Investments

# An investment framework for responsible investing

Portfolio

alexforbes.com

:alexforbes

insight · advice · impact

# Portfolio

**We consider incorporating responsible investment practices into our investment portfolios through proactive allocations for impact and risk mitigation aligned with our responsible investing beliefs.**

## ESG integration

Assessing asset managers on their approach towards integrating ESG considerations into their investment decision-making processes.


## Active stewardship and impact and thematic investing

Monitoring asset managers' proxy voting and engagement activities by leveraging our ESG research and rating criteria.

**The culmination of the first three steps of our framework (i.e. Beliefs, Policy and Process) forms the embodiment of responsible investment within our multi-managed portfolio solutions.**

## ESG integration

**Across both listed and unlisted markets, we leverage our ESG ratings for asset managers.**

**This is standard within our asset manager research process where ESG has been included as an explicit factor in assessing the quality of an asset manager.**

There are now over 5000 strategies with an ESG rating on our global research database, MercerInsight™, which captures to what extent an asset manager includes ESG factors and active ownership principles throughout their investment process.

As detailed in the **process section**, our asset manager selection process includes ESG research. The inclusion of ESG factors as part of the investment decision-making process is considered when our portfolio managers seek asset managers or strategies to deploy in the portfolio solutions that they manage. We do not completely exclude asset managers from the investment universe if they score poorly on an ESG basis, but we do recommend that portfolio managers invest with asset managers with an ESG rating of 3 or above.

We recognise that ESG integration is evolving in the industry and instead of adopting an exclusionary strategy, we are willing to work with asset managers with less favourable ESG ratings in order to improve their process. Consequently, if an asset manager with an ESG rating of 4 is appointed, the asset manager is required to improve to a rating of 3 or above in the following 12-month period from the date of their appointment. Failing to do so means that the asset manager risks having their appointment terminated. This process aims to assist asset managers in improving their ESG rating and increase our collaborative effort in shaping the industry to embrace risk-led investing.

alexforbes.com

## Active stewardship

**As stewards of our clients' capital, we proactively engage with asset managers on issues relating to responsible investing.**

**Given our scale, we are in a unique position to engage with asset managers and others in the industry to influence change so that our portfolios are resilient to associated risk factors.**

We believe that the asset managers we appoint are adequately equipped to assess responsible investment risks and opportunities and make meaningful decisions on proxy voting and engagement as they are required to have a deep understanding of the companies they invest in and any potential issues that may materially affect share prices. However, we still maintain oversight on their voting activity and actively engage with them on how proxies are voted upon.

While we are not prescriptive on how asset managers should vote, we do provide them with proxy voting guidelines that are included in our investment management agreements. The guidelines provide a philosophical framework within which we stipulate how an asset manager should vote proxies on our behalf.

In improving our stewardship role in the South African market, we have obtained proxy voting guidance from rated sell-side research providers. Stock specific and thematic research is also obtained which collectively informs our ESG research process.

It has allowed us to formulate more informed views which have defined our engagement process with the asset management industry.

The engagements held with the asset managers are then compared to our views and the proxy voting guidance that we have provided to them. We record these engagements and provide portfolio managers and advisory colleagues with anecdotal views and evidence regarding the incumbent managers and strategies within our portfolios.

In the unlisted space, and as part of the Alexander Forbes Investments South Africa Private Markets (AFISAPM) portfolio, we critically review strategies that isolate one or more environmental and social demands or risk drivers and approve investments that are best positioned to benefit from these strategies. Using our discretion, we channel investments into portfolios associated with environmental and social benefits. This is deliberate in addressing the sustainability and the environmental and social impact of investment management.

**Stock specific and thematic research allows us to formulate more informed views which have defined our engagement process with the asset management industry.**

## Impact investing

**Investing for financial return and societal and environmental benefit.**

The Global Impact Investing Network (GIIN) defines impact investments as "investments made into companies, organisations and funds with the intention to generate measurable social and environmental impact alongside a financial return." Impact investing aims to achieve commercially viable sustainable impact. In the context of investment strategies, impact investing can include thematic investments across private equity, debt, infrastructure and property with a vast spectrum of sectors or types of investments.

A recent global development has shown that several providers of investment products have begun creating products in the public markets that are linked to making a positive public impact. These products can be developed with specific reference to the 17 UN SDGs.

We observe that measuring the impact of investments is becoming increasingly important. The Global Impact Investing Rating System (GIIRS), the GIIN, the IRIS+ impact measurement system and the Impact Management Project (IMP) are prime examples of ongoing work to create a taxonomy to report impact metrics. We have observed managers beginning to self-report at this stage. We have begun the process of engagement and will, in time, provide reporting of these aspects within the AFISAPM portfolio.

**Impact investing can include thematic investments across private equity, debt, infrastructure and property with a vast spectrum of sectors or types of investments.**

## Thematic investing

**Most themed funds have a focus on sustainability.**

**Funds with a social theme can be found in microfinance, urban regeneration, property and social infrastructure. Themed funds can be found in infrastructure, private equity, unlisted debt and direct property.**

The AFISAPM portfolio allocates capital to environmental and social investments. It has a focus on environmental impact where it invests in the development of renewable sources of energy such as solar, wind and hydro power. There are also investments made into social infrastructure assets such as education, student accommodation, community property development and credit access for lower-income communities. These investments explicitly cater for the developmental needs in South Africa, while providing a compelling investment return objective for our clients.

Portfolio



# Disclaimer