WWF

SUSTAINABLE FINANCE REPORT 2021

RESPOND – RESILIENT AND SUSTAINABLE PORTFOLIOS

2021 REVIEW OF RESPONSIBLE INVESTMENT PRACTICES

ACKNOWLEDGEMENTS

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Cover photo: Split view of mangrove tree in the water above and below sea surface with roots and school of fish underwater, Caribbean © Damsea / WWF

WWF is one of the world's largest and most experienced conservation organizations, with over 5 million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. WWF has worked with the finance sector for more than a decade via innovative collaborations that seek to integrate ESG risks and opportunities into mainstream finance so as to redirect financial flows to support the global sustainable development agenda. Our approach to sustainable finance leverages WWF's conservation expertise as well as our partnerships with companies on key issues such as water, energy, climate and food to drive sustainability. Positioned at the cutting-edge of sustainable finance internationally, WWF contributes directly to leading initiatives, including the European Commission's Platform on Sustainable Finance and the development of an international green bonds standard. WWF also works directly with some of the largest asset owners in the world on decarbonizing investment portfolios. This has allowed us to strengthen lending and investment criteria for key industry sectors, provide insights and data on environmental and social risks, fulfil critical research gaps, help unlock innovations in sustainable finance products and convene key stakeholders to progress the sustainable finance agenda.

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RESPONSIBLE INVESTMENT CONTEXT

THE PANDEMIC HIGHLIGHTS THE IMPORTANCE OF SYSTEMIC CHANGES

The current COVID-19 crisis is a clear demonstration of the devastating impacts of global pandemics on health, economies, social well-being and global stability. Furthermore, the increased emergence of zoonotic diseases reveals what the World Economic Forum has termed “our broken relationship with nature”. The pandemic highlights the importance of systemic changes to address both the environmental drivers of pandemics, such as large-scale habitat conversion, and wider environmental threats such as climate change and biodiversity loss. It is therefore crucial that the economic recovery and public stimulus plans focus on tackling social inequalities and the twin climate and biodiversity crises. It is now more urgent than ever for governments to affirm and accelerate the alignment of their economies to the Paris Agreement, the Sustainable Development Goals (SDGs), and the Leaders’ Pledge for Nature.

GOVERNMENTS AND REGULATORS ARE TAKING ACTION

In this context, it is encouraging to see that Asian countries have pledged to achieve net-zero, notably Japan and South Korea by 2050, and China by 2060. Moving forward, such commitments will set the tone for the Asia-Pacific region and will inevitably be accompanied by regulatory initiatives in the finance sector. Recognizing the threats posed by climate change and environmental degradation to financial stability, central banks and supervisors are also taking action. The Central Banks and Supervisors Network for Greening the Financial System (NGFS), with 12 of its 83 members in Asia, has issued recommendations for managing systemic climate and nature-related risks – from conducting system-wide risk assessments, to requiring more robust climate and environmental disclosures, to integrating sustainability into central banks’ own portfolio management. We are already seeing some of these being implemented, with regulators in Singapore and Hong Kong developing regulations and guidelines for asset managers on environmental and climate risk management and disclosure. Japan’s Financial Services Agency has revised its Stewardship Code, which is supported by 280 institutional investors, to reinforce its focus on sustainability and ESG.

However, current global climate policies and pledges are projected to lead to a +3.1C scenario, well above a Paris-aligned pathway. Investors and other financial institutions, which lend to, invest in and insure companies across all sectors and geographies, have a key role to play in accelerating and enabling the transition toward sustainable and low-carbon economies. Momentum continues to grow, including in Asia. The Principles for Responsible Investment (PRI) now counts more than 3,000 signatories, representing a combined AUM of over US$100 trillion. Asian signatories are playing a critical role in this growth, with their number growing by 77% in China and by over 40% elsewhere in Asia (excluding Japan) between 2019 and 2020. The support for the Task Force on Climate-related Disclosures (TCFD) from financial institutions has also significantly increased. As of December 2020, 802 financial institutions support the TCFD recommendations, 148 of which are located in Asia. Beyond expressing their own support and implementing the recommendations themselves, investors are actively engaging with portfolio companies to encourage TCFD-aligned disclosures and decarbonization through collaborative engagement initiatives such as Climate Action 100+. Through this initiative, over 500 investors collectively managing more than US$52 trillion in AUM are engaging with the world’s largest corporate carbon emitters. A growing number of Asian investors are joining Climate Action 100+. Notably, Ping An became the first Chinese signatory in January 2020 and Singapore’s sovereign wealth fund, GIC, joined both Climate Action 100+ and the Asia Investor Group on Climate Change (AIGCC) in November 2020.

500 INVESTORS MANAGING MORE THAN US$52 TRILLION IN AUM ARE ENGAGING WITH THE WORLD’S LARGEST CARBON EMITTERS

INVESTORS ARE INCREASINGLY FOCUSING ON DECARBONIZATION

Investors are also increasing their focus on net-zero. In October 2020, the Science Based Targets initiative released a methodology and guidance for investors and other financial institutions to set Science-Based Targets (SBTs) that align their portfolios with the Paris Agreement. As of January 2021, 64 financial institutions have committed to set SBTs, of which 11 are located in India, Japan, South Korea or Taiwan. Furthermore, the Net-Zero Asset Owner Alliance now brings together a group of 33 asset owners, representing a combined US$5.1 trillion in AUM, who have committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 and in so doing, drive change throughout the investment supply chain and in the real economy. The Institutional Investors Group on Climate Change (IIGCC), representing investors with over US$35 trillion in AUM, also launched a Net Zero Investment Framework for consultation in August 2020. Additionally, asset managers representing over US$9 trillion in AUM launched the Net Zero Asset Managers initiative in December 2020. The group, composed of 30 asset managers, of which two are located in Asia, is committed to support the goal of net zero greenhouse gas emissions by 2050 or sooner.

