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Responsible Investment News and Views

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The climate emergency continues to dominate the rhetoric, with a raft of new proposals and regulations aimed at increasing disclosures on climate reporting introduced in 2022. They all speak to the common theme that there is no room for complacency in the transition to net-zero.

Getting to Net-Zero: setting ambition

The Net-Zero Asset Owners Alliance (NZAOA) updated its target setting protocol in January 2022, encouraging members to establish increasingly stringent decarbonisation and portfolio engagement targets to align with the latest pathways for keeping global warming below 1.5 degrees Celsius. The update suggests absolute emissions reductions over the period 2020 - 2025 should be between 22% - 32%, with absolute emissions reductions of between 49% and 65% by 2030 being recommended. The alliance stresses that these targets more accurately reflect the speed at which all parts of the economy need to decarbonise.

In addition to measuring emissions and setting climate-related objectives, it seems likely that asset owners will also need to measure the alignment of their portfolios with a net-zero trajectory under proposed changes to the Task Force on Climate-related Financial Disclosures (TCFD) regulations. Pension schemes who are considering their endgame may want to consider how climate and net-zero considerations interact with their broader strategy. We addressed this in our recent webinar and follow up Q&A document.

Making better stewards

Recognising that switching from one asset to another does nothing to impact real-world emissions, the exercise of stewardship is critical in holding companies and others accountable for meeting decarbonisation and net-zero objectives. The Department of Work and Pensions (DWP) recently consulted on updated guidance for pension scheme trustees around stewardship, emphasising the need for trustees to explain how their stewardship activities are in beneficiaries' best interests and for trustees to have clear ownership of stewardship responsibilities. We welcome the ongoing regulatory focus on stewardship and our response to the DWP was supportive.

Our own stewardship focus has been on creating better discussions between asset owners and asset managers, focusing on our selected core themes which include climate change, working practices and diversity & inclusion. We believe it is important to emphasise the value that comes from discussion and challenge and that data and reporting are the mechanisms that support this dialogue. In 2022, we will continue to focus our efforts on how we can "make better stewards", exploring stewardship from multiple perspectives, undertaking our manager stewardship survey and continuing to build our support for asset owners

Get ready for TCFD

Pension schemes over £1bn will fall within the scope of the TCFD governance and reporting regulations from 1 October 2022, with larger schemes already subject to these requirements. Ahead of the regulations coming into force, there is preparatory work that trustees will need to undertake, building knowledge, engaging with managers and ensuring that governance responsibilities are clearly defined. Our "Getting Ready for TCFD" guide is a helpful starting point for those just beginning the process. We've also shared some of the learnings from one of our clients on the process that they have been working through in this case study.

ESG Snippets

Better Manager Engagement Reporting

Effective stewardship goes beyond just voting on shares, with engagement being an essential component of active stewardship. Reporting on engagement has, however, historically been burdensome for asset managers given the difficulty in obtaining appropriate data and different data requests from different parties. Our own investigation of engagement activity exploring child labour in the cocoa industry certainly revealed a wide range of responses to the issue.

To help improve engagement reporting by asset managers and platform providers to institutional clients, the Investment Consultants Sustainability Working Group (of which Hymans Robertson is a member) has published an engagement reporting guide. This guide provides a common framework to enable efficiency and improve transparency, making “decision-useful” engagement reporting more readily available to asset owners.

Understanding managers’ engagement activity is critical in building stewardship and we will be adopting this guide to standardise our data gathering. Why not ask your managers if they will be adopting this guide for their reporting?

Responsible Political Engagement

The Principles for Responsible Investment (PRI) has unveiled plans to develop further stewardship guidance for investors on “responsible political engagement”. Political engagement can take many forms, including but not limited to lobbying, political contributions, responding to policy consultations and funding think tanks.

The PRI has said that investors working towards sustainability objectives must ensure that their portfolio of companies are conducting political engagement in a responsible manner, acknowledging that corporate political engagement can improve the quality of the democratic process, but that concerns exist that the outsized economic and political power of large companies may result in other voices in society being underrepresented in public policy debates.

Political engagement is another subject on which asset owners can engage with managers. For example, understanding how managers are addressing concerns over climate lobbying by fossil fuel companies is an area that can be explored. The PRI’s guidance will be helpful to asset owners wanting to hold their managers to account.

Are climate collaborations working?

Collective engagement is a powerful way for asset managers to leverage resources to enact change. Climate Action 100+ (CA100), a global investor-led engagement initiative, aims to foster the clean energy transition by engaging with companies with the highest greenhouse gas emissions to achieve the goals of the Paris Agreement.

CA100 signatories agree that engaging with companies in which they are invested to improve the management and disclosure of climate issues and demanding accountability is part of their fiduciary duty. However, recent reports from Majority Action and ShareAction found that managers were not using their voting powers to hold companies to account for a lack of climate action. Furthermore, there are examples of CA100 signatories that are not supporting resolutions flagged by CA100, reducing the initiative's effectiveness.

