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Point of No Returns Part V – Leading Practice

A guide to current leading practices by asset managers on responsible investment

ShareAction»

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About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

Visit shareaction.org or follow us [@ShareAction](https://twitter.com/ShareAction) to find out more.

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Introduction and purpose

In ShareAction's 2020 [Point of No Returns](#) survey of the world's 75 largest asset managers, no asset manager achieved an AAA or AA rating by demonstrating leading practice across all assessed areas.¹ The overall impression from our research was that the combined assets under management of the 75 asset managers were being managed in a way that at best ignored key systemic risks and at worst contributed to them.

There were, however, clear pockets of leading practice in the industry across most indicators we assessed, demonstrating that achieving an AA or AAA rating was entirely possible.

This guide presents a range of short case studies that reflect the current state of leading practice by large asset managers on the core themes assessed in ShareAction's 2020 [Point of No Returns](#) survey:

- Responsible investment governance (including stewardship),
- Climate change,
- Human and labour rights, and
- Biodiversity.

ShareAction intends for this guide to provide practical and decision-useful guidance for asset managers of all shapes and sizes looking to align their responsible investment approaches with mainstream leading practice. Asset owner clients and their advisers can also use the contents of this guide to help drive stronger responsible investment standards with the asset managers they engage with.

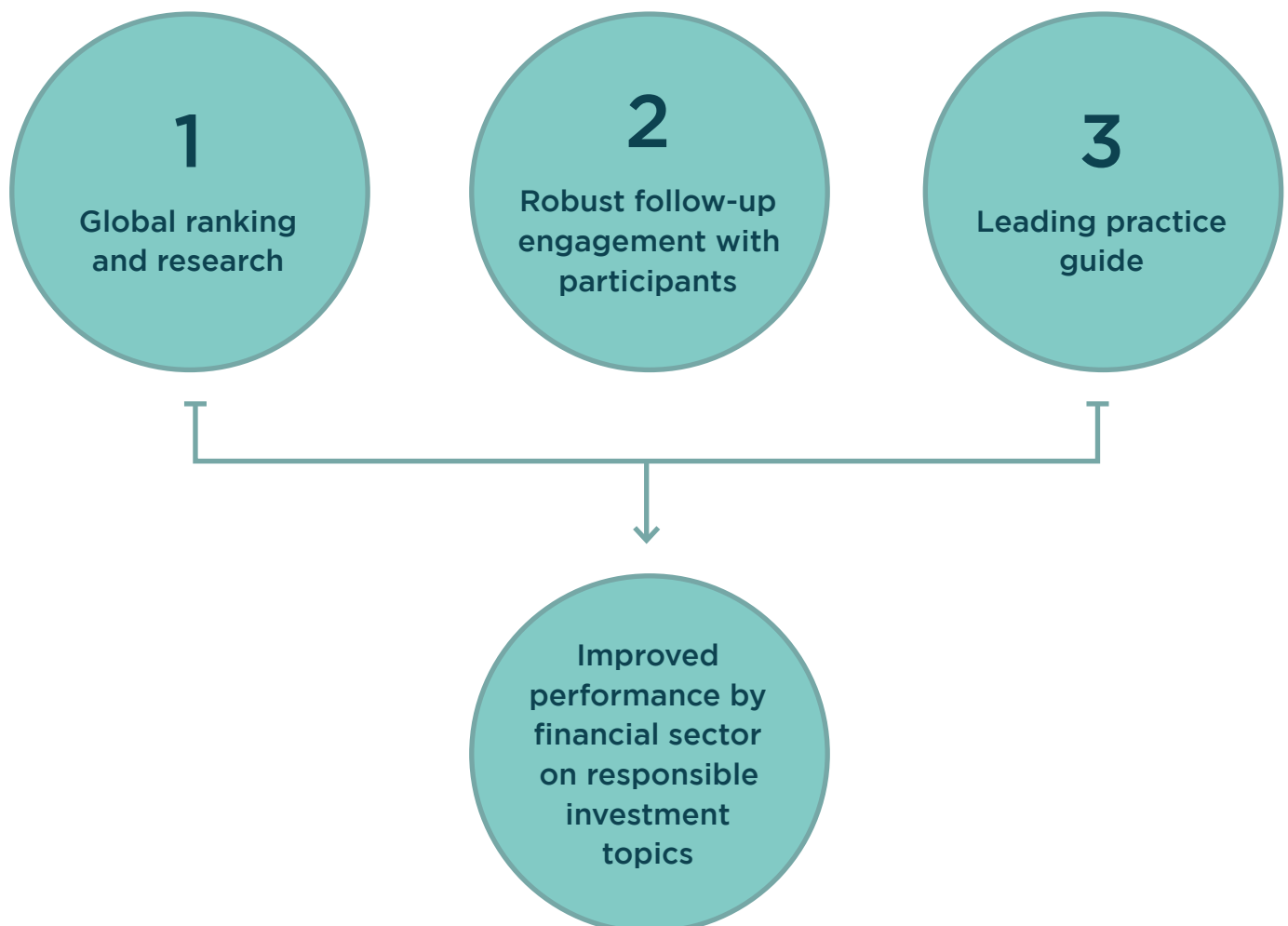


Theory of change

Often, asset managers are missing a comprehensive global perspective and practical knowledge bank of how leading peers are strategically responding to systemic crises. ShareAction believes that addressing this gap and equipping asset managers and their stakeholders with clear and achievable examples of leading practice can promote higher standards.

This leading practice guide for asset managers follows ShareAction's 2020 [Point of No Returns](#) survey and follow-up engagement in the form of one-to-one meetings with around 50 participants. Together, these tools contribute to ShareAction's theory of change for improved responsible investment performance by financial sector actors, as shown in the figure below.

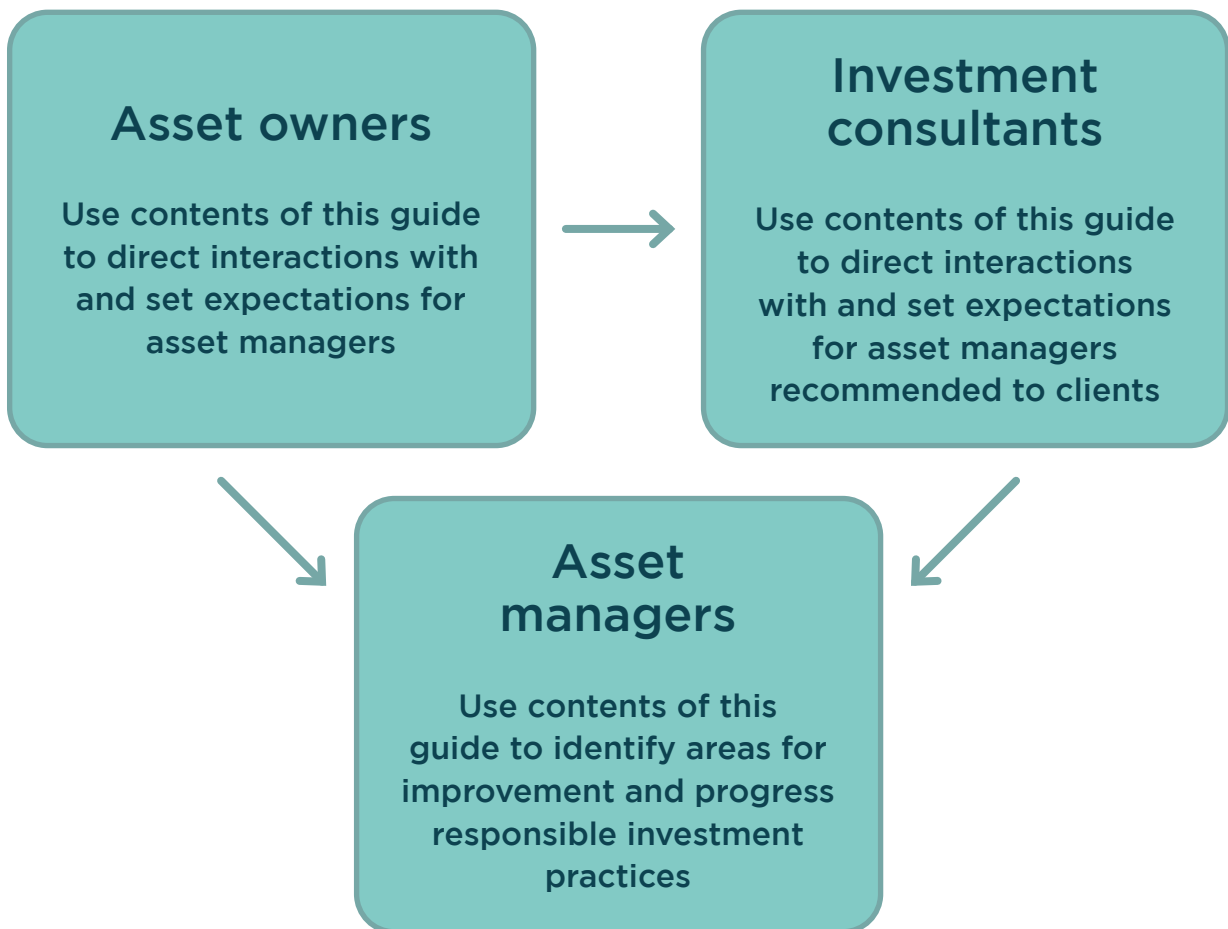
Figure 1: Theory of change



How to use this guide

The information presented in this guide is relevant for all primary actors in the investment value chain, as indicated in the figure below.

Figure 2: How to use this guide



As well as asset managers, investment consultants, and asset owners, this guide can also be used by civil society in their own engagements with financial sector stakeholders and by policymakers in better understanding how investors are evolving their own practices.

The case studies featured throughout this guide are included on a topic-by-topic basis. Therefore, being featured for leading practice in one area of this guide does not mean that any asset manager can claim responsible investment leadership generally. Indeed, ShareAction's 2020 [Point of No Returns](#) survey found that no asset managers were demonstrating leading practice across all topics featured in this guide.

Furthermore, the scope of this report is limited to examining current leading practice amongst large asset managers, with the goal of communicating what is possible and achievable to the broader sector and stakeholders. This should not be interpreted as, or confused with, what is needed from the financial sector in the coming years to address systemic risks such as climate change, biodiversity, and societal inequality. Addressing these challenges requires transformational change, and the finance sector, including current leading practice, has a long way to go to achieve what is required to help mitigate even the worst impacts of these risks on planet and people.

Each section in this guide includes the following elements:



Leading practice

✓ Checklists of current leading practice elements

These checklists are collated in full in the Appendix, which provides a roadmap for asset managers to align their responsible investment approaches with current leading practice across the topics covered in this guide.



Case studies

✓ Checklist of current leading practice elements in this case study*

These case studies demonstrate leading practice from asset managers.

>>> Next steps

▶ Recommendations for next steps

These 'next steps' offer a glimpse into what further actions a 'gold standard' for responsible investment, fit for the challenges of our time, might require.

Some sections of the report also include:

✗ Industry resistance

ShareAction's rebuttals to common examples of resistance from the asset management industry regarding leading responsible investment practice or next steps.

* These checklists show the strongest examples of leading practice elements within a case study. If a leading practice element is missing from a case study it does not necessarily mean that the asset manager is not doing that element.

