THE PLAYING FIELD

A LOOK AT THE WORLD'S LARGEST 50 ASSET MANAGERS

OCTOBER 2022

SquareWell Partners

SquareWell Partners ("SquareWell") publishes its third annual study reviewing how 50 of the world's largest asset managers (referred to as "Top 50" hereafter) are evaluating sustainability issues and stewarding their portfolios. Together these asset managers have nearly USD 75 trillion Assets Under Management (AUM).[1]

Investing responsibly, once niche, is now the norm, with asset managers increasingly attempting to advertise their "ESG" credentials. Whilst they are claiming such "ESG" credentials, in reality there is a lack of standardised benchmarks and data with which to accurately measure their legitimacy and comparability. Invariably, "greenwashing", as it has come to be known, has been a problem within the "ESG" industry since its inception, and recent action by regulators has shown that they are not afraid to act against offenders. Recently, investors such as BNY Mellon, DWS Group and Goldman Sachs Asset Management have been under the regulators' spotlight.

The term "ESG" has unintentionally led market players to treat "Environmental", "Social" and "Governance" issues on an equal footing and the current organisation of the acronym often leads to the two megatrend "Environmental" and "Social" topics overshadowing "Governance". As the market matures to evaluating companies based on how "Environmental" and "Social" factors are integrated into corporate strategy, we view a similar maturity developing in the separation of "Governance" from the "ESG" acronym.

The growth of passive investing, coupled with the proliferation of disclosure frameworks on "ESG" issues (alongside the myriad of ESG ratings and research providers) has had the unintended consequence of prompting companies to focus on sustainability as a disclosure item as opposed to a matter requiring strategic deliberation. In contrast to this, by virtue of their investment strategy, we believe only active managers can identify those companies that are communicating an integrated strategy that aims to capture the risks and opportunities presented by global megatrends and, therefore, attribute a lower valuation to those that don't.

These divergent approaches to investment decision-making by passive and active asset managers means two things for companies: (1) considering "ESG" disclosure as a bare minimum to satisfy the requirements of the "market"; and (2) communicating a robust equity story that highlights the opportunities to be seized considering key megatrends (decarbonization, digitalization, etc.) to attract active managers that allocate capital to fund your "story".

Understanding the challenges faced by companies to navigate the increasingly complex market dynamics, SquareWell sheds light into the characteristics of the largest asset managers, pursuing a passive, active, or mixed investing strategy, with this latest update to its annual "The Playing Field" study.

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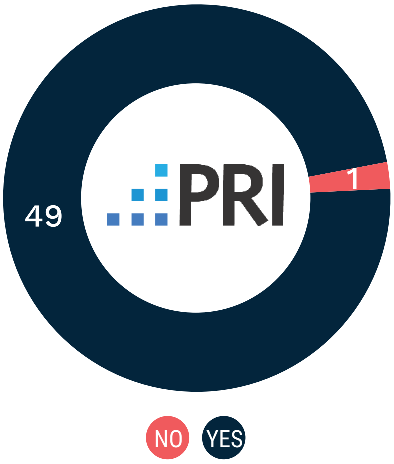
I. Investing Responsibly

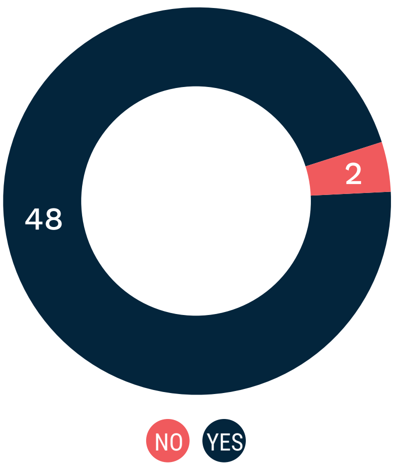
1.a – UN PRI, The Driving Force

Despite being voluntary, the **United Nations-supported Principles of Responsible Investment** (the "UN PRI") have been the driving force for integration of "ESG" issues into investment practices across asset classes and continues to be the leading global network for investors to understand the implications of "ESG" factors through its six principles.

All but one of the world's Top 50 asset managers are signatories to the UN PRI, seeing no change from last year. **Charles Schwab Asset Management** remains the only Top 50 asset manager in both 2020 and 2021 not to have become a signatory to the UN PRI.



1.b - Dedicated Responsible Investment Teams

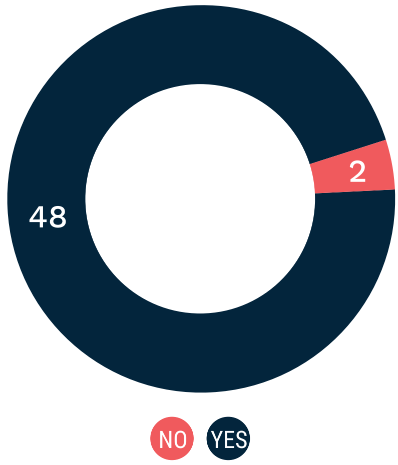


Of the Top 50 asset managers, 48 have a dedicated responsible investment team tasked to advance research and develop sustainable investment solutions. For the avoidance of doubt, SquareWell considers these responsible investment teams to be separate from asset managers' stewardship teams, with the latter focused on engaging with portfolio companies and instructing how to vote their shares.

Over the past 18 months asset managers have described fierce competition to secure and retain experts in responsible investment, with the CEO of Aviva stating *"we have a big ESG team and we haven't lost too many of them, but I think they are the stars of the asset management world right now. Once upon a time, it was the star equity manager; now it's the star ESG professional."*[2]

1.c - Thematic Funds on Offer

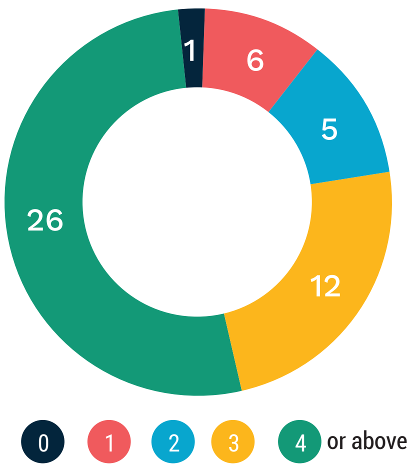
With the growth of intellectual capacity at asset managers on sustainability topics, SquareWell has noted an increase in thematic funds on offer at investors. SquareWell finds that only two (2) of the Top 50 asset managers currently do not offer thematic funds.



