FinanceMap Asset Management Methodology

Analyzing asset managers on portfolios, engagement, and resolutions through a climate lens

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Introduction

While there are efforts underway to codify climate-related issues into financial regulation, climate change action within finance is currently largely focused on voluntary, non-binding initiatives. As a result, there is a need from a range of stakeholders for an independent assessment of how the world's leading financial institutions are performing on climate change.

FinanceMap provides research that looks at the financial sector through a climate lens with a primary focus on asset managers and banks, comparing their top-lines commitments and targets to their actual climate-relevant business activities. The objectives of this research are to (i) provide key stakeholders with insights into how the financial sector is performing on climate change, (ii) drive improvement within the sector itself by providing benchmarking information, and (iii) increase the accountability of financial institutions for their climate-related commitments and statements.

This document summarizes FinanceMap's methodology for assessing the performance of asset managers on climate change. This assessment is largely divided into three streams: (i) portfolio analysis, (ii) stewardship scoring, and (iii) policy engagement scoring, each with its own metrics and methods. The following sections expand upon each of these methodologies in depth.

Portfolio Analysis

Assessment Universe

FinanceMap's assessment of asset management portfolios begins at the level of investment funds. Concretely, this research seeks to identify all equity investment funds worldwide with over $10 million in net asset value (NAV). These funds and their portfolios are allocated to the asset managers which manage them. FinanceMap assesses asset managers at the level of the highest parent financial group, including all subsidiary asset managers under the parent. FinanceMap assesses portfolios both at the level of individual funds as well as at the level of the asset manager. An asset manager's portfolio is defined as the aggregate portfolio of all of its funds' portfolio holdings.

FinanceMap relies on Refinitiv Lipper to identify funds, their asset managers, and their portfolio holdings. Concretely, a list of all equity investment funds which meet the $10 million NAV threshold is created from the database. Data on the fund manager as well as the fund holdings for each of these funds is then extracted, where available. Depending on the fund, the holdings data dates from the most recent day, month, or quarter end. In mapping out the asset management sector, FinanceMap identifies approximately 30,000 equity funds managed by over 1,200 asset managers globally.

FinanceMap uses two primary types of metrics to analyze fund and asset manager portfolios: (i) exposure metrics, and (ii) portfolio Paris alignment scores.

Exposure Metrics

FinanceMap analyzes the exposure of portfolios to (i) fossil fuel value chain companies, and (ii) companies which are primarily active in transitional activities, or "green" companies. Exposure metrics are calculated both in absolute value and as a percentage of the portfolio's total value. The following sections explain how FinanceMap identifies fossil fuel and green companies respectively.

Fossil Fuel Exposure

FinanceMap calculates a portfolio's fossil fuel exposure by flagging all companies in a portfolio which are primarily active in fossil fuel production value chains on the basis of their BICS, GICS, and NAICS sector classifications. The fossil fuel production value chain is defined as the universe of companies of which the primary sector of operations is in or uniquely related to the up-, mid-, and/or downstream segments of oil and gas production or the coal mining sector. This includes companies of which the primary operations are services specific to these sectors (e.g. exploration, surveying, pipeline infrastructure, etc.).

Green Exposure

FinanceMap defines green companies on the basis of the *EU taxonomy for sustainable activities* (abbr. "EU taxonomy"). Specifically, all companies with over 75% of revenue deriving from activities which demonstrate substantial contribution to climate change mitigation under the EU taxonomy are considered "green" under this methodology.

FinanceMap gathers data on companies' percentage of revenue contributing to climate mitigation from Bloomberg. Specifically, Bloomberg Terminal provides data for the "estimated revenue demonstrating substantial contribution to climate change mitigation" under the EU taxonomy. FinanceMap supplements this with Bloomberg data on companies' revenue in BICS sectors which are classified as having substantial contribution to climate mitigation with no criteria (e.g. solar or wind power generation, production of zero-emissions vehicles, power storage, etc.) All companies with over 75% revenue in either the former or the sum of the latter are considered "green".

Portfolio Paris Alignment

The other primary metric FinanceMap uses to analyze investment portfolios is the Portfolio Paris Alignment (PA) Score. This metric uses the industry-standard *Paris Agreement Capital Transition Assessment (PACTA*) tool, an open-source methodology managed by RMI and expanded upon by FinanceMap, to measure the alignment of a portfolio of companies with the IEA Net Zero Emissions by 2050 Scenario (NZE). For an in-depth elaboration of the PACTA methodology, please refer to 2DII's *PACTA documentation*. A condensed explanation is given below, followed by the full methodology behind FinanceMap's use of the PACTA outputs to calculate the Portfolio Paris Alignment Score.

