HYMANS ROBERTSON

Responsible Investment

News and Views

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Recent departures of asset managers from the Climate Action 100+ initiative may be symptomatic of an overall lack of ambition. But is this really the case? And is it right to expect asset managers to drive change?

The Climate Action 100+ (CA100) initiative was established to help drive action on climate issues. Phase 1 focused on greater climate-related disclosures, while Phase 2 pushes companies to reduce greenhouse gas emissions. However, shortly after the announcement of Phase 2, several (mostly US-headquartered) asset managers announced they were leaving CA100. This raised questions about asset managers' commitment to climate action, and how managers see their role in addressing such systemic risks.

At first glance, the **departures from CA100 may seem politically motivated, especially given recent press commentary about anti-ESG sentiment in the US.** However, when we engaged on this, asset managers indicated that political pressure wasn't the main reason, and some denied it was relevant at all.

Instead, several argued that a collaboration such as CA100 is more useful for asset managers who are new to stewardship on climate change. Those that are more experienced, well resourced, and who have good access to senior management no longer need the collaboration's support. Indeed, one contention was that CA100 participation was cumbersome – a drag on the effectiveness of their engagement.

Phase 2 of CA100 was, however, flagged by some as the main reason for leaving or changing their relationship with CA100. Phase 2, which runs to 2030, will push companies to actively reduce greenhouse gas emissions by implementing climate transition plans. Aversion to this was sometimes driven by legal requirements in the US known as 'passivity' rules, which apply to a small number of large, US-headquartered asset managers. These rules limit the asset managers' ability to conduct strong engagement leading to real-world change.

Another reason for wanting to avoid Phase 2 seemed more fundamental. Some asset managers, especially in the US, argued that it was not their role to engender real-world action, even if it would protect clients' portfolios from the significant downside risks from climate change.

We don't believe asset managers have to do all the things that are asked of them – if they don't leave some things off their to-do list, their fees will be prohibitively high. However, we think these decisions should be taken in an evidence-based way, for example, by carefully assessing the portfolio-wide benefits of reducing climate harms, the downsides of taking such actions and any mechanisms for weighing the pros and cons.

Based on our programme of manager engagement, such evidence-based thinking is rare. If managers are opposed to real-world change, they usually position this as a fundamental belief. When pushed, managers will often concede that this belief is influenced by political pressure, even if they don't agree that the specific decision about CA100 was politically motivated.

While a lower value of assets behind the CA100 initiative may diminish its clout, maintaining pressure on those companies that need to act is still a sensible goal. Asset owners focused on real-world outcomes must ensure that those pushing for change on their behalf remain philosophically aligned with their own ambitions.

Engagement with managers should look through to the deeper issues to understand their values. Are they willing to actively engender positive real-world change? And if not, why not? Please get in touch with your usual Hymans Robertson contact to find out more about how we can help you engage.

SIGNIFICANT VOTES: **BIODIVERSITY IN FOCUS**

Biodiversity plays a pivotal role in supporting human life by providing ecosystem services. Over 50% of global GDP depends on natural capital, and biodiversity loss threatens the health of natural ecosystems. However, biodiversity is declining faster than at any other time in human history.

Biodiversity loss is inextricably linked to climate change and has the potential to cause economic, financial and societal risks at a global scale. Given the severity of the crisis, biodiversity is one of our ongoing focus themes in scrutinising asset managers' stewardship actions and corporate activity.

We believe that focusing discussions with investment managers on biodiversity issues can raise awareness of concerns, develop an understanding of the steps they are taking to address this source of risk and create accountability. Asset owners should be holding investment managers, and the companies in which they invest, to account on their approach to, and policies on, biodiversity and nature.

Taking it to the vote

While climate-related resolutions have historically been the most dominant environmental proposals, biodiversity-related proposals are an emerging theme this proxy season, being reflected in a range of shareholder proposals.

The season started with a resolution on deforestation at Tyson Foods in February. The resolution, which sought to accelerate efforts to eliminate deforestation from the company's supply chain, did not pass. There are further upcoming proposals focused on companies within the food and beverage sector, including PepsiCo and Kellanova, formerly known as Kellogg.

In addition, ocean and marine biodiversity related resolutions have been filed at automotive manufacturers including General Motors Co. and Tesla. Land conservation, particularly the impact of a project on a protected watershed area, is in focus at Granite Construction Inc., where a resolution has been filed asking the company to report on the project's nature-related risks.

The emergence of biodiversity-related proposals comes in the wake of various biodiversity engagement initiatives, including Nature Action 100 (NA100) and Spring.

NA100 is a global investor-led engagement initiative focused on supporting greater corporate ambition and action to reverse nature and biodiversity loss. Spring is the PRI's nature engagement initiative and focuses engagement with 40 companies on their impacts and dependencies on nature through business operations, supply chains and engagement with policymakers. Spring has initially focused engagement on deforestation and land degradation, with plans to cover other drivers of biodiversity loss in future.