Thematic funds go a step further than funds simply integrating "ESG" in their investment decision-making process. For instance, thematic funds focus on a dedicated theme (E, S or G), such as **Federated Hermes**' Biodiversity Equity fund, which aims to achieve long-term capital appreciation by investing in companies that are providing solutions to avert loss of and support restoration of biodiversity.[3] Other examples include funds focused on water, circular economy, renewable energy, etc.

II. Role of ESG Ratings and Data Providers

The increased integration of "ESG" factors into investment decision-making, whether it be for active or passive investment strategies, has made the quality and availability of well-structured and digestible data provided by ESG Ratings and Data providers ever more important. 49 of the Top 50 asset managers use at least one ESG Ratings and Data provider, while 26 asset managers use at least four.



The ways in which investors use such ratings and the underlying ESG data has become increasingly complex in recent years, whether it is to integrate ESG within their general investment decision-making process, impact investing, exclusion/ negative screening, engagement, etc.

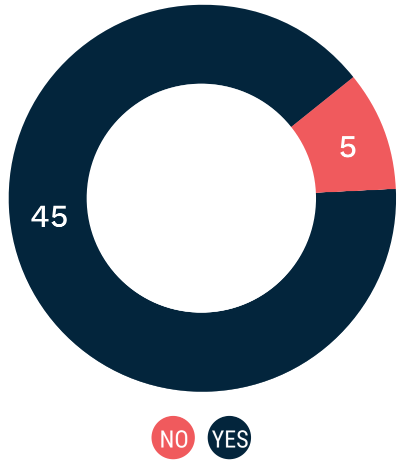
MSCI, Sustainalytics and **ISS-ESG** are the preferred ESG Data providers, used by 46, 38 and 29 of the Top 50 asset managers, respectively. Outside of the main ESG Ratings and Data providers, several of the Top 50 asset managers use S&P Global Trucost (25), Bloomberg ESG (23), Moody's ESG Solutions (previously Vigeo Eiris) (18) and RepRisk (15). Only one (1) of the Top 50 asset managers either do not use or disclose on which ESG Ratings and Data providers they use.

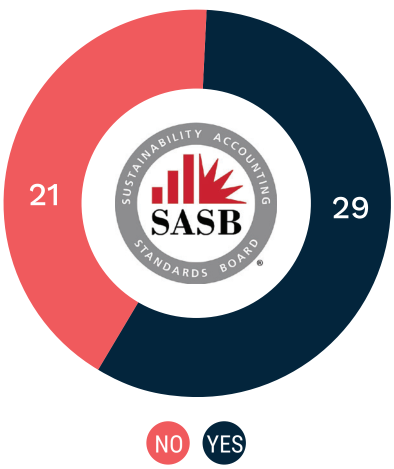
2.a – Asset Managers Developing Proprietary "ESG" Ratings

Asset managers have realized that an over-reliance on third-party service providers risks creating an analytical monoculture. To this end, 45 of the Top 50 asset managers have developed their own proprietary ESG Ratings to achieve a more tailored insight into portfolio companies, 15 more than in 2020, while relying on underlying data from the ESG Data providers.

Legal & General Investment Management's ("LGIM") proprietary Climate Impact Pledge is worth a particular mention, which assesses companies in 'climate-critical' sectors against key sustainability indicators. Their assessment combines qualitative and quantitative indicators sourced from a range of data providers, which are made publicly available for approximately 1,000 companies under a traffic light system. LGIM leverages this assessment to focus on engagement with companies whose actions have potential to galvanise their sectors.[4]

In 2022, LGIM published an update on their Climate Impact Pledge where they highlighted how as a result of recent engagements, they either divested across selected funds or re-initiated their investment. For example, out of 59 of the companies they engaged with, they divested from 2 companies for failing to respond satisfactorily to their engagement requests, and a further 12 remain on their exclusion list. On the other hand, successful engagement led LGIM to reinstate one previously divested company into a range of funds. This was Japan Post Holdings as a result of the company instituting a thermal coal policy, disclosing Scope 3 emissions and publishing a net zero by 2050 target for its portfolio alongside a 2030 interim target[5].





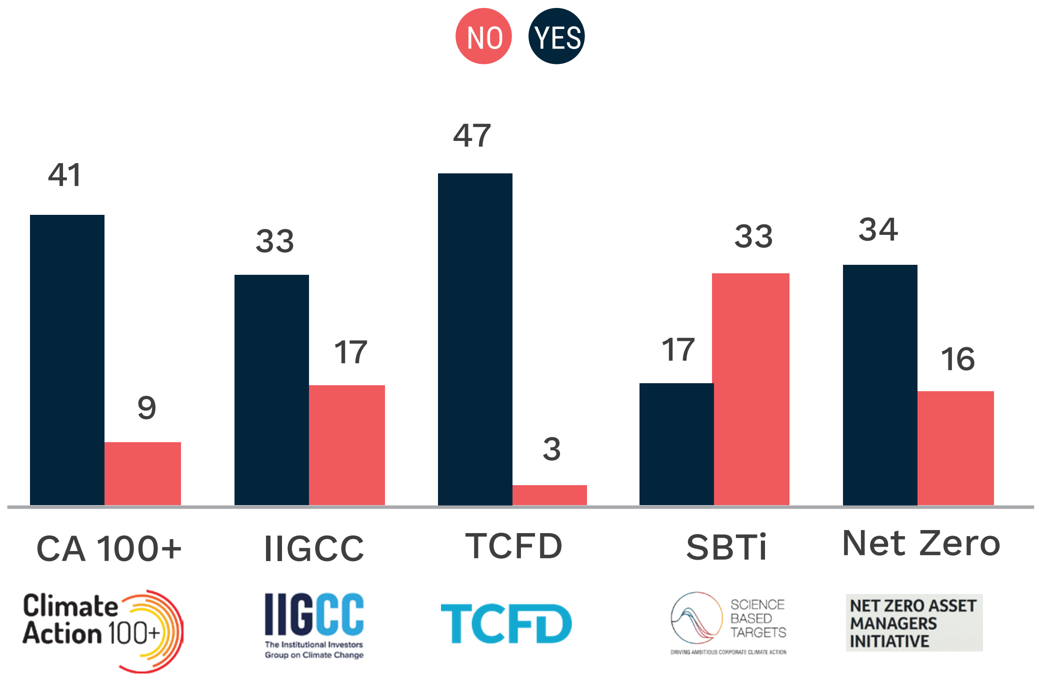
III. Disclosure Frameworks Used and Topical Guidance Provided by Asset Managers

3.a – Global Support for Uniform Sustainability Disclosures

A majority (29) of Top 50 asset managers are members of the **Sustainability Accounting Standards Board** ("SASB") Alliance. It should be noted, however, that the support for the SASB Standards amongst the Top 50 asset managers is higher, including amongst European investors.

