21 YEARS OF RESPONSIBLE INVESTING IN SOUTH AFRICA: KEY INVESTMENT STRATEGIES AND CRITERIA

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Abstract

The year 2013 marked the 21st anniversary of responsible investing (RI) in South Africa. No systematic analysis of the nature of RI strategies and criteria has, however, been conducted. Content analysis of the investment mandates of 73 RI funds has revealed that the majority of asset managers employ impact investing strategies which address social issues such as infrastructure development and economic empowerment. Semi-structured interviews with eight experts in the RI field have highlighted growing interest in impact investing and screening strategies. If RI in South Africa is to reach its full potential, then a broader range of investment strategies and criteria needs to be adopted. Asset managers can capitalise on gaps in the current RI offering by creating RI-orientated property funds, dedicated green funds, and funds which employ a best-in-sector screening strategy. A clear need for focused RI research, training and education in South Africa has furthermore been identified.

Keywords

Responsible investing, screening, shareholder activism, impact investing, environmental criteria, social criteria, corporate governance criteria

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1. INTRODUCTION

Twenty-one years have passed since the launch of the first responsible investment (RI) fund in South Africa in 1992. On the one hand, RI allows investors to invest according to the tenets of their faith, in which case reference is made to ethical investing (Capelle-Blancard & Monjon, 2012:243; Schwartz, Tamari & Schwab, 2007:137). On the other hand, RI gives investors an opportunity to influence corporate policies and practices, and make a direct impact on the well-being of a particular community or society (Gifford, 2010:79; Neubaum & Zahra, 2006:108).

Investors' motives for engaging in RI can originate either from a self-referential framework or from a comprehensive ethical framework (Sparkes & Cowton, 2004:46). Investors employing a self-referential framework take a stand on what they do not want to own. As such, they refrain from investing in companies producing 'undesirable' products or services (such as alcohol, tobacco, gambling and pornography), companies operating in 'undesirable' industries (such as nuclear energy and defence) and 'undesirable' countries (such as South Africa pre-1994).

In contrast, investors who base their decisions on a comprehensive ethical framework prefer moral effectiveness to moral purity. Their decisions are typically motivated by a desire to improve ethics and corporate social responsibility within the companies in which they invest (henceforth called 'investee' companies). In this context, corporate responsibility refers to "the obligation of organisations to be accountable for their environment and for their stakeholders in a manner that goes beyond mere financial aspects" (Van Beurden & Gössling, 2008:408). Investors who seek to support social entrepreneurs and uplift local communities through impact investments also take a comprehensive view of investing rather than a self-referential view. Investors employing a comprehensive ethical framework could thus be described as transformation-orientated investors.

A wide range of RI strategies and criteria have been developed over the years to suit the needs of both self-referential and transformation-orientated investors in South Africa. No systematic analysis of the nature of these strategies and criteria has, however, been conducted. Given South Africa's unique history, socio-economic status and cultural diversity, it is expected that a multi-faceted approach to RI has been adopted by market participants.

The aim of this article is to critically reflect on the investment strategies and criteria that have been used by South African RI asset managers over the past 21 years. If RI in South Africa is to reach its full potential, then a broader range of investment strategies and criteria needs to be adopted.

The article contains four sections. The first section reviews the RI strategies and criteria available to responsible investors and prior research on the topic in South Africa. The subsequent sections outline the methods that have been used to collect and analyse data, and summarise the findings. Finally, a number of recommendations for broadening the scope of RI in South Africa are presented.

2. LITERATURE REVIEW

Although there is no generally accepted definition of RI, the concept essentially refers to an intricate process of integrating personal values and environmental, social and corporate governance (ESG) considerations into investment decisions and ownership practices (Renneboog, Ter Horst & Zhang, 2008:1723).

2.1 RI strategies and criteria

'Responsible investors' have three main strategies at their disposal, namely screening, shareholder activism and impact investing. Screening can be negative, positive or a combination of both.

2.1.1 Screening

Self-referential investors who treat RI as 'a matter of ethical necessity' (Richardson & Cragg, 2010:27) typically employ negative (exclusionary) screens which are based on their religious convictions (Girard & Hassan, 2008:113), or ones that address highly specialised issues such as uranium or animal rights (Renneboog et al., 2008:1728). An ethical case for a negative screening strategy follows from the *prima facie* argument that holding a share in a company suggests approval of its activities, and that approving an immoral action is immoral (Larmer, 1997:397). By owning a security and earning a return from it, a shareholder thus indicates some acquiescence or support for the activities of the company in question. Mills (1996:3) follows the same line of thought when stating that

> the righteousness of any monetary return is conditional upon the absence of the exploitation of customers, workers, creditors and suppliers.

Research indicates that the majority of institutional investors in the United States of America (USA) use negative screens, most of which deal with social issues such as diversity and human rights (Rakotamavo, 2011:93). Renneboog, Ter Horst and Zhang (2011:573) have found that 94% of RI funds in the USA use exclusionary screens, but note that most of these centre on tobacco, alcohol, gambling, weapons and pornography. In the past, several researchers claimed that too few responsible investors were present in markets to effect real change (Barnea, Heinkel & Kraus, 2005:332; Teoh, Welch & Wazzan, 1999:35), but more recent research by Derwall, Koedijk and Ter Horst (2011:2137) shows that self-referential investors now appear to be large enough in number and homogeneous enough in terms of investment criteria to affect the supply and demand (and hence the prices) of securities in the USA.

Not all self-referential investors are concerned about transformation. This point was vividly expressed by the dean of a Quaker college in his response to whether the shunning of weapon manufacturers by his college would stop the armaments build-up in the USA. His response was: "No. Our board is not out to change the world. We are only seeking a oneness between ourselves and our Lord" (Hamilton, Jo & Statman, 1993:62). The dean's response clearly illustrates faith-based investors' preference for moral purity over moral effectiveness.

Responsible investors operating from a comprehensive ethical framework may also employ positive or best-in-sector screening strategies. Positive screening involves the active search for and investment in companies that are perceived to be 'good corporate citizens' (Derwall et al., 2011:2137). Although no clear definition of a good corporate citizen exists, these companies typically have a public-concern focus, strategise according to a medium or long-term time horizon, have qualitative objectives that are not readily quantifiable in monetary terms, and consider externalities (Ambachtsheer, Myllynen & Nuzum, 2006:9).

Heese (2005:729) points out that sustainability screens often reflect a bias towards developed countries, as these criteria are based on northern hemisphere standards. She adds that this bias exists despite the need for developing countries to ensure that their own growth is not compromised by environmentally reckless actions or restrictive agreements. An example is the banning of dichlorodiphenyltrichloroethane (DDT), a colourless contact insecticide which is toxic to humans and animals when swallowed or absorbed through the skin. DDT has been banned in the USA for most uses since 1972, but is critical in the fight against malaria, which affects millions of people, most of whom live in Sub-Saharan Africa (Sadasivaiah, Tozan & Breman, 2007:249).

A best-in-sector screening strategy combines positive and negative screens on a sector basis (Bauer, Otten & Rad, 2006:3). Using such an approach implies that a full universe of companies is evaluated against some key criterion, allowing investors to select the top-ranked company or companies across sectors, even though some might be deemed undesirable from a moral point of view (De Cleene & Sonnenberg, 2002:17). A best-in-sector strategy is particularly suitable to developing countries which have a limited universe of listed securities (such as South Africa) (Baue, 2002).

