

Understanding the role played by Pension Fund Trustees and Investment Consultants in Responsible Investment Strategies in South Africa

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ABSTRACT

Responsible investing (RI) often used as a synonym for Sustainable Investing, is a global phenomenon which simply refers to the integration of environmental, social and governance (ESG) risks and factors when making investment decisions albeit losing conventional financial criteria in making such decisions. This study was undertaken to interrogate and understand the status quo in terms of the ability of two of the key players in the RI market in South Africa, to fulfil their responsibilities in the implementation of responsible investments principles in practice. The participants in focus of the study are firstly, the asset owners being the *pension fund trustees in South Africa* where the aim is to discover whether trustees in the pension fund industry are well equipped to play their role in implementing responsible investment principles and strategies when performing their fiduciary duties which encompass decisions made around capital allocation, asset manager selection and selection of service providers. Secondly, the service providers being the appointed *investment consultants on pension funds in the country* where the aim is to discover and articulate the extent of influence and role played by the service providers to the pension fund trustees in the decision-making value chain of the way in which the retirement funds assets are ultimately managed and invested on behalf of the retirement fund.

To achieve the above-mentioned aims, online surveys were conducted for both the South African pension fund trustees as well as South African investment consultants. The questions in the survey comprised a combination of open ended and closed ended questions with Likert scales being used. The data was predominantly qualitative in nature and therefore thematic analysis was employed to analyse the data from both sets of surveys conducted. Key findings of this study show that whilst South African pension fund trustees understand and recognise RI implementation as forming part of their fiduciary duty, there is a heavy reliance on appointed services providers particularly investment consultants in terms of their fund's RI policy and the RI strategies they employ. In order to keep abreast of industry developments in RI and to ensure their funds stay in line with emerging good and best practice, the trustees receive assistance and guidance from their appointed investment consultants. Investment consultants play a significant role on RI matters in that they provide training on ESG and RI implementation to trustees and proactively table RI matters when meeting with the trustees. Many of the consultants however are of the view that training and education of the trustees is pertinent in the uptake of RI in the industry and that this drive must be asset owner led.

Based on the results of the study it is recommended that the education of trustees on RI related matters be further investigated. In particular, additional research on the education, the frequency thereof as well as the provider of education is required. The study also highlights the need for further research on the implementation on specifically impact investing as an RI strategy in South Africa.

It can also be concluded from this research that global industry bodies such as United Nations Principles for Responsible Investment, CFA Society and local bodies such as Association of Savings and Investments in South Africa, Institute of Retirement Funds Africa, Batseta Council of Retirement Funds in South Africa and the Financial Sector Charter Council could be contributors to a practical policy around asset consultant reliance and trustee education in the implementation of Responsible Investment strategies for all pension funds and their beneficiaries in South Africa.

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GLOSSARY OF TERMS

ABSIP	Association of Black Securities and Investment Professionals
ASISA	Association of Savings and Investments in South Africa
AUA	Assets under Advisory
Batseta	Batseta Council of Retirement Funds in South Africa
CalPERS	California Public Employees Retirement System
CalSTRS	California State Teachers Retirement System
CRISA	Code for Responsible Investing in South Africa
DDQ	Due Diligence Questionnaire
ESG	Environmental, Social and Governance
ERISA	Employees' Retirement Income Security Act
FSCC	Financial Sector Charter Council
FS Code	Financial Sector Charter Code
GEPF	Government Employees Pension Fund
IMA	Investment Management Agreement
IODSA	Institute of Directors Southern Africa
IPS	Investment Policy Statement
IRFA	Institute of Retirement Funds Africa
MPT	Modern Portfolio Theory
PRI	Principles for Responsible Investment
RFP	Request for Proposal
RI	Responsible Investment
SRI	Sustainable Responsible Investment
UN PRI	United Nations Principles for Responsible Investment

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Responsible investing often used as a synonym for Sustainable Investing, is a global phenomenon which simply refers to the integration of environmental, social and governance (ESG) risks and factors when making investment decisions albeit losing conventional financial criteria in making such decisions. The world's leading proponent of Responsible Investment being the United Nations Principles for Responsible Investment ("PRI"), defines Responsible Investment (RI) as "an approach to investing that aims to incorporate ESG factors into investment decisions to better manage risk and generate sustainable, long terms return"(PRI, 2016b).

The purpose of the research was to discover whether trustees in the pension fund industry in South Africa are well equipped to play their role in implementing responsible investment strategies when performing their fiduciary duties which encompass decisions made around capital allocation, asset manager selection and selection of service providers. Furthermore, the research sought to understand the extent to which trustees rely on investment consultants in implementing these strategies and what role the consultant plays in the value chain. Studies in this area of research have tended to focus on the investment managers' ability to integrate ESG factors into their investment processes when managing and investing the assets of asset owners. Whilst it remains imperative for investment managers to prioritise and implement responsible investment in their investment strategies, the other key players in this area need also to have guidelines and mechanisms to truly integrate, implement and monitor RI practices in their retirement funds. It is therefore imperative to understand the role played by the pension fund trustees who have a legally binding fiduciary duty towards the beneficiaries which they represent, as well as their appointed investment consultants who influence their decisions where responsible investment strategies are concerned. As such, the research was explorative and descriptive in nature given that it sought to explore and describe the status quo of the role played by two key market players in the arena of responsible investing.

In South Africa, this trend has largely been led by the largest pension fund in the country and in the African continent, the Government Employees Pension Fund (GEPF) and their investment manager, the Public Investment Corporation (PIC) where together they represent more than R1.6trillion (GEPF, 2016) in pension fund assets. "In early 2005 the then UN secretary general, Kofi Annan, invited a group of the world's largest institutional investors to join a process that would develop the PRI principles of responsible investing. At the time, a 20 person investor

group, drawn from institutions in 12 countries, was supported by 70 experts from the investment industry, intergovernmental organizations and civil society” (PRI, 2018, para. 3). The principles were launched in April 2006 at the New York Stock Exchange. Representatives from the GEPF attended the launch and became a founding signatory (Bertrand, 2016), which propelled the uptake of responsible investing by the South African investment society.

When an organization becomes a signatory to the PRI, it essentially voluntarily agrees to and commits to the six PRI principles of responsible investment which are as follows:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices
- Principle 3: We will seek appropriate and implementation of the principles within the investment industry
- Principle 4: We will promote acceptance and implementation of the principles within the investment industry
- Principle 5: We will work together to enhance our effectiveness in implementing the principles
- Principle 6: We will each report on our activities and progress towards implementing the principles (PRI, 2018, para. 1)

In Africa, namely Botswana and South Africa, the number of PRI signatories has increased to a total of 53 signatories in 2017 comprising of 8 asset owners, 36 investment managers and 10 service providers (PRI, 2017b). It was in 2009 that the PRI launched the Southern African network after the GEPF had become a founding signatory.

In 2011, further progress was made on the Responsible investment movement. The Code for Responsible Investing in South Africa (CRISA) was launched on 19 July 2011 (Deloitte, 2014). Similar to the six principles of the PRI, the CRISA code is a voluntary code which applies to institutional investors and service providers. “It is a voluntary code that encourages institutional investors and their service providers to adopt the applicable principles and practices on an “apply or explain” basis” (p. 2).

The five key principles of the CRISA code are:

- Principle 1: An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk adjusted returns to the ultimate beneficiaries.
- Principle 2: An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
- Principle 3: Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
- Principle 4: An institutional investor should recognize the circumstances and relationships that hold potential for conflicts of interest and should proactively manage these when they occur.
- Principle 5: Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to better enable stakeholders to make informed assessments (Deloitte, 2014, p. 2).

In the same year, Responsible Investment became a regulatory requirement for retirement funds in South Africa.

Regulation 28 of the Pension Funds Act is the regulation which:

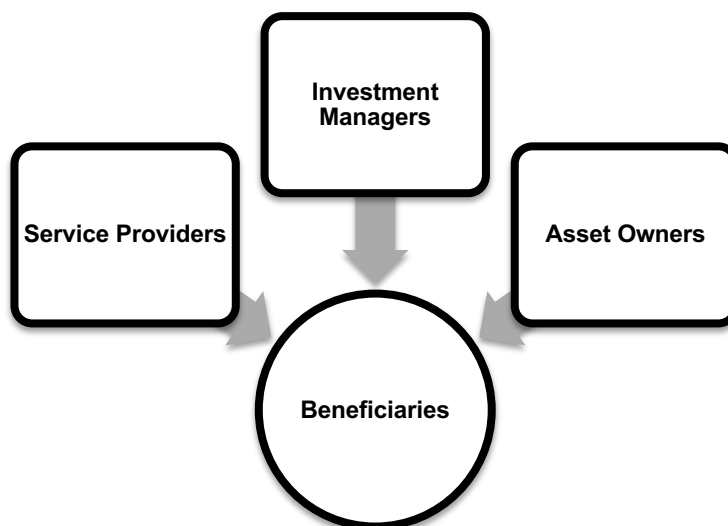
regulates how retirement funds should invest their assets to ensure that their long-term commitments to members are met; it also provides guidance to trustees on how to formulate appropriate investment strategies to provide suitable retirement benefits to members in addition to determining assets limits and sets out a number of principles which will strengthen the decision-making process of trustees and improve transparency and accountability to fund members and to the Financial Services Board (FSB), namely the Registrar of Retirement Funds in the country. The regulation explicitly states that prudent investing should take into account all factors that could materially affect an investment, *“including factors of an environmental, social and governance (ESG) character”*. The revised Regulation 28 became effective on 1 July 2011. The FSB then subsequently provided an extension for compliance to the revised Regulation to 31 December 2011, to allow retirement funds and their service providers time to implement the necessary systems and contractual changes (Deloitte, 2014, p. 2).

In an investment market of retirement and pension fund contributors being the pension fund investor, their pension fund trustees, asset managers, investment consultants and other service providers, the sustainability of retirement assets is still today, a pertinent matter and ought to be implemented to ensure that the beneficiaries of these retirement assets and pension funds retire with esteem. This study sought to understand the status quo of Responsible Investment in South Africa and focusses on role played by two key players in the market, namely pension fund trustees and their appointed service provider in the implementation of an RI strategy, being the investment consultant.

Defining the key players in Responsible Investing

Essentially, there are several market players responsible investing and they can be classified as follows:

Figure 1: Key Market players in the implementation of Responsible Investing



- **Beneficiaries** are the contributing members to retirement funds and are the ultimate receivers of wealth and savings accumulated through retirement funding. Beneficiaries are members who belong to a retirement fund and include
 - Contributing members
 - Deferred benefit members
 - Pensioners in receipt of regular payments
 - Dependents and nominees and
 - Persons entitled to unclaimed benefits

- **Asset Owners** are organizations that “represent the beneficiaries who are the holders of long-term retirement savings, insurance and other assets. Examples include pension funds, sovereign wealth funds, foundations, endowments, insurance and reinsurance companies and other financial institutions that manage deposits” (PRI, 2017a, para. 3). The members of these asset owners typically are the

- Board of Retirement Funds, referred to as Trustees

The role of the retirement fund trustees is defined by the FSB as those that “stand in a position of trust or fiduciary relationship to funds and therefore must act with integrity... The fundamental principle is that the board shall at all time act with the *utmost good faith* toward the fund and in the best interest of all members... The board is *responsible* and *accountable* to the members for the administration of the fund, including the prudent investment of fund assets, where prudent investing has been defined in Regulation 28 of the Pensions Funds Act as “*including factors of an environmental, social and governance (ESG) character*” (Financial Services Board, 2007, p. 1).

- **Investment Managers:** are organizations that manage assets as a third party, serving an institutional and/or retail market. These are the appointed asset manager(s) of a retirement fund to invest the assets of a retirement fund in accordance with the signed Investment Mandate Agreement (IMA) and Investment Guideline (IG) between the investment manager and the retirement fund, as approved by both the board of trustees of the fund and the representatives of the asset manager.
- **Service Providers:** are organizations that offer products or services to asset owners and/or investment managers. Although such companies are not stewards or managers of assets in their own right, they do have considerable influence over how their clients address ESG issues (PRI, 2017a, para. 3). Typically, these organizations include:
 - Institutional Investment Consultants, often referred to as Asset Consultants, guide and advise trustees of pension funds (asset owners) to produce sufficient and sustainable long-term risk adjusted investment returns for their members and/or beneficiaries. Asset consultants have a tremendous influence in pension fund decision making (Theron, 2014, p. 1).

This research should be of particular interest to the local investment and asset management industry, given the need for sustainability and responsible investment practice amongst all market players for the benefit of the retirement fund beneficiaries in the long term. This research should be of significance to local regulatory bodies such as the Financial Services Board (FSB), who are responsible for and oversee the non-banking financial services industry in South Africa, which includes retirement funds, short-term & long-term insurance, companies, funeral insurance, schemes, collective investment schemes (unit trusts and stock market) and financial advisors and brokers. It is also likely to be of interest to local industry bodies which influence RI policy making such as Regulation 28 of the Pension Funds Act, King IV Corporate Governance code, the Financial Sector Charter Code (FS Code) as well as the Code for Responsible Investing in South Africa (CRISA). The organizations which are most likely to find the research to be of importance and of interest include the Association of Savings and Investments in South Africa (ASISA), the Financial Sector Charter Council (FSCC), Batseta Council of Retirement Funds for South Africa, the Institute of Retirement Funds Africa (IRFA) and the Association of Black Securities and Investment Professionals (ABSIP).

1.2 Problem Statement

RI has become a growing phenomenon in the pension fund industry globally and particularly in South Africa in recent times. A diversity of global challenges, many of which have been unprecedented, have increased the focus on sustainability with ESG issues attracting significant attention. In addition, the evolution of corporate governance reporting in particular the King III principle of integrated reporting, impelled listed companies to report on ESG issues in a “2007 study investigating how South African investors view and understand responsible investment, indicated that while investors appear to have a grasp of ESG issues, there was sparse evidence of actual mainstream investment decisions with a long-term perspective. What was missing especially, was how they integrate ESG issues into investment decision making, thus the study results were mixed” (van der Ahee & Schulschenk, 2013, p. 2).

Studies in this area of research have tended to focus on the investment managers’ ability to integrate ESG factors into their investment processes when managing and investing the assets of asset owners. Whilst it remains imperative for investment managers to prioritise and implement responsible investment in their investment strategies, the other key players in this area need also to have guidelines and mechanisms to truly integrate, implement and monitor RI practices in their retirement funds. It is particularly important for the pension fund

trustees who have a legally binding fiduciary duty towards the beneficiaries which they represent to manage the retirement fund in a sustainable and prudent manner which definitively implies the ability to show the integration of ESG factors into the investment decisions of the fund.

Retirement fund trustees often appoint service providers such as asset consultants, in order to assist them with their fiduciary role particularly with the investment decisions pertaining to the retirement fund. The asset consultant therefore, whilst not being a direct beneficiary of the assets, influences the prudent investment decisions and practice of a retirement fund and their adoption, understanding, implementation and monitoring of responsible investment practice also out to be researched so as to progress the pertinent RI movement in the country, as it is fast becoming a global necessity in the financial industry in which these market players operate.

Research is therefore required, particularly in South Africa to gauge the progress with respect to RI practice for Asset Owners and their appointed Asset Consultants. If research at large continues to only focus on the Asset Managers and not the ultimate beneficiaries of the assets as well as the influencers in terms of the decisions made on behalf of the asset owners, the practice of responsible investment is likely to be an outsourced practice to asset managers. It is essential to gauge the involvement of all impacted key players in the implementation of RI on pension and provident funds such that ultimate beneficiaries of these funds do not bear the cost of decisions made on their behalf. This study therefore sought to investigate and assess the enablers, drivers and barriers of RI practice in the country so as to ultimately ensure the sustainability of the assets that the beneficiaries of the retirement fund will receive at retirement or the stipulated condition of accruing and receiving retirement funds.

Size of the retirement fund industry in South Africa

The FSB (2016) reported that as at 31 December 2015, the retirement industry in South Africa comprised of 5143 retirement funds, with 16,4 million members at a size of R4,035 trillion worth of assets. By implication, the asset owners and asset consultants as a collective, ought to make prudent investment decisions which will impact the lives of 16,4 million beneficiaries from Retirement Funds which in turn translates to significant asset size of R4 trillion which represents a large portion of the savings and investments in the country. The sheer size of the wealth and savings of the investments in the country which reside in this sector of the market, further necessitates that these investments are indeed managed in a prudent, responsible and sustainable manner.

1.3 Purpose and Significance of the Research

First and foremost, this paper sought to contribute to the ongoing academic research of the growing interest in sustainable and responsible investment literature, particularly in South Africa as well as the Africa continent. According to the research conducted by Viviers and Els (2017) there is a limited body of African RI literature however “there are significant events that shaped the nature of the South African RI market” (p. 122) from 1992 where many subsequent studies have sought to investigate the “RI strategies and investment criteria used by local RI fund managers and evaluating the ethical underpinnings of these funds” (p. 122). The authors also note that, “despite strong growth in responsible investing (RI) internationally, only a few institutional investors in South Africa have adopted this investment philosophy” Understanding the status quo of whether the representatives of the millions of South African citizens contributing month to month to retirement and pension funds, are well equipped to channel these contributions into sustainable assets which consider factors of an environmental, social and governance nature will determine whether these citizens retire having contributed to sustainable economic growth and sustainable use of investable assets in the country.

The main objective of this study therefore was to interrogate and understand the status quo in terms of the ability of two of the key players in the RI market in South Africa as highlighted in figure 1 above, to play their part in the implementation of responsible investments principles in practice. The research will ultimately seek to address both the primary and secondary research questions centralized around the trustees and consultants in order to understand their role, their extent of influence in investment decision making and any explicit drivers and enablers in their implementation of RI practice respectively.

The participants in focus for this research are firstly, the asset owners being the pension fund trustees in South Africa. This paper intended to discover whether trustees in the pension fund industry are well equipped to play their role in implementing responsible investment principles and strategies when performing their fiduciary duties which encompass decisions made around capital allocation, asset manager selection and selection of service providers.

Secondly, the service providers being the appointed investment consultants on pension funds in the country. The paper sought to research and articulate the extent of influence and role played by the service providers to the

pension fund trustees in the decision-making value chain of the way in which the retirement funds assets are ultimately managed and invested on behalf of the retirement fund.

The significance of the research is such that it will provide an opportunity to compare the RI activity, influence and ability of South African pension fund trustees and consultants to those of more mature RI economies such as the US, Europe and the Netherlands. The research may also indicate where policy makers and industry bodies need to assist to equip the trustees and consultants from a regulatory and educational perspective should the adoption of RI strategies amongst these players be limited by factors such as legislation and education. Trustees have a fiduciary duty towards the beneficiaries of the assets and the research will be of particular significance to them to identify the gaps and recommended actions in order to better fulfil their fiduciary duty in a sustainable and responsible manner.

