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Active ownership reporting among South African asset managers, and why it matters

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Orientation: Asset owners should be able to distinguish between asset managers based on their commitment, accountability, and quality of their environmental, social and governance (ESG) screening, and engagement practices.

Research purpose: Although there were 48 asset managers in South Africa who were Principles for Responsible Investment (PRI) signatories at the end of 2020, to the best knowledge of the authors this is the first academic study on the nature of active ownership reporting among South African PRI asset manager signatories.

Motivation for the study: Asset managers are often accused of greenwashing and reporting practices that are mere 'box ticking'.

Research approach/design and method: The authors investigated the nature and extent of local PRI asset manager signatory active ownership reporting over the period 2016–2020, using content analysis and a self-constructed measurement instrument to ascertain the quality of reporting.

Main findings: Vast differences were noted in the depth and breadth of shareholder engagement reporting, and as expected, the size of the asset manager played an important role in the quality of reporting.

Practical/managerial implications: South African asset managers who claim to be responsible investors, by virtue of being PRI signatories, should ensure that public reporting accurately reflects their engagement activities and outcomes, given the potential reputational benefits and the increasing importance of ESG issues.

Contribution/value add: The research may be valuable to asset managers and -owners seeking a competitive advantage within the growing RI sector, by highlighting the importance of clear and transparent disclosure.

Keywords: active ownership; responsible investment; stakeholder activism; ESG; PRI.

Introduction

Orientation

The recent establishment of the Value Reporting Foundation and the International Sustainability Standards Board (IFRS 2021) highlights the increased focus by the global investor community on environmental, social and governance (ESG) issues in response to sustainability challenges. Institutional investors are increasingly recognising that sustainability concerns threaten the competitive landscape across whole industries and markets and that they have a vested interest in requiring companies to adopt more sustainable business practices and improve their transparency and ESG reporting (IIRC 2021). *The Financial Services Board Act* (No. 97 of 1990) defines 'institutional investors' as asset owners, such as pension funds and insurance companies, and the asset managers they appoint to act on their behalf. In recent years, there has been a clear shift among formally passive institutional investors to more actively engage investee companies on financial and ESG issues (Barko, Cremers & Renneboog 2021; Deloitte 2019; Dyck et al. 2019; Semenova & Hassel 2019), often referred to as active ownership or shareholder engagement.

Given the intense competition to attract clients (Keswani & Stolin 2006; SPDJI 2018), asset managers are beginning to emphasise their ability to change corporate policies and practices (Leins 2020) through demonstrating active ownership. A new wave of shareholder activists, or active owners, are broadening their focus from issues affecting shareholder wealth (such as dividend payments), to include the interests of a broader range of stakeholders and to push their own agendas most notably their climate strategies (Barko et al. 2021; Fortado 2019). Research shows that successful engagements are not only positively correlated with improved ESG performance (Dimson, Karakaş & Li 2015), but also with superior sales growth and risk-adjusted returns (Barko et al. 2021).

Asset owners in South Africa (SA), on the other hand, are also increasingly demanding asset managers to provide information about their ESG screening and analysis (Mans-Kemp & Van Zyl 2021; Viviers & Theron 2019). More specifically, a recent PwC report (PwC 2022) predicts that the share of ESG assets over total Assets under Management (AUM) would increase from 14.4% in 2021 to 21.5% in 2026. The increased focus by asset managers on ESG is even more significant, considering an earlier PwC (2016) report that has anticipated that global AuM would almost double from US$84.7 trillion in 2016 to US$145.4 trillion by 2025. Possible reasons include: (1) amendments to Regulation 28 of the *Pension Funds Act* in 2011, (2) the launch of the Code for Responsible Investing in SA (CRISA) in the same year, and (3) the inclusion of a separate principle in the fourth King report on corporate governance for SA (King IV) in 2016 (Gossel 2017). King IV specifically states that the governing body of an institutional investor should ensure that responsible investment (RI) is practised by the organisation to promote good governance and value creation by the companies in which it invests (IoDSA 2016). The European Union mandates financial market participants (like asset managers) to disclose information that will allow investors to assess how sustainability risks are integrated in the investment decision process (Busch 2023).

Noteworthy in terms of asset owners increasing demand for asset managers to consider ESG factors are the results of a recent survey by the *Business Times* and asset management firm Amundi (Versace & Abssy 2022). The survey report results that showed that where one-third of millennials (born between 1981 and 1996) often or exclusively use investment products that take ESG factors into account, only 16% of Generation X (born between 1965 and 1980) and 2% of baby boomers (born between 1946 and 1964) prioritise ESG in their investment decisions.

