

# Lifting the Lid: Responsible investment performance of European asset managers

This briefing provides recommendations for charitable investors on key areas of engagement with their asset managers, based on the findings of ShareAction's 2017 survey of European asset managers.

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ShareAction has published a benchmarking survey of the transparency and Responsible Investment (RI) practices of 40 of the largest asset managers in Europe. Whilst this is our first benchmarking survey covering firms based in 10 European countries, we have a solid history of conducting surveys on RI practices in the UK. These surveys are intended to identify and spread industry best practice and to aid clients in their evaluation and selection of providers. The asset managers included this year invest over €21 trillion (£18 trillion) on behalf of pension schemes, charities, universities, and individuals across the world. This briefing has been prepared to highlight the findings of most relevance to charitable investors.

## Survey findings

The asset managers were assessed firstly on their transparency, including the accessibility of information about: voting and engagement with investee companies, conflicts of interest policies, and disclosure of investment fees and charges. All managers were also sent a questionnaire allowing them to explain in more detail how their investment process incorporates environmental, social and governance factors that are relevant to investment performance. 31 out of 40 managers (77.5%)

completed the questionnaire and were scored accordingly.

No firm achieved the maximum 90 points, but the five top performers were Schroder Investment Management (82), Robeco Group (81), Aviva Investors (80), Amundi (77.5), and Standard Life Investments (76.5). The worst performers, were Deutsche Asset Management (15), KBC Asset Management (14), Union Investment (14), SEB (13), and BBVA Asset Management (10). The worst performers did not submit a response to the questionnaire and were also weak on public disclosures.

As described in the report, while we found pockets of very strong RI practice in Europe's largest asset management firms we also note that there is significant room for improvement in the sector as a whole, particularly with regards to voting and company engagement and disclosure thereof; impact measurement; and transparency of fees and charges.

# European Asset Managers

## Responsible Investment Ranking 2017

| Asset Manager                                 | Country     | Rank | Public Review<br>(max. 40) | Questionnaire<br>(max. 50) | Total<br>(max. 90) |
|---|-------------|------|----------------------------|----------------------------|--------------------|
| Schroder Investment Management                | UK          | 1    | 34                         | 48.0                       | 82.0               |
| Robeco Group                                  | Netherlands | 2    | 36                         | 45.0                       | 81.0               |
| Aviva Investors                               | UK          | 3    | 34                         | 46.0                       | 80.0               |
| Amundi  | France      | 4    | 31                         | 46.5                       | 77.5               |
| Standard Life Investments                     | UK          | 5    | 31                         | 45.5                       | 76.5               |
| Legal & General Investment Management         | UK          | 6    | 28                         | 48.0                       | 76.0               |
| Columbia Threadneedle Investments             | US/UK       | 7    | 30                         | 43.5                       | 73.5               |
| Candriam Investors Group                      | Belgium     | 8    | 29                         | 44.0                       | 73.0               |
| Natixis Global Asset Management               | France      | 9    | 33                         | 39.5                       | 72.5               |
| AXA Investment Managers                       | France      | 10   | 27                         | 44.5                       | 71.5               |
| M&G Investments                               | UK          | 11   | 28                         | 40.5                       | 68.5               |
| BlackRock                                     | US/UK       | 12   | 27                         | 40.0                       | 67.0               |
| State Street Global Advisors                  | US/UK       | 13   | 25                         | 39.5                       | 64.5               |
| Nordea Asset Management                       | Denmark     | 14   | 22                         | 41.5                       | 63.5               |
| NN Investment Partners                        | Netherlands | 15   | 25                         | 38.0                       | 63.0               |
| Bank J. Safra Sarasin                         | Switzerland | 16   | 18                         | 44.0                       | 62.0               |
| Aegon Asset Management                        | Netherlands | 17   | 22                         | 39.0                       | 61.0               |
| Aberdeen Asset Management                     | UK          | 18   | 22                         | 38.0                       | 60.0               |
| Achmea Investment Management                  | Netherlands | 19   | 19                         | 40.0                       | 59.0               |
| BNP Paribas Investment Partners               | France      | 20   | 18                         | 40.0                       | 58.0               |
| Allianz Global Investors                      | Germany     | 21   | 21                         | 36.0                       | 57.0               |
| HSBC Global Asset Management                  | UK          | 22   | 17                         | 37.5                       | 54.5               |
| Eurizon Capital                               | Italy       | 23   | 15                         | 37.0                       | 52.0               |
| Credit Suisse                                 | Switzerland | 24   | 14                         | 35.5                       | 49.5               |
| La Banque Postale Asset Management            | France      | 25   | 16                         | 32.5                       | 48.5               |
| Pictet Asset Management                       | Switzerland | 26   | 15                         | 31.5                       | 46.5               |
| Generali Investments Europe                   | Italy       | 27   | 15                         | 29.5                       | 44.5               |
| JP Morgan Asset Management                    | US/UK       | 28   | 14                         | 28.0                       | 42.0               |
| Danske Capital                                | Denmark     | 29   | 10                         | 29.0                       | 39.0               |
| Pioneer Investments                           | Italy       | 30   | 9                          | 20.0                       | 29.0               |
| Swedbank Robur*                               | Sweden      | 31   | 20                         | 0                          | 20                 |
| Goldman Sachs Asset Management International* | US/UK       | 32   | 19                         | 0                          | 19                 |
| UBS Asset Management*                         | Switzerland | 33   | 18                         | 0                          | 18                 |
| MN*   | Netherlands | 34   | 17                         | 0                          | 17                 |
| Santander Asset Management                    | Spain       | 35   | 8                          | 8                          | 16                 |
| Deutsche Asset Management*                    | Germany     | 36   | 15                         | 0                          | 15                 |
| KBC Asset Management*                         | Belgium     | 37   | 14                         | 0                          | 14                 |
| Union Investment*                             | Germany     | 37   | 14                         | 0                          | 14                 |
| SEB*  | Sweden      | 39   | 13                         | 0                          | 13                 |
| BBVA Asset Management*                        | Spain       | 40   | 10                         | 0                          | 10                 |

