ESG engagement and XL AUM growth

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Yesterday, the news arrived that the last proponents of the Keystone XL tar sand pipeline caved in.[1] **The pipeline project is now dead which should result in a whoop-whoop, high-five, chest-bump fest in ESG teams at some fixed income market players! For them, the prospect of more asset accumulation through ESG credibility, getting powerful responsible-investment reports and having impenetrable defense versus regulators against 'greenwashing' claims on the back of the Keystone XL cancellation must be very exciting.** If one engaged to make this happen, that is.

We have earlier argued[2] that some of the big lenders concerned: Vanguard[3], NBIM, PFA Pension[4] and ECB's collateral desk[5] should indeed have engaged with key oil sand proponents around this. Depending on what one did, one of two different claims can now be made:

- *"We actively engaged with key lenders to stop Keystone XL plans. It has now been finally stopped."*
- *"We actively chose to not engage (refer to our 'active engagement' policy) on Keystone XL and continued to lend unconditionally. Despite this, it has now been stopped."*

Indeed, not having engaged must be considered to have been a poor business decision. One does not have to get into any "moral" discussions on this, it is just basic probability theory. **With a good narrative around Keystone XL, you would be more likely to attract AUM and/or achieve other business benefits than if you did not.**

So do the aforementioned institutions have a good story? Our take is that Vanguard is entirely business driven but have so far not realized the business upside with bond engagement. Norges Bank may have engaged.[6] PFA Pension was recently caught out with severe greenwashing in their fixed income books, so our capacity to credit them for having moved a (bond-)finger remains limited. On ECB, we do not think the ECB collateral-taking desk is aware of the climate implications of some of the bonds in this context.

Going forward, there are plenty of similar opportunities for fixed income managers to engage. In order to strengthen their business, or just for the betterment of current and future planetary conditions. The Anthropocene Fixed Income Institute is more than happy to provide suggestions on such engagements, in public forums or on a bilateral basis.

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[1] "Developer officially cancels Keystone XL pipeline project", Reuters, 10 Jun 2021.
[2] "The reformed SSA trader: New Year's exclusions", AFII
[3] "Biden and the oil sand vanguard: Inaugural credit action", AFII, 24 Jan 2021.
[4] "Bond portfolio fossil exposure review: PFA Pension ", AFII, 6 Mar 2021. "Danish pension fund criticized for fossil fuel exposure", Financial Times, 7 Mar 2021.
[5] "The ECB and Alberta's oil production tax holiday", AFII, 26 Oct 2020.
[6] Following their engagement with State Bank of India on the Carmichael loan, we view this probability as non-zero. See NBIM's 2020 Sustainability report, p.48.

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The Anthropocene Fixed Income Institute is a non-profit organization "to monitor, advocate for and influence the impact of the fixed income and bond markets in the age of human induced climate change." For more information about the Institute, please visit wwww.anthropocenefii.org or follow us using the hashtag #anthropocenefii.