Case study

Holding an asset manager to account on stewardship

Our client is an £800m pension scheme with an ambition to embrace responsible investment considerations.

Having helped the Trustees develop their formal responsible investment policy, which includes a focus on sustainable investment and an active approach to stewardship, the Trustees identified that engagement has a key role to play in promoting long-term value. As a means of providing focus, the Trustees concentrated on two key themes: climate change and executive remuneration. After one existing asset manager wasn't meeting the requirements, we advised the Trustees to review the manager's long-term role in managing assets for the Scheme and established clear measures for their improvement.

Our approach

We provide the Trustees with quarterly updates on their asset managers' voting and engagement activities to support their ongoing stewardship. These are used to test the extent to which the asset managers' approaches are aligned to the Trustees' policy, with focus on climate risk and executive remuneration.

Through this review process, the Trustees noted several examples where one of their asset managers consistently voted against proposals to address issues relating to climate change, or excessive executive remuneration policies. In contrast, their other asset manager voted differently in each of these instances, with the supporting rationale in this case aligned with the Trustees' expectations. These differing positions formed the basis of deeper engagement with and challenge of the asset managers' activity. This identified the first manager's underlying rationale was to pursue ongoing engagement with investee companies, rather than vote shares against management.

The Trustees were ultimately dissatisfied with the approach adopted by the Investment manager, the poor explanations of decision-making and the level of transparency demonstrated. The Trustees agreed to formally write to the investment manager, setting out their position and holding their manager to account. Continued monitoring highlighted further instances of similar practices from the asset manager, and no measurable change in their stewardship approach. Given the existence of credible alternatives, we advised the Trustees to review the manager's long-term role in managing assets for the Scheme.

We recommended that the Trustees reduce the manager's mandate and allocate the assets to another manager with a policy more closely aligned to that of the Trustees. We also established clear measures for improvement for the existing manager to deliver over the course of the next 12 months. This included demonstrating progress in relation to their stewardship approach in areas such as transparency and reporting.

Depending on the progress made in the next 12 months, the Trustees will decide whether to continue with this programme of active engagement and monitoring, or replace the manager.

Key takeaways:

This case study demonstrates our belief that asset owners can:

- actively engage with and challenge their investment managers, even when monies are invested in pooled funds;
- concentrate on particular issues as a means of focusing engagement activity and embed this into a regular manager oversight programme; and
- use stewardship as a means of differentiating between managers.

Get in touch

If you want more information about anything covered or how we can help your scheme, don't hesitate to get in touch with one of our experts:

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