



CAPITAL MONITOR

LINKING CEO
REMUNERATION
TO ESG TARGETS

**The top
100
asset
owners**

Q3 2022

CONTENTS

Introduction

Targets

Transparency

Conclusion

Asset owner commitments

Key findings

#1

Remuneration transparency was significantly lower for asset owners compared with banks and assets managers.

#2

The most transparent asset owners on remuneration were Canadian pension funds.

#3

Only six asset owners had publicly disclosed variable pay targets for ESG factors. Caisse de dépôt et placement du Québec and Ontario Teachers' Pension Plan were the only two with climate-related targets.

#4

Providing transparent pay information would be consistent with TCFD and allow asset owners to lead by example in stewardship campaigns.

#5

58 of the top 100 asset owners have signed up to investor groups that encourage investors to promote ESG-linked pay targets at portfolio companies.

Introduction

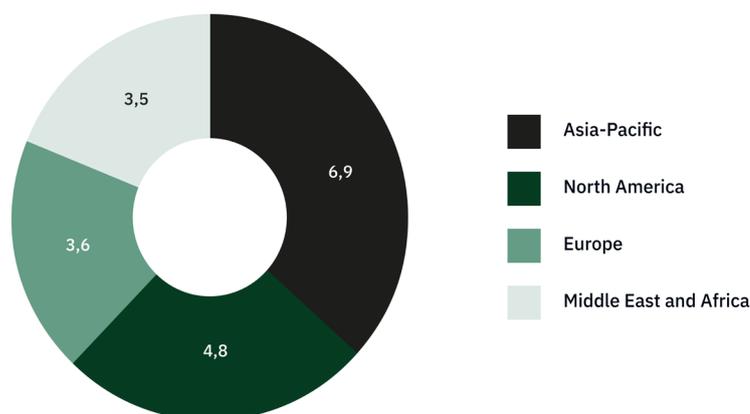
Are financial institutions practicing what they preach on ESG? One way to tell is whether the firm incorporates ESG factors into the variable pay targets set for its highest-level decision makers.

The Task Force on Climate-Related Financial Disclosures (TCFD) now recommends that firms should, as part of their TCFD reporting, disclose whether executive pay is linked to ESG achievements.

In this report on the top 100 asset owners, we assess the pay transparency and practices for chief executives (or the highest-level investment decision maker) of the 100 largest pension funds and sovereign wealth funds by assets globally. These institutions oversee a combined \$18.7trn of assets under management. Around a third of this is in Asia-Pacific, home to Japan's Government

“ The Task Force on Climate-Related Financial Disclosures (TCFD) now recommends that firms should, as part of their TCFD reporting, disclose whether executive pay is linked to ESG achievements. ”

Who are the top 100? – AUM (\$trn)



Source: GlobalData, Capital Monitor

Pension Investment Fund (GPIF), the largest asset owner in this study, as well as numerous other regional sovereign wealth funds and several of Australia's superannuation funds.

North America has the second-largest concentration of assets under management with \$4.8trn, which is comprised of mostly US and Canadian pension funds. The European asset owners in the top 100 hold \$3.6trn collectively. Of this, \$1trn is held by Norway's Government Pension Fund. The Middle East and Africa account for \$3.5trn of mostly sovereign wealth funds. South Africa's Public Investment Corporation was the only African asset owner in the top 100.

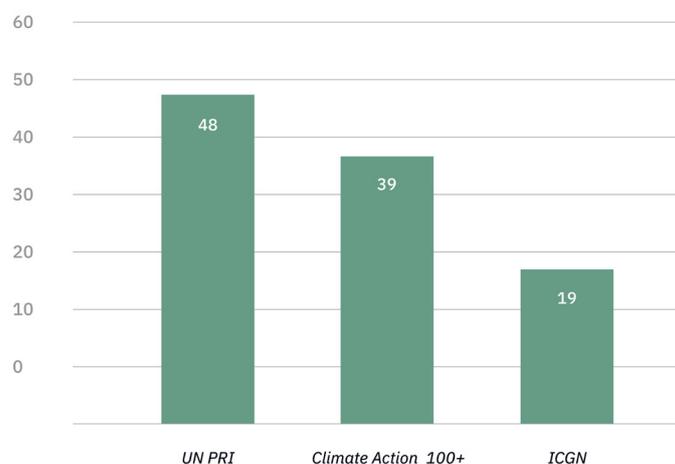
Many of the asset owners in the top 100 have made ESG and sustainability commitments based on stewardship – their ability as shareholders to influence their portfolio companies.

