



Wealth  
Management

# Fund Engagement Report

2024



| Forward-looking  
| for generations



**Cover image**  
Johann Wilhelm Weinmann, detail from "Aloe tuberosa ..."  
1737-1745  
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# Introduction

## Engaging the fiduciary value chain

At LGT Wealth Management, sustainable practices are an integral part of our ethos. As sustainable investment practices continue to evolve with varying levels of sophistication, it becomes increasingly important for us to engage with our fund managers to understand where they are in their Environmental, Social and Governmental (ESG) integration journey.

As a wealth manager and allocator of capital, our role is to ensure that the values of our clients, and the advisers that we work with, are reflected in their investments. Part of this commitment is to assess sustainability metrics alongside traditional financial parameters for the investments we hold in client portfolios.

To conduct this assessment, each year we issue our annual Sustainability Due Diligence Questionnaire (DDQ) to the third-party fund managers we invest in on behalf of our clients. This allows us to build a picture of our fund managers' approach to sustainability, track developments and trends and showcase best practices to help drive progress.

We recognise the burden of reporting on these issues and appreciate the time each fund manager takes to complete the questionnaire.

Thank you to those who completed our 2024 DDQ. In this third edition of our report, we have summarised the results and notable changes from last year and highlighted standout examples to showcase best practices. Many respondents have asked for clarification on where to focus their efforts, as a result we have provided guidance for each category, transparency is paramount, and in that spirit, we are pleased to share our findings with you which we have highlighted throughout the report in the boxes titled "fund manager expectations".

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### Highlights

2023	2024	
109	▶ 137	responses analysed, over 40,000 data points collected
65%	▶ 72%	percentage of funds committed to net-zero by 2050
45%	▶ 57%	percentage of funds conducting climate scenario analysis
69%	▶ 79%	percentage of funds conducting human rights due diligence

# Data collection

## Reviewing the responses

We were pleased to have received 137 responses from managers, an increase from 2023, providing us with a substantial number of data points for meaningful analysis. Of the 36 funds that classify themselves as sustainable,<sup>1</sup> 23 are actively held within LGT's Sustainable Model Portfolios. Ensuring data accuracy and accountability is essential when assessing sustainable investment practices. One key measure of these standards is the percentage of responses reviewed by the fund management team. This year, 69% of responses underwent review, highlighting the fund managers' commitment to sustainability and diligence in the reporting process.

Moving forward, we aim to have all responses reviewed by the fund management team to ensure comprehensive oversight and accountability.

## Response transparency

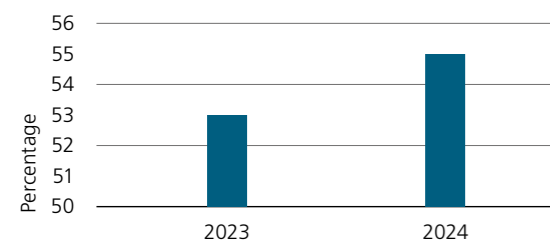
Increasing transparency is a vital indicator of progress. In an era of 'greenhushing', robust communication highlights fund managers' commitment to sustainability and their readiness to share this information externally. In 2024, there was an 81% response rate for case studies, reflecting a significant step forward.

### Greenhushing

'Greenhushing' is when companies take steps to stay quiet about their climate strategies. They do this through avoidance or refusal. If somebody asks about their climate goals, they decline to answer. If nobody asks, they don't do anything.

— The Corporate Governance Institute

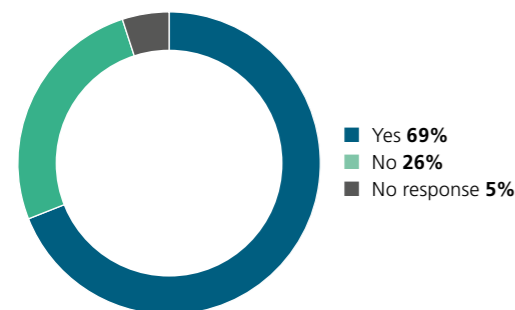
## Question response rate



Throughout the year, we have collaborated closely with fund managers to enhance their sustainability reporting, and we are pleased to see these efforts translate into notable improvements in both the quality and quantity of disclosures.

We sincerely appreciate the fund managers who took the time to engage with our written questions sharing valuable insights and real-world examples of sustainable practices. To provide a richer understanding, this year's report highlights specific case studies that bring greater context and depth to the data.

## Responses viewed the by fund manager



<sup>1</sup> Sustainable funds refers to those funds that self-identified as an Article 8 or Article 9 Fund under the EU SFDR and are pursuing UK SDR labels including Sustainable Impact, Sustainable Improvers, Sustainable Focus and Sustainable Mixed Goals.

# Sustainable policies and processes

In this section, we evaluate the strength of fund-level sustainable investing policies, processes and commitments to sustainability initiatives.

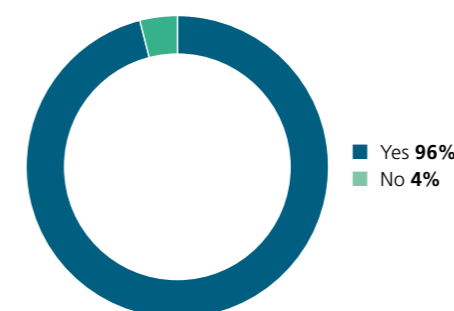
In 2024, the introduction of the Task Force on Climate-related Financial Disclosures (TCFD) product reporting has elevated processes around climate risk data and sustainable investment to new levels of sophistication. Additionally, we have observed many managers reassess their memberships and participation in working groups. With the increasing number of sustainability initiatives in the financial industry, there is a noticeable shift away from larger, more established initiatives toward smaller, more specialised ones.

## Responsible investment policy

The Principles for Responsible Investment (PRI) defines a responsible policy as a strategy and practice that integrates ESG factors into investment decisions and active ownership.

Currently, 96% of funds, including all sustainable ones, have a responsible investment policy. This reflects the industry's increasing commitment to managing sustainability risks and meeting evolving expectations.

