



**THE LA RETIREMENT FUND  
(The Fund)**

**RESPONSIBLE INVESTMENT POLICY SUMMARY**

Last updated  
July 2021

## **RESPONSIBLE INVESTMENT POLICY SUMMARY**

### **1. INTRODUCTION**

The Board of Trustees is entrusted with the stewardship of our members' long term savings. We have been active stewards of such capital for more than 70 years. Responsible Investment is part of our DNA and is of strategic importance as we invest these savings not only to yield superior risk adjusted long term investment performance but to invest such with purpose, to invest and to engage for sustainable change. We believe that companies and organisations that manage Environmental (E), Social (S) and Governance (G) factors more effectively are more likely to endure over time and create sustainable value over the long term.

Evidence of our ability to yield superior risk adjusted returns over the long term is encapsulated within our superior performance versus our respective peer groups. Such outperformance is supported by investments that we have made as a result of our Responsible Investment approach.

The above is supported by the fact that the Fund has been an early South African asset owner signatory of the United Nations backed Principles for Responsible Investment (PRI) since 2016. The Fund has been one of a select few retirement funds in South Africa to become a signatory.

The Covid-19 pandemic has created an increased appreciation of the importance of Responsible Investment. The pandemic has demonstrated new risks (environmental and social) and complexities which investors face in an ever interconnected and complex world. Albeit that the scope and challenges are increasingly complex; the Fund is focussed to remain a leader in the local retirement industry.

The core objective of Responsible Investment (RI) is to act in the best interests of the Fund's members by recognising that Environmental, Social and Governance (ESG) factors can influence both investment risk and return, and must therefore be considered by the Trustees in all investment decisions. Protecting and enhancing financial returns by incorporating such factors is consistent with our fiduciary duty.

- **Environmental Factors:** Environmental factors are paramount to sustainability. Climate change, deforestation, pollution, water use, waste management, energy efficiency and carbon emissions are all examples of environmental factors that we consider as part of the Fund's RI framework.
- **Social Factors:** Social factors such as human rights, community impact and employment, working conditions, health and safety standards, anti-corruption, empowerment of minorities or previously disadvantaged groups, poverty, poor education, and modern slavery are considered within our RI framework. Economic sustainability and long term growth will be determined by the ability of asset owners such as the Fund to address social issues and to direct capital towards investments that yield superior long term risk adjusted returns but which also have a positive social impact.
- **Governance Factors:** Factors such as anti-corruption, alignment of interest, executive compensation, board independence and strength, shareholder's rights and ethical conduct are considered within our RI framework. A focus on good governance will promote healthy corporate management. Proxy Voting and management engagement via the Fund's selected investment

managers are two tools that are used to address governance issues (promote improved governance and address issues such as tax avoidance, executive pay and corruption). Proxy voting and management engagement is also effective in forcing change in the companies in which our selected investment managers invest.

Regulation 28 of the Pension Funds Act makes it clear that RI is not only consistent with the Board's fiduciary duty, but is in fact a core element of good governance for retirement funds in South Africa. Regulation 28 states:

*"A fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. 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. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment."*

Regulation 28 currently does not provide detailed instructions on how to include RI concepts in the investment decision-making process. The Financial Sector Conduct Authority (FSCA) Guidance Notice 1 of 2019: Sustainability of Investments and assets in the context of a Retirement Fund's Investment Policy Statement provides guidance to Boards of retirement funds on how a Board's investment philosophy, as encompassed in its Investment Policy Statement (IPS), aims to ensure the sustainability of its investments and assets. It also sets out the FSCA's expectations regarding disclosure and reporting on issues of sustainability.

The Fund meets such requirements -

- The Fund has implemented this standalone RI Policy which is reviewed at least annually;
- The Fund communicates the RI Policy (in summary form) on the Fund's website. The detailed RI Policy is accessible by any member of the Fund upon request from the Principal Officer;
- Before making any investment, the Trustees of the Fund consider any factor which may materially affect the sustainable long term performance of the Fund's assets including, but not limited to, those of an Environmental, Social and Governance (ESG) character;
- ESG is a standard agenda item on every Board of Trustees meeting agenda;
- As part of the Fund's Responsible Investment (RI) project plan, the Fund continuously considers best practice in terms of the adoption of sustainable reporting practices;
- In the context of considering social factors, the Fund also considers the broad based black economic empowerment of the investment managers who manage the Fund's assets.

