Principles for Responsible Investment

INSIDE PRI DATA:

INVESTMENT MANAGER PRACTICES

UN environment programme | finance initiative

United Nations Global Compact

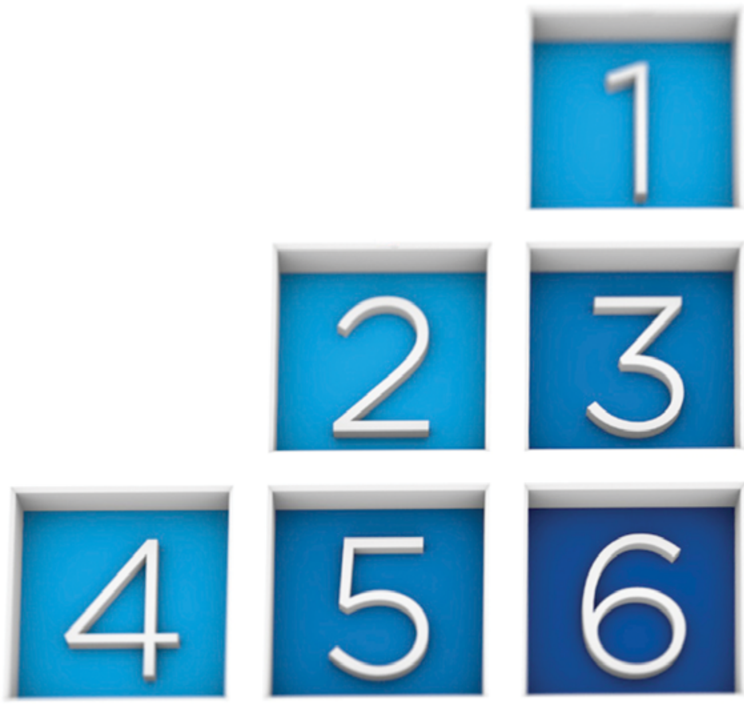
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

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FOREWORD

We hope that this publication brings a section of the PRI's reporting data to life. It complements our earlier research on asset owner practices and includes themes and reflections that are intended to help investment managers better understand investment and stewardship practices among peers, in other geographies – and how responses and priorities differ from those of asset owners. In turn, this analysis will also help the PRI improve the way we understand and work with this important group of signatories. It also offers asset owners and investment consultants useful insights.

The report is based on data from the last reporting cycle, so it is reasonable to assume that some findings may have evolved since that time. As readers will appreciate, this industry moves quickly, driven by regulatory developments, increasing commitments to climate targets following COP-27 and other geopolitical changes. However, the report does outline some noteworthy common themes which sometimes contrast with the findings from our earlier asset owner report.

As outlined in the senior leadership statements in the reporting framework, senior management teams at investment managers broadly prioritise processes, such as due diligence, analysis, governance and decision making. The UN Sustainable Development Goals (SDGs) are also referred to regularly as providing a framework for practices and processes. Despite the qualitative nature of this section of the reporting framework, these responses show clear differences with asset owners, where the focus was on engagement and issues such as climate and human rights.

It is encouraging that almost all our investment manager signatories have formal, senior-level oversight and accountability for responsible investment, and more than half specify that climate-related risks are incorporated into board responsibilities. A large majority also make their overall approach to responsible investment public and provide some details about their stewardship approach. However, these policies are often light on specific details relating to activity across different asset classes and how they are applied, especially for stewardship.

Support for either (or both) the Paris Agreement or the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations was broadly similar across Europe, Asia and North America, despite very different policy environments. As with the findings in the asset owner report, signatories in Oceania often lead the way in many aspects of reporting, governance and process regarding climate-related risks and opportunities.

David Atkin
CEO, PRI

Despite these high levels of management oversight and support for frameworks such as the TCFD, the adoption of practices such as using multiple climate scenarios and linking climate-related performance measures to remuneration remains low.

We hope this report usefully maps the investment manager landscape and provides some valuable actions this group might take to implement PRI Principles I and II: incorporation of environmental, social and governance (ESG) factors into investment decisions and stewardship practices. Thank you to our signatories for completing the Reporting Framework and to Aon for helping us with the analysis.

KEY AREAS FOR DEVELOPMENT

There are many responsible investment practices that are now widely practised among the PRI's investment manager signatories. A large majority publish core policies and have executive oversight of their implementation.

Almost 85% of investment managers say they make their overall approach to responsible investment publicly available and disclose important details about how it is implemented and overseen. Roughly 70% of investment managers said they have a stewardship policy, most tracked and managed climate-related risks and allocated responsibility to senior management teams. For example, more than half reported that their boards, or equivalent functions, oversaw climate-related risks and opportunities. The responsible investment landscape and practices have also developed since the collection of this data.

There is much to celebrate about the significant progress investment manager signatories have made in integrating ESG considerations into their business decisions and investment approaches.

The report also identifies a range of areas where signatories could go further. Some of the ways that investment managers could develop their responsible investment practices, are to:

- **Develop detailed, public responsible investment policies.** This is an area that managers can clearly improve on, given that asset owners assess responsible investment policies and guidelines when selecting managers.
    - **Conflicts of interest** – more than 70% of investment managers opted not to disclose how they deal with conflicts of interest in their responsible investments;
    - **Verification** – two in three do not publish how they verify and report on their investments internally;
    - **Asset class guidelines** – close to 50% of managers did not report on having asset class-specific ESG guidelines and where they did, some only applied to a small percentage of AUM; and
    - **Policy publication** – 14% said they do not make their policies publicly available.
- **Improve stewardship policies with broader coverage across AUM, asset classes and ESG issues.** While 70% of investment managers said they have a stewardship policy, important details were often lacking. In some cases, policies were only applicable to a small percentage of AUM or provided limited details on specific issues – leaving room for improvement. For example, less than half outlined approaches to stewardship on climate-related risks and opportunities. Stewardship is an impactful tool for delivering outcomes on systemic issues, and investment managers should use it more widely to deliver climate stability.
- **Have clear accountability and governance for implementing responsible investment.** Our findings show that investment managers tend to have multiple layers of oversight and accountability for responsible investment. This reflects how important it is but also creates the risk that no-one takes ownership of specific issues.
- **Expand client reporting, including quantitative analysis related to ESG performance.** Although three in four asset owners require responsible investment disclosures for major asset classes, close to one in five managers do not include ESG information in client reporting for most AUM. Managers that report quantitative information, progress on sustainability outcomes, stewardship results and how ESG considerations contribute to financial performance are in the minority – only 46%, 35%, 40% and 10% do so respectively. Reporting quantitative progress on these areas would be a welcome step.
- **Robustly implement the TCFD recommendations.** Although 43% signatories publicly support the TCFD recommendations, further work is needed to put these steps into action. There are clear implementation gaps: one in five investment managers have not identified any specific climate-related risks, close to 20% of firm boards do not oversee climate-related risks and opportunities, and over 60% are not conducting scenario analysis. Among those that do conduct such analysis, most consider a single scenario. Multiple scenarios are needed to understand the range of outcomes that might occur with climate change, or to test the resilience of a portfolio against future climate-related risks.

ABOUT THIS REPORT

PRI reporting is the largest global reporting project on responsible investment. PRI signatories are required to report on their responsible investment activities annually (following a grace period in their first year of joining).

Read more about PRI reporting and assessment

This report analyses publicly available responses from 1,858[1] investment manager signatories that participated in PRI reporting in 2021.[2]

It highlights which practices are more established, and which remain nascent, and also draws comparisons to asset owner practices that we analysed in Inside PRI data: Asset owner action.

The data analysed comes from three modules of the PRI Reporting Framework: Senior leadership statement (SLS 1); Organisational overview (OO 1 and 5) and Investment and stewardship policy (ISP 2, 5 - 7, 11 - 13, 20, 26 - 30.1, 33, 33.1, 35, 36, 49 and 50).

This report is the latest in a series of analyses of PRI reporting data. Any feedback or questions on can be sent to toby.belsom@unpri.org and diba.ahour@unpri.org.

METHODOLOGY

The PRI commissioned Aon to support with the data analysis. Members of Aon's Responsible Investment team and its Centre for Innovation and Analytics in Singapore structured and analysed the publicly available data to identify salient themes.

Univariate analysis was conducted to understand the general frequency distribution of the responses from investment managers within the ISP module. Pairwise analysis was then used to identify any trends in the frequency distribution against the investment managers' AUM band, region, and organisation type.

Natural language processing techniques were applied to the free text responses across the SLS module, first cleaning up the responses (standardising cases; removing special characters, punctuation and hyperlinks; filtering out commonly used words that do not add value; and lemmatisation), before visualising the results in frequency bar charts and word clouds (see figures 4, 5 and 6).

1 The sample size of respondents varies per indicator as some indicators were only applicable for reporting based on signatories' responses to previous indicators.

2 Some signatories experienced technical issues when responding to the 2021 Reporting Framework. We made best efforts to correct and adjust for these data issues and we do not expect this to have influenced the material conclusions in this report.

PRI INVESTMENT MANAGER SIGNATORIES: WHERE AND WHAT

Investment manager signatories to the PRI vary, representing a diversity that is important to remember when assessing the range of practices seen. Region, size and asset class focus are all important differentiators.

Investment managers represent more than 75% of our signatories – sitting at just over 4,000 in early 2023.

Explore the PRI signatory directory

Geographically, traditionally large markets for responsible investment continue to be most represented among signatories.