Originating in the US, the SASB Standards enables companies to provide industry-based sustainability disclosures on risks and opportunities that affect enterprise value. In November 2021, at COP26, the International Financial Reporting Standards ("IFRS") Foundation announced the creation of the **International Sustainability Standards Board ("ISSB")** to develop a comprehensive global baseline of sustainability disclosures. The ISSB will build upon the work of SASB, International Integrated Reporting Council ("IIRC"), Task Force on Climate Related Financial Disclosures ("TCFD"), and Carbon Disclosure Standards Board ("CDSB").

3.b – Initiatives Driving the Climate Debate

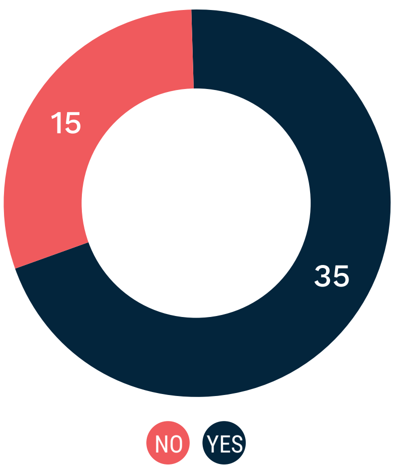


The **Net Zero Asset Managers initiative** (an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner and to support investing aligned with net zero emissions by 2050 or sooner[6]), launched in December 2020, has seen the highest growth in commitment going from nine (9) asset managers in our 2021 report to 34 of the Top 50 asset managers in this report, more than tripling in endorsement.

As part of a campaign led by **Sarasin & Partners**, a group of investors wrote to the Big Four Audit firms to "alert shareholders where company accounts were not considering the financial implications of either current decarbonisation pathway, or the global transition onto a 1.5°C pathway".[7] Auditors and companies failing to provide net-zero aligned audits are expected to face growing opposition from investors. For example, **Schroders** voted AGAINST the financial statements of CRH plc in 2022 due to being "concerned about the climate risks the company is running that are not properly reflected in its financial statements".

The number of collaborative engagement initiatives which aim to increase the interoperability between investors for a more effective response to the climate crisis has also noticeably risen over recent years. Since our 2021 study, **Climate Action 100+** and the **Institutional Investors Group on Climate Change (IIGCC)** now have 41 and 33 of the Top 50 asset managers as signatories, an increase from 36 and 25, respectively.

On the reporting side, 47 of the Top 50 asset managers have publicly declared support for the **Task Force on Climate-related Financial Disclosures (TCFD)**. However, only 17 of the Top 50 asset managers have taken climate strategy a step further by supporting the **CDP Science-Based Targets (SBTi)** campaign, which offers CDP investor signatories the opportunity to collaboratively drive the adoption of science-based emission targets at a selected group of companies.[8] Similarly to the SASB Standards, the support for SBTi amongst the Top 50 asset managers is likely higher, although not officially supporting the CDP SBTi campaign.



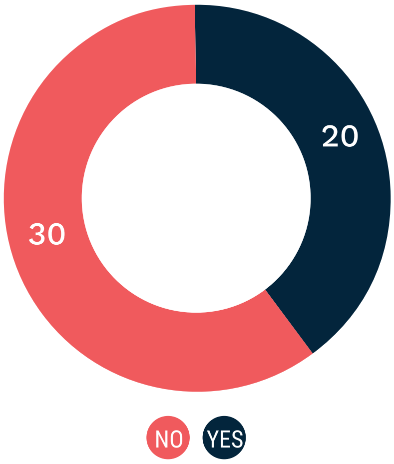
3.c – Investors Provide Guidance on E&S Topics

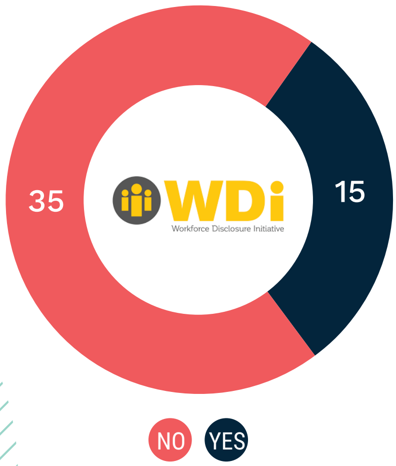
Investors are increasingly zealous to vocalise their commitments on "ESG" issues, one manifestation of this being the proliferation of dedicated position papers published by investors on "ESG" issues. 35 of the Top 50 asset managers publicly state their views on "ESG" topics through position papers, insights, etc. This is up from 24 in 2019, and 34 in 2020.

SquareWell has selected below a snapshot of the different topics investors publish on to give an idea of what's available to companies in terms of guidance from asset managers on key environmental and social topics.

