PASSING THE BATON

CLIMATE-RELATED SHAREHOLDER RESOLUTIONS AND THEIR CONTRIBUTION TO INVESTOR CLIMATE PLEDGES

DISCUSSION PAPER
DECEMBER 2019

In partnership with:

2° Investing Initiative

InfluenceMap

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ABOUT: 2° Investing Initiative (2° ii) is a not-for-profit think-tank working to integrate long-term risks and societal goals into financial markets. With offices in Paris, London, Berlin and New York, 2° ii engages a global network of over 50 partners and members, including financial institutions, investment researchers, asset managers, policymakers, research institutions, academics and NGOS. Our work primarily focuses on three pillars of finance – metrics and tools, investment processes, and financial regulation.

AUTHORS: This paper was written by Vincent Jerosch-Herold, Jakob Thomä, Stanislas Dupré, and David Cooke

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0 EXECUTIVE SUMMARY

Key Findings

This paper provides a classification for climate-related resolutions and applies this classification to a large dataset of resolutions filed at companies' general meetings.

Beyond the standard practice of counting environmental resolutions, the results provide critical insights into the evolving landscape of shareholder climate activism.

Resolutions were categorized across three macro types — governance, transparency, and target-setting.

The classification was applied to a dataset of resolutions filed with companies representing $1.3 trillion in market capitalization and upwards of 20% of global production in the power and oil & gas sector.

The vast majority of investors support management backed proposals, while only 3% of climate-related resolutions were successful.

The findings from this paper draw attention to the increasing investor support for climate-related resolutions. A proposal was 40% more likely to be filed with a company in a climate relevant sector and receive higher levels of support. However, proposals were more likely to succeed when filed at companies with a smaller market capitalization.

The Paris Agreement and international initiatives like the TFCD have increasingly been emphasized in investor led proposals. Likewise, support for these resolutions has significantly increased overtime.

However, when investors engaged companies to set Paris-aligned targets, investees' ambitions did not always meet engagement goals.

Power companies exposed to these resolutions subsequently, adopted net-zero targets, but oil & gas companies did not. It should be noted that the report did not analyze causality and that the resolutions did not necessarily receive majority support. Further analysis is necessary here.

Limitations

- **The data sources that 2° ii aggregated do not represent a complete universe of all shareholder resolutions.**

- **The analysis does not include a comprehensive impact assessment** in terms of the extent to which resolutions focused on 'means' ended up leading to emissions reductions and how targets were implemented concretely in practice.

- **The problem of omitted variable bias.** Investors may be much more supportive of climate actions (and companies much more willing to pursue climate targets) than the results suggest. Not all investors choose to engage with companies through public means. This analysis focuses on one subset of engagement and so it does not capture the full spectrum of activities.

- **Certain classification choices may be contested.** We identified a number of borderline cases, notably in terms of the ambition and 'rigour' of the resolution language in terms of requiring targets. Without a standard, other analysts may differ as to some of our classification choices.

Recommendations

- **Set up a program to build evidence on impact of shareholder resolutions**. This paper highlights the need to connect the results of the shareholder resolutions with targets and actions set by companies and investors and to more closely distinguish 'strategies' across resolutions' types.

- **Investors setting climate targets should implement the engagement equivalent of 'coal policies', involving commitments to cascade investor pledges into shareholder resolutions requiring corporate target-setting.**

- **Lastly, there is currently no standardized framework for what qualifies as a Paris-aligned resolution**. A framework needs to exist for investors to set meaningful objectives in line with scientific evidence and contextual to the investee's current portfolio of physical assets.

3

Last year, three companies*, adopted Paris-aligned targets after shareholders pass a resolutions requesting them to align with Paris or prepare an associated business plan

11

11 resolutions requesting consistency with well below 2° C pathway have been introduced since 2017.

150

Over the past two decades, over **150** shareholder resolutions request companies set climate-related targets.

7500

Over 7500 resolutions analysed in this report with 500 identified as climate-related.

Key takeaways:

- ☐ These figures show the potential of resolutions to turn words into actions, “passing the baton” from investors who committed to aligning their portfolio with Paris goals to investee companies.
- ☐ They illustrate the need to further organize and engage in collective shareholder actions, such as the Climate Action 100+ coalition.
- ☐ They also show the gap: among the 500 climate-related resolutions, only 11 resolutions requested consistency with below a 2°C pathway. Given the recent investor pledges, we expect Paris-aligned resolutions to rise dramatically in the next few years.

* Southern Company, PNM Resources, and AES Corp. These companies decided to set targets although the resolutions did not necessarily pass. The report identifies the targets and the resolutions, but further analysis on causality was not done in the context of this report.

1 INTRODUCTION

There is a growing number of investor climate pledges (i.e. Net-Zero Asset Owner Alliance etc.) that set long term-climate targets. Yet there is no clear mechanism to understand to what extent these investors are pursuing the necessary actions to meet those targets, nor exactly what those actions *should* be.

One critical avenue involves climate-related shareholder resolutions, which engage and hold investees accountable on climate-related issues.

While shareholder voting engagement is scaling in both quantity and quality with over 70 resolutions filed in 2018 (see Fig. 1.1), there is no existing methodology to classify a climate-aligned proposal. To help resolve this information asymmetry, this paper seeks to suggest a way forward for creating universal classifications for climate-related resolutions.

Classifying resolutions as Paris-aligned can help investors with related climate targets to ensure their voting practice aligns with their commitments.

Shareholder resolutions related to climate receive on average about 20% support, versus 40-65% for general shareholder resolutions. One way to overcome this 'support gap' – in particular for those resolutions that are Paris-aligned – is to ensure transparency as to the level of ambition across shareholder resolutions.

Developing such classifications can also help create public accountability and inform research on the effectiveness and success of various engagement strategies.