The United Nations-backed Principles for Responsible Investment (PRI) were established in 2006. At the end of March 2021, the PRI had 3 826 signatories (consisting of 3 404 investors and 422 service providers), representing collective assets under management (AUM) of just over US$121 trillion (PRI 2021a). The SA Government Employees Pension Fund (GEPF) was one of the founding signatories of the PRI in 2006 (PRI 2021b). As PRI signatories are required to report publicly on their RI activities, being a PRI signatory can be seen as one way to demonstrate active ownership (PRI 2021c). PRI signatories commit to six principles, namely:

- incorporate ESG issues into investment analysis and decision-making processes;
- be active owners and incorporate ESG issues into ownership policies and practices;
- seek appropriate disclosure on ESG issues by the entities in which they invest;
- promote acceptance and implementation of the principles within the investment industry;
- work together to enhance effectiveness in implementing the principles; and
- report on their activities and progress towards implementing the principles (PRI 2021b).

In general, institutional investors, asset owners, investment managers and professional service providers can demonstrate active ownership by using formal and/or informal voice mechanisms. Formal voice strategies include public efforts such as the filing of shareholder resolutions, voting, posing questions at shareholder meetings, and stimulating public debate via traditional and/or social media (McNulty & Nordberg 2016). Proxy contests and legal proceedings to enforce shareholder rights could also be regarded as formal voice strategies. In contrast, informal voice strategies involve private correspondence and confidential negotiations between investors and corporate decision-makers (McCahery, Sautner & Starks 2016; Semenova & Hassel 2019).

Research purpose and objectives

To the author's best knowledge, no academic studies have been conducted on the nature of active ownership reporting among SA PRI asset manager signatories. This study addresses the knowledge gap by focusing on the period 2016–2020. South Africa further represents a valuable case study as the country is widely regarded as a pioneer in the field of transparent, integrated reporting (Natesan 2020; Vaughn & Ryan 2006).

According to Busch (2023), the phenomenon of greenwashing is widespread among investment funds. A recent investigation by The Great Green Investment Investigation reports results that show that almost half of European investment funds that prioritise ESG issues, also investment in industries like fossil fuel or countries where forced labour cannot be ruled out (Busch 2023). The overarching research question of this study focused on the information available to asset owners, including institutional investors and other service providers, which would enable them to distinguish between asset managers that are committed to ESG screening and active engagement and those that are not. To answer this question, the information provided about the formal engagement policies and practices of local PRI asset manager signatories was investigated to determine if clients could assume that PRI signatories are equally engaged in active ownership and ESG screening. The study focussed on the disclosures made by signatories relating to the: (1) nature and extent of engagement with investee companies on ESG considerations, (2) whether they track the outcomes of engagements and (3) the criteria used to identify and prioritise collaborative engagements. Larger firms may be able to allocate more to disclosure activity, and therefore, it may be larger asset managers that make better disclosures. It could be argued that higher AUM levels would allow asset managers to generate higher revenue from management fees, and thereby be able to better allocate resources to the disclosure function. This argument led to the following research question: What is the relationship between an asset manager's size in terms of AUM and the quality of disclosure? By composing a relative disclosure score (RDS) for each signatory, the authors could investigate the relationship between an asset manager's size, in terms of AUM, and the quality of engagement reporting. The research may be valuable to asset managers and owners looking to gain a competitive advantage within the growing RI sector, by highlighting the importance of clear and transparent disclosure.

In the following section, a brief overview of pertinent research on shareholder activism as an RI strategy, and possible practical and theoretical perspectives, which may encourage assets managers to become PRI signatories is provided. This is followed by the description of the research questions and methods used to collect and analyse data. Pertinent findings and conclusions are then presented, and the article concludes with areas for future research highlighted during the research.

Literature review

Institutional investors, asset managers and financial service providers practising RI must implement a RI model with clear policies and processes to guide and integrate financial and ESG considerations into investment decisions (Taute 2016; UNEP FI 2005). Environmental, social and governance issues are context-specific, can range from global to local, and will differ from company to company, necessitating a more nuanced understanding of the various risks experienced by, and the specific mitigation strategies adopted by the individual companies. These strategies often require active engagement with senior management to ensure informed investment decisions (Taute 2016). In the SA context, ESG issues include energy security, water security, access to water, labour relations, inequality, unemployment, lack of quality education and skills, poverty, corruption and misallocation of national funds, business ethics, and poor governance (Taute 2016; NPC 2012).

Although the *Companies Act* permits shareholders of SA companies to file shareholder resolutions, shareholder activism is a relatively new phenomenon in SA, a recent study however noted its increasing impact with researchers finding a statistically significant decrease in the total pay of SA executives who were publicly criticised by shareholder activists (Kallis et al. 2018).

