

# ESG IMPLEMENTATION FRAMEWORK

## THE MOTIVATION BEHIND ESG

- Creation of long term sustainable investments
- Active asset ownership
- Moral and ethical values
- Social harmony
- National competitiveness and global citizenship

## DEFINITIONS

- Environment – business activities that may have an adverse impact on the environment
  - Space
  - Species
  - Land preservation
- Social – business activities that consider the wellbeing of society at large:
  - Race relation
  - Re-distribution of wealth and skills
  - Wellbeing and safety of employees
  - Ethical and moral reasons – sector exclusions
- Governance – Efficient and optimal way of managing and utilizing company's assets:
  - Efficient controls to prevent fraud and money laundering
  - Proper segregation of duties
  - Compliance and legislations
  - Structure that best represents the interests of shareholders and other stakeholders

## BASIS OF FRAMEWORK – LEGAL

### Environment

- National Environment Management: Biodiversity Act 10 of 2004
- Equator Principles

### Social

- Employment Equity Act of 1998
- DTI BEE Codes of good practices
- Basic conditions of employment
- Money Laundering Act
- Occupational Health and Safety Act

### Governance

- International Auditing Standards
- Company's Act
- King's Codes of Good Corporate Governance
- Basel II/III for financial institutions

 Creativity + Wisdom = Innovation

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Member of the JSE Limited Registration no. 1996/009555/07

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## BASIS OF FRAMEWORK – MORAL

### Religious Beliefs

- Islamic Finance
- Christianity
- Judaism

### Ethics

- Sector exclusions
- Cultural influences
- Customer demand

## STAKEHOLDERS

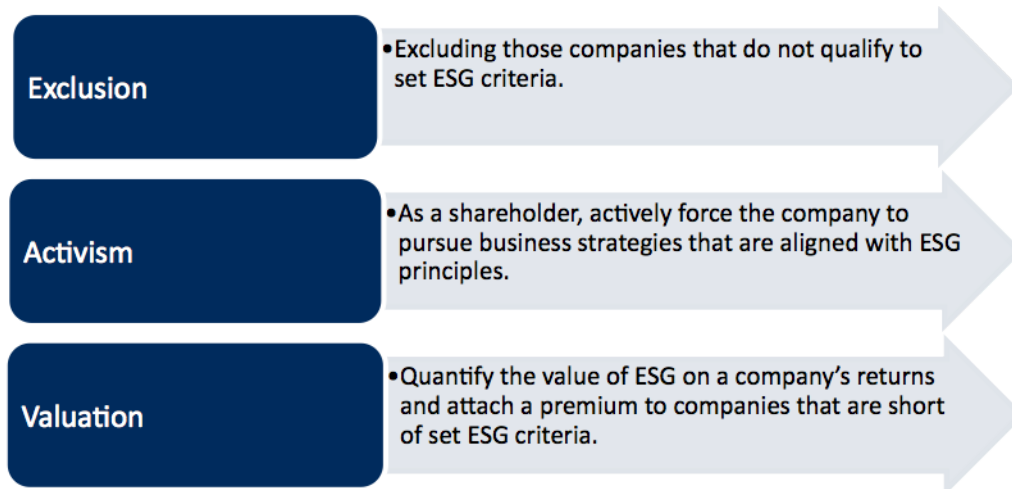
- Investors/ Financiers – Banks, Asset Managers, Private Equity, Pension Funds
- Recipients – Banks, Corporations
- Research Institutions – Brokers, Rating agencies, Academic institutions
- Monitoring agencies – Auditors, Government, Risk advisors, Non-government institutions

## MARKET DRIVERS

- Short term trading activities – proprietary trading
- Private clients
- Hedge Funds
- Growth strategy fund managers
- Quant traders
- Transition Management



## POSSIBLE MODELS



## PREFERRED MODEL

- The most feasible and implementable model will be the combination of the Exclusion model and Activism model
- The valuation model will require a lot of data
- Studies have shown that there is no direct correlation between ES (G Excluded) factors and the companies earnings
- With investors becoming more aware and using ESG factors to select stocks, there will be a direct correlation between ESG factors and companies earnings
- Customers have already made an impact in forcing companies to sell products that comply with their beliefs and ESG principles, e.g. motor manufacturers, energy generators, etc.



## RISK FACTORS

### Environmental Risks

- Multiple risk factors:
- Carbon emission
  - Waste and pollution
  - Resources depletion

- Selection risk drivers:
- Carbon emission spot price
  - Relative sector carbon footprint
  - Medical records
  - Flooding rate

### Social Risks

- Multiple risk factors:
- Employment equity
  - Labour practices
  - Safety and health
  - BEE codes
  - Child labour

- Selection risk factors:
- Sick rates
  - CCMA cases lost
  - BEE rating

### Governance Risks

- Multiple risk factors:
- Conflict of interest
  - Inappropriate incentive scheme
  - Risk and controls

- Selection risk factors:
- Auditing standards
  - Guidance from King III Code of Good Governance
  - Money Laundering
  - Losses due to fraud