Asset owners need to review how their managers vote and interrogate the legitimacy of their participation in various industry initiatives. Why not focus your next meeting with your managers on how they are addressing climate issues and ask them to explain their voting on climate resolutions?

FCA driving improved climate disclosure

The Financial Conduct Authority (FCA) has published two Policy Statements confirming rules and guidance to promote better climate-related financial disclosures, which began to take effect from 1 January 2022.

Firstly, listed companies must now report climate-related risks and opportunities in line with TCFD recommendations, and where they don’t, they will need to explain why. Secondly, FCA-regulated asset managers and asset owners, including life insurers and pension providers, must disclose their approach to climate related risks and opportunities in managing investments and will need to make disclosures about the climate-related attributes of their products.

The FCA is at the forefront of a growing number of regulators globally who are adopting the TCFD’s recommendations in disclosure rules and the first regulator to introduce TCFD-aligned disclosures for asset managers and asset owners.

This change is welcome news for pension schemes, many of whom are also facing a need to make climate-related disclosures. Being able to not just report data but have a better understanding of how climate risk is embedded into product management will be vital in applying TCFD regulations and making informed decisions.

Focusing on Stewardship: Significant Votes

Trustees need to decide what they regard as “significant votes” for the purposes of preparing their implementation statements. For some, the themes that they have set as part of their own responsible investment policy may be considered, whilst others may take guidance from their investment managers. Following our own key themes of climate change, working practices and diversity & inclusion, we summarise several recent and forthcoming resolutions that could be considered by trustees and provide a basis for discussion and reporting. Given the forthcoming resolutions, including some widely held companies (Apple; Amazon), trustees may want to discuss voting intentions with their managers and consider how voting decisions are reached.

BHP Group: Climate Lobbying (November 2021)
Shareholders passed the proposal requesting the company strengthen its review of industry associations to ensure that it identifies areas of inconsistency with the Paris Agreement, with voters supportive of transparent disclosures on climate-related lobbying. Although the company has been opposed to such resolutions in the past, it recommended that shareholders support this resolution which subsequently received 98.9% of votes. This is a positive development and welcoming to see BHP Group incorporate shareholder feedback to enhance its approach to industry associations.

Sysco: Say On Climate (November 2021)
The shareholder proposal requesting Sysco to report annually on the company’s short, medium, and long-term greenhouse gas targets, and how these are aligned with the Paris Agreement’s goal of maintaining the temperature at 1.5 degrees Celsius, passed with 92.1% vote. Climate-related decisions by a company have a portfolio and economy-wide implications. Setting and disclosing GHG emissions reductions targets and reporting a climate transition plan in line with these targets are important means of ensuring management is reduces its climate contribution and considering the physical and transitional risks of climate change. Asset owners could ask managers to monitor Sysco’s progress in setting and implementing these targets.

Oracle: Racial Equity Audit (November 2021)
The resolution for Oracle to undertake a racial and equality audit failed to pass, receiving 31.8% of votes. However, this does send a message to management as to the importance of this issue. While Oracle have taken steps to address diversity, shareholders wanted to assess further the effectiveness of the company’s efforts to address the issue of racial inequality. An independent audit would help shareholders better understand how Oracle is managing and overseeing risks related to the use of facial recognition technology, particularly given growing privacy, civil rights and racial bias concerns associated with technology.

JP Morgan: Fossil Fuel Investment (Q1 2022)
JP Morgan (JPM) is looking to block a shareholder proposal, initiated by the London-based activist Tulipshare, that requests the company stop investment in fossil fuels. JPM has written to the US Securities Exchange Commission (SEC) asking that the proposal, submitted in December 2021, be excluded from the AGM, noting that fossil fuel investment falls under ‘ordinary business operations’ and is a matter previously submitted to the company. However, the SEC updated its guidance in November to disallow exclusions on proposals related to climate change if the proposal being put forward allows management discretion as to how to achieve climate change goals. JPM is one of the largest lenders to fossil fuel businesses and has faced mounting pressure from investors over climate change risk in recent years.

Apple: Racial Equity Audit (Q1 2022)
While Apple has declared a commitment to racial and gender equity, a resolution to complete a racial equity audit has been proposed by shareholders. The proposal is one of several sustainability-related proposals the company faces in 2022. It follows the news that Apple is being investigated by the U.S Labor Department for alleged harassment and retaliation against an employee who raised workplace safety concerns.

Amazon: Report on Aligning Retirement Plan Options with Company Climate Goals (Q1 2022)
While shareholders have applauded Amazon for adopting ambitious operational climate goals, an upcoming shareholder proposal asked Amazon to report on how their retirement plan options for employees align with their current climate action goals. The proposal requests the company to report on how they could provide better options for employees by looking for sustainable investments. While Amazon has made significant efforts to address climate change in their operations, there is a misalignment between the company’s sustainability goals and the investment options for retirement plans.