

INVESTMENT PERSPECTIVES

Principles for Responsible Investment assessment:
WFAM's 2020 results

Key insights

In the Principles for Responsible Investment's (PRI's) annual assessment of environmental, social, and governance (ESG) integration, Wells Fargo Asset Management (WFAM) received:

- **A+, the highest score possible, in the “strategy and governance” category**
- **A score of A in five other categories.** WFAM exceeded the median in four of those categories and met the median in the fifth. We improved in the “listed equity—active ownership” category compared with the 2019 assessment due, we believe, to our significant efforts to strengthen our stewardship platform.

This strong and improved performance reinforces WFAM's commitment to ESG integration. Our efforts were strengthened even further in early 2020 when Nico Marais, WFAM's CEO, announced he would personally sponsor the firm's ESG and sustainable investing initiatives to expand our capabilities. PRI's assessment also highlighted opportunities where we can continue to enhance our ESG approach, such as in the selection and monitoring of external managers.



Himani Phadke

Sustainable Investing Strategist

Module*	2020		2019	2018	2017
	WFAM	Median	WellsCap**	WellsCap	WellsCap
Strategy & Governance	A+	A	A+	A+	B
Listed Equity – Incorporation	A	A	A	A	B
Listed Equity – Active Ownership	A	B	B	B	D
Fixed Income – SSA	A	B	B	A	B
Fixed Income – Corporate Financial	A	B	A	A	B
Fixed Income – Corporate Non-Financial	A	B	A	A	B
Indirect – Listed Equity Manager Selection, Appointment, and Monitoring***	E	A	N/A	N/A	N/A

Above the median
 In line with median
 Below the median

Source: PRI

*Six standardized performance bands are used to communicate performance at the module level: A+ (best), A, B, C, D, and E (worst).

** Wells Capital Management (WellsCap) is WFAM's registered investment adviser.

***Externally managed assets comprise about 1% of WFAM's total assets under management.

Introduction

At WFAM, we have built our philosophy, policies, and processes around delivering on client and community expectations in a responsible and sustainable way. We believe analysis of ESG risks, climate-related investment impacts, and awareness of wider sustainability themes enable us to better understand and assess the investments we make. Our investment teams integrate material ESG considerations into their investment processes in ways that are consistent with their asset classes and strategies.

We consider ESG issues and sustainability themes in our investment strategies and stewardship activities because we believe this contributes to our number one priority: generating positive investment outcomes for our clients.

By viewing ESG as an important element of investment performance, we're able to consider a broad range of relevant risk factors and generate returns as the market increasingly reacts while aligning our investment outlook and strategies to the new norms of a changing world.

Our main ESG incorporation and sustainable investing goals, aligned with WFAM's ESG policy and process, relate to the following:

- 1. Integrate material ESG and climate information to better evaluate issuer risk exposure and management and enhance portfolio risk management.**
- 2. Understand the systemic risks related to climate change and analyze the investment implications sector by sector through a unified process involving analysts, portfolio managers, and ESG experts from across the firm.**
- 3. Develop frameworks to help allocate capital to positive, impactful sustainability outcomes.**
- 4. Engage with investee companies and vote proxies in a manner that we believe will maximize long-term value.**

Our ESG and sustainable investing professionals work in partnership with investment teams and other core partners and resources to deliver a holistic, solutions-oriented approach for institutional asset owners and intermediaries across a wide range of asset classes and ESG approaches.

Key milestones in 2019–2020

- In 2020, we expanded WFAM's PRI signatory status beyond our registered investment adviser, WellsCap, to cover all of WFAM.¹ WellsCap has been a PRI signatory since 2015.
- Effective April 30, 2020, Chris McKnett and Hannah Skeates became co-heads of Sustainable Investing, and they report directly to Nico Marais.
- In April 2019, we launched our firm-wide engagement platform. It articulates WFAM's annual strategy: focusing on material environmental and social issues by industry and sector, prioritizing companies for engagement, and collaborating closely with our investment teams on a cross-asset-class basis.
- As part of our stewardship platform build-out, we're committed to more transparent, frequent reporting on proxy and engagement activity. In June 2020, we published the first [WFAM stewardship report](#), which covers activities in 2019.
- In the fourth quarter of 2019, we launched our proprietary ESG scoring framework (ESGiQ) for corporate issuers globally across investment-grade and high-yield credit. More information about ESGiQ can be found in this publication: "[Meet ESGiQ: WFAM's ESG Risk-Assessment Framework.](#)"

