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).

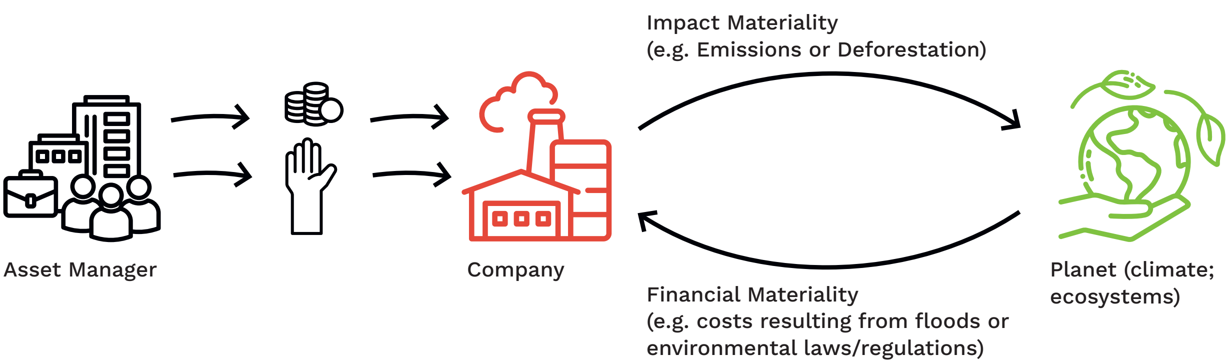
The authors of the study first sourced and evaluated publicly available information. They then provided the asset managers with the opportunity to supplement and explain the publicly available information by conducting **interviews**.

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.

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Impact through Corporate Stewardship?

A Rating of Swiss Asset Managers Based on Visible Action

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1 Introduction

Corporate stewardship – the combination of company engagement and voting activities – has been identified as the cornerstone of impact-oriented investing in listed (equity) markets. This is also due to the fact that capital allocation strategies such as exclusions and ESG integration, which have been the core of sustainable investing for quite some time, only achieve a disappointingly low level of measurable impact on environmental and social issues (see Kölbel et al., 2020 for a literature survey). As a result, the focus of impact-driven investors is increasingly shifting towards stewardship[1]. This generates demand for sustainability strategies that integrate engagement and voting.

Based on the Swiss Sustainable Investment Market Study 2024 of Swiss Sustainable Finance[2], in Switzerland already 20% of all sustainability-related assets of asset managers can be classified as impact-generating investments[3]. The authors of the study appear somewhat astonished by the findings and describe them as *a surprisingly large share of overall volumes*. The report conjectures that *this high share of Impact-Generating investments might be partly due to the sophisticated stewardship systems of asset owners' services providers*.

Assets are classified as impact-generating based on the Eurosif[4] methodology which *assesses impact-generation by asking participants whether they measure their own contribution as an investor. For stewardship approaches, the* [Eurosif] *methodology goes* [somewhat] *further and asks whether participants have (1) a formalised engagement policy, (2) specific engagement objectives targeting significant social or environmental improvements of investees, and (3) a monitoring system that tracks the impact of engagement activities and measures the progress towards the achievement of the engagement objectives* (still following the market study).

The Eurosif assessment not only looks overly simplistic but is also based on self-declaration. This raises the question of the reliability of the assessment.

Furthermore, we believe that it is more appropriate to assess the quality of stewardship at the level of the asset manager rather than at the fund level. For most asset managers, the exercise of voting rights is the same for all funds and for engagement it is implausible to argue that an asset manager only engages with a portion of its assets.

[1] In this study we use the term (corporate) stewardship and not active ownership (which means the same).
[2] SSF
[3] Including asset owners that share is 24%.
[4] Eurosif

2 Design and purpose of the study

2.1 Purpose

The purpose of this study is to assess the impact orientation of the stewardship practices of the largest Swiss asset managers with a narrow focus on climate and biodiversity. The key question is whether an asset manager is likely to have a real-world impact. It is important to highlight that we assess asset managers and not specific funds.

The study also aims to overcome the weaknesses of other assessments such as the Eurosif methodology and studies based solely on voting such as the ShareAction's Voting Matters report[5]. We aim to put the assessment of whether stewardship is impact-generating on a broader and more robust basis. To this end, the number of assessment criteria is considerably expanded. Moreover, the study applies a first-of-its-kind quantitative methodology to assess the sustainability orientation of voting, using a technology developed by *rezonanz*[6].

We also rely almost exclusively on publicly available information and not on self-declaration. In particular, the assessment of the voting records, which accounts for one third of the rating, is based solely on a quantitative analysis of publicly available voting records. Most of the other data points are also based on quantitative inputs or a binary "yes" or "no" assessment. Two categories are based on interpretation, these are the judgment of the intentionality and the assessment of the overall stewardship strategy. They account for less than 10 % of the total score and show minimal variability across asset managers.

In general, our rating focusses on visible actions rather than processes. There are two reasons for this. First, what counts are actions and not processes. Second, we found it very difficult to assess processes based on public information.

It is also important for us to make the rating independent of the size of the asset manager. Smaller institutes do not have the same ability to structure processes and provide reports as large global players, so it would be unfair to measure them against the same yardstick. That is why we have interpreted certain criteria, which are actually quantitative, in a qualitative way and put them into context. Examples thereof are the number of employees or the number of collaborative memberships. Furthermore, the methodology employed to assess the voting does not disadvantage smaller asset managers that do not hold shares in all companies.

[5] ShareAction

[6] rezonanz is a Swiss-based stewardship software and quantitative analytics provider dedicated to amplifying voices for responsible investment.

We gathered information from the stewardship reports[7] and, depending on the asset manager, we also consulted supplementary reports[8]. Additionally, we conducted structured interviews with the asset managers, mainly to clarify outstanding issues and to ask whether certain information was publicly available. Information from the interviews is only used in the rating if we were able to corroborate it with other sources. However, the findings are used to interpret the overall results and to highlight trends. Excluding Credit Suisse, ten of the thirteen asset managers agreed to be interviewed. We also exchanged e-mails with representatives of the remaining three asset managers, but were ultimately unable to persuade them to participate.

2.2 Selection of the asset managers

We selected the asset manager based on two characteristics:

1. Their relationship to Switzerland, e.g., their head quarter.
2. The volume of asset volumes held by private and institutional Swiss customers.

Based on these criteria we selected 14 asset managers. The following list contains their names as well as the main documents used for our assessment:

- **AXA IM**: «AXA IM Stewardship Report 2023», April 2024
- **BlackRock**: «Investment Stewardship Annual Report, January 1 – December 31, 2023», 31.12.2023
- **CS AM**: "Active Ownership Report 2022", Editorial Deadline: 30.12.2022; Appendix of UBS' "Stewardship Annual Report 2023"
- **GAM Investments**: "Stewardship Report 2023", April 2024
- **J. Safra Sarasin (JSS)**: "Active Ownership Report 2022",
- **Lombard Odier Investment Management (LOIM)**: "Stewardship Report 2023"; "Annual Report 2023"
- **Pictet WM**: "Responsible Investment Report 2024", April 2024
- **Raiffeisen Schweiz**: "Active Ownership Report 2022", "Active Ownership Report 2023", draft version
- **Swisscanto**: "Active Ownership Report, Investment Stewardship – Reporting Period Q4"; "Active Ownership Report, Investment Stewardship – Reporting Period 2021 – Q3 2022"
- **SwissLife AM**: "Active Stewardship Report for Securities 2022", July 2023
- UBS AM: "Stewardship Annual Report 2023"
- **Vontobel**: "ESG Integration and Stewardship – Report 2023"
- **Zürich Invest**: Webpage: Engagement | Zurich Invest AG

[7] These reports have very different names, for the sake of simplicity we generally refer to them as stewardship reports. The exact names are listed in Section 2.2.
[8] A full list of reports is available from the authors upon request.