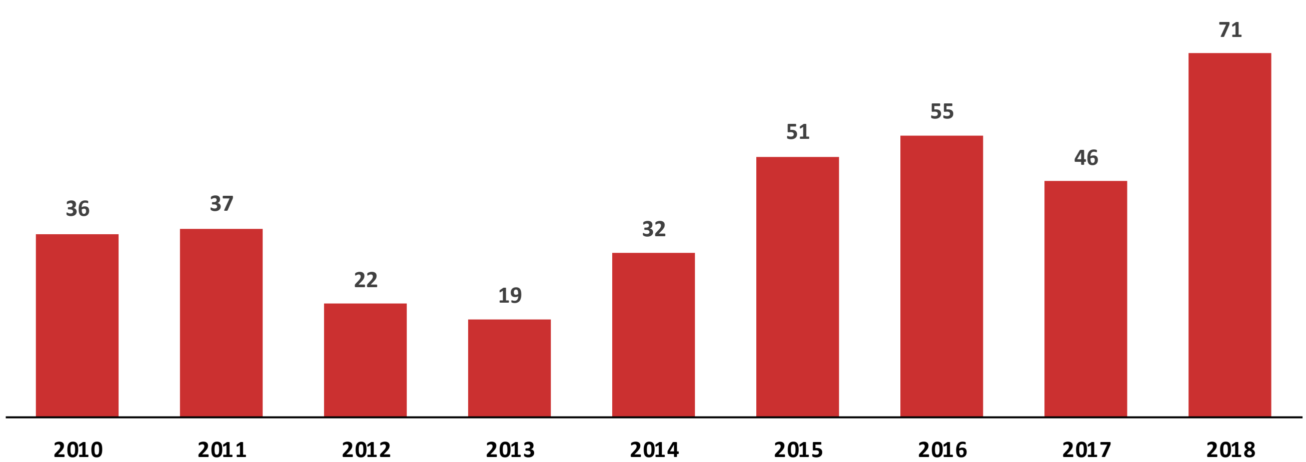
There is no classification framework to make the world of climate-related shareholder resolutions intelligible and useful for the public. It also creates a broader challenge as to building scientific evidence as to the effectiveness of engagement in contributing to climate goals. A classification can also help build evidence as to the impact of the 'engagement' strategy – not least in the context of the broader universe of climate actions available to investors.

This paper focuses on the first challenge, suggesting classifications for climate shareholder resolutions and dissecting the current dynamic on resolutions based on these classifications.

The paper suggests 3 types of resolution classifications and maps these classifications to a universe of over 500 climate-related resolutions filed since 2006. It analyzes these resolutions in light of the classification, looking at application by sector, market capitalization, prominence over time, and of course support. In this analysis, it provides a specific focus on resolutions as they relate to Paris-aligned targets.

The paper also maps current limitations and how these classifications could be applied moving forward.

FIG. 1.1: GROWTH IN CLIMATE-RELATED SHAREHOLDER RESOLUTIONS 2010-2018 (SOURCE: AUTHORS, BASED ON PROXY REVIEW, SUSTAINABLE INVESTMENT INSTITUTE, AS YOU SOW, PROXY IMPACT)



BACKGROUND: LITERATURE ON SHAREHOLDER RESOLUTIONS

Business as Usual. Financial markets are increasingly seen as a critical means to for influence corporate environmental, social, and governance issues (ESG). Good ESG practices are a vital component of stakeholder value with activist shareholders exercising their voting rights to influence and engage with companies (Gompers, Ishii, and Metrick 2003; Shleifer and Vishny 1997; Bebchuk, Cohenn and Ferrell 2009).

Shareholder resolutions function as a critical mechanism to engage with companies on transition risks and opportunities. And in the long run, Smith (1996) and Monks et al., (2004) find that climate-related resolutions have a positive effect for the stakeholders involved. Rehbein et al., (2004) and Guay et al., (2004) document that shareholder resolutions filed with companies with strong CSR track-record and low ownership concentration are more likely to succeed. In turn, Becht et al. (2008) and Sullivan & Mackenzie (2017) observe that successful activism is associated with higher sales at no cost to probability.

Activism is a costly and time-intensive exercise but provides a mechanism to engage with a broader audience to improve short and long-term shareholder value (O'Rourke 2002; Smith 1996). Shareholder resolutions are often seen as final resort when other engagement mechanisms have failed. Even for unsuccessful proposals, Loss and Seligman (2004) observe that "the very opportunity to submit proposals, even of advisory nature, affords a safety valve for stockholder expression". Still not all activists choose public forums — Becht et al. (2009) find that private conversations are also an effective means to improve the operational performance of companies.

The greater the publicity of the activism, the more likely the investee will cede to investor demands (O'Rourke, 2002). In this regard, information increasingly functions as a strategic tool to convince fellow shareholders and other key-stakeholders (Allaire, 2016). While most sustainability related shareholder resolutions fail to succeed, the process itself can convince management to adopt some if not all the proposed changes (Yoon, 2016).

For many years, ESG and particularly environmental issues were pursued primarily as a matter of principle. But with the ever-growing urgency of reducing emissions, investors increasingly see target-setting and disclosures as essential mechanisms for 'walking the talk' and reducing financial risks relating to climate change. Yet, State Street Global Advisors (2017) concluded over the course of 240 climate-related engagements "that few companies can effectively demonstrate to investors how they integrate climate risk into long-term strategy."

Reflecting this disconnect, ISS-Ethix (2018) annual report on AGM proxy-voting found that environmental issues are "the ESG topic of the season" and in 2018 the number of climate related proposals reached a record high. Still, 'actions speak louder than words' — ShareAction (2019) and InfluenceMap (2019) have documented that many asset-managers with systemically important voting shares still frequently reject or abstain from climate-related resolutions.

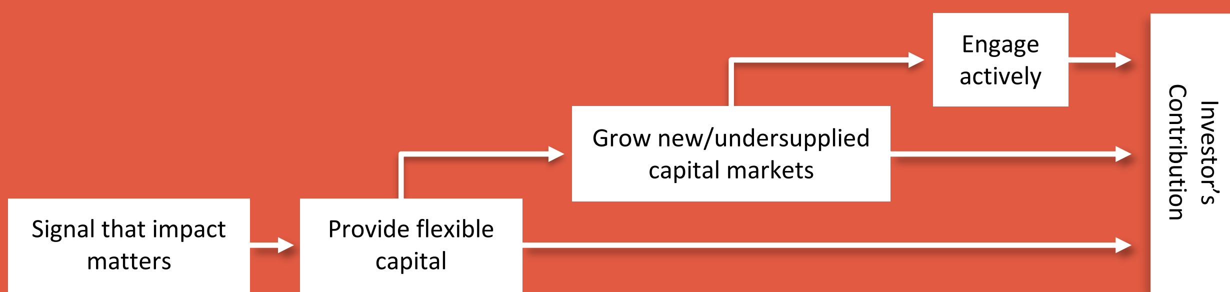
Seeking to reconcile this problem, over the past few years, public and private initiatives and frameworks have emerged that seek to address climate related risks in financial markets and shift capital flows in line with climate goals. Specifically, the Task Force on Climate-Related Disclosures (TFCD), Network for Greening the Financial System (NGFS), and Climate Action 100+ (CA100+) have sought to reduce information asymmetries and short-termism in financial markets.