Methodology

The findings and examples featured in this report were collected from two main sources:

- 1 Data from ShareAction's 2020 [Point of no Returns](#) survey of the largest 75 global asset managers (collected in the second half of 2019),
- 2 Publications made by the top 20 highest scoring asset managers up to February 2021.

The list of case studies included in this guide is therefore not exhaustive as we have only examined a sub-set of the asset management industry. Every effort has been made, however, to ensure that the case studies featured reflect leading practice among the largest asset managers globally.

Where no examples of leading practice were found from the 75 asset managers included in ShareAction's 2020 [Point of no Returns](#) survey, case studies were taken from out-of-scope asset managers, where available. Any case studies used are based on public information, or with permission of the asset manager. The content of this guide has also been informed by in-depth conversations with approximately 50 asset managers included in our global survey.



Responsible investment governance

This section explores how leading asset managers are integrating responsible investment into their governance structures, including stewardship.

Rethinking ‘responsible’ investment



Leading practice

- ✓ Adverse and positive impacts of investments on society are assessed
- ✓ Impacts of investments on society are integrated into investment decision-making

Decades of investing trillions upon trillions without regard for adverse impact on people and planet have helped contribute to the nesting of wicked systemic problems that threaten environmental degradation and social breakdown.

While ‘bottom-up’ ESG integration can help investors achieve a more holistic understanding of financial value at an asset level, systemic issues like climate change and biodiversity demand stronger actions from the global investor community. For this reason, a true ‘gold standard’ of responsible investment requires moving beyond ESG integration towards considering and taking into account adverse impacts of investment decisions on people and planet.

Fiduciary obligations to clients require investors to consider wider societal and environmental impacts, as outlined in ShareAction’s recently proposed [Responsible Investment Bill](#) for the UK.² A vanguard of asset managers is already integrating real-world impacts into their practices, as highlighted in the following case studies.



Case study: Nuveen

- ✓ Adverse and positive impacts of investments on society are assessed

Nuveen’s [Policy Statement on Responsible Investing](#) outlines a set of three core principles, one of which directly commits to driving positive impact across portfolios:³

“We believe that all investments have impacts on society and the environment. We aim to assess these effects and, where possible, promote the positive and mitigate the negative. Across asset classes, a growing number of opportunities exist for pursuing specific, measurable and positive social and environmental results that contribute to long-term financial returns. We are dedicated to identifying such opportunities and measuring the impact of those investments.”

The policy statement also states that adopting responsible investment best practices across all asset classes helps to “provide enduring benefits for clients, portfolio companies, society, our communities and the planet”.



Case study: Mitsubishi UFJ Trust and Banking Corporation

✓ Impacts of investments on society are integrated into investment decision-making

Mitsubishi UFJ Trust and Banking Corporation's [Responsible Investment Report 2020](#) features a refined process of identifying material ESG issues which maps an issue's financial materiality against its materiality to society.⁴ This means that the ESG issues that are identified as material and subsequently taken into consideration in investment decisions and engagement process are identified in part due to their impact on society.



Case study: Schroders

✓ Adverse and positive impacts of investments on society are assessed

Schroders has developed a tool called [SustainEx](#) that aims to quantify both the positive and negative impacts companies have on society.⁵ The tool examines 36 measures of social and environmental impact drawing on over 400 academic studies and is applied to over 10,000 companies. It helps analysts, fund managers and clients measure and manage those social and environmental impacts and risks more effectively.

Cazenove Capital - part of the Schroders Group - is using SustainEx to measure the impact of its portfolios, and is reporting on this to all UK contracted clients, regardless of whether they have an impact or sustainability mandate. In the FAQ document that accompanies the impact reporting scorecards Cazenove Capital says:

"We recognise that all investments have an impact on people and the planet. We are taking the significant step of including impact measures in all client valuations. We measure the impact of your portfolio so we can manage the impact. This is a new dimension to investing, we must understand the cost of a company's entire activities - and must value them based on 'impact-adjusted profits'."

Cazenove Capital plans to publish its first annual impact report in March, which will showcase impact case studies across investment and engagement.

>>> Next steps

- ▶ Acceptance of responsibility for adverse impact for all investment decisions alongside risk and return
- ▶ Fosters an understanding of systems-level crises such as the climate crisis, biodiversity collapse, and rising social inequality as well as their interdependencies
- ▶ Leverages influence via capital allocation and stewardship to both mitigate such risks and proactively develop and support solutions

Accountability



Leading practice

- ✓ **Accountability for responsible investment is clearly embedded at both board and senior executive levels**
- ✓ **Accountability structures on responsible investment are publicly disclosed**

As responsible investment continues to become mainstream, it is important for asset managers to secure accountability at the highest organisational levels to ensure integrity of approach and avoid greenwashing. Our previous [leading practice research](#) of asset owners' approaches to climate change highlighted that 'senior buy-in' also legitimises sustainability-related initiatives and helps unlock necessary resources.⁶ Despite the vital role board oversight plays in driving performance on responsible investment, just 21 per cent of assessed managers included in the [Point of no Returns](#) survey had board-level accountability for responsible investment.



Case study: BNP Paribas Asset Management - Accountability

- ✓ **Accountability for responsible investment is clearly embedded at both board and senior executive levels**
- ✓ **Accountability structures on responsible investment are publicly disclosed**

BNP Paribas Asset Management's (BNPP AM's) [Global Sustainability Strategy](#) contains a section on sustainability governance that clearly outlines the following positive elements:⁷

- Ultimate responsibility lies with the BNPP AM's France Board of Directors.
- The Sustainability Committee (chaired by the CEO) is responsible for approving the global sustainability strategy and also oversees the approach, policies, targets, and reporting.
- The Sustainability Committee works closely with other parts of the BNP Paribas Group (such as Group Head of Engagement who sits on the Executive Committee) to align approaches and efforts.

>>> Next steps

- ▶ The board is the driving force behind the organisation's approach to sustainability and pushes this agenda across departments

Training



Leading practice

Training on responsible investment topics is established and disclosed. Specifically, training:

- ✓ **Is mandatory for relevant staff, including board members**
- ✓ **Occurs at frequent intervals**
- ✓ **Leverages external expertise**
- ✓ **Covers asset classes beyond public equity**

As asset managers are now having to respond to complex systemic crises such as COVID-19, climate change, and biodiversity, the quality and rigour of training is of paramount importance. For senior decision makers, portfolio managers, and analysts to respond appropriately to these challenging topics, training programs need to be frequent, leverage external expertise, and keep up to date with rapid changes in scientific understanding.

ShareAction's 2020 [Point of no Returns](#) survey found evidence to confirm that training is a driver of stronger responsible investment performance: Asset managers who lacked comprehensive training on responsible investment performed poorly compared to asset managers with more comprehensive and widespread training.



Case study: Robeco

- ✓ **Occurs at frequent intervals**
- ✓ **Is mandatory for relevant staff, including board members**

At Robeco, investment teams attend quarterly sustainable investment knowledge sharing sessions that cover market intelligence, ESG integration cases, academic research and insights, new reporting tools, and engagement results. Sustainability is part of the introduction program for all new employees training and sustainable investment is also integrated at board level as a fixed component of the continuous education program of Robeco's Supervisory Board and Executive Committee.⁸



Case study: BNP Paribas Asset Management

- ✓ **Occurs at frequent intervals**
- ✓ **Leverages external expertise**

In 2019, BNP Paribas Asset Management (BNPP AM) noted in its [Sustainability Report](#) the launch of a network of 68 ESG Champions within each investment team, whose roles are to promote and embed sustainability into investment processes and strategies.⁹ Champions act as a liaison with the Sustainability Centre and are provided with training, briefings, and monthly meetings to keep them current on the latest ESG market developments. Many ESG Champions

have undertaken formal ESG training or acquired a relevant sustainability-related certification, such as the European Federation of Financial Analysts Societies' Certified ESG Analyst designation or the Sustainability Accounting Standards Board FSA Credential. Additionally, BNPP AM has developed an internal sustainable investing certification programme with the University of Cambridge's Institute for Sustainable Leadership.

Case study: M&G Investments

- ✓ **Is mandatory for relevant staff, including board members**
- ✓ **Occurs at frequent intervals**
- ✓ **Covers asset classes beyond public equity**

M&G Investments' [Corporate Finance and Stewardship Report 2019](#) discusses how Infracapital (the infrastructure equity arm of M&G) ensures all staff attend monthly training sessions held with external advisers.¹⁰ These are designed to improve the knowledge and experience of the team, including ESG risks and opportunities. Often these will relate to specific on ESG factors. Infracapital also runs ESG-focused workshops, bringing together key executives from across portfolio companies with Infracapital teams to share best practice and ensure prioritisation of ESG-related matters.

Case study: AllianceBernstein

- ✓ **Is mandatory for relevant staff, including board members**
- ✓ **Leverages external expertise**

AllianceBernstein (AB) has developed and delivered training programs across the areas of climate change and modern slavery:

- AB's [Climate Change/TCFD Statement](#) describes its Climate Risk and Portfolio Management training program, which was designed to enhance their board of directors' understanding and oversight of AB's progress in managing their global climate change strategy and response.¹¹ The training program was developed with leading climate scientists and multidisciplinary experts at Columbia University's Earth Institute and attended by several of AB's directors and chairman in 2019.
- AB's [Global Slavery and Human Trafficking Statement](#) describes how it launched a modern slavery training program in 2020, which is designed to help investors flag potential and ongoing modern slavery risks.¹² The training program was developed in collaboration with expert nongovernmental organisations and is mandatory for investment analysts globally.

>>> Next steps

- ▶ Training is consistently reviewed and updated to ensure that internal training programmes serve as a bridge between investment expertise and scientific expertise on systemic ESG issues, including climate change and biodiversity

✗ Industry resistance

Some asset managers argue their day-to-day work implicitly requires knowledge sharing on ESG topics. ShareAction believes that systemic issues, including climate change and biodiversity, require training to help understand not only risks at the portfolio level, but also the real-world adverse impacts of investment behaviours. A stronger standard for ESG training is required that brings in external scientific expertise and is undertaken throughout the organisation.

Financial incentives



Leading practice

- ✓ **Responsible investment is integrated in remuneration policies**
- ✓ **Responsible investment objectives are linked to real-world impact**

Despite increasing numbers of asset managers making claims to responsible investment, the vast majority (93 per cent) of asset managers in ShareAction's 2020 [Point of No Returns](#) survey had no financial incentives for staff relating to responsible investment. However, of the top five performing asset managers, four had started aligning financial incentives with responsible investment, showing the power of financial incentives to motivate performance on responsible investment.

The lack of sustainability-related financial incentives in the asset management industry is also a concern of legitimacy: Many asset managers engage with investee companies on aligning financial incentives with sustainability objectives, and should ensure that the expectations they make of investee companies are reflected in their own governance structures.



Case study: Caisse de dépôt et placement du Québec

- ✓ Responsible investment is integrated in remuneration policies
- ✓ Responsible investment objectives are linked to real-world impact

Caisse de dépôt et placement du Québec has [taken steps](#) to integrate carbon targets into variable remuneration since 2018.¹³ The organisation has set a carbon reduction target, which is then broken down into carbon budgets for each asset class. These budgets are linked to employee variable compensation, such that compensation rises and falls in tandem with achieving carbon intensity reduction objectives. Meeting targets has a small positive impact on variable compensation while missing targets can have a materially negative impact on team bonuses.