Companies such as Group Five, Net 1 UEPS and PPC experienced 'watershed moments' in 2018 as shareholders took decisive (and public) steps to replace directors (Malaka 2018). Although more public shareholder activism is taking place in SA, most local institutional investors prefer informal private negotiations, insisting that it is more conducive to cooperation than public confrontations (Yamahaki & Frynas 2016).

Given the confidential nature of these discussions, it is difficult to determine the true extent to which managers are held accountable for poor financial and ESG performance. As a result, small shareholders and other stakeholders are increasingly calling on institutional investors to disclose details of their private engagements (Goranova et al. 2017). Although transparency could enhance legitimacy (Fernandez-Feijoo, Romero & Ruiz Blanco 2013), it could also result in free-riding (Dimson, Karakas & Li 2018).

Possible reasons for asset managers to become Principles for Responsible Investment signatories

Like any other business, asset managers compete for clients. The absence of relevant information, for example, the transparency reports examined in this study, may hinder the ability of clients to distinguish between asset managers committed to ESG screening and those not, which in turn, may result in the suboptimal allocation of clients' savings as a scarce resource.

DiMaggio and Powell (1983) identified three mechanisms that may be used to explain asset managers' behaviour: coercive isomorphism, normative isomorphism and mimetic isomorphism (also known as the followers' effect). Where coercive isomorphism is based on the premise of external pressure, normative isomorphism highlights the establishment of standards by professional organisations. Asset managers may experience some pressure to become PRI signatories, given governance codes and integrated reporting standards in SA, further endorsed by the JSE-listed requirements.

A recent ESG policy statement by the Chartered Financial Analyst (CFA) Institute (2021) and the launch of their new Certificate in ESG Investing underscore the importance of considering ESG issues. As most fund managers at asset management firms pursue the CFA designation, normative isomorphism may therefore also contribute to explaining the behaviour of firms. Finally, mimetic isomorphism refers to the situation where companies in a specific industry base their behaviour upon their peers.

Besides isomorphism, several other reasons may explain the decision of asset managers to follow peers in becoming PRI signatories, for example, to enhance their legitimacy, to increase transparency, and to decrease uncertainty. According to the legitimacy theory, companies can use reporting to seek societal expectations and display conformity to a societal value system (Dowling & Pfeffer, 1975). For this study, it is however important to distinguish between substantive and symbolic legitimacy. Where quality reporters represent substantive legitimacy, window dressing, greenwashing or 'tix boxing' is often associated with symbolic legitimacy (Van der Lugt & Mans-Kemp 2022).

Besides, legitimacy efficiency considerations should also be considered when considering the importance of disclosure to stakeholders (Van der Lugt & Mans-Kemp 2022). Disclosures made by asset managers as PRI signatories can arguably contribute to an improvement of market efficiency through the availability of information. Reporting standards (like PRI) foster transparency (IRIS CARBON 2023) which is paramount to building trust, ensuring the efficient allocation of scarce resources, and to avoid market failure.

Apart from the economic and reputational benefits, the PRI can provide signatories with access to global best practices regarding responsible investments (Sievänen et al. 2013). Teti, Dell'Acqua and Zocchi (2012) showed that a higher commitment to RI, expressed through adherence to the PRI initiative, could result in cash inflows and better returns for clients. Exposure to international best practices regarding ESG policies, the positive connotation of being part of a global network, and the enhancement of investment policies are additional benefits to joining the initiative (Teti et al. 2012). Sound reporting on RI practices could furthermore illustrate 'points of difference' among competing asset managers (Kotler & Kelly 2016). Effective branding efforts could sway clients who are increasingly focussing on responsible asset ownership. According to Boffo and Patalano (2020), the most important reason professional investors consider ESG-related information is to gauge whether a company is adequately managing risks and aligning its strategy for long-term returns.

One of the major recent trends in global asset management is the shift to low-cost passive investment (Deloitte 2019). In the United States (US), 16 of the top 20 funds by net inflows during the first half of 2018 were passive mutual funds and exchange-traded funds (Conrad & Shilling 2018). The introduction of zero-cost exchange-traded funds could enhance this trend even further. For active asset managers, this trend means that there is an added burden to prove the value they offer. Doing so is more challenging if the active manager has a poor track record. According to the S&P Indices Versus Active (SPIVA) Scorecard, most active managers in the US and Europe (82% and 80%, respectively) failed to outperform their benchmark indexes over the 5 years ending 2018 (SPDJI 2018).

A focus on RI in general and active ownership can play an important role in convincing current and potential clients of the value active asset managers add. It is very difficult for active asset managers to compete on fees alone (Hill 2019). With the rise of low-cost passive investment strategies, the increased pressure on active managers can result in a race to zero fees. Without a clear and present competitive advantage, the standard business model for active asset management is under threat. A sustainable solution might be to compete as differentiators rather than cost leaders. In marketing, a differentiator refers to an industry participant who actively distinguishes its products and/or services from competitors (Porter 1980). By actively positioning themselves as responsible investors, asset managers could potentially differentiate themselves from their peers and attract clients who seek specialist ESG services.