(\*) Asset manager did not respond to the survey

## Key survey findings

- All 40 firms claim a commitment to responsible investment and are participating in country-level sustainable investment forums.
- Despite this public commitment, the actual quality of RI performance and disclosures varies widely. The quality demonstrated does not depend on the size of the firm, the region, ownership structure or whether they are predominantly active or passive managers.
- 39 asset managers or 98% have a publicly available policy document on their RI approach.
- 34 asset managers or 85% have a conflicts of interest policy available on their website.
- Only 21 of the 31 firms who actually responded to the survey (67%) were able to provide clear examples of how they manage conflicts of interest in practice.
- 7 asset managers, or 17.5%, do not include any information at all on environmental and/or social impacts within regular reporting to clients or publicly.
- Only 8 asset managers, or 20%, provide a full list of companies engaged with over the year.
- Only 7 asset managers, or 17.5%, go beyond the minimum legal requirements, and even attempt to provide additional explanations of potential direct or indirect fees and charges on their website.

## Recommendations for asset owners

We recommend that asset owners pay particular attention to the recommendations set out in the report for the individual asset managers. We also provide questions below for asset owners to ask asset managers not surveyed in this piece of research based on the survey results and the insights generated. We hope that these prove useful for charity clients of asset management services, and help to start a deeper conversation about this.

### Key questions

#### 1. Responsible investment policies

Our research indicates that the disclosure of comprehensive policies on responsible investment is not yet standard practice across Europe. Whilst 90% provide a detailed and specific policy on how they handle corporate governance issues, only 77.5% have a detailed policy on their approach to environmental and social risk in their portfolios. Investors may wish to ask:

**Q: Do you have a formal RI policy covering Environmental, Social and Governance risks for all asset classes? Is this publicly disclosed?**

#### 2. Internal governance of RI

We also examined whether senior executives in asset management firms have specific responsibilities for responsible investment

performance and whether information about responsible investment is being used at the highest levels in the firms surveyed. The results were mixed, and the most widely employed strategy to promote RI within the firm is employee training on ESG issues. Encouragingly, 67.7% of the survey respondents say that board members have oversight of responsible investment activities. In addition, for all but one survey respondent, the CEO, CIO, and Investment Committee have oversight over RI activities and performance. ShareAction encourages asset managers to combine an integrated approach to responsible investment throughout the organisation, with some specialist staff dedicated to RI and ESG issues. Investors may wish to ask:

**Q: What internal strategies do you use to promote RI within your organisation?**

**Q: How do you ensure that there is an integrated approach to RI throughout your organisation?**

#### 3. Shareholder voting

Although 70% of the asset managers covered by the survey publicly disclose voting decisions, only 20% disclose a rationale for certain voting decisions. Providing a rationale for votes cast helps clients to understand whether an asset manager has acted in their best interests. Especially in cases of contentious votes, the provision of a rationale for the voting decision allows clients and other stakeholders to evaluate whether an asset manager has made a well informed decision that is consistent with their own voting policy. We asked managers how they voted on three specific resolutions in 2016, including

one management resolution at Royal Dutch Shell and two shareholder resolutions at Pfizer and Exxon Mobil respectively. Our results indicate that only the asset managers at the very forefront of RI provided any significant challenge to Shell's remuneration report with the majority voting in favour of management. Encouragingly though, in terms of the shareholder resolutions, the majority of asset managers who held shares in these companies voted in favour of these resolutions. Generally, more attention needs to be paid to how asset managers actually vote, and whether their voting practices are aligned with their stated adherence to responsible investment and effective stewardship. Investors may wish to ask:

**Q: What disclosures do you make around shareholder voting?**

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Only 8 asset managers, or 20%, provided what ShareAction would describe as best in class engagement disclosure in 2016.