BEYOND CLIMATE CHANGE, THE ISSUES OF NATURAL CAPITAL AND BIODIVERSITY LOSS ARE RISING ON THE AGENDAS OF POLICYMAKERS AND INVESTORS

Beyond climate change, the issues of natural capital and biodiversity loss are rising on the agendas of policymakers and financial institutions alike due to growing recognition of economic dependencies on healthily functioning ecosystems. In June 2020, the Dutch Central Bank published a report exploring the biodiversity risks for the country’s financial sector, which concluded that financial institutions have material exposures to risks related to biodiversity loss. As of January 2021, 37 financial institutions with US$5.8 trillion in AUM signed the Finance for Biodiversity Pledge, committing to conserve biodiversity through their financial activities and calling upon world leaders to reverse nature loss by 2030. Investors are also collaborating to develop biodiversity tools and metrics. Four French asset managers selected a research provider and consultancy firm to develop a biodiversity assessment methodology and tool with the purpose of enabling investors to measure how investments impact biodiversity and how to integrate biodiversity impacts into risk assessments and research. The rising focus on metrics and tool development echoes the kick off of the Task Force on Nature-related Financial Disclosures’ (TNFD) informal working group in July 2020. The working group, leveraging on a collaboration between financial institutions, private firms, government bodies, NGOs and think tanks, aims to prepare the launch of the Task Force in early 2021. The Task Force will work on the development of the much-needed disclosure framework and will surely spur a more proactive integration of nature-related risks and opportunities into investment decisions.

RESPOND'S OBJECTIVES AND USERS

RESPOND (Resilient and Sustainable Portfolios that Protect Nature and Drive Decarbonization) is an interactive online tool developed by WWF-Singapore to help asset managers improve portfolio resilience and alignment with a low-carbon and sustainable future through the application of science-based approaches to responsible investment (RI). The tool houses detailed findings from the RESPOND analysis and allows users to explore how asset managers are implementing RI and understand opportunities for further leadership in this area. RESPOND is based on a WWF framework (see Appendix) that represents a best-practice architecture for RI and aligns with the recommendations of the TCFD and the PRI.

BY ASSISTING ASSET MANAGERS TO DEVELOP ROBUST RI CAPABILITIES, RESPOND AIMS TO:

Accelerate the alignment of financial flows with the Paris Agreement and the Sustainable Development Goals (SDGs);

Support the creation of portfolios that are resilient to climate and other natural capital risks, while driving positive impact and change on the ground; and

Empower asset managers, as key intermediaries between the finance sector and real economy, to deliver on growing asset owner expectations to drive decarbonization and sustainable development.

ASSET MANAGERS, INCLUDING THOSE NOT ANALYZED IN THE 2021 REVIEW, CAN:

- Review their own RI capabilities and TCFD/PRI alignment and identify areas for improvement;
- Review best practices and position their own RI capabilities more competitively against RI leaders; and
- Demonstrate how their investment decisions and engagement activities are influencing portfolio companies to adopt more sustainable operating practices and increase the resilience of their business models.

ASSET OWNERS CAN:

- Complement consultant assessments with a science-based, civil society perspective when evaluating external managers and awarding mandates;
- Engage with external managers to enhance their RI capabilities (e.g. through incorporating science-based criteria to maximize portfolio resilience to climate, natural capital and other ESG risks);
- Understand whether stewardship of their deployed capital aligns with their values and those of their beneficiaries; and
- Refine internal RI approaches in order to meet the emerging, higher standards expected by regulators and beneficiaries.

FINANCIAL REGULATORS AND SUPERVISORS CAN:

- Monitor and engage asset managers to improve their management of climate and other ESG risks, thereby increasing the finance sector's resilience and better protecting beneficiaries;
- Improve capital markets' transparency on sustainability by encouraging asset managers to disclose according to the framework; and
- Identify ways to increase the eligibility and competitiveness of their asset management industries to better respond to asset owner mandates.

METHODOLOGY AND SCOPE

This year's RESPOND analysis is based on findings from WWF's review of 30 asset managers' English language public disclosures pertaining to their listed equities investments. Materials reviewed as part of this analysis include the latest annual, sustainability and RI reports; public statements and policies; investor presentations; press releases; and other information posted on asset managers' websites by 31 October 2020, in addition to 2020 PRI Transparency Reports.

By drawing only on publicly available information, RESPOND highlights the baseline level of information available to asset owners, regulators and other stakeholders who seek to understand how asset managers address ESG risks and opportunities. Each asset manager included has been given the opportunity to review and provide feedback on the analysis of their disclosures.

In addition to updating the analysis of the 22 European asset managers included last year, this year's RESPOND focuses on eight Asian asset managers that meet the criteria below. This scope allows the comparison of Asian investment managers against leading RI players in Europe. Benchmarking Asian asset managers is key to identify gaps and spur rapid development of RI capabilities and practices across Asia.

SELECTION CRITERIA FOR ASIAN ASSET MANAGERS

A minimum AUM of US$200 billion

RESPOND focuses on large-sized asset managers. This minimum size threshold aligns with the threshold used for the European asset managers.

PRI signatories

RESPOND focuses on asset managers who have already started their RI journey by becoming PRI signatories and disclosing their RI activities annually through their PRI Transparency Reports (in addition to other sources of public information).