## Does your fund have a formal policy covering your approach to responsible investment?



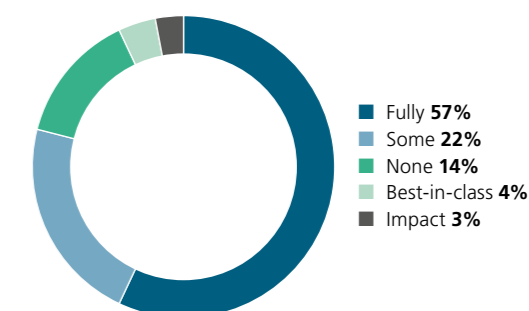
Nearly all funds now have a formal policy addressing sustainable investment, and 70% incorporate ESG considerations into their investment processes. While the Principles for Responsible Investment (PRI) and the UK Stewardship Code remain the most significant frameworks for our managers, it is encouraging to see active collaboration through a diverse range of initiatives.

## ESG analysis integration

The extent to which ESG considerations are incorporated into security analysis serves as a key measure of a fund's sustainability approach.

In 2024, 22% of funds reported integrating sustainability issues to some extent, while 57% fully incorporate ESG factors into their analysis. Notably, 14% of funds indicated that they do not consider ESG issues — a significant increase compared to last year. However, this rise is solely attributable to first-time respondents. Among those not integrating ESG factors, the majority are passive funds or event-driven hedge funds.

## How is ESG analysis undertaken as part of security analysis?

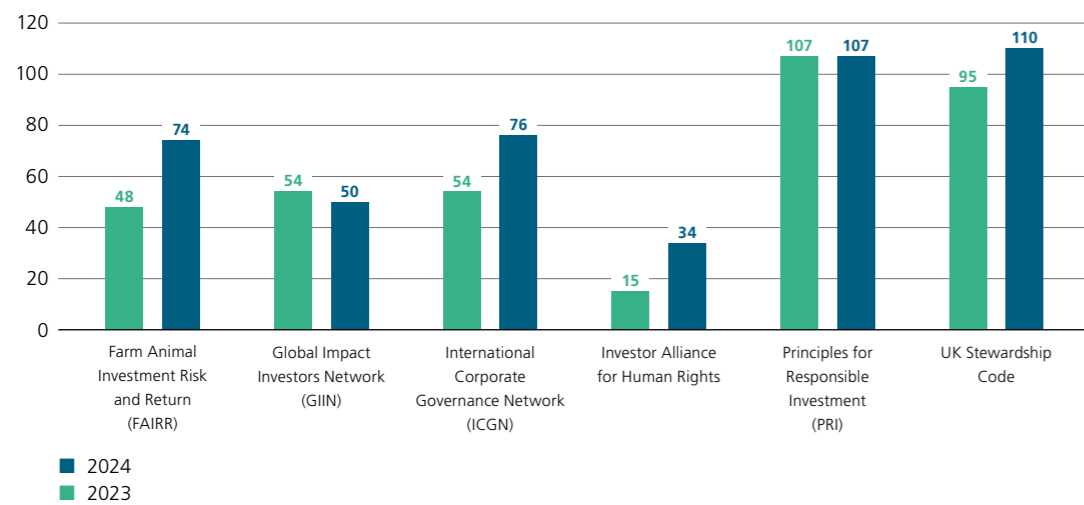


# Investor initiatives and collaborations

Collaboration is a key part of LGT’s sustainability ethos, and our monitoring framework diligently tracks our commitment to external initiatives. We understand that managers may face resource constraints that prevent them from joining every initiative. Nevertheless, certain initiatives have become industry standards. The PRI and the UK Stewardship

Code each boast over 80% membership. Additionally, we have observed a notable rise in signatories to the Farm Animal Investment Risk and Return Initiative (FAIRR), the International Corporate Governance Network (ICGN) and the Investor Alliance for Human Rights.

Number of funds that are a member of or signatory to the following initiatives

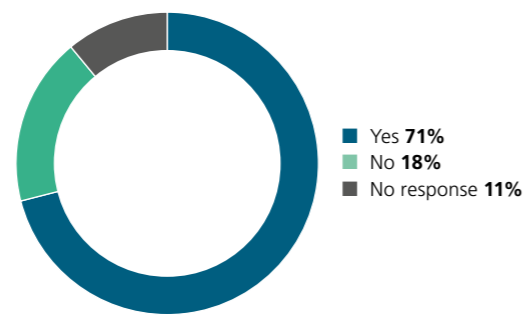


## Climate Action 100+ (CA 100+)

Climate Action 100+ is a global, investor-led initiative focused on driving the largest GHG emitters to take meaningful action on climate change.

Recently, funds have become more selective about the initiatives they support, influenced by political and regulatory pressures, US antitrust laws and the need to refine their investment strategies. This shift has led to a more targeted approach, with nearly USD 14 trillion withdrawn from CA 100+. However, fund managers are now engaging more actively in the initiatives they choose to support.

Climate Action 100+ signatories



Data as of September, 2024.

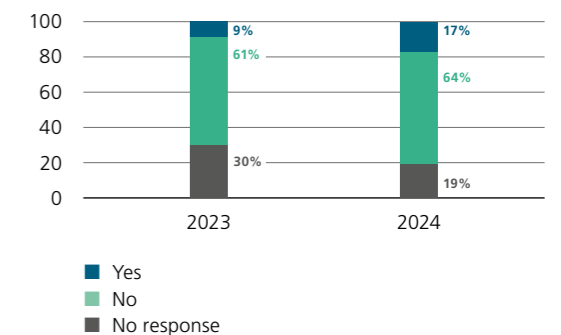


## Find it, Fix it, Prevent it

This innovative initiative, run by CCLA, combats modern slavery in corporate supply chains by uniting investors, academics and Non-Governmental Organisations (NGOs) to share knowledge, set targets and monitor progress.

