Say On Climate

Shareholder voting on climate transition action plans

www.sayonclimate.org

April 21

Children's Investment Fund Foundation (CIFF)

- UK foundation with $6bn of assets
- One of the world's leading funders of climate change action
- $150mn of expected 2020 climate change grants
- www.ciff.org

Companies are a major source of emissions

- Over 35% of total emissions are due to companies
- Most companies are failing to take sufficient action on climate change
- Only 3% of listed companies have science-based emissions targets and less than 0.3% have a plan to reach those targets
- The biggest asset managers have appalling voting records on the few climate resolutions that are filed

Why should companies act on climate change?

Greenhouse gas emissions will:

- Be taxed and regulated by governments in the future
- Increase their cost of capital
- Damage their competitive position
- Harm customer relationships
- Undermine employee recruitment and morale

Companies must have a climate action plan

- Emissions disclosure alone is not enough
- An AGM vote creates the accountability mechanism for plan execution
- The vote legally needs to be a non-binding approval or non-approval of the plan
- Shareholders will not be taking the role of the board
- A disapproval vote can be used where there is a risk of rubber stamping weak plans
- This does not substitute for voting against directors but acts as a transparent step in the engagement cycle

Say on Climate

To manage the transition to net zero, companies need:

1. Annual mandatory disclosure of emissions
2. A plan to manage those emissions
3. An approval or disapproval vote where shareholders deem it appropriate

Say on Climate effective in Europe & Asia

- Leading CA100+ investors in Europe and Australia have taken up the concept of an annual advisory vote
- 16 major companies have already adopted
- In jurisdictions where it is hard to file resolutions there is a high value to mandating both disclosure and an annual advisory vote
- Boards perceive a high cost of losing advisory votes e.g. UK Investor Association 20% threshold, Australia 'Say on Pay' two majority votes against sees board removed
- Significant proportion of European and Australian investors and asset owners are making climate change a priority and will not rubber stamp plans
- Passive funds are a smaller proportion of non-US markets
- Say on Climate is complementary to other resolutions e.g. coal finance phase-out in the UK

