HYMANS ROBERTSON

Being Better Stewards

UK Stewardship Code review 2022

At Hymans Robertson, we've been building better futures for over 100 years. We encourage and challenge all our clients to be better stewards and continually seek to improve how we can support them in achieving this goal. We've recently published our stewardship report for 2022, and we set out below some of the key highlights from this report.

We focused on being a sustainable partnership. We know the decisions we take today must support our next generation of partners and staff. We reflect this through our values and our culture, and in how we engage with and advise our clients. More on this can be found within our *CSR report*.

Developing our staff is vital, and we spent time building our consultants' RI knowledge. We held regular RI-related training sessions focusing on topics including net zero journey planning, approaches to decarbonisation across sectors, TCFD regulations, stewardship, timberland, what 'good' looks like when evaluating asset managers and regulatory development.

In our survey of consulting staff, 79% indicated their climate knowledge had improved over the year

We've supported clients in multiple ways. We've recruited directly to help clients with their stewardship ambitions while also sharing our expertise via secondment arrangements, developing engagement frameworks and reporting against the UK stewardship code principles. This is just a small part of how we support our clients: we were delighted that our annual survey revealed that 99% of clients rated us for the quality of our services.

Over 2022, our RI team grew to 16 with over 40 people supporting our broader stewardship efforts

The team supported clients in meeting their TCFD requirements, developed methods for consulting on climate strategy, improved its scrutiny of managers and, most importantly, focused on our overarching principle of 'being better stewards'.

Climate work

Our climate pledge commits us to integrate climate-change considerations into our research, services and advice. Recognising the need for better climate data, we initiated an annual survey of private market asset managers and identified a reporting gap. We saw this as an opportunity for **engagement**, pushing managers to do more.

We are helping clients understand the **journey to net zero** as they commit to the long-term decarbonisation of their asset portfolios. We've established our approach to **modelling net zero pathways**, and we've been encouraged by our clients' engagement as they take ambitious actions. We also completed our *first report* as a signatory to the **Net Zero Investment Consultants Initiative (NZICI)**, demonstrating progress not only with our advice, but also our own efforts to reduce carbon emissions.

Our **Climate Impact Initiative**, which we launched in 2021, called on defined contribution (DC) pension providers to launch products that allow savers to invest in climate-impact solutions. After 12 months, we're pleased to see providers increasingly including these solutions in their offerings, with **around 10% of DC savers able to access a climate impact choice, up from around 2% just 12 months earlier.**

Given the growth in risk transfer, it's vital that insurers properly take account of climate and ESG risks. We spoke with all insurers to capture their latest reporting and ESG activity, including TCFD disclosures, and highlighted some of our thinking in our publication, *Spotlight: ESG in Risk Transfer* transactions during the year. We've also been working to help improve insurers' disclosures. This increased focus also led us to appoint a Head of ESG for Risk Transfer.

We appointed Paul Hewitson as Head of ESG for Risk Transfer and Mhairi Gooch as Net Zero lead

Manager research

Our research team held over 400 meetings with over 100 different asset managers. **We also began a process of more tailored engagement with a small number of managers** with whom we have more established relationships. Discussions focused on understanding stewardship processes, voting actions around climate change and disclosure and reporting expectations.

2022 also marked the **launch of our 'Research Roundup' publication**. Targeted at asset managers, this quarterly newsletter sets out our current thinking and areas of research focus, along with our expectations of asset managers. We've been delighted by the positive reception this publication received.

> *It was great to receive your new Research Roundup today, indicating the key areas of focus for your research efforts this year.*
> Executive Director, European asset manager

Our research team has a focus on market-wide and systemic risks for capital markets. Market-wide risks took many forms throughout the year, including inflation, the invasion of Ukraine and the gilts crisis. We addressed the emergence of all these risks, while paying particular attention to climate change and biodiversity.

Biodiversity was an area of increasing focus. We appointed Andre Ranchin as our biodiversity lead, and we worked with Global Canopy to build knowledge of *deforestation issues*. We'll form more partnerships to better understand nature-related risks ahead of the Taskforce on Nature-related Financial Disclosures (TNFD) framework in 2023.

Exploring new investment opportunities

We continue to look for opportunities to invest, recognising that capital allocation is a key tool in driving change. We continued to highlight to clients the opportunities in timberland and renewable energy infrastructure, both of which we see as having attractive risk/return characteristics in addition to meeting broader sustainability goals. We were happy to help our clients seed an innovative forestry fund.

We helped our clients invest over £500 million in timberland and renewable energy infrastructure.

Our clients also continued their allocations to liquid strategies. Over 40% of our defined benefits clients have now invested in a sustainably oriented equity strategy. We also worked with two clients to develop tailored sustainable equity funds which have gained **over £1 billion of capital.**

Looking forward, we launched our **Focus on Change blog series,** which recognises the world is changing and that opportunities to invest in the transition to a low-carbon economy will continue to emerge. Over the year, we addressed issues such as *battery storage*, *lithium* and the *just transition*, with these serving as a basis for further discussion with clients.

We also spent time **reviewing and refining our processes.** We updated our equity investment beliefs and our RI ratings framework to reflect changing best practice. We also reviewed potential red lines for investors considering the ongoing challenges our clients face. However, we continue to recognise that such decisions are for our clients to make.

Looking forward

But while our report looks back at 2022, we also looked forward to 2023, particularly the following themes:

- **Using TCFD as a catalyst for action,** as clients complete their first TCFD reports, ensuring that lessons learned from the first round of reporting are put into action.
- **Ensuring net-zero commitments are met,** turning ambitions into tangible action plans and meaningful change.
- **Driving accountability through stewardship,** with greater emphasis being placed on the outcomes achieved by stewardship activity.
- **A continued focus on biodiversity and natural capital,** with the development of the Taskforce on Nature-related Financial Disclosures (TNFD) reporting framework being expected to catalyse further action to address nature-related risks.
- **Driving real-world change.** We want to see asset owners and managers focused on creating impactful outcomes while being able to demonstrate the impact of capital allocation and stewardship activity.

We're pleased about the progress we and the broader industry made in 2022. But what's become increasingly clear is the central role that asset owners and their advisers must play in driving change, particularly by **being better stewards.**

Simon Jones
Head of Responsible Investment

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