



**Committee on Responsible Investing by Institutional Investors in South Africa
Media Release
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Ignore Code on responsible investing at your own peril, institutional investors told

The Code for Responsible Investing in South Africa (CRISA) was launched in Johannesburg today. This makes South Africa only the second country next to the UK to formally encourage institutional investors to integrate into their investment decisions sustainability issues such as environmental, social and governance (ESG).

John Oliphant, chairman of the stakeholder committee that drafted the Code last year, says CRISA aims to provide the investor community with the guidance needed to give effect to the King Report on Corporate Governance South Africa (King III) as well as the United Nations-backed Principles for Responsible Investment (PRI) initiative. Both require institutional investors to take ESG issues seriously.

“The Code is the next step in ensuring that institutional investors actually implement policies that guide their day to day actions when it comes to responsible investing,” says Oliphant.

Endorsing the Code

CRISA has been endorsed by the Institute of Directors in Southern Africa (IoDSA), the Principal Officers Association (POA), and the Association for Savings and Investment South Africa (ASISA). The principles of CRISA are supported by the Financial Services Board (FSB) and the Johannesburg Stock Exchange (JSE).



The PRI initiative has also expressed its support for the Code. Dr Wolfgang Engshuber, chairman of the PRI, says: “We strongly support the CRISA Code. It is important that pension funds and investment managers operating in South Africa understand clearly their responsibilities and invest for the long-term. The successful adoption of this Code sends a clear signal to other regulatory agencies around the world that they can - and should - play an important role in encouraging responsible ownership practices.”

CRISA applies to institutional investors such as pension funds and insurance companies as the owners of assets, and their service providers including asset managers and consultants. It encourages institutional investors and service providers to adopt its principles and practice recommendations on an “apply or explain” basis. The effective date for reporting on the application of CRISA is 1 February 2012.

Apply or explain

Oliphant, who is also Head of Investments and Actuarial at the Government Employees Pension Fund (GEPF), points out that responsible investing and corporate governance guidelines in South Africa are largely voluntary.

“The Code aims to put in place the checks and balances needed to make this voluntary framework successful. Together with the King Report, which is also not legislation but rather principles and practices that are adhered to on an ‘apply or explain’ basis, the new Code will seek to encourage best practice conduct by shareholders and companies.”

Oliphant is confident that the Code will be adopted by institutional investors, even if it is voluntary. “CRISA will empower the beneficiaries of investments made by institutional investors like pension funds to ask the right questions and to select responsible custodians for their investments. And why would a pension fund in turn want to place money with an investment manager who has not adopted and applied the policies of the Code?”

He adds that since the revised Regulation 28 of the Pension Funds Act requires pension funds to give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund’s assets, including ESG, institutional investors would be foolish to ignore the Code.

Oliphant warns that if the voluntary Code is not taken seriously by institutional investors, this could result in intervention by the policymaker.

Fiduciary duties

Oliphant stresses that the world is currently facing serious sustainability challenges, ranging from the devastating effects of the financial crisis to socio-economic challenges and climate change.

“As long-term investors with fiduciary duties, we simply cannot afford to ignore the importance of integrating sustainability issues, including ESG, into long-term investment strategies. As institutional investors we have the ability to influence and encourage the companies in which we invest to apply sound governance principles and to care for the environment in which they operate.”

The Code in summary

CRISA originally consisted of four principles. While the original four remain, a fifth principle addressing conflict of interest was added as a result of feedback by stakeholders on the draft Code.

Principle 1 – An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

The Code requires institutional investors to develop policies on how they incorporate sustainability considerations, including ESG, into investment analysis and activities. Institutional investors should ensure that this policy is implemented and establish processes to monitor compliance with the policy.

Principle 2 – An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.

The second principle requires institutional investors to demonstrate a responsible approach to shareholding by, among others, implementing a policy detailing mechanisms of intervention and engagement with companies when concerns have been identified, as well as the means of escalation if concerns raised cannot be resolved.

The Code requires such a policy to also detail the approach to voting at shareholder meetings, including the criteria to be used in reaching voting decisions and public disclosure of full voting records.

Controls should also be introduced by the institutional investor to prevent insider trading as defined by the Security Services Act.

Principle 3 – Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.

Institutional investors are encouraged to work with other shareholders, service providers, regulators, investee companies and ultimate beneficiaries to promote CRISA and sound governance.

Principle 4 – An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.

Institutional investors are encouraged to develop a policy on prevention and management of conflicts of interests and establish processes to monitor compliance with this policy.

Principle 5 – Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

The Code requires institutional investors to fully and publicly disclose to stakeholders at least once a year to what extent the Code has been applied.

If an institutional investor has not fully applied one of the Principles of the Code, the reasons should be disclosed. Disclosure as well as policies should be made public.

Institutional investor and their service providers should also, before agreeing to a proxy or other instruction to keep voting records confidential, carefully consider the reasons put forward to justify confidentiality.

The Code can be downloaded from www.iodsa.co.za or www.asisa.org.za or www.unpri.org.

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