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ShareAction Claims Asset Managers Lagging on Climate and Biodiversity

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In a recent report, the UK-based NGO ShareAction **claimed** that “[t]he asset management industry needs to change urgently if it is to demonstrate proactive stewardship that safeguards against key social and environmental risks in the best interests of the investors.” The group’s Point of No Returns report ranked 77 of the largest asset managers globally based on their responses to 107 questions across five “responsible investment themes,” namely, stewardship, governance, climate, biodiversity, and social issues. Average performance across asset managers was best in the areas of stewardship, governance, and social issues. The report recognized improvement in the industry with respect to climate policies, but noted that “there is still room for improvement,” particularly regarding the adoption of net-zero targets and “time-bound,” action-based climate transition plans.

The report also observed geographic differences, with asset managers from the United States showing “notably weak performance on climate, with only three finishing in the top 30 for that section.” European asset managers tended to outperform their North American and Asia Pacific peers, in part because of “[t]he development of sustainable finance legislation across Europe.”

For asset managers hoping to improve their responsible investment performance, the report recommends, among other things, to “[s]trengthen dedicated responsible investment policies by explicitly covering climate, biodiversity, and social issues and by making ambitious commitments, such as setting net zero targets and developing transition plans to align all portfolios with the goals of the Paris Agreement and a 1.5C scenario.” At the same time, the report urges asset owners to “[e]nd relationships with asset managers who do not live up to set expectations on managing responsible investment issues.” The report further recommends that

policymakers create regulatory environments conducive to responsible investment, in part by clarifying "that market abuse rules and anti-trust rules will not apply to institutional investors when they conduct collaborative engagement activities relating to sustainability issues like climate change."

Taking the Temperature: As we have previously discussed in depth, there is wide variation in methodologies for ESG rankings, so ShareAction's recent ratings report should be understood as just one data point among many. Four takeaways are: first, the report observes that a "passive investment style is not a barrier to having a leading approach to responsible investment." Whether or not that is true, the issue of the appropriate stewardship activities on the part of passive investment managers is squarely in the crosshairs of the U.S. partisan divide over ESG issues in the investment context, and reaction to those concerns, at least in part, led at least one large asset manager to withdraw from the Net Zero Asset Managers initiative. At the same time, certain of these asset managers also have adopted programs to permit the beneficial owners of their investments to have a greater say in how their shares are voted, which could over time blunt any developing reluctance on the part of passive managers to engage in stewardship due to political pressure.

Second, after a long period of climate change mitigation receiving the bulk of regulatory, issuer, and stakeholder attention, these same constituencies increasingly are focusing on the potential material impacts from biodiversity issues. According to ShareAction, however, there remains "a lot of room for improvement" in the area of biodiversity, with the report observing that 62% of respondents "did not report having made any commitments regarding the conversion and protection of ecosystems," and just 10% had "a dedicated biodiversity policy covering all portfolios under management."

Third, we often discuss the importance of issuers and asset managers devoting significant attention to risk, opportunity, and data assessment with respect to climate change and other sustainability matters—in other words the "G" in ESG. The report states that "[a]sset managers are making progress on introducing governance mechanisms to ensure oversight of responsible investment-related issues compared to 2020. Two-thirds of asset managers reported that the board and trustees have responsibility for the oversight of responsible investment issues, up from 21% in 2020, although their responses revealed that their boards lack specific climate-related expertise. Asset managers have also started setting responsible investment-related key performance indicators (KPIs) and objectives that are linked to remuneration, though this most often applies to staff in responsible investment teams, and fewer than a third of managers have set such KPIs for all members of their executive board." However, biodiversity again lags, "with only 49% of policies referencing the topic, compared to 79% referencing climate and 70% mentioning social issues."

Fourth, in observing the need for improvement in the adoption of "time-bound," action-based climate transition plans, the report echoes concerns raised by other NGOs about a mismatch between issuer or asset manager emission reduction targets and concrete plans to achieve those goals. Companies can avoid greenwashing challenges by adopting leading data collection and assessment frameworks like the Science Based Targets initiative or applicable regulatory guidance and make related disclosure of

climate goals and progress based on solid facts and consistent with disclosure frameworks such as the recommendations promulgated by the Task Force on Climate-Related or Nature-Related Financial Disclosure and the International Sustainability Standards Board.