3.c.i - Human Capital Management

20 of the Top 50 asset managers have written about human capital management, up from 16 in 2020. This increase can be attributed to the light shone on the importance of human capital management through the pandemic, alongside continued social tensions and increased awareness of inequalities within the workplace and society as a whole. For example, **AllianceBernstein** encourages two key methods to gauge the state of mind of a company's workforce: 1) big data techniques to dig deeper into employee sentiment and to support qualitative assessments; and 2) engaging with management to get answers to critical questions about whether a company is providing the right conditions for employees to deliver optimal work.[9]

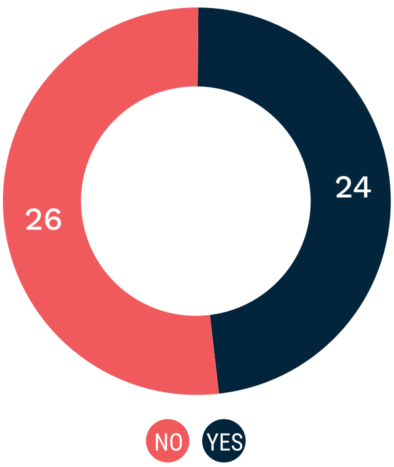




Related to human capital management and serving as an evidence of its increasing importance to investors, SquareWell notes that 15 of the Top 50 asset managers are signatories to the **Workforce Disclosure initiative (WDi)**, an investor coalition formed of 68 institutions with USD 10 trillion AUM. Through their annual survey and engagement programme, the WDi aims to enhance corporate transparency and accountability on workforce-related issues, provide investors with comprehensive and comparable data and aid the provision of good jobs around the globe.[10]

3.c.ii – Diversity and Inclusion

The topic of diversity and inclusion was covered by 24 of the Top 50 asset managers, where many of them set out their workforce gender expectations for portfolio companies. **abrdn** (formerly Aberdeen Standard Investments), for example, has set seven core diversity and inclusion expectations of portfolio companies including: *"board-level responsibility for the implementation of equal-opportunity policy and diversity and inclusion strategy"* and *"setting specific representation targets at the board, management and workforce levels in respect of gender or ethnicity and, if possible, other diversity targets."*[11]



3.c.iii – UN Sustainable Development Goals

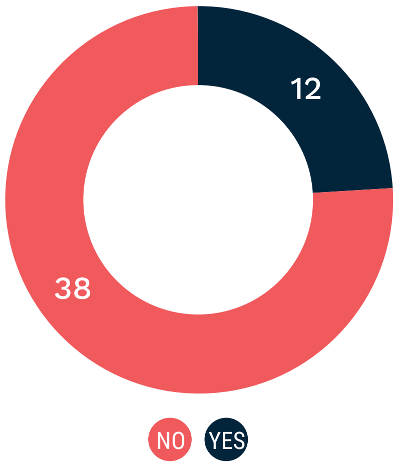
The **United Nation's Sustainable Development Goals** (the "SDGs") are a set of 17 aspirational goals and 169 targets which seek to build upon the Millennium Development Goals (the "MDGs"). 20 of the Top 50 asset managers have published SDG-related insights, representing a high interest and potential engagement topic. Companies can meet investors' expectations by highlighting how their products and services contribute to each or some of the SDGs in quantitative terms.

BlackRock, for example, markets the iShares MSCI Global Sustainable Development Goals ETF which seeks to track the investment results of an index composed of companies that derive a majority of their revenue from products and services that address at least one of the UN SDGs.

3.c.iv – Coal Exclusion/Divestment

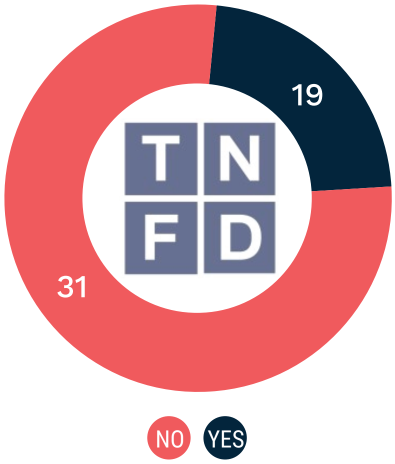
12 of the Top 50 asset managers have published position papers on exposure to coal. Some investors disclose exclusion policies covering companies that are involved in mining and extraction, or which make a significant amount of their revenues from coal, whilst others explain their expectations from portfolio companies with significant coal exposure, by for example, asking companies to provide detailed phase-out plans of their thermal coal mining and generation operations.

Aviva Investors, for example, have pledged to stop investing in or insuring coal (power generation or mining) and by the end of 2022 will have divested all companies making more than 5 percent of their revenue from thermal coal unless they have signed up to Science-Based Targets.[12] **BNP Paribas Asset Management**, on the other hand, considers reducing emissions from coal to be "*the single most effective way of moving towards an energy system consistent with the Paris Agreement*".[13]

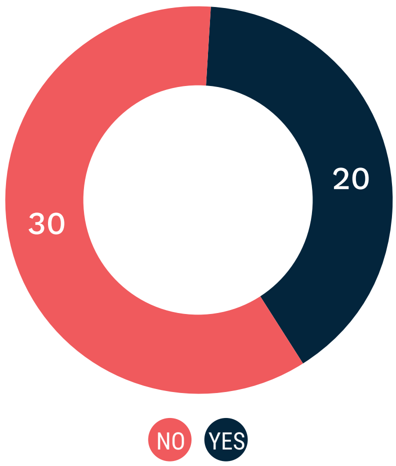


3.c.v – Biodiversity

Biodiversity has become a growing concern for investors which led to the launch of the Taskforce on Nature-Related Financial Disclosures (TNFD). 19 of the Top 50 asset managers support the recently formed **TNFD**, which aims to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, and support a shift in global financial flows towards nature-positive outcomes.[14] The pilot test of the beta framework is set to take place between July 2022 and June 2023.[15]



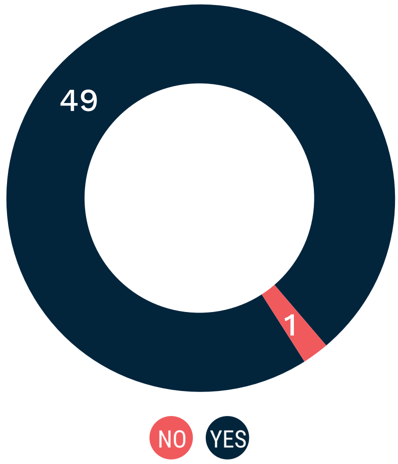
In the meantime, 20 of the Top 50 asset managers have published position papers on biodiversity, up from 11 in 2020, evidencing the upsurge of interest in this subject. Whilst some asset managers mentioned projects they were working on to safeguard and enhance natural ecological environments, others looked at how companies could address biodiversity risks and what the economic consequences of biodiversity loss would entail.