Case study: La Banque Postale Asset Management

- ✓ Responsible investment is integrated in remuneration policies

The staff particularly involved in La Banque Postale's 2020 SRI transformation project to shift to fully SRI managed funds by 2020 (which makes approximately 50 per cent of the total workforce) have above 25 per cent of their objectives linked to KPIs on integrating sustainability into their activities. These KPIs factor into the calculation of employees' variable pay.¹⁴

>>> Next steps

- ▶ Responsible investment objectives linked to variable remuneration are clearly disclosed in public reporting, including the percentage of variable remuneration linked to those objectives
- ▶ Responsible investment objectives linked to variable remuneration are embedded at board and senior executive levels

✗ Industry resistance

Some asset managers argue that generating long-term financial returns is their core business, and therefore existing financial incentives are sufficient. However, ShareAction believes that the profound changes required by asset managers in both mindset and behaviour are not sufficiently built in to 'business-as-usual' remuneration packages. As asset managers become more serious about decarbonising portfolios, responding to legitimate human rights concerns or the biodiversity crises, further transparency is required into exactly how responsible investment objectives and related KPIs are woven into financial incentives.

Voting transparency



Leading practice

- ✓ **Voting decisions are published as soon as possible after meetings in an online, searchable, user-friendly format**
- ✓ **Rationales for voting decisions on controversial and key ESG-related resolutions are publicly available¹⁵**
- ✓ **Voting intentions for key ESG-related resolutions are pre-declared ahead of the meeting**

Proxy voting is one of the primary means by which shareholders can exert influence over their investee companies and exercise stewardship, regardless of regional differences, size, or investment strategy. It also provides a clear-cut indicator to clients and other stakeholders, including investee companies, of an asset managers' stance on particular issues. ShareAction notes that asset owner clients, as well as the wider public, are increasing their scrutiny and expectations around asset managers' proxy voting behaviour on ESG topics.

Leading practice on voting disclosure involves immediate publication of votes on ESG resolutions after meetings, on a user-friendly and searchable online portal, with accompanying meaningful rationales for controversial and key ESG-related resolutions.



Case study: Allianz Global Investors

- ✓ **Voting decisions are published as soon as possible after meetings in an online, searchable, user-friendly format**
- ✓ **Rationales for controversial and key ESG-related resolutions are publicly available**

Allianz Global Investors publishes voting decisions, including rationales for key resolutions, immediately after shareholder meetings onto its online searchable [voting portal](#).¹⁶ The portal also features charts and graphics which allow users to view statistics for and drill down into shareholder meetings by market, type, sector, voting decision, alignment with management, and proposal type.



Case study: BlackRock

- ✓ **Rationales for controversial and key ESG-related resolutions are publicly available**

BlackRock publishes detailed and comprehensive [vote bulletins](#) to explain its voting decision, and the engagement and analysis underpinning it, on certain high-profile resolutions at company shareholder meetings.¹⁷ BlackRock published 57 such bulletins in 2020.

Leading practice also sees asset managers pre-declaring their voting intentions for key ESG resolutions ahead of the AGM. This helps send a market signal to investee companies and mobilise other shareholders, improving the chances of voting decisions on key resolutions achieving traction.

Currently, pre-declaring voting intentions is not being practiced systematically by asset managers. However, leading asset managers are starting to pre-declare voting intentions as an escalation tool.



Case study: Legal & General Investment Management

- ✓ Voting decisions are published as soon as possible after meetings in an online, searchable, user-friendly format
- ✓ Voting intentions for key ESG-related resolutions are pre-declared ahead of the meeting

Legal & General Investment Management (LGIM) regularly invites stakeholders to comment and share views on its engagement and voting policies. As noted in its [Active Ownership Report](#) for 2018, one of the stakeholder suggestions it received, and subsequently acted on, was to pre-declare its voting intentions ahead of key votes to help coordinate investor action.¹⁸ In 2020, LGIM publicly [pre-declared](#) its intention to oppose the re-election of ExxonMobil's board chair, citing significant concerns about the company's approach to climate change, political lobbying, and board independence.¹⁹ In 2019, it [pre-declared](#) its intention to vote against the board chair, members of the audit committee, and directors at Metro Bank over whom they had independence concerns.²⁰

LGIM also publishes its proxy voting decisions in a fully searchable [database](#) the next day after a shareholder meeting, with rationales provided for all votes against management.²¹

ShareAction would welcome a more systematic approach to pre-declaring voting intentions for key ESG resolutions. Asset managers may be able to follow the example of Norges Bank Investment Management, who will publish their voting intentions for resolutions five days ahead of the relevant AGMs in 2021.²²

>>> Next steps

- ▶ Rationales for voting decisions on all shareholder proposals are publicly available
- ▶ Voting intentions for all resolutions are systematically pre-declared

Voting policies



Leading practice

- ✓ Voting policy clearly outlines positions and commitments on ESG topics, including but not limited to climate change, human rights, and biodiversity
- ✓ Voting policy includes commitments to vote against relevant management-proposed resolutions for ESG-related concerns
- ✓ Voting policy includes a presumption in favour of voting for independent ESG-related resolutions

As asset managers' clients and other stakeholders continue to set stronger expectations around voting behaviour on ESG topics, the quality of underlying voting policies has come into focus.

Proxy voting policies form the backbone of an effective stewardship approach: They dictate voting outcomes as well as communicate an investors' expectations and red lines for investee companies. Voting policies should therefore provide clear and comprehensive breakdowns of voting approaches across ESG topics, whether in favour of shareholder proposals or against traditional governance resolutions.



Case study: AllianceBernstein

- ✓ Voting policy clearly outlines positions and commitments on ESG topics including but not limited to climate change, human rights, and biodiversity

AllianceBernstein's 2020 [Proxy Voting and Governance Policy](#) has a proxy voting guideline summary table that, for each resolution type (including on ESG topics), shows how they will generally vote (for, against, or case-by-case).²³



Case study: AXA Investment Managers

- ✓ Voting policy includes commitments to vote against relevant management-proposed resolutions for ESG-related concerns

AXA Investment Managers' [Corporate Governance Voting Policy](#) states that it may withhold support from relevant management-proposed resolutions - including approval of reports and accounts, director elections and remuneration proposals - in the following instances:²⁴

- A material failure in the management of environmental and social risks with resulting negative impacts on the company and stakeholders, including employees, customers and communities.
- Support for lobbying positions contrary to the long-term interests of the company and its investors.
- Companies in high-risk sectors with no environmental or social performance metrics in performance-related pay.



Case study: NNIP Investment Partners

- ✓ **Voting policy includes commitments to vote against relevant management-proposed resolutions for ESG-related concerns**

NNIP Investment Partners' [Client Proxy Voting Policy](#) states that the asset manager will vote against the re-election of incumbent directors if there is no proactive and comprehensive board oversight of environmental and social risks.²⁵



Case study: PGGM

- ✓ **Voting policy includes a presumption in favour of voting for independent ESG-related resolutions**

PGGM's 2020 [Global Voting Guidelines](#) stipulate that the asset manager will vote for all shareholder proposals except in certain conditions, such as if the shareholder proposal has insufficient relevance to the company.²⁶

While the status quo for voting policies is a presumption against supporting independent ESG resolutions, PGGM's approach is notable as it shows a presumption to support independent ESG resolutions, stating the conditions that would create an exception to this rule, instead of vice versa.

Where a resolution is not covered by its Global Voting Guidelines, PGGM provides 'basic voting principles' which state that the asset manager will vote against all resolutions that fail to meet minimum environmental and/or social principles, taking into account internationally recognised and/or accepted basic principles on environmental and social issues. The basic voting principles also explain PGGM's use of abstentions (PGGM favours clear and decisive voting decisions and therefore prefers to vote for or against resolutions, using abstentions as an exception).

>>> Next steps

- ▶ Voting policy includes an explicit commitment to support independent ESG-related resolutions on a 'comply or explain' basis

✘ Industry resistance

Asset managers often brush off having a lack of clear and comprehensive voting policy by bringing the conversation back to voting performance instead. While we recognise that a lack of comprehensive voting policy is not necessarily at odds with taking appropriate voting action, having a clear and comprehensive voting policy is nonetheless important as it allows asset owners and other stakeholders to hold asset managers to account based on their adherence to such policies as part of the monitoring process. Voting policies can also act as another public signal on how seriously asset managers are taking responsible investment.

Voting performance

Recent years have witnessed an increase in the number of ESG resolutions tabled at listed companies, and attention is increasingly shifting to how asset managers are delivering their votes on important ESG topics. Voting for independent ESG resolutions sends a powerful signal to the company, market, and other stakeholders on what investors expect on critical topics including climate change, human and labour rights, and biodiversity. Furthermore, BlackRock's [analysis](#) of the effectiveness of voting on E&S shareholder resolutions finds that companies tend to meet requests made in shareholder resolutions if they receive significant support, regardless of whether or not the resolution passes.²⁷ As such, the fact that most key resolutions on climate change and social issues fail to gain significant support is a missed opportunity: ShareAction's recent report [Voting Matters 2020](#) has found that only 15 per cent of such resolutions were supported by more than 50 per cent of shareholders.

Nevertheless, some leading asset managers demonstrate what is possible. Impax Asset Management voted for all resolutions covered by ShareAction's analysis (where it had exposure to the relevant companies). This includes resolutions asking for additional or more detailed disclosures from companies, as well as more action-focused resolutions, requesting a change in behaviour. It also stretches across a number of themes, covering resolutions focused on environmental topics, such as climate change, as well as social issues, such as human rights. Some of the very largest global asset managers performed well too: Legal & General Investment Management voted for 96 per cent of resolutions covered, while Amundi Asset Management voted for 89 per cent (again, where they had exposure to the relevant companies), demonstrating that size is not a barrier.

✗ Industry resistance

A frequently cited reason why asset managers don't support ESG-related shareholder resolutions is that they carry out ongoing private engagement with investee companies.

This is flawed reasoning; investors should be voting in a way that supports private engagements, rather than using voting on ESG-related resolutions as a form of escalation after failed engagements.

Voting at company AGMs is a powerful tool that should be used in conjunction with private engagement as a way to support conversations. This avoids investors sending mixed messages to clients and other stakeholders, including investee companies, by (publicly) voting differently to how they claim to be (privately) engaging. Furthermore, engaging without voting is 'tea and biscuits' engagement, with little incentive for the investee company to change. Where asset managers want to use their vote to escalate engagement, they should do so by withholding support on standard governance-related resolutions (such as director re-elections or approving the reports and accounts) or by filing shareholder resolutions.

ESG engagement transparency



Leading practice

Public reporting on ESG-related company engagement includes the following key elements:

- ✓ **A comprehensive list of companies engaged with during the reporting period and the topics of engagement**
- ✓ **Case studies of key ESG engagements, including details of objectives, targets, outcomes, and next steps**
- ✓ **Details of progress of engagements**
- ✓ **Real-world outcomes resulting from ESG-related engagement activities**
- ✓ **Contribution and activity relating to collaborative initiatives**
- ✓ **Details of engagement activities in asset classes beyond listed equity**

A successful transition to a sustainable economy depends on urgent and transformational change from the corporate sector. Engaging with investee companies is a key tool that asset managers can leverage to keep corporate activity within planetary boundaries and tackle social inequality.

As expectations around the quality of ESG stewardship by asset managers continue to grow, so too does the need for 'fit for purpose' disclosure that goes beyond pure description. Public reporting on stewardship practices should clearly reflect and evidence how efforts are driving real-world positive impacts especially with respect to socially-endorsed norms including the Paris Agreement and the

Sustainable Development Goals. Stewardship disclosure should also include engagement activity in asset classes beyond listed equity – for example, fixed income and private assets. Where investors engage on ESG topics via collaborative initiatives, such as Climate Action 100+, members should clearly outline the additionality their membership contributes.



Case study: Aberdeen Standard Investments

- ✓ A comprehensive list of companies engaged with during the reporting period and the topics of engagement
- ✓ Case studies of key ESG engagements, including details of objectives, targets, outcomes, and next steps

Aberdeen Standard Investments' [Q3 ESG Report](#) 2020 includes a list of companies engaged with and the topics of engagement through the quarter, as well as case studies that clearly signpost the engagement driver - whether it was an internal or client mandate - and outcome.²⁸



Case study: DWS

- ✓ A comprehensive list of companies engaged with during the reporting period and the topics of engagement
- ✓ Case studies of key ESG engagements, including details of objectives, targets, outcomes, and next steps

DWS' [Proxy Voting and Engagement Report 2019](#) includes case studies with clearly signposted reasons for engaging, objectives, targets, progress, and next steps, broken down by engagement theme.²⁹ It also features a section on public policy engagements, and an appendix of companies engaged with through 2019, including main topics of discussion.



Case study: Schroders

- ✓ Details of progress of engagements

Schroders' [quarterly sustainable investment reports](#) includes a section reviewing progress on historical engagements. For each engagement, timeframes for milestones and goals are defined, and progress against these is tracked and monitored in a proprietary database.³⁰ The Engagement progress section features two charts, which show engagement progress made on engagements over a 12-month and three-year period.



Case study: BMO Global Asset Management

✓ Real-world outcomes resulting from ESG-related engagement activities

BMO Global Asset Management's 2020 [ESG Profile and Impact Report](#) (for its responsible global equity strategy) has refreshed its approach to SDG revenue alignment reporting by taking into account both positive and negative impacts of investee companies.³¹ The report outlines to what extent investee companies' revenues support, or inhibit, particular SDGs targets. The engagement reporting also includes a breakdown of engagement by SDG theme, as well as highlighting milestones where companies have taken action.



Case study: BNP Paribas Asset Management

✓ Contribution and activity relating to collaborative initiatives

BNP Paribas Asset Management's [2019 Stewardship Report](#) includes a two-page spread outlining its involvement in collaborative initiative Climate Action 100+, detailing information on the companies at which it leads collaborative engagements, and others that it is supporting.³²



Case study: M&G Investments

✓ Details of engagement activities in asset classes beyond listed equity

M&G Investment Management's [Corporate Finance and Stewardship Report 2019](#) includes reporting on engagement with fixed income, including quantitative overviews as well as case studies which signpost objectives, actions, and outcomes.³³

>>> Next steps

Public reporting on ESG-related company engagement includes the following key elements:

- ▶ Clearly defined expectations and timelines for engagements
- ▶ Details on the escalation strategy that is planned, or has been undertaken, for unsuccessful engagements

Escalation strategy



Leading practice

Escalation strategy is publicly available and:

- ✓ **Outlines the steps taken in cases of unsuccessful engagements**
- ✓ **Provides timelines and/or triggers for escalation**
- ✓ **Is integrated into wider stewardship reporting**

Transparent and consistently implemented escalation procedures are a key component of a successful engagement strategy. Unfortunately, this is an area where leading practice is hard to come by. Too often, we see asset managers exhibiting ‘tea and biscuits’ company engagement; engagement that lacks properly defined objectives, timelines, and consequences, and therefore failing to affect change.

Having a clear escalation strategy that includes timeframes is not just an effective tool to apply pressure to unresponsive companies and foster better dialogue, it is also an indicator of strong responsible investment performance more generally: asset managers who performed well in ShareAction’s 2020 [Point of no Returns](#) ranking were also typically more transparent with regard to their escalation protocol in their publicly available policy and strategy documents.



Case study: DWS

- ✓ **Outlines the steps taken in cases of unsuccessful engagements**

DWS follows a stringent step-by-step approach to engaging with investee companies. The steps outlined in its [Corporate Governance Engagement Report 2019](#) are as follows:³⁴

- 1 An annual governance letter is sent to investee companies on DWS’s focus list
- 2 One-on-one engagements are held via meetings/calls
- 3 Governance issues are raised in regular management meetings
- 4 Letters are sent to selected individual companies
- 5 Extraordinary escalation letters are sent to the boards of directors
- 6 DWS actively participates in person in AGMs, raising concerns publicly
- 7 DWS may consider filing shareholder proposals
- 8 Votes are cast against management and board of directors, in accordance with DWS’s voting policy

DWS’s [Engagement Policy](#) also spells out how engagements might be initiated, either individually or as part of a thematic engagement programme, the roles and responsibilities involved, as well as the principles that inform their engagements.³⁵



Case study: NN Investment Partners

- ✓ **Outlines the steps taken in cases of unsuccessful engagements**
- ✓ **Provides timelines and/or triggers for escalation**
- ✓ **Integrated into wider stewardship reporting**

NN Investment Partners' (NNIP's) engagements usually last for a three-year period. After 1.5 years, or sooner if necessary, the asset manager evaluates progress to recalibrate its engagement objectives, and determines what further steps might be required if insufficient progress has been made. If after a three-year period the engagement does not lead to the desired change, NNIP will consider the company ineligible for investment and remove the company from its investment universe. This divestment strategy has been used in several cases; for example, in the case of Kinder Morgan and Enbridge who were linked to human rights and environmental controversies. NNIP's [Engagement Approach](#) sets out its stages of engagement and escalation.³⁶

- 1 NNIP contacts the company to inform them that it would like to engage on a specific topic, including details on why they have been selected, the parties involved (if it is a collaboration) and what the objectives are.
- 2 NNIP establishes dialogue with the company to discuss the engagement objectives in more detail and gather information on the status of these objectives.
- 3 The company commits to address a part or all of the objectives NNIP has identified.
- 4 The company develops a strategy to address issue(s), including a plan with clear activities and targets. Preferably this plan/strategy is published, a copy is received in writing.
- 5 Progress on commitments is tracked and validated. If progress is insufficient or the company is unwilling to collaborate, NNIP may take additional measures, such as filing a shareholder resolution.
- 6 Finalisation, extension or cancellation: if all objectives have been met, the engagement process can be finalised. If sufficient progress has been made but not all the objectives have yet been met, it can be extended. If too little progress has been made, other steps can be taken, such as cancelling the engagement or divesting.

Throughout its [Responsible Investing Report 2019](#), NNIP maps engagements against these stages.³⁷

Next steps

- ▶ Transparency on how divestment is leveraged in escalation strategies across asset classes (for example, across both listed equity and debt)

Climate change

This section explores how leading asset managers are strategically responding to the topic of climate change through their firm-wide policies and commitments, voting, engagement, and disclosure activities.

Firm-level policies and commitments

To stand a chance of avoiding catastrophic climate change and limiting global warming to relatively safe levels, the recent surge in investor rhetoric on climate change must be matched by stronger action and enhanced accountability for the impacts of all investments. Key to helping achieve this are ambitious and transparent firm-level climate policies and commitments.

Fossil fuel exclusion policies



Leading practice

- ✓ Total exit from coal by 2030 in OECD countries and 2040 worldwide
- ✓ Requirement for investee companies to publish coal exit plans by 2030 in OECD countries and 2040 worldwide
- ✓ Companies developing new coal mines and power plants are excluded
- ✓ Relative and absolute exclusion criteria are aligned with the 2017-2019 GCEL methodology
- ✓ Companies generating up to 10 per cent of revenue from tar sands are excluded
- ✓ Companies generating up to 20 per cent of revenue from tar sands transportation are excluded
- ✓ Principles of a Just Transition are included
- ✓ List of excluded companies is published

The mining and burning of coal inflict a particularly severe toll on both human health and the natural environment. It is therefore concerning that only 16 per cent of assessed managers in ShareAction's 2020 [Point of no Returns](#) survey exclude coal companies from all portfolios under management. Furthermore, only four asset managers had commitments to exclude companies with business models dependent on tar sands, the development and transport of which creates significant human rights concerns and local pollution.

An increasing number of leading asset managers are excluding coal in alignment with the 2017-2019 [Global Coal Exit List](#) (GCEL) methodology,³⁸ and making commitments to exit coal by 2030 in OECD countries and by 2040 worldwide. However, asset managers should now strengthen their coal commitments against the updated 2020 GCEL methodology and put in place credible transition plans for exiting coal. ShareAction also observes that leading practice exclusion policies are transparent about the scope and execution of the policy.



Case study: La Banque Postale Asset Management

- ✓ Total exit from coal by 2030 in OECD countries and 2040 worldwide
- ✓ Requirement for investee companies to publish coal exit plans by 2030 in OECD countries and 2040 worldwide
- ✓ Companies developing new coal mines and power plants are excluded
- ✓ Principles of a Just Transition are included

La Banque Postale Asset Management is committed to having zero exposure to coal by 2030 in OECD countries and by 2040 worldwide. To achieve this, La Banque Postale Asset Management has adopted an [exclusion policy](#) that limits investments to issuers who have made a public commitment to exit coal.³⁹ This policy applies to all open-ended funds, and will apply to bonds with a maturity exceeding 2025. Additionally, coal exit commitments must:

- Be aligned with the deadlines as defined by the IPCC in its special 1.5C report (2030 for OECD countries, 2040 for China, and 2050 for the rest of the world)
- Apply to the closure or transformation of coal assets, not their sale
- Take into consideration the social impacts of site closures

This policy applies to all companies along the coal value chain, including power generation, mining, transport, and trading, and is unique in including consideration for a just transition into their screening criteria.



Case study: Nordea Investment Management

- ✓ Companies generating up to 10 per cent of revenue from tar sands are excluded
- ✓ List of excluded companies is published

Nordea Investment Management's [Responsible investment policy](#) outlines its exclusion policy for companies with a "large and sustained exposure to oil sands", set at 10 per cent of revenue.⁴⁰ The Policy states that "[t]he extraction of oil from oil sand is the highest cost and most carbon intensive hydrocarbon. We believe that with current methods and technology, there is no company that can extract oil from oil sand in a way that is consistent with a sustainable development."

Nordea also [publishes](#) a full list of excluded companies online, including the reason for exclusion.⁴¹



Case study: AXA Investment Managers

- ✓ Total exit from coal by 2030 in OECD countries and 2040 worldwide
- ✓ Relative and absolute exclusion criteria are aligned with the 2017-2019 GCEL methodology
- ✓ Companies generating up to 20 per cent of revenue from tar sands transportation are excluded

In 2017, AXA Investment Managers (AXA IM) [announced](#) that it will divest equity assets and stop investing in corporate fixed income assets for tar sands producers or pipeline operators with over 20 per cent of revenue coming from tar sand extraction or tar sand transportation.⁴² The decision was taken in the belief that sending such a signal to markets and regulators generates a positive influence.⁴³

AXA IM [excludes](#) coal mining and power generation companies in line with the 2017-2019 GCEL Methodology. In 2019, AXA IM also committed to exit coal by 2030 in OECD countries and by 2040 in the rest of the world.⁴⁴



Case study: Amundi

- ✓ Total exit from coal by 2030 in OECD countries and 2040 worldwide
- ✓ Requirement for investee companies to publish coal exit plans by 2030 in OECD countries and 2040 worldwide
- ✓ Companies developing new coal mines and power plants are excluded

In 2020, Amundi [extended](#) its coal exclusion policy to any company developing or planning to develop new coal assets, as well as companies purchasing existing coal assets without pledging to shut them down by 2030 in OECD countries and 2040 worldwide.⁴⁵

>>> Next steps

- ▶ The 2020 GCEL criteria are applied to exclude all coal miners and coal-based utilities, as well as so-called 'service' companies along the thermal coal value chain

Portfolio decarbonisation commitments

Not only have multiple studies shown that aligning with a below 2°C path at portfolio level ensures both the lowest risk and the highest potential for maximising returns, it is also critical in going beyond climate rhetoric and taking responsibility for the impact of all investments.^{46,47}

On the other hand, as net-zero and Paris-alignment commitments gain traction in the financial sector, so too do concerns of greenwashing. In order for such commitments to avoid greenwashing accusations, they need to be in line with the ambition demanded by climate science, including in the assumptions and scenarios that underpin the headline commitment.



