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Example Engagements – Q3 2024

COMPANY ENGAGEMENT: JPMORGAN

As part of their 2024 Climate Progress Report, ING has announced that it will strengthen its approach to avoiding financing nonaligned activities. ING's steps forward offer a model for others to follow. It is clearly possible for banks to take steps to tie financing to climate.

In Q3, we continued discussions with JPMorgan, though progress remains slow and access to the board is restricted. Investor Relations invited a new executive, who was formerly a lawyer at the SEC, to help address our questions on to climate-related financial disclosures. JPMorgan maintains that "Sarasin is unique" in asking for greater disclosure on how climate risks are being factored into expected credit loss assumptions.

We have requested a call with the new Audit Committee Chair and, in the meantime, we have started reaching out to other investors to determine whether we might gain support for a collective letter to the Audit Committee.

COMPANY ENGAGEMENT: EQUINOR – We exited this position on 11.07.24 but continue to engage with the company.

Equinor is an important target for our engagement work due to the ripple effect it offers. In the end, if we are to achieve a 1.5˚C outcome, we will need to see fossil fuel companies wind down their operations. It is not enough to only scale up green solutions.

We see Equinor as one of the oil and gas majors best positioned to align with a 1.5°C pathway, primarily given its 67% ownership by the Norwegian Government, a Paris Agreement signatory. Norway has committed to setting clear expectations for its carbon-intensive businesses to pursue credible 1.5°C strategies.

Despite this apparently strong foundation, and positive steps by Equinor to manage its scope 1 and 2 emissions, it has so far failed to address the elephant in the room: the emissions associated with the consumption of its oil and gas.

Over the last four years, we have steadily escalated our efforts. We have helped to coordinate letters to the Prime Minister of Norway, the Minister responsible for Equinor's oversight, the Chair and Audit Committee Chair of Equinor. In May 2024, we led a shareholder resolution at Equinor's AGM, urging the board to align its strategy and capex plans with the Paris goals. Though rejected by the Board and State shareholder, over 30% of non-state shareholders supported it. Despite this, the Board continues to claim Equinor's strategy aligns with the Paris Agreement, which we believe may mislead investors. We are now considering how best to respond.

SCIENTISTS WARN OF RISING FOOD INSECURITY

While there's no shortage of scientific research on the worsening state of our climate, an article in Nature magazine in June uses sophisticated modelling to explore the human consequences of rising water and heat stress associated with the current 2.4˚C and warmer 4.3˚C pathways.

Critically, the modelling embeds a wider range of damage functions, e.g. how heat stress will impact labour productivity, as well as feedback loops. They consider two 'shared socioeconomic pathways' ranging from something akin to business as usual to one of regional rivalry associated with less cooperation to contain climate change. The authors conclude that global food production will likely decline between 6 and 14% to 2050, resulting in 556mn to 1.36bn more people exposed to severe food insecurity, compared to the 2020 model baseline. At the upper end, this equates to the populations of the EU, UK, US, Indonesia and Brazil being impacted by food stress in addition to what would otherwise occur. And this only considers water and heat stress.

Rather than asking whether we can afford to act, the science is clear that the more relevant question we need to answer is can we afford not to?

MARKET OUTREACH: PRESSING FOR HIGH-QUALITY ACCOUNTING AND AUDIT

Audit quality remained a priority for us in Q3. In August, the US audit regulator (the PCAOB) released its latest audit firm inspection reports. Enhanced disclosures offer an important window into the quality of their auditors.

According to the PCAOB, many audit deficiencies are often recurring and involve serious failures like insufficient testing of estimates and data. These audit weaknesses have significant consequences for both investors and the public. Auditors play a crucial role in ensuring reliable financial reporting, yet the 99% reappointment rate signals a lack of accountability. We continue to advocate for stronger regulations and are committed to holding auditors accountable. This quarter, we would flag the following activities and one important impact from our outreach:

Outreach to SEC

Following constructive meetings held in the Spring with the SEC's Head of Corporation Finance and Chief Accountant, we continued discussions on inadequate company disclosures of critical forward-looking accounting assumptions.

Our analysis of seven US-listed energy companies revealed almost no disclosure of key assumptions underpinning assets and liabilities, contrasting sharply with UK and European practices. This lack of disclosure appears to conflict with SEC Regulation SK, Item 303, which explicitly requires transparency around critical accounting estimates.

During Q3, we shared our findings with other investors and are hoping to raise this matter formally with the SEC and PCAOB this autumn.

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Presentation to PCAOB on the need for enhanced audit committee disclosures

Following discussions with the PCAOB on audit quality in the Spring, Sarasin was invited to present at an Investor Advisory Group meeting in September. The focus of the discussion was on Audit Committee effectiveness.

In light of the weak audit inspection results noted above, we underlined four areas where we would like to see action:

1) improved audit committee disclosure to shareholders;
2) more meaningful auditor disclosure to shareholders in Critical Audit Matters;
3) steps to tackle shareholder absenteeism; and
4) greater efforts by proxy agencies to ensure robust analysis of audit quality.

International Accounting Standards Board (IASB) publishes illustrative examples on climate

We are pleased to report a major step forward by the IASB, which published an Exposure Draft in July with examples showing how climate and other uncertainties should be reflected under key accounting standards. The examples clarify how decarbonisation and climate impacts will have real economic consequences for businesses without the need for new standards. Following our engagement with the IASB, we are particularly encouraged to see the examples that go beyond the oil and gas industry, including how climate risks could affect banks' expected credit loss assumptions.

We will be making a formal submission to the IASB consultation.

MARKET OUTREACH: FCA PROSPECTUS CONSULTATION

When UK companies issue securities for the first time, they are required to publish a detailed Prospectus. In July, the FCA published a consultation on its proposed update to the Prospectus Rules. We were pleased to see them make two important proposals: 1) the inclusion of climate-related disclosures where the issuer has indicated this to be material to the business prospects; and 2) incorporate a proposal from CarbonTracker and ClientEarth to add an 'atmospheric viability test' (AVT) to the competent persons report (CPR), as well as ensuring climate is considered in the existing financial viability test.

We support these proposals and helped coordinate two webinars in Q3 to encourage responses to the consultation.

CLIMATE ACTIVE PANEL NEWS

Following the departure of Claire Perry O'Neill earlier this year, we are thrilled to report that Rt Hon Sir Chris Skidmore has joined our Climate Active Panel. Having led the UK Government's net zero review in 2020-21, Sir Chris brings with him a deep understanding of the challenges and opportunities associated with a net zero pivot, as well as a keen awareness of the context in which policy is decided.