3 Best stewardship practice and principles

3.1 Requirements for an impact-oriented strategy

It is widely recognized that an impact-generating strategy in the secondary market should be based on three pillars[9]:

Intentionality: The investor must intend to generate an impact and set a specific impact/sustainability goal.

Measurability: The sustainability goal should be measurable (and measured).

Materiality: The sustainability goal should be material.

See the GIIN framework on impact investing in listed equities for a complete overview[10].

3.1.1 The measurement problem

Directly measuring the impact of an individual asset manager and its activities on the real-world is nearly impossible and beyond the scope of this study. We take an indirect approach to assess an asset manager's impact potential. Specifically, we (only) analyze whether an asset manager uses corporate stewardship techniques that are known to be effective means of achieving impact. To a lesser extent, we also consider transparency, which is at least an intermediate step towards measurability.

3.2 Four views on sustainable investing

To understand the findings and interpretations of this report, it is important to clarify how we understand certain commonly used terms in sustainable finance. While we do not intend to add yet another classification to an already overclassified field, we probably still do.

3.2.1 ESG risk or ESG integration

By those two ESG approaches, we mean strategies that focus solely on financial materiality. They have an outside-in perspective and externalities play no role, or only in so far as they can immediately backfire. The purpose of these strategies is primarily to avoid financially material ESG-

[9] Classic impact investing in the primary market should also be additional, but this requirement cannot be used on secondary markets.
[10] GIIN

risks at the corporate level. Positive environmental or other ESG impacts may be a by-product, but they are not the purpose.

3.2.2 Long-term shareholder value

Long-term shareholder value considers the broader impacts of a company's operations on all stakeholders and the environment. It encourages companies to integrate social, environmental, and ethical considerations into their business strategies, recognizing that sustainable and responsible practices can ultimately enhance financial performance. Externalities are primarily considered because they may backfire in the long run, for example, through litigation.

The inherent assumption of this approach is that financial and impact materiality are largely aligned at the company level. Consequently, the consideration of impact materiality in conjunction with financial materiality is beneficial in the long term. Michael Jensen's, (2001) enlightened shareholder value approach is an example of this category. While impact is not the purpose of this approach, avoiding negative externalities and generating positive impact is an important component.

3.2.3 Systemic view on the economy and universal ownership

Systemic approaches go one step further, particularly in the assessment of negative externalities. While the long-term shareholder value approach sees the avoidance of externalities as good long-term business practice for the company, the systemic approach focuses on the fact that negative externalities lead to an inefficient allocation of resources at the macroeconomic level. For example, the emissions of brown companies have a negative impact on many other companies, for instance through physical risks, higher insurance premiums or costly TCFD reporting. They are therefore detrimental to growth and reduce profits at aggregate level. As most investors hold a broadly diversified portfolio, they benefit from the higher long-term performance of other stocks, even if brown companies are limited in certain financially attractive opportunities.

This line of reasoning originates in the universal owner theory of Hawley & Williams (2000) who argue that the interests of index investors are – at large – the same as those of the public. Alex Edman's pieconomics is another example of a systemic approach. Pieconomics argues that an enterprise's ultimate goal is to create value for society – and by doing so, it will increase profits as a by-product (Edmans, 2020). ZHAW (2024) outlines a sectoral approach which shows how asset allocation and active ownership can be combined to improve impact efficiency of a climate strategy at the portfolio level. This approach has a clear impact focus because it removes all economically relevant externalities.

3.2.4 Systemic view on the planet and boundaries

Following the "Brundtland Report"[11] *sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs*. No economic concept can be fully in line with this definition of sustainability simply because futures profits are discounted at a rate that financial claims of future generations have only negligible (present) value. Therefore, even systemic approaches can be environmentally harmful if they are solely based on economic considerations. Only strict limits on negative impact can protect the needs of future generations.

In consequence, if this approach is followed, certain sustainability principles must not be violated and there can be a trade-off between environmental issues and profit. The circular economy is a good example of this kind of thinking.

This strategy imposes strict limits to environmental damages and thus has the highest impact.

3.2.5 Summary

The table below summarizes our classification:

Table 1: Summary table - four views on sustainable investing

	ESG	**Long-term shareholder value**	**Systemic view on the economy**	**Systemic view on the planet**
Objective	Profits on the company level	Long-term profit on the company level	Long-term profit on the portfolio level	Long-term profit on the portfolio level respecting boundaries
Perspective	Outside-in	Outside-in and inside-out	Inside-out	Holistic
Externalities	Not considered	Externalities can be a long-run business risk	Economically material externalities are fully accounted for	All externalities are fully accounted for.
Horizon	Short-term	Long-term	Long-term	Infinite
Level	Company level	Company level	Portfolio level	Inter-generational level
Profit	Profit is the purpose	Profit is the main purpose	Profit is the outcome of value creation	Profit is the outcome of value creation but not the only goal
Impact…	can arise as a by-product.	is a key component.	is the starting point.	is the starting point and sets limits.

In Subsection 5.1.1 we use this classification to assess the intentionality of asset managers.

[11] sustainabledevelopment.un.org

3.3 Governance and fiduciary duty

3.3.1 Governance is also an important motive

The structure of modern corporations creates a well-known principal-agent problem between management and shareholders. Management has a much shorter time horizon than shareholders, which can lead to short-termism or excessive risk-taking by the management, which is not in the best interest of shareholders. Excessive compensation is another conflict. Therefore, strong governance is necessary to ensure that the management (agent) act in the best interest of the shareholder (principal).

It is important to recognize the importance of governance and governance-oriented stewardship. In fact, it is probably even the basis for an effective environmental stewardship. However, it is not the focus of our assessment. Our sole focus is on the environmental stewardship and its potential impact. Governance-oriented stewardship is only relevant to the extent that it uses the same processes as environmental stewardship.

3.3.2 The duties of the asset manager

Asset managers clearly have a fiduciary duty that must be taken into consideration when designing the corporate stewardship strategy. For an active asset manager, ESG approaches and long-term shareholder value are clearly consistent with the notion of fiduciary duty, as profit at the company level remains in the focus of these strategies. However, in the context of the universal ownership theory, a problem arises when a company is engaged on a non-financially material issue that may have a negative financial impact on the engaged company.

Passive managers, on the other hand, can argue for a universal ownership approach, but must ensure that it is accepted by clients as it is not the mainstream theory of fiduciary duty.

When a product is labeled as sustainable or impact-generating, a conflict arises with the traditional fiduciary duty because the product now pursues multiple goals. As a result, the fiduciary duty can no longer be interpreted in purely financial terms.

Most asset managers have different product lines, both active and passive, which exacerbates these strategic conflicts. Effective communication and expectation management with clients on sustainability and impact is therefore crucial to avoid misunderstandings and disappointments. This is also at the heart of the Federal Council's position on greenwashing released in December 2022[12].

[12] admin.ch

3.4 Effective stewardship and effective escalation

In this section, we summarize key findings on the effectiveness of stewardship activities in practice and link the literature to the findings from the interviews. We focus on escalation strategies. They are a fundamental component of an asset manager's stewardship strategy and its coherence. If an asset manager's direct engagement with a company is unsuccessful.

