



# ESG and its transformational role

*The Government Employees Pension Fund (GEPF) is the largest retirement fund in South Africa and one of the largest in the world. As a large investor, the Fund has the capacity to make a significant difference through its investment decisions, as such, the Fund has a responsibility to consider the consequences of its investment decisions carefully.*

The GEPF sees ESG as an opportunity to create and invest in sustainable investments which will in turn ensure a sustainable future for members and the planet. It is committed to using ESG principles in implementing its mandate, whether it be in how and where it invests or how it functions as a pension fund.

The GEPF's **Responsible Investment Policy**, mandates the GEPF to consider ESG issues when investing in companies and directs it to engage with them to improve their ESG performance. The GEPF understands that ESG investing is a way of selecting investments based on environmental, social and governance criteria that reflect the values and goals of socially conscious investors. Implementing ESG principles, policies or strategies ultimately will contribute to a

transformed environment, businesses, and society at large. This is important, in a country like South Africa, which is still grappling with the issues of an unequal society and economy. ESG can have a transformative role in society by encouraging companies to act responsibly, reduce their environmental impact, improve their social performance, and enhance governance practices.

Investors should define their ESG objectives, criteria, and indicators, and set measurable and realistic targets for their ESG performance. The targets they set need to be realistic, attainable and consider their challenges and the impact such targets will have, including the unintended consequences. We need "African solutions for African problems".

Investors should align their investment strategy with their ESG goals and ensure that their portfolio reflects their ESG values and priorities, as well as engage with their investee companies and other stakeholders, such as regulators, industry bodies, and civil society, to influence them to adopt more ESG-friendly practices and policies.

They should monitor and evaluate their ESG performance, and report on their ESG impacts and outcomes to their stakeholders.

Some of the benefits of ESG investing include helping to conserve resources, reduce emissions, promote water management, and support renewable energy, help improve human rights, labour standards, health and safety, diversity and inclusion, and community engagement, enhance board quality, accountability, transparency, ethics, and stakeholder relations and help reduce risks, lower costs, increase revenues, improve reputation, and create long-term value.



In transitioning to a low carbon economy and a climate resilient society, the concept of a just transition is central for emerging markets and in particular, South Africa, requiring specific interventions to manage and mitigate the consequences of transition. The increasing demands and drivers of sustainability will continue to have substantial consequences for pension funds as it will have for investment strategies and will continue to have a transformative effect. Pension funds can collaborate with other investors to share knowledge and resources on ESG issues. This can

involve participating in initiatives such as UNPRI or the Net Zero Asset Owner Alliance.

**The GEPF believes that integrating ESG issues in investment decisions can assist in creating more ethical companies and ultimately offer improved long-term risk-adjusted returns. The investment case for responsible investment at the GEPF is made through four principles:**

- the GEPF's investment beliefs, which are linked to the duty to consider ESG issues.
- the link between responsible investment and the Fund's investment strategy.
- a broader responsibility to consider corporate governance for responsible investment to encourage change; and
- addressing imbalance in socio-economic development.

**Through the investment beliefs, the Fund recognises its role in society, specifically the commitment to:**

- Integrate ESG factors into its investment policies for the long-term sustainability of the Fund.
- Recognising that the Fund's investments should play a developmental role in the South African and African economy (eg: having transformation policies etc); and
- Taking cognisance of societal inequality and its negative effect on the economic system in which investors participate, and the world in which GEPF members and beneficiaries live.

**There are five features of the GEPF and its investment strategy which make the Fund particularly sensitive to ESG considerations:**

- The GEPF is a long-term investor and therefore must consider the impact of its investment decisions over the long term.
- The Fund's investments are broadly diversified across the South African economy.
- A large proportion of the investments are held in publicly listed equity, and a significant part of the portfolio is managed according to a passive investment strategy.

- The diversified nature of GEPF's portfolio means that the Fund has exposure to every economic sector. The Fund therefore must consider ESG issues across its entire portfolio, as issues that are externalised in one portion of the portfolio are likely to reappear in another and therefore it is in the Fund's interest to ensure that its investee companies adhere to good corporate governance, and responsible environmental and social practices.
- The GEPF is the largest retirement fund in South Africa and one of the largest in the world. As a large investor, the Fund has the capacity to make a significant difference through its investment decisions. The Fund therefore has a responsibility to consider the consequences of its investment decisions carefully.

The GEPF monitors how its investee companies manage ESG issues and signal and encourage change in a considered manner. Where deemed beneficial the Fund exercises its ownership rights and privileges.

The pension fund sector must continue to exploit the changing landscape for the benefit of our members, pensioners, and beneficiaries through remaining agile in thinking and future proofing the sustainability of the investment portfolio. It must make investment allocations for transforming the South African financial system to be more equitable and engage companies to ensure the financial system is sustainable for future returns.

Finally, ESG investing is not only a moral duty but also a smart strategy for achieving sustainable development and financial security. We are all called upon to support the efforts in implementing Responsible Investment policy and continuously engage on ESG issues with our stakeholders."



**Principal Executive Officer of the Government Employees Pension Fund Musa Mabesa**

"ESG investing is not only a moral obligation but a smart strategy."

Musa Mabesa is the Principal Executive Office (PEO) of the Government Employees Pension Fund (GEPF)