

Building a Resilient and Sustainable Europe: Lessons from ShareAction's survey

This briefing highlights recommendations for European policymakers to improve institutional shareholders' stewardship of companies, based on the findings of ShareAction's 2017 survey of European asset managers.

The financial crisis brought to the fore a variety of issues plaguing the European corporate governance framework. Excessive short-termism, misalignment of interests between investors and their asset managers, as well as inadequate reporting by investee companies all colluded to create an environment in which trust, a key enabler of long-term thinking, became a rare commodity.

Recent legislative developments at EU level have been designed to mitigate the negative effects of these issues. The recent adoptions of the revised Shareholder Rights Directive (SRD II) and of the Non-Financial Reporting Directive are notable examples. SRD II is a strong tool through which Member States can ensure that the legislative framework for shareholder engagement with companies will facilitate responsible company behaviour, whilst enabling access and reducing the costs of exercising shareholder rights across borders. Where shareholders are engaged and active, this legislation will ensure that they are able to positively influence corporate governance and the performance of investee companies.

Asset managers have a vital role to play in supporting a strong European economy and the creation of modern, efficient companies. As the day to day managers of assets in the capital markets,

their approach to responsible investment (RI) practices is a key piece of the puzzle in creating a strong European corporate governance system.

ShareAction's most recent benchmarking survey of the asset management industry looks at Europe's 40 largest asset managers and their approach to RI, including active stewardship of companies. These firms invest over €21 trillion (£18 trillion) on behalf of pension schemes, charities, universities, and individuals across the world. This survey contributes to a clearer understanding of the state-of-play vis-à-vis their approach to RI and seeks to promote best practice across the industry.

What does good look like?

Responsible investment (RI) is an investment approach that integrates environmental, social and governance (ESG) issues which can influence investment returns, particularly over the long-term. Amongst asset managers, a commitment to RI is evident through:

Clear policies on integrating ESG factors into investment decision making

Having a documented RI policy and making it publicly available is a basic way of showing commitment to RI. Policies should be clear and concise but also provide sufficient detail on ESG issues and how these are handled, including across asset classes.

What we found

Whilst 90% of the surveyed asset managers provide a detailed and specific policy on how they handle corporate governance issues, only 77.5% have a detailed policy on their approach to environmental and social risk in portfolios. Best-in-class examples of policy documents include Nordea Asset Management (Denmark) and AXA Investment Managers (France).

Transparency

Asset managers, with their day-to-day responsibility for managing investments, are well positioned to influence companies' long-term performance through their stewardship activities. When asset managers are transparent on stewardship (including shareholder voting and company engagement) this means asset owners, their beneficiaries and other stakeholders can hold them to account.

What we found

Although 70% of the asset managers publicly disclose voting instructions, only 20% disclose a rationale for voting instructions. 57.5% of asset managers disclose the total number of company engagements undertaken over the year but only 45% of asset managers provide any information publicly about their engagement with policymakers and regulators on RI issues.

Transparency Best Practice

Asset managers should:

- Record all votes cast including rationales for, at least, votes: against management resolutions; on shareholder resolutions; and votes with management where a sizeable number of other shareholders voted against.
- Provide comprehensive disclosure of engagement with companies and policymakers.

Communication

Best practice involves a commitment by asset managers to two-way communication with clients about RI issues.

What we found

Encouragingly, 83.9% of survey respondents include information about environmental and/or social risk management as part of regular client reporting, but only 67.7% disclose such information both publicly and to clients directly. Firms should be encouraged to go even further and produce more public disclosures to assist with improving standards across the industry.

Survey findings

The 10 best performing asset managers are shown below. Firms based in the UK and France comprise 8 of the top 10, with the remainder based in the Netherlands and Belgium.

Top 10 Asset Managers	Rank	Country
Schroder Investment Management	1	UK
Robeco Group	2	Netherlands
Aviva Investors	3	UK
Amundi	4	France
Standard Life Investments	5	UK
Legal & General Investment Management	6	UK
Columbia Threadneedle Asset Management	7	US / UK
Candriam Investors Group	8	Belgium
Natixis Global Asset Management	9	France
AXA Investment Managers	10	France

- All 40 firms claim a commitment to RI and are participating in country-level sustainable investment forums.
- Despite this public commitment, the actual quality of RI performance and disclosures varies widely. The quality demonstrated does not depend on the size of the firm, the region, ownership structure or whether they are predominantly active or passive managers.
- 39 asset managers (98%) have a publicly available policy document on their RI approach.
- 34 asset managers (85%) have a conflicts of interest policy available on their website.
- Only 21 of the 31 firms (67%) who responded to the survey were able to provide clear examples of how they manage conflicts of interest in practice.
- 7 asset managers (17.5%) do not include any information at all on environmental and/or social impacts within regular reporting to clients or publicly.
- Only 8 asset managers (20%) provide a full list of companies engaged with over the year.
- Only 7 asset managers (17.5%) go beyond the minimum legal requirements, and even attempt to provide additional explanations of potential direct or indirect fees and charges on their website.

Notes on methodology

ShareAction assessed the asset managers on their publicly available information and through a detailed questionnaire, completed by 31 of the 40 managers.

Our full ranking and report can be found online at:

<https://shareaction.org/how-responsible-are-europes-largest-investors/>

Conflicts of Interest

Asset managers should consistently and faithfully act in the best interest of the clients who award them with mandates. The 40 firms surveyed are large, complex organisations with many commercial relationships and interests. A number are part of a larger banking or insurance group. **Once a client has placed assets with a manager, clients should have confidence that their interests will come first in respect of any decisions relating to the assets under management.** To help achieve this fiduciary standard of care, asset management firms should have, and disclose, a robust conflicts of interest policy, and they should report regularly on how conflicts have arisen and been handled. While the majority of the asset managers surveyed (85%) disclose a conflicts of interest policy on their website, only 67.7% of the 31 respondents were actually able to provide a clear example of how they handled a recent conflict of interest. Generally, those asset managers who did not have a publicly available policy, were also unable to provide clear examples.