1. Wells Fargo Asset Management (WFAM) is the trade name for certain investment advisory/management firms owned by Wells Fargo & Company. These firms include but are not limited to Wells Capital Management Incorporated and Wells Fargo Funds Management, LLC. Associated with WFAM is Galliard Capital Management, Inc. (an investment advisor that is not part of the WFAM trade name/GIPS firm). Galliard Capital Management, Inc., is separately a signatory of the PRI.

- We've actively supported the efforts of our parent company, Wells Fargo & Company, to progress its corporate responsibility initiatives—including, most recently, the significant milestone of Wells Fargo's support for the recommendations provided by the Task Force on Climate-Related Financial Disclosures in November 2019.
- In 2019, WFAM's Climate Change Working Group (CCWG) developed the WFAM climate risk evaluation framework. This approach develops a comprehensive climate-aware outlook at the industry level, integrates this outlook with analyst views at the company level, and considers alternative cases via scenarios and stress tests that capture low-probability, high-severity outcomes that can't be forecasted easily.
- In August 2019, WFAM joined the Climate Action 100+ (CA100+). Along with more than 450 investors with more than \$40 trillion in assets collectively under management, WFAM is engaging companies on improving governance, curbing emissions, and strengthening climate-related financial disclosures.
- In 2019, we enhanced our custom proxy policy and procedures to reflect our top-of-house corporate governance views. In addition, we put procedures in place to bring more research and debate into our process.
- In 2019, the Sustainable Investing team and the Municipal Fixed Income team partnered to create an impact framework to assess for positive impacts in the universe of municipal fixed-income securities. The framework uses a [four-pillar approach](#) that assesses both the individual bond issue itself and the bond issuer.

PRI assessment

As a PRI signatory, we have committed to publicly reporting our progress toward implementing the six principles for responsible investment through the PRI's reporting framework. This framework assesses responses and evaluates them against a peer benchmark to provide an indication of progress and to support the ongoing efforts to enhance our approach to ESG integration.

Since first becoming a signatory in 2015, we've seen a marked improvement in the PRI's assessments of our progress. The continued improvement demonstrates our commitment to advancing ESG integration across our firm.

Our 2020 PRI reporting (covering activities for calendar-year 2019) reflects WFAM-wide ESG integration efforts for the first time. Overall, the PRI Assessment Report evaluated our performance across seven categories. For the first time, our assessment included the category of "Indirect-Listed Equity Manager Selection, Appointment, and Monitoring" because our expanded signatory status brought additional activities into scope. In the "future opportunities" section of this paper, we discuss our *E* grade on this module and our efforts to improve going forward.

Each category module contains specific indicators that are scored. The sum of these scores is used to provide the module-level score. Scoring on specific indicators is included later in this report.

Strengths

The improvements in our scores since WellsCap's first PRI assessment results in 2017 demonstrate the effectiveness of the efforts and resources we've dedicated to ESG integration.

In the 2020 assessment, we received a score of A in both the "Listed Equity–Active Ownership" and "Fixed Income–SSA" modules, compared with the B scores achieved for the same modules in 2019. These results reflect our significant efforts during 2019 to build and strengthen our firm-wide stewardship platform. In addition to our PRI Transparency Report, the [2019 WFAM Stewardship Report](#) provides details on our proxy voting and engagement activities.

The overall improvement in our "Fixed Income–SSA" module assessment was due to bettering our results for the indicator "processes to ensure analysis is robust" to the highest score possible. This improvement was for "Direct–Fixed Income" ESG integration across "SSA," "Corporate (Financial)," and "Corporate Non-Financial" issuers.

