Achieving Climate Goals through Corporate Activism

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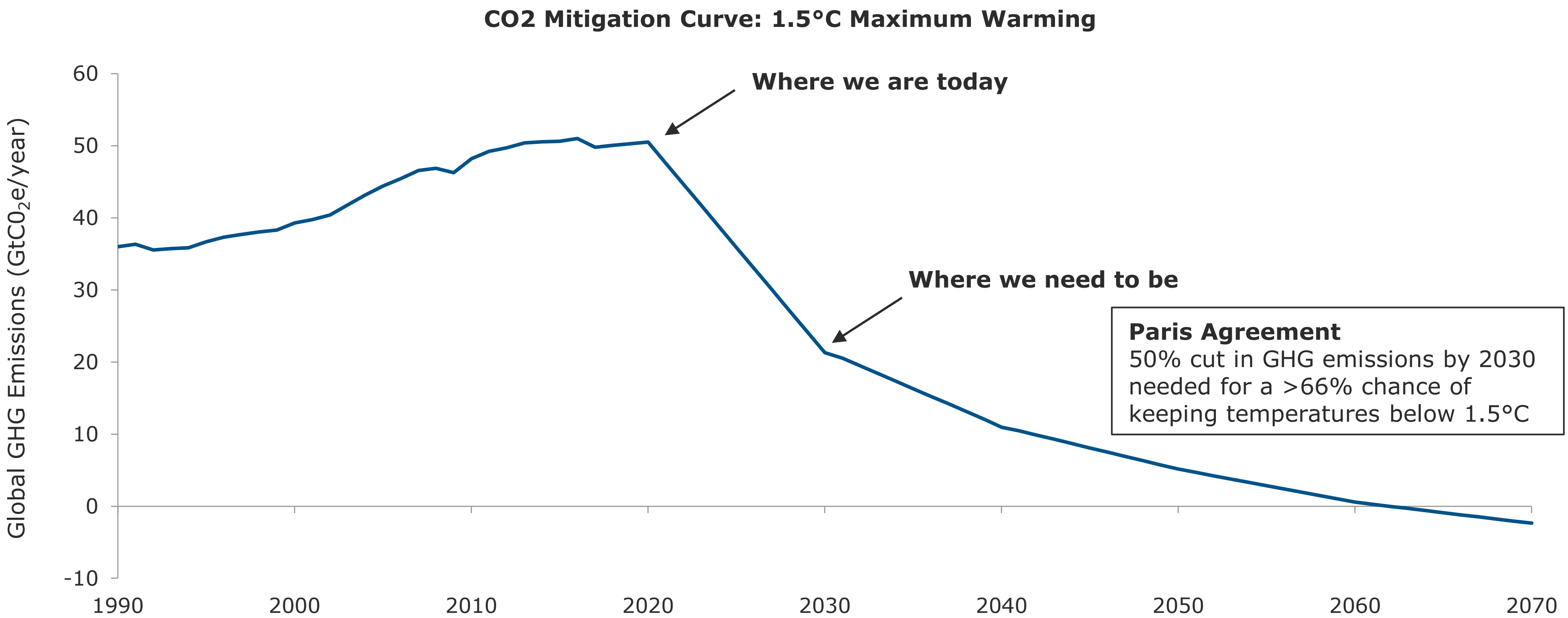
Over 35% of total emissions are due to companies

Companies face a massive challenge to decarbonise



Emissions must be reduced by 7% pa (net of growth) until 2030 to meet Paris Agreement

Source: Climate Action Tracker

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Climate change is a significant risk to many companies

- Emissions regulation, taxation and litigation
- Higher operating costs
- Stranded or devalued investments
- Physical damage to assets
- Disruption from cleaner technologies and competitors
- Customers, employees and investors will avoid dirty companies

