

Sustainability in Capital Markets

**Financing the transition to a sustainable
low-carbon economy**

Asset Managers Sector Profile



Introduction

This sector snapshot is part of the High Meadows Institute report, *Sustainability in Capital Markets*. It is designed to provide a high-level overview of how key sectors in the financial system are supporting the transition to a sustainable low-carbon economy (SLCE). The sector evaluation is based on a literature review of studies on each sector's role in the SLCE transition, as well as a more detailed analysis of how 10 of the largest institutions in the sector are supporting the transition. Further details on the purpose of the report, the sectors being assessed, and the methodology for the assessment can be found in the Methodology publication [here](#).

Sample size: BlackRock, Vanguard, Fidelity, State Street, Allianz, Capital Group, Amundi, Invesco, Legal & General, Franklin Resources

Total AUM of research sample: \$36 trillion (29% of total sector AUM)ⁱ

The biggest asset managers are some of the most recognizable players supporting the SLCE transition. Collectively, the top 10 firms manage some \$36 trillion in assets, representing approximately 29% of sector AUM and nearly 24% of global AUM. This includes

BlackRock, the world's biggest asset manager by AUM, and perhaps the poster child for the unique opportunities and challenges that asset managers face.

The asset management industry has experienced significant growth and consolidation in recent years. The growth in assets is due to both net inflows and market performance, while consolidation is due to competitive pressures and the rising costs required to run a successful firm. Both trends appear likely to continue in the years ahead, with a sizable share of assets concentrated among just a handful of firms.

According to a recent survey of 500 asset and wealth managers, 16% of existing managers are expected to go out of business or be acquired by bigger firms by 2027. Meanwhile, 73% of asset managers are considering a strategic consolidation with another asset manager in order to gain access to new clients, build market share and mitigate risks.ⁱⁱ

These findings – combined with a string of recent acquisitions within the asset management industry – place the sector in an advantageous position to support the transition to an SLCE. This sector profile will offer additional insights into those advantages, as well as potential pain points and challenges that asset management firms may face in today's market environment.

Opportunities to advance an SLCE

Diversified asset managers have several advantages in pushing towards an SLCE. Briefly, those advantages include scale, reach and influence.

Scale

Each of the top 10 asset management firms has at least \$2 trillion in AUM, capital that is deployed across a large variety of funds and strategies covering every conceivable slice of the market. With access to so much capital, these asset managers can play an outsized role in contributing to an SLCE, both in terms of how they invest and how they act as shareholders.

On the first point, all of the largest firms have taken steps to integrate climate risks into investment decision-making, particularly for their investments in public equities. For instance, BlackRock has announced climate stewardship policies for \$150 billion in funds to ensure investments are aligned with strict climate goals.ⁱⁱⁱ Some firms have gone a step further by launching dedicated climate or transition funds. Allianz has introduced several SLCE-oriented funds, often in partnership with governments or other institutional investors.^{iv} New funds are being launched almost every week, providing asset owners and allocators with different ways to support the SLCE transition.

On the second point, the size of many of these funds means that the top 10 asset managers are often the biggest shareholders in public companies. It's estimated that the Big Three (BlackRock, Vanguard, State Street) collectively hold more than 20% of the total market capitalization in the U.S.^v This means they have the potential to wield enormous power at shareholder meetings. One study found that several environmental-focused resolutions at major U.S. companies would have passed if these firms



had provided their support.^{vi} The activist campaign led by Engine No. 1 to replace several members of ExxonMobil's board of directors would not have been successful without the support of the Big Three firms.^{vii} While each asset manager has its own voting policies and priorities, adopting an SLCE orientation could make a big difference in getting more of the world's largest companies aligned with climate goals.

Reach

The asset managers assessed for this study have a presence all over the world, with offices spread out across major financial centers on almost every continent. This global presence gives them unique insights into what is driving financial markets, making it easier to spot patterns and trends in regards to an SLCE. This advantage also contributes to the development of targeted funds that would otherwise struggle to make much headway. For instance, many of the biggest asset managers have a presence in emerging and developing economies, which are in particular need of capital to support the transition to an SLCE.

The other advantage of managers’ global reach is the ability to operate across different jurisdictions. By understanding similarities and differences across markets, these managers are able to contribute to the harmonization of different industry standards, such as those developed by the International Sustainability Standards Board (ISSB), which have been adopted by jurisdictions representing more than half of the global economy.^{viii} Harmonization and interoperability are key to a successful SLCE transition, and these asset management firms can help lay the groundwork for a more unified approach.