As mentioned earlier, we continued our strong performance on the "Strategy and Governance" module, scoring A+, and we scored A in five of the remaining six modules. We also achieved the highest available scores for a number of indicators within those modules.

Assessment module	Highest available score (three stars) in indicators counted toward the module score	Highlights and key improvements
Strategy and Governance	9 out of 10 indicators	We showed an improvement in the indicator on publicly available responsible investment (RI) policy or guidance documents.
Direct-Listed Equity-Incorporation*	5 out of 7 indicators	<p>We continued our strong performance on:</p> <ul style="list-style-type: none"> • Implementation processes, including the type of ESG information used in investment decisions • Actual integration, including the aspects of analysis that ESG information is integrated into and the review of ESG issues while researching companies/sectors
Direct-Listed Equity-Active Ownership**	16 out of 27 indicators	<p>In our individual engagements, we showed improvement compared with the previous year's assessment in:</p> <ul style="list-style-type: none"> • Our process for identifying and prioritizing engagement activities • Monitoring and review of engagement outcomes • Sharing insights from engagements with internal managers <p>We continued to show strength in the number of companies engaged with and the intensity of engagement and effort.</p> <p>In our proxy voting activities, we improved compared with the previous year's assessment on our voting policy, and we continued to show strength in the percentage of proxy votes cast and voting instructions issued.</p>
Direct-Fixed Income SSA	5 out of 9 indicators	<p>Our score improved for "processes to ensure analysis is robust."</p> <p>We showed strength in:</p> <ul style="list-style-type: none"> • Implementation processes, including in ESG issues and issuer research • Integration of ESG information in investment processes
Direct-Fixed Income Corporate (Financial)	8 out of 12 indicators	<p>As with fixed-income SSA, our score on "processes to ensure analysis is robust" improved, and we showed strength overall in implementation processes.</p> <p>Additional areas of strength included integration of ESG information in investment processes and our engagement method.</p>
Direct-Fixed Income Corporate (Non-Financial)	8 out of 12 indicators	Our progress and areas of strength in this module mirrored our Direct-Fixed Income Corporate (Financial) module.

*Score was based on integration activities (our primary incorporation approach), not on screening activities.

**Score was based on both individual and collaborative engagements for the engagement band and the proxy voting band.

Overall, **we met or exceeded the median score** on indicators relating to (among others):

- Our Responsible Investment Policy
- ESG objective and strategies
- Types of ESG information used in investment decisions
- Aspects of analysis that ESG information is integrated into
- Our prioritization and monitoring processes for engagement activities
- The processes we have in place to ensure robust analyses
- Disclosure of our approach to clients, beneficiaries, and the public
- Collaborating with organizations and initiatives around ESG topics

We've demonstrated consistent strength relative to peers in wide-ranging aspects of ESG integration. Through our sustainable investing efforts, we continue to seek opportunities for further improvement and refinement of our approach and to be an investor of choice for our clients.

Future opportunities

Our expanded signatory status—covering all of WFAM's activities in our 2020 PRI reporting—provides an opportunity to ensure ESG integration is part of every aspect of our business. Comparing our performance relative to peers also provides useful insights into where we can improve our ESG integration practices to show thought leadership in sustainable investing and improve investment outcomes for our clients.

ESG integration in external manager selection, appointment, and monitoring

We've been focusing our sustainable investing initiatives and resources on increasing the sophistication of ESG integration across all of our internal investment teams, which account for the vast majority of our AUM. In 2019, a limited set of external managers oversaw about 1% of WFAM's AUM, and ESG was not incorporated explicitly into the selection or monitoring processes for external managers. This absence of ESG incorporation automatically resulted in an **E** grade for the external manager selection, appointment, and monitoring module of the PRI report.

The year 2020 marked the first time this module was relevant for our PRI reporting due to our expansion of WFAM's PRI signatory status beyond our registered investment adviser, WellsCap, to cover all of WFAM. The expanded signatory status and the **E** grade on external manager selection and monitoring highlight the need for us to consider the relevance of ESG in every aspect of our business, including the use of external managers. WFAM is assessing how to incorporate ESG considerations in selecting and monitoring external managers, with the intent to improve our practices. We hope this will be reflected in next year's PRI assessment.