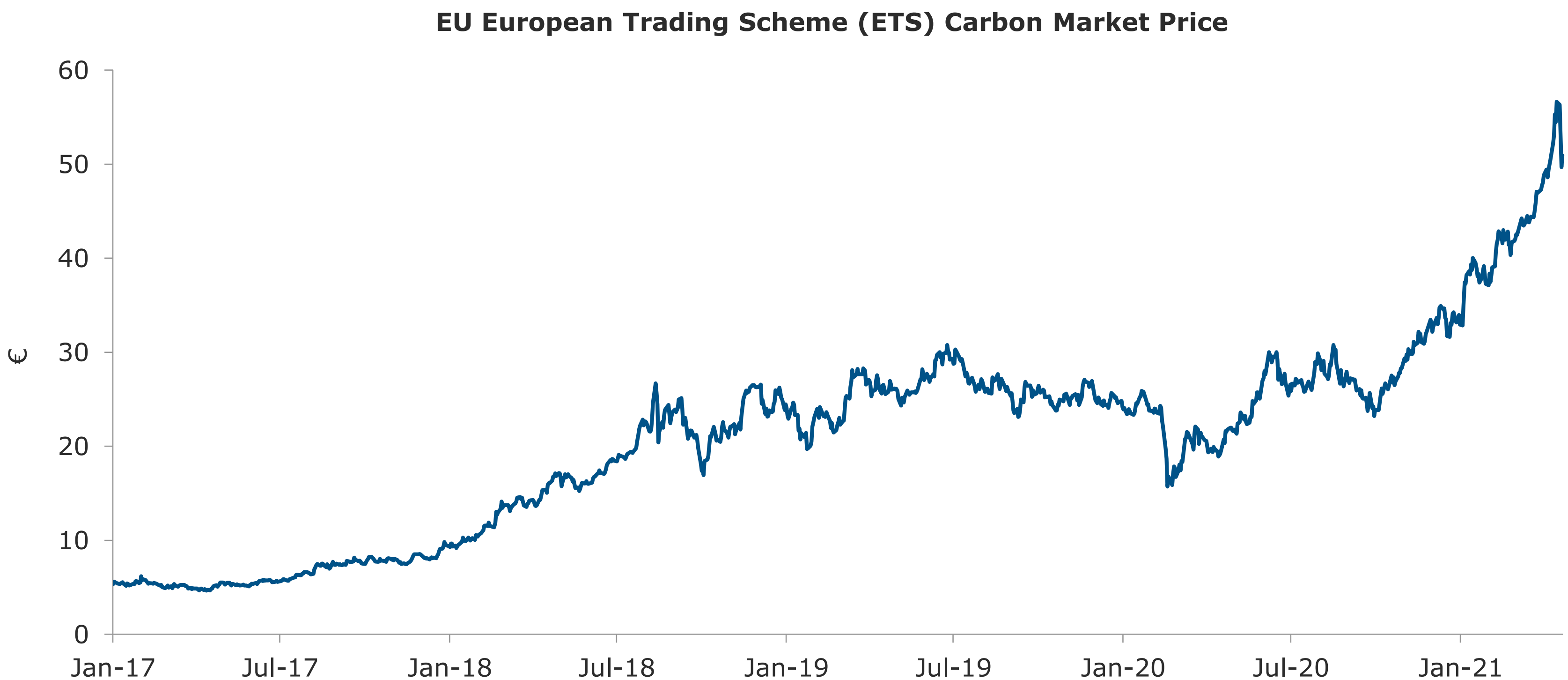
All companies should be taking urgent action on climate change

Regulation and taxation of emissions is coming

Global	Global agreement for mandatory TCFD disclosure currently being negotiated by central banks and governments for announcement at the November UN COP26 climate conference
Spain	First in the world to legislate 5 year climate action plans
UK	Mandatory TCFD disclosure announced for public companies; climate action plan disclosure required for major public procurement
US	Likely to adopt mandatory climate disclosure through SEC
EU	Developing the Corporate Sustainability Reporting Directive
Australia	Leading super funds are taking action through the Say on Climate initiative
Canada	Carbon tax increasing legally every year through 2030

TCFD: Task Force on Climate-related Financial Disclosures

Carbon taxation in Europe has begun



European heavy industry faces billions of Euros of additional costs under ETS scheme

Source: Bloomberg

Pacific Gas & Electric

- PG&E is a utility serving over 16 million people in California
- Catastrophic wildfires in California have become widespread and regular, exacerbated by climate change