2.1.2 Shareholder activism

Shareholder activism is a powerful mechanism for organisational change (Abegbite, Amaeshi & Amao, 2012:389; Becht, Franks, Mayer & Rossi, 2010:3093). Shareholder activism, also called 'active engagement', can be categorised as formal or informal. Formal activism refers to investors' actions that are taken in public, such as filing shareholder proposals, voting at annual general meetings and stimulating public debate (Nordén & Strand, 2011:376). In contrast, informal shareholder activism entails private negotiations between asset managers and investee companies. Rehbein, Waddock and Graves (2006:239) have found that social activists in the USA are mainly religious groups, environmentalists and trade unions who target large, visible companies and focus on problematic products, environmental concerns and poor employee and community practices.

A growing body of knowledge suggests that institutional investors are increasingly voting with their shares and engaging in dialogue with investee companies (Gifford, 2010:79; Wen, 2009:308). Many researchers are, however, sceptical of the impact that shareholder activists are having on reforming corporate policies and practices (Sjöström, 2008:141; David, Bloom & Hillman, 2007:91; Teoh et al., 1999:35). Evidence from a multi-country study reveals that the antecedents of shareholder activism vary according to the motivation of the activist (whether to improve financial performance or social performance), the nature of the firm based on size, ownership concentration and profitability, and the legal system of the country in which the investee company operates (Judge, Guar & Muller-Kahle, 2010:258). Financial activism has been found to be stronger in common law countries, whereas social activism is more prominent in countries characterised by a high level of income inequality. Given South Africa's legal system and Gini coefficient, local companies are likely to experience high levels of both financial and social activism. This is sadly not the case (Crotty, 2012; Responsible investing – global trends and local experience, 2012:12; Planting 2011).

2.1.3 Impact investing

This RI strategy, which is most often used by transformation-orientated investors, is also referred to as 'community-based', 'cause-based' or 'targeted investing' (Eccles & Viviers, 2011:389; Needham, 2004). Responsible investors employing this strategy invest in real assets (such as infrastructure) that contribute to job creation and economic empowerment (Leeman, 2005:9). According to Weber (2010) and Sosa (2010), impact investments are a separate investment class for which there is a 'true moral hunger' among American investors. Insistence on social and/or environmental returns in addition to market-related financial returns distinguishes impact investments from conventional private equity (Jackson, 2012). Several role players in the South African RI market are of the opinion that impact investing is the most appropriate strategy to address the socio-economic challenges of the country (Opportunities for impact investing in South Africa, 2009:4).

As indicated in TABLE 1, RI represents a relatively small portion of the total assets under management in South Africa, with most of it taking the form of private equity.

TABLE 1: Sustainable investment assets under management in South Africa on 31 December 2010 ($ billion)[a]

	Total assets under management	*ESG-integrated strategy[b]*	*% ESG-integrated / total assets under management*	*ESG-branded strategy[c]*	*% ESG-branded / total assets under management*
General asset management	556.2	111.2	20.0%	4.2	0.8%
Private equity	14.2	6.3	44.0%	1.1	8%

(a) The authors preferred the term 'sustainable investment' to RI, and defined it as investments that integrate ESG factors into analysis, stock selection and active ownership practices in the belief that these factors can improve long-term risk management.
(b) Defined as approaches that include ESG factors, but which may or may not brand themselves as 'sustainable', 'responsible', 'impact' or 'green'.
(c) Defined as approaches that are explicitly ESG-inclusive and marketed as such.

Source: Sinclair and Yao (2011)

Private equity investors are increasingly drawn to South Africa as a gateway to Africa, and tend to focus on material, social and environmental issues (Pickworth, 2012; Cranston, 2012; Swart, 2011).

2.2 Prior research on RI strategies and criteria in South Africa

In the first study of RI in South Africa, De Vries and De Villiers (1997:31) reported that very few unit trust managers considered non-financial criteria when evaluating investments. Those who did focused on the production of unhealthy/unsafe products (such as cigarettes, alcohol and weapons) and corporate policies and practices to control pollution, recycle resources and offer equal employment opportunities.

Ten years later Eccles, Nicholls and De Jongh (2007:15) evaluated the relative importance of ESG criteria among 32 local pension-fund principal officers, 19 asset managers and 11 advisory service providers. Participants viewed corporate governance, infrastructure development, employee relations, broad-based black economic empowerment (B-BBEE) and gender empowerment as the most important ESG considerations in South Africa. The emphasis on corporate governance is probably due to the publication of the three King reports on corporate governance in South Africa in 1994, 2002 and 2009. Considerably less attention was given to criteria relating to environmental management and climate change, a finding which was confirmed by Giamporcaro and Pretorius (2012:1), who argued that environmental issues are only likely to gain prominence once the more immediate developmental challenges facing the country have been addressed.

Members of South African pension/provident funds rank labour-related criteria such as health and safety, training and development and relationships with trade unions as the most important ESG screens (Viviers, Krüger & Venter, 2012:125). Given South Africa's unique socio-political history and status as an emerging market, it is anticipated that social screens will feature prominently in the investment mandates of local RI funds.

3. RESEARCH METHODOLOGY

In the present study a mixed methods approach has been employed to collect and analyse qualitative data on the investment strategies and criteria that have been used by South African RI asset managers over the past 21 years. An in-depth literature review was carried out by means of a comprehensive database of local RI funds, featuring each fund's name, asset manager, status (active versus discontinued), date of inception, date of discontinuance (where applicable), type (unitised versus non-unitised funds) and investment mandate. Data was sourced from RI fund fact sheets, asset manager websites and newspaper articles.

To clarify: active RI funds were defined as RI funds which had been launched on or after 1 June 1992 and which were still operational on 31 December 2012. Discontinued RI funds were defined as those RI funds which were established on or after 1 June 1992, but which were either closed or had merged with another fund at some point before 31 December 2012. This discontinued category also included RI funds whose investment mandates had changed to such an extent that they could no longer be classified as RI. 'Unitised funds' are funds where the asset manager pools the funds of many investors and spreads them across various asset classes. These funds are characterised by multi-client arrangements where the assets are owned by the manager, and participatory interests are allocated to the respective clients/investors (Hirt, Block & Basu, 2006:44). Non-unitised funds, also called 'segregated funds', are characterised by an agreement between the asset manager and his/her client, whereby the client specifies certain investment criteria to which the asset manager is supposed to adhere. Segregated funds are designed with a particular client's needs and risk profile in mind and are thus well suited to the needs of responsible investors.

As indicated in FIGURE 1, the first two RI funds in South Africa were launched in 1992. Since then a further 71 RI funds have been established.

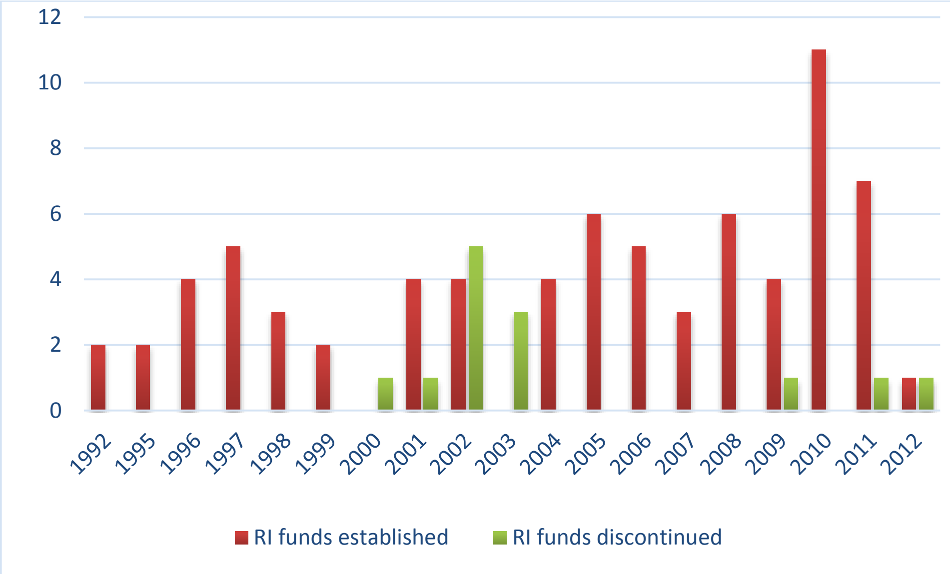

FIGURE 1: RI funds established and discontinued in South Africa over the period 1 June 1992 - 31 December 2012