Investment managers headquartered in Europe make up 55% of the total number analysed, followed by those based in North America (26%). Managers located in Asia and Oceania[3] represent 7% and 6% respectively, while those in Latin America, Africa and the Middle East collectively make up the remaining 6%.

Four countries – the US, UK, France and Australia – account for 51% of investment manager signatories, with the next eight making up another 26%, including Canada, Germany, Japan and Spain.

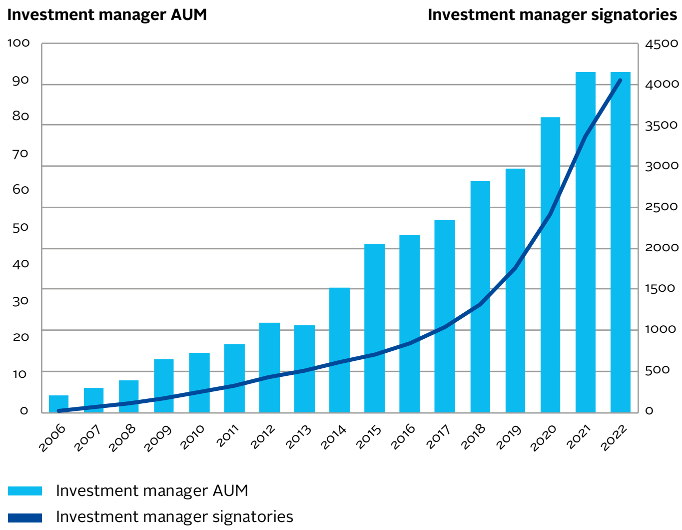
At 2% each, South Africa and Brazil are the largest emerging market sources of PRI signatories, while only 1% of managers are based in China.

Our asset owner analysis showed a similar geographic breakdown, with 60% of asset owners headquartered in Europe, followed by 21% based in North America.

In terms of size, a similar proportion of managers had AUM of US$1bn or less, or between US$1bn and US$10bn (just over one-third each), and collectively, these made up more than 70% of respondents, while 8% managed more than US$50bn but less than US$250bn.

Representative of the wider investment management industry, 55% of investment managers said they invested in listed equity, 46% in fixed income and 39% in private equity.

Figure 1: PRI investment manager signatory growth



As AUM is primarily calculated based on PRI Reporting submissions, the figure has not been updated for 2022.

Figure 2: Investment managers by AUM. Source: Indicator OO1

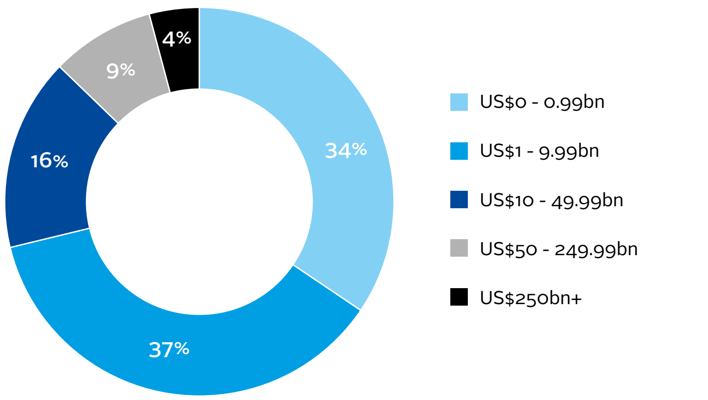
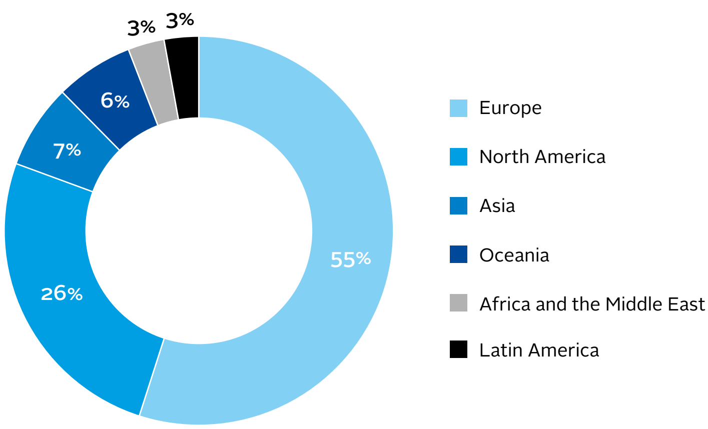


Figure 3: Investment managers by region. Source: Indicator OO1



3 Australia and New Zealand

STATEMENTS FROM THE TOP

- The most cited motivations for pursuing responsible investment are long-term value creation, financial returns and performance, as well as processes such as due diligence.
- Climate change is the most common area investment managers say they have made recent progress on, while diversity, equity and inclusion also stands out.
- In looking ahead, investment managers talk about improving their due diligence processes and focusing on climate change-related disclosures and reporting.

MOTIVATIONS AND APPROACH

In describing why their organisation engages in responsible investment and what their overall approach entails, many signatories talked about long-term value creation, financial returns and performance.

They also placed a lot of emphasis on processes, such as due diligence, financial analysis and decision making, particularly for equity and bond mandates. While the UN Sustainable Development Goals (SDGs) and having a positive impact were referenced frequently, there was less mention of specific ESG issues such as human rights or climate change.

This contrasts with the senior leadership statements of asset owners, which had a strong focus on climate change and often referenced human rights and diversity. Asset owners referenced fiduciary duty and the desire to be active owners more frequently, while also having a long-term focus on value and returns.

The senior leadership statement – signed by the chief executive officer, the chief investment officer or a similarly senior member of the organisation's leadership – asks signatories to provide a high-level view on the organisation's approach to, and achievements on, responsible investment.

Having senior-level oversight of responsible investment practices is one of the minimum requirements of being a PRI signatory. The senior leadership statement serves to:

- spread awareness and accountability for PRI reporting, and responsible investment in general, throughout the organisation;
- encourage internal use of PRI reporting for decision making and for tracking progress;
- frame signatories' detailed reporting within their general responsible investment beliefs.

Figure 4: Reasons for engaging in responsible investment. Source: Indicator SLS1 (Section 1)

RECENT PROGRESS

When asked about progress on the issues most relevant or material to their organisation, climate change was the dominant theme, as it was with asset owners.

Many investment managers referred to their work with, and support for, major collaborative initiatives and frameworks, such as Climate Action 100+ and the Task Force on Climate-Related Financial Disclosures (TCFD). The Sustainable Finance Disclosure Regulation (SFDR) and Sustainability Accounting Standards Board were also mentioned, but less frequently.

Processes such as due diligence, engagement and management, and in relation to climate-related financial disclosures, also stood out. Diversity, equity and inclusion was the second most-cited specific issue on which progress was made.

“During the reporting year, [we updated] our Responsible Investing Policy, [designed] and [implemented] a new four stage ESG due diligence framework, [created] a comprehensive ESG toolkit for use in investment due diligence and [introduced] TCFD-aligned climate risk assessments in our investment decision making process.”

Australian private equity investment manager, US$1bn – US$9bn

“Our investment teams have completed the TCFD questionnaire on portfolio companies in both 2019 and late in 2020. None of [our] portfolio companies measure [their] carbon footprint at this stage [and] this will be worked on in 2021.”

European equity investment manager, <US$1bn AUM

Figure 5: Progress on most relevant issues. Source: Indicator SLS1 (Section 2)

FUTURE PLANS

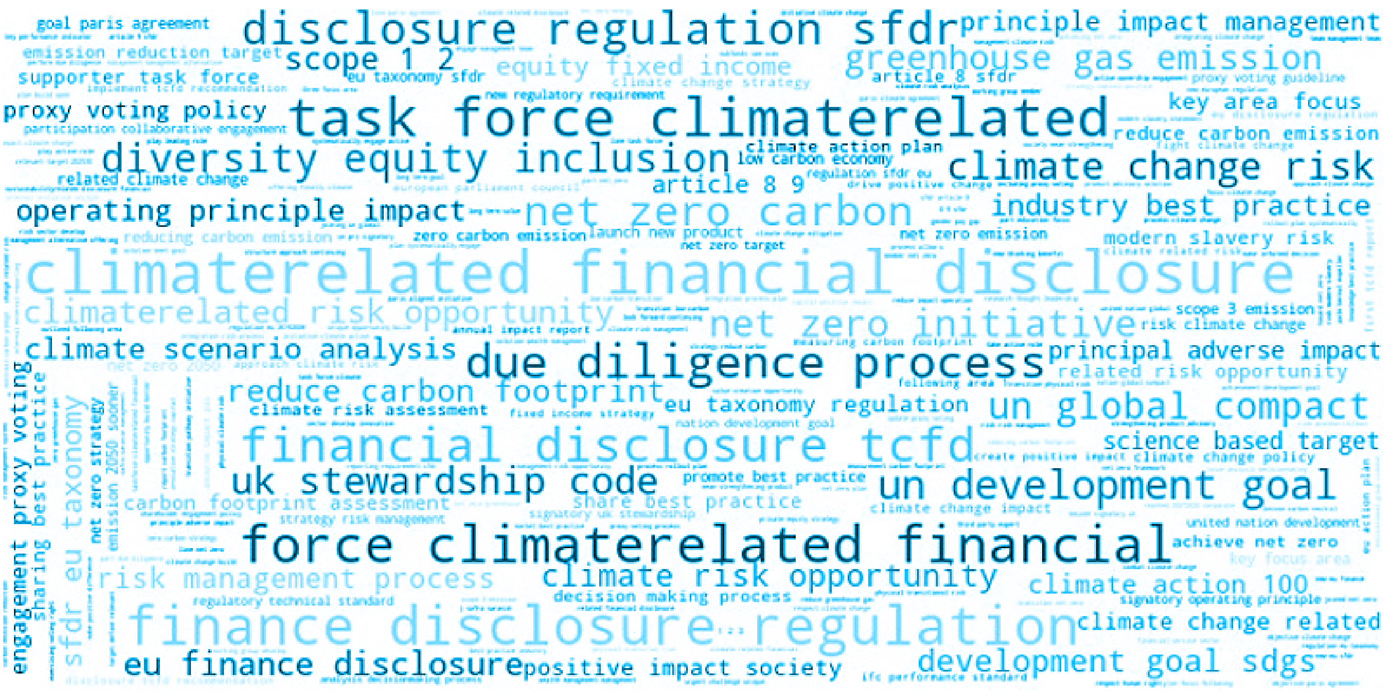
Looking at what steps organisations plan to take to advance their responsible investment commitments over the next two years, investment managers most mentioned improving their due diligence processes and focusing on climate change. They are looking to improve their climate-related disclosures and reporting related to the TCFD, SFDR and net-zero targets.