THE EUROPEAN ASSET MANAGERS INCLUDED IN THE 2020 REVIEW MET THE FOLLOWING CRITERIA:

SELECTION CRITERIA FOR EUROPEAN ASSET MANAGERS

A minimum AUM of US$200 billion, with headquarters in Europe

As these asset managers are most exposed to increased sustainable finance regulatory requirements, they face the greatest pressure to improve and disclose their RI policies, processes and performance.

ESG leadership

Asset managers that disclosed receiving a rating of A+ on either the Strategy & Governance or the Listed Equity modules of the PRI Reporting Framework in 2018 or 2019. These ESG leaders are well-placed to further push the implementation of RI and show the way for others by tackling environmental issues beyond climate change and adopting cutting-edge, science-based approaches to addressing ESG risks and opportunities.

A presence in Asia

Asia is disproportionately exposed to climate change and natural capital risk, and leadership on ESG is especially needed to spur greater action by the region's businesses and finance sectors.

LEARN MORE ABOUT OUR METHODOLOGY THROUGH THE RESPOND ONLINE TOOL.

ASSET MANAGERS INCLUDED IN THE 2021 REVIEW

TOTAL AUM COVERED: US$16 TRILLION

UK

Aberdeen Standard Investments
PRI signing date: **Dec. 2007**
AUM US$ billion: **629**

Aviva Investors
PRI signing date: **Apr. 2006**
AUM US$ billion: **447**

Baillie Gifford
PRI signing date: **Jun. 2007**
AUM US$ billion: **273**

Fidelity International
PRI signing date: **Oct. 2012**
AUM US$ billion: **339**

HSBC Global Asset Management
PRI signing date: **Jun. 2006**
AUM US$ billion: **516**

Legal & General Investment Management
PRI signing date: **Sep. 2010**
AUM US$ billion: **1501**

M&G Investments
PRI signing date: **Jan. 2013**
AUM US$ billion: **355**

Schroders
PRI signing date: **Oct. 2007**
AUM US$ billion: **646**

NETHERLANDS

Aegon Asset Management
PRI signing date: **Jan. 2011**
AUM US$ billion: **324**

APG Asset Management
PRI signing date: **Sep. 2009**
AUM US$ billion: **593**

NN Investment Partners
PRI signing date: **Aug. 2008**
AUM US$ billion: **305**

Robeco
PRI signing date: **Dec. 2006**
AUM US$ billion: **191**

SWEDEN

Nordea Asset Management
PRI signing date: **Jan. 2007**
AUM US$ billion: **259**

GERMANY

Allianz Global Investors
PRI signing date: **Apr. 2007**
AUM US$ billion: **621**

DWS Group
PRI signing date: **Feb. 2008**
AUM US$ billion: **846**

Union Investment Group
PRI signing date: **Oct. 2010**
AUM US$ billion: **371**

FRANCE

Amundi
PRI signing date: **Apr. 2006**
AUM US$ billion: **1823**

AXA Investment Managers
PRI signing date: **May 2007**
AUM US$ billion: **883**

BNP Paribas Asset Management
PRI signing date: **Apr. 2006**
AUM US$ billion: **485**

Ostrum Asset Management
PRI signing date: **Jul. 2008**
AUM US$ billion: **288**

SWITZERLAND

Pictet Asset Management
PRI signing date: **Jan. 2007**
AUM US$ billion: **202**

UBS Asset Management
PRI signing date: **Apr. 2009**
AUM US$ billion: **903**

CHINA

China Life Asset Management Company Limited
PRI signing date: **Nov. 2018**
AUM US$ billion: **413**

E Fund Management
PRI signing date: **Apr. 2017**
AUM US$ billion: **201**

JAPAN

Asset Management One
PRI signing date: **Mar. 2013**
AUM US$ billion: **504**

Mitsubishi UFJ Trust and Banking Corporation
PRI signing date: **Apr. 2006**
AUM US$ billion: **399**

Nikko Asset Management
PRI signing date: **Oct. 2007**
AUM US$ billion: **244**

Nomura Asset Management
PRI signing date: **Mar. 2011**
AUM US$ billion: **506**

Sumitomo Mitsui Trust Asset Management
PRI signing date: **Apr. 2006**
AUM US$ billion: **653**

