

THE PLAYING FIELD

**A LOOK AT THE
WORLD'S LARGEST**


50

ASSET MANAGERS

FEBRUARY 2021



SquareWell
Partners



SquareWell Partners (“SquareWell”) updated its annual study to determine how 50 of the world's largest asset managers¹ are approaching some of the prominent issues of today’s global financial market. Together these 50 asset managers have close to \$60 trillion Assets Under Management (“AUM”).

In recent years, the demands from almost all market forces have increased, from activists to society at large, which has created a chain of scrutiny, with ultimate accountability falling on the shoulders of asset managers. This pressure on the industry has come from increasing regulation, client pressure, the public shaming of lagging players in the media, as well as performance. As a result, asset managers are expected to invest in better businesses, to consider environmental, social and governance (ESG) issues, to be forceful stewards of their investments, and to become more transparent.

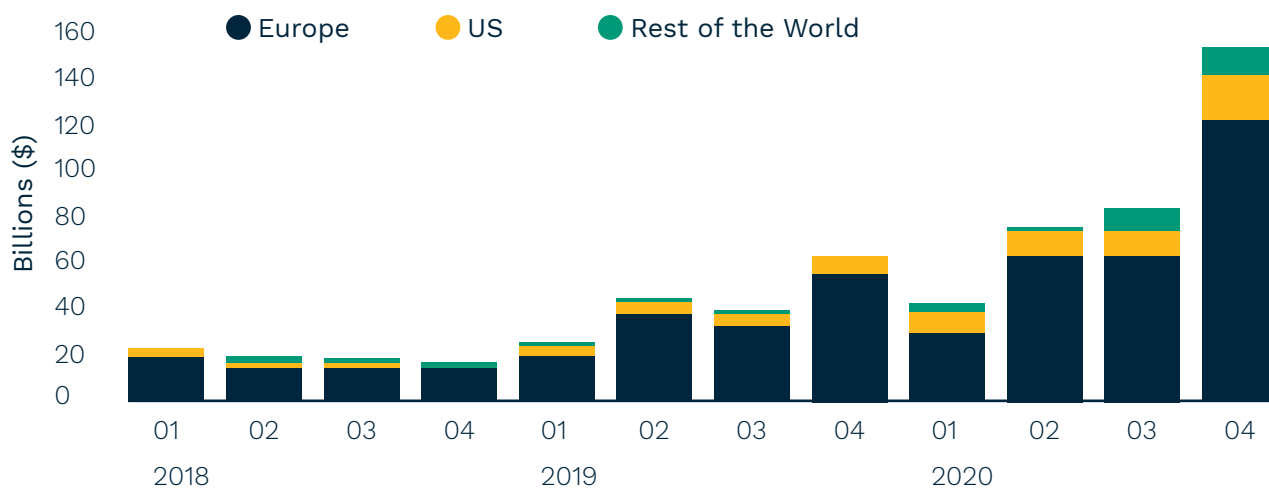
ESG – shifting from niche to mainstream

Sustainable investment is increasing

We have begun to see an economic shift to overcome global issues such as climate change, societal inequalities and corporate sustainability². This shift towards solving global challenges has resulted in capital being redirected into sustainable investments that incorporate ESG factors in portfolio selection and management. By the end of 2020, assets in ESG funds hit a record of almost \$1.7 trillion, up 50 percent over the previous year, according to Morningstar³.

The disruption caused by the COVID-19 pandemic has underscored the necessity of building sustainable and resilient business models based on multi-stakeholder considerations whilst intensifying scrutiny over the ESG performance of companies. ESG factors such as good governance and an agile business culture have proven to be paramount in times of crisis and volatility, and has led to ESG funds being more resilient, helping them thrive during the March 2020 coronavirus sell-off and see substantial flows of investment through 2020, closing the year with a record-breaking fourth quarter⁴.

Sustainable Fund Flows



Source: Morningstar – Global Sustainable Fund Flows: Q4 2020 in Review

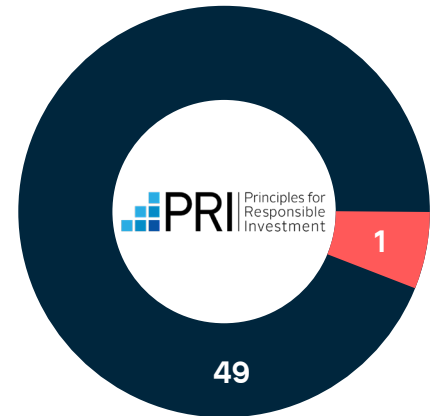
The progress seen in 2020 – a precarious year in many senses – highlights the benefit of incorporating ESG factors into investments. ESG investing can no longer be regarded as a nice-to-have or a niche matter. It has moved squarely into the mainstream, and is growing not just in equity markets, but in private markets and fixed income too.

UNPRI – The principles driving this change

The **United Nations-supported Principles of Responsible Investment (PRI)** has been a driving force behind the growing integration of ESG factors in the investment process alongside improved investor disclosure. All but one of the world's largest 50 asset managers are a signatory to the PRI.

The PRI works to understand the investment implications of ESG factors through its six principles and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Moreover, adherence to the PRI principles as well as the PRI assessment scores are now factored into the asset manager selection process of many asset owners.

