

Dear Subscriber

How does responsible investing and ESG help institutional investors fulfil liabilities and expectations of risk-adjusted returns?

Fulfilling Investor Liabilities through Responsible Investing



Recently I was asked if Summit Africa is a commercial or an impact investor. The reality is that we are neither. Summit Africa is a responsible investor who seeks to generate both financial and sustainable value which includes the integration of environmental, social, and governance (“ESG”) factors in our investment management strategy.

Responsible investing has become somewhat of a global phenomenon littered with buzzwords like impact investing, ESG, and socially responsible investing, tumbling off the tongue, and often being used interchangeably. While these are all forms of investment strategy focused on bettering the world, they are in fact quite different from each other.

As a responsible investor, we are focused on protecting investor capital and delivering returns by aligning relevant ESG investment principles with our investment management strategy. Against the South African context, Summit Africa has taken ESG a step further by combining transformation objectives within the application of ESG&T in our investment process. Our Funds focus primarily on redressing past injustices by narrowing the gap between the wealthy and the poor through the creation of permanent jobs, reducing the burden on government. ESG&T principles form an integral part of our investment life-cycle, from the analysis phase through to exit.

The [PRI](#) is an organisation developed by investors under the leadership of the United Nations. Its purpose was to establish the 6 Principles of Responsible Investing which

details a list of actions which ensures that ESG related matters are considered and incorporated in the investment process. The PRI “argues that to ignore ESG factors is to ignore risks and opportunities that have a material effect on the returns delivered to clients and beneficiaries.”

At the heart of Responsible Investing are a set of criteria which investors use in structuring their portfolios and assessing potential investee companies. As explained in the [AVCA report](#), ‘Investors will consider ESG factors in assessment of the sustainability potential in a company, and determining the risk and return on investments. Increasingly, ESG standards are being seen as a key aspect of financial analysis (as highlighted in our previous publication in May, there is empirical evidence to support this) and decision-making in the investment community as it is seen as mitigating certain types of risk and therefore helping commercial returns.

The environmental considerations include energy efficiency, recycling, waste management, pollution and emissions, and other factors of a company’s operations that might have an impact on the environment. Social factors refer to issues such as community and stakeholder engagement, diversity and equality, human and labour rights, cultural heritage and conflict, among others. Finally, governance includes board structure issues, executive remuneration, and alignment of shareholder and management interests.’

There is a direct correlation between responsible investing and the responsible investor's impact on society. An investment that is "economically efficient, sustainable, and offers long-term value creation benefits the environment and society as a whole".

This brings us back to our question, how does responsible investing and ESG help institutional investors fulfil liabilities and beneficiaries’ / clients’ expectations of risk-adjusted returns? In a nutshell, they are part of an investor's fiduciary duty. They drive macro risks and opportunities which drive the global economy as well as micro risks and opportunities which in turn drive our local economies, creating a sustainable financial environment.

85% of AUM Managed by Black Fund Managers



Mr Joe Letswalo, the Principal Officer of the Transport Sector Retirement Fund, shared some exciting and key insights at the Batseta Annual Winter Conference recently held in Durban. His presentation focused on their fund's aggressive transformation strategy which now has 85% of their total AUM managed by black managers, of which 65% are Level 1 BEE.

Mr Letswalo said, "With the board, we have been aggressive while measured in rolling out a program to support black managers and to allow them to manage our funds. We have done this without compromising performance and from 2013 till now we have grown from R3bn to R7bn. We have at times had to fire black managers for poor performance and sometimes they come back, but we have to make sure we are giving them a chance."

He also drew attention to the skill level and expertise of Black Fund Managers emerging from existing outfits where they had already built good solid track records managing assets. He urged business to support these new players and that they, in turn, support other black service providers to transform the entire value chain. The Transport Sector Retirement Fund has begun to check the service provider supply chain as part of the rollout of their transformation strategy.

Medical Schemes Amendment Bill

The Medical Schemes Amendment Bill which seeks to bring medical aid schemes in line with the National Health Insurance Bill was released for public comment 21 June 2018.



<p>01 Scrapping of Co-Payments Every cent charged to the patient will be settled fully by the medical aid.</p> 	<p>02 Stop the Use of Brokers Fees previously used to pay brokers will be used to pay the expenses of NHI members.</p> 
<p>03 Prescribed Minimum Benefits Will be replaced by Comprehensive Service Benefits which will include primary health care.</p> 	<p>04 Benefit Options All benefits have to be approved by the registrar of the Council of Medical Schemes.</p> 
<p>05 Medical Schemes All medical schemes are to be registered with and regulated by the Council for Medical Schemes.</p> 	<p>06 Central Beneficiary and Provider Registrar Member data will be used to analyse medical trends resulting in the planning of better NHI Services.</p> 
<p>07 Income Cross Subsidisation The lower income earner will pay less than the higher income earner for the same benefits.</p> 	<p>08 Medical Aid Savings Portion When members use designated service providers, the medical aid is to pass back the cost saving to the member.</p> 
<p>09 Membership and Waiting Periods Under the NHI there will be no penalty related to late joining or age.</p> 	<p>10 Governance of Medical Schemes Minimum education and expertise requirements to be a member of a Board of Trustees.</p> 

Congratulations to Kgaogelo Mmabolo

Summit Real Estate congratulates Ms Kgaogelo Mmabolo, who is part of the Real Estate Fund Investment Committee, on her appointment to the Board of the South African Council of Shopping Centers.

This appointment is in recognition of her immense contribution to the Real Estate sector and the value that she has to offer. We acknowledge her passion for excellence and transformation and look forward to seeing this come through in her new mandate.

Upcoming Events



Institute of Retirement Funds Annual Conference
29 – 31 July 2018
Inkosi Albert Luthuli International Convention Centre, Durban

[REGISTER HERE](#)



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Summit Africa is a majority black owned and managed, Specialist Alternatives Investment Manager with a focus on investing in Private Equity and unlisted Real Estate that delivers above-benchmark risk-adjusted financial returns and contributes meaningfully and measurably to the social and economic transformation and development of the local community and South Africa as a whole.

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