In summary, both the purpose and significance of this research will be to add to the ongoing research of RI practice and implementation particularly in the local South African context however providing additional insights to the key players in this field of study. Moreover, the players in focus of this research, are closest to the ultimate beneficiaries who need to play a pivotal role in driving assets to sustainable investments across all asset classes. The research will necessitate inclusivity in this field of research as it also seeks to close the gap in research which currently only focuses on asset managers and not the main incumbents of this study being asset owners and consultants.

1.4 Research Questions and Scope

The research had the following primary questions to answer:

- To what degree do pension fund trustees, embed responsible investment practices in their roles as trustees for pension and retirement funds?
- What role is played by the pension fund's appointed investment consultants in the investment decision making process of the retirement fund, as it pertains to sustainable responsible investing?

The subordinate questions of the study were as follows:

- Are there distinct enablers and/or disablers which allow pension fund trustees to implement responsible investment practices?

- Similarly, are there distinct enablers and/or disablers which allow investments consultants to assist trustees to implement responsible investment practices?

1.5 Research Assumptions

Given the scope of the research, the study is delimited to South African retirement fund trustees and South African investment consultants only. It is therefore assumed that:

- The participants of the research have answered the research questions of the survey honestly and candidly based on their experience and practice of responsible investing in their capacity as either trustees and/or investment consultants.
- The trustees who participated in this research provided answers which were representative of the activities of the fund(s) which they represent rather than their individual views as implied in the topic and research questions
- The participating trustees' term or duration as a trustee on the fund(s) they represent, affects their responses
- Similarly, the investment consultants who participated in this research provided answers based on their firm's activities of the fund(s) which they consult on, in particular on ESG/RI matters rather than their individual views as implied in the topic and research questions

The assumptions of this study can be justified by the fact that three ethical principles were upheld by the researcher when conducting the research:

a) Principle of voluntary participation

The participants of this study were informed that their participation is voluntary, and they had the freedom to withdraw from the study at any time without any unfavorable consequences.

b) Principle of confidentiality

The participants confidentiality was maintained in that the identity of the participants was reserved.

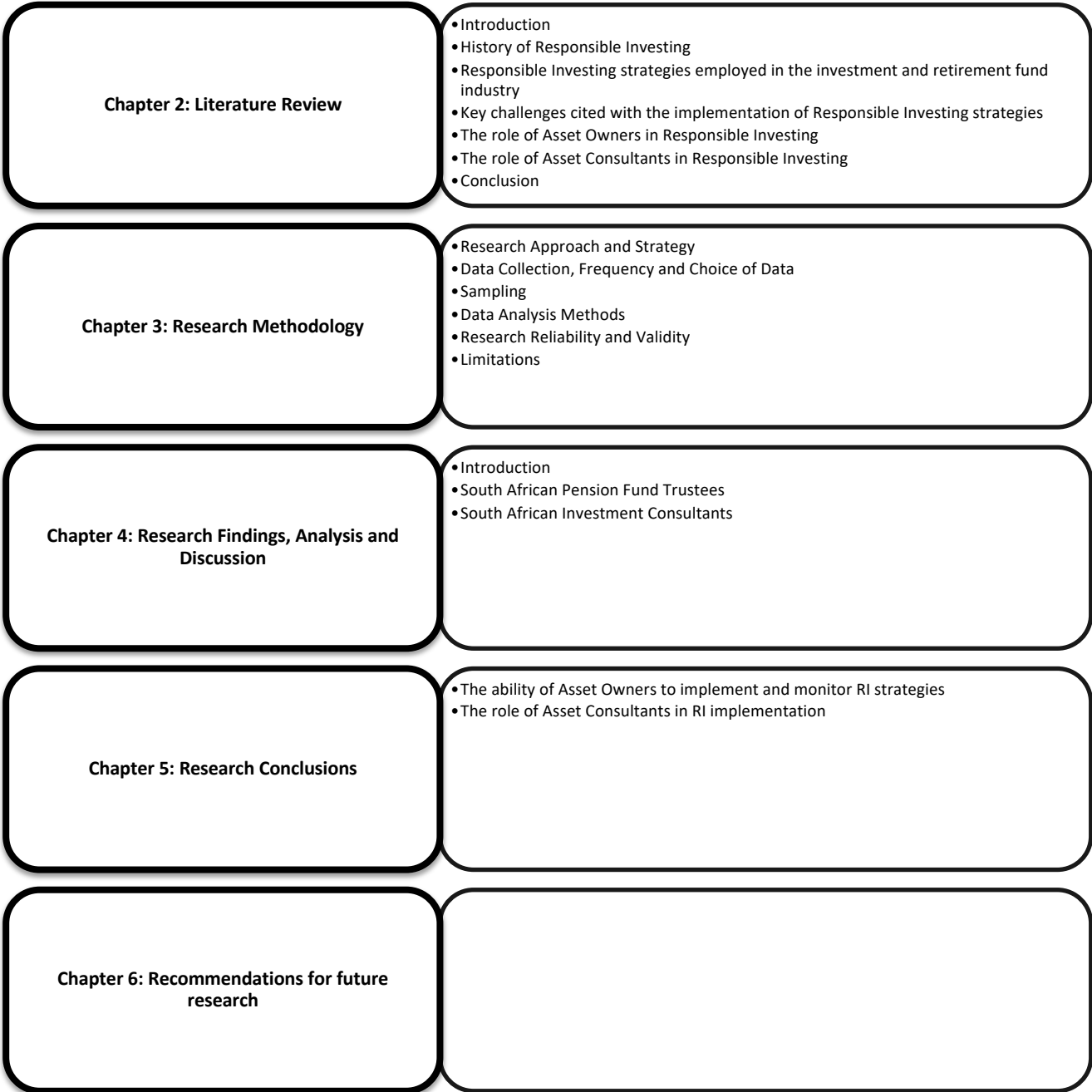
c) Principle of open disclosure

All participants were given information about the study including details on the purpose of the study, the expected outcomes as well the beneficiaries of the results. The participant, in alignment with their right to voluntary participation, was given sufficient information to decide whether or not to participate in the study.

1.6 Outline of Research

The remainder of this research paper has been outlined in Figure 2 below so as to indicate the chapters which form the research paper in its entirety.

Figure 2: Schematic Representation of Research



CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

Given that various aspects of Responsible Investing have been covered extensively in academic literature over time, this literature review aims to discuss the evolution of the topic within the context of this study. The first section will deal with the history of responsible investing and the various terms and definitions assigned to this concept in market and in practice. Thereafter a section on the practices of responsible investing in industry is outlined, with particular focus on the key challenges and barriers associated with the implementation of responsible investing by key industry players.

The aim of the study is to primarily focus on two key market players, namely asset owners (i.e. pension fund trustees) and asset consultants, the following two sections details the academic literature around the roles which these market players fulfil in the practice and discipline of Responsible Investing. These sections set the framework from which the research objectives of the study can be achieved.

The last section of the literature review provides a summary and conclusion of the literature review outlined herein for the purposes of fulfilling the stated objectives of this particular study on Responsible Investing.

2.2 History of Responsible Investing

I. Ethical investing and the role of religion in Responsible Investing

The first traces of what is termed Responsible Investment today can be traced to a concept known as *ethical investing* which when defined by Viviers et al. (2009) describes “investments (that) are based on an individual’s ethical disposition which is often based on the investor’s religious convictions” (p. 3). This form of investing has been increasingly been replaced by the concept of ‘socially responsible investing’ because as suggested by Mansley (as cited in Viviers et al., 2009, p. 4), many investors become uncomfortable using the word ‘ethical’ to describe investment matters.

Nonetheless, initial adopters of this form of investing which entails being sensitized to investments of an ethical nature were members of the Methodists, Quakers and Jewish religious groups who screened their investments for what they deemed to be morally acceptable. It is noted by Schueth (2003) that the founder of the Methodist faith,

John Wesley in the mid-1700s stated that “the use of money was the second most important subject of New Testament teachings” (p. 189). On this basis, for generations, Methodists and other devout members of various religions have “avoided investing in companies that profit from products designed to kill or enslave human beings” (p. 2). The roots and origins of this method of investing can be seen in the global phenomenon of avoidance of ‘sin stocks’ by socially responsible or socially conscious investors. Sin stocks typically refer to companies in the tobacco, alcohol and gaming industries. Sin stocks, according to Wall (2013) can also include companies that are involved in “human rights issues, nuclear energy development, intensive farming and even in some cases the use of fur. Companies that kick out large carbon omissions are also on the sin list” (para. 2). An example of a mutual fund with this social responsible ethos, which is referenced by Becker and McVeigh (as cited in Herringer, Firer, & Viviers, 2009) is the Pioneer Fund which was founded by evangelical protestants who opposed the use of alcohol and tobacco (p. 11).

Ethical investing or socially responsible investing, then broadened its investor base from the religious investors in the 1960s and 1970s and began to include a variety of investment screening issues such as management and labour issues, environmental and promotion of equality rights (Herringer et al., 2009; Schueth, 2003). It is in the following decade where the political instability in South Africa was a core focus as well, where Schueth (2003) records that “millions of people, churches, universities, cities and states focused investment strategies on pressuring the white minority government of South Africa to dismantle the racist system of apartheid” (p. 190). Investors of the day, screened South African investments according to the Global Sullivan Principles of 1985 under the leadership of Reverend L Sullivan. Heese (2005) indicates that Investors divested or chose not to invest in South African companies which chose not to endorse these principles.

Companies endorsing these principles undertook to:

- respect human rights and freedom of association
- promote equal opportunity
- compensate employees to meet basic needs and provide opportunities to improve skills and capability in order to raise employees’ social and economic opportunities
- provide a safe and healthy workplace; protect human health and the environment and promote sustainable development
- promote fair competition, including respect for intellectual and other property rights, and refuse to offer or accept bribes

- work with governments and communities in which business is conducted to improve the quality of life of communities and provide training and opportunities for workers from disadvantaged backgrounds; and encourage those with whom business is conducted to promote the Principles (p. 730).

Since the 1980s and the 1990s to date there has been a significant growth in socially responsible investing and therefore it can be termed a worldwide phenomenon in the investment industry. Socially responsible investing grew to include environmental issues and intersected with the role of corporate governance in the investment industry. Over time, this form of investing has been terms different names including, ‘ethical investing’, ‘values-based investing’ and ‘social investing’, it is now being globally accepted as ‘sustainable responsible investment’ (“SRI”) or simply ‘responsible investment’ (“RI”). For a clearer distinction between SRI and RI, the study done by Giamporcarco (2011) suggests that SRI is defined by specific investment strategies and specific investment products, namely the SRI funds. Whereas, RI is more defined as the “broad integration of ESG issues into investment decision making in order to optimize financial performance” (p. 122).

II. Defining Responsible Investing as a practice today

Given the different iterations of RI strategies and products over time, it becomes a necessity to understand the exact definition of the practice and phenomena of RI in the investments industry today. According to the study performed by Viviers and Eccles (2012) which sought to understand the evolution of responsible investing over a period of 35 years, the academic literature concerning RI in has typically referred to a variety of investment practices that integrate a consideration of ESG issues, by a bewildering array of names however the most common at the time of their study being ‘socially responsible investment’.

Another view however expressed about the definition of responsible investing is discussed by Caplan, Griswold and Jarvis (2013) is that in fact there are three distinct definitions of responsible investing which cannot be used interchangeably as each definition seeks to achieve a slightly different objective in practice.

- The first term is ‘socially responsible investing’, which in this paper is defined as “a portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines”.
- The second category of responsible investment is termed ‘impact investing’ which according to Caplan et al. (2013) refers to “investing in projects or companies with the express goal of

effecting mission related social or environmental change” (p. 1).

- The last category or definition the paper expounds on is ‘ESG investing’ which is defined as “integrating ESG factors into fundamental investment analysis to the extent that they are material to investment performance.”

Similarly, the PRI unequivocally states that Responsible Investing is in fact not Social Responsible Investing nor is it Impact Investing. The PRI (2016b) acknowledges that, RI may have similarities to ‘socially responsible investing’, ‘impact investing’, ‘sustainable investment’, ‘ethical investment’ and ‘green investment’, the PRI instead purports that “many of these investment approaches target specific themes, such as focusing solely on environmental issues, whereas responsible investment is a holistic approach that aims to include any information that could be material to investment performance” (para. 10). The most widely accepted definition today in practice and in literature, and for the purposes of this study, is the PRI’s definition of RI which defines the practice of Responsible Investment as “an approach to investing that aims to incorporate ESG factors into investment decisions to better manage risk and generate sustainable, long terms return” (PRI, 2016b).

According to this holistic definition, it becomes evident that the premise of Responsible Investment as a practice today is the inclusion of three factors when investing funds, namely issues and factors that are of an environmental, social and governance nature. These factors are summarised in Table 1 below:

Table 1: Summary of Environment, Social and Governance Factors

ENVIRONMENTAL (E)	SOCIAL (S)	GOVERNANCE (G)
CLIMATE CHANGE	WORKING CONDITIONS, INCLUDING SLAVERY AND CHILD LABOUR	EXECUTIVE PAY
GREENHOUSE GAS (GHG) EMISSIONSS	LOCAL COMMUNITIES, INCLUDING INDIGENOUS COMMUNITIES	BRIBERY AND CORRUPTION
RESOURCE DEPLETION, INCLUDING WATER	CONFLICT	POLITICAL LOBBYING AND DONATIONS
WASTE AND POLLUTION	HEALTH AND SAFETY	BOARD DIVERSITY AND STRUCTURE
DEFORESTATION	EMPLOYEE RELATIONS AND DIVERSITY	TAX STRATEGY

Source: adapted from PRI (2016b).

2.3 Responsible Investing strategies employed in the investment and retirement fund industry

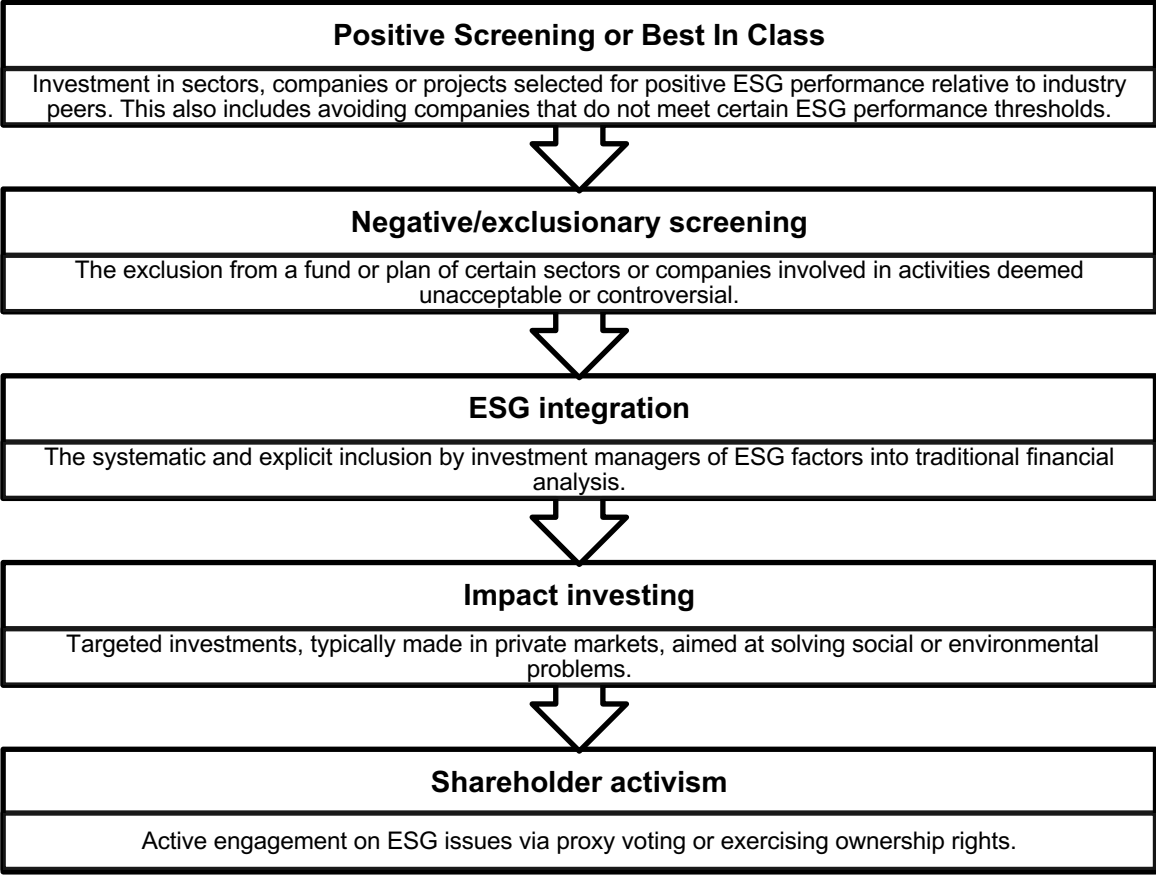
Responsible investing as a practice in the investment and retirement industry is implemented using several strategies and this section intends to provide an outline around the literature which describes the strategies employed by the key players (as shown in Figure 1 above), namely the asset owners, asset managers and consultants in the endeavour of managing and investing the beneficiaries' assets. The focus however is primarily on the asset managers as they are appointed by asset owners to invest the assets on their and their beneficiaries' behalf whilst the investment consultants monitor that the asset managers are in alignment with the investment mandate agreement and the investment policy of the asset owners, particularly in the scope of responsible investing.

These strategies are the practical options asset managers have in ensuring that when they invest assets, they integrate into their portfolio construction, ESG factors whilst ensuring that they meet the stated objectives of investing for financial return on investment on behalf of their clients. According to a study conducted by the US SIF Foundation (2017),

asset managers and asset owners can incorporate ESG issues into the investment process in a variety of ways. Some may actively seek to include companies that have stronger ESG policies and practices in their portfolios, or to exclude or avoid companies with poor ESG track records. Others may incorporate ESG factors to benchmark corporations to peers or to identify “best in class” investment opportunities based on ESG issues. Still other responsible investors integrate ESG factors into the investment process as part of a wider evaluation of risk and return (para. 3).