Source: Author's compilation

The Asian financial crisis, which began in July 1997, had a profoundly negative impact on the fledgling RI market in South Africa. The contagion effect spilled over into South Africa in May 1998 when foreign asset managers began withdrawing their investments from all emerging markets, not only those in East Asia. Given the adverse consequences of the crisis and the subsequent poor performance of listed equities, many market participants became reluctant to invest in local RI funds (De Cleene & Sonnenberg, 2004:4). Investors were particularly wary of funds facilitating empowerment transactions, because the special purpose vehicles created for this purpose proved unsustainable in the aftermath of the crisis (Hirsch, 2005; Thomas, 2004; Bridge, 1999). As indicated in FIGURE 1, ten RI funds were discontinued over the period 2000–2003.

The 60 RI funds which were active at the end of 2012 were managed by 24 asset managers of varying sizes. Futuregrowth Asset Managers, Old Mutual Investment Group South Africa (OMIGSA), Element Investment Managers and Oasis Crescent Management Group managed the majority of active RI funds in the country. The statistics in TABLE 2 indicate that active RI funds invested across all the major asset classes in South Africa.

TABLE 2: Spread of active RI funds across asset classes 1 June 1992–31 December 2012

Asset class	*N*	*%*
Equity[(a)]	20	33.3
Asset allocation[(b)]	16	26.7
Fixed interest[(c)]	6	10.0
Alternative[(d)]	17	28.3
Property[(e)]	1	1.7
Total	60	100.0

(a) A fund that invests predominantly in shares listed on the JSE. The asset manager invests a minimum of 75% of the market value of the fund in equities at all times and generally seeks maximum capital appreciation as the primary goal. All equity and derivative investments must conform 100% to the defined investment requirement of each category. However, a minimum of 80% of the equity portfolio must, at all times, be invested in the JSE sector(s) as defined by the category, and a maximum of 20% of the equity portfolio may be invested outside the defined JSE sector(s) provided that these investments comply fully with the category definition.

(b) A fund that invests in a wide spread of investments in the equity, bond, money and property markets.

(c) A fund that invests in bonds, money market investments and other income-earning securities.

(d) A fund that generally invests in unlisted securities and private equity initiatives by means of equity (including preference shares), debt or a combination thereof.

(e) A fund that invests in listed property shares, collective investment schemes in property, and property loan stock. The objective of a property fund is to provide high levels of income and long-term capital appreciation. Due to liquidity constraints in the real estate sector on the exchange these portfolios must maintain a minimum effective exposure to real estate securities of 50% and may include other high-yielding fixed interest and other securities from time to time.

Source: Authors' compilation based on Classification of South African regulated collective investment portfolios (2012)

Quantitative content analysis was used to identify the RI strategies and criteria used by South African RI asset managers over the research period (1 June 1992 to 31 December 2012). Keywords and phrases such as 'avoid', 'exclude', 'Shari'ah-compliant' and 'Islamic law-compliant' were seen as proxies for a negative screening strategy. Given the subjective nature of positive screens, various phrases were taken as indicative of a positive screening strategy. Some of these included 'to invest in companies involved in the reconstruction, development and empowerment of the South African labour force' and 'to invest in companies with good labour relations'. A shareholder activism strategy was characterised by phrases such as 'actively engage', 'constructive engagement' and 'the fund uses its presence to promote an awareness of corporate responsibility'. Finally, phrases such as 'targeting areas of social needs' and 'uplifting previously disadvantaged individuals through infrastructure development' were seen as indicative of an impact-investing strategy. Basic descriptive statistics were calculated once the data was coded.

Semi-structured interviews were conducted to gauge the views of a sample of local experts on future developments in the RI market. Participants were purposively selected based on their involvement in and knowledge of the RI market in South Africa. The sample consisted of five RI asset managers, two academics, a project manager of a national RI training programme, and a prominent shareholder activist.

4. RESULTS AND DISCUSSION

A breakdown of the RI strategies and criteria used by South African RI asset managers over the past 21 years is presented in TABLES 3, 4 and 5.

TABLE 3: RI strategies used by South African RI asset managers over the period 1 June 1992–31 December 2012

RI strategy	*Active*		*Discontinued*		*Total*	
	N	*%*	*N*	*%*	*N*	*%*
Negative screening	17	28.3			17	23.3
Negative screening and shareholder activism	1	1.7			1	1.4
Positive screening	8	13.3	4	30.8	12	16.4
Positive screening and shareholder activism	3	5.0			3	4.1
Positive screening, shareholder activism and impact investing	1	1.7			1	1.4
Positive screening, negative screening and impact investing[(a)]	1	1.7	1	7.7	1	1.4
Shareholder activism	3	5.0			3	4.1
Impact investing	15	25.0	5	38.5	20	27.4
Impact investing and positive screening	10	16.7	3	23.1	13	17.8
Impact investing, positive screening and shareholder activism	1	1.7			1	1.4
Impact investing, negative screening and shareholder activism	1	1.7			1	1.4
Total	60	100	13	100	73	100

(a) Although this fund used both negative and positive screens, it does not explicitly state that it followed a best-in-sector screening approach.

Source: Authors' compilation

TABLE 4: Investment criteria used by South Africa RI asset managers over the period 1 June 1992–31 December 2012

Investment criteria	*Active*		*Discontinued*		*Total*	
	N	*%*	*N*	*%*	*N*	*%*
Ethical / Moral[a]	17	28.3			17	23.3
Environmental	3	5.0			3	4.1
Social	19	31.7	9	69.2	28	38.4
Social and environmental	7	11.7	3	23.1	10	13.7
Social and corporate governance	2	3.3			2	2.7
E, S and G[b]	11	18.3			11	15.1
Ethical, E & S	1	1.7	1	7.7	2	2.7
Total	60	100	13	100	73	100

(a) All of these criteria were based on Shari'ah (Islamic) law. Shari'ah is considered to be the infallible law of God as opposed to the human interpretation of the law. Shari'ah investment criteria are based on a variety of rules, including investing only in Shari'ah-compliant companies, appointing a Shari'ah board, carrying out an annual Shari'ah audit and purifying certain prohibited types of income, such as interest, by donating them to charity (Sharia, 2013; Shari'ah-compliant funds, 2013).

(b) Includes funds that track the FTSE/JSE Socially Responsible Investment (SRI) index

Source: Authors' compilation

TABLE 5: RI strategies versus criteria

	Ethical / Moral	*Environmental*	*Social*	*S & E*	*S & G*	*E, S and G*	*Ethical and ESG*	*Total*
Negative screening	17							17
Negative screening and shareholder activism							1	1
Positive screening		2	4	3		3		12
Positive screening and shareholder activism					1	2		3
Positive screening, shareholder activism and impact investing					1			1
Positive screening, negative screening and impact investing							1	1
Engagement						3		3

	Ethical / Moral	Environmental	Social	S & E	S & G	E, S and G	Ethical and ESG	Total
Impact investing		1	16	3				20
Impact investing and positive screening			8	3		2		13
Impact investing, positive screening and shareholder activism				1				1
Impact investing, negative screening and shareholder activism						1		1
Total	17	3	28	10	2	11	2	73

Source: Authors' compilation

The findings will be discussed from the perspective of self-referential and transformation-orientated investors respectively.