This RI Policy provides the Fund with a dynamic framework within which to make informed, prudent, long-term investment decisions taking into account RI factors. This Policy will be updated regularly with the Fund's current status and adjusted to align with the Fund's needs and objectives.

## 2. DEFINITIONS

- 2.1 “Responsible Investment”(RI): RI describes the investment management processes and ownership practices that take Environmental, Social and Governance (ESG) considerations into account in the belief that these factors can have an impact on long-term financial performance.
- 2.2 “Sustainability”: As per the FSCA’s Guidance Notice 1 of 2019, “Sustainability” means the ability of an entity to conduct its operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs. Sustainability includes managing the impact that the business of an entity has on the life of the community, the broader South African economy and the natural environment in which it operates. It also includes the converse, namely considering the effects that the society, economy and environment have on business strategy. Sustainability includes economic and ESG considerations.
- 2.3 “Sustainable Reporting”: As per the FSCA’s Guidance Notice 1 of 2019, “Sustainable reporting” means a report produced by an entity to inform stakeholders about its policies, programmes and performance regarding ESG factors.
- 2.4 “Environmental, Social and Governance”: As per the FSCA’s Guidance Notice 1 of 2019, Environmental, Social and Governance (ESG) factors means environmental, social and governance factors. In the South African context and specifically in respect of assets located in South Africa, these factors include, but are not limited to, the manner in which broad based black economic empowerment is advanced.
- 2.5 “CRISA”: The Code for Responsible Investing in South Africa (CRISA): A list of five Principles for RI specifically, in line with UNPRI, aimed at the South African investment community. The CRISA secretariat has been moved from under the Institute of Directors of South Africa (IODSA) to fall under the ASISA umbrella.
- 2.6 “King”: The King Report - Report on Governance Principles for South Africa. King IV replaced King III and is effective from 1 April 2017.
- 2.7 “UNPRI”: The United Nations-backed Principles for Responsible Investment (UNPRI): A list of six Principles for RI defined by the international investment community.

## 3. INVESTMENT BELIEFS

As a Board of Trustees (BoT), we are of the opinion that the integration of RI into investment decision making does not contradict the objectives of maximising financial returns but is rather based on the argument that including ESG factors into our decision making process improves our risk management process and the chances of more sustainable long term returns. Research indicates that integrating RI into our investment process is in the long-term interest of our members and the wider society. We are a leader in the South African retirement fund industry in terms of being an active responsible investor.

Our commitment and approach to being a responsible investor is underpinned by this RI Policy. A six-pronged approach guides the Fund's investment work and priorities:

1. RI integration;
2. Listed equity active ownership;
3. Investing for impact;
4. Investing thematically;
5. Collaboration;
6. Continuous Trustee training.

### **3.1 RI Integration**

The role of the Trustees is to ensure that potentially material ESG risks and opportunities are integrated into investment decision making processes of the investment managers whom we appoint to manage the Fund's assets.

The management of the assets of the Fund is therefore outsourced to various investment managers who manage specific investment mandates and portfolios on behalf of the Fund. The role of the Trustees is to select the investment managers who actively incorporate RI into their investment decision-making process to ensure superior, sustainable long-term risk adjusted returns.

Whilst our focus has been to monitor and engage with our selected investment managers on driving good corporate governance as the key pillar to our Responsible Investment approach, we never lose sight of our broader framework to encourage responsible environmental and social practices of the companies or investments in which our selected investment managers allocate our members' savings.

- The Fund requires the selected fixed interest investment managers to, where relevant, integrate RI into their assessment and valuation of bonds and to also, where relevant, consider infrastructure development in South Africa including roads, water and energy generation.
- The Fund requires the selected listed equity investment managers and hedge fund managers to integrate RI into the fundamental earnings forecast and discount factors used for the calculation of the fair value of the companies in which they invest. The investment managers then need to engage with the management of the companies in which they invest in order to enhance and increase value to the Fund as an institutional investor. Our South African Equity managers now report on their carbon intensity for the first time and we will require them to continuously improve on such reporting to reflect their progress and real world change. We will also be requesting our offshore equity managers to report on their carbon intensity.
- The Fund requires the selected listed and direct property investment managers to, where relevant; include the consideration of an investment into local community property development.

### **3.2 Listed Equity Active Ownership**

The role of the Trustees is to be an active owner and to engage with their selected investment managers who invest the Fund's assets with investee companies. Through informed dialogue with these investment managers, the Trustees monitor their ESG disclosure and best practices in terms of exercising the Fund's

ownership rights. Meaningful engagement with investee companies is one of the most effective ways of driving positive change.

