

Embracing Change

The Growing Importance of ESG-Integrated Offshore Investments for South African Retirement Funds



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Offshore investing has become an essential strategy for South African investors looking to grow their portfolios. Recently, the South African Reserve Bank increased the offshore investment limit for retirement funds from 30% to 45%, allowing nearly half of these funds to be invested in global markets. This presents exciting opportunities, especially when incorporating Environmental, Social, and Governance (ESG) factors into investment strategies.

Why ESG Matters in Offshore Investments

ESG investing, which focuses on sustainable and responsible investment practices, is no longer just a trend - it's becoming the norm. For South African retirement funds, integrating ESG factors into offshore investments offers several benefits:

- 1. Better Risk Management:** ESG factors help investors spot risks and opportunities that might be missed with traditional analysis. By evaluating how companies handle environmental, social, and governance issues, investors can make safer choices. The Volkswagen Emissions Scandal resulting in environmental mismanagement, Foxconn Worker Conditions that exposed social negligence and the Wells Fargo Account Fraud Scandal which revealed governance failures, are some examples of incidents that impacted investors.
- 2. Long-Term Growth:** Companies with strong ESG credentials are often better positioned to navigate regulatory challenges and various risks including Physical Risk and Transition Risk. Physical Risk stems from the physical impact of climate change, while Transition Risk results from the risks associated with transition to a lower emission economy. By investing in companies with strong ESG credentials, investors can contribute to sustainable value creation while generating competitive risk-adjusted returns over the long term.
- 3. Active Engagement:** Active ownership and shareholder engagement can drive positive ESG outcomes and improve corporate behaviour. South African investors can leverage their positions in offshore companies through collaborative engagement to advocate for and encourage enhanced ESG practices, transparency, and accountability. This can lead to improved corporate behaviour and increased transparency.

Sanlam's Commitment to Responsible Investing

Sanlam as a signatory of the United Nations Principles for Responsible Investment (UNPRI) and supporter of the Code for Responsible Investing in South Africa (CRISA) is dedicated to promoting long-term sustainability. Our commitment to ESG, is demonstrated by integration of investment approach:

- **ESG Integration:** Sanlam requires offshore asset managers to consider ESG criteria specific to the countries where they invest. This ensures that investments not only offer good returns but also contribute to sustainability.
- **Stewardship and Engagement:** Sanlam actively engages with the companies it invests in to advocate for better ESG practices. This helps drive positive change and improve corporate behaviour.
- **Sustainability-Themed Investments:** Sanlam invests in projects and companies that focus on sustainability themes, such as renewable energy and social development.
- **Impact Investing:** Sanlam also focuses on investments that generate measurable social and environmental impacts alongside financial returns.



Offshore investments provide a great opportunity for South African investors to diversify and tap into global markets. By incorporating ESG factors, these investments not only aim for strong financial returns but also contribute to a more sustainable and equitable world. Sanlam is committed to helping investors achieve these goals through responsible investing practices.

By considering ESG when diversifying through offshore investments, South African retirement funds can ensure they are investing in a better future—both for their members and for the world at large. With Sanlam’s support and expertise in ESG integration, stewardship, sustainability-themed investments, and impact investing, investors can be confident in their journey towards sustainable growth and making a positive global impact.