Since 2017, CA100+ has led an organized and efficacious campaign, filing several successful and high-profile resolutions with BP and Volkswagen, among others (CA100+, 2019). Analogously, the TFCD's disclosure recommendations have become the standard framework for reporting on climate-related risks (TFCD, 2019). Still, markets remain misaligned with climate goals and exposed to risks, necessitating further investor engagement.

ENGAGEMENT AS A CRITICAL COMPONENT OF THE IMPACT INVESTING FRAMEWORK

Impact investing seeks to measure performance beyond traditional financial indicators and consider the "material effects on people and [the] planet" (Impact Management Project, 2018). With over $500 billion in AUM, in impacting investing assets, investors have an increasingly important role in shaping businesses actions (GIIN, 2018). The Impact Management Project (2018) suggests four strategies to shape an enterprise's impact. Investors can first, signal that measurable impact matters; second, provide capital flexibly (based on an enterprise's non-financial impacts); third, grow new or undersupplied capital markets; and fourth, engage actively to improve the non-financial performance of businesses.

FIG. 1.2: **INVESTOR STRATEGIES TO CONTRIBUTE TO AN ENTERPRISE'S IMPACT** (SOURCE: ADAPTED FROM IMPACT MANAGEMENT PROJECT)



With engagement, investors can use expertise and industry networks to influence improve the environmental impact of enterprises. The Impact Management Projects (2019) notes that the "strategy should involve, at a minimum, significant proactive efforts to improve impact." Engagement activities exist across a varied spectrum of actions from bilateral meetings with investees, setting of industry standards, and filling a shareholder resolutions.

Shareholder resolutions function as a clear indicator to measure impact. While most resolutions are not legally binding, they can act as a proxy to measure investor sentiment and companies often respond to the results accordingly. In terms of accountability, voting records are an easy metric to assess and are commonly legally or voluntarily disclosed.

In practice, the actions of a small group investors make up the vast majority of engagements via shareholder resolutions. InfluenceMap's recently published FinanceMap (2019) report found Hermes Investment Management, Sarasin & Partners, Walden Asset Management, Trillium Asset Management, and Zevin Asset Management were responsible for 20% of all climate-related resolutions in 2018.* Yet at the same time, FinanceMap (2019) also documented that key-players like Capital Group and BlackRock voted against 90% of climate-related shareholders resolutions.

While shareholders are increasingly engaged on climate issues, resolutions are not a means to an end. Resolutions should ultimately set realistic and material targets (i.e. requiring companies to target Paris-aligned emission reductions or improve the disclosure of climate risks can be a key mechanism to contribute to a company's impact) that catalyze material changes in the real economy to mitigate the impacts of climate change.

* FinanceMap provides public-facing metrics and analysis of the asset management sector through a climate lens. It measures portfolios, the investor-company engagement process and shareholder resolutions based on best-available public data combined with rigorous analysis.

2 CLASSIFICATION OF CLIMATE RESOLUTIONS

2.1 METHODOLOGY

The classifications proposed in this paper is built on interviews, literature review, and expert analysis.

To create a global set of classifications for climate resolutions, 2°ii began by conducting 20 interviews with engagement professionals from civil society and financial institutions around target-setting and the role of shareholder engagement (we did not ask for release of institutions' names and thus participating individual and organization names will not be published). These interviews informed the design of the framework and provided an initial overview of the types of actions and information shareholders engaged companies on. Interviewees noted the time intensive nature of filing resolutions and the complexity of stakeholder management.

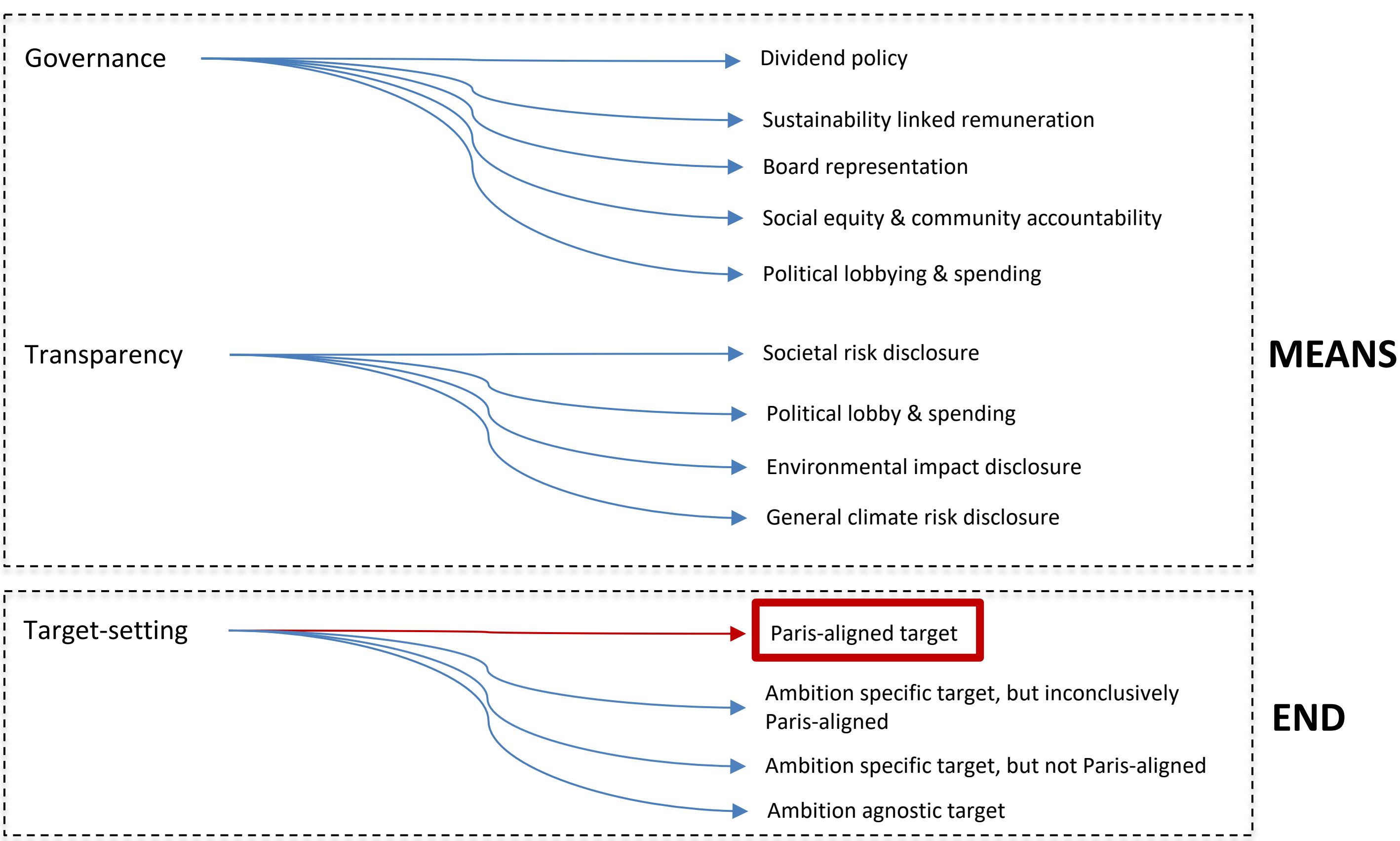
In addition, 2°ii conducted a thorough review of academic and practitioner research (see p. 5-6 and bibliography) on the topic and extensive qualitative evaluation of all types of resolutions.