> *"In California, there is something called global warming.*
> *We're four degrees warmer than we were historically.*
> *Our forest fire season is months longer.*
> *It's almost year-round. This is real stuff."*
>
> *"This is the new abnormal, and this new abnormal will continue, certainly in the next 10, 15, 20 years."*
>
> \- Jerry Brown, Former Governor of California

- In November 2018 faulty power lines started the deadliest wildfire in California's history, killing 85 people and destroying over 10,000 homes and 153,000 acres
- PG&E's share price plummeted 85%
- A lawsuit was filed against PG&E and the company filed for bankruptcy protection as they faced $30bn+ in wildfire liabilities

General Electric

- A major division of GE for years was power generation equipment for coal and gas power stations
- In 2015 GE purchased for $10bn Alstom’s power and grid division mainly focused on equipment for coal and gas fired power stations
- Between 2013-2018 coal generation fell by 25% in the US and Europe and renewables rose by 26%
- The profitability of the power generation division fell dramatically
- In 2018 GE wrote down $23bn of value from this division

Royal Dutch Shell

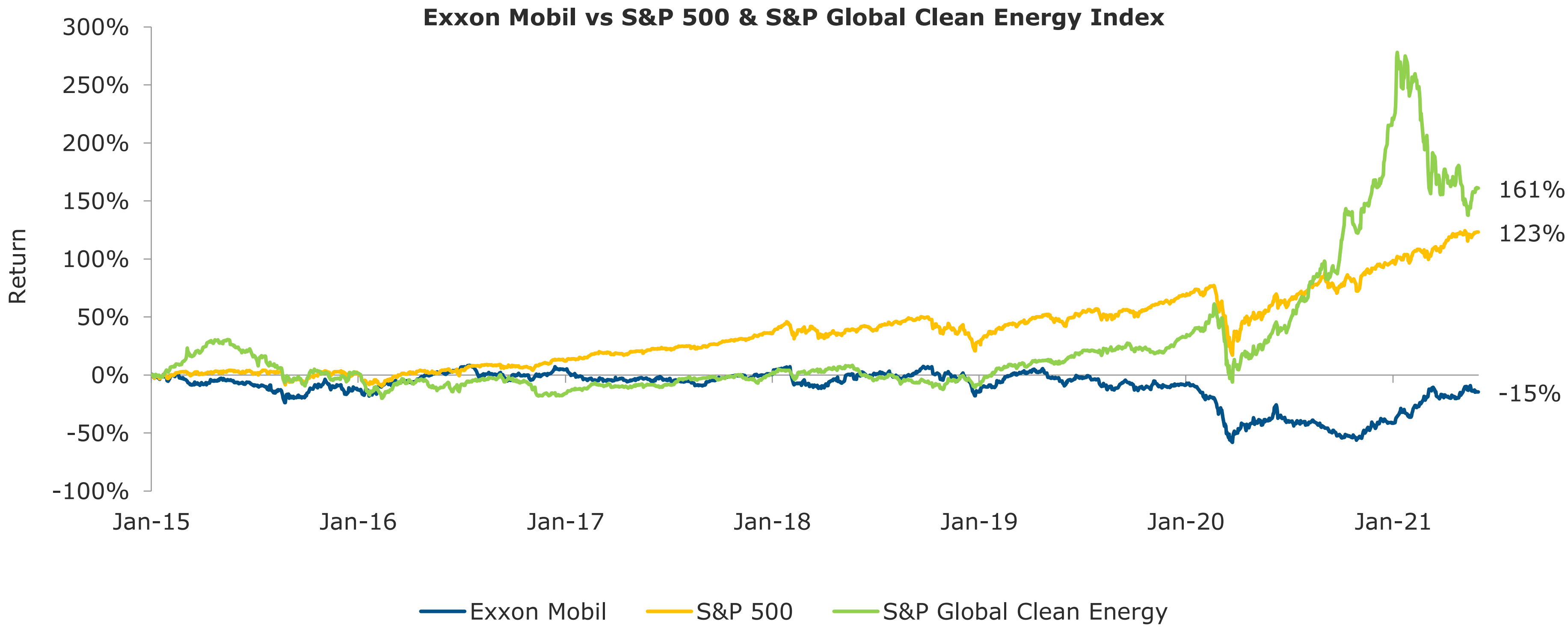
FT

"Royal Dutch Shell has lost a landmark legal case, with a Dutch court ordering the oil company to increase its emissions cuts in a ruling that could set a global precedent for corporate polluters." – May 2021

