Asset managers failing on their own climate commitments

In response to pressure from asset owners, the world's largest asset managers are talking the talk but not walking the walk on climate change.

By *Daan Van Acker*

The asset management sector holds substantial weight in the financial system given the considerable portfolios managed by its leading players. Over the past few years, the industry's clients – often long-term asset owners – have increasingly made clear their expectations of asset managers to support greater climate action. Initiatives such as the Net Zero Asset Owner Alliance and Paris Aligned Asset Owners have prioritized engagement with asset managers on the net zero alignment of their activities as key commitments.

In response to these expectations, the asset management sector has embarked on a range of climate initiatives, most notably the Net Zero Asset Managers (NZAM) initiative. NZAM was founded in December 2020 as a 'group of asset managers committed to supporting investing aligned with net zero emissions by 2050 or sooner'. The initiative now boasts over 315 signatory asset managers with $ 59 trillion in assets. These signatories commit to implementing robust climate stewardship processes, setting portfolio targets and publishing disclosures on climate action plans.

However, our own analysis of 45 of the world's largest asset managers[1] shows that these institutions are mostly not acting in line with these commitments. In fact, many of the world's largest asset managers have not made progress on their climate performance since 2021.

There are three primary mechanisms through which an asset manager may affect the climate impact of real-economy companies: portfolio allocation, stewardship, and policy engagement. The first two are direct and complementary levers. Asset managers send market signals through investment and divestment, while using engagement and shareholder authority to set expectations of portfolio companies. The third lever is indirect. Through their lobbying, financial institutions affect the implementation of sustainable finance policies. This, in turn, impacts the effectiveness with which financial flows are allocated to decarbonization.

Our research shows that 95% of the equity portfolios of the world's largest asset managers are misaligned with the goals of the Paris Agreement. Meanwhile, the asset managers collectively hold 2.8 times more equity value in fossil fuel production companies than in green investments in the assessed sample. In many

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ILLUSTRATION: SHUTTERSTOCK

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cases, this misalignment is a result of the wider misalignment of equity markets. Climate-key sectors in the real economy are not transitioning in line with net zero goals.

Nonetheless, 35 out of 45 asset managers assessed have set net zero by 2050 targets. If they are to meet these targets, the institutions will need to drive their portfolio companies to transition. Where companies and sectors are currently misaligned with climate goals, stewardship forms a powerful tool for change. While stewardship practices may differ between asset managers, an effective stewardship approach consists of a few key elements. It starts with developing transparent and ambitious frameworks which set priorities and expectations for companies. Progress against these expectations needs to be tracked using milestones and benchmarks, and fed into escalation processes, with a potential ultimate step of divestment. To deliver meaningful change, these frameworks and processes need to be accompanied by active engagement with companies and the use of shareholder tools, such as resolution and director voting. A substantial variety of guidelines for effective climate stewardship has been published delineating such practices, both from within the industry and outside it.[2]

However, our assessment finds that the portion of asset managers carrying out effective stewardship practices relative to best practice has decreased since 2021. The percentage of assessed managers receiving a stewardship score of A-, A, or A+[3] decreased from 33% in 2021 to 18% in 2023. Only a handful of ambitious European asset managers have evolved their stewardship activities in line with best practice, including Legal & General Investment Management, BNP Paribas Asset Management, Aviva Investors, AXA Investment Managers, and UBS Asset Management. They stand in stark contrast to the big four US asset managers BlackRock, State Street, Vanguard, and Fidelity Investments.[4] These firms display a lack of effective climate stewardship processes and use of shareholder authority to engage companies to transition.

In particular, recent years have seen a notable drop in asset managers’ support for climate-related shareholder resolutions. Such support was previously on the rise, with the average asset manager supporting 61% of climate resolutions in 2021, compared to 35% resolutions in 2019. In 2022, asset managers regressed, supporting just 50% of climate resolutions on average. The largest drop was observed in the US, going from 50% in 2021 to 36% in 2022. This reversal coincided with the recent ‘anti-ESG’ trend in the country, with some state legislators seeking to limit investors’ use of ESG factors and the phase-out of fossil fuel investments.

Finally, the world’s asset managers are not supporting emerging sustainable finance regulation in key policy regions, despite publicizing top-line messaging emphasizing its importance. Where they do not directly oppose policy, their industry associations do instead. In fact, 86% of the asset managers assessed are members of at least one industry association actively opposing ambitious sustainable finance policy. These include the Investment Company Institute (ICI) in the US, and the European Fund and Asset Management Association (EFAMA) in the EU.

These findings indicate a worrying lack of action by asset managers to achieve their own top-line climate commitments. Where companies are misaligned, asset managers should be using a combination of stewardship and portfolio allocation to drive behavior change and send market signals. As the asset managers often emphasize, a policy environment enabling sustainable financial flows is essential to meeting their climate targets. The firms will need to support such policy if their statements are to remain credible. In the absence of such action, the sector appears more interested in greenwashing than in climate impact. ■

1 Asset Managers & Climate Change 2023, FinanceMap Report, InfluenceMap
2 Examples include stewardship guidance from Net Zero Asset Owners Alliance, Institutional Investors Group on Climate Change, Paris Aligned Asset Owners, Net Zero Asset Managers Initiative, and others.
3 On a scale of A+ down to to F.
4 Not to be confused with Fidelity International.

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SUMMARY

The asset management sector has embarked on a range of climate initiatives in response to pressure from asset owners.

95% of the equity portfolios of 45 of the world’s largest asset managers are misaligned with the goals of the Paris Agreement.

The portion of asset managers carrying out effective stewardship practices relative to best practice has decreased since 2021 and climate-related shareholder resolution support has dropped.

The assessed asset managers are not supporting emerging sustainable finance policy and most are part of industry associations actively opposing it.

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