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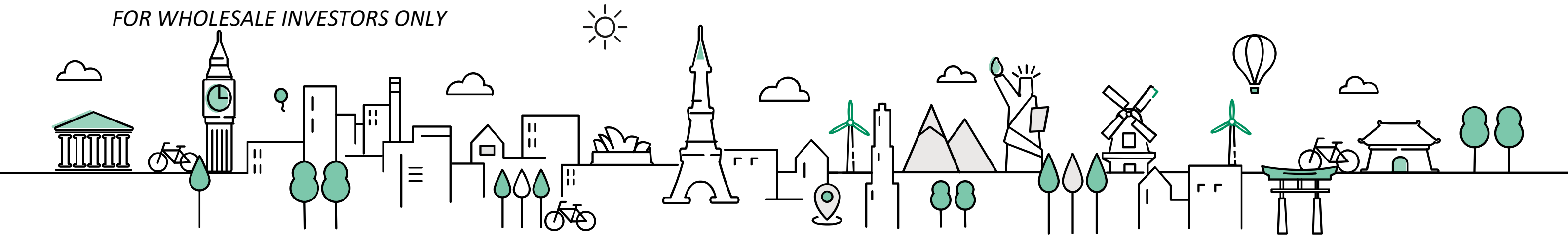

Are your asset managers as sustainable as they claim?

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Judging by the formidable growth in the number of signatories to the Principles for Responsible Investment (PRI), sustainable investment has become mainstream among asset managers.

Based on recent PRI data, there are now over 2 500 signatories (including more than 2 000 asset managers), together representing over USD 90 trillion in assets under management. That is the equivalent of the world's GDP!

While becoming a PRI signatory does include commitments such as incorporating environmental, social and governance (ESG) issues into investment decisions, actual practices often remain insufficient. This is leading to legitimate investor concerns on so-called greenwashing/ESG washing.

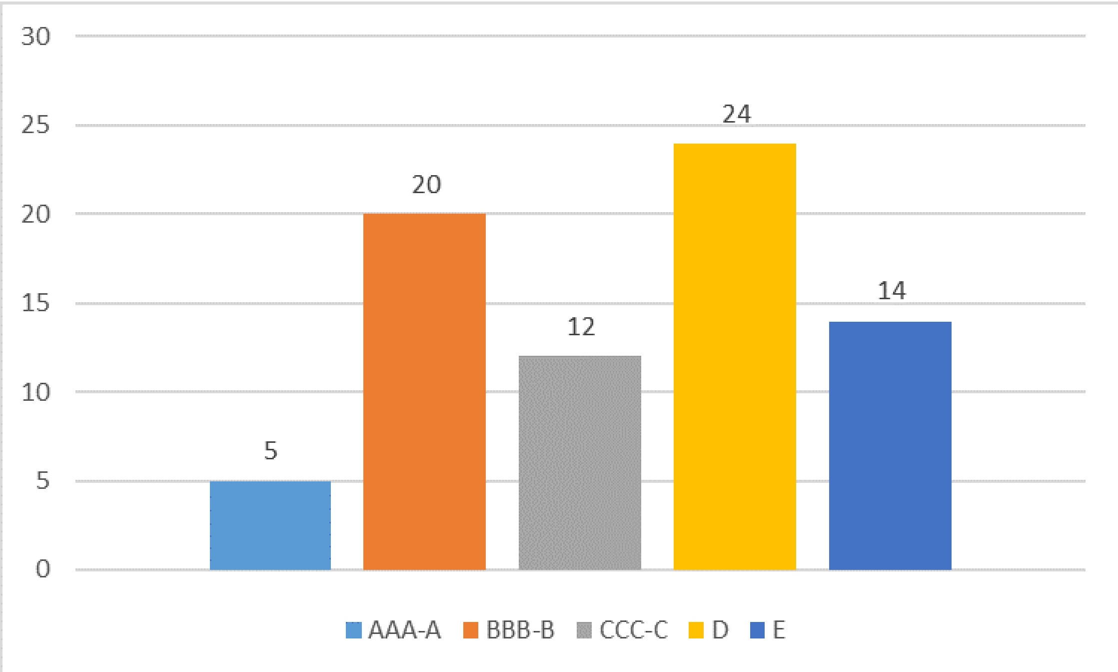
SHAREACTION'S 'POINT OF NO RETURNS' REPORT

This report analyses 75 of the world's largest asset managers holding over USD 56 trillion in assets under management. Using a TCFD[1]-aligned questionnaire, it assesses overall responsible investment governance, as well as three thematic areas: climate change, human rights and biodiversity.

Encouragingly, 92% of asset managers took part. This demonstrates a high willingness in the industry to engage. The results, however, are mixed. Ranging from AAA ('Gold Standard') to E ('Laggards'), only five managers – including BNP Paribas Asset Management – show industry leadership, having earned an 'A' rating (see Exhibit 1).

More than half – 50% of which are PRI signatories – fall into the bottom 'D' and 'E' categories. This includes the world's six largest managers. Topics-wise, the average percentage score ranges from a high of 40% for responsible investment governance to only 18% for biodiversity. That low score highlights the need for enhanced biodiversity practices.

Exhibit 1: Only five asset managers achieve an 'A' rating, with over half falling in the bottom two rating bands



Source: ShareAction, March 2020

While many asset managers have been putting forward their sustainable offering and ESG credentials, the industry needs to make more progress in addressing pressing sustainability issues, the report shows. So far, only a few have actually adopted a truly sustainable approach across all their investments.