SINGAPORE

Eastspring Investments
PRI signing date: **Feb. 2018**
AUM US$ billion: **241**

* AUM as per 2020 PRI Transparency Reports

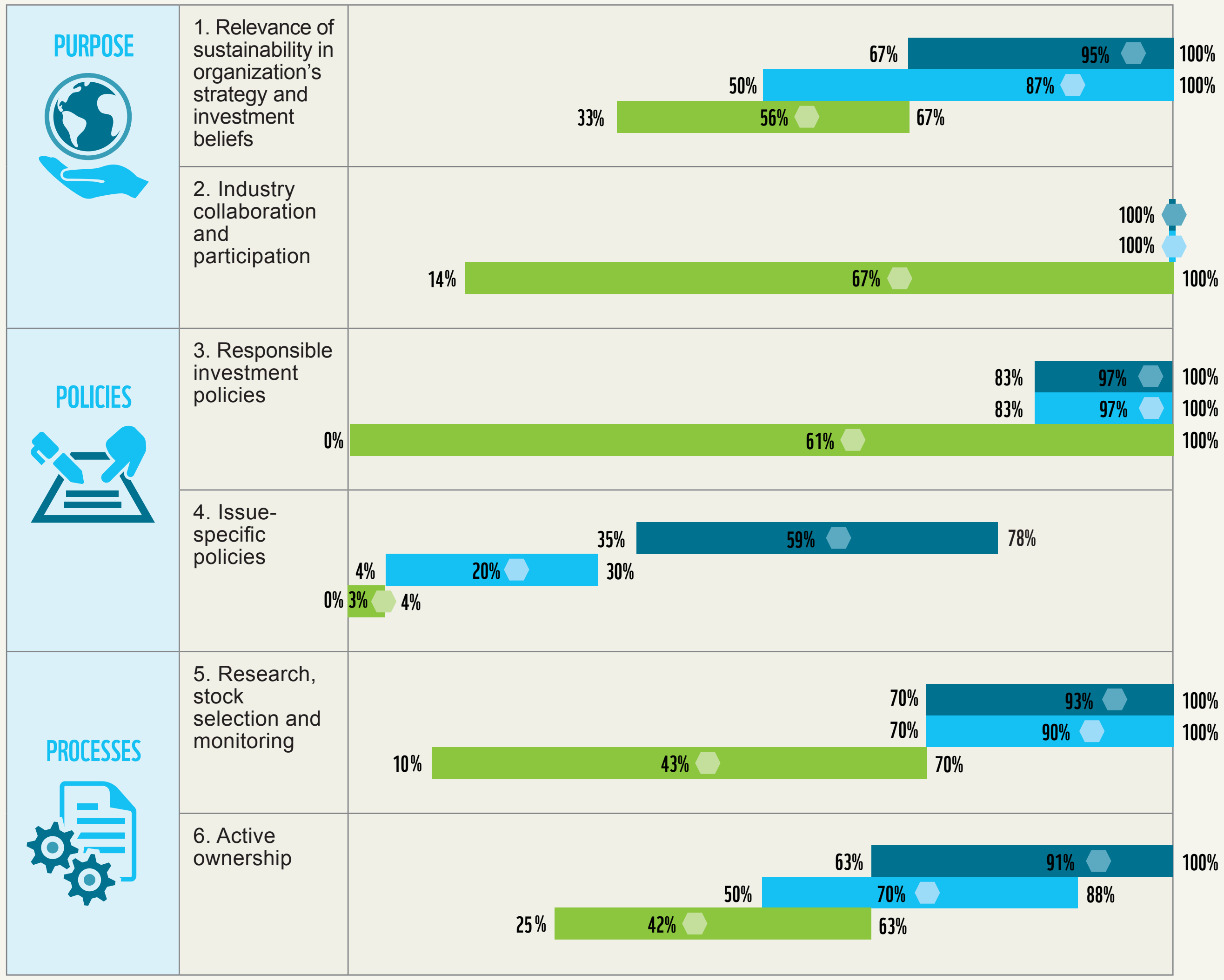
SUMMARY RESULTS

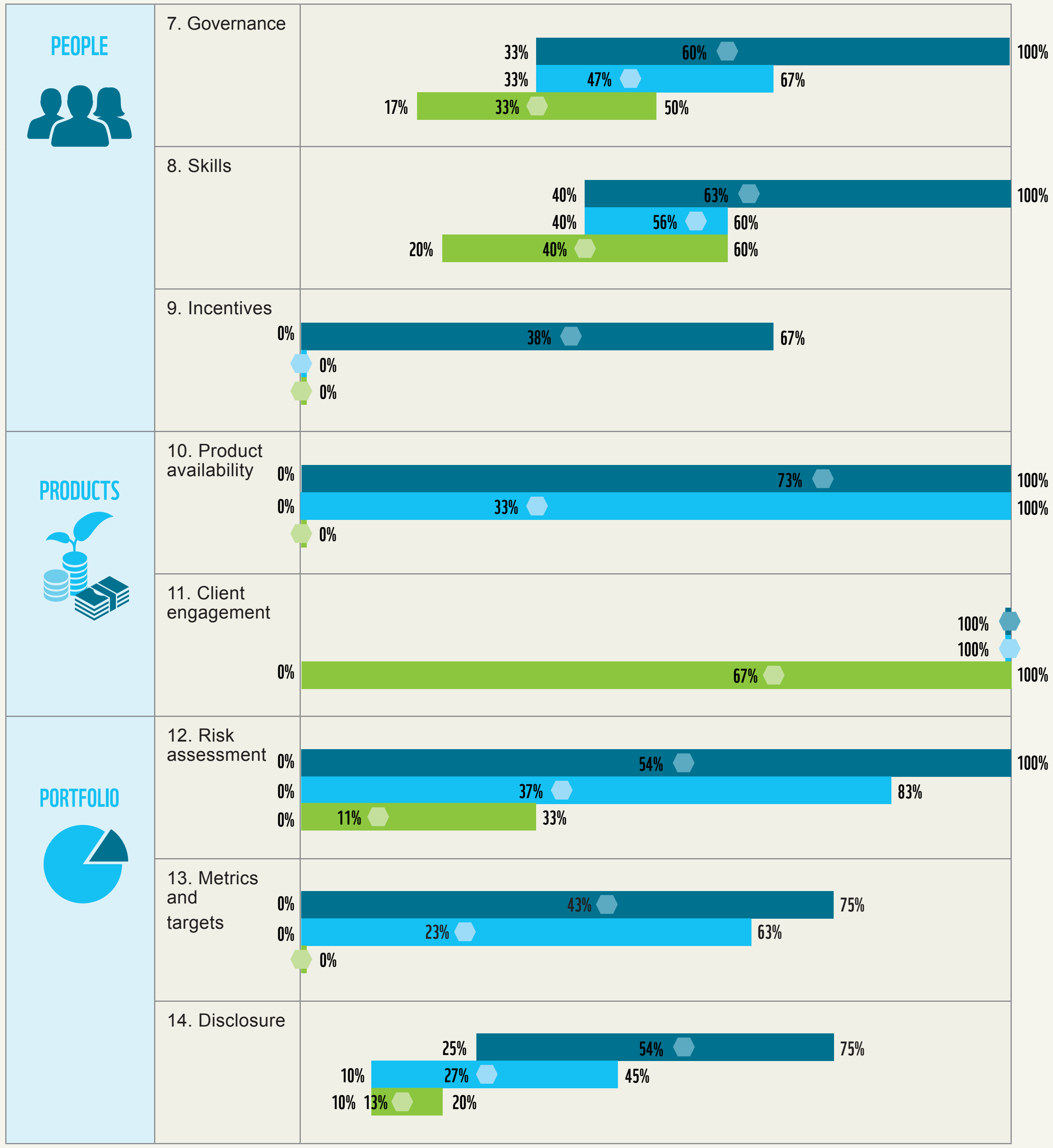
European asset managers are leading on responsible investment

