

*"Making a difference and creating value are our passions.
We believe value creation, rather than value claiming,
is the way to growth for Cadiz, its clients and its people."*

Market Environment: Regulation 28

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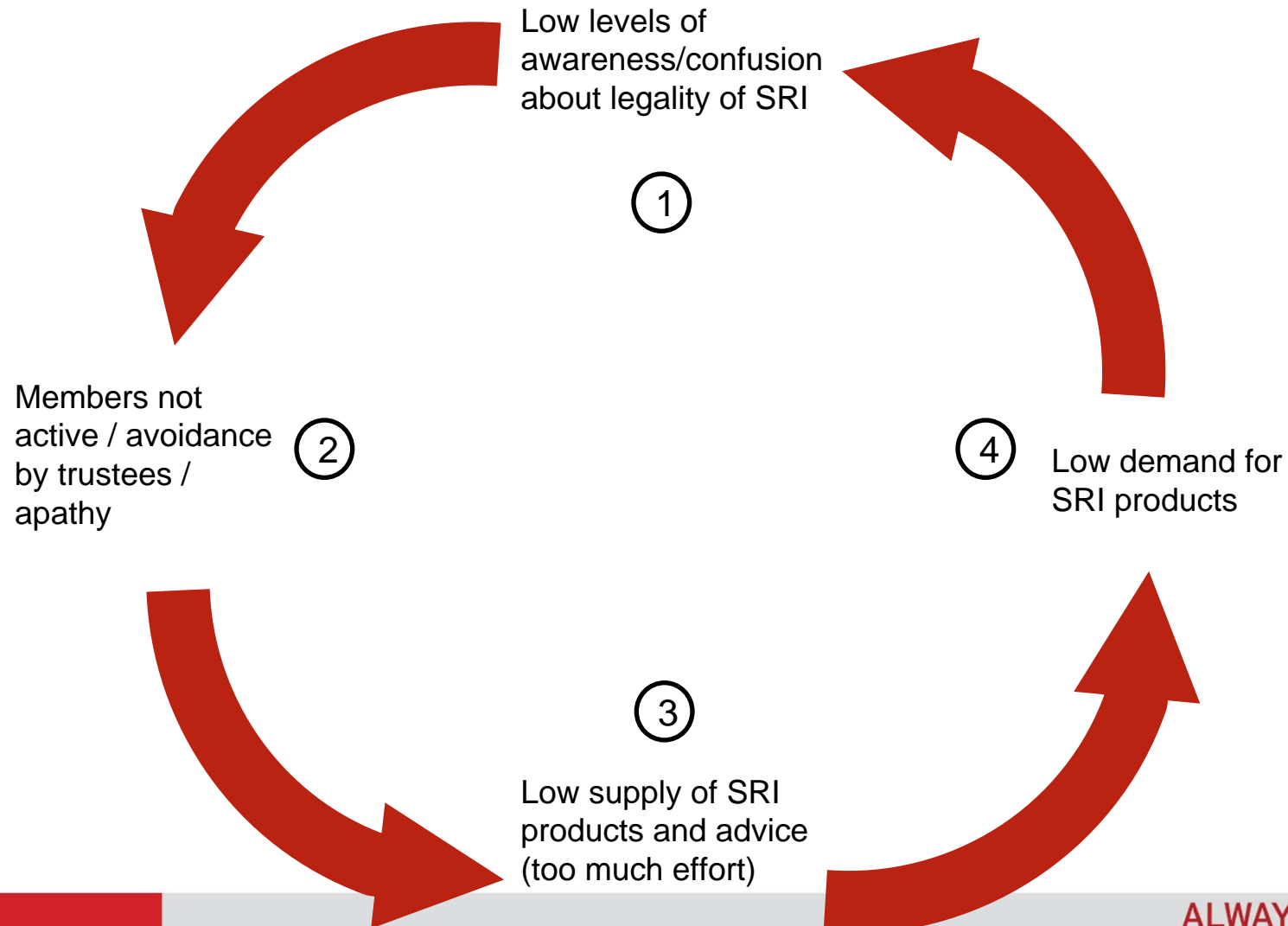
Regulation 28 and PF130

"The primary obligation of boards is to provide optimum returns for its beneficiaries. However, once these returns have been met, funds should consider socially responsible investments."

PF 130 Annexure B: 14.8

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The problem is that SA investors are caught in an SRI avoidance trap



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There are 3 ways to react:

2

Prescribe SRI assets

3

Middle ground

Policy maker
gets
framework
right

Private
players fill the
policy space
with products

1

Do nothing – let
markets do their own
thing

LESS INTERVENTIONIST

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OECD Jurisdictions where ESG disclosure obligations could apply

Private Pension Fund SRI Legislation in OECD countries		
	Regulation does not specifically address SRI	Regulation requires SRI disclosure in Investment policy
Australia		✓
Austria		✓
Belgium		✓
Canada	✓	
France		✓
Germany		✓
Italy		✓
Mexico	✓	
Netherlands	✓	
New Zealand	✓	
Spain		✓
Sweden		✓
UK		✓
USA	✓	

"A majority of jurisdictions have legislated (or are expected to do so shortly) to require investment decision-makers, particularly in the pensions context, to disclose the extent to which they take ESG considerations into account. Such legislative endorsement of the relevance of ESG considerations to investment decision-making constitutes an important additional factor in favour of the view that decision makers must have regard to ESG considerations at some level, even if they are ultimately given little or no weight."

Source: UNEP Finance Initiative and Freshfields study, Oct 2005



Freshfields Study Follow-up

is the way to growth for Cadiz, its clients and its people.

Recommendations:

1. Fiduciaries have a **duty** to consider more actively the adoption of responsible investment strategies.
2. Fiduciaries must recognise that integrating ESG issues into investment and ownership processes is part of responsible investment, and is **necessary to managing risk and evaluating opportunities for long-term investment.**
3. Fiduciaries will increasingly come to understand the **materiality** of ESG issues and the **systemic risk** it poses, and the profound long-term costs of unsustainable development and its consequent impacts on the long-term value of their investment portfolios.
4. Fiduciaries will increasingly apply **pressure** to their asset managers to develop robust investment strategies that **integrate ESG** issues into financial analysis, and to **engage** with companies in order to encourage more responsible and sustainable business practices.
5. Global capital market **policymakers** should also make it clear that advisors to institutional investors have a duty to proactively raise ESG issues within the advice that they provide, and that a responsible investment option should be the **default position.** Furthermore, policymakers should ensure **prudential regulatory frameworks** that enable greater **transparency and disclosure** from institutional investors and their agents on the integration of ESG issues into their investment process, as well as from companies on their performance on ESG issues.
6. Finally, **civil society** institutions should collectively bolster their understanding of capital markets such that they can play a full role in ensuring that capital markets are sustainable and delivering responsible ownership.”

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MORE INTERVENTIONIST

How the policy maker can make the middle ground: A MENU

- 1 Broadly define SRI for the market
- 2 Create conducive regulatory environment: remove barriers
- 3 Educate investors
 - Put out a handbook
 - Conference
 - Endorse short courses
- 4 Create conducive regulatory barriers: request disclosure
- 5 Light touch moral suasion of main funds/PIC
- 6 Incentives (fiscal; or link to FSC process)

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Thank you

"... poverty in the world is an artificial creation. It doesn't belong to human civilization, and we can change ... the only thing we have to do is to redesign our institutions and policies ..."

Muhammad Yunus, 2006