Informed by these three inputs, 2°ii created a draft framework which was applied to a data sample based on a review of over 7,000 filed resolutions.

In the initial assessment, 2°ii sub-divided climate-resolutions into three macro categories — **governance, transparency, and target-setting.** The first two categories are 'means' for which we were unable to identify the "Paris-alignment" concept as a theme as this stage. The third category is 'ends' for which identification was more intuitive in the form of shareholder resolutions that required target-setting consistent with climate science. The Paris-aligned concept was thus only applied to the resolutions on 'ends', not means, with further work needed to explore what Paris-alignment in the context of means might imply.

That is not to say that resolutions on means are not meaningful and impactful, simply that their link with climate pledges requiring Paris-alignment is less intuitive and less direct. Further work can consider how to classify resolutions focused on means as well.

FIG. 2.1: CLIMATE RESOLUTIONS CLASSIFICATIONS (SOURCE: AUTHORS)



2.2 GOVERNANCE

Governance resolutions were categorized as either influencing executive structure and policies or setting climate related policies.

For the first primary category (executive structures and policies) resolutions were further subdivided across three sub-categories: sustainability linked remuneration, dividend policy, and board representation. For the other primary category (climate-related policies and principles) resolutions could be focused either on social equity and community accountability, or political lobby and spending. While equally important as other resolution types, governance issues are perhaps the most challenging to connect with portfolio alignment metrics.

<u>Executive Structure & Policies</u>

Dividend Policy: Require linking a company's dividend policies with sustainability and climate related outcomes.
"Dividend Policy based on Environmental Issues" (Oil & Gas)

Sustainability Linked Remuneration: Require executive compensation linked to sustainability and climate related targets.
"Report on executive pay links to ESG metrics" (Transportation & Logistics)

Board Representation: Require stakeholder representation on the board or delegated committee for climate change issues.
"Amend Bylaws to Establish Board Committee on Environmental Sustainability" (Oil & Gas)

<u>Climate Related Policies & Principles</u>

Social Equity & Community Accountability: Require policies to ameliorate environmental social equity and accountability problems.
"Report on Environmental Remediation in Midland Area" (Commodity Chemicals)

Political Lobbying & Spending: Require companies to engage in political lobbying and spending in a manner and agenda consistent with climate goals.
"Report on Lobbying Related to Federal Fuel Economy Standards" (Automotive)

2.3 TRANSPARENCY / DISCLOSURE

Transparency resolutions could be considered across two primary categories, general sustainability disclosure or disclosures regarding climate related risks.

Resolutions seeking climate related risk disclosures focused on either general climate risks disclosures (e.g. TCFD reporting) or specific financial, physical, and regulatory risks for the company.

The classifications distinguishes between 'risk' and 'impact' disclosures, with the latter including disclosures related to political lobbying & spending.

<u>General Impact Disclosure</u>

Societal Risk Disclosure: Require a company to disclose how their operations pose environmental risks to public health.
"Coal Combustion Byproducts Report" (Power)

Political Lobbying & Spending: Require a company to disclose on their political lobbying and spending activities.
"Report on Lobbying Related to Federal Fuel Economy Standards" (Automotive)

Environmental Impact: Require a company to disclose on the direct environmental impact of their operations.
"Report on Methane Emissions" (Oil & Gas)

<u>Risk Disclosure</u>

General Climate Risk: Require a company to disclose on risks related to climate change.
"Report on Financial Risks of Continued Reliance on Coal" (Power)

2.4 TARGET-SETTING

Target-setting fell across four primary categories.

These categories were general climate targets without a specific reference to ambition; and targets that can be considered to meet Paris-level ambition. Within this category, targets could be general, or directly relate to a specific emissions or technology target. The description here focuses only on the second and third category.

Note here that while the titles of the resolutions identified suggest that they relate to reporting, the resolutions selected here are in fact focused on climate target-setting in some form, with the reporting forming the ‘articulation of those target.

Paris-aligned target: Requires a company-wide climate target(s) compatible with the ambitions of the Paris Agreement and consistent with a 2° C or 1.5° C scenario.
“Report on 2-degree analysis and set Paris-aligned strategy” (Coal Mining)

Ambition specific target, but inconclusively Paris-aligned: Requires a company to pursue a technology / emissions target, but the target is not conclusively aligned with (Paris) climate scenarios.
“Reduce emissions 50% by 2030.” (Power)

Ambition specific target, but not Paris-aligned: Requires a company to pursue a technology / emissions target, but the target is not aligned with (Paris) climate scenarios.
“Reduce emissions 20% by 2050” (Oil & Gas)

Ambition agnostic target: Requires companies to set climate targets, but the target is ambition agnostic.
“Set GHG emission reduction targets” (Oil & Gas)

With the final, classified data, 2° ii flagged resolutions that could be considered Paris-aligned.

Paris-aligned resolutions are those resolutions that engage investees to pursue meaningful climate action consistent with the changes needed under the Paris Agreement. 2° ii defined a Paris-aligned target sought for investees to pursue 2 or 1.5° C Scenario aligned business model in the broad sense, either through explicit target-setting or the equivalent implementation of policies.

Each classification was further analyzed according to the type of action pursued:

Reporting: resolutions that request companies report on a climate related issue.

Objective & Target-setting: resolutions that explicitly mention specific targets or objectives.

Divestment: resolutions that discuss divestment from direct or indirect exposure to carbon assets.

Investment: resolutions that require investment in sustainable solutions such as renewable energy or R&D into energy preserving technologies.

The first category around reporting is the most controversial as to its inclusion, since the language does not always meet the highest standards of ‘mandating’ and is not always explicit.

Nevertheless, we included a set number of resolutions in this category were the language around the report was clearly designed to lead to, require, and / or implement some form of target-setting behind it. The next section provides further details as to these types of resolutions.