IV. A Focus on Stewardship

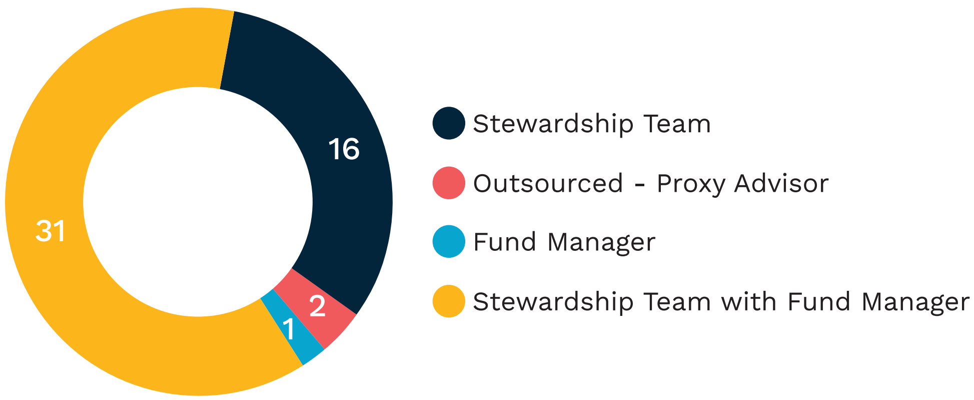
4.a - Dedicated Stewardship Teams

In recent years the world's largest asset managers have "embarked on a hiring spree across their stewardship and sustainable investing teams"[16] to create the teams needed to oversee discussions with portfolio companies on "ESG" issues as well as make decisions on how to vote their shares at companies' shareholder meetings. There has been an increase in the number of Top 50 asset managers with dedicated stewardship teams, 49, up from 45 in 2020. The only asset manager that appears not to have yet created a dedicated stewardship team is **Principal Global Investors** which continues to rely heavily on its investment team to oversee its stewardship activities.



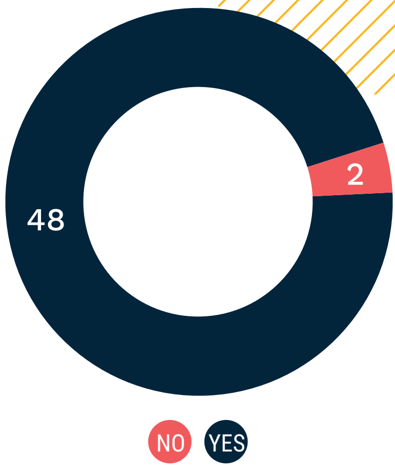
4.b – Stewardship Teams Moving to "Front Office"

47 of the Top 50 asset managers have Stewardship Teams as either the standalone decision-maker or together with a Portfolio/ Fund Manager. Only two (2) of the Top 50 asset managers outsource their stewardship activities to service providers, like Proxy Advisors or Engagement Firms.

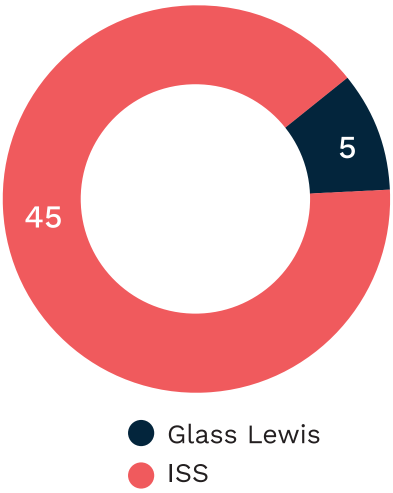


4.c – Stewardship Efforts Disclosed

The number of Top 50 asset managers disclosing their stewardship efforts in what SquareWell refers to as "Engagement Reports" has increased from 41 in 2020 to 48 in 2022. Furthermore, the number of asset managers that name the companies that they engage with is 32, up from 20 in 2020 and 13 in 2019. With asset managers increasing both in engagement disclosure and naming companies engaged, there is an ebbing tide on companies that think they can hide from the limelight of unfavourable engagements.



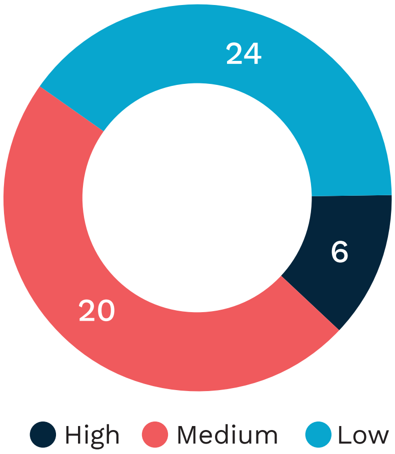
4.d – Proxy Advisors



Proxy Advisors offer guidance to asset managers on how they should vote at annual general meetings. Asset managers utilise Proxy Advisors to fill gaps in resources or knowledge, allowing them to vote on potentially thousands of portfolio companies. Whilst their value is well understood, Proxy Advisors have been criticized for having too little competition and outsized influence with minimal oversight.[17]

A 2021 report from the University of Ohio, found that 90% of the proxy advisor industry is controlled by ISS or Glass Lewis;[18] as such, it comes as no surprise that these two Proxy Advisors are the two main players for the Top 50 asset managers. It should be noted, however, that a notable number of asset managers subscribe to both Proxy Advisors, including sometimes leveraging local Proxy Advisors (such as in India, UK, etc.), to assist them in reaching a final voting decision.

Based on SquareWell's internal database and analysis of asset managers' voting behaviour, ISS serves as the "primary" Proxy Advisor to 45 of the Top 50 asset managers. Glass Lewis, on the other hand, serves as the "primary" Proxy Advisor to five (5) of the Top 50 asset managers.



