



Botswana Pension Society

*ESG Investing and
Sustainable Finance*





Why ESG, sustainability and the SDGs matter to businesses and investors and why now

“It is clear that human health and the health of nature are interconnected. Moreover, the fury, frequency, and scale of natural disasters, diseases, and societal upheaval globally seems too contiguous to be coincidental. The time has come for a systemic transition from an anthropocentric to an eco-centric worldview, integrating a wide spectrum of values ranging from living from, with, in and even as nature.”

Source: Values at the Center V20-2022 Communique / G20 Indonesia Presidency CHAPTER 3: The Value of Interconnectedness: Recovering Together with Nature to Recover Stronger by Bhuvan Ravindran, Research Analyst at Council on Energy, Environment, and Water (CEEW), India



WORLD
ECONOMIC
FORUM

“We are the first generation to be able to end poverty, and the last generation that can take steps to avoid the worst impacts of climate change.”

Ban Ki-moon

Secretary-General of the United Nations (2007 -2016)

Sustainability related systematic risks



Greatest threats to the global economy according to the World Economic Forum (WEF)

- Most likely long-term risks to the world economy:
 1. COVID-19
 2. Climate action failure
- Most impactful long-term risk to the world economy:
 1. Climate action failure

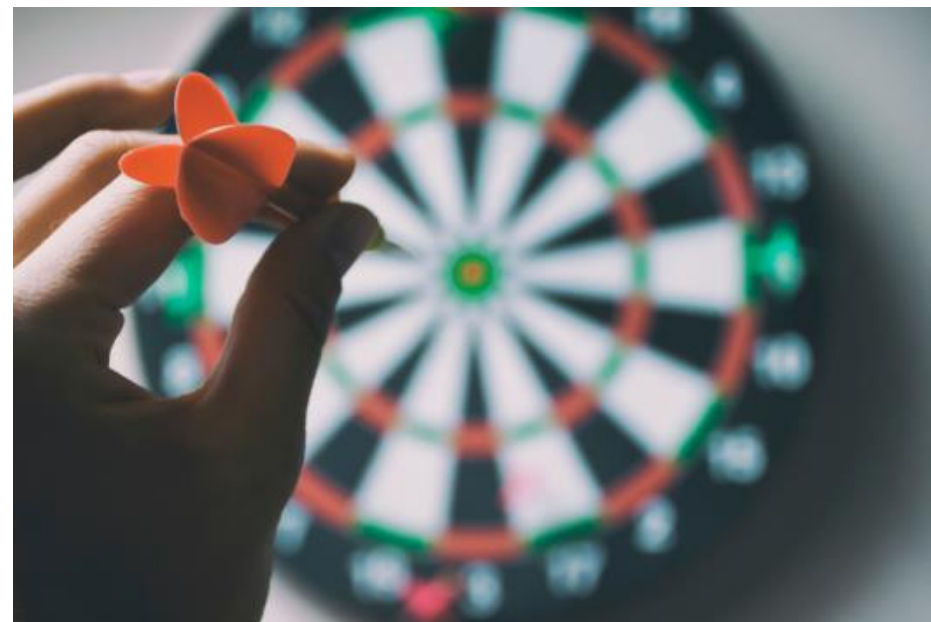
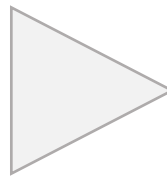
STRATEGIES to integrate SDGs in Businesses

from Shareholder Value to Stakeholder/Shared Value

from Compliance to Value Alignment to Impact Objective

from Avoid Harm to Benefit Stakeholders to Contribute to Solutions

from CSR to ESG to SDGs



The SDG Impact Standards

SDG Impact Standards: Are we optimizing our impacts and long-term organizational performance?



4 sets of SDG Impact Standards that:

- create a shared language and approach to sustainability and managing for impact
- serve as an organizing framework to complement and strengthen existing initiatives
- Fill gaps that are undermining progress towards sustainability and achievement of the SDGs



Developed as a public good, the SDG Impact Standards provides a unified management approach to the advancement of sustainability and the SDGs amongst businesses, investors and policy makers



An over-arching internal decision-making framework to help businesses and investors be sustainable, resilient and prosperous for the long-term



The Foundation of the SDG Impact Standards is operating sustainably and contributing positively to sustainable development and the SDGs

- which cannot be achieved without demonstrating **respect for planetary boundaries, human rights and other responsible business practices**
- and is realized through effective **impact management and decision making**

Good practice and internal decision-making will lead to better reporting and disclosure