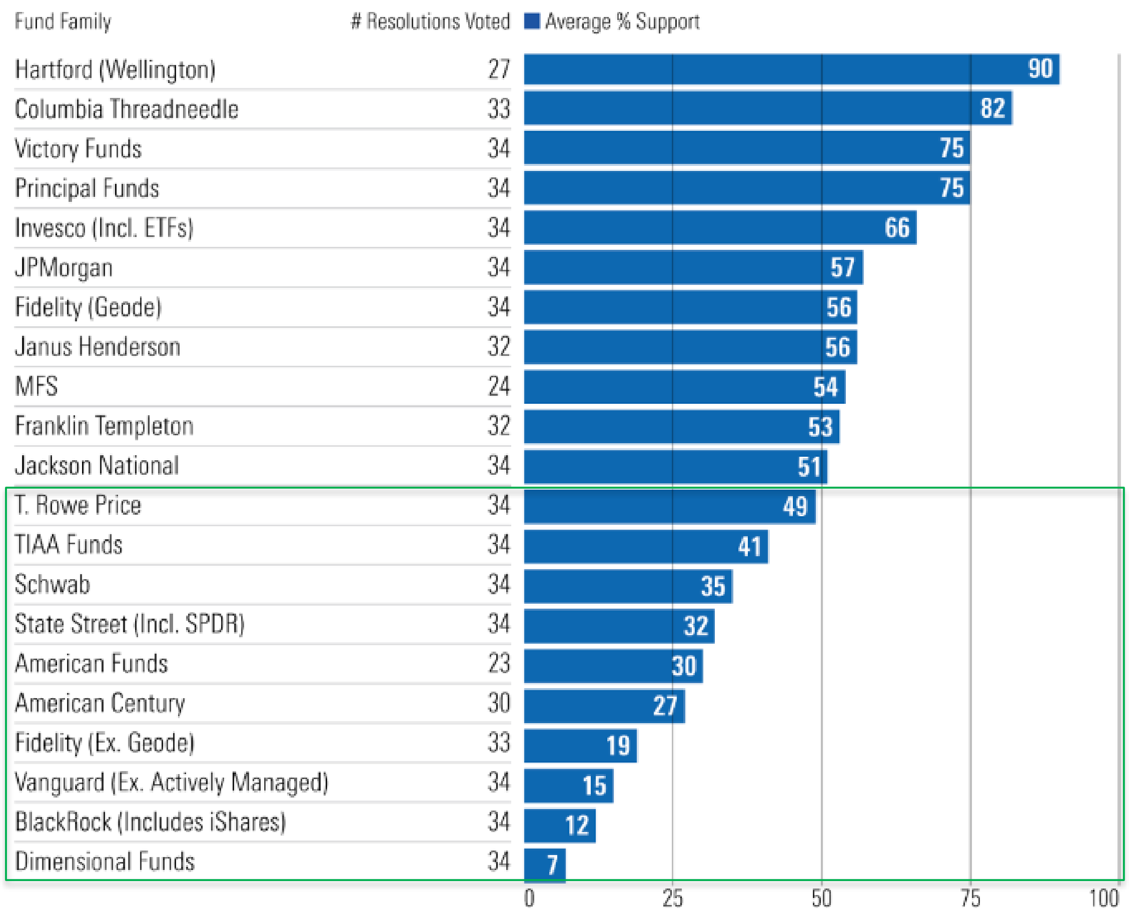
Risk of rubber stamping plans in the US

- Big 3 US asset managers control 24% of voting rights of average S&P500 company
- Top 3 asset managers vote with management on 82% of shareholder resolutions
- Retail investors control another 26% of average US company and only cast 32% of their proxy votes

Current engagement model is failing

- Large asset managers have voted consistently against climate resolutions

Proxy Votes on 2020 Key Climate Resolutions



Source: Morningstar's Proxy Database. Data as of 11/18/20.

Say on Climate for US – Recommend filing strategy

In **year 1** in general file **only** elements 1 and 2 (but not the advisory vote resolution) of Say on Climate mandating:

- Annual disclosure of emissions
- Disclosure of a plan to manage those emissions referencing the Climate Action 100+ Net Zero Benchmark

  (e.g. "Please disclose if and how your plan has met the criteria of the Climate Action 100+ Net Zero Benchmark")

Disclosure should be >1 month ahead of the next AGM filing deadline

When a plan or performance is deemed by shareholders to be deficient in **year 1 or subsequent years** any shareholder can select from the following escalation steps:

- **File a disapproval vote to reject the plan and performance** citing specific deficiencies and remedies

  (e.g. "We the shareholders disapprove of the company's climate action plan and performance because…")
- **Launch a proxy campaign against targeted directors and/or to nominate new directors**

It is **not** recommended to seek an automatic vote to avoid rubber stamping weak plans, or to seek an approval vote where plans are satisfactory

Unbundling disclosure resolutions from voting resolutions in the US

- Widespread investor support exists for mandatory annual disclosure of emissions and climate action plans, hence AGM resolutions only on emissions and plan disclosure will nearly always win shareholder support
- There is disagreement amongst investors as to when an advisory vote on plan performance should be tabled as an AGM resolution because of the risk of rubber stamping
- There is logic in having several companies adopt an annual advisory vote on plan and plan performance as proof of concept including support at SEC, government and shareholder level for the workability of the concept
- However, It is **not** recommended to see an automatic vote to avoid rubber stamping weak plans, or to seek an approval vote where plans are satisfactory
- The voting resolution should be framed as a disapproval vote with specific reasons (rather than a neutral resolution asking for approval or disapproval) because:

  (1) Some investors say they may struggle to evaluate plans and plan performance

  (2) Guiding investors as to how they should vote and providing evidence will have a better chance of success

  (3) Combining a campaign for a disapproval vote together with a vote against selected directors will have a better chance of influencing company action