4.1 RI strategies and criteria used by self-referential investors

As indicated earlier, faith-based investors mainly employ negative screening strategies to avoid morally unacceptable investments. As illustrated in TABLE 3, 20 local RI funds employed a negative screening strategy (either on its own or in combination with other RI strategies). Closer inspection of the investment mandates of these funds revealed that 17 funds employed negative screens based on Shari'ah principles (see TABLES 4 and 5). All 17 of these funds were active at the end of 2012. The prominence of Islamic funds in South Africa is in line with findings of Renneboog et al. (2011:573), who established that more than a third of RI funds in Africa and the Asia-Pacific Rim countries use Islamic screens.

Most of the South African Shari'ah-compliant funds (76.8%) do not specify the investment criteria they use. Two funds use the Shari'ah principles underpinning the FTSE/JSE Shari'ah All Share and Top 40 indices, which were launched in South Africa in 2007 and 2008 (FTSE/JSE Africa Index Series—Specialist Indices—Shari'ah, 2013). More details on these two indices are presented in Appendix A. The ethical/moral criteria which are specifically mentioned include (listed in order of frequency): alcohol, gambling, tobacco, non-Halaal products, defence/weapons, interest-bearing instruments / conventional financial institutions, high levels of gearing, entertainment, and pornography.

One of the first RI funds launched in South Africa in 1992, the Old Mutual Albaraka Equity Fund, was a Shari'ah-compliant fund. These funds became attractive investment options in South Africa in the aftermath of the Asian market crisis (Cameron, 2003; Jenvey, 2003) and again after the 2008 global financial crisis (Albanese, 2012). Authors attributed the funds' sound post-Asian market crisis performance to the fact that they excluded financial institutions and retailers, two sectors that were particularly hard hit by the crisis. Abdulla, Hassan and Mohamad (2007:142) also determined that Islamic unit trusts in Malaysia outperformed conventional funds during bearish economic trends. Research by Viviers and Firer (2013:217) has shown that

Shari'ah-compliant funds in South Africa were among the top performing RI funds (based on risk adjusted performance) over the period October 2008 to August 2011.

Growth in Islam and Islamic financing is not unique to South Africa (Islamic Wealth Management Report, 2012:21). Although only approximately 2% of the South African population claim to be Muslim (International Religious Freedom Report 2005, 2005), support for Islam is rapidly growing, especially among black South Africans (Bell, 2004; Itano, 2002). The trend is ascribed to Islam's emphasis on charity, and the faith's focus on lifestyle and social reform.

A generational change is observed in that Shari'ah-compliant investing is gaining momentum among young professionals (Rise in Shari'ah compliance, 2012). A local asset manager remarked that not only are there only more Shari'ah-compliant investments available, but young professionals are also discovering the benefits of these diversified portfolio options. According to one of the largest asset managers in the country, the retirement industry is becoming a big contributor to the growth of local Shari'ah investments. In recent years the Oasis Group has launched several new Shari'ah-compliant funds, including portfolios focused on equities, property, income, life-staging asset allocation and balanced funds. In a special report on Islamic financing in South Africa, Patel (2012) remarks that the scope for Islamic financing is substantial as it can be used to "encourage small and medium-size enterprise development, provide affordable housing, finance infrastructure projects, facilitate black economic empowerment deals, etc. while always ensuring fair, ethical business practices aligned with an increase in real assets and employment." It thus seems that both financial and societal benefits can be derived through the adoption of a faith-based self-referential framework.

One of the participants in the study managed a Shari'ah-compliant fund and was of the opinion that more money would flow into these funds in future. Growth in faith-based funds in South Africa could also be attributed to the launch of the two FTSE/JSE Shari'ah indices. Elfakhani and Hassan (2005:3) claimed that the establishment of credible Shari'ah equity benchmarks, such as the Dow Jones Islamic Market Index, the FTSE Global Islamic Index Series and the Malaysian Kuala Lumpur Syariah Index, represented a turning point for the industry globally. They argued that these indices gave investors (both Islamic and conventional) a benchmark against which to compare their investments' performance.

Although several RI funds are available to Muslim investors in South Africa (both retail and institutional), the question remains whether these funds are suitable for investors from other religions. According to an Islamic Wealth Management Report (2012:21), non-Muslim investors are increasingly drawn to Shari'ah-compliant funds globally. Whether this will be the case in South Africa remains to be seen.

The influence of the Christian faith in establishing and growing the RI movement globally is quite significant. In the 1970s and 1980s, religious organisations in the USA spearheaded the anti-South Africa divestment campaigns, and still command considerable assets and influence (Williams, 2007:43). According to Richardson and Cragg (2010:27) and Proffitt and Spicer (2006:165), churches continue to be the vanguard of change in the USA and now concern themselves with issues pertaining to climate change and environmental justice. Given that Christianity has the largest following of all religions in South Africa, it is surprising that local churches have not embraced RI as a means of promoting organisational and societal change (be it in terms of screening or shareholder activism strategies). A collective Christian voice could serve as a powerful mechanism for organisational and societal change in the country.

4.2 RI strategies and criteria used by transformation-orientated investors

The statistics in TABLES 3, 4 and 5 show that several RI funds are available to transformation-orientated RI investors in South Africa. As indicated earlier, these investors could pursue positive screening, best-in-sector screening and shareholder activism, and/or impact investing strategies.

4.2.1 RI strategies

Almost half of all active RI funds in South Africa (48.5%) employ an impact investing strategy (either on its own or in combination with other strategies, mostly positive screening). This can be ascribed to South Africa's unique history, and may reflect a genuine desire (moral hunger) among local asset owners and managers to address the imbalances of the past and contribute to sustainable socio-economic growth in the country. The fact that most of the discontinued RI funds followed an impact investing strategy reflects the complexity of these funds.

All of the interviewees in the study indicated that impact investing is likely to increase in South Africa in the next five to 10 years. They attributed this to growing international interest in private equity and regulatory changes which place a renewed emphasis on economic empowerment and enterprise development.

Only three local RI funds use shareholder activism as their primary RI strategy, while another seven RI funds combine shareholder activism with another strategy (mostly positive screening). It was not possible from the content analysis to determine the nature of activism (formal or informal) practised by the relevant fund managers. An analysis of the websites of the 28 asset managers who were signatories of the United Nations Principles for Responsible Investing (UNPRI) at the end of 2012 reveals that only six asset managers published their proxy voting policies and records online. This finding on formal shareholder activism in South Africa is in line with Winfield (2011:3), who suggests that very few asset managers in South Africa are "excited, passionate or serious" about proxy voting.

In response to the call for heightened (formal) shareholder activism in the second King report on corporate governance in South Africa, Rademeyer and Holtzhausen (2004:767) examined this RI strategy from a legal perspective. They cautioned that any attempts to promote shareholder activism in South Africa should address the real reasons that underpin shareholder apathy. These included a lack of access to company information, a lack of expertise and knowledge to process this information, a lack of recognition of the importance of shareholder activism, the disparity between the high costs involved in taking shareholder activism seriously, and the small size of many shareholders' stakes in investee companies. Unfortunately, many of these factors still impede formal shareholder activism in South Africa.