Aside from focusing on the SDGs and diversity, equity and inclusion, there was little mention of social issues in managers' forward-looking plans.

Asset owners, in contrast, reported wanting to ramp up their efforts through more advanced ESG integration, elevated targets and new opportunities.

> "[We will] continue to enhance and refine [our] ESG reporting capabilities over the next two years. Part of this will entail the expansion of the ESG staffing in the company."
>
> North American real estate investment manager, <US$1bn AUM

Figure 6: Plans for the next two years. Source: Indicator SLS1 (Section 3)



“When doing this analysis, we were delighted to see that leading practice can be found among investment managers across the globe – in Africa, Asia, Europe, North America and Oceania – showing that location is not a barrier to excellence in responsible investment.”

Tim Currell, Head of Investment, International Wealth, Aon

POLICIES

- Almost 85% of investment managers made their overall approach to responsible investment publicly available, compared to 90% of asset owners.
- Information on governance and oversight of responsible investment was made public less frequently.
- Roughly 70% said they have a stewardship policy, and more than half of those policies included core elements such as their main objectives and how they prioritised ESG factors and linked them to engagement issues.

An investment policy guides an organisation on investment decisions, asset allocation, ESG incorporation, how stewardship is carried out and how it reports on its activities.

It is a minimum requirement of being a signatory to have the organisation's overall approach to ESG factors laid out – either within the main investment policy or in a dedicated responsible investment policy. Many also choose to make these policies public, which increases transparency.

Explore the PRI's resources on writing a strategy and policy

PUBLIC DISCLOSURE

Almost 85% of investment managers made their overall approach to responsible investment publicly available, compared to 90% of asset owners. At least two-thirds did so across each AUM bracket, including 100% of managers overseeing US$250bn or more.

The majority of responsible investment policy elements, such as stewardship approach, responsible investment definition and asset class-specific ESG incorporation guidelines, saw public disclosure increase with AUM (although there are many examples of smaller investment managers that have published detailed and wide-ranging policies that incorporate many of the elements asked about).

Just over one-third of investment managers published their policy on sustainability outcomes, in line with the proportion of asset owners that said they do.

Information on governance and oversight of responsible investment was made public less frequently. More than 70% of managers opted not to disclose how they deal with conflicts of interest related to their responsible investments, while two in three do not publish how they verify and report on their investments internally.

This trend was also apparent when looking at signatory reporting across regions. Although more Europe- and Asia-based managers disclosed information than their counterparts in other geographies, more managers chose not to do so in each geography.

Some 14% of all investment managers do not make their policies publicly available at all. This proportion doubled among the smallest firms. It was 10% for those with AUM between US$1bn and US$10bn and 3% for those managing between US$10bn and US$250bn. Regionally, fewer managers headquartered in Europe and Oceania reported keeping their responsible investment policies private, while more did so in Latin America, followed by those in Africa and the Middle East, Asia and North America.

Figure 7: Publicly available policy elements. Source: Indicator ISP2

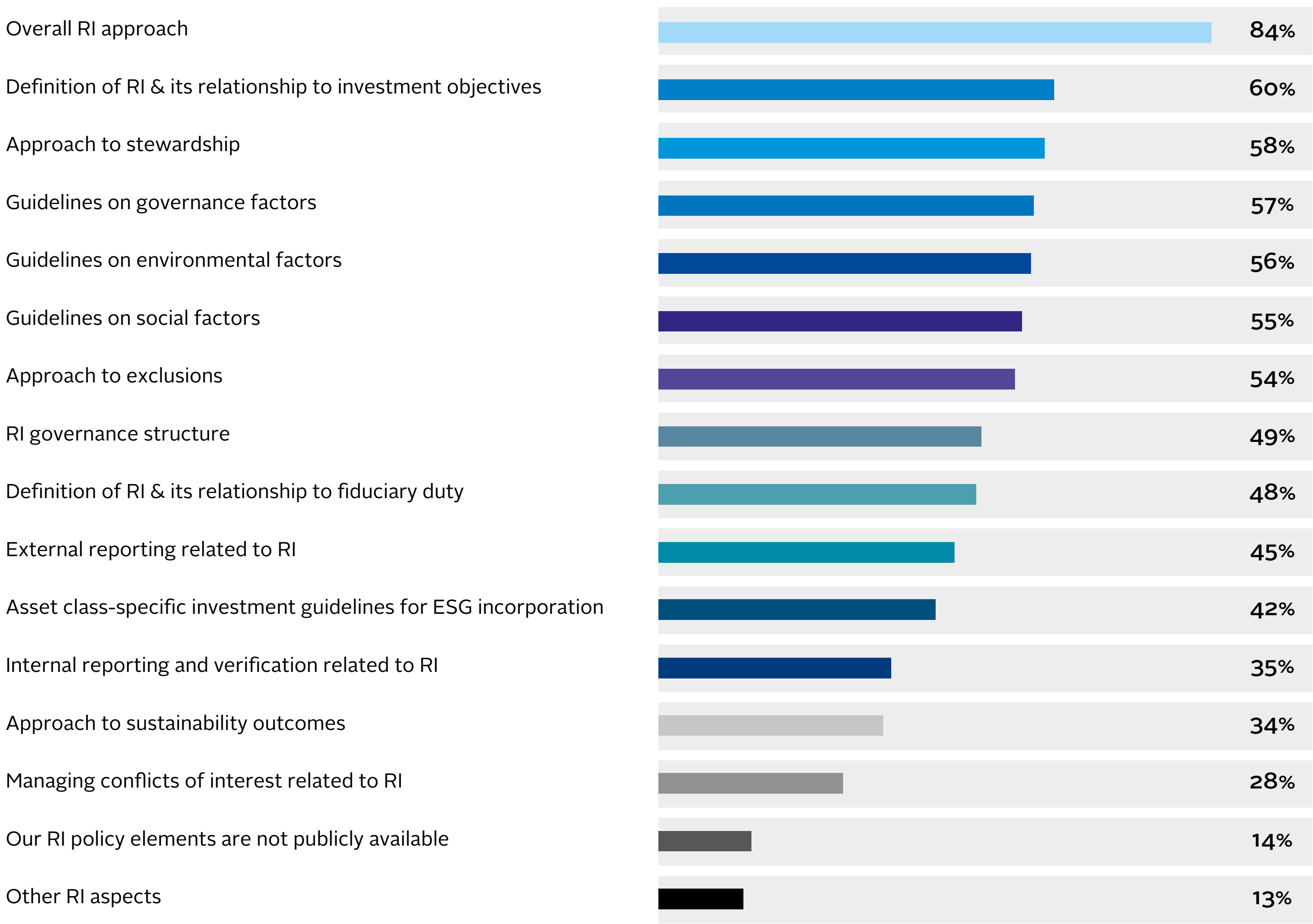
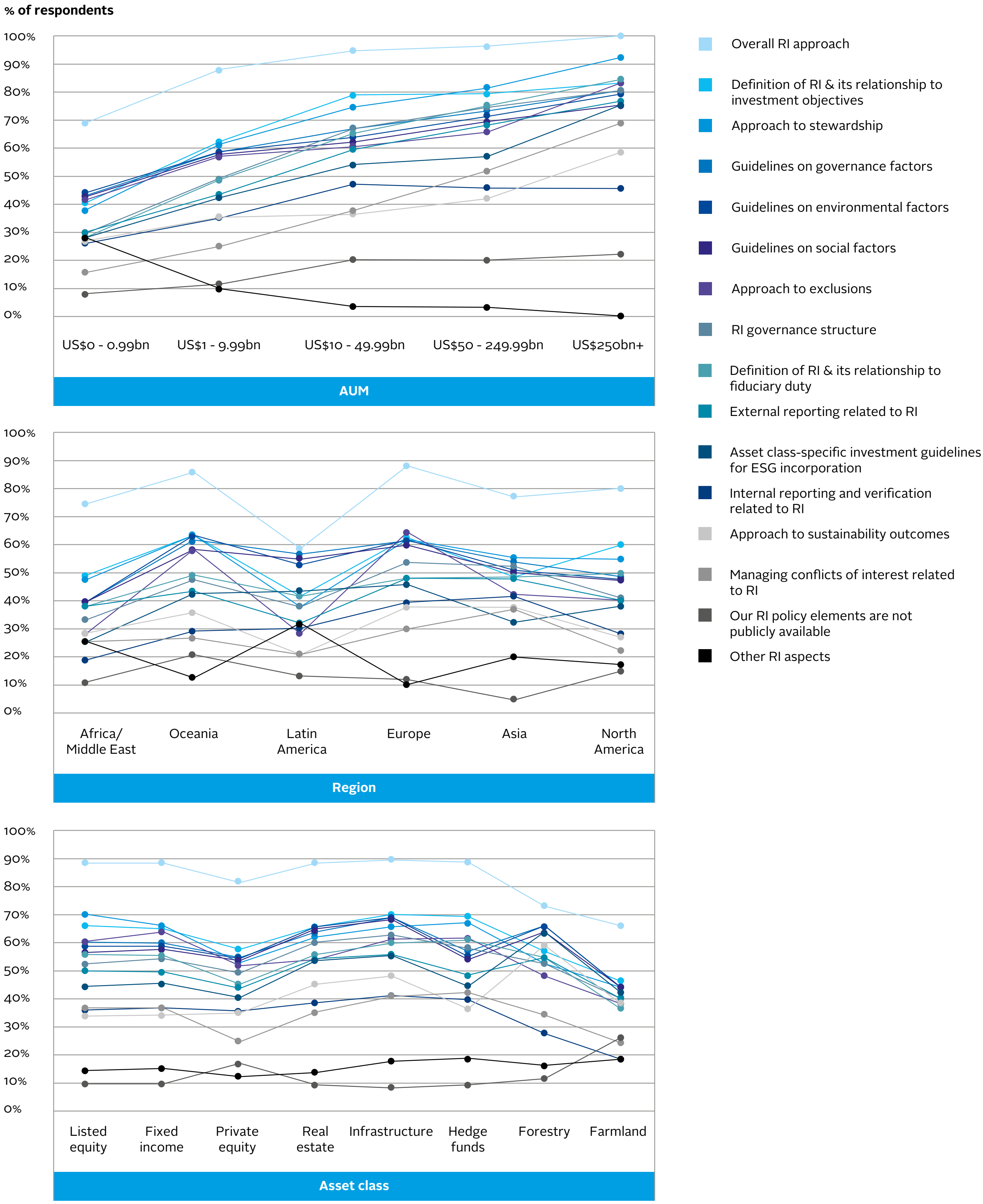