3.4.1 The threat of divestment as an important element of active ownership

We consider the threat of divestment as a means of putting pressure on companies to change their practices. This statement from AXA's stewardship report shows that divestment is assumed to have an impact. However, this view is controversial, as capital allocation approaches – and divestment is clearly one of these – are generally assumed to have only limited impact. For this reason, some interviewees expressed a certain skepticism about the effectiveness of divestments.

There is, however, recent evidence of the effectiveness of divestment in the context of engagement by a study of Heeb & Kölbel (2024). They show that credibly threatening companies to be excluded from indices significantly affects corporate policies and conclude that *engagement by financial institutions can affect corporate policies when a feasible request is combined with a credible threat of exit.*

The perception that the involvement of portfolio managers enhances the efficiency of engagement (See Subsection 3.4.5) provides additional anecdotal evidence in support of the effectiveness of divestment (or the threat thereof) as an impact-generating strategy.

Another important aspect of divestment is, that strict exclusions can also enhance credibility. Can an asset manager credibly ask a car manufacturer to switch to more environmentally friendly technologies if it is still invested in oil or even coal production? By selling the oil companies, the asset manager demonstrates that it is serious about decarbonization.

In our view, there are good reasons to assume that a properly framed divestment threat improves the efficiency of engagements.

The conundrum that the threat of divestment is an important aspect of engagement – in fact, the only one with evidence from a well-designed study – but that capital allocation strategies appear to have no impact potential, is clearly an area for future research.

3.4.2 A compelling business case is important for success

Tom Gosling (2023, 2024) highlights that the business case of an engagement request needs to be compelling and made with precision and care in order to ensure an engagement campaign's success. Otherwise, asset managers, both for fiduciary reasons and to avoid the internal conflicts, will find it very difficult to support the campaign. This also limits the use of universal owner theory to argue for a proposal. Similarly, Bauer et al., (2022) argue that engagements need to (also) be financially material to be successful.

An example of where engagement is difficult are oil companies. Asking them to move towards net zero is unlikely to succeed, as it is simply not a compelling business case for them. They will obviously just block the request. The dialogue with them has to be based on economic grounds. For example, one could ask them if they really think they will be around in 50 years if they continue to extract oil from the ground. This will be a very long and strategic dialogue and no quick results can be expected.

It is therefore important that companies are selected not only based on impact materiality, but also on the basis that they have a real option to change their business model. They need to be 'engageable', as one interviewee phrased it.

3.4.3 Collaborative engagements

Collaborative engagements are effective and enable investors to speak with a strong common voice when addressing common requirements as Swisscanto states it. This point of view is well supported by the academic literature. Dimson et al., (2018), among others, show that *a two-tier engagement strategy, combining lead investors with supporting investors, is effective in successfully achieving engagement goals*.

3.4.4 Director's vote

Voting continues to be, in our view, the most widely used and practical escalation mechanism currently available to investors is a statement from LOIM's stewardship report. The effectiveness of voting strategies is also well documented in the literature. Voting for shareholder proposals is one way to vote "against" management, but an escalated form of this extends to voting against remuneration reports, the committee, or the (re-)election of the board itself. This *vote against directors appears to be the more effective than other shareholder engagement tactics* Quigley (2020), although in some countries they are not binding but merely serve an advisory function. Even relatively moderate dissent can have an impact, although underperforming directors often secure more than 90% of the vote, and in many cases can simply be (re-)appointed to the board anyway. Specifically, Liu et al., (2020) argue that even minimal investor dissent correlates with substantially improved shareholder engagement outcomes at the company level, compared to most other escalation strategies.

Moreover, the effectiveness of voting can be increased through coordinated efforts to vote against, public or private pre-disclosure of voting and declaration of voting rationales after the annual general meeting (AGM).

3.4.5 The involvement of portfolio managers strengthens stewardship

Many of our interviewees outlined that involving the portfolio managers in the engagement is an important element of their engagement strategy. Two aspects are key: First, having the person who decides on the allocation at the table gives a lot of weight to the request. If the portfolio manager is not satisfied, he can reduce or even close-out the position. Second, portfolio managers are industry experts and often have in-depth knowledge about the engaged companies. This can considerably sharpen the line of reasoning and enhance the rationale behind the request, thereby facilitating the company's willingness to implement the requisite measures.

3.4.6 Narratives and credible threats

For the escalation to be successful, it must be clear that the escalation steps are not only threatened, but also actually implemented if progress is unsatisfactory. The escalation and the pressure it creates must also be credible. This can only be achieved if an asset manager reports in detail on its escalation steps and makes it clear under what circumstances they are applied. In our assessment, we therefore attach great importance to the reporting and transparency of effective escalation steps. Specifically, we expect asset managers who pursue an impact-driven strategy to disclose voting rationales and a list of exclusions, including details of the rationale for the exclusion.

Similarly, and in line with the requirements outlined in Subsection 3.1 we expect asset managers to clearly state that they follow an impact-generating strategy (intentionality).

4 The rating

Our rating is based on two principles. First, we measure effective actions rather than processes. Second, the rating is based on the three principles defined in Section 3.1: intentionality, measurability, and materiality. As we have outlined in Subsection 3.1.1, we cannot measure impact directly. Therefore, we take an indirect approach and measure activities that are known to generate impact. In particular, those outlined in Section 3.4 and voting behavior. There is a similar problem for materiality. Public information on the engaged companies is not available from all asset managers. Engagement goals even less so. Therefore, we look for information that provides evidence for materiality, such as impact ratings rather than ESG ratings. Our rating is based on three pillars:

In the ***Commitment*** dimension, the rating analyses the extent to which asset managers are striving for actual changes in the real world and how concrete and consistent the necessary framework is. This dimension also includes the structure, the resources utilized and how transparently reporting is conducted. Specifically, we ask:

- *do asset managers clearly state their intention to generate impact?*
- *is there a (formalized) action plan consistent with an intention for impact?*
- *are asset managers credible engagers and are they building credible threats?*
- *are the interests of the board and the top management aligned with impact generation?*
- do asset managers have enough staff for credible stewardship?
- are the asset managers transparent about their stewardship activities?

The ***Engagement*** dimension assesses how asset managers enter into a dialogue with the companies they invest in. The focus here is on whether stewardship is effectively focused on environmentally relevant companies and how pressure is increased if they do not comply with the requirements (escalation strategy). We ask:

- *How are the targets (= engaged companies) selected? Do the targets have a material issue and are they engageable in the sense that they have a real option to change?*
- *How active is the engagement process and participation in collaborative initiatives?*
- *Are asset managers effectively use escalation in particular those outlined in Section 3.4.*

In the ***Voting*** dimension, a quantitative analysis of 86 environmentally relevant and meaningful votes from 2023 is carried out. In addition to thematic votes, elections to boards of directors are also analyzed. Two aspects are key:

- *Are the asset managers effectively voting for climate related proposals?*
- *Do they disclose their dissent with management to increase pressure?*

Table 2 on the next page provides a detailed overview of our rating.