WWF'S 'RESPOND' STUDY AND TOOL ON ASSET MANAGERS' RESPONSIBLE INVESTMENT PRACTICES

RESPOND (Resilient and Sustainable Portfolios that Protect Nature and Drive Decarbonisation), launched in January, takes a slightly different angle. More than a ranking, it is designed as a tool to help asset managers improve portfolio resilience and alignment with a low-carbon and sustainable future.

Asset managers are assessed using WWF's proprietary responsible investment (RI) framework. Its six pillars echo an investment consultant approach: Purpose, Policies, Processes, People, Products and Portfolio. The framework, based on public disclosure, aligns with TCFD recommendations and PRI reporting.

The report, which focused on 22 'ESG-leader' asset managers (including BNP Paribas Asset Management), showed how important first steps have been taken to address climate-related risks.

It also highlights how a number of leading asset managers need to enhance existing RI policies to cover broader natural capital issues in their investments, including

- water risk
- deforestation
- biodiversity loss
- ocean degradation.

They should make greater reference to science-based criteria when addressing sustainability issues in their investment portfolios.

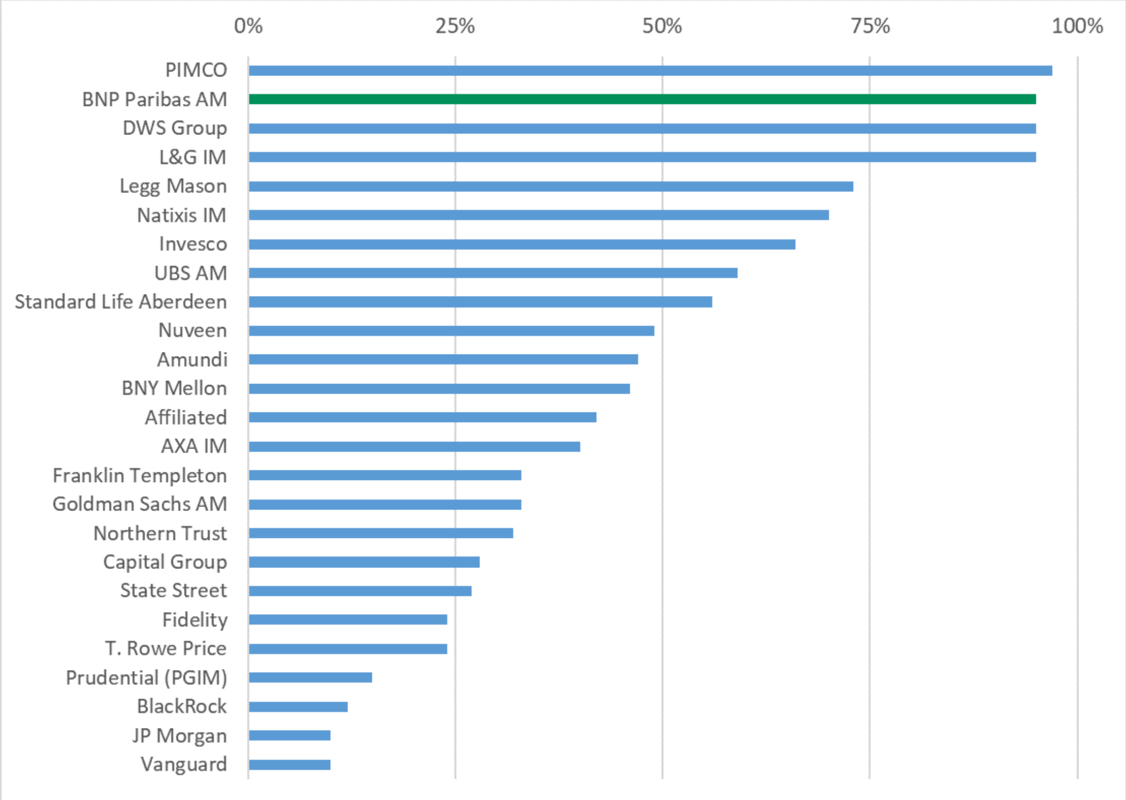
MAJORITYACTION'S 'CLIMATE IN THE BOARDROOM' REPORT

Through investments made on behalf of their clients, asset managers hold voting rights that give them a unique position to ensure investee companies are run in the long-term interests of investors. This report analysed voting practices of 25 of the world's largest asset managers, to assess to what extent they are fulfilling their fiduciary duty by using this influence to steer investee companies towards aligning their practices with the goals of the Paris Agreement.

Although most managers claim they support the fight against climate change, the report shows that only a few – including BNP Paribas Asset Management – have indeed translated their stated commitment into policies to consistently hold corporate boards accountable for addressing climate-related concerns, including support for climate-critical resolutions (see Exhibit 2).

This low number slows progress on climate action. The report says that least 16 of these critical climate votes would have received majority support had two of the largest asset managers voted in favour.

Exhibit 2: Only four asset managers showed consistent support for climate-critical resolutions



Source: MajorityAction, September 2019

IMPROVING TRANSPARENCY AND RAISING THE BAR

In conclusion, we believe this increased scrutiny of asset managers is welcome in three ways.
First, it provides sustainability-minded investors with useful information to help guide their decision of where to put their investments.

Second, the greater transparency and accountability helps address 'greenwashing/ESG washing' concerns, creating stakeholder pressure for lagging asset managers to enhance their sustainability practices.

Third, these frameworks represent a useful tool for asset managers – including sustainability leaders – to identify areas for further improvement and best practices in addressing pressing sustainability issues in their investments.

[1] TCFD: Task force on Climate-related Financial Disclosures

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