Leading practice

- ✓ **Commitment to net-zero emissions across all assets under management by 2050 at the latest**
- ✓ **Interim targets for emissions reductions for 2030 at the latest are set**
- ✓ **Scope 1, 2, and, where material, 3 portfolio emissions are taken into account**
- ✓ **Emissions pathways are consistent with the IPCC special report on global warming of 1.5°C**



Case study: Bank J. Safra Sarasin

- ✓ **Commitment to net-zero emissions across all assets under management by 2050 at the latest**

In May 2020, Bank J. Safra Sarasin launched a new [climate pledge](#), which outlines an aim to reach a carbon-neutral outcome in assets under management by 2035.⁴⁸



Case study: Robeco

- ✓ **Commitment to net-zero emissions across all assets under management by 2050 at the latest**
- ✓ **Interim targets for emissions reductions for 2030 at the latest are set**

In December 2020, Robeco announced a target of achieving net-zero greenhouse gas emissions across all its assets under management by 2050, in line with the goals of the Paris Agreement.⁴⁹ Importantly, as part of this target, Robeco has committed to announcing a net-zero roadmap and interim targets for 2025 in the course of 2021, before the UN Climate Summit COP26.



Case study: Net-zero Asset Managers Initiative

- ✓ Commitment to net-zero emissions across all assets under management by 2050 at the latest
- ✓ Interim targets for emissions reductions for 2030 at the latest are set
- ✓ Scope 1, 2, and, where material, 3 portfolio emissions are taken into account
- ✓ Emissions pathways are consistent with the IPCC special report on global warming of 1.5°C

The [Net-zero Asset Managers Initiative](#) (NZAMI). The NZAMI is a coalition of asset managers committed to supporting investing aligned with net-zero emissions by 2050 or sooner. Signatories to the initiative commit to setting an interim target for the proportion of assets to be managed in line with the attainment of net-zero by 2050 or sooner, and to review these targets at least every five years, with a view to ratcheting up the proportion until 100 per cent of assets are included⁵⁰.

For assets to be managed in line with the attainment of net-zero by 2050 or sooner, signatories also commit to:

- Setting interim targets for 2030, consistent with a fair share of the 50 per cent global reduction in CO₂ identified as a requirement in the IPCC special report on global warming of 1.5°C
- Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions
- Prioritise the achievement of real economy emissions reductions



ShareAction supports collaborative initiatives that set ambitious targets in line with climate science. However, we see a risk that such initiatives may provide a shield against individual accountability and strongly encourage individual asset managers to urgently align their own firm-wide policies with collaborative commitments.

>>> Next steps

- ▶ Act on and annually report on progress towards portfolio decarbonisation targets

Voting policies and commitments



Leading practice

- ✓ **Commitment to vote against directors at climate laggard companies**
- ✓ **Commitment to support lobbying-related shareholder resolutions**
- ✓ **Commitment to support shareholder resolutions that call for the disclosure and management of greenhouse gas emissions**

ShareAction's 2020 [Point of no Returns](#) survey found that only eight per cent of surveyed asset managers' voting policies indicated clear support for shareholder proposals on corporate decarbonisation, in contrast to 27 per cent committing to generally vote for disclosure-focused climate resolutions.

Leading asset managers include specific climate-related commitments in their proxy voting policies to assertively use their voting rights in support of efforts that contribute towards the realisation of the goals of the Paris Agreement.



Case study: NN Investment Partners

- ✓ **Commitment to vote against directors at climate laggard companies**
- ✓ **Commitment to support shareholder resolutions that call for the disclosure and management of greenhouse gas emissions**

NN Investment Partners' (NNIP's) [Climate Change Policy](#) outlines how the company leverages its voting rights on climate change:⁵¹ NNIP votes in favour of proposals requesting the company to develop a climate change strategy and to reduce greenhouse gas (GHG) emissions. NNIP will also leverage its voting rights on climate change by voting against the re-election of board members at companies who do not disclose their carbon emissions, or if there are no short-, medium-, and long-term targets for at least scopes 1 and 2 GHG emissions.



Case study: Aviva Investors

- ✓ **Commitment to vote against directors at climate laggard companies**

In 2019, Aviva Investors committed to voting against directors in high- and medium- impact sectors that are climate laggards and against directors of CA100+ target companies that have not committed to setting science-based targets.⁵² They also committed to voting against companies as an escalation of failed engagement on climate change issues.



Case study: PGGM

- ✓ **Commitment to support shareholder resolutions that call for the disclosure and management of greenhouse gas emissions**
- ✓ **Commitment to support lobbying-related shareholder resolutions**

PGGM's [Global Voting Guidelines 2020](#) commit PGGM to supporting management-proposed climate-related resolutions unless the proposal would delay necessary decarbonisation activities or reduce the company's preparedness for a low-carbon world.

The guidelines also commit PGGM to vote for climate-related shareholder proposals:

- Requesting the company to set reduction targets on their scope one and/or two emissions and/or - where material - scope three reduction ambitions
- Requesting more transparency on corporate lobbying and memberships of industry organisations
- Submitting non-executive board member candidates who have relevant climate-related expertise and/or asking to increase relevant climate-related expertise on the board level where such knowledge is currently absent and where climate-related risks are material in the near future

>>> Next steps

- ▶ Voting policies strengthen commitments to support topics including the just transition, Paris-aligned business plans (including capital expenditure), climate-competent boards, and short-, medium- and long-term targets

Thematic engagement programmes



Leading practice

- ✓ **Engagement strategically targets high-impact topics and sectors**
- ✓ **Engagement has clearly defined timelines**
- ✓ **Engagement has clearly defined expectations**
- ✓ **Engagement is linked to voting and/or asset allocation**
- ✓ **Engagement objectives are aligned with the goals of the Paris Agreement**
- ✓ **Engagement progress is transparently disclosed**

Consistent with the above findings for voting policies, ShareAction's 2020 [Point of no Returns](#) survey found that company engagement by asset managers favours disclosure over action, with only 44 per cent prioritising corporate strategy alignment with a <2°C scenario, and only 15 per cent prioritising withdrawal from trade associations in their engagements.

ShareAction has observed that leading climate engagement practice involves setting clear timelines and expectations for companies aligned with the goals of the Paris Agreement, and linking escalation strategies to voting and/or asset allocation consequences.



Case study: Legal & General Investment Management

- ✓ Engagement strategically targets high impact topics and sectors
- ✓ Engagement has clearly defined timelines
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation
- ✓ Engagement objectives are aligned with the goals of the Paris Agreement
- ✓ Engagement progress is transparently disclosed

In 2020, Legal & General Investment Management (LGIM) refreshed its climate-focused company engagement programme, called the Climate Impact Pledge.⁵³ Initialised in 2016 to focus on 80 companies, the renewed pledge covers about 1000 companies with the ultimate goal of aiming to achieve net-zero carbon emissions globally by 2050. Companies covered by the pledge are selected from 15 climate-critical sectors (from aviation to steel-making) and are responsible for some 60 per cent of all greenhouse gas emissions from listed companies. These companies are assessed against 40 climate-related indicators capturing governance structures, business targets, and lobbying activities. The resulting rating for each company is publicly available on LGIM's website, under a 'traffic light' system, alongside the methodology for the assessment. Companies with red 'traffic lights' automatically receive a letter highlighting their rating and any potential voting or capital allocation sanctions. Additionally, around 50 companies deemed pivotal to the zero-carbon transition are selected for deeper engagement. Both groups are given sector-specific guidance as to transition pathways and key milestones; technologies that require development; and policies that need to be implemented.

LGIM's engagement with these companies carries meaningful consequences, both through their voting activity and capital allocation: When companies fail to meet minimum standards as set out in the sector guidance, LGIM will vote against chairs of boards (leveraging voting rights across LGIM's entire equity book) and divest from them within funds in their Future World fund range. Companies to whom these sanctions are applied are publicly named. So far, LGIM has sanctioned 13 companies under the climate impact pledge, including Exxon Mobil, MetLife, and China Construction Bank. This approach seems to be having an impact on engagement targets, with a number of sanctioned companies in the energy and auto sector being subsequently reinstated into LGIM's funds following improvements. Seven of the 10 companies that registered the largest improvements in 2019 were those LGIM had named as 'laggards' in previous years.

A form of compressed forceful engagement that can yield substantial change is the filing of shareholder resolutions. Historically, shareholder resolutions have been filed mainly by retail investors and not-for-profits. Increasingly, however, ShareAction is seeing larger asset managers file ambitious climate resolutions: In January 2020, a coalition of 15 institutional investors, including Amundi Asset Management, representing USD 2.4 trillion in assets under management filed a [resolution at HSBC Holdings Plc](#), alongside 117 individual shareholders.⁵⁴ The resolution, co-ordinated by ShareAction, calls on HSBC to publish a strategy and targets to reduce its exposure to fossil fuel assets, starting with coal, on a timeline consistent with the Paris climate goals. The resolution follows in the footsteps of ShareAction's 2020 [resolution at Barclays](#) - the first ever climate resolution backed by institutional investors at a major European bank.⁵⁵ Barclays responded to that resolution by tabling its own and becoming the first mainstream bank to commit to net-zero by 2050 at the latest.

>>> Next steps

- ▶ Engagement on climate-related topics becomes clearer in terms of company expectations, timelines for implementation, and escalation tactics should engagement prove unsuccessful

TCFD disclosure



Leading practice

- ✓ **Comprehensive and detailed disclosure across the four pillars**
- ✓ **Clear link to changes in investment and engagement across asset classes**
- ✓ **Disclosure of results of scenario analysis at portfolio- and asset class- level against range of scenarios**

It is almost four years since the Task Force on Climate-related Financial Disclosures (TCFD) was launched, yet our Point of No Returns global survey found that less than 20 per cent of the world's largest asset managers are publishing their own TCFD-aligned disclosure. Some asset managers are leading by example with comprehensive and detailed disclosure across the four pillars, and are linking scenario analysis insights into changes in investment and stewardship behaviour.



