

# RI Under Pressure: Why Asset Owners Must Lead the Way



The world of responsible investing (RI) has been buzzing with debates following the re-election of Donald Trump as U.S. president last year. For trustees of pension funds and brokers in South Africa, understanding these global shifts is important because they impact how we think about investing responsibly.

## Global Developments: A Turning Point for RI?

The United Nations-backed Net-Zero Asset Managers (NZAM) initiative, a global coalition aiming to align the asset management industry with net zero climate goals, recently announced an operational pause, halting all activities related to tracking signatories' reporting on and implementing their commitments towards RI. This decision, made amidst a review of the programme, was attributed to "recent developments in the U.S. and different regulatory and client expectations". This announcement comes on the heels of significant events, including BlackRock—the world's largest asset manager—exiting NZAM, and a wave of major U.S. banks withdrawing from the related Net-Zero Banking Alliance. These actions underscore growing political and regulatory pressures in the U.S., creating uncertainty around the future of net-zero initiatives. These global shifts have raised critical questions: Does the suspension of NZAM and similar developments signal a retreat from RI, or is it an opportunity for asset owners to take the reins and lead with conviction?

## What Does This Mean for Asset Owners?

For asset owners in South Africa, these changes may seem distant but are deeply relevant. If global players are pulling back, should you reconsider your approach to RI? The answer is clear: this is the time to lead with purpose and clarity, not step away.

Here's why:

### 1. Asset Owners Must Be the Drivers of Change

The pause in NZAM's activities highlights the need for asset owners - like pension fund trustees - to provide strong leadership. Asset managers rely on an asset owner's direction to integrate ESG (Environmental, Social, and Governance) principles into their investment processes.



## 2. RI Is Broader Than Climate Alone

While climate action is a cornerstone of RI, it's not the whole picture. In South Africa, RI also addresses urgent issues facing the local landscape such as infrastructure development, job creation, governance and the reduction in inequality. These areas present significant opportunities for pension funds to deliver both a positive societal impact and sustainable financial returns.

## 3. Adaptability Is Essential in a Changing Landscape

The political and regulatory shifts in the U.S. serve as a reminder that RI strategies must be adaptable. South African trustees should work closely with investment consultants and managers to ensure that their RI approaches can withstand changes in global sentiment and market conditions.

To remain proactive in this evolving landscape, asset owners should consider the following actions:

**Ask Questions:** Engage with asset managers about how they are integrating ESG factors, addressing climate risks, and supporting local social development goals.

**Set Clear Priorities:** Clearly define pension fund's RI objectives, whether they involve investing in renewable energy, affordable housing, or job creation. These should then be communicated explicitly to investment managers.

**Monitor progress:** Continuously track RI objectives to ensure alignment with strategic goals, assess performance, facilitate timely adjustments, promote accountability, and maintain oversight to identify potential risks and opportunities effectively.

**Educate Yourself:** Seek resources that simplify ESG concepts and explain their impact on investment performance. Ask asset consultants for accessible insights that help you make informed decisions in order to avoid any conflicts with regards to greenwashing.

## Why RI Still Matters

Despite the global challenges facing initiatives like NZAM, RI remains a critical tool for safeguarding the long-term value of your fund's investments. Climate risks, social inequality, and poor governance can directly impact the performance of companies and assets in portfolios. By addressing these risks, asset owners should protect their funds while contributing to meaningful societal progress.

## Lead with Purpose

The suspension of NZAM and similar developments may for now appear as setbacks to the market, but they also highlight the need for leadership from asset owners. As South African trustees and brokers, this presents an opportunity to define priorities and influence the direction of RI. It is important to recognise that RI is not just about mitigating risks - it's about creating opportunities for growth, impact, and a better future for your members and the communities they serve.