FinanceMap

FinanceMap Stewardship Scoring Methodology

Analyzing asset managers on engagements and resolution activities through a climate lens

April 2023

Introduction

This document lays out the methodology developed and applied by *FinanceMap* to assess the climate-related stewardship activities of asset managers. Stewardship, considered here as the combination of investor-company engagement processes and shareholder resolution activities, has become an increasingly important lever of change in the climate finance space. Alongside this, stewardship is a growing source of value in the marketing of investment products, as asset managers attempt to differentiate their offerings. Simultaneously, there has been a rise in investor collaboration and strategic company targeting in company engagements on climate, primarily led by the *Climate Action 100+* (CA100+) initiative. The collaborative investor-company engagement initiative, established in December 2017, has over 700 investor members with a collective $68 Tn under management. The CA100+ process sets three key targets for the targeted 166 companies, representing the most climate-crucial listed corporations in the world:

- Governance of climate risks/opportunities,
- Reducing greenhouse gas emissions across value chains, consistent with limiting global average warming to well below 2° C, and
- Providing enhanced disclosure aligned with the TCFD process.

The CA100+ initiative tracks indicators to measure the factors above, including emissions targets, decarbonisation strategy, capital allocation, lobbying on climate policy and board-level oversight of climate by the company. Given the prominence of the CA100+ within the climate stewardship process, it is widely expected that asset managers should demonstrate contact with these indicators in their corporate stewardship processes. Despite the importance of investor-company stewardship, there is a substantial lack of publicly available, objective metrics to judge the quality of such practices, both generally and with respect to climate issues. To address this issue, FinanceMap's stewardship scoring was originally developed in 2018 using key aspects of the UK Financial Reporting Council's (FRC) *2020 Stewardship Code* to assess the investor-company stewardship process on climate.

Throughout this document, the term 'stewardship' is used to refer to all private and public investor communications designed to influence the companies they hold shares in. This includes:

- Private communications and meetings with corporate management and appointed advisors,

- Questions at annual general meetings (AGM) or other company meetings,
- Comments on the company in the media or public forums, and
- Shareholder resolution measures and voting.

The methodology is designed so that particular parts of the stewardship process may be isolated and examined in detail for any particular asset manager.

Background

Since the development of FinanceMap's original stewardship methodology in 2018, substantial progress has been made on the minimum expectations for investors to be considered credible stewards of investee companies on climate. This is demonstrated by the formation of various climate-related industry coalitions releasing investor guidelines for climate stewardship. For example, the *Net Zero Asset Managers Initiative* (NZAMI) was launched in December 2020 and now has 291 signatories with collective $66 Tn assets under management. NZAMI's aim is to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C, and to support investing aligned with net zero emissions by 2050 or sooner. Given these developments in the sector, FinanceMap updated its stewardship methodology in August 2022, using updated industry-standard guidelines as benchmarks for best practice expectations of investors in 2022.

The below sections outline FinanceMap's stewardship scoring system and updated benchmarks in detail.

Original Benchmarks

FinanceMap's original methodology was developed in consultation with several of the world's leading asset managers, using key aspects of the UK Financial Reporting Council's (FRC) *2020 Stewardship Code* as a benchmark. The Stewardship Code was chosen to benchmark engagement quality as it provides an ambitious framework and detailed definitions for what constitutes effective engagement. Additionally, the stewardship scoring benchmarks referenced engagement principles outlined in the UN Principles for Responsible Investment's (UN PRI) *Active Ownership 2.0* and CA100+ signatory commitments, while transparency expectations were defined using the *EU Directive 2017/828*.

Updated Benchmarks

Since the January 2021 release of FinanceMap's Asset Managers and Climate Change report, the following documents have been released by recognized industry initiatives:

- Net Zero Asset Managers Initiative (NZAMI) Commitment *(December 2020)*
- Paris Aligned Investment Initiative (PAII) Net Zero Investment Framework *(March 2021)*
- Net Zero Asset Owner Alliance (NZAOA) Elevating Climate Diligence on Proxy Voting *(April 2021)*
- NZAOA Future of Investor Engagement *(March 2022)*

- Institutional Investors Group on Climate Change (IIGCC) Net Zero Stewardship Toolkit *(March 2022)*
- Global Standard for Responsible Climate Lobbying *(March 2022)*

These publications have been used as new benchmarks to update the scoring criteria of FinanceMap's stewardship scoring methodology. Additional reference resources also include the NZAOA Target Setting Protocol (first edition *January 2021*, and updated *January 2022*).