As proud signatories, we are pleased to see initiatives like “Find it, Fix it, Prevent it” growing. The number of funds reporting as signatories has more than doubled in 2024, now covering approximately USD 15 trillion of assets under management or advisory.

Find it, Fix it, Prevent it signatories



## Fund manager expectations

As a responsible allocator of capital, LGT aims to foster continual improvement in our managers’ ESG integration practices. Specific growth areas we are seeking include:

- All funds to have a responsible investment policy.
- All funds to state that at least “some ESG analysis is integrated within security analysis.”.
- More funds to become active members of relevant industry initiatives.

# Climate

Climate change mitigation remains a top priority for our clients and owners. By integrating sustainable practices into our investments, we aim to contribute to a more resilient and sustainable future, align with client and stakeholder expectations and manage the long-term risks and opportunities associated with environmental changes. In this section, we utilise the Institutional Investors Group on Climate Change's Net Zero Investment framework to assess fund managers' alignment with the Paris Agreement and review the ambition of their net-zero commitments.

Over three quarters of funds now have net-zero commitments in place with 2050 goals. Since last year, there has been a rise in interim target setting. The growing use of scenario planning also highlights greater awareness of climate change risks.

the overall increase reflects a broader recognition of the importance of addressing climate risk.

## Climate scenario analysis

Scenario analysis simulates how a fund's holdings might be affected by factors like physical climate change and transition risks, helping future-proof portfolios. We encourage all investment strategies to use it.

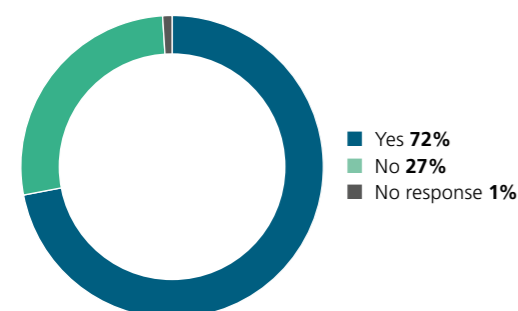
Since the TCFD recommendations became mandatory last year for asset managers with over GBP 20 billion in AUM, scenario analysis adoption has risen from 45% to 57%. However, sustainable funds were less likely to report using scenario analysis.

## Net-zero commitment

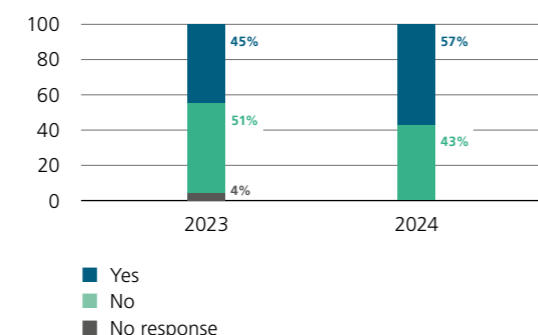
A net-zero commitment represents a critical first step toward reducing carbon emissions. In 2024, we observed significant progress, with the proportion of funds making such a commitment rising from 65% to 72%.

While the percentage of sustainable funds with net-zero commitments has remained relatively stable,

Net-zero commitment by 2050 or sooner, including client assets



Have you undertaken any scenario analysis for the fund?

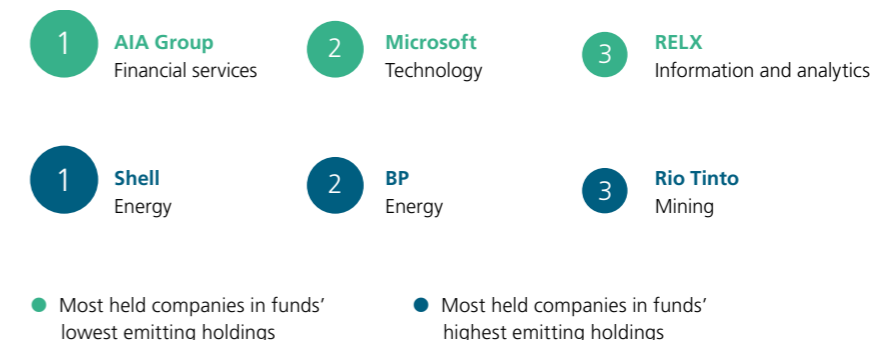


## Emissions of holdings

When analysing a fund's climate profile, we review individual holdings and the fund manager's strategy to identify climate leaders and laggards. AIA Group, Microsoft and RELX are often among the

lowest emitters, while Shell, BP and Rio Tinto are typically the highest. This distinction offers valuable insights into the fund's environmental impact and climate strategy effectiveness.

### Highest and lowest most emitting holdings

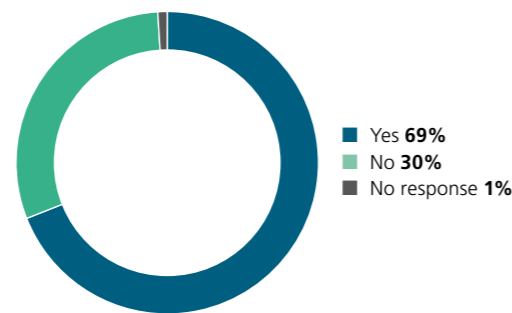


### Just Transition and social risk

The Just Transition refers to greening the economy in a way that is both fair and inclusive, ensuring the benefits and challenges of this transition are equitably shared, creating decent work opportunities and leaving no one behind.

This year, 69% of funds reported factoring in the Just Transition and related social risks, a slight increase from 62% last year. However, overall support for the Just Transition within sustainable funds has remained steady.

Do you consider the Just Transition and social risk?



### Fund asset alignment

The evaluation of a fund's net-zero strategy remains a topic of significant discussion. As asset allocators, we evaluate this through two key approaches: assessing the fund manager's intentional selection strategy and conducting a look-through analysis to track the progress of underlying holdings toward net-zero. Our fund assessment framework seamlessly integrates both methods.

