



WWF

SUSTAINABLE
FINANCE
REPORT

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RESPOND – RESILIENT AND SUSTAINABLE PORTFOLIOS

ACKNOWLEDGEMENTS

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WWF is one of the world's largest and most experienced conservation organizations, with over 5 million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. WWF has worked with the finance sector for more than a decade via innovative collaborations that seek to integrate ESG risks and opportunities into mainstream finance so as to redirect financial flows to support the global sustainable development agenda. Our approach to sustainable finance leverages WWF's conservation expertise as well as our partnerships with companies on key issues such as water, energy, climate and food to drive sustainability. Positioned at the cutting-edge of sustainable finance internationally, WWF contributes directly to leading initiatives, including the European Commission's Technical Expert Group on Sustainable Finance, the Net-Zero Asset Owner Alliance, the Science Based Targets initiative for Financial Institutions and the development of an international green bonds standard. WWF also works directly with banks, asset managers, asset owners, financial regulators and industry associations across the world to drive system-level change. This has allowed us to strengthen lending and investment criteria for key industry sectors, provide insights and data on environmental and social risks, fulfil critical research gaps, help unlock innovations in sustainable finance products and convene key stakeholders to progress the sustainable finance agenda.

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RESPOND'S OBJECTIVES

RESPOND (Resilient and Sustainable Portfolios that Protect Nature and Drive

Decarbonization) is an interactive online tool developed by WWF to help asset managers improve portfolio resilience and alignment with a low carbon and sustainable future through the application of science-based approaches to responsible investment (RI). The tool allows users to explore how leading asset managers are implementing RI and understand opportunities for further leadership in this area. It is based on a [WWF framework](#) that represents a best-practice architecture for RI and aligns with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Investment (PRI).

BY ASSISTING ASSET MANAGERS TO DEVELOP ROBUST RI CAPABILITIES, RESPOND AIMS TO:



Accelerate the alignment of financial flows with the Paris Agreement and the Sustainable Development Goals (SDGs);



Support the creation of portfolios that are resilient to climate and other natural capital risks, while driving positive impact and change on the ground; and



Empower asset managers, as key intermediaries between the finance sector and real economy, to deliver on growing asset owner expectations to drive decarbonization and sustainable development.

RESPONSIBLE INVESTMENT: A GLOBAL CONTEXT



374 FIS WITH US\$118T AUM PUBLICLY SUPPORT THE TCFD

Never before have climate change and natural capital been as central to discussions by finance sector leaders as they are today.

Industry initiatives like the TCFD are helping companies and financial institutions (FIs) to more systematically disclose how issues like climate change can materially impact financial performance, and what they are doing to minimize the associated risks. As of June 2019, 374 FIs with US\$118T in assets under management (AUM) publicly support the TCFD recommendations. Beyond expressing their own support and implementing the recommendations themselves, investors are actively engaging with portfolio companies to encourage TCFD-aligned disclosures and decarbonization, e.g. through the Climate Action 100+ initiative, which is supported by over 370 investors with US\$42T AUM. Investors are also asking governments to support the TCFD recommendations, notably through public calls to action like the [Global Investor Statement to Governments on Climate Change](#) which encourages policymakers to strengthen their Paris Agreement commitments and put a meaningful price on carbon. As of December 2019, 631 FIs with US\$37T AUM have signed this statement.

1.5°C THE SCIENCE BASED TARGETS INITIATIVE ENABLES COMPANIES AND THEIR FINANCIERS TO SET 1.5°C-ALIGNED EMISSIONS REDUCTION TARGETS

Support from the **scientific community** through efforts like the [Science Based Targets initiative](#) is enabling companies and their financiers to set emissions reduction targets that align business models and investment portfolios with the goal of limiting climate warming to 1.5°C. As of November 2019, 51 FIs have committed to setting science-based targets. Building on this initiative and the momentum of Climate Action 100+, in September 2019 a group of asset owners launched the [Net-Zero Asset Owner Alliance \(AOA\)](#), representing a collective commitment to achieve carbon-neutral investment portfolios by 2050. As of November 2019, 16 asset owners representing nearly US\$4T have joined the alliance.



