HYMANS ROBERTSON

Responsible Investment News and Views

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The war in Ukraine has seen investors divest, as far as possible, from companies exposed to Russia. It has also highlighted the dependence of many European countries on Russian fossil fuels, bringing the climate crisis to the fore. This poses different questions for responsible investors, particularly on the outcomes they want to strive to achieve through their investments.

Against the backdrop of economic sanctions, immediate questions about the potential need to divest were addressed by a fall in liquidity, the actions of index providers that removed Russia from market indices and active asset managers reviewing holdings. The situation in Russia and Ukraine has however, opened a broader debate about responsible investment and where it is appropriate to invest. Do listing requirements represent a sufficiently high hurdle for stocks to be considered responsible investment? To what extent do investors have a role in establishing standards for countries, and the companies within them, to gain access to global capital markets?

This brings into consideration further questions about the purpose of Responsible Investment, particularly in light of the growing focus it has received over recent years. Is it simply a means to manage Environmental, Social, and Governance (ESG) risks, or is it more fundamentally about investing in and for a sustainable future? What do we mean by sustainable? Should we be more actively considering the real-world impacts of investments, making value judgements and including human social contracts? How many lenses can we look at investment decisions through, and can we be sure that decisions remain compatible with our fiduciary duty? For example, a recent paper by Sackers[1] takes real-world net-zero goals and examines them against fiduciary duties, finding them to be consistent.

To support these efforts, investors are increasingly taking steps to measure exposure to different ESG factors, but we should always consider what the data means, and what we are going to do with it. Exposure to Russian stocks, both directly and indirectly, could be interpreted as a financial risk given increased economic uncertainty, but this represents just one (potentially too simple) lens through which to consider the issue. We could also question whether broader environmental and social factors being properly considered when examining data, or are we just considering each issue in isolation? We need to be able to gather a holistic view across a range of issues, understand the nature of the risks and translate that into meaningful action.

Every asset owner will approach this in a slightly different manner, deciding what they can and can't devote resources to, considering what is or isn't meaningful and where they can and can't have an impact. If we are truly going to be responsible investors, asset owners need to have clearly determined their priorities, objectives, and why these objectives matter.

Building our own capacity

Hymans Robertson remains committed to supporting our clients in addressing their own ambitions. Hence, we are delighted to have added significant resources to our overall responsible investment team which now comprises seven full-time members and a number of staff across our other business units. Recognising our focus on both climate change and stewardship, we are pleased to advise that Mhairi Gooch has joined the team to lead our work on Net-Zero and Olivia Mooney, who will be leading our stewardship activity. Building out our broader team, we have also been delighted that Paul Hewitson has taken on a role in leading the consideration of ESG issues within insurers, as part of our Risk Transfer work.

[1] https://www.sackers.com/app/uploads/2022/05/Getting-to-Net-Zero-A-spotlight-on-the-role-of-pension-trustees-May-2022.pdf

ESG Snippets

SEC proposes rules for climate reporting

The Securities & Exchange Commission (SEC) in the US proposed rule amendments which will require climate related reporting by listed companies. Broadly following the Task Force on Climate-related Financial Disclosures (TCFD) framework, the proposal would require reporting on climate related risks, governance, carbon emissions and other climate metrics alongside targets and transition plans.

Better information is a prerequisite to managing risks and the effective scrutiny of activity by investors. With many investors having a stewardship goal of wanting to challenge companies on TCFD disclosures, this will help accelerate that goal.

Asset owners should ask their managers whether they have engaged with the SEC consultation on the draft proposal? What are their views? What steps they are taking to ensure that investee companies are already making such disclosures and what steps can be taken to accelerate the adoption of this rule.

Driving improved data quality

Seeking improved disclosure from companies is one part of the battle, but the need for better data extends in all directions. With growing numbers of organisations now needing to report carbon emissions in-line with TCFD requirements, so the need for better information across all asset classes becomes an issue. This is of particular interest in private market mandates where asset owners are generally closer to the underlying investment entity.

Whilst approaches that estimate data using proxies offer one solution, to us, this somewhat misses the point. We believe there is merit in organisations being directly accountable for calculating and reporting carbon emissions, as this is one way to change behaviours can be changed. Our own research has highlighted the paucity of climate data being measured and reported on by asset managers suggesting the need for organisations to do more, right through the value chain.

We are happy to support the use of data quality as one of the TCFD reporting metrics and believe this is a critical area for asset owners to engage with managers to improve outcomes. Why not ask your managers what targets they have set for improving the quality of reported emissions data over the next 12 months?

