RESPONSIBLE INVESTING IN EUROPE AND THE U.S.: COMPARISON ON ASSET MANAGERS' EXCLUSIONARY CRITERIA AND ENGAGEMENT ACTIVITIES

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ABSTRACT

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Abstract in English:
Responsible investing and ESG are becoming more widely accepted as an important part of investments and the fiduciary duty of asset managers. In fact, responsible investing has become mainstream and integrating ESG aspects into the investment decision making is often seen beneficial for the investors. Now that asset managers are moving to the ESG space, it is interesting to see what are the most favoured ESG approaches and if there are any differences between U.S. and Europe.

This study compares the public disclosures of both U.S. and European asset managers and focuses on two ESG approaches often used in responsible investing; negative screening that excludes harmful or unsustainable sectors and companies, and engagement which is part of active ownership and aims to – instead of excluding the companies – to use the shareholder position to influence the companies. These two approaches are also often seen as the opposite approaches, but interestingly enough, can be used to complement each other.

Altogether 30 asset managers were chosen for this study and they represent the 15 biggest (in terms of assets under management) asset managers from both Europe and U.S. This study looks into the data that is publicly disclosed by these companies, and compares their public approaches to these two previously introduced ESG investment styles. More specifically, this study compares the public availability of engagement policies, dedicated human resources, engagement volumes and the ESG breakdown of those. It also compares the company level exclusion criteria (meaning that it applies to all of their investments, not only to specific funds, geographies or asset classes) that the asset management companies are openly communicating on their websites.

What comes to engagement data and dedicated resources, European asset managers seem to be disclosing more information than their American competitors. Data also shows that European asset managers are dedicating more resources into ESG analysis and engagement and are more active in engaging when looking at the average number of engaged companies. However, the U.S. asset managers had bigger average in the total number of engagements. Engagements in the U.S. are clearly focused on addressing the governance aspects, and while the majority of engagements in Europe were also focusing on governance, in Europe the engagement activities were more evenly distributed between the environmental, social and governance aspects.

When comparing the exclusion policies between European and U.S. asset managers, it seems clear that U.S. asset managers have not been so eager to set up corporate level policies to exclude certain sectors, or at least to disclose those publicly. The difference seems to be smaller when it comes to disclosing information about engagement activities.

Abstrakti Suomeksi:

Vastuullinen sijoittaminen sekä ESG näkökulmien sisällyttäminen sijoituspäätösten tekoon on nostanut suosiotaan sekä sijoittajien että salkunhoitajien parissa. ESG-termi tulee englanninkielisistä sanoista environment, social ja governance, jotka viittaavat ympäristöön, yhteiskuntaan sekä yrityshallinnollisiin näkökulmiin. Vaikka näiden näkökulmien huomioonottaminen on joskus nähty olevan mahdollisesti haitallista sijoitusten tuottonäkymien kannalta, on tuo näkemys pitkälti unohdettu ja nykyisin meillä on paljon todisteita siitä että vastuullinen sijoittaminen on vahvasti linkitetty positiivisesti sekä sijoitusten tuottavuuteen että riskien parempaa hallinnointiin. Varainhoitajat ovat kilpaa julkistamassa uusia ESG-näkökulmat huomioon ottavia rahastoja, ja voidaankin varmasti jo todeta että vastuullinen sijoittaminen on tullut jäädäkseen, eikä vain vaihtoehtoisena sijoitusmuotona, vaan valtavirran keinona täyttää varainhoitajien ensimmäinen ja kaikkein tärkein tehtävä; tuottojen maksimointi. Nyt kun sijoitussektori on siirtynyt vahvasti vastuullisen sijoittamisen pariin, olisi mielenkiintoista nähdä ovatko jotkut tietyt vastuulliselle sijoittamiselle ominaiset tavat suositumpia tai yleisempiä kuin toiset. Entä onko näissä eroa jos verrataan eurooppalaisia ja pohjoisamerikkalaisia varainhoitajia?

Siitä syystä, tämä tutkimus vertailee eroja näiden kahden markkina-alueiden varainhoitajien julkisessa kommunikoinnissa kahden ESG sisällyttämistavan välillä; vaikuttamisen ja poissulkemisen. Vaikuttaminen on käytännössä sijoittajien keino käyttää osakkeenomistajan asemaansa vuoropuhelun käynnistämiseen yritysten kanssa. Vaikuttaminen pyrkii nimensä mukaisesti vaikuttamaan yritysten tapaan hoitaa ESG riskejä ja mahdollisuuksia. Poissulkukeino puolestaan rajaa sijoituksista pois sellaiset yritykset tai sektorit joita sijoittaja ei koe vastuullisiksi tai joissa ESG riskit ovat korkeat. Nämä kaksi ESG:n sisällyttämistapaa ovat usein nähty vastakkaisina lähestymistapoina, ja siksi on mielenkiintoista nähdä onko näissä erilaisia painotuksia eri markkina-alueilla.

Tähän tutkimukseen valittiin yhteensä 30 varainhoitajaa, 15 suurinta varainhoitajaa sekä Euroopasta että Pohjois-Amerikasta. Vertailun kohteena ovat dokumentit ja muu informaatio liittyen vaikuttamiseen ja poissulkumenetelmään, joka on näiden varainhoitajien nettisivuilla julkisesti saatavilla. Erityisesti vertailun kohteena on vaikuttamisen politiikan julkinen saatavuus, henkilöresurssit jotka ovat omistettu ESG analyysille sekä vaikuttamisen toimille, kuinka monta yritystä ja erillistä ESG aihetta on ollut vaikuttamisen kohteena vuoden aikana, ja kuinka nämä ovat jakautuneet ESG:n kolmelle pilarille; ympäristö, yhteiskunta ja yrityshallinto. Vertailussa on myös varainhoitajien julkisesti saatavilla olevat poissulkukriteerit jotka pätevät kaikkiin sijoituksiin. Tässä tutkimuksessa ei ole huomioitu sellaisia poissulkukriteerejä, jotka ovat rahastokohtaisia eivätkä siten päde kaikkiin sijoituksiin.

Tutkimuksessa selviää, että eurooppalaisilla varainhoitajilla on enemmän henkilöstöresursseja joiden päätehtävänä on ESG analyysi ja vaikuttamistyö. Eurooppalaiset varainhoitajat tekivät vaikuttamistyötä useampien yritysten kanssa kuin pohjoisamerikkalaiset, mutta pohjoisamerikkalaiset olivat aktiivisempia vaikuttamistyön kokonaismäärässä. Pohjoisamerikkalaiset varainhoitajat ovat vahvasti keskittyneet yrityshallintoon liittyviin asioihin vaikuttamistyössään, ja vaikka Euroopassa yrityshallinto oli myöskin vallitsevin osa-alue, olivat ympäristö- ja yhteiskunta-asiat vahvemmin edustettuina kuin Pohjois-Amerikassa.

Mitä tulee poissulkumenetelmiin, eurooppalaisten ja pohjoisamerikkalaisten varainhoitajien välillä oli suuri ero. Pohjoisamerikkalaiset varainhoitajat eivät juurikaan julkaisseet poissulkukriteerejä nettisivuillaan, ja tämä näyttää olevan selvästi suositumpaa Euroopassa. Vaikka pohjoisamerikkalaiset varainhoitajat yleisesti ottaen julkaisivat vähemmän näihin ESG näkökulmiin liittyvää materiaalia nettisivuillaan, oli ero kuitenkin selvästi suurempi poissulkukriteerien kohdalla.

Keywords: ESG (Environment, Social and Governance), Responsible Investment (RI), Exclusions, Company Engagement, Active Ownership

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CONTENTS

1 INTRODUCTION

Working professionally with Responsible Investments (RI) and Environmental, Social, and Governance (ESG) topics, has made me think of the importance of responsible investing, different approaches it consists of, and the financial industry players' attitudes towards it. Therefore, I wanted to focus on ESG and RI topics also in my thesis. Getting the financial industry to move towards implementing sustainability and responsibility considerations in investments, could have a great impact on the global challenges that we are facing, such as climate change, transition towards low-carbon economy, poverty, and inequalities. I have noticed that in the financial industry it seems to be a common perception that European countries and companies are more sustainable or responsible than companies globally. This, however, is not aligned with what some studies are showing related to the comparison of CSR practices. Therefore, with this study I aim to find out if the hypothesis of European asset managers being in the forefront of responsible investments is true, by looking into the differences in Responsible Investment policies, allocated resources and activities of European and U.S. Asset Managers. More specifically, this study focuses on the exclusion policies and engagement activities and resources of altogether 30 biggest asset managers – 15 from Europe and 15 from the US.

In their battle against these global issues, United Nations (UN) has created the already globally well-known 17 Sustainable Development Goals (SDGs). The SDGs were originally developed in 2015 as a call to action to all the nations all over the world. It was a 15-year agenda targeting to achieve the goals by 2030. However, efforts are also needed from the financial sector. UN is estimating that in order to achieve all the SDGs, around $5-7 trillion of investments is needed annually across all sectors. UN sees that investing in the SDGs would even be economically interesting. They state that achieving the SDGs could create 380 million new jobs as well as new market opportunities worth of US$12 trillion by 2030 (United Nations, 2020). However, currently UN estimates that the investments into fossil fuel sectors are still higher than the investments into climate activities (United Nations, 2020).

The United Nations backed Principles for Responsible Investing (PRI) consists of six principles that promote for example integration of ESG aspects and data into investment decisions and transparency around ESG issues. The principles are a voluntary and aspirational framework for investors. The amount of PRI signatories has been constantly growing since the launch in 2006. In 2019 it had already exceeded 2300 signatories, which represents over $86 trillion in Assets under Management (AuM) (PRI, 2019).

Responsibility and ESG factors are becoming more widely accepted as an important part of investments. However, without clear framework it might be difficult to make the distinction between responsible investments and traditional investments. In the fund industry there is clearly demand for some sort of standardisation and criteria when it comes to ESG. EU is currently preparing criteria around this topic by creating an ecolabel for investment products that defines the minimum environmental performance needed to obtain the label and be recognised as a true ESG product (European Commission Product Policy Bureau, 2020).

Meanwhile, Asset Managers are looking for other ways to prove that their funds are true ESG funds. Many asset managers have decided to seek recognition from the independent labelling organisations. The demand for ESG labels seems to be rapidly increasing. According to Novethic's research, all the major European ESG labels had experienced significant growth in the amount of labelled funds within the past 9 months (Novethic, January 2020), meaning that more and more funds are seeking to get some sort of ESG certification or label to differentiate in the rapidly growing responsible investment space.

European sustainable finance action plan is currently making responsible investing a hot topic in Europe. The new EU Taxonomy is promoting/pushing ESG/RI into a more mainstream thing in the financial industry. On 28th of January in 2020, the European Commission announced that the work around European non-financial reporting standards has been started. Setting up the non-financial reporting standards is part of the European action plan. The European Sustainable Finance action plan is also aiming to create a new European eco-label for sustainable financial products.

Even though there has been discussion on the lack of clear definition on sustainability and sustainable finance (Busch & Wagner, 2020), there are already some existing and widely recognised definitions such as the Our Common Future report (United Nations, 1987) or "Darmstadt definition" (Bode et al. 2004) which are discussed in more detail later in this research report.

Many are still doubting if responsible investing can actually go hand in hand with creating returns. However, this view seems to be slowly changing and many Asset Managers are already speaking in favour of responsible investing. They are seeing a great and increasing interest towards responsible investing among their clients (Yle.fi. 13.02.2020). Investors are increasingly putting their money in SRI strategies, for example, between 2016 and 2018, assets invested in Sustainability Themed strategies grew by 269% (Global Sustainable Investment Alliance. Global Sustainable Investment Review 2018). According to Thinking Ahead Institute (2019) sustainability has become one of the key issues in the investment industry. Their study shows that in 2018, the assets allocated to ESG principles grew by 17.8% compared to 2017. This means in 2018, total of US$ 8,919 billion was invested in ESG principles. Similarly, assets going into ESG mandates grew by

23.3%, totalling US$ 1,459 billion invested in ESG mandates (Thinking Ahead Institution, 2019).

An article in Kauppalehti (25.09.2020) brought up an important point of view to the discussion about responsible investing. Kauppalehti's article mentions that while a private investor can make responsible investment decisions based on their own values and can bare the risk of these investment decisions providing less returns, for institutional investors it might not be that easy. Institutional investors might feel the need to balance between returns and responsibility. However, institutional investors have a great power to foster a positive change in the companies and industries they are investing in. Kauppalehti also mentions that responsibility in investing doesn't mean compromising the returns, but that taking the ESG factors into consideration can actually work as a risk management tool (Kauppalehti, 25.09.2020).

Integrating ESG aspects into the investment decision making is actually often seen beneficial for the investors. ESG factors have been acknowledged to generate alpha, meaning out-performance, and at the same time reduce risks (Hebb, T. 2012). Some academic studies show a positive correlation between ESG factors and financial performance. Mercer's report "Shedding light on responsible investment: Approaches, returns and impact (2009), says that 10 out of 16 academic studies suggest positive correlation between ESG aspects and financial performance (Mercer, 2009). In their meta-analysis, Friede, Busch and Bassen (2015) analysed over 2000 empirical studies resulting into a conclusion that around 90% of the studies could not find a negative correlation between ESG criteria and corporate financial performance and that actually most of the studies suggest positive correlation between ESG criteria and financial performance (Friede, Busch & Bassen, 2015). On the other hand, Revelli and Viviani (2014) conducted a meta-analysis on 85 studies without fining neither positive or negative correlation between responsible investing criteria and financial performance of equity portfolios (Revelli & Viviani, 2015). However, according to Riedl and Smeets (2017), investors investing in SRI mutual funds are not necessarily even expecting higher returns, but their priority is to invest aligned to their social values.

Besides using the ESG aspects in the specific ESG-branded funds, some asset managers, for example, Nordea Asset Management (which is outside of the scope of this study), have decided to implement a certain minimum level of responsibility and consideration of ESG factors into all of their investment products by having a companywide approach integrating ESG into investments. Nordea Asset Management has made ESG data available for all the portfolio managers to integrate into investment decision-making and valuation, conducts norms-based screening to all the holdings, has a corporate wide responsible investment policy and exclusion list, and also they practice engagement and voting on an across all the holdings (Nordea Asset Management, 2019. Nordea Asset Management, 2020. Nordea, 2020).

To my surprise, some studies suggest that U.S. companies are seen to be more active – at least in their communications – regarding Corporate Social Responsibility (CSR) (Matten & Moon 2008, Maignan & Ralston 2002). I want to understand if this set up extends also to responsible investing practices, as my perception is that many European asset managers have a long history in providing responsible investment solutions (such as Nordea since 1988), while the asset managers in the U.S. are only now starting their journey. For example the world's biggest asset manager, BlackRock from U.S. has only very recently ramped up their efforts in responsible investing and sustainable finance (The Wall Street Journal, 14.01.2020). According to ShareAction's report "Point of No Returns", ranking 75 biggest asset managers worldwide based on their approach to responsible investments, the European asset managers seem to have higher ranking than the ones in U.S. or Asia Pacific. As a matter a fact, the top 19 asset management companies are all European (ShareAction, March 2020).