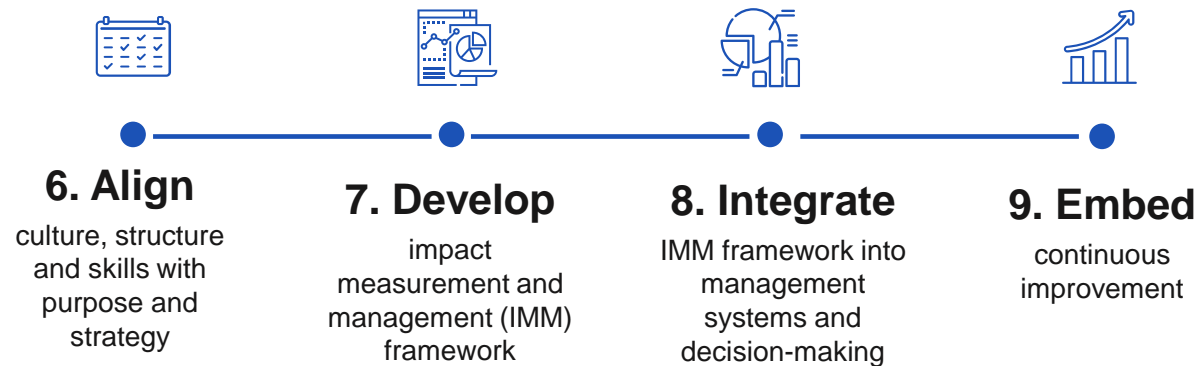
- The SDG Impact Standards provide the blue-print for integrating impact management and the SDGs into internal practices and decision-making that will make meeting disclosure and reporting requirements under existing and future frameworks more efficient and effective.

STRATEGY



Embedding sustainability and contributing positively to the SDGs in purpose and strategy is important because it **drives attention, focus and resources to what matters most and where the organization can have the most significant impact on important outcomes – including by reducing negative ones.** It recognizes that organizations' prospects for **future prosperity increasingly depend on the health of the planet and the wellbeing of humanity.** Operating responsibly and sustainably and contributing to the SDGs is **not an add on to what business gets done – it's how all business gets done.**

MANAGEMENT APPROACH



Integrating responsible business practices and impact management into organizational systems and decision making is about **setting the right conditions to maximize chances of achieving the organizational goals of operating sustainably and contributing positively to the SDGs and increasing the probability of success over time.** It helps organizations **generate options** and **make more informed choices** between those options to **optimize their contribution towards sustainable development and the SDGs.**



TRANSPARENCY



10.Disclose

how sustainability and the
SDGs are integrated into
decision-making, and report
on performance

Being transparent is an important element of **being accountable to Stakeholders** – all interested parties including those affected or potentially affected in future by the organization’s decisions and activities. It also **helps Stakeholders make more informed decisions**, for instance about whether they want to work with or for the organization, invest in or lend to the organization, or buy or use the organization’s products and services. **To be effective, transparency needs to be useful and accessible to all Stakeholders.**



