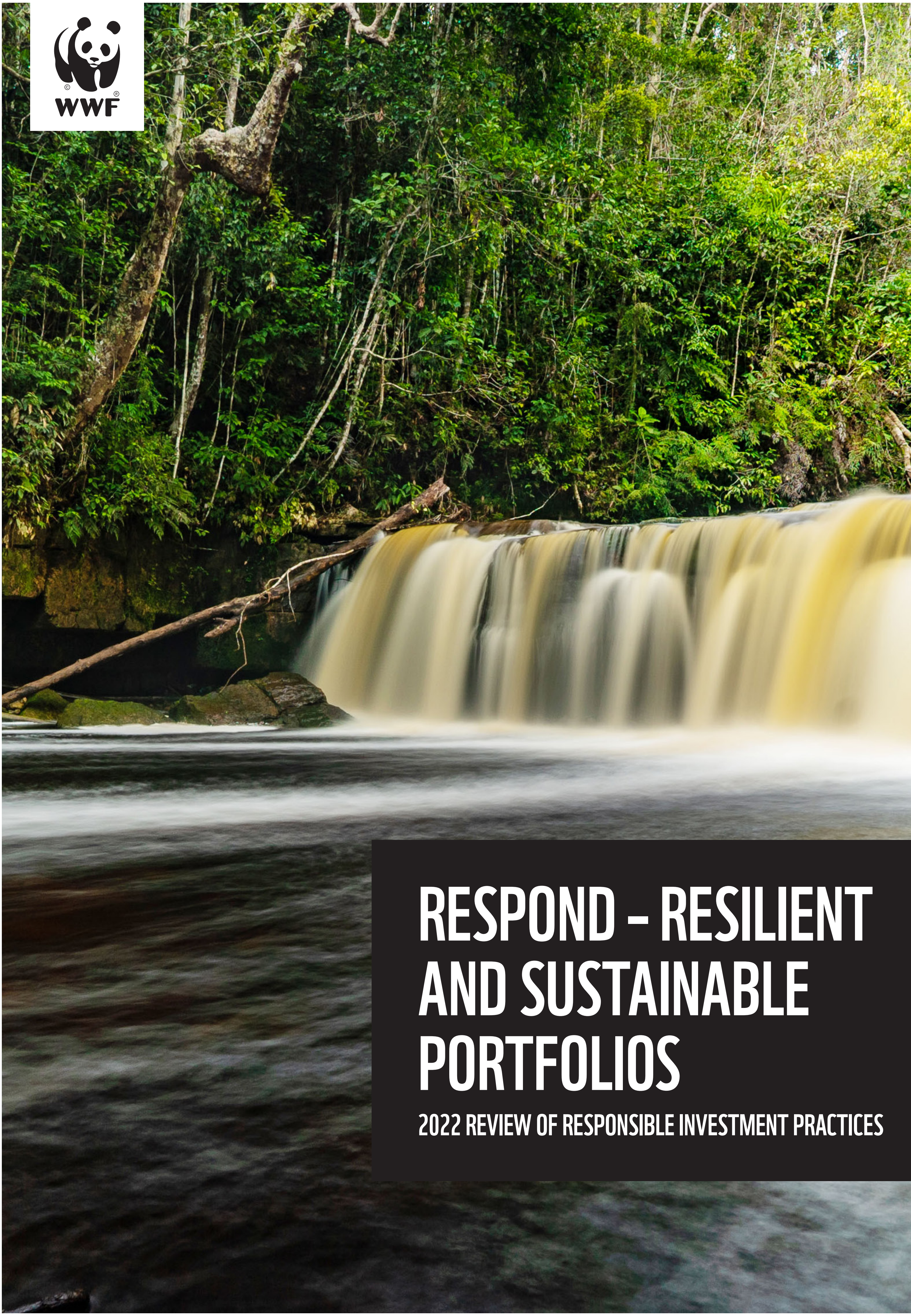

RESPOND – RESILIENT AND SUSTAINABLE PORTFOLIOS

2022 REVIEW OF RESPONSIBLE INVESTMENT PRACTICES

ACKNOWLEDGEMENTS

Authors:
Aveline Chan, Michelle Loi, Anders Nordheim

WWF-Singapore would like to thank the following team members, past and present, for their assistance:
Benedict Lau, Nigel Tan, Marie Gauthier, Chiang Pei Yi,
Lee Chin Shian, Sylvain Augoyard

Contacts:
Aveline Chan, Vice President,
WWF-Singapore - achan@wwf.sg

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Catherine Perry (swim2birds.co.uk)

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Cover photo: Waterfall on Amazon river linked to Igara Paraná River, La Chorrera, Amazonas Department, Colombia.
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WWF is one of the world's most respected and 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.

Tres Gigantes Biological Station and the meanders of Rio Negro Alto Paraguay, Paraguay. © Jaime Rojo / WWF-US

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RESPONSIBLE INVESTMENT CONTEXT

The concept of ESG (environmental, social and governance) has grown from a largely aspirational notion a few decades ago to a far more widely adopted methodology and strategy, albeit to varying degrees, across countries and financial industry players in the private and public sectors. This is driven in part by the surge in development of regulatory frameworks, with ensuing commercial pressure on businesses as well as the growing awareness of the urgency of our current climate situation and the resultant risks to financial returns.

GLOBAL AVERAGE TEMPERATURE INCREASED BY 1.2°C ABOVE PRE-INDUSTRIAL LEVELS AND MAY INCREASE TO 2.4°C BY 2100

The first instalment of the Sixth Assessment Report published in August 2021 by the Intergovernmental Panel on Climate Change (IPCC) clearly articulates that it is "unequivocal that human influence has warmed the atmosphere, ocean and land", warming the climate at a rate that is "unprecedented in at least the last 2000 years", and the changes affect every part of our planet. The global average temperature has already increased by 1.2°C above pre-industrial levels and this may increase to 2.4°C by 2100, unless there is greater concerted effort to carry out the climate pledges under the Paris Agreement.

1.5°C

UNFCCC COP 26 PUT THE SPOTLIGHT ON GOVERNMENTS TO EFFECT GREATER POLICY CHANGE AND COMMITMENT TO THE 1.5°C GOAL BY 2050

The 26th Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC COP 26), which saw record attendance compared to previous years, put the spotlight on governments to effect greater policy change and follow through on commitments to steer the world closer toward the 1.5°C goal by 2050. There were landmark developments including the finalization of the Paris Rulebook, a commitment to phase down unabated coal power, and the recognition of the critical role of nature in achieving the 1.5°C goal. Notably, there were increased calls for countries to fulfil the Paris Agreement commitment for public funding of US$100bn a year towards vulnerable countries affected by climate change. The text within the Glasgow Climate Pact anticipates the doubling of public finance for adaptation by 2025, although details of implementation are currently lacking.

From within the finance community, UN Special Envoy for Climate Action and Finance and COP26 Private Finance Advisor Mark Carney announced the establishment of the Glasgow Financial Alliance for Net Zero (GFANZ) to amalgamate financial institutions' existing net-zero alliances and initiatives, which collectively have a total of US$130 trillion committed to achieving net-zero targets. The signatories under GFANZ have committed to aligning their portfolios with a science-based net zero emissions target by 2050, through active engagements and actions toward supportive policy.

This RESPOND assessment shows encouraging signs of change by the increasing number of asset managers, including those from Asia, disclosing net-zero commitments and adopting science-based targets as credible and reliable pathways toward achieving climate goals. We hope that this has a positive influence across the asset management industry to join in this collective commitment to net zero and translates into greater collective demand for more transparent ESG disclosures from investee companies, as well as greater ESG data consistency and availability from financial data service providers. In addition, asset managers can seek alignment of their engagement objectives with these net-zero commitments through the planning of short-term and medium-term climate targets with investee companies.