4.e – Reliance on Proxy Advisors

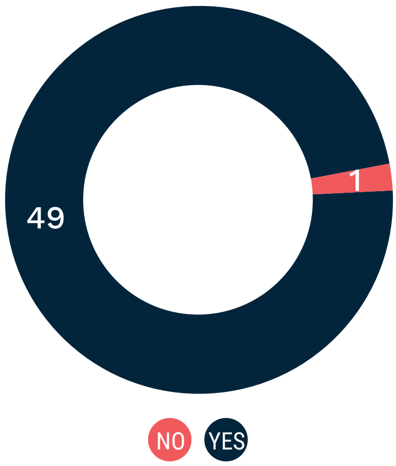
While most asset managers receive recommendations from Proxy Advisors, most of the Top 50 asset managers have their own internal voting policies that are implemented by the growing stewardship teams. In fact, only six (6) of the Top 50 asset managers exhibit a "High" reliance on the recommendations of their selected Proxy Advisor. SquareWell's review finds that a significant number (24) of the Top 50 asset managers now exhibit a "Low" reliance. As evidence to the low reliance on the recommendations of proxy advisors, in a 2018 letter to the Securities and Exchange Commission (SEC) in the US, ISS's CEO stated that 85% of ISS's top 100 clients used a custom proxy voting policy – meaning that they did not rely on ISS's standard research recommendations but have ISS's custom research team apply investors' own voting policies.

4.f – Asset Managers Have Adopted Their "House View"

Asset managers develop voting policies which give indications to portfolio companies of their governance sensitivities and expectations. Some asset managers even publish regional governance principles. **Vanguard**, for example, publishes seven (7) regional voting guidelines.

Despite the reluctance from some investors to fully disclose their voting parameters due to the nuance of some items coming to a vote and the need to remain flexible, all the Top 50 asset managers (except **Principal Global Investors** that explicitly indicate using the Institutional Shareholder Services, Inc. (ISS) Standard Proxy Voting Guidelines) now publicly disclose a voting policy of their own.

On the next page, we highlight some asset managers' position on select key issues within their voting policies.



4.f.i – Board Gender Diversity

Board diversity is an important issue for many asset managers, with 39 of the Top 50 asset managers having policies requiring a minimum number of women directors on boards. 19 of the asset managers who have a policy on the issue expect 30% or more of the board to be composed of women in developed markets. **Neuberger Berman** for example, is increasing their expectation of women directorships from 1 female director to 33% of female directors on boards in 2023. On the other hand, **Ostrum Asset Management** will not support the re-election of the chair of the nomination committee if there is not a minimum 40/60% gender mix on the board.

4.f.ii – Overboarding

Asset managers are increasingly interested in ensuring that directors dedicate sufficient time to their board duties. In addition to having limits on the number of seats non-executive directors should have on public boards, asset managers are increasingly applying stricter policies on the external commitments to company executives. To this end, SquareWell notes that 33 of the Top 50 asset managers outline their expectations of the number of mandates an executive may hold, half of those notably allowing only one outside directorship.

4.f.iii – One-Off Awards

Just under half (24) of the Top 50 asset managers communicate a position on one-off awards within their voting policies, with some communicating that they would oppose such practice outright. Asset managers expect companies to demonstrate how the award would lead to value creation and what circumstances justify deviating from the standard policy. **BlackRock**, for example, is not supportive of one-off or special bonuses unrelated to company or individual performance. They expect disclosure relating to how and why discretion was used, and how the adjusted outcome is aligned with the interests of shareholders.[19]

4.f.iv – Pay Quantum

The importance of pay quantum as a factor in evaluating executive pay packages is growing for many asset managers, with 24 asset managers from the Top 50 communicating a view on this topic. Asset managers are encouraging companies to align CEO pay with performance, peers, and/or consider other stakeholders. **Amundi Asset Management**, for example, expects quantum to be acceptable from a “social point of view” with a specific multiple above median of the peer group triggering a negative vote on pay-related items. Similarly, in 2022, **Norges Bank Investment Management** communicated its plan to target “excessive” pay.[20]

4.f.v – “ESG” in Pay

Some asset managers do expect companies to link executive pay to material “ESG” factors. 22 and 21 of the Top 50 asset managers expect ESG factors to be included within short- and long-term incentive plans, respectively. There is a consensus amongst asset managers that such factors should be quantifiable, transparent, and sufficiently challenging.

State Street Global Advisors has expressed concern over **ESG** factors in pay plans being used as a “tick the box” exercise, and that they could exacerbate the principle-agent problem.[21] Additionally, **BNP Paribas Asset Management** favours internal ESG criteria **vs** external (in particular ESG rating agencies) and expects strong retrospective disclosure.

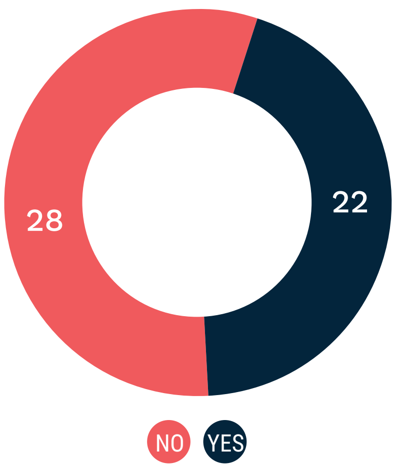
4.f.vi – Say on Climate

The Say on Climate ("SoC") campaign, launched in 2019 by the Children's Investment Fund Foundation (CIFF), seeks for companies in various sectors to take urgent action over climate change by: (1) presenting a climate action transition plan; and (2) putting such action plan to an annual non-binding advisory shareholder vote. Only two (2) asset managers from the Top 50 are official supporters of the SoC campaign: **Aviva Investors** and **Legal & General Investment Management**. See SquareWell's July 2021 insight on SoC for more information.

