SUMMIT AFRICA

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Dear Subscriber

The question we are most frequently asked by Institutional Investors is, "Does a bias toward Environmental, Social, and Governance ("ESG") considerations in investment selection actually improve returns – and do you have empirical evidence to support this?"

THE BUSINESS CASE FOR ESG INVESTING

Elements of ESG have been around since the 1970 's but had become a more prominent feature in the investment process in 2006, when the United Nations supported the development of the Principles of Responsible Investment ("PRI"). The objective of the PRI is to "understand the implications of sustainability for investors" incorporating ESG into their investment decisions, contributing to a more "sustainable global financial system".

Interestingly, the 2017 NATIXIS Global Survey showed "67% of global investors say it is important that they invest in companies which reflect their personal values".

In case you missed it, click here to view why ESG improves returns

The findings also showed that "a large majority of investors stress the importance of investing in companies with sound environmental records (70%), companies that are seen as doing social good (71%), and companies that are ethically run (78%)". Lastly, "71% of those polled noted that they are specifically interested in making investments that help to fund advancements in healthcare and education". These findings seem to echo the current sentiment amongst South African institutional investors and organisations who are increasingly seeking to redress past injustices and present inequality by investing in social good, education, and healthcare.

The relevant question is, should South African Asset/Investment Managers, Trustees, and Asset Consultants invest into companies who focus on ESG because of a need to bend to stakeholder pressures or because it actually improves returns? Two compelling sources provide an answer to this question.

1. Deutsche Asset Management together with the University of Hamburg investigated whether integrating ESG into the investment process has had a positive effect on corporate financial performance ("CFP") and if the outcome was stable over time.

   This study represents the most extensive review relating to ESG and CFP, providing some significant conclusions and proving the "business case of ESG investing is empirically very well founded". The study showed a positive correlation between ESG and financial returns on both equity and non-equity asset classes, with Real Estate investing enjoying the highest correlation. Of the E, S, & G, the research showed that Governance had the highest positive effect on returns. Another relevant finding was the correlation between ESG and CFP in Emerging Markets such as South Africa.

   Emerging Markets showed a 65.4% positive relationship compared to the next highest region. This ties in with survey evidence from the United Nations-supported PRI ("UNPRI") which shows that Emerging Markets such as South Africa are more engaged on issues of ESG than Developed Markets. When pension fund holders from both Emerging and Developed Markets were polled, 58% of South African respondents said they strongly agree with the statement that how a company manages ESG issues provides insight into how the company is run.

2. The MSCI Emerging Markets ESG Index showed over a nine-year period, ending December 2016, that Emerging Markets benefited more from ESG than developed markets, and "Emerging Markets experienced annualised returns of 4.23% above its benchmark compared with developed markets achieving a return of 0.01% above its benchmark".

In summary, recent evidence from Emerging Markets including South Africa show that ESG practices have moved on from being a feel-good façade to becoming a fundamental tool for investment sustainability and outperformance. It is a fast-growing primary investment consideration for those carrying the responsibility of managing investments. The question should no longer be whether there is a business case for ESG investing, but rather where and which component(s) of ESG are going to minimise risks and enhance returns.

For us at Summit Africa, the idea of 'investing to do good' is not just a fashionable cliché but a fundamental part of our investment approach, strategy and selection criteria.

NENE'S REVIEW PANEL IN SUMMARY

Minister Nhlanhla Nene appointed an independent panel of experts under the Davies

Tax Committee to conduct a review of the list of VAT zero-rated goods. This follows the recent increase in the VAT from 14 percent to 15 percent which took effect on 1 April.

The panel, chaired by Professor Ingrid Woolard, will review the current list of VAT zero-rated items with the purpose of easing the burden of the increase on the poor and low-income households. It will also consider expanding the list of VAT zero-rated items as well as improvements to specific expenditure programmes such as school feeding schemes which are meant to alleviate the pressure on the poor. There are 19 basic food items currently on the list, including dried beans, tinned pilchards, maize meal, milk, and brown bread. The National Treasury said, 'Whilst the focus of the Panel will be on food items to be included for zero-rating, it will also identify any other items that should be considered to achieve the policy intention of providing relief to poor and low-income households.' Public sentiment has already asked that the expanded list of zero-rated items include essentials such as sanitary pads, toiletries, school uniforms, and textbooks.

The panel will take public comments, convene hearings, and engage with different stakeholders from civil society organisations, organised labour, and business and deliver an initial report with recommendations to the Davis Tax Committee and the Minister by 30 June 2018.

Brief bio's of Professor Ingrid Woolard and her fellow panel members are available to read on the National Treasury website, and the official press release is available here.

BOOSTING THE STARTUP ECOSYSTEM BETWEEN INDIA AND SOUTH AFRICA

The Department of Trade and Industry together with the Indian High Commission hosted a business summit from 29 – 30 April, to 'maximise the potential economic and commercial partnership between South Africa and India.

According to SA's Minister of Trade and Industry, Dr Rob Davies, "South Africa's relationship with India is a strategic one". The event opened at the Sandton Convention Centre with a dinner and tribute to both Nelson Mandela and Mahatma Gandhi, choreographed by UNICEF Goodwill Ambassador, Mr Gavin Rajah.

I was fortunate to participate as a panel member in the session which focused on "The spirit of enterprise! Discussion to nurture and boost the start-up ecosystem between India and South Africa". The Panel included industry peers from both countries. Among them was Mr Lesiba Mothata, the respected

Economist and Head of Client Solutions at Alexander Forbes Investments, Ms Tanya Van Lill CEO of Savca, and Mr Allon Raiz CEO of Raizcorp (SA).

In my presentation, I emphasised the significance of small to medium-sized enterprises in the development of economies by creating jobs and driving innovation. I also highlighted that countries like these fed off the growth of SMEs into medium-sized companies, and as such, it was pivotal for everyone to lobby for the growth of SMEs.

THE GOOD NEWS KEEPS ON COMING

Consumer year-on-year inflation in South Africa had eased to 3,8% which is almost at lows last seen in February 2011 when inflation was as low as 3.7%. According to Statistics SA, this is mostly due to the lower prices of food, non-alcoholic beverages, and transport.

The inflation rate in South Africa averaged 9.1% from 1968 until 2018, reaching an all-time high of 20.70% in January 1986 and a record low of 0.2% in January of 2004.

The annual core inflation rate, which excludes the cost of food, non-alcoholic beverages, petrol, and energy was unchanged at 4.1% as at March 2018, below market expectations of 4.3%.

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Durban ICC

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IFRA Conference 2018

29-31 July 2018
Durban ICC

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Summit Africa is a majority black owned and managed, specialist Alternatives Investment Manager with a focus on investing in Private Equity and unlisted Real Estate that delivers above-benchmark risk-adjusted financial returns and contributes meaningfully and measurably to the Social and Economic transformation and development of the local community and South Africa as a whole.

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