On average, the 30 asset managers included in the 2021 RESPOND review fulfil 64% of the RESPOND framework's criteria. Figure 1 further shows the clear outperformance of the European asset managers across the six pillars and 14 indicators of the RESPOND framework, setting the pace for their Asian peers when it comes to competing for mandates from global asset owners with increasing expectations regarding climate change and natural capital loss. In Asia, Japanese asset managers are leading the way, performing better than their regional counterparts across all of the framework's indicators.

FIGURE 1 - SUMMARY RESULTS: RANGE AND AVERAGE BY INDICATOR

KEY: DARK BLUE: EUROPE LIGHT BLUE: JAPAN GREEN: ASIA (EXCL. JAPAN) HEXAGON: THE AVERAGES





KEY FINDINGS AND RECOMMENDATIONS

FINDING 1: BOTH EUROPEAN AND ASIAN ASSET MANAGERS HAVE RESPONSIBLE INVESTMENT BASICS IN PLACE

PURPOSE	1. Relevance of sustainability in organization's strategy and investment beliefs 2. Industry collaboration and participation	All 30 asset managers consider sustainability as a key strategic issue and acknowledge their role in promoting sustainable development. In particular, 29 recognize that climate change poses long-term risks to business and society, and publicly support the TCFD recommendations. Additionally, 24 perceive nature loss as a key risk and 28 make reference to the SDGs in relation to their purpose and strategy. 29 asset managers are also driving the sustainable development agenda by participating in collaborative initiatives (e.g. The Investor Agenda, Institutional Investors Group on Climate Change, etc.), creating awareness through thought leadership pieces or events, and engaging policy makers on climate and sustainability.
POLICIES	3. Responsible investment policies	29 asset managers have transposed their RI purpose into publicly available overarching RI policies. Similarly, these same asset managers disclose their engagement and voting policies.
PROCESSES	5. Research, stock selection and monitoring	29 asset managers carry out research to identify ESG trends, apply ESG screens and proactively monitor ESG performance of portfolio companies. 25 asset managers integrate ESG analysis into portfolio construction processes and company valuations.
PEOPLE	7. Governance 8. Skills	All 30 asset managers define who is responsible for RI oversight and implementation within their organization; 27 indicate that this responsibility ultimately lies with the board. Additionally, all 30 asset managers have dedicated RI specialists in their teams.

FINDING 2: ACTIVE OWNERSHIP APPROACHES CAN BE STRENGTHENED, ESPECIALLY AMONG ASIAN ASSET MANAGERS

PROCESSES	6. Active ownership	**Only one of the eight Asian asset managers reports support for ESG resolutions** Active ownership is a crucial part of investors' responsible investment approaches and practices, especially in Asia where a large majority of portfolio companies need reinforced guidance and support to accelerate their transition toward low-carbon and sustainable business models. However, both Chinese asset managers included in RESPOND do not disclose details of their bilateral or collective engagements on ESG issues, and none of the Japanese or Chinese players reported support for environmental and social resolutions in the past year.

		More than half of the 30 asset managers do not set time-bound objectives for engagement The European asset managers have demonstrated significant progress on this criterion, with six additional investors showing improved disclosures between 2020 and 2021, bringing the total to 13. However, more than one third of the European players and all but one Asian player still do not report against this criterion.
PORTFOLIO	14. Disclosure	**Less than one third of the 30 asset managers disclose engagement progress and outcomes aggregated across their entire portfolio** The 22 European asset managers have not shown substantial progress on this criterion, with only two additional investors demonstrating improved disclosures between 2020 and 2021, bringing the total to six. The eight Asian investors are not widely disclosing their engagement progress and outcomes either, with only two Japanese players fulfilling this criterion. **Only two of the eight Asian asset managers disclose on voting activities** All European asset managers disclose their full voting records, whereas just two of the Asian asset managers do so.

RECOMMENDATIONS:

Focus for Asian asset managers

- Integrate ESG issues in their bilateral **engagement** processes with portfolio companies.
- Participate in **collective engagements** and disclose the role they play in these collaborative initiatives.
- Step up their support for **ESG resolutions** while exercising voting rights.

Focus for all asset managers

- **Set time-bound action plans** when the companies they invest in fall short of ESG expectations.
- Further enhance **transparency on the progress** they make across all of their **engagements.**
- Further enhance **transparency on voting activities** and publish voting rationales regarding ESG proposals.

FINDING 3: ESG TRAINING, KPIS AND INCENTIVES HAVE YET TO BE MAINSTREAMED BY EUROPEAN AND ASIAN ASSET MANAGEMENT FIRMS ALIKE

PEOPLE	8. Skills	**Low levels of disclosure on ESG training efforts targeted at senior management and board members** 22 of the asset managers included train investment staff and portfolio managers on ESG topics. However, ESG training is not yet widely extended to (1) senior management and (2) board members of 22 European asset management firms - with only (1) two and (2) six players disclosing against these criteria - and is absent at their Asian counterparts.
PEOPLE	9. Incentives	**Factoring ESG performance into remuneration for investment staff, senior management and board members is still in its infancy in Europe and non-existent in Asia** 12 European asset managers are taking a key first step by developing and including ESG-related KPIs in staff performance metrics. However, these KPIs have not yet been widely incorporated into remuneration policies for (1) investment staff and senior management or for (2) board members, with only (1) nine and (2) four of 22 European players disclosing ESG-linked remuneration criteria for each position level.