The UN Principles for Responsible Investment (UN PRI), one of the most popular frameworks with 48 signatories among the top 100 asset owners, urges its signatories to establish clear positions in favour of ESG-linked pay and to pressure firms into adopting ESG-linked pay structures through their stewardship programmes.

The UN PRI has 609 asset owner signatories with a combined \$30trn of assets. The UN PRI also supports a proposal by the EU to



**Asset owners commit to stewardship campaigns
Signatories among top 100 asset owners**



Source: GlobalData, Capital Monitor

mandate inclusion of ESG issues into executive pay under the Sustainable Corporate Governance initiative, a piece of EU legislation still being developed.

Climate Action 100+ has 700 investor members with \$68trn in assets. Under its indicators for its Net Zero Company Benchmark, which signatories can use to assess their portfolio companies, it includes board oversight of climate issues as an indicator as well as whether the company's executive remuneration scheme incorporates climate change factors. There are 39 members of Climate Action 100+ in the top 100 asset owners.

The International Corporate Governance Network (ICGN), which has \$70trn worth of signatories, includes in its guidance on executive remuneration an emphasis on the use of ESG metrics.

It has 19 signatories in the top 100 asset owners. In all, 58 asset owners in the top 100 are signed

up to at least one of the UN PRI, Climate Action 100+ and ICGN.

With nearly two-thirds of the top 100 asset owners signing up to groups that stress the importance of incorporating ESG targets into executive remuneration, it may be fair to ask whether asset owners themselves are adopting such remuneration practices.

Targets

Only six asset owners had publicly disclosed ESG-linked remuneration targets for their chief executive.

The most transparent environmental target was set by Caisse de dépôt et placement du Québec (CDPQ), the second-largest pension fund in Canada with assets of \$328bn. CDPQ included climate change as one of the strategic objectives of its compensation policy.

It said in its 2021 annual report that it did this “to support the investment strategy to address climate change and help achieve reduction targets related to carbon footprint intensity in asset class investments and the total portfolio, while capturing profitable opportunities arising from the energy transition.”

On the climate performance of the pension fund as a whole, the fund added: “We now hold \$39bn in low-carbon assets, a figure expected to grow to C\$54bn by 2025. CDPQ has also reduced the carbon intensity of its portfolio by 49% since 2017 and plans a 60% reduction by 2030.”

Specific weightings and assessments for CDPQ chief executive Charles Emond were not disclosed, but the CDPQ board did provide a detailed evaluation. With regard to ESG it said that under Emond’s leadership the fund had “renewed our climate ambition,

Europe ahead in environmental target setting for bonuses Number of financial institutions with environmental bonuses



with the adoption of new targets and distinctive measures that will allow CDPQ to remain a global reference in this area, in addition to benefitting from visibility at major international forums”.

The other asset owner to incorporate environmental targets into its chief executive’s variable pay was Ontario Teachers’ Pension Plan. It said in its 2021 annual report that it incorporated climate issues into variable pay targets but disclosed no further information, with no mention of specific key performance indicators (KPIs), targets or environmental factors in the board’s evaluation of the CEO for the previous year. Alberta Investment Management

Corporation and Danica Pension had rewards for customer satisfaction. In both cases there was a lack of detail, with no specifics given on how customer satisfaction was measured or judged, it’s weighting within variable remuneration, and the performance of the previous year.

Netherlands-based APG referred to “sustainability indicators” in its remuneration report, but there was no detail on what these were or how executives had performed against them.

Despite many pushing their own clients to increase general transparency, the adoption of ESG-linked bonus targets among

Asset owner	Country	Target
CDPQ	Canada	ESG discussed in CEO variable pay evaluation
Alberta Investment Management Corporation	Canada	Client satisfaction
Danica Pension	Denmark	Client satisfaction
Ontario Teachers' Pension Plan	Canada	Undisclosed climate issues
CPPIB	Canada	Gender diversity
APG	Netherlands	Undisclosed sustainability indicators

asset owners is far less advanced than for other financial institutions such as banks and asset managers.

