

# Large Exxon Shareholder Starts Divesting Over Climate Change



(Bloomberg) – One of Britain’s biggest fund managers started selling shares in Exxon Mobil Corp., saying America’s largest oil company isn’t doing enough to address climate change.

Legal & General Investment Management, which oversees about \$1.3 trillion and is one of Exxon’s top 20 shareholders, said some of its funds have already divested from the company and will ask its clients if it can withdraw more money.

The global oil industry has become increasingly unfashionable for investors as the transition away from fossil fuels raises doubts about its long-term future. Energy stocks currently make up 5% of the S&P 500 Index, down from 13% a decade ago.

The divestment affects a small portion of Exxon’s equity –

Legal & General owns about 0.6% of the company, and the divesting funds hold just a fraction of that – but it intensifies pressure on the Texas firm, once the world's largest public company. It will also be a fillip for campaigners who want investors to divest from the most polluting companies.

Divestment is a way to “hold Exxon accountable for something that's really material for their future,” said Meryam Omi, head of sustainability at Legal & General Investment Management. “People in the street who have their own pension that's going to mature in 30 years time don't get a chance to talk to Exxon themselves.”

Exxon is the only oil major Legal & General is divesting, as competitors including Chevron Corp. and Royal Dutch Shell Plc meet or exceed the insurer's basic standards on climate change action. It would also use its remaining shareholding in the company to vote next year against the reappointment of the chairman, a role currently held by Chief Executive Officer Darren Woods.

Exxon is the largest of 11 companies that Legal & General said it will exclude from its “Future World” funds because of climate change risk. Others include MetLife Inc., Subaru Corp., Hormel Foods Corp., Sysco Corp. and Rosneft PJSC. Two companies it withdrew capital from last year for the same reason, Occidental Petroleum Corp. and Dominion Energy Inc., will be added back to the funds because they addressed concerns raised by the insurer.

While standards differ by sector, Legal & General said it expects oil and gas companies to set targets to cut pollution in their own operations as a bare minimum. It also wants the company to disclose the volume of greenhouse gas emissions its operations and customers are responsible for each year.

“We're on track to meet greenhouse gas reduction measures we

announced last year which are expected to help significantly to improve emissions performance,” Exxon spokesman Scott Silvestri said in an email. “They include a 15% decrease in methane emissions and a 25% reduction in flaring by 2020.”

Exxon already publishes an annual tally of emissions from its operations and is “providing solutions to consumers to help them reduce their emissions,” Silvestri wrote.

Legal & General declined to disclose the exact value of its divestment from the oil company. At the end of March, the stock made up 0.7% of one of the asset manager’s funds, according to its website. The overall value of that fund at the time was about 4.4 billion pounds (\$5.5 billion), suggesting the Exxon stake was worth more than \$350 million.

Several other companies are “on the cusp” of divestment when it comes to climate action, according to Sacha Sadan, the director of corporate governance at the insurer’s investment unit, without saying which ones. And even those that were named as particularly strong on sustainability compared to their peers, such as Equinor ASA and French bank BNP Paribas SA, will be expected to continuously move their businesses away from polluting activities or risk being divested.

“This engagement is not about picking up the laggards, it’s about pushing up the whole industry,” said Omi. “We need to keep the pressure on.”

Returns at Legal & General’s Future World funds will suffer very little as a result of the divestments, Omi said. The difference between what the funds would return without divesting and what they will return otherwise, which she called a “tracking error,” will be less than 0.3%.

The insurer is hoping to convince all clients to follow its advice around companies lagging in climate action, partly by demonstrating it doesn’t sacrifice returns. That could lead to further capital outflows.

A campaigner at ShareAction, a London non-profit that helps investors engage with companies on climate change and other issues, said the move could also inspire other asset managers to reconsider their holdings.

“We expect this to signal to markets the huge risk of investment inaction on the climate emergency ahead of us,” Jeanne Martin, senior campaigns officer at ShareAction, said.

Veering away from companies that are performing well is a major departure from its peers and Legal & General’s own past. The insurer has held Exxon stock for about 20 years, and it’s the asset manager’s seventh-largest equity holding overall, worth about \$2 billion at the end of March. Since the day it started its investment in Exxon, the shares have returned 200% in total, according to data compiled by Bloomberg.

(Updates with an estimate of divestment value in 11th paragraph.)

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