As per the FSCA's Guidance Notice 1 of 2019, "active ownership" means the prudent fulfilment of responsibilities relating to the ownership of, or an interest in, an asset. These responsibilities include, but are not limited to:

- guidelines to be applied for the identification of sustainability concerns in that asset;
- mechanisms of intervention and engagement with the responsible persons in respect of the asset when concerns have been identified and the means of escalation of activities as a holder of that asset if these concerns cannot be resolved; and
- voting at meetings of shareholders, owners or holders of an asset, including the criteria that are used to reach voting decisions and the methodology for recording voting.

The Fund requires the selected investment managers to where relevant engage with companies on RI factors and to vote on the Fund's behalf in the best interest of the members. The Fund, via its Investment Consultant, monitors the quarterly voting records of each selected investment manager to ensure ongoing compliance with Proxy Voting and the annually reviewed RI Policies.

### **3.3 Investing for Impact**

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education. Investing for impact means to make a meaningful difference in the lives of our members.

### **3.4 Investing thematically**

Thematic responsible investing includes highly targeted investments in which Environmental and Social impact themes and related needs create opportunities for investors (e.g. water scarcity, climate change, energy efficiency, financial services). Investing thematically means to invest in a theme that relates to E,S and G. For example, considering an investment into "green" projects.

### **3.5 Collaboration**

The Fund will explore collaborative initiatives that are aligned with our approach to RI.

### **3.6 Trustee Training**

The Trustees focus their understanding on the full spectrum of future risks and opportunities to which the Fund is exposed. The Fund's Investment Consultant provides the Trustees with continuous and adequate training, with specific insights into how their RI approach can identify and manage such risks and opportunities.

## 4. PRINCIPLES FOR RESPONSIBLE INVESTMENT

To guide our Responsible Investment process, we subscribe to the global UN-supported Principles of Responsible Investment (PRI) and have also adopted the Responsible Investing of South Africa (CRISA) principles. Our approach is constantly evolving and we will continuously consider other Global Best Practice principles.

### 4.1 PRI

The PRI comprises a set of principles designed to provide a framework of best practices for responsible investment. The principles are voluntary and aspirational and acknowledge that responsible investment is a process that must be tailored to fit each organisation's investment strategy, approach and resources.

The PRI is the world's leading proponent of RI. It works to understand the investment implications of Environmental, Social and Governance factors and to support its international network of investor signatories. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for RI are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

As a signatory of the UNPRI, the Fund is committed to implementing the PRI's Principles in their management and monitoring of the Fund's assets. In signing the Principles, the Fund publicly commits to adopt and implement these Principles, where consistent with the Trustees' fiduciary responsibilities. The Fund also commits to evaluate the effectiveness and improve the content of the Principles over time.

The six Principles are listed below as well as various action items which the Fund will consider as part of its long term plan to implement global best practice in terms of RI. Various action items have also been noted for consideration and potential implementation by the Fund.

**Principle 1:** Incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2:** Be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3:** Seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** Promote acceptance and implementation of the Principles within the investment industry.

**Principle 5:** Work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** Report on our activities and progress towards implementing the Principles.

### 4.2 CRISA

The Code for Responsible Investing in South Africa (CRISA) provides that –

*"... where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of this Code and other codes and standards applicable to institutional investors".*

This correlates with the UN-backed Principles for Responsible Investment (PRI). These principles encourage collaborative engagement to better incorporate Environmental, Social and Governance issues in decision-making and ownership practices.

CRISA has been endorsed by the Institute of Directors in Southern Africa (IoDSA), the Council of Retirement Funds for South Africa (Batseta), and the Association for Savings and Investment South Africa (ASISA). The principles of CRISA are also supported by the Financial Sector Conduct Authority (FSCA) and the Johannesburg Stock Exchange (JSE).

- Principle 1:** The Fund incorporates sustainability considerations, including ESG, into their investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
- Principle 2:** The Fund demonstrates their acceptance of ownership responsibilities in its investment arrangements and investment activities.
- Principle 3:** The Fund considers a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
- Principle 4:** The Fund recognises the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.
- Principle 5:** The Fund is transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

### 4.3 KING IV

Retirement funds play an important role in the overall system of governance, where investment decisions are made and they have rights and responsibilities as shareholders. The Board of Trustees acknowledge that the way in which these decisions are made and rights are exercised can reinforce the corporate governance of the companies in which the Fund invests.