Our study of the top 100 banks by assets and their bonus incentives found that one in four tied targets to environmental objectives of varying types. Targets for bank chief executives included their institution's ESG rating, operational emissions, and the volume of green finance arranged or provided.

Two banks, NatWest Group and ING, attempted to target something akin to Scope 3 emissions, with ESG performance linked to the emissions of their banking clients.

Banks, more commonly those in the US, had targets for diversity of senior management and client and staff satisfaction. Overall, nearly half of the top 100 banks, 48 to be precise, set bonus targets for their chief executives that would fall under environmental, social or governance categories.

Our study of the top 100 asset managers found that 13 chief

executives had some form of environmental target to hit to achieve their maximum bonus.

The top bosses at 25 asset managers had targets related to social and governance factors, such as diversity of senior management and client and customer satisfaction.

Asset managers' environmental targets focused on areas such as sustainable funds under management, ESG screening of their funds, and their stewardship programmes, through which they aim to promote sustainability at their portfolio companies.



Transparency

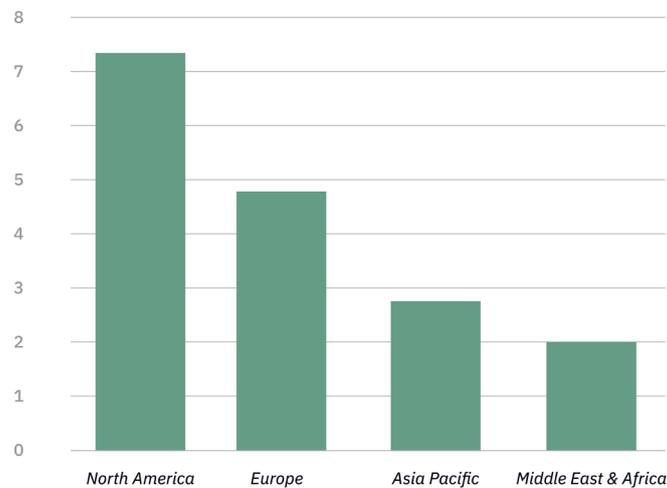
Across North America, Europe and Asia-Pacific, the regions where we have comparable data across banks, asset managers and asset owners, there was consistently less transparency among asset owners. Banks have tended to be most transparent. This may reflect the fact many banks are listed and therefore more susceptible to shareholder pressure on pay issues.

Transparency scores were calculated using six indicators: the public availability of the chief executive's fixed and variable pay; the publishing of their targets; the KPIs associated with these targets; the weights assigned different remuneration targets; the assessments, which shows to what extent a target was achieved; and whether or not a detailed evaluation of the chief executive's performance was given as part of the institution's remuneration report.

A transparency score of 100 would mean that the targets set for a chief executive were disclosed publicly, including how targets are measured; that a detailed evaluation of previous performance is provided by the firm's board or remuneration committee; and that all of this is transparent in cash terms.

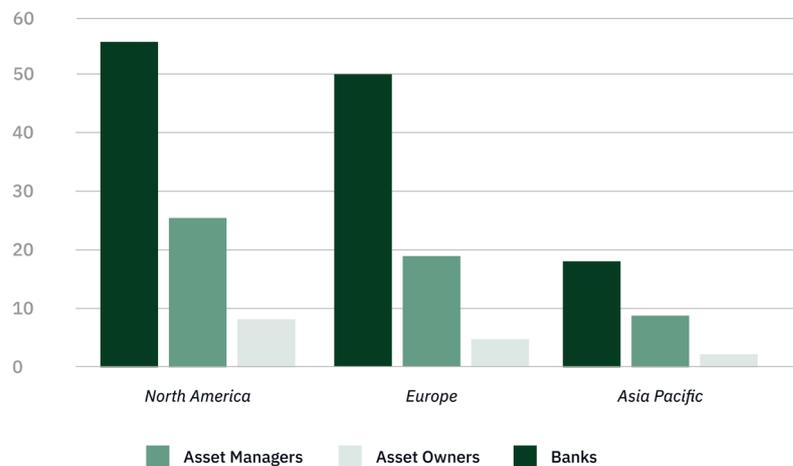
Some asset owners in the top 100

Transparency greatest in North America
Average transparency scores (out of 100)



Source: GlobalData, Capital Monitor

Transparency on pay lower than other financial institutions
Average transparency scores (out of 100)



Source: GlobalData, Capital Monitor

disclosed that their chief executive was not awarded any variable pay package. These were Norway's Government Pension Fund, the China Investment Corporation, Federal Retirement Thrift Investment Board in the US, Saudi Arabia's SAMA Foreign Holdings, and Singapore's GIC.