Influence

The biggest asset managers have an outsized influence in financial markets due to their ability to engage in market-shaping and policymaking at the highest level. Take, for example, Larry Fink’s annual letter to CEOs, which in recent years has called for increased consideration of climate risks as well as a shift to stakeholder capitalism.^{ix} While Fink’s response to anti-ESG pressure from conservative U.S. politicians has been to mute his outspoken support on climate issues, his letter continues to serve as an important signal for the opportunities and challenges facing the broader asset management industry, and the biggest firms in particular.

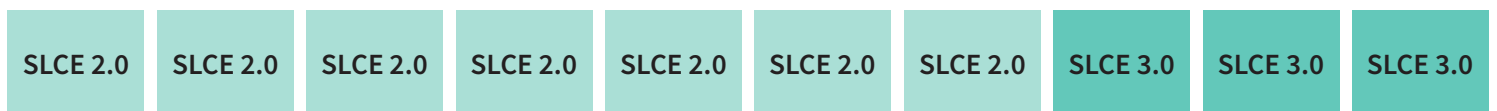
Finally, asset management executives are among the loudest voices in advocating for a more serious approach towards climate change. They consistently show up at industry conferences and are frequently cited by financial media. They collectively employ some of the most skilled portfolio managers and research analysts, and regularly publish compelling research on

a range of topics. For instance, Gunther Thallinger, a member of the Allianz board and former CEO of Allianz Investment Management, has taken on a leadership role as Chair of the Net-Zero Asset Owner Alliance (NZAOA) and is a frequent speaker and writer on the importance of climate action.^x The continuous demand for their perspectives gives asset management firms a platform from which they can send signals to their peers as well as other market participants about how they think the sustainability transition should unfold.

In our research of the top 10 firms, we found that many asset managers are taking their leadership position seriously, although with significant room for improvement in key areas when it comes to backing up their commitments.

- Each of the top 10 firms reports on climate and has climate targets, with 7/10 making commitments to achieve net-zero emissions by 2050
- 10/10 are signatories to the Principles for Responsible Investment (PRI)
- 8/10 have adopted the TCFD framework for climate reporting, although just 5/10 pursue third-party assurance of their reporting
- 5/10 were members of the Net Zero Asset Managers initiative (NZAM), which has since suspended its activities related to tracking signatory implementation and reporting^{xi}
- 3/10 are members of the Climate Action 100+ initiative, after 4 ended their membership in 2024^{xii}

Asset Managers on the SLCE Spectrum



► This graphic illustrates where ten of the largest asset managers sit on the SLCE Spectrum, which is a framework designed to assess the strength and integrity of their commitment to a sustainable, low-carbon economy based on their alignment to industry best practices. SLCE 1.0 represents “Minimal Commitment,” while SLCE 2.0 represents “Active Integration” and SLCE 3.0 represents “Systemic Leadership.” To learn more about the SLCE Spectrum, including how asset managers were assessed against HMI’s criteria, please review the separate [Methodology](#) publication.

Pain Points



Over the last few years, many of the world's largest asset management firms have found themselves between a rock and a hard place. On the one hand, many firms face pressure to increase their support for an SLCE via both their investments and in their role as shareholders of public companies. On the other hand, these same firms also face pressure to prioritize financial performance and not get distracted by 'non-pecuniary' goals. These conflicting messages have put many firms in a difficult position as they are forced to learn how to navigate not just the market environment, but also the political environment. Some firms have chosen to accede to politically motivated actors, while others have remained steadfast regarding their climate commitments. The rest of the industry has attempted to remain neutral, a tricky proposition in what is a highly polarized world.

Pressure to do *more* for an SLCE

The largest asset management firms are an easy target for advocacy groups that believe the sector should play a larger role in supporting the transition to an SLCE. There has emerged in recent years a cottage industry of groups and organizations committed to spotlighting how asset managers continue to invest billions of dollars into the companies most responsible for the climate crisis.