The evidence from the field of responsible investing do not seem to support the theories on market differences coming from the field of CRS. Thus, the aim of this study is to confirm this by comparing European and U.S. asset managers and their approach to responsible investing – especially focusing on exclusion policies and engagement activities. Looking into the total amount of assets under management (AUM) in U.S. and Europe, the U.S. asset managers have more than twice the amount of assets under management compared to the European asset managers (Table 1). Therefore, it would be important from the perspective of responsible investments that U.S. companies are committed to RI and ESG practices.

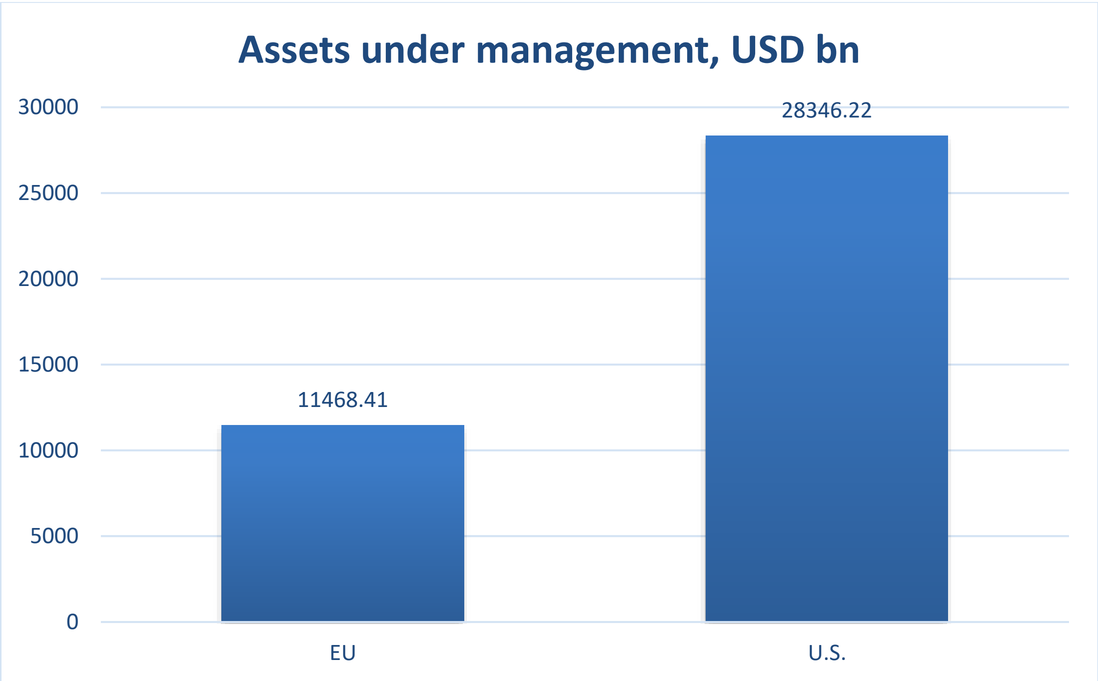

Table 1. Difference in AuM between European and U.S. asset managers.
Source: ShareAction 2020, Wells Fargo, Natixis, Morgan Stanley 28.04.2020.

1.1 Research questions

As previously mentioned, there are studies that discuss the differences in CSR practices of European and U.S. companies (Matten & Moon 2008, Maignan & Ralston 2002), but are not extending the discussion into the area of responsible investments. Therefore, this study focuses only on the latter topic and compares the responsible investment approaches of altogether 30 biggest European and U.S. asset managers. Two well-established approaches of responsible investing were chosen as the comparison points in this study; exclusion approach and active ownership approach. Exclusion approach refers to activity and strategy of excluding harmful or unsustainable sectors and companies from the investments, while active ownership approach aims to using a shareholder rights to create positive impact in companies through engagement dialogue with investee companies and by voting in Annual General Meetings and filing shareholder proposals (PRI, 2020. Eurosif, 2018, GSIA, 2018). In order to narrow the topic down, this study only considers the engagement part of active ownership.

The study aims to answer the following research questions:

RQ1: How do the European asset managers differ from the U.S. asset managers when it comes to public exclusion policies?

RQ2: How do the European asset managers differ from the U.S. asset managers when it comes to public disclosure of allocated resources and efforts related to engagement activities?

The reason why these two questions were chosen, is that the use of exclusion criteria in investments (also referred to as negative screening) is often seen as the opposite to active ownership which includes engagement activities. Negative screening is seen more as a passive way to invest responsibly, whereas active ownership tries to foster change for better management of ESG issues in the investee companies.

Matten and Moon (2008) have studied the differences of European and U.S. approaches to Corporate Social Responsibility (CSR). They suggest that U.S. companies would be more pro-active when it comes to CSR than the companies in Europe (Matten & Moon, 2008). Maignan and Ralston (2002), on the other hand, compared how the European and U.S. communicate about their CSR approach on their web sites. They found that while 41 U.S. companies published their CSR principles on their websites, only 24 of French and 17 of Dutch companies did the same (Maignan & Ralston, 2002).

If the findings of Matten & Moon (2008) and Maignan & Ralston (2002) are true not only when it comes to CSR, but also to ESG, then the expectation is that the U.S. asset managers would be more transparently communicating their approaches to ESG on their websites and to have more efforts directed to active ownership approach rather than negative screening.

The 30 asset managers chosen for the study are presented in chapter 3.1. They are the 15 biggest asset managers from both Europe and U.S. The asset managers are compared on specific data points that are presented later in this research report. The data is collected from publicly available sources, such as company websites and published documents. This study is a combination of qualitative and quantitative research methods. I believe the best way of presenting the current differences between Europe and U.S. practices is achieved by using qualitative content analysis method on textual materials and combining it with quantitative allocation in order to compare the data.

2 THEORETICAL FRAMEWORK

2.1 Theoretic field and important aspects around Sustainable Finance

This chapter discusses the background to the previous research and already existing theories around responsible investment and ESG topics. It also presents some of the previous studies and views on the differences between European and U.S. companies in their approach to corporate social responsibility and responsible investments.

2.1.1 Differences in Corporate Social Responsibility (CSR) between European and U.S. companies

Some studies claim that U.S. companies are more pro-active and transparent when it comes to CRS (Matten & Moon 2008, Maignan & Ralston 2002). According to Maignan & Ralston (2002) the companies in U.S. were much more likely to discuss CSR aspects on their websites than the French and Dutch companies. They also claim that U.S. companies see CSR as an extension to their values whereas European companies see it as something that has to be done due to pressure from stakeholders. Matten and Moon (2008) are affirming these findings. They also state that academic debate and CRS practices are relatively new in Europe, compared to United States. The motives of shareholders, top management and other stakeholders affect the way CRS is implemented and performed (Matten & Moon, 2008). According to Matten and Moon (2008) CSR in the U.S. companies is explicit and in European companies it is implicit. In their study, explicit CRS refers to pro-active and voluntary company CRS policies, strategies, and actions that make the company a socially responsible actor in the society. By implicit CRS is meant the necessary CSR actions and policies that are required by regulation or stakeholder demand (Matten & Moon 2008).

Matten and Moon (2008) argue that the differences in CRS between Europe and U.S. can be explained by "*historically grown institutional frameworks that shape national business systems (NBS)*". For example, in Europe the companies usually have a few big investors such as financial institutions that have a significant importance for the companies, and can overrule the other stakeholder groups (Matten & Moon 2008). This was seen as a potential reason or contributor to the fact that European companies are seen laggards in CRS. They also state that European companies are less likely to take independent corporate responsibility for social issues due to having less discretion (Matten & Moon 2008). Having less discretion could partially be explained with stricter regulation and more involvement from the local authorities, such as European Commission and national governments.

This might be the case for CSR, but as there is very little standardization and regulation when it comes to responsible investing. This is why the setup of comparing European and U.S. asset managers on their responsible investment approaches could be more neutral and unaffected by local regulation. According to the "Carrots and sticks" study that was done by KPMG, GRI, UNEP, and Centre for Corporate Governance in Africa, the amount of mandatory reporting instruments around sustainability reporting has almost doubled between 2013 and 2016 globally (Bartels et al. 2016). There are also locally applied regulation on responsible investing. For example, some European countries have set rules on investing in controversial weapons (The Law Library of Congress, 2016).

However, in today's environment where investors are increasingly interested (PRI, 2019) in the management of CSR risks - or ESG (Environmental, Social, Governance) risks - it is interesting to see if the set up would favour U.S. asset managers in responsible investments the way it seems to be favouring U.S. companies in CSR. Matten and Moon also state that in Europe (that they normally saw leaning towards implicit CSR) the explicit – or pro-active – CSR can also be found, but that it is more common for the large companies than the small ones (Matten & Moon 2008). What comes to ESG practices, Nordea states in its study Cracking the ESG Code that certain indicators are suggesting that there is a greater focus on ESG in Europe than in North America (Nordea, 05.09.2017). There also also other studies supporting this view. For example, Duuren, Plantinga and Scholtens (2015) state that European asset managers have a stronger view on responsible investments generating positive financial performance than the asset managers in the United States.

The regulation is generally seen as one of the main drivers related to the growth of ESG investing (PRI, 2020). According to Krueger, Sautner & Starks (2019) investors see that especially regulatory risks related to climate change have started to become material for their investments. Policymakers in Europe are currently formulating new European Sustainable Action Plan that plans to encourage asset managers to disclose information on how they integrate ESG aspects into their investments (PRI, 2018). However, recent developments in the U.S. regulatory and political field do not necessarily only support ESG investing. The new law proposal on financial factors in selecting plan investments, drafted by the US Department of Labor, would not necessarily support ESG investing but rather disincentivises it (Top1000Funds, 24.07.2020. Forbes, 08.09.2020). Many asset managers, such as BlackRock, have taken this into their engagement agenda, by sending letters to the US Department of Labor to highlight their concerns of the consequences the new law proposals could have (BlackRock, 30.07.2020).

2.1.2 Sustainability aspects in finance and investments

Various terms, such as socially responsible investment (SRI), ethical investment, or sustainable investment, are being used to describe Responsible Investments (RI). However, these terms should not be confused as exact synonyms, as there are various nuances related to these terms. For example, while ethical investments might have as their main objective to invest in stocks, bonds, or funds that are aligned with certain ethical and moral values, responsible investments primarily focus on creating returns by investing in responsible companies and bonds (PRI, 2020). There is not only one correct way of practicing responsible investing, but it should include environmental, social, governance (ESG) factors in the traditional investment decision making process, as well as implement those considerations also into the stewardship activities (PRI, 2020). In addition, responsible investments can also focus on certain sustainability theme, such as climate by investing in companies providing solutions to mitigate climate change, or decide to exclude some sectors that are not seen as sustainable or responsible, for example manufacturing of controversial weapons or coal production (PRI, 2020).

The global sustainability topics are creating both opportunities and challenges for companies and their investors. The interest towards responsible investments has been growing exponentially during the last years. The growing interest and the growth in money invested in SRI solutions has been driven by client demand, materiality of ESG factors, and growing regulation. The headlines of newspapers are a proof of ESG factors being material for the investments. When a investee company has not been managing their material ESG risks well, the investors could end up paying for that. Companies might end up having bad publicity, having to pay fines and compensations, or not being as cost efficient as possible when the ESG operations are not optimized and managed properly. For example, when the Deepwater Horizon oil spill happened in 2010, BP said its total pre-tax charge for the spill was $ 53.8 billion (Reuters, 02.07.2015). Another example of poor ESG management that caught a lot of attention worldwide was the Volkswagen scandal in 2015. Volkswagen was caught for having cheated in the diesel vehicles’ emission tests and ended up having to pay €27.4 billion in fines and penalties. This does not include the losses it faced due to bad publicity and losing the trust of its clients and other stakeholders (PRI, 2020).

Regulation around responsible investments is another hot-topic especially here in Europe right now and driving the interest and growth in RI solutions. Between 1990-2020 there has been a significant growth in the amount of regulation in the area of investments (PRI, 2020). PRI categorises the regulation around responsible investing and ESG into three groups; asset owner related regulation, stewardship related regulation and corporate disclosure related regulation. Asset owner regulation normally related to having proper disclosures especially when it comes to pension funds or state owned assets. Stewardship regulation usually aims to protecting the shareholders’ rights and to maintain good governance practices and shareholder relations. Company disclosure related regulation often requires companies to provide sufficient information on relevant ESG topics to the investors (PRI, 2020). PRI has been mapping the ESG related policy revisions for years, and in their whitepaper published in 2019, they state that since the year 2000 the amount of ESG related policy revisions has grown exponentially, covering 97% of all the revisions. Altogether PRI was able to map 730 hard and soft-law revisions that aim to encourage implementing ESG aspects into investments processes (PRI, 2019).

2.1.2.1. Sustainable Finance

In order to understand the responsible investment framework, I believe it is crucial to first discuss and understand the wider concept, Sustainable Finance. Even though there has been discussion on the lack of definition on sustainability and sustainable finance, there are already existing definitions such as the Our Common Future report (United Nations, 1987) that defines what is sustainability and provides a starting point for defining what is Sustainable Finance. Our Common Future report, which is also commonly referred to as the Brundtland report, was published in 1987 by the United Nations' World Commission on Environment and Development (United Nations, 1987). It defines sustainable development as development that "*meets the needs of the present without compromising the ability of future generations to meet their own needs*" (United Nations, 1987). This general definition of sustainability, acts as a well-accepted guidance and base also for sustainable finance. Schoenmaker (2017) sees that sustainable development consists of three pieces; environmental, social and economic aspects (Schoenmaker, 2017).

Another example of an already existing definition is the Darmstadt definition of Sustainable Investments (Bode et al. 2004). Darmstadt Definition of sustainable investments introduced three main perspectives to sustainable financial investments; economical, ecological and social and cultural (Bode et al. 2004). The definition states that from the economic perspective sustainable investments create profits from long-term investment strategies, that profits from investments need to be in acceptable relation to the profits from real added value, and are not endangering the fulfilment of basic needs. From ecological or environmental perspective, the sustainable investments are supporting sound ecological systems (both locally and on a global scale), the increase of the resource productivity, use of renewable resources, circular economy and recycling the used materials (Bode et al. 2004). From the social and cultural perspective, the sustainable investments should support, for example, education and responsible work related objectives (such as creating jobs and providing education), increasing equality, and protection of civil rights (Bode et al. 2004).

