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Responsible Investment News and Views

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With the UK hosting COP26 in November 2021, responsible investment and climate change will remain high on agendas. Net zero is becoming a topic which many are considering but the focus has to remain on what really matters, real world change.

Net Zero: start your journey

COP26 has spurred discussion and activity on the journey to Net Zero; we know that increases in global emissions need to be curbed and action taken to decarbonise economic activities. A recent House of Commons report focused on how pension funds can engage with Net Zero and called on the Government to actively pursue international Net Zero harmonisation in the financial industry. We are delighted to have recently joined the Net Zero Investment Consultants Initiative (NZICI) which extends the commitment of our climate pledge and will be embedding the principles of the NZICI into our own work.

All asset owners need to engage with climate change and the ongoing transition and, in the build up to COP26, we are hosting a webinar on how you can play your part. Our introductory paper, the journey to net zero starts here, provides a more detailed introduction to this subject. You can also consider supporting our **Climate Impact Initiative** to encourage pension providers to make climate friendly impact investment options available for all savers regardless of plan size, by signing up here.

Stewardship: Engaging on supply chains

The shortage of HGV drivers and concerns over the availability of basic goods in the UK has highlighted both our reliance on supply chains and their fragility when just one element breaks. The interconnected nature of our global systems means that financial outcomes can often depend on actions that may be both out of sight and out of mind. Through our **working practices** theme, we have sought to highlight some of the considerations within supply chains and how the exercise of stewardship by asset managers is critical in both protecting the reputational risk to investors, but also in ensuring fair outcomes for all stakeholders. Our Investment Podcast, Stewardship and the significance of Supply Chains considers this issue further, exploring the garments industry as a case study.

To help their own stewardship efforts, asset owners should consider selecting several key themes on which to focus stewardship discussions with asset managers. Use these themes to focus discussions with managers and make sure there are clear follow up actions. These discussions can then be reported through your Implementation Statement.

Embedding sustainability in Fixed Income

Achieving Net Zero will require a fund wide re-evaluation and application of financial services. One of the themes of COP26, mobilising finance, will likely explore this in greater detail with the consideration of both where capital should be allocated, and where it shouldn't be allocated. The recent pledge by China to stop financing coal fired power projects is one example of this. One area which is rapidly evolving is fixed income, this being particularly relevant for maturing defined benefit pension schemes that are increasingly allocating to income-oriented mandates to build cashflow driven investment solutions.

We have seen a significant uptick in Green Social and Sustainable bonds and Sustainability-Linked Bond issuance in 2020 and 2021, but what does the market look like and how can these types of asset feature in portfolios? Our introductory article explores this further and you should speak to your consultant to explore this further.

Focusing on stewardship: Significant votes

Trustees need to decide what they regard as "significant votes" for the purposes of preparing their implementation statements although there is a question mark over what counts as significant. For some trustees, the themes that they have set as part of their own responsible investment policy may be considered. Others may take guidance from their investment managers on what is relevant. Following our own key themes of climate change, working practices and diversity & inclusion, we summarise several key resolutions over Q3 and Q4 that could be considered by trustees:

Worthington Industries: Say on Climate (Sept. 2021)
Shareholders voted against the proposal to ask the US metals manufacturer to adopt "say on climate". The resolution received 40.9% of votes. The proposal asked the company to issue a report evaluating whether and how they intend to revise policies to be fully responsive to Climate Action 100+'s Net Zero Company Benchmark. Whilst disappointing that the resolution did not gain majority support, this provided an indication of shareholder concern.

Tesla: Resolution on arbitration (October 2021)
The shareholder proposal asking the company to prepare a public report on the impact of mandatory arbitration on Tesla's employees and workplace culture did not pass. receiving 46.4% of votes. However, two important votes did pass at Tesla's AGM, namely a proposal to report annually on its diversity, equity and inclusion efforts as well as a proposal to reorganise the board into a single class. Issues remain surrounding the company's supermajority vote structure as, despite winning 90.3% of votes cast, the vote failed as it did not constitute at least two-thirds of the total outstanding shares of Tesla's common stock. Despite this being a management proposal, the firm subsequently withdrew its support. Investors in funds holding Tesla could ask managers what the next steps are likely to be to address governance issues.

Nike: Diversity disclosure (October 2021)
Nike shareholders voted on a resolution to report on the company's diversity, equality, and inclusion. Despite extensive use of race and diversity within the firms advertising, the firm faces internal accusations of harassment and discrimination. The firm also failed to release an EE0-1 form, something provided by 71% of the S&P 100 companies, which is seen as best practise for disclosing workforce composition. The resolution failed to pass receiving 35.6% of votes.

