Ignites Europe

Firms 'risk losing business' in Europe following Texas blacklist

By Anna Devine
October 12, 2022

Asset managers have been "inconsistent" in their response to losing business in the US due to their "confusing" messaging on fossil fuels and face losing business in Europe as a result, according to investors and experts.

In August, US state Texas said 10 asset managers were “boycotting” the fossil fuel industry, threatening to divest its state pension scheme from the groups.

The controversial list included BlackRock, and European firms Credit Suisse, BNP Paribas, Danske Bank, Jupiter Fund Management, Nordea Bank, Schroders, Svenska Handelsbanken, Swedbank and UBS.

Two firms provided a comment to Ignites Europe. A spokesperson for Credit Suisse says: "As we noted in our response to the Texas Comptroller, Credit Suisse is not boycotting the energy sector as the bank has ongoing partnerships and strong client relationships in the energy sector.

"We look forward to engaging with the Texas Comptroller to resolve this matter."

A spokesperson for UBS says: "We recently met with the Texas Comptroller’s Office to reiterate the importance of the energy industry and Texas to our business and provided them with additional information demonstrating that it is both our policy and practice to do business with energy companies, including those in the fossil fuel industry."

Meanwhile BlackRock said it disagreed with Texas, repeatedly stating that it is the biggest investor in Texas state oil and gas companies, citing up to $290bn (€330bn) in assets.

Christopher Greenwald, head of sustainability at LGT Group, the €291bn Liechtenstein-headquartered private bank and asset manager, says some of the messaging from asset managers in response had been "confusing" to the market.

"Some managers that have been making bold statements about fighting climate change have backtracked in response to this, highlighting their investments in fossil fuels," says Mr Greenwald.

"The response of touting or emphasising one's investments in fossil fuels in general seems inconsistent with engagement with companies on climate transition."

Mr Greenwald says it is important that asset managers remain consistent in their messaging.

"It would be more prudent for them to remain clear in their principles rather than respond to the actions of a particular state," he says.

"You can still remain steadfast in your conviction that you will work with companies to transition and clearly indicate your disagreement, which no one has done with Texas."

Mr Greenwald's comments come as a political debate on environmental, social and governance investing being so-called "woke capitalism" – companies that signal support for progressive causes as a substitute for genuine change – escalates in the US.

They highlight how fund firms could lose business not just in the US but also in Europe based on their corporate stance.

Schroders, BlackRock face Texas pension divestment over fossil fuel 'boycott'
Federated Hermes, one of Europe's most well known responsible investors, was recently slammed by several European institutional investors for sponsoring the State Financial Officers Foundation, a republican group that lobbies US pension funds to divest from companies that do not support fossil fuels. The firm has since cut ties with the organisation.

Both incidents follow former US Republican vice-president Mike Pence saying current Democrat president Joe Biden and regulators were "weaponising the financial system" through “capricious new ESG regulations that allow left-wing radicals to destroy American energy producers from within".

Philip Kalus, chief executive officer of Accelerando Associates, an asset management consultancy, says the US-centric political debate is an "extremely delicate" situation for fund firms with major distribution in the US, calling it a "fundamental test of principles".

"There is no way they can please everyone," says Mr Kalus.

"Asset managers need to make choices. It affects their credibility and they could lose a lot of assets as a result but they must stay true to their statements."

Agnès Lossi, partner at Indefi, a consultancy, says public comments and commitments by asset managers on ESG were increasingly having an impact on public perception.

European investors in particular, where climate change regulation is more advanced, are probing firms about the position they are taking, she adds.

Ms Lossi says investment performance will be more important than ESG to some investors but many asset owners were maturing on ESG and negative headlines showing a diversion in view from theirs would affect where they place capital.

"You have to choose as a corporate the line you want to follow," she says.

BlackRock CEO Larry Fink has previously said the firm is committed to pushing companies towards being net zero by 2050. However, more recently, the world's biggest asset manager with some $8.5 trillion in assets said it would support fewer climate change shareholder resolutions as they were becoming too prescriptive.

BlackRock says its approach to climate risk, opportunities and the global energy transition is based on its "fundamental role as a fiduciary" to its clients.

At a conference held by the Financial Times last month, Mark Weidman, BlackRock's head of international and corporate strategy, said the industry was entering a period where forces "from left and right, not just pressure from Texas, but from other places" were "trying to threaten the neutrality, the discipline and the integrity of the capital markets".

"We're not here to make anybody happy other than our clients," said Mr Weidman.

Last week the Louisiana state treasurer pulled $800m from BlackRock, citing "blatantly anti-fossil fuel policies".