THE SIGNATORIES UNDER GFANZ HAVE COMMITTED TO ALIGNING THEIR PORTFOLIOS WITH A SCIENCE-BASED NET ZERO EMISSIONS TARGET BY 2050

Intertwined with the issue of climate change is the impact from nature loss. Forests are home to more than half of the world's land-based species, support the livelihoods of over 1.6 billion people and absorb 30% of annual global anthropogenic CO_2 emissions, and over 75% of the world's accessible fresh water comes from forested watersheds. Yet today, the world loses almost 6 million hectares of forest, approximately the size of Sri Lanka, each year to deforestation activities, which is responsible for around 15% of global greenhouse gas emissions. The annual World Economic Forum Global Risks Report in 2020 ranked biodiversity loss as a top 5 global risk and that status remains in 2021. As with efforts to combat climate change, governments together with the business and financial sectors have a key role to play in channelling capital flows toward positive impacts for nature.

THE KUNMING DECLARATION INCLUDED KEY COMMITMENTS TOWARD TO DEVELOPING BIODIVERSITY STRATEGIES, AND HARNESSING FINANCIAL RESOURCES FOR CONSERVATION AND SUSTAINABILITY

During the Convention on Biological Diversity's 15th Conference of the Parties (COP15) in November 2021, one commendable step forward was the commitment under the Kunming Declaration among member states to adopt a post-2020 global biodiversity framework by 2022. The Declaration also included other key commitments toward further developing national biodiversity strategies, and harnessing additional financial resources for conservation and sustainable use of biodiversity. Alongside the Kunming Declaration, the government of China injected US$233 million into a new Kunming Biodiversity Fund, intended to support developing countries in protecting biodiversity. In addition, 36 Chinese financial institutions and 24 international banks and organizations issued a joint declaration to support biodiversity conservation.

We welcome the growing recognition among the finance sector of the integral role nature has in climate preservation, although nature loss still plays second fiddle to climate change concerns. The issue of nature loss is complex and involves diverse landscapes and geographical locations. This is further compounded by issues such as insufficient regulatory enforcement, limited resources allocated for transitional solutions in developing nations and a lack of quantifiable information available to financial institutions on how nature impacts on financial performance. On the latter, global initiatives such as the workplan by the Taskforce on Nature-related Financial Disclosures are developing and standardizing metrics and data on nature loss and gain. We expect these in time to drive improvements on the policy, investment and engagement fronts to reflect the considerable impact of biodiversity loss on and from invested assets.

The recognition of ESG as a key concept in investment and risk management and the setting of clear policies and processes to document such recognition is critical. Of equal importance is the need to ensure that outputs in the form of transparent disclosures on investment strategies and products maintain the integrity and accountability of an asset manager's ESG commitments. This can be enhanced by internationally standardized disclosures by the asset management industry as to the level of ESG integration in financial products, which facilitates full and objective fund evaluation by end investors on ESG criteria.
To this end, the EU Sustainable Finance Disclosure Regulation (SFDR) and the accompanying regulatory technical standards, targeted for implementation by January 2023, seek to lay down guidelines on how sustainability disclosures should be made across EU financial institutions and for EU-domiciled financial products. The process of labelling ESG financial products (into article 6, 8 or 9 products), depending on the level of ESG integration, is also covered under the SFDR. In addition, asset managers covered by the SFDR are required to disclose the principal adverse impacts (in relation to sustainability risks) from their investment portfolios. Based on the concept of double materiality, this requires the asset manager, in addition to disclosing how sustainability risks affect their investment process and performance, to disclose sustainability impacts from investments gains. In other markets, policymakers also recognize the need to regulate sustainability disclosures for financial products. Within Asia, ASEAN has published the first version of the ASEAN Taxonomy for Sustainable Finance. Malaysia has introduced its own Climate Change and Principle-based Taxonomy (CCPT), while Singapore is currently working on its own green taxonomy, following from the MAS Environment Risk Management Guidelines for banks, insurers and asset managers published in 2020.

WHEN DECIDING ON WHICH STANDARDS TO ADOPT, ASSET MANAGERS MAY NEED TO CONSIDER THE GLOBAL NATURE OF INVESTORS AND THEIR INVESTMENT PORTFOLIOS

With the creation of green taxonomies and sustainability disclosure standards across different markets, disclosure requirements will differ. When deciding on which standard to adopt, asset managers may need to consider the global nature of investors and their investment portfolios. Scrutiny of any sustainability disclosures may need to follow guidelines that have received wider international endorsement from multiple stakeholder groups, in particular where such guidelines apply a higher standard than that of the home country.

In this year's RESPOND assessment, we see encouraging developments from asset managers that were assessed, in line with the evolving dynamics of sustainable investment and disclosure practices. Mirroring the evolving practice of sustainability, we have added new indicators to this year's framework to assess net-zero targets and found that more than half of the asset managers have made net zero by 2050 commitments, have adopted science-based targets and have specifically incorporated other environmental risks such as biodiversity and water risk into their investment and engagement processes. In the more nascent field of impact assessment and reporting, some asset managers have begun the process of evaluating and disclosing the sustainability impact from select funds.

THIS YEAR, WE HAVE ADDED 10 ASIAN ASSET MANAGERS WHO HAVE MET THE RESPOND CRITERIA, A KEY ONE BEING BECOMING SIGNATORIES TO THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

This year, we have added 10 Asian asset managers who have met the RESPOND criteria, a key one being becoming signatories to the UN Principles for Responsible Investment (PRI). We are encouraged by the greater efforts by Asian managers to commit to such global sustainability initiatives, given that ESG has been a relatively recent feature in investments in Asia compared to other markets such as Europe. While we acknowledge these positive strides in the direction of sustainable investing, asset managers still need to do more through influencing capital flows and engaging investee companies on business transition to bridge the gap between the existing climate and environmental trajectories and our climate and nature conservation goals. We hope that the RESPOND framework, together with our regular updates, continues to serve as a guide to asset managers and investors in sustainable investing.

FINANCIAL SECTORS HAVE A KEY ROLE TO PLAY IN CHANNELING CAPITAL FLOWS TOWARD POSITIVE IMPACTS FOR NATURE.

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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. The tool allows users to explore how asset managers are implementing responsible investment 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 responsible investment and aligns with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Investment (PRI).

BY ASSISTING ASSET MANAGERS TO DEVELOP ROBUST RESPONSIBLE INVESTMENT 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 WHO ARE NOT ANALYSED IN THE 2022 REVIEW, CAN:

- Review their own responsible investment capabilities and TCFD/PRI alignment and identify areas for improvement;
- Review best practices and position their own responsible investment capabilities more competitively against responsible investment 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 responsible investment 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 ESG 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, 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 40 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 responsible investment reports; public statements and policies; investor presentations; press releases; and other information posted on asset managers' websites by 31 October 2021, in addition to 2020 PRI Transparency Reports. We are unable to use the 2021 PRI reports as their publication has been delayed due to the development and launch of a new pilot reporting framework. For more details, please refer to this statement by the PRI.

By drawing only on publicly available information, RESPOND highlights the baseline level of information available to international 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 18 Asian asset managers that meet the criteria below. This scope allows the comparison of Asian investment managers against leading responsible investment players in Europe, which represents a key benchmark to identify gaps and spur rapid development of ESG capabilities and practices across Asia.

SELECTION CRITERIA FOR ASIAN ASSET MANAGERS	
	Minimum assets under management of US$20 billion, with headquarters in Asia While RESPOND focuses on large-sized asset managers, this minimum size threshold for Asian managers is reflective of the typically smaller investment portfolio sizes in Asia as compared to global peers.
	PRI signatories RESPOND focuses on asset managers who have already started their responsible investment journey by becoming PRI signatories and disclosing their responsible investment activities annually through their PRI Transparency Reports (in addition to other sources of public information).

