March, 2024 Issue #5

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Ever heard of sectoral policies? They are pitched as the silver bullet for cleaning up financial portfolios. But picture this: financial institutions selectively applying these policies to just a fraction of their activities. Sounds absurd, right? Well, brace yourself, because this kind of greenwashing is shockingly common. To find out more about this deceptive practice, dive deeper into our latest report on big asset managers and passive investment.

Similar patterns are evident elsewhere. Financial institutions claim to be cutting down on their support to a sector without considering it in its entirety. Issue #2 of this newsletter already highlighted the shortcomings of banks' coal policies, most of which only concern thermal coal and fail to address metallurgical coal. To continue this line of thought, all major banks, with the exception of one, completely overlook other segments of the coal value chain, particularly the highly emitting steel sector. The latter is responsible for 11% of global CO_2 emissions due to its reliance on metallurgical coal, and is still massively backed by the banking sector, as Reclaim Finance's new report uncovers.

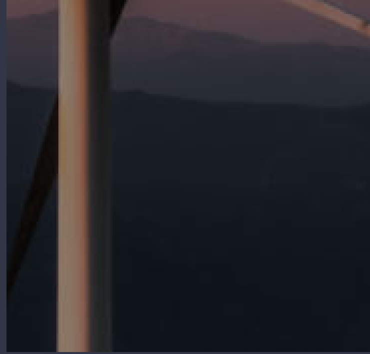
One last greenwashing case before letting you discover this newsletter. Despite supporting a managed phase-out of coal-fired power plants, Singaporean bank DBS forgets the very first step: ending support to companies developing new coal projects. Any coal commitment lacking this crucial element, like DBS's, is unworthy of the climate emergency.

Noam-Pierre Werlé, Policy Analyst at Reclaim Finance

New policies & updates

- DBS
- Lloyds Banking Group
- PNC

- Danica Pension
- PNC



Focus on passive investment and policies

Passive investing is a growing trend in the asset management industry, with the volume of assets managed by passive funds now exceeding that of active management. More passively managed assets means more and more financing to fossil fuel companies. And as new research shows, this is even the case for products labeled as “sustainable”.

What is passive investment?

Passive investment is a type of investment in which funds replicate the composition and performance of a specific index. For example, such funds can hold securities (shares or bonds of a company) of all firms in the S&P 500 or the CAC40.

In 2023, five of the world’s largest asset managers, BlackRock, Amundi, UBS AM, DWS and Legal & General Investment Management (LGIM), all of which hold a large number of passive funds, still held at least US$227 billion in companies expanding fossil fuels... And roughly 60% of this amount is estimated to come from their passive portfolios. Passive investing also raises another investment solutions. In fact, 70% of the ‘sustainable’ passive funds analyzed were exposed to fossil fuel expansion; French asset manager Amundi has the highest share of the five (78%).

How can asset managers change their practices?

When investment restrictions on fossil fuel companies are implemented by asset managers, passive funds are usually left out of their scope. Indeed, investors state that excluding companies from an index fund is a complex process, involving index providers. BlackRock and its peers pretend that as the adjective “passive” suggests, their hands are tied when it comes to choosing the companies found in their index funds.

The five asset managers in scope of the report either have no fossil policy at all, or the restrictions concerning passive funds are significantly weaker than for active ones. It is urgent that asset managers adopt stringent criteria for companies to comply with to be featured in their 'sustainable' funds, including the passive ones. This means, for example, to engage index providers regarding the quality of their methodologies and progressively switch to cleaner indices. Last, this focus on passive investment must not allow us to forget that some of these players have yet to adopt minimal commitments for their active management activities. Those should now urgently act on both fronts.

Find out more

Latest news

DBS: deceptive new commitments on coal retirement

A closer look at DBS's updated coal commitments shows that the bank's commitment to coal power retirement is lacking most elements of a robust policy, including the end of support to companies expanding coal. **Read more**

New NZBA guidelines but persisting mistakes

The Net Zero Banking Alliance slightly enhances its level of ambition, calling on its members to adopt targets for their capital market activities. Still, the alliance forgets to address the inconsistencies of target-setting: incomparability, lack of transparency and clarity. **Read more**

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Find out more about our recommendations for financial institutions to adopt robust fossil fuel policies.

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