One way of achieving this differentiation is by becoming a PRI signatory and ensuring that current and prospective clients are aware of this commitment. Disclosing ongoing compliance with the PRI's six principles is another important element of corporate communication. It could strengthen one specific element of the asset manager's brand key model, namely providing clients with reasons to believe in their brand (EIBM 2011). Serious reputational damage could, however, be suffered if it appears that RI claims are only a public relations, tick-box or 'window dressing' exercise. This risk can be avoided by ensuring reporting is done transparently and honestly, to reflect a true commitment to the PRI principles.

Sound reporting on engagement objectives, criteria, processes and outcomes could enable signatories of all sizes to better differentiate themselves as responsible investors. By demonstrating active ownership, they could attract many clients who value active ownership. Although there are several possible reasons for asset managers to become PRI signatories, the benefits for stakeholders (including shareholders) are inconclusive. Although investors value sustainability with investment decisions (and increasingly demand asset managers to consider ESG factors as discussed above) no evidence exists that high-sustainability funds outperform low-sustainability funds (Hartzmark & Sussman 2019).

There is also evidence that companies publicly embrace ESG as a cover for poor performance (Bhagat 2022). Flugum and Southern (2023) report results that suggest that when companies fail to meet earnings expectations, they publicly talk about their focus on ESG. If they, however, exceed earnings expectations, few if any public statements relate to ESG. A study by Gibson et al. (2002) found no improvement in the ESG scores of companies held by PRI signatories after their signing.

Research design

Research approach and strategy

This student employed content analysis to achieve the primary research objective of the study, which was to provide insight into the information provided about the formal engagement policies and practices of local PRI asset manager signatories, to determine if asset managers could assume that all PRI signatories are engaged in active ownership and ESG screening. Asset owners and service providers were excluded as the number of signatories in these two categories was too small to draw meaningful inferences. The research was guided by the following three research questions:

1. Do asset managers explain whether, and to what extent, they engage with investee companies on ESG considerations?
2. Do asset managers disclose whether they actively monitor the outcomes of their engagements with investee companies?
3. Is there a relationship between asset managers' size and the quality of disclosures?

Research method

The primary data were sourced from the PRI signatories' transparency reports in the form of completed questionnaires, available on the PRI website for the period 2016–2020. The population comprised all the South African signatories who completed the transparency reports. Given that the focus of the study was on shareholder activism, only one section of the PRI signatories' transparency reports was analysed, namely the direct-listed equity active ownership section. This section of the PRI transparency report consists of two sub-sections, namely *engagement* and *proxy voting and shareholder resolutions*. In each sub-section, signatories need to answer questions related to policies, processes, outputs and communication with stakeholders. Some questions in the 2018 PRI transparency reports were omitted to shorten the questionnaire. Further changes to the format of the transparency reports were made in 2019, resulting in further questions omitted from the 2019 and 2020 transparency reports. Some questions were voluntary. The final sample for the study comprised 118 reports, as shown in Table 1. As discussed earlier, this employed content analysis as the research method. More specifically, Quinlan et al. (2019) define content analysis as a research method used to analyse the content of text. Text can be documents, interviews, websites, etc., but for the purpose of this study, text was defined as the PRI reports.

Data in 118 reports were manually captured in an Excel spreadsheet. A score of one (1) was awarded if a specific question was answered (information therefore disclosed) and zero (0) if the question was not answered with no information disclosed. Descriptive statistics were then used to evaluate the data. Table 2, Table 3 and Table 4 were developed by including elements that answered the set research questions.

TABLE 1: Population and sample.

Variable	2016	2017	2018	2019	2020
Number of South African asset manager signatories	35	36	36	43	48
Number of signatories that completed the direct-listed equity active ownership section of the report	21	21	19	27	30

To get a sense of the relationship between asset manager size (as measured by AUM) and the quality of engagement reporting, an RDS was computed for each signatory. The RDS represents a weighted contribution from seven of the PRI sub-sections related to activism policies, processes, outputs and communication with stakeholders. The specific PRI sub-sections used in the calculation are set out in Box 1. For example, if an asset manager had a formal engagement policy, they would get a score of 1 for the section and 0 otherwise. Some sub-sections were not coded with dummy variables but rather indicated the extent to which a respondent disclosed information in that category. For example, the engagement policy detail could include up to seven points ranging from conflicts of interest to governance factors. The weighting was structured to allow for an equal contribution from each sub-section. The RDS was calculated using the following equation:

$$RDS = \Sigma\, w_i P_i \qquad \text{[Eqn 1]}$$

where:
w_i = weight of category *i*, which is determined by the inverse of the maximum points available in that category.
P_i = the score allocated to the reporting entity for category *i*.

