

# Protecting the Earth's natural resources for future generations

By [Inge West](#)

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Since 1970, 22 April has been recognised as Earth Day, a day that honours the achievement of the environmental movement and raises awareness of the need to protect the Earth's natural resources for future generations.



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According to the World Wide Fund for Nature (WWF), with the world's population expected to grow to over 9-billion by 2050, we need 1.5 Earths to meet the demands we currently make on our planet. In 2014 alone, we used more natural resources in eight months than the planet can produce in 12 months. For the remainder of the year, we borrowed resources from future generations.

The challenges of providing food, water and energy security has become a stark reality and the need to protect nature, and use its resources responsibly in order to secure our future well-being has become a necessity.

## Impact on environment, society

Corporate SA is often criticised for its impact on the environment and society. While company management need to consider all stakeholders, they are ultimately accountable to their shareholders, who need to ensure that they are conducting their businesses in a responsible and sustainable manner.

South Africans employed in the formal sector are typically members of pension funds, who collectively own more than R3tn worth of assets, predominantly in companies listed on the Johannesburg Stock Exchange (JSE). As significant shareholders of corporate SA, pension funds and their asset managers need to ensure that their assets are being managed in a responsible and sustainable manner.

Investment Solutions believes it has an important role to play in ensuring that asset managers consider the environmental, social and governance (ESG) risks and opportunities of the underlying companies in which they invest in. We believe that asset managers, who consider, evaluate and address sustainability issues and incorporate ESG considerations when evaluating investment opportunities are better informed of the potential risks and opportunities relating to the underlying assets in which they invest in and are therefore better positioned to deliver superior risk-adjusted returns.

## **Responsible Investing Survey**

As part of our commitment to responsible investing (RI), Investment Solutions conducts a Responsible Investing Survey, now in its fourth year, which formally gauges the status of RI in the asset management industry and tracks the progress asset managers are making towards integrating ESG factors into their investment process.

Despite the general perception within the investor community, that the consideration of ESG factors has the potential to negatively impact financial returns, the 2015 survey results, in which 56 asset managers participated, highlight that 50% of managers believe the consideration of ESG factors enhances returns over the long term. Furthermore, 88% of managers believe the consideration of ESG factors results in a better assessment of risk.

The 2015 survey results highlight that when ranking the importance of ESG considerations, the consideration of governance factors ranks first (53%), followed by environmental factors (24%) and social factors (22%). South Africa is known to be a leader in the governance space, with codes such as the King Code for Corporate Governance providing clear guidelines on best practice. When it comes to environmental and social considerations, asset managers have more difficulty in assessing the impact of the companies in which they invest in given the lack of reliable and accurate ESG information and the lack of standardisation in reporting.

## **Partnership with WWF-SA**

It is partly for this reason that Investment Solutions has partnered with the World Wide Fund for Nature (WWF-SA). Investment Solutions and the WWF-SA have established a relationship whereby we have undertaken to work together to drive environmental sustainability in investment portfolios and to support the investment industry towards positive environmental impact transformation over the long term. Together with the WWF we have created an Environmental Questionnaire which provides a framework for asset managers to use when engaging with companies on environmental issues. The questionnaire focuses on key areas relating to water consumption, supply chain management, waste management and energy and emissions.

With environmental changes affecting all of us the investment industry is an important stakeholder who can orchestrate positive influence and change in this regard. Investment Solutions, together with the WWF are committed to positively influencing and driving change towards responsible investment and environmental sustainability for the long-term benefit of South Africa's people.

## **ABOUT THE AUTHOR**

Inge West is head of Responsible Investing at Investment Solutions.