Case study: AXA Investment Managers

- ✓ **Comprehensive and detailed disclosure across the four pillars**
- ✓ **Disclosure of results of scenario analysis at portfolio- and asset class- level against range of scenarios**

AXA Investment Managers' [2020 Article 173 – TCFD combined report](#) includes comprehensive and detailed disclosure across the four TCFD pillars, including its work on scenario analysis.⁵⁶ The report contains a climate dashboard, which indicates performance at both portfolio and asset class levels (also compared against market benchmarks) across the following indicators:

- Warming potential (°C)
- Carbon footprint
- Green share (%)
- Physical cost VaR (average scenario) (%)
- Transition cost VaR (1.5°C scenario) (%)
- Cost of climate VaR (1.5°C scenario) (%)
- Technology opportunity (1.5°C scenario) (%)



Case study: Legal & General Investment Management

- ✓ **Comprehensive and detailed disclosure across the four pillars**
- ✓ **Clear link to changes in investment and engagement behaviour across asset classes**

In 2019, Legal & General Investment Management published its first standalone [TCFD report](#).⁵⁷ The report provides a strong level of disclosure and detail across the four TCFD pillars, including how an assessment of both physical and transition risks has strategically impacted areas such as engagement and voting, client education, public policy, product development and investment decision-making across investment strategies (passive and active) and asset classes (listed equities and credit, government bonds, multi-asset, and real assets).

>>> Next steps

- ▶ Annual TCFD reporting increases focus on how forward-looking scenario analysis informs tangible positive changes in capital allocation and stewardship practices

Human and labour rights

This section explores how leading asset managers are strategically responding to the topic of human and labour rights.

Firm-level policies and commitments



Leading practice

- ✓ **Controversial weapons are excluded, and relevant treaties and list of excluded companies/countries are disclosed**
- ✓ **Relevant international frameworks are referenced, including how they apply to ESG integration or negative screening⁵⁸**
- ✓ **Salient human rights risks are recognised within proactive due diligence⁵⁹**
- ✓ **Human and labour rights are linked to engagement and voting behaviour**
- ✓ **Promotion of access to remedy**

ShareAction's [Point of no Returns](#) survey revealed a concerning gap between asset managers who claim to integrate human and labour rights in their responsible investment policies, and those who are taking real action by screening controversial weapons, restricting sovereign debt from sanctioned countries, or engaging or excluding countries or companies in breach of global standards.



Case study: Robeco

- ✓ **Controversial weapons are excluded, and relevant treaties and list of excluded companies/countries are disclosed**
- ✓ **Relevant international frameworks are referenced, including how they apply to ESG integration or negative screening**
- ✓ **Human and labour rights are linked to engagement and voting behaviour**

Robeco's [Exclusion Policy](#) clearly outlines how exclusions are applied to manufacturers of controversial weapons - listing seven international treaties and legal bans - as well as sovereign debt providers on the basis of serious violations of human rights in accordance with international frameworks.⁶⁰ The document also references its escalation strategy for controversial behaviour, which triggers a three-year enhanced engagement approach that can culminate in divestment. The policy also notes that updated exclusion lists will be published on the Robeco website.



Case study: DWS

- ✓ **Relevant international frameworks are referenced, including how they apply to ESG integration or negative screening**
- ✓ **Salient human rights risks are recognised within proactive due diligence**

In its [2019 Sustainability Report](#), DWS details its approach to assessing human rights controversies.⁶¹ The norms applied are drawn from various internationally-recognised sources and include indicators on:

- Human rights abuses or corporate complicity for such abuses
- Adverse societal or community impact
- Violation of labour rights, most notably the right of collective bargaining and free association
- Neglected health and safety obligations
- Child labour and bonded or forced labour

To make this process more proactive regarding due diligence on human rights, DWS developed a new norm methodology that aggregates multiple ‘less severe’ controversies to treat them equally to one severe controversy. This new approach has increased the number of companies excluded from dedicated ESG mutual funds.



Case study: Aberdeen Standard Investments

- ✓ **Salient human rights risks are recognised within proactive due diligence**
- ✓ **Human and labour rights are linked to engagement and voting behaviour**
- ✓ **Promotion of access to remedy**

During 2020, Aberdeen Standard Investments published a series of position statements on the topics of [businesses and human rights](#), [governments and human rights](#), [labour and employment](#), and [diversity and inclusion](#).^{62,63,64,65}

The Businesses and Human Rights statement draws upon a range of international frameworks and outlines the following expectations for all companies (these expectations are substantially expanded upon in Aberdeen Standard Investments’ Listed Company Stewardship Guidelines):

- 1 Work continuously to understand their actual and potential impacts on human rights;
- 2 Establish systems that actively ensure respect for human rights; and
- 3 Take appropriate action to remedy an infringement of human rights.

The statement also explains how a combination of ‘top-down’ and ‘bottom-up’ perspectives are applied to assessing human rights, which build on the identification of salient human rights issues to guide risk-mitigation efforts. Furthermore, the statement details how engagement is applied to these topics, including escalation processes: “Where investments are unwilling to engage or show limited progress, we consider how to exercise our influence through voting and shareholder resolutions where possible... as a last resort we may consider selling our holding.”



Case study: Swisscanto Invest

- ✓ **Controversial weapons are excluded, and relevant treaties and list of excluded companies/countries are disclosed**

Swisscanto Invest's [exclusions policy](#) screens out manufacturers of a range of prohibited weapons from all actively managed and index-linked portfolios.⁶⁶ In its press release, Swisscanto Invest claimed to be the “first fund provider to integrate sustainability criteria into passive products”.

>>> Next steps

- ▶ Salient human rights and access to remedy are placed at the centre of firm-level policies with clear statements how these link to investment and engagement behaviour

Voting policies and commitments



Leading practice

- ✓ **Commitment to vote against directors at human and labour rights laggard companies**
- ✓ **Relevant international frameworks are referenced**
- ✓ **Commitment to support shareholder proposals relating to human and labour rights**

ShareAction's 2020 [Point of no Returns](#) survey found that the majority of asset managers' voting policies lack specific commitments on human and labour rights. Where commitments are made, they are generally limited to inclusion and diversity at the board level.

Leading asset managers are including specific climate-related commitments in their proxy voting policies on a range of topics from gender and ethnic diversity, due diligence in supply chains, and breaches against relevant global standards.



Case study: RBC Global Asset Management

- ✓ Commitment to support shareholder proposals relating to human and labour rights
- ✓ Relevant international frameworks are referenced

RBC Global Asset Management's 2020 [voting policy](#) outlines general voting support on the topics of human rights, community issues, indigenous rights, and employee rights, diversity and relations.⁶⁷ A range of comprehensive and detailed voting commitments are outlined for each of these topics, while the human rights section also makes reference to a comprehensive range of relevant global frameworks and standards.



Case study: Aviva Investors

- ✓ Commitment to vote against directors at human and labour rights laggard companies

Aviva Investor's 2021 [Global Voting Policy](#) contains the following commitments on key topics related to human and labour rights:⁶⁸

Gender diversity: We will not support the re-election of the nomination committee chair (or other resolutions when the nomination chair is not up for re-election) if female directors represent less than a third of the board, unless it is evident that the company has made significant progress in this area.

Ethnic diversity: In markets where information on director ethnicity is available, we will not support the re-election of the nomination committee chair (or other resolutions when the nomination chair is not up for re-election) if the board lacks ethnic diversity and has not outlined a credible diversity strategy.

Employee welfare: We will not support the re-election of accountable directors where we have concerns that the business is failing in its duties to treat employees fairly and responsibly.

Human Rights: We will not support the report and accounts or individual directors where we have concerns in relation to a company's practices against significant sustainability global standards. This includes scoring poorly on the Corporate Human Rights Benchmark (CHRB). Aviva Investors first updated its voting policy to vote against the boards of companies that scored poorly against CHRB in 2019.



Case study: NN Investment Partners

- ✓ Relevant international frameworks are referenced
- ✓ Commitment to vote against directors at human and labour rights laggard companies
- ✓ Commitment to support shareholder proposals relating to human and labour rights

In its latest [Proxy Voting Policy](#) for client assets, NN Investment Partners (NNIP) makes voting commitments across a range of important human and labour rights topics.⁶⁹ The policy states NNIP will generally vote for:

- Proposals requesting that companies provide greater disclosure regarding impact on local stakeholders, workers' rights and human rights.
- Proposals for companies to adopt or comply with certain codes of conduct relating to labour standards, human rights conventions, and corporate responsibility at large.
- Proposals requesting independent verification of a company's contractors' compliance with labour and human rights standards. The Policy also contains a commitment to vote against directors "if a company is (at risk) of violating the principles of the UN Global Compact".



Case study: Allianz Global Investors

- ✓ Commitment to support shareholder proposals relating to human and labour rights

In the 'Sustainability Issues and Shareholder Proposals' section of its [Global Corporate Governance Guidelines](#), Allianz Global Investors commits general voting support across the following topics, which are summarised below:⁷⁰

Diversity and Human Capital Management: proposals that seek:

- Reporting of company's efforts to enhance diversity of boards, management and workforce;
- Enhanced report of human capital data across a range of related metrics;
- Seeking introduction of policies and statements that explicitly prohibit discrimination and promote equal opportunities at investee companies.

Human Rights: proposals that seek:

- Reporting on the company's or its suppliers' labour and/or human rights standard and policies;
- Independent monitoring programs in conjunction with recognised human rights groups to monitor compliance;
- Adoption of labour standards for foreign and domestic suppliers;
- Requests for company assessments of human rights risks in its operations or supply chain, or a report on its human rights risk assessment process.

>>> Next steps

- ▶ Voting policies strengthen commitments to support topics including gender and ethnic diversity, gender pay gap reporting, upholding salient human rights. and ensuring access to remedy

Thematic engagement programmes



Leading practice

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation.
- ✓ Engagement objectives reference relevant international frameworks
- ✓ Key contributor to relevant collaborative initiatives
- ✓ Engagement progress is transparently disclosed

ShareAction's [Point of no Returns](#) research revealed that over 60% of the world's largest asset managers have a weak or non-existent approach to company engagement on this topic, while where engagement does occur it is mainly reactive in response to human rights abuses. Some leaders are demonstrating that proactive engagement on the topic is possible, and seek to strengthen due diligence and reporting on salient human rights abuses.



Case study: BMO Global Asset Management

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation.
- ✓ Engagement progress is transparently disclosed

In its 2019 [Responsible Investment Review](#), BMO Global Asset Management discloses that only 10 per cent of its engagement milestones for the year were related to social themes, indicating “the challenges companies face in trying to improve their labour, conduct and human rights practices”.⁷¹ In addition to a range of social-related case studies, each of which are mapped to the SDGs, the review contains thematic sections providing a brief overview of engagement progress on the topics of gender diversity, fast fashion, and living wage. More detailed case studies with Amazon and BASF, both on labour standards, offer insights into approaches taken, including co-filing shareholder proposals, and outlooks on future engagement.



Case study: APG Asset Management

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement objectives reference relevant international frameworks
- ✓ Key contributor to relevant collaborative initiatives
- ✓ Engagement progress is transparently disclosed

APG Asset Management's [Responsible Investment Report 2019](#) contains a dedicated chapter on human rights and working conditions, which clearly references the United Nations Global Compact as its point of departure.⁷² The chapter outlines APG Asset Management's founding role in the Corporate Human Rights Benchmark collaborative initiative, which compares and ranks the human rights performance of 230 companies across five key sectors (clothing, raw materials, agriculture, automotive, and ICT). The chapter also highlights engagement practices across the themes of fair raw materials, malpractices in the clothing sector, safety in the shipbuilding industry, safety in infrastructure, cobalt working conditions, and child labour in the cocoa sector.