Ensuring strong plans

- The AGM vote enables investors to give management clear feedback on their plans
- Investors should actively engage with companies on their plans
- Tools to assess transition plans already exist – such as the Climate Action 100+ Net Zero Benchmark and Transition Pathway Initiative
- Investors should state publicly their voting and rationale
- Where plans are insufficient investors should vote against the board
- Asset owners and pension consultants should replace managers who are not using their votes effectively to ensure companies implement credible climate plans

Ensuring strong plans

The Climate Action 100+ Net Zero Benchmark scores companies on indicators including:

- Long-term (2036-2050) GHG reduction targets
- Medium term (2026 to 2035) GHG reduction targets
- Short-term (2020 to 2025) GHG reduction targets
- Capital allocation alignment with GHG reduction targets
- Paris-Agreement-aligned climate lobbying position
- Executive remuneration scheme incorporates climate change performance elements
- TCFD aligned climate disclosures

See: https://www.climateaction100.org/progress/net-zero-company-benchmark/

Grading plans and performance

- Investors may find it hard to assess plans ex ante, but ex post assessment of performance will be key
- Annual decline of emissions or emissions intensity is the acid test
- Metric and pace will depend on sector
- Typically 5-10% annual decline required varying by sector
- >10% reduction – very likely support
- 0-10% reduction – support dependent on detailed analysis
- emissions intensity growth (no decline) – vote against

Grading plans and performance

- CIFF will deploy funding to work with major NGOs to support the grading of plans and performance of those plans
- A for profit industry will also emerge to grade plans and performance

Voting against directors

- The Say on Climate provides the evidence and justification for voting against directors
- A vote against the plan should lead to a vote against directors
- Any vote against the plan could trigger an automatic vote against the sustainability director or, if there is no nominated sustainability director, against the lead independent director
- Consistent votes against the plan e.g. 2 years in a row could trigger a vote against the chairman of the board
- Investors should also nominate new directors – 0.3% of S&P500 directors surveyed are competent in climate change matters

Additional action to challenge the board

- 80% of directors at the 5 largest UK banks have connections to heavy emitting companies and industries
- Shareholders can vote against the chair of the nomination committee where the board is not suitably qualified

- Several oil and gas companies have written down assets after IFRS and investor statements on climate risk
- Shareholders can vote against the chair of the audit committee, and can vote against the auditor and audited accounts

- Proxy Access by-laws for nominating new directors in the US are available for >600 companies

Say on Climate for Banks

The Bank of England and ECB have recognised through their mandated climate stress tests that disclosure of banks' financed emissions is necessary

Banks should disclose:

- The notional value of their corporate loan book [1], holdings in bonds and equities and underwriting business (the "financed emissions") for which they have emissions disclosure
- Report whether emissions disclosure is a requirement for new and existing loans and underwriting
- Report the absolute emissions and emissions intensity of their financing, by sector using the Partnership for Carbon Accounting Financials (PCAF) or another TCFD-aligned framework where they have the data
- Report any exclusion policies for fossil fuel financing expansion (i) coal (ii) oil & gas [2]
- Report on policies to support client decarbonisation, and any escalation cycle for those not reducing emissions
- Aligning public policy positions with net zero

