PROFIT OVER PLANET

How Swiss Asset Managers Fall Short of Fulfilling Their Environmental Stewardship Responsibilities

Management Summary of Greenpeace Switzerland

Based on a study by Greenpeace Switzerland conducted by the Institute for Wealth & Asset Management at ZHAW, in collaboration with *rezonanz*. June, 2024

GREENPEACE

No Stewardship, No Sustainable Economy

Asset managers in Switzerland invest hundreds of billions of francs in companies worldwide through investment funds. These funds invest money from pension funds, foundations, and private retirement savings, among others. Asset managers not only benefit from the profits of companies in which the funds invest but they typically also represent and exercise the associated shareholder rights. As such, asset managers also shoulder a portion of the responsibility for the environmental impacts of companies in which they invest.

Some asset managers state that by investing in and holding shares of a company, they are able to gain influence over its direction and policies. Many claim to use this influence to improve the sustainability of companies within their portfolios. Consequently, they argue, it is not appropriate to sell shares in "polluting" companies.

Indeed, asset managers can fulfill their responsibilities by exercising ownership rights through investment stewardship tools. For example, they can set expectations for companies to rapidly reduce greenhouse gas emissions and consistently protect ecosystems. They can advocate for these improvements through strategic dialogues with senior management, submitting shareholder proposals, and consistently exercising voting rights at company meetings.

This study examines the potential and effectiveness with which the 14 largest asset managers active in Switzerland currently use their stewardship activities to preserve and protect the environment.

Method and Scope: Focus on Impact-Materiality

In the spring of 2024, the Institute for Wealth & Asset Management at ZHAW and the data analysts at rezonanz conducted an assessment of environmental stewardship across three dimensions (Commitment, Engagement, and Voting). The primary focus was on impact materiality (see illustration).

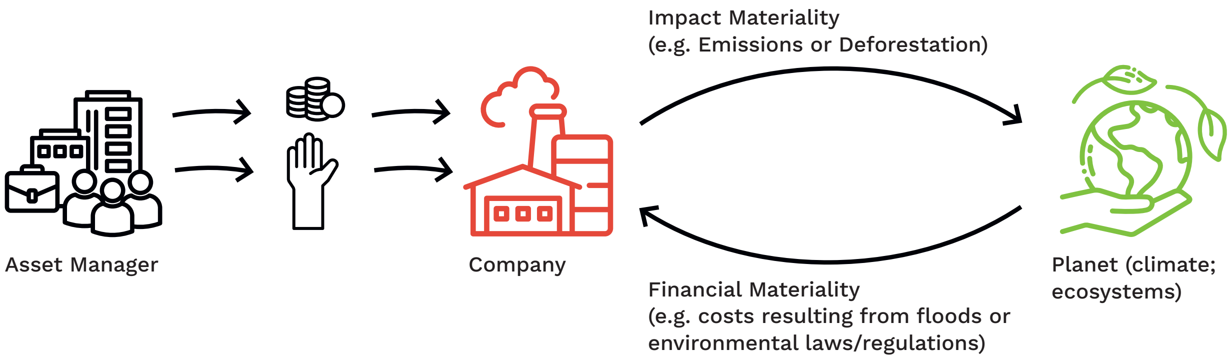
The authors of the study first sourced and evaluated publicly available information. They then provided the asset managers with the opportunity to supplement and explain the publicly available information by conducting **interviews**.

The **"Commitment"** dimension of the study examines the extent to which asset managers strive for changes in the real economy and how concrete and consistent the necessary framework to achieve these changes is. This dimension also includes the structure established and resources employed, and the transparency of the asset managers' reporting.

The **"Engagement"** dimension evaluates how asset managers engage in dialogue with the companies in which they invest. It examines whether stewardship effectively targets environmentally relevant companies and how pressure is applied and escalated if these companies fail to meet expectations and demands (escalation strategy).

The **"Voting"** dimension contains a quantitative analysis of 84 environmentally relevant and significant resolutions from the 2023 proxy season. The analysis includes thematic shareholder and management resolutions as well as management resolutions regarding the elections of board members. Additionally, it examines how often asset managers exercise the votes they hold and how transparently they report the voting rationale for votes exercised.

