



The journey

momentum
consultants & actuaries

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INTEGRATION OF ESG IN INVESTMENT PORTFOLIOS

As stewards of our clients' assets, we recognise our responsibility in ensuring that these assets are invested in a manner that is consistent with that of a responsible corporate citizen. Momentum Consultants and Actuaries (MCA) continuously promotes and examines the integration of matters of an environmental, social and governance (ESG) nature in the investments of our clients. This newsletter provides insights into how this integration is effected.

In 2016 Momentum formalised a group-wide Responsible Investment (RI) Committee comprising representation from across the business. A year later, Momentum Investments established a dedicated Responsible Investment team. The role of the RI Committee is to set policy and provide oversight to ensure that client assets are managed in a manner that takes matters of an ESG nature into consideration, while the RI team's role is to support the broader investment team, as well as other parts of the business, in implementing and monitoring these requirements.

This note focuses primarily on how ESG is integrated into Momentum Investments' portfolios. This same philosophy is embedded into our advice and is carried into solutions proposed and or provided by MCA.

The Momentum Investments' portfolio and business offerings result in various levels of ESG integration:

- Where they invest with direct underlying investment managers, they ensure strict compliance with their responsible investment principles
- Where outsourced investment managers are used, their approach to ESG is a core consideration
- Where clients have selected a service offering allowing them to select their own investment managers (through a Momentum Investments' platform), Momentum Investments ensures that these managers have been sensitized to their ESG requirements.

When Momentum Investments appoints investment managers, they integrate ESG into their selection, appointment and monitoring process. This occurs as follows:

- **Selection process** - The manager research team is responsible for:
 - conducting a rigorous due diligence assessment across the universe of investment managers. This process includes a responsible investment section where the managers are rated
 - conducting annual investment manager research visits to assess existing managers and potential managers. The scorecard includes a dedicated section on responsible investment practices
 - comparing the investment manager to its peer group and giving preference to managers who display sound responsible investment practices.

- **Appointment process** - The investment manager agreements:
 - require the investment manager to adopt Momentum’s responsible investment policy and clarify the proxy voting responsibilities. The investment manager may vote on corporate actions while Momentum will vote on governance resolutions
 - require the investment manager to report quarterly on responsible investment concerns.

- **Monitoring process** - Every quarter the appointed investment managers provide commentary and report on any responsible investment concerns that occurred over the period.

Frequent investment manager report-back meetings are held to ensure the appointed managers comply with the terms of the mandate and continue to implement responsible investment practices. The investment manager research team also requests that the managers’ report-back presentations contain information specific to responsible investment practices to enable them to monitor the investment manager. The team frequently engages with the managers when corporate actions arise, and votes need to be cast on behalf of affected investments.

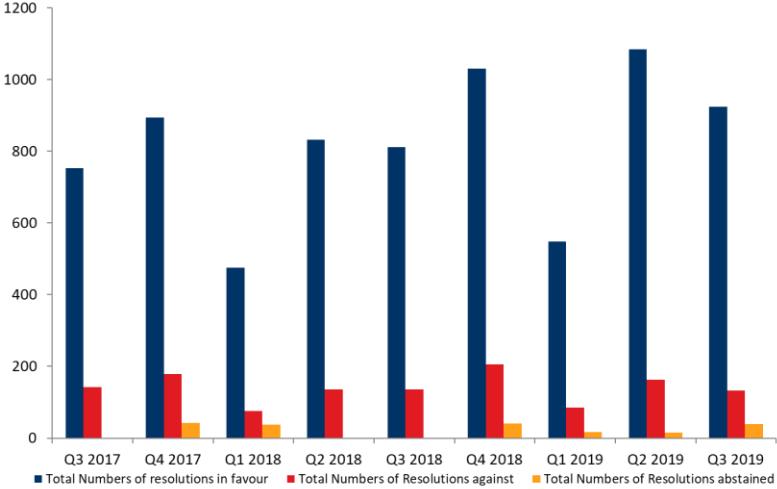
To illustrate Momentum Investments’ practice of corporate action voting, we show how they voted their clients’ proxies for the year-to-date to 31 October 2019 and show reasons for votes against proxy resolutions through time.