THE EUROPEAN ASSET MANAGERS INCLUDED IN THE 2022 REVIEW MET THE FOLLOWING CRITERIA.

SELECTION CRITERIA FOR EUROPEAN ASSET MANAGERS	
	Minimum assets under management 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 responsible investment policies, processes and performance.
	ESG leadership Asset managers that disclosed receiving a rating of A+ on either the strategy and 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 responsible investment 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.

ASSET MANAGERS INCLUDED IN THE 2022 REVIEW

TOTAL ASSETS UNDER MANAGEMENT COVERED: US$21.9 TRILLION

LEARN MORE ABOUT OUR METHODOLOGY THROUGH THE RESPOND ONLINE TOOL.

UK

ABRDN
PRI signing date: **Dec. 2007**
AUM US$ billion: **725**

Aviva Investors
PRI signing date: **Apr. 2006**
AUM US$ billion: **478**

Baillie Gifford
PRI signing date: **Jun. 2007**
AUM US$ billion: **486**

Fidelity International
PRI signing date: **Oct. 2012**
AUM US$ billion: **706**

HSBC Global Asset Management
PRI signing date: **Jun. 2006**
AUM US$ billion: **621**

Legal & General Investment Management
PRI signing date: **Sep. 2010**
AUM US$ billion: **1800**

M&G Investments
PRI signing date: **Jan. 2013**
AUM US$ billion: **436**

Schroders
PRI signing date: **Oct. 2007**
AUM US$ billion: **960**

NETHERLANDS

Aegon Asset Management
PRI signing date: **Jan. 2011**
AUM US$ billion: **441**

APG Asset Management
PRI signing date: **Sep. 2009**
AUM US$ billion: **725**

NN Investment Partners
PRI signing date: **Aug. 2008**
AUM US$ billion: **347**

Robeco
PRI signing date: **Dec. 2006**
AUM US$ billion: **233**

SWEDEN

Nordea Asset Management
PRI signing date: **Jan. 2007**
AUM US$ billion: **317**

GERMANY

Allianz Global Investors
PRI signing date: **Apr. 2007**
AUM US$ billion: **747**

DWS Group
PRI signing date: **Feb. 2008**
AUM US$ billion: **1006**

Union Investment Group
PRI signing date: **Oct. 2010**
AUM US$ billion: **494**

FRANCE

Amundi
PRI signing date: **Apr. 2006**
AUM US$ billion: **2090**

AXA Investment Managers
PRI signing date: **May 2007**
AUM US$ billion: **994**

BNP Paribas Asset Management
PRI signing date: **Apr. 2006**
AUM US$ billion: **576**

Ostrum Asset Management
PRI signing date: **Jul. 2008**
AUM US$ billion: **509**

SWITZERLAND

Pictet Asset Management
PRI signing date: **Jan. 2007**
AUM US$ billion: **755**

UBS Asset Management
PRI signing date: **Apr. 2009**
AUM US$ billion: **1200**

CHINA

Bosera Funds
PRI signing date: **Nov. 2018**
AUM US$ billion: **222**

China Asset Management Co. Ltd.
PRI signing date: **Mar. 2017**
AUM US$ billion: **259**

China Life Asset Management Co. Ltd.
PRI signing date: **Nov. 2018**
AUM US$ billion: **594**

China Southern Asset Management Co. Ltd.
PRI signing date: **Jun. 2018**
AUM US$ billion: **250**

E Fund Management Co., Ltd.
PRI signing date: **Apr. 2017**
AUM US$ billion: **303**

Harvest Fund Management
PRI signing date: **Mar. 2018**
AUM US$ billion: **203**

INDIA

SBI Funds Management Private Limited
PRI signing date: **Jul. 2018**
AUM US$ billion: **67**

UTI Asset Management Co. Ltd.
PRI signing date:
Aug. 2020
AUM US$ billion: **282**

SINGAPORE

Eastspring Investments
PRI signing date: **Feb. 2018**
AUM US$ billion: **254**

Fullerton Fund Management Co. Ltd.
PRI signing date: **Mar. 2020**
AUM US$ billion: **35**

Kotak Mahindra Asset Management (Singapore) Pte. Ltd.
PRI signing date: **Apr. 2018**
AUM US$ billion: **53**

Lion Global Investors Limited
PRI signing date: **Apr. 2018**
AUM US$ billion: **53**

UOB Asset Management Ltd.
PRI signing date: **Jan. 2020**
AUM US$ billion: **38**

JAPAN

Asset Management One
PRI signing date: **Mar. 2013**
AUM US$ billion: **521**

Mitsubishi UFJ Trust and Banking Corporation
PRI signing date: **Apr. 2006**
AUM US$ billion: **663**

Nikko Asset Management
PRI signing date: **Oct. 2007**
AUM US$ billion: **283**

Nomura Asset Management
PRI signing date: **Mar. 2011**
AUM US$ billion: **607**

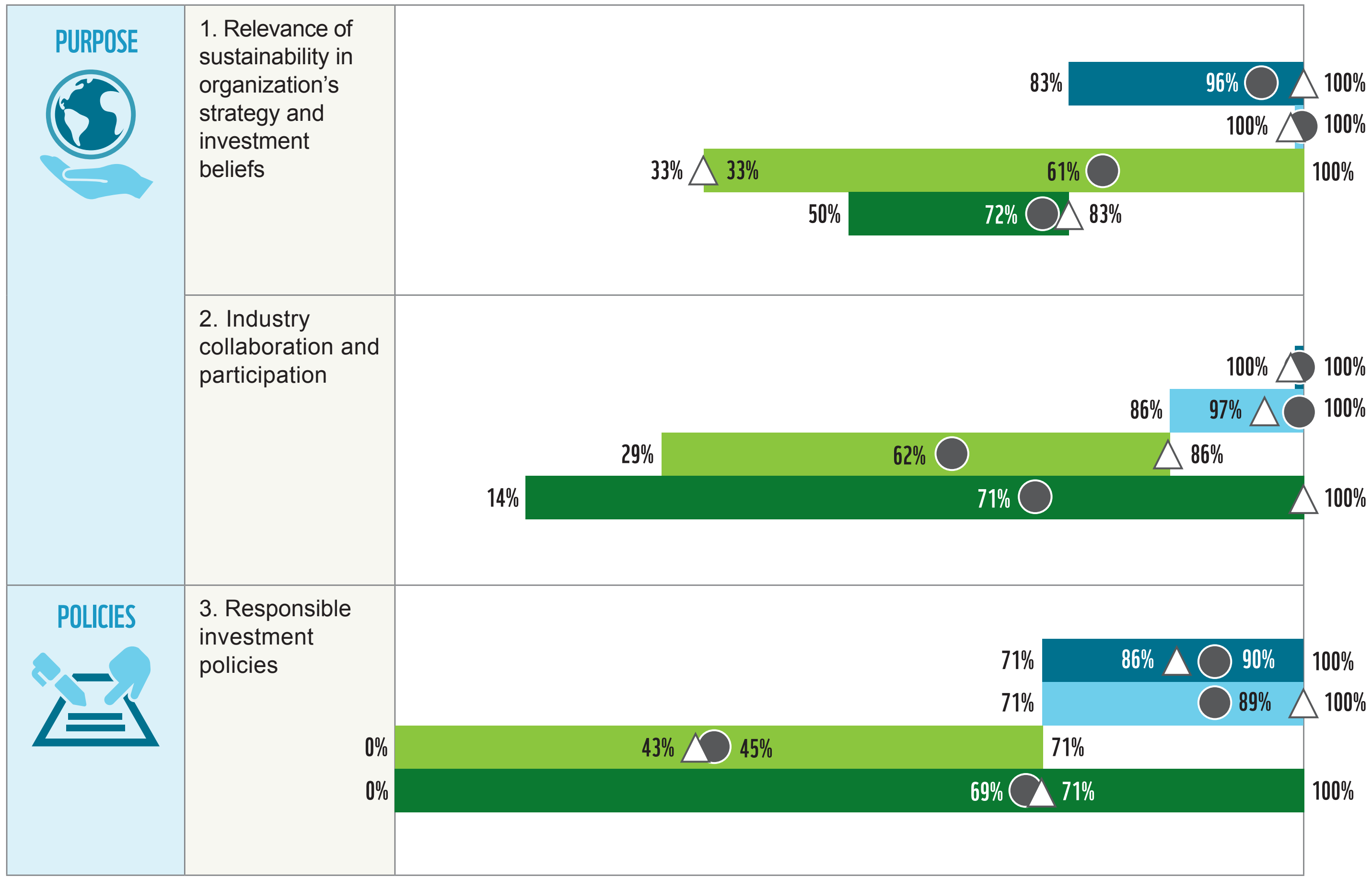
Sumitomo Mitsui Trust Asset Management
PRI signing date: **Apr. 2006**
AUM US$ billion: **601**