Fees and charges

Overall, disclosure of fees and charges is poor across the sector and the information that is available is often ambiguous. Surprisingly, only 82.5% of asset managers surveyed make fees and charges fund literature easily accessible, whereas we would expect all of the firms surveyed to do this. In addition, only 17.5% (7 managers) even attempt to provide comprehensive information on their websites about direct and indirect costs. **Standardisation in disclosure of investment costs is lacking and this makes it difficult to compare and understand such costs across the sector and between countries.** In short, far better disclosure and greater transparency is needed if client and beneficiary interests are to be met by Europe's asset management sector.

Recommendations for European policymakers

- The European Commission should provide guidance to the competent Member State authorities on how they should interpret fiduciary duty in the national legal context. This guidance should clarify that asset owners and asset managers have a duty to pay attention to long term factors, including ESG factors, where they are likely to be financially material.
- The European Commission should propose mandatory requirements for all asset managers to disclose information to their clients on the RI activities they undertake on their behalf. Asset owners should be required to publicly disclose this information to their beneficiaries (e.g. members of pension schemes).
- The European Commission should facilitate the communication of non-financial information in accordance with the Non-Financial Reporting Directive, by ensuring the upcoming guidelines will be based on pre-existing standards, such as the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures and encouraging standardized disclosure across the EU.
- The European Commission should propose mandatory requirements for all asset managers to report to their clients on all costs charged by their fund (both explicit and implicit) in a standardised format.
- The European Commission should work with stakeholders to develop guidance clarifying the meaning of ESG by promoting a framework that is not only clear and applicable cross-sectorally, but which also reflects a balanced consideration of environmental, social and governance issues. This is needed to dispel confusion which is still widespread in the investment community.

- Member States should ensure that the SRD is implemented ambitiously to level up to the highest standards of shareholder engagement and transparency across the EU.
- The European Commission should consider the importance of regulating shadow investing in ensuring the effectiveness of RI practices in mainstream asset managers, so as to encourage a level-playing field. As such, clarifications concerning ESG risk factors should be considered in the upcoming review of the Alternative Investment Fund Managers Directive.
- The European Commission should ensure that upcoming legislation on the Pan-European Personal Pensions Products is harmonized with IORPS II concerning the role of ESG factors in fiduciary duty.
- The European Commission should recognize the importance of mainstreaming RI throughout its flagship initiative, the Capital Markets Union, instead of treating it as a separate asset class, such as green bonds.
- The European Commission should ensure that the “comply or explain” mechanism in SRD II does not work counterproductively by inadvertently allowing disparities in quality and commitment of shareholder engagement. Towards this end, the Commission should release more precise guidelines on using the “comply or explain” mechanism and encourage the sharing of best practices amongst Member States.

European Asset Managers Responsible Investment Ranking 2017

Asset Manager	Country	Rank	Public Review (max. 40)	Questionnaire (max. 50)	Total (max. 90)
Schroder Investment Management	UK	1	34	48.0	82.0
Robeco Group	Netherlands	2	36	45.0	81.0
Aviva Investors	UK	3	34	46.0	80.0
Amundi	France	4	31	46.5	77.5
Standard Life Investments	UK	5	31	45.5	76.5
Legal & General Investment Management	UK	6	28	48.0	76.0
Columbia Threadneedle Investments	US/UK	7	30	43.5	73.5
Candriam Investors Group	Belgium	8	29	44.0	73.0
Natixis Global Asset Management	France	9	33	39.5	72.5
AXA Investment Managers	France	10	27	44.5	71.5
M&G Investments	UK	11	28	40.5	68.5
BlackRock	US/UK	12	27	40.0	67.0
State Street Global Advisors	US/UK	13	25	39.5	64.5
Nordea Asset Management	Denmark	14	22	41.5	63.5
NN Investment Partners	Netherlands	15	25	38.0	63.0
Bank J. Safra Sarasin	Switzerland	16	18	44.0	62.0
Aegon Asset Management	Netherlands	17	22	39.0	61.0
Aberdeen Asset Management	UK	18	22	38.0	60.0
Achmea Investment Management	Netherlands	19	19	40.0	59.0
BNP Paribas Investment Partners	France	20	18	40.0	58.0
Allianz Global Investors	Germany	21	21	36.0	57.0
HSBC Global Asset Management	UK	22	17	37.5	54.5
Eurizon Capital	Italy	23	15	37.0	52.0
Credit Suisse	Switzerland	24	14	35.5	49.5
La Banque Postale Asset Management	France	25	16	32.5	48.5
Pictet Asset Management	Switzerland	26	15	31.5	46.5
Generali Investments Europe	Italy	27	15	29.5	44.5
JP Morgan Asset Management	US/UK	28	14	28.0	42.0
Danske Capital	Denmark	29	10	29.0	39.0
Pioneer Investments	Italy	30	9	20.0	29.0
Swedbank Robur*	Sweden	31	20	0	20
Goldman Sachs Asset Management International*	US/UK	32	19	0	19
UBS Asset Management*	Switzerland	33	18	0	18
MN*	Netherlands	34	17	0	17
Santander Asset Management	Spain	35	8	8	16
Deutsche Asset Management*	Germany	36	15	0	15
KBC Asset Management*	Belgium	37	14	0	14
Union Investment*	Germany	37	14	0	14
SEB*	Sweden	39	13	0	13
BBVA Asset Management*	Spain	40	10	0	10

(*) Asset manager did not respond to the survey

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About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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