C A D W A L A D E R

Investors: Study of Asset Managers Finds Growing Consensus on Approach to Climate Change

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A **recent study** conducted annually of the world's 50 largest asset managers examines how these institutions are factoring sustainability considerations into their investment process.

The study shows that as of July 2022, all but one of the top 50 asset managers are signatories to the United Nations Principles of Responsible Investing. This was unchanged from the 2021 study. Furthermore, 48 of the managers now have dedicated responsible investment teams in place, up from 46 in 2021. 49 of the managers now have stewardship teams, up from 45 the previous year. 48 of the 50 asset managers surveyed now offer investment products that focus on specific sustainability issues. Notably, 45 of the top 50 asset managers are developing proprietary ESG ratings, with 26 of these asset managers utilizing information from over four or more different third-party ratings and data providers.

Despite the apparent consensus on the need to focus on climate and other ESG issues as part of their businesses, differences remain. One area of divergence involves whether to publicly disclose discontent with companies in their portfolios. As of 2022, 20 of the top 50 asset managers have registered their public disagreement with their portfolio companies. This nearly even split suggests that private engagement by institutional investors remains an often-preferred way to dialogue with company management.

Another area of divergence involves approaches to communicating their overall stances on various issues, with 35 of the asset managers publishing position papers on environmental or social topics. That is an increase from 24 in 2019, but still leaves a sizeable minority not taking public positions on these matters.

Taking the Temperature: Although perhaps not surprising given how vocal the asset management industry has been for years over the need for better issuer governance and disclosure regarding climate change, the results of this survey firmly underscore that ESG is a mainstream aspect of the asset management industry. Also understandable is

that, by and large, these firms are developing propriety ESG ratings. As we have previously discussed, it is difficult if not impossible to make sense of ESG ratings, which vary among providers in terms of results, methodologies, weightings, and inputs. Until there is greater market consensus on how to produce ratings (not to mention industry consolidation), we expect that consumers of ratings information will continue to develop proprietary assessment tools, not use the ratings, or use them as one of many inputs to assessing a particular company's sustainability profile.