Sector focus: food and beverage industry

As part of their approach to addressing biodiversity loss and establishing engagement targets, NA100 first focused on establishing key sectors deemed to be systemically important in reversing nature loss.

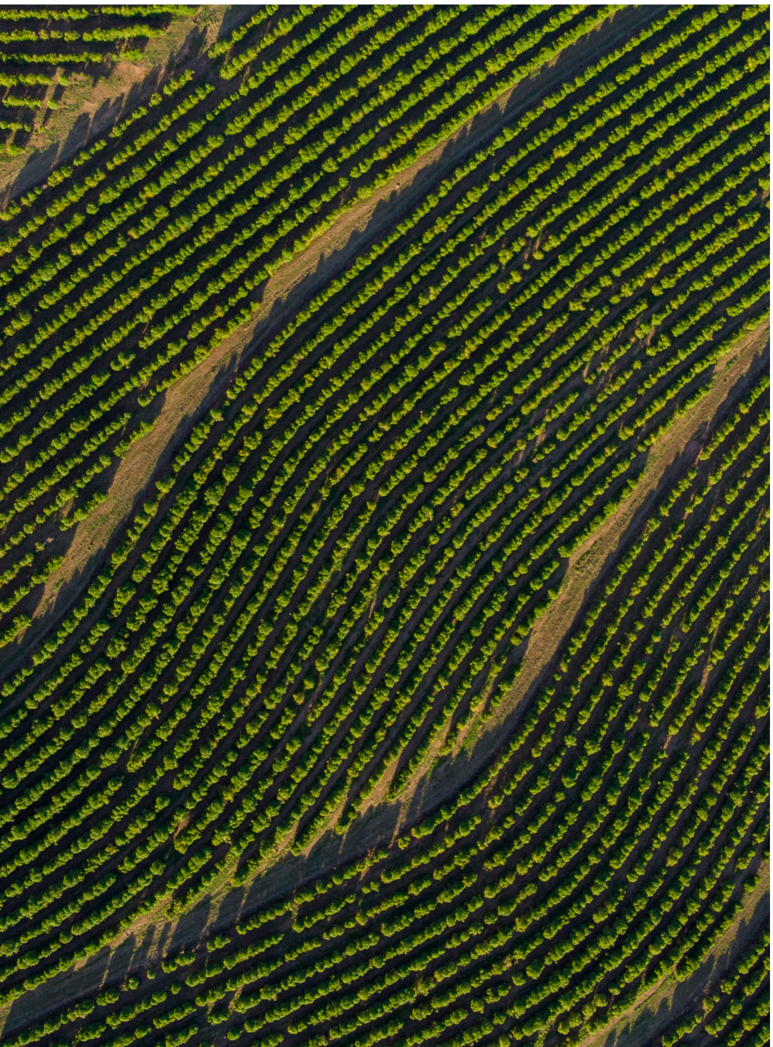
The eight key sectors identified included the food and beverage sector, with key nature-related activities including the manufacturing activities from initial ingredients to packaging final products, warehousing and transportation. NA100 then mapped the nature-related impacts from these activities.

Green Century Management, a US manager, has filed a number of resolutions at food companies for the 2024 proxy season, calling on these companies to start reporting in line with the recommendations of Taskforce on Nature-related Financial Disclosures (TNFD). Green Century stated that it is targeting firms it considers leaders in the sector to set industry best practice and raise the bar on tackling biodiversity.

For example, Green Century filed the resolution at PepsiCo, which is also a target for NA100 engagement, that has garnered predeclared support from Storebrand, Norges Bank Investment Management (NBIM), Allianz Global Investors and the New York City Comptroller. The proposal calls on the company to assess its biodiversity dependencies and impacts and publish a report identifying the extent to which its supply chain and operations are vulnerable to risks associated with biodiversity loss.

In support of the resolution, Storebrand noted that it would "help shareholders assess how the company is managing related risks associated with biodiversity loss as well as adequately track progress on these issues". Allianz, in support of the resolution, also issued a statement noting that their vote signals intention that they "expect to see further progress with company's biodiversity and impact dependency assessments".

PepsiCo has recommended shareholders vote against the resolution, stating that it has "robust initiatives to support sustainability" and arguing that a standalone biodiversity and nature report is not necessary as this is already incorporated into its broader ESG reporting. Glass Lewis, a proxy adviser, has also recommended that shareholders vote against the proposal.



A tool to raise awareness

Voting is a powerful instrument in the stewardship toolkit and can be used to raise awareness on emerging topics.

For example, the Kellanova resolution filed by Green Century focuses on the risks associated with pesticide use in the supply chain of the food and beverage company, and subsequent impact on biodiversity, asking the company to issue a report on these risks.