BHP Group: Climate lobbying (November 2021)
A shareholder proposal asking BHP to review memberships of industry organisations and suspend those which are inconsistent with climate transition goals will be considered at the company's forthcoming AGM. Whilst the company has opposed such resolutions in the past, it has recommended investors support this resolution.

Sysco: Say on Climate (November 2021)
Sysco shareholders are asking the company to create an annual report disclosing the companies short, medium- and long-term greenhouse gas targets as aligned with the Paris Agreement's goal of maintaining temperature at 1.5 degrees Celsius. This resolution is looking to build upon the current carbon reporting from Sysco which, as yet, does not include any material targets for the reduction of emissions across the company. This issue is important for Sysco, as a global distributor of food products, as the systematic risk threatened by climate change could undermine the effective running and development of the company.

Oracle: Racial Equality Audit (November 2021)
Shareholders at the technology firm have filed a resolution asking he firm to undertake a racial and equality audit, assessing the company's impacts on non-white stakeholders and communities. The proposal has been filed by the Services Employees International Union which is concerned as to the lack of goals, policies and procedures increasing diversity at senior and Board levels. Management has recommended a vote against the proposal.

Advocating for change: Global Investor Statement on Climate Change

Ahead of COP26, the Global Investor Statement to Governments on the Climate Crisis is a call to governments to increase the quality and intensity of their climate ambitions and policies. The statement now has support and has been signed by almost 600 investors. It sets out five clear actions for governments to increase policy certainty, including the strengthening of emissions reduction commitments for the 2030s, committing to Net Zero and outlining clear decarbonization roadmaps, and implementing domestic policies that will deliver the target. We believe that strong and concerted policy action is necessary to address climate change. Further, by providing clarity on future policy action and improving disclosures on climate risk for investors, uncertainty for investors will be reduced.

ESG snippets

Stewardship Code signatories published

In September 2021, the FRC published its first list of signatories to the UK Stewardship Code. Hymans Robertson was delighted to be named as a signatory. The revamped Code represents a high bar for asset owners, managers and service providers to demonstrate their credentials. Whilst there were some notable omissions from the list, the FRC has also issued some helpful guidance as to what it expects from future applicants to the Code.

The process of reporting can help asset owners identify gaps in their processes and areas for improvement. Why not consider whether becoming a signatory would be helpful to you?

Improving Stewardship

Two recent reports, one from, the House of Commons Work and Pensions Committee (WPC) and one from the Taskforce on Pension Scheme Voting Implementation (TPSVI), have made recommendations on how stewardship within the pensions industry can be improved. The TPSVI focused on how voting can be improved along the decision-making chain, calling for a greater focus on stewardship by asset owners, improvements to the infrastructure to allow asset owner to direct voting and transparency.

The WPC report called on the government to use the opportunity of hosting COP26 to secure international commitments to work towards the global harmonisation of climate related disclosures, the standardisations around definitions of Net Zero alignment and the establishment of a working group to develop guidance on Net Zero. The report also addressed divestment, noting that encouraging behavioural change through good stewardship is likely to be more effective at creating real world impact.

The ongoing regulatory focus on stewardship is welcome as it remains one of the key tools available to investors. We have previously highlighted what investors can do to exercise stewardship and improving the information and tools available, whilst ensuring clarity can only be beneficial.

BlackRock Voting Change

In a major step to expand the agency of asset owners and seemingly in direct response to the TPSVI recommendations, BlackRock has announced a substantial expansion to voting options for institutional clients. From January 2022, clients will have access to four voting choice options. This includes the ability directly voting on select resolutions and companies or choosing from a selection of third-party proxy voting policies.

Whilst the initiative will initially cover institutional separate accounts and a limited range of pooled funds, this will represent around 40% of BlackRock's index equity assets. Further steps to expand proxy voting choice to other products is likely to follow.

This change by BlackRock, coupled with the launch by AMX earlier this year of a pooled fund which allows investors to drive voting policy demonstrate what can be achieved. It is clear that change is coming and asset owners need to consider how they can adapt their own policies and work alongside their asset managers.

UK issues Green Gilts

In September, the UK raised around £10bn via the issuance of its first green gilts, with a further issuance planned in October. The launch of the new 12-year gilt represents the biggest single sale of green bonds by a sovereign issuer, topping the previous €8.5bn record set by Italy in March. The gilt was issued at a yield of 1.5bps less than a market implied value of an equivalent non-green gilt, termed the "Greenium" The initial issuance was significantly oversubscribed with £100bn worth of bids for the £10bn issuance with the current low supply and high demand for green gilts having increased the Greenium to c.3bps. The Government intends to report on the use of proceeds annually.

Whilst the issuance of green gilts is a welcome addition for investors wanting to direct monies to support impact, they are one tool that can help tackle issues such as climate change. We will be monitoring this developing area and would urge asset owners to consider all the tools at their disposal in trying to drive change.