Feedback from the semi-structured interviews suggests that shareholder activism in South Africa mainly takes the form of private, informal negotiations. One participant explained that it "is not cost-effective for anyone to be a leader in a (formal) activist charge as support may be moral, but not financial ... Activism in South Africa is more likely to be driven by shame – as when something really offensive appears in the press." The participant acknowledged that although shame might provoke some response from investors, it is more prevalent in the USA than in South Africa. The impact of culture on the type of shareholder activism practised by shareholders in a particular country was also observed by Gifford (2010:80) and Poulsen, Strand

and Thomsen (2010:330). According to the participants, most of the activism that does take place in South Africa takes the form of financial activism (on issues such as mergers and acquisitions and share option schemes) and not social activism. Some growth in informal activism is anticipated, as more South African asset owners and managers are becoming signatories of the UNPRI and the Code of Responsible Investment in South Africa launched by CRISA in 2011. More details on these two important drivers of RI are presented in Appendix A.

Not a single RI fund in South Africa employs a best-in-sector screening strategy. Not only is this finding surprising given the limited universe of listed securities on the JSE, but it is also disconcerting, because empirical findings suggest that this strategy could yield abnormally high returns even after taking transaction costs into account (Statman & Glushkov, 2009:33; Kempf & Osthoff, 2007:809).

4.2.2 ESG criteria

Although environmental criteria are mentioned in 26 RI funds' investment mandates, closer investigation reveals that 18 of these funds (69%) merely evaluate companies based on 'sound' environmental practices. Only four RI funds (all of which were launched in the last two years of this study) formulate detailed environmental criteria. These funds evaluate companies on carbon emissions, renewable energy, biodiversity, green building and construction and the development of agricultural land. Important events shaping the nature of environmental criteria are listed in Appendix A, the most important of which is the introduction of the Carbon Disclosure Project in South Africa in 2009.

A review of the RI literature in South Africa (Viviers et al., 2012:120; Eccles et al., 2007:15; De Cleene & Sonnenberg, 2002:17) suggests that social criteria consist of the three sub-categories presented in TABLE 6 and FIGURE 2.

TABLE 6: Social criteria used by South African RI asset managers over the period 1 June 1992–31 December 2012

Sub-category	*Criteria specifically mentioned in RI funds' investment mandates*	*Number of times mentioned*	*Total*
Infrastructure development	Infrastructure in rural / previously disadvantaged / under-serviced communities	9	29
	Electricity / energy	7	
	Water / dams	5	
	Sanitation / sewerage	5	
	Housing	5	
	Health care facilities	5	
	Roads / bridges	5	
	Communication networks	4	
	Schools / educational facilities	4	
	Municipal services (e.g. waste management)	3	

	Security / correctional services	2	
	Shopping centres	2	
	Farming infrastructure	2	
The promotion of broad-based black economic empowerment (B-BBEE)	Providing B-BBEE funding / financing empowerment transactions	8	17
	Investing in B-BBEE companies	3	
	Facilitating lending to empowerment groups	2	
	Assisting blacks in acquiring ownership	2	
	Supporting black SMEs and entrepreneurs	2	
	Facilitating the listing of empowerment companies	2	
Labour-related considerations	Developing skills / transferring skills / education	7	9
	Job creation	7	
	Developing small businesses / supporting entrepreneurs	6	
	Affirmative action	1	

Source: Authors' compilation

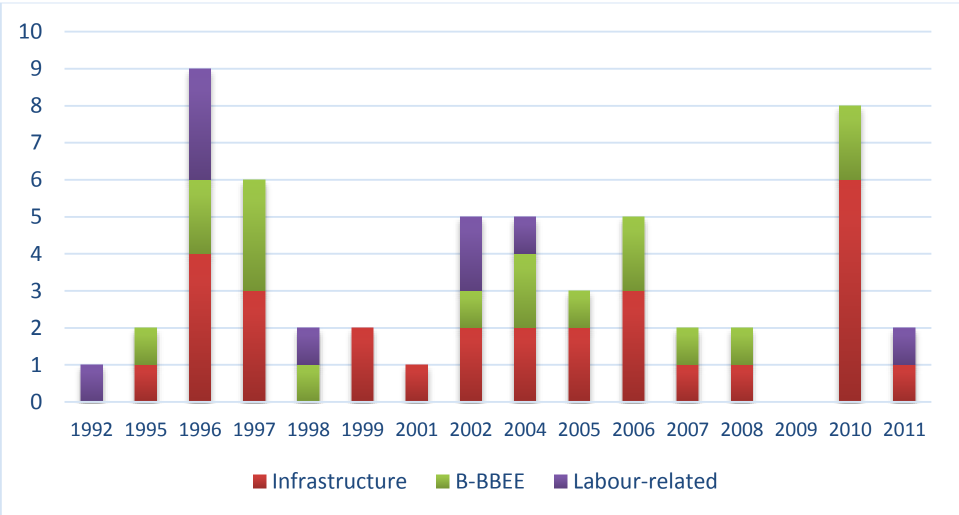

FIGURE 2: Social criteria employed by RI funds over the period 1 June 1992–31 December 2012

Source: Authors' compilation

Although infrastructure development is the most frequently mentioned social consideration, almost half of these funds do not specify the nature of the investments which they target. Many merely state that they support economic and social infrastructure development in rural areas, previously disadvantaged and/or under-serviced communities. Those RI funds that do make specific reference to the types of infrastructure projects they support focus on the provision of electricity/energy provision, water infrastructure, sanitation/sewerage, low income housing, health care, roads and bridges.

With the exception of 1992, 1998, 2009 and 2012, new RI funds with an infrastructure focus were launched in South Africa every year over the past 21 years. Important events shaping the infrastructure agenda in South Africa are set out in Appendix A and include the launch of the Reconstruction and Development Programme in 1996, the Financial Sector Charter in 2004, the creation of the South African Network for Impact Investing in 2008 and the introduction of the government's New Growth Path in 2009.

The second-largest category of social criteria deals with the promotion of B-BBEE. Given the absence of a clear definition of empowerment, many of the early RI funds do not specify the criteria used. However, after the promulgation of the B-BBEE Act (No. 53 of 2003), asset owners and managers were in a better position to formulate specific criteria on this uniquely South African issue. The great majority of RI funds which aim to promote empowerment in South Africa are classified as impact investments, and provide financing to designated groups and companies.

One of the first RI funds to be launched in South Africa, the Community Growth Equity Fund, introduced the use of labour-related screens. The fund is managed by the Community Growth Management Company, which is jointly owned by Unity Incorporation (representing a group of seven trade unions) and OMIGSA. The fund was established as a result of local trade unions' refusal to invest their members' funds in companies that were supportive of the apartheid regime or those that practised poor industrial relations. Most of the other RI funds employing labour-related criteria were established in the first decade of democracy. The promulgation of the Employment Equity Act (No. 55 of 1998) and the Skills Development Act (No. 97 of 1998) strongly contributed to an understanding of labour-related issues in South Africa. The emphasis on social criteria by local RI fund managers is in line with prior research internationally and in South Africa (Renneboog et al., 2008:1733; Proffitt & Spicer, 2006:165).

As indicated in TABLE 5, the combination of environmental and social criteria is popular among South African RI asset managers, and supports the idea that these issues are inextricably linked. Local asset owners and managers seem to realise that economic development should not come at the expense of the natural environment.

Contrary to expectation and prior research (Bhana, 2010:1; Eccles et al., 2007:3), corporate governance criteria have not featured prominently in local RI fund mandates. Corporate governance criteria were evaluated by only 18% of RI asset managers. Not a single RI fund evaluates corporate governance disclosure or performance in isolation; it is always evaluated alongside social and environmental criteria.