RECOMMENDATIONS:

Focus for all asset managers

- Provide mandatory **training on ESG issues** across their boards, senior management and investment staff.
- Align **remuneration and incentives with ESG performance** across their boards, senior management and investment staff.

FINDING 4: ASSET MANAGERS' CLIMATE STRATEGIES ARE NOT YET ANCHORED ON SETTING SCIENCE-BASED TARGETS OR TRANSLATED INTO ROBUST EXPECTATIONS TOWARD INVESTEE COMPANIES

POLICIES	4. Issue-specific policies	**Asset managers' climate strategies do not include robust expectations toward investee companies** 29 asset managers disclose that they integrate climate change into their investment decision-making processes. However, this has not yet been translated into clear and robust expectations toward investee companies. Indeed, only six asset managers (all European) expect portfolio companies to align to the TFCD recommendations, and three require these companies to set Science-Based Targets. **Sector and exclusion policies do not feature in climate strategies** This year's RESPOND review shows that asset managers are developing climate and decarbonization strategies. However, the review also finds that only seven European asset managers, less than a quarter of all the asset managers in scope, disclose coal and/or fossil fuels sector policies with thresholds to exclude companies deriving substantial revenues from operations in these industries.
PEOPLE	7. Governance	**Progress still needs to be made on climate governance, especially among the Asian players** Half of the 30 asset managers indicate that the responsibility of climate risk management ultimately lies with the board. Of these, 13 are European and two are Japanese.
PORTFOLIO	12. Risk management 13. Metrics and targets 14. Disclosure	**Portfolio-wide climate scenario analysis is not a mainstream practice** Only 13 asset managers, 11 European and two Japanese, carry out climate scenario analysis across their entire equity portfolio. **Less than one third of the 30 asset managers underpin their decarbonization strategies with commitments to align portfolios with a 1.5C future** 11 European and only one Japanese asset managers disclosed decarbonization strategies, of which only seven have committed to setting Science-Based Targets or otherwise aligning their portfolios with the Paris Agreement. **Climate disclosures among Asian asset managers remain low overall** As mentioned previously, 29 asset managers publicly support the TCFD. However, only 15 European players and two of their Japanese counterparts publish a TCFD report or align their public reporting with the TCFD recommendations.

RECOMMENDATIONS:

Focus for all asset managers

- Anchor climate commitments and decarbonization strategies around achieving a **1.5C scenario**, including through **setting Science-Based Targets** and disclosing **intermediate milestones.**
- Disclose uniform **expectations toward investee companies** to align to the **TCFD** recommendations, to set **Science-Based Targets** and to disclose intermediate **milestones.**
- Monitor investee companies' progress against these Science-Based Targets and milestones.
- Develop robust **sector-specific policies** to support climate commitments. In particular, develop fossil fuels and coal policies that align with the 1.5C target of the Paris Agreement.
- Reinforce **governance** and set **board-level responsibility** for climate-related issues.
- Supplement **climate risk assessments** at a portfolio company or fund level, with aggregated risk and **scenario analyses at the portfolio level.**
- Improve transparency on carbon metrics such as portfolio-wide carbon footprinting or portfolio climate alignment.

FINDING 5: THERE IS ROOM FOR BOTH EUROPEAN AND ASIAN ASSET MANAGERS TO ACT ON THEIR RECOGNITION OF NATURE LOSS AS A KEY RISK

PURPOSE	1. Relevance of sustainability in organization's strategy and investment beliefs	**The majority of asset managers recognize nature loss as a key risk** 24 of the asset managers included in the 2021 RESPOND review recognize that nature loss poses long-term risks to business and society. This includes 20 European and four Japanese asset managers.
POLICIES	4. Issue-specific policies	**Stated aims to integrate various natural capital issues in investments do not translate into robust expectations toward investee companies and are not systematically specified in voting policies** Respectively, (1) 22 and (2) 24 asset managers disclose that they integrate (1) water-related risks and (2) deforestation or biodiversity loss into their investment decision-making processes. However, this has only been translated into clear and robust expectations toward investee companies (1) to practise water stewardship by four European players and (2) to obtain relevant sustainability certifications (e.g. RSPO, FSC, etc.) by nine European players. Additionally, no significant progress has been made on this front by the European asset managers between 2020 and 2021. Furthermore, these issues and associated commitments are only specified in the voting policies of seven European asset managers and are absent from their Asian counterparts' voting guidelines. **Ocean sustainability is absent from asset managers' policies** Among the 30 asset managers included in RESPOND, only four from Europe and one from Japan include ocean sustainability in their RI policies; and only one of them has an expectation for investee companies to support multi-stakeholder sustainability standards such as those developed by the Aquaculture Stewardship Council (ASC) and Marine Stewardship Council (MSC). This lack of consideration for the sustainable use of oceans and marine resources is particularly concerning in Asia where many economies rely on healthy ocean ecosystems.
PORTFOLIO	13. Metrics and targets	**Use of metrics and targets related to natural capital is still nascent** None of the asset managers systemically employ metrics beyond carbon to measure the impacts of their investments on natural capital.

