Responsible investment – time for talk is over, let's take action now

Shainal Sukha Managing Director, Sukha and Associates

The Covid-19 pandemic will no doubt teach us many lessons and we will analyse its effects for years to come.

My key message to you today is not just to analyse and comment but to learn from this experience and to start taking positive action (no matter how small) towards changing our system to make it more transparent, equitable and sustainable.

After reading this article, as a trustee, make a commitment to study the Sustainable Returns Guide on Responsible Investment and Ownership, and/or reports from the Principles of Responsible Investment (PRI) or CFA Society once a week, and debate these reports with your asset consultants. Or appoint a Responsible Investing ("RI") champion within the Board of Trustees to ensure that time is set aside for this important issue.

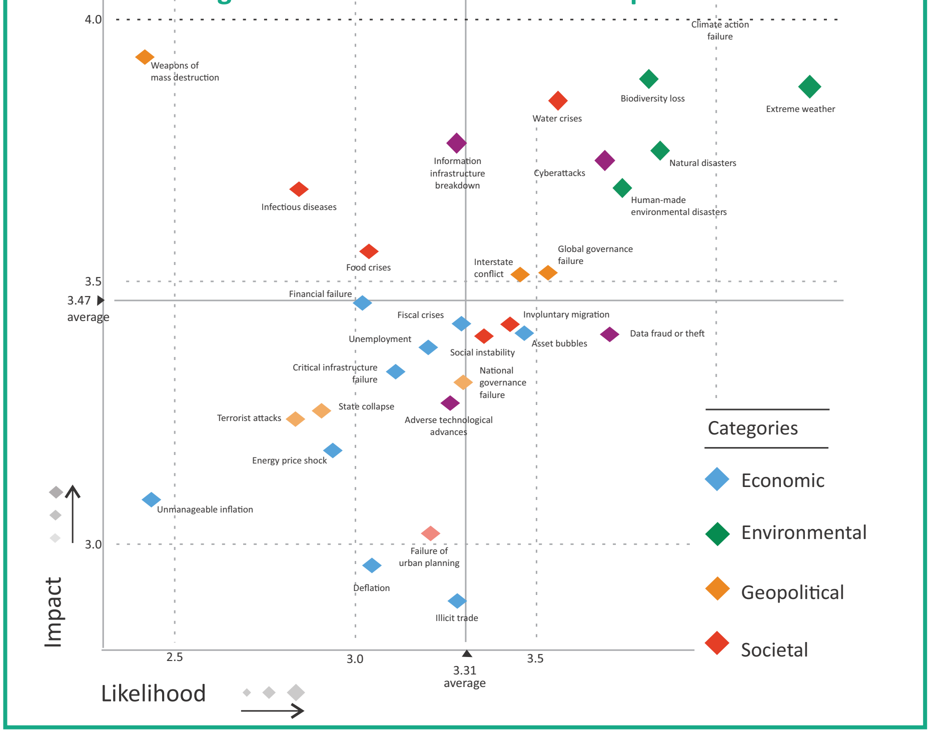
Such a commitment will ensure that you build up knowledge about RI and Environmental, Social and Governance issues, and thereby contribute to the pressing changes needed in the Responsible, Sustainable and Impact Investing field.

What Covid-19 has shown us and the risks ahead

The pandemic has shown us just how vulnerable and unprepared most countries around the world are to external shocks and how easily human rights such as the freedom of movement can be suspended by Governments at a whim. Capetonians are all too familiar with the fear and anxiety that the water shortages brought to the City more recently, and how everyone was forced to adapt to the situation for the greater good. According to some experts, the pandemic seems to be a "dry run" for what is to come if we don't improve the way we consume resources and operate on this planet.

The World Economic Forum's 2020 global risks report (released before Covid-19) showed that – for the first time - the top 5 risks in terms of likelihood are all environmental risks. In the chart below, notice how social risks such as water crises, food crises and infectious diseases were mentioned as having a high impact. Just a few months after the report, an infectious disease has indeed had a high impact, causing one of the worst global economic crises in our history.

Figure II: The Global Risks Landscape 2020



Source: World Economic Forum Global Risks Report 2020

Covid-19 also brought to the fore the weaknesses of our current political, economic and social systems and how unsustainable they are. These include:

- Structural racism and a lack of transformation in the US is in the spotlight after being "dusted under the carpet" for centuries. As we saw through global protests, this issue has not been adequately addressed in many countries and speaks directly to the transformation agenda in South Africa.

Responsible investment – time for talk is over, let's take action now

- Paternalism and a lack of gender equality has reared its head in Mexico, Iran and South Africa as we saw an increase in honour killings and unprecedented violence against children and women.
- Some scientists believe that the frequency of pandemics will increase due to the way humans farm and consume animals and encroach on animal habitats. The loss of biodiversity impacts the environment in ways we do not fully understand.
- Our ongoing and endless consumption of resources and forests and the large amount of waste (particularly plastic) that we produce and simply dump in our oceans is just not sustainable.
- Capitalism needs redefining to make it more inclusive and sustainable. Even in wealthy societies, income and wealth inequality are serious moral issues but also act to destabilise almost all parts of a functioning society if left unchecked. The move to stakeholder capitalism has already started and long term investors such as retirement funds should support such initiatives.

Crises give us an opportunity to pause, reflect and learn from the experience but to also to reinvent ourselves, renew the way we do things and to improve the system. Often, we come up with our best ideas when we just pause and think. The key, however, is to act on those ideas. No matter how small the action is in relation to the wider system, it is often a series of small individual actions that gather momentum and spark system change.

How can retirement fund trustees become change agents?

Many of us have been talking about sustainability and responsible investing for years but taking action, no matter how small, is now critical.

The following may assist trustees of retirement funds:

- We are all on our own Responsible Investing (RI) journeys – some further than others. There are a lot of free resources available online, including the Sustainable Returns Guide on Responsible Investment and Ownership, and reports from the Principles of Responsible Investment (PRI), CFA Society, Actuarial Society and SAVCA. Start by reading and debating such reports with your asset consultants. In this way, you can build up knowledge and capacity at the Board of Trustees level or Investment Committee level.
- While we fully understand that the Responsible, Sustainable and Impact Investing field is evolving rapidly with new developments and it can feel overwhelming at times. My advice would be to just start your RI journey. The sooner you start, the better. Like CPD, it requires continuous reading and development.
- Consider signing up to the Principles of Responsible Investment. Not only do you get access to global best practice, but also the support from the PRI.
- Batseta and the IRFA can also provide support and assist in facilitating collaboration with other retirement funds that are further along in their RI journey.
- Consider setting a separate Responsible Investing Policy but don't let perfection be your enemy – just get started. As you build up knowledge over the years, you will see how the quality of the RI policy improves.
- Engage with asset managers, regulators and civil society to get a broader understanding of the financial system and how it can be improved. Retirement funds have a lot of power so use your influence to ensure that RI becomes embedded across the entire value chain.

The above are some practical suggestions to ensure that you, the trustee, can take action immediately and become a change agent in the Responsible, Sustainable and Impact Investing field. Covid-19 has shown us that the time for talk is over. We require urgent action to transition to a more sustainable system.