3 EMPIRICAL ANALYSIS OF CLIMATE RESOLUTIONS

3.1 METHODOLOGY & DATA SOURCES

The primary data source for the sample of resolutions was Proxy Monitor which has voting records for 2006 through 2019 (Proxy Monitor, 2019).

Proxy Monitor includes in its database shareholder proposals from the 250 largest publicly traded US companies by revenue and segmented by the Standard Industrial Classification (SIC). The complete database has 7250 observations of which 574 are categorized as environmental.

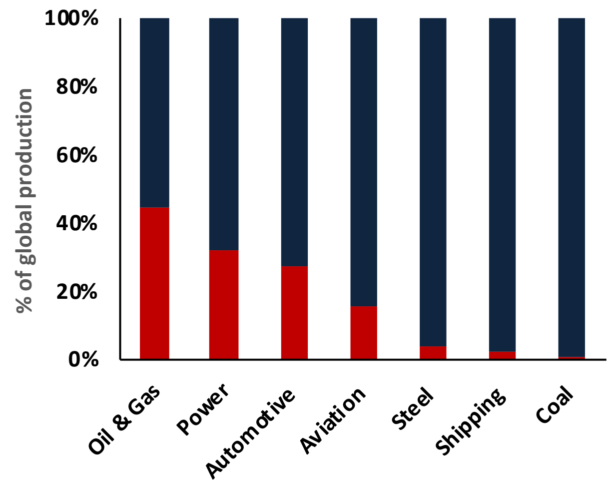
Supplementary to Proxy Monitor, 2° ii's project partner, InfluenceMap also gathered a database of resolutions filed by asset managers in the 2018 voting season. This more limited universe consists of 250 observations of which 75 can be classified as environmental resolutions. Both databases were cross-examined to ensure no cases of double counting.

To complement the above datasets, 2° ii matched all of the companies to asset-level and financial data. This process was done manually to ensure accurate matches. This step supports a number of additional insights — common identifiers facilitate more natural cross-sectional sector and company comparisons.

From the final dataset, 2° ii classified 551 shareholder resolutions as 'climate related'.

The companies included in the final dataset represent roughly **$1.3 trillion** in market capitalization. Across global capital markets, these companies account for 26% of oil & gas production, 16% of power production, and 17% of industry and transportation (automotive, aviation, shipping, cement & steel). While not a complete, the database captures a universe of companies systemically critical to the reduction of global greenhouse gas emissions.

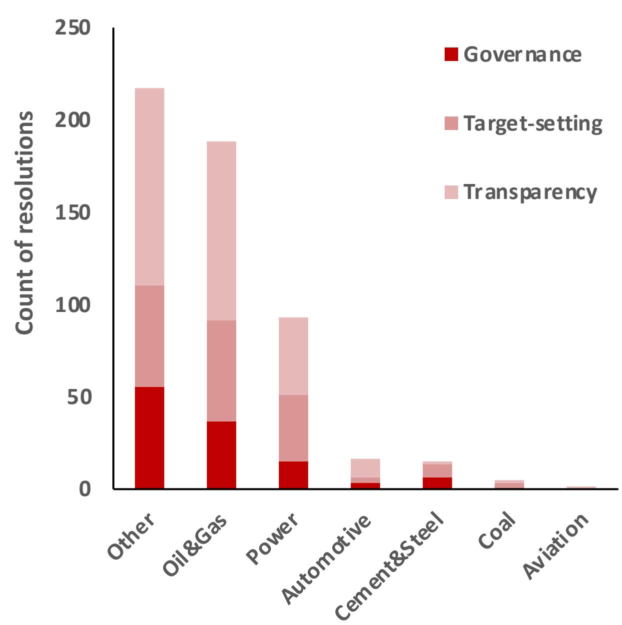
FIG. 3.1: PRODUCTION COVERAGE "BASED ON THIRD PARTY DATA (SOURCE: AUTHORS, BASED ON OWN ANALYSIS & ASSET RESOLUTION)



Climate-related shareholder resolutions focus in particular on the power and oil & gas sector.

Fig. 3.2 below provides an overview of the types of resolution identified per sector and classification as described above. The results show the prominence of shareholder engagement in the oil & gas sector and power sector, with a focus on disclosure, whereas for example for cement and steel, governance and target-setting proportionally received much more attention.

FIG. 3.2: RESOLUTIONS BY SECTOR & TYPE (SOURCE: AUTHORS, BASED ON OWN ANALYSIS)



3.2 SHAREHOLDER RESOLUTION SUPPORT

Despite the recent growth of climate-related resolutions, they still represent the same proportion of overall resolutions (due to overall growth in the number of resolutions). However the average support for climate-related shareholder resolutions has increased by 10%.

The average (non-environmental) resolution received 52% investor support. In contrast, the average climate resolution was only supported by 18% of investors. In recent years, the most commonly successful resolutions have shifted away from sustainability reporting to seeking emissions reduction targets.

In the sample, the majority of investors supported only 15 climate resolutions, which were all filed in the past five years..

Resolutions in the automotive sector received the least support and generally focused on reporting on fleet emissions. Resolutions for cement & steel companies received the most support and disproportionately focused on setting emission reduction targets.

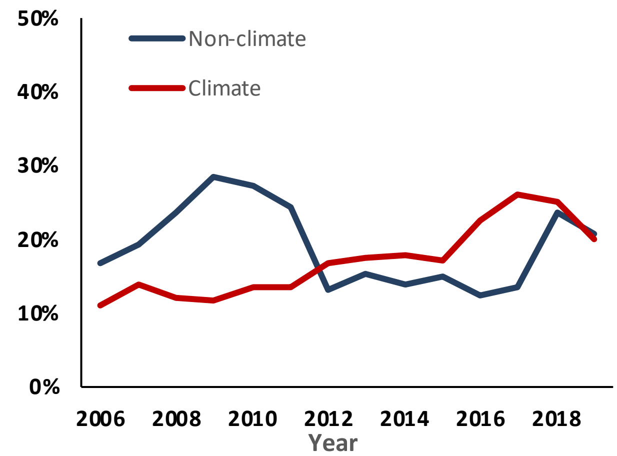
When excluding management led proposals, investors supported climate and non-climate-related resolutions to the same degree. However, climate-related resolutions were significantly more likely to receive the majority of investor support.

Shareholder proposed, non-climate related resolutions accounted for only 5% of all resolutions. This subset of resolutions focused mostly on “say on pay” and corporate lobbying. 62% of resolutions on this topic were filed in non-climate relevant sectors.

While investors were equally likely to file resolutions with large cap, mid-cap, and small-cap, a 1% increase in shareholder support is associated with a 1.6% lower market capitalization.