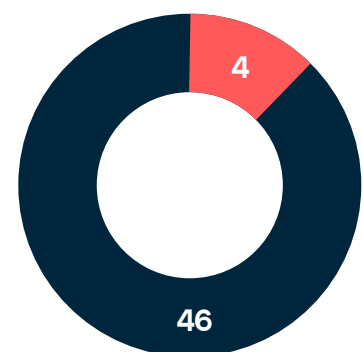
We believe that the PRI will continue to build momentum due to its increasing depth of information requested from investors through 'Transparency Reports' and the evaluation PRI has reinforced of its members' commitments and actions.



NO YES

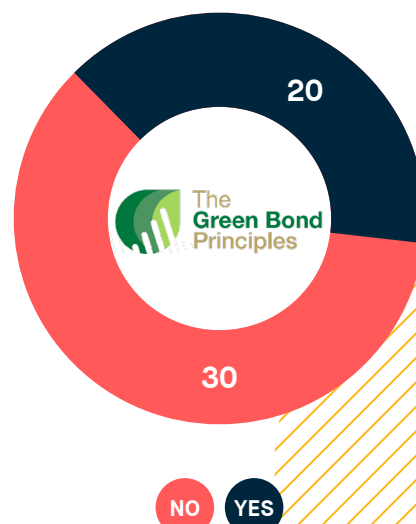
Fixed Income – ESG considerations not limited to equity selection

On the surface, fixed income has been slower to embed ESG factors into its considerations, potentially because methods for integrating ESG into equity portfolios cannot simply be transferred across to fixed income and the variety of solutions is limited⁴. Although equity remains the asset class of choice for ESG investors, attracting about 90% of sustainable fund flows for 2020⁵, we are seeing evidence of a rise of ESG integration in fixed income considerations, with 46 of the top 50 asset managers indicating that ESG analysis is used as part of their fixed income investment process, up sharply from 17 in 2019 based on public disclosures.

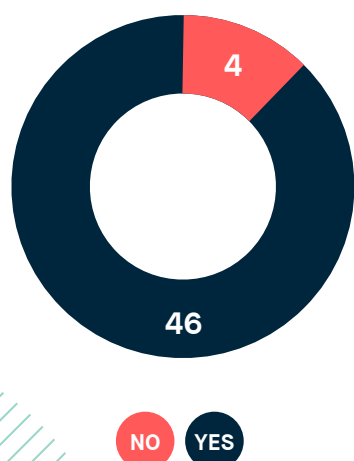


NO YES

Of the top 50 asset managers, 20 support the **Green Bond Principles**. These guidelines were established by a consortium of investment banks in 2014⁶ and offer guidance for transparency and integrity in the development of the Green Bond market⁷ which is currently valued at \$346bn⁸. For example, Climate Bonds, which follows the Green Bond Principles, are bonds linked to climate change solutions which allow investors to direct capital towards the low carbon transition and climate change solutions⁹.



Dedicated responsible investment teams



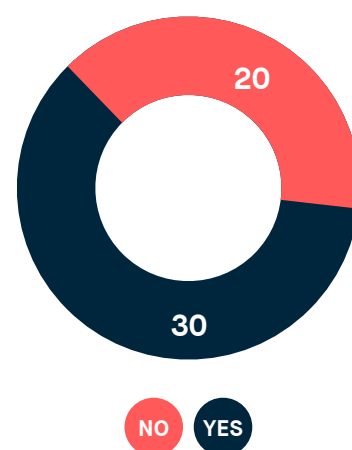
As asset managers are becoming increasingly attuned to the benefits of ESG integration in various investment strategies, investors have created dedicated responsible investment teams (which differ from the stewardship teams, which we mention below).

Of the top 50 asset managers, 46 have a dedicated responsible investment team tasked to advance ESG research and develop sustainable investment solutions, sometimes with binding ex ante investment guidelines preventing the purchase of securities outside of that universe. The size of these teams varies greatly, with **DWS Investments** employing 140 people whilst the average size of dedicated teams among the top 50 is 28.

The challenge remains for most asset managers to further integrate these teams of experts within the traditional investment teams at every stage of the investment process.

Internal ESG ratings

Asset managers are increasingly looking to develop their own proprietary ESG ratings and tools to lessen their dependence on rating firms, as outsourced ratings alone may not result in the outperformance desired by investors. In addition to third-party ESG rating service providers, 30 of the top 50 asset managers have created their own internal ESG rating systems. With materiality and investor motives sufficiently diverse, internal ratings may better provide the insights needed for asset managers to achieve an “edge” in ESG.



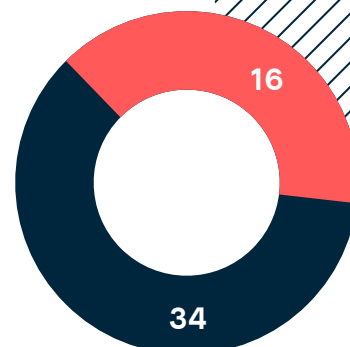
Investors providing ESG guidance to companies through position papers

Investors have become increasingly keen to publicly state their positions on ESG issues. 34 of the asset managers reviewed produce position papers, offering insights and perspectives on a range of ESG topics, from decarbonizing portfolios to diversity and inclusion. This is up from 24 in 2019.

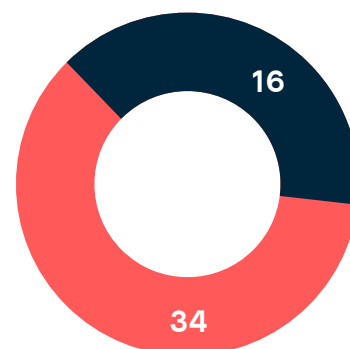
Dedicated insights on human capital

COVID-19 has highlighted the importance of the S in ESG. Increasing social tensions and inequalities are forcing investors to oversee how their portfolio companies are approaching human capital management and diversity in the broadest sense. Many companies have been called out over the last few years over gender pay gaps, lack of diversity across their business and boards, and poor oversight of supply chains, among other issues. Of the top 50 investors, 16 have vocalized the importance of human capital through position papers. An insight from Morgan Stanley pointed to 2020 as a “watershed year for diversity in the workplace, both generally and in investment management”¹⁰.

