Sustainable investing: A change in attitudes?

Abigail Williams explores whether the recent withdrawal of some large asset managers from the Climate Action 100+ initiative is part of a broader trend and, if so, what this could mean for pension schemes' sustainable investing agendas

Summary

- There has been a withdrawal of some major US asset managers from the Climate Action 100+ initiative.
- Some observers point to the importance of assessing whether asset managers' stewardship activities remain aligned with pension funds' own sustainability objectives – with more direct control over investment stewardship activities, or even a search for new managers, cited as valid options.
- Several observers point to continued support for initiatives like Climate Action 100+ as an effective tool to address climate change.

The recent withdrawal of major US asset managers from the flagship climate initiative Climate Action 100+ – the world's largest voluntary investor engagement initiative of its kind – is arguably a substantial setback to global investor engagement on climate change. But are these withdrawals part of a broader trend? And, if so, what does this climate-focus regression from asset managers mean for pension schemes' own sustainable investing goals?

Withdrawals

In February, J.P. Morgan Asset Management and State Street Global Advisors both left Climate Action 100+, the global investor coalition pushing companies to rein in climate-damaging emissions, while BlackRock said it has transferred its membership to its international arm, limiting its involvement.

According to *Reuters*, the decisions together remove nearly $14 trillion of total assets from efforts to coordinate Wall Street action on tackling climate change, and their withdrawal came after Climate Action 100+ asked signatories to take stronger action over laggards, such as to engage with policymakers and to publish details on their talks with companies towards the goal of getting them to lower emissions to zero on a net basis by 2050.

The changes, however, were "not consistent with our independent approach to proxy voting and portfolio company engagement," said State Street spokesperson, Randall Jensen, as reported by *Reuters*.

Meanwhile, *Reuters* stated that J.P. Morgan's fund arm said it had decided not to renew its membership of Climate Action 100+ after building up its own investment stewardship capabilities, and BlackRock said it is no longer a member of the Climate Action 100+, but rather has shifted its membership in it to BlackRock International.

"As BlackRock made clear when signing up as a member of Climate Action 100+ in 2020, at all times the firm maintains independence acting on behalf of clients, including in choosing which issuers to engage with, and how to vote proxies," the company said in a press release. It also said it would add a new engagement and proxy voting option to give clients a way to prioritise climate goals.

According to *Reuters*, BlackRock's move effectively removes $6.6 trillion, or two-thirds of its total assets, from the pool represented by Climate Action 100+.

Shortly after these asset managers' departures, Pimco also announced that it was leaving the initiative, followed closely by Invesco.

Commenting at the time of these exits, Climate Action 100+ stated: "We know that the political pressure some investors are facing in certain markets is pushing investors to carefully consider how to best manage climate risks in their portfolios.

"However, despite the challenging backdrop in some markets, the initiative has the backing and support from hundreds of investors globally, including asset owners and managers. Sixty new signatories with approximately $3 trillion in AUM have joined since the launch of phase two alone, thereby further highlighting the strong ongoing demand for investor-led climate action.

"Importantly, Climate Action 100+ is a voluntary initiative that investors are free to request to join or withdraw from at any time."

CLIMATE FUNDS

Concerns

According to Morningstar director of investment stewardship research, Lindsey Stewart, the pressure on US asset managers participating in collaborative climate initiatives has certainly increased over the past couple of years, as conservative state administrations have "sought to defend conventional energy businesses from what they perceive as a risk of reduced access to finance for major local industries".

"These parties claim that participation in initiatives like Climate Action 100+ are inconsistent with US fiduciary duty requirements and may raise anti-trust concerns.

"Although such claims aren't without contention – and there is evidence that Climate Action 100+ signatories have continued to take an independent approach to their engagement and proxy voting activities – it seems that several managers have felt continued participation is no longer worth the political risk," he says.

"At least for now, the trend seems to be confined to the US, but continued support in Europe cannot be taken for granted, as we currently see rising pushback against the impact of compliance with increasingly stringent sustainability regulation," he adds.

Elsewhere, UKSIF head of policy and regulatory affairs, Oscar Warwick Thompson, says it is "deeply concerning" to see that the 'politicisation' of environmental, social, and governance (ESG) investment considerations in the US is having "a material effect on the willingness of some US firms to talk publicly about their sustainable investment approaches, and in some cases pressuring firms to scale back their involvement in prominent investor-led climate initiatives".

"ESG analysis of investments and portfolios does not seek to forego financial returns, it offers an extended framework for risk analysis which encompasses the future viability of business models. It is a useful mitigation of the risks of economic short-termism," he says.

For Warwick Thompson, it is clear that climate and environmental factors are financially material considerations that should be taken into account by investors – a position that, in the UK, has been underlined by the Financial Markets Law Committee's (FMLC's) review of fiduciary duty for pension scheme trustees, published in February 2024.

"The FMLC paper has assisted in dispelling the misconception that climate and sustainability factors are not financially material. This review has delivered much-needed clarity in this area, but more is needed to provide reassurance and legal certainty to pension schemes," he says.

"The expectations set by asset owners will have a very important role to play. We would encourage asset owners to be clear and vocal in their expectations of their fund managers when it comes to considering climate risk and membership of collaborative investor-led initiatives such as Climate Action 100+, and encourage their managers to stay in the tent," he adds.