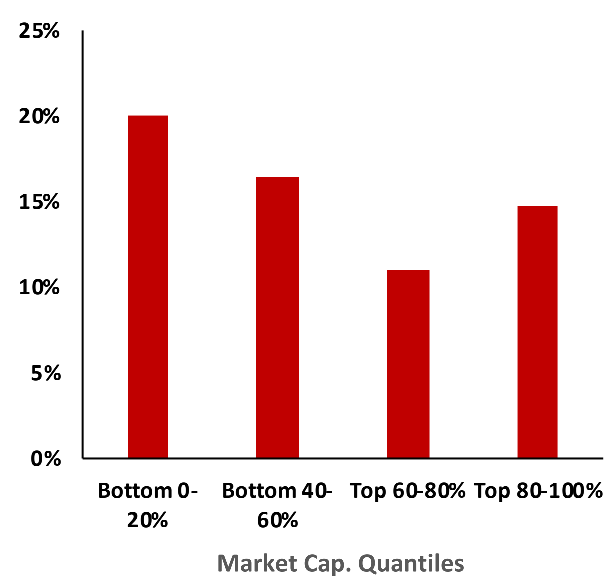
This suggests that climate-related resolutions were supported to a greater degree when filed with smaller companies. The effect was most pronounced in the oil & gas sector. Resolutions filed after 2015 are associated with significantly higher levels of overall support.

FIG. 3.3: AVERAGE SUPPORT FOR NON-MANAGEMENT SUPPORTED SHAREHOLDER RESOLUTIONS (SOURCE: AUTHORS, BASED ON OWN ANALYSIS AND PROXYIMPACT)



A component of this relationship is likely the dilution of voting shares. A single or group of investors filling a climate resolution has marginally less voting power the larger the company’s market capitalization. As a result, galvanizing support from more investors entails higher transaction costs (Cotter & Najah, 2012). However, in recent years the number and size of investor coalitions has significantly increased with the CA100+ alone consisting of over 370 investors and representing $37 trillion in AUM (CA100+, 2019). It should be noted that while the sample size is significant, the observed correlation between support for these resolutions and market capitalization may be spurious.

FIG. 3.4: AVERAGE SUPPORT ACROSS MARKET SEGMENTS (SOURCE: AUTHORS, BASED ON OWN ANALYSIS AND PROXYIMPACT)



At the macro-level, from 2006 to 2010 there was a general trend towards divestment and target-setting.

Since 2010, 44% of climate resolutions have focused primarily on disclosures, 25% have focused on governance transparency to shareholders, while the remaining 31% required companies to set specific targets and objectives.

Climate related disclosures were most often focused on the direct environmental impacts of a company's operations (43%). General climate risk disclosures were the second most common resolution type (27%). These results suggest that resolutions were more focused on concrete metrics versus general sustainability disclosures (e.g. sustainability reports).

For governance, investors frequently engaged companies to have greater board representation on climate-related issues (34%). The least common strategy among shareholders was for companies to pursue a sustainability linked dividend policy (1%).

Among different climate targets, investors expressed the most support on average for 2° C alignment, emissions targets and risk disclosures. In contrast, general sustainability reporting was supported significantly less. This suggests resolutions that defined precise strategies/outcomes received more support than more general objectives. Yet, targets that set very ambitious near-term objectives such as reducing emissions by "80% by 2022" received the least support.

3.3 RISK DISCLOSURES

Resolutions seeking risk disclosures focused primarily on the direct impact of company operations, followed by financial, general climate, and physical risks.

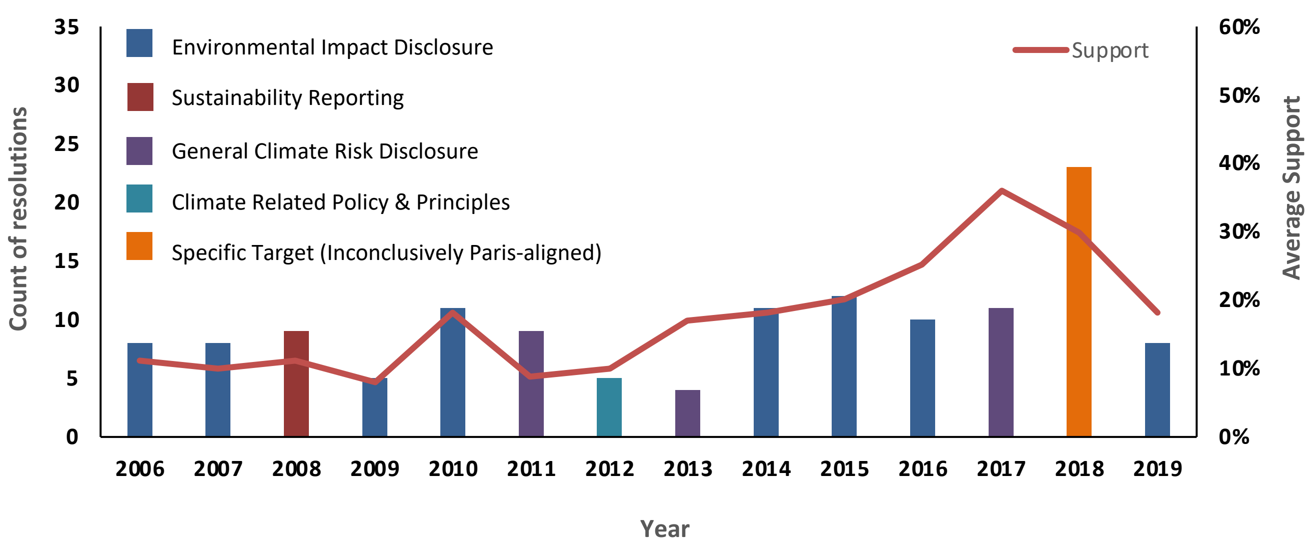
Investors filed the most risk-related shareholder proposals in oil & gas (85 resolutions) and then power (39 resolutions). Across time, the yearly total has remained relatively consistent. Risk disclosures were not supported differently than other resolutions, even when adjusting for fixed sectoral and time-effects.

Compared to other forms of risk disclosures, only in two instances did investors petition companies to disclose specifically on physical risks. This perhaps reflects the complexity of modeling granular physical risks or that risk disclosures function as alternative means to advance climate goals.

TFCD's Impact. The Task Force on Climate Related Disclosures released its initial recommendations in June of 2017, which "provide a framework for companies and other organizations to develop more effective climate-related financial disclosures through their existing reporting processes" (TFCD, 2017).