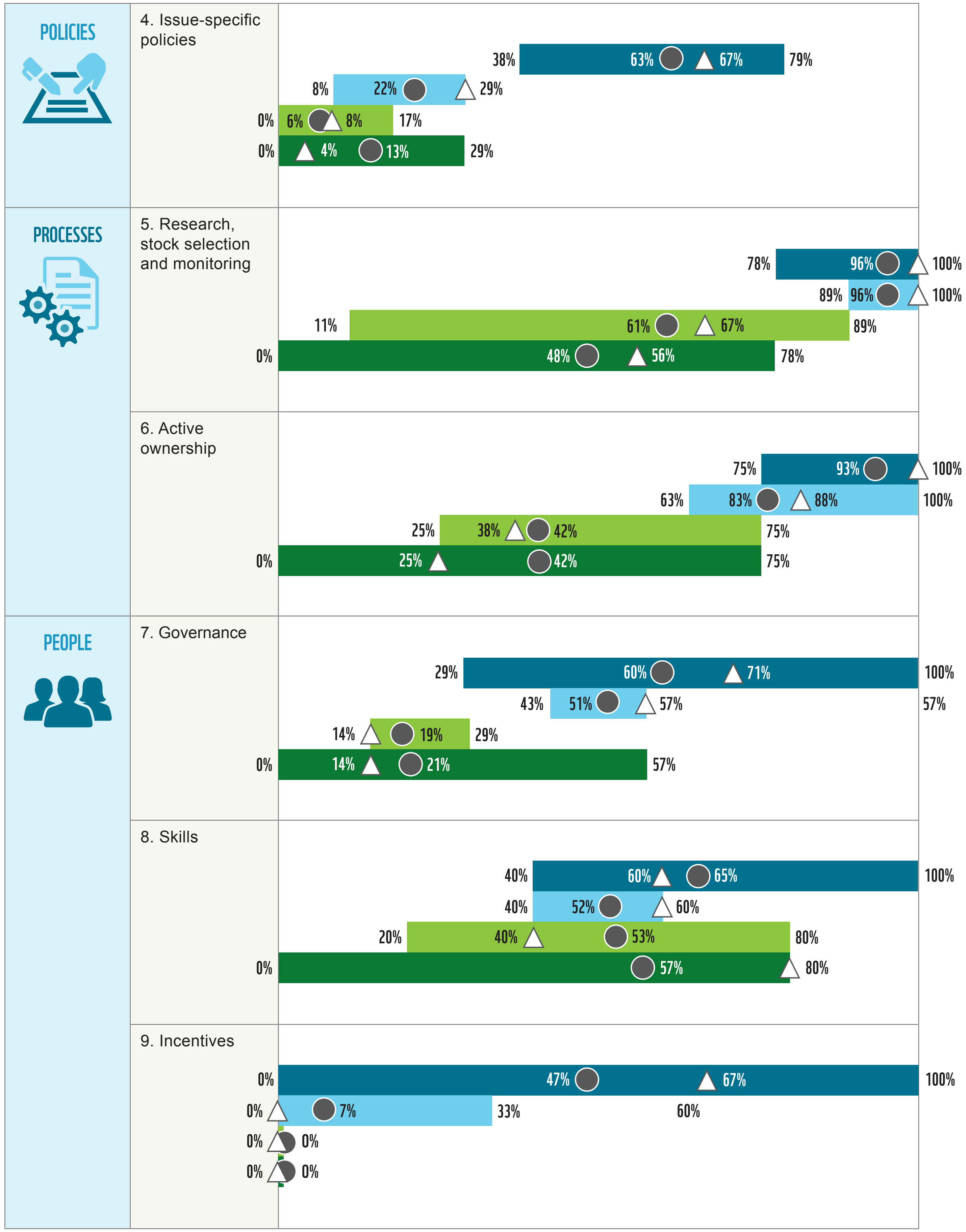
SUMMARY RESULTS

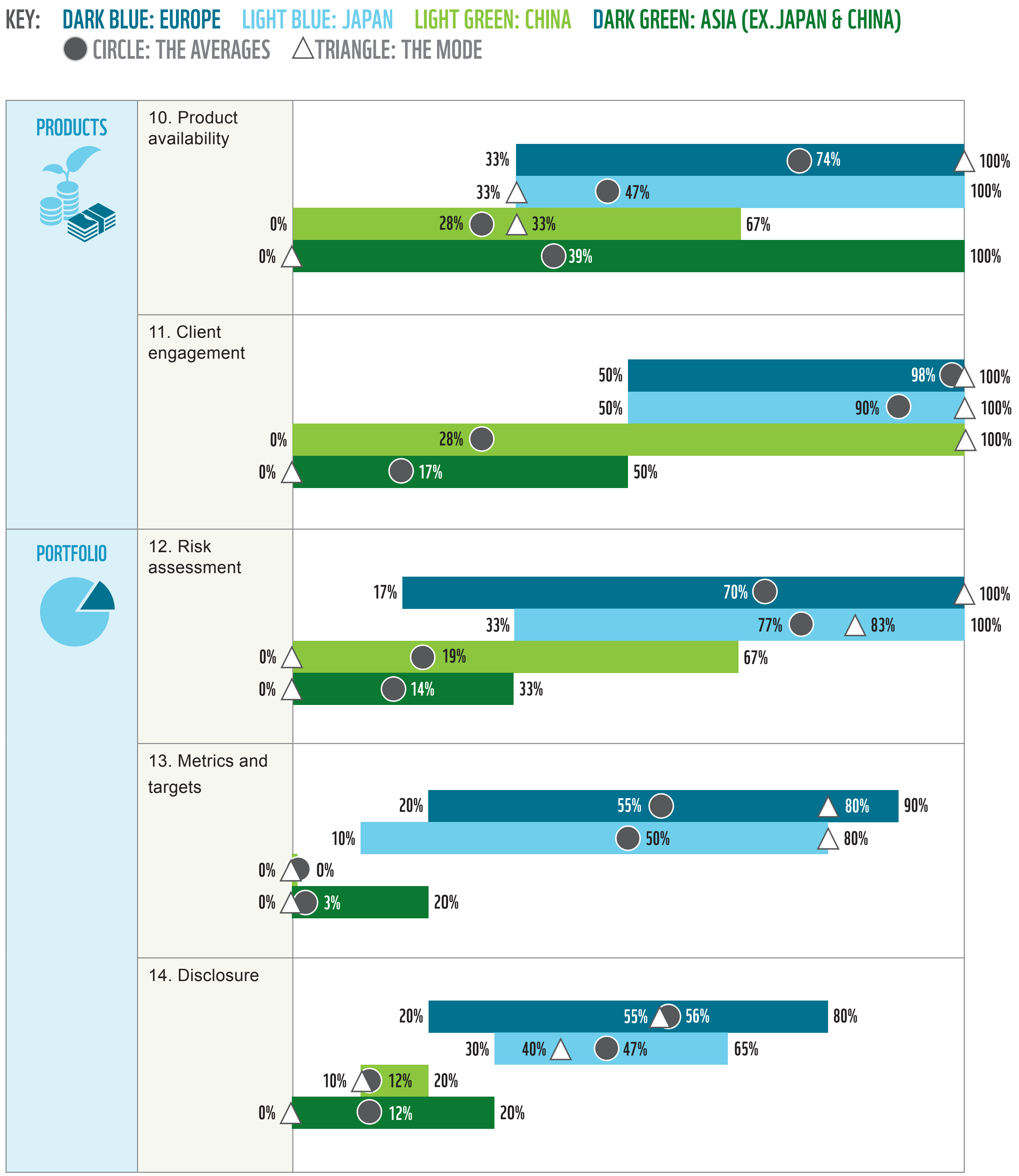
The percentage scores in the charts below reflect the highest, lowest, average and mode (most frequently occurring value) scores of the managers under each indicator category for the respective geographical regions. On average, the 40 asset managers included in the 2022 RESPOND review fulfil 58% of the RESPOND framework's criteria. While this is lower than the overall score of 64% from the previous year, this is due in part to the introduction of more advanced indicators as well as the inclusion of 10 new qualifying Asian managers from China, India and Singapore that are at an earlier stage of ESG integration compared to the incumbent managers in the RESPOND panel. European asset managers continue to lead on responsible investment in terms of average scores, although the gap with Japan has narrowed for most of the indicators compared to the previous year. For the first time since the start of RESPOND, the average scores for Japanese managers have surpassed those of European managers for indicators 1.1 on relevance of sustainability in the organization's strategy and 6.1 on risk assessment. We view such improvement by the Japanese managers as a very positive indication that given time, the extent of ESG integration by newer entrants to sustainable investing may be brought up to par with more established players. It is hoped that such a trend may be repeated for the rest of the Asian markets.