GOVERNANCE



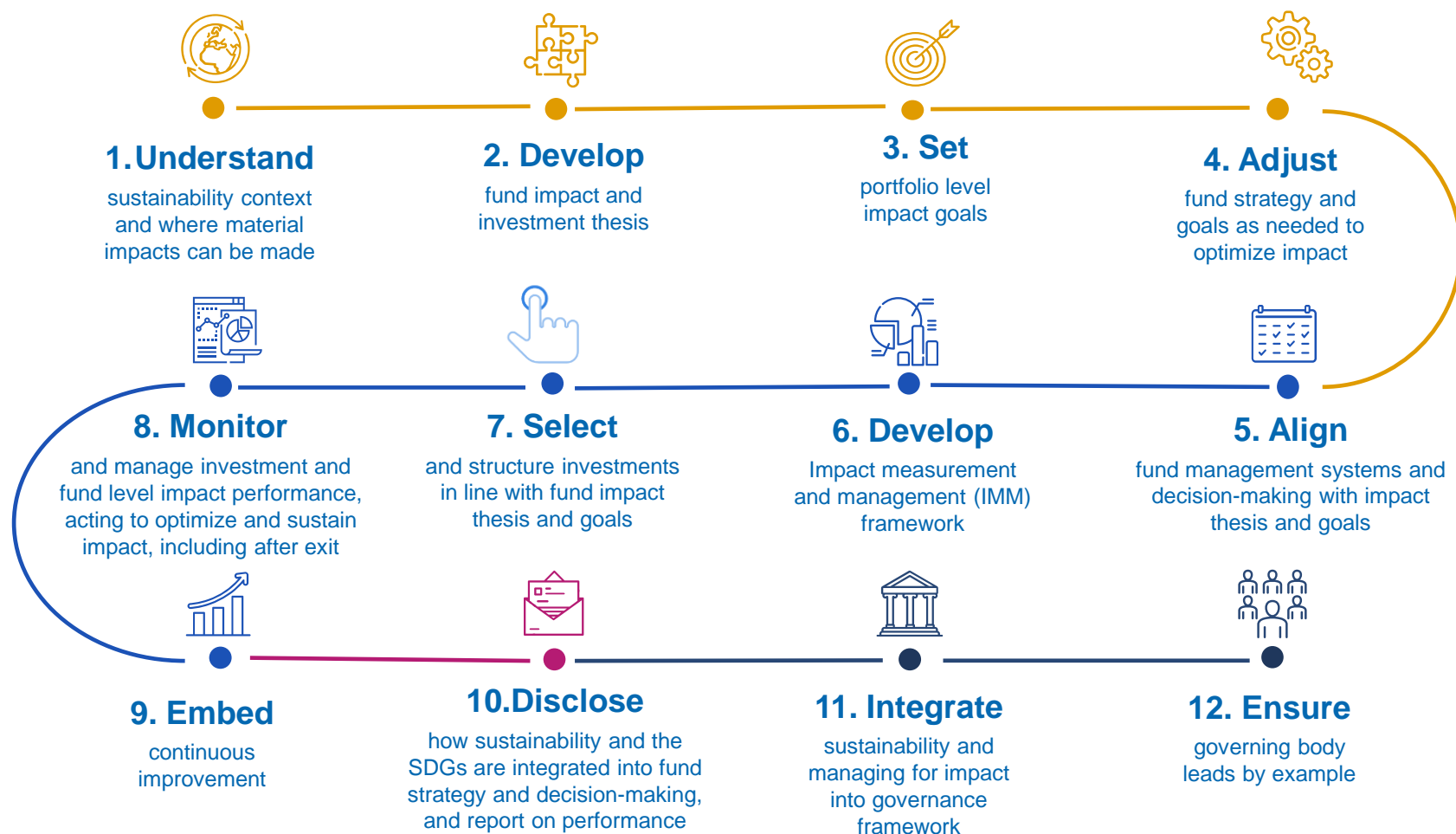
11. Integrate
sustainability, the
SDGs, and managing
for impact into
governance
framework



12. Ensure
governing body
leads by
example

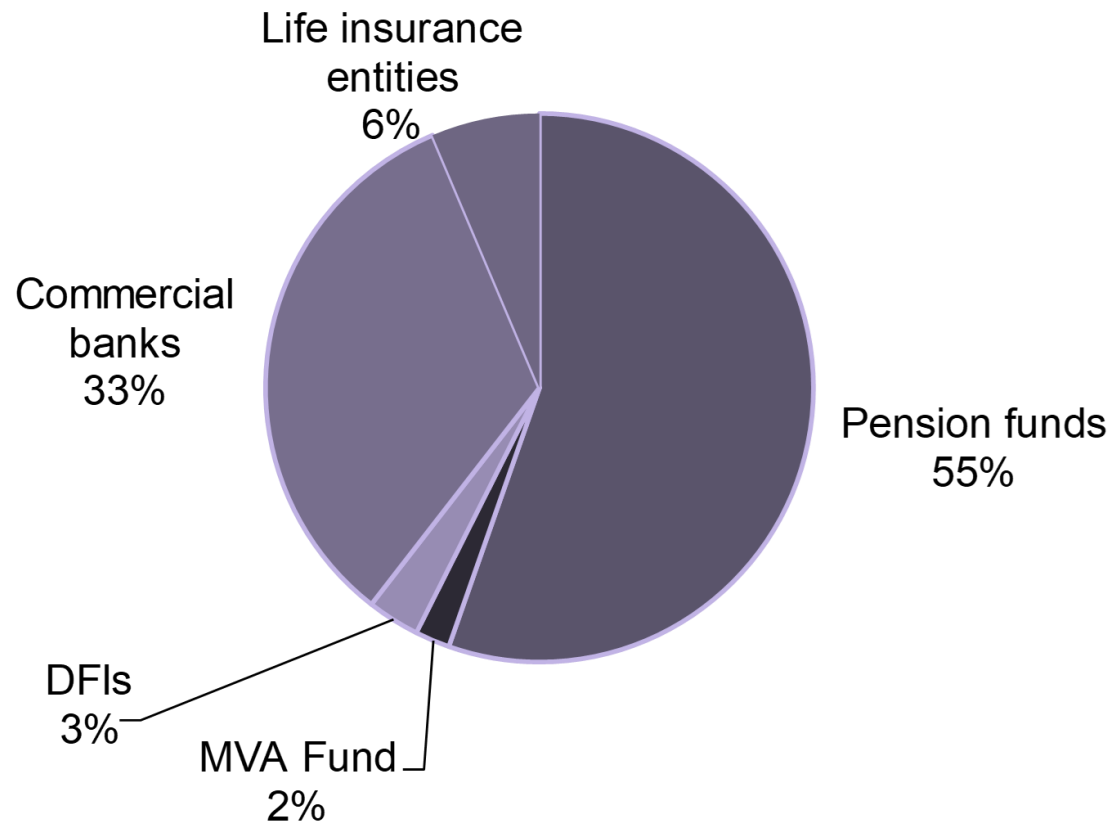
Governance is an essential element of embedding responsible business and impact management practices into organizational decision-making. The organization's informal and formal governance mechanisms **define expectations of behavior, how decisions are made and how the organization holds itself and others accountable for their decisions and actions in accordance with its values, principles, and policies.**