A high RDS score relative to peers would indicate the presence of shareholder activism policies and also a higher level of engagement. Data on AUM were sourced from the Alexander Forbes Manager Watch Annual Survey 2020 (AF 2020). Thereafter, the relative rank of each asset manager was calculated, first based on AUM and then based on the RDS as well. The Spearman rank correlation between AUM and RDS was then calculated by using the following equation:

TABLE 2: Reasons for interacting with investee companies on environmental, social, and governance issues.

Reasons	2016		2017		2018		2019		2020	
	N	%	*N*	%	*N*	%	*N*	%	*N*	%
Internal staff engagements										
To influence (or identify the need to influence) corporate practice ESG issues	18	85.7	17	81.0	17	89.5	23	85.2	26	86.7
To encourage improved ESG disclosure	17	81.0	16	76.2	16	84.2	23	85.2	26	86.7
Other†	3	14.3	3	14.3	3	15.8	20	74.1	25	83.3
We do not engage via internal staff	0	0.0	1	4.8	1	5.3	1	3.7	0	0.0
Collaborative engagements‡										
To influence (or identify the need to influence) corporate practice ESG issues	14	66.7	10	47.6	13	68.4	19	70.4	23	76.5
To encourage improved ESG disclosure	11	52.4	4	19.0	11	59.9	17	63.0	22	73.3
Other§	3	14.3	4	19.0	3	15.8	13	48.1	14	46.7
We do not engage via collaborative engagements	3	14.3	5	23.8	5	26.3	4	14.8	2	6.7
Service provider engagements¶										
To influence (or identify the need to influence) corporate practice ESG issues	5	23.8	5	23.8	4	21.1	3	11.1	5	16.7
To encourage improved ESG disclosure	3	14.3	3	14.3	3	15.8	5	18.5	6	20.0
Other	1	4.8	1	4.8	1	5.3	3	11.1	7	23.3
We do not engage via service providers	12	57.1	12	57.1	12	63.2	20	74.1	21	70.0

ESG, environmental, social and governance.

†, To benefit society; ‡, Collaborative engagements occur when institutional investors work as a group and draw on the perspectives and expertise of a range of organisations to develop a clear shared understanding of the issue or issues, build an authoritative business case for action and formulate a clear view of the desired corporate response (PRI 2019b); §, To engage in industry regulations; ¶, Service provider engagements refer to interactions between the service provider and current or potential investees (which may be companies, governments, municipalities, etc.) on ESG issues on behalf of investor clients (PRI 2019c).

TABLE 3: The criteria used to identify and prioritise engagement activities carried out by internal staff.

Criteria	2016		2017		2018		2019		2020	
	N	%	*N*	%	*N*	%	*N*	%	*N*	%
The materiality of ESG factors	10	47.6	10	47.6	10	52.6	17	63.0	20	66.7
Exposure (holdings)	9	42.9	7	33.3	8	42.1	11	40.7	15	50.0
In reaction to ESG impacts which has already taken place	7	33.3	8	38.1	8	42.1	11	40.7	13	43.3
Systemic risks to global portfolios	4	19.0	4	19.0	4	21.1	0	0	0	0
The geography and/or market of the companies targeted	4	19.0	2	9.5	3	15.8	5	18.5	5	16.7
As a response to divestment pressure	1	4.8	3	14.3	3	15.8	5	18.5	7	23.3

ESG, environmental, social, and governance.

TABLE 4: Specific engagement objectives.

Objectives	2016		2017		2018		2019		2020	
	N	%	*N*	%	*N*	%	*N*	%	*N*	%
Yes, for *all* engagement activities	8	38.1	9	42.9	9	47.4	4	14.8	4	13.3
Yes, for the *majority* of engagement activities	7	33.3	5	23.8	6	31.6	3	11.1	3	10.0
Yes, for a *minority* of engagement activities	1	4.8	1	4.8	1	5.3	0	0.0	0	0
No	5	23.8	6	28.6	3	15.8	20	74.1	23	76.7
Total	**21**	**100**	**21**	**100**	**19**	**100**	**27**	**100**	**30**	**100**

BOX 1: Principles for Responsible Investment sub-sections used for the relative disclosure score calculation.