RECOMMENDATIONS:

Focus for all asset managers

- Develop and disclose robust, science-based **expectations toward investee companies as well as issue-specific voting policies.**
- Integrate **ocean sustainability** into commitments and policies.
- Develop and use natural capital **metrics and targets** to better track and manage portfolio impacts.

FURTHER RECOMMENDATIONS

ASIAN ASSET MANAGERS NEED TO ACCELERATE THE DEVELOPMENT OF THEIR RI CAPABILITIES

The 2021 RESPOND review, which compares large-sized Asian asset management firms' ESG capabilities and practices against European RI leaders, highlights the significant gaps that remain to be closed regarding active ownership processes, ESG skills and incentive programs, as well as overall transparency efforts. Asian asset managers, including those not included in the RESPOND review and those at the early stages of their sustainability journeys, need to accelerate the development of their RI capabilities if they want to improve their portfolios' resilience to climate change, biodiversity loss and other ESG issues, stay competitive, meet client expectations and play a greater role in the transition toward a low-carbon and sustainable world.

NEXT FRONTIERS OF RESPONSIBLE INVESTMENT REPRESENT AMPLE OPPORTUNITIES

All asset managers can help to push the frontiers of responsible investment. In particular, they can:

- Leverage technological developments, such as geo-spatial data and satellite imagery, to assess and monitor natural capital risks and impacts;
- Collaborate to advance science-based methodologies and metrics for measuring and reporting on nature and biodiversity impacts, including the alignment of businesses and portfolios with planetary boundaries using frameworks and guidance such as those under development by the Science-Based Targets Network; and
- Innovate and pioneer the development of methodologies and metrics to assess and report on real-world sustainability impacts.

APPENDIX: THE RESPOND FRAMEWORK

PURPOSE		
1. RELEVANCE OF SUSTAINABILITY IN ORGANIZATION'S STRATEGY AND INVESTMENT BELIEFS	1	Does the AM publicly articulate its beliefs regarding sustainability or ESG in its investment beliefs or elsewhere?
	2	Does the AM publicly acknowledge that sustainability or ESG factors impact its investment performance, return objectives or risk management?
	3	Does the AM publicly recognize that climate change poses long-term risks to business and society?
	4	Does the AM publicly recognize that nature loss poses long-term risks to business and society?
	5	Does the AM make reference to the SDGs?
	6	Does the AM engage stakeholders, including communities and civil society, and disclose a list of stakeholder groups engaged?
2. INDUSTRY COLLABORATION AND PARTICIPATION	7	Is the AM a signatory of the PRI?
	8	Is the AM a signatory to any national stewardship code in a region in which they operate, and/or do they subscribe to the ICGN Global Stewardship Principles?
	9	Is the AM a supporter of The Investor Agenda and/or a signatory to Climate Action 100+ and/or CDP's Non-Disclosure Campaign?
	10	Does the AM participate in any collaborative initiatives such as the Institutional Investors Group on Climate Change (IIGCC), Asia Investor Group on Climate Change (AIGCC), UNEP FI, CDP, or the Sustainable Blue Economy Finance Principles?
	11	Does the AM publicly support the TCFD recommendations?
	12	Does the AM advance the sustainability or ESG agenda by driving awareness through thought leadership, events or research?
	13	Does the AM support or engage on public policy interventions that support the shift to a sustainable economy (e.g. carbon pricing, mandatory ESG disclosures for listed companies, etc.)?

POLICIES		
3. RESPONSIBLE INVESTMENT POLICIES	14	Does the AM have an RI policy or equivalent section in its investment policy?
	15	Does this policy cover all listed equities funds and geographies?
	16	Does the AM explain how it applies relevant national stewardship code(s)?
	17	Does the AM disclose its engagement policy or guidelines?
	18	Does the AM disclose its proxy voting policies or guidelines?
	19	Does the AM periodically review its RI policies?
4. ISSUE-SPECIFIC POLICIES	20a	Does the AM have a policy or statement explaining that climate change is incorporated into investment decision-making?
	20b	Does the AM expect all portfolio companies to align to the TCFD recommendations?
	20c	Does the AM expect all portfolio companies to set Science Based Targets?
	20d	Does the AM's voting policy have a statement on how climate-related issues will be voted?
	21a	Does the AM have a policy or statement explaining that water risk is incorporated into investment decision-making?
	21b	Does the AM expect all companies to understand their water risk and practise water stewardship?
	21c	Does the AM's voting policy have a statement on how water risk-related issues will be voted?
	22a	Does the AM have a policy or statement explaining that deforestation and biodiversity loss are incorporated into its investment decision-making?
	22b	Does the AM expect all companies to obtain certification from or otherwise support relevant multi-stakeholder sustainability standards (e.g. ASC, MSC, RSPO, FSC, SuRe, etc.) to address deforestation and biodiversity loss?
	22c	Does the AM's voting policy have a statement on how deforestation or biodiversity issues will be voted?
	23a	Does the AM have a policy or statement explaining that the sustainable use of oceans, seas and marine resources is incorporated into investment decision-making?
	23b	Does the AM expect all portfolio companies to obtain certification from or otherwise support relevant multistakeholder sustainability standards (e.g. ASC, MSC, SuRe, etc.) to ensure the sustainable use of oceans, seas and marine resources?
	23c	Does the AM's voting policy have a statement on how issues pertaining to the sustainable use of oceans, seas and marine resources will be voted?
	24a	Does the AM have a policy or statement explaining that labour standards are incorporated into its investment decision-making?
	24b	Does the AM expect all portfolio companies to adhere to international labour standards as outlined by the International Labour Organization's Fundamental Conventions?
	24c	Does the AM's voting policy have a statement on how labour-related issues will be voted?
	24d	Does the AM expect all portfolio companies to commit to increasing diversity on their management teams and/or boards? (e.g. gender)
	25a	Does the AM have a policy or statement explaining that human rights are incorporated into its investment decision-making?
	25b	Does the AM expect all portfolio companies to adhere to the UN Global Compact?
	25c	Does the AM's voting policy have a statement on how human rights-related issues will be voted?
	26	Does the AM disclose sector policies for high risk/impact sectors?
	27	Does the AM disclose exclusion policies for certain issues, sectors or companies?
	28	Does the AM disclose the names of excluded companies?

