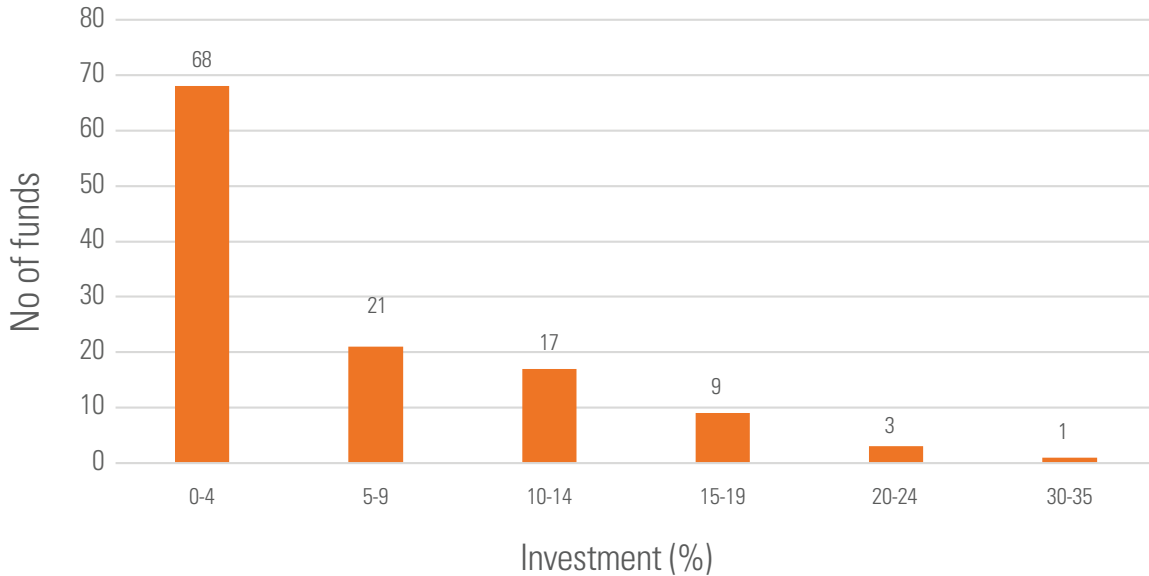


**BOTH WEIGHTED AND UNWEIGHTED RESULTS ARE REPORTED, WITH WEIGHTINGS CALCULATED ACCORDING TO THE RELATIVE AUM OF EACH RESPONDENT.**

3.1.2.7. Beneficiaries



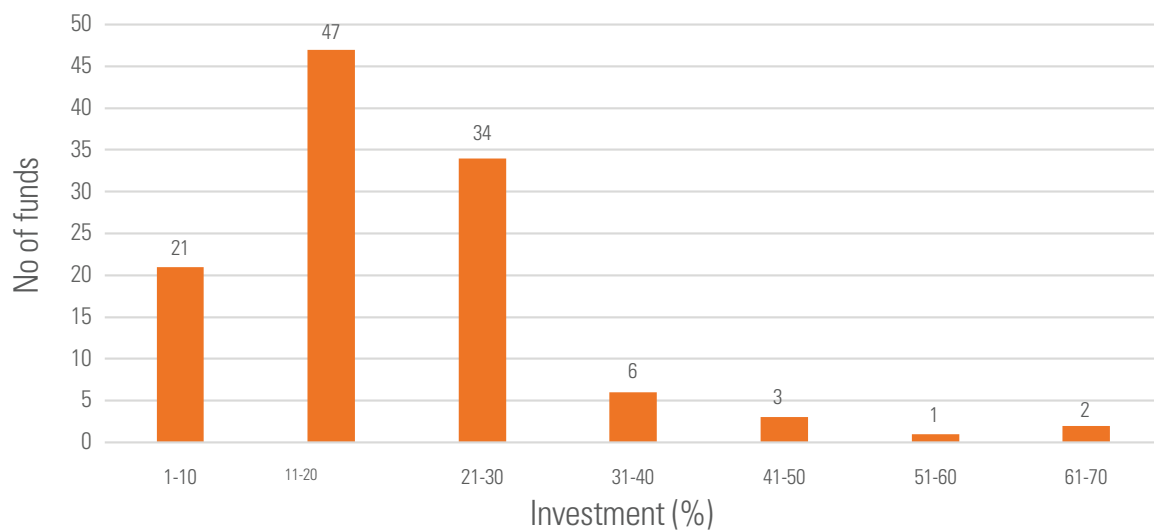
3.1.2.8. Investment in private debt instruments



Q9: What percentage of your fund’s assets were allocated to private debt instruments as of the last reporting period?  
n=119



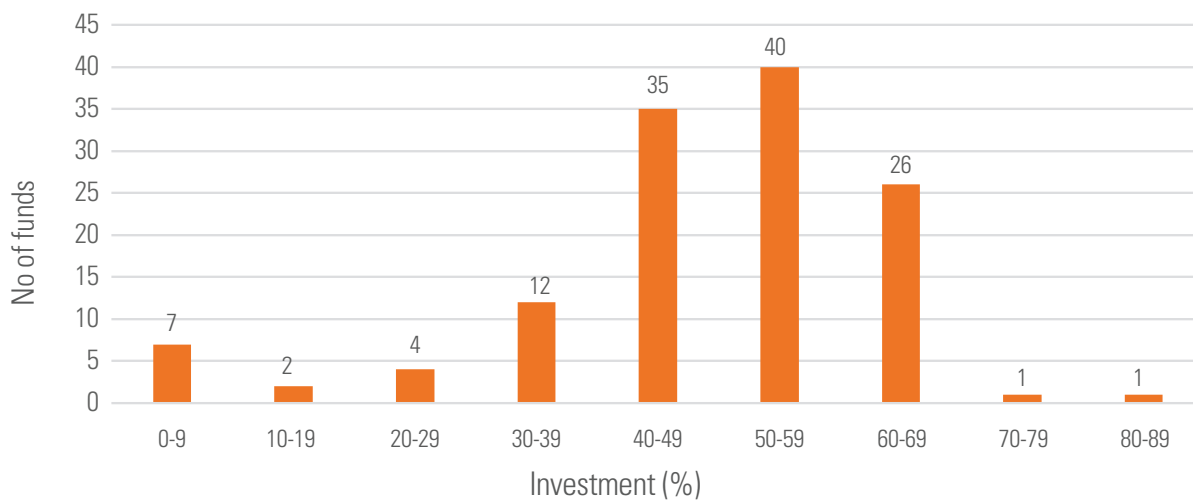
### 3.1.2.9. Investment in public debt instruments



*Q10: What percentage of your fund's assets were allocated to public debt instruments as of the last reporting period?*

*n=114*

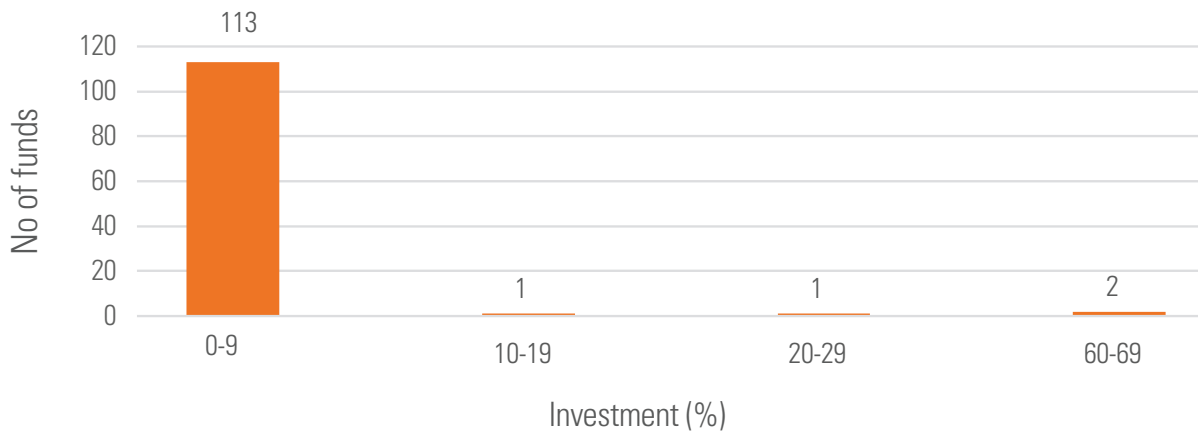
### 3.1.2.10. Investment in listed equities



*Q11: What percentage of your fund's assets were allocated to listed equities as of the last reporting period?*

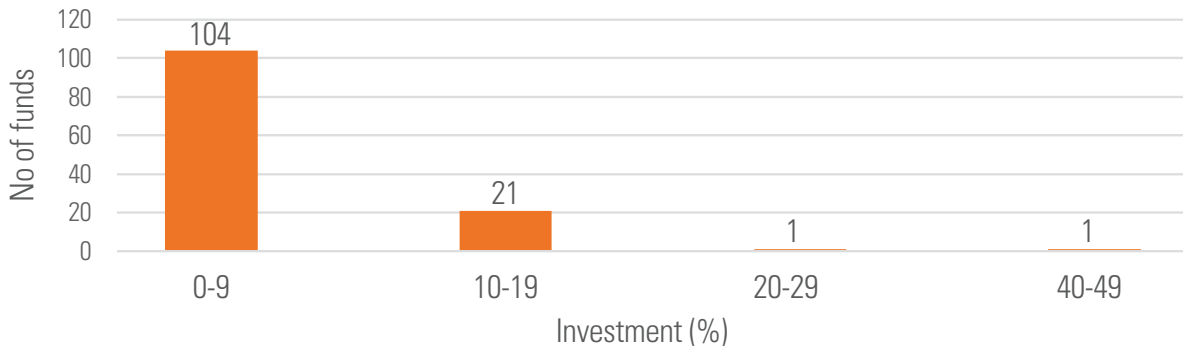
*n=128*

### 3.1.2.11. Investment in commodities



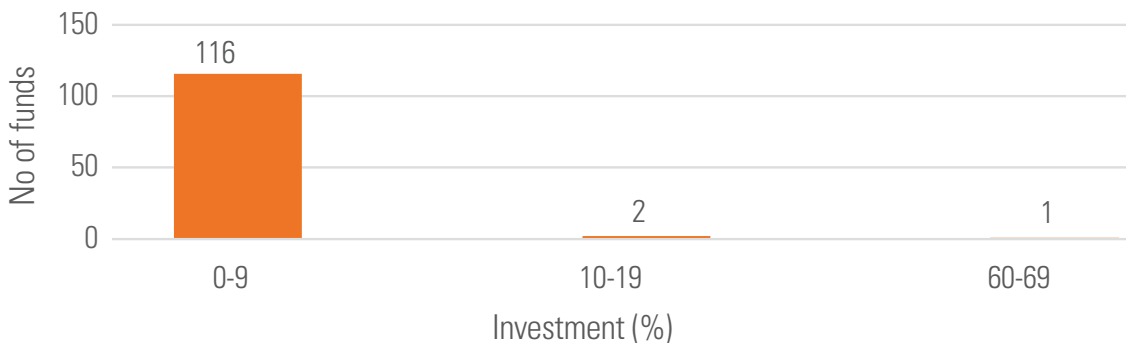
Q12: What percentage of your fund's assets were allocated to commodities as of the last reporting period?  
n=117

### 3.1.2.12. Investment in property



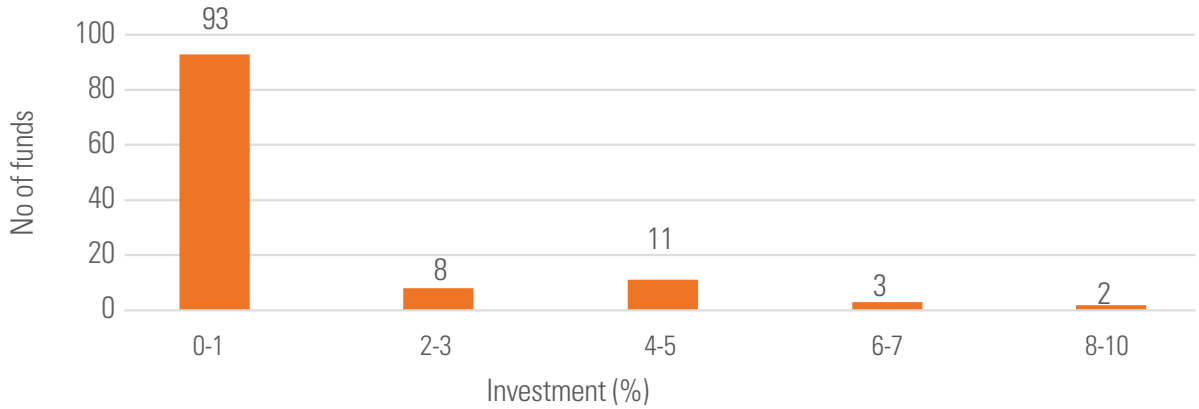
Q13: What percentage of your fund's assets were allocated to property as of the last reporting period?  
n=127

### 3.1.2.13. Investment in private equity



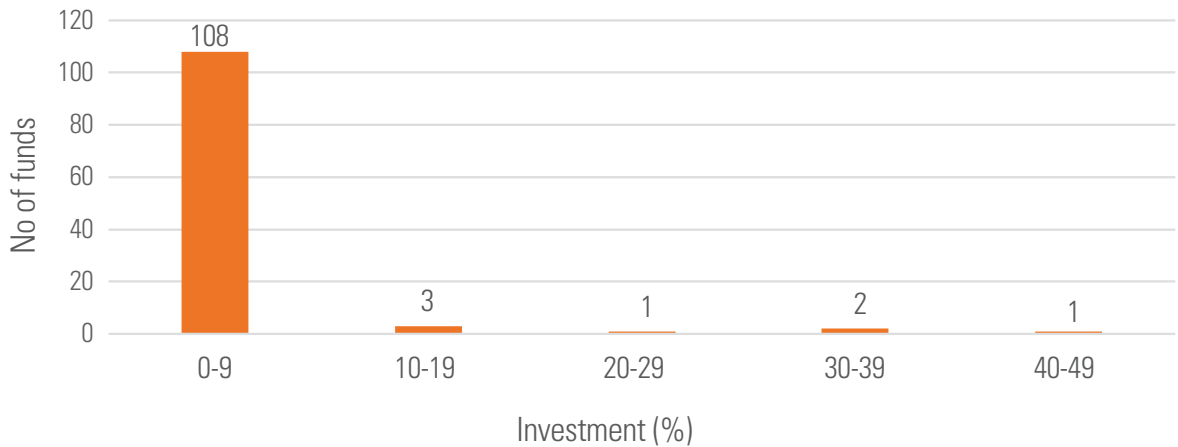
Q14: What percentage of your fund's assets were allocated to private equity as of the last reporting period?  
n=119

3.1.2.14. Investment in hedge funds



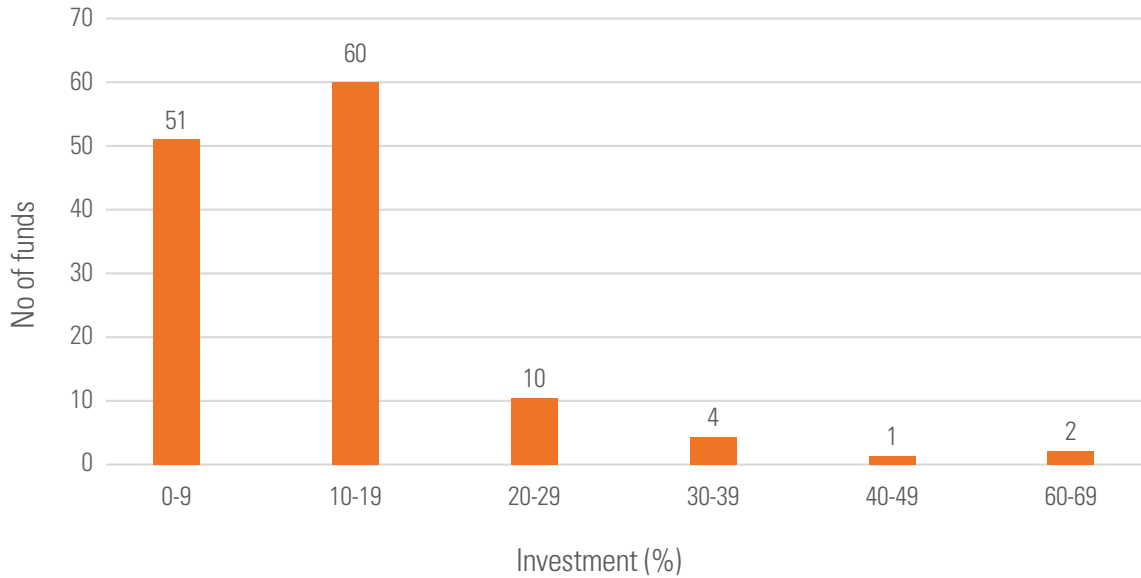
Q15: What percentage of your fund's assets were allocated to hedge funds as of the last reporting period?  
n=117

3.1.2.15. Investment in infrastructure



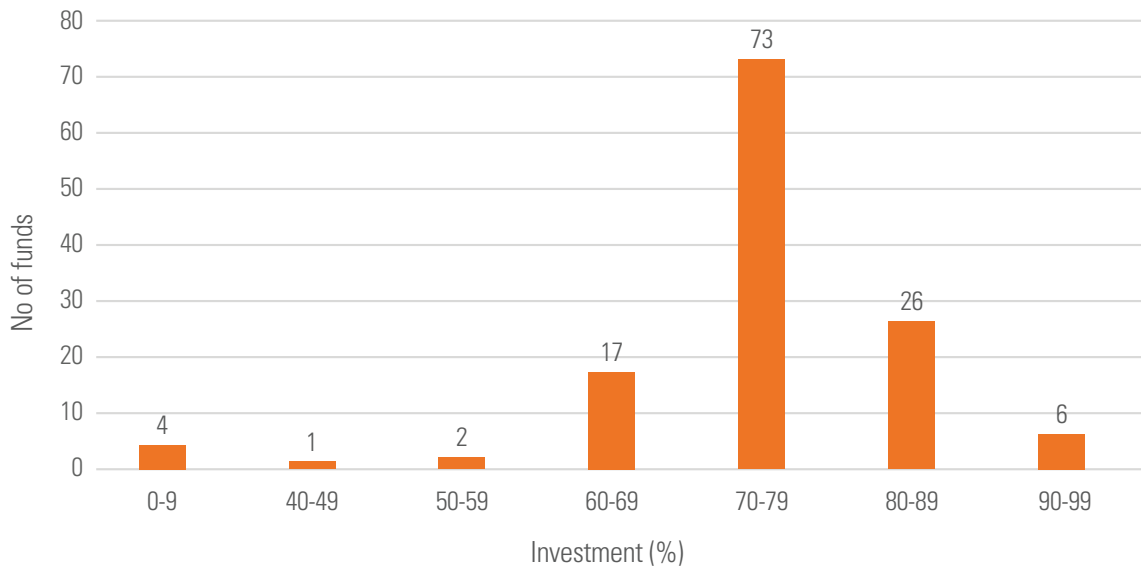
Q16: What percentage of your fund's assets were allocated to infrastructure as of the last reporting period?  
n=115

### 3.1.2.16. Investment in cash instruments



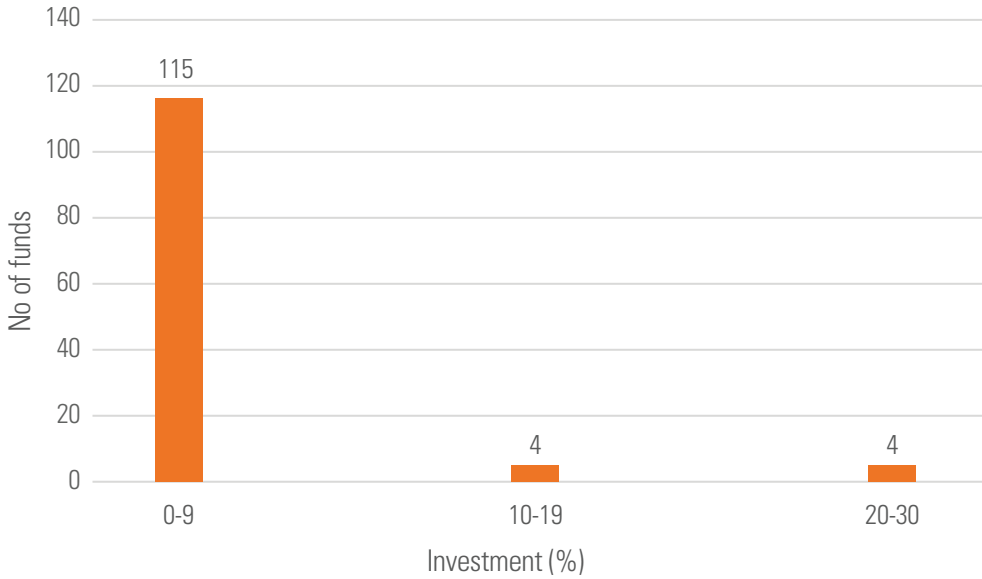
Q17: What percentage of your fund's assets were allocated to cash instruments as of the last reporting period?  
n=128