In November 2022, the UK FRC published its *Review of Stewardship Reporting*, which states that starting from 2023, signatories are expected to report in more detail on activities and outcomes relating to their "integration of stewardship and investment, monitoring, engagement, collaborative engagement, escalation, and exercising rights and responsibilities." Notably, for Principles 4, and 7 to 12, the FRC expects multiple case studies to evidence the activities undertaken and the outcomes. Therefore, queries in FinanceMap's methodology that are benchmarked against these Principles will require multiple case studies to score highly.

New benchmarks will be applied to evidence published from 2021 and 2022 onwards for entities in the stewardship scoring universe, depending on the guideline. New benchmarks will not be applied to evidence that predates the publication date of the guidelines. For example, updated expectations of investors taken from the Global Standard for Responsible Climate Lobbying, released in March 2022, will only be applied to evidence published from March 2022 onwards.

Updates to FinanceMap's stewardship methodology were sent to and reviewed by relevant stakeholders including FinanceMap's advisory group, responsible investment organizations, and institutional investor groups.

Stewardship Assessment Methodology

This section outlines the key queries and data sources by which asset managers' stewardship programs are assessed within a system devised by InfluenceMap in 2019, which breaks down the area being assessed into sub-issues and data sources to generate a "matrix" structure. FinanceMap applies set criteria for the selection of data sources. Firstly, FinanceMap aims to ensure as much comparable data as possible across organizations to allow for fair scoring. Secondly, FinanceMap draws evidence from credible and public sources (direct company disclosures or respected third-party sources).

To break down investor stewardship on climate into sub-issues, FinanceMap uses a series of twelve queries that can be applied across all data sources, constructing a matrix of queries (Q1...Q12) against data sources (D1...D4) for each investor. All queries are then weighted against one another in a matrix system to arrive at a final top-level score. Data sources are listed across the top horizontal row, in dark shading. This results in a scoring matrix, with sample scores (five-point scale of -2,-1,0,1,2) or NA (not applicable)/NS (not scored) in the sample matrix below.

			Data Sources			
Engagement/Resolution Categories (Queries)		Weighting of Query	Company Disclosures	External Data Sources	Financial Disclosures	Media Reports
1	**Climate Engagement Framework** Assessing an asset manager's framework to inform its climate engagement strategy	9%	2	NS	NA	NS
2	**Milestones for Success** Assessing if the asset manager uses a defined structure for engagement and milestones to measure progress against	9%	1	NS	NA	NS
3	**Escalation Strategy** Assessing escalation processes, when the asset manager has chosen to escalate engagements, outcomes of escalation	10%	1	NS	NA	NS
4	**Engagement on Paris Aligned Business Models** Assessing if the asset manager is engaging companies around climate change, particularly to transition business models in line with the Paris Agreement	10%	1	NS	NA	NS
5	**Engagement on Climate Lobbying** Assessing if the asset manager is engaging companies to align their climate policy influence with the Paris Agreement	10%	1	NS	NA	NS
6	**Climate Engagement Impact** Assessing if engagements with companies have driven behavior change on climate	10%	1	NS	NA	2
7	**Collaborative Engagement** Assessing if and how the asset manager has participated in collaborative engagements to transition companies in line with the Paris Agreement	6%	2	2	NA	1
8	**Stewardship Governance and Processes** Assessing whether the asset manager has effective governance structures and processes to support stewardship	6%	2	NS	NA	2
9	**Engagement Transparency** Assessing if the asset manager is transparent about who it engages with and on what issues	5%	2	NS	NS	NS

10	**Resolutions: Voting Transparency** Assessing if the asset manager is transparent about its voting record and its voting-related governance structures	5%	1	NS	1	1
11	**Resolutions: Climate-Relevant Voting** Assessing how the asset manager has voted at company AGMs in support of the aims of the Paris Agreement	10%	1	NS	NS	1
12	**Use of Shareholder Authority** Assessing if the asset manager had used its shareholder authority to influence companies to become Paris-Aligned	10%	2	NS	NS	NS

It is thus possible to score each sub-issue across the various data sources within the cells of the matrix. Pieces of evidence within each cell are assessed and scored by FinanceMap team members according to pre-set criteria for each cell, so that each score is independent of the scorer, and is as objective and consistent as possible. Evidence pieces are scored on a 5-point scale (-2; -1; 0; 1; 2), and tagged with date, region and other useful filters. Each cell, data source, and sub-issue is weighted by pre-set importance criteria.