Client communication

While we scored in line with the median on indicators related to the disclosure of our approach to the public and clients or beneficiaries, we're committed to expanding and enhancing our ESG, climate, and stewardship reporting capabilities. We have initiatives underway—the Sustainable Investing team is working closely with our independent investment teams and our Investment Analytics team to standardize our ESG reporting and make it more widely available to clients.

For example, as part of our commitment to more transparent, frequent reporting on proxy and engagement activity, we published WFAM's first stewardship report in June 2020.

The report includes:

- An overview of the stewardship activities WFAM has undertaken on behalf of clients
- A detailed look at themes that informed some of our intensive engagements with companies in 2019, many of which remain works in progress
- Information about WFAM's proxy voting recommendations and the steps we've taken to promote global best practices

Sovereign and sub-sovereign ESG assessments

We continue enhancing our approach to more systematically assess ESG risks and opportunities in sovereign and sub-sovereign fixed income. We're developing an extension of our ESGiQ scoring framework to cover sovereign ESG risk, drawing from various data sources and considering a range of ESG factors. In the municipal fixed-income market, ESG issues are considered as part of the fundamental research process through proprietary, sector-specific ESG materiality assessments. We're also continuing to apply our impact framework to assess for positive impacts in the universe of municipal fixed-income securities.

Climate change risks and opportunities analysis

Our CCWG was created in late 2018. Through the CCWG, we continue to refine our climate change approach and advance research in this area. The CCWG has developed a proprietary transition framework that explicitly addresses corporate strategy, governance, and decarbonization targets for the intermediate and long term. The transition framework is designed to identify firms best prepared to lead the low carbon transition as well as those that are unprepared and may perhaps obstruct energy transition. This allows us to consider firms' alignment with the Paris Agreement and other industry compacts. At the same time, by using the transition framework, our analysts can evaluate the "transition readiness" of a firm's assets position, operating expertise, stakeholder relations strategies, and financial position.

We provided an introduction to the CCWG and its strategy in the November 2019 paper titled "[Risks of a Changing Climate](#)." We're currently publishing a series of papers in which we evaluate climate change's implications for specific sectors. The first article in the series, published in December 2019, focused on global autos and is titled "[Changing Climate, Changing Analysis: Focus on Global Autos](#)." This was followed by our in-depth look at global utilities in May 2020, titled "[Resilience: Global Utilities in the Time of Coronavirus, Oil Crisis, and Climate Change](#)," and at integrated energy companies in September 2020, titled "[The aspirational investment case for integrated energy](#)." Additional analyses are underway on insurance and other sectors. We continue to build out our analytical capabilities on the topic of climate change and related scenario analyses, including onboarding relevant data vendor offerings.

Summary

Through PRI's assessment of our ESG integration efforts, we've demonstrated not only improvement in our practices over time but also our favorable performance in this area relative to peers. Our sustainable investing initiatives in 2019 laid the foundation for advancing ESG best practices further within our firm and across the industry.

Appendix: 2020 PRI Assessment Report results

For more details on methodology, see the following reports:

- [PRI assessment methodology](#)
- [WFAM transparency report](#)

Notes:

- The PRI Reporting Framework is composed of distinct modules that signatories complete based on the asset classes and investment approaches relevant to their firms.
- Only closed-end indicators are assessed. Six standardized performance bands are used to communicate signatories' performance at the module level: A+ (best), A, B, C, D, and E (worst).