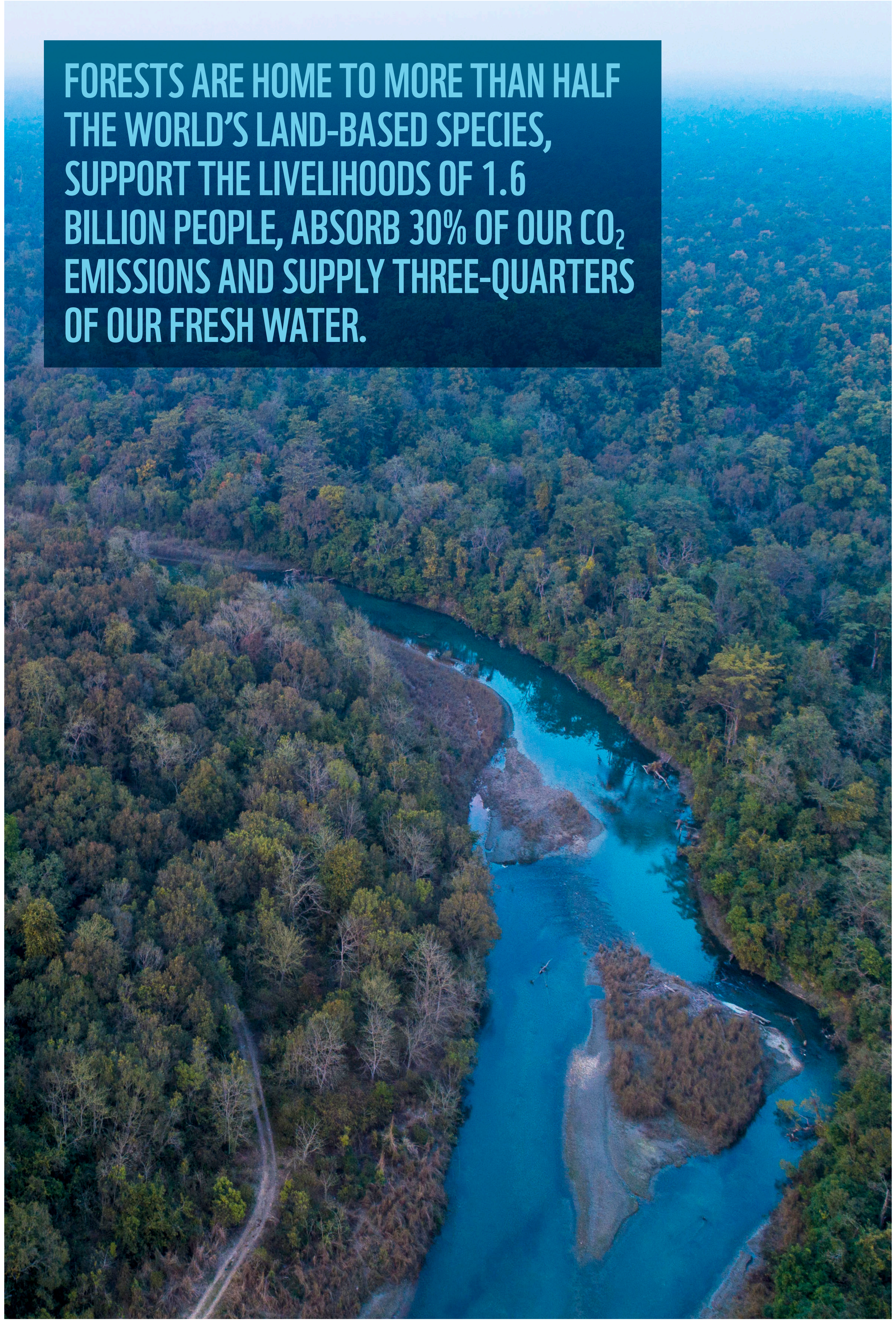
FIGURE 1 - SUMMARY RESULTS: RANGE AND AVERAGE BY INDICATOR

KEY: DARK BLUE: EUROPE LIGHT BLUE: JAPAN LIGHT GREEN: CHINA DARK GREEN: ASIA (EX.JAPAN & CHINA)
CIRCLE: THE AVERAGES TRIANGLE: THE MODE









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KEY FINDINGS AND RECOMMENDATIONS

FINDING 1: BASIC RESPONSIBLE INVESTMENT PRACTICES ARE IN PLACE FOR THE MAJORITY

PURPOSE	**Relevance of sustainability in the organization's strategy and investment beliefs**	All 40 asset managers (AMs) included in this year's analysis have public disclosures about their beliefs regarding sustainability and have acknowledged that investment performance can be affected by ESG factors.
	Relevance of sustainability in the organization's strategy and investment beliefs	25 AMs, in addition to engaging with various stakeholder groups including communities and civil society, also disclosed the list of stakeholder groups and process of how each group was engaged. Of this number, 8 are Asian AMs.
	Industry collaboration and participation	37 AMs publicly support the TCFD recommendations. This consists of 22 European AMs, and 15 (out of 18) Asian AMs.
	Industry collaboration and participation	A large percentage of AMs (33) engage with or support public policy intervention. However, the percentage of Asian AMs doing so (61%) lags behind that of European AMs (100%).
POLICIES	**Responsible investment policies**	Almost all AMs (38) have a responsible investment policy or an equivalent section in their investment policies. An almost equal number of AMs (37) have voting policies and engagement policies.
PROCESSES	**Research, stock selection and monitoring**	The majority of AMs (35) carry out research to identify both global and regional ESG trends to be incorporated into their investment processes such as stock selection and portfolio construction.
PEOPLE	**Governance**	39 AMs identified the personnel responsible for responsible investment oversight and implementation within the organization. Out of these 39 AMs, 38 have dedicated responsible investment specialists, and 16 out these 38 are Asian, which is highly encouraging.
PORTFOLIO	**Risk assessment**	16 (81%) of the European AMs conduct climate-related risk assessments for their funds or portfolios while only 4 (22%) of the Asian AMs conduct such assessments.
	Disclosure	20 (90%) of the European AMs have published a TCFD report while only 6 (33%) of their Asian counterparts have done so. That said, this still compares favourably to the previous year's statistic of 15 European AMs and 3 Asian AMs.