- The case was brought by several NGO's, arguing that the human rights of Dutch residents were being damaged by emissions from Shell's products
- Judgment: Shell owed a duty of care (tort) to society. Shell ordered to cut globally scope 1, 2 & 3 emissions by 45% by 2030 vs 2019 emissions, with immediate compliance
- Critically scope 3 (customer) emissions were included in the judgment requiring cuts in production
- Shell announced an appeal which may take up to 5 years
- The case sets a broad global precedent for litigation against companies to be launched by NGOs e.g. Total
- Another landmark lawsuit is forcing the Dutch government to cut emissions by 25% vs 1990 levels by 2020

"A growing wave of strategic climate litigation is only beginning to hold companies legally accountable for the environmental destruction - wrought by their investments and decisions"
James Thornton, CEO of Client Earth

Exxon Mobil



Clean energy companies trade at a 70% premium to traditional energy peers on EV/EBITDA

Source: Bloomberg, BofA

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Exxon Mobil

- March 2021: ESG activists Jeff Ubben and Michael Angelakis appointed to the board of Exxon Mobil
- Engine No.1, holding 0.02% of Exxon Mobil stock, nominates 4 new climate competent directors, 3 elected

Investors backing three new climate directors

BlackRock. CALSTRS NY City ISS GLASS LEWIS

"We believe Exxon Mobil needs….a long-term commitment to only funding projects that can break-even at much more conservative oil and gas prices….and cutting unproductive capex"

Engine No.1

REUTERS®

Exxon loses board seats to activist hedge fund in landmark climate vote

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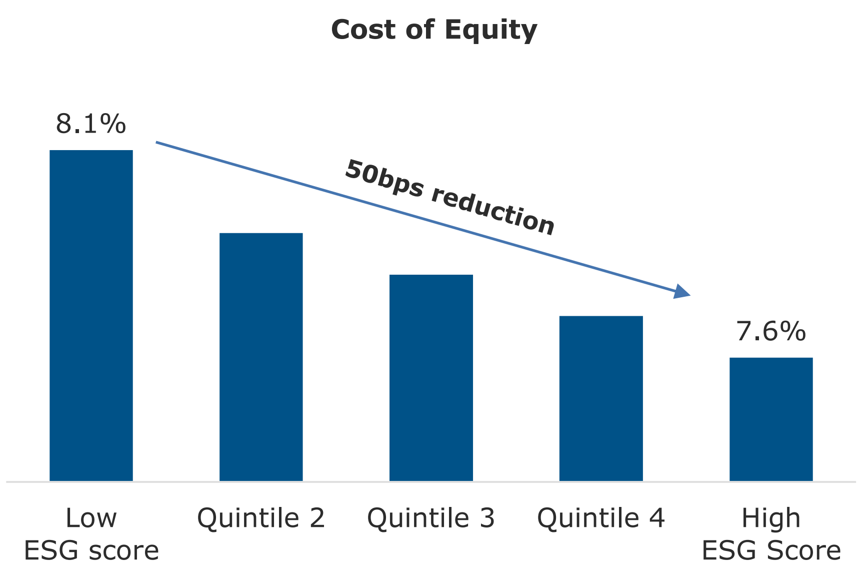
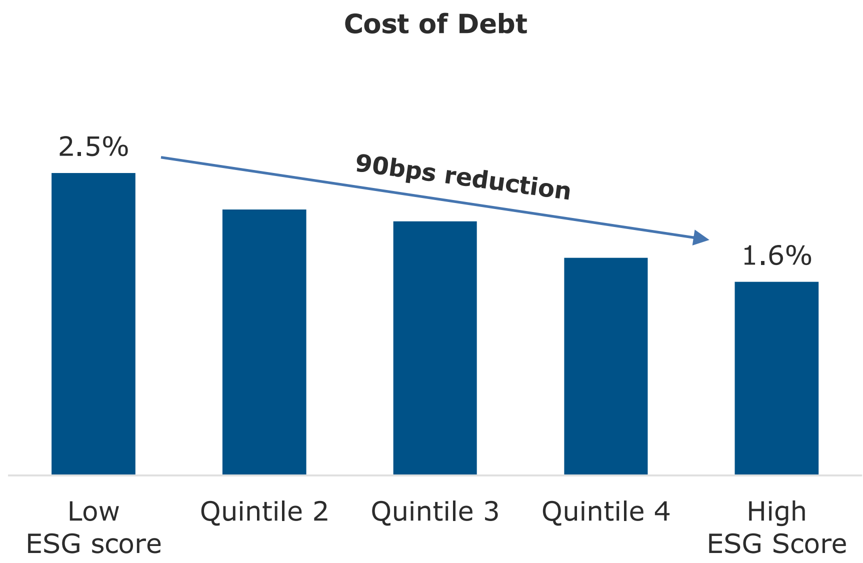
Investors are re-evaluating climate change risks