When looking into more recent definitions, Schoenmaker and Schramade (2019) have provided the following definition on what is sustainable finance: *"Sustainable finance looks at how finance (investing and lending) interacts with economic, social and environmental issues."*(Schoenmaker & Schramade, 2019)

These approaches to sustainable investments and sustainability in general, are already providing a great framework and guidance to the investors. However, it has been acknowledged that these definitions need more precise interpretations, objectives and measures (Busch & Wagner 13.02.2020). However, the financial industry has recognised the importance and demand for sustainability considerations and have taken actions to align its practices with it and transitioning towards sustainable finance (Ryszawska, 2016).

2.1.2.2. Responsible Investments (RI)

Even if the responsible investment activities seem to be trending at the moment, it is in fact nothing new (CFA Institute, October 2015). The roots of responsible investing go as far back as to 1500's when different religious groups wanted to ensure that their money would not finance unethical sectors and companies that were not aligned with religious values. This could be nowadays classified as ethical investing as it focused on exclusions of certain sectors and companies based on religious values (IPE, June 2018).

The modern concept of responsible investing initiated around 1960s. At that time the focus had started to shift from religious values to reflect more on the issues of the society. Since 1960s the interest towards responsible investing has only been growing and the standards evolving (Schroders, 2016).

Throughout the history of responsible investing there have been different public concerns driving the interest towards it. At the beginning it was practiced due to religious reasons. Around 1970s, especially in the US, it was the Vietnam war that raised the concern on social issues and controversial weapons. In 1980s it was the general rise of corporate responsibility and Exxon Valdez oil spill in Alaska (Townsend, 2017).

According to the Principles for Responsible Investment (PRI) responsible investment can be defined as a strategy and action to include ESG-factors in investment decisions as well as into engagement and voting activities (PRI, 2020). Responsible Investment can also be referred to as Socially Responsible Investment or Sustainable and Responsible Investment (SRI) (GSIA 2016, Eurosif 2018, USSIF 2018).

The PRI, supported by the United Nations, were launched in 2006. PRI consists of six principles providing a voluntary framework and guidance to the responsible investing. PRI aims to promote ESG integration, active ownership practices, transparency, and collaboration (PRI, 2020). Today, there are already more than 2300 signatories to the PRI, representing more than $ 86 trillion in assets under management (AUM) (PRI, 15.03.2020), and can therefore be seen as a widely acknowledged framework for responsible investing.

The PRI identifies three main drivers behind the growing interest towards responsible investments. One of them is increasing client demand - clients are expecting greater transparency on where their money is invested. Another driver is the growing recognition on how ESG factors can represent material risks for the investments, but also attractive opportunities in terms of returns. The third driver is the increasing regulation around ESG inclusion and disclosures, making ESG considerations part of asset managers' fiduciary duty (PRI, 2020). PwC, on the other hand, highlights four topics that they expect to be the main drivers of the growth of ESG in the near future; regulation, outperformance of ESG funds, growing investor demand, and finally societal shifts that are pronounced due to the COVID-19 pandemic (PwC, 2020).

There are many ways of defining different ESG approaches and ways of integrating ESG considerations into the investment decision-making. PRI (2020) sees that there are two main areas when it comes to responsible investing; ESG incorporation, and active ownership. ESG incorporation, according to PRI (2020), means incorporating ESG data and aspects into the investment process through three different approaches; integration, screening and thematic. By integrating ESG factors into investment decisions, investors can create returns and manage risks (PRI, 2020). Using the screening approach means setting filters or limits to investments that screen out unwanted companies or sectors. This can reflect investor's own values and preferences (PRI, 2020). For example, investor can choose to exclude or limit their exposure to companies or sectors that they do not consider sustainable, such as coal mining sector. Another way of incorporating ESG factors into investment decisions is focusing investments into issuers that are providing products or services that have a positive impact on a selected environmental or social target (PRI, 2020). For example, one could decide to invest only in issuers that provide solutions to mitigate climate change.

Another responsible investment approach defined by PRI (2020) is active ownership. This means using the rights as a shareholder to vote in the Annual General Meetings on resolutions and by filing shareholder proposals, and influence the investee company by engaging them into a dialogue to improve the management of ESG issues. Engagement can be done by an individual investor, or as a collaborative engagement with other investors (PRI, 2020), but collaborative engagements are seen more influential (Dimson, Karakaş & Li, 2015 and 2020).

There are also other ways of classifying the different ways to approach responsible investing, however, they tend to be very closely aligned. For example, the Global Sustainable Investment Alliance, in their 2018 Global Sustainable Investment Review, identifies seven different approaches to RI; negative and exclusionary screening, positive and best-in-class screening, norms-based screening, ESG integration, sustainability themed investing, impact and community investing, and corporate engagement and shareholder action (GSIA, 2018). According to the European Sustainable Investment Forum's (Eurosif) European SRI Study 2018, the seven most common approaches to responsible investing in Europe in 2017 were exclusions, active ownership (engagement and voting), ESG integration, norms-based screening, best-in-class, sustainability themed, and impact investing (Eurosif, 2018). Exclusions was the most common approach in Europe, followed by engagement and voting (Eurosif, 2018). This is especially interesting because according to a study by Krueger, Sautner & Stark (2019), institutional investors consider engagement being more effective way of managing climate related risks than excluding the company from the investment portfolio.

2.1.2.3. ESG aspects and integration

ESG comes from words Environmental, Social, and Governance. These are the three aspects of responsible investing. Hence, responsible investments are often referred to as ESG investments. However, ESG as a term is much younger than responsible investing and it was widely introduced in 2004 by "Who Cares Wins" – report (IFC, 2004). Some say that ESG investing could be seen as slightly different from RI. Where RI is based on ethical criteria and focuses on exclusions and negative screening, ESG investing approaches ESG factors as financially relevant factors in the investment decision making and analysis (Forbes, 11.07.2018).

Thinking Ahead Institute (2019) defines ESG principles in investments as follows:

"ESG Principles involve an investment approach where environmental, social and governance (ESG) criteria are partially or exclusively used in security selection. Examples of ESG factors are climate change, child-labour policies and executive pay. Includes socially responsible investing (SRI) and impact investing."

Very similarly, Sherwood and Pollard (2018) use the following definition to explain ESG investing:

"ESG investing is the research and investment strategy framework that evaluates environmental, social, and governance factors as non-financial dimensions of a security's valuation, performance, and risk profile."

E, S, and G are the three aspects to evaluate for example investee companies' material sustainability issues. Environmental issues could be related to, for example, climate change, deforestation or pollution. Social issues are often related to human rights, labour rights, and working conditions. Governance issues on the other hand are often related to the management and governing of the company, and can include issues such as corruption, board structure, or executive remuneration. These are just examples of what kind of issues E,S, and G include (PRI, 2020). Governance related issues have historically been covering most of the ESG considerations (CFA Institute, October 2015) and according to PwC (2020), Governance is one of the key value drivers in equities and has a structural overlap due to ESG considerations and the stewardship practices that are part of active ownership (PwC, 2020).

ESG integration means taking Environmental, Social and Governance aspects into consideration in investment decision making process. As asset managers' fiduciary duty is to act in investors' best interest, it is sometimes – and rightly so - questioned if ESG integration compromises this duty. Nowadays it is widely discussed and even recognised that taking ESG factors into consideration when making investment decisions, can have a positive effect on the performance and returns. For example, in 2017 Nordea published a study that supported the claim of good ESG practices generate significant returns (Nordea, 05.09.2017). Also, a well-known ESG ratings provider MSCI states that companies with better ESG scores had lower cost of capital compared to the ESG laggards (MSCI, 25.02.2020). According to Duuren, Plantinga and Scholtens (2015), European asset managers seem to have significantly stronger perception of ESG considerations having a positive influence on financial performance.

In the modern ESG investing there are usually seen to exist three high-level approaches: exclusions and negative screening, ESG integration and active ownership. These can all co-exist in an investment strategy, but in principle exclusions and engagements have the opposite goals (Townsend, 2017). Amel-Zadeh & Serafeim (2018) suggest that exclusion is the least beneficial approach, while engagement is the most beneficial, among the multiple ESG investment styles.

2.1.2.3.1. Active ownership – Company Engagements

Active ownership means investors using their power and rights as shareholders to influence the investee companies. This can mean for example using the shareholder right to vote in annual general meetings, or engaging with the company on material issues where the company could improve their practices. Engagement is widely used method of active ownership among asset managers. Either they choose to engage individually with the company, or they can group up with other investors and collaboratively engage with a company or even several companies in the same sector or with similar ESG issues. An example of a collaborative engagement initiative is Climate Action 100+. It has 450 investor signatories representing over USD 40 trillion in AuM. Climate Action 100+ is targeting the 161 world's largest greenhouse gas (GHG) emitting companies, and highlighting the importance of them taking action in mitigating climate change through their operations (Climate Action 100+, 18.04.2020).

Engaging with an investee company means using your status as a shareholder to influence the company and push them towards better practices. Instead of excluding a company, this approach is more active and aiming to make a difference. According to Gollier and Pouget (2014), responsible investing practices can potentially generate higher stock market performance by engaging with companies in order to foster their transition to more responsible and sustainable companies. Companies who had been engaged with successfully on environmental or/and social issues, saw improvements in accounting performance and governance (Dimson, Karakaş, & Li 2015).

Hoepner et al (2019) found that engaging on ESG topics actually had a positive impact in reducing downside risk in investments, and that this was particularly evident in engagements related to environmental and climate change topics (Hoepner et al. 2019). Dimson, Karakaş and Li (2015) state that collaborative engagements have increased success rate in environmental and social engagements compared to individual engagements. This makes sense as investors combining their forces creates more pressure to the companies to consider the investor requirements and wishes than what one single investor could create alone – unless it is a major shareowner. This view is further supported by the more recent article by Dimson, Karakaş and Li (2020) where the authors state that engagements that combine lead investors and supporting investors are effective in achieving the engagement targets. Rose (2012) states that in the recent years, the trend of shareholder activities has been growing, when previously small investors would walk away with their money if companies' views were not aligned with theirs (Rose, 2012). Recent policies and recommendations can be seen as one factor in the growing interest for investors to act as active owners (Rose, 2012). According to Krueger, Sautner and Stark (2019), investors consider engagement as better approach to address risks posed by climate change than divestment.

2.1.2.3.2. Exclusion criteria – negative screening

Negative screening can be seen as the opposite approach to active ownership. Here the investors are not seeking to engage with companies to foster the transition to more responsible business, but they use specific exclusion criteria to exclude companies from their investment universe and portfolios. The exclusion criteria depends always on the investors own values and what are the sectors they see unsustainable and want to avoid in their investments. It can be for example avoiding investments in carbon intensive sectors such as coal mining or oil & gas extraction. It can also be related to more social values such as weapons. Excluding controversial weapons became an important topic for investors especially during the Vietnam War when the discussion on the use of chemical weapons became a hot topic (Townsend 2017, Morningstar 2020). Exclusions can also be based on breaches of international norms, such as the UN Global Compact. Durand and Vergne (2014) found that when public focus and media are attacking specific industry or company, it is more likely that those companies are divested from the investment portfolios.

Exclusion criteria are not always absolute. They can be exercised through thresholds defined by the investors. Revenue based thresholds are frequently used, but it could also be based on other measures, such as share of power production on fossil fuels. It could also be a requirement of having some minimum level of power production based on renewable energy sources. The exclusionary criteria can be tailor made by each asset manager, by client demand, by regulation or other requirements coming from third parties, such as ESG labels.

Negative screening can be used alone, but can also be complimented by the active ownership approach in order to enhance the ESG integration and to use the shareholder position to influence investee companies through a dialogue on ESG issues. However, it is important to understand the difference between these two approaches. While the purpose of exclusions is not to invest in certain sectors or companies for their bad ESG characteristics, engagements aim to foster the change and supports the companies in their transition towards better ESG profile.

In this paper the term exclusion policies refers to the policies the asset managers use to determine what type of companies they do not want to invest in for their poor management of ESG issues or exposure to sectors that are not aligned with the sustainability goals or values of the asset manager. The exclusion policies that this study is focusing on are the general policies that the asset managers adhere to, not fund-specific exclusions.

3 DATA AND RESEARCH METHOD

3.1 Data scope and collection

This study is an empirical research that combines qualitative and quantitative research methods. Data for this study was collected from publicly available sources from altogether 30 different Asset Managers based in Europe and US. These Asset Managers were chosen based on the global top 500 ranking published by Thinking Ahead Institute and Pensions & Investments joint research. Thinking Ahead Institute is a global not-for-profit investment research group that was established in 2015. The 15 European and 15 US asset managers chosen for this research are listed below, with a number that shows their placement in the global ranking.

<u>Top 15 European Asset Managers (ranked by global AUM):</u>
5. Allianz Global Investors (Germany)
8. Amundi Asset Management (France)
10. AXA Investment Managers (France)
13. Deutsche Bank/DWS (Germany)
14. Legal & General Group (UK)
15. UBS Asset Management (Switzerland)
16. BNP Paribas Asset Management (France)
21. Natixis (France)
23. Aegon Asset Management (Netherlands)
25. HSBC Global Asset Management (UK)
27. M&G Investments (UK)
37. Aberdeen Standard Investments (UK)
43. Schroder Investment Management (UK)
45. Generali Investments (Italy)
50. Credit Suisse Asset Management (Switzerland)

<u>Top 15 U.S. Asset Managers (ranked by global AUM):</u>
1. BlackRock
2. Vanguard Group
3. State Street Global Advisors
4. Fidelity Investments
6. J.P. Morgan Chase
7. Bank of New York Mellon (Mellon Investments Corporation)
9. Capital Group
11. Goldman Sachs Group
12. Prudential Financial (PGIM)
17. Northern Trust Asset Management
18. Wellington Management

19. Wells Fargo
20. T.Rowe Price
22. Nuveen
24. Morgan Stanley

The data of was collected from publicly available sources such as websites and reports or other publications published by these above mentioned asset management companies. This study looks into documents such as Responsible Investment (RI) policies, exclusion policies, engagement activities and any other relevant RI reporting. The materials collected and analysed for the purposes of this study, are listed in the appendix in the end of this research report.

In order to get a general idea and compare the asset managers in commonly known framework, I've looked into the UN backed Principles for Responsible Investment's (PRI) signatory data, as well as the placement on ShareAction's ranking. Based on my own professional experience in the asset management industry, being a PRI signatory and when signing the principles is frequently used to benchmark the asset managers. This view gets support from the CFA Institute (October 2015) which states that the list of PRI signatories works as an indicator of growing awareness of responsible investing. PRI was established in 2006 with the first signatories and founders. Along the years the amount of signatories has grown tremendously, from 63 in 2006 up to 3038 in 2020 (PRI, 2020). Another good benchmark is the recent global comparison report called "Point of no returns", published by ShareAction in 2020. This report compared the 75 biggest asset managers (in terms of their global AUM) and their approach to different ESG aspects (ShareAction, 2020).