An algorithm is applied across the matrix to result in sub-scores for each sub-issue and a total score for the entire matrix. If no evidence is found in a particular cell or the cell is not relevant to the entity being scored (noted as NS or NA), the weighting for that cell is allocated to other cells in the row where there are evidence pieces and scores. Scored evidence in each cell is aggregated across the matrix structure using a range of carefully weighted algorithms. These calculations produce a top-line score for the overall performance of the asset manager's stewardship program, the Organization Stewardship Score.

- **Organization Stewardship Score** (value of 0-100 and converted to letter grade from A+ to F-) FinanceMap's metric of a company's stewardship of investee companies on climate. Above 85 (graded A) indicates strong and consistent engagement to transition companies in line with the Paris Agreement. Between 70 and 85 (graded B) suggests the asset manager is actively engaging companies to improve their climate performance, although the engagement is not sufficiently firm or clearly in line with the Paris Agreement. Asset managers scored 50 to 65 (graded C) engage companies on climate but are not driving clear behavior change e.g. around the companies' business models. Below 50 (graded D to F) indicates that the asset manager does not appear to engage companies on climate.

FinanceMap assesses asset management organizations at the financial group level, i.e. the top level of an entity representing numerous operating companies which in turn manage funds, e.g. BlackRock represents BlackRock UK Ltd which manages iShares ETFs. In some cases, the brands and engagement activities of operating companies within financial groups are suitably different to warrant separate analysis. For example, Allianz (the financial group) owns the asset manager Allianz Global Investors (Allianz GI), which manages Allianz SE assets as well as other clients. In May 2000, Allianz acquired the subsidiary *PIMCO*, a fixed income specialist with assets under management of US $1.9 trillion in 2020. As Allianz Global Investors and PIMCO have sufficiently distinct investment strategies, and policies and behavior towards companies on climate, FinanceMap analyzes each entity separately. Alongside entity analysis for each, Allianz's financial group level score is also generated, on the basis of its group-level engagement policies, as well as Allianz Global Investors' and PIMCO's stewardship scores.

Stewardship Assessment Queries

As outline above, FinanceMap assesses asset managers' stewardship activities against a set of queries representing key sub-issues of climate stewardship. The 12 queries are grouped into three pillars:
(1) Stewardship Frameworks and Processes, (2) Climate Stewardship Actions, and (3) Governance, Transparency, and Voting. The following section describes these queries and how asset managers' behavior is scored against them.

Stewardship Frameworks and Processes

Q1: Climate Engagement Framework

The UK's 2020 Stewardship Code Principle 9 expects asset managers to explain "how they have selected and prioritized engagement" & "how they have developed well-informed and precise objectives for engagement with examples". NZAOA Future of Investor Engagement describes narrow, single company focused engagements are "often insufficient to advance improvements at the sector and value-chain level" especially on topics that require addressing sector-wide or systemic problems. Therefore, for asset managers to score highest on this query, they should either have a clear strategy for engaging companies in all material climate sectors or have clearly described how climate-related engagements are selected and prioritized, with multiple climate sectors being addressed. For example, Legal and General's *Climate Impact Pledge* offers one example of best practice, as it outlines expectations for all material climate sectors, ensuring engagements are targeted and logically consistent.

Q2: Milestones for Success

Principle 9 of the UK Stewardship Code requires investors to disclose "how engagement has been used to monitor the company; any action or change(s) made by the issuer(s) [...] Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved." Asset managers are assessed on whether engagements are monitored, including whether processes are in place to track specific required outcomes to be achieved consecutively or at different points, as milestones or success criteria during the engagement. To score highly, asset managers should have a strong framework informing engagement and key milestones to measure progress, with clear examples of how it has monitored engagements or how it has developed precise objectives for engagements.

IIGCC's Net Zero Stewardship Toolkit provides guidelines summarized in 6 key steps by which investors can enhance their stewardship practices to deliver the rapid acceleration in decarbonization needed to achieve net zero by 2050 or sooner. Given the document was published in March 2022, FinanceMap will integrate these expectations as of the 2023 reporting cycle to give asset managers time to incorporate these guidelines into their reporting and processes. However, asset managers who have already implemented elements of this framework will be scored positively such as Sarasin's *Net Zero Action Plan*, which assesses companies that are aligned with a net zero pathway and companies that have potential to align.