The King Code seeks to provide a clear, coherent and integrated model for corporate governance and has been extended through its retirement supplement to provide principles applicable to retirement funds. In King IV, 17 RI principles and practices are put forward as part and parcel of the good governance of retirement funds.

The Board of Trustees will consider the King IV principles in conjunction with CRISA, as well as the FSCA's PF 130 (PF 130), being complementary to the CRISA code.

## 5. ROLES & RESPONSIBILITIES

### 5.1 Role of the Trustees

The Board of Trustees retains overall responsibility and accountability for RI, and must set the strategic direction, make the top-level decisions, and implement the necessary scrutiny, oversight and monitoring.

The key practices and outcomes involved in RI include:

- Using RI insights to help manage investment risks and returns, particularly over the long-term;
- Engaging with investee companies on RI issues of particular concern;
- Ensuring that the voting rights conferred by share ownership are exercised diligently and are consistently aligned with the policies and procedures of the investment managers appointed by the Fund.
- Exercising the voting rights conferred by share ownership;
- Formalising these points through appropriate policies and service provider contracts and agreements;
- Being transparent and accountable;
- Collaborating with others to develop, share and promote best practice;
- Collaborating with others to engage with business and/or policy makers on strategic (macro) issues;
- Incorporating RI thinking into strategic portfolio allocation;
- Building longer-term incentives into investment management agreements.

## 5.2 Role of the Investment Consultant

The Investment Consultant provides training, advice and support with regards to the implementation of many aspects of RI. Many of the tasks outlined in the various RI Principles are delegated to investment managers and other service providers as per their contracts / agreements / mandates.

The Fund, via its appointed Investment Consultant, applies a due diligence framework which includes the reviewing of the RI policies and governance of potential and current fund investments, identifying how the recommended or selected investment managers integrate RI into their investment decisions.

The Investment Consultant has designed a qualitative RI questionnaire as well as a Proxy Voting questionnaire which will be distributed to the Fund's investment managers for their completion on an annual basis.

These questionnaires form part of the range of other due diligence questionnaires (i.e. firm, staff, product etc.) which are used as part of the Investment Consultant's qualitative monitoring process.

The Investment Consultant conducts peer group surveys (scorecards) that are focused on responsible investment mandates.

Full transparency is provided to the Trustees to consider and debate the qualitative and quantitative reports as provided by the Investment Consultant.

The Investment Consultant reports back to the Board of Trustees on RI at each Board meeting.

## **6. PROXY VOTING & ENGAGEMENT**

One of the key rights as an asset owner is the right to vote the shares of the public companies in which we invest. Voting rights give the investor the power to elect directors at annual or special meetings and make our views known to the company management and directors on those issues we believe may affect the value of our shares.

The Trustees consider the importance of voting rights attached to shares in which the Fund is invested by delegating this responsibility to their selected investment managers.

The investment managers will always consider the best interests of the Fund in exercising their voting rights pertaining to the investments and assets held in respect of the Fund. This responsibility is captured in each of the investment manager's investment mandates and are reported back to the Fund on at least an annual basis (which will migrate to a bi-annual and thereafter to a quarterly basis) or when the investment manager reports back to the Fund – whichever is most frequent.

## **7. CONFLICTS OF INTEREST**

In accordance with Circular PF No. 130 it is the fiduciary duty of the Board and Principal Officer to avoid (rather than manage) conflicts of interest. The Board is required to not only deal with conflicts of interest amongst the members of the Board but also with respect to any service provider of the Fund. Conflicts of interest will be avoided, removed or if not possible, resolved transparently.

## **8. CLIMATE CHANGE**

Climate risk is unquestionably one of the largest risks facing humanity. The World Economic Forum 2021 Global Risk Report ranks environmental risks as four of the top five by likelihood. Climate change may just be the defining challenge of the 21st century, with significant physical, social and economic implications for the global population.

Climate change is both a financial risk and an opportunity. The investment opportunities associated with the global response to climate change are material as are the risks of ignoring them.

Under the 2015 Paris Agreement, more than 160 countries, including South Africa, have committed to limit increases in global average temperature to less than 2°C above pre-industrial levels, with further objectives to keep increases within 1.5°C of pre-industrial levels.

The Trustees have started to monitor their selected investment managers on their analyses and their assessment of change related risks in their investment management process and how the portfolios and mandates align with the goals of the Paris Agreement. Investment managers will need to ensure that the Fund's investments are resilient under a range of climate change scenarios by adopting best global practices on climate risk management.

## 9. REVIEW

The Fund's RI Policy is reviewed on at least an annual basis.