For example, one effort led by the Sierra Club involves a scorecard that assesses how effectively the climate policies of the world's largest asset managers have translated to real-world emissions reductions in the fossil fuel sector. The researchers found that the 30 asset managers profiled in the scorecard invested \$3.5 billion in new bonds from fossil fuel companies, 58% of which came from just two managers (Vanguard and BlackRock).^{xiii}

Another organization, ShareAction, specifically focuses on the voting practices of the world's largest asset managers. In its fifth annual "Voting Matters" report, the researchers found that average support for environmental shareholder resolutions among the 'big four' asset managers (e.g., BlackRock, Fidelity, Vanguard, State Street) fell from 39% to 14% between 2021 and 2023. The report also found significantly more support for environmental and social resolutions among European asset managers (88%) versus U.S. asset managers (25%).^{xiv}

Pressure is also coming from social activists. In a high-profile publicity stunt in 2019, a group called "The Yes Men" published a fake version of Larry Fink's

“Dear CEO” letter in which he called for a radical overhaul of BlackRock’s investment approach to help tackle climate change. The letter was initially reported as being real in major financial media, setting off a firestorm of debate about what a true commitment to an SLCE might look like.^{xv}

Pressure to do less for an SLCE

In recent years, a new front has emerged that is calling on asset managers to back away from their climate commitments and instead focus on their fiduciary duty to beneficiaries. Much has already been written about the rise of the anti-ESG movement in the U.S., which has begun to spillover to Europe and other markets. (Please see the last page for a selection of relevant writing and research.)

The most visible effect of the coordinated anti-ESG attacks has been the departures of several U.S. asset managers from climate-related groups and initiatives, like NZAM and Climate Action 100+. To further avoid legal and public scrutiny, these same asset managers have significantly reduced their support of environmental-focused shareholder proposals. There has also been a noticeable trend towards “green-hushing” as more firms drop climate-related language from their fund names and materials,^{xvi} while other firms are closing ESG funds altogether.^{xvii} While it is too early to tell if asset managers have changed much about how they structure funds and make investment decisions, the lack of leadership and the shift in rhetoric are certainly worrying.

The silver lining is that many asset owners are responding to the pullback by threatening to pull their capital from asset managers who don’t take climate change seriously.^{xviii} Recently, a group of 26 financial institutions and pension funds with a combined \$1.5 trillion in assets have called on asset managers to engage more actively with companies on climate risk if they want to retain their allocations.^{xix} Some of the largest asset management firms, particularly those based in the U.S., have already suffered outflows as asset owners shift their allocations to more SLCE-friendly managers.^{xx}



The regulatory dilemma

There are also several market actors that have attempted to remain neutral in the push-and-pull paradigm faced by asset managers today. We will touch on some of these market actors, including intermediaries like investment consultants, in separate sector profiles. But the one party that warrants special attention here is the Securities & Exchange Commission (SEC).

Since its creation in 1933, the SEC has guided how asset managers are supposed to engage with the publicly traded companies in their portfolio, typically via the proxy voting process. Starting around the early 2000s, there was a noticeable uptick in environment-focused shareholder proposals. In 2015, there were 100 environmental proposals, increasing to as many as 179 proposals in 2023. Approximately 75% of environment-related proposals submitted during this period focused on climate-related issues, with an increased emphasis on alignment with the Paris Agreement and net zero targets.^{xxi}

However, these indicators of support seem to have recently plateaued or even jumped backward, largely as a result of anti-ESG pressures. Recent proposed rule changes at the SEC may make it even harder for asset managers to get their proposals onto the ballot.

Ownership thresholds for filing proposals

To submit a shareholder proposal, a shareholder must have continuously held at least \$2,000 of the company's securities entitled to vote on the proposal for at least three years, or \$15,000 for at least two years, or \$25,000 for at least one year.

For instance, the SEC has recently made it easier for companies to exclude shareholder proposals by expanding the criteria under which proposals can be dismissed. Companies can now reject proposals deemed to lack “economic relevance” or those classified as “ordinary business” matters.^{xxii}

The SEC has also revised reporting rules to classify engagement on social and environmental issues as a form of activism. As a result, even “passive” investors and universal owners must file Schedule 13D, typically used for activist investors seeking control, instead of the less burdensome Schedule 13G. This change increases compliance costs and regulatory scrutiny for ESG-focused investors, further dampening the willingness of shareholders to put proposals forward.

Another potential rule change at the Department of Labor (DOL) could make it harder for ERISA-covered retirement plans, especially public pension funds, to throw their weight behind environmentally-focused shareholder proposals, further diminishing the chances of gaining sufficient support to implement a specific recommendation. While the current rule allowing the consideration of ESG and other factors as

Resubmission Thresholds:

- **First Submission:** A proposal needs at least 5% of the votes cast to be eligible for resubmission in the following three years.
- **Second Submission:** A proposal needs at least 15% of the votes cast to be eligible for resubmission in the following three years.
- **Third or More Submissions:** A proposal needs at least 25% of the votes cast to be eligible for resubmission in the following three years.

a tiebreaker in investment decision-making has been upheld by a federal judge,^{xxiii} there is still the threat of a chilling effect among U.S. pensions.