Not only did these reports speak about the importance of a work culture that promotes diversity and employee engagement, but also of topics such as the corporate responsibility to protect human rights or the challenges of attracting the right talent. Addressing these issues is seen as crucial by asset managers in promoting inclusive and sustainable businesses for the future.

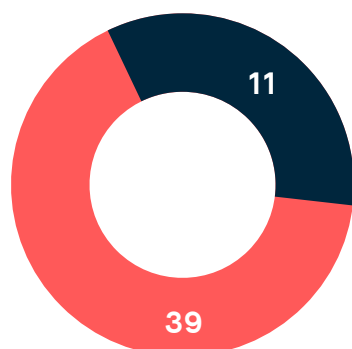


NO YES



NO YES

Dedicated insights on biodiversity



NO YES

11 of the top 50 asset managers have published position papers on biodiversity. Most of these papers are from 2020 onwards, signalling an upsurge of interest in this subject by the investment community. Several asset managers mentioned investments they had made in projects to safeguard natural ecological processes and enhance the local environment in which they operate. Meanwhile, others looked at how investors and the financial sector in general could address biodiversity risks and what economic consequences biodiversity loss would entail. As a paper by the Co-Head of ESG Research at HSBC Global Asset Management states: “The degradation of the natural world threatens economic prosperity. It is in investors’ interests to step up and protect the planet”¹¹.

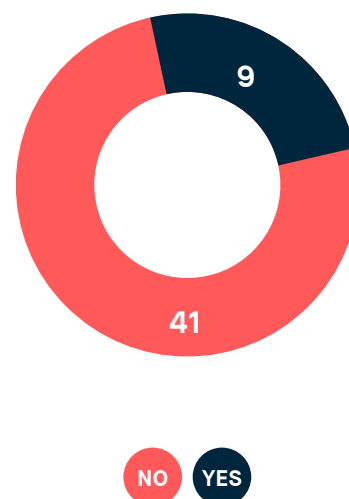
Some of the largest asset managers are also proactively taking actions to integrate impacts on nature and biodiversity into their risk assessments and research: **BNP Paribas Asset Management** and **AXA Investment Managers** (together with French institutionals Mirova and Sycomore AM) are developing a tool to be able to rate companies according to their impact on biodiversity on a large scale, creating a methodology and database for investors to use in their investment decision-making process¹².

Dedicated insights on tax policy

9 of the world's largest asset managers have published dedicated insights into the importance of the approach to tax taken by companies. Those that did, unsurprisingly, focussed on predicting how the taxation landscape will evolve in response to the change in US presidency and governments rebounding from the impacts of the coronavirus pandemic.

With the launch of the **Global Reporting Initiative (GRI) Tax Standard** in December 2019, a first-of-its-kind framework encouraging tax transparency on how much and importantly where corporations are paying tax¹³, we expect to see more insights by asset managers dedicated to tax.

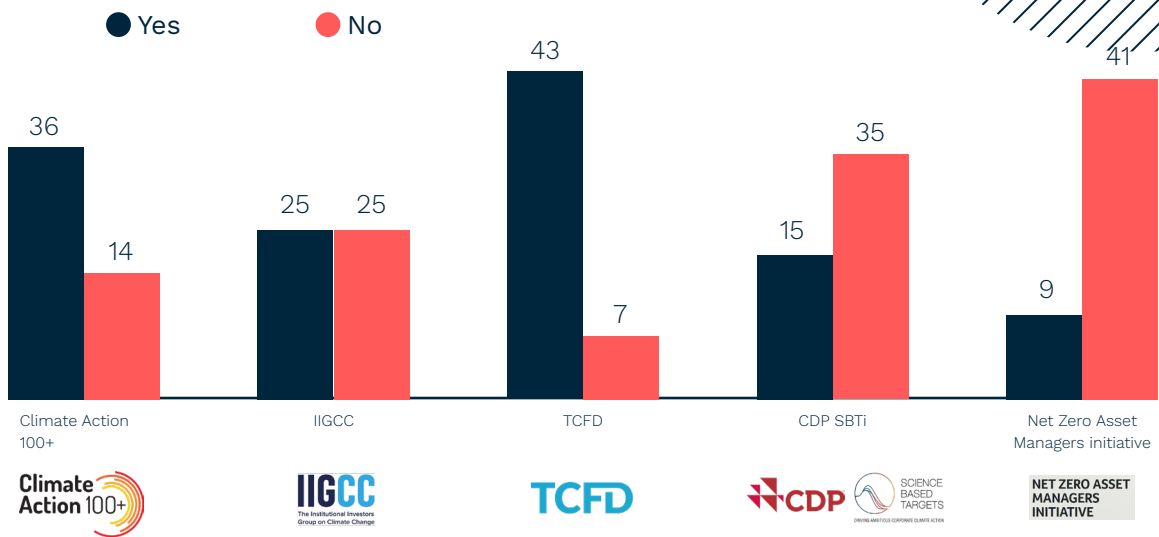
Norges Bank Investment Management, the giant Nordic sovereign wealth fund that has had a strong view on the topic¹⁴, for the first time pulled investments from companies because of their tax policies, adding that more such moves were likely in future¹⁵. This divestment over tax policies was also publicly supported by other investors, such as Dutch fund ABP, UK investor Epworth Investment Management and four shareholder membership groups.



Voluntary organisations helping drive change through transparency

Alongside their own research and publications, investors are progressively signing up to organisations that help standardise disclosure to bring about comparability of data while others help promote important issues in areas such as climate change. There are countless initiatives that have emerged over the years and we have selected several initiatives which cover climate change, human capital and investor-led collaborations to demonstrate the increasing breadth of such initiatives as well as their increasing levels of support by investors.

Addressing climate change



Beyond the potential reputational and regulatory risks, investors are aware that climate change can directly impact a company's day-to-day operations and its assets, from increased extreme weather events impacting physical assets to supply chain disruption resulting in increased input costs. With 215 of the world's largest companies reporting a combined \$970 billion at risk from climate change, investors are expecting companies to take climate change seriously, regardless of their industry.¹⁶

Together with the Paris Agreement, there has been a notable increase in investors' alignment on the topic of climate change and working collaboratively to push certain reporting frameworks. On the collaborative engagement side, we note that **Climate Action 100+** and the **Institutional Investors Group on Climate Change (IIGCC)** now have 36 (including most recently BlackRock and State Street Global Advisors) and 25 respectively, of the top 50 asset managers committed to engaging with companies on improving climate change governance, cutting emissions and strengthening climate-related disclosure¹⁷.

On the reporting side, the **Task Force on Climate-related Financial Disclosures (TCFD)** has seen growing support from investors, with 43 of the top 50 asset managers now being official supporters (up from 32 in 2019 and including T. Rowe Price and Capital Group as recent signatories), confirming its framework and recommendations help them understand how companies are responding to material climate-related risks.

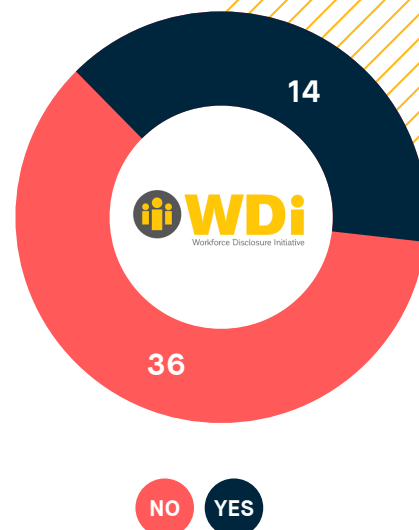
Only 15 of the investors take climate planning a step further by supporting the **CDP Science-Based Targets** campaign, which provides corporate emissions targets deemed consistent with the Paris Agreement goal of 1.5°C or net-zero¹⁸.

The recent launch of the **Net Zero Asset Managers** initiative, consisting of a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, is in line with global efforts to limit warming to 1.5°C (and to supporting investing aligned with net zero emissions by 2050 or sooner). It is supported by 9 of the top 50 asset managers and will continue to push companies further to disclose an articulated plan towards a low carbon economy.

Human capital management

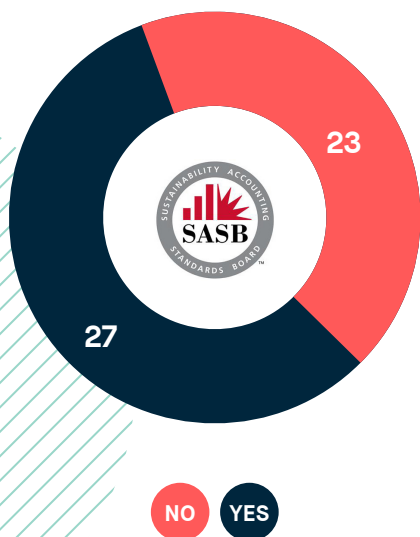
Investors have continued to recognise their unique position to influence positive workplace changes at portfolio companies. Through the **Workforce Disclosure Initiative (WDi)**, investors can coax better disclosure from companies on how they manage their direct and supply chain workforce. The WDi aims to improve transparency and accountability on a range of workforce issues where data is currently lacking¹⁹. The mobilisation of investors to encourage this data collection and disclosure subsequently allows for engagement between both parties on material issues regarding workplace standards

Studies by Better Work and Union Investment have both found a positive correlation between revenue and working conditions²⁰. Since launching in 2017, the WDi already has 14 of the top 50 asset managers as signatories but this is only an increase of 4 from 2019. The uncovered abuses of workers' rights and societal expectations in the wake of COVID-19 may make the disclosures sought by the WDi more appealing.



ESG disclosure standards

The majority of the top 50 asset managers are members of the **Sustainability Accounting Standards Board (SASB)** Alliance for consistent, comparable, and reliable disclosure of financially-material, decision-useful environmental, social, and governance (ESG) information to investors. The Investor Advisory Group of SASB – made up of 55 members with \$41 trillion in assets under management (AUM)²¹, including 27 of the top 50 asset managers, recognizes the SASB Standards as being globally applicable as part of a core set of company ESG disclosures and ask issuers to use SASB Standards in disclosures to investors. Some of the largest passive investors have recently strengthened their requests to companies to adopt SASB as a reporting standard, notably BlackRock, as detailed in its latest CEO letter²² to portfolio companies, as well as State Street Global Advisors that had cemented its support for SASB in 2019 when it announced its own ESG Rating called R-Factor, which was based on SASB materiality.