On the other hand, Viviers and Eccles (2012) suggests that there are three responsible investing strategies that have dominated academic literature over the last 35 years and they are Negative Screening, Positive Screening and Shareholder Activism (p. 11). In addition to these three dominating strategies, other strategies employed by asset managers and asset owners include ESG integration and impact investing as suggested by the US SIF Foundation study (2017). The strategies employed in responsible investing can be summarised as per Figure 3 below.

Figure 3: ESG Integration strategies for responsible investment mandates



Source: Viviers and Eccles (2012) and US SIF Foundation study (2017)

III. Positive Screening also referred to as Best in Class Investing/Screening

Screening implies an intended selection of companies, shares or investments for the purposes of including or excluding those “screened investments” into a portfolio on behalf of an investor. According to Hylton (1992), screening is the first and simplest method of responsible investing. Positive screening is defined by Stenström and Thorell (2007), in the context of responsible investing, as companies that enhance or are committed to having a positive impact on responsible investment practices. Only if the companies fulfil the criteria set by the researchers can they be included in the fund. These authors differentiate best in class screening as an extension of positive screening and the main differentiator being that the latter is the inclusion of *leading* companies on RI issues within their industry, into the fund.

IV. Negative/Exclusionary Screening

Another form of screening within the ambit of Responsible Investing, is that of an exclusionary intent and mandate known as negative screening. Negative screening entails, refusing to invest in a company that engages in activities that are antithetical and do not meet specified ESG performance thresholds. According to Hylton (1992), this form of screening was “most prominently practiced at the height of the South Africa divestment movement, when many potential investments were shunned because of their ties to that country during the apartheid arena” (p. 7). In addition, Schueth (2003) suggests that when negative screening is employed, companies whose products and business practices are harmful are often avoided.

V. ESG Integration

ESG integration, according to Eurosif (as cited in van Duuren, Plantinga, & Scholtens, 2016) is defined as the “explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources” (p. 526). Consistent with this definition, ESG integration can be further classified into three categories:

- Category 1: Non-systematic ESG Integration:

ESG research and analyses made available to mainstream analysts and asset managers through external resources such as external ESG research providers in the market. This form of integration implies that the asset manager relies on external resources to incorporate ESG factors into their investment thesis for a company or sector.

- Category 2: Systematic consideration/inclusion of ESG

This is when the asset manager has a bespoke, internally derived manner of incorporation ESG factors into their investment process often through financial ratings/valuations imputed by analysts and fund managers. This approach involves scoring or rating investments on ESG factors and responsible investing practices and using this scoring as one of their basis to invest, hold or sell a share or investment in their fund.

- Category 3: Mandatory investment constraints

Similar to the systematic inclusion of ESG factors, this application implies preapproved mandatory constraints where financial ratings of an ESG nature concerned. i.e. a fund manager will not invest in a company whose ESG score/rating is below a satisfactory mandated level.

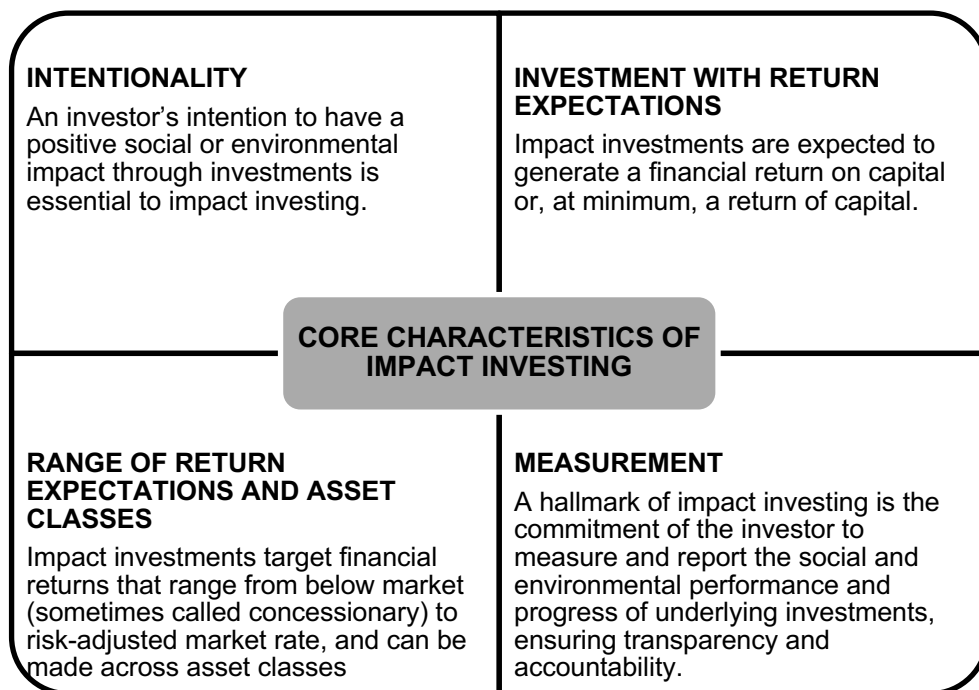
The study conducted by Briand, Urwin and Chia (2011) suggests that asset managers consider ESG integration as a strategy which aims to “better assess long-term risks or risks that have high impact but low frequency of occurrence” (p. 2).

VI. Impact Investing

Broadly defined, impact investing can be defined as “investing in projects or companies with the express goal of effecting mission related social or environmental change” (Caplan et al., 2013, p. 1). A similar definition is provided by the Global Impact Investing Network (GIIN, 2017) which states that “impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return” (p. 2).

From a practical perspective, the GIIN (2017) further suggests that there are four core characteristics of impact investing and they are shown in the matrix in Figure 4 below.

Figure 4: Core characteristics of impact investing



Source: Global Impact Investing Network (2017)

VII. Shareholder Activism

De Cleene and Sonnenberg (as cited in Viviers et al., 2009) defines shareholder activism as “shareholders communicating with management boards on specific ESG issues. Investors can do so through dialogue, by filing resolutions, using their voting rights at annual general meetings and divesting from companies that fail to transform” (p. 7). Hylton (1992) states that “this technique is distinguished by the investor's desire to change company behaviour by exercising rights that flow from ownership of the enterprise. The activist shareholder invests in a particular firm because the firm engages in objectionable behaviour, and the shareholder hopes to change that behaviour by convincing the firm that it has ethical obligations to the wider community in which it operates... The activist believes that the best way to effectuate change is to maintain a relationship, albeit a combative one, with the offending organization” (p. 11). Shareholder activism as a strategy is also often referred to as active engagement (Viviers et al., 2009).

2.4 Key challenges cited with the implementation of Responsible Investing strategies

When reviewing, the definitions cited of the various Responsible Investing strategies employed in practice, the asset manager often must apply subjectivity when deriving ESG metrics, ratings, scoring and valuation particularly in the ESG integration, activism and impact investing techniques. Given that ESG factors are often qualitative in nature, particularly social and environmental issues, it is anticipated that the quantitative traditional financial metrics used as a basis of investment, may conflict with the imposed Responsible Investing strategies. This section seeks to broadly outline the cited challenges which are associated with the practice of Responsible Investing and provide an overview of the issues asset managers and asset owners face in implementing responsible investment in practice.

VIII. Perceived lack of information on ESG issues

There is a definite perception amongst investors on the lack of information on ESG issues. According to Voorhes and Hoque (2015), one of the key barriers to ESG integration is that there is lack of uniform reporting by companies. This observation aligns with the challenges identified by Viviers and Eccles (2012) which emphasize the need for improved ESG information to promote the SRI agenda.

Similarly and more granularly, Bassen and Kovács (2008) find that “corporate financial statements lack the capacity to inform management and investors about the value of reputation, quality, brand equity, safety,

workplace culture, strategies, knowhow and a host of other assets that are more significant than ever in a knowledge based global economy” (p. 182). These factors are absolutely critical in the practice of Responsible Investing and whilst may be largely qualitatively orientated, these factors are essential from a sustainability point of view.

Bassen and Kovács (2008) highlight that “corporate reports on ESG matters are of limited use to investment professionals, as relevant information is typically communicated at irregular intervals, in prose style and scattered between online resources and printed reports. Therefore, even when quantified, information is difficult to compare with data delivered by peers or across periods... Furthermore, analysts and investors consider that companies do not provide enough information to allow effective assessment of these factors’ impacts” (p. 185). The authors observe that there are numerous problems related to the provision of ESG information.

IX. Perceived lack of materiality of ESG issues

The importance of materiality of ESG factors with respect to Responsible Investing strategies is emphasized by Bos (2014) where the author unequivocally states that it is essential

when integrating ESG factors into an investment analysis (is) to focus on materiality (i.e., factors that are likely to have a material impact on the longer-term sustainability of a company’s business model and its share price performance). Examples of material factors include safety standards, environmental impact, and resource access in the mining industry, social and labour issues in the consumer sector, product liability and bribery in the health care sector, and governance and alignment between management and shareholders for companies in general. In addition, asset managers could decide to bring in stricter measures, including nonmaterial factors, that provide protection against reputational risk or reflect their values and beliefs (p. 16).

A key challenge cited in a study conducted by Amaeshi and Grayson (2009), is the investor and asset manager’s ability to ascertain whether ESG issues are material or not. The authors observe that ‘the missing golden link’ in mainstreaming ESG issues is in fact the issue of materiality. They suggest that materiality of ESG issues is easily contested amongst asset managers because it is one of those ‘black boxes’ that are yet to be unpacked.

X. Uncertainty with respect to the performance of Responsible investing strategies

There has been significant academic literature dedicated to the relationship between financial performance and implementation of Responsible Investing strategies (Herringer et al., 2009; Viviers & Eccles, 2012). One of the key barriers of ESG integration has been identified by Voorhes and Hoque (2015) as there being insufficient evidence to link ESG criteria to financial return. At the heart of the investors' concern, according to Caplan et al (2013), is "whether a portfolio's long term performance can be enhanced by including ESG considerations in the security selection process or by implication, whether there will be a detraction of performance by inclusion of RI strategies" (p. 1).

In practice, there are investors who are of the view that the limitation imposed on the investment universe (due to this approach), means that it can lead to lower investment performance and is thus incompatible with the asset owners fiduciary duty to maximize return on investment (Caplan et al., 2013). However, the study done by Viviers and Eccles (2012) suggests that researchers' concerns about financial performance, [of RI strategies and/or ESG integration] have become proportionally less frequent in recent years.

2.5 The role of the Asset Owners in Responsible Investing

The role of an asset owner is essentially one within the confines of the agency theorem purely because the asset owners, which are pension fund trustees in the context of retirement funding, are appointed and selected agents on behalf of the pension fund contributors and beneficiaries who act on in their interests. The study done by Johnson (2014) defines the relation as one which "involves a delegation to an agent of discretionary management responsibility for particular assets in order to provide future benefits to one or more third party beneficiaries or specified purposes" (p. 2). The relationship is one which is based on a high level of trust and confidence in the agent. The asset owner role is referred to as a fiduciary one by Richardson (2011) and defines a trustee as fiduciary. Richardson states that "a 'fiduciary' is a person holding the character of a trustee, being charged to act primarily for another's benefit with regard to specific property or affairs.". An emphasis made by Girdwood (2013) is that "trustees are ultimately responsible for and liable to act with proper care and due diligence when managing fund assets" (p. 5). Richardson (2011) however impresses that a trustee's role is a weak version of an agent relationship because there is often no explicit legally binding the agent's action in relation their principal or beneficiary. The author boldly states that "trustees, unlike an agent who is subject to control of his or her principal, are not legally obliged to consult with beneficiaries. They only need to act in their 'best interests', yet they need not inquire what

those best interests are. The beneficiaries' active rights reside mainly in their legal remedies for breaches of trust.” Ironically though, “fiduciary” comes from a Latin verb meaning “to trust” and, hence, “fiduciary duties” according to Sandberg (2013) is the common term for the “duties which trustees (custodians, fiduciaries) have towards their beneficiaries” (p. 437).

In the context of responsible investing, the PRI suggests that there are three distinct roles which assets owners can play to drive RI implementation, and these are:

- Analyse and take account of ESG issues in their investment processes while also ensuring that they have robust processes to record the analysis that they have conducted and the actions that they have taken based on this analysis;
- Press regulators to clarify that asset owners' fiduciary duties require them to pay attention to ESG issues in their investment processes, and to actively engage with companies and issuers on ESG issues.
- Challenge their investment consultants and legal advisers to ensure that the advice being provided on fiduciary duty takes account of ESG issues (PRI, 2016a).

Aligned with these stated roles of an asset owner in the context of Responsible Investment, particularly the second role suggested by the PRI, regulation also often plays a role in providing a legal and regulatory framework where the fiduciary duty of asset owners is concerned. In South Africa for example, there have been industry efforts into providing policy guidelines and regulatory framework in asset owners and asset managers implementing sustainable responsible investment practice. As highlighted in Johnson (2014) it can be noted that in 2009, the King Commission (headed by former South African Supreme Court Justice Mervyn King) incorporated sustainability reporting as part of an integrated report provision for companies in the King III “apply or explain” corporate governance code (Institute of Directors Southern Africa, 2009). This was followed in 2011 by development of a voluntary Code for Responsible Investing in South Africa (CRISA) (p. 11) and furthermore supported by regulation, where the Minister of Finance amended Regulation 28 of the Pension Funds Act to require that pension funds clearly define how they intend to integrate ESG criteria (p. 12). The Amendment authored by the National Treasury (2010) includes the following statement, “prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long term performance of a fund's assets, including factors of an environmental, social and governance character” (p. 3).

In the United States (“US”), private pension funds (for workers who are not employed by the government) are subject to the Employees’ Retirement Income Security Act (ERISA) fiduciary standard which also, provides regulatory framework for the integration of ESG factors. As accentuated by Johnson (2014), the Federal regulator in the US has issued interpretive guidance stating that ERISA fiduciaries “may never subordinate the economic interests of the plan to unrelated objectives, and may not select investments on the basis of any factor outside the economic interest of the plan,” though nonfinancial factors can be considered when they do not adversely affect risk or returns. This can be likened to the preamble of Regulation 28 in South Africa.

Another similarity between South African and the US is the role which has been played by their largest asset owners where the GEPP in South Africa, has played a significant role in driving the RI agenda, the largest pension funds in the US being the California Public Employees Retirement System (CalPERS) and California State Teachers Retirement System (CalSTRS). According to Johnson (2014) the trustees of the CalPERS and CalSTRS see sustainable investment practices as a part of their fiduciaries duties. These funds are often used global case studies to show the successful implementation of RI strategies.

The Netherlands, also provides some policy framework with respect to sustainable investment practice where “Dutch pension funds have voluntarily adopted policies to encourage sustainable environmental, social and corporate governance practices” (Johnson, 2014, p. 14). Pension fiduciaries, according to Johnson, are required to invest assets as a “prudent person” solely in the interests of the fund’s members and beneficiaries using a total portfolio approach with proper diversification. There are no specifically precluded investments except as to holdings in a contributing employer (p. 14). An impressive 98 per cent of Dutch pension funds have a socially responsible investment policy in place as per the Dutch Association of Investors for Sustainable Development (2012, p. 48).

Whilst there is a definite advancement of a firming regulatory and legal framework for asset owners with respect to responsible investing strategies, the PRI (2016a) suggests that asset owners should do significantly more to deliver a sustainable financial system, even in the absence of regulation. Weaknesses in implementation mean that investment managers, investment consultants and other service providers do not receive strong, clear and consistent messages from their asset owner clients about the importance they should assign to responsible investment. This implies that the role of the asset owners in this field is an enduring one which also has a significant impact on the uptake of RI practice on the other key players in the market, particularly the asset managers and asset consultants.

Whilst there is substantial literature dedicated to the advancement of RI in different markets as well as ascertaining the regulatory environment in which RI strategies are implemented, there seems to be a gap with respect to the influence of asset owners on their consultants and asset managers in RI related decision making despite having an overt fiduciary responsibility in the regard. Hoping to fill this literature gap, this study investigates how asset owners in the South African market, given the country's regulatory environment, are fulfilling their fiduciary duties to the beneficiaries of the pension fund through their own actions and policies to ensure that asset managers and asset consultants do indeed incorporate ESG factors and risks when investing their assets on their behalf.

2.6 The role of Asset Consultants in Responsible Investing

Milliman and Consultants in their report (2017) identify that there are generally two types of asset (investment) consultant which have a fiduciary capacity in the context of the pension and retirement fund industry. There are consultants which are nondiscretionary and provide advice and recommendations to the trustees and there are those who consultants which are discretionary advisors and in addition to providing trustees advice, also have discretion and control over the pension and retirement fund assets. Furthermore, Theron (2014) defines the role of asset consultants as those that “guide and advise trustees of pension funds to produce sufficient and sustainable long term, risk adjusted investment returns for their members” (p. 1). Theron notes that the existence and role of the asset consultant has been premised by the introduction of Modern Portfolio Theory (MPT) in the 1970's where “trustees needed advice on asset allocation strategies, manager selection and the formalization of an Investment Policy Statement” (IPS) (p. 1). In the context of RI strategy implementation, the study conducted by Eurosif (2009) describes the role of consultants as an apparent ‘gatekeeping’ role and further emphasizes that if mainstream investment consultants are not able to meet the demand for responsible investment advice, it may constitute an obstacle to the development of Responsible Investment (p. 4). A differentiation highlighted by Girdwood (2013) is that whilst consultants are appointed and employed by trustees to fulfil an advisory role, it is still the pension fund trustees who remain accountable to the beneficiaries. It thus implies that consultants are accountable to first and foremost the trustees of the pension fund and in fulfilling this obligation, the consultant is also accountable to the beneficiaries of the fund.

The academic literature on the role which asset consultants play in the RI value chain is an ongoing endeavour as the focus has primarily been on the study of the role of asset managers and the role of asset owners in this field.

Studies which have been cited in this area of research include the “Boston College Institute for Responsible Investment which conducted a roundtable in April 2009 showing that a fully developed discipline of responsible investment consulting has yet to emerge; the UNEP FI Asset Management Working Group (AMWG) conducted an initial investment consultant survey in 2008 which analysed the responses of six large consultants with respect to their ESG practices” (Eurosif, 2009, p. 8). Eurosif in Europe however has undertaken a comprehensive study to focus primarily on investment consultants and the concentrated on the top ten European consultancy markets being mainly Austria, Belgium, France, Germany, Ireland, Italy, the Netherlands, Sweden, Switzerland and UK (p. 8).

