

SUSTAINABLE INVESTING | JULY 14, 2025

# ISSUER ENGAGEMENT & THE ENERGY SUPPLY FINANCING RATIO

## AUTHORS



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## Our Approach to Issuer Engagement

Breckinridge's approach to investing in corporates includes independent dialogues with representatives of company management. Our intention is to:

- Deepen our understanding of credit issues and material sustainability risks and opportunities for issuers, industries and sectors;
- Provide an idea generation platform for our investment team; and
- Encourage disclosure of material sustainability factors and progress in managing material sustainability risks.



## ENGAGING ON THE ENERGY SUPPLY FINANCING RATIO

The energy supply financing ratio (ESFR) is meant to capture, in one measure, the amount of financing provided by a bank toward no- or low-carbon energy sources versus higher-carbon fossil fuel energy. This emerging sustainable finance term gained additional attention through the shareholder resolution activity of the New York City Comptroller's Office. During the 2024 proxy season, the Comptroller filed shareholder resolutions asking several large U.S. banks to calculate and disclose the ratio.<sup>1</sup> The Comptroller filed similar ESFR proposals with various banks in 2025.

Breckinridge agreed with the Comptroller's view that the ESFR could be a useful metric for evaluating a bank's exposure to climate transition risk and the level of funding devoted to clean-energy projects. Breckinridge voted in favor of the Comptroller's ESFR shareholder proposal at banks held in our high quality dividend portfolios. Our support reflects our longstanding advocacy for standardized sustainability disclosure, particularly with respect to climate transition risk. Breckinridge also discussed the ESFR with several large U.S.- and European Union (EU)-based banks.

We conducted engagement meetings with U.S. banks that rebuffed the Comptroller's disclosure request, as well as EU institutions with significant lending and financing portfolios. To highlight one of these engagements, we spoke in late 2024 with a leading bank headquartered in the eastern U.S. Our objectives for the discussion were: 1) better understand the bank's reluctance to publish the ESFR, and 2) encourage the bank to disclose it, following in the footsteps of its peers (e.g. CITIGROUP Inc. and JPMorgan Chase & Co.).

## MEASURING & MANAGING FINANCED EMISSIONS

During the engagement, we communicated that the ratio could help investors like Breckinridge better assess how a bank is managing its financed emissions profile. As defined by the Partnership for Carbon Accounting Financials, the nonprofit developing standards for carbon accounting, "financed emissions refer to the greenhouse gas (GHG) emissions that are indirectly caused by a financial institution's investments and loans." They are also known as Scope 3, Category 15 under the [Greenhouse Gas Protocol](#).

Breckinridge views the management of financed emissions as a material sustainability factor for the banking sector. The Sustainability Accounting Standards Board (SASB) does as well, noting that the greenhouse gas emissions embedded in banking activities can exacerbate credit, reputational and other operational risks.

During the engagement, bank representatives said they were waiting for the sector to agree on an ESFR reporting framework. They also noted that if the bank disclosed a figure that is not consistently calculated and reported across the sector, it may be hard for investors and other stakeholders to make accurate comparisons to other banks, due to differences in their lending portfolios. In the end, the officials agreed that there was value in the ratio. They acknowledged that the bank would need to disclose it, even without industry supported reporting guidance.

1. In response to the shareholder proposal and subsequent outreach by the Comptroller, JP Morgan became the first U.S. bank to calculate and publish an ESFR. The result was 1.29x. More information is available [here](#).



## COLLABORATION WITH MIT SLOAN'S SUSTAINABLE BUSINESS LAB

To enhance our understanding of the ESFR and potential reporting challenges, Breckinridge collaborated with the MIT Sloan's [Sustainable Business Lab \(S-Lab\)](#) to study the ratio. S-Lab is a graduate course offered through the Sloan School of Management at the Massachusetts Institute of Technology (MIT). Students work on sustainability-related projects submitted by companies, investors, NGOs and government agencies tackling systemic challenges in sustainability. We've worked with S-Lab student teams annually for almost 10 years and have found their work to be thoughtful and useful to our sustainability research. Bethany Patten, Executive Director of MIT's Climate Policy Center and Senior Lecture at the MIT Sloan School of Management, believes the collaboration is a win-win for S-Lab students and the project hosts. Bethany notes that the "interesting and exciting assignments addressing important sustainability challenges provide great learning opportunities for the S-lab students. In addition, the student teams produce actionable recommendations for the hosts."

As part of their research, the students interviewed people knowledgeable of the ESFR, including executives from JP Morgan. The students concluded in their report that challenges related to wider disclosure of the ratio include difficulty gathering necessary loan and financing data within the bank and potential use of different ESFR calculation methodologies. While acknowledging the hurdles, Breckinridge recommends that banks pursue the disclosure. We believe the effort will be beneficial for the bank, by improving internal data collection mechanisms, and for investors like Breckinridge.

Finally, we intend to leverage the takeaways from the ESFR project to continue our engagement with banks in 2025. Among other topics, we plan to explore whether previously disclosed specific reporting challenges have been addressed and if the banks have supported the development of an industry-wide framework.

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Breckinridge's sustainability analysis is based on third party data and Breckinridge analysts' internal analysis. Analysts will review a variety of sources such as corporate sustainability reports, data subscriptions, and research reports to obtain available metrics for internally developed frameworks. A high sustainability rating does not mean it will be included in a portfolio, nor does it mean that a bond will provide profits or avoid losses.

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