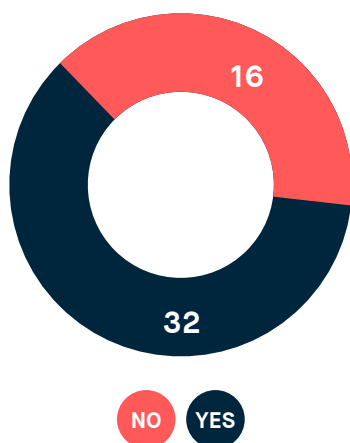
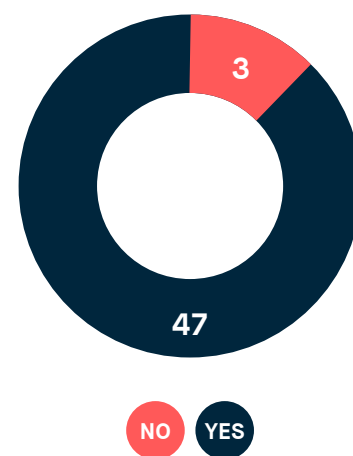
A focus on stewardship activities

ESG integration is now coming into the mainstream in equity investing, with most investors explaining their responsible investment practices in a robust manner. However, there remains a lot of suspicion about whether disclosures surrounding responsible investing match actual practices. Some asset managers have a broader depth to their ESG integration than others which is apparent from their stewardship activities, the content of their voting policies and other relevant documentation.

Voting policies

Asset managers' governance preferences through voting policies

Asset managers develop voting policies to give indications to the market and to companies of their governance sensitivities and expectations. These policies are often encompassing of ESG, but predominantly focus on governance issues such as board composition or executive pay. Asset managers may be reluctant to fully disclose their voting parameters due to the nuance of some voting decisions and the need to retain some flexibility. 47 of the top 50 asset managers have a disclosed bespoke voting policy, up from 41 in 2019, which represents enhanced efforts towards transparency.

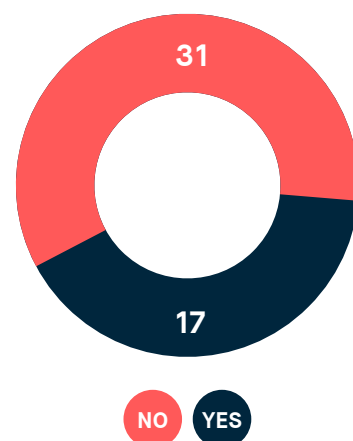


Integration of environmental & social issues into voting policies

Asset managers include to various extents environmental and social (E&S) factors into their voting policies, with climate change and human capital sections becoming increasingly common. In our 2019 report we predicted a rise of E&S inclusion in voting policies – potentially precipitated as a result of the tumultuous year that was 2020, we now see 32 of the top 50 asset managers have included distinct E&S guidelines in their voting policy, up from 19 in 2019.

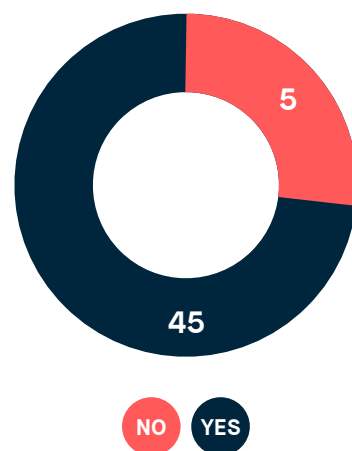
Voting policies to take into account market specificities

A select number of asset managers, often with large global diversified portfolios, have market-specific policies to be clearer on how they tailor their voting behaviour to local market sensitivities. While only 17 of the top 50 asset managers have disclosed separate voting policies/guidelines for different markets, this is over double the amount in 2019. Investors may finally be responding to the considerations of companies for the idiosyncrasies of their home markets whilst also promoting global principles on governance.



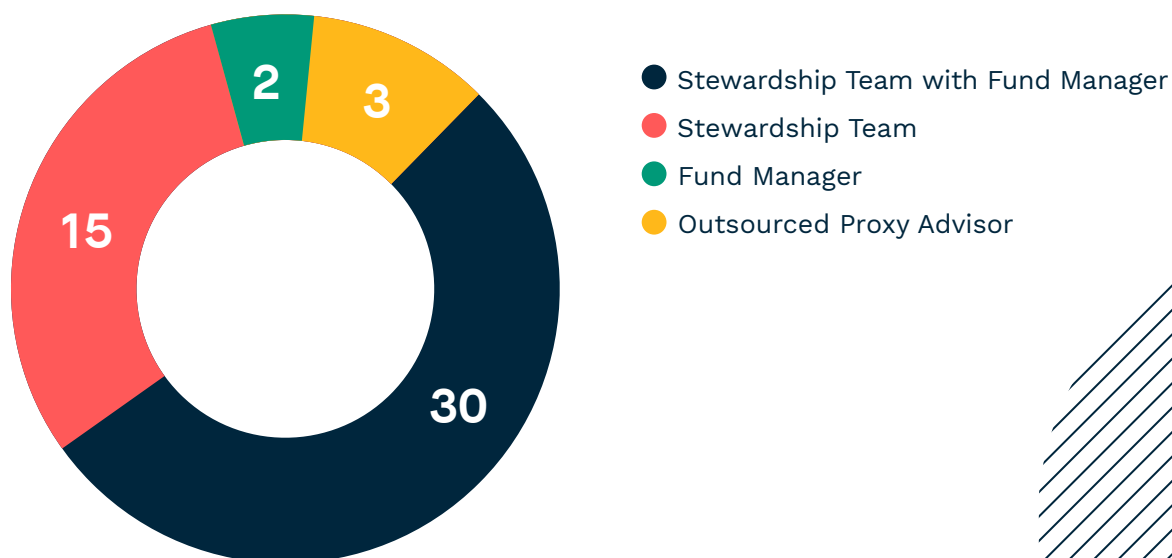
Stewardship teams moving to the “Front Office”

Asset managers have formed stewardship teams in order to engage with companies within their portfolios on ESG-related issues as well as to make decisions as to how to vote their shares at portfolio companies’ general meetings. These stewardship teams are increasingly not working in silos, having developed a coordinated approach alongside investment analysts and fund managers, which demonstrates a healthier ESG integration process at asset management firms. Of the top 50 asset managers, 45 have a dedicated stewardship team appointed to engage on ESG issues and vote at general meetings of companies, increasing from 37 in 2019.