Table 2: Structure and details of the action-based rating

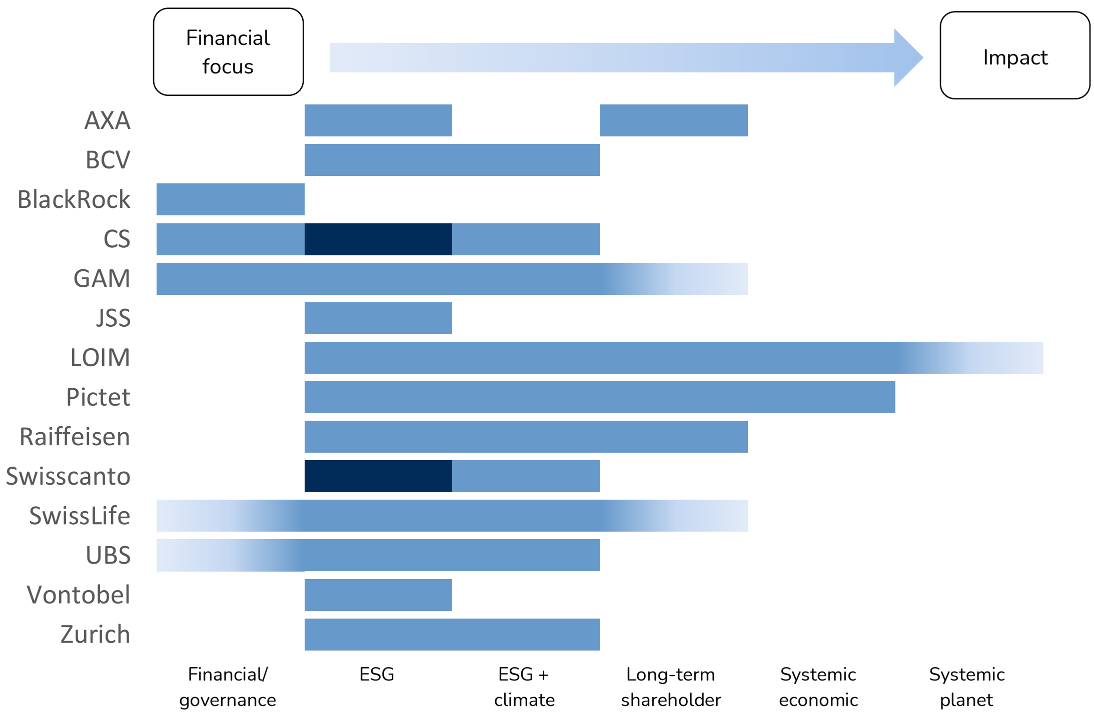
Scoring categories				Weight	Method	Main sources
Commitment for impact	Framework (11.1%)	Vision		3.7%	Assessment	Stewardship reports
		Strategy / action plan for change		3.7%	Assessment	Stewardship reports
		Credibility	SBTi	1.2%	Directly from source	SBTi
			Assets (Art. 9 or similar)	1.2%	Quantitative / assessed	AM websites, Morningstar
			Credible / material exclusion policy	1.2%	Directly from source	Stewardship reports and others
	Structure (11.1%)	Alignment of interest	Board KPI	1.2%	Directly from source	UNPRI
			Management KPI	1.2%	Directly from source	UNPRI
			Management linked to compensation	1.2%	Directly from source	UNPRI
		Dedicated resources		3.7%	Quantitative / assessed	Stewardship reports, interviews, LinkedIn
		Collaboration		3.7%	Quantitative / assessed	Websites of initiatives
	Reporting / Transparency (11.1%)	Number of engagements		1.9%	Quantitative / assessed	Stewardship reports
		Number of escalations		1.9%	Quantitative / assessed	Stewardship reports
		Success rate / progress		1.9%	Directly from source	Stewardship reports
		Exclusion policy		1.9%	Directly from source	Stewardship reports, policies
		Exclusion list		1.9%	Directly from source	Exclusion lists (if available)
		Voting		1.9%	Directly from source	Voting records
Engagement	Target Selection (6.7%)	Data		1.3%	Mapping of ratings	Stewardship reports
		Materiality		1.3%	Directly from source	Stewardship reports
		Engageability – holdings		1.3%	Directly from source	Stewardship reports
		Engageability – option to change		1.3%	Directly from source	Stewardship reports
		Percentage of climate & climate		1.3%	Quantitative	Stewardship reports
	Dialogue Activity (6.7%)	Number of activities		2.2%	Quantitative / assessed	Stewardship reports
		Number of targets		2.2%	Quantitative / assessed	Stewardship reports
		Percentage of climate & climate		2.2%	Quantitative	Stewardship reports
	Indicators for collaboration and escalation	Broadening & collaborative activities	Portfolio manager participation		Directly from source	Interviews, stewardship reports
			Collaborative memberships		Directly from source	Websites of initiatives, UNPRI
			Collaboration steering committees and working groups		Directly from source	Stewardship reports
			Participation in collaborative engagements		Directly from source	UNPRI, stewardship reports
			Leading collaborative engagements		Directly from source	UNPRI, stewardship reports
		Voting & AGM	Director's vote		Directly from source	Voting records, UNPRI
			Resolutions		Directly from source	UNPRI, Stewardship reports
			(Co)-filing shareholder proposals		Directly from source	UNPRI, Stewardship reports
		Public actions & communication	Voting rationales (before vote)		Directly from source	UNPRI, stewardship reports
			Voting rationales (after vote)		Directly from source	UNPRI, stewardship reports
			Public Statement (e.g., at AGM)		Directly from source	UNPRI, stewardship reports
			Co-Signing Letter		Directly from source	Stewardship reports, letters
			Publish Divestment		Directly from source	exclusion lists/policies
		Divestment	Reduce		Directly from source	Stewardship reports
			Divest		Directly from source	Stewardship reports, exclusion lists/policies
	Collaboration (6.7%)			6.7%		
	Escalation process (6.7%)			6.7%		
	Effective escalation (6.7%)			6.7%		
Voting	Effective voting assessment				Quantitative	Voting records / rezonanz
	Participation				Quantitative	Voting records
	Voting policy			16.7%	Quantitative	Voting records / rezonanz
	Effective voting score			16.7%	Quantitative	Voting records / rezonanz

5 Commitment for impact

5.1 Framework

5.1.1 Intentionality I: vision

As outlined in Subsection 3.1, intentionality is a key requirement for impact generation. To assess an asset manager's intentionality, we screened the forewords and the introductions of the stewardship reports for hints on the purpose of the stewardship and classified them according to the framework outlined in Subsection 3.2. Due to the focus of this study on climate and biodiversity and because we found it in several reports, we added a category of "ESG Climate" for ESG strategies with a clear focus on climate risk. The results are summarized in the graphic below.



The blue bars indicate the range of categories that we were able to assign based on the statements within the respective reports. So, e.g., for AXA we found a statement indicating that they are following an ESG approach and another one that was more in line with a long-term shareholder value approach. Some asset managers make it very clear that they follow a specific approach. However, many asset managers also make statements that belong in different categories. LOIM and Pictet are the only ones with a statement that we interpret as a systemic view. LOIM also mentions planetary boundaries. We take the middle of the range and assign a score to each asset manager that ranges from 0 (purely financial) to 5 (systemic view on the planet). From this analysis, we conclude that the vision on stewardship is often unclearly stated and that the level of ambitions for impact is generally rather low. Note that this analysis does not measure actual impact.

