

Allocating capital for impact and sustainability will soften the climate change blow

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There is a growing awareness across the asset management industry that climate change will have a significant impact on the profitability of the firms we invest in, and resultantly, on the returns that our clients can expect from these investments. The physical consequences of climate change and global warming are plain for all to see in the increased duration, frequency, and severity of droughts, floods, storms, and other extreme weather events, both locally and offshore.

Factors to consider when investing in firms

Concerns over climate change can majorly influence asset managers' share selection and portfolio

decision-making, and we have to consider a broad range of environmental, social, and governance (ESG) factors before investing in firms. In addition, we must pay close attention to the global drive towards net-zero carbon emissions that is driven by signatories of the Paris Agreement, attendees of the 2021 United Nations Climate Change Conference (COP26), and government. The consensus from these events is that allocators of capital have an important role to play in achieving a just transition to net-zero.

It is also increasingly clear that the extreme weather events associated with climate change have the potential for significant impact on the profitability of companies within our portfolios, and therefore, on the return generated for our clients. To illustrate, you need only consider the economic, financial, and social fallout following the KwaZulu-Natal flooding event in April this year. If your client's portfolio had been exposed to businesses in the area, they may have suffered a negative financial impact. Likewise, agriculture-focused portfolios could run into trouble following prolonged drought.

Growing pressure to meet global net-zero targets

As a result, there is ever growing pressure for sustainable investing from governments to meet global net-zero targets by 2050. Similarly, on the institutional client front, we see pressure from the likes of insurers, especially those in the short-term space, as well as retirement fund trustees. The former are concerned with the impact of extreme weather events on their claims experience and underwriting margins; the latter about the need to match members' assets and liabilities over the long term.

Addressing client concerns

As financial advisers, you will find more of your clients asking you about how the funds you recommend are contributing to impact and sustainability. This can be a tough question to answer, because local asset managers do not have the depth of market that our international peers benefit from. In other words, whether due to market size or fund mandates, a local manager will often have no choice but to remain invested in a firm that has overall poor environmental metrics. One workaround for this is to back asset managers who make active stewardship 'part and parcel' of their investing activities. We believe you can give your clients peace of mind that their climate change concerns are being addressed by supporting asset managers who follow best global practice in the application of ESG factors to investment decision-making, who play an active role in influencing the companies they invest in, and who are committed to environmental and social improvements through both their investing and operating activities.

At Sanlam Investments, we exercise our impact- and sustainability-focused investment mandates by exerting influence over the companies we invest in, and illustrate this by way of annual stewardship reports and proxy voting outcomes. Our partnership with Robeco, a global asset

management firm that is recognised as an international leader in sustainable investing, continues to play an important role in our endeavour to construct sustainable portfolios for both retail and institutional clients. Robeco has helped us incorporate sustainability into our business processes, our systems and reporting, and our portfolio construction and management activities, to name a few.

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