

WEALTH AND WELL-BEING: PUTTING SUSTAINABLE INVESTING FRONT AND CENTRE



SINENHLANHLA (SNE) DLAMINI, Head of Institutional Client Management at Old Mutual Investment Group, spoke to **LESLIE NDAWANA** about how the National Fund for Municipal Workers (NFMW) is restructuring its investment approach to address the major challenges affecting the lives of its members. Leslie is the Principal Executive Officer of NFMW, the largest local government fund in South Africa by membership, with 55 000 members and approximately R23 billion in assets under management. Together with the Board of Trustees, Leslie oversees the governance and strategy function in managing the Fund.

SNE: AS AN ASSET OWNER, WHAT ROLE IS YOUR FUND PLAYING IN SUPPORTING THE TRANSITION OF CAPITAL TO ALIGN WITH GREEN ECONOMY OUTCOMES?

An important starting point is understanding the influence that a board of trustees has over its assets and, as a fund, the influence our actions have on the social needs of our society. Within this context, in March 2021, we critically reviewed our purpose of existence as a fund and as an organisation. This resulted in us crafting a new vision, namely to “positively impact the lives of our members, their families and their communities, today and tomorrow”. The vision talks to sustainably impacting the lives of our 55 000 current members, our future members and society. This vision now informs our approach to portfolio construction and investing.

Our thinking was largely influenced by the Schwartz Theory of Basic Values. Schwartz and his colleagues identified interconnected values that are universal across major cultures. One of these values is benevolence: “preserving and enhancing

the welfare of those with whom one is in frequent contact”. This speaks to how we want to operate and enhance the welfare of our members and of others. By improving the welfare of others (the community and society), we automatically improve the well-being of our members. Another of these values is security: “safety, harmony and stability of society in our relationships with others”. No matter how much you have saved, you can never retire comfortably in a society full of disharmony and where you don’t feel safe. Issues that you might not think concern investors can affect investments in years to come. If we address these issues today, we can positively influence tomorrow’s outcomes.

Operationalising this thinking and vision totally transformed our investment approach. Our first step was to identify those major challenges affecting the lives of our members and community. We identified a total of nine issues we wanted to address through our investment policy. We realised that if we invest in these areas, we are going to make a positive impact in the lives of our members and in their communities, both today and tomorrow.





LESLIE NDAWANA,
NATIONAL FUND FOR
MUNICIPAL WORKERS

These themes directly address societal needs and environmental issues. I'm not going to talk about governance here, because that is a given! Governance is integral to how an organisation is managed and is deeply entrenched in everything we do.

SNE: HOW ARE YOU INTEGRATING THESE SUSTAINABILITY THEMES INTO YOUR PORTFOLIOS, WHILE OPERATING WITHIN REGULATORY ALLOCATION LIMITS?

We did a thorough audit to identify our exposure to the different themes across asset classes and to see where there were gaps in our portfolios. I also sat with our investment consultants to conceptualise the impact investing approach and establish how we effectively implement this thinking.

Many of our existing investments deal with today, especially those in listed assets. To address the theme gaps in our portfolios, we needed to look for projects that we could initiate by partnering with asset managers or other like-minded investors. We are particularly keen on investing in new projects that create jobs and foster a healthy society. We then looked at how we deploy resources in the themes that we've identified to give us the financial returns we need. As much as financial returns are a priority and something that

NINE THEMES INFORM OUR INVESTMENT POLICY



we do not compromise on, they are secondary to the purpose of investing. Our approach: purposeful investing resulting in the required financial returns!

Deploying resources within the constraints of regulatory requirements is, of course, another important consideration. For instance, Regulation 28 of the Pension Funds Act restricts us to a 15% allocation to alternatives (unlisted) assets, which so often have the strong social or environmental impacts we seek. To counter this, we are exploring different ways to invest, for instance, by using debt to gain exposure to infrastructure assets. By investing in targeted bond funds, we can invest in those underlying assets that talk to our themes.

SNE: ASSET OWNERS ARE OFTEN RESPONSIBLE FOR DRIVING CHANGE WITHIN THE ASSET MANAGEMENT INDUSTRY - WITH TRANSFORMATION BEING A CASE IN POINT. WHEN IT COMES TO SUSTAINABILITY, ARE ASSET MANAGERS DOING ENOUGH TO DRIVE THIS AGENDA?

Few asset managers are taking the conversation to the level we are trying to achieve. I have not experienced much of that type of engagement from asset managers, but it will be wrong of me to say it is not happening. My view is that the industry needs to realise that asset owners and fiduciaries are serious about sustainability. If sustainability is a priority for your client, it needs to become a priority for you. ■

