



ISSUE 2



RFIN REVIEW

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EXECUTIVE DIRECTOR'S CORNER

Consideration of Environmental, Social and Governance (ESG) factors in our investment portfolio

Environmental, social, and governance issues have taken on increasing importance to governments, investors, and citizens around the world due to their impacts on business, trade, and capital investment. What are the factors relating to the Environmental “E”, Social “S” and Governance “G” aspects and how do they relate to the investment portfolios?

The ‘E’ factor deals with the way a company impacts on and interacts with natural capital in the surroundings where the company operates in. With increased natural calamity, it became clear that climate change poses one of the greatest threats to our planet worldwide; hence there is a need for society to be climate conscious and resilient. The ‘E’ aspects include physical risks such as destruction to the ecosystem and the increased risk of flood and extreme weather events.

Consideration of the “E” factors introduces the transition risk, as industries are transitioning to low-carbon eco-friendly economies. For example, technological breakthroughs might decrease the price of renewable energy, leading in turn to an abrupt decline in the demand for fossil fuels and a drastic change in the energy mix. Consequently, businesses or countries that mine, process, or sell fossil fuels may need to write down assets or ultimately default. Investors that have outstanding loans or corporate bonds in the fossil fuel industries will see the value of their investments decrease in the long term. The speed, scale, and success rate of adopting climate-resilient solutions, as well as investor preparedness, will determine the actual impacts on the financial assets. The “E” factors could also encourage corporate citizens to move towards more sustainable business models which translates to concrete opportunities for companies to become more innovative and reduce high costs of production and waste management.

The ‘S’ is about the way a company affects its various stakeholder groups like employees, suppliers, contractors, consumers, communities, and others. Social impacts can occur through direct operations and value chains and include the risk of infringing on the human rights of stakeholders such as issues with a direct negative impact on workers’ rights, especially when it comes to the workers right to a safe and healthy working environment. Other examples include discriminating based on gender or ethnicity when hiring or promoting employees, inability of employers to pay a living wage to their workers which is exacerbated by the absence of a minimum wage in most industries apart from the domestic workers, security guards and farm workers in Namibia.



As an investor, managing “S” will include knowing stakeholder groups affected by the companies in their investment portfolios, and further assessing the extent to which these stakeholders are at risk of suffering any negative impacts because of corporate practices. There are investment opportunities presented by social issues, which retirement funds can tap into within the ambits of the Regulations, and which would later be governed by the Standards and Regulations to the FIM Act, especially in the health sector. These range from investments in physical infrastructure of hospitals, clinics and pharmacies catering to the medical needs of the emerging middle-class in high-growth markets, but also in more innovative products such as financial solutions to enable poorer communities access health services.

EXECUTIVE DIRECTOR'S CORNER

Consideration of Environmental, Social and Governance (ESG) factors in our investment portfolio



The 'G' relates to the cumulative approach to two core components: corporate governance and business integrity. Corporate governance focuses on the way a company 'governs' itself through implementation and application of policies, processes and controls to achieve compliance and secure transparency in its dealings. Business integrity, on the other hand, deals with the way a company steers clear of corruption and bribery and avoids openly engaging with politically exposed persons who may pose a reputational risk to the company's brand. The 'G' has been incorporated in business operations for years, and market trends continue to indicate that good governance is one of the levers needed to accomplish higher returns through attracting investors who prefer to invest in corporate entities that apply these norms as part of their values.

The global ESG landscape is constantly evolving. Global regulators and policymakers are imposing corporate ESG disclosures, especially environmental disclosures. In some markets listed companies are obligated to publicly publish their corporate sustainability report (CSR). Compared to developed Western countries that have more than 80 percent of global ESG market share, African investors are catching up to this trend and increasingly looking to adopt and apply ESG factors in their investment decision making process. Achievements of global targets on ESG cannot be achieved without corporates and financial institutions actioning on it. Most of these institutions have started to develop their own low-carbon strategy and vision for a low-carbon transition. Investors are looking for opportunities in this area; hence more ESG and climate-related financial products are being developed.

As the largest investors and participants in the capital markets due to the size of the industry's assets under management combined, retirement fund institutions are key stakeholders in enforcing compliance and meeting the global targets. Such could be achieved through ESG frameworks development that could be integrated into the entire investment process and become an essential set of metrics for annual management reporting. Retirement Funds' investment strategies can seek for assets which yield positive returns, but with long-term impact on society, environment, and the performance of the business. In Namibia, Retirement Funds can consider imposing ESG requirements in their unlisted investment portfolios.

Results from limited research conducted concluded that ESG standards provide an additional level of due diligence, which is in the best interest of the Fund. It weeds out unsustainable companies with outdated practices and harmful side effects, while also minimizing risk for investors as they invest in more responsible companies with a greater likelihood of succeeding in the long run. However, before considering ESG factors into the portfolios, Retirement Fund Institutions should understand the impact that ESG factors can have on their invested assets. A few issues to pay attention to will include the impact on the performance of a portfolio, cost elements and volatility due to the exclusion of some sectors and companies from the portfolio. It is therefore advisable for retirement funds to engage ESG experts to assist in incorporating these factors as part of the investment portfolios and develop the right metrics to consider in measuring the positive impacts to the overall portfolio.

To learn more about ESG, trustees are encouraged to enroll for the CPD accredited training course on ESG, arranged by Batseta, our South African counterpart. The first class will commence on 16 September 2021, and the invitation will be sent out to all our members soon.