The 12 SDG Impact Private Equity Fund Actions



Pension funds positioned to lead the way

Botswana – Asset base of financial institutions (Loans & advances and/ or Investments)



Pension funds make up a significant source of capital for the local market and are positioned to better inspire and drive ESG action.

A conversation about ESG Investing and Sustainable Finance will be incomplete without engaging pension funds.

There is an opportunity for pension funds to play a leading role in the area of Sustainability and Impact Investing

Pension Funds as asset owners have leverage to influence asset managers

Sources: Bank of Botswana financial statistics; BPOPF; NBFIRA

Pension funds can leverage their influence in support of ESG Investing



For asset owners, one of the crucial leverage points in delivering positive sustainability outcomes lies in how they select, appoint and monitor asset managers.

Leading asset owners are starting to develop:

- Minimum ESG standards that asset managers must meet to be considered eligible for selection.
- ESG integration throughout the investment process, with an increased focus on the alignment with managers' portfolio-level climate action and the rigour of their ESG integration across all investment processes.
- Reporting on progress, where the alignment of an asset manager's portfolio emissions profile is compared with the asset owner's emissions reduction targets and profile.
- New language in RFPs, where asset owners clearly set out detailed ESG expectations and requirements for asset managers in their selection process documentation.
- New peer benchmarking and analytics, which enable the asset owner to assess the extent to which its formal ESG commitments and regulatory requirements are underpinned by the ESG practices of a prospective manager.

Source: Principles for Responsible Investing

ESG and Impact Investing Opportunities



Projects and/or companies which do not only value profits, but also value people and planet at their core and have sustainable development as their objective.

- Affordable Housing
- Renewable Energy
- Agriculture
- Health Services
- Education Services
- Digital Technology

Goal is to achieve economic return and deliver social and environmental benefits. For example:

- Job creation
- Reduce inequality
- Promote inclusion
- Conserve water resources
- Reduce carbon emissions
- Improved tax revenues



Assessing ESG and Impact Investing Opportunities



Key Question - Does an investment's stated ESG approach match your investment goals, objectives, risk tolerance, and preferences?

Due Diligence

- Conduct proper due diligence on potential investments – Beware of Greenwashing where funds are being misrepresented as providing ESG targets or firms exaggerate the environmental, social or governance benefits of a particular investment.
- ESG investments are based on the records of the past performance of any company in consideration
- ESG assessments typically focus on whether the enterprise has appropriate internal policies and procedures favourable to attaining ESG standards
- Impact due diligence also needs to include extensive data and assessment on the impact outcomes of the actions and products of companies

Some things to consider

- Some investments focus on ESG investing while others consider ESG factors alongside other factors.
- Different funds may weigh ESG factors differently.
- Some funds that don't have "ESG" in the name may still incorporate elements of ESG investing into their portfolios.
- There is a lack of regulation and no consistent or standard approach amongst ESG rating agencies. This produces varied ratings in the market for the same investment.
- Consider what is important to you and match your investments to such values and priorities e.g., low carbon footprint, or diversity, equality and inclusion policies.

Source: Cayman Islands Monetary Authority

Final Thought and Way Forward



- As we look ahead, ESG investing will continue to evolve.
- It is imperative for pension funds to recognize that incorporating ESG is not only beneficial for society but also fundamental for the long-term success of their investments.
- The translation of ESG policy commitments into meaningful investment decisions will be an important indicator of ESG leadership over the coming years.
- Review best practices in ESG and impact investing, and develop own sustainable investment strategies
- Enlist services of advisors to assist where needed



Questions



