ESG integration study: notable differences between asset managers

Analysis of UN reports on responsible investing shows that asset managers have made varying degrees of progress in their efforts to integrate ESG into their businesses. Scope has evaluated the leading providers.

Scope has assessed which fund managers stand out in terms of sustainability. We evaluated reports of the UN Principles for Responsible Investment (UN PRI) and other materials where fund providers disclose information about their sustainability efforts. Overall, we analysed information from 30 large international fund managers and 12 large German firms, which together manage almost EUR 44trn.

A total of 58 topic areas were considered for the study. They cover investment processes and corporate governance as well as stewardship efforts to encourage portfolio companies to act more sustainably. Depending on the extent of the ESG efforts, we awarded points based on the number of sustainability aspects asset managers had taken into account.

Our analysis does not focus on individual funds, but on the houses as a whole. The analysis shows how strongly the topic of sustainability has permeated the companies.

Federated Hermes achieved the highest score. The US asset manager was convincing across most of the 58 topic areas. Candriam came second, also achieving a high score. Neuberger Berman was third.

The Scope analysis shows that none of the providers achieved flawless ESG integration. The requirements we set to demonstrate comprehensive sustainability efforts across so many areas are simply too high. However, some large companies are on the right track and are proving that they can keep pace with the growing requirements for sustainable investment and gone a long way in their ESG integration.

However, it is also clear that among the major providers analysed there are leaders and laggards, and the issue of sustainability has not been equally well received everywhere. Investors who are looking for fund providers with a high level of ESG integration can use the Scope scores to source the best fund managers.

Questions about the extent of sustainability efforts have gained in importance because of the increase in accusations that companies are presenting themselves as greener than they are. When more and more providers are accused of greenwashing, this shows how urgent and relevant it is to investigate an asset manager's level of ESG integration.

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Basics of the study

Conceptual approach

Efforts to make life more sustainable permeate business, politics and society alike. For the financial sector, too, sustainability is high on the agenda. Investors are allocating more and more money to ESG products and the pressure on companies to operate and invest more responsibly is growing.

In the fund industry, it is now common practice for portfolios to indicate how sustainable they are. In addition to ratings and scores of private providers, the European Union has introduced a framework to classify funds. The Sustainable Finance Disclosure Regulation (SFDR) is designed to help institutional asset owners and retail clients understand, compare, and monitor the sustainability characteristics of investment funds by standardising sustainability disclosures. It divides funds into different groups according to Article 6, 8 or 9. In simplified terms: the higher the number, the more intensive the sustainability efforts.

Asset managers assessed as companies

Scope has taken a different approach in this study. We examined the extent to which asset managers have integrated ESG aspects into their investment processes. It is not about individual funds but about the provider as a whole: to what extent does the topic of sustainability permeate the fund manager, how much do they live the topic?

These questions have become even more important in the wake of increasing accusations that managers are presenting themselves as "greener" than they are. When more and more providers are accused of greenwashing, this shows how urgent and relevant it is to look at an asset manager's ESG level of integration. Our evaluation shows who is acting in an exemplary manner in this respect.

Methodology

To determine the extent to which asset managers take sustainability concerns into account, Scope has drawn on publicly available information. The reports of the UN Principles for Responsible Investment (PRI) were an essential basis for our investigation. Asset managers that have signed up to the PRI are obliged to report on their responsible investment activities every year. Over 1,500 asset managers worldwide have signed up to this initiative, so the annual reports are a source of high-quality and detailed information.

Evaluation of 58 topics

For this study, Scope reviewed and evaluated the UN PRI reports of 30 major international and 12 major German asset managers, which together manage almost EUR 44trn. Points were awarded depending on answers to the questions posed in the reports. The more clearly and extensively sustainability efforts came to light, the more points were awarded. The analysts focused on the most relevant questions for this evaluation.

For example, they considered:

- How is ESG information typically used as part of your investment process?
- What proportion of your actively managed equity portfolio is subject to comprehensive ESG research as part of your ESG screening strategy?
- Do you monitor and/or review the results of your engagement?

To determine the extent to which sustainability plays a role in the investment process and in corporate governance, we evaluated responses to 43 questions. To determine how intensively influence is exerted on the companies held to increase their sustainability (engagement), 15 questions were considered.

In addition, Scope analysts examined websites, brochures and other material of the fund managers, especially if questions in the UN PRI reports were unanswered. In this way, we ensured that all relevant issues were considered as fully as possible.

If information provided by the fund managers indicated that ESG efforts were extensive in a given segment, we awarded two points. If basic ESG efforts were made, we awarded one point. If ESG approaches were absent in an area or were insufficient, the company received no points.

From this extensive collection of data, Scope created a ranking. A maximum of 116 points were possible in total (58 topics rated with at best two points each).

Focus on publicly available information

If statements were not publicly available, Scope did not follow up with the fund managers, on the basis that a credible ESG strategy is based on transparency. We also refrained from verifying claims. This would have gone beyond the scope of our analysis. Scope, like other market participants, must be able to rely on the fact that information about how managers take ESG criteria into account is correct and that relevant supervisory authorities have fulfilled their monitoring functions.