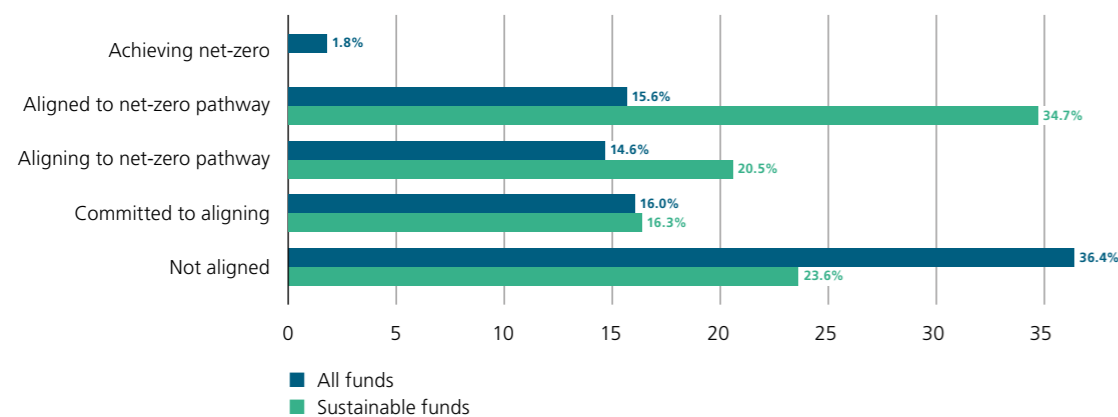
The chart below highlights the average percentage of a fund's underlying assets committed to a net-zero pathway. Among respondents, an average of 15% of assets in the funds are currently aligning with a net-zero trajectory.

### Fund manager expectations

As a responsible allocator of capital, LGT aims to foster continual improvement in our managers' ESG integration practices. Specific growth areas we are seeking include:

- More funds setting interim targets on greenhouse gas emissions (GHG) emissions.
- A greater percentage of underlying companies having science-based climate commitments.
- Stronger climate focused engagement with holdings ahead of voting during AGM season.

Average percentage of fund's assets aligned with IIGCC categories



### Case study

## Engagement: Mizuho Financial Group

### Fund: Legal & General Japan Index Trust

Since 2019, Legal and General Investment Management (LGIM) has engaged with Mizuho Financial Group on climate risks, both individually and through Asia Research & Engagement (ARE) and the Institutional Investors Group on Climate Change (IIGCC) banking engagement programme. This engagement has aimed to meet LGIM's minimum expectations under the Climate Impact Pledge.

Over this period, Mizuho has significantly improved its disclosures and targets, particularly in client engagement and classifications, surpassing the public information provided by other global banks. Despite these advancements, LGIM sees room for further policy enhancement, especially concerning coal.

In 2020, LGIM supported a landmark shareholder resolution at Mizuho, this requested an amendment to the company's articles to disclose a plan aligning its business strategy with the Paris Agreement goals. LGIM's engagement has also addressed board composition, emphasising independence, diversity and specific skillsets related to climate change and IT. Reflecting concerns about independence and risk management, LGIM has voted against the re-election of certain directors in previous AGMs.

### Case study

## Engagement: NextEra Energy

### Fund: Ninety-One Global Environment Fund\*

In 2023, Ninety-One engaged with NextEra Energy, a leading North American electric power company, to address climate risks and governance issues. The focus was on advancing science-based targets, Scope 3 emissions reporting and overall governance.

Ninety-One, in collaboration with a major US asset owner, met with NextEra and sent a formal letter advocating for Scope 3 emissions reporting and targets. Discussions with NextEra's CEO highlighted the need to decarbonise upstream emissions, particularly in steel use. Governance issues were also addressed with NextEra's CFO following the resignation of former Florida Power and Light (FPL) CEO Eric Silagy due to political involvement allegations.

These engagements led to significant progress, including advancements in Scope 3 emissions and supply chain decarbonisation through NextEra's Real Zero plan to achieve carbon neutrality by 2045. The company is considering embedding science-based targets within their net-zero strategy, with Ninety-One urging quick action. The focus on supply chain decarbonisation highlighted the potential of green steel, contingent on green hydrogen's cost-competitiveness under US regulations.

NextEra has also improved governance by revamping consultant hiring practices and establishing an internal committee for donations. These steps reflect NextEra's commitment to overcoming the challenges of operating as a climate-focused entity in a conservative state. Ninety-One will continue to support NextEra's efforts in these critical areas.

\*Fund is held in the LGT Sustainable Model Portfolio.

# Stewardship

In this section, we assess the strength of fund-level stewardship policies, escalation methods and strategies used to help safeguard portfolios from risks and accelerate positive change.

The practice of stewardship has seen significant global growth in recent years, marked by key developments such as the recent review of the UK Stewardship Code and the launch of the Swiss Stewardship Code in October 2023. These initiatives reflect a broader trend towards the increasing professionalisation of the stewardship industry. The updated UK Stewardship Code has set higher standards for transparency and accountability. Meanwhile, the introduction of the Swiss Stewardship Code underscores the expanding commitment to stewardship principles across different markets, fostering a more cohesive and proactive approach to ESG issues globally.

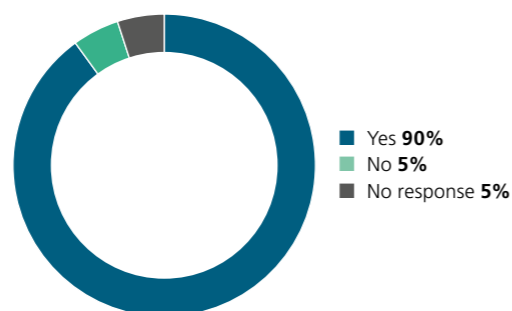
Increased engagement was a key theme, with significant rises in the percentage of funds employing various escalation strategies. This development is particularly encouraging, as it aligns with our ongoing efforts to engage with managers in this area.

## Fund-level stewardship policy

A comprehensive stewardship policy offers guidance on the timing and methods for engaging with and escalating issues concerning holdings. While establishing a formal policy is a crucial initial step, we acknowledge that the specifics of implementation, components and details can vary, influencing the actions taken.