5.1.2 Intentionality 2: Strategic threat building and goal setting

From the best practice framework outlined in Chapter 3 we conclude that a stewardship strategy should include the following elements:

- a detailed framework that describes how the asset managers creates impact including an action plan.
- a statement that engagement targets are selected to maximize the impact by combining materiality considerations with an assessment of the "engageability" which is based on best practice and evidence.
- a policy on companies with no realistic plans to reduce their greenhouse gas emissions such as oil companies.
- a mechanism to ensure that the defined escalation processes are effectively used.
- a strategy to build a clear narrative that the asset manager is escalating if the progress of an engaged company is unsatisfactory.
- disclosure of escalation steps, including voting rationales, divestments, and their rationales to build a credible threat.
- a statement how fiduciary duty is interpreted in the context of stewardship and impact.

In line with the scope of this study, the engagement strategies should also:

- contain a clear commitment to support the goal of net zero GHG emissions by 2050 at the latest, in line with global efforts to limit global warming to 1.5°.
- ensure the protection, restoration, and sustainable use of all natural ecosystems by 2050, in line with the goals of the *Kunming-Montreal Global Biodiversity Framework*.

There is little evidence of rigorous and complete action plans showing how impact will be achieved. In general, strategic considerations and threat building are mostly absent from the stewardship reports as well as from related documents.

To be clear, operational processes (e.g., the timeline of a specific engagement) are not part of this action plan assessment.

5.1.3 The credibility of the asset manager's sustainability approach

Demonstrating that an asset manager is serious about sustainability and aiming for impact is an important aspect of successful engagement. The greater the alignment of a company's business with a vision of change, the more credible the corporate stewardship. To assess this, we consider three indicators:

The first criterion is whether the institution has set science-based targets with SBTi (full score) or is committed to developing targets (half score). We see this as a very important step towards credible stewardship because the requirement to set SBTi targets as well as having them validated is a common engagement goal. How can an asset manager credibly ask a portfolio company to commit to SBTi if it is not committed to SBTi itself?

Second, to assess the credibility of the product site, we primarily look at the share of SFDR Article 9 funds (as a percentage of assets under management). We already award a third of the possible points if the share of Article 9 funds is greater than 1% and the full score if it surpasses 5%. We also considered the consistent use of a double materiality rating or the close collaboration with an established partner as relevant for the asset manager's credibility.

Third, we have outlined in the Subsections 3.4.1 and 3.4.6 that a strong exclusion policy and transparency about it is important for credibility. We assess if both the exclusion policy and a list of all divested names are publicly disclosed. The exclusion list should contain all exclusions, including the reason for the exclusion. The reporting practice of the Norwegian oil fund NBIM[13] can serve as an example. No asset manager comes close to meeting these requirements. Similar to NBIM, GAM names all its exclusions including a reason. However, the companies on the list are not material to climate change or biodiversity loss. Swisscanto has a defined exclusion policy with some coal exclusions in the responsible investment product line, which we regard as positive.

5.2 Is the company structure aligned with a vision of change?

5.2.1 Alignment of interest

In this part we evaluate if the incentives of the top management and the board are aligned with the responsible investment goals. The indicators are directly taken from the UNPRI transparency reports (PGS 13 and PGS 14). We check if responsible investment KPIs are used to evaluate the performance of the board members and the management as well as if the KPIs of the management are linked to compensation. For the alignment of interest score, the three indicators are equally weighted.

We exclude further governance structures because they are very hard to assess based on the stewardship reports or public information.

[13] NBIM

5.2.2 Dedicated resources

The assessment of the resources is primarily based on the number and the qualification of specialists working on stewardship and on sustainable investing in general. We put this in context of the size of the company and the investment team, the assets under management, and the collaborations. We have qualitatively divided the managers into three categories: "sufficient" (1), "rather short staffed" (0,5), "clearly understaffed" (0). The scores show that most asset managers are well staffed.

5.2.3 Collaborations

We use memberships and steering ratings explained in Section 6.3 to assess an asset manager's collaborations.

5.3 Transparency of reporting

In this section we summarize whether the asset manager reports on several key figures that are relevant to understanding the intensity and the quality of stewardship. These are the number of engagement activities, the number of companies engaged, the number of escalations, aggregate figures about the success or progress of the engagements, whether the company has an exclusion policy, and if the company discloses the list of excluded companies. All categories are assessed by a binary "yes" (1) or "no" (0), in a few special cases we have awarded a score of 0.5.

All companies disclose some aggregate number of engagements and all votes. Also, an exclusion policy is usually available. However, only some report on escalation, progress, and the names of excluded companies.

AXA, Pictet, Raiffeisen, Swisscanto and UBS have listed all engaged companies with ESG labels or topics attached. Many reports include case studies, Swisscanto even briefly summarizes all engagements.

In the interviews we inquired about the existence of internal systems for tracking and monitoring individual engagements. Asset managers place a high value on the tracking of engagement activities, yet we found no consistent reporting on this in the stewardship reports.

Results of the commitment rating are summarized on the next page.

Table 3: Commitment rating of Swiss asset managers

			AXA	BCV	BlackRock	CS	GAM	JSS	LOIM	Pictet	Raiffeisen	Swisscanto	Swiss Life	UBS	Vontobel	Zurich	Average
Total			60%	45%	35%	32%	52%	44%	35%	59%	42%	49%	36%	53%	43%	33%	44%
Rank			1	6	11	14	4	7	12	2	9	5	10	3	8	13	
Framework	*Total*		13%	14%	0%	12%	10%	16%	20%	39%	17%	16%	7%	10%	14%	16%	15%
	Vision		40%	30%	0%	20%	30%	20%	50%	50%	40%	20%	20%	30%	20%	30%	
	Strategic threat		0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Credibility	*Total*	0%	11%	0%	17%	0%	28%	11%	67%	11%	28%	0%	0%	22%	17%	
		SBTi	0	0	0	0.5	0	0.5	0	1	0	0	0	0	0	0.5	
		Assets	0.00	0.33	0.00	0.00	0.00	0.33	0.33	1.00	0.33	0.33	0.00	0.00	0.67	0.00	
		Exclusion policy	0	0	0	0	0	0	0	0	0	0.5	0	0	0	0	
Structure	*Total*		100%	64%	72%	33%	81%	67%	50%	72%	42%	72%	17%	83%	64%	33%	61%
	Alignment	*Total*	100%	67%	67%	0%	67%	100%	0%	67%	0%	67%	0%	100%	67%	0%	
		Board KPI	1	0	0	0	0	1	0	0	0	1	0	1	0	0	
		Management KPI	1	1	1	0	1	1	0	1	0	1	0	1	1	0	
		Compensation	1	1	1	0	1	1	0	1	0	0	0	1	1	0	
	Resources		1	1	1	0.5	1	0.5	1	1	1	1	0	1	1	0.5	
	Collaboration		1	0.25	0.5	0.5	0.75	0.5	0.5	0.5	0.25	0.5	0.5	0.5	0.25	0.5	
Reporting / Transparency	*Total*		67%	58%	33%	50%	67%	50%	33%	67%	67%	58%	83%	67%	50%	50%	57%
	# Engagements		1	0.5	1	1	1	1	1	1	1	1	1	1	1	1	
	# Escalations		1	0.5	0	0	0	0	0	0	0	0	1	0	0	0	
	Success rate		0	0.5	0	0	0	0	0	1	1	0.5	1	1	0	0	
	Exclusion policy		1	1	0	1	1	1	0	1	1	1	1	1	1	1	
	Exclusion list		0	0	0	0	1	0	0	0	0	0	0	0	0	0	
	Voting		1	1	1	1	1	1	1	1	1	1	1	1	1	1	

6 Engagement

6.1 Target Selection: Which company to engage?

The assessment of the target selection is based on the following five indicators:

- Data used: We analyzed the ratings used in the screening process to generate a list of potential engagement targets. According to the principle of materiality, the screening should be based on an (ESG) rating that takes double materiality into account. The rating should also not be best-in-class (or sector neutral). The screening should rather predominantly select companies in sectors with low environmental standards. We awarded a score between 0 and 4 for each asset manager.
- Impact materiality: The (final) engagement target selection is based on the principle of (double) materiality. This is a binary "yes" or "no" score.
- Engageability – holding: The size of the position should be accounted for because this builds credibility and generates negotiation power. This is a binary "yes" or "no" score.
- Engageability - option to change: Companies with a real option to change should be prioritized as outlined in Subsection 3.4.2. This is a binary "yes" or "no" score.
- Percentage of climate & biodiversity: The measurement of this parameter is described in the next subsection.