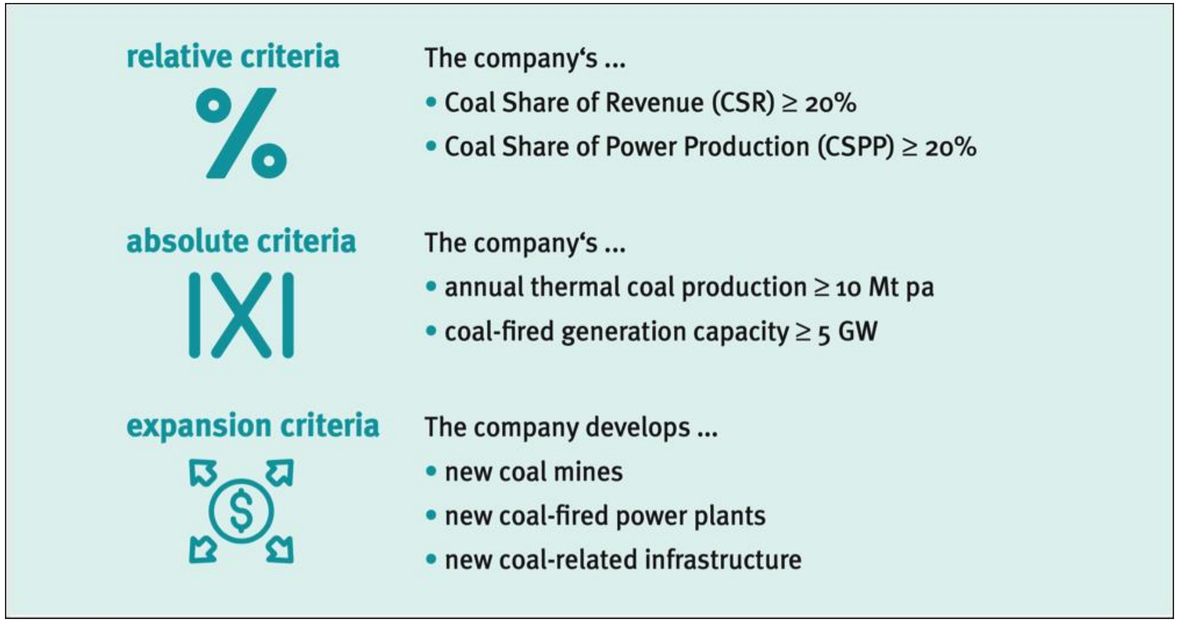
Banks should report a strategy consistent with net zero before 2050, including short, medium and long-term targets, for:

- Phasing out all financed emissions related to coal in the OECD by 2030 and elsewhere by 2040
- Managing the absolute emissions from fossil fuel financing [2]
- Achieving annual reductions of the emissions intensity of their overall financing
- Increasing the proportion of client emissions that are disclosed to them and state a timeframe for achieving 100% coverage

[**1**] including trade and project finance but excluding SMEs (defined as companies with <500 employees (see page 56 of the Science based targets framework for financial institutions, this is also the US regulatory definition) [**2**] as defined by Urgewald coal taxonomy and forthcoming oil & gas taxonomy – details overleaf

Say on Climate for Banks

- Urgewald coal taxonomy identifies 900 companies (1,800 subsidiaries) which meets one of the criteria below, oil and gas taxonomy is forthcoming
- IFC employ this approach to exclude fossil fuels from its bank equity investments, 400 investors ($14trn AUM) apply this framework to exclude coal from listed holdings
- Banks should disclose all emissions from entities meeting these fossil fuel criteria, and a strategy to reduce an phase out absolute emissions from these activities