Figure 8: Publicly available policy elements (by asset class, AUM and region). Source: Indicator ISP2



STEWARDSHIP

Roughly 70% of managers said they have a stewardship policy, either a standalone document and/or part of a broader responsible investment policy, and 58% report they make their policy publicly available.

More than half of those policies included their main stewardship objectives; how they prioritised ESG factors and linked them to engagement issues and targets; how they approached collaboration and conflicts of interest.

In most cases, these stewardship policies cover the majority of the manager's assets.

Overall, one in two managers' stewardship policies include their escalation strategies, an element that is more common as AUM increases.

Just over one-third of managers with less than US$1bn and 46% with assets under US$10bn reported doing so, compared to 59% of managers in the next AUM bracket and 86% of firms managing more than US$250bn.

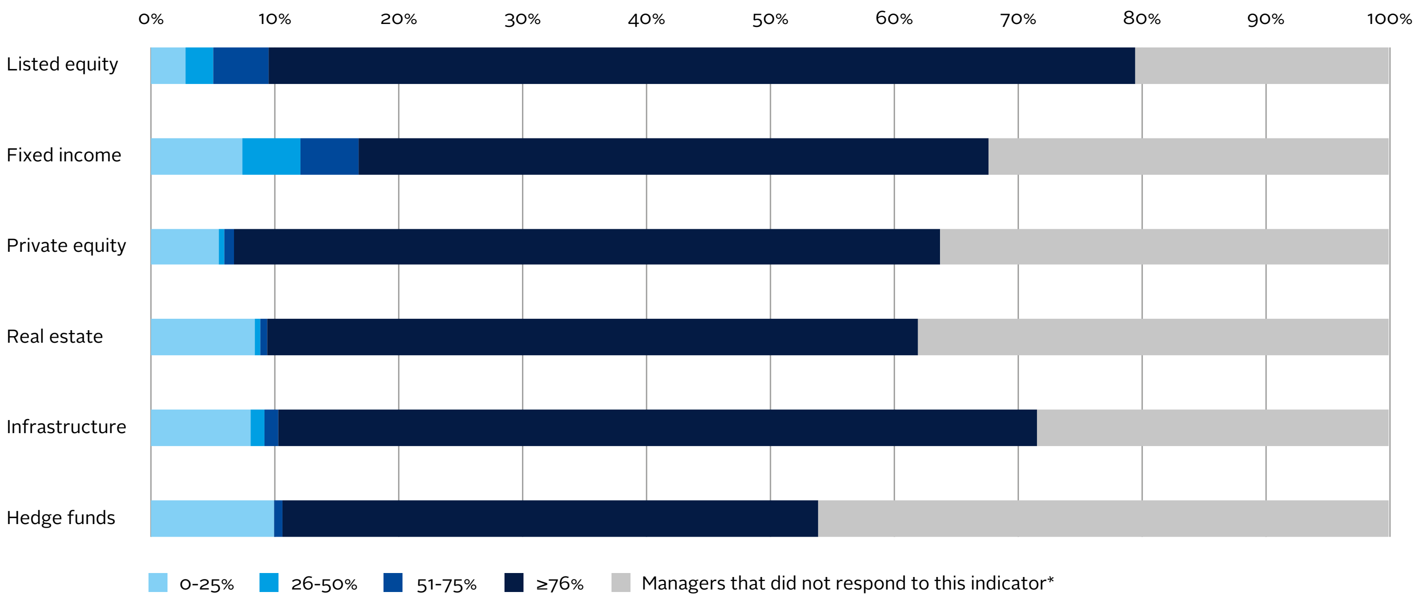
Regionally, more than half of managers headquartered in Oceania, Europe and Asia highlighted their escalation strategies, while less than half did so in Africa and the Middle East and the Americas.

Escalation strategies were also among the least common stewardship activities monitored by asset owners, with between 29% and 43% doing so for all their assets across equities and fixed income respectively.

Less than half of managers' stewardship policies outlined a specific approach to climate-related risks and opportunities. This trend was similar across AUM brackets and regions, with between 34% and 58% of firms with AUM under US$250bn doing so, while Oceania was the only location where more than half (58%) of managers included their approach.

Nonetheless, investment managers are starting to view engagement as a key tool to reach climate and net-zero commitments, as highlighted in Achieving climate commitments in multi-asset portfolios.

Figure 9: Percentage of AUM covered by stewardship policy. Source: Indicator ISP11



*Managers that did not respond to this indicator are counted as such because their responses to prior questions indicated this question would not be relevant

Figure 10: Elements covered in stewardship policy by AUM. Source: Indicator ISP12

	US$0 - 0.99bn	US$1 - 9.99bn	US$10 - 49.99bn	US$50 - 249.99bn	US$250bn+
Key stewardship objectives	87%	89%	93%	93%	99%
How ESG factors are prioritised and their link to engagement issues and targets	62%	69%	73%	73%	89%
Collaborative stewardship approach	54%	60%	70%	83%	89%
Conflicts of interest	54%	59%	65%	79%	89%
Communication of stewardship efforts and results to feed into investment decision-making and vice versa	43%	49%	54%	56%	74%
Escalation strategies	36%	46%	59%	67%	86%
Approach to climate-related risks and opportunities	34%	47%	54%	58%	79%
Stewardship tool use (specific internal teams)	36%	44%	56%	55%	79%
Stewardship tool use (across the organisation)	36%	43%	55%	53%	73%
Stewardship policy implementation details (including mandatory elements and condiions for overruling the policy)	33%	35%	47%	55%	62%
How entities are prioritised (e.g. company or government)	30%	33%	38%	43%	51%
Stewardship tool use (specific external teams)	14%	20%	24%	29%	33%
None of the above	2%	1%	1%	1%	0%

APPLYING STEWARDSHIP POLICIES

When it comes to applying their stewardship policies, 51% of managers said they are required to take certain actions.

Nearly one in ten reported that either their policies describe default actions that can be overridden or that they have not developed a uniform approach to applying the policy. Proportions were similar across AUM brackets.

In comparison, 71% of asset owners said they are required to take specific actions as part of their stewardship policies.

"The PRI's Reporting Framework is an important way for investment managers to develop their responsible investment approach, while this report highlights that the pace of work will need to progress faster if the financial community is to reflect the needs of asset owners in the coming years."

Mette Charles, ESG Research Lead, Aon

RESPONSIBLE INVESTMENT PROCESSES

- Having investment committee oversight was common across all sizes of manager, while external board oversight was most prevalent among Oceanian signatories and least used among North American firms.
- Investment managers tend to include qualitative information about their ESG incorporation approach more than quantitative information in materials shared with clients and beneficiaries.
- A large proportion of managers for each asset class (49% on average) did not report on having asset class-specific guidelines that describe how ESG incorporation is implemented.

ASSET CLASS GUIDELINES

A large proportion of managers for each asset class (49% on average) did not report on having asset class-specific guidelines that describe how ESG incorporation is implemented.