PROCESSES		
5. RESEARCH, STOCK SELECTION AND MONITORING	29	Does the AM research global and regional ESG trends and identify how these can be applied to the investment process?
	30	Does the AM disclose its source(s) of obtaining ESG data and research?
	31	Does the AM apply screens by any ESG issues or criteria?
	32	Does the AM's ESG analysis lead to quantitative adjustments in stock selection or portfolio construction processes (i.e. adjusting company valuations or portfolio weightings)?
	33	Does the AM employ science-based tools, methodologies or criteria to assess portfolio companies' risks or opportunities?
	34	Does the AM expect companies to assess and report on ESG issues?
	35	Does the AM proactively monitor and review the ESG performance of portfolio companies?
	36	Has the AM defined key metrics for monitoring ESG performance of portfolio companies (e.g. greenhouse gas emissions, water consumption, training hours, supply chain audits)?
	37	Does the AM periodically review its RI processes?
	38	Does AM periodically audit its RI policies and processes?
6. ACTIVE OWNERSHIP	39	Where companies fall short of expectations, does the AM attempt to introduce measures requiring time-bound action plans to meet these?
	40	Has the AM engaged with companies on ESG issues (e.g. climate change, water risk, deforestation and biodiversity loss, labour rights, human rights) in the last reporting year?
	41	Does the AM disclose how it prioritizes issues and companies for engagement?
	42	Does the AM use engagement outcomes to feed into the investment decision-making process?
	43	Has the AM participated in any collective engagements on ESG issues in the last reporting year?
	44	Does the AM disclose its role in the collaborative engagement in which it participates?
	45	Is there a mechanism for escalation if engagement fails (e.g. shareholder resolutions, divestment)?
	46	Has the AM voted in support of ESG resolutions in the last reporting year?

PEOPLE		
7. GOVERNANCE	47	Does the AM state who is responsible for RI oversight and implementation?
	48	Is there board-level responsibility for RI?
	49	Is there board-level responsibility for climate risk, e.g. is climate risk management included in the board mandate?
	50	Do the terms of reference of the board's nominating committee or the criteria used in appointing new directors cover a requirement to consider sustainability?
	51	Do the terms of reference of the board's audit committee or the criteria used cover a requirement to consider sustainability?
	52	Does the AM have a commitment to increase diversity at the board/senior management level, and/or for portfolio managers/investment team? (e.g. gender)
8. SKILLS	53	Does the AM have dedicated RI specialists via either in-house personnel or specialist stewardship services?
	54	Does the ESG team have a role in portfolio review and/or investment committees?
	55	Does the AM provide training on ESG for portfolio managers?
	56	Does the AM provide training on ESG for senior management (e.g. investment committee, CEO, CIO)?
	57	Does the AM provide training on ESG for board members?
9. INCENTIVES	58	Do the terms of reference of the board's remuneration committee or the criteria used in its remuneration policies cover a requirement to consider sustainability?
	59	Are ESG metrics part of KPIs or other staff performance metrics?
	60	Is fixed or variable remuneration of senior management and/or portfolio managers linked to ESG?

PRODUCTS		
10. PRODUCT AVAILABILITY	61	Does the AM offer listed equity funds focusing on any specific ESG themes (e.g. climate change, deforestation, water, human rights) or apply any best-in-class screens?
	62	Does the AM disclose the percentage of total AUM invested in ESG products?
	63	Does the AM use any performance benchmark that integrates ESG (including passive ESG index/indices tracking)?
11.CLIENT ENGAGEMENT	64	Does the AM discuss RI approaches and preferences for RI products with clients?

PORTFOLIO		
12. RISK ASSESSMENT	65	Does the AM routinely assess the ESG risks to its portfolio?
	66	Does the AM conduct climate risk assessments or scenario analysis (e.g. PACTA) at the portfolio level?
	67	Does the AM disclose the key features of the conducted scenario analysis, including selected scenarios and actions taken to address identified risks?
13. METRICS AND TARGETS	68	Does the AM calculate and disclose its carbon footprint or intensity at the portfolio level?
	69	Does the AM disclose other metrics and targets used to assess and manage the ESG impacts of its portfolio beyond carbon (e.g. water risk, deforestation, human rights, etc.)?
	70	Has the AM developed and explained a strategy or methodology for decarbonizing its portfolio?
	71	Has/will the AM set targets for aligning its portfolio to a 1.5 degree C scenario?
14. DISCLOSURE	72	Does the AM report on RI actions at least annually?
	73	Does the AM publish a TCFD report or align its public reporting with the TCFD recommendations?
	74	Does the AM disclose engagement activity (no. of engagements) aggregated by E&S issue?
	75	Does the AM evaluate and disclose progress made across all engagements?
	76	Does the AM disclose its full voting records?
	77	Does the AM share the rationales of its votes on ESG related resolutions?
	78	Does the AM disclose the outcomes and/or impacts of its investments (e.g. by SDGs)?
	79	Does the AM measure and report on the impact of integrating ESG on fund performance?
	80	Does the AM disclose the ESG performance of its funds?
	81	Does the AM disclose the climate alignment of its portfolio?

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