A focus on nature

We cannot overlook the fact that climate change and biodiversity are intrinsically linked and that many of the global systems on which our economies are built have a reliance on nature. But like climate change before, how to assess and price nature related risks seems very distant from the traditional world of financial decision making. This is the gap that the Taskforce for Nature Related Disclosures (TNFD) hopes to fill.

In March 2022, the Taskforce published its first framework for consultation, addressing concepts and definitions, disclosure recommendations and the first version of some practical guidance on risk and opportunity analysis. This framework is available for users to review and comment on for the next 12 months and represents a step forward in closing the gap between nature and finance.

We are beginning to see the launch of financial products linked to natural capital and biodiversity, coupled with work to promote action by asset owners on tackling deforestation. Biodiversity could be a theme that you explore with your asset managers – why not ask them what work they are doing to understand nature related risks and their views on the TNFD?

More needed to achieve net-zero

Climate Action 100+ (CA100), the investor-led collaborative engagement initiative with companies on climate transition, recently completed its second Net-Zero Company Benchmark assessment. 166 companies were measured on their progress against the CA100s three engagement goals and a set of indicators related to the business alignment with the goals of the Paris Agreement.

The results revealed that while there had been an increase in company net-zero commitments, with 69% of focus companies having set a commitment to achieve net-zero emissions by 2050 or sooner, companies have failed to show progress across key indicators and more action is urgently needed from companies to support global efforts to limit temperature rise to 1.5C.

The lack of progress demands accountability. Investment managers need to be engaging with companies to ensure that progress is made at the right pace and that greenwashing is highlighted. Voting needs to be effective and asset owners must ensure that their managers use this tool. Our significant votes section overleaf highlights five key climate resolutions in Q2. Challenge your managers for an explanation as to how they have voted.

Focusing on Stewardship: Significant Climate Votes

Below is a summary of climate related shareholder proposals that have been put forward over the past month. All of the proposals listed below were passed. Given that Trustees need to decide what they regard as "significant votes", for the purposes of preparing their implementation statements, we recommend asking your managers how they voted and whether they engaged with companies below on these issues. Asset owners need to review how their managers vote and should consider asking asset managers about their approach to declaring their voting intentions in advance of Annual General Meetings (AGMs) , particularly on high profile or controversial shareholder proposals, to ensure managers' votes are aligned with asset owners' stated investment beliefs.

Resolution Name	Company	Lead Filer	Date AGM
Report on GHG emissions and finance	Chubb Group of Insurance Companies	As You Sow	19/05/2022
A proposal led by As You Sow, the corporate responsibility focused shareholder advocate, requests that Chubb report on the environmental impact of its underwriting, insuring and investment activities. In particular, the proposal asks that the insurer addresses whether and how it intends to measure, disclose, and reduce the Greenhouse Gas (GHG) emissions associated with its underwriting, insuring, and investment activities in alignment with the Paris Agreement goal.			
Climate Change: Decarb. Strategy	Standard Chartered	Market Forces	04/05/2022
Market Forces has argued that Standard Chartered's decarbonisation strategy falls 'well short' of Paris Agreement goals and has urged shareholders to support a shareholder proposal calling Standard Chartered to align with the International Energy Agency Net-Zero 2050 scenario, a credible pathway to net-zero. Standard Chartered has filed its own proposal, asking shareholders to endorse its current plans, which Market Forces state would allow it to continue to finance the expansion of the fossil fuel sector, in direct contravention of the net-zero by 2050 goal it claims to support.			
Climate: Lobbying Activities	Exxon Mobil Corporation	BNP Paribas AM	26/05/22
The proposal requests the Board of Directors conduct an evaluation and issue a report outlining if, and how, ExxonMobil's lobbying activities align with the goals of the Paris Agreement, including the risks presented by any misaligned lobbying. The lead filers of the resolution note that of particular concern are trade associations and other politically active organisations that speak for business but often present forceful obstacles to progress in addressing the climate crisis.			
Climate: GHG Targets	Royal Dutch Shell	Follow This	18/05/22
Shareholders have requested that Shell set and publish GHG targets for scope 1-3 emissions that are consistent with the goal of the Paris Agreement. These targets should cover short, medium and long-term GHG of the company's operations, and the use of its energy products and the proposal also requests that the company report on the strategy and underlying policies for reaching these targets and on the progress made.			
Climate: GHG Targets	TotalEnergies	MN	25/05/2022
With support from 11 other investors, MN has asked TotalEnergies to set and publish Paris-aligned reduction targets for its Scope 1, 2, and 3 emissions, covering the short, medium and long-term. MN stated that the report should explore the French energy giant's strategy and underlying policies for reaching these targets, as well as progress made in the past fiscal year. MN has been actively engaging with TotalEnergies on this and acknowledged that the company has made some progress, but said that its efforts were 'not enough to stop global warming.'			