RESPONSIBLE INVESTMENT AT REDINGTON
INTRODUCTION AND PURPOSE

Redington is an independent investment consultant to pension funds and other long-term savings institutions. We believe that ESG factors have the potential to materially impact the financial returns of our clients’ portfolios over the long term and thus believe that it is important to address ESG factors as an integral part of our advice to clients.

Redington is known for practical and implementable advice. We believe that it is crucial that we bring this skill to bear in the field of ESG to empower clients to make decisions which move them in the right direction to meet their specific goals.

PRI SIGNATORY

Our core corporate values encourage and support behaviour which is responsible, open and clear. In view of this, we are pleased to be a signatory to the UN Principles for Responsible Investing (UNPRI). This is a voluntary code; its goal is to understand the implications of sustainability for investors and encourage the incorporation of these issues into their investment decision making.

(For more information, please go to unpri.org).

UNDERSTANDING ESG THROUGH REDINGTON’S INVESTMENT PRINCIPLES

Principle 1
All investment strategy starts with the clear goals, objectives & constraints of the client, including a defined and agreed risk budget.

Redington believe that ESG factors have the potential to materially impact the financial returns of our clients’ portfolios over the long term and strive to address ESG issues as an integral part of our advice to clients. We seek to understand the investment principles of our clients, including any specific views on ESG factors they may hold. Once we have defined these principles, we work with our clients to design an investment strategy which takes client-specific goals, views and constraints into account.

Principle 12
Risks still exist if you don’t measure them, but risks can only be controlled if you do measure them.

Whilst measurement of ESG risks is challenging and data is often incomplete this is no reason to ignore the potential risks. Our approach is to make the best possible attempt to measure these risks whilst remaining open-minded and proactively staying on top of new developments in data and ESG risk management.

Principle 15
Diversification adds value over the long term but cannot be relied upon to protect the portfolio in all adverse conditions.

Systemic risks such as those associated with widespread climate change are likely to impact all investments. It may not be possible to avoid the negative impacts of some of these systemic risks through diversification.

Principle 19
Prioritise the “quick wins” first before worrying about how difficult the harder things are.

ESG risks are better understood and more easily integrated into the investment process for some asset classes (e.g., fundamental active equity) than others (e.g., derivative heavy risk parity). The fact that we cannot cover the entire universe should not mean that we do not make a start in the areas where we know it’s possible to make progress. Start with the parts of your portfolio where there are quick wins. Once these quick wins are completed we can move onto the more complex, less explored problems.
WORKING WITH OUR CLIENTS

Redington strive to integrate ESG considerations into all stages of the client’s investment decision-making process: from setting Strategic Asset Allocation through to selection and monitoring of investment managers. We aim to be as transparent as possible in communicating the way in which our internal processes integrate ESG. We seek to understand the values of our clients and where our clients hold specific ESG views, we will work with them to implement these views.

Case Study 1
Defining responsible investment principles
Redington has created a survey and associated educational materials which are designed to help our clients to define and document their responsible principles either as part of the Statement of Investment Principles or as a longer, dedicated Statement of Responsible Investment Principles.

Case Study 2
Applying an ethical screen
Clients with specific values-based exclusion criteria (eg zero tobacco) have worked with Redington to ensure that their ethical screens are applied. Consideration begins at the asset allocation stage, through to manager selection, and finally portfolio monitoring.

Case Study 3
Climate aware fund design
We worked with HSBC DC pension scheme (our client), FTSE Russell (index provider), and Legal & General Investment Management (asset manager) to create a passive global equity fund that delivered the following:

- Factor based investing
  - Financial Risk
- Low Carbon/High Green
  - Financial Sustainability
- Climate impact engagement and divestment
  - Raise market standards
- Member Communications
  - Engage investors/members

Case Study 4
Portfolio review
We have worked with several clients to review the approaches to Responsible Investment practiced by their asset managers. Redington can provide a qualitative assessment of each asset manager’s integration of ESG into the investment process as well as a quantitative assessment of exposure to certain ESG factors (eg tobacco, carbon footprint).
Redington recognise the importance of collaboration with industry participants throughout the value chain in order to achieve widespread integration of ESG factors into decision making.

In addition to holding PRI signatory status Redington has published and contributed to a number of industry-wide discussions on the topic of ESG.

Manager Research and Monitoring

The degree to which ESG factors are considered in the investment process is one of the 10 key selection factors we use to assess asset managers before making a manager recommendation to our clients. As investment consultants we do not have the ability to engage directly with companies. However, we do have the opportunity to engage with asset managers on the topic of ESG: to ask them to disclose information; challenge them to think about these topics more deeply; and sometimes even push them to improve their processes.

Industry collaboration / working groups

- Member of the PRI Manager Selection Working Group and PRI Passive Investment Working Group
- Member of the PRI Fixed Income Advisory Committee
- Participant in the European Commission’s Horizon 20-20 EU-MACS project
- Contributor to IFOA DC Climate Change Report
- Collaboration with AMNT & UKSIF on their investment consultant initiative
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