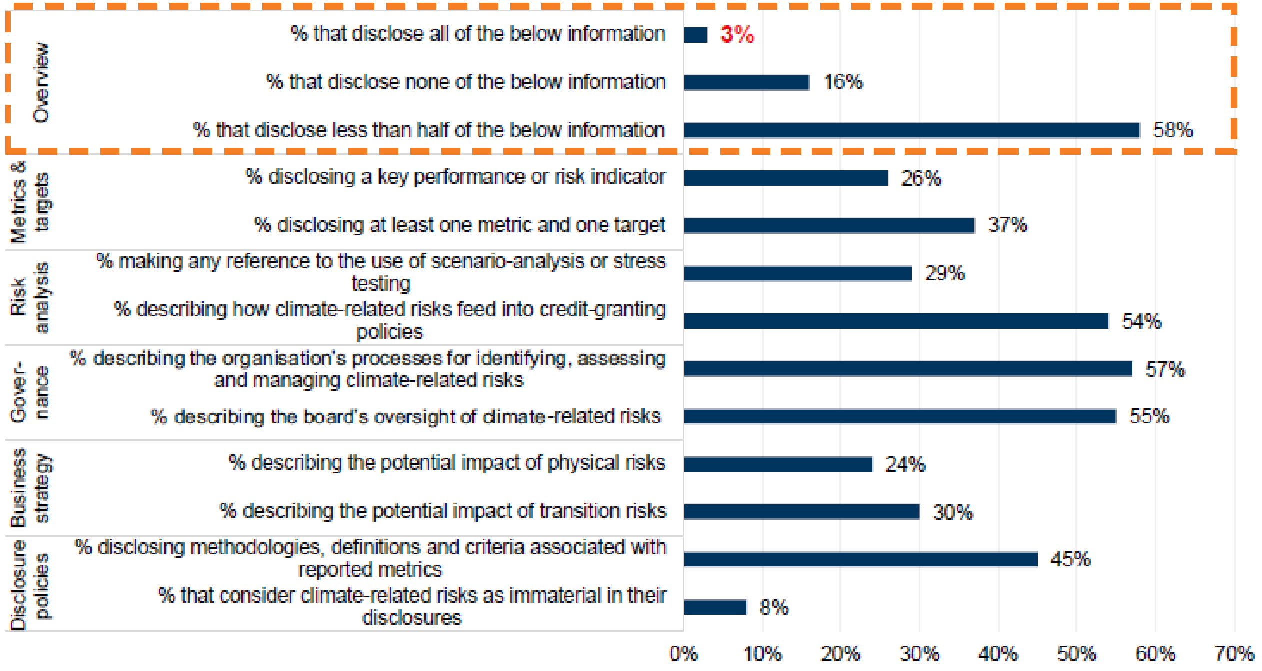


Banks’ climate disclosure is insufficient

- Despite European leadership on climate change bank disclosure remains insufficient
- Disclosure is lower in the rest of the world

Exhibit 1: Detailed reporting of banks climate risk exposure is severely limited

% of institutions disclosing climate-related information out of 125 European financial institutions



Source: European Central Bank, Goldman Sachs Global Investment Research

CHILDREN'S INVESTMENT FUND FOUNDATION

Open source initiative

- CIFF are advocating for a concept to enable widespread climate accountability and voting
- Supporting Say on Climate does not commit investors to filing resolutions or a governance structure
- Investors are free to file their own variations of Say on Climate resolutions
- CIFF and partners will provide support and resources to investors seeking to file resolutions, engage with boards, launch proxy campaigns and nominate climate competent directors

Actions

- Publicly state on your website that you support ‘Say on Climate’ as a principle for enabling shareholder climate engagement
- Asset owners - write to all your asset managers stating that you support the ‘Say on Climate’ and that you would like to work with them in supporting your climate change engagement objectives
- Asset managers - where you hold direct investments, write to the CEOs and ask them to adopt ‘Say on Climate’
- Write to your market regulators and advocate to government to make ‘Say on Climate’ a regulatory requirement

U.N. climate envoy Carney backs annual investor votes on company climate plans

LONDON/BOSTON (Reuters) 9 November 2020

U.N. climate envoy Mark Carney on Monday backed a push by investors to force companies to submit their climate change strategies to annual shareholder votes, saying such a mechanism could improve oversight of pledges to slash greenhouse gas emissions.

"Rather than have authorities be overly prescriptive on plans, it may be desirable to have investors have a say on transition".