Demonstrating the importance of stewardship in the asset management space, 90% of all funds, including all sustainable finds, have stewardship policies in place.

Do you have a stewardship policy that pertains to your organisation and the fund?

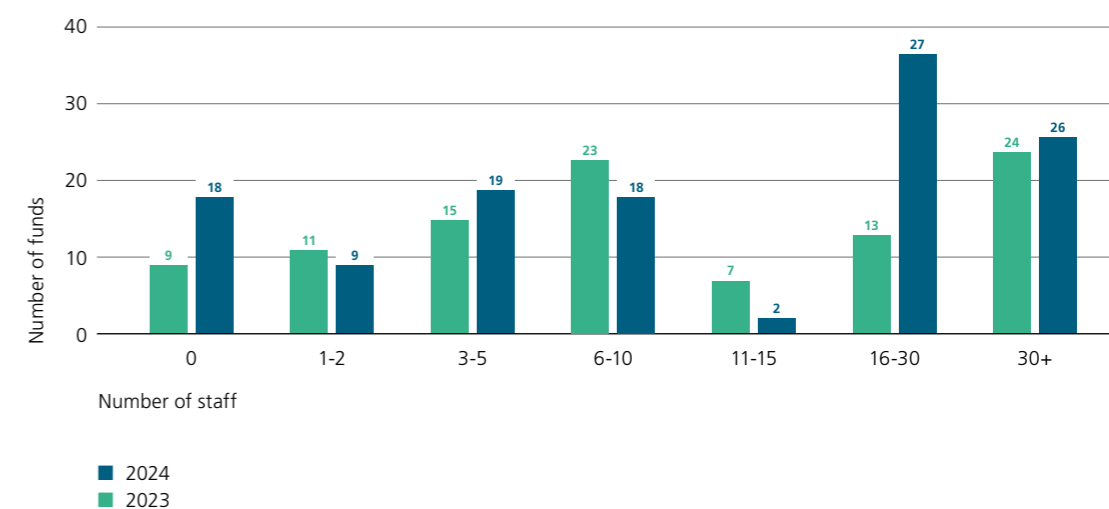


## Stewardship resourcing

The level of resources fund managers allocate to stewardship serves as a strong indicator of its significance within an organisation. While smaller funds and organisations may have fewer resources to commit, changes in resourcing year on year can offer valuable insights into shifting trends. We recognise

that the size of the team is not the sole measure of a commitment to stewardship capabilities; the qualifications, specialisation of the team members and the tools provided to support them are equally important. A significant number of funds now have resourcing capabilities between 16 - 30 full-time staff.

The full time equivalent (FTE) resource of fund stewardship teams

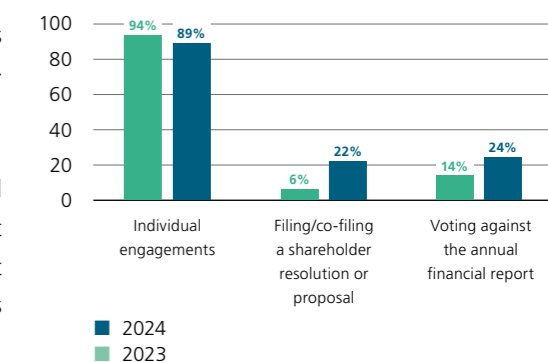


## Escalation strategies employed in 2024

While many engagements span multiple years, the activities and strategies that fund managers undertake with their holdings provide valuable insights into the level of their stewardship activity and effectiveness.

Last year, nearly 90% of funds completed individual engagements. Additionally, there was a significant increase in the percentage of funds voting against annual financial reports, and the number of funds filing shareholder resolutions tripled.

Percentage of funds that employed the following methods of escalation strategies





### Case study

## Engagement: Vale SA

### Fund: Redwheel Global Emerging Market Fund

A notable example of active stewardship revealing concerns and leading to divestment involves Redwheel, one of our fund managers, engaging with Vale, a Brazilian iron ore miner. In January 2023, Redwheel engaged with Marcelo Gasparino, an independent director representing minority shareholders, to assess the remediation measures taken to address the damages caused by the 2019 tailings dam collapse. This engagement included a site visit in March 2023 to the ecological disaster area in Brumadinho, Minas Gerais, for an on-the-ground verification of Vale's restoration work.

During the site visit, hosted by the local water utility Copasa, Redwheel reviewed the water treatment process, and the new water catchment facility built by Vale as part of the settlement agreement. Although life in the Brumadinho municipality appeared to be returning to normal, Redwheel identified ongoing concerns, including the lack of positive catalysts and the risks of political interference by the Brazilian government.

Due to these concerns, Redwheel decided to exit the position in Vale in early Q1 2024. However, they continue to engage with Vale as part of the collaborative initiative, Nature Action 100, to ensure ongoing oversight and advocacy for sustainable practices.

## Fund manager expectations

As a responsible allocator of capital, LGT aims to foster continual improvement in our managers' ESG integration practices. Specific growth areas we are seeking include:

- All funds to have a stewardship policy.
- Stronger and continued collaboration through collaborative engagement initiatives.

# Biodiversity

In this section, we evaluate the emphasis placed on biodiversity risks in fund policies and disclosures, as well as the metrics used to measure exposure to these risks.

Biodiversity approaches are rapidly evolving, guided by frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) and initiatives like Nature Action 100. These frameworks provide structured methodologies for assessing and mitigating nature-related risks, supporting more informed and sustainable investment decisions. Collaborative initiatives like Nature Action 100 further reinforce this focus by fostering collective action to protect and restore biodiversity.