Indeed, in December last year, a number of pension providers, including Scottish Widows, London CIV, Merseyside Pension Fund, Environment Agency and Smart Pension, signed an open letter backing an "urgent call" for increased adoption of pass-through voting by asset managers.

In the letter, the coalition acknowledged that asset managers wield "significant influence" over how public companies are run, arguing that their actions impact corporate governance "profoundly".

However, it argued that "regrettably there has been continued evidence of a divergence between the voting behaviour of appointed asset managers, when compared with our investment principles and the expectations of our beneficiaries".

According to the letter, this disconnect was especially noticeable regarding ESG issues, where some asset managers are regressing rather than progressing on their expectations of portfolio companies.

"The continued anti-ESG rhetoric has now made it impossible for global asset managers to fairly represent the opposing views of their investors," the letter continued.

"Some asset managers have already taken steps to enable their investors to choose how they want to vote. More asset managers should offer flexibility, ensuring capital owned by investors is voted in accordance with their stated values."

Recent advances in technology have also made client-directed voting possible, the coalition pointed out, granting asset managers the ability to afford the same voting rights to clients across both segregated and non-segregated mandates.

In Stewart's view, although sustainability-conscious asset owners may be disappointed by the Climate Action 100+'s departures, it remains important to "assess whether their asset managers' stewardship activities remain aligned with their own sustainability objectives, whether or not

those managers have signed up to any particular initiative".

"If not, and if there's no sign of any change in approach, they will need to consider exercising more direct control over investment stewardship activities or perhaps even seeking new managers," he adds.

Long-term value

Phoenix Group (a Climate Action 100+ member) head of stewardship, Valeria Piani, believes that the consideration of climate risks in investment decisions is an intrinsic part of institutional investors' fiduciary duties towards clients and beneficiaries, "regardless of where they are positioned in the investment value chain". In her view, taking action to manage these risks is necessary to "preserve long-term value in the best interests of pensioners".

According to Piani, in this respect, collaborative initiatives, and Climate Action 100+ specifically, have demonstrated to be an effective tool to foster focused dialogue, provide and receive feedback, get corporate management attention and save companies' time to engage with shareholders and bondholders.

"Collaborations also allow for peer exchange, sharing of expertise, learning and best practice for investors – while expecting investors to act independently and comply with relevant information exchange laws," she says.

"Phoenix Group would always question the departure of asset managers from initiatives such as Climate Action 100+ if this indicates a decreased commitment to the decarbonisation of the economy that is very much needed to limit catastrophic transitional and physical costs," she adds.

Piana also points out that Phoenix has set out clear expectations of its asset management partners and selects, monitors and appoints them "following a tailored ESG assessment process, which covers the consideration of climate risks and opportunities in integration, engagement and voting activities in addition to investors' participation in industry initiatives and collaborative engagements".

"We also encourage our asset owner peers to set their clear expectations to support this important initiative, which builds its success on scale and professional knowledge," she says.

Meanwhile, the National Employment Saving Trust (Nest) senior responsible investment manager, Katharina Lindmeier, observes that climate change is one of the biggest risks facing Nest members, particularly because it impacts "not just their way of life but also the amount in their pension pot".

"It remains important to assess whether *[pension schemes']* asset managers' stewardship activities remain aligned with their own sustainability objectives"

"It's a systemic risk that investors need to be proactively managing," she says.

In recognition of these risks, Lindmeier observes that everyone has a role to play in tackling climate change and confirms that Nest regularly speaks with its fund managers on the topic, "beyond just managing our mandates and helping us achieve our portfolio wide, net-zero targets".

"We'll continue to emphasise to our fund managers the need for immediate action on climate change," she adds.

Looking ahead

Looking ahead, Warwick Thompson warns that barriers for participating in collaborative climate change initiatives remain for some firms, including "litigation concerns for members of those initiatives in some jurisdictions" and "competition law uncertainty regarding agreements between investors and businesses aimed at environmental goals".

"In the UK, we welcome the steps taken by the Competition and Markets Authority (CMA), which has helped to place the UK in a leadership position in the ongoing debate around antitrust risks and sustainability practices," he says.

Moving forward, Warwick Thompson argues the Financial Conduct Authority (FCA) should now address outstanding competition concerns for investors and collaborate at the international level, including at the International Organization of Securities Commissions (IOSCO). He believes that addressing these barriers will facilitate the continued success of investor-led initiatives on sustainability.

"The FMLC's recent report on pension scheme trustees' fiduciary duties very helpfully reiterates that trustees should consider what more they require from their fund managers – and other groups like investment consultants – in order to help fulfil their fiduciary duties. This includes trustees assessing the extent to which they are aligned with their managers on how sustainability and climate change have been evaluated and considered in investments," he adds.

Piani believes that Climate Action 100+ and collaborative engagements remain valid options for investors to share the workload of effective stewardship within the boundaries of anti-trust and concert laws.

"Companies can highly benefit from these collective dialogues too and take the opportunity to collect feedback from the market in a coordinated and efficient way. The climate crisis is a collective crisis, which needs collective action. Beyond individual company dialogues, we also support the updated strategy of the second phase of Climate Action 100+, which focuses on dialogues across sectors and themes," she adds.

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