Environmental Stewardship Focussed on Impact Materiality



Environmental-Stewardship-Rating 2024

Assessment of the 14 largest asset managers active in Switzerland based on the 2023 Proxy Season and stewardship policies and activities in 2023/2024. Each dimension accounted for one-third of the Total Score calculation, with equal weighting assigned to each dimension.

As none of the asset managers met our minimum requirements for impact-oriented environmental stewardship, the first three places have been left vacant.

Asset-Manager	**Commitment for Impact**	**Engagement**	**Voting**[1]	**Overall Score** Max: 100 points
1. (–)				
2. (–)				
3. (–)				
4. Pictet	59	69	64	64
5. AXA IM	60	71	58	63
6. UBS AM	53	59	60	57
7. Swisscanto	49	53	60	54
8. GAM Investments	52	58	44	51
8. BCV	45	27	81	51
10. Zürich Invest	33	42	75	50
11. J. Safra Sarasin	44	54	45	48
12. Raiffeisen	42	52	47	47
13. Lombard Odier IM	35	59	44[2]	46
14. Vontobel	43	44	49	45
15. Credit Suisse AM	32	26	46	35
16. Swiss Life AM	36	28	36	33
17. BlackRock	35	32	0	22

[1] Aside from the alignment between exercised votes and environmental protection goals, voting participation and the disclosure of voting rationales were assessed as part of the proxy voting review.

[2] Lombard Odier implements split voting. This received a negative assessment in the study due to concerns associated with this practice. On the one hand, split voting dilutes the position of the asset manager and thus weakens the signal sent to the investee company. On the other hand, split voting makes it harder for (prospective) investors to deduce the sustainability of an asset manager's fund products based on the asset manager's actions.

Results: Lack of Intention and Persistent Escalation

Based on the study results, we conclude that asset managers do not consistently demonstrate an intention or commitment to demanding sustainable business practices from companies through impact-oriented environmental stewardship. This is further evidenced by the fact that asset managers rarely publicly articulate concrete expectations for companies they invest in.

While many asset managers have implemented extensive structures and processes for engagement, monitoring and voting, which enable them to perform a variety of stewardship activities, they primarily use these to optimize governance or minimize financial risks. Even climate-related issues are mainly referred to and addressed within the remit of financial risks.

There was little evidence of stringent and comprehensive action plans demonstrating how impact should be achieved. Escalation strategies are often incomplete or not described at all, lacking an impact-oriented integration of stewardship tools and steps.

Voting behavior is often inconsistent with escalation processes (votes against management or the board of directors are rare) and exclusion lists are typically absent. This further suggests that predefined escalation processes are either not implemented or not persistently followed.

The frequent lack of published voting intentions, voting rationales, and escalation processes prevents the ability to send impactful signals to companies.

Greenwishing or Greenwashing?

The results show that asset managers are falling short of their responsibilities. They call into question the industry's claim that roughly 20% of sustainability-related investments generate impact.

The prioritization of financial interests over the long-term preservation of the environment starkly contradicts the climate and biodiversity goals to which most asset managers publicly commit. It also contradicts the sustainable image that many convey for their investment products.

Ultimately, this also goes against the recommendations of the Swiss Federal Council made in 2022: Asset managers fail to demonstrate how their stewardship strategies align with the sustainability goals they voluntarily support, particularly net-zero targets for 2050 or sooner.

On a positive note, the results show that many asset managers have significant potential for generating impact due to the extensive structures and processes already in place. The interviews conducted for the study suggest that many motivated and ambitious employees are ready to harness this potential on behalf of their asset management firms.

Walk the Talk! How Stewardship Generates Environmental Impact

Asset managers shoulder a dual responsibility: not just to prevent environmental damage linked to their profits but also to safeguard future prosperity. This prosperity hinges on a stable climate and intact ecosystems. It is thus in the best interest of both their clients and society at large, for asset managers to harness their influence fully in advancing globally agreed-upon objectives for climate and biodiversity protection.

To fulfill this responsibility, asset managers must align their expectations for the companies they invest in from these goals and clearly and firmly articulate them. Furthermore, they must actively enforce these expectations through strategic dialogues and a consistent escalation strategy, employing a rigorous voting strategy and endorsing resolutions that promote environmental impact. Companies in investment portfolios that do not meet the expectations based on international climate and biodiversity objectives should be replaced.