- Increasing investor demand for emissions disclosure and credible decarbonisation plans
- Increasing avoidance of "dirty" companies
- Increasing investor demand for ESG funds and serious ESG policies of asset managers
- Higher cost of debt and equity capital for "dirty" companies

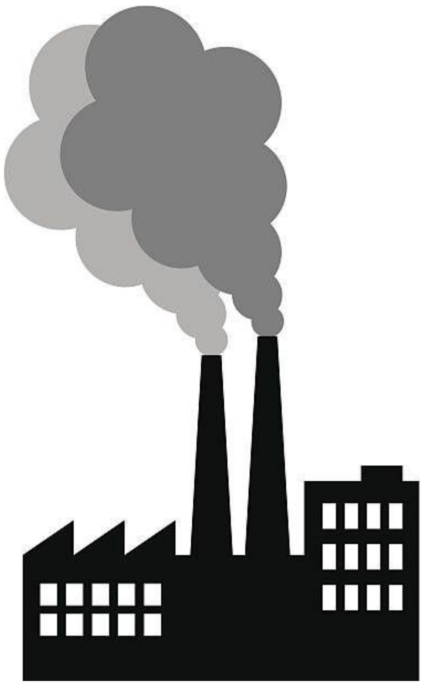




Source: MSCI

Companies are failing to take action on climate change

- Only 3% of listed companies have science-based emissions targets
- Less than 0.3% have a plan to reach those targets
- Most companies are doing as little as they can get away with



Source: Science based targets

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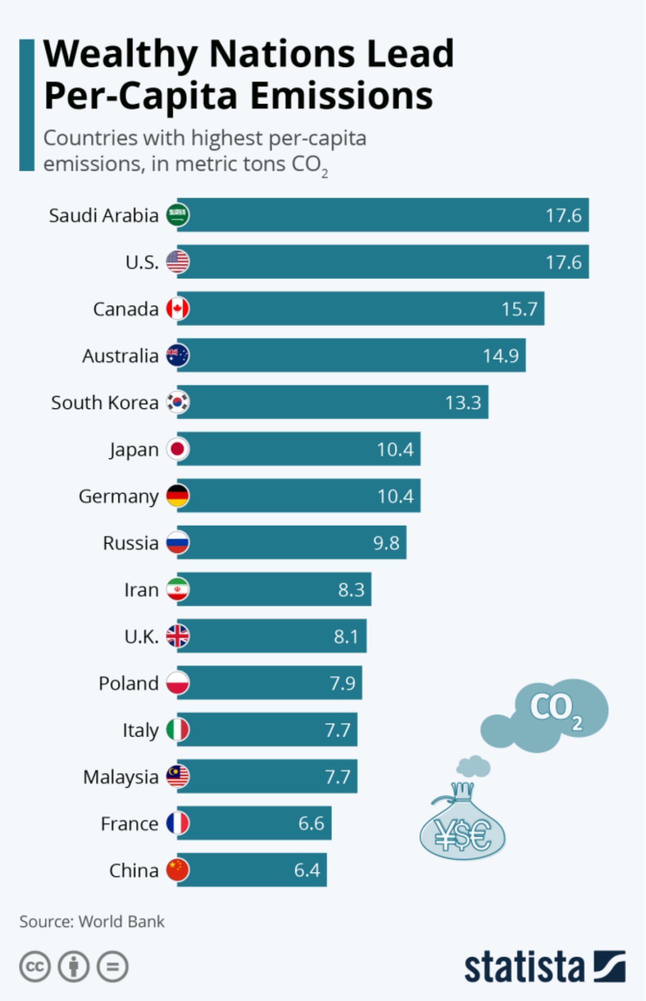
Canada is a laggard:

- Out of **1809 global companies working with the Science-based Targets Initiative** to set 2030 and 2050 targets, only **35 are Canadian**, and only 12 of those are working to be fully 1.5 degree aligned
- All 3 Canadian oil companies assessed using the French government's Accelerating Carbon Transition (ACT) framework received an 'E' grade
- All 6 Canadian companies assessed by the 2021 Climate Action 100+ Net Zero company benchmark failed to demonstrate Capex plans aligned with the Paris Agreement



https://sciencebasedtargets.org/companies-taking-action?country=Canada&ambitionToggle=1#table
https://www.worldbenchmarkingalliance.org/publication/oil-and-gas/companies/
https://www.climateaction100.org/wp-content/uploads/2021/06/Climate-Action-100-Company-Assessments-Version-1.8.xlsx

All companies need a climate action plan

– Emissions disclosure alone is inadequate

– Targets without a plan are inadequate

– A long-term target (beyond 10 years) without a short-term plan (5 years) is inadequate

A credible climate action plan must include ALL of the following:

– Emissions disclosure

– Targets (short, medium and long-term)

– Effective action plan

Essential components of a climate action plan

- Decarbonise business processes and supply chains
- Sourcing low carbon energy through new renewable power generation
- Efficient energy management of buildings & factories
- Decarbonise transport fleets e.g. electric vehicles, rail
- Commit R&D & capex for necessary future technologies and production
- Align all lobbying with regulation which drives industry decarbonisation
- Limited use of high quality carbon offsets
- Banks need to reduce the carbon intensity of their loan books and arranged financing

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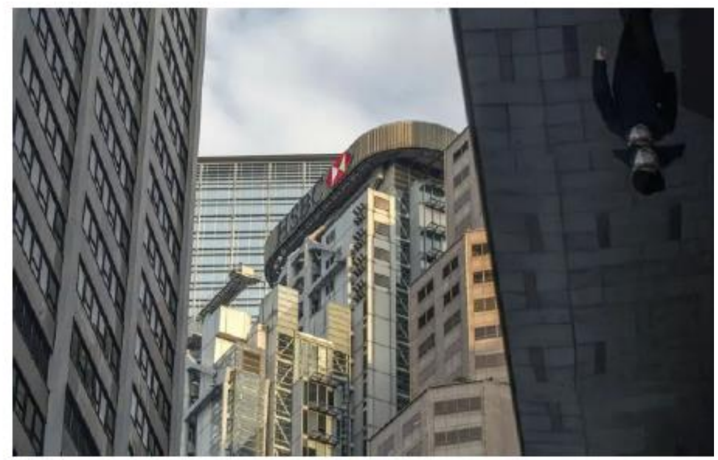
Banks

- 5 of the world's top 22 banks for fossil fuel financing are Canadian.
- These 5 banks have provided $560bn of fossil fuel financing since the Paris agreement, despite a clear message from the IEA that no fossil fuel expansion is consistent with 1.5 degrees
- All banks should:
  - Announce phase out of fossil fuel financing including gas, starting with coal by 2030 for OECD and 2040 for the rest of world
  - disclose the absolute emissions of their loan book and financing arrangement based on actual data
  - Reduce and end financing to all clients not cutting emissions in line with sector targets
  - Ensure financed emissions fall at 7%pa to 2030 in absolute terms (50% reduction)