For the small number of asset owners that were transparent and had ESG-linked targets, targets tended to be ill-defined. This may reflect the fact that many are deducing what their targets should be. Like asset managers, many may have targets around stewardship that could be difficult to quantify, at least in the short term.

Banks had an easier time of quantifying targets because they could target volumes of green finance. Social and governance targets, such as those related to gender diversity and net promoter scores for customer and employee satisfaction, could all be quantified but were not as common among asset owners as they were for asset managers and banks.

Transparency was highest among North American asset owners. The average transparency score for North America was 10 (out of 100). The top five asset owners for transparency on pay were all Canadian pension funds.

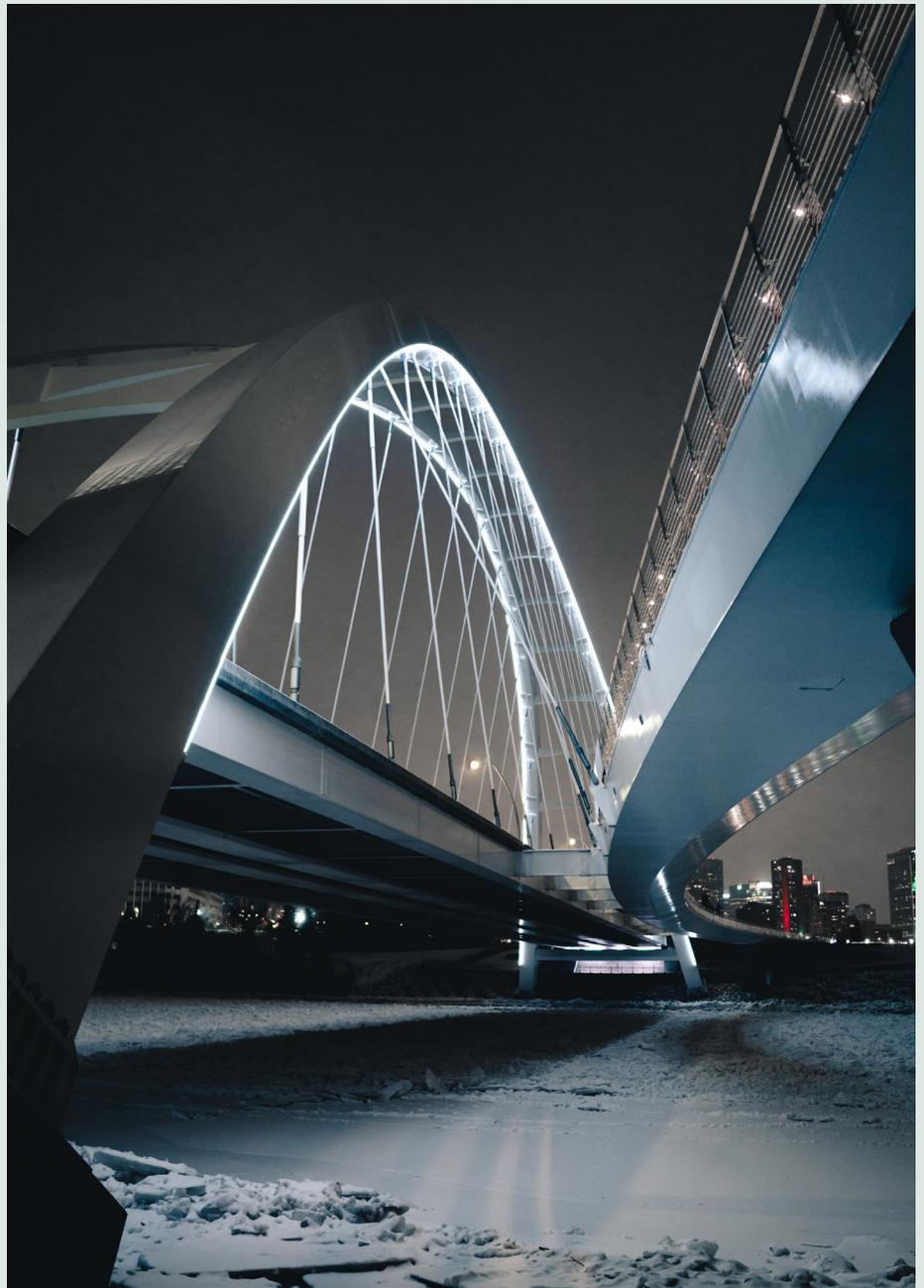
This included Alberta Investment Management Corporation, which had the highest score of 62.5, British Columbia Investment Management Corporation, Ontario Municipal Employees Retirement System, CDPQ, and Ontario Teachers' Pension Plan.