What comes to the data published by the asset management companies themselves, some specific data points were chosen:

- Engagement Policy
- Exclusion criteria
- Engagement activities
- Number of RI team members

3.2 Method

This study uses qualitative research method - and more specifically content analysis of textual materials - combined with quantitative content analysis. Content analysis is aiming to systematically transform large text contents into more condensed and categorised particles, and can be used for analysis of all kinds of textual content (Rose et al 2015. Erlingsson & Brysiewicz, 2017). In content analysis, data can be analysed both qualitatively and quantitatively (Wilson, 2011).

The data can be first broken down into smaller categories by using qualitative analysis, and by using quantitative methods it can be compiled into statistics (Wilson, 2011). Therefore it was considered that combining the qualitative and quantitative methods would best support the study and its theoretical framework, as the aim of the study is to compare the asset managers' (AMs) approaches to responsible investments based on their public reporting. The aim is to focus on concrete facts in the textual material, such as what are the restrictions that have been set, what are the resources allocated to this, what are the credentials to support their approach and what are the engagement statistics. Qualitative research is always somewhat depending on the researcher's own interpretation (Bengtsson, 2016). To leave as little room for interpretation as possible, this study also uses quantitative measures based on the qualitative screening which has been the first step.

This research follows the two steps of qualitative analysis defined by Alasuutari (2012). The first step is to simplify the material into data set that is easy to understand and analyse. The aim of the first step is to screen through the available material and focus only on relevant content and information (Alasuutari, 2012). This simplified data was collected into a table in order to make the comparison in the second step easier.

In the second step the research focuses on interpreting the findings and answering to the questions of the research (Alasuutari, 2012). In this step the study aims to develop an understanding of the overall picture when it comes to certain asset manager's responsible investment approach. It can be seen as building a profile in comparison to the other asset managers. Here also quantitative methods are being used when comparing the data and building a view of the differences between European and U.S. asset managers.

The data is so called secondary data, meaning data that is already existing, independent of the study, and originally made for some other purpose (Given, 2008). The data was collected from public sources, such as company websites, and therefore this study is focusing only on currently available and as recent material as possible. Where companies might have annual reports available from more than one year, only the most recent is considered for comparison and in scope of this research. As the aim of this research is to compare asset managers' responsible investment communication and strategies, textual data was seen to serve this purpose better than primary data such as interviews, for example.

3.3 Analysis of the collected data

All the material - documents and websites - were saved and categorized by type of document and by asset management company. The material was then further allocated by the research question it relates to; if it was providing information on exclusions or on engagements. That is when the first content analysis phase was completed. By looking into the documents and websites, the content was analysed based on whether it was related either to exclusions, or to engagements. Some websites and documents were left out as they did not answer neither one of those questions. Also, some of the material provided answers to both of the questions and were therefore double allocated in the data book keeping.

Once the documents and websites were categorized by research question topic, it was fairly easy and straightforward to start screening out only the relevant content. The relevant content was then saved into an excel file, together with its source, and allocated by asset manager. Similar data sets were collected on the same row in the excel files, so that the comparison would be easier. Exclusion policies were categorized by the relevant industry – such as coal mining or weapons – so that it would be easy to compare which sectors the asset managers are covering with their exclusion policies, in other words in which sectors they are not investing in, and where they have allowed minimal exposure with for example a revenue threshold, and which sectors they have no concrete limitations to but are recognizing as sectors that might pose sustainability issues. Similarly for data on engagements/active ownership, the documents and information on websites was collected from all the asset managers. The material was screened for relevant information on the chosen datapoints that were used for comparing the engagement activities of the asset managers.

The data was finally simplified and condensed so that it could provide a quick overview of the results but also enough details to provide a sufficient understanding of the findings. Based on this overview, it was possible to draw conclusions on the differenced of European and U.S. asset managers' ESG practices when it comes to exclusions and active ownership. These differences are further discussed in the research findings in chapter four.

4 RESEARCH FINDINGS

4.1 General information

All the materials and documents used as research data have been collected from the asset management companies' websites and are publicly available. What I need to note is that some of these websites ask the person browsing to identify themselves as either professional investor or private investor. As a default, the material used in this research have been collected from those domains meant for professional investors. Usually the companies are providing more information behind this gateway, and therefore some of this information is available only for professional or institutional investors.

It is important to note that only publicly available information and policies were used in the comparison between asset managers in this research. Should the asset managers have other policies that are not publicly available, those were not in the scope of this research. Therefore, this research only discusses how the asset managers have publicly positioned and presented themselves.

4.2 Findings

4.2.1 Engagements

In the below tables (tables 2 and 3) you can see a summary of the findings on engagement data and dedicated ESG resources. Table 2 summarizes the results from the US asset managers, while table 3 gives similar overview to the results from the European asset managers. In the left column the average values are presented. The right column shows how many companies were publicly disclosing this data on their website.

U.S. data on engagements:

	Average (of only those who disclosed data)	**How many disclosed data publicly (out of 15)**
Resources: team size	24.7 dedicated analysts	6
Public engagement policy	Yes, public	12
Number of engagements	784	6

Number of companies engaged with	745	6
ESG breakdown - E	9%	3
ESG breakdown - S	10%	3
ESG breakdown - G	71%	4

Table 2. Overview of engagement data from U.S. asset managers.

European data on engagements:

	Average (of only those who disclosed data)	**How many disclosed data publicly (out of 15)**
Resources: team size	26.1 dedicated analysts	11
Public engagement policy	Yes, public	15
Number of engagements	553	9
Number of companies engaged with	833	6
ESG breakdown – E	27%	7
ESG breakdown – S	21%	7
ESG breakdown - G	46%	7

Table 3. Overview of engagement data from European asset managers.

The above tables show the average measures for both markets – U.S. and Europe. It also shows how many companies were publicly disclosing this data. Dedicated resources are measure in size of the ESG teams the asset managers have. This is shown in amount of professionals that are specialised in ESG analysis and stewardship. It also compares shows how many of the asset managers have public engagement policies in place. Number of total engagements and number of companies engaged with are also average values for the markets, based on the data of the 15 chosen asset managers in each market. Similarly, the comparison of numbers of ESG breakdown of the engagements is shown as average values for both markets. These are all discussed in further detail in the following four chapters.

4.2.1.1. Dedicated RI resources

Just by comparing the average numbers, it seems like the US asset managers have one more dedicated professional working in RI/ESG. The US asset managers who are publicly mentioning the size of their RI team have in average 24,7 dedicated ESG professionals, while in Europe this same number was 26,1. However, it is important to highlight that only 6 US asset managers disclosed the number of their RI resources while in Europe the average number of dedicated resources is based on data from 11 asset managers. It seems that European asset managers are not only dedicating more resources to their responsible investment analysis and activities, but they are also more likely to disclose the size of their RI/ESG teams publicly.

Interestingly but not surprisingly, there does not seem to be consistent or standardised model of what counts as a dedicated RI/ESG professional. Some asset managers have a team of specialists who are solely dedicated to ESG analysis, while some other asset managers are also including portfolio managers and other analysts, who work with ESG data or products, into their dedicated RI resources.

4.2.1.2. Public engagement policy

In general it seems to be a common practice in the industry, both in the US and Europe, to publicly disclose the engagement policy. However, European asset managers were slightly better in this as all of the 15 asset managers had a public engagement policy available on their website. The US asset managers did not reach quite as high level of transparency, but performed fairly well having 12 out of 15 publishing an engagement policy on the website. In Europe this could be explained by the Shareholder Rights Directive II (SDR II), which states that "*Institutional investors and asset managers should publicly disclose information about the implementation of their engagement policy…*" (The European Parliament and the Council of the European Union, 17.05.2017).

4.2.1.3. Number of engagements

The way asset managers disclose their number of engagements varies a lot in both the US and Europe. It seems that in Europe it was slightly more common practice to disclose the total number of engagements. In Europe 9 out of 15 disclose the total engagement number while in the US only 6 out of 15 disclosed this data. What comes to the number of companies engaged during the year, the US asset managers and European asset managers were equally active, as 6 out of 15 disclose this data publicly.

Among the US asset managers chosen for this study, the average engagement number within a year was 784 and average number of individual companies engaged was only a bit less, 745. Only four asset managers disclosed both the total number of engagements and number of companies engaged with, two of them publishing the total number of engagements, and two of them had chosen to communicate the number of engaged companies.

The European asset managers engaged in average 512 times in a year, which is less than what the US asset managers did. However, when it comes to the number of individual companies engaged with, the European asset managers seemed more active than the US asset managers, engaging in average with 833 companies. Naturally this is not aligned, having the total number of engagements higher than the number of companies engaged with. This can be explained by the fact that different asset managers disclosed different type of data. Usually if the asset manager disclosed the number of total engagements, it did not specify the number of individual companies engaged with and vice versa. Only four asset managers in Europe disclosed both type of engagement numbers, while seven asset managers had chosen to publish only one number. Five of those asset managers disclosing only one number had chosen to publish the total number of engagements, and two asset managers published only the number of companies engaged with.

Just by comparing the public data, it can be hard to fully understand what the published engagement numbers really consist of. The asset managers have different approaches and definitions to engagements. For example, the engagement numbers could include also outsourced engagements, but only one asset manager (Northern trust) had specified the portion of engagements done buy another company on behalf of them. It was not possible to find this information for the other asset managers, meaning that the results could be distorted depending if they include outsourced engagements or not.

It is also not always clear if the normal voting activity and attending to the Annual General Meetings were seen as engagements. In my view voting is something else than truly engaging with companies, so where possible, the voting numbers were not included into this study. However, the asset managers have different approaches to defining the engagements and it was not always clear if by engagements they mean the broader concept of active ownership which includes both engagements and voting.

4.2.1.4. ESG Breakdown of Engagements

When looking into the general practice of disclosing the so called "ESG breakdown" – meaning the percentage of amount of engagements that have addressed either Environmental, Social or Governance topics – it seems that in Europe this is more common. While in Europe seven asset managers published their ESG engagement breakdown, only four US asset managers did the same. In the US the focus of engagements seems also to be leaning heavily towards governance topics. Governance seems to be the most frequent engagement topic also in Europe, but environmental and social topics seem to get more attention than in the US.

The average ESG breakdown comparison between European and US asset managers can be seen in the below table.

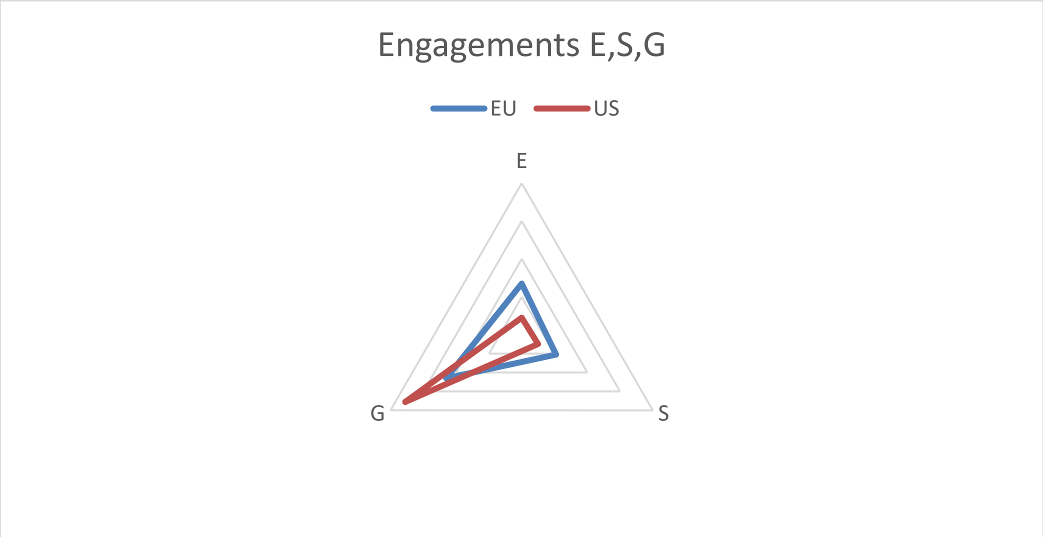

Table 4. Overview of engagement distribution between E, S, and G topics. Comparison between EU and US.

As mentioned, the European asset managers were more likely to publish the ESG breakdowns of their engagements. The below table provides a more detailed overview to this.

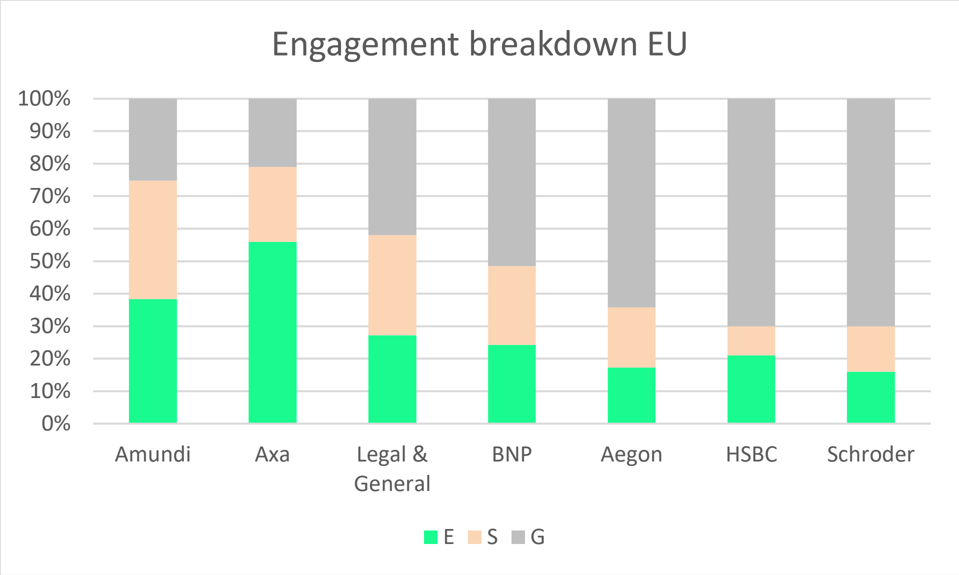

Table 5. Overview of engagement distribution between E, S, and G topics in Europe.

What comes to the US asset managers, in the below table the emphasis on governance topics is visible.