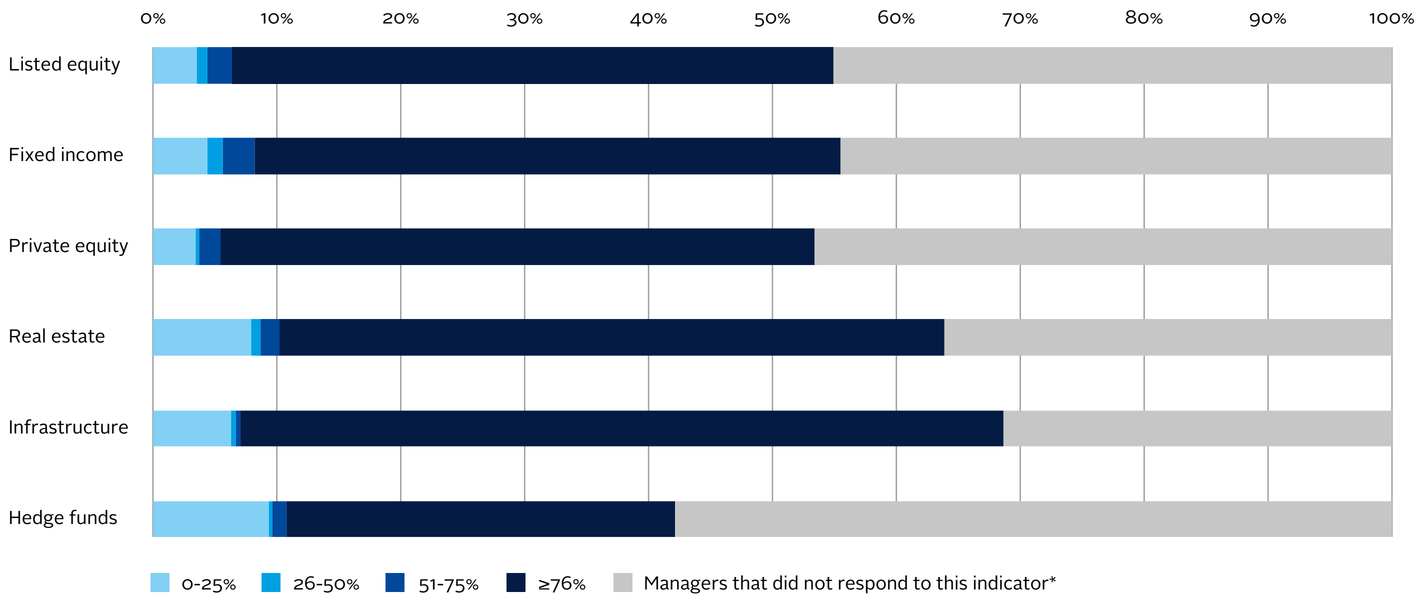
This was highest for hedge funds (67%) and lowest for infrastructure (37%); while equities and fixed income were both 49%. Among managers that did report having such guidelines, their coverage varied from less than 25% to more than 75% of AUM.

Infrastructure managers were most likely to have most of their assets covered by specific guidelines, with 62% reporting that these applied to over 75% of their AUM.

The PRI produces guides, case studies, tools and other resources to support signatories on implementing the six Principles for Responsible Investment.

Explore the PRI's ESG incorporation and stewardship resources

Figure 11: Percentage of AUM covered by asset class-specific ESG incorporation guidelines. Source: Indicator ISP5



*Managers that did not respond to this indicator are counted as such because their responses to prior questions indicated this question would not be relevant

RESPONSIBLE INVESTMENT GOVERNANCE

Almost 100%[4] of the investment managers analysed said that they have formal, senior-level oversight and accountability for responsible investment – reflecting the fact that this is a minimum requirement for PRI signatories.

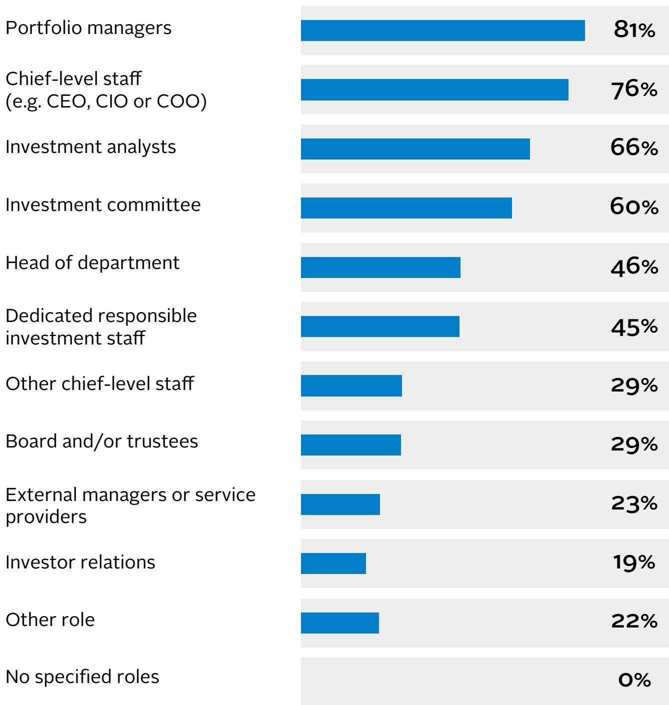
Breaking down at what levels this responsibility lies, almost 90% of managers said that their chief-level staff (e.g., Chief Executive Officer, Chief Investment Officer or Chief Operating Officer) had such responsibility, while 43% said that a dedicated department head did. In this question respondents could select multiple answers.

Having investment committee oversight was common across all sizes of manager, while external board oversight was most prevalent in Oceania and least in North America.

Looking at which roles implement responsible investment, similar trends emerge. Responsibility is largely internal and sits with investment decision makers, such as portfolio managers, analysts, chief-level staff and investment committees, for more than half of respondents.

Some 45% of managers said they had dedicated responsible investment staff, an arrangement that becomes more prevalent as AUM increases.

Figure 12: Internal or external roles with responsibility for implementing responsible investment. Source: ISP7



4 Less than 0.5% of the investment manager respondents reported that none of the following roles had formal oversight and accountability for responsible investment: board, chief-level staff, investment committee and/or head of department.

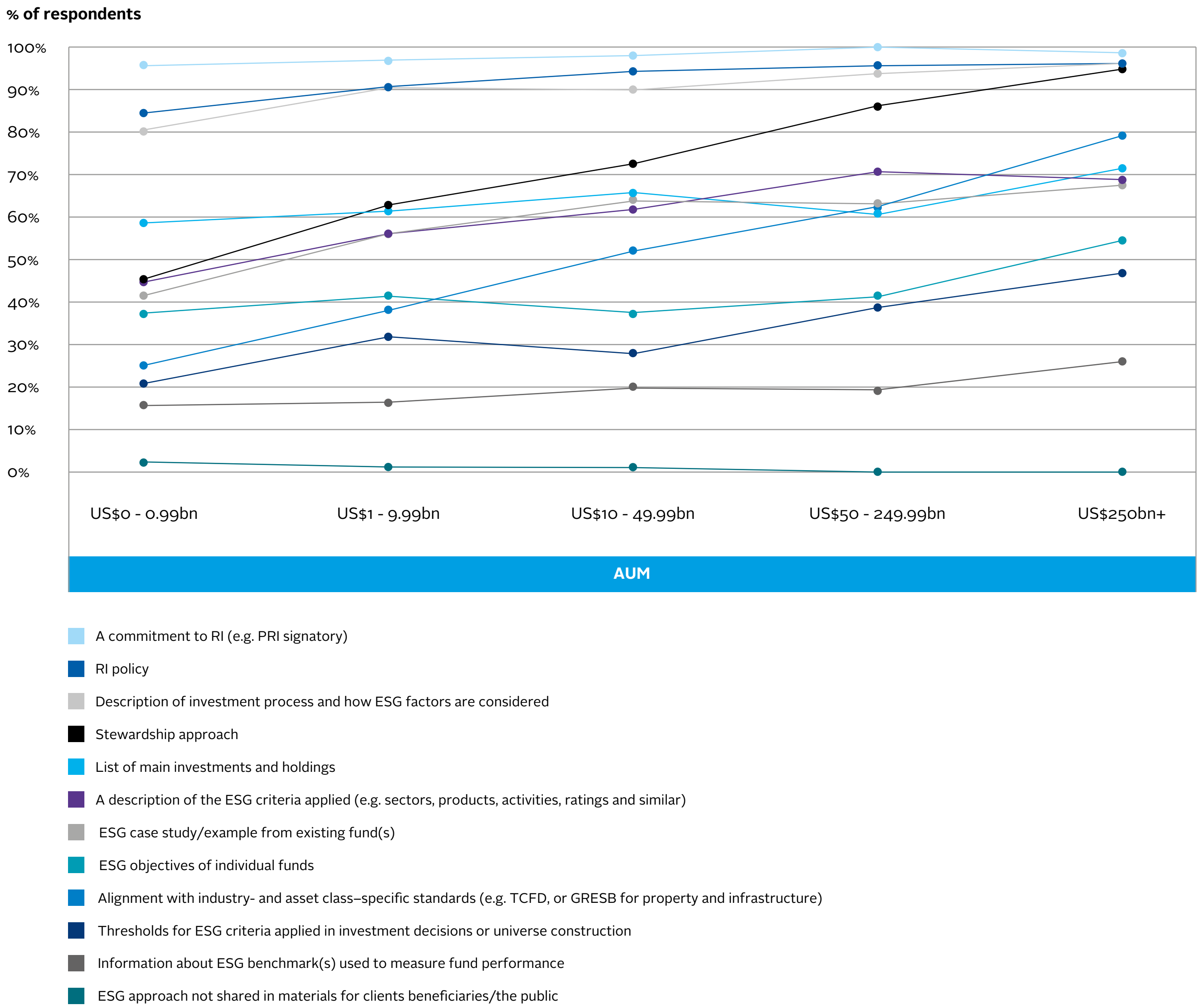
REPORTING

Investment managers tend to include qualitative information about their ESG incorporation approach more than quantitative information in materials shared with clients and beneficiaries.

