Responsible Investments

New Frontiers ï what an appropriate title for the research report. It is spot on in describing the retirement fund trustee journey. The man or woman who, as a fiduciary, has first and foremost to protect the interests of his or her members. This journey, ladies and gentlemen, stretches over decades and generations.

The first generation of trustees who were in office, shortly after the promulgation of the Pension Funds Act in 1956, found themselves in a DB (defined benefit) environment. At the time, employers still found themselves rebuilding companies after the Second World War. Employers wanted to create an environment where employees would be encouraged to stay in service and where they were promised a comfortable retirement. Thatøs why early leavers were heavily penalised.

But in the late 1990s, the trustees of retirement funds were confronted with the first major paradigm shift. Unions pressurised employers to improve the benefits of early leavers. This group of trustees would have been the seventh generation, if my calculations are correct, based on a term of office of five years. The unions argued that employees should take control of their own savings. DC funds were established. My sense is that for both the first generation and the seventh generation, the trustees enjoyed the luxury of exercising their fiduciary duty from afar. Once they had crafted their Investment Policy Statement (IPS), they would hand it over for execution by the fundøs asset managers.

The twelfth generation trustees ï the ones who are now in office ï are participating in another paradigm shift. This is because 2011 proved to be a significant year in the retirement fund industry. Why is this the case? You guessed correctly. The obligation to take ESG factors into consideration in all investment decisions was embedded in legislation through Regulation 28 to the Pension Funds Act. Trustees were tasked to ensure that this philosophy of responsible investment would find its way into the boardôs decision-making process. And this obligation speaks directly to the fiduciary duty of the trustees because they have to ensure that retirement savings are managed prudently and in a sustainable way. By fiduciary duty I mean that trustees should act in the best interest of the retirement fund and its members.

Of course, and more importantly, this means that trustees are required to be that much closer to investment practices and processes. They have to get their hands dirty, so to speak. They are now required to be active owners, and can no longer play the role of the absentee landlord, as they may have done in the past. Being an active owner in this way truly represents a major paradigm shift.

I am of the opinion that boards of trustees are adjusting to the present practice of being responsible investors, though not at the pace that might suit the different stakeholders. The industry is now transforming, and the environment is complex and not so easy to navigate. Let me highlight a few things in relation to transformation.

1. Consolidation, and some Facts and Figures

The retirement fund industry is consolidating. Several years ago there were 13 000 registered funds. But the figures quoted in 2014 in the FSB's annual report is about 5 200. And 2 110 of those funds are active. We foresee that this figure will reduce even further as small funds move to umbrellas. We envisage the formation of super funds with highly competent principal officers and trustees.

Membership figures are also increasing. There are about 15 million people contributing towards retirement funds. This is mainly due to a raised awareness about the benefits of providing for old age.

In relation to assets under management, there is no dispute: ours is one of the largest industries in the world. Figures quoted range from R4.2 trillion to R5.5 trillion rand, given that the GEPF hit the R3 trillion mark, and the EPPF, the R1 trillion mark. The top 100 funds represent at least 75% of all assets under management.

2. Preservation of Savings

There is pressure from policymakers to compel members of retirement funds to preserve a portion of their saving when they resign from a fund. Therefore it is proposed that over time, provident funds are converted to pension funds or they align themselves with the pension fund structure. A third of the savings must thus be preserved. This is a contentious issue in a country where unemployment and inequality are rife.

3. Annuitisation

Annuitisation is another issue that will require the attention of trustees going forward. Funds are spending time to make sure that members save for retirement, but once they reach retirement age, they are left to their own devices. Funds should be able to assist members with this transition.

4. Transformation

The transformation of procurement practices and adherence to Financial Service Charter on Black Economic Empowerment is another issue to consider. Trustees will have to think about what their contribution would be to transform the value chain in which they do business.

Ladies and Gentlemen, let me return to the Responsible Investment and ESG integration discussion. There is no doubt in my mind that the business case for ESG integration has not been adopted by retirement funds. There is an understanding that ESG integration may yield sustainable long-term returns, that sufficient support in the form of codes and guidelines is available to draw on, and most importantly, that trustees should be present and involved.

What still needs to happen is the matching of skills and competencies of the trustees to be effective active owners. If we only focus on the top 100 funds, it would mean that we have to train and educate close to 2 000 trustees. Some might be at the beginning of their terms and others at the end. Education and training is therefore high on the agenda of Batseta. This is a process and not an event. We have released a guideline on how to integrate ESG into the investment decision making processes. We have published a Responsible Investment and Ownership guide as a first step. We are now training trustees on investment fundamentals and, included in the programme, is a module on how to become an active owner. It is new and will be rolled out soon. This is done with the assistance and support of the ASISA Academy.

I am of the opinion that we cannot talk about private equity outside the context of ESG integration, and therefore the New Frontiers research is an important yardstick to assess the progress made in relation to awareness, identification of investment opportunities and confidence in a fund's decision-making processes in relation to private equity, but also within the board context as underpinned by the Responsible Investment philosophy.

Now the twelfth generation of trustees are in office in 2016. There has been a clear evolution path since 1956. There is no turning back. Funds who fail to perform in their active ownership role will fail in their fiduciary duties to protect the interests of their members. We, as industry body, could help them not to fail.

The only question that remains is how do we as Batseta and SAVCA support trustees in their quest to be active owners. The New Frontier report provides a good start and insights on the way forward. I am looking forward to future collaboration. All the best for the rest of the morning.