The Eurosif (2009) study reflects some challenges and barriers with the role of asset consultants in the implementation of RI strategies and these include:

- There is a chicken and egg dilemma amongst investment consultants and asset managers in that asset managers often count on the investment consultants to advocate responsible investment whereas consultants are mostly offering ESG services only once they have identified an explicit demand from their clients.
- Investment consultants are in the early stages of tackling ESG issues as a part of their counsel and advice to their clients.
- A key barrier which is preventing consultants from quickly developing their ESG service offerings is the need for greater education and training on Responsible Investing and ESG integration
- An improved regulatory environment in terms of a compulsory disclosure on ESG considerations in investment practice would also be a significant change for the adoption of RI strategies (p. 20)

To illustrate the importance of the asset consultants in the RI uptake and growth, given the heavy reliance placed on consultants by trustees, Theron (2014) uses a quote by Benoit Mandelbrot from his book titled "The misbehaviour of markets", where Mandelbrot claims that “markets are not mildly random but wildly random” (p. 1). In light of Mandelbrot’s quote, Theron observes that trustees subsequently place “greater dependence on their asset consultants and their advice” (p. 1) because not only are the markets wildly random, but the increasing opportunity set also increases the reliance on asset consultants. This view is supported by Yamahaki and Frynas (2016) who claim that “most trustees lack investment skills they rely on the advice of investment consultants who then incentivize pension funds to focus on short-term financial performance” (p. 511). Yamahaki and Frynas (2016) further note a trend in South Africa that it is common practice for South African pension funds to employ

asset consultants for the selection of asset managers on their funds. The suggested short termism behaviour from asset consultants contradicts the aims and objectives of RI strategies because one cannot achieve sustainable long term returns by insisting that asset managers chase short term performance.

The academic literature dedicated to asset consultants and their role in RI practice suggests that there is an emphasis on the heavy reliance on asset consultants and their advice from pension fund trustees. The literature however does not focus on the active role asset consultants play to educate trustees on RI strategies and in turn the influence the asset consultants have on the asset managers who ultimately invest the assets of the fund. This research sought to address this gap in literature by exploring at a granular level, the behaviour and activity employed by asset consultants on behalf of and alongside pension fund trustees to implement RI policies and strategies for the benefit of the pension fund and assess the level of influence imposed by the consultants on the asset managers on RI strategy as well as RI implementation.

2.7 Conclusion

Responsible Investing has gained traction on a global scale from its early ethical and religious basis. Interestingly, in reviewing the history of the uptake of Responsible investing, South Africa's history plays a vital role in setting this form of investing based on primarily a social and ethical framework during the apartheid regime. The use of principles as a guide of this type of investing is first introduced by the Global Sullivan principles of 1985 and today, the adoption of the United Nations PRI six principles are accepted as global practice for RI implementation.

The broadly accepted terminology in describing and defining responsible investing has also seen a shift away from the dominant 'Social Responsible Investing' to what is known as Responsible Investment today which largely encapsulates a sustainable form of investing which incorporates ESG factors when investing assets of beneficiaries. The implementation of this form of investing can be implemented in various ways and the key players can opt to invest responsible through strategies such as screening, integration, activism and engagement as well as thematic investing for impact. These strategies are not without challenges and market players ought to continuously seek solutions to the cited barriers to the adoption of Responsible Investing in order to ensure the ongoing application of the discipline of Responsible Investing. It is notable however that there is marked progress on the perception on the financial performance implication of responsible investing where researchers are less sceptical that investing in a sustainable manner implies an opportunity cost in the form of financial return.

Asset owners are the primary market players who set the tone of the implementation of responsible investing. Defining their role and understanding the regulatory framework from which they implement responsible investing strategies becomes pertinent in the development of RI as both a concept and a practice. South Africa, like the US, has a satisfactory regulatory and policy environment for asset owners to incorporate and consider ESG factors. The Netherlands are likely to be market leaders in this regard with 98 per cent of Dutch pension funds having a socially responsible investment policy in place as per the report by the Dutch Association of Investors for Sustainable Development (2012). Despite notable process in engaging policy makers and regulators from a RI perspective, literature suggests that the asset owners still have a role to play particularly in challenging their asset consultants to ensure that the advice being provided on fiduciary duty takes account of ESG issues (PRI, 2016a).

Whilst literature on the role of asset consultants in the RI value chain is seemingly at infancy stages, this does not negate the importance of the role asset consultants ought to play in their nondiscretionary and at times discretionary role in providing advice to asset owners. There is a need to contribute to the academic literature and to understand the status quo in different regions, in terms of the adoption of RI strategies from the perspective of the asset consultant group and to what extent they influence the decisions ultimately taken by the trustees in this regard. Of particular interest to this study, is understand the role asset consultants play in South Africa, where Responsible Investment is concerned.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The following chapter outlines the methodology used in order to achieve the stated objectives of this research paper.

3.2 Research Approach and Strategy

This research employed a qualitative approach in alignment with the definition and scope provided by Malterud (2001), where “qualitative research methods involve the systematic collection, organisation, and interpretation of textual material derived from talk or observation. [This method of research is used in] the exploration of meanings of social phenomena as experienced by individuals themselves, in their natural context” (p. 483). Because this study sought to ascertain the status quo of the behaviour of asset consultants and asset owners in the retirement fund industry in South Africa, qualitative research was found to be most appropriate.

The research was inductive in nature purely because the data was used to confirm and generate ideas, rather than deductive reasoning which begins with the idea and uses the data to confirm or negate the idea as per Thorne’s distinction between inductive and deductive reasoning in the use of a qualitative methodology (2000). This difference in approach suggests that the research employed was more hypothesis generating rather than hypothesis testing.

3.3 Data Collection, Frequency and Choice of Data

The instrument deemed suitable for conducting this study was an online survey in that it could uphold the ethical principles of this study and in particular, the principle of confidentiality. Another advantage of the method used was that it allowed for a variety of types of questions to be included, for both sets of incumbents namely, the asset consultants and asset owners. The survey method allowed for the researcher to structure the various questions in a manner that would effectively respond to the research questions. As per Granello and Wheaton (2004), this approach allowed the researcher to have flexibility of and control over format. To further ensure that the research questions were explored in totality, each group of subjects (Asset consultants and retirement fund trustees)

received different and tailored online questionnaires as a survey to ensure that data collected from trustees and from asset consultants is distinguishable and allowed the ease of the analysis of the data collected.

Lazar and Preece (as cited in Granello & Wheaton, 2004) state that “one of the primary advantages of e-mail and Web-based surveys is that they dramatically decrease response times”. Farmer (1998), (as cited in Granello & Wheaton, 2004) reports that the “typical turnaround time is 4 to 6 weeks with traditional mail surveys, 2 to 3 weeks for telephone surveys, and only 2 to 3 days for Web-based surveys” (p. 388). The use of the online survey indeed proved to be time efficient in that the respondents completed the survey within a span of 10 days after receipt of the online link to the appropriate survey. In addition, the use of an online survey made it convenient for both the researcher and the respondents in that – respondents from across geographical locations could be surveyed; the administrative process of sending the surveys and receiving responses was not cumbersome; the process was cost effective for collecting information from a diverse set of respondents; the online survey was also most convenient for the trustees and consultants in that they had flexibility in terms of the time of day they chose to respond the survey as their schedule permitted; using this method also allowed the researcher to follow up in the form of an email reminder a few days before the deadline date.

The most attractive and useful aspect of using an online survey was that it provided the option of purposefully structuring the questions and sections of the survey in that some questions required that the respondents provide an answer before being allowed to proceed to the next section of the survey. Similarly, logic questions were embedded in the questionnaire where, by way of example, if the respondent had answered “other” to a question, they would be prompted to explain further what was meant by their response.

3.4 Sampling

According to Marshall (1996), purposive sampling is when the researcher “actively selects the most productive sample to answer the research question” (p. 523). Marshall suggests that this method of sampling can involve “developing a framework of the variables that might influence an individual's contribution and will be based on the researcher's practical knowledge of the research area, the available literature and evidence from the study itself” (p. 523). This form of sampling was most productive for the purposes of this research given the selection of industry bodies and individuals approached was based on the industry knowledge and experience of the researcher.

Specifically, the researcher formally approached two industry bodies to distribute the online survey(s) as per the permission letters in Appendix 3 and 4 of this research, namely:

1. The Southern African Network Manager of the United Nations Principles of Responsible Investing
2. The Chief Executive Officer of the Batseta Council of Retirement Funds in South Africa

which together comprised of a fitting sample, namely South African consultants and South African trustees as per the requirements of the research. The researcher, having worked in the industry, also made use of their personal network and shared the survey with South African trustees and consultants who weren't necessarily associated with the two approached industry organisations.

The sample was also theoretical because as Marshall (1996) points out, "the iterative process of qualitative study design means that samples are usually theory driven to a greater or lesser extent." The theoretical categories which were employed, as they applied to the sample of asset owners and/or asset consultants in South Africa included:

- Asset size for the pension fund
- Assets under administration (AUA) for the investment consultant
- Incumbents' being signatories to the United Nations PRI

Given that there are a total of 52 PRI signatories in South Africa, comprising of 8 asset owners and 10 service providers (PRI, 2017b) , a sample size of 10 participants (5 asset owners and 5 service providers) at the begin of the research was deemed to be sufficient to address the research question. At finality of the research, the sample size was larger than anticipated in that there was a total of 14 respondents made up of 9 asset owners and 5 investment consultants.

XI. Administration of the online survey

The following steps were undertaken by the researcher to collect the data from the online survey(s) used for the purposes of meeting the objectives of this research.

- Two separate surveys were drafted for the two sets of respondents, namely South African pension fund trustees as well as South African investment consultants with the intent to gather information in alignment with the research questions of this study.
- Each of the surveys was divided into 5 or 6 concise sections which explored definite themes. The table below summarizes the sections per survey.

Table 2: Themes/Sections explored in the online surveys for both sets of respondents

South African Pension Fund Trustees Survey	South African Investment Consultants Survey
Section 1: General information about the retirement fund(s) including an indication of the asset size, whether the incumbents fund(s) have an appointed investment consultant for their fund	Section 1: General information about the firm including an indication of the assets under administration as well as the type of clients the consults advise on.
Section 2: RI strategy to ascertain what responsible investment strategies, if any, are employed by the retirement fund.	Section 2: Market Demand exploring to what degree investment consultants had demand from funds on recent RI events in South Africa.
Section 3: RI strategy evaluation to determine how the fund evaluates the strategies employed and also whether consultants play a role in this aspect.	Section 3: RI capacity to ascertain how well capacitated the investment consultant firm is to advise/consult on RI matters.
Section 4: Fund Communication to understand what forms of communication the trustees use to inform both the board of trustees and members of the fund on ESG/RI related matters.	Section 4: Approach to RI to ascertain what responsible investment strategies, if any, are employed by the investment consultant.
Section 5: Existing frameworks and incentives to ascertain tools do trustees currently have and need to encourage the uptake of Responsible Investing?	Section 5: RI and performance to gauge the perceptions around the implementation of RI strategies and the impact on investment performance.
	Section 6: Existing frameworks and incentives to ascertain tools do consultants currently have and need to encourage the uptake of Responsible Investing?

- The surveys were loaded online and tested for logical flow, length and flow. Once finalized, the researcher requested permission letters and sent emails to two industry bodies and individual emails were sent to a targeted list of potential respondents, with the appropriate link(s) to the surveys.
- The participants were able to respond to the survey within the predetermined timeframe and individual follow up emails were sent, to increase the probability of response from the sample of potential respondents.

3.5 Data Analysis Methods

Thematic analysis was used to analyse the data. Thematic analysis according to Yamahaki and Frynas (2016) is a “flexible tool with which to analyse qualitative data in a rich, detailed, and complex manner” (p. 515). This form of analysis allows for the identification of key emergent themes based on the responses of the participants in the survey. Thematic analysis, is used “to develop ways of understanding human phenomena within the context in which they are experienced” (Thorne, 2000, p. 69). This method was most ideal as it allowed the researcher to understand the trends, themes and behaviours of the participants (namely the pension fund trustees and consultants) so as to achieve the research objective.

The questions which were quantitative in nature, were structured as closed ended questions in the survey. To analyse the data from closed ended questions, was analysed for emergent themes and common themes were therefore separated and analysed in Microsoft Excel to determine the percentages of responses which represented a particular theme. These percentages per theme have been presented as part of the findings of this research and detailed in Chapter 4 of this study.

3.6 Limitations

One of the limitations of this study was the expressed workload of the consultants. Some consultants shared that they had every intent to complete the survey however their workload leading up to the expressed deadline date meant they could not participate in the research. Others however, responded positively after receiving a reminder email close to the deadline date and managed to complete the survey on or before the deadline date. As per the suggestion made by Granello and Wheaton (2004), a system of multiple reminders was implemented so as to reduce the risk of low responses (p. 390), and proved beneficial.

Another limitation was that two of the pension fund trustees, sat on several boards and therefore their responses couldn't be attributed to a specific fund but rather a general perspective based on the several funds they inevitably represent. Another respondent chose to refrain from answering the survey because they were a trustee belonging to smaller umbrella funds and because their funds had not ever considered RI/ESG matters, asked to be excluded from the research at this point in time.

There was a respondent on completion of the survey that highlighted that there may be a low response rate for the survey because there are funds who have strict policy around getting permission from the entire board to complete surveys of this nature and therefore a longer period than 10 days would be required as a timeframe to complete the survey to give the trustees sufficient time to receive the required permission from their respective funds. Whilst this observation may have held true for potential respondents, this limitation was overcome by the response rate of the trustees from the delimited sample of the study. The impact of the stated limitations could be a lower sample size of the respondents however the responses gathered in the study had enough depth to surface insights on both groups being, trustees and consultants.

CHAPTER 4 RESEARCH FINDINGS AND DISCUSSION

4.1. Introduction

The main objective of this study was to interrogate and understand the status quo in terms of the ability of two of the key players in the RI market in South Africa, mainly the asset owners, who are the pension fund trustees and also their service providers, being the asset consultants and/or investment consultants, to play their part in the implementation of responsible investments principles and strategies.

Because this study has two sets of participants' in focus and therefore two online surveys conducted, this chapter will provide an analysis of the findings made for the two key players and the chapters thereafter will expound on the conclusions drawn from the findings as well as recommendations from the researcher, for future research studies.

4.2. South African Pension Fund Trustees

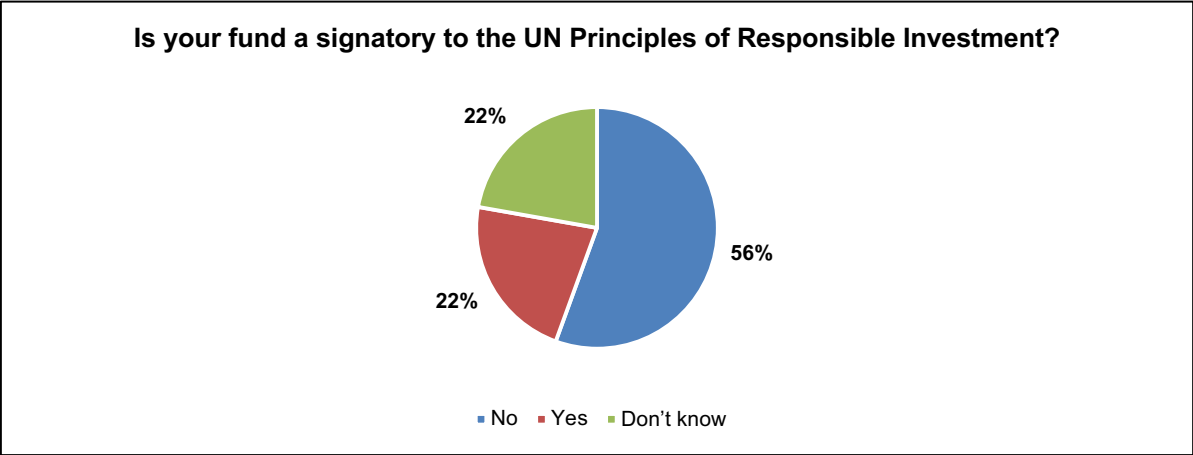
Based on the responses from the South African pension fund trustees, three main themes were identified using thematic analysis. The first theme was the implementation of RI strategies where the second theme was around the role of the trustees on RI related matters on the funds the trustees represent. The third theme was the trustees' reliance on Investment Consultants of RI related matters.

A total of 9 pension fund trustees responded and collectively represent funds ranging from R420 million to R11 billion in assets measured as at 30 June 2017. The type of funds the trustees represent differ in terms of type where the respondents included the following types: fund trustee, principal officer, investment subcommittee member, independent trustee and employer elected trustee.

XII. Implementation of RI strategies across pension funds in South Africa

100% of the respondents indicated that their funds subscribed to the CRISA principles of responsible investing whereas only 22% of the funds are signatories to the United Nations PRI. Figure 5 below shows the summary of results relating to the RI principles as prescribed by the UN.

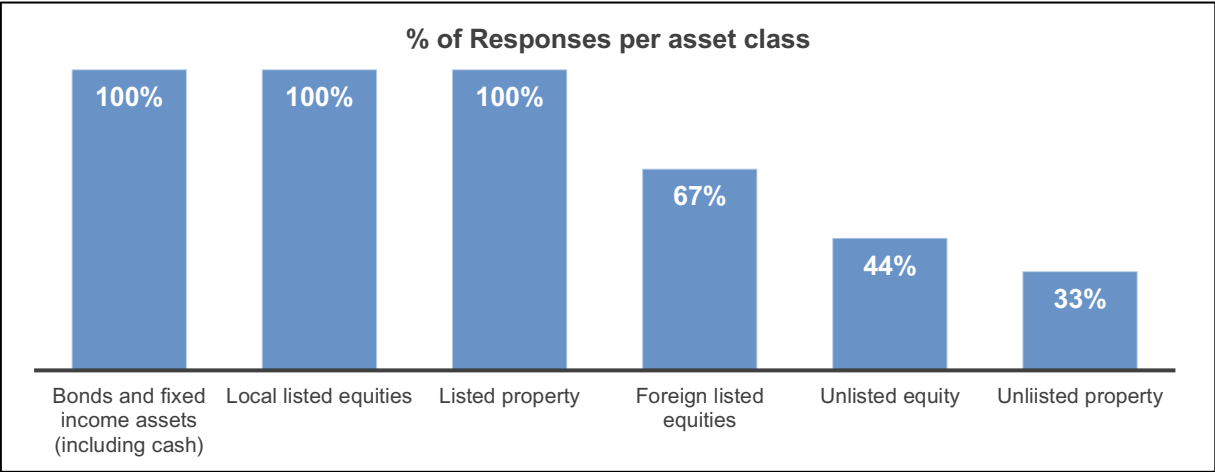
Figure 5: Summary of results showing if respondents funds are signatories to UN Principles of Responsible Investment



Source: Author's design from Research Data, 2018

67% of the respondents indicated that their funds had an RI policy in place with the remaining 33% showing that their funds do not have a RI policy in place. Over and above the RI principles guiding the funds, the respondents indicated that the main asset classes covered by their RI policy is Bonds and fixed income assets (including cash and cash equivalents), local listed equities and listed property. Fewer funds covered other asset classes in their RI policy as shown in figure 6 below, in particular unlisted assets.