RECOMMENDATIONS

- While almost all the asset managers have documented their responsible investment processes in a dedicated policy, we would like to see a similar level of importance placed on documentation and disclosure on the engagement processes, in particular the processes of how each distinct stakeholder group (e.g., policymakers, NGOs, civil communities, industry groups) is engaged, beyond investee companies and clients.
- We believe close communication between the investment community and the regulators plays a crucial role in enhancing the adoption and effectiveness of sustainability policies within the finance system. As such, we would encourage asset managers to continue furthering the level of engagement with public policymakers, in particular within the Asian region.
- It is positive that the vast majority of the asset managers have taken the positive step of publicly supporting the TCFD recommendations. We recommend that asset managers, in particular those in Asia, take the next step and publish annual TCFD reports to document their processes and progress in their climate commitments.
- Given the increasing recognition that climate risks can pose a real and tangible risk to company profitability and valuations, asset managers should strive to integrate climate-related risk assessments into the investment analysis process across all funds and not just selected ESG-themed funds.
- In line with the increasing requirement for fuller and more transparent disclosure of the environmental impacts from investment portfolios, asset managers should aim to extend the reporting of carbon emissions beyond select funds to encompass their entire consolidated portfolio of funds.

FINDING 2: GREATER ADOPTION OF ISSUE-SPECIFIC POLICIES IS REQUIRED

POLICIES	**Issue-specific policies**	Almost all AMs (36) have a policy or statement indicating that climate change is incorporated into investment decision-making. In contrast, only a fifth (8) have a policy or statement on the sustainable use of oceans, seas and marine resources. However, it is reassuring to note that about half of the AMs (3) who have a policy or statement on the sustainable use of oceans are Asian ones.
		With regards to other issue-specific policies, 25 AMs have a policy or statement on water risk while 26 have a policy or statement on deforestation and biodiversity loss. The majority are European AMs with only 5 Asian AMs having a policy or statement for either. 32 AMs have a policy or statement on labour standards, of which about a third (10) are Asian. This is followed closely by 29 AMs having a policy or statement on human rights, of which only a quarter (7) are Asian.

RECOMMENDATIONS

- Asset managers should consider incorporating issue-specific policies beyond climate change. International frameworks and regulatory bodies continue to increase emphasis on other environmental risks, such as biodiversity and marine resources, given the correlation of these environmental risks to current issues on climate change.
- Asset managers should address such issue-specific risks within actual policies with clear explanations on how such risks are incorporated into investment and portfolio monitoring processes, rather than as general statements in publications.

FINDING 3: THERE IS A NEED FOR ASSET MANAGERS TO DISCLOSE CLEAR EXPECTATIONS ON ALL PORTFOLIO COMPANIES

POLICIES	**Issue-specific policies**	Disclosures from many AMs fall short of expressing clear expectations on all portfolio companies to align to the TCFD recommendations or to set science-based targets. For the former, only 9 AMs, including 1 Asian AM, had such an expectation. Only 2 AMs disclosed such an expectation for the latter.
		Only 9 European AMs have an expectation for portfolio companies to obtain certification or support relevant sustainability standards to address deforestation and biodiversity loss. For addressing sustainable use of oceans, seas and marine resources, only 1 European AM has such an expectation.

RECOMMENDATIONS

- With regards to climate change, asset managers should use clearer words in their disclosures to show that they are committed to communicating unequivocal expectations of portfolio companies with regards to adoption of TCFD recommendations and science-based targets. Similarly in the area of human and labour rights, asset managers should adopt clear language in terms of expectations of portfolio companies to adhere to the UN Global Compact and standards set by the International Labour Organization's Fundamental Conventions.
- Given the nascency of widespread adoption of processes to address other ESG risks such as biodiversity loss, deforestation, water risk, sustainable use of oceans, labour standards and human rights risk, asset managers can take the initial step of actively encouraging investee companies to acquire the requisite certifications and adopt internationally recognized sustainability standards where relevant to their businesses. Over time, however, asset managers should progress to clearly stated expectations on portfolio companies with respect to these environmental risks in line with increasing standardization of disclosures and metrics for sustainability risks beyond climate.

FINDING 4: LACK OF TIME-BOUND OBJECTIVES FOR ENGAGEMENT WHILE DISCLOSURE OF ENGAGEMENT AND VOTING PROCESSES AND ACTIVITIES CAN BE IMPROVED

PROCESSES	**Active ownership**	A large majority of the AMs (37) have an engagement policy and have engaged with investee companies (33) on ESG issues in the past year. However, less than half (15) of AMs have a documented process of setting time-bound objectives for investee companies that fall short of ESG-related expectations.
POLICIES	**Responsible investment policies**	
PROCESSES	**Active ownership**	The majority of AMs (38) disclose how they prioritize issues and companies for engagement. The same number have also made public their procedure for escalation if engagement fails. However, only about two-thirds of these AMs disclose engagement activity by ESG issues (22) and even fewer (7) evaluate and disclose progress made across engagements. For the latter two indicators, only 3 Asian AMs (all Japanese) do so.
PORTFOLIO	**Disclosure**	
		Slightly more than two-thirds of AMs (27) disclose their voting records in full. Of these 27, only 6 are Asian. Separately, only about half of all AMs (22) share the rationale for their votes on ESG-related solutions.

RECOMMENDATIONS

- Asset managers should set timeframes within well-defined plans for their investee companies to achieve ESG targets. This will help both the investee companies and the asset managers in achieving their respective climate targets and commitments and make engagement progress easier to evaluate and report for all asset manager.
- Asset managers should enhance the level of disclosure of the type of engagement activity they participate in by breaking down the engagements into environmental, social and governance categories.
- Asset managers should disclose voting records where they have the ability to do so as well as the voting rationale for ESG-related resolutions to improve the level of transparency in voting disclosures.

FINDING 5: ESG TRAINING VARIES ACROSS POSITIONS. KPIS AND INCENTIVES CAN BE ENHANCED

PEOPLE	**Skills**	70% of AMs (28) highlight that they offer training to portfolio managers. In comparison, only around 20% disclosed that they provide training for senior management (7) or board members (8).
	Incentives	Similar to the previous year, the factoring of sustainability metrics into employees' performance evaluation is still not widely adopted. Only 14 AMs do so out of which only 1 is an Asian AM. The numbers are lower for linking board and senior management remuneration to sustainability criteria. Only 6 European AMs include a requirement to consider sustainability for their executive directors' remuneration while 12 European AMs have disclosed that either fixed or variable compensation of senior management and/or portfolio managers are linked to sustainability criteria.

RECOMMENDATIONS

- Asset managers should conduct training on ESG issues for the board and senior management. It is vital for individuals who hold senior positions in companies (decision-makers/strategy drivers) to have a good understanding of various ESG issues and business risks. This will enable better strategy planning and risk management. Ideally, such training should be made mandatory.
- ESG considerations should be incorporated into investment staff and senior management performance evaluation as well as board remuneration criteria to ensure alignment of ESG goals for all levels with executive function.