Engagement policy
Engagement policy detail
Internal staff engagements
Whether the organisation has a formal process for identifying and prioritising engagement activities carried out by internal staff
Whether organisations define specific objectives for engagement activities
Whether an organisation monitors the actions that companies take following engagements
Whether insights gained from systematic staff engagements are shared with investment managers as input for consideration in investment decisions.

$$\rho_{R(X),R(Y)} = \frac{cov(R(X),R(Y))}{\sigma_{R(X)}\sigma_{R(Y)}} \quad \text{[Eqn 2]}$$

where:
$cov(R(X), R(Y))$ is the covariance of the rank variables,
$\sigma_{R(X)}$ and $\sigma_{R(Y)}$ are the standard deviations of the rank variables.

The Spearman correlation will be high when observations have a similar rank between the two variables, and low if the ranks are dissimilar (Myers & Well 2003).

Findings and discussion

Research question one: Disclosure of engagement strategies

The findings revealed that several signatories did not have engagement strategies formalised into policies (42.86% in 2016, 38.10% in 2017, 42.11% in 2018, 29.63% in 2019 and 16.67% in 2020). A possible explanation could be that many signatories do not have separate engagement policies, but that their approach could be included under their broader RI, sustainability, or stewardship policies. The sharp decrease in signatories who have a formal engagement policy (from 2018 to 2019) may be explained by the strong increase in signatories from 2018 to 2019 (as shown in Table 1), coupled with the PRI grace period for new signatories.

Table 5 provides details on the elements covered in the signatories' formal engagement policies.

As SA has a very well-developed corporate governance framework (Vaughn & Verstegen Ryan 2006), it came as no surprise that governance considerations featured prominently in the asset managers' formal engagement policies. Giamporcaro and Pretorius (2012) noted that local responsible investors lagged behind their international counterparts in incorporating environmental criteria into investment decisions and ownership practices. It is thus encouraging to note that environmental factors received more attention over the research period. This can potentially be attributed to a greater awareness among signatories of the risks posed by climate change.

Social considerations and transparency of corporate reporting (among investee companies) also featured prominently. Unfortunately, scant details were divulged on specific topics that were raised with investee companies. This finding is disconcerting but could be because of a desire among asset managers to protect their competitive advantages. Transformation was pertinently mentioned in some policies, whilst other signatories cited conflict management. Table 2 outlines the reasons why the PRI asset manager signatories engaged investee companies over the research period. The findings are presented according to the types of engagements that occurred.

Although most of the engagements were conducted with internal staff (i.e. the engagement is carried out by an employee of the reporting organisation), some of the asset managers collaborated with their peers and service providers. By speaking to investee companies with a unified voice, signatories can more effectively convey their concerns to investee companies (Dimson et al. 2018; MacLeod & Park 2011). Across all three types of engagement, the desire to influence investee companies' ESG practices was the most important driver. One asset manager stated that they engaged

TABLE 5: Elements covered in formal engagement policies.

Elements	2016		2017		2018		2019		2020	
	N	%	*N*	%	*N*	%	*N*	%	*N*	%
Governance factors	10	83.3	10	76.9	10	90.9	16	84.2	24	96.0
Environmental factors	10	83.3	11	84.6	9	81.8	16	84.2	24	96.0
Conflicts of interest	9	75.0	9	69.2	7	63.6	15	78.9	22	88.0
Social factors	9	75.0	9	69.2	9	81.8	16	84.2	24	96.0
Transparency	8	66.7	7	53.8	6	54.5	10	52.6	16	64.0
Prioritisation of engagements	6	50.0	6	46.2	4	36.4	9	47.4	17	68.0

in 'any matters affecting the long-term sustainability of companies and their business worth'. Just over two-thirds of the asset managers (70.0%) had a formal process for identifying and prioritising engagement activities carried out by internal staff in 2020 (compared to 66.7% in 2016). More details on the criteria they used in the process are set out in Table 3.

As expected, the most important criterion used to identify and prioritise engagement activities related to the materiality of ESG factors. Materiality in an investment context refers to factors that have both investor interest and financial impact (Khan, Serafeim & Yoon 2016). One asset manager stated that they engaged when there was a clear indication that such engagement 'could add shareholder value'. Other asset managers said that they engaged when formulating voting decisions.

Signatories also had to indicate whether they had specific objectives for their engagement activities. As illustrated in Table 4, a fairly large number had no objectives for their engagement activities. This could potentially be attributed to resource constraints experienced by some asset managers.

As indicated earlier, some questions were omitted from, for example, the engagement objective section of the 2018 PRI questionnaire. One such question centred on the extent to which asset managers disclosed information on their engagements during a reporting year. In 2016 and 2017, most respondents only disclosed details to clients and/or beneficiaries (11/22 and 12/22 respectively). Only four asset managers disclosed some engagement information.