The average transparency for a Canadian asset owners was 51.5.

CDPQ has established some numerical climate targets at the fund level, such as the ambition to hold \$54bn in green assets by 2025 and a 60% reduction in the carbon intensity of its total portfolio by 2030, but these are not used directly as KPIs for variable pay targets, which instead are based on a more holistic judgement.

“

Social and governance targets, such as those related to gender diversity and net promoter scores for customer and employee satisfaction, could all be quantified but were not as common among asset owners as they were for asset managers and banks.



Conclusion

Behave as you would have others behave

Outside of Canada, transparency on how key decision makers at the world's largest asset owners are remunerated is lacking when compared with other financial institutions.

As more financial institutions choose to disclose greater amounts of ESG-related data, this is likely to improve over time. For example, TCFD reporting is now mandated for UK pension funds, but the recommendation to disclose whether pay is linked to ESG factors is not mandatory.

The second conclusion is that for those with transparency, there has been little adoption of bonus targets linked to ESG targets. This includes targets that may be easier to set, such as social and governance targets for board diversity and client and consumer satisfaction.

Most asset owners' highest-level decision makers are set variable remuneration targets for financial factors, such as returns over a set period of time, or the extent of diversification.

At the same time, many asset owners are signatories to investor groups such as Climate Action

“

It is fair to ask whether asset owner pressure will be as effective in influencing the behaviour of their portfolio companies if they do not lead by example, and whether their views will carry as much weight.

100+, the UN PRI and ICGN, which recommend signatories pressure portfolio companies into incorporating ESG factors into executive bonus targets.

The targets set for executives as part of their pay are an important aspect of corporate governance and reflect key corporate priorities. It is fair to ask whether asset owner pressure will be as effective in influencing the behaviour of their portfolio companies if they do not lead by example, and whether their views will carry as much weight.

For asset owners to achieve success in their stewardship campaigns, they may need to follow the lead of their Canadian peers in firstly establishing greater transparency, and secondly

incorporating some of the more common targets other financial institutions have adopted, such as those for gender diversity of senior management and client and employee satisfaction measures.

Climate-related targets can be difficult to adopt as it may not be clear what KPIs to choose from a broad array of corporate sustainability commitments.

That said, many financial institutions, including CDPQ, as well as BlackRock and Goldman Sachs, have still taken a holistic judgement approach to climate-linked remuneration targets as opposed to focusing on KPIs.

REPORT AUTHOR
Chris Papadopoulos
 Economics Editor
chris.papadopoulos@ns-mediagroup.com