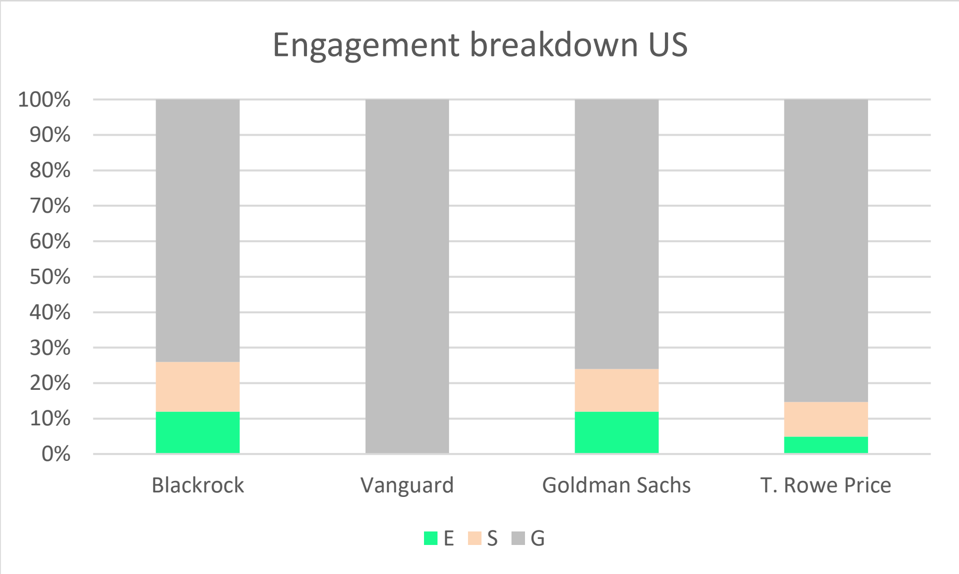

Table 6. Overview of engagement distribution between E, S, and G topics in the U.S.

Please note that the overlapping and "other" engagement topics have not been taken into consideration in this study.

4.2.2 Exclusions

In order to understand if asset managers in either Europe or US are more keen on using exclusion approach in general I wanted to make a comparison between these two markets. I am also interested to see if some specific sectors seem to be more important for these asset managers in different markets. In order to make it easier to assess and analyse, I've decided to categorise the exclusion criteria into bigger concepts instead of assessing every exclusion criteria separately. These bigger sub concepts are mining and extraction, unconventional oil and gas, controversial weapons, addictive and harmful substances, human rights, environmental considerations, and finally "other exclusions".

4.2.2.1. Mining and extraction

In the below table (table 7) you can find a summary of exclusions on mining and extraction sector:

	European asset managers	U.S. asset managers
Coal mining	5/15 had an exclusion policy on coal mining (includes thermal and/or metallurgical coal)	2/15 had an exclusion policy on coal mining (incl, both thermal and metallurgical coal).
Thermal coal	3/15 had a more specific exclusion policy on thermal coal that applied across the whole product range.	1/15
Mountain Top Removal (MTR) extraction method	3/15 had an exclusion policy stating that they will not invest in companies involved in MTR	3/15
Coal energy	5/15	2/15
Oil sands	4/15 had an exclusion policy on oil sands that applied across the whole product range. In addition one asset manager states that involvement in oil sand sector leads to further assessment of the company's activities.	0/15

Hydraulic fracking (shale oil/gas)	2/15 had an corporate level exclusion policy on hydraulic fracking.	0/15
Arctic drilling	3/15 had an exclusion policy on arctic drilling that applied across the whole product range. In addition to these three asset managers, one asset manager stated that involvement in arctic drilling will lead to further assessment.	1/15

Table 7. Overview of exclusions in mining and extraction sector.

As you can see above, it was possible to identify several subcategories for the mining industry related activities that kept repeating in the publicly available documents from different asset managers. The mining related exclusions have been divided into seven different sub-categories; coal mining (includes all coal), thermal coal, mountain top removal, coal energy, oil sands, hydraulic fracking, and arctic drilling. In the below chapters I have re-grouped the sub categories so that coal mining, thermal coal, coal power, and mountain top removal related exclusions are discussed together as they are all related to coal (see chapter 4.2.2.1.1. Coal). The rest of the sub-categories (oil sands, hydraulic fracking, and arctic drilling) were re-grouped under unconventional oil and gas extraction (see chapter 4.2.2.1.2. Unconventional oil & gas).

4.2.2.1.1. Coal

Coal can be divided into two subcategories: thermal and metallurgical coal. Thermal coal - also known as steam coal - is used for energy generation, while metallurgical coal - also known as coking coal - is used to produce steel (World Coal Association, 2020).

Coal is generally considered as a non-renewable source for energy (U.S. Energy Information Administration, 2020) and coal mining has been acknowledged to have various negative impacts on environment (Goswami, 2015). Thermal coal is the most carbon intense of all fossil fuels (National Geographic, 2020), and therefore thermal coal miners often bear the brunt in the transition towards low-carbon economy were investors want to align their investments with Paris Agreement targets and exclude carbon intense sectors and companies from their portfolios.

The environmental impact of metallurgical coal are not seen as bad as the ones of thermal coal, and that is also what many metallurgical coal mining companies want to highlight to investors excluding coal from their investments (S&P Global Market Intelligence, 07.02.2020).

Coal mining activities can be categorised also based on the extraction method. There are two ways to extract coal, either by surface mining or underground mining (U.S. Energy Information Administration, 2019). Mountain Top Removal (MTR) method is one of the surface mining methods, and is seen controversial practice as it causes permanent damage to the landscape and the surrounding nature. It has also been argued that it could have serious and negative health impacts for people living in the nearby communities of the MTR mines (CNN, 14.08.2011).

Altogether five European asset managers had set some type of exclusion policy on coal mining, and three of those had specified their exclusion policy on thermal coal mining. While in the U.S. only two asset managers stated having an exclusion policy on involvement in coal mining (including both thermal and metallurgical coal) and additionally one asset manager had an exclusion policy only on MTR and stated that other involvement in coal mining will lead to enhanced due diligence process.

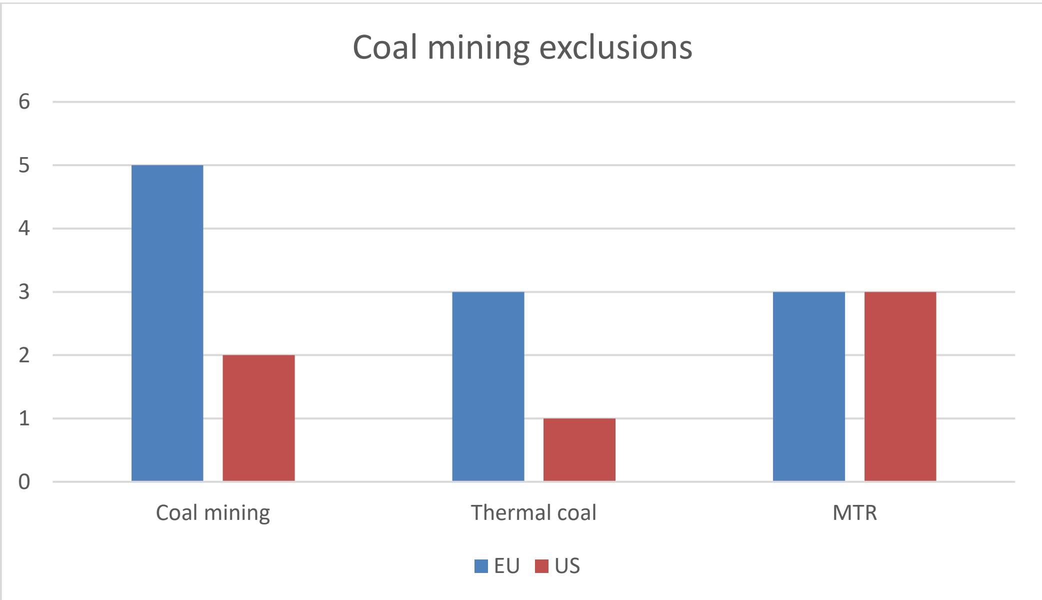

Table 8. Overview of coal mining exclusions. Comparison between EU and the U.S.

Five European asset managers had also set exclusion policies on companies involved in power production based on coal. Similarly, two U.S. asset managers publicly disclosed having an exclusion policy on involvement in coal based power production.

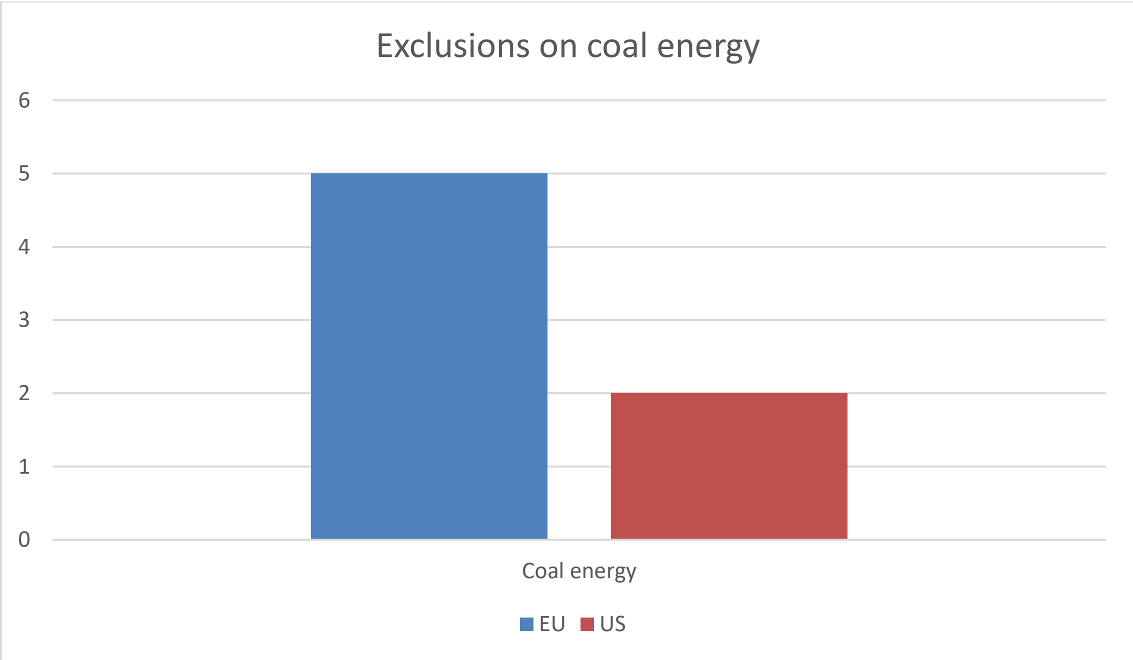

Table 9. Overview of coal energy exclusions. Comparison between EU and the U.S.

4.2.2.1.2. Unconventional oil & gas

Oil and gas can be divided into conventional and unconventional sub-categories. Unconventional oil and gas has been extracted by using unconventional extraction methods when it is not possible extract it by conventional method - pumping it in its natural state through an ordinary production well (Gordon, 2012). There are however, divergent opinions on what should be conventional and what unconventional. Hydraulic fracking methods used to extract shale oil and shale gas are often included into the unconventional oil & gas category (Watterson & Dinan 2018), but Goodwin et al. (2013) see it as conventional extraction method. This chapter discusses the exclusions on different types of oil & gas that are normally considered unconventional.

4.2.2.1.2.1. Oil Sands

Oil sands – also known as tar sands - is an oil extraction method that can be done either by open pit mining or in-situ production (Government of Canada, 2016). Oil sands extraction is often linked to many environmental concerns, mainly for its greenhouse gas (GHG) emissions (Gordon, 2012), but it can also have serious negative health impacts (Finkel, 2018).

What comes to the European asset managers, four of them had a corporate wide exclusion policy for companies involved in oil sands, and in addition one asset manager stated that involvement in oil sand sector leads to further assessment of the company.

In the U.S., none of the asset managers published an exclusion policy on oil sands. Two of them stated that involvement in oil sands will lead to enhanced due diligence or engagement.

4.2.2.1.2.2. Hydraulic fracking

Hydraulic fracking is a method for extracting shale oil and shale gas. This extraction technique consumes water in excessive amounts and is therefore seen controversial (BBC, 2018).

Only two European asset managers had a firm wide exclusion policy on company involvement in hydraulic fracking activities.

Similarly to the oil sands sector, none of the asset managers in the U.S. published and exclusion policy on hydraulic fracking. However, two of them states that involvement in hydraulic fracking activities will lead to further assessment or engagement.

4.2.2.1.2.3. Arctic drilling

Artic drilling refers to oil extraction activities in the Arctic areas. This is seen controversial due to the difficult conditions in the arctic sea areas that potentially raise the risk for an oil incident. Cleaning up after an oil spill would also be even more difficult in the arctic areas, causing severe harm to the local environment and wildlife (Greenpeace, 2020. WWF, 2020).

Three European asset managers had a strict exclusion policy on involvement in arctic drilling, and in addition one asset manager stated that it would lead to further ESG assessment of the company.

One of the asset managers in U.S. had published an exclusion policy on involvement in arctic drilling, and one states that involvement in arctic drilling will lead to enhanced due diligence or engagement.

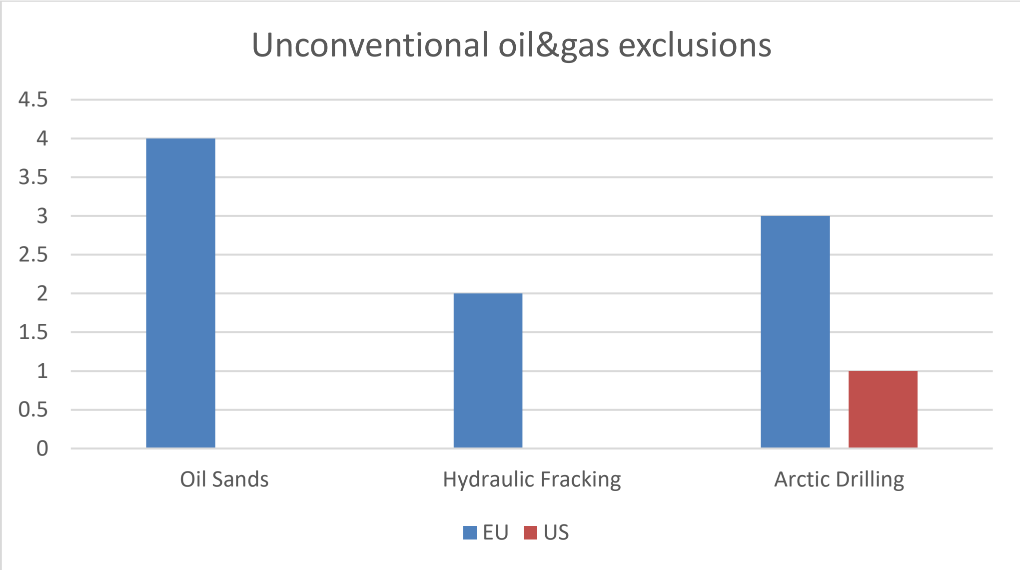

Table 10. Overview of unconventional oil&gas exclusions. Comparison between EU and the U.S.