In 2017, there were a record number of climate-relevant proposals submitted in line with the TFCD's recommendations.

FIG. 3.5: MOST COMMON RESOLUTION TYPE FILED PER YEAR (SOURCE: AUTHORS, BASED ON OWN ANALYSIS AND PROXYIMPACT)



CASE STUDY: SHAREHOLDER RESOLUTIONS WITH EXXONMOBIL

One of the largest companies by revenue and by oil and gas production, ExxonMobil's environmental impact is as politically divisive as it is large.

While the oil & gas major has committed to reduce emissions, its operations continue to be significantly misaligned with a 2° C scenario (Carbon Tracker, 2019). Facing greater legal woes and investor pressure, it is worth assessing investor engagement at this company as against the classifications developed in this paper.

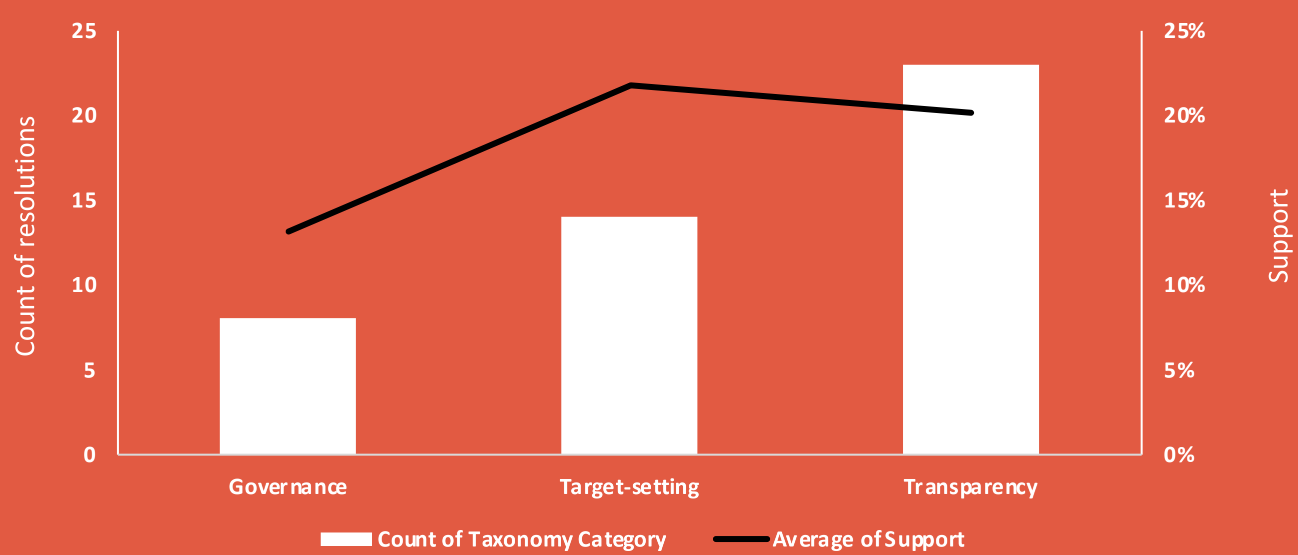
Since 2006, 45 of 141 shareholder resolutions filed with ExxonMobil are climate related.

Investors overwhelmingly supported management resolutions (78%). However, investors supported climate-related shareholder resolutions (20%) to a greater degree then non-climate shareholder resolutions (11%).

Most disclosure related resolutions sought greater transparency on the direct environmental impacts of ExxonMobil's operations, like methane emissions from natural gas and Canadian Oil Sands extraction. Regarding political risks and despite spending $16 million on lobby and political donations between 1995 and 2006, no investor proposals sought great transparency from ExxonMobil's on this topic.

Among investors, New York State Common Retirement Fund (one of America's largest pension funds) and The Park Foundation filed the most consistently successful proposals.

The Park Foundation focused primarily on resolutions seeking further disclosures on fracking and natural gas operations, while New York State Common Retirement Fund sought information on the "Portfolio Impact of Policies to Limit Global Warming." In one instance, the SEC has blocked the New York pension fund's resolution from appearing on the ballot at ExxonMobil's annual meeting, after the New York pension fund advanced a proposal to set emissions reduction targets (FT, 2018). Resolutions that received a significant share of investor support, tended be filed by several large institutional investors organized around a common strategy. Successes and failures were evenly split across the classification framework and failed to indicate one best practice or mechanism to engage ExxonMobil on climate change.



3.4 PARIS-ALIGNED RESOLUTIONS

Since the Paris Agreement in 2015, 2° ii identified 11 shareholder resolutions engaging companies to pursue a Paris-aligned business model and set related targets (*NB: This sample does not include resolutions referencing specific emissions or technology targets, see discussion to right).*

The 11 resolutions identified targeted Whitehaven Coal, Kinder Morgan, Noble Energy, MGE Energy, PNM Resources, Marathon Petroleum, Anadarko Petroleum, AES, and Southern Company. These efforts focused on the coal, power and oil & gas sectors.

Among this subset of companies, all of the power companies subsequently adopted emissions targets that involve 'net-zero' outcomes by 2050 latest, arguably representing Paris-aligned strategies. In contrast, oil & gas and coal companies *did* conduct and report on a 2° C scenario assessment consistent with TCFD recommendations but have *not* to date set targets consistent with the Paris Agreement. Nearly all these resolutions were filed in 2018.

Despite the apparent response from power companies, the resolutions did not necessarily receive majority support and this report does not suggest causality.

Nevertheless, the relationship is noteworthy and should engender further analysis as to the contribution the engagement ultimately made – not the least given the likely assumption of further engagement behind the scenes that took place independent of the resolution itself.

In 2018, 40% of the climate-related shareholder resolutions (n=42) requested companies to ambition agnostic targets or ambition specific targets which were either inconclusively Paris-aligned or not Paris-aligned.