HSBC Holdings PLC

HSBC targeted by shareholders over fossil fuel financing

Investors file resolution demanding bank publishes strategy and targets



Shareholders are increasingly targeting banks over their role in financing carbon-intensive projects and indu
Liu/Bloomberg

https://www.ran.org/wp-content/themes/ran-2020/inc/bcc-data-2021/All_League_Tables_Website_Download_Banking_on_Climate_Chaos_2021.xlsx

Say on Climate

Shareholder submitted AGM resolutions forcing:

1 Annual mandatory disclosure of emissions

2 Disclosure of a plan to manage those emissions

3 An approval or disapproval vote where shareholders deem it appropriate

Say on Climate

U.N. climate envoy Mark Carney [former governor of the Bank of England and Bank of Canada] 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.

Reuters - November 2020

"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"

Mark Carney

Say on Climate

Statements of Support

CDPQ **https://www.cdpq.com/en/sayonclimate**

54 Investor members ($14trn AUM) of the Institutional Investor Group on Climate Change

Major French Investors (EUR4.5trn) via Forum Pour L'Investissement Responsable

Australian Council of Superannuation Investors (ACSI, $1trn)

UK Local Authority Pension Fund Forum (£300bn)

UK Investor Forum

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Aena: first ever Say on Climate AGM resolution succeeded

– 98% of shareholders supported the resolution

New climate action plan

- 96% net reduction in emissions by 2026
- 80% self-production of electricity from solar by 2026
- Decarbonisation of ground transport fleets
- Air traffic control to reduce take-off/landing weight times
- Introduction of infrastructure for low carbon fuel for airlines

€550m
investment in climate plan 2021-2030

Carbon Neutral
by 2026

ESG

Leading companies adopt shareholder Say on Climate

TCI investments

CN

CP

ferrovial

VINCI

Moody's

Nestlé

RioTinto

Shell

Unilever

GLENCORE

Options for ESG shareholder activism

- Company engagement
- Engagement with other shareholders
- Engagement through shareholder associations for climate action
  - CDP www.cdp.net
  - CA100+ www.climateaction100.org
  - IIGCC www.iigcc.org
- AGM resolutions for disclosure of emissions and climate action plans
- AGM disapproval votes on climate action plans
- Voting against existing directors
- Nominating new directors with ESG expertise

CDP DISCLOSURE INSIGHT ACTION

IIGCC The Institutional Investors Group on Climate Change

NET ZERO ASSET MANAGERS INITIATIVE

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Grading of plans and performance

– Philanthropy is establishing a Net Zero Centre to fund the widespread grading of plans and performance, working with:
  - Climate Action 100+ net zero company benchmark
  - World Benchmarking Alliance ACT framework
  - Transition Pathways Initiative

– CDP and the Science-based Targets Initiative will monitor annual emissions reduction performance vs the science-based targets for each company

– Grading of plans will impact all capital markets:
  - Climate Bonds Initiative will certified only companies delivering a Paris-aligned climate action plan
  - Willis Towers Watson has launched a Climate Transition Pathways insurance market

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CHILDREN'S INVESTMENT FUND FOUNDATION

The Children's Investment Fund Foundation (CIFF)

- One of the world's leading funders of climate change action
- $6bn of assets, $158m of 2020 climate change grants
- "Ending dirty finance" strategy through:
  - advocating for regulation on disclosure of emissions and climate plans
  - supporting independent evaluation of climate plans and plan performance
  - advocating for regulation on company emissions
  - advocating for carbon taxation policy
  - funding environmental litigation
  - advocating for bank regulation and bank lending policies
- NGO partners: Ceres, As You Sow, European Climate Foundation, IIGCC, Client Earth, CDP, Share Action

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Role of NGOs

- In Canada shareholder NGOs have acquired stock in 40 companies to enable resolutions to be filed mandating disclosure of 5-year climate action plans
- Canadian companies will lose access to export markets when carbon borders are imposed
- Canadian companies and banks will face a higher cost of capital and will lose access to insurance markets without credible 5-year climate action plans

CHILDREN'S INVESTMENT FUND FOUNDATION

AS YOU SOW

Ceres