

Q3 2023

## CORPORATE ENGAGEMENT PROGRESS REPORT: U.S. BANKS

### Sector

Financial services

### Focus theme; sub-theme(s)

Net-zero alignment; net-zero commitments and transition plans

### Related UN Sustainable Development Goal(s)



### Engagement activity

Investor collaboration

### Responsiveness

Responsive

### Holding status (subject to change without notice)

NEI Global Sustainable Balanced Fund, NEI Global Equity RS Fund, NEI Canadian Equity Fund, NEI Canadian Dividend Fund, NEI U.S. Dividend Fund, NEI Global Total Return Bond Fund

**Objective:** Encourage U.S. regional banks to push forward on net-zero commitments and share our climate expectations.

We met with three super-regional banks<sup>1</sup> over the quarter as part of an investor collaboration spearheaded by Ceres and the Interfaith Center on Corporate Responsibility. The investor group is seeking to raise urgency around the topic of net zero at banks, noting that smaller lenders are generally seen as lagging their larger peers in formalizing their commitments.


Climate change poses a material investment risk for banks. While they have relatively low operational carbon footprints, banks have significant financed emissions,

i.e., the greenhouse gas emissions they finance through their lending and financing activities. Through this exposure, it is essential that banks integrate climate risks and opportunities in their business strategy. Otherwise, they might be exposed not only to major reputational risks but also to market and credit risks, which would ultimately impact their financial performance. Large lenders in Canada and the U.S. have already made headlines for the financial support they provide to oil and gas companies and other heavy emitters,<sup>2</sup> and this has the potential to gain material relevance as climate change worsens. Further, if the companies on the receiving end of bank financing are not decarbonizing, the heightened risk of their inaction has the potential to flow back to the lender.

The larger firms we speak with have made net-zero commitments and have started to set interim targets for certain heavy emitting sectors. They have gradually built a system to better understand their clients' climate risk profiles, and some have started targeted client engagements—although even larger firms have work to do in articulating their transition plans.<sup>2</sup> What we are learning is that smaller banks have barely begun to tackle the problem. They do not necessarily have a structured way to learn what their commercial clients are doing about their carbon emissions and have yet to define their climate expectations. This is one of our key requests of banks—that as a condition of financing, they know how their heavy-emitting clients intend to transition and are monitoring progress.

We do not expect banks to stop lending to heavy emitters. In fact, bank financing to those companies is a necessary component of a successful energy transition. What we do expect is that banks understand the climate-related risks in their loan portfolios and that they manage and disclose their plan on how to transition their clients to net zero. We feel that as it stands, smaller U.S. banks have some catching up to do.

**Next steps:** While we are pleased with the banks' engagement with the investor group's expectations, we are considering escalating the issue to the boards of the U.S. super-regionals to encourage them to step up their net-zero commitments and actions.



**Talk to your advisor today about how responsible investment solutions from NEI can help you achieve your goals.**

<sup>1</sup> M&T Bank, Truist Bank, U.S. Bancorp

<sup>2</sup> Banking on Climate Chaos Fossil Fuel Finance Report 2023: [https://www.bankingonclimatechaos.org/wp-content/uploads/2023/08/BOCC\\_2023\\_vF.pdf](https://www.bankingonclimatechaos.org/wp-content/uploads/2023/08/BOCC_2023_vF.pdf).

<sup>3</sup> We spoke with Citigroup in the quarter as part of the same collaboration and meet regularly with Canadian lenders on this topic.

This report is based on NEI records, research and impressions gathered during company engagements. Unless otherwise indicated, no company identified in this report reviewed its contents before publication. We acknowledge that company progress on environmental, social and governance issues is due to multiple factors and not attributable solely to NEI's influence.

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. The views expressed herein are subject to change without notice as markets change over time. Information herein is believed to be reliable but NEI does not warrant its completeness or accuracy. Views expressed regarding a particular security, industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. Forward-looking statements are not guaranteed of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Do not place undue reliance on forward-looking information.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

NEI Investments is a registered trademark of Northwest & Ethical Investments L.P. ("NEI LP"). Northwest & Ethical Investments Inc. is the general partner of NEI LP and a wholly-owned subsidiary of Aviso Wealth Inc. ("Aviso"). Aviso is the sole limited partner of NEI LP. Aviso is a wholly-owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited.