# Responsible investing:
## Delivering returns and doing good

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***"The path to hell is paved with good intentions"*** is a saying that has relevance when considering environmental, social and governance (ESG) approaches in investing.

For any activity to be viable over the longer term, it needs to provide benefits. As an investment manager there needs to be tangible benefits that aligns with what we are trying to achieve for our clients. Therefore, when considering how we should approach climate action, good intent on its own is simply not good enough.

The intent must be paired with a practical pathway that tangibly provides portfolio benefits and carefully weighs up the unintended consequences.

**For example,**

**with loadshedding (ignoring the wholesale burning of diesel to power open-cycle gas turbines), there is an overalldecrease of power consumption, which is a positive for carbon emissions. If we did not take into account the negative externalities of load-shedding you could say that the "E" in ESG is a winner.**

However, this is very far from the case and shows why focusing on good intent alone can have devastating consequences. Unintended consequences and negative externalities matter deeply and when considering good intent time and effort must be applied on the cost versus benefit equation. Where the costs outweigh the benefits the sustainability of an approach becomes untenable and moves into the domain of philanthropy. As an investment manager I would like to achieve good intent where the benefit clearly outweighs the costs, and a practical pathway is available.

### Just Transition and Fair Share

There are a few concepts and principles that should be taken into account in the emerging market and South African context when considering climate action. Approaches such as exclusion are not practical on a large scale in South African portfolios. However, the basic assumption is that climate action is imperative and needs to be addressed.

The first principle that considers negative externalities is the "Just Transition" concept. This essentially states that as we migrate to cleaner sources of energy, we need to consider and mitigate the social impact of closing down those industries (e.g. coal mines) that supported dirty energy production. This transition is difficult as new opportunities in renewable energy production are in different areas and require different skills to the existing energy ecosystem. Nonetheless, from a social perspective this is important because in a politically fragile environment the transition will create socialinstability if not addressed.

The second important principle is that of "Fair Share". In essence, this states that the bulk of the energy transition cost must be carried by the developed world. There are effectively two key considerations here.

Firstly, the developed world industrialised with the benefit of dirty energy, so cumulatively they have contributed more to global warming than the emerging world. This is a philosophical perspective and is the subject of much debate and disagreement.

The second consideration is affordability. The emerging world (excluding arguably China) does not have the financial resources to transition to cleaner energy production without support from the developed world. This is why financial commitments made by developed countries at COP27 are important and why the role of the private sector to crowd in funding is also required.

## Addressing climate action in portfolios

With this backdrop, how do we address climate action in portfolios? The first perspective is that the weight of any climate-related portfolio action will rest more heavily on the global component of portfolios (this could be through exclusion or reducing carbon impacts relative to benchmarks for instance).

In the SA listed sector, advocating for greater transparency and policies is important, for example getting companies to adopt the reports of the Task Force on Climate-related Financial Disclosures.

Considering the SA market, there is potential for real impact in complementary approaches. By complementary I mean investing in current industries while at the same time starting to move towards alternative investments that address climate issues.

As holders of long-term capital, pension funds and other institutional investors have a critical role to play to support these renewable energy projects. These investors reasonably have the portfolio durations to match the longer-term nature of the infrastructure investments.

What is important to bear in mind is that not all projects are equal, and they need to be assessed on a case-by-case basis. However, I have seen very good investment opportunities that also achieves the good intent perspective.

Our primary objective is to deliver returns for our clients.

Responsible and sustainable investing is an exciting area in investments where there are good returns to be made that can have a positive societal benefit.

With us, investing is personal and we consider how we can drive purpose and take advantage of the investment opportunities to create a better future for our investors, their communities and society.