HUMAN ACTIVITIES HAVE SEVERELY DETERIORATED OUR NATURAL CAPITAL AND BIODIVERSITY

Climate change has received the most attention as one symptom of how we have overexploited and degraded our natural capital. However, there is mounting evidence that human activities have severely deteriorated our **natural capital and biodiversity**, which provide indispensable benefits to society worth around US\$125T a year, such as the provision of food, fuel, fiber and freshwater, as well as protection against floods, storm surges and landslides. In early 2019, the IPBES warned that land degradation had already reduced the productivity of nearly one quarter of the Earth's land, while pollinator loss may threaten up to US\$577B in annual global crop output. As impacts like these compound over time, we risk crossing critical planetary boundaries and triggering abrupt and irreversible changes to the natural capital and ecosystem services upon which we rely.



THE EU IS TAKING THE LEAD IN SUSTAINABLE FINANCE REGULATIONS

Recognizing the urgency of these issues, the massive social and economic costs of inaction, and future detriment to the stability of the financial system, **central banks and supervisors** are taking action. The European Union (EU) has taken the lead with its Sustainable Finance Action Plan, which involves the development of a sustainability taxonomy, as well as requirements for asset managers to disclose how they are managing environmental, social and governance (ESG)-related risks. The disclosure requirements have recently been specified in regulation 2019/2088 on sustainability-related disclosures in the financial services sector, which will enter into force in March 2021. Along the same lines, the Network for Greening the Financial System (NGFS), with its 51 members and 12 observers, has issued recommendations for managing systemic climate and nature-related risks – from conducting system-wide risk assessments, to requiring more robust climate and environmental disclosures, to integrating sustainability into central banks’ own portfolio management.



AND CALLING FOR NATURE AND BIODIVERSITY TO BE TAKEN INTO ACCOUNT

Beyond climate change, the issues of natural capital and biodiversity loss are quickly rising on the agendas of policymakers and FIs alike due to growing recognition of economic dependencies on healthily functioning ecosystems. In 2019, the French government revised Article 173 to require FIs to disclose their exposure to nature-related risks, on top of those posed by climate change. At the same time, AXA and WWF have called for the establishment of a “Task Force on Nature Impacts Disclosures”, to complement the existing TCFD recommendations. The decline of natural capital as a source of financial risk was also recognized in the UK government’s July 2019 Green Finance Strategy.



LEARN MORE ABOUT REGULATORY CONTEXT THROUGH THE RESPOND [ONLINE TOOL](#).

Amidst this momentum, it is now more important than ever to ensure that the finance sector’s efforts on sustainable finance are grounded in science-based criteria. Asset managers in particular - as stewards of many real economy assets - face expectations from regulators, asset owners and civil society to more effectively drive the transition to a sustainable global economy. By aligning their portfolios to the 1.5°C imperative and our planet’s ecological boundaries, they can contribute significantly to the achievement of global goals like the Paris Agreement and SDGs, as well as the wider preservation and restoration of critical natural capital. Through this process, they can ensure that their portfolios are more resilient and sustainable in the long term.

WHO SHOULD USE RESPOND AND HOW?



ASSET MANAGERS CAN:

- Review their own RI capabilities and TCFD/PRI alignment and identify areas for improvement;
- Demonstrate how their investment decisions and engagement activities are influencing portfolio companies to adopt more sustainable operating practices and increase the resilience of their business models; and
- Review best practices and position their own RI capabilities more competitively against RI leaders.



ASSET OWNERS CAN:

- Complement consultant assessments with a science-based, civil society perspective when evaluating external managers and awarding mandates;
- Engage with external managers to enhance their RI capabilities (e.g. through incorporating science-based criteria to maximize portfolio resilience to climate, natural capital and other ESG risks);
- Analyze if the ESG impacts related to the deployment of their capital align with their values and those of their beneficiaries; and
- Refine internal ESG approaches in order to meet the emerging, higher standards expected by regulators and beneficiaries.