4.2.2.2. Controversial weapons

Controversial weapons seem to be the most excluded sector for the asset managers in this study. Investments in controversial weapons have been one of the main topics of exclusion since the 1970s when the discussion of use of controversial weapons in the Vietnam war was topical (Townsend 2017, Morningstar 2020).

Investments in the controversial weapons have also been regulated is some of the European countries (The Law Library of Congress, 2016). On example is the Swiss Federal Act on War Material, which lists the following as controversial weapons: anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, nuclear weapons, blinding laser weapons, incendiary weapons and weapons using non-detectable fragments. The Swiss Federal Act on War Material also states that investing in these war materials is prohibited in Switzerland (Swiss Sustainable Finance, 2020).

In the below table (table 11) you can find a summary of exclusions on controversial weapons sector:

	European asset managers	U.S. asset managers
Anti-personnel mines	15/15 had a strict exclusion policy on anti-personnel mines (0% tolerance), and one asset manager stated that involvement in this sector is an aspect in their	0

	ESG assessment of companies and leads either to engagement activities or exclusion of the company.	
Cluster munitions	15/15 had a strict exclusion policy (0% tolerance) on cluster munitions, and one asset manager stated that involvement in this sector is an aspect in their ESG assessment of companies and leads either to engagement activities or exclusion of the company.	0
Chemical weapons	11/14 had a strict exclusion policy (0% tolerance) on chemical weapons.	0
Biological weapons	11/14 had a strict exclusion policy (0% tolerance) on biological weapons.	0
Nuclear/Depleted uranium munitions	7/15 had a strict exclusion policy (0% tolerance) on Nuclear or depleted uranium munitions.	0
White phosphorus munitions	1/15 had a corporate level exclusion policy on involvement in white phosphorus munitions.	0
Blinding laser weapons, incendiary weapons and weapons using nondetectable fragments	1/15 had a corporate level exclusion policy on involvement in this sector.	0

Table 11. Overview of controversial weapons exclusions. Comparison between EU and the U.S.

4.2.2.2.1. Anti-personnel mines and cluster munitions

Anti-personnel mines are one type of landmines and are targeted to injure or kill people. The international Mine Ban Convention – joined by over 150 countries - was adopted in 1997. The convention prohibits the use, storing, production and transportation of anti-personnel landmines (United Nations Office for Disarmament Affairs, 2020).

Cluster munitions can cause significant risk for civilians as they are seen fairly inaccurate due to the wide-area effect (United Nations Office for Disarmament Affairs, 2020). Similarly to the previously mentioned Mine Ban Convention, there is a Convention on Cluster Munitions that bans the use, storing, production and transportation of cluster munitions (United Nations Office for Disarmament Affairs, 2020).

All of the 15 European asset managers publicly state their exclusion policy on involvement in both anti-personnel mines and cluster munitions. Meanwhile, none of the U.S. asset managers published any corporate level exclusion policies on anti-personnel mines or cluster munitions.

4.2.2.2.2. Chemical and biological weapons

The use of chemical weapons became a driver of shareholder activism during Vietnam war, in 1970s. Basically any toxic chemical that is used to cause intentional death and severe harm can be categorised as chemical weapon (Arms Control Association, 2020. OPCW, 2020).

Just like chemical weapons, biological weapons are seen as a sub category of weapons of mass destruction. For example purposely producing and releasing viruses or bacteria to cause harm, kill and injure as seen as the use of biological weapon (WHO, 2020).

Out of 15 European asset managers 11 stated publicly their exclusion criteria on both chemical and biological weapons.

Similarly to anti-personnel mines and cluster munitions section, none of the U.S. asset managers published corporate wide exclusion policy on chemical and/or biological weapons.

4.2.2.2.3. Depleted uranium/nuclear munitions

Depleted uranium is a radio-active metal that is a by-product created in the enrichment process of natural uranium for nuclear fuel (European Union, 2020). Just like chemical and biological weapons, nuclear weapons have been classified as weapons of mass destruction (WHO, 2020). Nuclear weapons could potentially have catastrophic and long-term consequences to both human beings, and environment (United Nations Office for Disarmament Affairs, 2020).

Among the European asset managers, seven out of 15 had a public exclusion policy on nuclear and/or depleted uranium munitions. U.S. asset managers did not publish corporate wide exclusion policies on deplete uranium or nuclear munitions.

4.2.2.2.4. Blinding laser weapons, white phosphorus munitions, incendiary weapons and weapons using nondetectable fragments

Blinding laser weapons are seen cruel and cause permanent damage to their victims (Human Rights Watch, 1995). United Nations’ additional protocol to the convention on prohibitions or restrictions on the use of certain conventional weapons which may be deemed to be excessively injurious or to have indiscriminate effects - Protocol IV entitled Protocol on Blinding Laser Weapons - states that it is forbidden to use laser weapons that cause permanent blinding or damaged vision in the combat (United Nations, 13.10.1995).

White phosphorus is a chemical that burns easily and can be used for many purposes in many industries. White phosphorus can also be used for military purposes to for example, create smoke curtains or illuminate (CDC, 12.05.2011). However, if used for attacking people it can cause serious damage and deep burns (Human Rights Watch, 14.06.2017). When used like that, according to the United Nations' Protocol III of the Convention on the Prohibition of Use of Certain Conventional Weapons, it becomes and incendiary weapon. Incendiary weapons are described as any weapon that has a primary target of injuring people by burning. Use of incendiary weapons are prohibited in the protocol III (United Nations, 10.10.1980).

Weapons using non detectable fragments refers to weapons that use fragments that cannot be detected in human body by x-ray. The use of such weapons is banned by the Protocol I to the Convention on Certain Conventional Weapons (Henckaerts et al. 2005).

Only one European asset manager, out of the fifteen that were subjects of review in this study, disclosed publicly a corporate wide exclusion policy on this sector.

Similarly to the previous sections on controversial weapons, none of the U.S. asset managers published corporate wide exclusion approach to blinding laser weapons, white phosphorus munitions, incendiary weapons or weapons using nondetectable fragments.

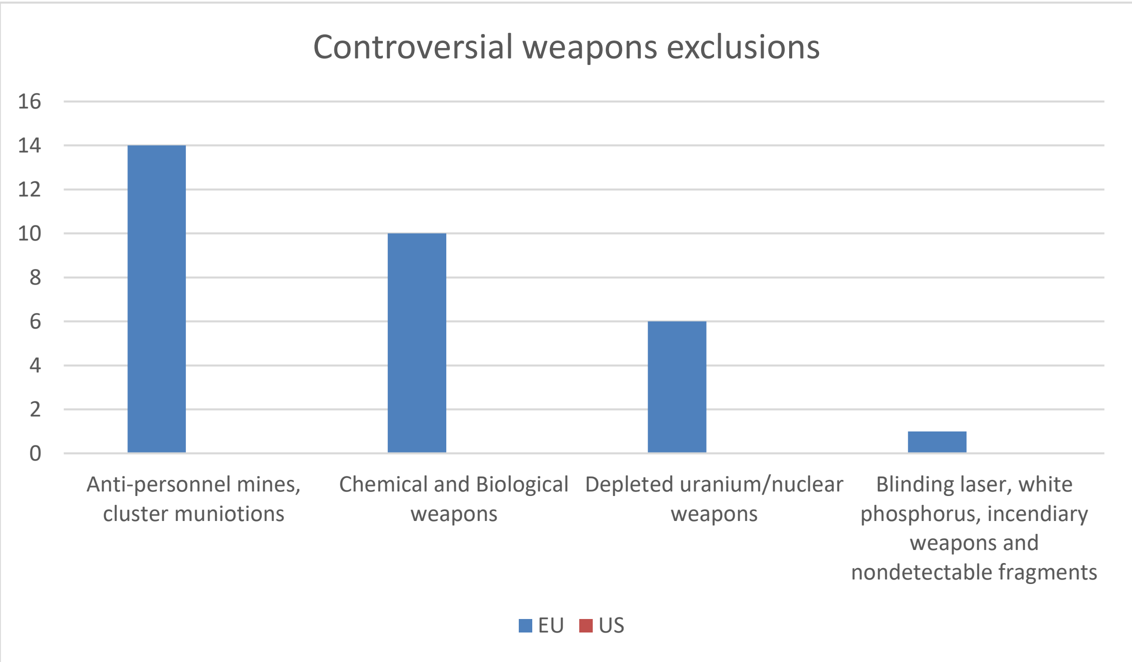

Table 12. Overview of controversial weapons exclusions. Comparison between EU and the U.S

4.2.2.3. Addictive and harmful substances

In the below table (table 13) you can find a summary of exclusions on substances considered addictive or harmful for human health:

	European asset managers	U.S. asset managers
Tobacco	Only 4/15 had an exclusion policy on tobacco that applies across their product range.	0
Asbestos	1/15	0

Table 13. Overview of addictive and harmful substances exclusions. Comparison between EU and the U.S.

4.2.2.3.1. Tobacco

Tobacco is for its well know health risks not usually seen as a sustainable or responsible investment sector. As a matter of a fact, it was one of the first sectors that the responsible investors, or value based investors, started to exclude from their investments (Morningstar, 2020).

Four European asset managers disclosed their corporate wide exclusion policy on tobacco.

U.S. asset managers did not disclose any corporate wide exclusion approach to tobacco in any form.

4.2.2.3.2. Asbestos

Asbestos minerals are extracted by mining and is used for example in the production of construction materials. Exposure to asbestos fibers has been shown to cause serious health issues, such as lung cancer (WHO, 2020).

One out of fifteen European asset managers states publicly excluding asbestos mining companies.

None of the U.S. asset managers had any type of public and corporate wide stand nor exclusion policy on asbestos mining.

4.2.2.4. Environmental considerations

In the below table (table 14) you can find a summary of exclusions on environmental aspects:

	European asset managers	U.S. asset managers
Illegal logging or uncontrolled and/or illegal use of fire	2/15	1/15
Activities in or involving clearing of primary forests	1/15	0
Activities in areas of High Conservation Value (HCV), peatlands, critical habitat	2/15	2/15
Activity on wetlands on the Ramsar list	1/15	0

Table 14. Overview of environmental exclusions. Comparison between EU and the U.S.

As the above table makes visible, Europe had either more or equal amount of asset managers having exclusion policies on environmental aspects compared to the U.S.

4.2.2.5. Human rights

In this study the concept of Human Rights includes aspects such as child labour, forced labour, violation of indigenous peoples rights, and human trafficking. Human rights have been addressed in many international norms such as Universal Declaration of Human Rights, UN Global Compact and ILO conventions, for example (United Nations, 1948. United Nations Global Compact, 2000. ILO, 1998.).

	European asset managers	U.S. asset managers
Human rights	5/15	2/15

Table 14. Overview of environmental exclusions. Comparison between EU and the U.S.

Altogether 5 European asset managers had a public exclusion policy or statement on human rights aspects. Two of these asset managers specified that the of child labour or forced labour would lead to an exclusion. In addition, one asset manager specified that violation of indigenous peoples rights would lead to an exclusion. Two asset managers only stated that breaching the UN Global Compact would lead to an exclusion. UN Global compact includes principles on child and forced labour, as well as other human ad labour rights aspects (Un Global Compact, 2020).

Only two U.S. asset managers stated publicly having an exclusion policy on breach of human rights. Both of them specified that use of child labour or forced labour would lead to an exclusion, as well as human trafficking which was not specifically mentioned by the European asset managers. Similarly, none of the U.S. asset managers specified having an exclusion policy on violation of indigenous rights.

4.2.2.6. Other exclusions

	European asset managers	U.S. asset managers
Activities in or close to World Heritage Site	2/15	2/15

Table 15. Overview of other exclusions. Comparison between EU and the U.S.

Two asset managers in both Europe and U.S. exclude companies that have activities in or close to UNESCO World Heritage Sites. The World Heritage Convention was created in 1972 to protect properties and sites that have cultural and natural value. Today, 1121 properties around the globe are listed on The World Heritage List. (World Heritage Convention, 2020)

5 CONCLUSIONS

All in all, it seems that European asset managers are more prone to disclose their ESG activities and policies, but also their efforts seem to be slightly more advanced compared to their U.S. competitors.

What comes to engagement data and dedicated resources, European asset managers seem to be disclosing more information than their American competitors. However, in average numbers the U.S. asset managers didn't lose to the Europeans by much, and in fact U.S. asset managers had more engagements in average.

In Europe, the engagement activities are more evenly distributed around different environmental, social, and governance topics, while in the U.S. engagements seem to have a strong weight towards the governance topics.

When comparing the exclusion policies between European and U.S. asset managers, it seems clear that U.S. asset managers have not been so eager to set up corporate level policies to exclude certain sectors, or at least to disclose that publicly. It was more common to have specific exclusion policies for the tailored sustainable funds or specific asset classes. I was expecting the U.S. asset managers to seem more hesitant to set this kind of limits compared to the European asset managers, but I did not expect the difference to be so big between these two groups.

Also Eurosif (2018) study shows that exclusions have been the most popular ESG strategy in Europe in 2013-2017. Global Sustainable Investment Alliance supports this view and states that the trend has continued in 2018 as the exclusionary screening was still the most popular ESG approach in Europe (GSIA, 2018). Engagement was the second most popular ESG strategy in 2017. However, survey from CFA Institute states that exclusionary screening is only third most popular ESG approach, after ESG-integration and best-in-class/positive selection approach (CFA Institute, 2015). As 55% of the respondents were from the United States, and only 13% European, it seems fair to say that this survey reflect more the attitudes in the United States and North America in general (as 11% of respondents were from Canada). According to the CFA Institute's survey, active ownership (engagement and voting) was even less popular than the exclusionary approach (CFA Institute, 2015).

The findings are supported by some other recent statistics and studies, such as the signatories of PRI data and ShareAction report (PRI, 2020. ShareAction, 2020).

Compared to the U.S. asset managers, European asset managers have been early movers in signing the Principles for Responsible Investment. As these principles are voluntary and not forced by any regulation, it can be seen as explicit act.

Therefore, this infers that the earlier discussion on differences in CSR approaches in U.S. and Europe, suggested by Matten and Moon (2008), does not apply when it comes to responsible investing. As a matter a fact, when looking into the first signatories to PRI on 27.04.2006 when it was established, 26 out of 50 were European. Only 10 signatories were from the U.S.

CFA Institute (October 2015) states that the list of PRI Signatories works as a well-known indicator on how the awareness around ESG issues and Responsible Investing is growing. Therefore it makes sense to look into how this has been taken into consideration among the European versus U.S. asset managers (CFA Institute, October 2015).

The tables below are demonstrating how the asset managers in U.S. compared to the European asset managers have started to acknowledge the Principles for Responsible Investing by becoming signatories.