Case study: Amundi Asset Management

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Key contributor to relevant collaborative initiatives
- ✓ Engagement progress is transparently disclosed

Amundi Asset Management's (Amundi's) 2019 [Engagement Report](#) contains a detailed thematic section on living wage, including a clear description of the topic and rationale for engagement.⁷³ The section focuses on engagement with the food, retail, and telecommunications sectors, including detailed case studies as well as next steps for each sector. The report also includes a collaboration section, which describes Amundi's involvement with the Platform Living Wage Financials, an alliance of 13 financial institutions engaging with over 30 listed garment and footwear brands, eight food processing companies, and five food retail companies on promoting the adoption of paying a living wage in global supply chains.



Case study: Legal & General Investment Management

- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation.

Legal & General Investment Management's [Ethnic diversity statement](#) outlines its expectation that "companies set ambitions related to the ethnic composition of their organisation, throughout the workforce, with a particular emphasis on the board level, which generally sets the tone from the top".⁷⁴ The statement outlines a new engagement campaign that will target FTSE100 and S&P companies that do not have ethnically diverse investors on the board through sending letters setting out "the importance of capturing and reporting this data". Should companies fail to meet these expectations, starting from 2022, Legal & General Investment Management will vote against the chair of the nomination committee or chair of the board.

LGIM have supported ShareAction's campaigns on the Living Wage and the Workforce Disclosure Initiative and have [called](#) on governments worldwide to introduce mandatory human rights due diligence.

>>> Next steps

- ▶ Engagement on social topics becomes clearer on company expectations, timelines for implementation, and escalation tactics should engagement prove unsuccessful

Supporting better data

Many of the asset managers ShareAction engaged with after the [Point of no Returns](#) survey noted data challenges surrounding social topics at the company level. However, some asset managers are taking action to improve the quality of data in this area by making meaningful contributions to relevant collaborative initiatives, as highlighted in the following case studies.



Case study: Aviva Investors

Aviva's [Modern Slavery Act Transparency Statements](#) 2018 and 2019 contain reference to Aviva Investors' involvement in a range of collaborative initiatives aimed at how companies are responding to modern slavery.⁷⁵ These include its role as founding partner of the World Benchmarking Alliance (WBA) and a key supporter of the Corporate Human Rights Benchmark and support for the Workforce Disclosure Initiative. Both statements outline Aviva Investors' collaboration with multiple initiatives related to modern slavery, some of which are led by Aviva Investors.

In 2020, Aviva Investors was part of a collaborative initiative to promote compliance with Section 54 of the Modern Slavery Act where it co-signed letters to 22 FTSE350 listed

companies who had failed to meet the minimum reporting standards of the Act. Aviva Investors is also working with the charity fund manager [CCLA](#) and a group of other investors on the “Find it, Fix it, Prevent it” project, which goes beyond minimum compliance of the law to focus on how companies are working to tackle modern slavery in their operations.



Case study: BMO Global Asset Management

BMO Global Asset Management (BMO GAM) has published a [briefing](#) in support of the Workforce Disclosure Initiative (WDI), a project run by ShareAction that aims to improve data from listed companies on how they manage workers in their direct operations and supply chains.⁷⁶ Launched in 2017, the WDI brings together 52 institutions with \$6.5 trillion in assets under management. Data is generated through an annual survey and engagement programme, which signatories can use to integrate into investment practices. The policy statement describes BMO GAM’s role in the initiative, noting its reaching out to 77 companies to ask them to respond to the WDI survey

Biodiversity

This section explores how leading asset managers are strategically responding to the biodiversity crisis and eco-system collapse. Although our 2020 [Point of no Returns](#) survey found that the asset management industry is still very early on its journey to mainstreaming and systematically integrating biodiversity into investment decisions, a few leading asset managers are taking action to do so.

Firm-level policies and commitments



Leading practice

- ✓ Biodiversity-related exclusion criteria apply to the entire investment universe
- ✓ Portfolio target of no net biodiversity loss by 2030 is set
- ✓ Portfolio targets on biodiversity-related topics are set
- ✓ Commitment to annually reporting the significant positive and negative contribution to global biodiversity goals linked to financing activities and investments in portfolios

As with climate change and human and labour rights, biodiversity is a systemic crisis that presents risks to entire economies and populations, and therefore cannot be tackled in isolation. It is therefore important that asset managers address biodiversity at a firm-wide level. ShareAction's 2020 [Point of no Returns](#) survey found that none of the assessed asset managers had a stand-alone dedicated policy on biodiversity covering all portfolios under management, and only 11 per cent had a clear stance on biodiversity outlined in their responsible investment policy.

However, a small vanguard of asset managers are integrating ambitious biodiversity-related commitments into firm-level policies, including exclusions policies and portfolio-level targets.



Case study: ACTIAM⁷⁷

- ✓ Portfolio target of no net biodiversity loss by 2030 is set
- ✓ Portfolio targets on biodiversity-related topics are set

ACTIAM's [Sustainable Investment Policy](#) describes how it aims to reach zero net biodiversity loss and zero net deforestation in its portfolios by 2030.⁷⁸ In assessments of investments and active ownership activities, ACTIAM addresses both goals. However, measuring progress on the goal of zero biodiversity loss is still challenging. Therefore, ACTIAM has been focusing on measuring the major causes of biodiversity loss, namely, climate change, water use, and deforestation. As there are currently no reliable approaches to measuring the level of biodiversity loss of investment portfolios, ACTIAM participates in working groups to develop scientifically grounded methods to measure the impact of company behaviour on biodiversity loss and its materiality for companies



Case study: BNP Paribas Asset Management

✓ Portfolio targets on biodiversity-related topics are set

BNP Paribas Asset Management's [Global Sustainability Strategy](#) outlines its overall objective to improve the environmental impact of all its investments.⁷⁹ To support this, it has set two targets for improving its water and forest footprints in the next three years:

- To improve the water efficiency of its investment portfolios, particularly in water-stressed areas, as well as to measure and disclose the water footprint of its portfolios.
- To support global efforts to halve forest loss by 2020 and end (net) forest loss by 2030. The target is for relevant companies in all its investment portfolios to comply with No Deforestation, No Peat and No Exploitation (NDPE) commitments by 2020 for agricultural commodities (palm oil, soy, and paper, timber and beef products) and NDPE commitments by 2030 from non-agricultural sectors (mining, metals, infrastructure, etc.).

BNP Paribas Asset Management has also set a series of internal sub-targets regarding air, soil, oceans, biodiversity and waste to support these two high-level targets.



Case study: AXA Investment Managers

✓ Biodiversity-related exclusion criteria apply to the entire investment universe

Since 2014, AXA Investment Managers has implemented a specific sector [policy](#) regarding palm oil.⁸⁰ It establishes exclusion criteria for:

- Companies that have not achieved or committed to achieve RSPO certification or other internationally recognised certification
- Companies that have unresolved land rights conflicts
- Companies that have not undertaken social and environmental impact assessments.
- Companies that have not consulted with stakeholders prior to commencing operations
- Companies that have undertaken illegal logging.

The policy covers all financial instruments and portfolios under management, and applies to companies who derive at least five per cent of their revenues from palm oil production whether directly or indirectly, or who own over 30,000 ha of palm oil plantations.



Case study: Finance for Biodiversity Pledge

- ✓ **Commitment to report annually and be transparent about the significant positive and negative contribution to global biodiversity goals linked to financing activities and investments in portfolios**

Signatories to [Finance for Biodiversity Pledge](#) commit to doing the following by 2024 at the latest⁸¹:

- 1 Collaborate and share knowledge on assessment methodologies, biodiversity-related metrics, targets and financing approaches for positive impact.
- 2 Incorporate criteria for biodiversity into ESG policies, while engaging with companies to reduce negative and increase positive impacts on biodiversity.
- 3 Assess financing activities and investments for significant positive and negative impacts on biodiversity and identify drivers of its loss.
- 4 Set and disclose targets based on the best available science to increase significant positive and reduce significant negative impacts on biodiversity.
- 5 Report annually and be transparent about the significant positive and negative contribution to global biodiversity goals linked to financing activities and investments in portfolios.



ShareAction supports collaborative initiatives that set ambitious targets in line with climate science. However, we see a risk that such initiatives may provide a shield against individual accountability and strongly encourage individual asset managers to urgently align their own firm-wide policies with collaborative commitments.

>>> Next steps

- ▶ Report annually on progress towards biodiversity-related targets
- ▶ Expand the breadth of biodiversity-related topics covered in firm-level policies and commitments

Voting policies and commitments



Leading practice

- ✓ **Commitment to support shareholder resolutions relating to the disclosure and management of environmental impacts of company operations**

Specific inclusion of biodiversity in voting policies and commitments remains limited, however, some leading asset managers are starting to include explicit commitments to support proposals that ask companies to limit the environmental impact of their operations.



Case study: RBC Global Asset Management

- ✓ **Commitment to support shareholder resolutions relating to the disclosure and management of environmental impacts of company operations**

RBC Global Asset Management's [Proxy Voting Guidelines](#) include a section on environmental issues, separately from climate change, which links their voting practices to investee companies' environmental impact:⁸²

"We believe companies must recognise their impact on the environment and we will support companies in adopting policies and procedures to minimise a company's impact on the environment. Proposals that seek to improve the environmental practices of a company will generally be supported."

The guidelines give a comprehensive list of biodiversity-related proposals that RBC will generally vote to support, including proposals that ask companies to: abstain from operating in environmentally sensitive areas or using products from materials extracted from such areas; adopt the Global Reporting Initiative reporting standards and Equator Principles; report on water use, intensity, supply, and risks, and efforts to reduce water use, intensity, and impacts on local water systems.

>>> Next steps

- ▶ Commitment to vote against directors at biodiversity laggard companies

Thematic engagement programmes



Leading practice

- ✓ **Engagement strategically targets high-impact topics and sectors**
- ✓ **Engagement has clearly defined timelines**
- ✓ **Engagement has clearly defined expectations**
- ✓ **Engagement is linked to voting and/or asset allocation**

ShareAction's 2020 [Point of no Returns](#) survey found little evidence of asset managers engaging systematically on biodiversity-related issues with portfolio companies, with just under half of the assessed asset managers indicating that they engage with companies on corporate strategy on biodiversity.

Some leading asset managers however are carrying out biodiversity-specific engagement programmes that are timebound and measurable.



Case study: Robeco

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined timelines
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation

In 2019, Robeco launched an [enhanced engagement program](#) focused on companies that have 20-80 per cent of land RSPO certified (Robeco applies a [palm oil policy](#) that excludes companies with less than 20 per cent land RSPO certified).^{83,84} The main goal of the three-year enhanced engagement program is to support companies in improving material sustainability issues. Upon completion of the enhanced engagement program in December 2021, Robeco expects the selected palm oil producers to reach at least 50 per cent of RSPO certified land. Producers that do not reach this threshold at the end of the engagement program will be excluded.

Subsequently, in early 2020, Robeco announced biodiversity as one of its engagement themes for the year. The statement outlines expectations for companies that produce soy, cocoa, or palm oil, or companies that manufacture food to conduct a biodiversity impact assessment of their operations and/or their supply chains, as well as developing plans to achieve net-zero deforestation by 2023.