### 3.1.2.17. Investment in South Africa



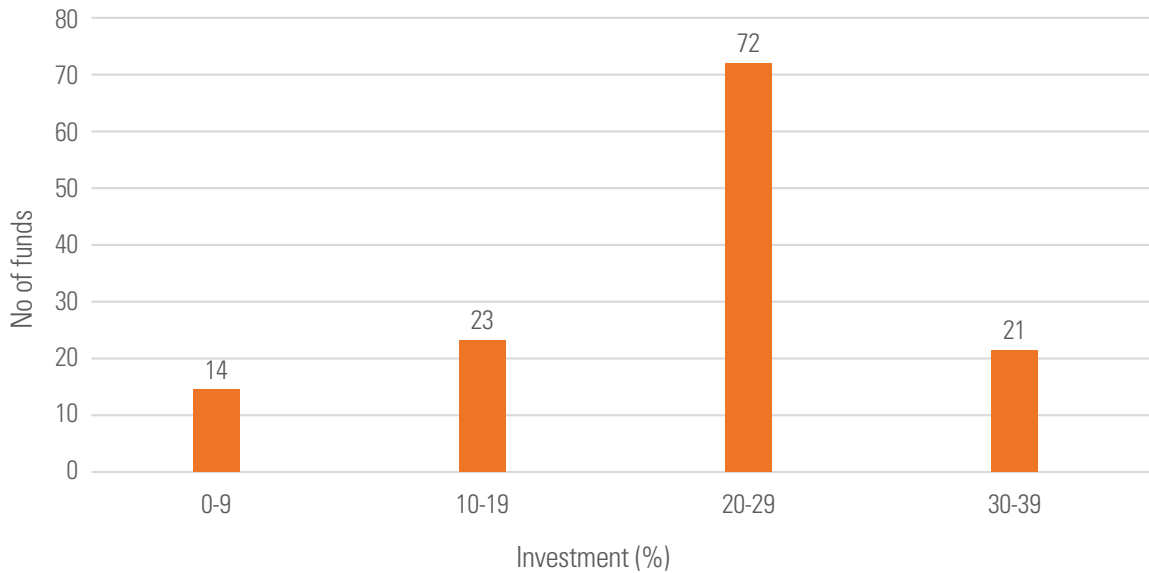
Q18: What percentage of your fund's assets were invested in South Africa as of the last reporting period?  
n=129

3.1.2.18. Investment in the rest of Africa



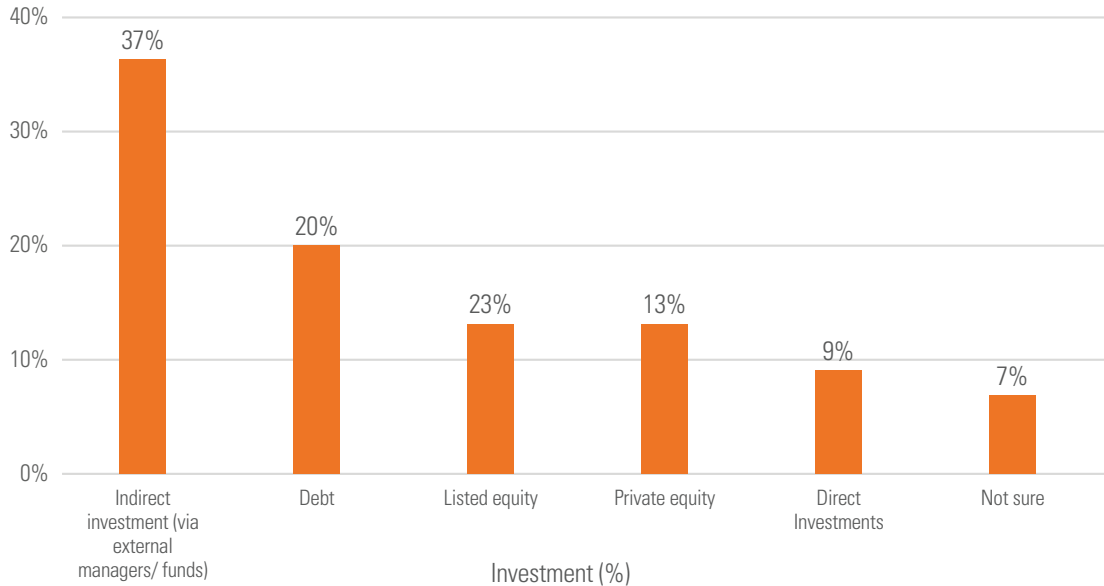
Q19: What percentage of your fund's assets were invested in Africa excluding South Africa as of the last reporting period?  
n=121

3.1.2.19. Investment in offshore assets



Q20: What percentage of your fund's assets were invested offshore (excluding Africa) as of the last reporting period?  
n=130

### 3.1.2.20. Infrastructure exposure breakdown

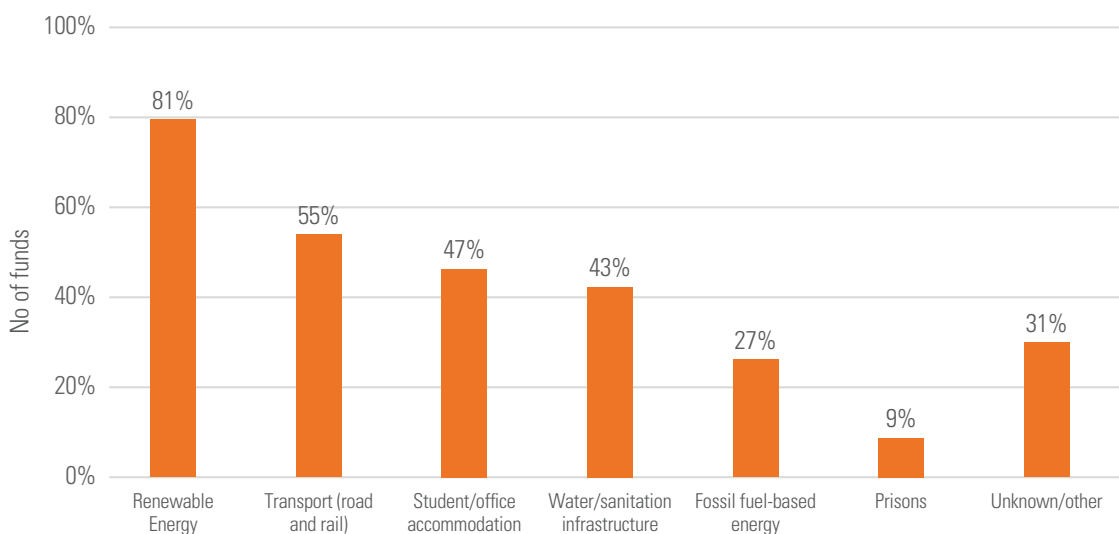


**Q21: If your fund invests in infrastructure, please select the categories in which these investments occur. Select all that apply.**

**n=80**

The majority of retirement funds that invest in infrastructure do this through indirect investment through external managers/funds. This is followed by investments through debt. Direct investments are the least used category of investments to gain exposure to infrastructure.

### 3.1.2.21. Type of infrastructure projects



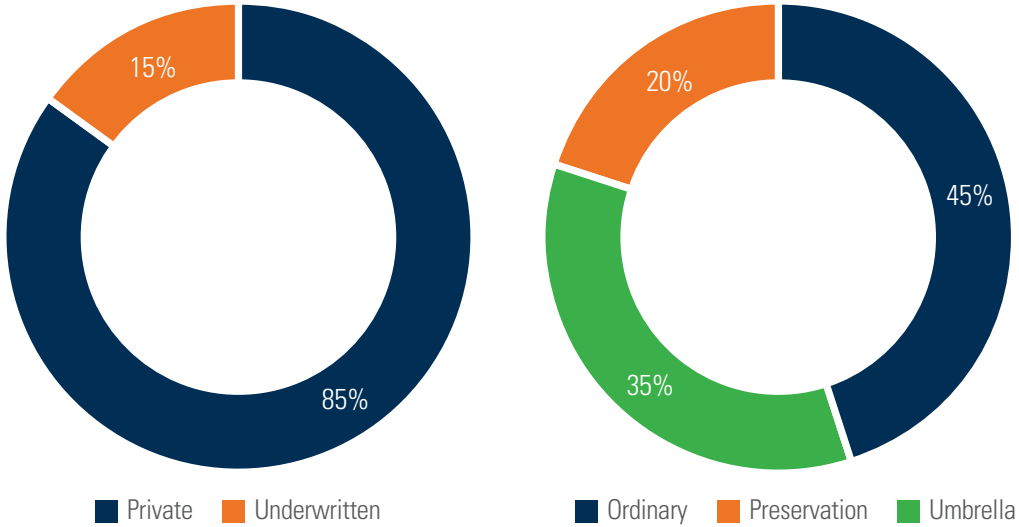
**Q22: If your fund invests in infrastructure, please select the types of projects in which these investments typically occur. Select all that apply.**

**n=77**

The majority of retirement funds that invest in infrastructure projects typically invest in renewable energy and transport (roads and rail).

### 3.1.3. Profiles of partial respondents

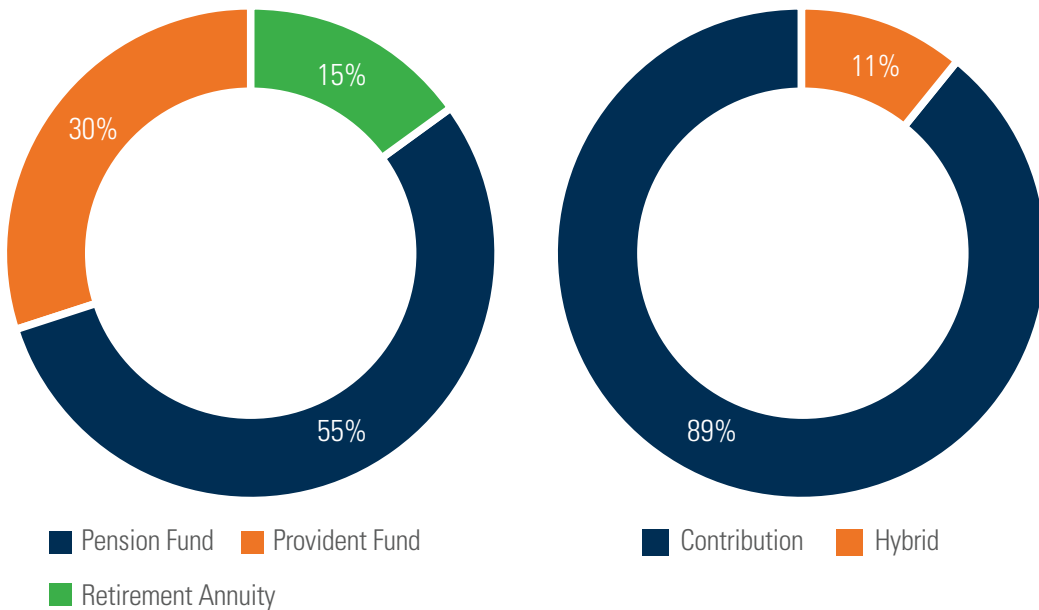
#### 3.1.3.1. Retirement fund types and subtypes



Most of the partial respondents are private retirement funds, of which a slight majority (45%) are ordinary retirement funds that are established for one specific

employer. The umbrella retirement funds (35%) service several unrelated employers.

#### 3.1.3.2. Retirement fund class and fund benefit structure






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**22 RETIREMENT FUNDS PROVIDED OFFICIAL STATEMENTS AND REASONS FOR NOT COMPLETING THE SURVEY. TOGETHER THESE FUNDS REPRESENT R111 BILLION, OR 3% OF SOUTH AFRICA'S RETIREMENT FUND AUM. THEIR FEEDBACK HAS BEEN PARTICULARLY VALUABLE IN UNDERSTANDING CONSTRAINTS FOR SUSTAINABLE INVESTING.**

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Three different retirement fund classes are represented in this group: pension funds, provident funds, and retirement annuities. The main difference between a pension fund and a provident fund is that upon retirement, a pension fund member may elect to take up to a maximum of one third of the total benefit as a cash lump sum and the remaining two thirds are paid out in the form of an annuity. A provident fund member may elect to take the entire benefit paid as a cash lump sum. The main difference between a pension fund and retirement annuity is that a retirement annuity is a personal retirement savings vehicle, and a pension fund is done through an employer.

### 3.1.3.3. Challenges to completing the survey

There are a few common themes among the partial respondents with regards to why they were unable to respond to the survey. The reasons provided were:

1. **Fund strategy:** Members elect to invest in unit trusts and unitized pooled portfolios. There is no need for the retirement funds to have direct active ownership policies, as the retirement funds are not the owners of the underlying assets included in the unitized investment portfolios. They do not have the right to attend or to vote at a meeting of an issuer of the underlying assets included in unitized investment portfolios. Pooled manager portfolios have no control over the underlying assets.
2. **Detailed information:** Trustees do not have ready access to detailed information about the investments, especially for green and climate-focused investments. The necessary information is not included in the standard reporting from asset managers.
3. **Time and cost:** Collating information would be time consuming and costly.
4. **Relevance:** The survey questionnaire was not relevant to their retirement fund type. For example, the questions were directed to institutional retirement funds, while the retirement fund is a member choice retirement fund or retail retirement fund.
5. **Lack of standardized reporting:** Investment managers do not have guidance or systems to deliver reports to retirement funds, in particular at the level of detail to report on specific activities such as water

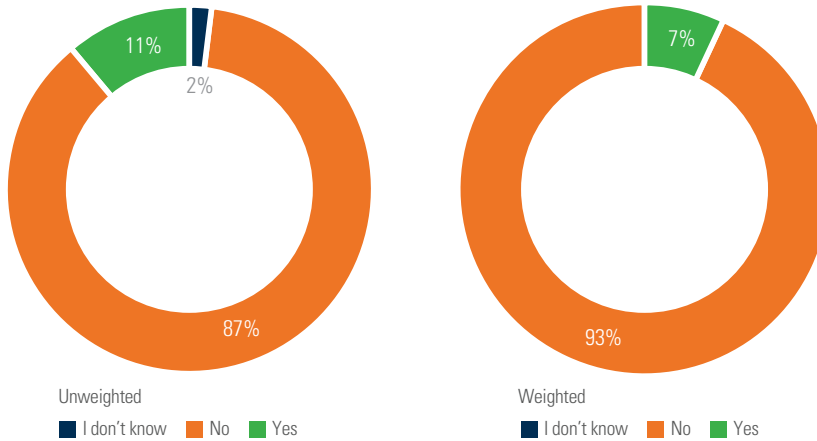


04

# NASCENT INTEREST IN GREEN AND CLIMATE-FOCUSED FINANCE

## 4.1. Retirement funds' approach to green/climate-focused finance

### 4.1.1. Green and/or climate finance policy



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

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

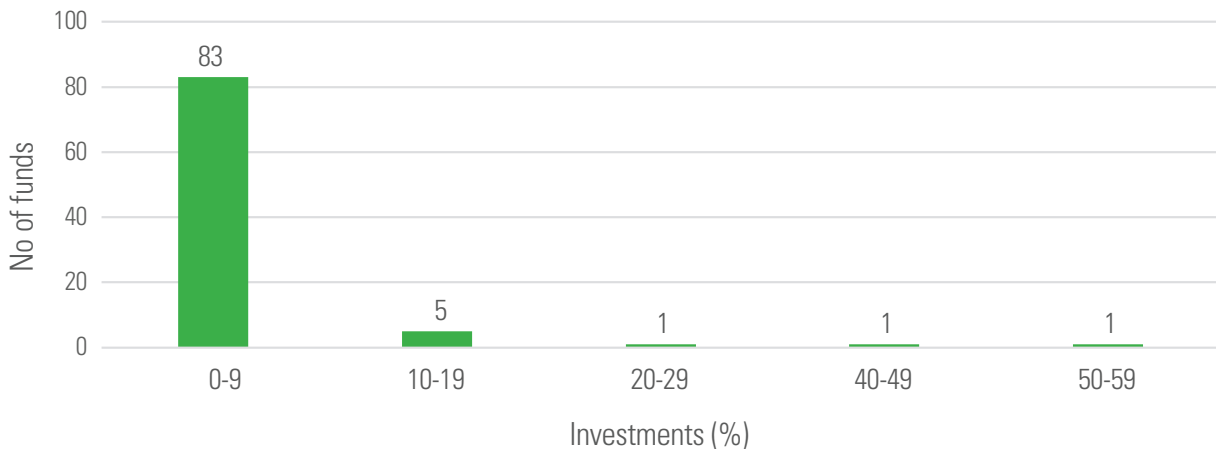
*Q42: If your fund has a specific policy on green and/or climate finance in its IPS, please describe (or copy and paste).*

n=123



AT 35%, PRIVATE DEBT INSTRUMENTS ARE THE MOST CITED CATEGORY FOR GREEN INVESTMENTS, BUT INFRASTRUCTURE, PRIVATE EQUITY AND PROPERTY ALSO RECEIVE NOTABLE MENTIONS.

#### 4.1.2. Assets allocated to green or climate-focused investments

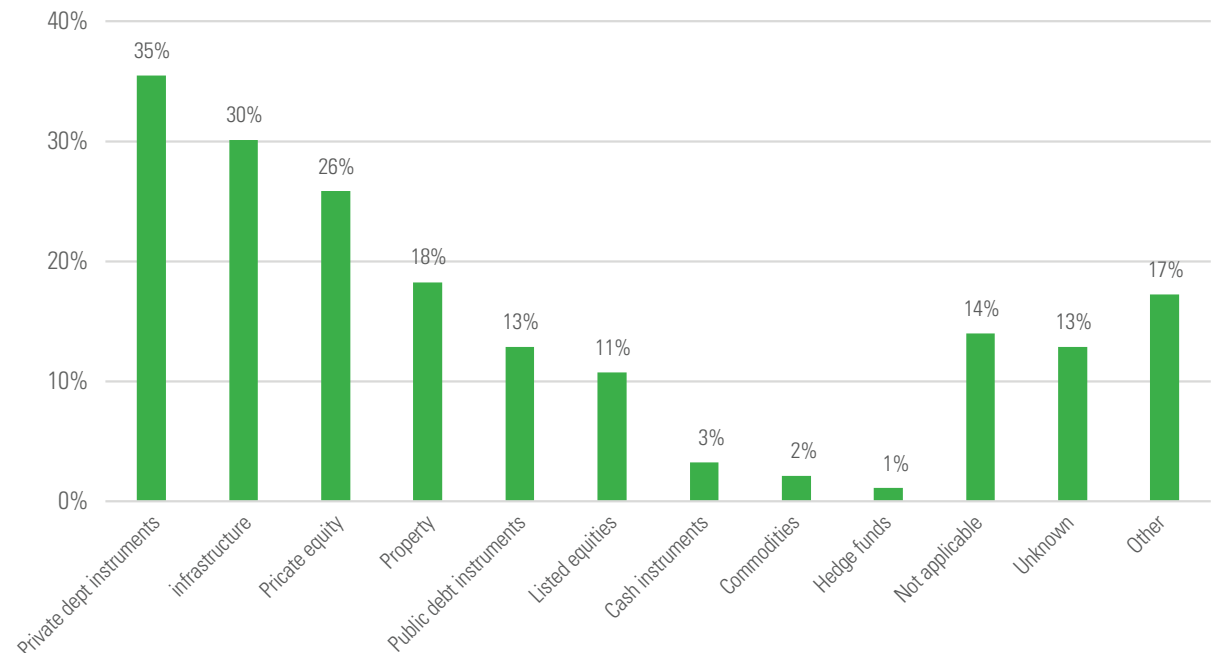


*Q43: What percentage of your fund's assets are allocated to investments that can be classified as green or climate-focused according to the definitions provided? Please indicate an estimate as of your last reporting period.*

*n=91*

While most of the retirement funds have invested in green or climate-focused assets, the relative value of the investments are low, with most making up less than 10% of the retirement fund.