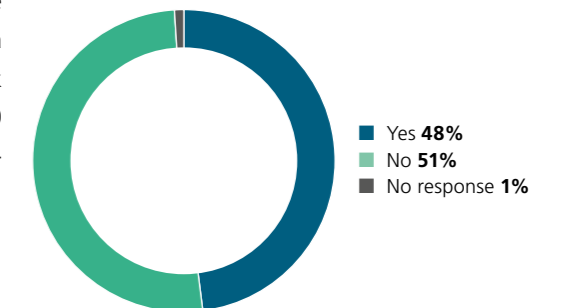
However, progress in this area remains limited. Over the past year, we observed a one-third decline in the number of funds supporting the TNFD, and only a minority of funds have implemented biodiversity risk policies. That said, initiatives like Nature Action 100 have garnered increased support, highlighting pockets of positive momentum.

### Biodiversity risk policies

Biodiversity policies formalise a fund's commitment to the protection, conservation and sustainable use of nature through education on issues, screening and engagement.

At 48% there was a rise in funds holding biodiversity policies in 2024, up from 39% in 2023.

### Does your fund have a biodiversity risk and opportunity policy?



## Taskforce on Nature related Financial Disclosures (TNFD)

The TNFD aims to deliver a risk management and disclosure framework for organisations to report and act on nature-related risks.

Public support for the TNFD fell from 53% to 48% in 2024 but remained constant at around 60% for sustainable funds. The decrease in support for the TNFD can be attributed to several key factors including challenges in data availability, a lack of standardisation in metrics and methodologies and overall implementation challenges, including the complexity and costs associated with adopting the TNFD framework. Addressing these issues is crucial for increasing its adoption and effectiveness.

### Third party data providers

Biodiversity data remains difficult for funds to access or record directly, making third-party data providers valuable for offering useful metrics to assess investee companies. Additionally, companies' external certifications and memberships in initiatives can help funds more objectively evaluate their holdings.

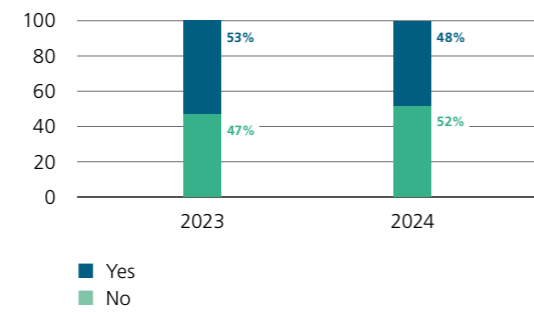
In 2024, nearly a third of respondents noted using third party data providers to address this challenge.

### Biodiversity metrics

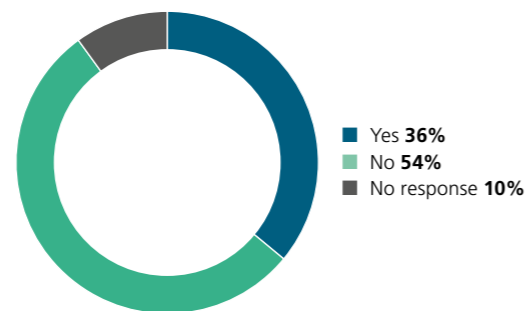
Biodiversity metrics are challenging to measure, leading investors to historically rely on environmental scores as proxies. Although data remains limited, exciting advances, such as satellite photography for measuring forest cover, offer new opportunities to reliably assess biodiversity performance.

However, despite these advancements, there has been a significant decline in the percentage of funds using data to evaluate biodiversity issues among the three most measured metrics.

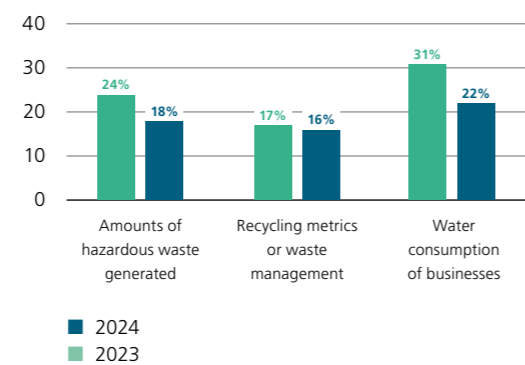
Funds that publicly support the Task Force on Nature Related Financial Disclosures



Do you utilise third-party biodiversity data providers?



Percentage of funds that utilise the following biodiversity metrics

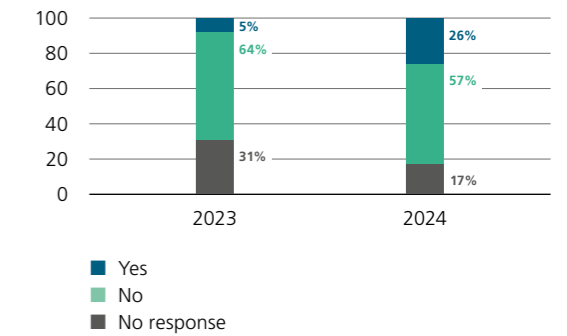


## Nature Action 100

Nature Action 100 is a global investor-led initiative which commits signatories to collective action pressuring greater corporate ambition on biodiversity. Members must engage with companies in key sectors deemed important in reversing nature and biodiversity loss by 2030.

Support for Nature Action 100 has significantly increased, with membership rising from just five funds last year to over 33 funds now.

Nature Action 100 signatories



### Case study

#### Engagement: Ahold Delhaize

##### Fund: Aegon High Yield Global Bond Fund

As a supporting investor of the Dutch collaborative engagement group Eumedion, Aegon engaged with Ahold Delhaize to address biodiversity risks. Together with other Eumedion members, Aegon conducted an in-depth review of Ahold Delhaize's biodiversity strategy, which culminated in a dedicated meeting. The fund managers were pleased to note that the company had obtained several third-party certifications related to deforestation, sea protection and stakeholder engagement. However, these efforts currently impact only 3% of the total sales volume, highlighting the need for broader action.

Aegon and other investors urged Ahold Delhaize to undertake a TNFD assessment. The company was encouraged to transition from a local to a global strategy and integrate branded products into its biodiversity efforts. Ahold Delhaize acknowledged the challenges in setting global Key Performance Indicators (KPIs) but has taken these recommendations seriously. The company has initiated a risk assessment and is actively working on gathering data to formulate a comprehensive biodiversity roadmap.