Q3: Escalation Strategy

The Stewardship Code, Principle 11, states that "Signatories, where necessary, escalate stewardship activities to influence issuers [... and explain] how they have selected and prioritized issues, and developed well-informed objectives for escalation; when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples". Consistent with the Stewardship Code, highly scored asset managers should have in place escalation strategies and responses that are deployed in certain situations. When asset managers encounter sufficient disagreement or a lack of progress on engagement, it is essential they have a robust escalation strategy in place to prevent the engagement process from stalling. Escalation actions are key in enabling asset managers to be 'forceful stewards,' without which engagement is an advisory conversation without consequences. Trillium Asset Management, *for example*, have demonstrated a track record of escalating climate engagements by filing or co-filing climate-related shareholder resolutions. FinanceMap's methodology does not prescribe a certain response as necessary, nor pass judgment on which type of response is better than another, so long as the response constitutes a meaningful penalty. Simply 'increasing engagement intensity', for example, is considered insufficient.

Climate Stewardship Actions

Q4: Engagement on Paris Aligned Business Models

FinanceMap assesses whether asset managers are engaging companies to transition in line with the Paris Agreement. Climate change already tends to be the primary focus of ESG-related engagements. However, the methodology assesses the extent to which the intent and desired outcomes of engagements are consistent with the IPCC's Special Report on 1.5°C and the Paris Agreement's commitment to limit warming to "well below" 2°C this century.

NZAOA's Future of Investor Engagement states "sector/value chain engagement can help investors and companies focus on real-world decarbonization solutions that require sector-wide action" which can help drive accountability that is not always possible in single company engagements. Therefore, for asset managers to score highly on this query, they should be engaging across companies and material sectors to transition their business models to align with 1.5°C. For example, Robeco's *Net-Zero Carbon Emissions engagement theme* focuses on the decarbonization journeys for four key sectors: oil and gas, electric utilities, steel, and cement and engagement will be based on the CA100+ Net-Zero Company Benchmark framework.

Q5: Engagement on Climate Lobbying

As InfluenceMap has demonstrated through consistent analysis since 2015, corporations remain a primary obstacle to the progress of climate change legislation. Investors have a key role in bringing about corporate behavior change to ensure companies' direct and indirect policy footprints are consistent with the ambition of the Paris Agreement. Asset owners such as the Church of England Pension Board and Sweden's AP7 have led an engagement process requesting that companies publicly audit their influence over climate policy. This type of activity, or, for example, engagements to prevent a company opposing specific legislative strands, would receive the highest score.

In March 2022, the Global Standard for Responsible Climate Lobbying was released to provide a "framework to ensure companies' lobbying and political engagement activities are in line with the goal of limiting global temperature rise to 1.5°C above pre-industrial levels". The 14-point Standard, which has been outlined in 4 sections: policy and commitment, governance, action, and specific disclosures, has been applied as additional benchmarks for this query. Asset mangers engaging on the 'action' standards will score highly, this can include engaging with companies to publish a detailed annual review of its direct and indirect climate lobbying activities and take action to address misalignments in its direct and indirect lobbying activities.

Q6: Climate Engagement Impact

This query aims to determine the extent to which there has been some impact or materiality as a consequence of asset managers' engagements. For instance, asset managers would score highly if they have individually or collectively showed sustained and serious attempt to change company behavior through engagements or engaging to drive change at the sector level. All asset managers that are observably active within the Climate Action 100+ engagement initiative would be scored positively for the success of program as a whole. However, to receive the maximum score there must be evidence of causality or additionality specifically related to the engagement: in other words, evidence that the investor drove a particular outcome. This would include being the lead or co-lead filer of a resolution that appears to have caused the intended change. An investor assigned as the lead engager on a CA100+ company that has materially changed its behavior would also receive full points.

Q7: Collaborative Engagement

Principle 10 of the Stewardship Code states that "Signatories, where necessary, participate in collaborative engagement to influence issuers." Collaborative investor engagement around climate has become increasingly common and important in recent years. The Climate Action 100+ (CA100+) coalition, for example, represents 700 investors with US $68Tn assets under management, and over a five-year time-period intends to transition 166 of the most significant companies on climate. To score highly on this query, asset managers must be material contributors to collective engagement efforts to transition companies in line with the Paris Agreement. *For example*, Federated Hermes, which is a significant supporter of CA100+ and leads or co-leads engagements with over 25 companies, would score highly on this query. Accepting that not all asset managers have the resources or authority to lead collaborative engagements, our scoring will assess whether there has been a material contribution to the collaboration and/or specific engagements.