For example, 97%, 90% and 87% said they disclosed their responsible investment commitment or policy, or a description of how they consider ESG factors when investing, respectively. Only 40% shared the ESG objectives of individual funds or specific standards they align with.

Larger managers disclosed such standards – for example, the TCFD recommendations or GRESB (for property and infrastructure) – more than smaller ones, while those headquartered in Oceania, Europe and North America did so more than their peers in Asia, Latin America and Africa and the Middle East.

Figure 13: Information about ESG approach included in client or public materials for majority of AUM. Source: Indicator ISP49

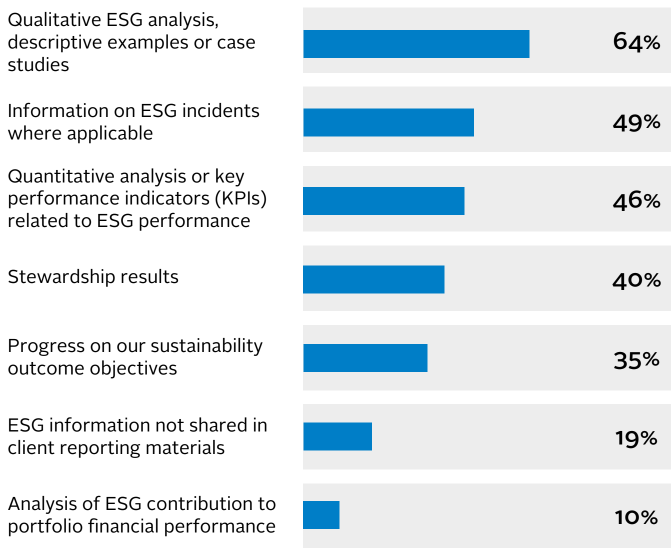


When it comes to providing ESG information in client reporting for the majority of AUM, 70% of the largest managers said they share qualitative ESG analysis, descriptive examples or case studies, while 65% of the smallest managers reported doing so.

Less than half of all managers include quantitative analysis or key performance indicators related to ESG performance, while only two in five said they provide clients with their stewardship results. The proportion of managers doing so increases with AUM – more than half of managers with US$50bn or more say they do so.

Just over one-third reported telling clients how they are progressing towards sustainability outcome objectives. Managers with less than US$10bn in AUM reported on this element more than larger signatories, however, while those headquartered in Asia, Africa and the Middle East or Oceania did so more than managers in the Americas and Europe.

Figure 14: ESG information included in client reporting for the majority of AUM. Source: Indicator ISP50



CLIMATE

- Just over 40% of managers said they publicly supported the Paris Agreement, while 43% did so for the TCFD recommendations.
- More than 50% said their senior leaders were responsible for identifying, resourcing, monitoring and reporting on climate-related risks and opportunities, with stranded assets and physical climate risks the most commonly identified.
- Almost two-thirds of managers said they do not conduct scenario analysis.

PUBLIC SUPPORT

Just over 40% of managers said they publicly supported the Paris Agreement, while 43% did so for the TCFD recommendations.

Only one in three managers said they publicly support both the Paris Agreement and the TCFD recommendations, with the proportion increasing to just over half of managers with assets between US$50bn and US$250bn. One in five of the smallest managers said they support both, compared to four in five of the largest managers.

Just over half of managers headquartered in Oceania publicly support both pieces of regulation, while those that do not publicise their support for either are broadly similar across Europe, Asia and North America, despite having very different policy environments.

Climate change is an urgent, existential challenge facing societies, making adaptation and mitigation a priority ESG issue for all signatories. PRI reporting anchors its climate questions around the eleven TCFD recommendations, covering: governance; strategy; risk management; metrics and targets.

Explore the PRI's resources on climate change, including those focused on private markets

BOARD OVERSIGHT

More than half of managers reported that their boards, or equivalent functions, oversaw climate-related risks and opportunities, by either incorporating climate change into their investment beliefs and policies or through internal processes that keep them informed.

Just over one-third of managers with AUM of US$1bn or less said their boards monitored progress on climate metrics and targets, compared to 46% across all sizes. Just over 75% of the biggest managers (US$250bn+) said their boards articulate internal/external roles and responsibilities related to climate, compared to 38% overall.

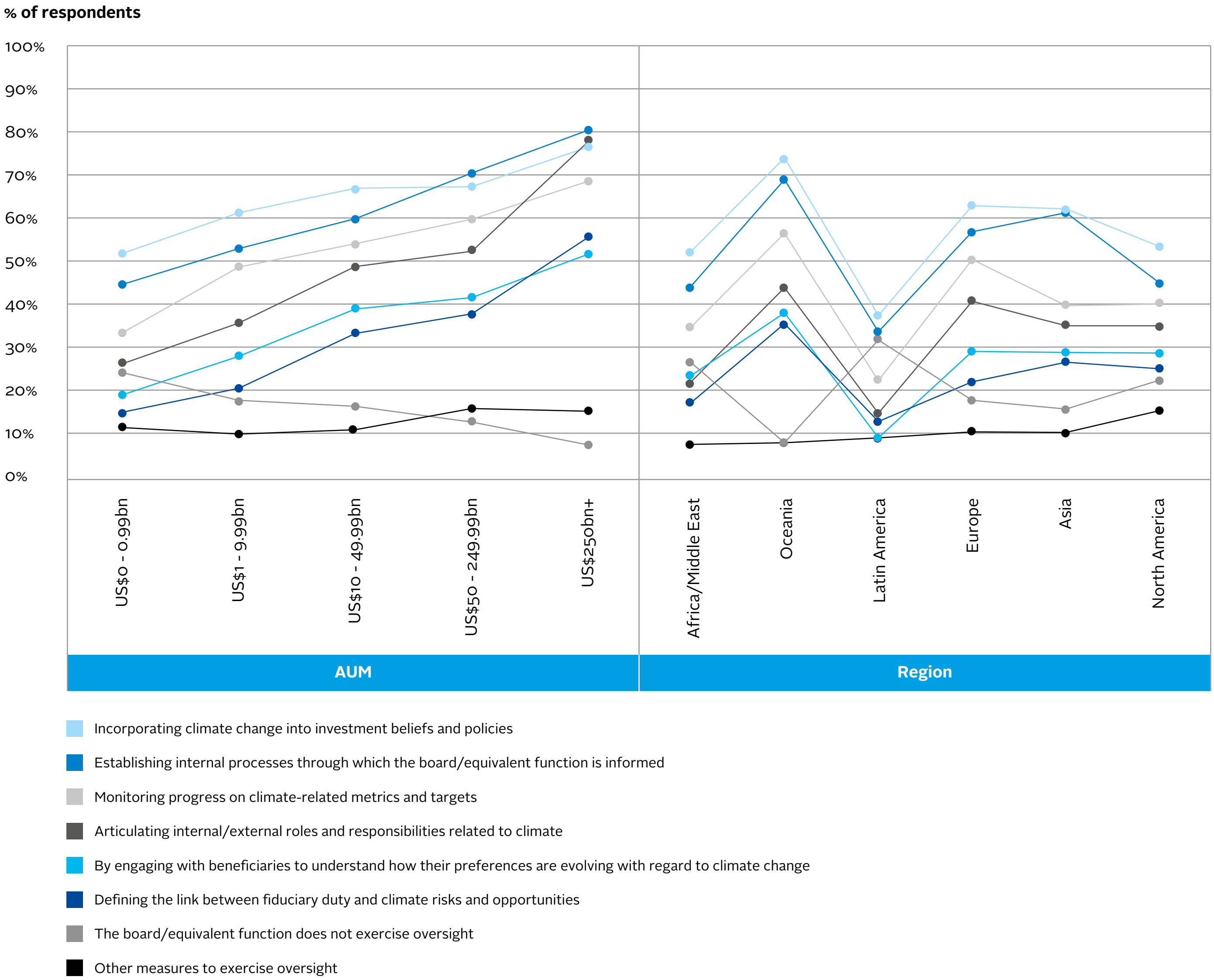
Board oversight tended to be higher among managers based in Oceania than other geographies, although the levels reported among firms headquartered in Europe, North America and Asia were broadly similar.

The proportion of managers (29%) engaging with beneficiaries to understand their climate preferences is similar to that of asset owners (30%).

Just under one-fifth of managers said their boards or equivalent functions did not oversee climate-related risks and opportunities, with the smallest managers three times more likely to report this than the largest (25% vs 8%). Almost one-third of firms based in Latin America said they did not have climate-related board oversight, followed by 27% of those in Africa and the Middle East and 23% of those in North America.