#### 4. Company engagement and dialogue

Best practice public disclosure on company engagements would include disclosing the total number of engagements, the topics that were discussed, and the results of engagements with investee companies. 57.5% of the asset managers in the survey disclose the total number of engagements undertaken over the year and 45% disclose engagements by ESG issue. Disclosing by ESG issue provides insight into the priorities asset managers have when engaging with investee companies. 55% provide detailed explanations for a sample of engagements and 47.5% of asset managers disclose the results of their engagement activities. Only 8 asset managers, or 20%, provided what ShareAction would describe as best in class engagement disclosure in 2016. Evaluating the success of company engagements gives asset managers the opportunity to reflect on

their engagement process, and alter and improve it where appropriate. When engagement has stalled or failed, asset managers should be prepared to escalate their engagement where the risks identified justify it. Information about escalation strategies and frameworks for taking next steps are a good reflection of a manager's overall seriousness about stewardship. Investors may wish to ask:

**Q: What disclosures do you make around company engagement and escalation strategies?**

#### 5. Impact measurement and management

All asset managers should have a credible process for ESG risk management, which involves both integration of financially material ESG factors into a manager's investment process and stewardship to manage such ESG risks within portfolios. Leading responsible investors now aspire to go further than this by evaluating and improving the social and environmental impacts of their investments and stewardship activities. Measuring and reporting on the impact of mainstream investment portfolios is doable but challenging. The highest ranked firms in this year's survey are beginning to look seriously at this process. 62.5% of the firms surveyed do disclose some information on impact monitoring, for example tools and metrics used. We commend this development and encourage the industry to establish credible methodologies for demonstrating its added value. However, only 5% of survey respondents provide substantial detailed information, including quantitative information, on the actual impacts of their investments. Clearly there is still more to be done. Investors may wish to ask:

**Q: How do you measure the social and environmental impacts of investments in mainstream portfolios?**

#### 6. Conflicts of interest

Asset managers should consistently and faithfully act in the best interest of the clients who award them with mandates. Once a client has placed assets with a manager, with an agreed fee for the service to be provided, clients should have confidence that their interests will come first in respect of any decisions relating to the assets under management. To help achieve this fiduciary standard of care, asset management firms should have, and disclose, a robust conflicts of interest policy, and they should report regularly on how conflicts have arisen and been handled. While the majority of the asset

managers surveyed (85%) disclose a conflicts of interest policy on their website, only 67.7% of the 31 respondents were actually able to provide a clear example of how they handled a recent conflict of interest. Generally, those asset managers who did not have a publicly available policy, were also unable to provide clear examples. Investors may wish to ask:

**Q: How do you manage conflicts of interest? Can you provide a recent example?**

“ In short, far better disclosure and greater transparency is needed if client and beneficiary interests are to be met by Europe’s asset management sector.

## 7. Disclosure of fees and charges

Overall, disclosure of fees and charges is poor across the sector and the information that is available is often ambiguous. Surprisingly, only 82.5% of asset managers surveyed make fees and charges fund literature easily accessible, whereas we would expect all of the firms surveyed to do this. In addition, only 17.5% (7 managers) even attempt to provide comprehensive information on their websites about direct and indirect costs. Standardisation in disclosure of investment costs is lacking and this makes it difficult to compare and understand such costs across the sector and between countries. In short, far better disclosure and greater transparency is needed if client and beneficiary interests are to be met by Europe’s asset management sector. Investors may wish to ask:

**Q: What disclosures do you make available with respect to fees and charges? Could you provide information on explicit and implicit investment costs and when they might occur?**

### Key questions

- Do you have a formal RI policy for all asset classes? Is this publicly disclosed?
- What internal strategies do you use to promote RI within your organisation?
- How do you ensure that there is an integrated approach to RI throughout your organisation?
- What disclosures do you make around shareholder voting?
- What disclosures do you make around company engagement and escalation strategies?
- How do you measure the social and environmental impacts of investments in mainstream portfolios?
- How do you manage conflicts of interest? Can you provide a recent example?
- What disclosures do you make available with respect to fees and charges? Could you provide information on explicit and implicit investment costs and when they might occur?

Our full ranking and report can be found here:

<https://shareaction.org/wp-content/uploads/2017/03/Survey-LiftingTheLid.pdf>

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## About ShareAction

ShareAction (Fairshare Educational Foundation) 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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