### Fund manager expectations

As a responsible allocator of capital, LGT aims to foster continual improvement in our managers' ESG integration practices. Specific growth areas we are seeking include:

- Increased engagement with biodiversity questions in the DDQ.
- More sustainable funds adopting biodiversity policies.
- Funds actively sourcing reliable biodiversity data.
- Greater engagement with holdings on biodiversity issues, including collective action via Nature Action 100.

# Human rights

In this section, we assess the implementation of human rights policies and due diligence, as well as the most common metrics measured and reported on by our funds.

Human rights focused engagements have become increasingly important due to the rising tide of regulations, including the EU's Corporate Sustainability Due Diligence Directive (CSDDD), the UK Modern Slavery Act and the California Transparency in Supply Chains Act. These frameworks mandate that companies identify, prevent and mitigate human rights impacts, compelling investors to actively engage with their investees to ensure compliance and promote ethical practices. This proactive approach not only mitigates risks but also enhances long-term value and sustainability.

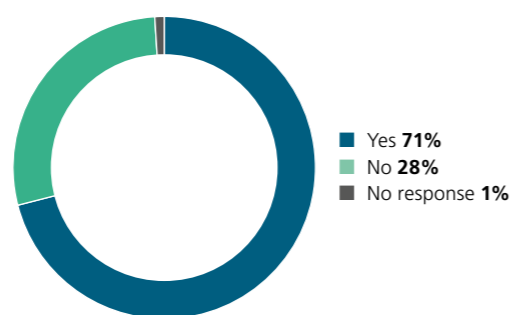
Awareness of human rights considerations has increased in 2024, with over three-quarters of funds now conducting human rights due diligence. The rise in the percentage of funds expecting audits and site visits indicates a more active approach. Additionally, the increase in average engagements is a positive sign that this area is receiving more attention.

## Human rights policy

The first step outlined by the Organisation for Economic Co-operation and Development (OECD) Guidance for Multinational Corporations (MNCs), the International Labour Organisation (ILO) and the UN Guiding Principles on Business and Human Rights to establish a strong firm-level commitment to human rights, demonstrated through a robust policy.

Despite this, there has been no change in the percentage of funds holding human rights policies for their investments. Nearly a third of funds still lack such a policy.

Does the fund have a human rights policy or expectations that pertain to the investment?

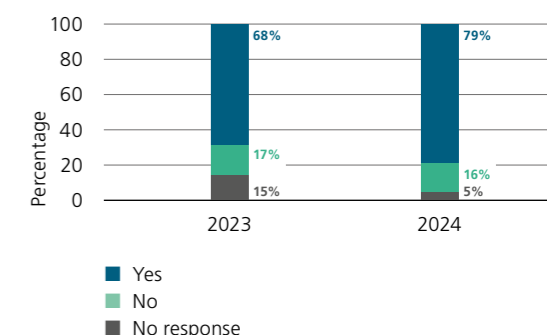


## Responsible investment policy

Conducting due diligence on holdings is a core component in identifying, preventing and mitigating the adverse impacts of failing to safeguard human rights.

There has been a statistically significant increase, with 79% of funds now performing due diligence on their holdings. This percentage remains consistent among sustainable funds, indicating that human rights due diligence is becoming a standard practice.

Does the fund conduct any human rights due diligence?

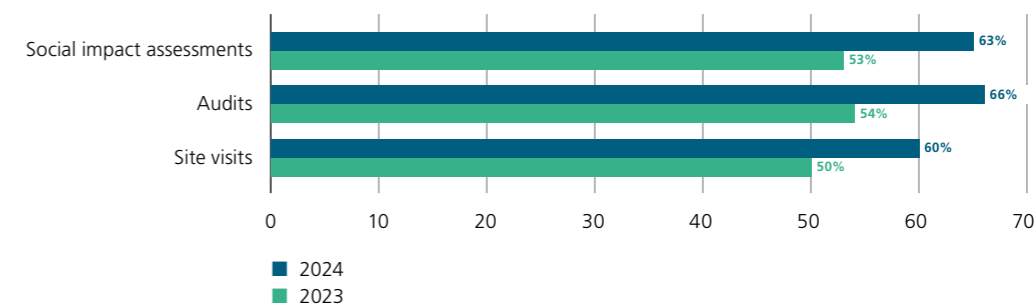


## Human rights data and reporting

The types of human rights data that funds collect and review are crucial for building a comprehensive picture of a company's performance. Obtaining first-hand information can highlight concerns and alert funds to the risks a company may face. There was a

significant increase in the percentage of funds reviewing site visits, audits and social impact assessments. Additionally, over three-quarters of funds now expect and analyse policies on issues such as modern slavery and diversity.

Percentage of funds that regularly expect reporting on and review of the following



### Case study

## Engagement: Heineken NV

### Fund: Comgest Growth Europe

In April 2024, Comgest engaged with Heineken NV to discuss responsible marketing practices, their environmental footprint and health and safety concerns. The engagement sought insight into the company's innovation strategy for expanding its "low-no-alcohol" portfolio and addressed labelling transparency, a key topic in responsible marketing. Compliance in several areas is lagging due to market circumstances such as local regulation, physical space on bottles and the preference for direct printing over QR codes or URLs. Questions were raised about Heineken's capital allocation approach, specifically the use of shadow pricing for water use and carbon emissions to mitigate risks of sudden cost spikes. Heineken's relatively high environmental footprint compared to peers is attributed to brewery size and geographical location, although the company remains committed to absolute carbon reduction, water restoration and renewable sourcing where available.

Health and safety culture for contractors was also addressed, with encouragement to link health and safety to incentive plans. Heineken NV had reported seven serious accidents in financial year 2023, primarily involving contractors. In response, Heineken initiated programs such as "Smart Outsourcing" and third-party audits by Elevate to evaluate their supply chain. As a result of the engagement, Comgest will monitor more granular disclosure of responsible marketing compliance metrics.