The trends among asset owners were similar. Those with larger AUMs indicated that they had more oversight measures for climate-related risks and opportunities compared to smaller asset owners. Oceanian asset owners reported more measures than those in other regions. Latin America-based asset owners reported having the least measures – 65% said their boards or equivalent functions did not have any oversight.

Figure 15: How the board oversees climate-related risks and opportunities (by AUM and region). Source: Indicator ISP28



SENIOR MANAGEMENT ASSESSING RISKS

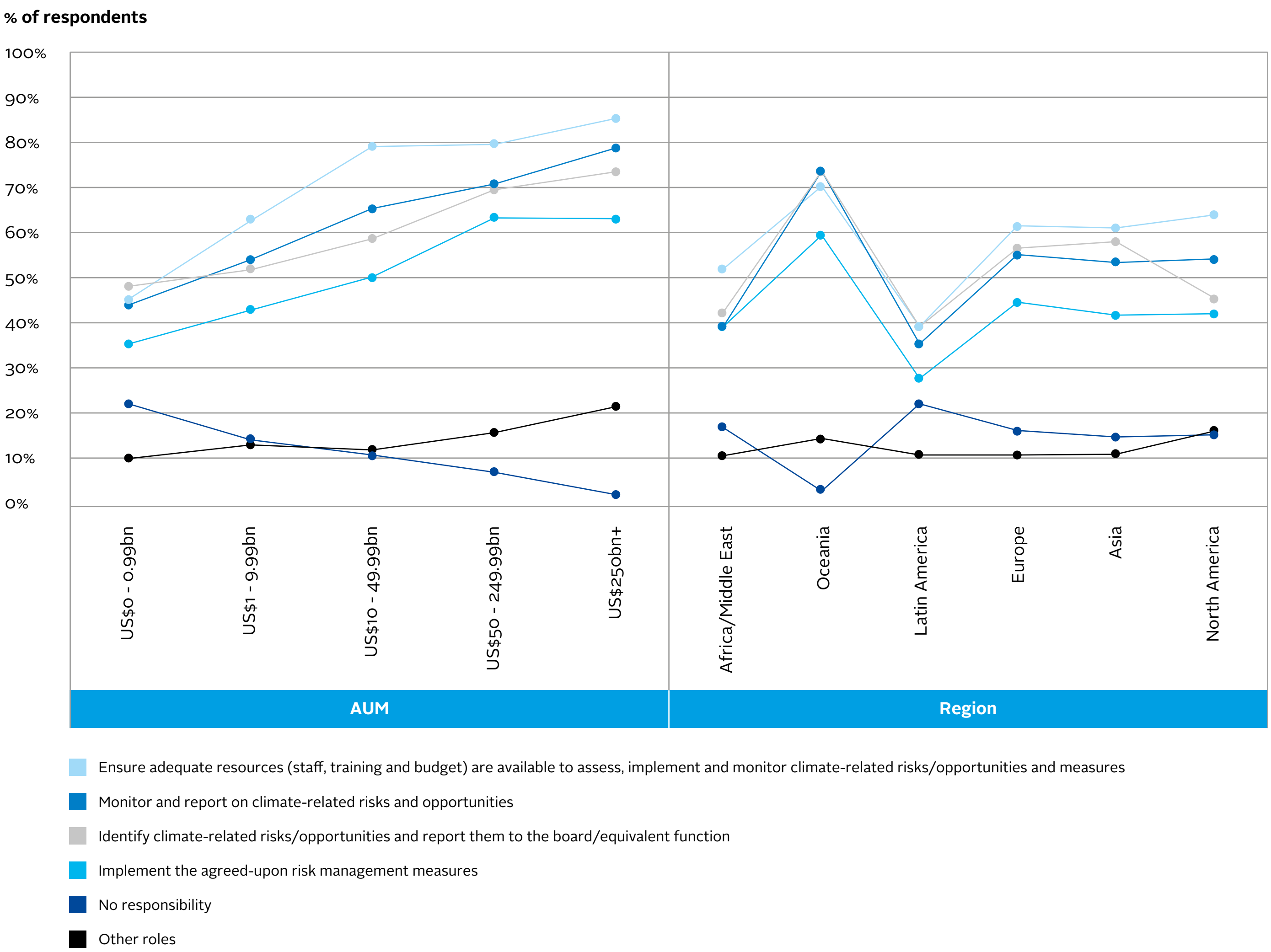
Overall, more than 50% of investment manager signatories said their senior leaders were responsible for identifying, resourcing, monitoring and reporting on climate-related risks and opportunities.

Around 45% said their management was responsible for implementing agreed-upon risk management measures.

These practices increased with AUM, as they did among asset owners.

Regionally, it is far more common among investment managers and asset owners in Oceania, and by far the least common across both signatory types in Latin America.

Figure 16: The role of management in assessing and managing climate-related risks and opportunities (by AUM and region). Source: Indicator ISP29



IDENTIFYING CLIMATE RISKS

For managers that consider climate-related risks, identifying stranded assets and physical climate risks was most common, at 51% and 50% respectively.

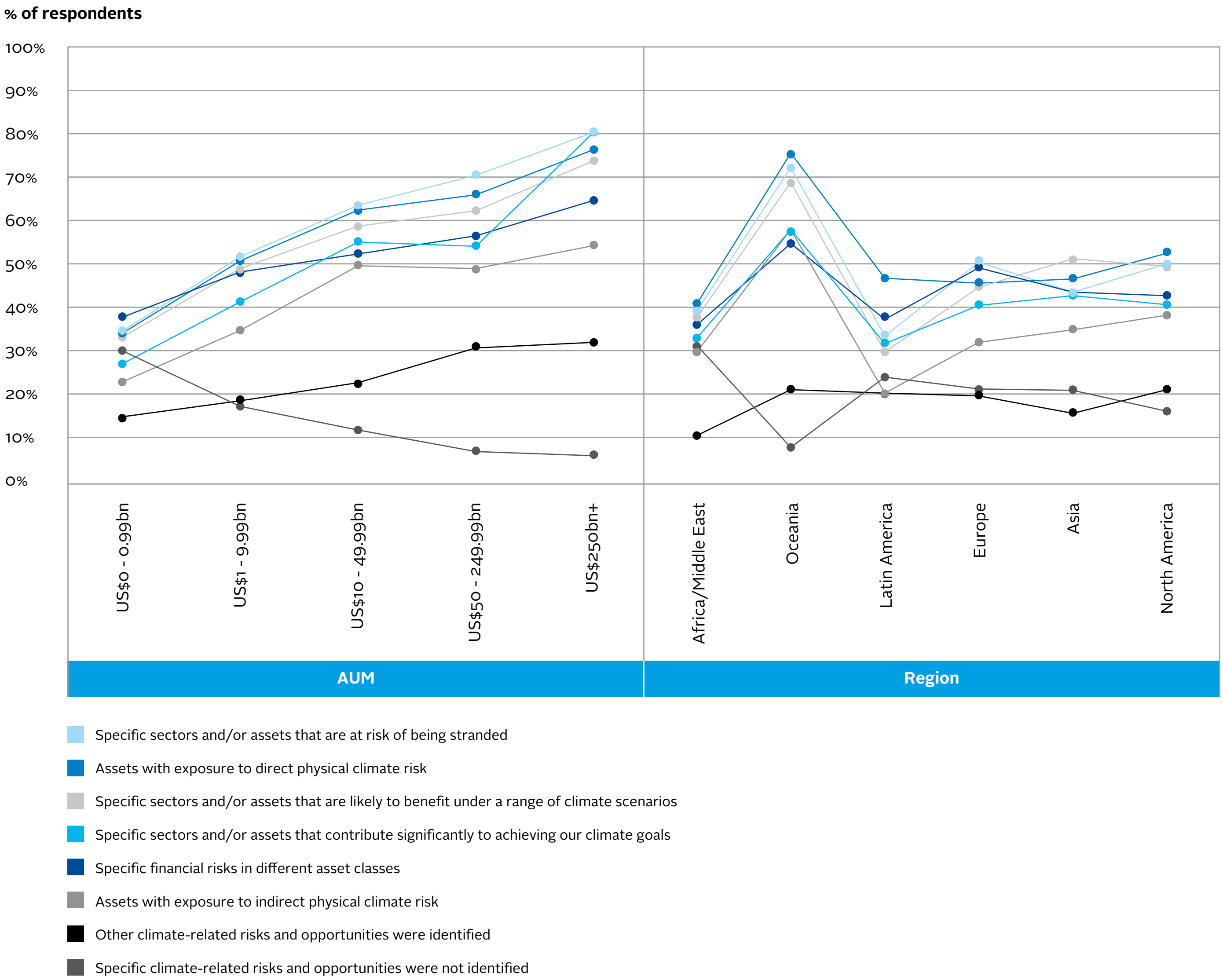
Specific sectors and/or assets that are likely to benefit under a range of climate scenarios, or that could contribute to achieving climate goals, were identified by 48% and 47% of managers respectively.

Assets with exposure to indirect physical climate risk were identified by just over one-third of respondents.

For most types of climate risk or opportunity, the biggest managers were twice as likely to identify them as the smallest managers. One-fifth of all respondents said they have not identified any. We would expect this to change in the next reporting cycle, as the focus on investors' net-zero commitments is increasing, as highlighted during COP27.

Managers based in Oceania reported identifying these risks much more than their peers in other regions. Only 8% said they did not do so, compared to those in Africa and the Middle East (32%), Latin America (25%), Asia and Europe (22% each) and North America (17%).