Governance, Transparency, and Voting

Q8: Stewardship Governance and Processes

This query combines expectations of the Stewardship Code's Principles 2, 5, and 6. Principle 2 expects asset managers to explain "how their governance structures and processes have enabled oversight and accountability for effective stewardship" and "how they have appropriately resourced stewardship activities". Principle 5 states signatories should explain "how they have reviewed their policies to ensure they enable effective stewardship". Lastly, Principle 6 highlights expectations around taking "account of client and beneficiary needs" and communicating "the activities and outcomes of their stewardship and investment to them". For asset managers to score highly on this query, they should clearly describe stewardship governance structures and processes, how they assess the effectiveness of its stewardship-related policies and activities, and how they have sought beneficiaries'/clients' views in their stewardship approach and how this is reflected in the approach.

Q9: Engagement Transparency

According to EU Directive 2017/828, "institutional investors and asset managers should [...] be more transparent as regards their approach to shareholder engagement." For an asset manager to be considered fully transparent within the FinanceMap scoring system, the manager should, for instance, publish the companies they are engaging with, alongside an explanation of the issues discussed and the outcomes sought. An equally high transparency score could be obtained by providing detailed case studies of engagements with specific (named) companies across the areas being engaged on. There is no expectation that every engagement merits a case study, as this would be excessive. All disclosures should be freely available on company websites and presented in an accessible format.

Q10: Voting Transparency and Governance

The UK's 2020 Stewardship Code Principle 12, states that, for listed equity assets, investors should "provide a link to their voting records, including votes withheld if applicable; explain their rationale for some or all voting decisions, particularly where: there was a vote against the board; there were votes against shareholder resolutions; a vote was withheld; the vote was not in line with voting policy." Additional governance criteria on how voting decisions are made draws from NZAOA's Elevating Climate Diligence on Proxy Voting Approaches which states "an asset manager's Climate Voting approach should include a clear organizational structure and delegation of roles and responsibilities". Therefore, the highest scores are given to asset managers who publish their voting records annually (or more frequently) along with voting rationale (in line with the Stewardship Code) and describe their organizational structure, roles, and responsibilities for making proxy voting decisions. Robeco, for example, has disclosed all proxy voting data along with votes against management on its website. Additionally, its *Proxy Season Overview* provides an overview of key votes including shareholder proposals and describes how its voting team assesses Say-on-Climate Proposals.

Q11: Climate-Relevant Voting

Annually, FinanceMap identifies shareholder resolutions deemed to be climate relevant, and asset manager vote support for these resolutions is recorded. The climate relevance categorization of a resolution is based on the type of company at which the resolution is raised, as well as potential outcomes of the resolution itself. Companies considered must either be a focus company of the CA100+, a large conglomerate, or be active in high emissions sectors. Smaller companies are not included due to the comparative impact of a the resolution passing. The types of resolutions considered must either reference the Paris Agreement or clearly describe an outcome which would be Paris aligned. For example, a resolution regarding a bank's cessation of coal financing would be a Paris-aligned outcome without needing to directly reference the agreement. Resolutions where any climate impact would be indirect or unclear are not scored. Overly prescriptive resolutions are also not included, for example, resolutions demanding unrealistic outcomes such as the end of all current business activities.

The full list of resolutions assessed can be found *here*. Voting outcome data is drawn from the Insightia voting data platform. Given the significance of proxy voting in the stewardship process, this methodology is designed so that an asset manager's climate voting record is incorporated into its engagement organization score, but can also be isolated and examined in detail. On *FinanceMap.org*, an asset manager's stewardship score is presented alongside its percentage voting support for climate-relevant resolutions in the most recent full calendar year.

Q12: Use of Shareholder Authority

Owners of corporate equity have significant legal and statutory powers to influence company behavior. FinanceMap assesses whether asset managers have, in their use of shareholder authority, been ambitious, purposeful and forceful in driving companies toward Paris Alignment. Investors that score highly may, for instance, have filed or co-filed shareholder resolutions. In 2021, *for example*, Zevin Asset Management filed/co-filed five climate-related shareholder resolutions.

Asset managers may also score highly through galvanizing investor support for a climate resolution either individually or as part of a coalition, or other public forms of shareholder activism. Examples where asset managers have issued public statements around their voting intentions at company AGMs, engaged with company board ahead of AGMs about climate concerns or resolutions, or made statements/asked a climate-related question at company AGMs would score positively. *For example*, BNP Paribbas Asset Management will abstain votes on the financial statements of companies that do not disclose Scope 1 and 2 emissions and if the company is unwilling to engage on transitioning its business model to the Paris Agreement. Additionally, Sarasin and Partners has an *ongoing campaign* focused on voting against the statement of accounts, voting against the re-nomination of auditors, and targeting specific relevant director nominations at companies that are not considering climate risk effectively.