Seven RI funds mimic the composition of the FTSE/JSE Socially Responsible Investment (SRI) index (TABLE 4). This index was the first of its kind in an emerging market and the first to be launched by a stock exchange (Wadula, 2004). The Johannesburg Securities Exchange (JSE) in consultation with an independent panel of experts including investment managers, listed companies, sustainability experts, academics and civil society, developed a range of ESG criteria in 2004 against which JSE-listed companies could be evaluated on an annual basis (FTSE/JSE SRI index, 2013). Fifty-one companies were included as constituents in the index in 2004, increasing to 77 in 2012 (representing 21% of all companies listed on the exchange). The advantage of mimicking an RI index is that it reduces the need for independent ESG research by the asset manager.

Other key events that have promoted the integration of ESG criteria into investment analysis and ownership practices in South Africa are listed in Appendix A. The most important of these occurred in 2011 and include amendments to Regulation 28 of the Pension Funds Act (No. 24 of 1956) and the launch of the launch of CRISA. All the interviewees saw the amendments to Regulation 28 as an essential first step in developing RI in South Africa. One participant commented that this development represents a 'significant game changer'.

To summarise, most of the RI funds available to transformation-orientated investors in South Africa employ an impact investing strategy focusing on infrastructure development and economic empowerment. Although impact investments offer diversification benefits (given a low level of correlation with listed securities), they are plagued by liquidity concerns and the lack of market valuations.

5. CONCLUSIONS AND RECOMMENDATIONS

The purpose of this article was to investigate the RI strategies and criteria used by South African fund managers over the 21 years since the launch of the first RI fund in the country in 1992. The findings suggest that the market has seen limited growth, both in the number of funds and the assets under management. A strong preference for impact investing and social criteria was observed, and although these are appropriate in an emerging market context, a broader range of strategies and criteria needs to be adopted if RI is to reach its full potential.

Asset managers could capitalise on gaps in the current RI offering by creating RI-orientated property funds, dedicated green funds and funds which employ a best-in-sector screening strategy.

In 2002, De Cleene and Sonnenberg (2002:52) already noted a social bias in the investment criteria employed by local RI asset managers. They suggested the inclusion of more environmental screens, focusing on alternative technologies, waste minimisation and land biodiversity. Their suggestion is still valid today, and represents diversification opportunities for asset managers.

It is further suggested that more attention be given to water-related considerations, whether as screens, engagement themes or as the focus of impact investments. This recommendation is particularly relevant given predictions that three of the country's economic hubs (Johannesburg, Cape Town and Durban) will face severe water shortages by the year 2025 (De Villiers & De Wit, 2010:1). It is estimated that the demand for water in these cities will exceed availability by a factor of about two. South Africa's current economic investment in low-carbon and associated infrastructure is also too low to remain economically competitive (World Wildlife Fund, 2012a,b). Environmental issues highlighted as deserving of more attention in South Africa include:

- the destruction of natural habitats owing to proposed economic activity;
- the protection of freshwater resources in the interests of water security;
- overfishing and overharvesting of many commercially valuable species and products; and
- water pollution.

Regulatory changes and voluntary initiatives such the UNPRI and CRISA call for focused education and training programmes as well as more and better quality ESG research and data. These developments represent several opportunities for consultants, research houses and higher education institutions. As far as could be established, only one dedicated module on RI was presented at a South African business school at the end of 2012. The training provided by the Sustainable Returns for Pensions and Society Project (2013) in the pension fund industry is commendable in that it provides practical RI tools (Kirima, 2012:80). The project's focus on capacity building could serve as a model for other educators in the field. More details on this national RI training initiative are presented in APPENDIX A.

Interviewees had very specific suggestions and requirements regarding future academic research. These included the identification of material ESG criteria in specific industries and clarification on the financial performance of RI funds. Greater insight into the role of trade unions in promoting RI in South Africa is also required, as well as case studies on successful shareholder engagements and impact investments. Research could also be undertaken to determine the appropriateness of Shari'ah-compliant funds for investors from other religions.

In 2004 a market analyst remarked that RI in South Africa is "a big boat we are still trying to row with little oars ...and we have a long way to go before we reach the harbour gates and high seas" (Finlay, 2004). Given a number of positive developments over the past decade, it could be argued that RI in South Africa has finally reached the harbour gates, although a number of challenges still remain for the movement to reach maturity. The findings of this study, however, suggest that there is a greater willingness among market participants than before to address these challenges and thus meet the needs of both self-referential and transformation-orientated RI investors in South Africa.

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APPENDIX A: KEY EVENTS SHAPING THE RI STRATEGIES AND CRITERIA USED BY SOUTH AFRICAN RI FUND MANAGERS OVER THE PERIOD 1 JUNE 1992 – 31 DECEMBER 2012

Year	*Key event*	*Brief description of the event*	*Impact of the event*
1994	Publication of the first King Report on corporate governance in South Africa (King I)	King I defined acceptable standards of conduct for boards and directors of JSE-listed companies, banks and certain state-owned enterprises in South Africa. The report strongly advocated an integrated approach to stakeholder management and set out principles dealing with the composition and mandate of a board of directors (including the role of non-executive directors and categories of individuals who qualify as non-executive directors), appointments to the board, the maximum term for executive directors, determination and disclosure of executive and non-executive directors' remuneration, board meeting frequency, balanced annual reporting, requirements for effective auditing, affirmative action programmes and a company's code of ethics (The King Report on Corporate Governance, 1994).	This report stressed the importance of integrated stakeholder management and the need for improved corporate governance among JSE-listed companies. The report provided asset owners and managers with clarity on measuring corporate governance performance.
1996	Launch of the Reconstruction and Development Programme (RDP)	"The RDP, which was described as an integrated, coherent socio-economic policy framework, sought to mobilise all the country's people and resources to eradicate apartheid and build a democratic, non-racial and non-sexist future". Key programmes of the RDP centred on meeting basic needs, developing human resources, building the economy and democratising the state and society (Reconstruction and Development Programme, 1996).	The RDP specified the most important social criteria in South Africa at the time and highlighted opportunities in the impact investment space.
1997/8	The Asian financial crisis	The crisis, which started in 1997, consisted of a series of currency devaluations and other events that spread through East Asian markets such as Thailand, South Korea, Japan, Indonesia, the Philippines and Malaysia (Asian financial crisis, 2013). Financial markets across the globe reacted sharply to the turmoil that continued during the 3rd and 4th quarters of 1997 (1997 Asian financial crisis, 2013). Although South Africa did not experience the same economic problems as the East	Adverse economic conditions resulting from the crisis severely depressed real economic activity in South Africa and led to the discontinuance of several empowerment funds over the period 2000 to 2003. Poor financial returns on RI funds resulted in a very negative attitude towards RI in general and impact investments in particular. Attention turned to Shari'ah-compliant funds in the aftermath of the crisis.

Year	Key event	Brief description of the event	Impact of the event
		Asian countries, the contagion effect reached South Africa in May 1998. Foreign asset managers began withdrawing their investments from all emerging markets, not only those in East Asia. The then Governor of the South African Reserve Bank, Dr Chris Stals, pointed out that "South Africa with its well-developed capital markets and unrestricted convertibility for non-residents provided an easy source of liquidity". The large outflow of non-resident funds from May to December 1998 caused the yield on long-term South African government bonds to increase from 13% in April 1998 to over 20% in September 1998. During the same period the rand depreciated about 20% against foreign currencies. Liquidity in the banking sector was drained to such an extent that the banks had to borrow large amounts from the Reserve Bank on a daily basis and had to curtail their credit extension to the private sector. Dr Stals indicated that the shortage of funds pushed up short-term interest rates, including the prime overdraft and mortgage lending rates by about 7 full percentage points to levels of about 25%. Lastly, the inflation rate increased from 5% in April 1998 to 9.3% in November 1998 (Mr Stals discusses the impact of the international financial crisis on the South African economy, 1999).	
2002	Hosting of the World Summit on Sustainable Development in Johannesburg	The 2002 World Summit on Sustainable Development, also called the Earth Summit, was convened by the United Nations to discuss issues surrounding sustainable development. Discussions culminated in the Johannesburg Declaration which builds on earlier declarations and highlights worldwide conditions that pose severe threats to sustainable development such as chronic hunger, malnutrition, foreign occupation, armed conflict, illicit drug problems, organised crime, corruption, natural disasters, illicit arms trafficking, trafficking in persons, terrorism, intolerance and	The summit highlighted the need for more sustainable business and investment practices, both globally and in South Africa.