Figure 6: Summary of results showing asset classes covered by the funds RI policy

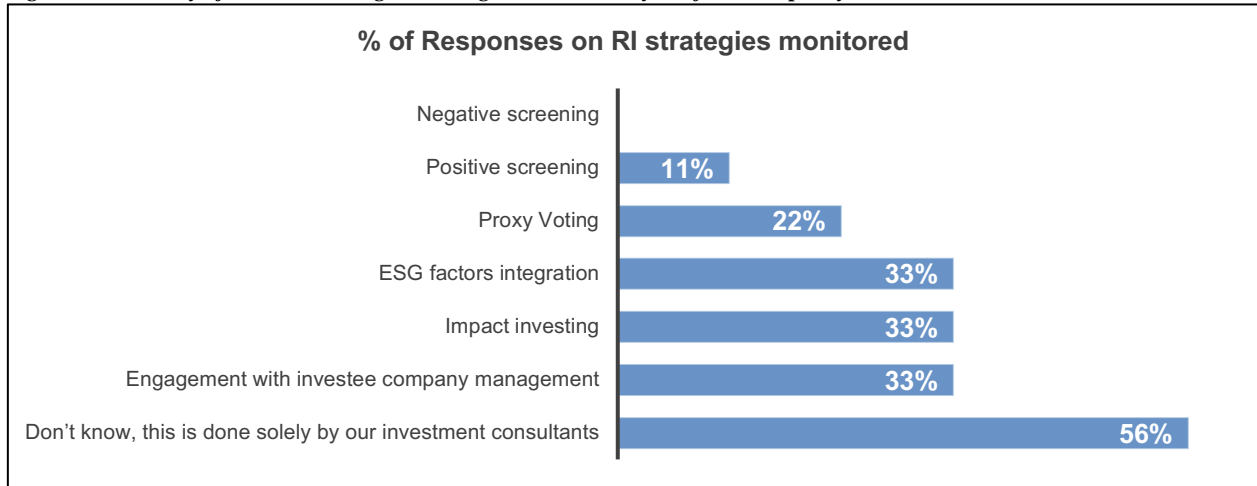


Source: Author's design from Research Data, 2018

A key finding in this theme was that majority of the respondents, being 56%, indicated that they did not know what RI strategies were being monitored by their RI policy where only a third of the respondents highlighted that the following strategies were monitored by their policy: active engagement with management, impact investing and integration of ESG factors into investment analysis. Only 22% indicated that active engagement through exercising of ownership rights was being monitored, 11% on positive screening and none of the respondents

indicated that negative screening as a strategy being monitored on their funds' RI policies. The summary of these findings has been included in figure 7 below.

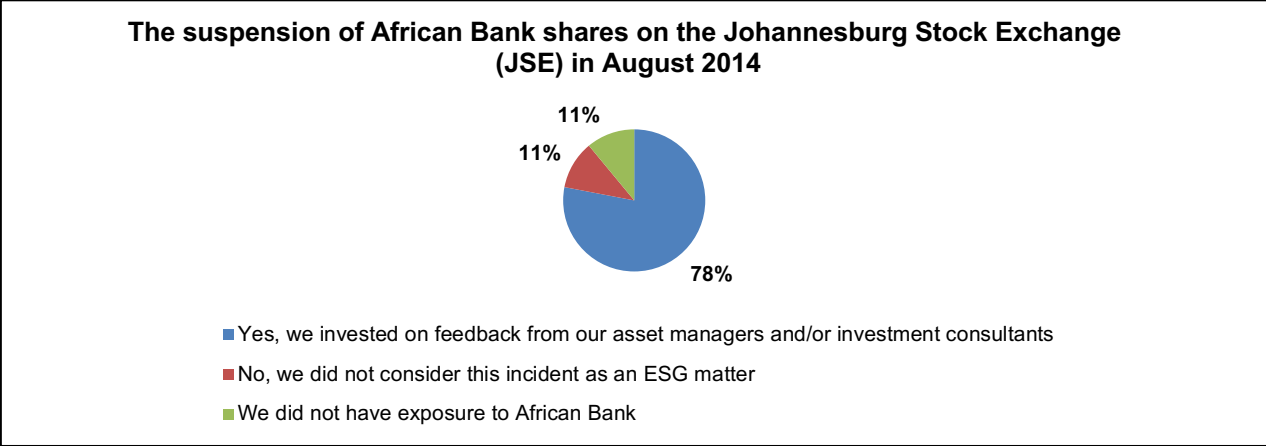
Figure 7: Summary of results showing RI strategies monitored by the funds RI policy



Source: Author's design from Research Data, 2018

In terms of the types of the issues their fund mostly enquires about, the respondent ranked governance issues highest with an average rating of 2.75 out of 3. Social issues were ranked second with an average rating of 2.38 out of 3 and lastly environmental issues being the least issues being enquired about were ranked by the respondents with a rating of 2.11 out of 3. With regards to the fund's practical implementation of RI strategies on the trustees' funds, the survey expounded on three recent examples of ESG incidents to find out whether the funds monitored these events as RI related or not. The first event was that of the suspension of African Bank shares on the Johannesburg Stock Exchange in August 2014 preceded by the CEO stepping down after a 20 year service with the bank as per the published article by Fin24 (2015) indicative of governance issues which thereby impacted the share price of the share significantly. Majority of the respondents of the survey (78%), shared that their funds did indeed insist on feedback from their service providers as they recognised the incident as an ESG related matter. Only 11% claimed that it was not considered as an ESG incident and the remaining 11% shared that their fund had no exposure to African Bank shares at the time (see figure 8 below).

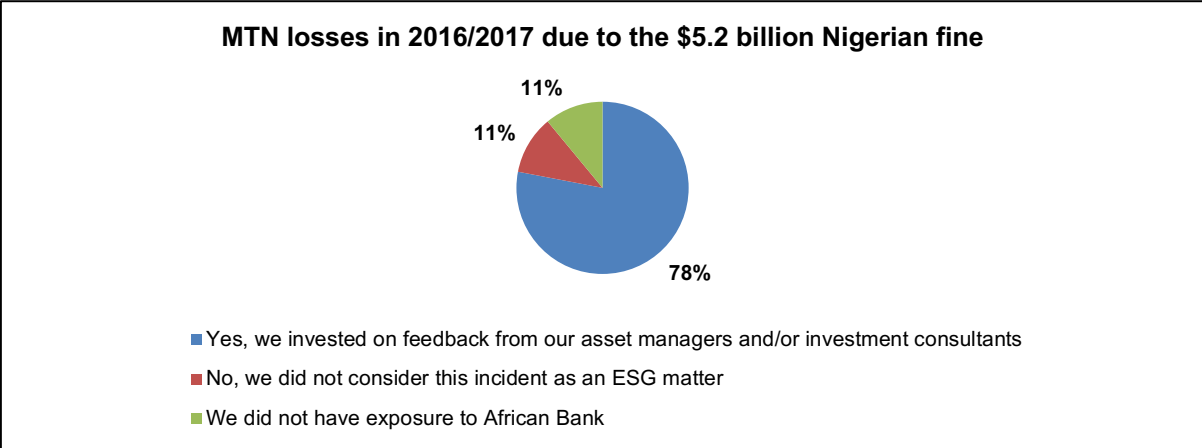
Figure 8: Summary of results showing practical implementation of RI strategies using three recent examples in South Africa



Source: Author’s design from Research Data, 2018

The second event explored was that of the MTN losses on the share in 2016 through to 2017 due to the fine the company had in Nigeria amounting to \$5.2 billion dollars as per the Gilbert’s account of the events at MTN (2017) which was indicative of social and governance issues. Identical to the African Bank incident, 78% of the respondents shared that their funds insisted on feedback from their service providers as they recognised the incident as an ESG related matter, 11% of the respondents indicated that their funds did not consider the event as an ESG incident and the remaining 11% shared that their fund had no exposure to MTN shares at the time (see figure 9 below).

Figure 9: Summary of results showing practical implementation of RI strategies using three recent examples in South Africa

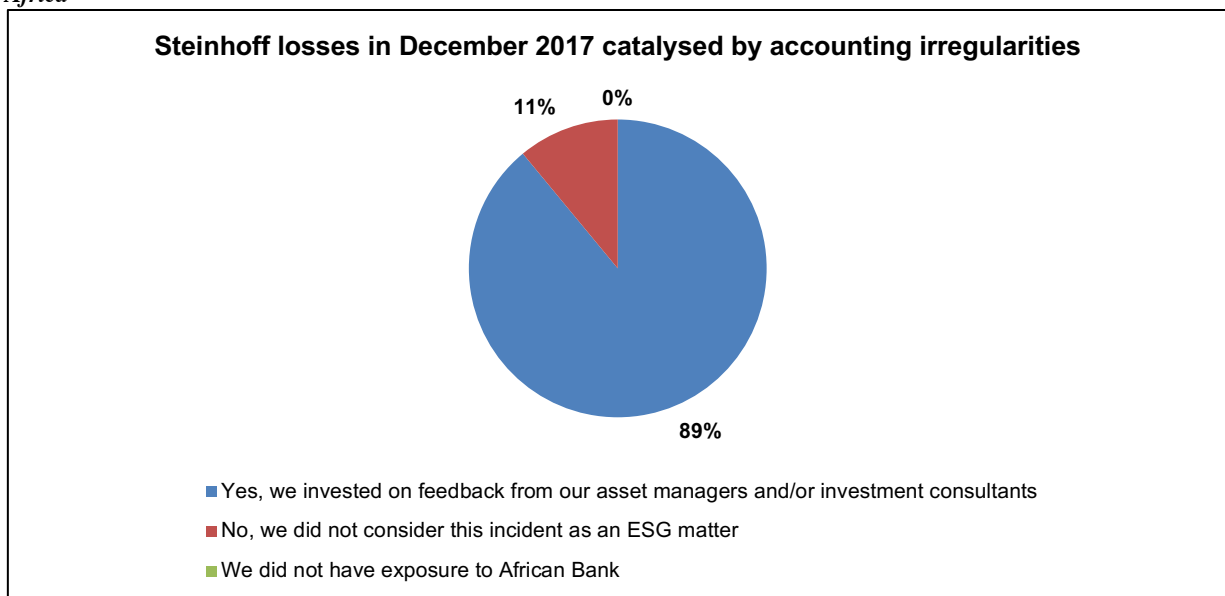


Source: Author’s design from Research Data, 2018

The last incident explored in the survey, was the more recent Steinhoff event in December 2017 where, as Mahlaka accounts, Steinhoff shares fell 61.72% on the day the CEO Mark Jooste stepped down post an announcement and investigation of reported accounting irregularities in the firm (2017), indicative of serious governance issues. A

larger number of respondents, being 89%, shared that their funds insisted on feedback from their service providers as they recognised the incident as an ESG related matter. The remaining 11% of the respondents indicated that their funds did not consider the event as an ESG incident and interestingly none of the respondents shared that their fund had no exposure to Steinhoff shares at the time, implying that all funds represented by the respondent all had exposure to Steinhoff shares at the time of the incident (see figure 10 below).

Figure 10: Summary of results showing practical implementation of RI strategies using three recent examples in South Africa



Source: Author’s design from Research Data, 2018

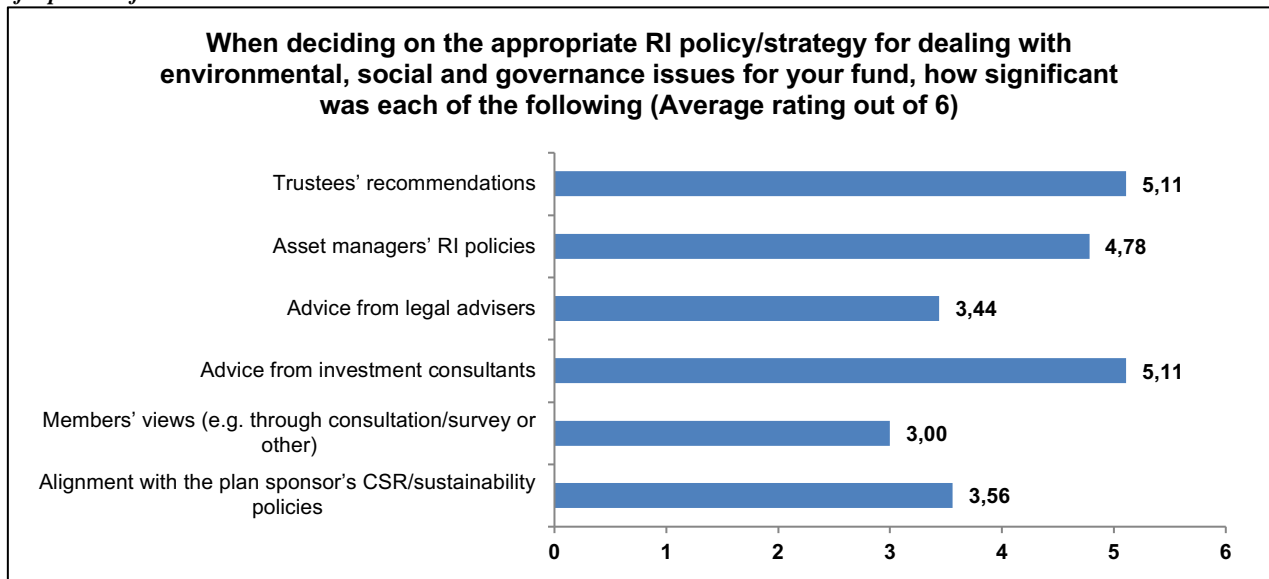
XIII. The role of the trustees on RI related matters on pension funds in South Africa

An encouraging finding on this study was that 78% of the trustees believed that ESG factors can have a material positive impact on the fund’s investment on the long term. The remaining 22% believed that ESG factors can have a material negative impact on the fund’s investment on the long term. None of the respondents’ indicated that ESG factors have no impact on their funds. This when interpreted, can be implied as that trustees do see importance on RI strategy implementation on their funds where majority foresee a positive impact rather than a negative impact. In addition, 100% of the respondents, considered RI to be a part of the fiduciary duty.

When asked to rank the significance of certain factors when deciding on the appropriate RI policy/strategy for dealing with environmental, social and governance issues for their funds, the respondents indicated that the most important factors were trustee recommendations and advice from consultants, ranked with an average rating of 5.11 out of 6. The trustees therefore see their input as crucial as the input from investment consultants when

drawing up their fund’s RI policy implying that trustees are wanting to be equally involved in drawing up fund RI policies. The significance of Asset Managers’ RI policies is interestingly lower with an average rating of 4.78 out of 6. The factors were ranked from 1 to 6 (1 being the least significant and 6 being the most significant factor) and the average rating of each factor considered has been summarised in figure 11 below.

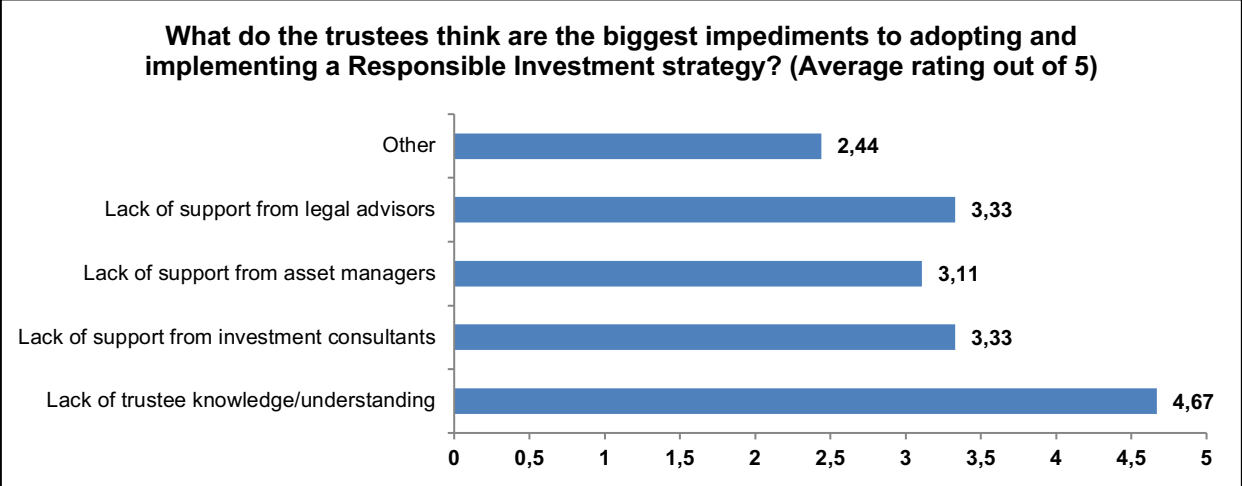
Figure 11: Summary of results showing average rating of the significance of factors in drawing up an appropriate RI policy of a pension fund



Source: Author’s design from Research Data, 2018

In contrast, when asked to rank the biggest impediments to adopting and implementing a Responsible Investment strategy, the trustees indicated the biggest impediment was in fact the lack of trustee knowledge and understanding ranking this impediment with an average rating of 4.67 out of 5. The trustees also indicated that there were other impediments and ranked these with an average rating of 2.44 out of 5. Examples of some of the elaborated responses were as follows, “RI is still seen as a sacrifice in some circles” (Trustee 1), “Insufficient time to investigate the RI issues thoroughly”, (Trustee 2) and “We employ a multi-manager and latter is mandated to handle ESG matters with the asset managers which it appoints” (Trustee 3). The average rating of each impediment considered has been summarised in figure 12 below.

