HYMANS ROBERTSON

Responsible Investment News and Views

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Making Implementation Statements work for you

Stewardship remains a clear area of focus for pension funds as trustee boards begin turning their attention to producing Implementation Statements detailing how their stewardship (voting and engagement) policies have been followed over the course of the scheme year. While this is a step in the right direction for the disclosure, many trustees will be reporting on the issue for the first time.

Implementation Statements

Pension scheme trustees need to produce an Implementation Statement within accounts published after 1 October 2020 which must set out how and the extent to which their stewardship policy has been followed over the scheme year as well as reporting against significant votes cast over the period and the use of proxy advisors. (The requirements for DC schemes are more extensive).

The statement requires trustees to report on voting behaviours and also significant votes, this ideally being at fund rather than a manager level. This represents a change in the level of disclosure, particularly for managers of pooled funds, with some more prepared to provide data than others. This regulatory change and the demand from investors may drive disclosure improvements.

Most trustees have delegated stewardship practices to their investment managers. Implementation Statements, and ongoing reporting, will help trustees monitor alignment between manager stewardship practices and their own policies, identifying any gaps which can be used as a basis for future engagement.

Trustees will also need to assess the execution of stewardship practices across all of their asset managers and understand whether their managers are doing enough. This could be enlightening where more than one manager within the portfolio has voting rights, offering a useful point of comparison and allowing trustees to consider any differences in approaches taken and challenge their managers.

When reporting on ‘significant’ votes cast, we would urge trustees to reflect on what ‘significant’ means to them. Significant may relate to the size of holding, a particularly controversial resolution or the trustee’s concerns or beliefs on a particular issue. Trustees should be prepared to consider what is important to them as asset owners.

The requirement to produce and publish Implementation Statements creates an ongoing need for trustees to be aware of, and potentially revisit, their stewardship policy commitments and broader investment beliefs. Given the inevitable public scrutiny that is likely to follow the publication, this is an area we believe is worthy of ongoing attention. Indeed, we believe that trustees should regard the Implementation Statement as more than a compliance document.

Managers need to improve transparency

We recently published the results of our second stewardship survey where the key finding of our research is that levels of transparency and disclosure need to improve. As interest in responsible investment has grown, so the need for ready access to information to facilitate understanding and challenge by asset owners has also grown.

Whilst we have seen some improvements, including managers adding resource, it remains clear that more can still be done. It remains incumbent on asset owners to continue to provide scrutiny of managers drive improvements in practices and demand accountability for the actions that are being taken. Requesting more granular information on voting is one step in the right direction.

ESG ratings in the spotlight

Recent allegations of poor working conditions and below minimum wage pay brought "fast-fashion" brand Boohoo into the spotlight and placed a clear focus on the "S" in ESG.

Although the factories in question were not owned directly by Boohoo, the firm has since announced a full investigation into the allegations and working conditions. That this was reported in the first-place calls into question the firm's management process and emphasises the need for companies to do more to monitor and ensure good working conditions and practices in all parts of their supply chain.

The reputational damage doesn't stop at Boohoo. Prior to these allegations, the firm was rated highly by multiple ESG rating providers (although these will likely now have been re-assessed) and included in some ESG focussed funds. The situation highlights the need for ESG rating providers and fund managers to be more thorough in how they assess companies and review their own sources of data and processes.

Climate change on the agenda

The changes to the investment regulations last year explicitly called out climate risk as an issue to be addressed. The forthcoming Pensions Bill has also placed a clear expectation that pension schemes will be required to formally report on their approach to managing climate risk in coming years. With the guidance from the Pensions Climate Risk Industry Group having recently concluded its consultation, the focus on how pension funds are addressing climate risk continues to grow. For those trustees that haven't yet begun thinking about this, we suggest three steps

- Close knowledge gaps by adding climate risk into your training plans, ensuring that all can then contribute to discussions.
- Review investment beliefs and consider the extent to which they currently do and should address climate risk. Getting input from sponsors in this process could be helpful
- Talk to your investment managers about what they are doing to address this risk. Managers are developing different approaches and by understanding what actions are being taken, trustees can prioritise action.

A *net zero* investment framework

The Institutional Investors Group on Climate Change ('IIGCC') has developed an investment framework aimed at assisting investors in transitioning portfolios towards a decarbonised economy and net zero emissions. The finalised framework will allow investors to make net zero commitments and has been designed by asset owners and managers focusing on five key principles of Impact, Practicality, Accessibility, Accountability and Rigour.

The framework seeks to help investors draw on sound evidence and publicly available information to create strategies that achieve the maximum level of emissions reduction. A consultation on the frameworks runs until 25 September and is open to feedback from all stakeholders.

US challenges responsible investment

Changes seeking to push back on the consideration of ESG issues in investment processes have been made in the US. The SEC's proposal to inhibit the filing of shareholder resolutions has seen opposition from various shareholder rights groups whilst the Department of Labor has also proposed rules for employee pension plans, seeking to discourage the use of ESG investments. Investors should be aware of these changes and the actions that their investment managers and others are taking to push back against regulators. Public policy advocacy is one area where managers can effectively use their voice. We are firmly opposed to calls to dismiss ESG issues in investment processes, since such approaches could be financially detrimental to investors.