PACTA

PACTA is an open-source portfolio alignment methodology developed by 2DII, which calculates the forward-looking alignment of a portfolio of companies with science-based climate scenarios. To do so, PACTA uses physical asset-based data, created by *Asset Impact*, to estimate the total future production of real-economy companies in climate-relevant sectors. The dataset used contains forward-looking production data for approximately 28,000 publicly and privately owned real-economy organizations across climate-relevant sectors. Comparison of this real-economy production data against prescriptions by Paris-aligned climate scenarios allows for the calculation of the Paris Alignment of companies and portfolios. FinanceMap uses the *IEA Net Zero Emissions by 2050 Scenario (NZE)* in its application of PACTA.

Currently, FinanceMap uses PACTA analysis for four climate-relevant sectors: automotive, upstream oil and gas production, coal mining, and electric power. The Asset Impact forward-looking production data at company level is split into different 'technologies', i.e., types of output, within these sectors. For a specific real-economy company, the data forecasts the number of units which the company will produce in each technology in each year. The following table shows the different production technologies analyzed within each sector.

Sector	Unit of Production	Technology
Automotive	Light-duty vehicles per year	Electric
		Hybrid
		Internal Combustion Engine (ICE)
Coal Mining	Tonnes of coal mined per year	Coal
Oil & Gas Production	Barrels of oil equivalent (BOE) extracted per year	Oil
		Gas
Electric Power	MW installed capacity	Coal-fired
		Gas-fired
		Hydropower
		Nuclear
		Oil-fired
		Renewables

Table 7. PACTA production technologies by sector.

The IEA NZE, meanwhile, sets out a pathway with a 50% chance of limiting global warming to 1.5° C by 2100. This pathway consists of roadmaps for the different sectors, prescribing production targets for the different technologies within a sector for every year between now and 2050. PACTA translates these sector-level targets to company-specific targets, allowing the calculation of the gap between a company's actual forecasted operations and its target under the Paris-aligned NZE.

The following section explains how PACTA calculates technology-level Paris Alignment scores for a portfolio based on the forward-looking data of its portfolio companies. Subsequently, top-line Paris Alignment scores are calculated by FinanceMap at the sector and the overall portfolio level.

Technology Paris Alignment Scores

In order to calculate the Paris Alignment of a portfolio for a certain technology within a given sector, PACTA first allocates the real-economy activities of the portfolio's holding companies to the portfolio. Concretely, the technology production of each company is allocated to the portfolio proportionately to its equity ownership of

the company. For example, if a portfolio has shareholdings in Car Company A, amounting to 5% of the total shares outstanding of this company, then 5% of Car Company A's forward-looking production in internal combustion engine vehicles, electric vehicles, and hybrids is allocated to the portfolio.

By summing the allocated production over all the companies in a portfolio, the methodology obtains the portfolio's total owned forward-looking production in each technology in each sector. The same allocation and summing process is applied to the companies' NZE targets, giving a Paris-aligned target for the portfolio in each technology. Calculating the relative difference between the portfolio's total owned production in a technology and the portfolio's NZE target over a five-year timeframe gives the Paris Alignment score at technology level. Note that the score is calculated such that overshooting the target gives a positive score for green technologies but a negative score for polluting technologies.

Thus, for a green technology i,

$$A_i^{tech} = \frac{\sum_{t=t_1}^{t_5} P_t^{tech,portfolio}}{\sum_{t=t_1}^{5} P_t^{tech,NZE}} - 1$$

and for a polluting technology j,

$$A_j^{tech} = (-1) * \left(\frac{\sum_{t=t_1}^{t_5} P_t^{tech,portfolio}}{\sum_{t=t_1}^{t_5} P_t^{tech,NZE}} - 1 \right)$$

Where A_i^{tech} is the Technology Paris Alignment Score for technology i, $P_t^{tech,portfolio}$ is the portfolio's total owned production in the technology in year t, and $P_t^{tech,NZE}$ is the portfolio's IEA NZE target for the technology in the same year t. The production and corresponding NZE targets are respectively summed over the 5-year timeframe assessed (t_1 to t_5). As of March 2023, t_1 is 2022 and t_5 is 2026.

In this scoring method, a 0% alignment score indicates that the portfolio is aligned with the NZE. In this case, the portfolio (in allocated aggregate) owns assets which are forecast to produce an amount equal to the NZE scenario-aligned production for those assets over the next five years. A negative score indicates that the portfolio owns too much polluting or too little green production compared to the NZE. A positive score shows that the portfolio owns less polluting or more green production than the NZE prescribes.