#### 4.1.3. Green and/or climate finance allocations

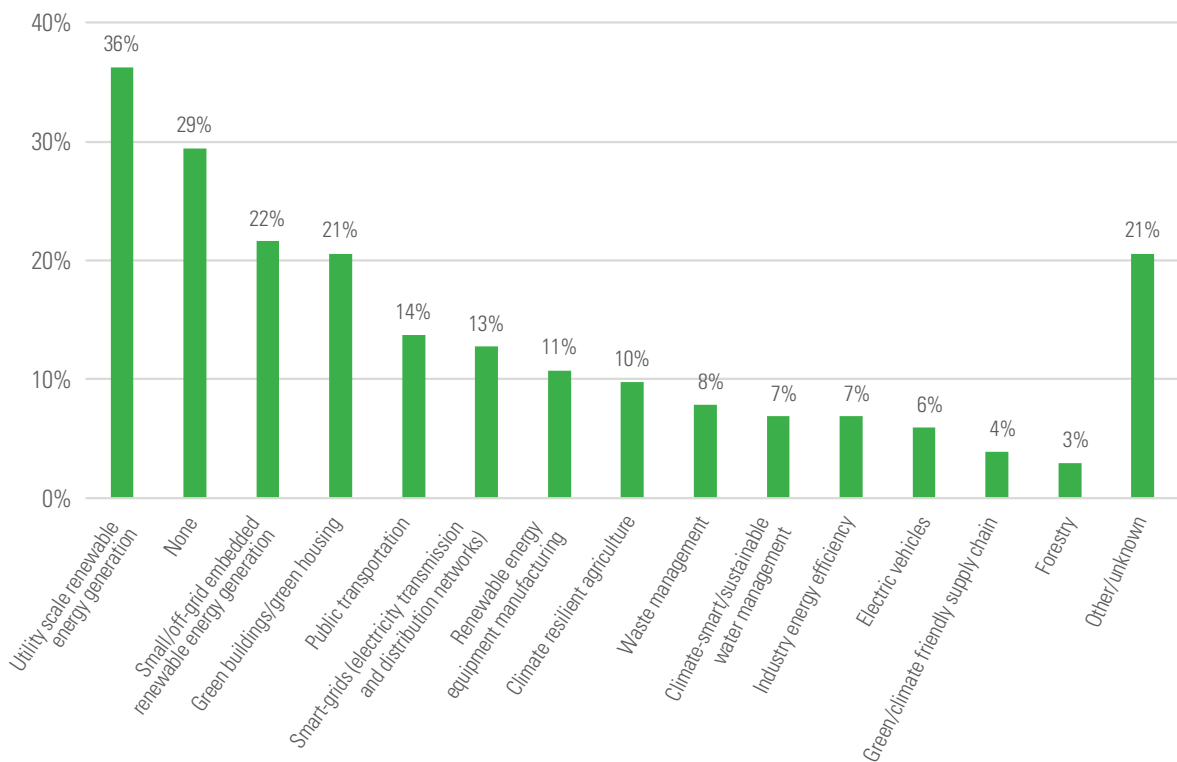


*Q44: Please select the categories of investment in which you currently have green and/or climate finance allocations. Select all that apply.*

*n=93*

| Type of responses under "Other"  | Number of respondents |
|--|-----------------------|
| None   | 6                     |
| Cannot quantify as Reg 28 reporting does not categorise this   | 2                     |
| Difficult to select as the fund invests in various Collective Investment Schemes, Market Linked Portfolios, and Guaranteed Funds | 2                     |
| This is determined by the appointed asset manager  | 2                     |
| Not available  | 1                     |
| Not specifically identified  | 1                     |
| Underlying asset managers would have this info   | 1                     |
| Via Collective investments funds   | 1                     |

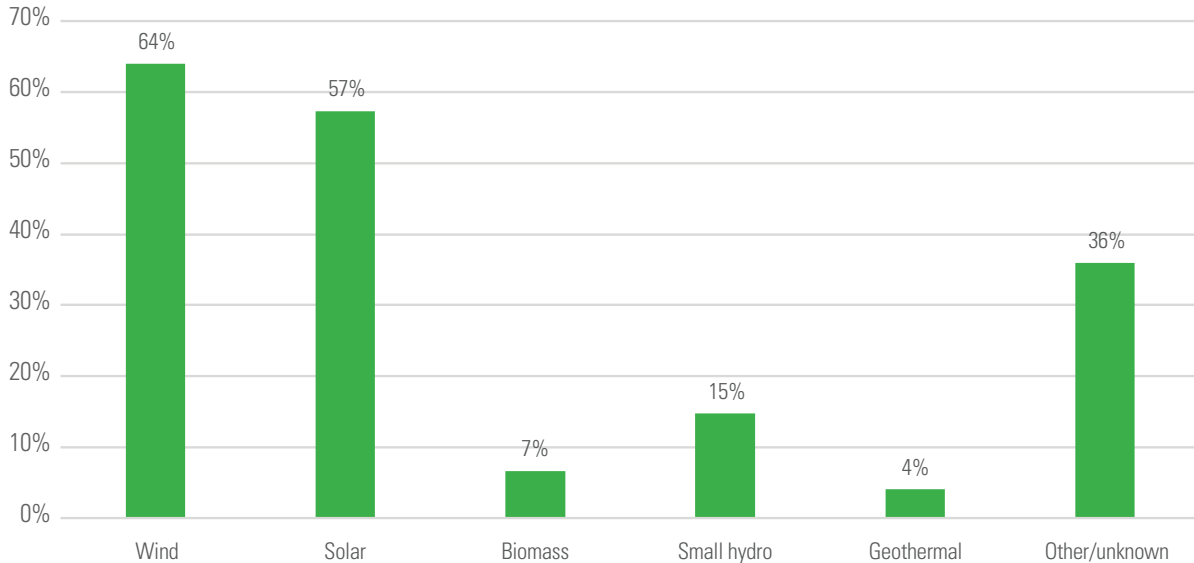
#### 4.1.4. Green/climate assets



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

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

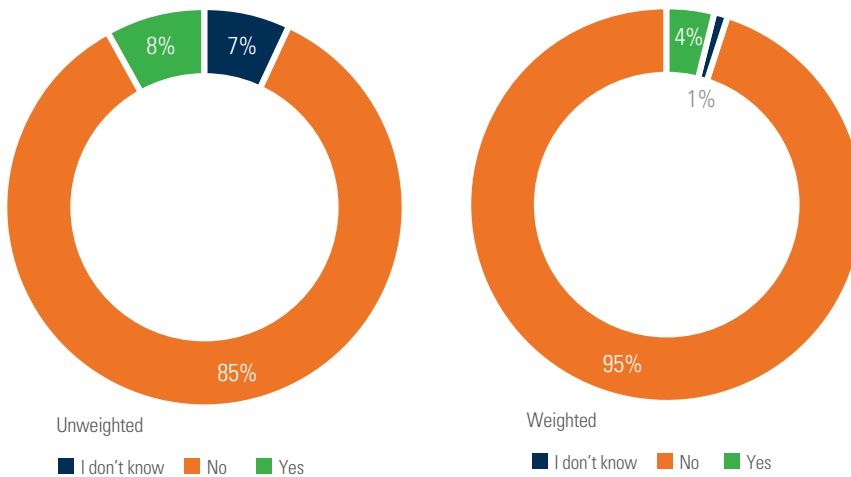
4.1.5. Type of utility scale renewable energy generation investments



Q46: 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)  
n=95

WIND FOLLOWED BY SOLAR GET THE BULK OF INVESTMENTS INTO LARGE-SCALE RENEWABLE ENERGY PROJECTS.

4.1.6. Targets for investments in green and/or climate finance



Q47: Does your fund have investment targets for allocations to green and/or climate finance?

Q48: If your fund has investment targets for green and/or climate finance, please describe (including targets for specific asset classes and types of assets where available)?

n=120

Few retirement funds have specific targets for allocations to green/climate finance, particularly on a weighted basis, meaning more of the larger funds do not have targets. A lot of the retirement funds did not describe the specific targets, while for others it was 7.5% of AUM.

#### 4.1.7. Green/climate asset values

When retirement funds invest in green/climate assets, most invest in utility scale renewable energy generation. At almost R40 billion, their reported investments in this category are nearly three times the value of the total reported investments in other areas. Of the retirement funds that invest in utility scale renewable energy generation, most of the retirement funds were invested in wind and solar renewable energy.

| Green/climate investments                  | Amount (R' billions)       |                       | Respondents                |  |
|--|----------------------------|-----------------------|----------------------------|--|
|  | Total value from responses | Number of respondents | of Not applicable/ unknown |  |
| Utility scale renewable energy generation  | 38.91                      | 89                    | 77                         |  |
| Public transportation                      | 4.41                       | 94                    | 77                         |  |
| Green building/ green housing              | 2.89                       | 91                    | 78                         |  |
| Green/ climate friendly supply chains      | 1.38                       | 91                    | 78                         |  |
| Small off-grid renewable energy generation | 1.26                       | 90                    | 73                         |  |
| Waste management                           | 1.18                       | 90                    | 80                         |  |
| Climate resilient agriculture              | 0.41                       | 91                    | 74                         |  |
| Industrial energy efficiency               | 0.32                       | 90                    | 79                         |  |
| Electrical vehicles                        | 0.24                       | 90                    | 77                         |  |
| Forestry                                   | 0.22                       | 90                    | 80                         |  |
| Renewable energy equipment manufacturing   | 0.10                       | 90                    | 78                         |  |
| Smart-grids                                | 0.05                       | 89                    | 78                         |  |
| Climate-smart water management             | - 0.73                     | 90                    | 79                         |  |

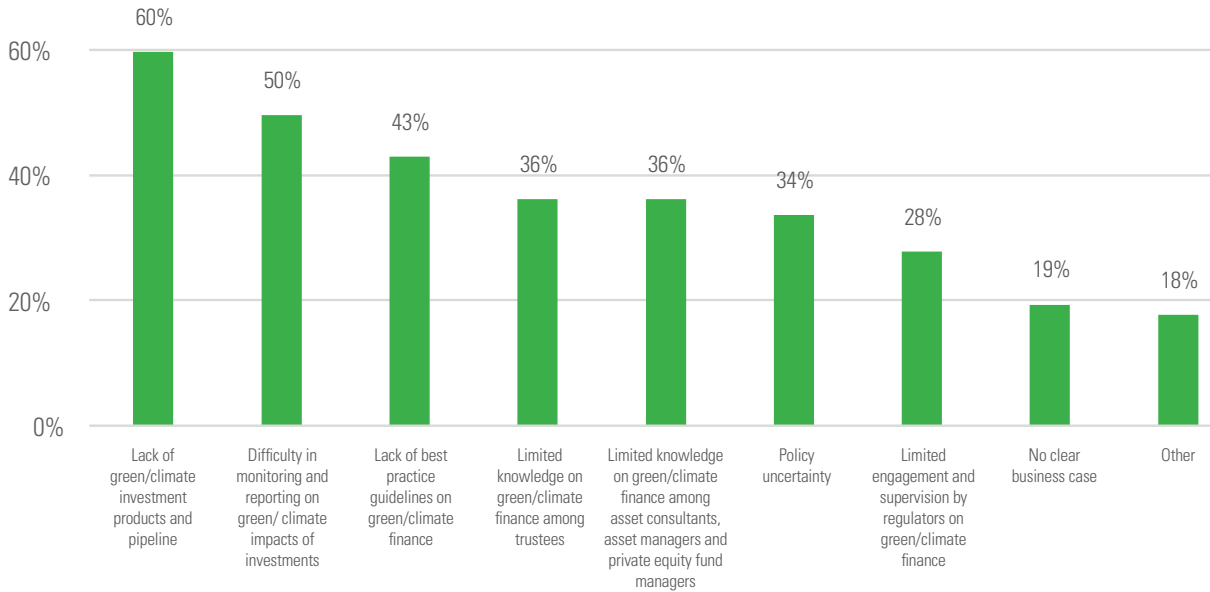
*Q49-Q61: If available, please indicate the amount that your fund invested in waste management/ utility scale renewable energy generation/ small off-grid renewable energy generation/ public transportation/ climate-smart water management / electric vehicles/ green building / green housing/ smart-grids/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

*n = 89 to 94*

Over one third of retirement funds have opted for investments in utility-scale renewable energy generation. It stands to reason that this category has the highest level of investment due to the highly integrated renewable energy programme in South Africa.

Just over half of the retirement funds submitted responses to this question. This possibly indicates an information gap for many retirement funds at this level of detail.

4.1.8. Challenges in directing investments to green and climate-focused assets



Q109: What do you see as the greatest challenge for your fund in directing investments to green and climate-focused assets? Select all that apply.

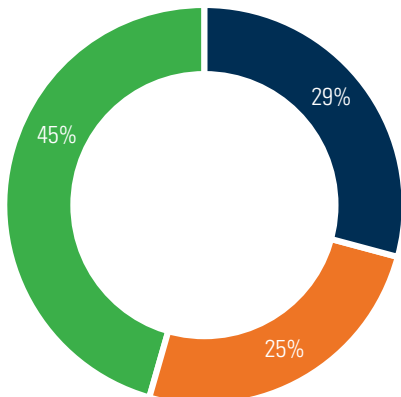
n=119

Even the factor that received the lowest tally, “no clear business case,” is believed by 19% of the retirement funds to be a challenge.

The greatest challenge for retirement funds in directing investments to green and climate-focused assets is the lack of green/climate investment products and pipeline, although all the factors listed are seen as challenges by many of the retirement funds.

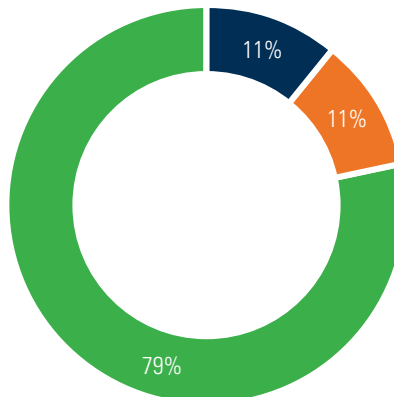
4.1.9. Coal-related investments

Most retirement funds currently invest in some way in coal mining, coal logistics and/or coal-fired power plants, and have collectively placed at least R11 billion in coal mining, which signals exposure to climate risks, high emissions, and the potential for stranded assets.



Unweighted

I don't know No Yes



Weighted

I don't know No Yes

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

*n=119*

More larger retirement funds invest in coal-related assets than smaller retirement funds. Limitations in current monitoring practices across all asset classes means that coal exposures are likely to be bigger overall, particularly through listed equities.

#### 4.1.10. Coal investments asset values

| Investments             | Amount (R' billions) |                     | Respondents             |  |
|-------------------------|----------------------|---------------------|-------------------------|--|
|                         | Total from responses | Number of responses | Not applicable/ unknown |  |
| Coal mining             | 10.99                | 97                  | 68                      |  |
| Coal fired power plants | 4.69                 | 92                  | 74                      |  |
| Coal logistics          | 2.02                 | 94                  | 75                      |  |

*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.*

*n = 92 to 97*

Where reported, total coal-related investments are R17.7 billion – about half the value of reported green/ climate focused assets.

These findings show the difficult balancing act that trustees and principal executive officers must manage in fulfilling their fiduciary duty. On the one hand, they

are already supporting green energy projects that are seen to contribute to the reduction of harmful carbon emissions. On the other hand, they have very large investments in coal-related industries.

However, in terms of reported value, retirement funds have invested in green assets at more than twice the value of coal-related assets. This is significant, since it shows that despite the lack of an overt climate-focused strategy in their IPS, pension funds seem to be at least as likely to invest in green and climate-themed assets as coal-linked ones.





## 05

## INVESTMENTS IN SUSTAINABILITY-THEMED BONDS

One of the segments of sustainable finance that has grown the most rapidly in recent years is green bonds. Total global green bond issuance in 2019 was US\$258.59 billion<sup>10</sup> and the market continues to grow. Following this example, bonds with social and sustainability themes, particularly green loans, are becoming popular.

Green and social bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing projects that have environmental (“green”) or social benefits, respectively.

Sustainability bonds combine assets with both green and social benefits and are commonly associated with the SDGs<sup>11</sup>.

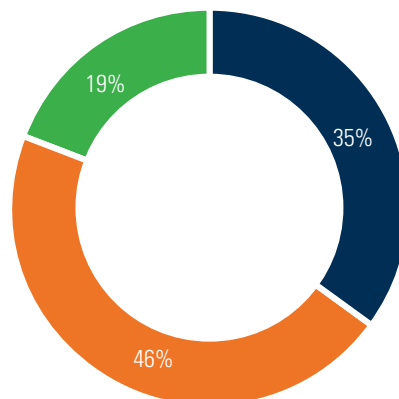
The International Capital Market Association (ICMA) has introduced principles to ensure the credibility of green, social, and sustainability bonds respectively. The JSE launched a Green Bond Segment in 2017 in line with the ICMA principles.

As of July 2020, the JSE’s Green Bond Segment has been expanded to a fully-fledged Sustainability Segment and interested issuers can now list social and sustainability bonds along with green bonds. The amended rules now refer to the Social Bond Principles, Sustainability Bond Guidelines, and Green Bond Principles (GBP), issued and governed by ICMA, or any other standard acceptable to the JSE, at its discretion. It maintains requirements for review by an independent sustainability advisor as well as ongoing reporting. In addition, there are a number of initiatives under way globally to define the types of assets that qualify as having environmental or social benefits. These classifications are also referred to as “taxonomies” and can help to scale investments in sustainable assets and activities.

South Africa’s National Treasury is leading an initiative to develop a national green finance taxonomy, to be launched in 2021, which will reduce the costs and increase the benefits of classifying green assets through a coordinated and consistent market-wide approach<sup>12</sup>.

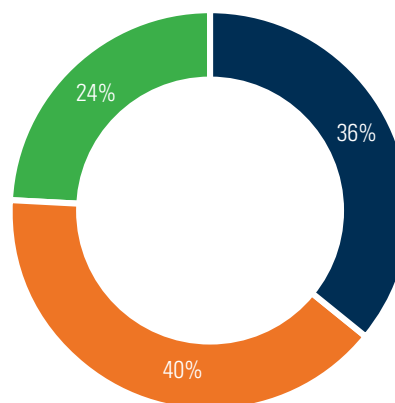
### 5.1. Investments in sustainability-themed bonds

#### 5.1.1. Investments in green, social, or sustainability-themed bonds



Unweighted

■ I don't know ■ No ■ Yes



Weighted

■ I don't know ■ No ■ Yes

10 Climate Bonds Initiative, (2019), Green Bonds: Global State of the Market 2019.

11 See <https://sdgs.un.org/goals>.

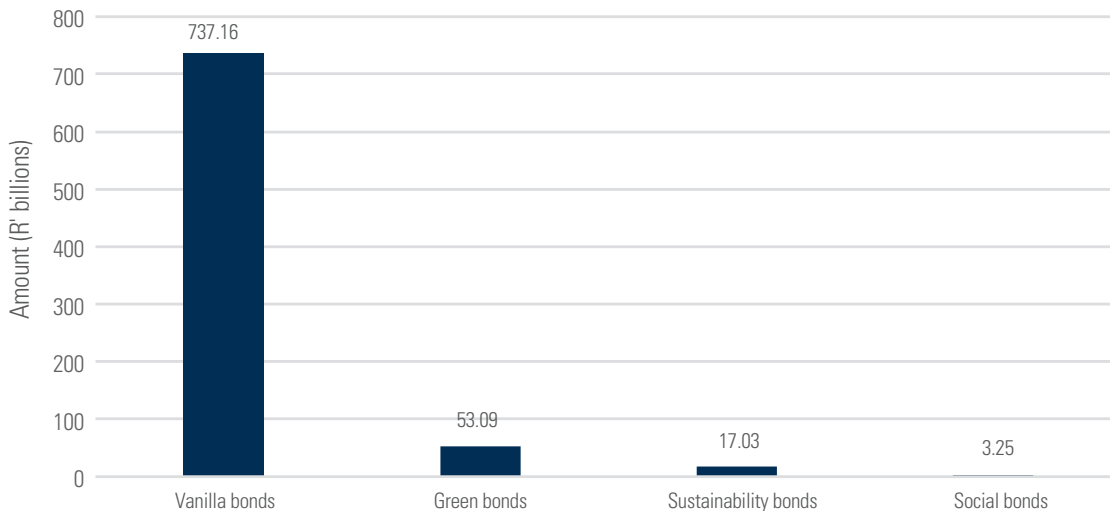
12 See: <http://sustainablefinanceinitiative.org.za/taxonomy-working-group-oct/>.

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

*n=117*

Only a minority of retirement funds currently invest in green, social, or sustainability-themed bonds that meet recognised standards. This was consistent even on a weighted basis.

