

Dear Fund and Asset Managers,

The UK Wealth Managers on Climate Group was formed in September 2023 – this letter is being sent on behalf of several members of the group representing a total of £165 billion¹ of assets under management (AUM). Following lengthy discussions, we have come together to present a unified ask of asset managers to step up their ambitions around climate change. As investors in your funds, many of us cannot set or deliver our own net zero ambitions unless you make progress on your commitments.

In recognition of this, together, we are asking the managers with whom we invest to take three clear steps:

1) Improve ambition

Set a net zero commitment and ensure that your targets are clear and transparent.

- We encourage all managers to set a net zero commitment that covers all assets under management, with clear and measurable interim targets in place.
- For those managers who have set a net zero commitment, we urge you to provide greater transparency around your net zero targets including:
 - Baseline year emissions for the chosen targets
 - Percentage of your assets currently covered by your net zero targets

Best practice

In addition to disclosing what percentage of your assets are currently covered by your net zero target, we encourage managers to provide the breakdown of these assets including:

1. The rationale for exclusion of certain assets – e.g. lack of data, no existing methodology, client approval needed, etc.

2. The materiality of these assets – how significant are the emissions from the uncommitted assets as a proportion of the emissions from your total AUM?

3. A timeframe and strategy for inclusion of the uncommitted assets.

For those managers who have committed a small percentage of their AUM to net zero, we would encourage you to develop a strategy internally to bring more assets under your targets, with clear steps of escalation if the established timeline and KPIs are not met.

2) Build action

Ensure that your approach is understood by your wider business and communicated to your clients.

- Ensure your net zero approach is understood by your fund managers. If fund managers are managing assets in scope of your current targets, undertake discussions with them around how these targets may affect the portfolio.
 - We would expect to see evidence of this being integrated into the investment process i.e. through the use of key metrics.
- Report on emissions reductions over time within your funds, and at a minimum on an annual basis. We understand the challenges of reporting absolute emissions and therefore welcome progress against intensity-based metrics as well. However, if intensity-based metrics are reported, we would encourage managers to disclose absolute emissions regardless so that clients can compare real world impact across their portfolios. This is in line with existing industry standards such as the Task-Force for Climate-related Financial Disclosures (TCFD).

¹As at December 2023.

Best practice

Best practice integration approaches allow fund managers to work towards targets and real-world impact through capital allocation and stewardship decisions.

Best practice disclosures allow clients to hold asset managers to account on progress on their targets, and help them judge how this progress is achieved.

At minimum, we expect fund level and cross-asset level disclosure on metrics relevant to your organisation's selected target setting framework.

Example 1: For those managers using emissions reductions methodologies – we recommend developing an internal dashboard incorporating key metrics around emissions reductions for their strategies, including attribution analysis and historical decarbonisation. We would encourage managers, where possible, to attribute emissions reductions by:

1. Perimeter effect (net inflow/ outflows into the fund)
2. Portfolio composition (changes in portfolio exposures, asset allocation, investment selection)
3. Portfolio company decarbonisation, based on actual reported emissions reductions

Example 2: For those managers using the NZIF methodology – we encourage managers to report on the percentage of underlying companies categorised across committed to aligning, aligning, aligned, and achieving net zero categories. We also encourage a clear strategy and interim timelines (per category) on how you expect to transition the portfolio across the NZIF categories to achieve net zero.

3) Increase influence

Strengthen links between your net zero commitments and your stewardship activities to focus on outcomes.

- As wealth managers we think there is value in collective action. We would encourage all managers to join industry groups and engage in collaborative action that focuses on:
 - Reducing emissions and enhancing emissions disclosures of investee companies
 - Facilitating discussions for asset classes where methodologies do not currently exist
 - Increased integrity around frameworks for scope 4 emissions
- Provide clear alignment between net zero alignment targets and stewardship outcomes, such as:
 - Establishing a stewardship framework based on climate analysis with clear steps of escalation, including voting and specified outcomes that are consistent with your net zero commitment
 - Transparency on the percentage of financed emissions that have been engaged on, including details around engagement outcomes
 - Increased reporting, including rationales, on climate related votes at a fund level

Best practice

Where a manager has made a net zero commitment that covers 100% of their equity book, we would like to see their climate voting policy apply to 100% of their equity book, not just those funds with a net zero target in place.

We recognise that for some managers it is not possible to scale up net zero commitments to cover a larger asset base. For these managers we encourage you to scale up climate stewardship activities to cover all assets.

As managers of assets ourselves, we are aware of the complex implications of setting long-term net zero commitments and interim targets on investments. Methodologies, timeframes and ambition all vary greatly across our industry – and different expectations from wealth managers like ourselves have historically complicated the landscape further.

We would ideally like to see progress against these steps within the next twelve months, but understand that there may be challenges in doing so for some of our managers. We strongly welcome feedback and further discussion with you as we navigate this complex space together.

Yours sincerely,

Members of the UK Wealth Managers on Climate

		
		
		

Several of the signatories to this letter already have their own policies in place. Please refer to their websites for more detail. These include NZAM commitments, climate transition action plans, and policies to which they are committed regarding third-party managers.