Legend

Where we were more than one scored range away from the median

Where we scored in line with the median

Where we were within one scored range from the median

★★★ 3 stars ★★☆ 2 stars ★☆☆ 1 star ☆☆☆ 0 stars

1. Strategy and governance	Our score	Median score
Responsible Investment (RI) policy and coverage	★★★	★★★
Publicly available RI policy or guidance documents	★★★	★★☆
Conflicts of interest	★★★	★★★
RI goals and objectives	★★★	★★★
RI roles and responsibilities	★★★	★★★
RI in performance management & rewards	★★★	★★★
RI in personal development/training	☆☆☆	★★★
Collaborative organizations/initiatives	★★★	★★☆
Promoting RI independently	★★★	★★★
Dialogue with public policymakers or standard setters	☆☆☆	★★★
Investment risks and opportunity	★★★	★★★
Assurance, verification, or review	★★☆	★★☆

10. Listed equity-incorporation	Our score	Median score
Screening*		
Type of ESG information used in investment decision	★★★	★★★
Information from engagement and/or voting used in investment decision-making	★★★	★★★
Processes to ensure screening is based on robust analysis	★★★	★★★
Processes to ensure fund criteria are not breached	★★★	★★☆
Disclosure of approach to public	★★☆	★★☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆

Integration		
Type of ESG information used in investment decision	★★★	★★★
Information from engagement and/or voting used in investment decision-making	★★★	★★★
Review ESG issues while researching companies/sectors	★★★	★★★
Processes to ensure integration is based on robust analysis	★★★	★★★
Aspects of analysis ESG information is integrated into	★★★	★★★
Disclosure of approach to public	★★☆	★★☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆

*Screening is applied to a small percentage of our active listed equity (approximately 10%). As such, our overall score for listed equity–incorporation is based on integration, not on screening.

11. Listed equity–active ownership	Our score	Median score
Individual engagements		
Description of approach to engagement	★★★	★★★
Process for identifying and prioritizing engagement activities	★★★	★★★
Objectives for engagement activities	★☆☆	★★☆
Monitor/review engagement outcomes	★★★	★★★
Escalation strategy	☆☆☆	★★★
Share insights from engagements with internal/external managers	★★★	★★☆
Number of companies engaged with, intensity of engagement and effort	★★★	★★☆
Engagement methods	★☆☆	★★☆
Disclosure of approach to public	★★☆	☆☆☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆
Collaborative engagements		
Description of approach to engagement	★★★	★★★
Process for identifying and prioritizing engagement activities	★★★	★★★
Objectives for engagement activities	★★★	★★☆
Monitor/review engagement outcomes	★★★	★★☆
Escalation strategy	☆☆☆	★★★
Share insights from engagements with internal/external managers	★★★	★★☆
Number of companies engaged with, intensity of engagement and effort	★★★	★★★
Engagement methods	★☆☆	★★☆
Disclosure of approach to public	★★☆	☆☆☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆

Proxy voting		
Voting policy	★★★	★★★
Reviewing service provider voting recommendations	N/A	☆☆☆
Securities lending program	☆☆☆	☆☆☆
Informing companies of the rationale of abstaining/voting against management	☆☆☆	☆☆☆
Percentage of (proxy) votes cast	★★★	★★★
Voting instructions issued	★★★	★★★
Escalation strategy	☆☆☆	☆☆☆
Disclosure of approach to public	☆☆☆	☆☆☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆

12. Fixed income–SSA	Our score	Median score
ESG issues and issuer research (a)	★★★	★★★
ESG issues and issuer research (b)	★★★	★★★
Processes to ensure analysis is robust	★★★	★★☆
Examples of ESG factors in screening process	☆☆☆	☆☆☆
Negative screening: ensuring criteria are met	★★★	★★☆
Positive screening: ensuring criteria are met	N/A	★★☆
Norms screening: ensuring criteria are met	N/A	★★☆
Thematic investing: themed bond processes	N/A	★★★
Thematic investing: assessing impact	N/A	★★☆
Integration: ESG information in investment processes	★★★	★★★
Integration: ESG issues reviewed	★★☆	★★★
Financial/ESG performance	☆☆☆	☆☆☆
Disclosure of approach to public	★★☆	★★☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆

13. Fixed income–corporate financial	Our score	Median score
ESG issues and issuer research (a)	★★★	★★★
ESG issues and issuer research (b)	★★★	★★★
Processes to ensure analysis is robust	★★★	★★☆
Examples of ESG factors in screening process	☆☆☆	★★☆
Negative screening: ensuring criteria are met	★★★	★★☆
Positive screening: ensuring criteria are met	N/A	★★☆
Norms screening: ensuring criteria are met	★★★	★★☆
Thematic investing: themed bond processes	N/A	★★★
Thematic investing: assessing impact	N/A	★★☆
Integration: ESG information in investment processes	★★★	★★★

Integration: ESG issues reviewed	★★★	★★★
Engagement overview and coverage	★☆☆	★☆☆
Engagement method	★★★	★★★
Engagement policy disclosure	☆☆☆	☆☆☆
Financial/ESG performance	☆☆☆	★☆☆
Disclosure of approach to public	★★☆	★★☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆

14. Fixed income—corporate non-financial	Our score	Median score
ESG issues and issuer research (a)	★★★	★★★
ESG issues and issuer research (b)	★★★	★★★
Processes to ensure analysis is robust	★★★	★★☆
Examples of ESG factors in screening process	★☆☆	★★★
Negative screening: ensuring criteria are met	★★★	★★☆
Positive screening: ensuring criteria are met	N/A	★★☆
Norms screening: ensuring criteria are met	★★★	★★☆
Thematic investing: themed bond processes	N/A	★★★
Thematic investing: assessing impact	N/A	★★☆
Integration: ESG information in investment processes	★★★	★★★
Integration: ESG issues reviewed	★★★	★★★
Engagement overview and coverage	★☆☆	★☆☆
Engagement method	★★★	★★★
Engagement policy disclosure	☆☆☆	☆☆☆
Financial/ESG performance	☆☆☆	★☆☆
Disclosure of approach to public	★★☆	★★☆
Disclosure of approach to clients/beneficiaries	★★☆	★★☆

We want to help clients build for successful outcomes, defend portfolios against uncertainty, and create long-term financial well-being. To learn more, investment professionals can contact us:

- To reach our U.S.-based investment professionals, contact your existing client relations director, or contact us at WFAMInstitutional@wellsfargo.com.
- To reach our U.S.-based intermediary sales professionals, contact your dedicated regional director, or call us at 1-888-877-9275.
- To reach our U.S.-based retirement professionals, contact Nathaniel Miles, head of Retirement at Wells Fargo Asset Management, at nathaniel.s.miles@wellsfargo.com.
- To discuss sustainable investing solutions, contact Hannah Skeates or Christopher McKnett, co-heads of Sustainable Investing at Wells Fargo Asset Management, at hannah.skeates@wellsfargo.com or christopher.mcknett@wellsfargo.com.

The views expressed and any forward-looking statements are as of October 1, 2020, and are those of Himani Phadke, sustainable investing strategist, and/or Wells Fargo Asset Management. The information and statistics in this report have been obtained from sources we believe to be reliable but are not guaranteed by us to be accurate or complete. Any and all earnings, projections, and estimates assume certain conditions and industry developments, which are subject to change. The opinions stated are those of the author and are not intended to be used as investment advice. Discussions of individual securities, or the markets generally, or any Wells Fargo Fund are not intended as individual recommendations. The views and any forward-looking statements are subject to change at any time in response to changing circumstances in the market and are not intended to predict or guarantee the future performance of any individual security, market sector, or the markets generally. Wells Fargo Asset Management disclaims any obligation to publicly update or revise any views expressed or forward-looking statements.

All investing involves risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors, some of which may be unpredictable. Each asset class has its own risk and return characteristics.

Investing in environmental, social, and governance (ESG) carries the risk that, under certain market conditions, the investments may underperform products that invest in a broader array of investments. In addition, some ESG investments may be dependent on government tax incentives and subsidies and on political support for certain environmental technologies and companies. The ESG sector also may have challenges such as a limited number of issuers and liquidity in the market, including a robust secondary market. Investing primarily in responsible investments carries the risk that, under certain market conditions, an investment may underperform funds that do not use a responsible investment strategy.

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