Similarly, Storebrand, NBIM and the New York Comptroller have all predeclared support of the resolution. While the outcome of this vote is not known, Kellanova has become one of the first US food companies to commit to conduct a comprehensive assessment of its impacts on nature, such as water and land used to grow food. Green Century attributed this industry-leading move as response to its shareholder resolution and evidences the importance of highlighting biodiversity issues to companies to raise awareness.

Further success in using shareholder proposals to raise awareness can be seen in the proposal filed at Costco in 2022. The proposal, filed by Vancity Investment Management (VCIM), called on the company to complete a material biodiversity dependency and impact assessment and prepare a report to identify the extent to which the company's supply chains and operations are vulnerable to risks associated with biodiversity loss and nature loss. The proposal was withdrawn when Costco committed to start evaluating its biodiversity impact. It is due to pilot the TNFD and report on progress this year (2024).

The resolutions outlined provide an opportunity for asset owners to open a discussion with their asset managers to understand how they're considering biodiversity risks. To facilitate this conversation, why not ask your asset manager how they voted on previous resolutions and how they intend to vote on upcoming resolutions, and the rationale for their decisions. You might also ask them what target companies within NA100 and Spring are in their portfolios and, subsequently, what engagement they are having with these companies on nature-related topics.

ESG SNIPPETS

TFSF publish final guidance

The Taskforce on Social Factors (TFSF) has published its final guidance to support pension scheme trustees in assessing the social risks and opportunities of their scheme's investments. The guidance provides tips on effective stewardship for the consideration of social factors and emphasises the role of trustees' influence on stewardship practices and their fiduciary duty to integrate financially material social factors into investment decision-making.

> The consideration of social factors continues to gain interest among investors and other stakeholders, with issues such as AI and modern slavery on agendas. It's important for asset owners to monitor both how asset managers are dealing with these issues and the potential emergence of regulation that could impact investments.

NZAOA updates Target-Setting Protocol

The Net-Zero Asset Owner Alliance (NZAOA) have released their fourth edition of the Target-Setting Protocol, which for the first time covers a broad range of the major asset classes. The new protocol's expanded coverage includes additional private assets (private debt funds, directly held private debt, directly held real estate debt funds and residential mortgage loans), to ensure that high-emitting companies develop transition plans regardless of their ownership structure. All NZAOA members are required to set the next round of five-year targets, and for members working with asset managers, engagement targets are mandatory.

> The transition to net zero requires all asset classes to have a clear and structured climate transition action plan to support decarbonisation efforts. We've actively supported the development of such plans and worked with a number of clients to put action-oriented plans in place.

NA100 releases guidance targeting key sectors

Nature Action 100 has published a new field guide to equip investors with insights and resources to inform their nature engagements with companies. The guide provides an overview for investors into how business activities impact and depend on nature across eight sectors ranging from food to metals and mining. The guide includes individual factsheets on each sector, which explain the main industry activities associated with the sector and the nature-related impacts and dependencies stemming from those activities.

> Asset owners need to assess how they can most effectively use their resources to understand nature-related risks, while having impact. Initiatives like Nature Action 100 leverage collective action, but building knowledge is also likely to be important.

US climate disclosure requirements paused

The US Securities and Exchange Commission (SEC) adopted final rules mandating climate-related disclosure by all SEC registrants. The Final Rules scaled back disclosure requirements and extend phase-in periods compared with the original rule proposed in March 2022. Following the proposals, legal challenges subsequently placed implementation of the disclosure rule on hold.

> While it may take yet more time for final rules to be agreed and then implemented, asset owners can continue to push corporates for greater disclosure where this is not already being provided via their stewardship efforts. Engaging with asset managers to understand who they consider laggards, and the actions being taken to drive change, would be sensible.

Updated RI Mission Statement

We published our updated **Responsible Investment Mission Statement** in April 2024. It sets out our three core pillars of activity, each of which reflects an outcome we are working towards.

Achieving net zero:

We help our clients understand what net zero means for them and how they can take meaningful action to align with this ambition.

Being better stewards:

We help our clients create approaches to stewardship that reflect the resource they're able to commit. Where necessary, we also help them fill in the gaps.

Creating positive impact:

We help our clients better understand how they can have impact, allocate capital, and exercise stewardship to create positive real-world outcomes, all while continuing to meet their fiduciary responsibilities.

If you'd like to discuss anything covered in this publication, please get in touch with your usual Hymans Robertson Consultant or one of our authors below.

Sanjay Joshi
Responsible Investment Consultant
020 7082 6017
sanjay.joshi@hymans.co.uk

Jaid Longmore
Responsible Investment Consultant
0207 082 6103
jaid.longmore@hymans.co.uk

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