Asset owner commitments

Asset owner	Country	Transparency score	UN PRI	Climate Action 100+	ICGN
Alberta Investment Management Corporation	Canada	62.5	✓	✓	✓
Canadian Pension Plan Investment Board	Canada	62.5	✓	✓	✓
British Columbia Investment Management Corporation	Canada	60	✓	✓	
Ontario Municipal Employees	Canada	55	✓		✓
Caisse de dépôt et placement du Québec	Canada	45	✓	✓	✓
Public Sector Pension Investment Board	Canada	45	✓		✓
Ontario Teachers	Canada	35	✓	✓	✓
Danica Pension	Denmark	25	✓		
First State Super	Australia	25			
Future Fund	Australia	25			✓
Public Investment Corporation	South Africa	25	✓		✓
APG	Netherlands	17.5	✓	✓	✓
ABP	Netherlands	10	✓	✓	
California State Teachers	US	10	✓	✓	✓
Government Pension Fund	Norway	10	✓		
Ilmarinen	Finland	10	✓	✓	
Keva	Finland	10	✓	✓	
Kommunal Landespensjonskasse KLP	Norway	10	✓	✓	
Minnesota State Board	US	10	✓	✓	
Pension Fund Association	Japan	10	✓		
PFA Pension	Denmark	10	✓	✓	
PFZW	Netherlands	10	✓		
Universities Superannuation	UK	10	✓	✓	
Varma	Finland	10	✓	✓	
New Jersey Pension Fund	US	5		✓	
PME Pensionfonds	Netherlands	5	✓	✓	
Abu Dhabi Investment Authority	United Arab Emirates	0			
Agirc-Arrco	France	0	✓		
Alaska Permanent Fund	US	0			
Alecta	Sweden	0	✓	✓	
AMF Pension	Sweden	0	✓	✓	
AP Fonden 1	Sweden	0	✓		✓
AP Fonden 3	Sweden	0	✓	✓	✓
AP Fonden 4	Sweden	0	✓	✓	✓
AP Fonden 7	Sweden	0	✓	✓	
ATP	Denmark	0	✓	✓	
AustralianSuper	Australia	0	✓	✓	✓
Bayerische Versorgungskammer	Germany	0	✓		

Source: GlobalData, Capital Monitor

Table 2. Ranking step-ups

Asset owner	Country	Transparency score	UN PRI	Climate Action 100+	ICGN
California Public Employees	US	0	✓	✓	✓
California University	US	0		✓	
Cbus	Australia	0	✓	✓	
Central Provident Fund	Singapore	0			
China Investment Corporation	China	0			
Colorado Employees	US	0			
Employees' Provident	India	0			
Employees Provident Fund	Malaysia	0	✓		
Federal Retirement Thrift	US	0			
Florida State Board	US	0			
GIC Private Limited	Singapore	0		✓	
Government Pension Investment Fund	Japan	0	✓	✓	✓
Healthcare of Ontario	Canada	0	✓		
Illinois Municipal	US	0			
Illinois Teachers	US	0			
Investment Corporation of Dubai	United Arab Emirates	0			
Kaiser	US	0			
Korea Investment Corporation	South Korea	0			✓
Kuwait Investment Authority	Kuwait	0			
Labor Pension Fund	Taiwan	0			
Local Government Officials	Japan	0			
Los Angeles County Employees Retirement Association	US	0		✓	
Maryland State Retirement	US	0	✓	✓	
Massachusetts Pension Reserves Investment Management	US	0			
Metaal/tech. Bedrijven	Netherlands	0	✓		
Michigan Retirement	US	0			
Mubadala Development Company	United Arab Emirates	0			
National Development Fund	Iran	0			
National Federation of Mutual Aid	Japan	0	✓		
National Pension	South Korea	0	✓		
National Pension Association	Japan	0			
National Public Service	Japan	0			
National Social Security	China	0			
National Wealth Fund	Russia	0			
New York City Retirement	US	0	✓	✓	
New York State Common	US	0	✓	✓	
New York State Teachers	US	0		✓	
North Carolina	US	0			

Source: GlobalData, Capital Monitor

Table 2. Ranking step-ups

Asset owner	Country	Transparency score	UN PRI	Climate Action 100+	ICGN
Ohio Public Employees	US	0			
Ohio State Teachers	US	0			
Oregon Public Employees	US	0			
Pennsylvania School Employees	US	0			
PGGM	Netherlands	0	✓	✓	✓
Public Institute for Social Security	Kuwait	0			
Public Investment Fund	Saudi Arabia	0			
Qatar Investment Authority	Qatar	0			✓
Rothesay Life	UK	0	✓		
SAFE Investment Company	China	0			
SAMA Foreign Holdings	Saudi Arabia	0			
Sampension	Denmark	0	✓	✓	
Samruk-Kazyna JSC	Kazakhstan	0			
Tcorp	Australia	0			
Teachers Retirement System of Georgia	US	0			
Teamsters Western Conference	US	0			
Temasek Holdings	Singapore	0			
Texas Teachers	US	0			
Turkey Wealth Fund	Turkey	0			
UniSuper	Australia	0	✓	✓	
United Nations Joint Staff	US	0		✓	
Virginia Retirement	US	0			
Washington State Board	US	0		✓	
Wisconsin Investment Board	US	0			

CAPITAL MONITOR

