UNIVERSITY OF THE WITWATERSRAND RETIREMENT FUND

Responsible Investing

Responsible investment refers to the practice of incorporating environmental, social, and governance (ESG) factors into investment decision-making. This means considering the potential impact of a company's actions on the environment, society, and its governance practices, in addition to traditional financial factors.

Responsible investment takes a long-term approach and emphasizes sustainability, seeking to achieve both financial returns and positive societal impact. It can also involve actively engaging with companies to encourage them to improve their ESG practices and disclosure.

There are various approaches to responsible investment, including:

- ESG Integration: This involves considering ESG factors alongside traditional financial analysis in the investment process. This could mean screening out companies with poor ESG performance or actively seeking out companies with strong ESG practices.
- Impact Investing: This involves investing in companies or projects to generate measurable social or environmental impact, in addition to financial returns.
- Sustainable Investing: This involves investing in companies that are working towards sustainability goals, such as reducing carbon emissions or promoting renewable energy.
- Shareholder Engagement: This involves using shareholder rights and influence to engage with companies on ESG issues and advocate for positive change.

Responsible investment and ownership practices help to align investors' objectives with stakeholders and the broader developmental needs of society and can enhance long-term returns while reducing the risk of capital loss. Practices must be applied individually and collectively in the South African, African and global context and retirement funds must be transparent to stakeholders regarding how ESG factors are integrated into investment and ownership practices.

The Fund's Responsible Investing Policy

The UWRF's investment policy adheres to Regulation 28 and the principles of responsible investing across all the investments it makes on behalf of its members. The Fund's responsible investment policy is captured in a subsection of its Investment Policy Statement and in essence states that the Fund must ensure that all assets are managed responsibly.

The policy defines Responsible Investing as a set of investment and ownership practices that intentionally integrates factors that may materially affect the sustainable performance of a Fund's assets, including ESG factors, into the investment process. The Board of Trustees must therefore evaluate risks to the sustainability of the assets, including, but not limited to ESG risks.

By incorporating ESG factors into the investment process, trustees can align investment decisions with values that go beyond financial compensation. However, trustees have a fiduciary duty to act in the best interest of the Fund's members whose benefits depend on the responsible management of the Fund's assets. This duty necessitates taking a responsible approach to investing that will earn adequate risk-adjusted returns suitable for the Fund's specific member profile, while accounting for the Fund's liquidity needs and liabilities. The risk-reward profile of the Fund is carefully managed by selecting different asset managers. The asset managers hold different portfolios of equity and other assets which provide different returns and expose the Fund to different risks.

How do asset managers take ESG factors into account when investing?

Asset managers may consider ESG factors together with traditional financial factors when analysing shares and bonds and making investment decisions. ESG factors will play a role in the choice of securities, but unless specified in their mandates, this does not necessarily mean they will only invest in shares or bonds that rate well on ESG factors, as they must balance risks with the need to generate returns. Where investment opportunities have negative ESG findings, asset managers may choose to not invest but often prefer to effect positive change through actively engaging with management. In these cases, they often need a bigger "margin of safety" (i.e. buy at a lower price) to account for the elevated risk.

Despite the extensive research to uncover potential ESG issues affecting a company, asset managers may have exposure to investments that have high ESG risk, such as those affected by geo-political events like wars or sanctions, or company-specific events like fraud (e.g Steinhoff) or the impact of unforeseen regulatory changes. These events may have severe implications on asset valuations (price) but are seldom known when investments are made.

Has the Fund been affected by the current conflict in the Middle East?

The Fund's assets are invested in portfolios managed by professional asset managers that have discretion (within a prescriptive investment mandate) to invest in financial instruments like shares of listed companies or bonds issued by governments on behalf of the Fund. It is therefore possible for any asset manager appointed by the Fund to have exposure to companies which are affected by the conflict in the Middle East.

The UWRF has 0.3% of its assets, held by the Fund's asset managers, invested in two global technology companies with headquarters in Israel. Nothing has come to the attention of the trustees to indicate that these companies are complicit with the Israeli occupation of the West Bank and the war in Gaza. Currently, the Fund and its members have not been negatively affected by the conflict situation in the Middle East. The Trustees will continue to monitor the exposure and should the risk increase, further action will be taken.

Conclusion

The Trustees have a fiduciary duty towards the Fund's members to oversee the investments of the Fund with care and in the members' best interests. To do so, the Fund has incorporated policies that ensure sound governance and best practices into its investing framework. The mandates given to the Fund's asset managers require each asset manager to monitor ESG-related risks continuously and act in the best interest of the Fund and its members.

The Board of Trustees is confident that the UWRF at all times meets all its responsible investment requirements and will continue to monitor and expand on its policies in this regard. This prudent approach to the stewardship of the Fund's assets will add value to members' retirement savings over the long term. Furthermore, it will contribute positively towards the sustainability of businesses the Fund invests in, and the well-being of the communities in which these companies operate.

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