Technology Paris Alignment scores are artificially capped at +100% and -100%, in order to avoid imbalance between the possible range of positive and negative PA scores. For example, for green technologies, a portfolio which owns zero actual production but has a non-zero scenario target would receive a score of -100%. However, very high numbers for actual green production with very low scenario targets could technically lead to infinitely high PA scores. The opposite is true for polluting technologies, where portfolios could have infinite negative alignment while being limited to +100% positive alignment.

Sector Paris Alignment Scores

To arrive at the Sector-level PA score, the PA scores for each technology within a sector are combined using a weighted average approach. The weighting used is a product of two factors:

- Portfolio technology share **(W_i^{TS}):** This weighting is calculated by finding the fraction of production each technology has within its sector in the portfolio aggregate in 5 years' time. This is used to gauge the technologies' relative importance in the companies held by the portfolio.
- Technology production change in NZE **(W_i^{TE})**: Within a sector, each technology makes a different relative contribution to global emissions. Consequently, the use of some technologies (e.g., coal-fired power and renewable energy) is more significant than others (e.g., oil-fired power) for meeting the NZE pathway. To reflect this, polluting technologies are weighted based on their production in 2020 in the NZE, as they must scale down from this amount. Meanwhile green technologies are weighted based on their target production in 2030 in the NZE, as they must build up to this amount. The result is that in addition to weighting the individual technology alignments on the basis of portfolio exposure, the Sector Paris Alignment Score also accurately captures the variable importance of different technologies to the global energy transition.

Thus, the Sector Paris Alignment Score A_k^{sector} for sector k is calculated as

$$A_k^{sector} = \frac{\sum_i W_i^{TS} \cdot W_i^{TE} \cdot A_i^{tech}}{\sum_j W_j^{TS} \cdot W_j^{TE}}$$

with i and j indices for technologies within the given sector k and the other variables defined as in the aforementioned.

Portfolio Paris Alignment Scores

The calculation of the overall Portfolio Paris Alignment score from the Sector Paris Alignment scores closely mirrors that of the Technology to Sector Paris Alignment calculation. The Portfolio PA score is a weighted average of the Sector PA scores, with weightings reflecting portfolio value exposed to a given sector and the sector's importance to the emissions transition. This represents a minor variation on the calculation used to aggregate to the sector level. The two factors in each weighting are:

- Financial exposure to sector (W_j^{SV}): Unlike weighting different technologies within a sector, between sectors there are entirely different production types (e.g., MW of capacity, tonnes of coal produced), which renders a weighting based on absolute production meaningless. As a proxy, the relative portfolio value exposed to that sector is used. Note that in this calculation only those companies for which the sector at hand is the company's *primary sector of operations* are counted, in order to avoid double-counting, as well as to prevent highly valuable companies with negligible production in a sector from skewing the weighting (e.g., Apple and Amazon have very small holdings in power generation assets).

- Sector emissions change in NZE (W_j^{SE}): Similar to the explanation above for technologies, different sectors will need to make different relative contributions to global emissions or emissions reductions over the coming decades. To reflect this, each sector is weighted based on the extent to which its emissions must *change* between 2020 and 2030 as outlined in the NZE.

Thus, the Portfolio Paris Alignment Score $A^{portfolio}$ is calculated as

$$A^{portfolio} = \frac{\sum_k W_k^{SV} \cdot W_k^{SE} \cdot A_k^{sector}}{\sum_l W_l^{SV} \cdot W_l^{SE}}$$

with k and l sector indices and the other variables defined as in the aforementioned.

Stewardship Scoring

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.

	Engagement/Resolution Categories (Queries)	Weighting of Query	Data Sources: Company Disclosures	Data Sources: External Data Sources	Data Sources: Financial Disclosures	Data Sources: 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 $1.74 trillion as of December 2022. 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 four pillars: (1) Stewardship Frameworks and Processes, (2) Climate Stewardship Actions, (3) Governance and Transparency, and (4) Shareholder Authority 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 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 and Transparency

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.

Shareholder Authority and Voting

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.

To ensure this assessment is consistent across asset managers, only non-management backed resolutions are considered. This is due to management backed resolutions generally generating considerably higher support percentages compared to non-management backed resolutions.

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.

Policy Engagement

To assess financial institutions' engagement with sustainable finance policy processes, InfluenceMap applies the existing LobbyMap methodology for assessing climate policy engagement. Please refer to the *LobbyMap Methodology* for an in-depth explanation of this assessment.