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Responsible Investment News and Views

February 2021

Accountability, engagement and outcomes

2021 will see organisations begin publishing their initial reports of compliance with the revised UK Stewardship Code. With participants across the financial services industry being encouraged to adhere to this stronger code, will we now begin to see greater levels of change? Asset owners should ask their providers what actions they are taking and use stewardship code reports as a basis for engagement and challenge.

Demanding accountability

As we approach the first deadline for prospective signatories to complete their Stewardship Code reports, we turn to consider outcomes which is a key focus of the new Code. Outcomes matter and fundamentally there are only two levers that asset owners have at their disposal: they can engage with the goal of changing behaviours in some way, or they can reallocate their capital.

All parties can play an engagement role, regardless of size. The recent launch of a pooled fund vehicle that allows individual asset owners to take control of their stewardship actions or the use of technology to engage individuals on stewardship demonstrate what is possible. But solutions do not need to be complex when accountability can be achieved by asking a single question.

Investment managers are ultimately accountable to their clients and whilst one client asking a question may not seem to have much impact, when 5, 10, 20 or more begin asking the same question, then investment managers begin to listen. With collaboration within the industry becoming increasingly common, change becomes possible.

As intermediaries, we have a clear role to play in the exercise of this form of stewardship. Over the course of 2021, we will therefore be focusing our own engagement with investment managers on three major themes:

Climate change: It's imperative that the financial services industry plays its part in addressing climate change, particularly focusing on the tangible outcomes that can be achieved. We'll be seeking to ensure that all managers are requiring disclosure by the companies in which they invest, both listed and unlisted, and that our clients have access to appropriate levels of information to allow their own analysis and disclosure.

Diversity: We support efforts to improve diversity both at Board level and also within firms. We also recognise that the financial services industry (including ourselves) needs to do more in this regard. We've set out our own strategy to deal with this here, but will be seeking better data from managers on both how they're addressing this issue with their investee companies, and the actions that they're taking internally. We'll also be working to embed this into our ratings process.

Working practices: Covid 19 highlighted how different companies managed broader stakeholder relationships, including with their own workforce. Where appropriate, managers should be challenging investee companies to improve working practices and strategies that extend inequalities, particularly around executive pay, may be open to challenge.

It's important that all asset owners have a constructive dialogue with their investment managers. As we have outlined in our guide to effective stewardship, this meets both the expectations of engagement but ensures that managers know who they are ultimately accountable to.

What gets measured, gets managed

With ESG and carbon data becoming increasingly available, investors now have another lens through which to explore and understand the characteristics of portfolios, consider how these align with investment beliefs and support engagement with managers. Such analysis will become a formal requirement for larger pension schemes under the proposed TCFD regulations.

We recognise the growing needs of asset owners and have developed our own capabilities in this area. However, we also recognise that metrics need to support decision making to be useful and encourage asset owners to understand what each metric tells them about their portfolios. For more information on how we can help you understand the ESG and climate characteristics of your portfolios, speak to your usual Hymans consultant.

Focusing on net zero

With climate risk increasingly to the fore, there has been a growing focus "net zero" and what this means for asset owners who are seeking to align their portfolios with this important global goal.

In recent months, the Net Zero Asset Managers Initiative has been launched with managers supporting the initiative committing to providing asset owners with relevant information and analytics and to implement a stewardship programme consistent with the net zero goal. With initial support from 30 managers, this offers a bar against which asset owners can gauge the efforts of their own managers and challenge their activity.

Coupled with the IIGCC's Net Zero framework which is expected to be launched shortly, asset owners will have growing access to the tools and analysis necessary to drive change. Join our [webinar] on 9 March to understand how to begin your own journey to Net Zero.

Having your own say

Investors with equity assets have historically questioned how they can influence the voting behaviour of managers, particularly in pooled funds whilst a recent report from the Association of Member Nominated Trustees criticised the current proxy voting system as not fit for purpose. With support from the Pensions Minister and the recent launch of a pooled fund allowing investors to express their own stewardship preference, it seems that change may be coming.

Legacy of recent climate litigation

In our last news and views, we summarised this landmark Australian case where member Mark McVeigh sued his pension fund for not doing enough to protect retirement savings against the financial impact of climate change. Whilst it didn't result in changes to legislation, the case highlighted the importance of asset owner duties and the growing scrutiny they should expect to ensure they are doing enough to manage climate related risks.

With reporting in line with TCFD soon to become a requirement in the UK, trustees should focus not just on the management actions they are taking, but also how they are communicating their actions and the consequences of this to members.

Pressure on financial sector "hotting up"

Following calls last year for Barclays to phase out financing of fossil fuels and utility companies not aligned with the Paris goals, HSBC are the latest to be targeted. Shareholders have filed a climate resolution calling for HSBC to take immediate action to reduce its exposure to fossil fuels. This is in response to climate plans announced by HSBC in October 2020, which some feel does not go far enough in terms of commitment.

Anecdotal evidence suggests that pressure on those financing the fossil fuel industry is beginning to have an impact and we expect this pressure to continue. Asset owners can engage with their managers to understand what action they are taking with the banks in which they invest.