To calculate the target selection score, we divided the data used score by 4 and then took the average of all five ratings.

6.2 Dialogue activity

We assess the activity based on the number of companies engaged and the number of activities per engaged company. The assessment is qualitative, because smaller companies have fewer holdings and smaller teams, so the numbers are not directly comparable between asset managers[14]. For example, BlackRock engaged with 2560 companies, while Raiffeisen only engaged with 20. Considering the size of the companies, both figures are in line with our expectations. Due to the scope of this study, we have also assessed the share of engagement activities related to climate and biodiversity. We consider a share of 60% (including double counting) to be sufficient and the sore equals then the share of activities divided by 0.6 (but no more than 1). This figure also leaves sufficient room for other engagement topics.

[14] What counts as an activity is also handled very differently.

6.3 Collaborative engagements

Impact-oriented asset managers should participate in collaborative engagements. Based on an assessment of Greenpeace, the following initiatives are considered as relevant:

- Ceres
- Climate Action 100+
- Ethos Foundation
- FAIRR
- Finance for Biodiversity
- Finance Sector Deforestation Action Pledge
- Glasgow Financial Alliance for Net Zero
- Institutional Investors Group for Climate Change (IIGCC)
- Nature Action 100
- Net Zero Asset Managers Initiative
- Science Based Targets initiative (SBTi)
- Share Action
- UN Global Compact
- UN Principles for Responsible Investment (UN PRI)

Data are directly collected from the websites of the initiatives.

- From the number of initiatives, we derived a *membership rating*.
- We also screened the reports to see whether asset managers participate in working groups or steering committees of the initiatives (*steering rating*).
- Similarly, we screened if the asset managers are effectively participating in campaigns (*participation rating*).
- Lastly, leading collaborative campaigns is assessed (*lead rating*).

All these ratings can take a value 1 (sufficient), 0.5 (partially fulfilled), or 0 (insufficient) and take into account the specific situation of the asset manager. The overall rating for collaborative engagement is the (unweighted) average of the four sub-ratings.

6.4 The escalation process

In the interviews, most asset managers explained that the engagement process is very tactical and that, depending on the situation, constructive dialogue should continue or, if necessary, pressure should be increased. It is therefore important to have many tools at hand for escalation, as one or the other step may be appropriate depending on the situation. We therefore counted which escalation methods asset managers consider as possible engagement steps:

- Broadening
    - involvement of the portfolio management
    - collaborative engagement
    - leading a collaborative engagement

- Voting-based
    - directors vote
    - voting on resolutions
    - (co)-filing shareholder proposals
- Public actions
    - voting rationales before vote
    - voting rationales after vote
    - public statements or open letters
    - publish a list of divested companies
- Capital allocation
    - reduce positions
    - divest

Data are taken from the UNPRI reporting (PGS 32 and PGS 36) and from the stewardship reports. We awarded a point for each escalation option and divided it by 12 (the maximum possible score) to get the escalation process rating.

This assessment shows that the asset managers indicate that they have a large repertoire of escalation strategies, which they can use if necessary.

6.5 Escalation activity

Escalation activity is assessed on a subset of the escalation steps defined above. We excluded the involvement of the portfolio management (hard to assess) and the voting on resolutions as well as the publication of divestment (not necessarily part of an escalation strategy) from the list. For each of the remaining 9 indicators, we screened for evidence (in the stewardship reports and the voting records) whether they are effectively applied. Director's votes are only accounted for if they are based on the right rationales (see Section 7.6). If we found several mentions, we considered this as "significant evidence" (2 points); if we found only one or two mentions, we labeled it as "examples" (1 point). Then the points are added and divided by 12 (two thirds of the maximum possible score) to get the escalation activity rating.

This analysis shows that effective engagement activity is much lower than the large repertoire of escalation strategies suggests.

The result of the engagement rating is summarized on the next page.

Table 4: Engagement rating of Swiss asset managers

			AXA	BCV	BlackRock	CS	GAM	JSS	LOIM	Pictet	Raiffeisen	Swisscanto	Swiss Life	UBS	Von tobel	Zurich	Average
Total			71%	27%	32%	26%	58%	54%	59%	69%	52%	53%	28%	59%	44%	42%	48%
Rank			1	13	11	14	5	6	3	2	8	7	12	4	9	10	
Target Selection	Total		23%	15%	12%	7%	24%	71%	50%	47%	55%	43%	17%	41%	15%	10%	31%
	Data		0.25	0.25	0.00	0.00	0.25	0.75	0.50	0.75	0.75	0.75	0.00	0.50	0.25	0.00	
	Impact materiality		0	0	0	0	0	1	1	1	1	0	0	1	0	0	
	Engageability - holdings		0	0	0	0	0	1	0	0	0	1	0	0	0	0	
	Engageability - option to change		0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Percentage of climate & biodiversity		0.88	0.50	0.62	0.33	0.95	0.82	1.00	0.62	1.00	0.42	0.83	0.53	0.50	0.50	
Dialogue activity	Total		96%	17%	87%	44%	98%	61%	100%	87%	100%	81%	44%	84%	83%	83%	76%
	Number of activities		1	0	1	0	1	0.5	1	1	1	1	0	1	1	1	
	Number of targets		1	0	1	1	1	0.5	1	1	1	1	0.5	1	1	1	
	Percentage of climate & biodiversity		0.88	0.50	0.62	0.33	0.95	0.82	1.00	0.62	1.00	0.42	0.83	0.53	0.50	0.50	
Collaboration & escalation	*Total Collaborations*		88%	38%	25%	38%	75%	63%	63%	75%	38%	50%	38%	63%	38%	50%	53%
	Collaborative membership		2	1	2	2	2	2	2	2	1	2	2	2	1	2	
	Collaboration steering		2	0	0	0	1	0	0	0	0	0	0	0	0	0	
	Collaboration participation		2	2	0	1	2	2	2	2	2	2	1	1	2	2	
	Collaborative lead		1	0	0	0	1	1	1	2	0	0	0	2	0	0	
	Director's vote		1	2	1	0	0	0	0	2	0	0	0	0	0	0	
	(Co)-filing shareholder proposals		1	0	0	0	0	0	0	0	0	0	0	1	0	0	
	Voting rationales (before vote)		1	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Public statement AGM		0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Co-signing letter		1	0	0	0	0	0	1	1	1	1	0	1	0	0	
	Reduction		0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Divestment		0	0	0	0	0	0	0	1	0	0	0	0	0	0	
Escalation process	*Total escalation process*		92%	33%	25%	33%	67%	50%	50%	67%	42%	67%	33%	67%	67%	50%	53%
	Broadening	PM	Applied	No	No	No	Applied	No	No	Applied	No	Applied	No	Applied	Applied	Applied	
		Collaboration	Applied	No	No	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	
		Coll. lead	Applied	No	No	No	Applied	Applied	Applied	Applied	No	Applied	No	No	No	No	
	Hard measures (voting)	Director's vote	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	No	
		Resolutions	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	
		(co)-filing	Applied	No	No	No	No	No	No	No	No	No	No	No	Applied	No	
	Go public	Rationales after	Applied	Applied	Applied	No	Applied	No	No	Applied	No	No	No	Applied	No	No	
		Rationales pre	Applied	No	No	No	No	No	No	No	No	No	No	No	No	No	
		Statement	Applied	No	No	No	No	Applied	No	No	No	Applied	No	Applied	Applied	Applied	
		Publish divest	No	No	No	No	No	No	No	No	No	No	No	No	No	No	
	Divestment	Reduce	Applied	No	No	No	Applied	Applied	Applied	Applied	Applied	Applied	No	Applied	Applied	Applied	
		Divest	Applied	Applied	No	Applied	Applied	No	Applied	Applied	Applied	Applied	Applied	Applied	Applied	Applied	
	Total escalation activity		58%	33%	8%	8%	25%	25%	33%	67%	25%	25%	8%	42%	17%	17%	28%