**5.1.2. Bond asset allocation**

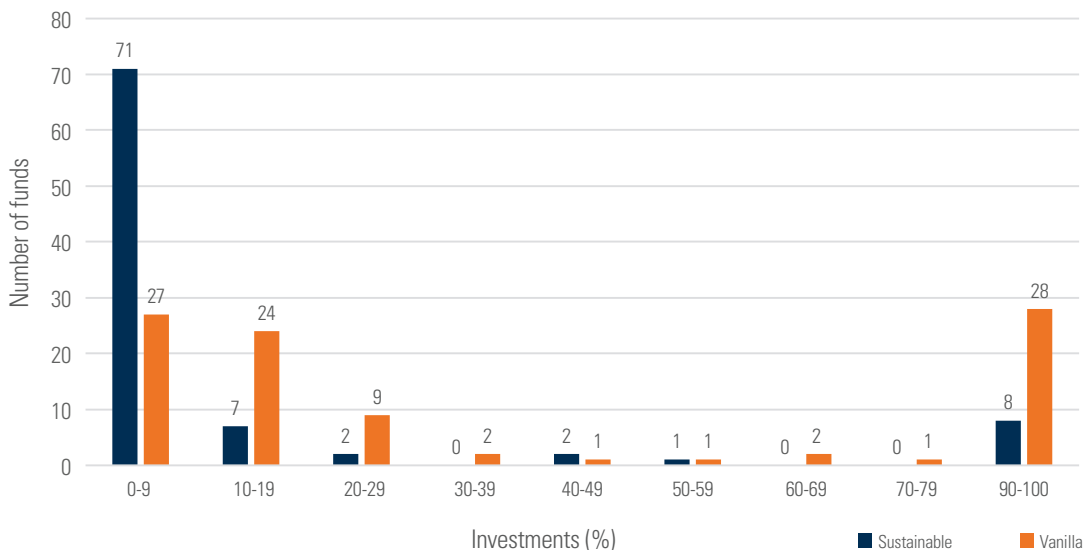


**Q68-Q71: If you answered "yes" to the question above, please indicate your fund's total investment exposure to green/social/sustainability/vanilla bonds as of the last reporting period.'**

*n = 68 to 82*

Vanilla bonds are still the most favoured type. Retirement funds have invested almost 10 times more in vanilla bonds than in green, sustainable and social bonds. 95 funds have local investments in vanilla bonds and 91 in sustainability-themed bonds.

**5.1.3. Local investments in green, social, and sustainability bonds vs vanilla bonds**



*Q72: What percentage of your combined current investments in green, social, and sustainability bonds have been made locally (in South Africa) as of the last reporting period?*

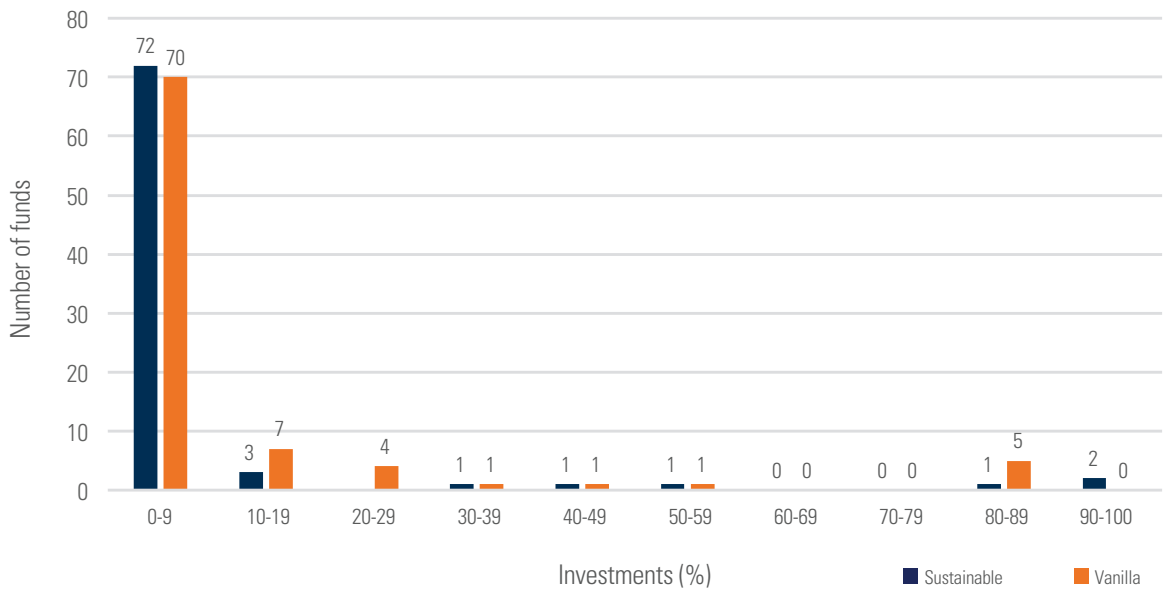
n=91

*Q73: What percentage of your total current investments in vanilla (traditional) bonds have been made locally (in South Africa) as of the last reporting period?*

n=95

The most common investment amounts in both types of bonds are under 10% of AUM and more than 90%. Only a handful have between 30% and 90% of their AUMs invested.

5.1.3.1. Bonds issued by corporations



*Q74: What percentage of your combined current investments in green, social, and sustainability bonds are in corporate issuances as of the last reporting period?*

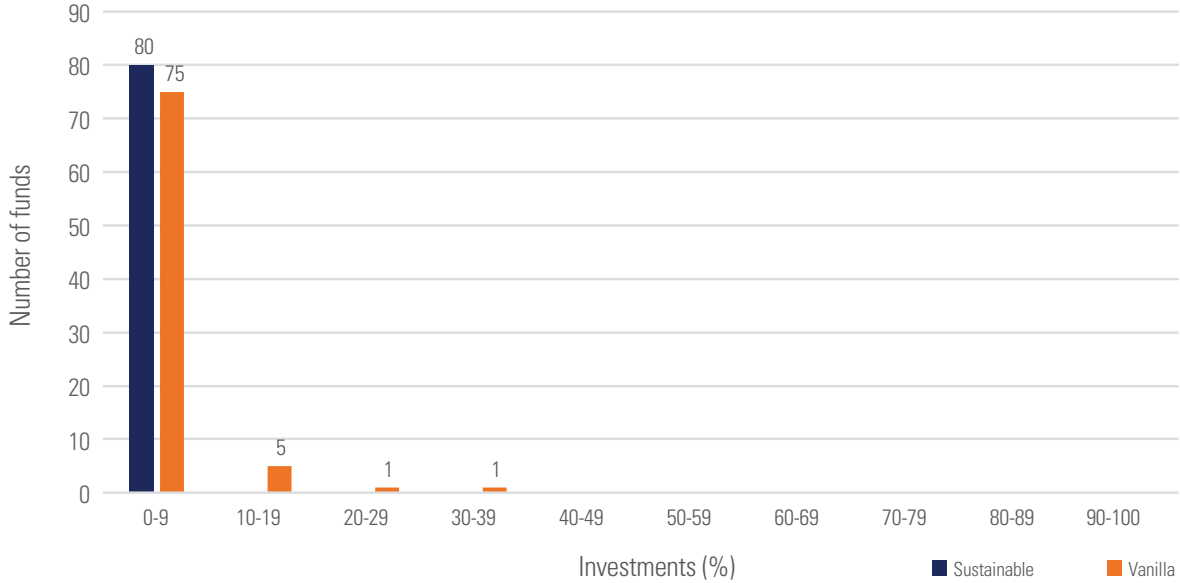
n=81

*Q77: What percentage of your current investments in vanilla (traditional) bonds are in corporate issuances as of the last reporting period?*

n=89

Retirement funds' exposure to corporate bonds and municipal bonds (graph below) is limited, with few investing more than 9% of AUM.

5.1.3.2. Bonds issued by municipalities

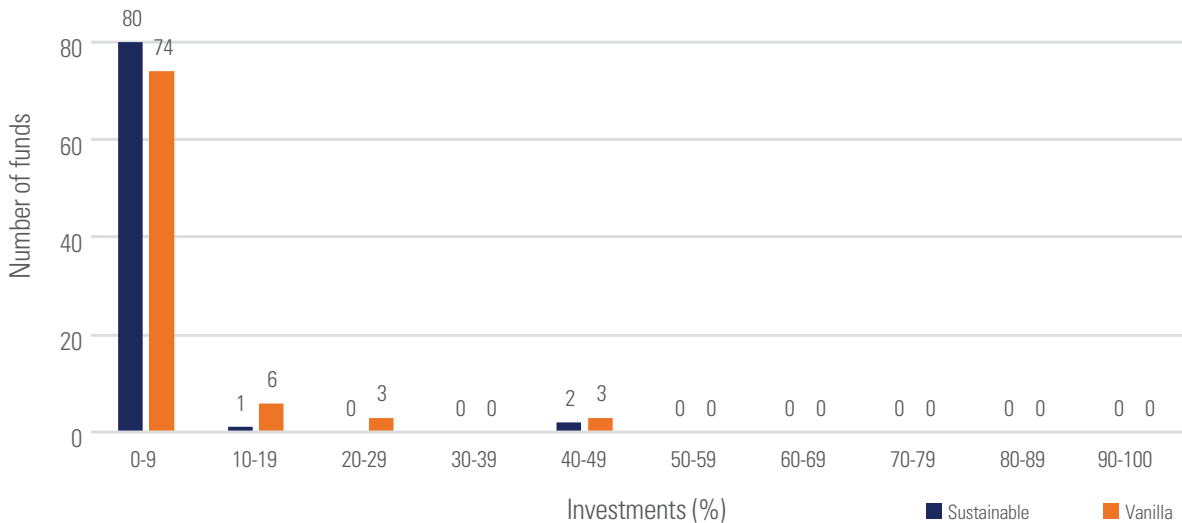


Q75: What percentage of your combined current investments in green, social, and sustainability bonds are in municipal issuances as of the last reporting period?  
n=80

Q78: what percentage of your current investments in vanilla (traditional) bonds are in municipal issuances as of the last reporting period?  
n=82

5.1.3.3. Bonds issued by financial institutions

Retirement funds also have low exposure to financial institutions' bonds.



Q76: What percentage of your current combined investments in green, social, and sustainability bonds are in issuances by financial institutions as of the last reporting period?  
n=83

Q79: what percentage of your current investments in vanilla (traditional) bonds are in issuances by financial institutions as of the last reporting period?  
n=86

06

# STRATEGIC OUTLOOK

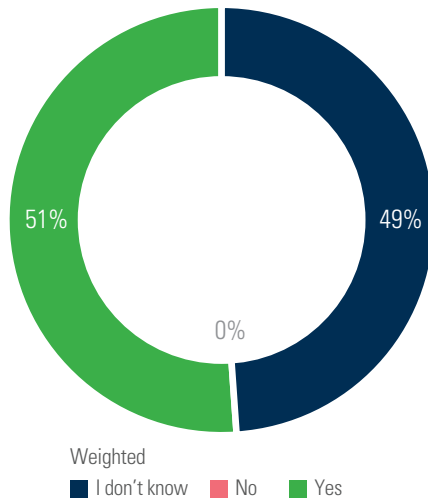
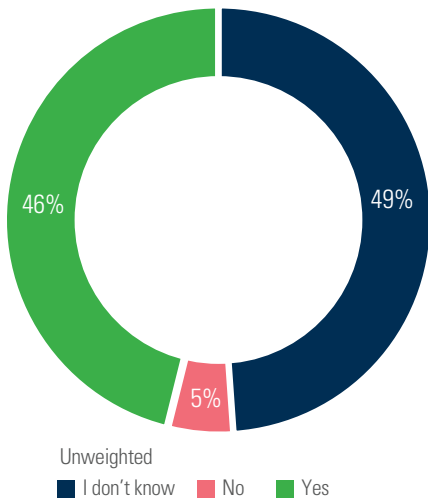
The survey aimed to capture current sustainable finance practices of South African retirement funds as well as future aspirations and potential for collaboration with other investors.

Although retirement funds do not have targets for sustainable investments, just over half of respondents indicated willingness to increase investments in positive social impact, green, and climate investments, while reducing exposure to coal-related investments.

Many retirement funds have not yet aligned with any of the targets under the SDGs, but are willing to support a collective ambition by the South African retirement sector to increase allocations to sustainability-focused investments.

## 6.1. Willingness to commit to collective targets

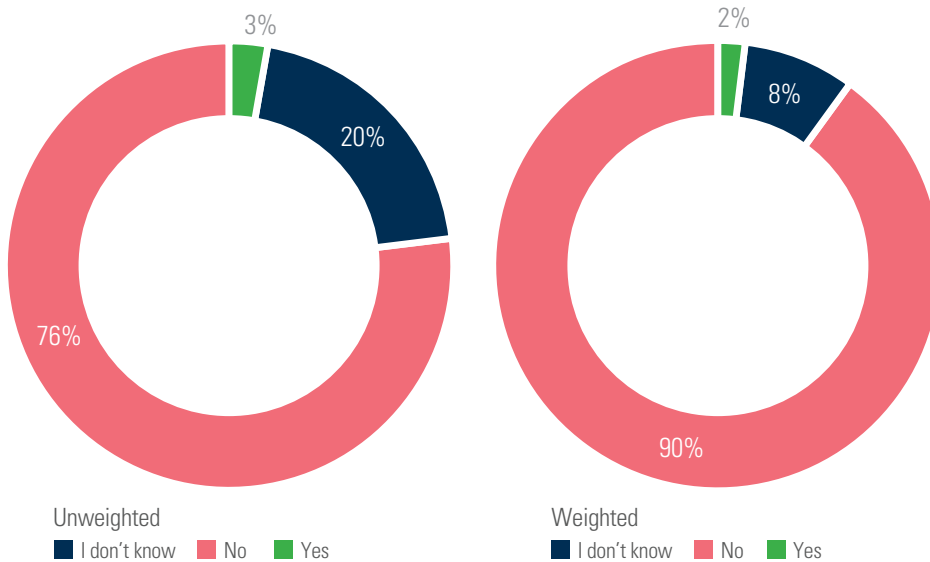
### 6.1.1. Willingness to reduce exposure to coal-related investments



*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)*  
n=127

The majority of the funds would be willing to reduce exposure to coal-related investments. This is even more emphasized on a weighted basis.

6.1.2. Existing commitments to green, climate, social, or sustainability focused investments

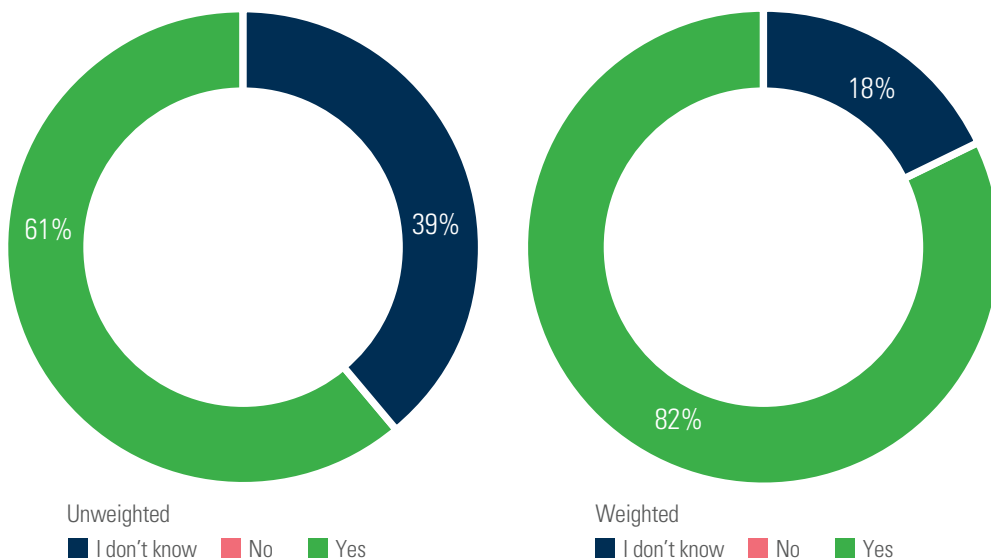


*Q83: Does your fund have any stated ambitions or targets to invest in green, climate, social or sustainability focused investments by 2025 and 2030 as % of AUM? These dates are tied to international commitments such as the Paris Climate Change Agreement and Sustainable Development Goals (SDGs).*

Most retirement funds do not currently have a target amount to invest in such investments, nor do they have plans to institute any in the medium to long term. Of those that do, more are larger retirement funds.

n=125

6.1.3. Willingness to increase fund allocations to green and climate-focused investments



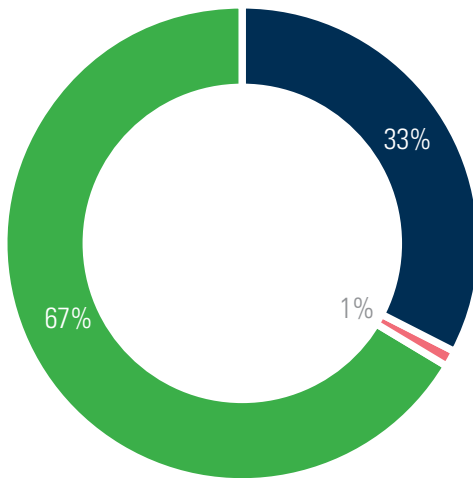
*Q81: Would your fund be willing to commit to increasing its allocations to green and climate-focused investments?*  
n=119

However, most retirement funds said they would be willing to increase allocations to green and climate-focused investments. This is more pronounced on a weighted basis, showing that the larger retirement funds have more appetite to do so.



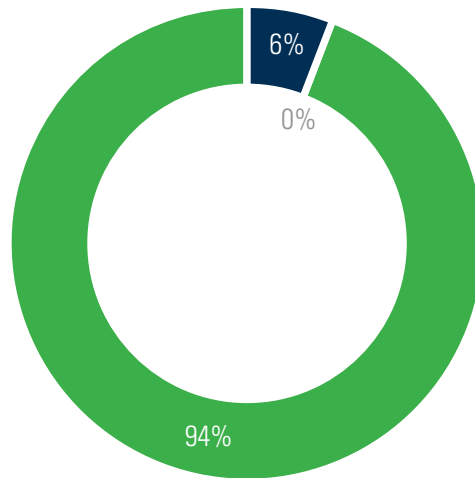
**MOST RETIREMENT FUNDS SAID THEY WOULD BE WILLING TO INCREASE ALLOCATIONS TO GREEN AND CLIMATE-FOCUSED INVESTMENTS**

**6.1.4. Willingness to allocate investment to positive social impact**



Unweighted

■ I don't know ■ No ■ Yes



Weighted

■ I don't know ■ No ■ Yes

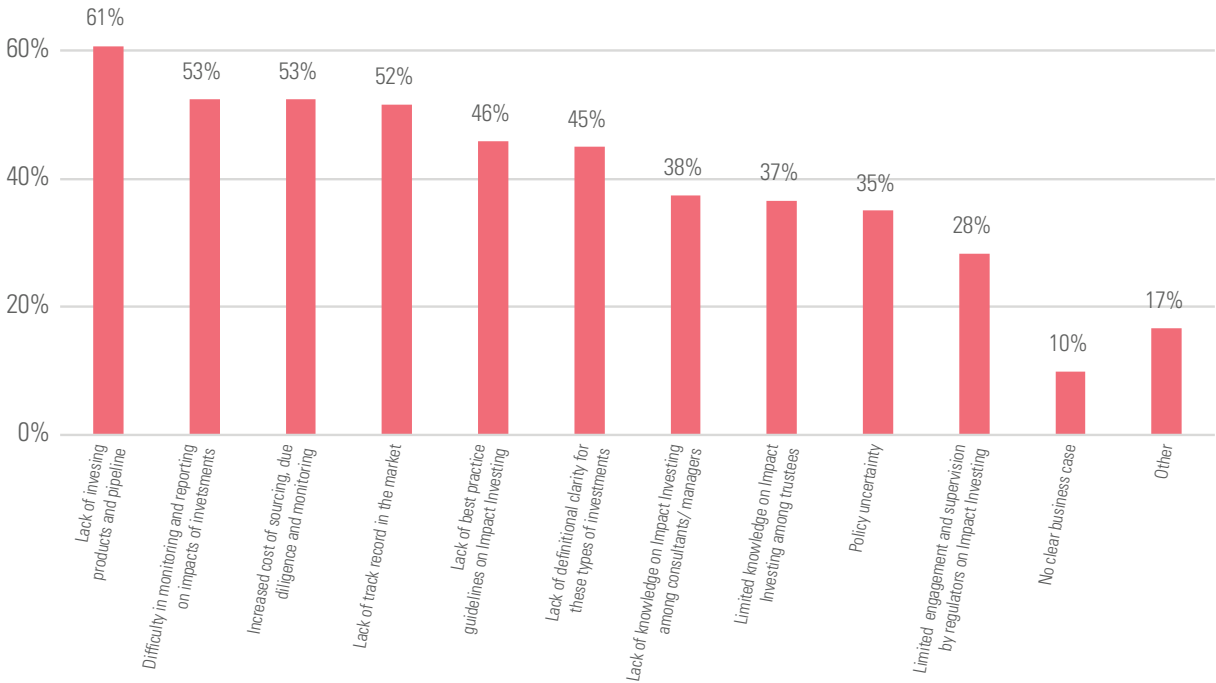
*Q82: Would your fund be willing to commit to increasing its allocations to investments with positive social impact?*  
n=127

A strong majority of retirement funds (67%) said they would be willing to increase their allocations to investments with positive social impact, with the bigger retirement funds more inclined than the smaller ones to do so.



