



*Ashely Daswa, Senior Investment Specialist,
Sanlam Corporate Investments*

Driving **investment strategies** to achieve **net zero**

The recently published 2023 Sanlam Benchmark Survey has revealed a significant shift in the attitudes of retirement funds towards utilising their assets to address climate change. The survey indicates a notable decline in the number of retirement funds not considering climate related aspects as part of their investment strategies. Over the past two years, this figure dropped from 51.2% to a mere 25%. Similarly, in umbrella funds, the percentage decreased from 57.0% to 34%.

Driving **investment strategies** to achieve **net zero**

In light of these findings, questions arise about the fair and equitable transition of investment portfolios to achieve net zero greenhouse gas emissions by 2050. The target of reaching net zero by 2050 aligns with the objective of limiting climate warming to 1.5 degrees Celsius above pre-industrial levels, as stipulated in the Paris Agreement of the UN Climate Change.

The survey's results highlight the urgency for asset owners and asset managers to explore sustainable strategies that align with net zero goals while ensuring fairness and inclusivity throughout the process, says Ashley Daswa, Senior Investment Specialist at Sanlam Corporate Investments.

He adds, "Transitioning investment portfolios to become climate conscious and reducing greenhouse gas emissions is crucial to addressing the challenges posed by climate change and building a sustainable future."

He highlights how investors can incorporate climate conscious strategies into retirement fund investments.



Decarbonisation emerges as a dominant investment theme

Investors worldwide are recognising the need to reduce exposure to fossil fuel related investments while increasing allocations towards clean energy and sustainable solutions. This transition involves divesting from companies heavily reliant on fossil fuels and reallocating investments towards leading players in renewable energy, energy efficiency, sustainable transportation and other environmentally friendly sectors.

For South African investors aiming to achieve net-zero portfolio emissions by 2050 or earlier, investment strategies consistent with this goal are essential. The Paris Aligned Investment Initiative recommends key components at the portfolio or fund level that can serve as the guiding principles to reach this milestone.

Governance structure

The board of trustees of retirement funds and investment committees should set a clear direction for investment portfolios to align with a net zero commitment, manifesting through the fund's investment policies and mandates for asset managers. Asset managers then hold a fiduciary responsibility to ensure that retirement fund assets are managed in a manner that reflects the net zero investment strategy.

To effectively align with this commitment, both asset owners and asset managers should undertake climate risk assessment and management in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) requirements. This essential step will help identify and address climate related risks and opportunities, influencing investors' return expectations and informing strategic asset allocation decisions.

Setting objectives and targets

Asset owners and managers should set robust, science based net zero pathways that are central tools to assess appropriate portfolio targets and the alignment of assets. The key outcomes of objectives and targets are emission reductions from assets (top down portfolio level) and increased investments in assets aligned with, or contributing to, the net zero goal (bottom up asset level).

For the top down emission reductions from portfolio level, investors should measure their current absolute emissions of the portfolio and allocation to climate solutions such as renewable energy and energy efficiency, among others. This should be done by identifying high emission sectors to reduce carbon intensity. On the other hand, bottom up investors should aim to increase the percentage of assets under management (AUM) invested in net zero or aligned assets over time.

More importantly, asset owners and asset managers should set engagement targets, in other words, engage with the largest emitters in the investment portfolio, such as coal mining companies.

Strategic asset allocation (SAA)

Most investors have a top level process for allocating assets across different investment opportunities to achieve long term investment objectives. This is often known as strategic asset allocation (SAA). SAA and other similar processes are a key tool for the achievement of the desired risk adjusted returns and fiduciary responsibility of responding to climate change. Investors should aim to do the maximum possible to reduce emissions and increase allocations to climate solutions, subject to relevant constraints.

Stakeholders, market engagement and policy advocacy

Investors can prioritise active ownership. This entails ongoing engagement, voting company shares, influencing company strategy and championing ESG best practices.

Investors should also partner with other stakeholders, including policymakers to advocate for policies that support the transition to a sustainable and decarbonised economy. They should work with companies to encourage them to prioritise sustainability and social responsibility in their operations and supply chains.



“The pathway to a sustainable and decarbonised investment portfolio requires a combination of divestment from high carbon industries, investment in low carbon industries, consideration of social and environmental impacts, and a long term perspective. Asset owners and managers should take bold action and seize this opportunity to not only generate returns but also contribute to a more sustainable future,” concludes Daswa.