Information that was disclosed in the analysed PRI transparency reports included details of the selection of targets, engagement priorities and goals, the number of engagements undertaken, engagements by type/topic and region, and an assessment of the status of the engagement and/or outcomes that have been achieved. In 2018, all 19 of the PRI asset manager signatories had formal voting policies. Unfortunately, the question about the presence of a formal voting policy was excluded from the PRI questionnaire at the end of 2018 and is thus not further discussed.

Research question two: Disclosure of post-engagement activities

To ensure that engagements are effective, asset managers should follow up on the requests they made. Although more than half of the asset managers (61.90%) have followed up in *all* cases in 2016, it is disheartening that this percentage decreased to merely 10% in 2020. This decrease is however a direct result of the increase in asset managers not disclosing their post-engagement activities by not answering the question – from 14.29% in 2016 to 90% in 2020.

Some of the smaller asset managers did not follow up, most likely because of limited resources and capacity constraints. The lack of formal policies amongst smaller asset managers does not necessarily indicate that they are less active as compared to their larger counterparts. As shown in Table 6, less than half of the asset managers annually reported that they set milestones and goals for the engagement activities carried out by internal staff.

The authors think that there is much room for improvement, especially if reporting is seen as a proxy for what these managers are doing in terms of active ownership. Given the nature of the reports, it is likely that the reports are a fair reflection of what is happening in the market. Reviewing milestones and goals is critical as legal, business, and technological environments change constantly.

Research question three: Assets under management and the quality of disclosures

Using the AUM and RDS data, ranks for each metric were computed. Table 7 displays the AUM and RDS data for each signatory along with their respective ranks.

It was not only large asset managers that had high RDS scores; the highest-ranking asset manager had an AUM of less than USD1 billion in 2020. The three largest asset managers were in the top 10 in terms of RDS, which was in line with expectations. More specifically, a statistically significant positive relationship (Spearman rank correlation coefficient of 0.57) at the 1% level was found between AUM and the RDS ranks. The resource-based view (Wernerfelt 1984) of the firm does seem to hold in this case as large managers did report more extensively on their active management compared to their smaller counterparts. It may further simply be more affordable for larger asset managers to prioritise shareholder engagement and compliance with the PRI reporting requirements.

It seems that there are only a few smaller asset managers who have actively tried to position themselves as responsible investors. These small asset managers not only implement active ownership policies, but also disclosed their engagements thoroughly.

TABLE 6: Actions are undertaken to monitor and evaluate the progress of engagement activities.

Actions	2016		2017		2018		2019		2020	
	N	%	*N*	%	*N*	%	*N*	%	*N*	%
Defining timelines for milestones and goals	8	38.1	9	42.9	11	57.9	1	3.7	1	3.3
Tracking and monitoring progress against defined milestones and goal	9	42.9	8	38.1	11	57.9	1	3.7	1	3.3
Establishing a process for when the goals are not met	8	38.1	8	38.1	11	57.9	1	3.7	1	3.3
Revisiting goals continuously (and revising if necessary)	8	38.1	8	38.1	13	68.4	1	3.7	1	3.3
Other	1	4.8	0	0.0	1	5.3	1	3.7	1	3.3

TABLE 7: Assets under Management and relative disclosure scores.

Anonymised Name of signatory	AUM USD million†	AUM rank	RDS‡	RDS rank
Company A	145 187 348 453	1	1.12	9
Company B	38 872 317 383	2	1.45	2
Company C	37 120 674 517	3	1.31	4
Company D	35 356 298 801	4	0.98	12
Company E	24 322 798 403	5	0.97	13
Company F	20 282 937 317	6	1.34	3
Company G	17 042 787 847	7	1.12	7
Company H	13 251 044 948	8	1.23	5
Company I	9 011 661 669	9	0.67	23
Company J	6 706 580 197	10	0.89	17
Company K	4 892 525 443	11	0.93	14
Company L	3 921 125 024	12	0.45	25
Company M	2 975 061 018	13	0.89	16
Company N	2 695 333 971	14	0.83	18
Company O	2 677 551 758	15	0.98	10
Company P	2 198 441 854	16	0.98	11
Company Q	2 186 326 613	17	1.17	6
Company R	1 769 782 124	18	0.80	19
Company S	1 582 299 328	19	0.71	22
Company T	1 537 121 173	20	0.79	20
Company U	970 016 784	21	0.22	28
Company V	919 769 688	22	0.89	15
Company W	777 281 739	23	1.56	1
Company X	697 588 006	24	0.67	24
Company Y	493 019 511	25	1.12	8
Company Z	477 190 413	26	0.37	27
Company AA	328 324 793	27	0.78	21
Company AB	305 976 716	28	0.15	29
Company AC	80 000 000	29	0.42	26

AUM, assets under management; RDS, relative disclosure score.

†, AUM data as at 30 June 2020 were sourced from the Alexander Forbes Manager Watch Annual Survey 2020; ‡, Based on 2020 disclosure data.