7 Voting

7.1 Introduction

Assessing asset managers’ voting records and their alignment with sustainability has been a challenge for the responsible investment community. For this study, we apply a first-of-its-kind quantitative methodology to assess the sustainability orientation of asset managers. Choosing this methodology allowed Greenpeace to self-define an expert benchmark of climate- and biodiversity-related proposals and voting positions from the 2023 proxy season, against which asset managers’ disclosed proxy voting records were benchmarked.

7.2 Methodology background

Recognizing the need for a clear measurement of sustainability-oriented voting, *rezonanz* developed the pioneering voting ranking methodology. This novel methodology evaluates the degree to which asset managers use their votes at company meetings to support more sustainable business practices, as defined by benchmarks of votes from expert third parties. Adapting research methods and advanced statistical techniques from political science, the results reveal a new facet of asset managers’ orientation towards sustainability stewardship, through the lens of their voting behavior at company meetings. By focusing on voting records - an externally-observable “output” metric - as opposed to an asset manager’s strategy or sustainability framework, the ranking results offer a simple and transparent metric enabling objective comparisons in this hard-to-benchmark area.

By employing an externally defined expert benchmark to assess sustainability-oriented voting and leveraging sophisticated statistical models to capture the nuances of voting behavior, the ranking goes beyond analyses of percentage of support for shareholder proposals to provide a comprehensive and quantitative view of asset managers' voting practices.

7.3 Data collection: compiling voting records & their collection

Gathering and analyzing proxy voting data is a complicated task, especially for asset managers that “split” their votes, meaning voting on proposals at the same meeting differently for different funds. The Greenpeace ranking focuses on publicly disclosed voting records compiled from fourteen asset managers playing a major role in Switzerland.

This involves:

1. **Collecting and standardizing voting records.** The *rezonanz* team collected complete 2023 proxy voting records and aggregated votes across securities at company-level to ensure a uniform, comparable dataset, which is focused on the asset manager-company relationship.
2. **Matching and compiling voting records for a comparable data set across managers.** Not all company names and proposal descriptions match exactly across different data disclosures. This adds an additional layer of complexity to overcome with sophisticated matching methods and levels of verification.

Methodology:

3. **Using the Greenpeace benchmark to define "sustainable" votes.** To keep the definition of the «sustainable» position independent from the analysis of the underlying asset managers, the method integrates external experts' definition of sustainability as articulated through their voting recommendations. In this case, the benchmark position is defined by Greenpeace's position on 86 proposals from the 2023 proxy season most closely related to sustainability topics, from shareholder proposals on biodiversity to board elections at companies with insufficiently ambitious climate strategies. The list of proposals is provided upon request.
4. **Treating votes in line with Greenpeace's expectations of clear signaling.** Greenpeace expects asset managers to have a clear voting position and by extension a clear signal to the company of what matters to them. As such, votes were recoded/treated in the following way:
   - Votes "Against/Withhold" or "For": treated as-is
   - Split votes (both "Against" and "For") and "Abstains"/"Did Not Vote" were "punished" for not aligning with the benchmark
   - Missing votes (the company meeting containing the proposal wasn't in the asset manager's voting record either because the asset manager doesn't hold the company or chose not to vote at that meeting) were dropped from the analysis.
5. **Applying advanced statistical models to reveal asset managers' underlying sustainability references on aggregate using ideal point estimation techniques.** Adopting Optimal Classification and Bayesian Item Response Theory (IRT) modelling – techniques traditionally used in political science – allows for a precise estimation of asset managers' revealed voting positions, akin to assessing lawmakers' policy preferences (or orientation on the left-right or conservative-liberal spectrum). This approach accounts for the varying differentiation power of individual proposals, moving beyond simplistic binary assessments such as "percent of shareholder proposals supported" or "percent of votes aligned with the benchmark recommendation" to capture the complexity of sustainability orientation.[15]
6. **Rescaling model estimates to 0 to 1 to facilitate simplified understanding and comparability.** The final results of the ranking are presented on a scale from 0 to 1. This

[15] Additional information on the quantitative benchmarking methodology is available via **rezonanz.io/benchmarking**

scale facilitates a clear, quantitative understanding of each asset manager's alignment with the sustainability benchmark, distance from other investors' positions, allowing for nuanced comparisons and a deeper understanding of the industry's commitment to sustainability-oriented voting.

The methodological set-up enables transcendence of simple comparison of asset managers against Greenpeace's sustainable voting recommendations in the form of percentage-based agreement scores. By using ideal point estimation techniques to measure the distance between an asset manager's voting position and that of the Greenpeace sustainability benchmark, this method permits a ranking spectrum which places more weight on more pivotal votes. This innovative technique gives us a novel, outside-in perspective of how asset managers' sustainability *orientation*, setting our ranking apart based on its methodological robustness.

7.4 Benchmark definition & alignment assessment

In order to collect a benchmark of climate- and biodiversity-strategy relevant votes representing Greenpeace's position, the Greenpeace team collected a universe of potentially relevant proposals from prominent organizations across the responsible investment space, and then reduced that list systematically via the following steps.

1. Selection of long list of climate- and biodiversity-relevant proposals (including management proposals) from 2023 flagged by one of the following responsible investment non-profits or by individual members of non-profit investor networks:
    a. ShareAction
    b. ClimateAction100+
    c. Majority Action
    d. As You Sow
    e. Ceres
    f. ICCR (Interfaith Center on Corporate Responsibility)
2. In order to focus on the most pivotal and relevant proposals, the next step was to eliminate proposals that had been flagged by only one of the above organizations.
3. As there is differentiation in the substance of these proposals, and the reforms they targeted, the team then eliminated those votes that were a combination of "disclosure" (as opposed to "action") and "risk" based (as opposed to "impact").
4. To focus on the most significant votes, the team then eliminated "disclosure" votes flagged only by two NGOs.
5. The Greenpeace team then reviewed each proposal in great depth to determine the "Greenpeace" position on the shareholder or management proposal. Importantly, the quantitative methodology accommodates both "for" and "against/withhold" benchmark voting positions, granting the Greenpeace team greater flexibility in establishing their position.