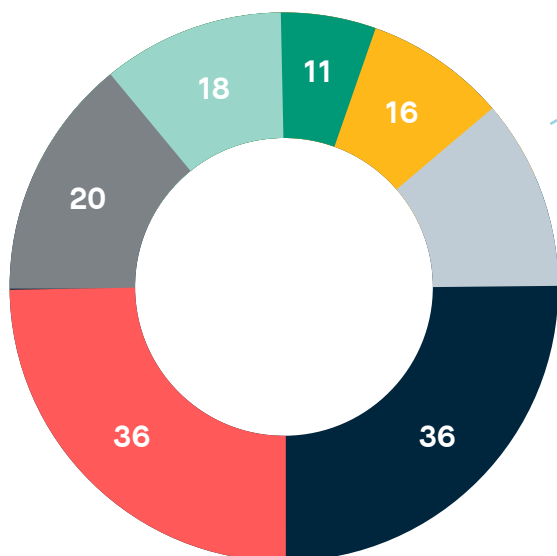
Decision makers

With 45 of the top 50 investors forming stewardship teams in order to incorporate and engage with companies on ESG issues, it is unsurprising that these teams are often the final decision-makers when it comes to determining how to vote at general meetings. The majority, 30 of the top 50 asset managers, have voting decisions made by stewardship teams alongside fund managers, which allows for a combination of ESG incorporation and overall investment strategy overview. Only 3 of the top 50 asset managers have outsourced their voting decisions to proxy advisors.



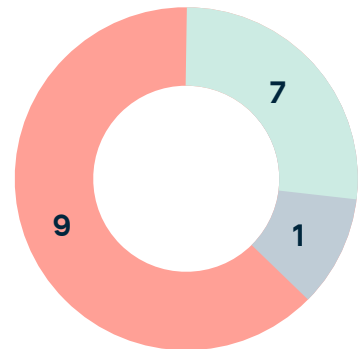
The proliferation of stewardship codes

With more than 20 stewardship codes globally, investors are receiving country specific guidance on how to implement their fiduciary obligations on behalf of clients and create lasting sustainable benefits for the economy, environment and society. 46 of the top 50 asset managers are signatories to at least one stewardship code, the most prominent of which are those from the UK and Japan, with 36 of the selected asset managers being signatories of these two codes. While these stewardship codes are generally driven by regulators, we note that in the largest equity market, the US, investors and companies have come together voluntarily to form the **Investor Stewardship Group**.

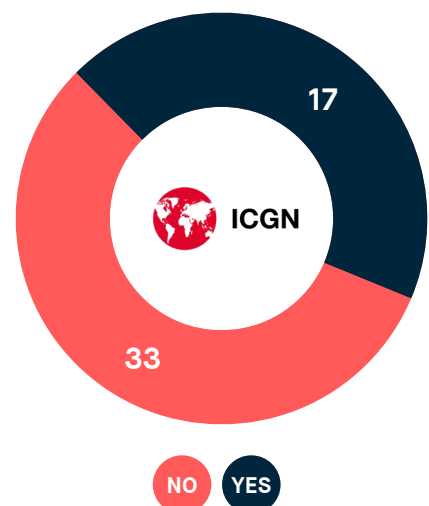


- Japan
- UK
- Italy
- USA (ISG)
- Taiwan
- Singapore

- Netherlands
- Hong Kong
- Korea



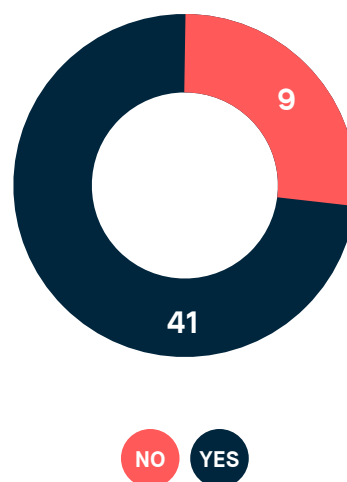
In addition to adopting practices recommended in national codes, 17 of the top 50 asset managers have also supported the **International Corporate Governance Network's** Global Stewardship Principles (GSP). First published in 2003, these stewardship principles provide an international framework for investors to implement their fiduciary obligations on behalf of clients and beneficiaries. The GSP are aspirational standards, applied in a flexible manner as appropriate to the individual circumstances of each individual investor²³.