**A STRONG MAJORITY OF RETIREMENT FUNDS ARE WILLING TO INCREASE THEIR ALLOCATIONS TO INVESTMENTS WITH POSITIVE SOCIAL IMPACT**

### 6.1.5. Key constraints to adopting a formal Impact Investment strategy

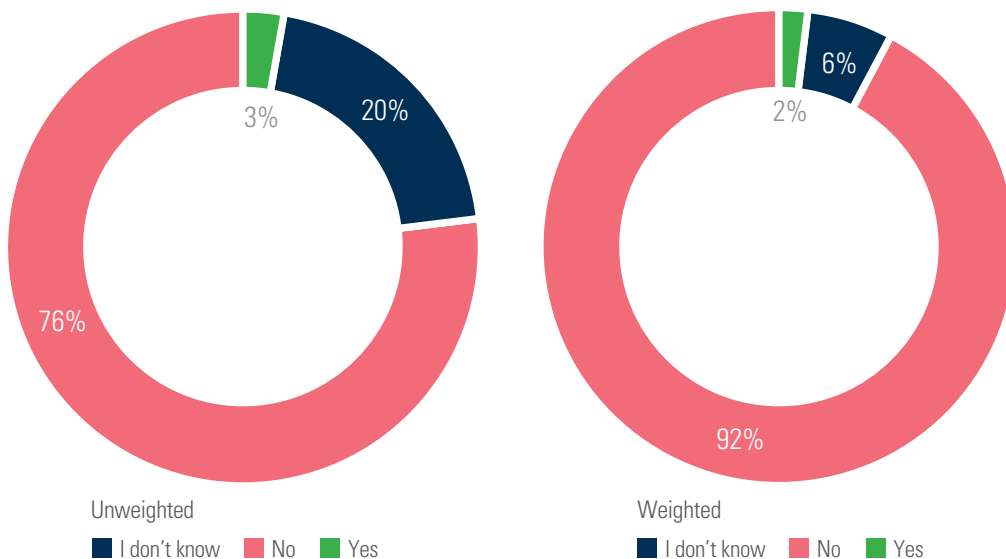


**Q113: What do you see as the key constraints for your fund to adopt a formal impact investment strategy (i.e. to achieve intentional and measurable impacts)? Select all that apply.**

n=120

Similar to the case of green and climate finance, retirement funds cite numerous barriers to adopting a formal impact investing strategy. Most retirement funds identify lack of impact investing products and pipeline as a top constraint, followed by difficulty in monitoring and reporting on impacts of investments.

### 6.1.6. Existing alignment with official targets under Sustainable Development Goals



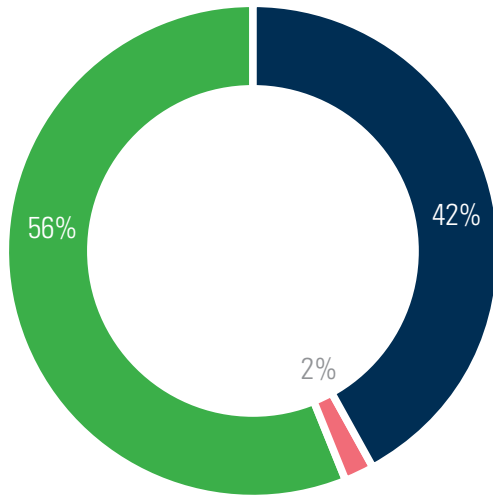


*Q85: Has your fund aligned with any of the 169 official targets under the 17 Sustainable Development Goals (SDGs)? You can access these targets here: <http://tiny.cc/cy9ljz>*

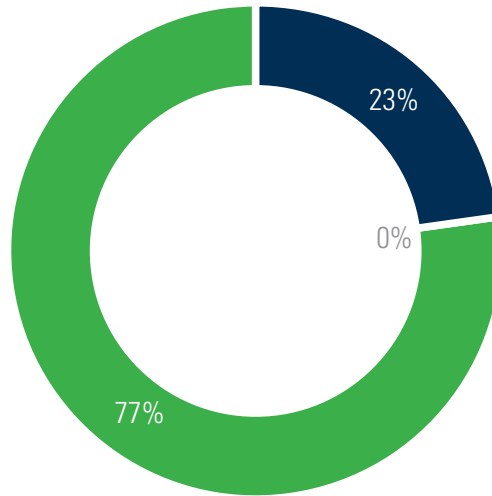
*n=127*

Retirement funds have not yet aligned their goals with any of the targets under the Sustainable Development Goals (SDGs). This was even more pronounced on a weighted basis, which implies that more of the smaller retirement funds have actually done so.

**6.1.7. Support for a pledge by the South Africa pension fund sector on sustainability-focused investments**



Unweighted  
 ■ I don't know ■ No ■ Yes



Weighted  
 ■ I don't know ■ No ■ Yes



*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*

**MOST RETIREMENTS FUNDS ARE WILLING TO SUPPORT A COLLECTIVE TARGET OR PLEDGE, WITH LARGER RETIREMENTS FUNDS MORE LIKELY THAN SMALLER RETIREMENT FUNDS TO DO SO.**



07

# APPROACH TO ESG INTEGRATION

Aims to assist the board of trustees of retirement funds to comply with Regulation 28. It particularly considers how ESG factors are addressed in a retirement fund’s investment policy statement (IPS) and the way in which retirement funds should disclose and report on their ESG integration activities. In this section, we examine the extent to which retirement funds have been able to meet the expectations defined by GN 1 of 2019.

Integration of ESG considerations into investment activities has become recognized as global good practice and part of trustees’ fiduciary duties. It is a core component of both responsible investing and sustainable finance.

In practice, ESG integration includes risk management, active ownership (engagement with investee companies), and a focus on investing in companies and

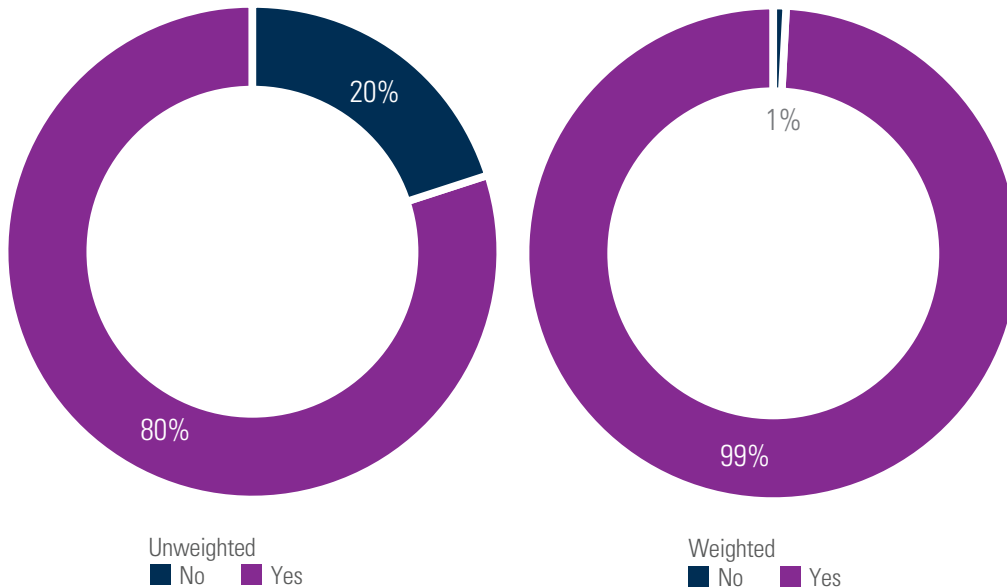
sectors that perform well on environmental, social, and governance criteria.

It keeps both long-term financial performance and ESG sustainability in mind.

The survey found that a majority of the retirement funds (80%) do have an IPS that includes how their investment philosophy and objectives seek to ensure the ESG sustainability of their assets. On a weighted basis the figure climbs to 99%, showing that more larger retirement funds than smaller ones have an ESG-integrated IPS.

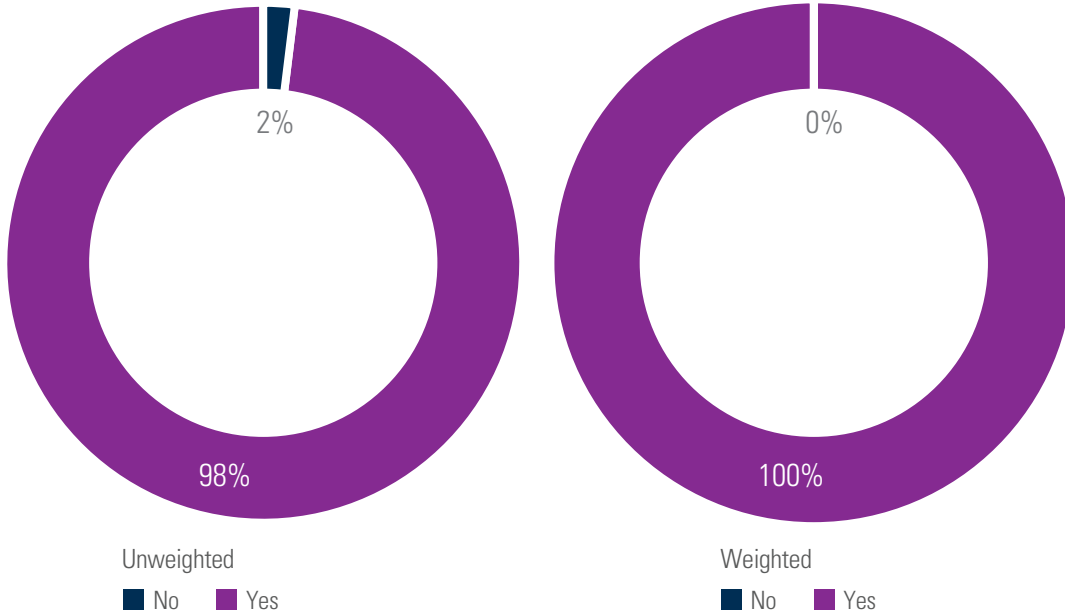
## 7.1. Retirement funds’ approach to ESG integration

### 7.1.1. Investment policy statement (IPS)



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



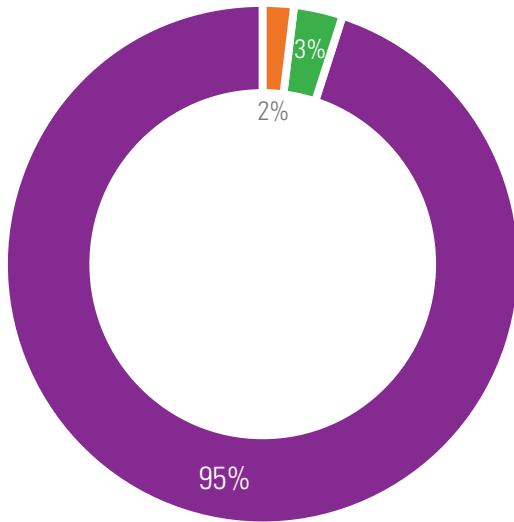
*Q26: Does your fund's IPS include details of when it was approved and by whom?*

*n=124*



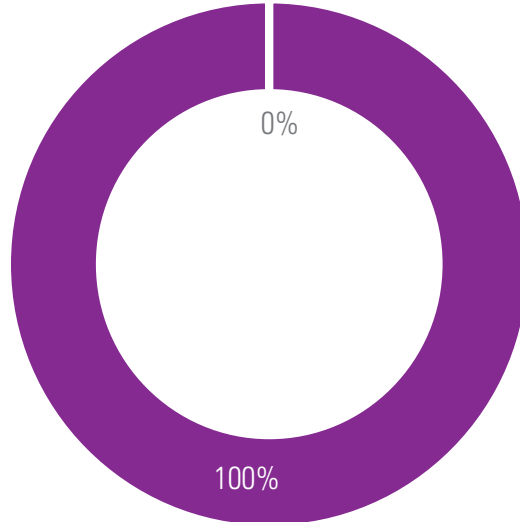
The majority of the retirement funds review their IPS annually, with 2% stating that they review every two years. On a weighted basis, 100% of the retirement funds review annually – indicating that larger retirement funds are more likely to review their IPS annually.

**80% OF RETIREMENT FUNDS HAVE AN INVESTMENT POLICY STATEMENT (IPS) THAT INCLUDES HOW THEIR INVESTMENT PHILOSOPHY AND OBJECTIVES SEEK TO ENSURE THE ESG SUSTAINABILITY OF THEIR ASSETS.**



Unweighted

■ Annually ■ Every two years ■ Other

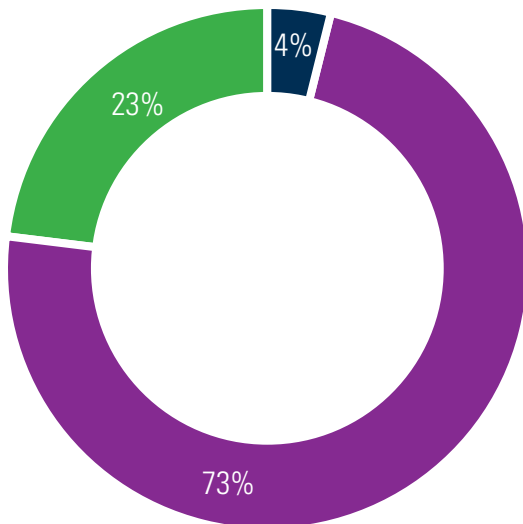


Weighted

■ Annually ■ Every two years ■ Other

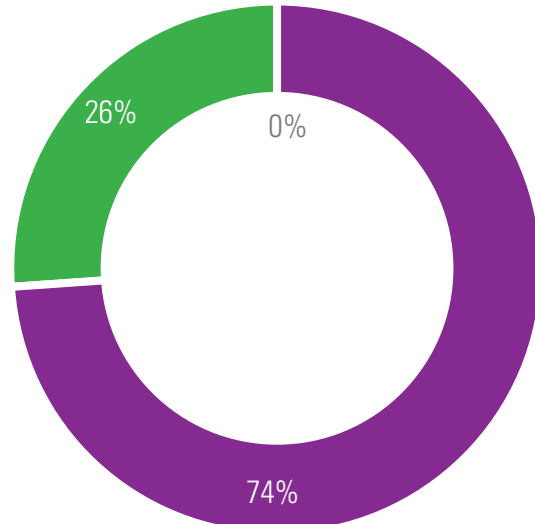
Q27: How often is your fund's IPS reviewed by the board?

n=126



Unweighted

■ I don't know ■ No ■ Yes



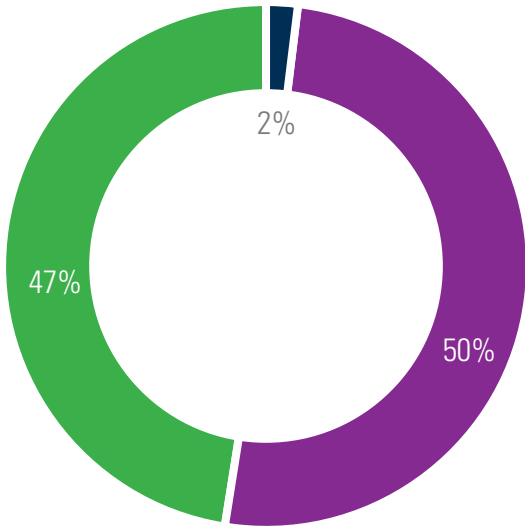
Weighted

■ I don't know ■ No ■ Yes

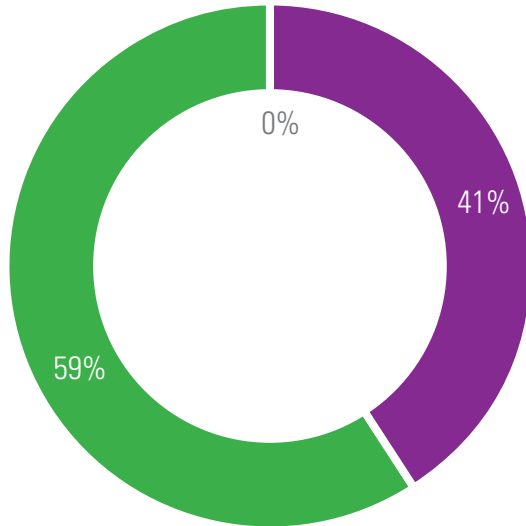
Q28: Does your IPS appear on your fund's website?

n=125

Close to three-quarters of the retirement funds do not publish their IPS on their website.



Unweighted  
 ■ I don't know ■ No ■ Yes

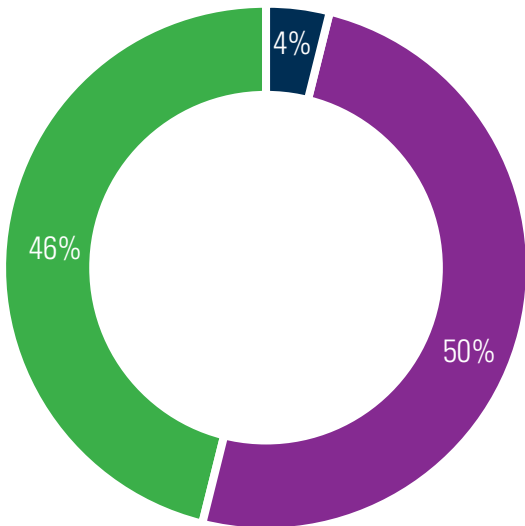


Weighted  
 ■ I don't know ■ No ■ Yes

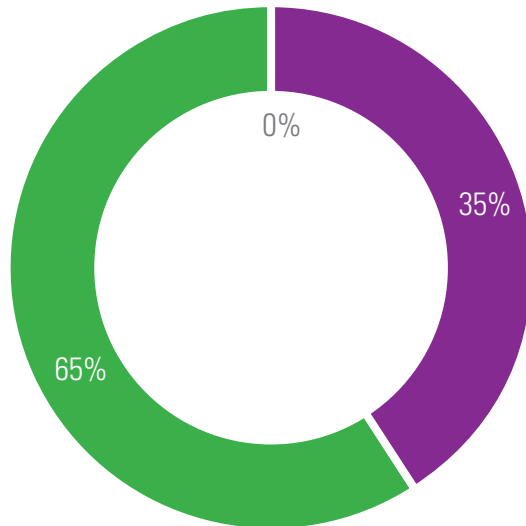
*Q30: Does your fund's IPS include details on how the fund intends to monitor, evaluate and make strategic decisions about the ongoing ESG sustainability of the assets which it owns and which it is intending to acquire?*

n=129

Although the results here are more balanced, the majority of IPSs do not have details on how they intend to monitor, evaluate, and make strategic decisions about the ongoing ESG sustainability of the assets which they own. On a weighted basis, more larger retirement funds than smaller ones have detailed IPSs.



Unweighted  
 ■ I don't know ■ No ■ Yes



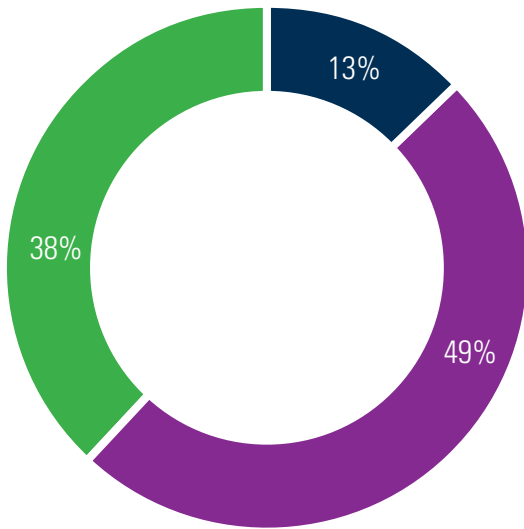
Weighted  
 ■ I don't know ■ No ■ Yes

*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.*

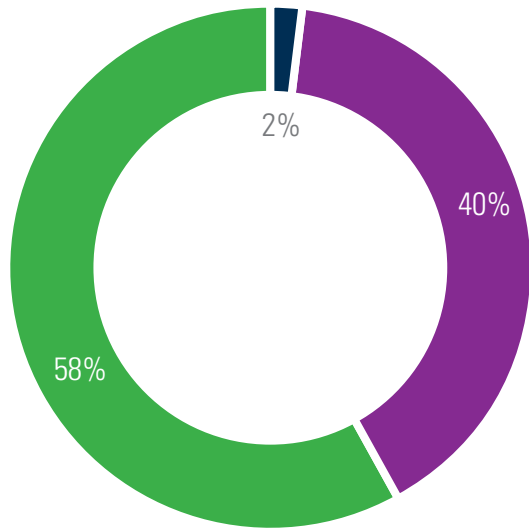
n=128

50% of retirement funds do not have an active ownership policy, compared with 46% that do. On a weighted basis, however, most of the retirement funds do have an active ownership policy, meaning that more larger retirement funds than smaller ones do have it.

