



CHARITIES
RESPONSIBLE
INVESTMENT
NETWORK

Improving the Conversation: What Charity Investors Expect from their Asset Managers

December 2018

This discussion paper draws upon recent quantitative and qualitative research on responsible investment leading practice, and was developed through consultation with members of the Charities Responsible Investment Network.

The purpose of the document is to:

1. Act as a guide or set of principles to improve the outcomes of conversations between charity investors and their current asset managers;
2. Provide criteria for selecting new managers;
3. Offer a framework of core expectations for internal conversations and discussions with advisors and consultants; and
4. Send a signal to the market regarding the standards expected.

This document is intended neither to be a fixed requirement or 'red line' for asset managers, nor to supersede existing responsible investment policies. It is structured for use both in relation to overall asset manager policy, and on a fund-specific basis. The primary focus is public securities.

We hope that charity investors use this paper to improve the quality of conversations with their asset managers. We firstly cover disclosure and transparency, core aspects of the responsible investment process, with a focus on voting, engagement and escalation. We then explore leading practice among asset owners.

Find out more

If you have any questions, please contact Lily Tomson, Network Manager - CRIN, on lily.tomson@shareaction.org or +44 (0)20 71832353.

Disclosure and practice expectations

Proxy Voting

Voting decisions on issues such as pay, climate, board structure and auditor re-appointment are important pieces of evidence for asset owners on asset manager commitment to environmental, social and governance issues. These decisions are clear indications of organisational commitment to challenging management and promoting best practice. Asset managers should:

- Provide searchable public databases on all voting decisions, within three months following the vote;
- Explain through a specific policy the use of 'abstentions' and/or 'special exemptions' during the last 12 months, and disclose the annual percentage of votes where abstentions or special exemptions were used;
- Publish rationales for voting decisions on all controversial votes, and on all abstentions and special exemptions;
- Vote to support all independent ESG resolutions, providing a published rationale to explain if any are not supported ('comply or explain' approach to voting); and
- Accept investor directed voting in pooled funds.

Engagement and escalation

Engagement and escalation on ESG issues is often poorly defined and presented in 'stories' rather than as an integrated process and framework. We are looking for more professional and standardised processes. Asset managers should:

- Outline priorities for engagement by topic, companies, sectors or asset classes, and provide a rationale;
- Provide a clear policy around the escalation of engagement – how and why this might happen and what is the ultimate tool, e.g. divestment, voting against board re-election; and
- Publish annual evaluations of the engagement and escalation process and outcomes, using concrete case studies as well as quantitative overviews.

Holdings

Asset managers should:

- Publish full holdings to clients – annually or upon request; and
- Demonstrate incorporation of material ESG issues into investment decision making, asset allocation and portfolio management across all asset classes.

Governance

Asset managers should:

- Have a clear public policy on corporate governance, engagement and ESG issues, including outlining the process of client input;
- Publicly disclose who approves the corporate governance policy and when reviews occur; and
- Outline how the impact of investments on society and the environment are considered in developing future strategy.

Leading practice

Our recent surveys of how leading asset owners, insurers and asset managers have responded to climate change and its implications have shown that there is no single 'best' approach to the integration of this major material ESG issue into investment management. In this section, we highlight approaches that leading fund managers have demonstrated across the ESG domain, and for which we feel fund managers should be able to provide examples.

Forward planning

ESG issues such as the physical impacts and transition to a low carbon economy have material impacts across assets and portfolios. Explain how you have incorporated material ESG issues, particularly climate change, into risk and scenario analysis.

Fee transparency

Clients are looking for managers to be proactive about fee transparency, in line with standards such as the [LGPS Code](#). Provide clients with a comprehensive account of mainstream fund fees and charges.

Co-filing resolutions on ESG issues

This area might prove difficult for some, but plays a part in the development of engagement policies and the escalation of issues. What are your plans and strategy for exploring this area?

Explaining collaboration

As clients, it is difficult to differentiate 'talking shops' from effective collaborative actions. To help us understand your collaborative engagement, outline three key collaborative initiatives, the nature of your involvement, and the results.

Matching expectations

How have you ensured that the expectations and demands made on companies in which you engage are reflected in your own boards and senior leadership?

ShareAction is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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