REGULATORS CAN:







- Monitor and engage asset managers to improve their management of climate and other ESG risks, thereby increasing the finance sector’s resilience and better protecting beneficiaries;
- Improve capital markets’ transparency on sustainability by encouraging asset managers to disclose according to the framework; and
- Identify ways to increase the eligibility and competitiveness of their asset management industries to better respond to asset owner mandates.

ABOUT THE FRAMEWORK

RESPOND is based on WWF's proprietary six-pillar responsible investment framework, comprised of 14 indicators and 74 sub-indicators, focused on listed equities investment. The framework incorporates WWF's expertise on sustainable finance and sustainability, drawing from WWF's:

- High-level participation in cutting-edge sustainable finance initiatives;
- Experience developing transformative corporate sustainability initiatives and co-developing science-based multi-stakeholder sustainability certification standards; and
- Science-based conservation expertise on key issues such as climate, energy, food, water, forests, oceans and biodiversity, spanning 6,000 staff in over 100 countries.

The framework complements and draws on existing best practices, including the TCFD, the PRI, relevant national stewardship codes, and other reporting guidance for FIs.

WWF'S RESPONSIBLE INVESTMENT FRAMEWORK			
<p>PURPOSE</p>  <ol style="list-style-type: none"> 1. Relevance of sustainability in organization's strategy and investment beliefs 2. Industry collaboration and participation 	<p>POLICIES</p>  <ol style="list-style-type: none"> 3. RI policies 4. Issue-specific policies 	<p>PROCESSES</p>  <ol style="list-style-type: none"> 5. Research, stock selection and monitoring 6. Active ownership 	
<p>PEOPLE</p>  <ol style="list-style-type: none"> 7. Governance 8. Skills 9. Incentives 	<p>PRODUCTS</p>  <ol style="list-style-type: none"> 10. Product availability 11. Promotion of products to clients 	<p>PORTFOLIO</p>  <ol style="list-style-type: none"> 12. Risk assessment 13. Metrics and targets 14. Disclosure 	






METHODOLOGY

This year's RESPOND analysis is based on findings from WWF's review of 22 leading asset managers' English language public disclosures. Materials reviewed as a part of this analysis include the latest annual, sustainability, and RI reports; public statements and policies; investor presentations; press releases; and other information posted on asset managers' websites by 31 October 2019, in addition to 2018 and 2019 PRI Transparency Reports.

By drawing only on publicly available information, RESPOND highlights the baseline level of information available to international asset owners, regulators and other stakeholders who seek to understand how asset managers address ESG risks and opportunities. Ahead of RESPOND's launch, each asset manager included was given the opportunity to review and provide feedback on the analysis of their disclosures.

This year's RESPOND analysis focused on asset managers that met all of the following criteria:

SELECTION CRITERIA	
	<p>A minimum AUM of US\$200B, with headquarters in Europe</p> <p>As these asset managers are most exposed to increased sustainable finance regulatory requirements, they face the greatest pressure to improve and disclose their RI policies, processes and performance.</p>
	<p>ESG leadership</p> <p>Asset managers that disclosed receiving a rating of A+ on either the Strategy & Governance or Listed Equity modules of the PRI Reporting Framework in 2018 or 2019. These ESG leaders are well-placed to further push the implementation of RI and show the way for others by tackling environmental issues beyond climate change and adopting cutting-edge, science-based approaches to addressing ESG risks and opportunities.</p>
	<p>A presence in Asia</p> <p>Asia is disproportionately exposed to climate change and natural capital risk, and leadership on ESG is especially needed to spur greater action by the region's businesses and finance sectors.</p>

ASSET MANAGERS IN THIS YEAR'S ANALYSIS:

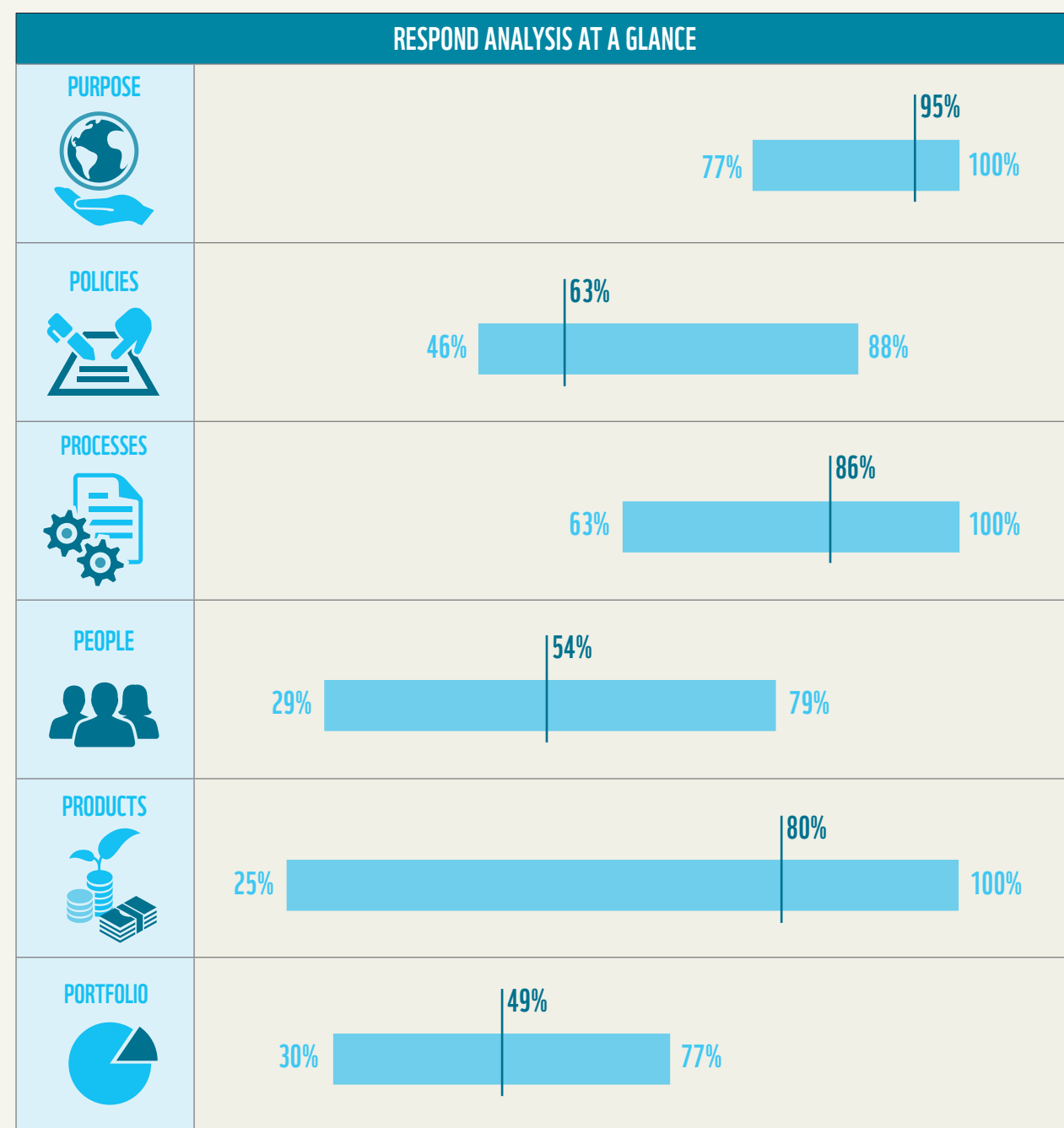
- Aberdeen Standard Investments
- Aegon Asset Management
- Allianz Global Investors
- Amundi
- APG Asset Management
- Aviva Investors
- AXA Investment Managers
- Baillie Gifford
- BNP Paribas Asset Management
- DWS Group
- Fidelity International
- HSBC Global Asset Management
- Legal & General Investment Management
- M&G Investments
- NN Investment Partners
- Nordea Asset Management
- Ostrum Asset Management
- Pictet Asset Management
- Robeco
- Schroders
- UBS Asset Management
- Union Investment Group



LEARN MORE ABOUT OUR METHODOLOGY THROUGH THE [RESPOND ONLINE TOOL](#).