FINDING 6: MORE THAN HALF OF THE ASSET MANAGERS HAVE COMMITTED TO NET-ZERO TARGETS BUT MORE CAN BE DONE TO INCLUDE BOARD OVERSIGHT FOR THESE TARGETS.

PORTFOLIO	**Metrics and targets (based on new indicators for 2022)**	Slightly more than half of all AMs (23) have a commitment to reach net zero by 2050. However, the percentage of Asian AMs having such an ambition is markedly lower than their European counterparts. Out of the 23 AMs who have committed to net zero, only 3 are Asian.
		Out of all the AMs analysed, at least 12 have set short-term targets and milestones with 10 of them being directly related to net-zero ambitions. Of the 12, only 2 are Asian AMs.
PEOPLE	**Governance (based on new indicators for 2021)**	About a third (14) of the AMs who have committed to reach net zero by 2050 have board-level responsibility for these targets. Of these AMs, all are from Europe.

RECOMMENDATIONS

- The importance placed on board-level accountability for climate-related targets has been growing among global asset managers to ensure alignment of interests across all executive functions. This should be an area for further consideration and implementation for asset managers who have yet to include board involvement in their ESG commitments and targets.
- With increasing climate targets set for 2050, asset managers should also include short-term targets (3-5 years) to demonstrate clear plans on delivering on their longer-term commitments. This will also help foster accountability and transparency.
- It is encouraging to see more asset managers setting net zero by 2050 commitments. As more asset managers and other financial institutions commit to net-zero targets by 2050, and begin to actualize these commitments, asset managers who have yet to make such commitments should take the necessary steps to do so, to reduce exposure to potential reputational risks and competitive disadvantages, especially in relation to institutional clients which may have stringent ESG criteria. Further, asset managers should take steps to ensure that such commitments are credible and aligned with the latest climate science, and aim to extend the coverage of these commitments to the entire portfolio.

FINDING 7: USE OF SCIENCE-BASED TOOLS IS GAINING TRACTION AMONG ASSET MANAGERS BUT SETTING OF SCIENCE-BASED TARGETS IS LESS WIDELY ADOPTED.

PROCESSES	**Research, stock selection and monitoring**	Slightly more than half of the AMs (23) in our analysis employ science-based tools to assess their investee companies' risk or opportunities. Of this number, only 4 are Asian AMs.
PORTFOLIO	**Risk assessment**	Only about a third (14) of AMs align their decarbonization strategies with a 1.5°C scenario. Out of these 14, 3 are Asian while the rest are European.

RECOMMENDATIONS

- Asset managers need to set targets and goals based on the latest science to ensure that they achieve a 1.5°C scenario in a way that is credible, accountable and globally recognized. The crucial step to fulfilling science-based targets would be to adopt science-based tools and methodologies when assessing investee companies' sustainability impacts and exposure to sustainability risks. Using science-based tools for risk evaluation is an area that warrants further development for asset managers that have yet to embark on such a process.
- Asset managers should communicate expectations on investee companies to start using science-based tools.

FINDING 8: ASSET MANAGERS CAN DO MORE ON REPORTING AND DISCLOSING OF IMPACT ASSESSMENTS

PORTFOLIO 	**Metrics and targets**	Slightly more than half of all AMs calculate and disclose their carbon footprint for select funds at the minimum – 20 are European while the remaining 5 are Japanese. Of these 25, 10 do so on a portfolio level.
		It is heartening to note that there has been an improvement in the number of AMs, from 0 the previous year to 2, who use metrics outside of carbon to measure the impacts of their investments on natural capital at the entire portfolio level. There are 11 other AMs, including 1 Asian, who do so at the individual fund level.
	Disclosure	Currently, only 13 AMs disclose outcomes and/or impacts of their investments. This includes 1 Asian AM. However, all 13 disclose outcomes and/or impacts of their investments at fund level only. The disclosure is most commonly done through a representation of contribution to the SDGs.
		Only 5 European AMs measure and report on the impact of integrating ESG on fund performance. This could be done through backtesting of portfolios to show that exclusions have a positive financial impact on the fund.
		About a quarter of all AMs (12) disclose ESG performance of their listed funds, none of which are Asian AMs. This is done through ESG ratings being disclosed on fund factsheets. However, of the 12, only 1 does so at the portfolio level. The rest of the AMs only disclose ESG ratings for sustainability-related funds.
		Only 4 AMs disclose progress towards 1.5°C alignment on an annual basis. This includes 1 Asian AM. However, we should look at this as a percentage of AMs who have committed to net zero instead of all AMs analysed in this framework.

RECOMMENDATIONS

- There should be greater disclosure of ESG performance for ideally all funds managed by the asset managers in line with increasing calls for ESG considerations to be fully integrated across all mainstream investment and engagement and not just for ESG-themed products.
- While the scores for disclosure on environmental impacts from investment portfolios are particularly low currently, we recommend asset managers take steps to improve the level and scope of such disclosures ahead of further details on the disclosure requirements under the SFDR which are likely to be finalized by mid-2022.
- Given the increasing importance placed on other environmental risks in addition to greenhouse gas emissions, asset managers should adopt non-carbon metrics to measure the impacts of their investments on natural capital as well. Such metrics include impact measurements from water risk, deforestation and human rights violations.

NEXT AREAS OF DEVELOPMENT IN RESPONSIBLE INVESTMENT

The practice of responsible investment has been gaining momentum globally. Even in markets that are relatively new to the process of integrating ESG factors into the field of investment management, awareness and pace of adoption has increased over recent years. Many of the asset managers in Japan and Singapore that we have assessed have been receptive toward recent developments in sustainable investing practices and have sought to align their ESG policies and practices accordingly.

All asset managers, regardless of their stage of ESG adoption, are able to continue to push the frontiers of responsible investment. In particular, they can:

- Mainstream ESG integration and disclosures across all funds managed and not just ESG-themed funds.
- Through the growing global cross-disciplinary networks in the financial ecosystem, such as the Glasgow Financial Alliance for Net Zero, collaborate and engage on setting the standards for sustainability data and scope of disclosures for financial products, taking into account the constant evolution of financial structures and investment market dynamics.
- Collaborate to further develop science-based methodologies and metrics for measuring and reporting on nature and biodiversity impacts, for both land and oceans, by taking reference from existing frameworks like the Science-Based Targets Network.
- Further incorporate social impacts into existing environmental risk management frameworks, investment methodologies and stewardship processes to ensure that investments into sustainable business transitions are truly sustainable by also being socially inclusive.
- Further engage through industry-wide collaborative initiatives, particularly in the Asian context, to leverage collective statements to promote ESG-related themes within the financial sector. Asset managers may join existing collaborations or initiate new collective engagements where none exist.

APPENDIX: WWF RESPONSIBLE INVESTMENT FRAMEWORK

*Highlighted cells denote new indicators

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 it operates, and/or does it 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 a responsible investment policy or equivalent section in its investment policy?
	15	Does this policy cover all listed equities funds and geographies?
	16	Does the AM periodically review its responsible investment policies?
	17a	Does the AM disclose its engagement policy or guidelines?
	17b	Does the AM's engagement policy include guidance (guidelines) on engagement with policymakers and on how alignment between its influence as an organization is aligned with its position on sustainable finance?
	18	Does the AM disclose its proxy voting policies or guidelines?
	19	Does the AM explain how it applies relevant national stewardship code(s)?
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 multistakeholder 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 multi stakeholder 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 expect all portfolio companies to commit to increasing diversity on their management teams and/or boards? (e.g. gender)
	24d	Does the AM's voting policy have a statement on how labour-related issues will be voted?
	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?
	26a	Does the AM disclose sector policies for high risk/impact sectors?
	26b	Does the AM disclose a sector policy covering investments in the fossil fuels sector?
	27	Does the AM disclose exclusion policies for certain issues, sectors or companies?
	28	Does the AM disclose the names of excluded companies?