Evaluation criteria

Investment process and engagement as core elements

Scope looked at two areas to determine how high the level of ESG integration is: the investment process and engagement. So the study covers two levels: "how are the fund holdings selected and who is responsible", and "how do fund managers engage with investee companies to improve their ESG performance".

Investment process

Scope recognised a high level of integration of ESG factors into the investment process under the following conditions:

1. **Investment teams/senior management:** Both senior management and investment teams are responsible for implementing and monitoring the ESG investment philosophy. Target agreements and bonus payments are linked to this. Portfolio managers and analysts play an active role in providing ESG information and further developing the approach to ESG analysis. ESG information is incorporated into the decision-making process of the investment committees as standard.
2. **Research and investment process:** All three factors (environmental, social and governance) are considered equally in company analysis and ESG research. ESG research is based on regular materiality analysis that comprehensively considers ESG risks and impacts. In addition, ESG information is included as standard in company/security analysis. ESG analysis is an integral part of fundamental analysis and valuation models for both equities and bonds. This means, among other things, that the consideration of ESG factors and risks has a quantifiable or measurable impact on projected financial metrics such as cash flows, earnings or credit ratings, and on valuation parameters. Furthermore, the investment analysis consistently uses dynamic scenario models and analysis for climate risks that take into account both transitory and physical risks for different time horizons and temperature targets.
3. **Portfolio construction und asset allocation:** ESG factors are taken into account both in the definition of strategic asset allocation (weighting of asset classes, countries/regions and sectors) and in portfolio construction with the aim of achieving a lower CO2 intensity than the benchmark.
4. **Performance measurement:** Within the framework of extended analysis of performance attribution, the influence of ESG efforts on the return and risk of the portfolio is systematically determined.

Engagement

Scope recognises exemplary ESG engagement under the following conditions:

1. **Processes:** A systematic process exists to identify and prioritise engagements. The topic plays a role not only during the investment but also before and after. The asset manager acts proactively: ESG risks that are already emerging trigger an engagement.
2. **Portfolio managers:** Portfolio managers are directly involved in defining an ESG-related engagement programme and participate in dialogues with the companies held.
3. **Evaluation:** All exposures are tracked and systematically monitored and evaluated. In the event of unsuccessful engagement, both a reduction of the position and a complete sale are provided for and permitted as escalation levels.

According to Scope analysts, the above conditions are essential for a high degree of ESG integration. However, the list is not exhaustive. The more conditions the fund providers fulfil, the greater the importance of sustainability aspects for the company and the more deeply they are anchored.

Results

Leaders with good results

Our analysis shows that none of the providers achieved flawless ESG integration. The requirements Scope set to demonstrate comprehensive sustainability efforts across 58 topics were simply too high. However, some large companies are on the right track. See the ranking on page 5.

The fund manager with the highest score is Federated Hermes. The US asset manager is the only provider to achieve a three-digit score and comes close to the maximum score of 116. Federated Hermes not only demonstrates very high ESG integration in the 'Investment Process' segment, but also excels in the 'Engagement' segment.

Candriam, one of the pioneers of sustainable investment, also displays a very good penetration of sustainability aspects and is in second place. In the area of 'Investment Process', it performs better than Federated Hermes, but slightly worse in the area of 'Engagement'. The top three is completed by Neuberger Berman.

The table contains the scores achieved and a brief commentary. We have brought together conspicuous and noteworthy aspects here to highlight particularly positive features and structures.

Table: Large asset managers with a high level of ESG integration

Rank	Points	Asset manager	Assets under Management [EUR bn.]	Commentary
1	101	Federated Hermes	542	Very comprehensive and binding ESG strategy across all investment teams. ESG information and engagement are mandatory components of all investment decision-making processes. This approach is supported by exemplary ESG integration into the respective investment process with proprietary tools.
2	99	Candriam	150	Continuous and sophisticated development of the ESG integration approach on both the equity and bond sides with systematic and comprehensive consideration of ESG factors in the investment selection process.
3	90	Neuberger Berman	364	ESG analysis is integrated into the investment research process of the investment teams and is not carried out by a separate or central ESG unit. ESG data sourcing is supported by innovative methodologies, drawing on the experience of the Chief Data Scientist and Big Data teams.
4	89	Robeco	201	Each investment team independently identifies and determines which material sustainability factors are decisive for its investment process. These must then be systematically integrated into quantitative and fundamental analysis. A very successful and active involvement of decision-makers.
5	87	HSBC Global AM	527	Exemplary multi-level ESG research on companies, sectors but also selected topics with the aim of both supporting investment teams in their ESG due diligence and providing ongoing training.
6	86	AllianceBernstein	620	Exemplary structured ESG-integrated engagement approach consistently applied in the investment research process.
	86	AXA IM	866	Strong focus on climate change with correspondingly well-equipped capabilities in terms of tools and depth of analysis.
8	83	Amundi	1,794	Close co-operation model between the separate ESG analysis and investment teams with the specific objective of achieving "active ESG outperformance".
9	82	Union Investment	427	Clearly structured and organised ESG integration process to ensure and promote the exchange between the SRI and investment teams and the quality of ESG research.
10	71	Franklin Templeton Investments	1,309	Clearly differentiated and established ESG integration methodology per asset class and instrument, co-developed and applied by the investment teams.

Source: Own calculations, Institutional Money, providers

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