**7.2. Fund's engagement on ESG matters**



Unweighted  
 ■ I don't know ■ No ■ Yes



Weighted  
 ■ I don't know ■ No ■ Yes

*Q32: Has your fund engaged with any of its investee companies on ESG matters in the last reporting period (i.e. Active Ownership)?*

The bigger retirement funds are far more likely to engage with their investee companies on ESG matters. Most of the smaller retirement funds do not engage.

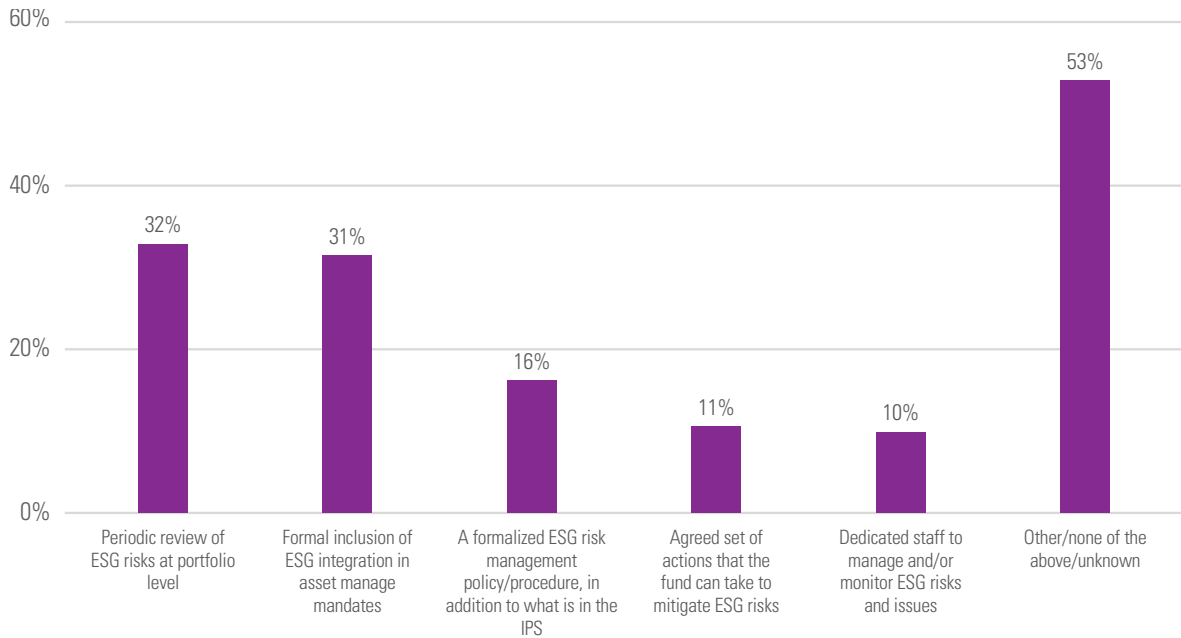
*Q33: If you answered "Yes" above, please describe the nature of the engagements and the outcomes.*

n=123



**31% OF FUNDS INCLUDE ESG INTEGRATION IN ASSET MANAGER MANDATES**

### 7.2.1. ESG integration strategy



**Q34: Does your fund have any of the following elements in place to implement an ESG integration strategy? Select all that apply**  
*n=127*

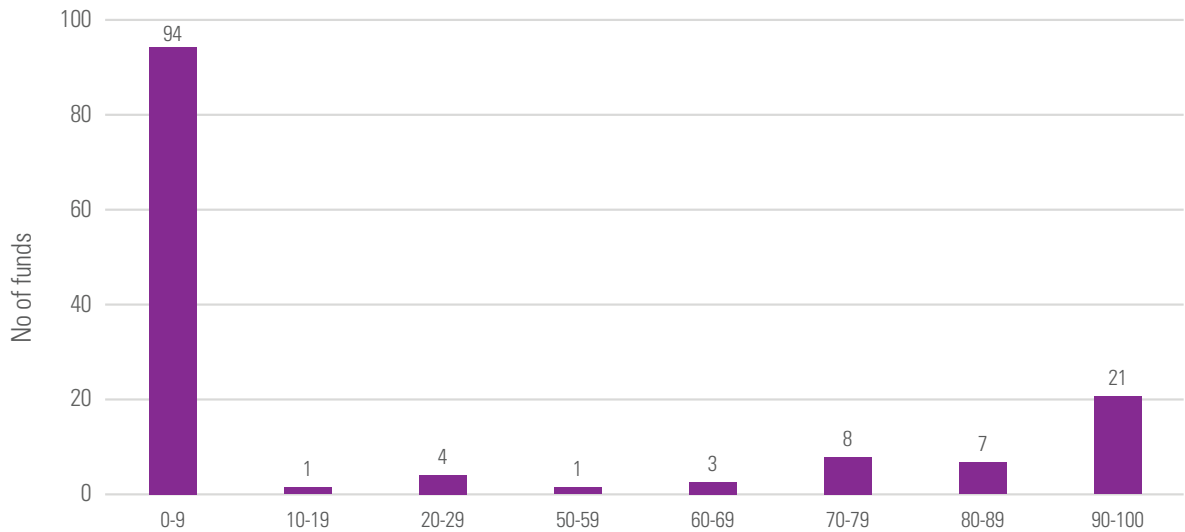
Out of the retirement funds that indicated having some elements in place to implement an ESG integration strategy, 32% say they engage in a periodic review of ESG risks at portfolio level, followed closely by those that have a formal inclusion of ESG integration in asset manager mandates. Few retirement funds (10%) have dedicated staff to manage/monitor ESG risks.



**MOST OF THE RETIREMENT FUNDS PRIORITISE FOSSIL FUEL EXPOSURE, DIRECTORS' APPOINTMENTS AND REMUNERATION, BOARD COMPOSITION AND GOVERNANCE.**



7.2.2. ESG risk screening

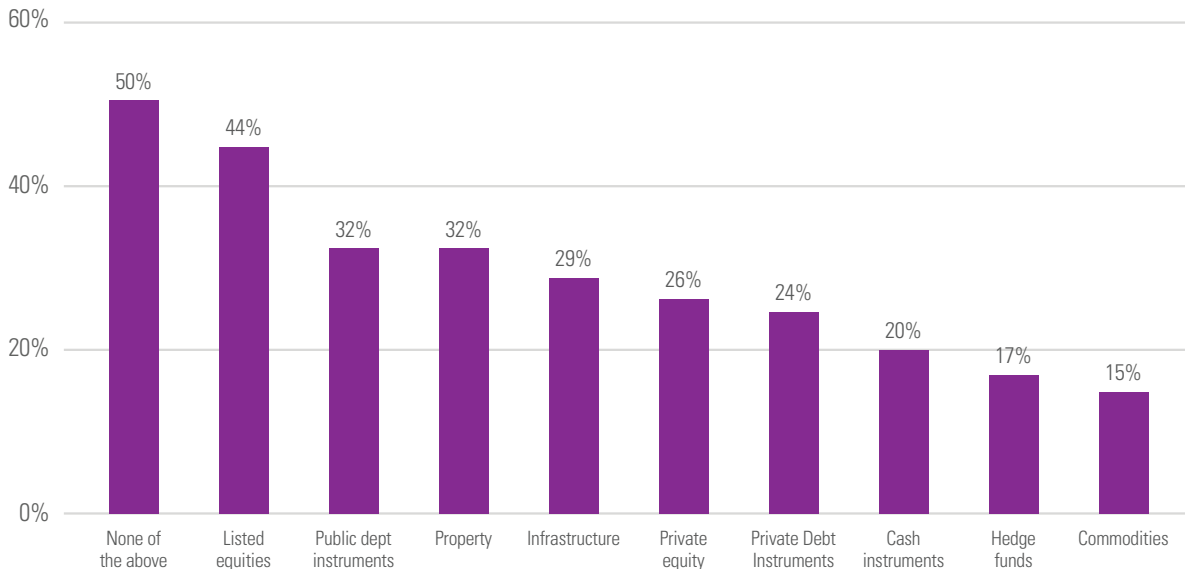


**Q35:** What percentage of your fund's total investments were screened for ESG risks as of the last reporting period?  
n=139

94 funds, or 68% of the 139 funds surveyed, indicated that between 0% and 9% of their total investments were screened for ESG risks. Encouragingly, this was followed by 15% of funds that indicated between 90% and 100% of their total investments were screened for ESG risks.

**Q36:** What are the top 5 ESG issues that your fund typically prioritizes when screening potential investments?

Overall, the most important ESG factors to funds were fossil fuel exposure, directors' appointments and remuneration, board composition, and governance.

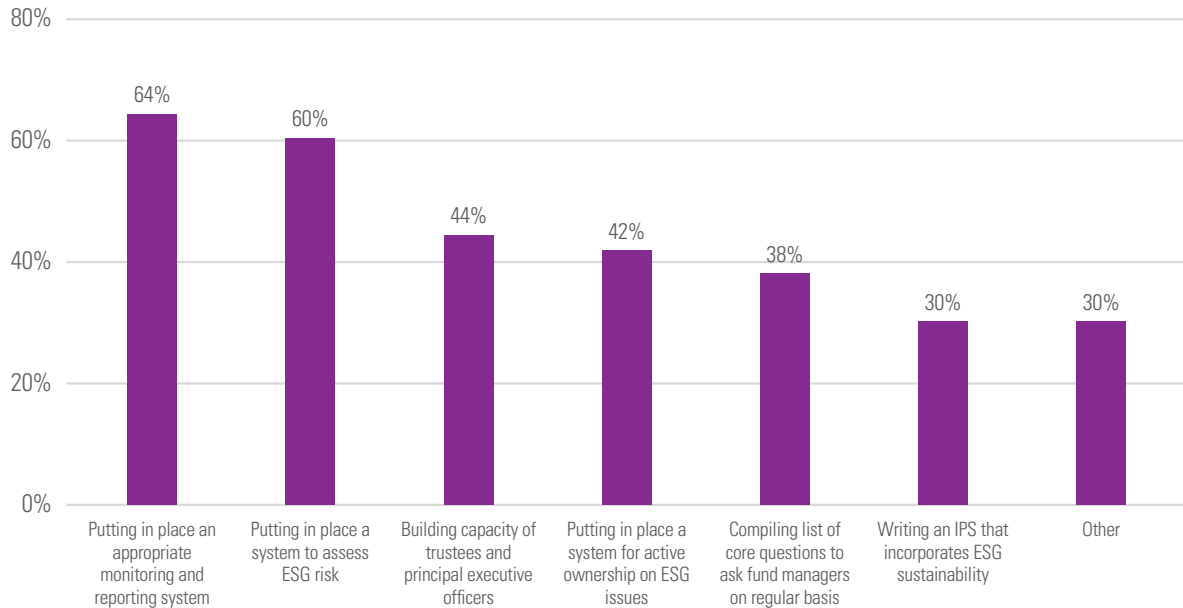


**Q37: For which categories of investments does your fund currently undertake screening for ESG risks? Select all that apply**

*n=115*

Out of the retirement funds that do undertake screening for ESG risks, most screen listed equity investments followed by public debt instruments and property. Commodities are the least screened category.

### 7.2.3. Implementing an ESG strategy



**Q40: What support would your fund require to implement an ESG strategy? Select all that apply**

*n=117*

Most retirement funds indicated that support is needed across a range of activities to integrated ESG. These findings show that the largest share of retirement funds' AUM are being managed in line with Regulation 28's stipulations on ESG considerations, but there are many retirement funds that are still not able to fully comply.

08

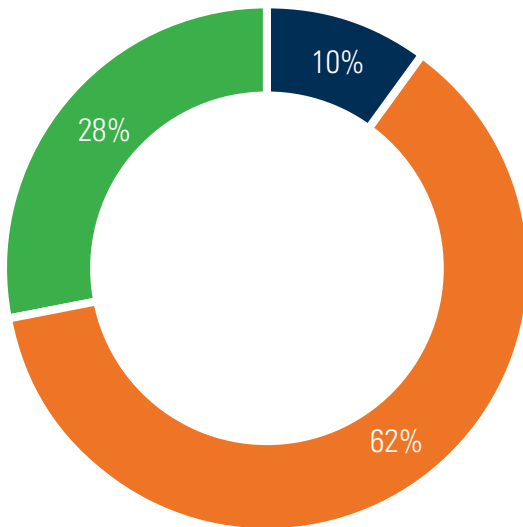
# REPORTING ON IMPLEMENTATION AND IMPACT

Provides overarching guidance on expectations for retirement funds to disclose and report on sustainability of investments and assets.

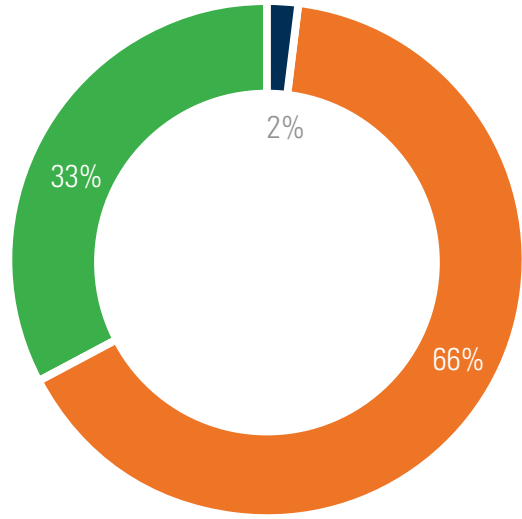
The findings show that most retirement funds do not currently collect data on ESG risks in their assets. Those that do track these metrics use a diverse set of tools, including asset managers’ feedback, company reports, ESG tracking systems, and external advisory companies.

## 8.1. Reporting on implementation and impact

### 8.1.1. Data collection on ESG risks and management



Unweighted  
 ■ I don't know ■ No ■ Yes



Weighted  
 ■ I don't know ■ No ■ Yes

*Q90: Does your fund collect data from its assets about what ESG risks exist and how these are managed?*

*Q91: What reporting tools, systems, processes or frameworks does your fund use to monitor ESG risks associated with its assets? (if any)*

*Q92: What do you expect / require from your fund's asset managers in terms of monitoring and reporting on ESG risk and performance of investments?*

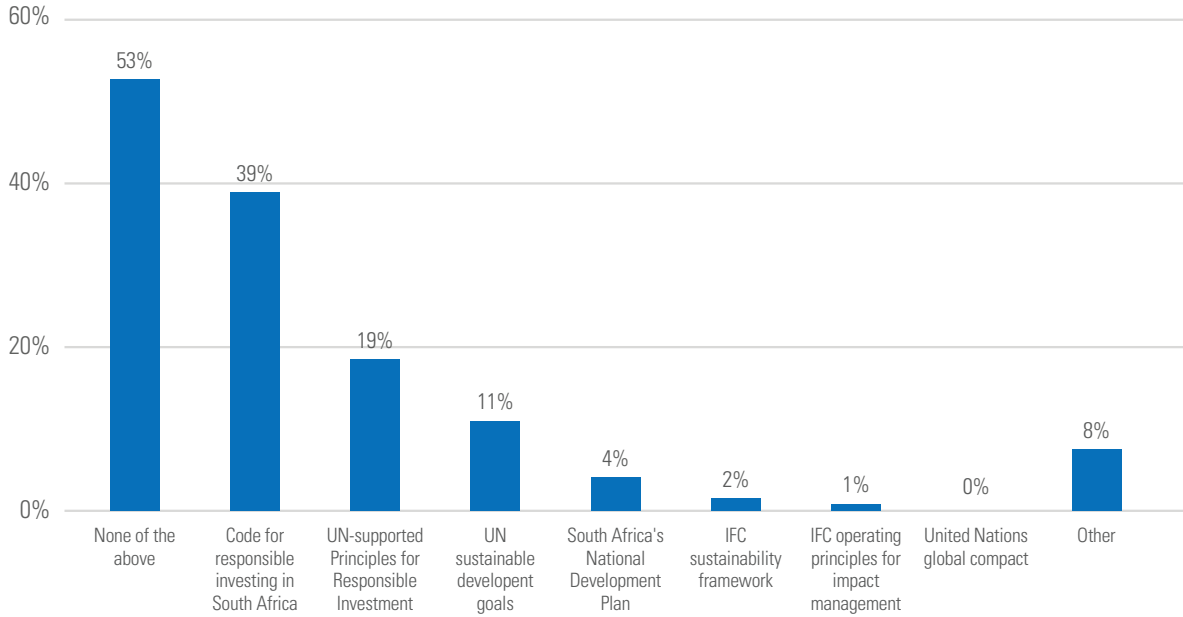
n=120

Going forward, many retirement funds indicated they would need consistent data collection and classifications across their investments from asset managers in order to monitor and report on ESG risks.



**MANY RETIREMENT FUNDS INDICATED THEY NEED CONSISTENT DATA COLLECTION AND CLASSIFICATIONS BY ASSET MANAGERS TO MONITOR AND REPORT ON ESG RISKS.**

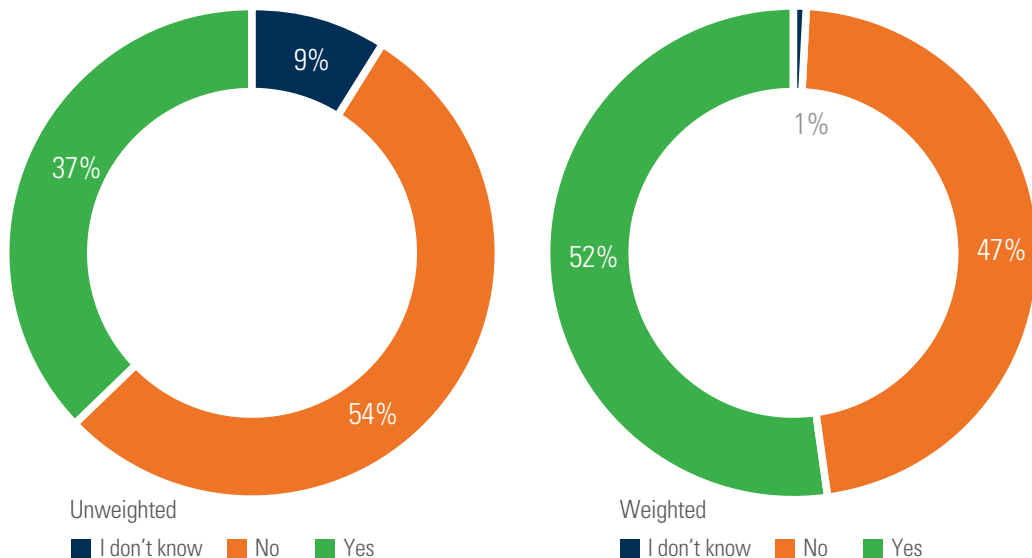
### 8.1.2. Initiatives related to sustainable / responsible investing



**Q23: Has your fund signed up to or aligned with any recognized national or international initiatives related to sustainable / responsible investing? Select all that apply**  
n=118

The majority of the retirement funds have not yet signed up to or aligned with any recognised national or international initiatives related to sustainable investing. Of those that have done so, a majority have aligned with the Code for Responsible Investing in South Africa (CRISA).

### 8.1.3. Requiring asset managers to sign up to sustainable/responsible investing initiatives

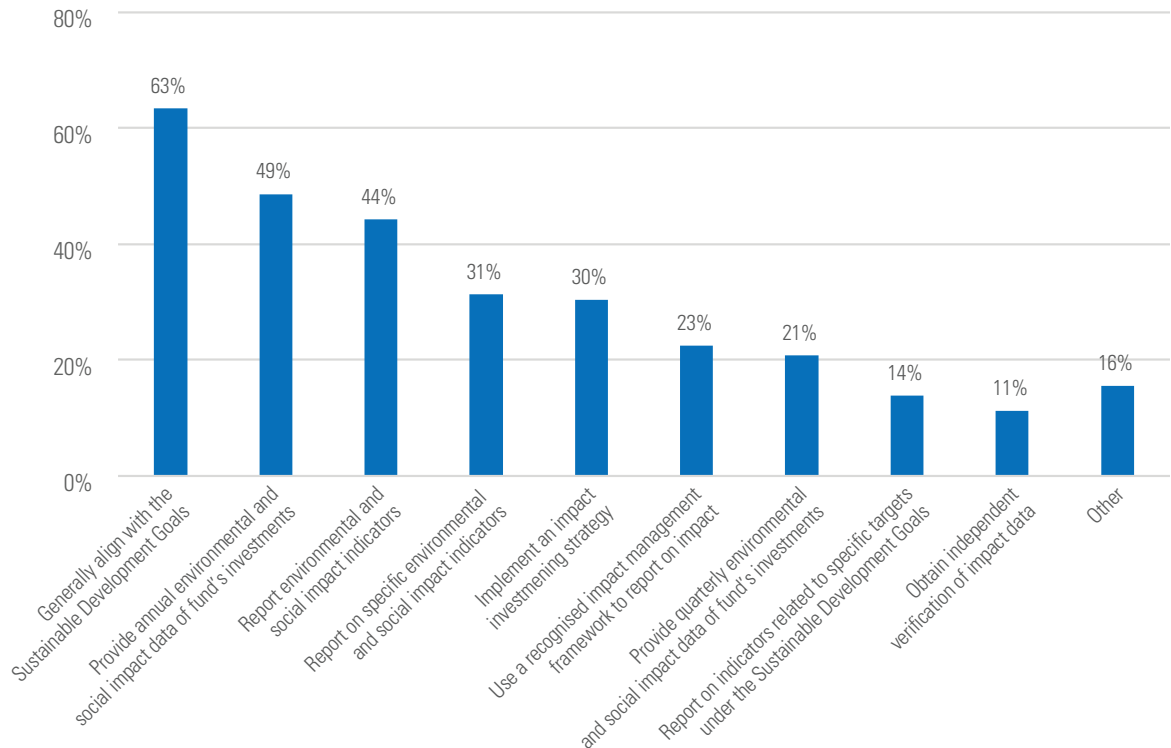


While only 37% of retirement funds require their asset managers to be formal signatories or members of a voluntary sustainable/responsible investing initiative, on a weighted basis the figure jumps to 52%, meaning more of the bigger retirement funds do require this.

