

Sustainable and impact investing are the new normal

By Nersan Naidoo - CEO of Sanlam Investments

To avert catastrophic food insecurity and other major climate change impacts, the African continent must work towards reaching the United Nation's Sustainability Development Goals. However, this is currently a challenge for emerging markets. There is a US\$2.5 trillion funding gap across the developing world to reach the goals and Africa has a staggering 90% gap.



Resetting our planet from profit-led to long-term prosperity

At the recent Investment Forum 2021, we discussed the vital role sustainable investments would play in resetting our planet from profit-led to long-term prosperity and equality. Sustainable investing has a broader purpose than just delivering financial return – it takes into account the impact of investments on the environment and society.

Africa is the continent most vulnerable to climate change and the effects of the pillaging of the planet's natural resources. While we may see climate change less visibly than Iceland with its melting glaciers, it will directly and devastatingly impact our continent, primarily through reduced food security, as well as water shortages and myriad other factors. On a continent already desperately short of food in so many places, this is a terrifying thought. The plight of Africans will become far more extreme if we don't act quickly.

In addition to Investment Forum 2021, another event, the first of three Critical Conversations webinars planned by Sanlam Investments for 2021 was held on 14 June. This particular event was titled 'The South African investment opportunity' and here too we explored ways to lift

infrastructure spending to the US\$150 billion per annum needed for Africa to meet the United Nations' 17 Sustainable Development Goals.

If we can ever hope to do what is needed to save our continent, our planet and our people, we will have to mobilise capital on a massive scale. We need to activate retail investors, pension funds, institutional investors, philanthropic organisations, commercial banks and life insurers to invest sustainably. This will catalyse companies to increase their focus on sustainable practices, which ultimately will speed up real change.

Advisers and asset managers have the privilege to drive the change

Each of us in the financial services sector is responsible for helping to redirect capital. We have the privilege and responsibility to drive the change we need to see. We simply can't leave it to governments or big corporates only. Yes, they have massive roles to play. But each of us does too. If you are a financial adviser, it is about ensuring you work with a sustainability-focused asset manager. If you are an asset manager, it is about embedding sustainable investment practices at every level of the organisation and guiding clients to move their mandates in this direction.

Asset managers should no longer be content to report back purely on financial returns. Instead, we need to embark on a path to deliver impact-based reporting. By this we mean measuring how our investments impact society and the environment for good.

We can't stand in front of clients anymore and advise them that we've delivered inflation +5% on their investment. Instead, we need to report on the impact that the investment is having. We need to say, for example, that for your R100 million investment, we have delivered a great return, but we have also meaningfully contributed to reducing carbon emissions by 50 million tonnes a year, creating 1 500 direct and indirect jobs and created access to clean water for several communities.

When you start to see it through that lens, realising how much of a difference investing in the right places to protect the planet and its people can make, everything changes. Using our investment capabilities for good should become our professional and personal purpose. It is driving me on a daily basis and is becoming embedded in every level of what we do at Sanlam Investments. I believe all asset managers need to start to take their role in driving sustainable investing seriously – from how they construct funds through to their shareholder engagement.

Five of the biggest economies in Africa still run on fossil fuel

The challenges are particularly significant on our continent. Five of the biggest economies in Africa – Nigeria, Algeria, Morocco, South Africa and Egypt – still run on fossil fuel. If we transition too rapidly to green economies, we risk job losses and the resultant social impact. So we have to

look at a just transition. And this transaction has already slowly begun, with some very good projects already in the pipeline.

There is massive potential in electricity production and distribution across Africa, and it is hoped that the recent announcement allowing South African firms to invest in power infrastructure with up to 100MW capacity will result in a flood of new infrastructure investment opportunities. It was noted at the Critical Conversations webinar that South Africa would eventually have to replace 65000MW of coal-fired power with sustainable alternatives, opening a staggering project pipeline. And the funds should be available if projects are sensibly motivated.

The panel at our first Critical Conversations webinar also reflected on the many 'shining lights' in African infrastructure development, referring to the decision by mobile phone companies to build a GSM network across the continent. The wide penetration of mobile phones across the continent has been hailed as a major underpin for economic growth. From a South African context, one need only step into the international arrivals terminal at OR Tambo International, or take a trip on the Gautrain, to appreciate the potential of infrastructure investment.

Sustainable investing is no longer a peripheral strategy

Malick Badjie, head of Africa at Robeco and one of the speakers at Investment Forum 2021, said that sustainable investing is now a multi-trillion US dollar industry that has become mainstream, with more people committing to it every day. He shared that 'it's no longer a peripheral investment strategy. It is the fastest-growing segment in the investment industry and is delivering strong returns while saving the world. There is a total of US\$23 trillion managed under responsible strategies. While Europe still accounts for 52%, 30% is now from the US, and other areas are picking up too, including South Africa'.

We see sustainability driving company success

Solid sustainable practices in companies are a sign of strong governance and management as well as long-term thinking. All these practices equate to solid companies that are in touch with our world today and into the future – which means that these companies are the ones leading the way in their respective industries. Ultimately, we see sustainability driving company success, which results in a strong performance.

Collectively, we need to step up. The future of humanity and all life on earth depends on us. The task ahead is immense, but together, there's no limit to the difference we can make if we act now.

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