Including investors who have signed the collective statement by IIGCC, 22 asset managers from the Top 50 disclose an official position on how they would evaluate SoC proposals, with the 2021/22 vote results for both management- and shareholder-sponsored SoC proposals suggesting that shareholders are broadly supportive of the SoC concept. Nonetheless, several asset managers and asset owners have voiced their concerns about SoC. Some examples of investor statements on their position on SoC are highlighted below:

- **Schroders** supports the inclusion of SoC management resolutions on general meeting agendas but may vote against such proposals in instances where they do not believe the emissions reduction targets to be stretching enough. While some investors believe a SoC is a shift in responsibility into shareholder's hands away from boards, Schroders believe SoC is an opportunity to consult shareholders on important elements of strategy.[22] In January 2021, Schroders wrote to FTSE 350 chairs asking for them to publish climate transition plans.[23]

- On the other hand, **Dimensional Fund Advisors** have stated that they will generally vote against management and shareholder proposals to introduce SoC votes. Dimensional believes that strategic planning, including mitigation of climate change risks and oversight of opportunities presented by climate change is the responsibility of the board and should not be delegated or transferred to shareholders.[24]



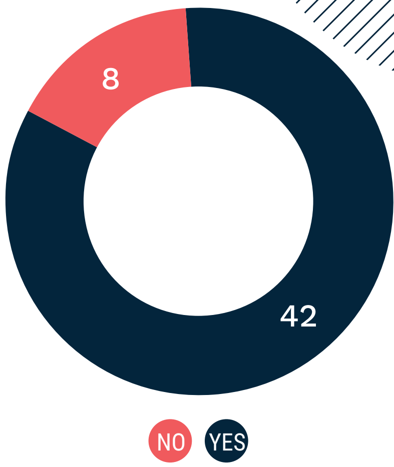
4.g – Asset Managers Rationalize Their Decisions

Aside from Engagement Reports, 22 of the Top 50 asset managers publicly disclose their vote rationales. **Vanguard** and **BlackRock** also publish detailed insights into their voting and engagement in high profile situations. BlackRock, through Vote Bulletins, published 41 vote rationales in high profiles in 2021 compared to 30 in just the first half of 2022, supporting the trend that asset managers are becoming increasingly transparent and vocal with their stewardship activities.

4.h – Voting Perimeter

Proxy voting is a critical element of an asset manager's fiduciary responsibility as an active steward and a way in which they can drive change on environmental, social and governance issues at portfolio companies.[25] Investors, however, do not systematically vote across all their holdings, some refraining from voting in certain countries or only voting on holdings of a certain size.

Most of the Top 50 asset managers do vote for all their holdings; however, some are more limited in scope, with eight (8) asset managers voting on a case-by-case basis, including **AEGON Asset Management** that states it votes only at portfolio companies where they hold over 0.1 percent of a company's issued share capital.[26]

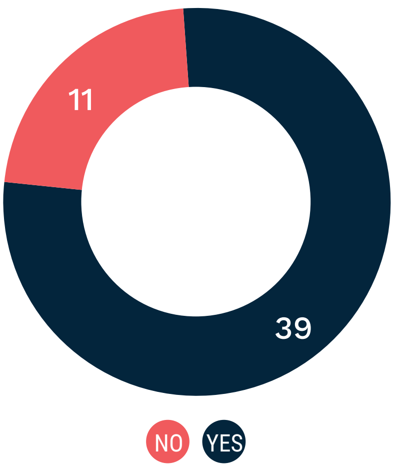


4.i – Share Lending

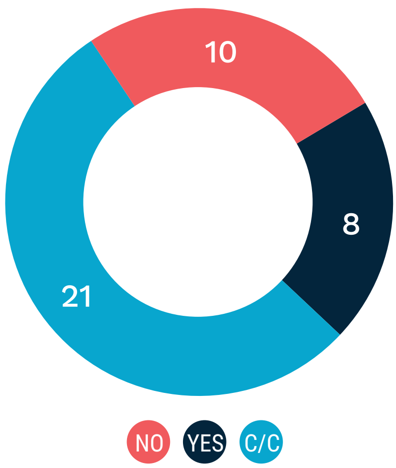
39 asset managers from the Top 50 include a policy on share lending, a practice in which shares are loaned to other investors or firms and whereby the loanee puts up collateral in the form of cash, other securities or credit letters.[27] In the process of share lending, the title and ownership are transferred to the loanee and a borrow fee is charged to the client for borrowing the shares, including any interest due attached to the loan.

For routine voting matters, asset managers may consider the revenue from lending activities to be of more value than the ability to vote. However, some asset managers reserve the right to recall shares on loan in exceptional circumstances, in order to protect their clients' interests in the event of a particularly important or close vote. Of those investors who include a policy on share lending, eight (8) also include a policy on the automatic recall of shares.[28]

# of Asset Managers Disclosing a Policy on Share Lending



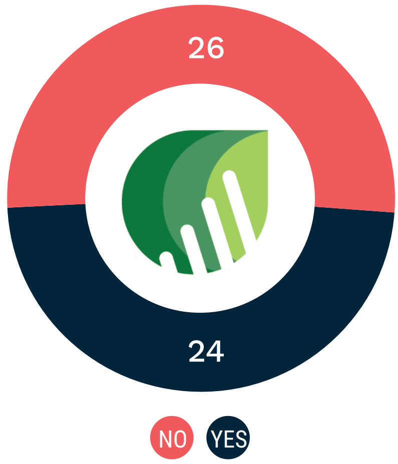
# of Asset Managers that Communicate an Automatic Recall of Shares



V. Sustainability Considerations in Fixed Income

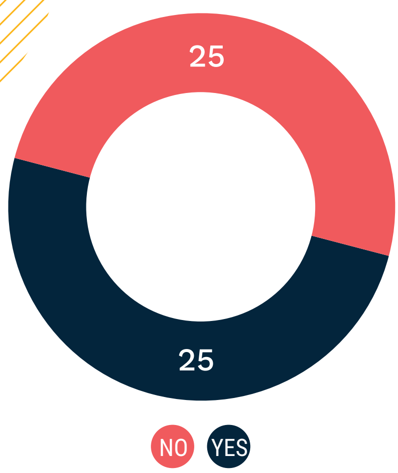
Equity was the dominant choice of asset class when it came to integrating sustainability factors into the investment decision-making process. Now with four (4) more asset managers within the Top 50 disclosing that they integrate sustainability factors into fixed income investing compared to 2020, the playing field has been equalized for both asset classes for the universe reviewed.