*Q93: Do you require your fund's asset managers to be formal signatories or members of a voluntary sustainable/responsible investing initiative? e.g. UN-supported Principles for Responsible Investment (PRI) or Code for Responsible Investing in South Africa (CRISA)?*

*n=121*

#### 8.1.4. Monitoring and reporting on environmental and social impacts of assets



Nearly two third of the retirement funds said they require their asset managers to align with the SDGs, while the other measures are generally required by less than half. Obtaining independent verification of impact data received the least interest.

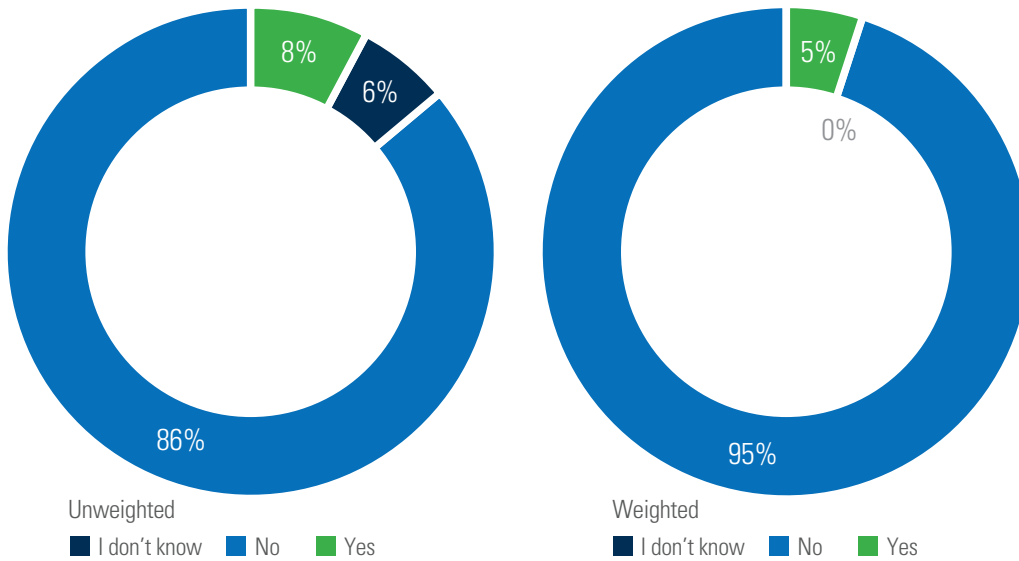
*Q94: What do you expect from your fund's asset managers in terms of monitoring and reporting on environmental and social impacts of your assets? Select all that apply.*

*n=115*



**NEARLY TWO THIRD OF RETIREMENT FUNDS REQUIRE THEIR ASSET MANAGERS TO GENERALLY ALIGN WITH THE SDGS.**

8.1.5. Requirements or guidelines regarding data collection on environmental and social impact

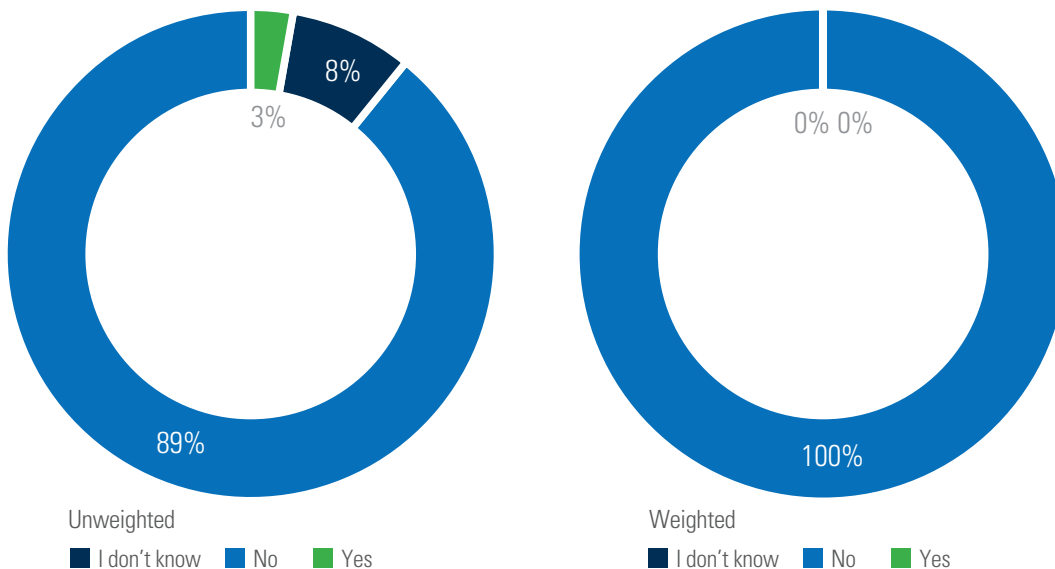


Few retirement funds provide asset managers with requirements or guidelines regarding data collection on environmental and social impact. On a weighted basis the results indicate that the larger retirement funds are less likely than smaller retirement funds to provide such guidelines.

*Q95: Do you provide your fund's asset managers with requirements or guidelines regarding data collection on environmental and social impact to ensure coherence and comparability?*

n=121

8.1.6. External verification of environmental and social impact

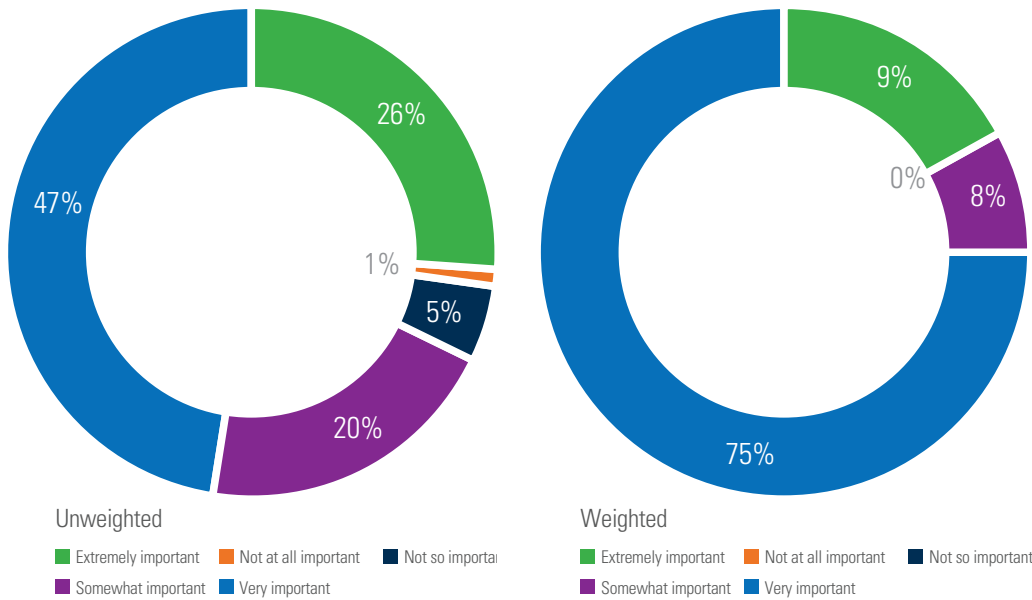


In very few cases (3%) do retirement funds state that their environmental and social impacts are verified or assured by an external party. Interestingly, on a weighted basis, the few funds that do require this are smaller ones.

*Q98: Are your fund's environmental and social impact results verified or assured by an external party?*

n=119

8.1.7. Standard reporting metrics on ESG management and sustainability impact



*Q100: How important is it to have a standard set of metrics for all pension funds to report on ESG management and sustainability impact?*

n=114

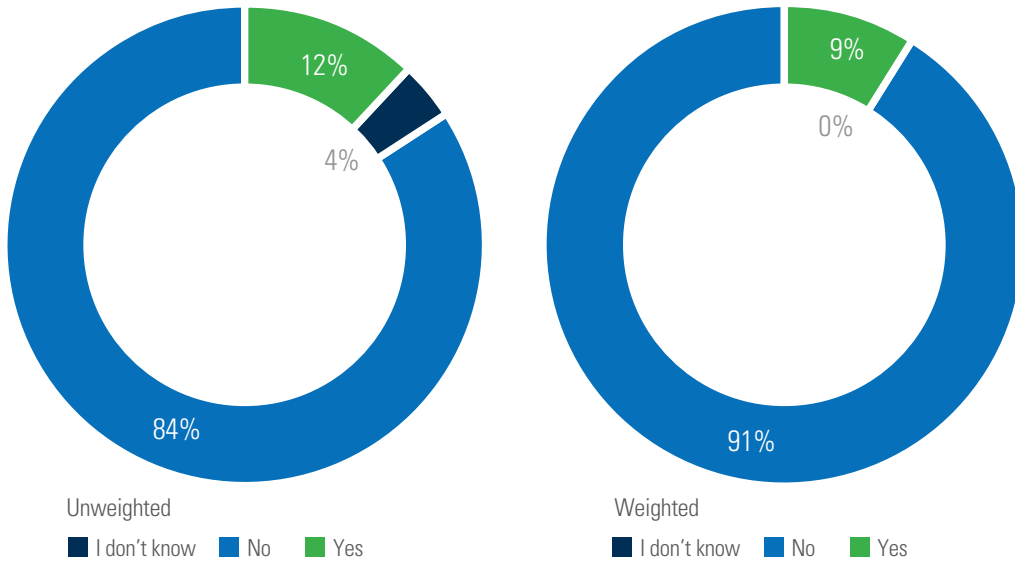


THERE IS STRONG SUPPORT AMONG MOST OF THE RETIREMENT FUNDS SURVEYED FOR A STANDARD SET OF ESG METRICS – PARTICULARLY FROM LARGER FUNDS.



MOST RETIREMENT FUNDS DO NOT ADDRESS THE FSCA'S SUSTAINABILITY EXPECTATIONS IN THEIR ANNUAL REPORTS.

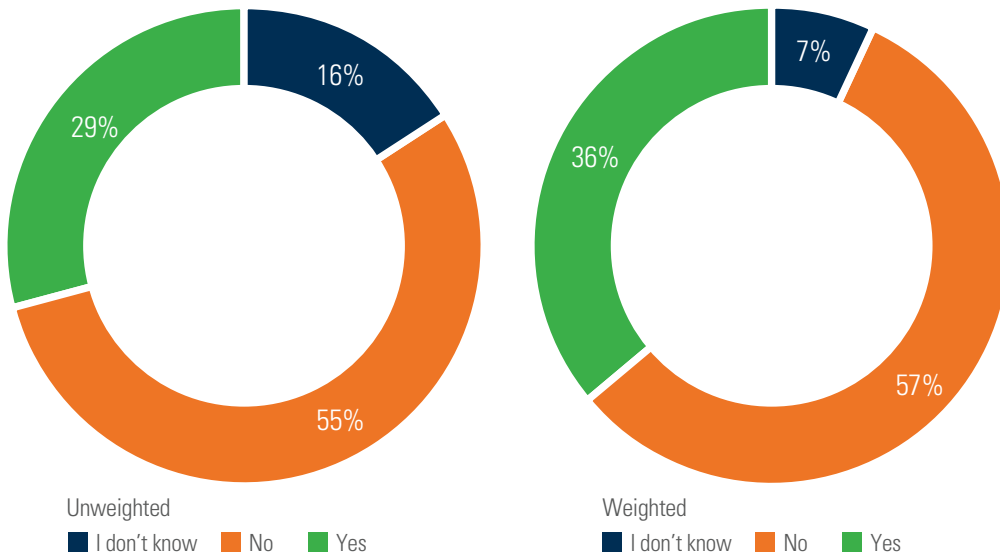
8.1.8. Annual reporting of ESG activities and impact results



Only a small percentage of retirement funds report on ESG activities and impact results in their annual reports to members.

*Q101: Does your fund report on ESG activities and impact results in its annual report to members?*  
n=122

8.1.9. Reporting on elements contained in the FSCA Guidance Notice 1 of 2019 relating to sustainability

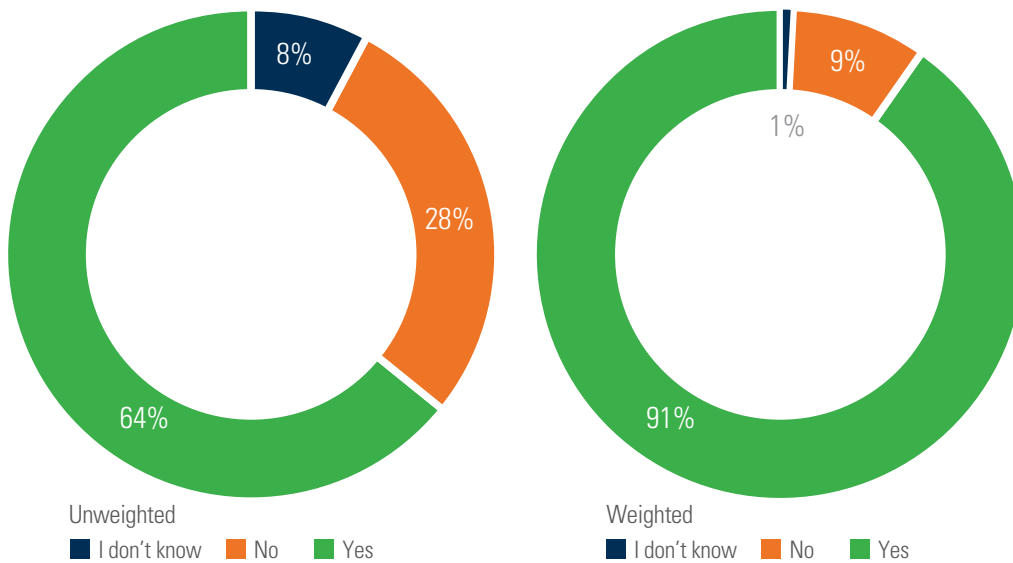


On both unweighted and weighted basis, the majority of the respondents say they do not address elements contained in the FSCA Guidance Notice on sustainability of investments in their annual reports.

*Q102: Does your fund's annual report currently address the elements contained in the FSCA Guidance Notice relating to sustainability of investments and assets in the context of a retirement fund's IPS?*  
n=122



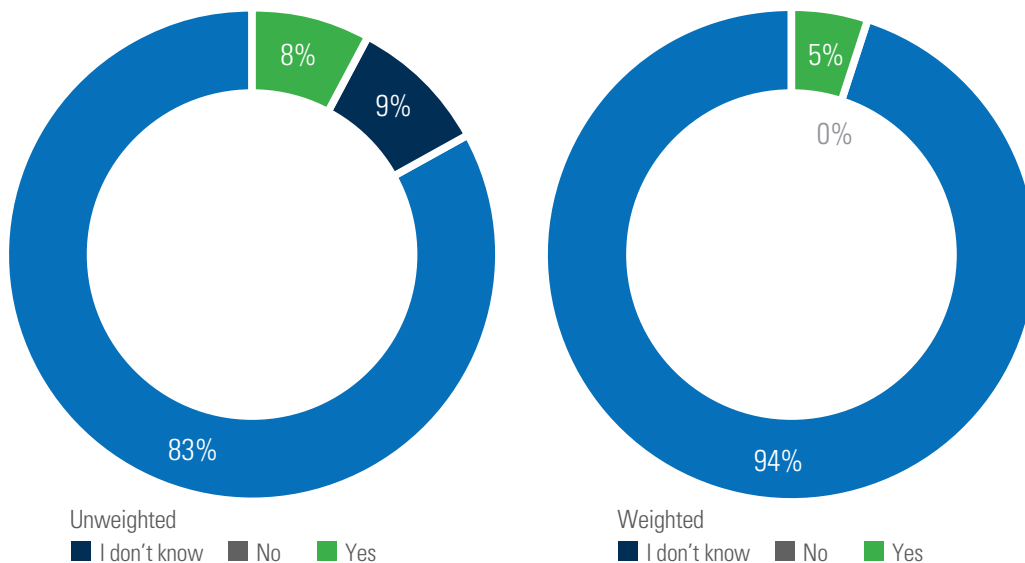
8.1.10. Annual reporting on changes in IPS



Most retirement funds do report on significant changes in their IPS as part of annual reporting to members. On a weighted basis, larger funds are more likely than smaller funds to report changes in their IPS.

*Q103: Does your fund report on any significant changes in its IPS as part of its annual report to its members?*  
n=123

8.1.11. Annual reporting on active ownership efforts related to ESG



*Q104: Does your fund report on its active ownership efforts related to ESG issues in its annual report to members? e.g. any engagement with investee companies or voting activities to promote improved ESG performance.*

n=121

Reporting on active ownership efforts related to ESG issues in annual reports is also low, particularly on a weighted basis.

These findings show that more support is needed to enable retirement funds to comply with the in terms of reporting and disclosure.

One strategy is to promote internationally recognized reporting frameworks and data collection approaches. A small number of South African retirement funds have also developed reporting formats that could be shared widely, and emulated or modified.

Ideally reporting efforts should be coordinated at an industry level to reduce the costs and frustration of a proliferation of different approaches.

The following are globally recognized frameworks that can help to strengthen ESG monitoring and reporting activities:

- UN-supported Principles for Responsible Investing: [www.unpri.org](http://www.unpri.org)
- Code for Responsible Investing in South Africa (CRISA): <https://www.iodsa.co.za/page/CRISACode>




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**MORE SUPPORT IS NEEDED TO ENABLE FUNDS TO COMPLY WITH IN TERMS OF REPORTING AND DISCLOSURE.**

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- IFC Sustainability Framework: [www.ifc.org/sustainability](http://www.ifc.org/sustainability)
- Global Reporting Initiative: [www.globalreporting.org](http://www.globalreporting.org)
- Sustainability Accounting Standards Board (SASB): [www.sasb.org](http://www.sasb.org)

In addition, the following are globally recognized frameworks that can help to strengthen funds' impact investing approaches:

- Global indicator framework for the Sustainable Development Goals: <http://tiny.cc/cy9ljz>
- IFC Operating Principles for Impact Management: <https://www.impactprinciples.org/>
- IRIS Catalogue of Metrics: <https://iris.thegiin.org/metrics/>




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**IDEALLY, REPORTING EFFORTS SHOULD BE COORDINATED AT AN INDUSTRY LEVEL**

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## 09

## CAPACITY BUILDING NEEDS

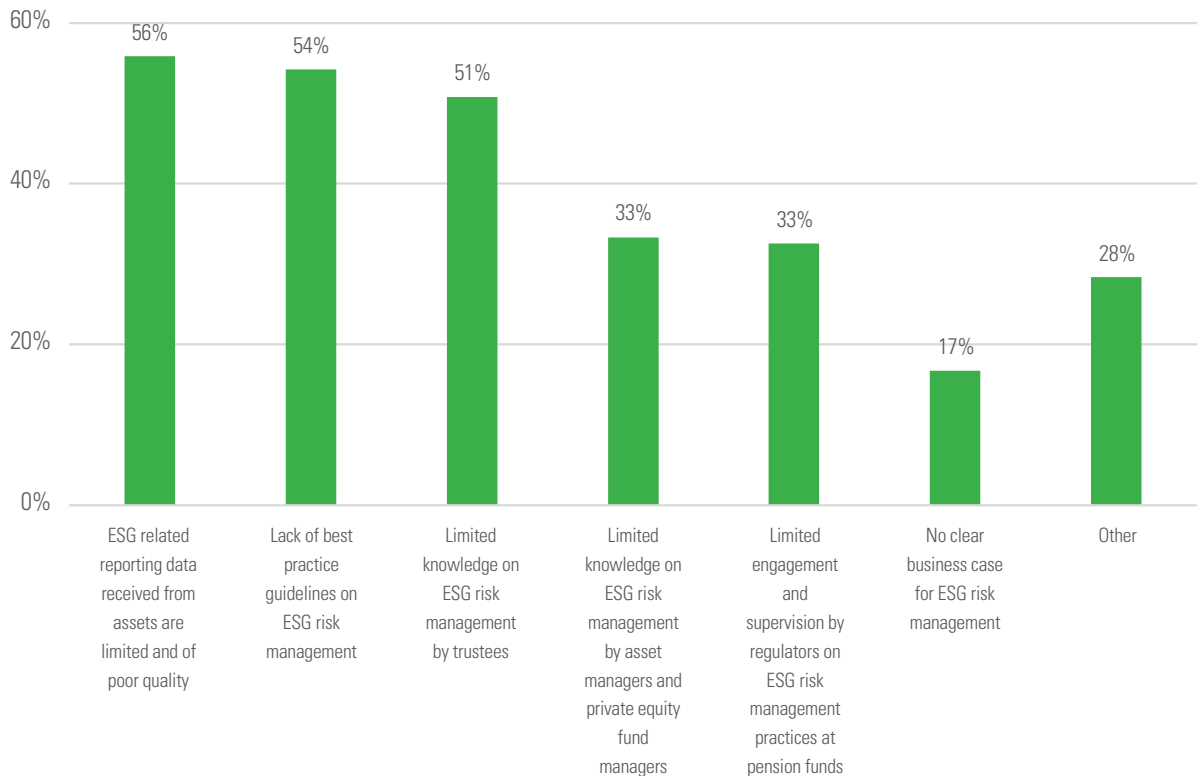
The lack of green and climate investment products and pipeline, together with the difficulties in monitoring and reporting on green and climate finance, pose the most significant challenges to retirement funds in directing investments to green and climate-focused assets.