KEY FINDINGS AND RECOMMENDATIONS

LIGHT BLUE: RANGE (MINIMUM TO MAXIMUM) OF SUB-INDICATOR DISCLOSURES, BY PILLAR DARK BLUE: AVERAGE LEVEL OF DISCLOSURE BY PILLAR



THIS YEAR'S RESPOND ANALYSIS GENERATED TWO KEY INSIGHTS:

1. ESG leaders **deploy a wide array of levers to integrate sustainability** into their business models.
2. Ample opportunities remain **for asset managers to push the frontiers of RI**.

These insights and the associated recommendations will be relevant to all asset managers, but may be of particular interest to those **at the early stages of their sustainability journeys**, as they navigate their way to improving their RI capabilities, closing the gap with leaders and playing a greater role in the transition towards a low-carbon and sustainable world. Furthermore, for asset managers **operating in Asia**, advancing these capabilities may provide an additional competitive advantage, given the following:

- Asia is particularly at risk from the twin threats of climate change and natural capital degradation. The region's economies are heavily dependent on industries like manufacturing, fisheries, food and agriculture, which are highly exposed to sea level rise, water risk and climatic changes. The ADB warns that unabated warming could undermine the significant socio-economic development the region has achieved to date and fears climate change could create "severe effects on livelihoods which in turn would affect human health, migration dynamics and the potential for conflicts."
- Many countries in the region are exposed to extremely high costs for climate and nature-related mitigation and adaptation; according to UN Environment, developing sustainable land management practices in Asia over the next 10 years will cost around US\$1.2T. However, if implemented successfully, this could yield US\$4.2T in economic benefits. The ADB has estimated annual adaptation costs of US\$22.9B for infrastructure and US\$4.2B for coastal protection.

By using RESPOND as a roadmap, regional and international asset managers alike can enhance the resilience and sustainability of their portfolio companies and by extension, their own investment portfolios. In a complementary manner, asset owners and financial regulators and supervisors can use RESPOND and its underlying framework to establish and calibrate performance expectations for asset managers they engage, regulate and supervise.

KEY INSIGHT 1: ESG LEADERS DEPLOY A WIDE ARRAY OF LEVERS TO INTEGRATE SUSTAINABILITY INTO THEIR BUSINESS MODELS

On average, the 22 asset managers included in this year's RESPOND analysis disclosed against 69% of the framework's indicators. They have made major strides in implementing the necessary practices to tackle ESG issues. In doing so, they set the pace for their peers when it comes to competing for mandates from asset owners with increasing expectations regarding climate change and natural capital risk.

PURPOSE



All 22 asset managers clearly consider **sustainability** as a **key strategic issue** and explicitly acknowledge their role in promoting sustainable development. In particular, they all recognize that **climate change** poses long-term risks to business and society, and all publicly support the TCFD recommendations and make reference to the SDGs in relation to their purpose and strategy.

All 22 asset managers also drive the sustainable development agenda by participating in **collaborative initiatives** (e.g. The Investor Agenda, Institutional Investors Group on Climate Change, etc.), creating awareness through thought leadership or events, and engaging policy makers over climate and sustainability.

POLICIES



All 22 asset managers have translated their RI purpose into **disclosed RI policies**. All integrate climate change into investment decision-making and over 90% disclose their voting policies regarding climate-related issues. Similarly, over 90% of asset managers indicate they integrate **water risk** into their investment decisions and 82% do the same for **deforestation or biodiversity loss**.

PROCESSES



All 22 asset managers **proactively monitor the ESG performance** of portfolio companies, **engage** with them on ESG topics and **vote** on ESG resolutions.

PEOPLE



All 22 asset managers clearly define **who is responsible for RI oversight and implementation**; of these, 90% indicate that this responsibility ultimately lies with the **board**. 95% have dedicated **RI specialists** and 77% already provide **ESG training** to portfolio managers.

PRODUCTS



All 22 asset managers offer **ESG-integrated listed-equity funds** targeted at institutional investors, and over 90% **offer thematic funds** focused on sustainability solutions (e.g. clean energy) or best-in-class funds that screen for sustainability leaders.

PORTFOLIO



All 22 asset managers **report on RI actions** at least annually and 77% disclose engagement activities aggregated by environmental and social issues.