These are just some of the regulatory changes already underway in the U.S., which will have ramifications for the global capital markets system. There is already evidence of the EU pulling back on its sustainable finance agenda as part of the most recent omnibus bill,^{xxiv} and it remains to be seen how aggressive other governments will be in pursuing a sustainability agenda through the financial markets.

The combination of these challenges has left many asset management firms in a precarious position. Unwilling to invoke the scrutiny and criticism of either side, most have chosen to remain on the sidelines of the debate. Those asset management firms that have retained or even doubled down on their climate commitments may have a competitive advantage as climate risks and opportunities become more apparent in the years ahead. But first and foremost, asset managers need to find a way to rise above the political backlash and work together on shared challenges.

Additional reading and resources about the asset management industry:

- **As You Sow:** [Proxy Preview 2024](#)
 - **BCG:** [The Tide Has Turned](#)
 - **Ceres:** [2025 Policy Outlook](#)
 - **Deloitte:** [Climate risk and asset management](#)
 - **Harvard Law School Forum on Corporate Governance:** [Asset Management Industry Confronts the Challenges Presented by Climate Change Transition](#)
 - **InfluenceMap:** [Asset Managers & Climate Change 2023](#)
 - **KPMG:** [2025 Asset Management Industry Outlook](#)
 - **Majority Action:** [Climate in the Boardroom: 2024 Proxy Season](#)
 - **NZAM:** [Target Disclosures Report](#)
 - **Pleiades Strategy:** [2024 Statehouse Report: Anti-ESG State Legislation Tracker & Analysis](#)
 - **PRI:** [A Legal Framework for Impact](#)
 - **Project Drawdown:** [Asset Management Climate Change Action Guide](#)
 - **PwC:** [Next in asset and wealth management 2025](#)
 - **ShareAction:** [World's largest asset managers block social and environmental progress with worst voting performance yet](#)
 - **Sierra Club:** [How the World's Biggest Asset Managers are Driving the Climate Crisis](#)
 - **Sustainable Markets Initiative:** [The climate has changed: How CIOs are investing in a climate-resilient economy](#)
 - **The Shareholder Commons:** [Portfolios on the Ballot](#)
 - **UNEP FI:** [A Practical Guide to 1.5°C Scenarios for Financial Users](#)
 - **World Benchmarking Alliance:** [Financial System Benchmark](#)
- Top standards or initiatives for asset management firms serious about climate change:**
- **Climate Action 100+**
 - **Institutional Investors Group on Climate Change**
 - **Interfaith Center on Corporate Responsibility**
 - **Operating Principles for Impact Management**
 - **Principles for Responsible Investment**

Summary

Opportunities

- Asset managers have the size (based on AUM) and scale (based on their global presence) to make a significant difference in the transition to an SLCE
- Beyond their investment holdings, asset managers can also influence global capital markets by taking a leadership role and speaking out on certain topics like climate risks and climate policy
- Many of the requisite tools, frameworks and standards already exist, offering multiple on-ramps and pathways for asset managers looking to support the SLCE transition
- Asset managers can accomplish more by working together on shared opportunities and challenges than by operating independently

Challenges

- Political pressure makes it difficult for asset managers to engage on certain issues, often out of fear of legal scrutiny or a public backlash
- Regulatory confusion and uncertainty inhibit progress in key areas, like standardized reporting on climate-related metrics and the implementation of robust accountability mechanisms
- Asset owners and allocators continue to push asset managers to clarify and, in many cases, heighten their stance on climate-related issues
- Some investment opportunities require different capital structures and funding mechanisms that may not fit the typical asset manager's playbook

Endnotes

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High Meadows Institute is focused on the role of business leadership in society. Our mission is to contribute to sustainable economic and social progress in a global economy and society. High Meadows Institute was founded in 2013 by a small group of senior business and finance leaders with deep experience in the private and non-profit sectors. The Institute works in close partnership with other leading think tanks and academic and business organizations to advance its mission.

17 Communications is a mission-driven marketing and communications consultancy specializing in the ESG, impact investing and sustainable finance sectors. We are committed to catalyzing the flow of capital towards sustainability and impact-oriented investments and solutions through a combination of communications, advocacy, research and education.



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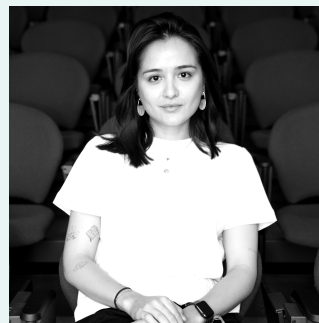
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Developed in partnership with:

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