Of the Top 50 asset managers, 24 support the Green Bond Principles, 4 more investors than in 2020. New supporters include **Allspring Global Investments** (formerly Wells Fargo Asset Management), **BNY Mellon, Ostrum Asset Management** and **UBS Asset Management**. These guidelines were established by a consortium of investment banks in 2014[29] and offer guidance for transparency and integrity in the development of the Green Bond market,[30] which has continued to accelerate to over half a trillion (USD 517.4 billion) in 2021, the highest annual figure since market inception which marks the 10th consecutive year of green market expansion, moving the global milestone of $5 trillion annual green investment by 2025 closer.[31]



VI. Shareholder Activism – A Useful Market Force?

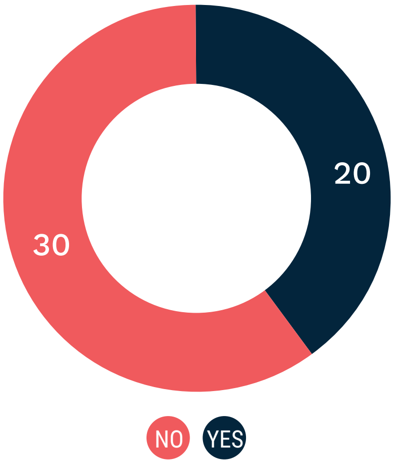
6.a - Activism within Asset Managers' Voting Policy



Shareholder activism has become increasingly more accepted by asset managers and perceived as a useful market force. 25 of the Top 50 asset managers include their approach to evaluating contested situations within their voting policy, with contested board elections being the most common.

In 2021, **Engine No.1** initiated an unprecedented campaign against Exxon Mobil Corporation with the goal of pushing the oil giant to reduce its carbon footprint. To achieve this, Engine No.1 formally nominated four independent director candidates to Exxon Mobil's Board. Engine No.1 believed that its nominees brought with them a differentiated skill set that made them uniquely suited to the challenge of charting a new proactive long-term strategy within Exxon Mobil. Of the four nominees, three were elected to Exxon Mobil's Board.

Of the Top 50 asset managers, SquareWell notes that only **Northern Trust Investments** did not support any of the nominees presented by Engine No.1. On the other hand, Top 50 asset managers that voted for all Engine No.1 nominees included: abrdn (formerly Aberdeen Standard Investments), Aviva Investors, BNP Paribas Asset Management, Capital Group, Goldman Sachs Asset Management, Legal & General Investment Management, and Schroders. Of interest to the readers, SquareWell notes that **BlackRock** supported 3 (out of 4) Engine No.1 nominees, with **Vanguard** and **State Street Global Advisors** supporting only 2.



6.b – Traditional Asset Managers Leveraging Activist Tactics

Registration of public discontent is a process whereby an investor publicly voices their concern with a portfolio company, typically issuing a press release or media publication, following the exhaustion of private engagement.

20 of the Top 50 asset managers registered public discontent against companies, demonstrating an increased comfort by traditional asset managers to vocalize their concerns with portfolio companies. No longer limited to hedge funds, activism can come from any investor targeting companies of all sectors and sizes. For example, **Amundi Asset Management** and **Nordea Asset Management** publicly expressed their discontent in May 2021 over Deutsche Bank's involvement in thermal coal. They asked Deutsche Bank to expand its coal policy by explicitly excluding coal developers (any company that is building or planning to build new coal plants, mines, coal ports or affiliated railway lines), to commit to phase out coal by 2030 from the OECD and by 2040 for the rest of the world and to help clients develop, publish and implement coal phase-out plans in line with the 2030/2040 timeline.[32]

Shareholder activism is likely to continue to rise, and boards should ensure they have 'activist-ready' governance structures and develop a continuous engagement program with its top shareholders to stay ahead of potential concerns that may be raised by the market. For example, in June 2022, **Legal & General Investment Management ("LGIM")** made a rare public intervention and spoke out against the planned merger between Tullow Oil and Capricorn Energy in the UK. LGIM stated that they had "*strong reservations*" about the deal, citing how there was "*no clear strategic rationale for the combination*" and that they "*do not believe there are material synergies between the two companies, their strategies or their business models*".[33] Notably, this deal has since been challenged by the activist investor, Palliser Capital, amongst others.

Appendix

List of Asset Managers Considered for the Study

Asset Manager	Country
abrdn (formerly Aberdeen Standard Investments)	United Kingdom
AEGON Asset Management	Netherlands
AllianceBernstein	United States
Allianz Global Investors	Germany
Allspring Global Investments	United States
Amundi Asset Management	France
Asset Management One	Japan
Aviva Investors	United Kingdom
AXA Investment Managers	France
Baillie Gifford	United Kingdom
BlackRock	United States
BNP Paribas Asset Management	France
BNY Mellon	United States
Capital Group	United States
Charles Schwab Asset Management	United States
Credit Suisse Asset Management	Switzerland
Dimensional Fund Advisors	United States
DWS Group	Germany
Eurizon Asset Management	Italy
Federated Hermes (incl. EOS)	United States
Fidelity International	United Kingdom
FMR - Fidelity Management & Research Company	United States
Franklin Templeton Investments	United States
Generali Investments Partners	Italy
Goldman Sachs Asset Management	United States
HSBC Global Asset Management	United Kingdom
Invesco Asset Management	United States

Asset Manager	Country
J.P. Morgan Asset Management	United States
Legal & General Investment Management	United Kingdom
Manulife Asset Management	Canada
MFS Investment Management	United States
Morgan Stanley Investment Management	United States
MUFG - Mitsubishi UFJ Trust and Banking Corporation	Japan
Neuberger Berman	United States
Nissay Asset Management	Japan
Nomura Asset Management	Japan
Nordea Investment Management	Denmark
Northern Trust Investments	United States
Nuveen Asset Management - TIAA-CREF	United States
Ostrum Asset management	France
Principal Global Investors	United States
RBC Global Asset Management	Canada
Schroders	United Kingdom
State Street Global Advisors	United States
Sumitomo Mitsui Trust Asset Management	Japan
T. Rowe Price	United States
The Vanguard Group	United States
UBS Asset Management	Switzerland
Union Investment	Germany
Wellington Management	United States

Note: Investors included in the 2021 study but not in this study include: APG Asset Management, Brookfield Asset Management, Columbia Threadneedle Investments, Geode Capital Management, and M&G Investments.

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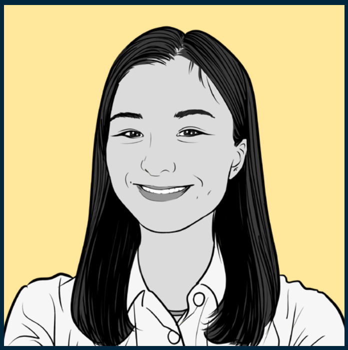

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