Similar challenges were cited for implementing impact investment strategies and ESG integration.

### 9.1. Capacity building needs

Respondents confirmed a range of challenges to integrating ESG in investments. Limited and poor-quality data from assets is the greatest challenge, followed by lack of best practice guidelines on ESG risk management and limited knowledge on ESG risk management by trustees.

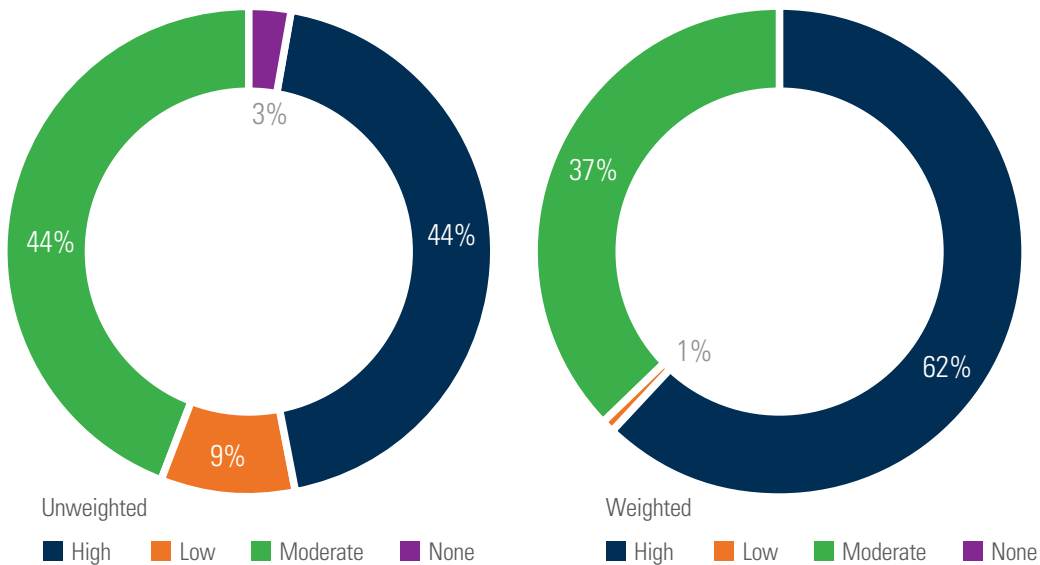
#### 9.1.1. Challenges to implementing ESG integration



*Q105: What do you see as the greatest challenge for your fund to implement ESG integration? Select all that apply*

*n=120*

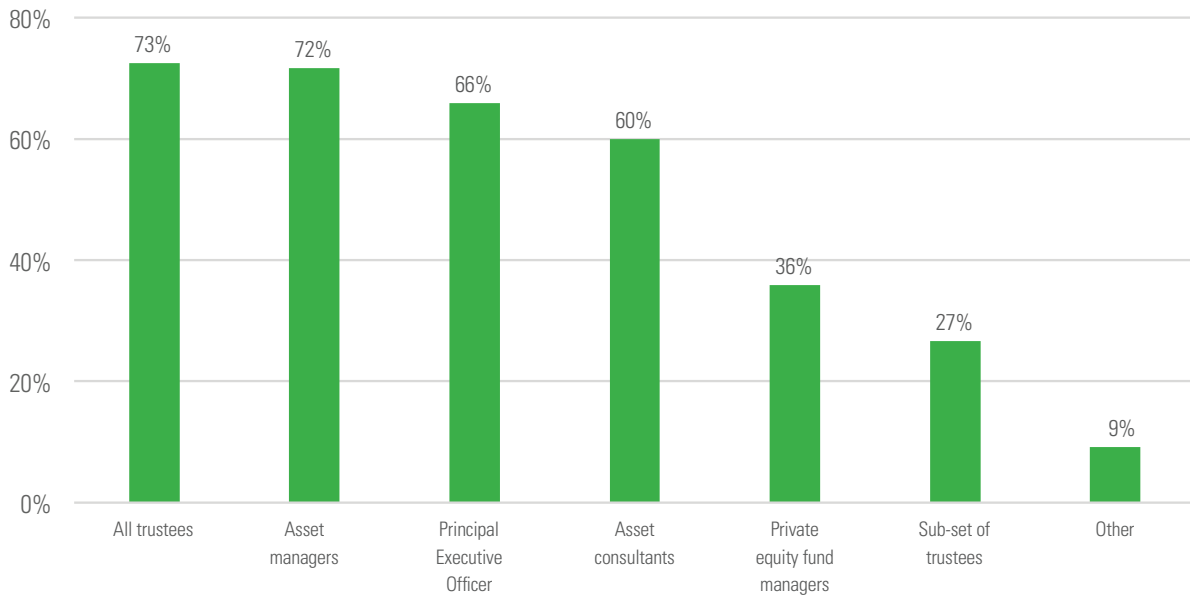
### 9.1.2. Capacity required to implement ESG integration



*Q106: What level of capacity building is needed for your fund to implement its ESG integration strategy.*  
n=127

There was a tie between the high and moderate levels of capacity building needed. Larger retirement funds are more likely to need a high level of capacity building to implement an ESG integration strategy.

### 9.1.3. ESG integration training

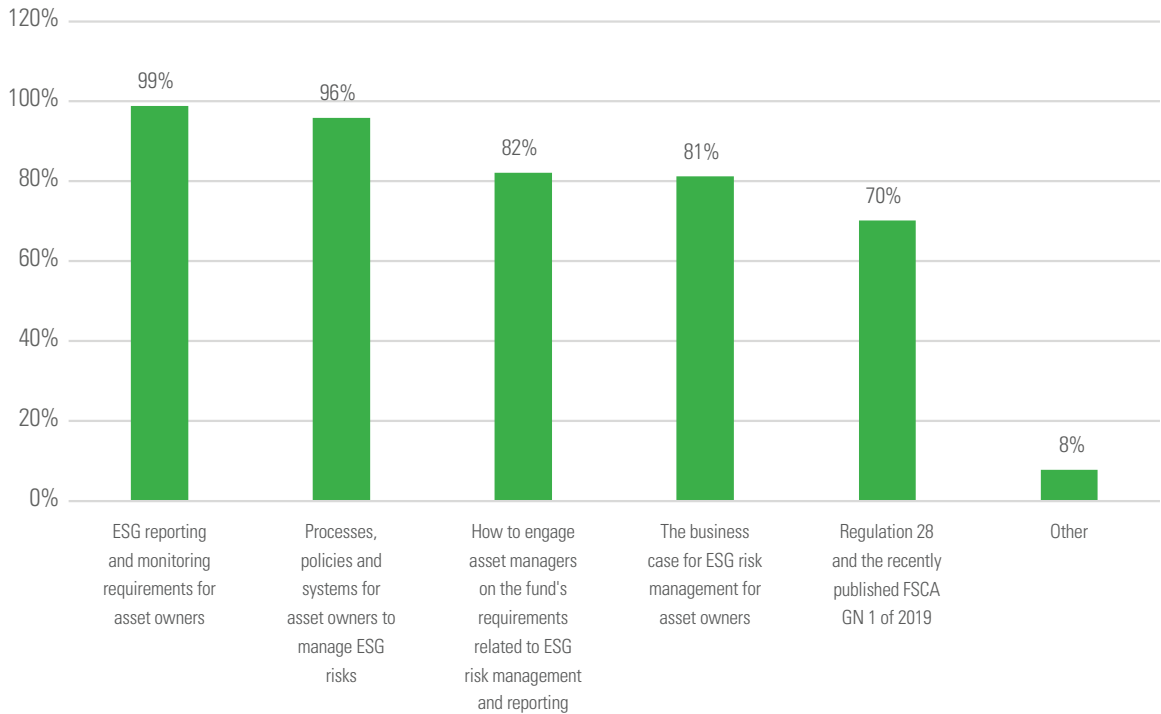


**Q107: Who should get trained on ESG integration? Select all that apply**

n=120

All trustees and asset managers should get trained on ESG integration, according to most retirement funds, with most also saying this is necessary for principal executive officers and asset consultants.

**9.1.4. Topics to address in ESG integration training**



**Q108: What topics should the ESG integration training focus on? Select all that apply.**

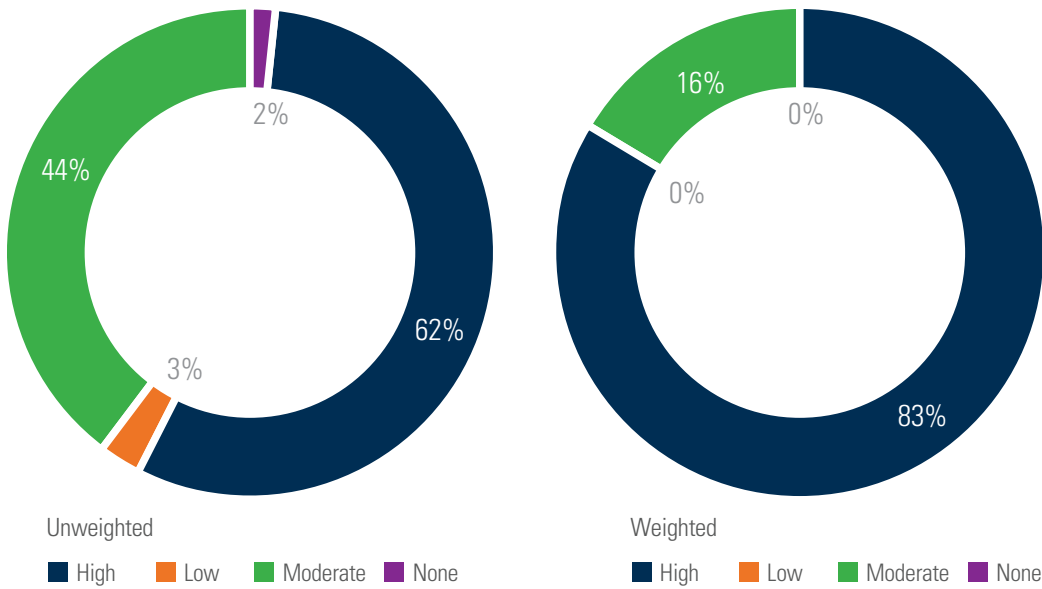
n=101

owners, followed closely by a focus on processes, policies, and systems for asset owners to manage ESG risks.

Retirement funds would like training to focus on ESG reporting and monitoring requirements for asset

While fewer retirement funds say that the focus should be on Regulation 28 and the recently published, levels of support for training in these areas are also high.

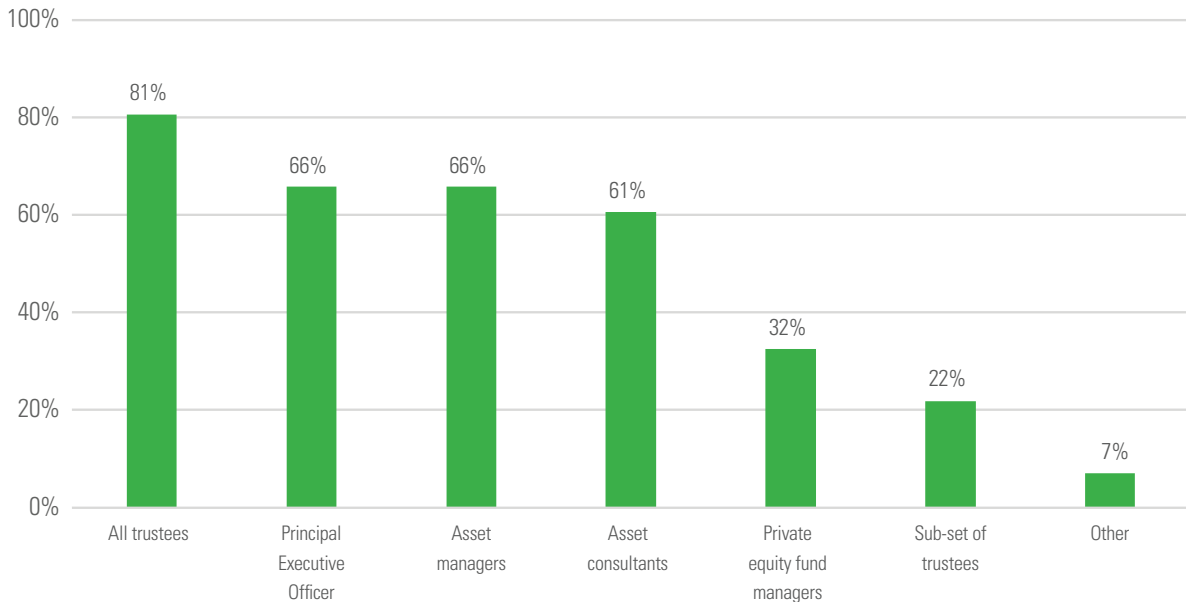
9.1.5. Capacity building needed to implement green/climate finance strategy



Q110: What level of capacity building is needed for your fund to implement a green/climate finance strategy?  
n=112

The majority of the retirement funds say a high level of capacity building is needed to implement a green/climate finance strategy. On a weighted basis, this was even more accentuated, reflecting that more larger retirement funds than smaller ones require a high level of capacity building to implement this strategy.

9.1.6. Training on green and climate finance

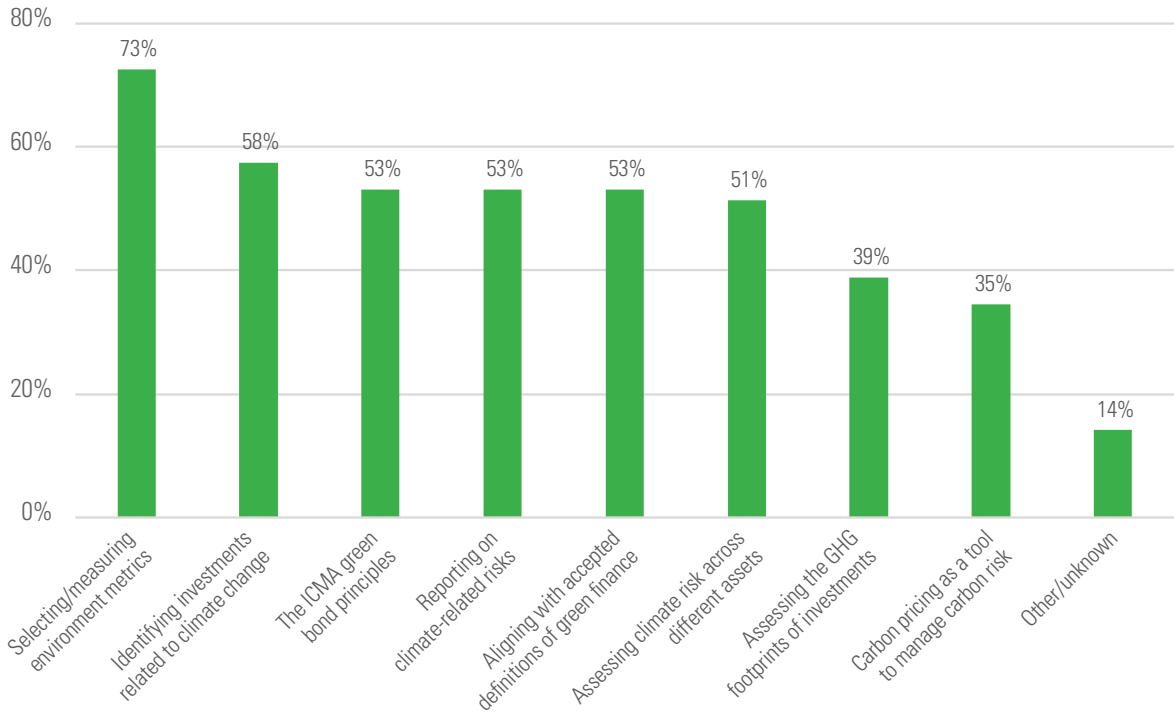


**Q111: Who should get trained on green and climate finance? Select all that apply.**

Retirement funds believe training is needed widely across all the positions listed, but particularly for all trustees.

n=119

**9.1.7. Topics to address in green/climate finance training**



**Q112: What topics should the green/climate finance training focus on? Select all that apply**

Again, retirement funds believe training is broadly required in most areas, though “selecting and measuring environmental metrics” stands out as the most important for a significant number of the retirement funds.

n=113

## 10

## CONCLUSION

The responses captured through this survey show that South African retirement funds, despite various known constraints and challenges, are nevertheless well positioned to take advantage of new trends in sustainable investing. These trends can help funds build back better<sup>14</sup> following the impact of COVID-19 and support the transition to a low-carbon, inclusive, and resilient economy.

With a number of national policy developments expected in the coming months to address climate risk, retirement funds should be ready to respond to both the physical and transition risks<sup>15</sup> of climate change that could affect their investment portfolios. They can also anticipate an increase in the pipeline of potential green investments that these policy interventions may facilitate, although a number of market barriers still need to be overcome to enable this pipeline to grow.

In the meantime, there has been an encouraging uptake of ESG integration by funds in response to Regulation 28 and the FSCA Guidance Notice 1 of 2019. This has resulted in increased awareness and capacity within funds and stronger signals to asset managers to provide

investment options that both consider ESG risk and take advantage of new green, social, and sustainability-focused opportunities.

Research indicates significant potential to grow sustainable investing in South Africa, but key challenges remain. Among these is the need for consistent definitions of green, social, and sustainability assets that can be adopted by all parts of the investment value chain. A common taxonomy for sustainable finance will reduce the costs and increase the strategic benefits of tracking green and social asset allocations and their performance. It will also encourage more competition among asset managers to offer innovative investment products that respond to the ESG priorities of retirement funds.

With over R4 trillion in AUM, South Africa's retirement industry can be a powerful driver of increased sustainability and resilience across the economy. The results of this survey indicate practical steps that can be taken by both retirement funds and the asset management industry to make this possible.

<sup>14</sup> The term "Building Back Better" refers to strategies that use a disaster as a trigger to create more resilient nations and societies than before. It has been increasingly and widely used in the context of the economic recovery from COVID-19, including the use of green stimulus packages to support economy recovery that promotes sustainable development and resilience.

<sup>15</sup> The Task Force on Climate-related Financial Disclosures (TCFD) provides recommendations on how financial institutions should anticipate and respond to climate-related risks in their lending and investments, including (1) transition risks, such as policy constraints on emissions, imposition of carbon tax, water restrictions, land use restrictions or incentives, and market demand and supply shifts, and (2) physical risks, such as the disruption of operations or destruction of property. See <https://www.fsb-tcfd.org/>



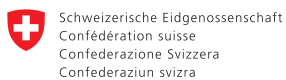


# SUSTAINABLE FINANCE PRACTICES IN SOUTH AFRICAN RETIREMENT FUNDS

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

An initiative by South Africa's Financial Sector Conduct Authority (FSCA) and IFC's Green Bond Market Development Program in partnership with the Swiss State Secretariat for Economic Affairs (SECO) and Swedish International Development Cooperation Agency (Sida)

IN PARTNERSHIP WITH



Swiss Confederation

Federal Department of Economic Affairs,  
Education and Research EAER  
**State Secretariat for Economic Affairs SECO**



Financial Sector  
Conduct Authority



*Creating Markets, Creating Opportunities*