Number of shareholder meetings	58
Total resolutions	1057
Abstentions*	0
Votes in favour	924
Votes against	133

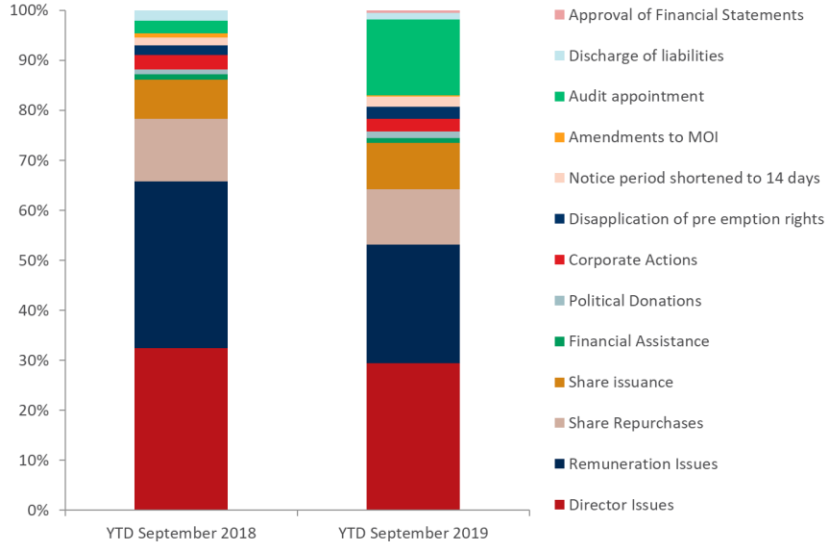
* Note: Momentum Investments only abstains when there is a conflict of interest situation (i.e. related parties)

Votes against	133
Remuneration issues	28
Directors issues	47
Share issuance	15
Buy-back of shares	16
14-day notice period	1
Discharge of director liability	2
Political donations	2
Audit rotations	18
Dis-application of pre-emption rights	1
Amendments to Memorandum of incorporation	1
Approval of Financial Statements	2

Longer term voting actions are shown graphically below.



Interesting to note are the reasons for votes against proxy resolutions and how these change over time. The graph below shows “votes against” for the year-to-date periods to September 2018 and 2019. Note specifically the votes against audit appointments in 2019.



Momentum Investments also invests into assets that lead to social upliftment – including investments into shopping centers in underdeveloped areas, student housing, infrastructure investments, etc. Their environmental investment focus is currently predominantly focused on engaging with corporates to ensure they operate their businesses on an environmentally sustainable basis and they have adopted the Task Force on Climate-related Financial Disclosures (TCFD) engagement framework to encourage management of companies to equip themselves to transition to a low carbon economy.

Finally, Momentum Investments are also supporters of CRISA (Code for Responsible Investing in SA) and signatories of the PRI (Principles for Responsible Investment – since 2006); a member of the ICGN; and serve on the Responsible Investment committee of ASISA. These commitments ensure that they are up to speed with global best practice and are held accountable for the way they conduct their business.

The infographic below provides additional detail on Momentum Investments’ approach to Responsible Investing.



The importance of responsible investing cannot be stressed enough, and your asset consultant is key to helping you understand the actions taken by your investment manager/s in ensuring that your investments are appropriately managed. We understand from the annual financial statements of the FSCA, that soon the Regulator will require trustees of retirement funds to report on how (not whether) they are managing their members’ investments in a sustainable manner. It is important for trustees to take ESG investing seriously and hold their investment manager/s accountable.

For more information on how to monitor the progress made by your investment manager/s or on which interventions are required to implement responsible investing, please discuss this with your Momentum Consultants and Actuaries' Consultant or contact us at mca@momentum.co.za.

**Issued by Rob Southey
for Momentum Consultants & Actuaries
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