Case study: NN Investment Partners

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined timelines
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation

NN Investment Partners' (NNIP's) [Responsible Investing Report 2019](#) describes its engagement with six investee companies with exposure to the cattle industry and related products on deforestation-related risks within their supply chains.⁸⁵ NNIP categorises its engagement with these companies as between Stages 3 and 5, meaning they have committed to addressing NNIP's objectives (Stage 3), developed a strategy to address issues (Stage 4), or progress is being tracked and validated (Stage 5). The objectives of the engagement are:

- Disclose and implement a commodity-specific no-deforestation policy with quantifiable, time-bound commitments for the entire supply chain and sourcing geographies
- Establish a transparent monitoring and verification system for supplier compliance with the company's no-deforestation policy
- Report annually on deforestation risk exposure and management, including progress on the company's no-deforestation policy

According to NNIP's escalation policy, if after a three-year period the engagement does not lead to the desired change, NNIP might consider the company ineligible for investment and remove the company from its investment universe.



Case study: EOS at Federated Hermes⁸⁶

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined expectations

In a recently launched [white paper](#), EOS at Federated Hermes outlines its new biodiversity engagement framework, which builds on a nuanced understanding of the financial materiality and the centrality of nature to the long-term success of companies.⁸⁷ The white paper focuses on the need for companies to mitigate their contribution to the main drivers of biodiversity loss, such as climate change, pollution, and land use change. It identifies priority sectors (including consumer goods, agrochemicals, utilities and financial services) based on a high impact and dependence analysis, and charts engagement expectations across five themes: governance, measurement, targets, strategy, and disclosure.

Crucially, EOS at Federated Hermes expects companies to aspire to have a net positive impact on biodiversity, both in direct operations and throughout the value chain. To this end, it encourages companies to conduct impact and dependence assessments, and to regularly report on the outcomes of the analysis with the use of emerging best-practice disclosure frameworks, such as the Task Force on Nature-related Financial Disclosures. Strong emphasis is also placed on effective corporate governance and board-level oversight of nature-related issues and using science-based criteria for target setting.

In recognition of the interconnected nature of climate change and biodiversity loss, EOS at Federated Hermes encourages businesses to embrace more systems-based thinking and adopt a biodiversity lens when implementing climate-related measures. This holistic approach is reflected in the choice of three spotlight issues for engagement, which are central to tackling both the challenges of climate change and biodiversity loss: reversing tropical deforestation, regenerative agriculture, and nature-based solutions.

»»» Next steps

- ▶ Engagement on biodiversity-related topics becomes clearer on company expectations, timelines for implementation, and escalation tactics should engagement prove unsuccessful

Supporting better data

Having access to high quality data to measure investee companies' impact on nature is an important first step for asset managers to be able to manage and reduce that impact. However, a recent [study](#) found that a lack of available data is the most widely cited barrier to making investments that support biodiversity, as voted by 70 per cent of 222 asset owners and managers.⁸⁸

However, some asset managers are proactively combatting this barrier by taking action to improve the quality of data in this area, as highlighted in the following case studies.



Case study: Call for expressions of interest

In January 2020, AXA Investment Managers, BNP Paribas Asset Management, Mirova, and Sycomore Asset Management [launched](#) a call for expressions of interest (CEI) for a partner to develop and implement an innovative tool to measure the impact of investments on biodiversity.⁸⁹ The coalition of investors joined forces in order to raise awareness in the financial community of the vital role that biodiversity plays, and develop the necessary tools for investors to respond to its collapse. The CEI was supported by an [Investor Statement on the need for biodiversity impact metrics](#), which attracted signatures from more than 30 institutional investors representing over six trillion in assets under management.⁹⁰ In September 2020 the mandate was issued to advisory firm I Care & Consult and data provider Iceberg Data Lab, who will develop an analysis tool to enable investors to integrate impacts to nature and biodiversity into their investment and stewardship decisions.⁹¹



Case study: Task Force on Nature-related Financial Disclosures

Launched in September 2020, the [Task Force on Nature-related Financial Disclosures](#) aims to build awareness and capacity to reduce the negative effects of the financial sector on nature and biodiversity.⁹² It will create and implement a framework for corporates and financial institutions to assess, manage, and report on their dependencies and impacts on nature, aiding in the appraisal of nature-related risk. Reporting frameworks will be developed in 2021 and tested in early 2022 before being made available worldwide.

Conclusion

In ShareAction's 2020 Point of No Returns survey of the world's 75 largest asset managers, no asset manager achieved an AAA or AA rating by demonstrating leading practice across all assessed areas. The overall impression from our research was that the combined assets under management of the 75 asset managers were being managed in a way that at best ignored key systemic risks and at worst contributed to them.

There were, however, clear pockets of leading practice in the industry across most indicators we assessed, demonstrating that achieving an AA or AAA rating was entirely possible.

In this guide, we have presented what ShareAction observes to be leading practice across the themes included in our 2020 Point of No Returns survey, as well as provided case studies of asset managers implementing leading practice.

ShareAction hopes that this guide can help drive higher standards by providing asset managers with practical and decision-useful information to align their approaches with leading responsible investment practices, as well as prove a useful resource for asset owners and other stakeholders in their engagements with asset managers.

However, it is clear that current leading practice is still a world away from what is needed of the sector to meet the challenges presented by the systemic risks considered in this report. A 'gold standard' for responsible investment requires investors to take account of the adverse impacts of their investments on people and planet, and leverage their scale and influence to mitigate or reverse these impacts.

To this end, we have included next steps throughout this report, so that leading practice continues to increase in ambition and to move towards a 'gold standard' for responsible investment that is required to leverage the transformative power of finance towards a more sustainable world.

Appendix: A leading practice checklist

This checklist reflects what ShareAction observes to be current leading responsible investment practice in the mainstream asset management industry.

Asset managers are encouraged to use this checklist to align their approaches with leading practice. Asset owners and their advisers can use this checklist in their engagements with asset managers.

Responsible investment governance

Rethinking 'responsible' investment

- ✓ Adverse and positive impacts of investments on society are assessed
- ✓ Impacts of investments on society are integrated into investment decision-making

Accountability

- ✓ Accountability for responsible investment is clearly embedded at both board and senior executive levels
- ✓ Accountability structures on responsible investment are publicly disclosed

Training

Training on responsible investment topics is established and disclosed. Specifically, training:

- ✓ Is mandatory for relevant staff, including board members
- ✓ Occurs at frequent intervals
- ✓ Leverages external expertise
- ✓ Covers asset classes beyond public equity

Financial incentives

- ✓ Responsible investment is integrated in remuneration policies
- ✓ Responsible investment objectives are linked to real-world impact

Voting transparency

- ✓ Voting decisions are published as soon as possible after meetings in an online, searchable, user-friendly format
- ✓ Rationales for voting decisions on controversial and key ESG-related resolutions are publicly available
- ✓ Voting intentions for key ESG-related resolutions are pre-declared ahead of the meeting

Voting policies

- ✓ Voting policy clearly outlines positions and commitments on ESG topics, including but not limited to climate change, human rights, and biodiversity
- ✓ Voting policy includes commitments to vote against relevant management-proposed resolutions for ESG-related concerns
- ✓ Voting policy includes a presumption in favour of voting for independent ESG-related resolutions

ESG engagement transparency

Public reporting on ESG-related company engagement includes the following key elements:

- ✓ A comprehensive list of companies engaged with during the reporting period and the topics of engagement
- ✓ Case studies of key ESG engagements, including details of objectives, targets, outcomes, and next steps
- ✓ Details of progress of engagements
- ✓ Real-world outcomes resulting from ESG-related engagement activities
- ✓ Contribution and activity relating to collaborative initiatives
- ✓ Details of engagement activities in asset classes beyond listed equity

Escalation strategy

Escalation strategy is publicly available and:

- ✓ Outlines the steps taken in cases of unsuccessful engagements
- ✓ Provides timelines and/or triggers for escalation
- ✓ Is integrated into wider stewardship reporting

Climate change

Firm-level policies and commitments

Fossil fuel exclusion policies

- ✓ Total exit from coal by 2030 in OECD countries and 2040 worldwide
- ✓ Requirement for investee companies to publish coal exit plans by 2030 in OECD countries and 2040 worldwide
- ✓ Companies developing new coal mines and power plants are excluded
- ✓ Relative and absolute exclusion criteria are aligned with the 2017-2019 GCEL methodology
- ✓ Companies generating up to 10 per cent of revenue from tar sands are excluded
- ✓ Companies generating up to 20 per cent of revenue from tar sands transportation are excluded
- ✓ Principles of a Just Transition are included
- ✓ List of excluded companies is published

Portfolio decarbonisation commitments

- ✓ Commitment to net-zero emissions across all assets under management by 2050 at the latest
- ✓ Interim targets for emissions reductions for 2030 at the latest are set
- ✓ Scope 1, 2, and, where material, 3 portfolio emissions are taken into account
- ✓ Emissions pathways are consistent with the IPCC special report on global warming of 1.5°C

Voting policies and commitments

- ✓ Commitment to vote against directors at climate laggard companies
- ✓ Commitment to support lobbying-related shareholder resolutions
- ✓ Commitment to support shareholder resolutions that call for the disclosure and management of greenhouse gas emissions

Thematic engagement programmes

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined timelines
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation
- ✓ Engagement objectives are aligned with the goals of the Paris Agreement
- ✓ Engagement progress is transparently disclosed

TCFD disclosure

- ✓ Comprehensive and detailed disclosure across the four pillars
- ✓ Clear link to changes in investment and engagement across asset classes
- ✓ Disclosure of results of scenario analysis at portfolio- and asset class- level against range of scenarios

Human and labour rights

Firm-level policies and commitments

- ✓ Controversial weapons are excluded, and relevant treaties and list of excluded companies/countries are disclosed
- ✓ Relevant international frameworks are referenced, including how they apply to ESG integration or negative screening
- ✓ Salient human rights risks are recognised within proactive due diligence
- ✓ Human and labour rights are linked to engagement and voting behaviour
- ✓ Promotion of access to remedy

Voting policies and commitments

- ✓ Commitment to vote against directors at human and labour rights laggard companies
- ✓ Relevant international frameworks are referenced
- ✓ Commitment to support shareholder proposals relating to human and labour rights

Thematic engagement programmes

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation.
- ✓ Engagement objectives reference relevant international frameworks
- ✓ Key contributor to relevant collaborative initiatives
- ✓ Engagement progress is transparently disclosed

Biodiversity

Firm-level policies and commitments

- ✓ Biodiversity-related exclusion criteria apply to the entire investment universe
- ✓ Portfolio target of no net biodiversity loss by 2030 is set
- ✓ Portfolio targets on biodiversity-related topics are set
- ✓ Commitment to annually reporting the significant positive and negative contribution to global biodiversity goals linked to financing activities and investments in portfolios

Voting policies and commitments

- ✓ Commitment to support shareholder resolutions relating to the disclosure and management of environmental impacts of company operations

Thematic engagement programmes

- ✓ Engagement strategically targets high-impact topics and sectors
- ✓ Engagement has clearly defined timelines
- ✓ Engagement has clearly defined expectations
- ✓ Engagement is linked to voting and/or asset allocation

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- Coal share of revenue or power generation exceeding 30 per cent
 - Annual thermal coal production over 20Mt or coal-fired generation capacity over 10GW
 - Planned expansion of infrastructure, mining activities and increase of coal-fired generation capacity by more than 300MW
- In 2020, the GCEL updated and strengthened its methodology to include the following criteria:
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 - Annual thermal coal production over 10Mt or coal-fired generation capacity over 10GW
- Planned expansion including developing new coal mines, power plants, and infrastructure
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