What resulted was a benchmark of 86 proposal-level voting recommendations across companies worldwide.

7.5 Initial results – assessment of effective votes

The initial results are based on the disclosed votes. They offer a nuanced perspective on the sustainability-orientation of the ranked asset managers, as reflected by their proxy voting records. Each asset manager's score in the ranking is a quantitative reflection of their alignment with the benchmark: Greenpeace's position on key sustainability-related proposals. A higher score indicates stronger alignment, suggesting that the asset manager actively uses their voting rights to support investees' improved sustainability performance in line with the Greenpeace position. It is essential to understand that these rankings are not just about the percentage of "sustainable" votes cast or percentage overlap with the Greenpeace position, but they are reflections of asset managers' overall voting trends, emphasizing the importance of each vote's context and impact. The results are summarized in Table 6 below.

7.6 Integrating voting rationales into assessment

Best practice stewardship entails an asset manager not only disclosing voting records, but also communicating the *rationales* for those votes as outlined in Subsection 3.4.4. There can be multiple reasons for an asset manager to vote against a board member's reelection, and it was important to the Greenpeace team to be certain that votes against management only counted as "climate-aligned" votes when climate was the disclosed reason for that vote.

In a second step, the Greenpeace team reviewed the voting rationales publicly disclosed by asset managers in the sample. In the cases where asset managers voted "against" or withheld their votes to reelect a board member, those votes were only accepted as a vote "against" when the opposition to the board member was publicly rationalized with climate-relevant rationales. At two company meetings, Marathon Petroleum and Berkshire Hathaway, different asset managers held different board directors accountable for the respective company's climate strategy: therefore, asset managers' vote against either John Surma *or* J. Michael Stice or Warren Buffet *or* Susan Decker at Berkshire Hathaway with a rationale explicitly linked to the company's climate performance were accepted. As not all asset managers in the sample disclose rationales for their voting choices, this lack of disclosure also led to shifts in the final scores (see Table 6 below).

With Greenpeace's integration of the votes based on rationales, the strength of the quantitative methodology becomes clear: the scores of the managers that did not publicly declare their voting rationales coming from a climate perspective decreased, indicating further separation from the Greenpeace benchmark.

7.7 Final voting rating

For the final voting rating, we also calculated a participation score, which is the number of meetings at which an asset manager voted on divided by the number of votable meetings (so the number of meetings at which the asset manager was entitled to vote, because it owned shares of the company).

Then we calculated two scores:

1. The participation score as the product of the participation rate and the rezonanz' effective voting score.
2. The voting policy score as the rationales-adjusted *rezonanz* voting score.

The total voting score is the average of these two scores. Table 5 on the next page summarizes all voting ratings.

Table 5: Voting rating of Swiss asset managers - 2023

		AXA	BCV	Black Rock	CS	GAM	JSS	LOIM	Pictet	Raiffeisen	Swisscanto	Swiss Life	UBS	Von tobel	Zurich	Average
Overall percentage		58%	81%	0%	46%	44%	45%	44%	64%	47%	60%	36%	60%	49%	75%	51%
Overall rank		6	1	14	9	12	10	11	3	8	4	13	5	7	2	
Voting	Initial rating	62%	91%	0%	67%	47%	53%	48%	65%	50%	67%	67%	62%	54%	93%	59%
	Participation score	98%	86%	100%	50%	100%	85%	99%	97%	100%	94%	19%	100%	99%	98%	87%
	Voting policy	55%	83%	0%	58%	41%	45%	42%	65%	43%	58%	59%	58%	44%	60%	51%
	Effective voting	60%	79%	0%	33%	46%	45%	47%	64%	50%	63%	13%	62%	53%	91%	50%

8 Key findings

Our review of publicly available information indicates that Swiss asset managers view stewardship primarily as a dialogue with companies in a spirit of partnership. Even if there is no progress towards the pre-defined goals, they often continue to engage in dialogue or stop the engagement without consequences. The actually defined escalation processes are only utilized on rare occasions. Our findings also indicate that there is minimal or no evidence of escalation activity at several asset managers.

This reluctance to escalate is also visible through the observation that asset managers are not building strategic pressure on companies to reduce their greenhouse gas emissions or conserve biodiversity. This is evident, for example, through the fact that some asset managers do not disclose the rationale for their directors' votes. They may vote against the management, but without a rationale they do not send a clear message about their expectations. This has significantly reduced the voting score of those asset managers that do not disclose their rationale. Asset managers are also very reluctant to divest and disclose a list of their divestments. For most asset managers, there is no reasonable threat that they will divest from a company if the engagement dialogue fails. Similarly, most asset managers are signatories to various collaborative engagement initiatives, but the visibility of effective participation in collaborative engagements is much lower.

We also did not find sufficient evidence of a target selection process that maximizes impact. Target selection, in our view, should clearly address the trade-off between materiality and engageability and these considerations should be made public. Admittedly, there are limitations to our assessment as we were not able to fully assess the (internal) target selection process.

Finally, we evaluated the intentionality for impact. This assessment suggests that asset managers are not fully committed to corporate stewardship, with a predominant objective of reducing the negative impact of the portfolio companies.

Our overall rating of the 14 Swiss asset managers can be found on the next page.

Table 6: Overall rating of Swiss asset managers

			AXA	BCV	Black Rock	CS	GAM	JSS	LOIM	Pictet	Raiffeisen	Swisscanto	Swiss Life	UBS	Von tobel	Zurich	Average
Overall percentage			63%	51%	22%	35%	51%	48%	46%	64%	47%	54%	33%	57%	45%	50%	47.60%
Overall rank			2	6	14	12	5	8	10	1	9	4	13	3	11	7	
Commitment	Total		60%	45%	35%	32%	52%	44%	35%	59%	42%	49%	36%	53%	43%	33%	44%
	Framework	Total	13%	14%	0%	12%	10%	16%	20%	39%	17%	16%	7%	10%	14%	16%	15%
	Structure	Total	100%	64%	72%	33%	81%	67%	50%	72%	42%	72%	17%	83%	64%	33%	61%
	Reporting / transparency	Total	67%	58%	33%	50%	67%	50%	33%	67%	67%	58%	83%	67%	50%	50%	57%
Engagement	Total		71%	27%	32%	26%	58%	54%	59%	69%	52%	53%	28%	59%	44%	42%	48%
	Target selection	Total	23%	15%	12%	7%	24%	71%	50%	47%	55%	43%	17%	41%	15%	10%	31%
	Dialogue activity	Total	96%	17%	87%	44%	98%	61%	100%	87%	100%	81%	44%	84%	83%	83%	76%
	Collaboration	Total	88%	38%	25%	38%	75%	63%	63%	75%	38%	50%	38%	63%	38%	50%	53%
	Escalation process	Total	92%	33%	25%	33%	67%	50%	50%	67%	42%	67%	33%	67%	67%	50%	53%
	Escalation activity	Total	58%	33%	8%	8%	25%	25%	33%	67%	25%	25%	8%	42%	17%	17%	28%
Voting	Total		58%	81%	0%	46%	44%	45%	44%	64%	47%	60%	36%	60%	49%	75%	51%
	Voting policy		55%	83%	0%	58%	41%	45%	42%	65%	43%	58%	59%	58%	44%	60%	51%
	Effective voting		60%	79%	0%	33%	46%	45%	47%	64%	50%	63%	13%	62%	53%	91%	50%

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