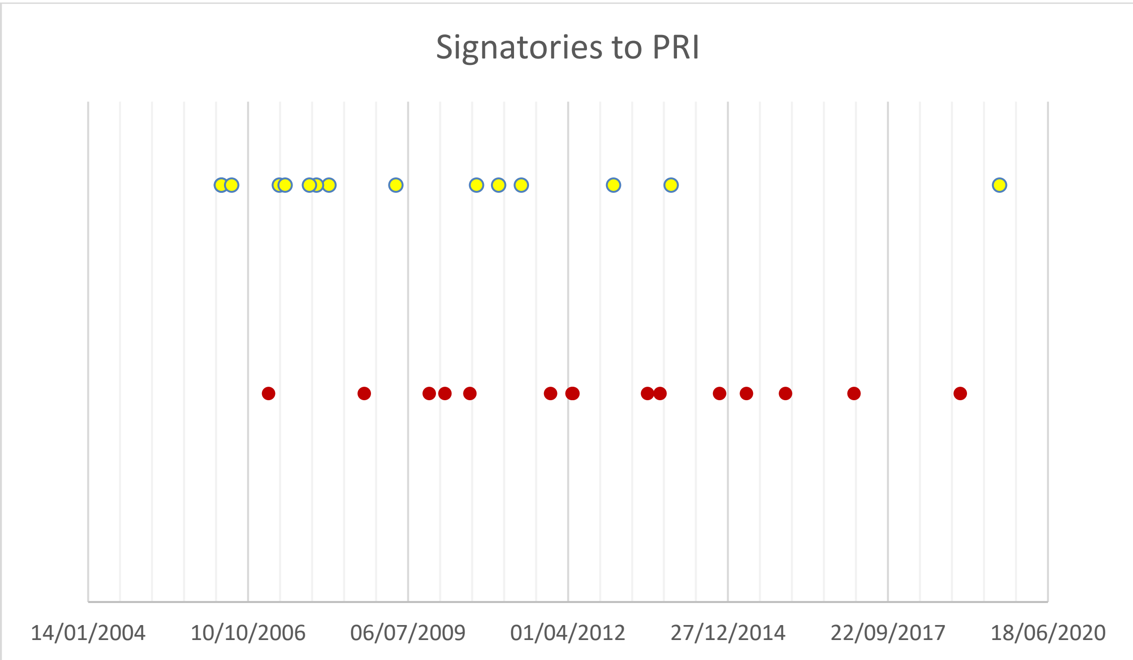

Table 15. Overview of PRI signatories. Comparison between EU and the U.S. PRI signatories: 15 biggest European asset managers (yellow - above) and 15 biggest U.S. asset managers (red - below). Source: PRI.

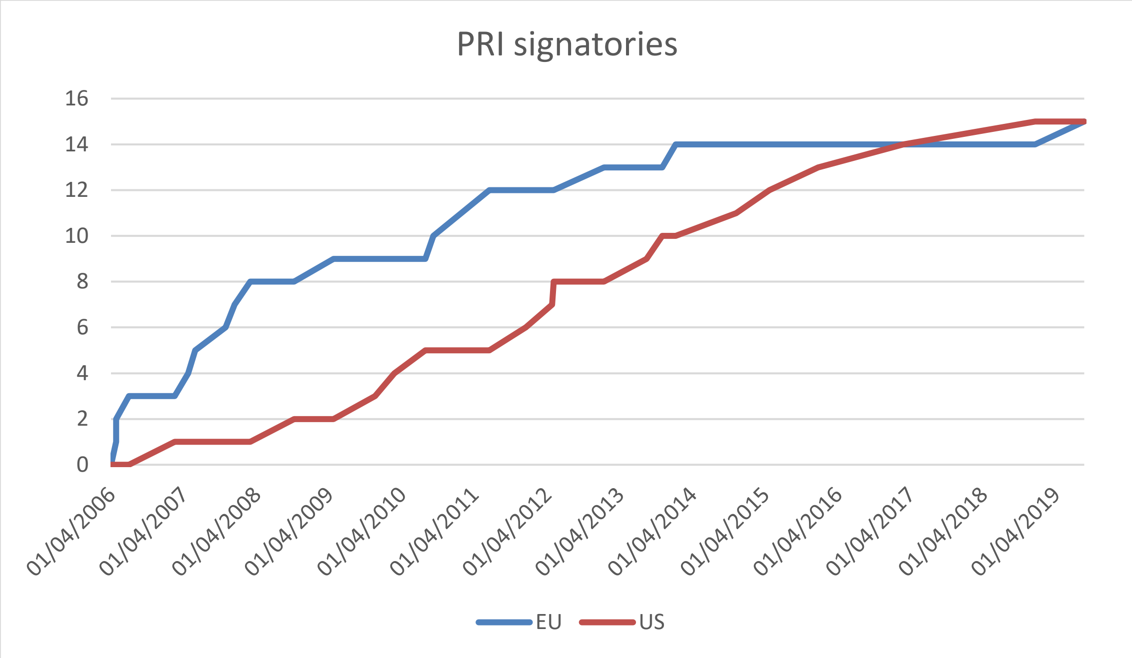

Table 16. Linear development in PRI signatories in Europe and U.S. Source: PRI.

Another proof point to support the view of European asset managers being forerunners in RI practices – at least compared to the U.S. asset managers - is the ShareAction report published in 2020. ShareAction compared the responsible investment governance, climate change approach, biodiversity approach, and approach to human rights, of 75 biggest asset managers globally. These asset managers were given a grade from AAA to E based on how well they ranked in the comparison. What they found was that the top 19 asset managers were all European and were rated between A-B. No one reached to the best AA or AAA ratings. (ShareAction, 2020)

What was alarming in the findings of the ShareAction study was that the six world's biggest asset managers demonstrated poor performance in terms of ESG. All these six asset managers were from the U.S. and were given either rating D or E. As the world's biggest asset managers, these six companies are together managing around a third of the total assets of the asset managers that were included in the ShareAction study. In that light, it seems that the smaller asset managers have to be showing the way in responsible investing and good management of ESG issues. (ShareAction, 2020)

Based on their findings, ShareAction states that while European asset managers are the forerunners in ESG practices, the U.S. asset managers have been clearly less progressive on ESG issues compared to others. They also state that the findings were not surprising, taking into consideration the regulatory and governmental influence as the EU is preparing their Sustainable Finance Agenda while in the U.S. president Trump's administration has deprioritised climate change (ShareAction, 2020).

Asset Manager	Score	Country
BlackRock	D	U.S.
Vanguard	E	U.S.
State Street Global Advisors	D	U.S.
Fidelity Investments	E	U.S.
Capital Group	D	U.S.
J.P. Morgan Asset Management	E	U.S.

Table 17. The world's biggest asset managers and their ESG performance rating and country of origin. Source: ShareAction, 2020.

Asset Manager	Score	Country
Robeco	A	Europe / Netherlands
BNP Paribas Asset Management	A	Europe / France
Legal & General Investment Management	A	Europe / UK
APG Asset Management	A	Europe / Netherlands
Aviva Investors	A	Europe / UK

Table 18. The top 5 in ShareAction study. Source: ShareAction, 2020.

5.1.1 Credibility and possible limitations of the research

As this research was based on publicly available materials, it is possible for anyone to try to replicate this study to validate the results. In general, studies using qualitative analysis methods are not always considered as accurate as purely quantitative studies (Alasuutari, 2012, Eskola & Suoranta 1998). However, this study focused on clear statements and measurements publicly communicated by the asset management companies, leaving very little space for interpretation and disagreement. Whether the readers agree with the data points chosen for this study is another discussion and open for debate. The data point chose for this study were of course influenced by my own perception of what is responsible investing and what are the key indicators of it. However, I might argue that these are also the key indicators that any normal investors have access to and therefore have an important role in guiding their perceptions of the company in terms of responsible investments.

As the aim of the study was to compare European and US asset managers, one could claim that the sample group of European asset managers does not give a full representation of European countries as the top asset managers only represent handful of those. The US asset managers have not been geographically divided; for example by states, but are representing just one country.

To fully understand the engagement activities and approaches of different asset managers and to be able to better compare them, it would be crucial to look beyond the publicly disclosed data. In its current form, the engagement data that is publicly available is not standardised and it is not always clear to the reader what is considered to be included in the numeric reporting, for example. In its current form, the public ESG communication seems to be driven by marketing needs rather than providing comparable data and being completely transparent.

Publicly stating something doesn't necessarily mean real meaningful actions. ShareActions states finding out that while many asset managers seemingly take a stand regarding human rights, very few real actions are carried out (ShareAction, 14.05.2020. ShareAction May 2020).

5.1.2 Implications for Future Research

The responsible investing scene is rapidly developing and especially in Europe there are increasing regulation to be expected in the near future (Novethic, 05.02.2020). Also the political scene in the U.S. depends a lot on the next presidential elections which can give a new direction to the formerly deprioritised climate change by Trump's administration. It would be interesting to see how the situation develops and with what pace. Will the U.S. asset managers start catching up their European competitors in ESG? And how will the coming EU regulation change the overview of public data disclosures in Europe? It could also be interesting to see how the global COVID-19 pandemic has affected views on responsible investing.

As there is not a standardized ESG approach, there was a lot of variation in the ESG policies between all the asset managers. Just by looking into the firm level exclusion policies does not necessarily provide a holistic understanding of the efforts and actions the asset managers are taking. Especially in the U.S. the asset managers seemed to be more in favour of specific exclusion policies for separate sustainable funds or setting up the exclusion framework for specific asset class only (instead of having a corporate level commitment of excluding certain stocks or sectors from all their investment products).

For future research it would be interesting to widen the scope and make a more holistic comparison of the exclusion policies and engagement efforts. It could be a good idea to look into these same data points on a fund or asset class level. Many asset managers have different policies for different asset classes and usually have some sustainable selection or ESG-enhanced funds that have more strict policies.

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APPENDICES

Appendix 1 – Dedicated RI resources

European Asset Managers - Dedicated RI resources	
Allianz	100+ dedicated professionals. Source: Allianz website, data as at 31.12.2019. Available online: https://www.allianzgi.com/en/our-firm/esg/documents
Amundi	18 professionals (a team of 12 ESG analysts and a team of 6 specialists dedicated to voting policy and engagement). Source: Responsible Investment Policy 2019. Data as at 31.12.2018
AXA	14 professionals. Source: AXA website, data as at 30.06.2018. Available online: https://www.axa-im.com/responsible-investing/our-approach-and-offering?linkid=responsibleinvesting-menu-approachandoffering
Deutsche Bank	5 professionals. Source: Deutsche Bank news on 03.09.2020. Available online: https://www.db.com/newsroom_news/2020/we-re-here-to-help-position-deutsche-bank-as-an-expert-on-esg-en-11667.htm
Legal & General Group	15 professionals. Source: Legal & General Annual Active Ownership Report 2019. Available online: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/corporate-governance-long.pdf
UBS	20+ professionals. Source UBS website, data as at 30.06.2020. Available online: https://www.ubs.com/global/en/asset-management/investment-capabilities/sustainability.html
BNP Paribas	25 professionals. Source: BNP Paribas Sustainability Report 2019. Available online: https://www.sustainability-report.bnpparibas-am.com/
Natixis	N/A
Aegon	13 professionals. Source: Aegon Responsible Investment Report 2019. Available online: https://www.aegon.com/contentassets/53693c360fd84b399518a5e6b9239acb/aegon-am-ri-report-2019.pdf
HSBC	N/A
M&G	10 professionals. Source: M&G Investments, Corporate Finance and Stewardship Report 2019. Available online: https://docs.mandg.com/docs/uk/adviser/MandG-Corporate-Finance-and-Stewardship-Report.pdf
Standard Life Aberdeen	50 professionals. Source: Aberdeen Standard Investments, responsible investing - ESG integration in equities. Available online: https://www.aberdeenstandard.com/docs?editionId=eebe145d-725c-41ac-b0c0-d5e0210e6a2d
Schroder	17 professionals. Source: Schroders website, sustainability infographic. Accessed on 17.11.2020. Available online:

	https://www.schroders.com/en/strategic-capabilities/sustainability/infographic/
Generali	N/A
Credit Suisse	N/A

U.S. Asset Managers - Dedicated RI resources	
BlackRock	45 professionals. Source: BlackRock Investment Stewardship. Accessed on 01.06.2020. Available online: https://www.blackrock.com/corporate/literature/publication/blk-profile-of-blackrock-investment-stewardship-team-work.pdf
Vanguard Group	NA
State Street Global	NA
Fidelity Investments	6 ESG professionals. Source: Fidelity ESG Investing Presentation. Data as of 30.10.2020. Available online: https://institutional.fidelity.com/app/literature/item/9899958.html
J.P. Morgan Chase	NA
Bank of New York Mellon	NA
Capital Group	20 Stewardship professionals. Source: Capital Group. "Our approach to integrating environmental, social and governance (ESG) issues in investing". Accessed 24.11.2020. Available online: https://www.capitalgroup.com/content/dam/cgc/shared-content/documents/brochures/ITGEBR-027-1219O.pdf
Goldman Sachs Group	40 full-time ESG and impact investing professionals. Source: Goldman Sachs website. Accessed on 24.11.2020. Available online: https://www.goldmansachs.com/citizenship/environmental-stewardship/market-opportunities/goldman-sachs-asset-management/
Prudential Financial (PGIM)	NA
Northern Trust	NA
Wellington	NA
Wells Fargo	NA
T.Rowe Price	12 professionals. Source: T.Rowe Price, ESG 2019 Report. Available online: https://www.goldmansachs.com/citizenship/environmental-stewardship/market-opportunities/goldman-sachs-asset-management/
Nuveen	25 dedicated RI professionals. Source: Nuveen, Responsible Investing website. Accessed on 24.11.2020. Available online: https://www.nuveen.com/en-us/thinking/responsible-investing
Morgan Stanley	NA