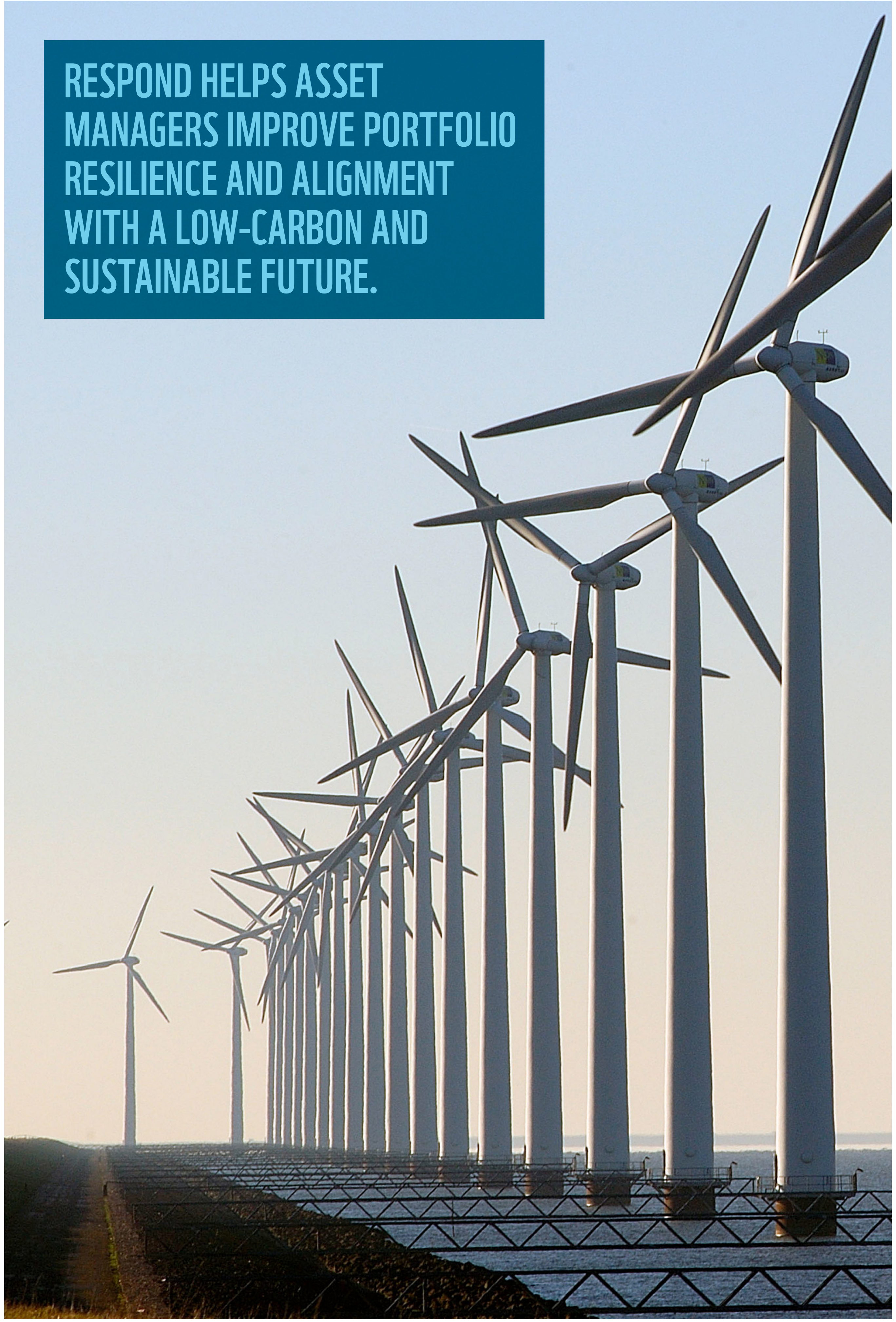
PROCESSES		
5. RESEARCH, STOCK SELECTION AND MONITORING	29	Does the AM research global and regional ESG trends and identify how these can be applied to the investment process?
	30	Does the AM disclose its source(s) of obtaining ESG data and research?
	31	Does the AM apply screens by any ESG issues or 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 AM periodically audit its responsible investment policies and processes?
	38	Where companies fall short of expectations, does the AM attempt to introduce measures requiring time-bound action plans to meet these?
6. ACTIVE OWNERSHIP	39	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?
	40	Does the AM disclose how it prioritizes issues and companies for engagement?
	41	Does the AM use engagement outcomes to feed into the investment decision-making process?
	42	Has the AM participated in any collective engagements on ESG issues in the last reporting year?
	43	Does the AM disclose its role in the collaborative engagement in which it participates?
	44	Is there a mechanism for escalation if engagement fails (e.g. shareholder resolutions, divestment)?
	45	Has the AM voted in support of ESG resolutions in the last reporting year?

PEOPLE		
7. GOVERNANCE	46	Does the AM state who is responsible for responsible investment oversight and implementation?
	47	Is there board-level responsibility for responsible investment?
	48a	Is there board-level responsibility for climate risk, e.g. is climate risk management included in the board mandate?
	48b	If the AM has committed to reach net zero by 2050 or sooner, is the board responsible for tracking progress against decarbonization targets?
	49	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?
	50	Do the terms of reference of the board's audit committee or the criteria used cover a requirement to consider sustainability?
	51	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	52	Does the AM have dedicated responsible investment specialists via either in-house personnel or specialist stewardship services?
	53	Does the ESG team have a role in portfolio review and/or investment committees?
	54	Does the AM provide training on ESG for portfolio managers?
	55	Does the AM provide training on ESG for senior management (e.g. investment committee, CEO, CIO)?
	56	Does the AM provide training on ESG for board members?
9. INCENTIVES	57	Does the policy covering the remuneration of executive directors include a requirement to consider sustainability?
	58	Are ESG metrics part of KPIs or other staff performance metrics?
	59	Is fixed or variable remuneration of senior management and/or portfolio managers linked to ESG?

PRODUCTS		
10. PRODUCT AVAILABILITY	60	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?
	61	Does the AM disclose the percentage of total assets under management invested in ESG products?
	62	Does the AM use any performance benchmark that integrates ESG (including passive ESG index tracking)?
11. CLIENT ENGAGEMENT	63	Does the AM discuss responsible investment approaches and preferences for responsible investment products with clients?
	64	Does the AM include ESG information in its client reporting?

PORTFOLIO		
12. RISK ASSESSMENT	65	Does the AM routinely assess the ESG risks (general) 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 committed to reach net zero emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C?
	71	Has the AM set science-based targets for decarbonization and calibrated its activities on low overshoot 1.5°C scenarios that do not rely on excessive carbon dioxide removal technologies and hence require a global reduction in CO_2 of approximately 50% by 2030?
	72	Has the AM set a combination of short-term targets and milestones?

14. DISCLOSURE	73	Does the AM report on responsible investment actions at least annually?
	74	Does the AM publish a TCFD report or align its public reporting with the TCFD recommendations?
	75	Does the AM disclose engagement activity (no. of engagements) aggregated by ESG issue?
	76	Does the AM evaluate and disclose progress made across all engagements?
	77	Does the AM disclose its full voting records?
	78	Does the AM share the rationales of its votes on ESG related resolutions?
	79	Does the AM disclose the outcomes and/or impacts of its investments (e.g. by SDGs)?
	80	Does the AM measure and report on the impact of integrating ESG on fund performance?
	81	Does the AM disclose the ESG performance of its funds?
	82	Does the AM disclose progress towards 1.5°C alignment at least annually?



Amazon forest, La Chorrera, Department of Amazonas, Colombia. © Luis Barreto / WWF-UK

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