KEY INSIGHT 2: AMPLE OPPORTUNITIES REMAIN FOR ASSET MANAGERS TO PUSH THE FRONTIERS OF RESPONSIBLE INVESTMENT

In light of their leadership to date, WWF believes that the asset managers included in this study are among those best placed to go beyond existing market practices and push the frontiers of RI. In particular, WWF challenges these asset managers to double down on existing efforts to address climate change, and further, to tackle other issues related to the management of natural capital, such as water risk, deforestation, biodiversity loss, and the sustainable management of ocean resources. In doing so, these asset managers can set the agenda for the wider industry and catalyze a race to the top.



Climate change and the imperative of aligning portfolios with a 1.5°C world

Aligning investment portfolios to a 1.5°C climate warming scenario is a critical step asset managers must take to fully address the risks and opportunities posed by climate change. To effectively do so, asset managers should:

- Define and roll-out clear portfolio **decarbonization strategies**, which includes setting science-based, time-bound targets;
- Supplement climate risk assessments, mainly performed today at a portfolio company level, with **aggregated risk and scenario analyses** at an equity portfolio level;
- Reinforce climate governance by explicitly including portfolio alignment and climate risk management into the **boards' terms of reference**; and
- Uniformly expect portfolio companies to implement the TCFD recommendations and set **science-based targets**, so as to accelerate the real economy's low-carbon transition.



Natural capital risks: a worrying blind spot

Today, natural capital risks are largely overlooked by asset managers and the companies they invest in. Exceeding our planet's ecological boundaries not only reduces our resilience to physical climate risks, but also threatens the ecosystem services upon which our societies and economies depend.

In addition to strengthening their decarbonization strategies, today's RI leaders must simultaneously integrate natural capital risks into their investment practices in order to bolster portfolio resilience. To achieve this, asset managers should:

- More systematically include **water risk, deforestation, biodiversity loss** and the **sustainable management of ocean resources** into investment decision making;
- Set and **disclose uniform expectations** for all portfolio companies to understand their exposure to the above natural capital risks and implement best practices for managing them, such as practicing water stewardship and obtaining or otherwise supporting credible multi-stakeholder sustainability standards for relevant sectors (e.g. ASC, MSC, RSPO, FSC, SuRE);
- Specify how natural capital issues will be **voted**; and
- Develop and disclose policies for investing in and engaging with companies in high-risk sectors that **reference relevant best practices**.



The role of science in guiding the low-carbon and sustainable transition

Scientists have and will continue to play a key role in gathering evidence and developing forward-looking models that enable us to better grasp the impacts of climate change and natural capital loss. As such, it is critical that science-based research, data and methodologies serve as the foundation of asset managers' roadmaps towards a low-carbon and sustainable world. Asset managers will benefit from complementing ESG ratings with use of science-based tools and methodologies to accurately and consistently assess and benchmark portfolio companies, identify the best opportunities and make long-term investment decisions. To do this, asset managers should:

- Leverage technological developments, such as geo-spatial data and satellite imagery for assessing and monitoring natural capital risk and impact; and
- Collaborate to develop science-based methodologies and metrics for measuring and reporting on impacts, including the alignment of businesses and portfolios with planetary boundaries.



EXPLORE THE [RESPOND ONLINE TOOL](#) TO ACCESS AN OVERVIEW OF ASSET MANAGERS' DISCLOSURES AND SEE WHO IS DEMONSTRATING BEST PRACTICE AND LEADING THE RI CHARGE.

CONTACT US

Email: contact@resilientportfolios.org


For deeper insights into how we support Asia-based financial institutions, visit the [Asia Sustainable Finance Initiative](#), a multi-stakeholder forum, of which WWF-SG is the Secretariat and founding knowledge partner, that aims to harness and amplify the power of the finance sector to create resilient economies that deliver on the SDGs and the Paris Agreement.



ASSET MANAGERS CAN LEVERAGE TECHNOLOGICAL DEVELOPMENTS, SUCH AS GEO-SPATIAL DATA AND SATELLITE IMAGERY FOR ASSESSING AND MONITORING NATURAL CAPITAL RISK AND IMPACT

WWF SUSTAINABLE FINANCE




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