Appendix 2 – Engagement data

Engagement policy publicly available

European Asset Managers	
Allianz	Yes. Available online: https://www.allianzgi.com/-/media/alli-anzgi/globalagi/our-firm/ouresgapproach/allianzgi-stewardship-statement-sept-2020.pdf
Amundi	Yes. Available online: https://www.amundi.com/int/ezjscore/call/ezjscamun-dibuzz::sfForwardFront::paramsList=service=Prox-yGedApi&routeId=_dl_MGIyNGU5MWQ0OGNhN2UzNTllY-WZkMjdiNTQwY2Q5N2Q_download
AXA	Yes. Available online: https://www.axa-im.com/docu-ments/20195/14067199/AXA+IM+Engagement+Policy+-+1+Pager+v060320.pdf/996d5adb-de3f-df40-4575-866aa2902a54?t=1584028708520
Deutsche Bank	Yes. Available online https://download.dws.com/download?elib-asset-guid=2321711c2ec24a80b523c62580fa31c3&wt_eid=2160000565900193643&wt_t=1605732877676
Legal & General Group	Yes. Available online: https://www.lgim.com/landg-assets/lgim/_docu-ment-library/capabilities/lgim-engagement-policy.pdf
UBS	Yes. Available online: https://www.ubs.com/global/en/asset-manage-ment/investment-capabilities/sustainability.html
BNP Paribas	Yes. Available online: https://docfinder.bnpparibas-am.com/api/files/8BFBC6C4-8E02-408E-A187-E7D437C467AC
Natixis	Yes. Available online: https://www.im.natixis.com/uk/resources/na-tixis-investment-managers-uk-limited-engagement-policy
Aegon	Yes. Available online: https://www.aegon.com/investors/compli-ance/general-governance/Compliance/engagement-policy/
HSBC	Yes. Available online: https://www.global.assetmanage-ment.hsbc.com/about-us/responsible-investing/stewardship
M&G	Yes. Available online: https://global.mandg.com/~/me-dia/Files/M/MandG-Plc/documents/mandg-investments-poli-cies/15-06-20-MandG-Shareholder-Rights-Directive-Engagement-Policy.pdf

Standard Life Aberdeen	Yes. Available online: https://vds.issgovernance.com/repo/2024/policies/Listed_Company_Stewardship_Guidelines.pdf and https://www.aberdeenstandard.com/en/uk/institutional/home/funds-centre/engagement-policy
Schroder	Yes. Available online: https://www.schroders.com/en/SysGlobalAssets/digital/about/schroders-esg-policy-january-2017.pdf
Generali	Yes. Available online: https://www.generali-investments.com/uploads/2020/06/be7ab11596ff3e2bb172ceb207e77d16/gip-engagement-policy_final.pdf
Credit Suisse	Yes. Available online: https://www.credit-suisse.com/pwp/am/downloads/marketing/csam_engagement_policy_en.pdf
U.S. Asset Managers	
BlackRock	Yes. Available online: https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf
Vanguard Group	Yes. Available online: https://global.vanguard.com/documents/Vanguard-Engagement-Statement.pdf
State Street Global	Yes. Available online: https://www.ssga.com/investment-topics/environmental-social-governance/2019/03/issuer-engagement-protocol.pdf
Fidelity Investments	Yes. Available online: https://www.fidelityinstitutional.com/static/master/media/pdf/esg/responsible-investment-policy.pdf
J.P. Morgan Chase	Yes. Available online: https://institute.jpmorganchase.com/about/governance/political-engagement-and-public-policy
Bank of New York Mellon	N/A
Capital Group	Yes. Available online: https://www.capitalgroup.com/us/policies-and-disclosures.html
Goldman Sachs Group	Yes. Available online: https://www.gsam.com/content/dam/gsam/pdfs/common/en/public/miscellaneous/gsam-engagement-policy.pdf?sa=n&rd=n
Prudential Financial (PGIM)	N/A
Northern Trust	Yes. Available online: https://cdn.northerntrust.com/pws/nt/documents/report-guides/engagement-principles.pdf

Wellington	Yes. Available online: https://www.wellington.com/uploads/2019/10/d0ecbaa8382f65de4688a4623c811e31/engagement-policy.pdf
Wells Fargo	Yes. Available online: https://www.wellsfargoassetmanagement.com/assets/public/pdf/legal/wfam-engagement-policy.pdf
T.Rowe Price	Yes. Available online: https://www.troweprice.com/content/dam/trowecorp/Pdfs/50635_TRP_Engagement_Policy_Document_UK_1219_HR_NC.pdf
Nuveen	N/A
Morgan Stanley	Yes. Available online: https://www.morganstanley.com/im/publication/resources/engagement-and-stewardship-principals-us.pdf

Engagement statistics

European Asset Managers			
	Number of engagements	**Number of engaged companies**	**ESG breakdown**
Allianz	448. Source: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/sustainability/documents/Allianz_Group_Sustainability_Report_2019-web.pdf	333. Source: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/sustainability/documents/Allianz_Group_Sustainability_Report_2019-web.pdf	NA
Amundi	238. Source: https://www.amundi.com/int/Common-Content/Institit/Actualites/2020/07/Just-published!-Amundi-2019-Engagement-Report	NA	E 38%, S 36%, G 25%. Source: https://www.amundi.com/int/Common-Content/Instit/Actualites/2020/07/Just-published!-Amundi-2019-Engagement-Report
AXA	217. Source: https://www.axa-im.com/documents/20195/14067	NA	E 56%, S 23%, G 21%. Source: https://www.axa-im.com/documents/20195/14067199

	199/STEWARDSHIP_Report_decade_transition_Web+1004.pdf/2dd31694-0dfb-ee03-e8ea-2ace19447e5b?t=1586962669489		/STEWARDSHIP_Report_decade_transition_Web+1004.pdf/2dd31694-0dfb-ee03-e8ea-2ace19447e5b?t=1586962669489
Deutsche Bank	NA	NA	NA
Legal & General Group	1110. Source: https://www.lgim.com/se/en/capabilities/corporate-governance/active-ownership/	493. Source:https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/corporate-governance-uk-insti-short.pdf	NA
UBS	358. Source: Stewardship Annual Report 2020. Available at https://www.ubs.com/global/en/asset-management/investment-capabilities/sustainability.html	231. Source: Stewardship Annual Report 2020. Available at https://www.ubs.com/global/en/asset-management/investment-capabilities/sustainability.html	NA
BNP Paribas	NA	219. Source: https://www.sustainability-report.bnp-paribas-am.com/	E 24%, S 24%, G 51%. Source: https://www.sustainability-report.bnpparibas-am.com/
Natixis	NA	NA	NA
Aegon	564. Source: https://www.aegon.com/contentassets/53693c360fd84b399518a5e6b9239acb/aegon-am-ri-report-2019.pdf	NA	E 14%, S 15%, G 52%. Source: https://www.aegon.com/contentassets/53693c360fd84b399518a5e6b9239acb/aegon-am-ri-report-2019.pdf
HSBC	NA	2300. Source: HSBC, 2020 Responsible Investment Review. Available at: https://www.global.assetmanagement.hsbc.com/abou	E 21%, S 9%, G 70%. Source: HSBC, 2020 Responsible Investment Review. Available at: https://www.global.assetmanagement.hsbc.com/about-

		t-us/responsible-investing	us/responsible-investing
M&G	242. Source: https://global.mandg.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/MG-Corporate-Finance-and-Stewardship-Report-2019.pdf	NA	NA
Standard Life Aberdeen	NA	NA	NA
Schroder	1750. Source: https://www.schroders.com/en/sysglobalassets/about-us/sustainable-investment-report-annual-2019.pdf	1420. Source: https://www.schroders.com/en/sysglobalassets/about-us/sustainable-investment-report-annual-2019.pdf	E 16%, S 14%, G 70%. Source: https://www.schroders.com/en/sysglobalassets/about-us/sustainable-investment-report-annual-2019.pdf
Generali	46. Source: Generali ESG Presentation 2020. Available at: https://www.generali.com/investors/Our-ESG-approach	NA	NA
Credit Suisse	NA	NA	NA

U.S. Asset Managers			
	Number of engagements	**Number of engaged companies**	**ESG breakdown**
BlackRock	2050. Source: https://www.blackrock.com/us/individual/literature/publication/blk-annual-stewardship-report-2019.pdf	1458. Source: https://www.blackrock.com/us/individual/literature/publication/blk-annual-stewardship-report-2019.pdf	E 12%, S 14%, G 74%. Source: https://www.blackrock.com/corporate/literature/publication/blk-voting-and-engagment-statistics-annual-report-2019.pdf
Vanguard Group	NA	868.	NA

		Source: https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/2019_investment_stewardship_annual_report.pdf	
State Street Global	686. Source: https://www.ssga.com/library-content/products/esg/annual-asset-stewardship-report-2018-19.pdf	600. Source: https://www.ssga.com/library-content/products/esg/annual-asset-stewardship-report-2018-19.pdf	NA
Fidelity Investments	NA	NA	NA
J.P. Morgan Chase	700. Source: https://am.jpmorgan.com/blobgim/1383663244132/83456/ESG%20Report_UKandEU%20Equities_1Q20.pdf	NA	NA
Bank of New York Mellon	NA	NA	NA
Capital Group	250. Source: https://www.capitalgroup.com/content/dam/cgc/shared-content/documents/brochures/ITGEBR-027-1219O.pdf	NA	NA
Goldman Sachs Group	417. Source: https://www.gsam.com/content/dam/gsam/pdfs/common/en/public/miscella-	363. Source: https://www.gsam.com/content/gsam/nc/en/institutions/about-gsam/stewardship.html	E 12%, S 12%, G 76%. Source: https://www.gsam.com/content/dam/gsam/pdfs/common/en/public/miscellane-

	neous/GSAM_Stewardship_Report.pdf?sa=n&rd=n		ous/GSAM_Stewardship_Report.pdf?sa=n&rd=n
Prudential Financial (PGIM)	NA	NA	NA
Northern Trust	NA	899. Source: https://cdn.northerntrust.com/pws/nt/documents/fact-sheets/mutual-funds/institutional/annual-stewardship-report.pdf	NA
Wellington	NA	NA	NA
Wells Fargo	NA	NA	NA
T.Rowe Price	NA	NA	E 2%, S 4%, G 35%. Source: https://www.troweprice.com/content/dam/ide/articles/pdfs/ESG-2020-Annual-Report-Global.pdf
Nuveen	NA	NA	NA
Morgan Stanley	600. Source: https://www.morganstanley.com/im/publication/resources/global-stewardship-report-us-2019.pdf?1599682812144	283. Source: https://www.morganstanley.com/im/publication/insights/articles/article_engage_us.pdf?1599683216124	NA

Appendix 3 – Exclusion data

Exclusion data sources

European Asset Managers	
Allianz	ESG Integration Framework. Available at: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/sustainability/documents/Allianz_ESG_Integration_Framework.pdf

Amundi	RI Policy 2019. Available at: https://www.amundi.com/int/ezjscore/call/ezjscamundibuzz::sfForwardFront::paramsList=service=ProxyGedApi&routeId=_dl_MGIyNGU5MWQ0OGNhN2UzNTlIYWZkMjdiNTQwY2Q5N2Q_download
AXA	ESG Standards policy. Available at: https://www.axa-im.com/documents/20195/607482/April+2020+AXA+IM+ESG+Standards+Policy_EN.pdf/70b9fc77-0f69-8661-509e-a4b201be055c?t=1588089212798 Controversial Weapons policy. Available at: https://www.axa-im.com/documents/20195/47020/Controversial-Weapons-UK-EN.pdf/38dba2d9-9a17-4990-8ad5-96c16d181d37
Deutsche Bank	Environmental and Social Policy Framework (July 2020). Available at: https://www.db.com/cr/en/docs/DB-ES-Policy-Framework-English.pdf Controversial Weapons Policy. Available at: https://www.db.com/newsroom_news/Controversial_Weapons_Principles_ENG.pdf
Legal & General Group	Controversial Weapons Policy. Available at: https://www.legalandgeneralgroup.com/media/2629/controversial-weapons-policy-group.pdf
UBS	Environmental And Social Risk Policy Framework. Available at: https://www.ubs.com/au/en/asset-management/services-and-capabilities/institutional-services/sustainability/_jcr_content/mainpar/toplevelgrid_1151873065/col1/accordionbox/linklist_1378435713/link_1075633683.0235493040.file/bGluay9wYXRoPS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fzc2V0X21hbmFnZW1lbnQvcGRmL3doeS1pbnZlc3QvdWJzLWVzci1mcmFtZXdvcmstbWFyY2gtMjAxOS1lbi5wZGY=/ubs-esr-framework-march-2019-en.pdf
BNP Paribas	Responsible Business Conduct Policy. Available at: https://investors-corner.bnpparibas-am.com/investing/responsible-business-conduct-a-major-pillar-of-sustainable-investing/
Natixis	Environmental and Social Responsibility Brochure. Available at: https://www.natixis.com/natixis/en/environmental-and-social-responsibility-brochure-lpaz5_118581.html Sector policies. Available at: https://www.natixis.com/natixis/en/sector-policies-lpaz5_117434.html
Aegon	Responsible Investment Policy 2020. Available at: https://www.aegon.com/contentassets/16821f44646a469c8f713ff183cc2513/aegon-responsible-investment-policy-january-2020-1-1.pdf
HSBC	Policy on Banned Weapons. Available at: https://investorfunds.us.hsbc.com/resources/documents/AboutUs/RI%20policy-guidelines-framework/banned-weapons-policy.pdf
M&G	Sustainable and Responsible Investing at M&G. Available at: https://www.mandg.co.uk/-/media/Literature/UK/Adviser/Brochures%20and%20Guides/MGINV-ESG-Brochure-UK-PROINV.pdf

Standard Life Aberdeen	Controversial Weapons Approach. August 2020. Available at: https://www.aberdeenstandard.com/docs?editionId=fc0dd666-269a-40f4-a484-d044e4daad3d
Schroders	Sustainable Investment Report 2019. Available at: https://www.schroders.com/en/sysglobalassets/about-us/sustainable-investment-report-annual-2019.pdf
Generali	Q&A on ESG and HR issues. Available at: https://www.generali.com/doc/jcr:8e231f4d-88d8-4817-95cc-28da8132867c/lang:en/DOMANDE_FREQUENTI_2019_def_-_ENG.PDF
Credit Suisse	Exclusion criteria. Available at: https://www.credit-suisse.com/sg/en/asset-management/esg-investing/our-esg-approach/esg-investment-criteria.html

U.S. Asset Managers	
BlackRock	Client letter: Sustainability as BlackRock's New Standard for Investing. Available at: https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter
Vanguard Group	Responsible Investment Policy. Available at: https://about.vanguard.com/investment-stewardship/principles-policies/
State Street Global	
Fidelity Investments	Environmental, Social and Governance Statement of Policy. Available at: https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/about-fidelity/ESG-StatementofPolicy.pdf
J.P. Morgan Chase	
Bank of New York Mellon	
Capital Group	ESG Policy Statement. Available at: https://www.capitalgroup.com/advisor/pdf/shareholder/ITGEOT-001-643701.pdf
Goldman Sachs Group	Environmental Policy Framework. Available at: https://www.goldmansachs.com/citizenship/environmental-stewardship/epf-pdf.pdf
Prudential Financial (PGIM)	
Northern Trust	
Wellington	
Wells Fargo	Environmental and Social Risk Management. Available at: https://www.wellsfargo.com/about/corporate-responsibility/environmental-social-risk-management/
T.Rowe Price	
Nuveen	
Morgan Stanley	