"This would establish a critical link between responsibility, accountability and sustainability"

Leading asset owners support Say on Climate

'We believe that an annual shareholder vote on climate strategy and plans, would **facilitate our members' ability to consistently hold companies to account** for the steps they are taking to address climate change'

Cllr Doug McMurdo, LAPFF Chair (£300bn AUM across 82 plans and 7 pools representing millions of UK public sector workers)

Thursday 10th December 2020

Leading companies adopt Say on Climate

VINCI

CN

MOODY'S

RioTinto

Nestlé

GLENCORE

Unilever

Shell

ferrovial

Unilever adopted a triennial Say on Climate vote

- Unilever board has proposed a resolution to publish a transition plan for an AGM vote in May 2021
- Provide an annual update on progress vs that plan
- Hold an advisory vote every 3 years on their plan

‘We need to shift the dialogue **away from setting targets to the plan to reach the targets**. The actions we take in the next 10 years will affect the next 200 years’

Alan Jope, CEO, Unilever. **Monday 14th December 2020**

https://www.unilever.com/sustainable-living/reducing-environmental-impact/greenhouse-gases/tackling-climate-impact-in-our-operations/

Moody’s adopted annual Say on Climate vote

MOODY’S

- Moody’s board has proposed a resolution to publish a transition plan for an AGM vote in May 2021
- Moody’s reaffirmed its commitment to drive systemic change by incorporating climate and ESG in credit ratings

‘Activating a sustainable future for the environment is a core objective for Moody’s and we are proud to take a leading role in supporting the Say on Climate campaign’

Robert Fauber, Incoming CEO**, Tuesday 22nd December 2020**

Partners

- CDP https://www.cdp.net/en/policy-and-public-affairs/policy-briefings/the-time-for-action-is-now
- ShareAction
- FILE
- As You Sow
- ACCR

First ever Say on Climate AGM resolution succeeded

FINANCIAL TIMES

Billionaire Chris Hohn forces first annual investor vote on climate policy

Spanish airport group Aena agrees to put its efforts to tackle global warming to annual meeting

Billionaire UK hedge fund manager Chris Hohn has been at loggerheads with Aena for a year over its response to global warming
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Attracta Mooney OCTOBER 22 2020

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First ever Say on Climate AGM resolution succeeded

Spanish Airport Group Aena set a precedent in October 2020:

- Shareholder pressure forced management to improve climate action plan – major cost savings https://tinyurl.com/y5ex2xuh
- Shareholder pressure forced management to back annual vote embedded into by-laws
- 98% of shareholders backed the annual vote, including Blackrock
- ISS and Glass Lewis supported the resolutions against initial management opposition

Aena AGM resolution received widespread support

ISS

ISS’ proxy advice noted that the resolutions would “**improve Aena's transparency on its environmental actions**” and that it was “not overly burdensome for the company”.

GLASS LEWIS

*“We believe that **shareholders would benefit from the regular presentation of the Company's climate action plan** as well as having the ability to voice support of or concern for the Company's plan through their advisory vote on the matter at the Company's AGMs. We believe that this could create a **positive channel for engagement and dialogue between the Company and its investors** on this important matter. Further, we believe enshrining the company's commitment to climate-related reporting in its governing document would **represent a best practice** that clearly communicates the importance of this issue to shareholders.”*

BlackRock

*“Blackrock Investor Services determined to support the request for an annual report on progress towards the climate action plan goals because this is **inherently consistent with our expectations that companies have a plan to transition their business models and to explain and justify progress against the plan in their annual reporting**. We believe such a report would be beneficial at Aena given the material risk to its business model and its need to accelerate its efforts. **An annual advisory shareholder vote on the company’s plans and progress would give management and the board a clear sense of the level of shareholder support for the steps necessary in the transition**.”*

More than one hundred Say on Climate resolutions being filed in 2021 and 2022

- CIFF is working with a group of NGOs, asset owners and asset managers filing hundreds of Say on Climate Resolutions starting in 2021
- CIFF has funded partners to purchase stock in one hundred predominantly S&P500 companies to file Say on Climate resolutions and expects to do more
- Filing will be in the US, Canada, UK, Australia, Japan and Europe

Companies with pending 2021 AGM resolutions

- Union Pacific Railroad
- Charter Communications
- Alphabet Inc.
- Canadian Pacific

Actions

Please state on your website "We support the Say On Climate initiative" and provide a link to www.sayonclimate.org

Contact us

sayonclimate@ciff.org