Figure 12: Summary of results showing average rating of the significance of factors in drawing up an appropriate RI policy of a pension fund



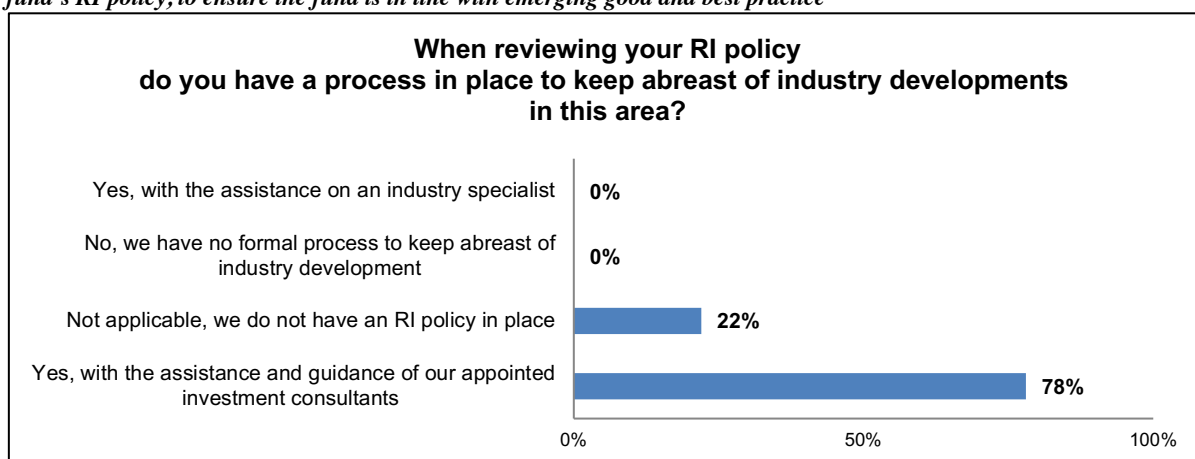
Source: Author’s design from Research Data, 2018

XIV. South African pension fund trustees’ reliance on Investment Consultants on RI related matters

100% of the respondents indicated that their pension fund has an appointed investment consultant and whilst the respondents named the consultants they make use of, the firms names will remain undisclosed to keep the anonymity of the respondents and their fund specific details. It is worth highlighting however that 33% of the respondents named the same investment consulting firm as their appointed consultant, and the remaining 67% each had a unique response.

As mentioned above, 67% of the respondents indicated that their funds had an RI policy in place with the remaining 33% showing that their funds do not have a RI policy in place. Interestingly, exactly 67% of the respondents indicated that their appointed investment consultant assisted their fund in drawing up their fund’s RI policy with the remaining 33% still showing that their funds do not have a RI policy in place. When reviewing the fund’s RI policy, 78% of the respondents indicated that in order to keep abreast of industry developments in RI and to ensure their fund stay in line with emerging good and best practice, the trustees receive assistance and guidance from their appointed investment consultants. None of the respondents indicated receiving assistance from an industry specialist which can be implied that the consultant is deemed as the industry specialist. The remaining 22% of the respondents stated that this wasn’t applicable as their funds don’t have an RI policy in place. None of the respondents indicated that they don’t have a formal process in place to keep abreast of industry developments indicating that those funds that do have an RI policy at least have a process in place. The summary of these responses is shown in Figure 13 below.

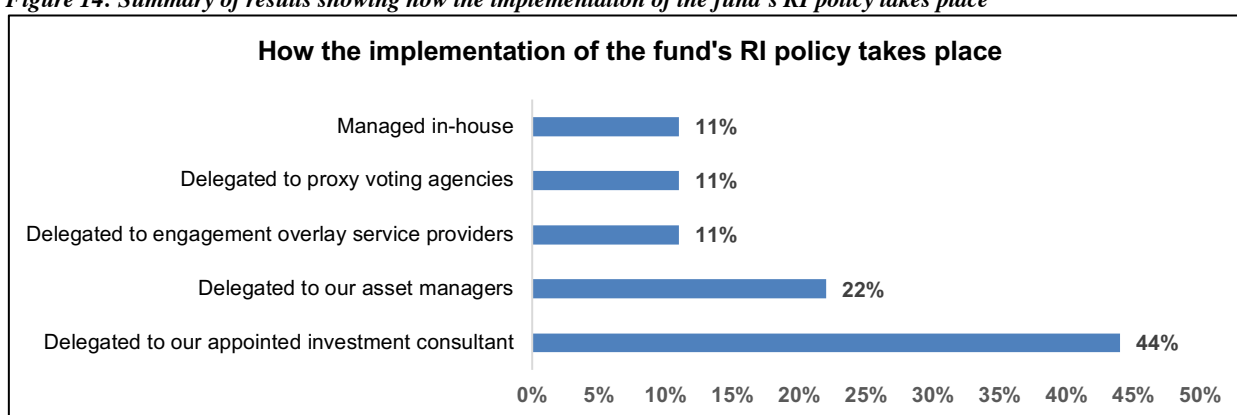
Figure 13: Summary of results showing process in place to keep abreast of industry developments in RI when reviewing the fund's RI policy, to ensure the fund is in line with emerging good and best practice



Source: Author's design from Research Data, 2018

In terms of the implementation of the RI policy, 44% of the respondents shared that this responsibility is delegated to their appointed investment consultant. 22% delegated the implementation of the fund's RI policy to asset managers and whereas the remaining 33% of the respondents each indicated that this was either managed in-house (11%), delegated to proxy voting agencies (11%) or delegated to engagement overlay service providers (see figure 12 below). In alignment with these findings, an even greater majority of the respondents, being 56%, further indicated that they did not know what strategies were monitored in their funds as this was solely done by their investment consultants. These findings have been summarised in figure 7 above.

Figure 14: Summary of results showing how the implementation of the fund's RI policy takes place

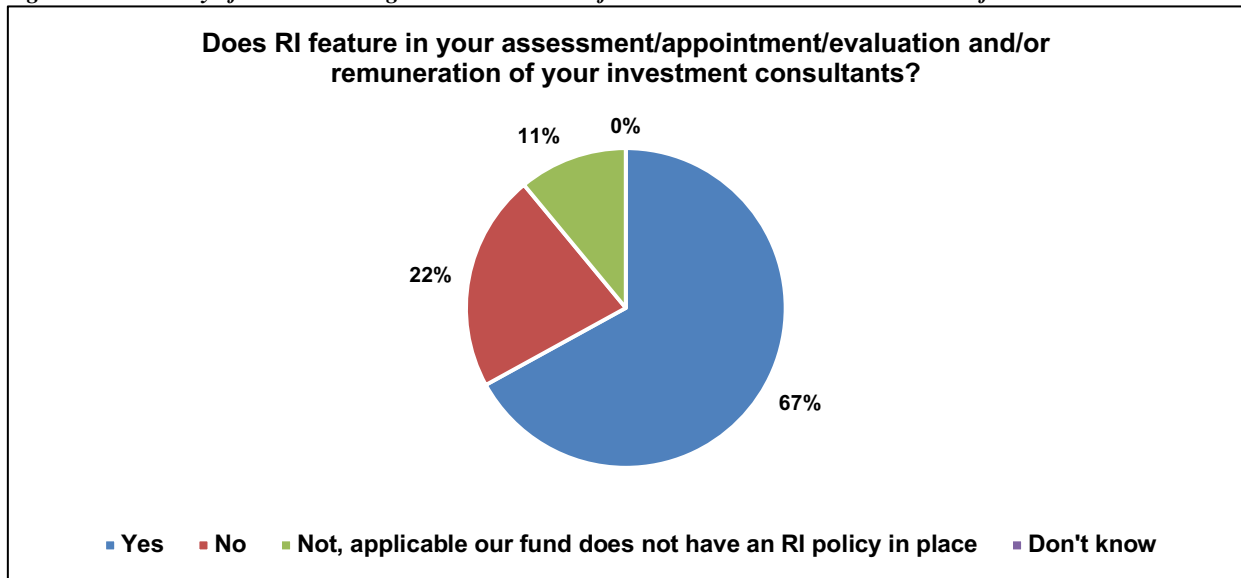


Source: Author's design from Research Data, 2018

As mentioned in the section above and shown in figure 9, the respondents show that one of the most important factors in drawing up their fund's RI policy is the advice from their appointed investment consultant. Interestingly, 67% of the respondents indicated that RI features as a metric in their assessment, appointment, evaluation and/or remuneration of their investment consultant. Only 22% of the respondents indicated that they do not use RI as a

metric for their investment consultants and only 11% stated this as not applicable as they do not have an RI policy in place (see figure 15 below).

Figure 15: Summary of results showing on the assessment of the investment consultants in terms of RI



Source: Author's design from Research Data, 2018

Lastly, in terms of receiving specific investment advice or training on RI, 78% the respondents indicated that their fund receives this from their investment consultant. Only 44% of the respondents received training or advice from asset managers and similarly 33% from ESG research providers. None of the respondents declared to not receive any RI training and the remaining 22% received in-house training and advice on RI related matters

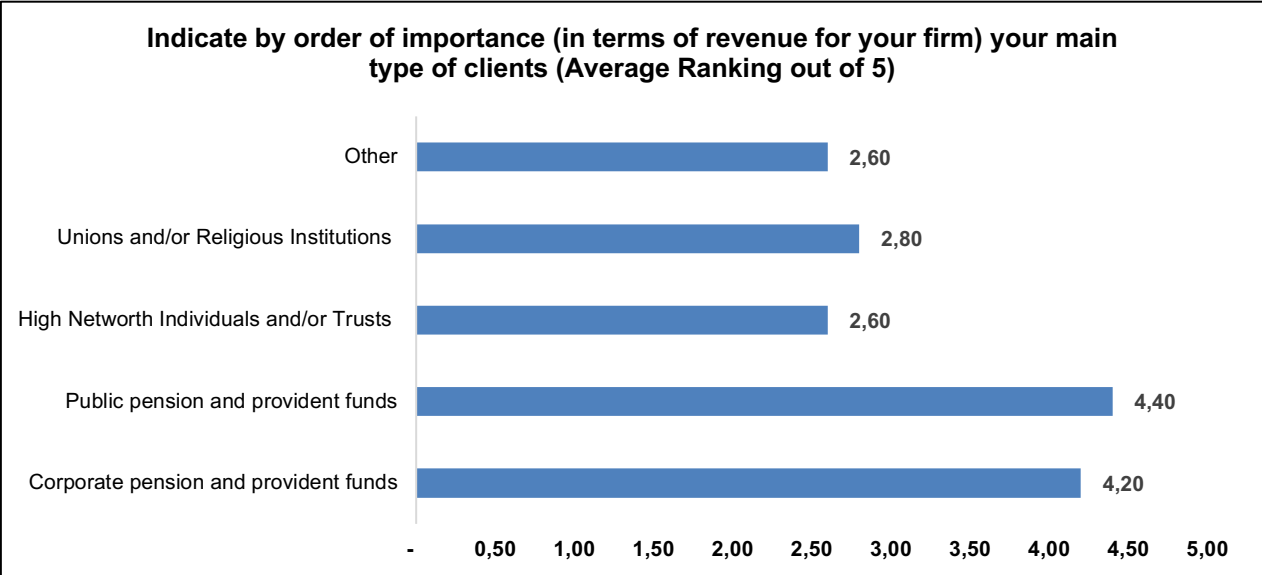
4.3. South African Investment Consultants

Based on the responses received from the South African investment consultants, two main themes were identified using thematic analysis. The first theme was the consultants' observations on RI strategies including how their clients implement these strategies where the second theme was around the role of the consultants on RI related matters on the clients the consultants service.

A total of 5 investment consultants responded and collectively represent assets under administration ranging from Nil to over R95 billion as at 30 June 2017. The respondents' roles included the following types: Chief Executive Officer, Head of Asset Consulting, Head of Transformation, Co-found and Director, Managing Director and Managing Member.

In terms of the clients that the consultants collectively service (based on revenue for their firm), they mainly service public pension and provident funds (an average rating of 4.40 out of 5) and corporate funds (an average rating of 4.20 out of 5). To a lesser extent, the consultants also service unions and religious institutions, high networth individuals and/or trusts and other clients including “non-profit organisations” (Consultant 1), “medical aid schemes” (Consultant 2) and “...a variety of umbrella funds” (Consultant 3). A summary of the type of clients that the consultants service is summarised in figure 16 below.

Figure 16: Summary of results showing the type of clients’ South African investment consultants service



Source: Author’s design from Research Data, 2018

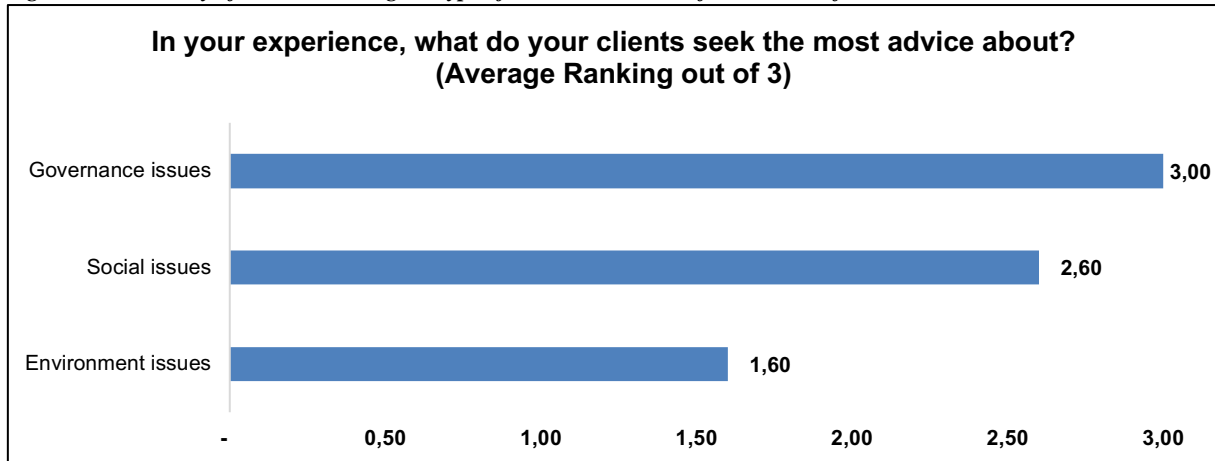
80% of the consultants indicated that their firms subscribed to the CRISA principles of responsible investing as being signatories to the United Nations PRI. 20% of the participating respondents shared that they were neither signatories to CRISA nor to the UN PRI.

XV. South African investment consultants’ observations on the status quo of RI related matters including the implementation of RI strategies

80% of the surveyed consultants have seen more interest in ESG matters from their clients in the last 12 months where the remaining 20% state that the client’s interest has remained the same. None of the respondents indicated that their clients have had less issues on ESG matters in the last 12 months. Notably however, 100% of the respondents are of the view that in the next three years clients’ interests in RI will increase. In terms of general client demand, the consultants ranked governance issues as the undoubtedly the highest issues which clients seek the most advice about, with an average ranking of 3 out of 3 (figure 17 summarises the results). In line with this

finding, considering the King IV governance code which was introduced in 2017, 60% of the respondents observed a change in their clients' interest on governance pertaining to their investments. The remaining 40% stated that they observed no change in interest post the introduction of the governance code.

Figure 17: Summary of results showing the type of advice clients seek from South African investment consultants



Source: Author's design from Research Data, 2018

On the theme of governance, the same three recent examples of recent ESG incidents were expounded on in the investment consultants (similar to that of the pension funds survey) however the consultants were asked to classify each incident as an Environment, Social and Governance matter. On all three incidents, namely the suspension of African Bank shares on the Johannesburg Stock Exchange in August 2014; the MTN losses in 2016/2017 due to the \$5.2 billion Nigerian fine and the Steinhoff losses in December 2017 catalysed by accounting irregularities, 100% of the respondents classified these incidents as firstly governance issues with the MTN incident being classified solely as a governance issue by the respondents. 60% felt that the Steinhoff incident was also a Social matter. On the African bank incident, 40% felt that it was also a Social matter and 20% classified the incident as an Environmental as well.

The investment consultants who participated in this study all felt that mandate design is where RI fits with their clients' needs. Only 60% of the respondents felt that RI fits in terms of the investment policy and investment strategy and only 20% stated that RI meets/fits the need in terms of their clients' asset allocation strategy. The consultants however advise their clients on all RI strategies with 80% of the consultants advising on impact investing, proxy voting, positive screening, negative/exclusionary screening and ESG integration and 60% advising on company management engagement as a strategy (see figure 18 below).

Figure 18: Summary of results showing the type of RI strategies South African investment consultants advise their clients on



Source: Author’s design from Research Data, 2018

In terms of the practical implementation of RI strategies and their impact on their clients' investment performance, the consultants shared differing views. Across the strategies however, the majority of the respondents felt that the respective RI strategies largely had a positive impact on investment performance. Their responses per strategy were as follows (the respondents were able to select more than one choice and therefore the distribution is at times greater than 100% when summed):

1. Active engagement through proxy voting: 80% of the respondents indicated that this strategy had a positive impact on their clients’ investment performance and 40% showed that the strategy has no impact on performance.
2. Active engagement with company management: 80% of the respondents indicated that this strategy had a positive impact on their clients’ investment performance and 20% saying they don’t know what impact the strategy has on performance.
3. Exclusion of shares/bonds in the clients’ portfolios: 60% of the respondents indicated that this strategy of exclusion had a positive impact on performance. 20% indicated that they don’t know the impact on performance, 20% felt that it had a negative impact on performance and 20% felt that this strategy has no impact on performance.
4. Exclusion of shares/bonds in the clients’ portfolios: 60% of the respondents indicated that this strategy of exclusion had a positive impact on performance. 20% indicated that they don’t know the impact on performance, 20% felt that it had a negative impact on performance and 20% felt that this strategy has no impact on performance.
5. Integration of ESG analysis into investment decision making: 100% of the respondents indicated that this

strategy of exclusion had a positive impact on their clients' investment performance.

6. **Impact investing:** 60% of the respondents indicated that this strategy of exclusion had a positive impact on performance whereas 20% indicated that they don't know the impact on performance for this strategy.

In the view of the investment consultants, based on their experience, the most powerful motivator for trustees to demand consulting services on Responsible Investment is the fact that understand that ESG considerations are required by Regulation 28 of the Pension Funds Act with this factor being rated with an average rating 4.40 out of 5. Secondly, trustees understand that true fiduciary duty means taking into account all risks including ESG ones which are typically not traditional financial analysis (with this factor being rated with an average rating of 3.80 out of 5). Thirdly, trustees want to be branded as being responsible asset owners (average rating of 3.60 out of 5) and they also want to know how to implement the United Nation's PRI (average rating 3.00 out of 5). Lastly, the least motivator for trustees to demand consulting services on RI is that the trustees have some pressure from beneficiaries to act where it could be mission related, political pressure and/or ethical consideration where this factor was rated with an average rating of 2.80 out of 5.

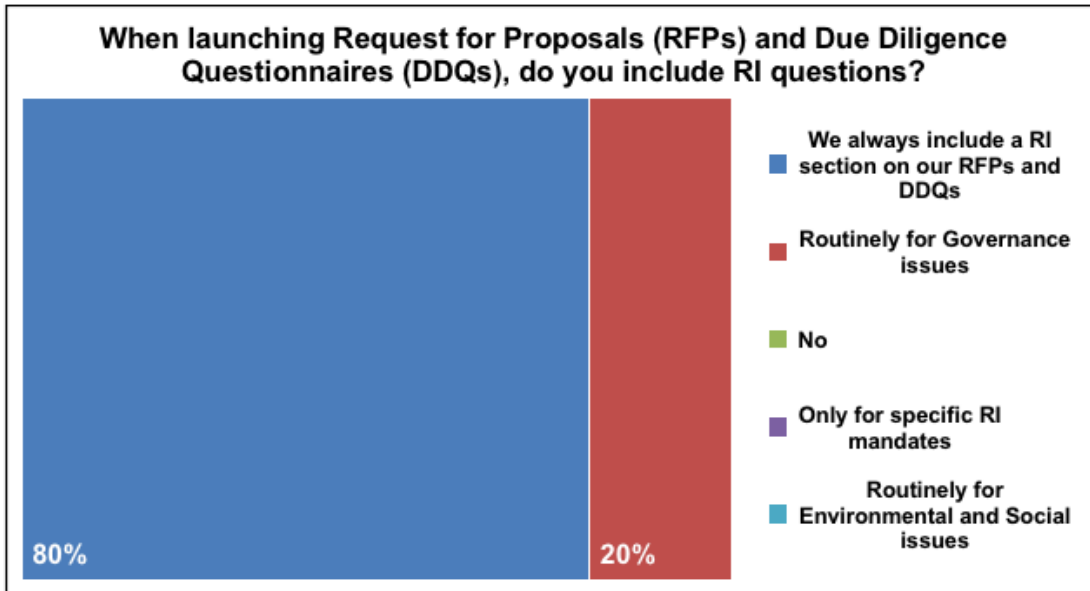
XVI. South African investment consultants' role on RI related matters to the pension fund trustees

100% of the participants indicated that when meeting with their clients on which they consult on, their approach is such that they systematically and proactively raise the issue of RI as opposed to raising the issue only when clients ask about it or not discussing RI matters at all. In terms of promoting RI with clients, majority of the respondents, being 80%) indicated that RI is a regular agenda item in their meetings with the Chief Investment Officer/Board of Trustees and/or Principal Officer. Equally, 80% of the respondents use training sessions as a way to promote RI with their clients. 20% of the respondents use conferences on ESG issues; communication via a newsletter/blog/research document regarding market developments in RI and other means (unspecified) as a way to promote RI with trustees.

In terms of drawing up a RI policy as part of the fund's Investment Policy Statement (IPS), 100% of the investment consultants indicated that they assist trustees with this as part of standard practice. Also, when launching Requests for Proposal (RFPs) and Due Diligence Questionnaires (DDQs), 80% of the respondents always include questions on RI and the remaining 20% routinely add RI questions for Governance issues. Notably, none of the respondents

said that they do not include RI questions on their RFPs and DDQs. Similarly, none of the clients add RI questions specifically for RI mandates or routinely for environmental and social issues (See figure 19 below).

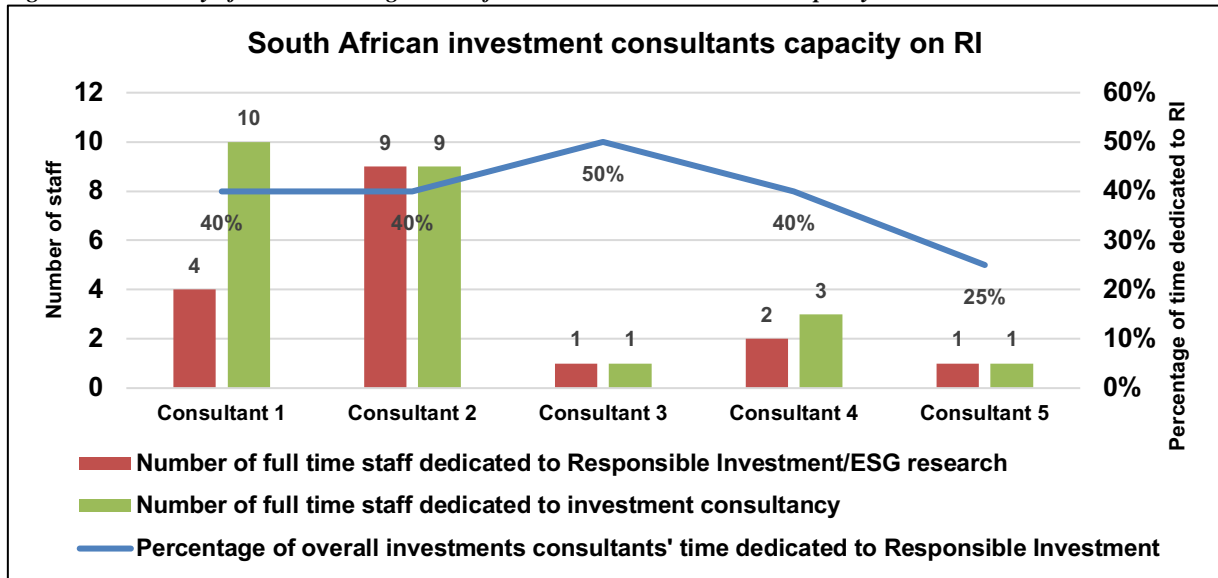
Figure 19: Summary of results showing when RI questions are included on South African investment consultants RFPs and/or DDQs



Source: Author's design from Research Data, 2018

In terms of ESG research though for the consultants 100% of the consultants make use of external research providers and in addition, only 20% source ESG research internally. In terms of full-time dedicated staff to ESG research it varies per consultant from 1 member of staff to 9 members of staff, with the investment consultants spending between 25% and 50% of their time on RI. These responses have been contrasted with the number of staff members dedicated to investment consultancy in general per firm (see figure 20 below).

Figure 20: Summary of results showing South African investment consultants' capacity on RI



Source: Author's design from Research Data, 2018

The investment consultants who participated in this research each individually gave valuable views on what they believe investment consultants need in terms of tools and initiatives etc., to encourage the uptake of the Responsible Investment in the industry, where their input included the following statements, “It needs to come from asset allocators [being trustees] themselves, but as consultants we also have a duty to raise and continue to drive SRI at trustee and board level. The recent take up of private equity has to some extent contributed to RI. As most funds want their members who come from the likes of the Eastern Cape, Limpopo to retire in areas and villages and towns that are prosperous and private equity is trying to bridge that gap. For example, the last two years have seen a shift from some funds to down weight Hedge Fund allocation and move towards Private Equity. The dismal performance of hedge funds, high fees and untransformed SA Hedge Fund industry has prompted this drastic move” (Investment Consultant 1). Another view in terms of what is needed was that, “Clear client mandates outlining RI expectations, a more engaged FSB / Regulator on ESG matters; Trustee education and increased coverage of ESG in CFA & undergraduate finance studies” (Investment Consultant 2). Other views from the consultant included, “comprehensive factual information and share that in a responsible way” (Investment Consultant 3) and another being, “Training but most won't admit it; Access to systems (e.g. MSCI ESG tool) at cost effective rates to allow better ESG monitoring” (Investment Consultant 4) and the last view was that, “Ongoing education” (Investment Consultant 5) was needed.

CHAPTER 5

RESEARCH CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of the research was to discover whether trustees in the pension fund industry in South Africa are well equipped to play their role in implementing responsible investment strategies when performing their fiduciary duties which encompass decisions made around capital allocation, asset manager selection and selection of service providers. Furthermore, the research sought to understand the extent to which trustees rely on investment consultants in implementing these strategies and what role the consultant plays in the value chain.

The research had the following primary questions to answer:

- To what degree do pension fund trustees, embed responsible investment practices in their roles as trustees for pension and retirement funds?
- What role is played by the pension fund's appointed investment consultants in the investment decision making process of the retirement fund, as it pertains to sustainable responsible investing?

The subordinate questions of the study were as follows:

- Are there distinct enablers and/or disablers which allow pension fund trustees to implement responsible investment practices?
- Similarly, are there distinct enablers and/or disablers which allow investments consultants to assist trustees to implement responsible investment practices?

This chapter will detail the interpretations of the key findings of this research against the reviewed literature.

5.2 The ability of Asset Owners to implement and monitor RI strategies

The findings of the study reveal that whilst pension fund trustees appreciate their role as one of with a fiduciary duty towards their beneficiaries and have embraced the RI aspect of their role as a requirement as per Regulation 28 of the Pension Funds Act, there is heavy reliance on their appointed investment consultants when it comes to the implementation and monitoring of RI strategies. Similarly, the findings show that the most powerful motivator

for trustees to demand asset consulting services is premised firstly on RI being a regulatory requirement and secondly by them understanding that true fiduciary duty means taking into account ESG risk factors.

The PRI suggests that one of the roles of an asset owner to drive RI implementation is to “analyse and take account of ESG issues in their investment processes while also ensuring that they have robust processes to record the analysis that they have conducted and the actions that they have taken based on this analysis”, (PRI, 2016a). The research findings suggest that whilst trustees are taking ESG issues into account in their funds, the analysis and reviewing of RI policies of their funds is delegated and done predominantly by their appointed asset consultants.

The study suggests that whilst the South African asset consultants use both the CRISA Code as well as the UN PRI as guides for best practice for RI strategies at large, the principles of the voluntary CRISA codes are adopted with more ease than those of the PRI. Whilst out of the scope of this research, this could be because of the costs implications in becoming a signatory to the PRI. Nonetheless, the trustees are familiar with both codes of best practice.

The implementation of RI strategies is applied across all asset classes, including unlisted assets. The asset consultants, based on the findings of this research, implement all the strategies on their funds except that of negative/exclusionary screening. This is an interesting contrast given that Hylton (1992) stated that this form of “screening was most prominently practiced at the height of the South Africa divestment movement, when many potential investments were shunned because of their ties to that country” (p. 7) during the apartheid era. This study would imply that South African asset owners in post-apartheid regime, are now more inclined to utilise the other 5 RI strategies on their funds rather than that of exclusionary screening.

Literature suggests that there is a perceived lack of the materiality of ESG issues. In practice however, the findings of the research suggest that the materiality of ESG issues is in fact recognised and when incidents do occur, both asset owners and asset consultants can firstly differentiate on whether the issue is an ESG incident and if so, whether it is material enough to deem further action from the fund/consultant. In addition, majority of the asset owners are of the view that ESG factors have a material and positive impact on their funds’ investments in the long term.

A key finding of the research in exploring the spectrum of the asset owners' role as it pertains to RI, is that the biggest disabler in adopting and implementing an RI strategy for their fund is the lack of trustee knowledge/understanding on the subject. This finding is in alignment with literature by Yamahaki and Frynas who state that "most trustees lack investment skills" (2016, p.511) and could be interpreted as a need for training on investments skills and/or RI as a subject matter for the asset owners, in order that they fully fulfil their role.

5.3 The role of Asset Consultants in RI implementation

The findings of this research where asset consultants are concerned revealed that there is a definite reliance from asset owners on their advice and guidance, particularly where RI is concerned. Theron (2014) had observed this and shared that "trustees place greater dependence on their asset consultants and their advice because not only are the markets wildly random, but the increasing opportunity set also increases the reliance on asset consultants" (p. 1). The findings herein suggest that indeed the reliance on asset consultants is exhaustive and includes but not limited to, assisting a fund in drawing up their RI policy, implementation of the RI policy as well as full delegation to the consultants in terms of reviewing the fund's RI policy for industry developments. Interestingly, the research suggests that the asset owners deem the asset consultant as the specialist on RI matters because majority of asset owners prefer the guidance on a consultant to an ESG industry specialist.

Where the RI strategies are concerned, majority of asset owners are unaware of the exact strategies which are monitored on their funds as this was done solely by their consultants. The asset owners who were aware of the strategies monitored on their funds indicated that 5 of the 6 RI strategies were used. The asset consultants however indicated that they advise their clients on all 6 RI strategies. This finding was a key in that it begs the question whether the trustees have delegated key responsibilities to investment consultants to an extent where they are too far removed from the actual processes and only have sight of reported outcomes from the consultants. This is concerning in that according to PRI, one of the roles of asset owners is to, "challenge their investment consultants [and legal advisers] to ensure that the advice being provided on fiduciary duty takes account of ESG issues" (PRI, 2016a). In addition, Girdwood (2013) emphasises that "trustees are ultimately responsible for and liable to act with proper care and due diligence when managing fund assets" (p. 5). Trustees therefore ideally should be in a position to interrogate their consultants despite the reliance and delegation of responsibilities to the consultant.

Literature suggests that there is a perceived lack of information on ESG issues where Viviers and Eccles (2012) highlight the need for improved ESG information to promote the SRI agenda. This research shows that consultants in South Africa are indeed in search for reliable information on ESG issues in that they make use of external ESG research providers. The consultants in South Africa are however dedicated to the research of ESG issues and delegate between 25% and 50% of their time to RI and have 40% to 100% of their investment staff dedicated to RI/ESG research. The consultants are also largely proactive in their approach when consulting clients on RI matters in that they utilise training sessions to promote RI with their clients and also ensure the RI is a regular agenda item in their meetings with the decision makers on the asset owners boards and governance structures.

Given that one of the key barriers cited by the Eurosif (2009) study with the role of asset consultants in the implementation of RI strategies was "...the need for greater education and training on Responsible Investing and ESG integration", it was most encouraging that South African asset owners are training asset owners on RI matters. However, the findings of this research highlight the need for more trustee education as asset consultants themselves mostly cited trustee education, ongoing education, training and the need for asset owners to be more vocal on RI matters, as the key tools and initiatives required to encourage the uptake of the RI industry.

Theron (2014) suggests that the existence and role of the asset consultant has been premised by the "introduction of Modern Portfolio Theory (MPT) in the 1970's where trustees needed advice on asset allocation strategies, manager selection and the formalization of an Investment Policy Statement (IPS)" (p. 1). The research findings show this to still be the case today in that trustees are still needing advice on asset allocation strategies, asset manager selection and the drawing up of their IPS however the study highlights that South African consultants are of the view that asset owners demand RI services more in mandate design than in their IPS and investment strategy and even less so in their asset allocation decisions.

In reviewing literature, there is a theme around regulation and how it often plays a role in providing a legal and regulatory framework for ESG integration. In South Africa, the existence of the clause on prudent investing in Regulation 28 as well as the King IV corporate governance code necessitate that ESG risks and in particular governance risks be incorporated in investment decision making and investment evaluation. The findings of this research highlighted the importance of governance issues in the South African context. Consultants are of the view that governance issues are the issues which asset owners seek most advice about and that the introduction of the

King IV governance code in 2017, increased clients' interest on governance issues pertaining to their investments. In classifying recent incidents in South Africa, which resulted in a decline in investment performance on listed equity investments, asset consultants ranked them as mostly and mainly governance related incidents. Some of the incidents showed social and environmental issues as well, however governance was the main theme.

5.4 Conclusions

This study shows that South African pension fund trustees embed responsible investment practices in their roles as trustees for pension and retirement funds firstly from a regulatory perspective and secondly as part of their fiduciary duty to the beneficiaries of the funds which they represent. Their interest in RI and ESG related matters and the inclusion thereof on their funds has been on the rise recently and this trend is likely to continue with an emphasis on firstly governance issues followed by social issues and then by environmental issues.

It is common practice for South African trustees to appoint investment consultants on their funds. Where RI is concerned, the trustees rely heavily on the guidance and advice of their appointed asset consultants on mainly mandate design, asset allocation strategies, drawing up of the RI policy, monitoring of RI strategies employed, RI related training and also keeping abreast of industry developments. Whilst South African trustees have sight of their RI policy and to a degree have input on the RI policy, many of the trustees don't know exactly which strategies are monitored on their funds as they delegate this responsibility solely to their appointed investment consultants. This finding is concerning on the basis that the trustees acknowledge their fiduciary duty yet aren't necessarily in position to sufficiently interrogate their appointed consultants on the RI strategies employed on their fund, purely because of the extent of delegation to their consultant.

The investment consultants in South Africa have embraced RI as part of their responsibilities and as standard practice include RI in their DDQs, RFPs and also proactively play their part in educating and informing trustees on developments in the industry and regularly table RI as an agenda with the asset owners. The consultants however feel strongly that whilst their role is being fulfilled, asset owners are still needing more education and training where RI is concerned and also the demand for RI education is needing to come from the asset owners themselves. ESG research is largely sourced externally by South African consultants however the consultants are well capacitated in their firms in terms of dedicated staff and time dealing with RI related matters.

There is a theme around governance matters in South Africa both from the perspective of asset owners and asset consultants and the existence of regulation and practice codes aids the uptake and implementation of RI strategies and practice in the industry. The existence of the sound regulatory framework in South Africa proves to be a distinct enable which allows pension fund trustees and consultants to implement RI practices. RI strategies are being implemented across all asset classes with a recent uptake on unlisted investments as opposed to only listed investments. The strategies which consultants advise on include all 6 RI strategies namely, active engagement through proxy voting; active engagement with company management; negative/exclusionary screening; positive screening; integration of ESG factors into investment analysis and impact investing. Asset owners however are only mainly aware of 5 of the 6 strategies being employed on their funds where negative screening is the unrecognized strategy however this may be indicative of the issue around heavy reliance and delegation to the investment consultants to a point where trustees aren't close enough to the implementation of RI strategies employed, thereby compromising their own ultimate responsibility on their fund as an agent for the beneficiaries.

5.5 Recommendations for Future Research

Given that one of the major impediments on the uptake on RI in industry is around education and training it is recommended that the education of trustees on RI related matters be further investigated. Additional research on the education, the frequency thereof as well as the provider of education is recommended.

The reliance on external ESG providers for research for asset consultants may necessitate further investigation on the service providers used, what data they provide and also to what extent South African consultants can be capacitated to internally research ESG issues in order to localise and make better use of the data received from these external providers.

Impact investing has started to gain traction in the South African market in that whilst it was recently introduced to market, South African consultants are advising on the strategy and trustees are employing this strategy and therefore further research on the implementation on specifically impact investing as an RI strategy is recommended.

Similarly, the uptake on RI strategies specifically on unlisted assets such as private equity, hedge funds and unlisted property may deem additional research on the ESG risks associated with these newer asset classes and how RI strategies are monitored are employed on these asset classes. The incidents explored herein were on listed equity assets and therefore research on unlisted assets would be of value to stakeholders to gauge standard practice.