Engagement with portfolio companies

Engagement reports

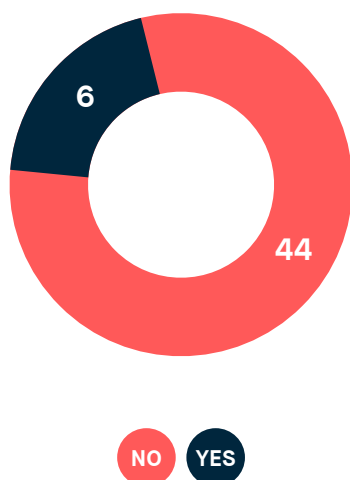
41 of the top 50 asset managers disclose their engagement efforts in what SquareWell refers to as “Engagement Reports”, where asset managers usually detail their ESG engagements with companies throughout the year. 20 of the asset managers that disclosed Engagement Reports named the companies that they have engaged with and what topics were discussed, up from 13 in 2019. The shift in hesitancy to directly name companies should serve as a warning to companies hoping to hide undesirable investor engagements.



Guidance on COVID-19

Over the last year, the COVID-19 pandemic has hugely impacted – and continues to impact – global markets, governments and individuals alike. Both the World Bank²⁴ and Antonio Guterres²⁵, U.N. Secretary-General, warned that the world is facing the most challenging crisis since World War II²⁴. The IMF estimates that the global economy shrunk by 3.5% in 2020²⁶.

Given the impact of the pandemic on companies worldwide, we found there to be a lack of public COVID-19 direction from institutional investors to their investee companies, with only 6 of the top 50 asset managers providing dedicated guidance on the subject matter. In March 2020, SquareWell brought together stewardship representatives, with \$7.2 trillion in AUM, to provide guidance to companies in relation to capital allocation, executive pay, annual general meetings, and engagement on E&S issues.



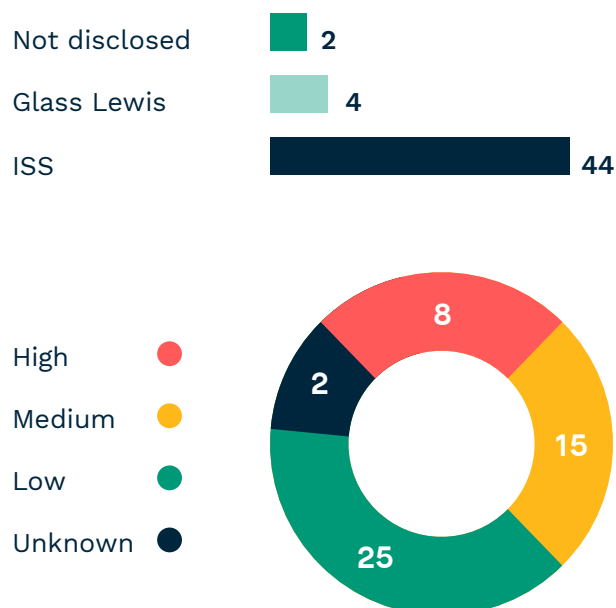
The role of third parties

Investors do not solely rely on internal sources to base their decisions on and carry out their engagement activities; they also rely on external sources such as proxy advisors and ESG research and ratings providers.

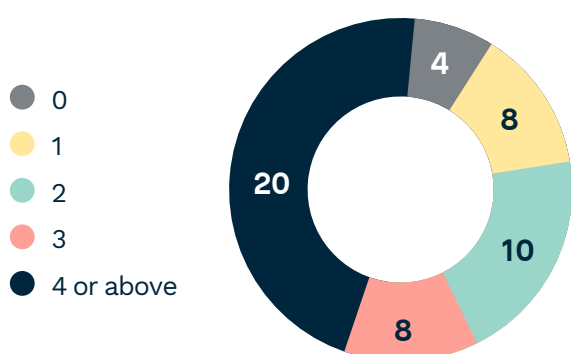
Proxy advisors to assist with evaluating general meeting agendas

The vast majority of asset managers draw upon the knowledge and expertise of proxy advisory firms to make well-informed voting decisions at general meetings. Some asset managers rely on more than one proxy advisor, with ISS being the dominant firm and only two asset managers within the top 50 not disclosing the names of proxy advisors.

Reliance on advice from proxy advisors varies between asset managers, whilst some outsource their voting decisions entirely to proxy advisors, others rely heavily on their own voting policy, and others combine the advice from proxy advisors with expertise from internal teams.



ESG service providers to assist with ESG data and engagement



38 of the top 50 asset managers use two or more ESG research and data providers. The most preferred ESG research and ratings providers were **MSCI, Sustainalytics and ISS-ESG**.

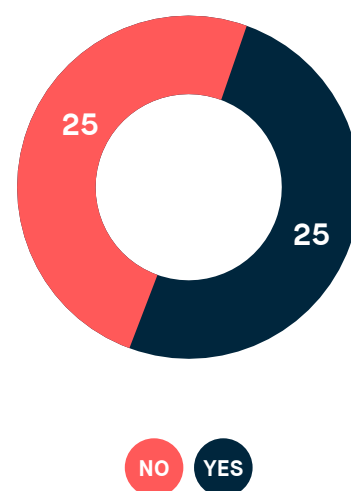
Companies need to pay close attention to this increasingly influential stakeholder as these ESG research and ratings providers' views on your company may have investment implications. For example, a poor MSCI ESG rating may exclude companies from MSCI indexes, which are tracked by many investors.

Activism – a useful market force?

Activism is a growing market force, for better or for worse, and investors are becoming more aware of the need for public disclosure on their approach to activist campaigns and situations. Due to the unique nature of each campaign, however, some investors are reluctant to publish anything substantial to retain flexibility in their final voting decisions.