Figure 17: Climate-related risks and opportunities identified (by AUM and region). Source: Indicator ISP30



USE OF SCENARIO ANALYSIS

Almost two-thirds of managers said they do not use scenario analysis to assess climate-related investment risks and opportunities, rising to 78% of the smallest managers and 64% of those managing between US$1bn and US$10bn.

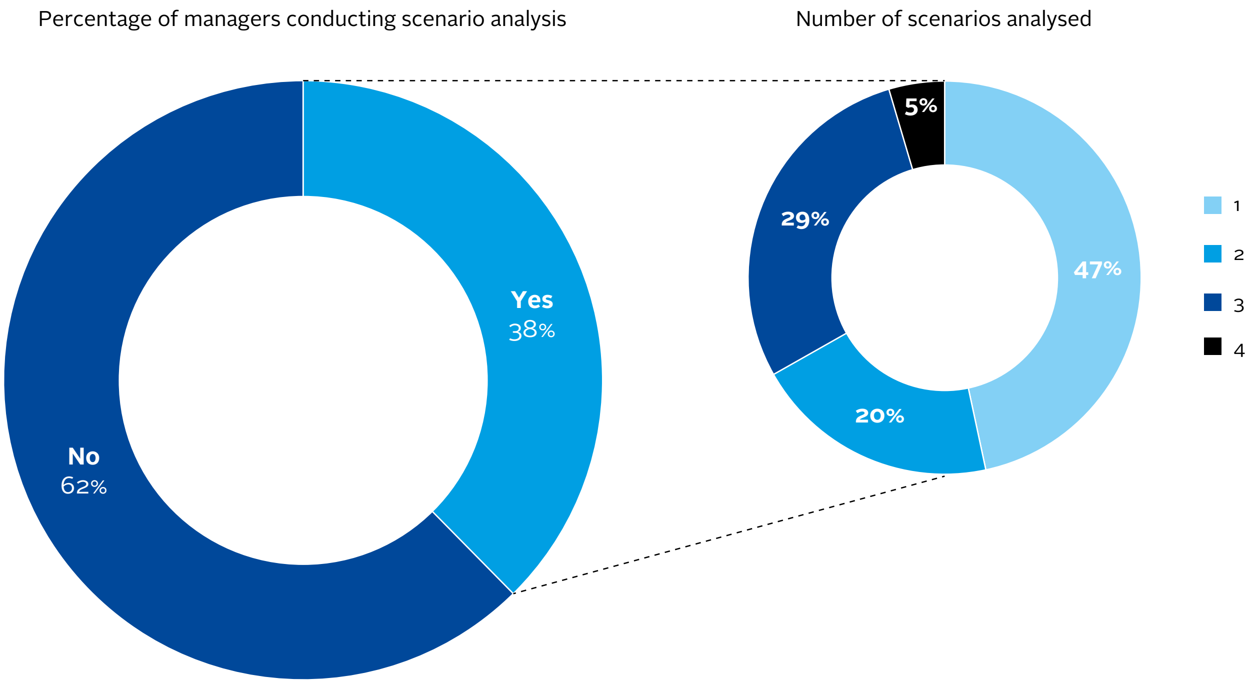
Although 43% of investment managers said they publicly support the TCFD recommendations (see pg. 21), 37% of those managers reported conducting no scenario analysis – one of the recommendations' key elements.

Among the 38% of managers that said they do use scenario analysis, most assess only one scenario, most commonly a bespoke scenario (55%), followed by a 2°C or lower scenario (40%).

Around 20% of managers said they analyse two scenarios, 29% reported assessing three, while only 5% said they evaluated four scenarios.

In comparison, 40% of asset owners said they did not conduct scenario analysis. Among those asset owners that did, 46% said they use an orderly transition to 2°C or lower scenario, only 30% were considering a failure to transition based on 4°C or higher.

Figure 18: Use of scenario analysis to assess climate-related investment risks and opportunities. Source: Indicator ISP33



TRACKING AND INCORPORATING CLIMATE RISKS

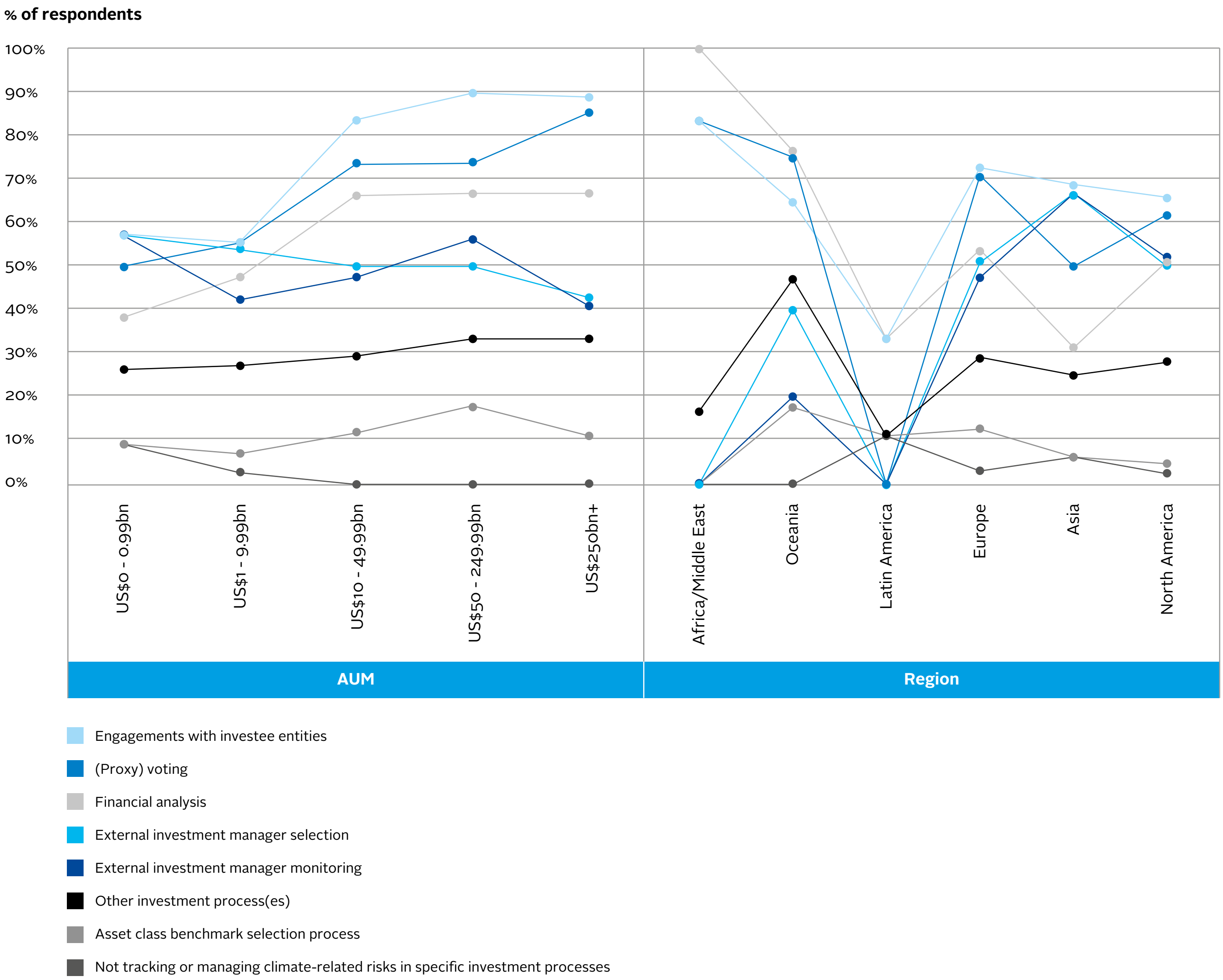
When asked in which investment processes they track and manage climate-related risks (respondents could choose multiple answers), investment managers most selected stewardship activities (69% in engagement and 66% in voting).

As highlighted in [Achieving climate commitments in multi-asset portfolios], active and passive managers considered engagement to be the key tool to reaching climate commitments. Asset owner interviewees also said they have little prospect of achieving emissions reductions without an engagement process connected to climate commitments.

Just over half of the respondents said they consider climate risks in their financial analysis, with the practice being more prevalent among managers with AUM of US$10bn or more, and those based in regions that are already experiencing direct and severe climate change-related impacts, such as Oceania and Africa and the Middle East.

Only 10% of firms said they track and manage climate-related risks when choosing asset class benchmarks, with similar levels of practice reported in all AUM brackets.

Figure 19: Investment processes in which climate-related risks are tracked and managed (by AUM and region). Source: Indicator ISP35



One in two managers reported that they incorporate climate-related risks when considering traditional (e.g. credit, market, liquidity or operational) risks. A similar proportion said they prioritised climate risks based on their relative materiality (37%) or that their risk committee was formally responsible for identifying, assessing and managing these risks (35%).

Around 10% said they do not integrate climate-related risk processes into their overall risk management at all. Just over 20% said they used "other risk management processes", such as bespoke approaches, compared to 66% of asset owners.

Only a minority of firms reported linking climate-related KPIs to their management or executive remuneration (14% and 10% respectively).

Managers headquartered in Oceania were most likely to do this, while those in the Americas and Asia did so the least.

Figure 20: How processes for identifying, assessing and managing climate-related risks are incorporated into overall risk management. Source: Indicator ISP36

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The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

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