Year	Key event	Brief description of the event	Impact of the event
		incitement to racial, ethnic, religious and other hatreds, xenophobia and endemic, communicable and chronic diseases (in particular HIV/AIDS, malaria and tuberculosis) (Johannesburg Declaration on Sustainable Development, 2002).	
2002	Publication of the second King report on corporate governance in South Africa (King II)	In line with international developments, King I was expanded to include separate chapters on sustainability, risk management and the role of the board of directors (The King II Report on Corporate Governance, 2002). King II also proposed a number of mechanisms, including shareholder activism, to ensure managerial conformance to the principles of good governance. After the publication of King II, all JSE-listed entities were required to disclose the extent of their compliance with the report (Guide to JSE Listing Requirements, 2002). Many of the principles put forward in King II were also embodied as law in the Companies Act (No. 71 of 2008) (King II empowers shareholders, 2002).	This report emphasised the need for sustainability and risk management. As all JSE-listed entities were now required to disclose the extent to which they complied with King II, subsequent improvements in corporate reporting resulted (South African business – Shifting the focus to performance, 2012). King II provided additional corporate governance criteria to be considered and proposed shareholder activism as a means of ensuring managerial conformance to the principles of good governance.
2004	Launch of the Financial Sector Charter	The Charter resulted from on-going discussions between the South African government, business, labour and community representatives. The Charter set out to encourage transformation in the financial services sector in terms of the B-BBEE Act and committed financial institutions to transformation in the areas of human resource development, procurement of goods and services, access to financial services, ownership and control as well as corporate social investment. The Charter also encouraged the provision of "empowerment financing [including targeted investments in transformational infrastructure, low-income housing, agricultural development and black SMEs as well as BEE transaction financing]" (Financial Sector Charter, 2002).	The terminology and targets used in the Charter, particularly as it pertained to empowerment financing, provided asset owners and managers with greater clarity on the concept.
2004	Launch of the FTSE/JSE Socially Responsible Investment	As a means of focusing the debate on triple bottom line performance introduced by King II, the JSE developed a set of criteria with which	The names of companies included in this index is publically available and thus reduces the need for investors to do independent ESG research which is

Year	Key event	Brief description of the event	Impact of the event
	(SRI) index	to measure the ESG performance of companies included in the FTSE/JSE All Share index. According to the JSE, the SRI Index represents an aspirational sustainability benchmark, recognising listed companies which incorporate sustainability principles into their everyday business practices. The index also serves as a tool for investors to assess companies on a broader base (FTSE/JSE SRI index, 2013).	costly and time consuming.
2006	Launch of the United Nations Principles for Responsible Investment (UNPRI)	In 2005, the former Secretary General of the United Nations, Kofi Annan, invited a group of the world's largest institutional investors to develop the UNPRI. Over the next year, intense discussions took place between investors from 12 countries and a multi-stakeholder group of 70 representatives from the global investment industry, intergovernmental organisations, civil society and academia. This process led to the formulation of six principles which were launched in New York in 2006 (UNPRI, 2013). By becoming signatories, institutional asset owners acknowledge that they have a duty to act in the best long-term interests of their beneficiaries and that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions and asset classes, and through time). Signatories also recognise that adherence to the Principles may better align their objectives with those of society. The Principles commit signatories, which also includes asset managers and advisory service providers to: • incorporate ESG issues into investment analysis and decision-making processes; • be active owners and incorporate ESG issues into ownership policies and practices;Possible actions: • Seek appropriate disclosure on ESG issues by the entities in which	• The Principles provide signatories with guidelines to align their objectives with those of society. Particular emphasis is placed on the RI strategies of screening and shareholder activism. The largest pension fund in South Africa, the Government Employees Pension Fund (GEPF) was a founding signatory of the Principles and warned that they would use their financial might to "force corporate South Africa to shape up in areas of good governance, social responsibility and environmental protection" (Cameron, 2006). As the GEPF controls almost half of the total retirement savings in the country, they have the potential to exert enormous influence on corporate policies and practices.

Year	Key event	Brief description of the event	Impact of the event
		they invest; • Promote acceptance and implementation of the Principles within the investment industry; • Work together to enhance effectiveness in implementing the Principles; and • Report on their activities and progress towards implementing the Principles. Possible actions:	
2007	Launch of the FTSE/JSE Shari'ah All Share index	The index tracks the performance of Shari'ah-compliant companies that are included in FTSE/JSE All Share index thereby excluding companies involved in conventional finance (e.g. non-Islamic banking, finance and insurance), alcohol, pork-related products and non-Halaal food production, packaging and processing or any other activity related to pork and non-Halaal food, entertainment (casinos, gambling, cinema, music, pornography and hotels), tobacco, weapons, arms and defence manufacturing (FTSE/JSE Africa Index Series - Specialist Indices - Shari'ah, 2013).	As in the case of the FTSE/JSE SRI index, the introduction of this index greatly reduces the need for research on the part of responsible investors.
2007	Introduction of the Carbon Disclosure Project (CDP) in South Africa	Since 2000, the CDP has challenged the world's largest companies to disclose their greenhouse gas emissions, identify the perceived risks and opportunities that climate change present for their businesses and describe their strategic responses to these risks and opportunities. The CDP has engaged the JSE's largest 100 companies to do the same from 2007 onwards. According to the 2012 CDP South Africa 100 Climate Change Report, the top 100 are increasingly anticipating and responding to climate change issues. Not only did the number of companies with greenhouse emissions reduction targets increase in 2012, but improvements were also observed in terms of disclosure, climate change governance, risk management and performance (South African business – Shifting the focus to performance, 2012).	Access to detailed information on greenhouse gas emissions and air pollution among JSE-listed companies makes it easier for investors to evaluate the long-term strategic risks to their portfolios.

Year	*Key event*	*Brief description of the event*	*Impact of the event*
2008	Launch of the FTSE/JSE Shar'iah Top 40 index	The index is essentially the same as the FTSE/JSE Shar'iah All Share index, but focuses on the 40 largest JSE-listed companies.	The existence of this index reduces the need for research on the part of responsible investors.
2008/9	The global financial crisis	The crisis drove share prices on the JSE to record lows in March 2009. However, within six months, and despite the toughest market conditions in living memory, the FTSE/JSE All Share index bounced back by 50% (Dynes, 2009). According to some analysts, the JSE's resilience confirmed that foreign investors were returning to the market in ever larger numbers. According to Sinclair and Yao (2011), "there are now clear indications that portfolio flows into Africa as a whole are drifting upwards, and expectations are mounting that this will trigger a renewed and sustained interest in African listed securities". Private equity investors are increasingly seeing Africa as a new source of growth (Dynes, 2009).	Depressed financial market conditions resulting from the crisis focus attention on private equity (impact investments) on the African continent. Emphasis is placed on the diversification benefits of these investments.
2008	Launch of the South African Network for Impact Investing	The network was created by Greater Capital, with founding support from Cadiz Asset Management and Noah Financial Innovation. The network's conferences bring together investors, social purpose businesses and intermediaries to discuss opportunities in the impact investment space (South African Network for Impact Investing, 2013).	The creation of this network highlighted the importance of impact investing in the local RI market. The network stimulates dialogue on the concept, practice and growth of impact investing in South Africa.
2009	Publication of the third King report on corporate governance in South Africa (King III)	As indicated earlier, King II contained a separate chapter on sustainability. Not only was the focus on sustainability increased in the third King report on corporate governance (King III), but the emphasis also shifted to the notion of integrated sustainability (The King III Report on Corporate Governance, 2009). King III incorporated four global emerging governance trends, namely alternative dispute resolution, risk-based internal audit, shareholder approval of non-executive directors' remuneration and the evaluation of the board and directors' performance. New principles not	The lack of adequate and measurable information on companies' ESG performance has long stifled the adoption of RI strategies by mainstream investors in South Africa. King III's insistence on integrated reporting has address this challenge quite powerfully.