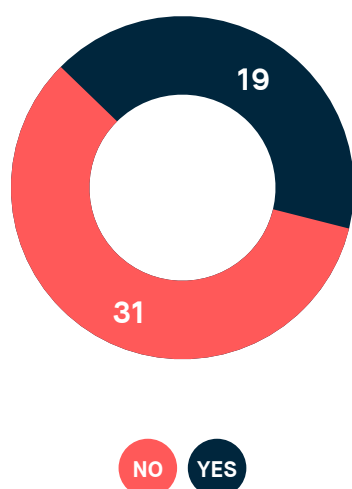
Activism within asset managers' voting policy

With the onus on company boards and leaders to transparently relate how they have managed the COVID-19 crisis and will steer investors to recovery, the prospect of public challenges by activists may become more prominent in 2021. While only a handful of asset managers disclose distinct information on their philosophy towards activist situations, 25 of the asset managers now disclose within their voting policy their approach to contested situations (up from 18 in 2019), with contested board elections being the most common. This is due to the frequency of activist campaigns demanding board-related changes.



Asset managers are becoming increasingly vocal

Some asset managers are more vocal than others, even when there is not an activist fund agitating for change. Over a third of the top 50 asset managers have been identified as having publicly voiced their discontent towards a specific company since January 2018, whether it be through commenting to a wider media publication to issuing a standalone press release. Although this is an increase from 13 in 2019, it appears to be disproportionate relative to the sizeable increase of investors disclosing the details of their engagements with companies when it comes to ESG topics.



2020 Examples

AllianceBernstein raised concerns over a takeover offer on a telecommunications company, asking the board to seek better terms, including potentially from other bidders, and to ensure that shareholder value was maximized in the takeover process. AllianceBernstein was indeed worried about the optics of the situation as members of the board seemed to have dual interests having joined the bidding consortium²⁷.



While aligning with the board of a company operating within the security services sector and rejecting a rival hostile takeover bid that significantly undervalued the company and its prospects, **Schroders** publically indicated they were, however, open to consider a price that would accurately reflect peer multiples, synergies, and other strategic benefits the acquirer would benefit from²⁸.

Schroders

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Appendix

List of investors considered for the study

INVESTORS	COUNTRY
BlackRock	United States
The Vanguard Group	United States
State Street Global Advisors	United States
Capital Group	United States
J.P. Morgan Asset Management	United States
BNY Mellon	United States
Amundi Asset Management	France
Goldman Sachs Asset Management	United States
Legal & General Investment Management	United Kingdom
Invesco Asset Management	United States
T. Rowe Price	United States
Wellington Management	United States
Nuveen Asset Management – TIAA-CREF	United States
Northern Trust Investment	United States
Sumitomo Mitsui Trust Asset Management	Japan
UBS Asset Management	Switzerland
AXA Investment Managers	France
DWS Investment GmbH (ex-Deutsche AM)	Germany
Franklin Templeton Investments	United States
BNP Paribas Asset Management	France
Aberdeen Standard Investments	United Kingdom
Allianz Global Investors	Germany
AllianceBernstein	United States
Dimensional Fund Advisors	United States
APG Asset Management	Netherlands

Federated Hermes (incl. EOS)	United States
Schroder Investment Management	United Kingdom
Mitsubishi UFJ Trust & Banking Pension Fund	Japan
Generali Investments	Italy
Morgan Stanley Investment Management	United States
MFS Investment Management	United States
HSBC Global Asset Management	United Kingdom
Wells Fargo(AM)-Wells Capital Management	United States
Columbia Threadneedle Investments	United States
Nomura Asset Management	Japan
Asset Management One	Japan
Principal Global Investors	United States
Geode Capital Management	United States
Charles Schwab Investment Management	United States
Aviva Investors	United Kingdom
Credit Suisse Asset Management	Switzerland
Brookfield Asset Management	Canada
Union Investment	Germany
Manulife Asset Management	Canada
AEGON Investment Management	Netherlands
Eurizon Asset Management	Italy
RBC Global Asset Management	Canada
M&G Investments	United Kingdom
Fidelity International	United Kingdom
Ostrum AM (ex-Natixis AM)	France

The following investors were included in the 2020 Study:

Geode Capital Management, Charles Schwab Investment Management, Credit Suisse Asset Management, Brookfield Asset Management, Union Investment, Manulife Asset Management, AEGON Investment Management, Eurizon Asset Management, RBC Global Asset Management.

Replacing Blackstone, Eaton Vance, Insight Investment, Legg Mason, MetLife Investment Management, New York Life Investments, PGIM, PIMCO, Western Asset Management Company that were not considered in this year's study.



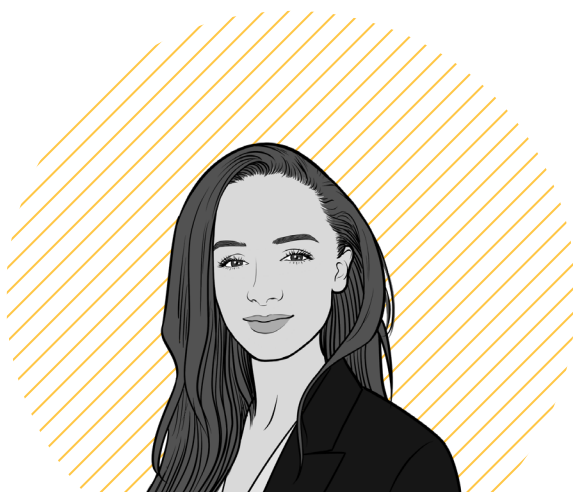
Estelle Guichard

Partner, Head of Responsible
Investment Research



Paris Mudan

Responsible Investment Analyst



Isabella Champion-Sinclair

Responsible Investment Analyst



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Contact

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