

Since Majedie Asset Management has taken on portfolio management for EIT, what changes have been made to reflect their commitment to Responsible Capitalism?

At Majedie our approach to Responsible Capitalism focuses on a holistic understanding of each company, including the material risks and opportunities it faces. We take a ‘bottom-up’ approach, which means company-specific fundamental analysis when researching and considering investment opportunities for EIT. We analyse a company’s exposure to each issue: where there is a material exposure to a particular risk or opportunity, such as climate change, we gauge how the company is managing that issue. For example, in the case of the portfolio’s holding in the mining group Anglo American, we continue to research how the group is managing key issues including its managed exit from thermal coal, its water usage and its relationships with communities local to its operations. We support this company’s approach to these issues and this is in part reflected in its prominent position in the portfolio.

How is the EIT portfolio reacting to the threat of climate change?

Climate change is a serious issue both for society and for investment markets. Our investment focus is to identify companies that can generate attractive, sustainable returns within the legal and societal frameworks in which they operate.

The fundamental analysis that our investment team undertakes is primarily at the company level. We undertake a materiality assessment for all of portfolio holdings. This enables us to prioritise those issues that are most material for each company, which in turn links to our research and dialogue with management. For each company-specific evaluation, we assess the materiality of exposure to climate change. This includes the level of scope 1 & 2 carbon emissions, regulatory risk, transition risk, and the risk of stranded assets. We also engage with companies, as appropriate, on the structures and processes that they have in place to manage those issues. However, our engagement is not limited to fact finding: we will also push companies to adopt better management structures, improved reporting, achieve more effective oversight and auditing and, in every case, link the issue to executive / board pay. Where a company takes the necessary steps, our conviction level may be enhanced. Where companies do not listen or don’t take seriously the recommendations that we make, our conviction in that stock may be weakened. The results of our engagement and analysis feed into our conviction levels which are linked directly to our investment decisions. Where companies are in sectors or activities associated with potentially higher risks or opportunities, we think about these in the context of the underlying investment. Since taking on the portfolio management of EIT, examples of this analysis include engaging with Royal Dutch Shell and BP on their climate change exposure. This ongoing process includes learning more about each group’s transition to renewable energies and the scale of their research and development in this part of their operations.

What plans do you have to move investments out of oil and gas and into renewable energy sources?

Traditional fossil fuel energy companies need to make significant steps to transition their energy portfolios to a more balanced set of energy sources. They also need to take measures to reduce carbon from their activities, as well as help consumers reduce the emissions from using their products. We believe that the world needs a spectrum of energy sources to fuel its increasing need for power.

Alongside wind, solar, hydro, nuclear and hydrogen, there is a role for fossil fuels - albeit a much smaller percentage than currently. Our goal is to look for those companies who know how to transition to greener fuels, reduce their environmental impacts and invest substantial R&D into new technologies, such as hydrogen or improving the cost and effectiveness of other green energies. The oil majors are making tentative steps in these energy sources.