



A REVIEW OF THE REGULATORY ENVIRONMENT FOR THE GREEN ECONOMY

ROBERT LEWENSON | HEAD OF ESG ENGAGEMENT

ABOUT THE AUTHOR

As Head of ESG Engagement, Robert is responsible for proxy voting and engagement representing OMIG on various industry bodies and championing responsible investment for the group.

KEY TAKEOUTS



- MODERN GROWTH MODELS ALLOW US TO TRACE THE DISCOURSE OF THE GREEN ECONOMY CONCEPT.
- THE GREEN ECONOMY IS INFRASTRUCTURE OR ASSETS THAT BY THEIR NATURE ARE LOW CARBON, RESOURCE EFFICIENT AND SOCIALLY INCLUSIVE.
- LOCALLY, THE MOST IMPORTANT LEGISLATION TO ENABLE INVESTMENT IN THE GREEN ECONOMY IS REGULATION 28 (REG 28) TO THE PENSION FUNDS ACT.

WHAT IS THE GREEN ECONOMY AND WHY SHOULD WE INVEST IN IT?

“The Limits to Growth” report published in *1972 is one of the first publications to raise concerns about the sustainability of modern growth models. Though disregarded and heavily criticised at the time, today the warnings in that report allow us the ability to trace the discourse of the green economy concept.

Today, the United Nations defines the green economy as infrastructure or assets that by their nature are low carbon, resource efficient and/or socially inclusive. In a green economy, growth in employment and income are driven by public and private investment in economic activities, infrastructure

and assets that allow reduced carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services.

There are many reasons for investing in the green economy, the most important one being the ability to achieve a reasonable return on investment as mandated by our clients. However, the benefits to our clients are further multiplied by the benefits to society and the environment.

THE GLOBAL AND LOCAL REGULATORY LANDSCAPE

One of the most important global regulatory developments in 2019 for the green economy was the European Union’s creation of the world’s first-ever “green list” – a classification system for sustainable economic activities, or taxonomy. The green list



creates a common language that investors can use everywhere when investing in projects and economic activities that have a substantial positive impact on the climate and the environment. According to the European Commission, it will help scale up private and public investments to finance the transition to a climate-neutral and green economy, redirecting capital to economic activities and projects that are truly sustainable.

Locally, one of the most important pieces of investment legislation

to enable investment in the green economy is Regulation 28 (Reg 28) to the Pension Funds Act. The Pension Funds Act aims to ensure that the savings South Africans contribute towards their retirement are invested in a prudent manner that not only protects the retirement fund member but is also channeled in ways that achieve economic development and growth.

To achieve economic development and growth – key to investment in the green economy – Reg 28 prescribes that a pension

fund must diversify its assets into various asset classes and promote responsible investment. Here we mean considering Environmental, Social and Governance (ESG) factors and acting as a responsible steward of fund assets. These intentions are based on a sustainable, long-term, risk-aligned and liability-driven investment philosophy. This prudent approach to investing considers factors which affect the sustainable performance of a fund's assets, where it then naturally follows that green

economy investments are a responsible way of giving effect to Reg 28.

However, whilst being lauded as one of the first regulations to be enacted globally to prescribe responsible investment, Reg 28 falls short on prescribing to pension funds how to invest that money in the green economy. An important ongoing development is the process underway to develop a taxonomy for the green economy, spearheaded by National Treasury. It is aimed at developing a national strategic framework on sustainable finance and investments cutting across all industries in the financial sector.

In addition, access to investment in the green economy also cuts across asset classes, and regulation has been enacted. For

example, in 2017 the JSE launched a Green Bond segment and aligned its JSE Green Bond listing requirements with international best practice. In the context of the South African economy, it includes specific rules pertaining to green bonds. Issuers of green bonds can raise the capital they need to bring their green economy investments to life, while investors can satisfy critical ESG mandates and address climate risks as a part of their portfolio construction.

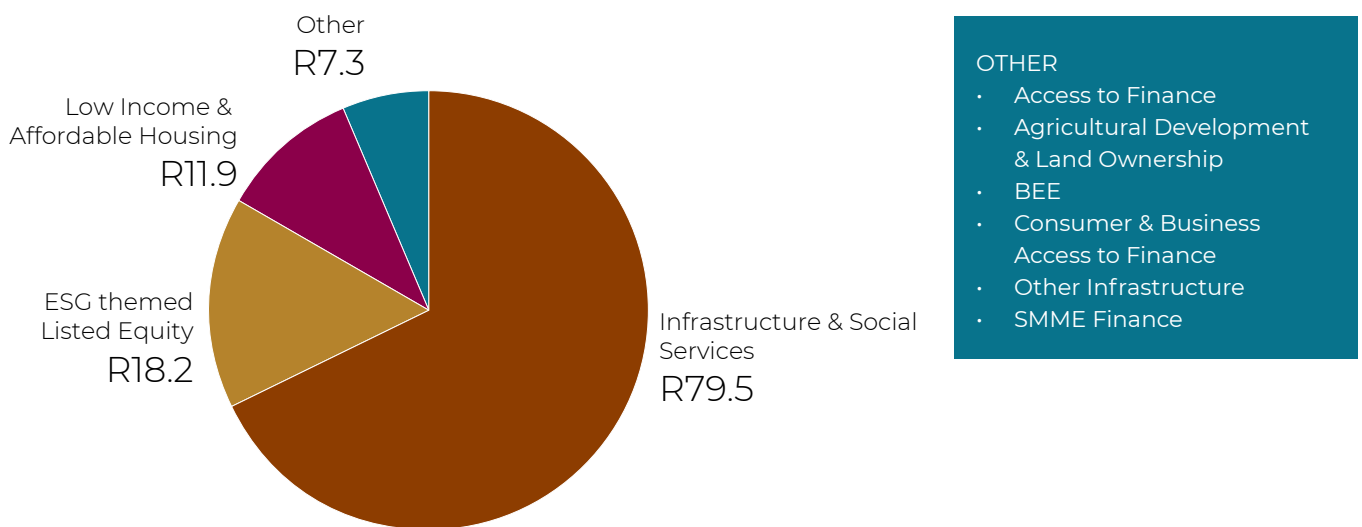
CAPTURING INVESTABLE OPPORTUNITIES IN THE GREEN ECONOMY

As an investment manager, OMIG is primarily a “mandate taker” and not a “mandate maker”. Our commitment to our clients is to manage their assets responsibly,

and in doing so, provide our clients with opportunities in different asset classes to invest directly in the green economy. Whether in listed equity via our ESG indexation funds, fixed income through green bonds or directly in alternative assets in our IDEAS and Development Impact Funds, we’ve taken the opportunity over a few years to take advantage of the upsurge in green economy legislation as well as to influence the development of regulation where necessary. As at 30 June 2019, our total green economy investment value of R117 billion represented approximately 20% of OMIG’s assets under management.

The graph below shows a breakdown of the assets invested by OMIG in the green economy.

ASSET EXPOSURE TO GREEN ECONOMY THEMES - TOTAL AUM (R'BN)





We are confident of the breakdown in assets invested by OMIG into the green economy, as each investment has been tagged using a similar methodology to the European Union (EU). In the absence of local regulation we've developed our own methodology by creating a green list taxonomy to ensure that the underlying investment has a role to play in the green economy. As we invest in global assets, we consider it important to ensure the taxonomy assesses which geographies our green economy

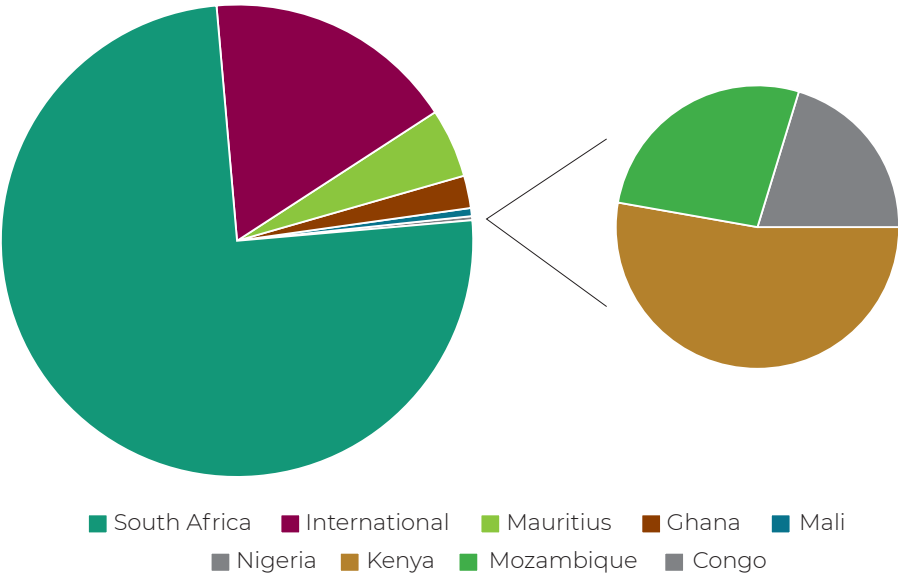
investments are contributing to. This is displayed in Graph 2.

THE FUTURE IS GREEN

Looking at global trends, we see significant growth in the global green economy in the years ahead. OMIG will continue to develop innovative products to offer our clients the best opportunities to access these investments, as well as championing the development of regulation locally and internationally, in supporting a developing green economy.

Later this year, OMIG will be the proud sponsor of the prestigious Global Steering Group (GSG) Impact Summit 2020. This is an annual gathering of impact leaders and practitioners that discuss the current state of impact investing and work together to identify global priorities, key action areas and milestones necessary to make impact investing a mainstream practice.

TOTAL AUM BY COUNTRY



Ground-breaking research, A Legal Framework for Impact, will explore existing legal frameworks to analyse the extent to which asset owners can prioritise sustainability impact, including where this may lead to a negative effect on investment return. In the case of investment managers, it will also explore how they can or should address sustainability impact where their investment mandate is silent on sustainability impact.