NOTICE FOR CONSULTATION SESSIONS TO DISCUSS CRITICAL STANDARDS AND REGULATIONS IN PREPARATION FOR THE IMPLEMENTATION OF FIMA

At the retirement funds' industry meeting held on the 16 July 2021 NAMFISA informed the industry that the NAMFISA Bill has been signed by the President and is now an Act of Parliament. However, it is yet to be published in the Government Gazette. Date of commencement of The Financial Institutions and Markets Act (FIMA) is unknown but will be determined by the Minister i.t.o s 468.

FIMA requires NAMFISA to publish all critical standards in the Government Gazette for formal industry consultation. In terms of sec 409, at least 30 days will be allowed to make representation to the drafted standards, however, there is no consultation on the regulations prescribed under FIMA since regulations are made by the Minister.

Therefore, the industry will only be given 30 days to provide and submit comments to the standards, as part of the FIMA's implementation process. The time stipulated in the Act may not be enough to allow the industry to review all relevant standards and provide valuable input to NAMFISA. It is therefore prudent that the industry adopts a proactive approach and work through these standards so that such comments will be ready by the time when such will be sought by NAMFISA. RFIN will facilitate the discussion on the critical standards and regulations relevant to the retirement fund industry via virtual sessions from 20 September 2021 till 28 September 2021.

In total, there will be for discussion, 20 (twenty) standards related to the Retirement Funds, 13 (thirteen) general standards and 8 (eight) Retirement Funds related regulations. The detailed consultation schedule was sent to all our members. We are therefore encouraged to attend these sessions and participate in the development of subordinated legislative instruments crucial to the future administration of our retirement funds.



TRUSTEE TRAINING REPORT: MAY 2021

As part of the skills development agenda, which aims to empower trustees of retirement fund institutions, we commit to host regular training sessions for our members. The courses on offer will cover the following topics:

- Investment Fundamentals,
- Member Engagement and Communication,
- Pension Fund Reporting,
- FIMA and the Pension Funds Act and
- Retirement Fund Operations

The same courses will be offered four times a year to allow for flexibility on the trustees to choose the time convenient for them to attend. The first training session was held over 3 days during the last week of May 2021. Because of Covid-19 regulations, the mode in which the training was offered was Hybrid (both virtual and face to face) with limited seats and others having joined online. Our trainers for the three (3) days were Mr. Edmund Buys, an independent consultant with the vast knowledge in the industry and Mr. Niel van der Linder from Prudential Portfolio Managers.



A total of 19 delegates from seven pension funds attended the training sessions. According to the feedback received, the training content is relevant to the industry; hence the sessions were viewed to be insightful and informative. Positive feedback was also received on the trainers, in terms of their knowledge and the manner they explained topics. Therefore, given the positive outcome of the training, trustees are encouraged to exploit this opportunity and attend future training sessions planned for the rest of the year. The full training calendar schedule is included in this newsletter.

TRAINING CALENDAR 2021

Topics

Investment Fundamentals
Member Engagement and Communication
Retirement Fund Reporting
Trustee and PO roles under FIMA
Retirement Fund Operations
Retirement Fund Investments

Date

October & November
October & November
October & November
October & November
October & November
October & November

NOTICE OF THE ANNUAL RETIREMENT FUND INDUSTRY CONFERENCE FOR 2021



RFIN has over the years hosted the annual retirement fund industry conference. This is the most important event in the calendar of the industry since it brings together experts in the sector to discuss pertinent issues facing the industry. Despite the challenges brought about by COVID-19 in terms of public gatherings, RFIN decided to host the virtual conference this year, with the presenters, panelists, and moderators to be together at a physical location where the COVID-19 rules will still be observed.

The selected topics will be discussed under the following theme – *The Perfect storm is here! How does it affect the Retirement Fund Industry and how do we navigate it?*

- Topic 1:** Impact of migration to risk-based supervision on pension fund – Regulator's perspective
- Topic 2:** Unlisted Investments: The Namibian Experience
- Topic 3:** COVID 19 Silver lining for Retirement Funds – Opportunities in the midst of challenges
- Topic 4:** Emerging/Current/key risks facing the retirement industry
- Topic 5:** Umbrella funds vs standalone funds (Debate)

Conference is slated for 17-18 November 2021 in Windhoek

NOTICE OF THE ANNUAL GENERAL MEETING (AGM) FOR 2021

Paragraph 22 of our constitution requires RFIN to hold an AGM every financial year. This is the transparent platform which gives our members an opportunity to engage the Board and administration by discussing the pertinent issues relating to the Institute's affairs. It will be at this meeting where the Directors of the Institute will present its financial performance for the past year and further discuss its future strategies. Members of RFIN will engage the Board, air their concerns, and share the ideas on future directions of the Institute. In terms of the Constitution, Members are allowed to submit proposals at an AGM at least two weeks before the date of the meeting. Therefore, members are encouraged to submit such proposals to Administration within the stipulated timeframe, so that same can be shared with all members seven days before the meeting.

As a practice, AGMs are platforms where crucial votes can be held; these are usually in areas that need members presence, including filling vacant positions on the Board. There are three Directors whose terms will come to an end in September 2021, and an additional vacancy due to the resignation of one Board Member. In total four positions need to be filled, nomination and appointment to the Board will take place at this meeting. Therefore, all members are encouraged to participate in this very important process of appointing the team that will be tasked with the duties to lead the activities of RFIN during the coming three years. Members who choose not to attend the meeting can vote by proxy, which can be done by giving permission for another member who attends the meeting to vote on their behalf. The AGM will be held virtually due to the COVID-19 Regulations.

Advertise with us!

We hereby are excited to announce that we have advertising space available in our next edition. Special Rates now available, please contact us on marketing@rfin.com.na to book your space today, space is limited

New Location

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Coming Up in the next edition

RFIN hereby invites industry players to submit thought leadership articles to be featured in our next edition. Please contact our office on 061-301 482 or email marketing@rfin.com.na