Year	Key event	Brief description of the event	Impact of the event
		previously addressed dealt with IT governance, business rescue and directors' responsibilities during mergers, acquisitions and amalgamations. In contrast to the earlier versions, King III is applicable to all entities, public, private and non-profit and recommends that entities prepare an integrated report (in line with the Global Reporting Initiative's Sustainability Reporting Guidelines) rather than a traditional annual financial report and separate sustainability report. In terms of the JSE Listing Requirements, listed companies are contractually bound to adopt King III and any failure to do so would amount to a breach of the Listing Requirements. Management of JSE-listed companies now need to explain how the principles of the code were applied, or if not applied, their reasons for not applying them.	
2009	Launch of the South African government's New Growth Path	The plan emphasises infrastructure development, job creation, improvements to the agriculture value chain and the creation of a green economy. The principal target of the plan is to create five million jobs in the 10 years up to 2019. This framework reflects government's commitment to prioritising employment creation in all economic policies. It identifies strategies that will enable South Africa to grow in a more equitable and inclusive manner while attaining South Africa's developmental agenda (New Growth Path, 2009).	As in the case of the RDP, this plan provides asset owners and managers with clarity on material ESG issues and opportunities in the impact investing space.
2009	Hosting of the United Nations Environmental Program Finance Initiative (UNEP FI) conference in Cape Town	The UNEP FI is the largest and oldest partnership between the United Nations system and the world of banking, insurance and investment. Hundreds of financiers, investors, business leaders, green groups and built environment and property professionals from around the world and across Africa explored how a green approach to business can create jobs, protect the environment and build better, fairer communities with towns and cities that work (Cape Town Green Week, 2009).	The conference raised awareness around environmental issues in general and carbon emissions and green construction in particular.

Year	*Key event*	*Brief description of the event*	*Impact of the event*
2011	Hosting of the UN Convention on Climate Change (COP17/ CMP7) in Durban	Several important agreements were reached at the convention, among others the development of a green climate fund to assist developing countries in establishing their own clean energy futures and adapting to existing climate change. Along with other developing countries, the South African government adopted procedures to allow carbon-capture and storage projects in the country. Governments furthermore agreed to a significantly advanced framework for the reporting of emission reductions, taking into consideration the common, but differentiated responsibilities of different countries (COP17/CMP7 – The Durban conference delivers a historical breakthrough in climate change talks, 2011).	The convention highlighted the need for a more concerted effort to improve environmental management and reporting. As with the UNEP FI conference, the emphasis was placed on specific environmental criteria, notably carbon emissions.
2011	Amendments to Regulation 28 of the Pension Funds Act (No. 24 of 1956)	After many years of deliberation, Regulation 28 of the Pension Funds Act (No, 24 of 1956) was finally amended to "ensure that savings invested in South African retirement funds were invested in a prudent manner, safeguarding these funds' assets while taking on acceptable levels of risk" (Peacock, 2011). A new preamble to Regulation 28 highlights the fiduciary responsibility of retirement fund trustees to invest savings in a way that promotes the long-term sustainability of the asset values, taking into account ESG consequences of the investments. The preamble also promotes trustee education and the monitoring (by trustees) of compliance by the fund and its service providers.	The amendments have two important implications in terms of the RI strategies and criteria used by local assets and fund managers. Firstly, pension fund trustees are now required to develop an investment policy statement which must describe the fund's approach to trustee education, B-BBEE and ESG issues, outline how it will match its assets to its liabilities, describe its due diligence process on all investments and explain how it will monitor compliance by its service providers and how it will ensure understanding of the fund's changing risk profile (Cameron, 2011). Swart (2011) maintains that "Regulation 28 has changed the face of the retirement fund industry. In addition to emphasising members' interests and trustees' obligations, it compels trustees to adopt a liability-based approach to investing and to take a long-term view". Secondly, the new prudential limits set out in Regulation 28 ease prior restrictions on alternative investments, including hedge funds and unlisted equities. The easing on unlisted equities was undertaken to ensure that investment into this pro-development funding channel is not impeded. There is an overall limit of

Year	*Key event*	*Brief description of the event*	*Impact of the event*
			15% of retirement fund assets in hedge funds and private equity funds. Investment in a single hedge fund or private equity fund is restricted to 2.5%, but the limit is higher (5% of retirement fund assets for each entity) if the investment is through a fund of funds. "By recognising hedge funds and private equity as separate asset classes, trustees are encouraged to consider these options and structure optimal investment combinations for their members" (Swart, 2011). It is widely argued that the inclusion of private equity will provide trustees with another avenue (other than listed securities) to explore B-BBEE and ESG factors when investing (Cameron, 2011), especially in light of the relatively small number of companies listed on the JSE.
2011	Launch of the Code of Responsible Investment in South Africa (CRISA)	In response to the King III, the UNPRI and changes to the Companies Act (No. 71 of 2008), the Institute of Directors in Southern Africa convened a committee to draft CRISA. The initiative was endorsed by key role players such as the Principal Officers Association, the Association for Savings and Investment South Africa, the Financial Services Board and the JSE. The Code was launched in July 2011 and is based on the following principles: • Institutional investors should incorporate sustainability considerations, including ESG, into their investment analysis and activities as part of the delivery of superior risk-adjusted returns to ultimate beneficiaries; • Institutional investors should demonstrate their acceptance of ownership responsibilities in their investment arrangements and activities; • Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and	The Code formally encourages institutional investors to integrate ESG issues into their investment decisions and ownership practices. The Code applies to institutional investors as the owners of assets as well as their service providers (asset managers and consultants) and encourages them to adopt its principles and practise recommendations on an 'apply or explain' basis (Code for Responsible Investing by Institutional Investors in South Africa, 2013). With the launch of CRISA, South Africa became the second country in the world (after the United Kingdom) to provide institutional investors with guidance on responsible investment practices. Although compliance with the code is voluntary, Finance Minister Pravin Gordhan has hinted that more active involvement by the government could be expected if "this voluntary code to promote more open and broadly beneficial investment was ineffective" (Crotty, 2011).

Year	Key event	Brief description of the event	Impact of the event
		standards applicable to institutional investors; • Institutional investors should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur; and • 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.	
2012	Launch of the Sustainable Returns for Pensions and Society Project	The project is a southern African, industry-led initiative to integrate ESG considerations into mainstream retirement investment practices. The project, which is a partnership between the Principal Officers Association and the International Finance Corporation, strives to build capacity and develop tools to support principal officers and trustees in implementing the new requirements of Regulation 28 (Sustainable Returns for Pensions and Society Project, 2013).	This project will assist in educating stakeholders in the local pension fund industry about RI.