Whilst CRISA and PRI principles are indeed deemed best practice, the voluntary code CRISA, is more popular in terms of implementation for funds in South Africa. It is recommended that research be dedicated to investigating the reasons behind the seemingly slower signatory uptake, particularly on asset owners, on the internationally recognised and accepted United Nations Principles for Responsible Investment.

This study focussed on both the asset consultants and the asset owners and their individual roles on their implementation on RI strategies and found the relationship between the two key players in the industry as vital. Research dedicated to testing the strength and weaknesses of this relationship in a deliberately collaborative manner, would be most beneficial in that it could further contribute to industry publications and targeted educational content for asset owners and asset consultants. Whilst this research explored both parties, it was done in isolation of the others input. Industry bodies such as UN PRI, CFA Society and local bodies such as ASISA, IRFA, Batseta and the FSCC could be contributors to the collaborative discussion and the research could lead to addressing some of the key challenges cited in this research around asset consultant reliance and trustee education

Given that the findings of the study indicated a high occurrence of governance related incidents and issues in South Africa, further research is recommended on the existing regulatory framework in South Africa as well as developing a dedicated governance framework for asset owners and asset consultants in performing dipstick governance tests on their investments across all asset classes.

This study deliberately focussed on 2 of the 4 key players in the RI industry namely the asset owners and asset consultants, deliberately omitting the role of the asset managers' given the extensive literature available on the role of asset managers and their role in the implementation of RI strategies on the investments they are appointed to manage. An interesting study could be that of the beneficiaries and their knowledge and appetite for RI strategies on their investments and the extent to which they are informed of RI on the funds in which they invest for retirement.

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APPENDICES

Appendix 1: Survey Questions for Pension Fund Trustees in South Africa

A. GENERAL INFORMATION

1. What is the name of your fund?
2. Please provide your name, role on the fund and email address
3. Please indicate the size of the total assets in your fund as at 30 June 2017?
4. Is your fund a signatory to the UN Principles of Responsible Investment?
 - Yes
 - No
 - Don't know
5. Does your fund subscribe to the principles in the Code for Responsible Investing in South Africa (CRISA)?
 - Yes
 - No
 - Don't know
6. Do the trustees believe that environmental, social and governance (ESG) factors can have a material impact on the fund's investments in the long term?
 - No impact
 - Positive impact
 - Negative impact
 - Don't know
7. Do the trustees consider responsible investment to be part of their fiduciary duty?
 - Yes
 - No
 - Don't know
8. Does the pension fund have an appointed investment consultant?
 - Yes
 - No

9. If yes, please state the name of the investment consultant or otherwise state the reason your fund chooses not to appoint an investment consultant

B. RESPONSIBLE INVESTMENT STRATEGY

10. Does the pension fund have a responsible investment policy in place?
- Yes
 - No
11. Did your investment consultant assist your fund in drawing up the fund's Responsible Investment policy?
- Yes
 - No
 - Not applicable – our fund does not have a Responsible Investment Policy in place
12. When deciding on the appropriate RI policy/strategy for dealing with environmental, social and governance issues for your fund, how significant was each of the following (please rank in order of importance)
- Alignment with the plan sponsor's CSR/sustainability policies
 - Members' views (e.g. through consultation/survey or other)
 - Advice from investment consultants
 - Advice from legal advisers
 - Asset managers' RI policies
 - Trustees' recommendations
13. How often do you review your Responsible Investment policy?
- Monthly
 - Quarterly
 - Bi-annually
 - Annually
 - Ad hoc at the advice of our investment consultants and/or legal advisors
 - Never
14. When reviewing so, do you have a process in place to keep abreast of industry developments in this area to ensure you stay in line with emerging good and best practice?
- Yes, with the assistance and guidance of our appointed investment consultants

- Yes, with the assistance of an industry specialist
- No, we have no formal process to keep abreast of industry developments
- Not applicable, we do not have a RI policy in place

15. Please indicate which asset classes are covered by your Responsible Investment policy. (Select all those that apply to your fund)

- Local Listed Equities
- Foreign Listed Equities
- Bonds and fixed income assets (including cash)
- Listed Property
- Unlisted Equity
- Unlisted Property
- Other (please specify)

16. Please indicate how the implementation of your Responsible Investment policy takes place:

- Managed in-house
- Delegated to proxy voting agencies
- Delegated to engagement overlay service providers
- Delegated to asset managers
- Delegated to our appointed investment consultant

C. RESPONSIBLE INVESTMENT STRATEGY EVALUATION

17. Please indicate what strategies are monitored on your Responsible Investment policy?

Responsible Investing (RI) and/or Sustainable Responsible Investing (SRI) is defined as the integration of Environmental, Social and Governance (ESG) into investment management processes and asset ownership practices across all asset classes.

Active Engagement is the process and dialogue with companies on ESG issues via proxy voting or exercising ownership rights.

Best in class and/or Positive Screening is investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. This also includes avoiding companies that do not meet certain ESG performance thresholds.

Negative/exclusionary screening is the exclusion from a fund or plan of certain sectors or companies involved in activities deemed unacceptable or controversial.

Impact investing means targeted investments, typically made in private markets, aimed at solving social or environmental problems.

- Exercise of active engagement through proxy voting
- Exercise of active engagement with management
- Negative/exclusionary screening
- Positive screening
- Integration of ESG factors into investment analysis
- Impact investing
- Don't know as this done solely by our investment consultants

18. Does RI feature in your assessment/appointment/evaluation and/or remuneration of your asset managers?

- Yes
- No
- Don't know
- Not applicable, our fund does not have an RI policy in place

19. When awarding asset managers with an investment mandate, are your RI policy requirements incorporated in the Investment Mandate Agreement (IMA)?

- Yes
- No
- Don't know
- Not applicable, our fund does not have an RI policy in place

20. Does RI feature in your assessment/appointment/evaluation and/or remuneration of your investment consultants?

- Yes
- No
- Don't know
- Not applicable, our fund does not have an RI policy in place

21. Did the following incidents trigger Environmental, Social or Governance (ESG) evaluation of your investments?

- The suspension of African Bank shares on the Johannesburg Stock Exchange (JSE) in August 2014
 - Yes, we insisted on feedback from our asset managers and/or investment consultants
 - No, we did not consider this incident as an ESG matter
 - We did not have exposure to African Bank

- MTN losses in 2016/2017 due to the \$5.2 billion Nigerian fine
 - Yes, we insisted on feedback from our asset managers and/or investment consultants
 - No, we did not consider this incident as an ESG matter
 - We did not have exposure to MTN

- Steinhoff losses in December 2017 catalysed by accounting irregularities
 - Yes, we insisted on feedback from our asset managers and/or investment consultants
 - No, we did not consider this incident as an ESG matter
 - We did not have exposure to Steinhoff

22. What does your fund mostly enquire about with regards to the fund's investments? (please rank in order of importance)

- Environment issues
- Social issues
- Governance issues

D. RESPONSIBLE INVESTMENT FUND COMMUNICATION

23. Please indicate how you communicate your RI policy to the fund members and stakeholders.

- Available on our fund's website
- Sent via email/post to all members
- Made available on request
- Our policy is not communicated to members
- Not applicable, our fund does not have an RI policy in place

24. Please indicate how you communicate the implementation of your RI policy to the fund members and stakeholders.

- Available on our fund's website
- Sent via email/post to all members
- On request
- The implementation of our RI policy is not communicated to members and stakeholders
- Not applicable, our fund does not have an RI policy in place

E. EXISTING FRAMEWORKS AND INCENTIVES

25. Please indicate if the trustees get specific investment training or advice on Responsible Investment from the following market participants (select all which apply)

- Investment consultants
- Asset managers
- ESG Research Providers
- In-house staff/members
- Our fund does not have training on Responsible Investment

26. What do the trustees think are the biggest impediments to adopting and implementing a Responsible Investment strategy? (please rank in order of importance)

- Lack of trustee knowledge/understanding
- Lack of support from investment consultants
- Lack of support from asset managers
- Lack of support from legal advisors
- Other, please specify

27. What is the most powerful motivator for the implementation and monitoring of your fund's Responsible Investment strategy? (please rank in order of importance)

- Responsible Investment is a Regulation 28* requirement and therefore we want our fund to comply
- Our trustees understand that true fiduciary duty takes into account all risks, including Environmental, Social and Governance (ESG) risks which are typically not in traditional financial analysis

- Our fund wants to know how to implement the United Nations Principles of Responsible Investment (PRI)
- Our fund members insist (mission related/ ethical consideration)
- We want to be branded as responsible asset owners

**Regulation 28 of the Pension Funds Act*

28. What benefits, if any, do you derive from implementing RI? Please provide examples if available.

29. What tools do trustees need to encourage the uptake of Responsible Investing?

30. Do you give permission for the researcher to list your fund's name as a participant of the study?

Please note that your answers to this survey will remain confidential only your fund's name will appear on a list of respondents in the study, should you agree to this request.

Appendix 2: Survey Questions for Investment Consultants in South Africa

A. GENERAL INFORMATION

1. What is the name of your firm?
2. Please provide your name, job title and contact email
3. Please provide Assets under Advisory (AUA) for your firm as at 30 June 2017
4. Please indicate by order of importance (in terms of revenue for your firm) your main type of clients
Each category can be ranked using stars where 1 star implies the lowest ranking and 7 stars implies the highest ranking
 - Corporate pension and provident funds
 - Public pension and provident funds
 - High Networth Individuals and/or Trusts
 - Unions and/or Religious institutions
 - Others, please specify

B. MARKET DEMAND

5. Have you observed a change in your clients' interest on Environmental, Social and Governance (ESG) matters in the last 12 months?
 - More interest
 - Less interest
 - Same
6. With the introduction of the King IV corporate governance code in 2017, did you observe a change in your clients' interest on governance matters pertaining to their investments?
 - Yes
 - No
 - No change observed
7. Did your clients classify the following incidents as Environmental, Social or Governance (ESG) matters?
 - The suspension of African Bank shares on the Johannesburg Stock Exchange (JSE) in August 2014
 - Environmental matter
 - Social matter

- Governance matter
 - Other
 - MTN losses in 2016/2017 due to the \$5.2 billion Nigerian fine?
 - Environmental matter
 - Social matter
 - Governance matter
 - Other
 - Steinhoff losses in December 2017 catalysed by accounting irregularities
 - Environmental matter
 - Social matter
 - Governance matter
 - Other
8. Do you think in the next 3 years, your client's interest in Responsible Investing will...?
- Increase
 - Decrease
 - Remain the same

C. RESPONSIBLE INVESTMENT CAPACITY

9. Please indicate, within your firm, the number of full-time staff dedicated to investment consultancy
10. Please indicate, within your firm, the number of full-time staff dedicated to responsible investment/ESG research
11. Please indicate, within your firm, the percentage of overall investments consultants' time dedicated to Responsible Investment
12. Where in your view, does Responsible Investing fit with regards to your clients' needs?
- Mandate design
 - Investment strategy
 - Investment policy
 - Asset allocation strategy
 - Other

13. What kind of Responsible Investing strategies does your firm advise on?

***Responsible Investing (RI)** and/or **Sustainable Responsible Investing (SRI)** is defined as the integration of Environmental, Social and Governance (ESG) into investment management processes and asset ownership practices across all asset classes.*

***Active Engagement** is the process and dialogue with companies on ESG issues via proxy voting or exercising ownership rights.*

***Best in class** and/or **Positive Screening** is investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. This also includes avoiding companies that do not meet certain ESG performance thresholds.*

***Negative/exclusionary screening** is the exclusion from a fund or plan of certain sectors or companies involved in activities deemed unacceptable or controversial.*

***Impact investing** means targeted investments, typically made in private markets, aimed at solving social or environmental problems.*

- Exercise of active engagement through proxy voting
- Exercise of active engagement with management
- Negative/exclusionary screening
- Positive screening
- Integration of ESG factors into investment analysis
- Impact investing

14. Where do you source your ESG research from?

- Internally
- External ESG research providers
- Other

15. How do you promote Responsible Investing with your clients?

PO refers to the Principal Officer of a fund, CIO refers to the Chief Investment Officer of a firm

- Regular agenda item in your meetings with the CIO/Board of Trustees/PO
- Conference on ESG issues

- Communication (via a newsletter/blog/research document) regarding market developments in Responsible Investment
- Training Sessions

D. APPROACH TO RESPONSIBLE INVESTMENT

16. Are you a signatory to the UN Principles for Responsible Investment?

- Yes
- No
- If not, please state why

17. Do you subscribe to the principles of the Code for Responsible Investing in South Africa (CRISA)?

- Yes
- No
- If not, please state why

18. When meeting with your clients, which best describes your approach?

- Systematically and proactively raise the issue of Responsible Investment
- Raise the issue of Responsible Investment only when clients ask about it
- We do not discuss Responsible Investment matters with clients

19. Based on your experience, what do you think is the most powerful motivator for your clients to demand consulting services on Responsible Investment?

Please rank by order of importance where 1 star ranking implies the least important/powerful motivator and a 5 star ranking implies the most important/powerful motivator

- They understand that true fiduciary duty means taking into account all risks, including ESG ones which are typically not traditional financial analysis
- They understand that ESG considerations are required by Regulation 28 of the Pension Funds Act
- They want to know how to implement the UN *Principles for Responsible Investment* (PRI)
- They have some pressure from beneficiaries to act (mission related/political pressure/ ethical consideration)
- They want to be branded as being responsible asset owners

20. In your experience, what do your clients seek the most advice about?

Please rank in order where 1 star rating implies least issue clients seek advice on and 3 star rating implies most issue clients seek advice on

- Environment issues
- Social issues
- Governance issues

E. RESPONSIBLE INVESTMENT AND PERFORMANCE

21. In your view, please specify how the following Responsible Investment approaches affect investment performance

- Exercise of active engagement through proxy voting
 - No impact
 - Positive impact
 - Negative impact
 - Don't know
- Exercise of active engagement with company management
 - No impact
 - Positive impact
 - Negative impact
 - Don't know
- Exclusion of shares/bonds in their portfolio(s)
 - No impact
 - Positive impact
 - Negative impact
 - Don't know
- Positive selection of shares/bonds in their portfolio(s) or the use of best in class approach
 - No impact
 - Positive impact
 - Negative impact
 - Don't know

- Integration of ESG factors into investment decision making
 - No impact
 - Positive impact
 - Negative impact
 - Don't know
 - Impact investing
 - No impact
 - Positive impact
 - Negative impact
 - Don't know
22. Do you as investment consultants, as part of standard practice, assist your clients in drawing up a Responsible Investment Policy as part of their Investment Policy Statement (IPS)?
- Yes
 - No
23. When launching Request for Proposals (RFPs) and or Due Diligence Questionnaires (DDQs), do you include questions on Responsible Investment?
- Yes, routinely for governance issues
 - Yes, routinely for environmental and social issues
 - Only for specific RI mandates
 - We always include a RI section on our RFPs and DDQs
 - No
24. Do you evaluate the proxy voting and engagement record of asset managers?
- Yes, we always assess asset managers engagement activity as standard practice
 - Occasionally, when there is a specific RI issue raised
 - Only for specific RI mandates
 - No
25. Do you evaluate an asset manager's ability to incorporate ESG factors as part of your overall assessment of investment managers?
- Yes, we always assess asset managers RI abilities as standard practice

- Occasionally, when there is a specific RI issue raised
- Only for specific RI mandates
- No

F. EXISTING FRAMEWORKS AND INCENTIVES

26. Based on your experience, what prevents asset managers from doing more Responsible Investment?

*Please rank in order of importance where 1 star rating implies least important factor
6 star rating implies most important factor*

- Lack of knowledge/understanding
- Incentive for portfolio managers/CIO
- Incentive for business development staff
- Lack of explicit client demand
- Concerns over performance issues
- Research/resource constraints

27. What do investment consultants need (tools, initiatives etc.) to encourage the uptake of Responsible Investment?

28. Do you give the researcher permission to list your firm's name as a participant of the study?

- Yes
- No

Appendix 3: Permission letter addressed to the Southern African Network Manager of the United Nations Principles of Responsible Investing



25th January 2018

PRI Southern Africa Network Manager
PRI Association
25 Camperdown Street
London, E1 8DZ, UK

Dear Mr Adrian Bertrand,

INTRODUCTORY LETTER: Ms BONGIWE ANDISIWE BEJA (BJXBON001)

This letter serves to confirm that Ms Bongiwe Andisiwe Beja (BJXBON001) is a final year student in the MCom in Development Finance programme at the Development Finance Centre (DEFIC), UCT Graduate School of Business and is enrolled to complete the Masters in Commerce Development Finance degree.

In order to complete the degree she needs to submit a Minor Dissertation and her chosen specialisation is around Sustainable Responsible Investing. Specifically, her research topic is entitled, **"Understanding the role played by Pension Fund Trustees and Investment Consultants in Responsible Investment Strategies in South Africa"**.

Kindly allow Ms Bongiwe Andisiwe Beja to share her voluntary online survey with your organisation as this will contribute to both the successful completion of her degree as well as the broader academic research dedicate to this field of study.

Kind Regards,

Abdul Latif Alhassan (Ph.D.)

Lecturer in Development Finance & Head of Minor Dissertation,
Development Finance Centre (DEFIC), Graduate School of Business,
University of Cape Town, Breakwater Campus, 9 Portswood Road,
V & A Waterfront, Cape Town, 8002, South Africa
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Appendix 4: Permission letter addressed to The Chief Executive Officer of the Batseta Council of Retirement Funds in South Africa



25th January 2018

Chief Executive Officer
Batseta Council of Retirement Funds for South Africa
PO Box 1193
Halfway House
Johannesburg
1685

Dear Ms Anne-Marie D’Alton,

INTRODUCTORY LETTER: Ms BONGIWE ANDISIWE BEJA (BJXBON001)

This letter serves to confirm that Ms Bongwiwe Andisiwe Beja (BJXBON001) is a final year student in the MCom in Development Finance programme at the Development Finance Centre (DEFIC), UCT Graduate School of Business and is enrolled to complete the Masters in Commerce Development Finance degree.

In order to complete the degree she needs to submit a Minor Dissertation and her chosen specialisation is around Sustainable Responsible Investing. Specifically, her research topic is entitled, **“Understanding the role played by Pension Fund Trustees and Investment Consultants in Responsible Investment Strategies in South Africa”**.

Kindly allow Ms Bongwiwe Andisiwe Beja to share her voluntary online survey with your organisation as this will contribute to both the successful completion of her degree as well as the broader academic research dedicate to this field of study.

Kind Regards,

Abdul Latif Alhassan (Ph.D.)
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