## Fund manager expectations

As a responsible allocator of capital, LGT aims to foster continual improvement in our managers' ESG integration practices. Specific growth areas we are seeking to include:

- More funds setting formal human rights policies and conducting due diligence.
- Funds to take a more active approach in due diligence, expecting audits and site visits from holdings.
- Higher membership of engagement focused initiatives like "Find it, Fix it, Prevent it".

# Diversity, equity and inclusion

In this section, we assess how funds are monitoring and engaging with their holdings on diversity, equity and inclusion (DEI) issues.

Engaging on DEI issues can help to foster a more inclusive and innovative corporate culture, enhance decision-making and drive better financial performance. It also mitigates risks of homogeneity, ensures alignment with societal values and strengthens long-term sustainability and reputation of investments. According to a McKinsey report, closing the gender gap in the US workforce could add USD 4.3 trillion to the GDP by 2025, highlighting the significant economic benefits that DEI initiatives can bring.<sup>2</sup>

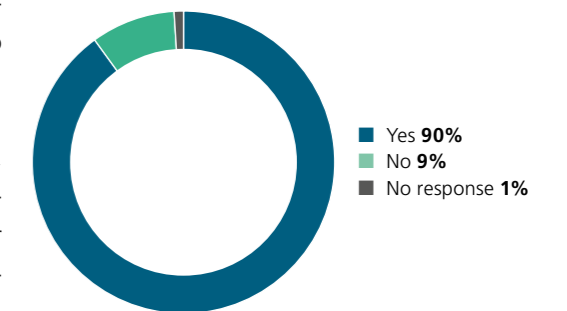
It is encouraging to see that most funds have implemented DEI policies, and the industry has adopted various diversity initiatives. Although gender ratios have not significantly changed, this is understandable due to gradual staff turnover. Notably, fund managers did not increase engagement levels in this areas, but with 89% focusing on issues such as board diversity, current engagement levels are already commendable.

## Engagement on DEI

Actively engaging investee companies on their diversity, equity and inclusion is an important outward reflection of funds' internal commitment to DEI.

Nearly 90% of funds, including all sustainable funds, engage with investee companies on DEI issues, a figure that has remained consistent since last year. Over two-thirds of these funds engage specifically on employee diversity, bonus structure and board diversity, underscoring the significant importance that fund managers place on DEI initiatives.

Do you proactively engage with investee companies on DEI?



<sup>2</sup> McKinsey & Company. "The Power of Parity: Advancing Women's Equality in the United States." April 2016.



### Case study

## Engagement: Global REIT

### Fund: Diversified Real Assets

A leading diversified multi-asset fund has demonstrated effective engagement on diversity and inclusion through its work with Global REIT. Initially, Global REIT had only 20% female board representation, prompting the fund managers to take action. Starting in June 2024 and continuing in December 2024, the fund held a series of one-on-one meetings with Global REIT's Chief Executive Officer (CEO) to discuss the company's commitment to board diversity and advocate for increased female representation.

Global REIT leveraged its higher female retention rate, which was bolstered by supportive maternity leave policies, to create a more balanced and diverse board. As a result of these engagements, Global REIT now boasts 40% female board representation, the highest in its sector.

## Fund manager expectations

As a responsible allocator of capital, LGT aims to foster continual improvement in our managers' ESG integration practices. Specific growth areas we are seeking include:

- All funds to have an internal diversity and inclusion policy.
- Funds to consider a wider range of topics on top of board diversity when evaluating a holding's DEI performance.

# Conclusion

Thank you to our fund managers for their collaboration on this report. The responses make this data invaluable, and we hope that sharing this report has provided you with insights into industry trends and current best practices. At LGT Wealth Management, we review each response carefully and use the data to inform our views on funds' approaches to sustainability as part of our due diligence process.

### Summary

We have seen an evolution in fund managers' approaches to sustainability. Fund managers have become more selective about the initiatives they join, driven by concerns over anti-trust laws in the US, regulatory pressures and changing investment strategies. However, for the initiatives they do support, particularly smaller ones focused on social issues or biodiversity, they tend to be more actively involved. This increased engagement reflects their recognition of their influence and the responsibility that comes with it.

The momentum towards considering climate factors has continued to grow. More funds are committing to net-zero targets, setting interim goals and undertaking scenario planning. Additionally, there is a growing focus on human rights, with more funds conducting due diligence and increasing active reviews, such as site visits. However, progress on biodiversity has lagged due to a shortage of data, resulting in fewer funds incorporating biodiversity metrics. The rise of third-party data providers and increasing transparency has generally improved measurement, and we expect this trend to extend to biodiversity considerations in the future.

Based on feedback from previous years, we have identified some key areas for continued growth and development for our fund managers. These targets will be a focus of our engagement with managers in the coming year.

### Key targets for fund managers

- All managers to have a responsible investment, stewardship and human rights policy.
- Managers to demonstrate stronger climate focused engagement with holdings ahead of voting during AGM season.
- Managers to take an active approach to sourcing reliable biodiversity data.

### Looking ahead

Looking ahead to 2025, investors' stewardship and engagement priorities will be significantly influenced by evolving regulatory and industry developments. The review of the UK Stewardship Code is set to reinforce the importance of responsible investment and active ownership, prompting asset managers to enhance their engagement strategies and transparency. Additionally, the implementation of the UK Financial Conduct Authority's anti-greenwashing rule will emphasise the need for robust governance frameworks and accountability in investment decisions. The Sustainable Disclosure Regulation (SDR) will drive the integration of sustainability into investment practices by mandating detailed disclosures on ESG factors. Together, these initiatives will shape a more accountable and transparent investment landscape, encouraging funds to adopt more rigorous stewardship and engagement practices in the coming years.

## Thank you to all the fund managers who completed this exercise

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### Media relations

Esther Clark

Phone +44 (0)203 207 8007, esther.clark@lgt.com

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**LGT Wealth Management**  
14 Cornhill, London EC3V 3NR  
Phone +44(0)20 3207 8000, info-uk@lgt.com

**[www.lgtwm.com](http://www.lgtwm.com)**