TABLE 8: Spearman rank correlation of Assets under Management and relative disclosure score.

Variable	2016	2017	2018	2019	2020
Correlation AUM vs RDS ranks	-0.18	-0.03	0.28	0.27	0.57
p value	0.43	0.90	0.24	0.18	0.00
Number of asset managers	21	21	19	27	29
Average RDS score	1.07	1.06	1.33	1.01	0.89

AUM, assets under management; RDS, relative disclosure score.

Table 8 shows the Spearman correlation between AUM and RDS ranks for different years from 2016 to 2020. The correlation increases over time, from -0.18 in 2016 to 0.57 in 2020. However, the only correlation that was statistically significant was the correlation in 2020. For preceding years, it seems that there was no relationship between the size of the asset manager in terms of AUM and the quality of disclosure. In 2020, the relationship was more pronounced, indicating that larger asset managers became more active in their disclosure efforts relative to smaller asset managers.

Conclusion and recommendations

The overarching research question of this study focused on the information available to asset owners, which would enable them to distinguish between asset managers who are committed to ESG screening and active engagement and those who are not. To answer this question, the information provided about the formal engagement policies and practices of local PRI asset manager signatories was investigated to determine if clients could assume that all PRI signatories are engaged in active ownership and ESG screening.

The authors investigated the nature and extent of local PRI asset manager signatory active ownership reporting over the period 2016–2020. The data analysis centred on the direct-listed equity active ownership sections of 118 PRI transparency reports. Not all asset manager signatories completed this section of the transparency report. The change in the format of the PRI report, more specifically the exclusion of specific questions, further impedes the authors' ability to compare results over the reporting years, specifically between 2018 and 2019. Vast differences were noted in the depth and breadth of reporting, and as expected, the size of the asset manager played an important role in the quality of reporting.

The authors think that asset managers in SA, who claim to be responsible investors by being PRI signatories, should report more details on their public and private shareholder activism endeavours. If done effectively, they could differentiate themselves from their peers. A competitive strategy that highlights 'points of difference' rather than 'points of parity' could enable these asset managers to attract a larger proportion of clients who are recognising the value of active ownership. A differentiation strategy based on active ownership will become more important as pressure to reduce asset management fees intensifies. Asset managers should ensure that public reporting accurately reflects their engagement activities and outcomes, given the potential reputational benefits. They are also encouraged to formulate clear(er) engagement policies, objectives and timelines. This recommendation is based on Winston Churchill's famous claim that 'failing to plan is planning to fail'. Engagements should be tracked through regular, substantive and detailed discussions. Finally, asset managers should realise that persistence is critical in promoting real change. Some changes, such as those related to climate change, only become visible in the long term. Additional research is needed to substantiate the business case and perceived benefits of being a PRI signatory.

As asset owners dictate the activities of their appointed asset managers, it is recommended that they recognise the value of active ownership and revise their mandates to influence asset managers in this regard. Asset owners and managers are encouraged to collaborate more with like-minded peers and service providers. It is recommended that they embrace a more active stance in terms of implementing and disclosing RI policies. Given the critical role that asset consultants play in driving investment agendas, it is suggested that they do more to highlight the benefits associated with active ownership. Consultants could also be instrumental in identifying opportunities for collaboration. The PRI should rethink the lack of penalties for non-compliance. Failure to do so might erode the branding value associated with being a signatory.

Areas for future research include an analysis of the structure of the South African market, specifically the presumed roles of asset owners and asset managers as it relates to decision-making regarding ESG matters. It is essential to ascertain the actual inclination of asset owners towards ESG issues, as assumed in this article. Additionally, a promising avenue for further investigation lies in evaluating the correlation between the quality of reporting in various sections of the PRI transparency report and the activism section scrutinised in this study. Exploring the effectiveness of cyclical engagements, such as annual dialogues, in assessing the impact and responsiveness of investee companies over time presents another valuable research opportunity. Lastly, given the constraints faced by smaller asset managers, an exploration of their capacity to engage collectively, potentially in international contexts facilitated by PRI, is a topic warranting deeper investigation, particularly in relation to South African conglomerates with global listings.

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Competing interests

The authors declare that they have no financial or personal relationship(s) that may have inappropriately influenced them in writing this article.

Authors' contributions

J.P.S. was the original author of the first draft of this article presented as a conference paper presented as work-in-progress: 2019 African Finance Association Conference. Elephant Hills Resort, Victoria Falls, Zimbabwe. 21-22 May 2019. Later versions of the article were substantially edited and additional research was added by G.F.N. and A.v.Z.

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Data availability

The data that support the findings of this study are available from the corresponding author, G.F.N. upon reasonable request.

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