QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

The elephant in the room:

The exodus of US managers from Climate Action 100+

Several large US-based asset managers have recently withdrawn their membership of the Climate Action 100+ (CA100+) initiative. We were disappointed by this development, and wanted to better understand whether this was indicative of weakening climate stewardship practices in US markets.

SDG Alignment

> *"Anyone who is pulling away [from climate commitments] today is turning away from the science and responding to political and ideological pressure that is not based on facts."*
> John Kerry[1]

What is CA100+?

Climate Action 100+ is an investor-led initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The collaboration is delivered by five investor networks: Asia Investor Group on Climate Change (AIGCC), Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI). Over 700 investors have joined the initiative to date, which targets 170 'focus' companies in its engagements.

The initiative's members engage heavy-emitters to improve companies climate change governance, reduce emissions and strengthen climate-related financial disclosures, to create long-term shareholder value. Investor members can choose to collaborate with other investors, or undertake one-on-one engagements with companies they are invested in.

Phase two double take

Following over 18 months of member consultation CA100+ announced its phase two framework in June 2023, a revision of the initiative's engagement approach which extends its original remit through to 2030. Phase two of the initiative aims to "inspire... [investor members'] markedly shifting the [engagement] focus from corporate climate-related disclosure to the implementation of climate transition plans."[2] The initiative's three core goals have 'evolved'

1 John Kerry blasts US investors for scaling back on climate action (ft.com)
2 Climate Action 100+ announces its second phase | Climate Action 100+

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with specific example actions for each goal, but have not significantly diverged from their original wording: (text additions from phase two are italicised).

1. Implement*ing* a strong governance framework on climate change *which clearly articulates the board's accountability and oversight of climate change risk*.
2. Take action to *actively* reduce GHG across the value chain, *including engagement with stakeholders such as policymakers and other actors to address the sectoral barriers to transition*.
3. Provide enhanced corporate disclosure *on and implementing transition plans to deliver on robust targets*.

The other components of phase two, including variations in how members can participate in engagements and more detailed engagement planning for its 'lead investor' roles, were all clearly articulated as being on an 'opt-in' basis.

Several investors have named phase two as the key impediment to their continued membership in the initiative. Phase two was characterised as 'overly prescriptive', and the initiative's expanded goals was considered an 'overreach' of firms' engagement approach with holding companies. Some firms were very specific in their objections to phase two; namely, that its aims required firms to conduct a level of climate advocacy which violated anti-collusion laws in the American fiduciary context. In one case, the firm's objection to phase two was the initiative would be more effective if it targeted asset owners rather than companies or asset managers. More generally, firms objected to phase two because not all clients are investing within a sustainability focused mandate, therefore the firms feel that they cannot set a decarbonisation target as an objective. Rather, firms would expect decarbonisation to be a byproduct of the investment approach.

Several firms reported raising concerns with CA100+ organisers about the legal defensibility of phase two during the prolonged consultation period. For US asset managers, the question of fiduciary duty can be complex and in some cases this is used to justify decisions that may be surprising to others. We confirmed with the CA100+ organisers that the revised core aims of phase two underwent extensive legal review by global legal teams, and that it communicated clearly the distinction between the required commitment to the expanded core aims and the voluntary nature of additional phase two elements during the consultation period with members.

Anti-collaboration

The other common thread emerging from our conversations was around firms' approaches to climate engagement, and how collaborations like CA100+ fit into firms' stewardship strategies. Nearly every firm engaged implied (some overtly stated) that its in-house direct engagement approach achieved superior outcomes to any produced by collaborations such as CA100+. Firms had various 'spins' justifying this view, framing their approach as:

- better suited to its investments' asset type;
- more efficient in scheduling engagements; or
- sensitive to what issuers are responsive to.

All reasons hinted at the unspoken rationale – scepticism towards collaborative engagement as a tool to achieving real-world decarbonisation.

Although many firms went to lengths praising CA100+ as a valuable addition in climate engagement for the industry, the reasons for their withdrawal were not always cogent. In one case, it was suggested that the stewardship team had simply 'outgrown' the benefits previously conferred by its CA100+ membership. While we might accept that for larger firms, the expanded access to target companies through collaborations like CA100+ may not be as relevant, we do not consider this nor the inconveniences of scheduling engagements with multiple parties to be a reasonable justification for withdrawing support from a collaboration previously deemed 'worth' joining less than four years ago.

The elephant in the room

Given this exodus from CA100+ notably affected only US-based firms, the prominent anti-ESG movement seems an obvious source of motivation for these firms' withdrawal from the initiative. However, only one of the firms engaged directly acknowledged the sustained politicised pressure of the anti-ESG movement influenced its decision to withdraw from CA100+: all other firms strenuously denied this, despite anti-ESG advocates publicly celebrating these withdrawals.[3]

However, the firms' public communications around the withdrawals seem to evidence firms' evolving strategy in an anti-ESG world. By publicly offering limited context on the decision, critics can view these withdrawals as a 'victory' while the firms privately frame their decisions to clients as a continuation of its existing climate engagement policies.

3 Riley Moore, Glenn Hegar, Jim Jordan

It is tempting to view the withdrawal decision in this context as 'cakeism' – US-based firms placating the anti-ESG critics hounding the firm in its US markets, while pandering to climate-forward clients in European and foreign markets. It remains to be seen if this approach achieves this dual intent: will apparently acceding to anti-ESG proponents reduce the politicised pressure on these firms, or encourage further scrutiny? The timing of this is particularly notable, given upcoming presidential elections in the US and the continuing efforts of Republican lawmakers to pursue 'woke' asset managers.

Outcome

Regardless of the proffered rationales for these withdrawals, this shift is ultimately a symptom of the times – whereby companies and countries are wrestling with the costs and the imperative to address the looming climate crisis, and repeatedly choosing to defer. The decision to leave a prominent climate-themed collaborative engagement is as much driven by public optics today as it was when these firms joined the initiative in 2020-2021, when popular support for responsible investment swelled. In today's politicised and polarised context, remaining a named member of collaborations like CA100+ carries increasing reputational risk for firms in the US; as one firm put it, "the juice is no longer worth the squeeze."

There is certainly an element of opportunistic backsliding in these withdrawals; it is notable that of the five firms withdrawing or initiating changes in their CA100+ memberships, only two formally communicated with CA100+ organisers prior to the media announcements. However, the departing firms' limited public communications about their decision seems an acknowledgment of the politicisation of such endeavours. Presenting minimal defence or context to the decision, and knowingly allowing enough room for interpretation for anti-ESG advocates to 'claim victory', means firms may ultimately better preserve their autonomy in climate stewardship longer-term. This approach may be an indication of how firms now navigate the politicised-ESG landscape.

Whether this change proves to be merely symbolic or simply the latest stage of the ongoing culture wars against 'woke' asset managers remains to be seen. These withdrawals further evidence a deepening divergence between US-based and EU-based firms' approaches to climate stewardship, which certainly is not a progressive development. We consider collaborative engagements like CA100+ critical tools in tackling the complex, systemic risks climate change creates for the global economy, and asset managers have a responsibility to protect the value of clients' investments in the longer-term. We view asset managers taking meaningful action on climate change as a key priority and will continue to scrutinise their endeavours.

Margaret Schmitt
Responsible Investment Analyst

Ramón Secades
Responsible Investment Analyst

Quilter Cheviot
Senator House
85 Queen Victoria Street
London EC4V 4AB
+44 (0)20 7150 4000

To find out more please contact your investment manager or email: enquiries@quiltercheviot.com

quiltercheviot.com

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