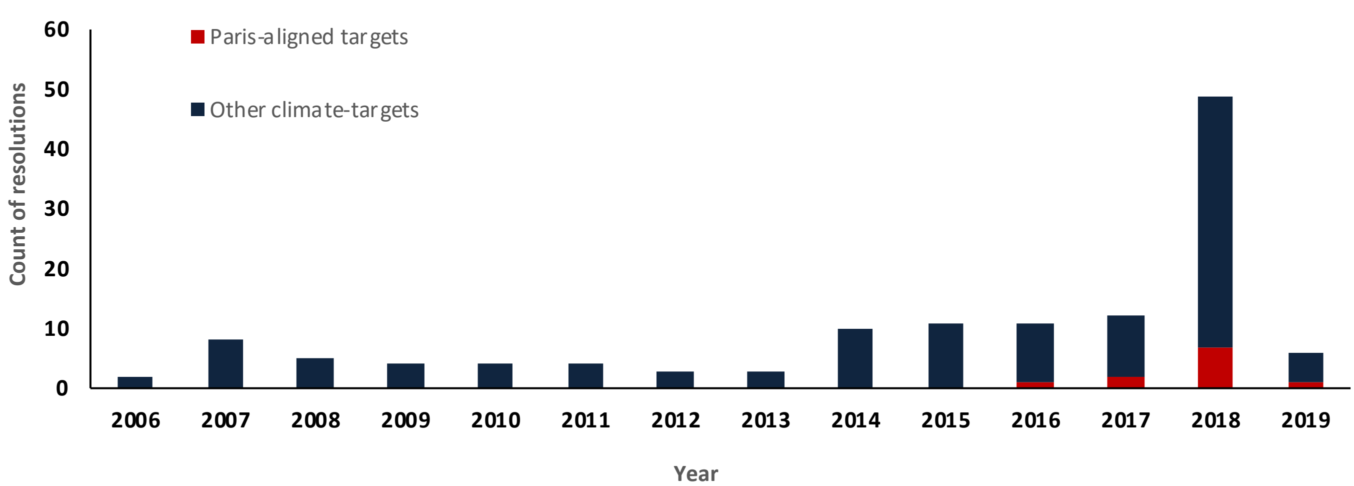
Beyond resolutions that engage companies to pursue a general strategy consistent with the Paris Agreement, it is still worth considering resolution which set ambition agnostic targets or set ambition specific targets (these targets were either inconclusively Paris-aligned or not Paris-aligned).

While these resolutions may support emission reductions in the real-economy, it is not necessarily always clear whether the ambition – when it is defined by these resolutions – is consistent with the Paris Agreement climate goals. Thus, while for the moment they were classified as 'inconclusive', further analysis may lead to reclassification.

The actual language around the extent to which the ambition or the target-setting itself is mandatory was equally not always consistent.

Some resolutions explicitly required targets with a specific level of ambition, whereas others packaged the concept of target-setting as part of disclosures that involve planning on how "capital expenditures plan *could* be adjusted". The next page provides an example for two different types of resolutions. In both cases, the companies targeted by the resolutions subsequently adopted "Paris-aligned" targets, although neither resolutions actually received majority support.

FIG. 3.6: RESOLUTIONS ASSOCIATED WITH TARGET-SETTING OVER TIME (SOURCE: AUTHORS, BASED ON OWN ANALYSIS AND PROXYIMPACT)



EXAMPLE: MANDATING A BUSINESS PLAN ALIGNING WITH THE IEA 2˚ C SCENARIO

Southern Company

*"**The resolution asks The Southern Company ("Southern") to publish a report outlining its business plan for aligning operations with the IEA 2˚C scenario.** Regulatory constraints will become increasingly stringent in order to meet the commitments made in COP21 to limit warming to well below 2˚C, and compliance will require a substantial reduction of Greenhouse Gas (GHG) emissions by 2050. Given the longterm planning horizons in the utility sector, the Proponents request Southern to provide transparent and accountable disclosure of its business plan for achieving a competitive return on capital and addressing the opportunities of transitioning to a low carbon economy while providing safe, reliable, and affordable energy"* (Sisters of St. Dominic, 2017)

Support: 46%

Subsequent Actions: 2˚ C scenario strategy and low to zero carbon emissions by 2050.

EXAMPLE: PUBLISHING A REPORT THAT INCLUDES A RECOMMENDATION TO ADJUST CAPITAL EXPENDITURE PLANS TO ALIGN WITH THE 2˚ C SCENARIO

AES Corp

"Shareholders request that AES, with board oversight, publish an assessment (at reasonable cost and omitting proprietary information) of the long term impacts on the company's portfolio, of public policies and technological advances that are consistent with limiting global warming to no more than two degrees Celsius over preindustrial levels. Supporting Statement: This report could include: • How AES could adjust its capital expenditure plans to align with a two degree scenario; and • Plans to integrate technological, regulatory and business model innovations such as electric vehicle infrastructure, distributed energy sources (storage and generation), demand response, smart grid technologies, and customer energy efficiency as well as corresponding revenue models and rate designs." **(Mercy Investment Services, 2018)**

Support: 11%

Subsequent Actions: Climate scenario report and 70% carbon intensity reduction by 2030.

3.5 LIMITATIONS

There are a number of limitations that should be flagged as to the analysis:

- The data sources that 2° ii aggregated do not represent a complete universe of resolutions. Not all proposals filed in the 2019 season are included, nor are all publicly listed companies included. This reflects the current state of data, which are spread across many sources. Further research can address this challenge, as well as new techniques of data procurement (e.g. web-scraping).

- The classifications provide macro level evaluation and functions as a means to extract numeric trends at the cost of qualitative finesse. Further analysis is necessary to analyze individual climate-related resolutions to better understand the factors that contribute to their success or failure.

- A further limitation of this analysis is the lack of ex-post analysis of company actions. This would support an evidence-based framework of best practice. These additional insights would function as a means of tracking the material impact of proposals and holding companies accountable.

- The problem of omitted variable bias. Investors may be much more supportive of climate actions (and companies much more willing to pursue climate targets) than the results suggest. Not all investors choose to engage with companies through public means. This analysis focuses on one subset of investor climate actions and so it does not capture the full spectrum of engagement activities.

- Many shareholders proposals are never submitted at company annual meetings because both parties choose to pursue private meetings as a means of finding common ground.

- One aspect not explored in this paper is the legal question of what kind of resolutions are legally allowed in different jurisdictions and the constraints to shareholder rights.

3.6 SUMMARY OF IMPACT

Current tracking systems don't exist to track the impact of climate shareholder resolutions.

As a result – as outlined in this paper – we can only currently track the actual success and application of the tool and not its actual impact in terms of emissions reduction in the real economy.

There is some evidence that target-setting resolutions translate into Paris-aligned targets by the targeted utilities.

As outlined above, all power companies targeted by resolutions we identified as Paris-aligned in the context of target-setting ended up setting targets whereas none of the oil & gas companies did.

Moreover, beyond the tracking of whether targets were set, there is a broader question as to the translation of targets into emissions reductions in the real economy – including the extent to which the shareholder engagement triggered emissions reductions *above and beyond what would have happened anyway.*

Understanding that dynamic requires a historical tracking of investment and production plans over time and the change of these plans.

On the whole, it is too early and data is too limited to get a comprehensive understanding of the impact of resolutions – especially as initiatives like CA100+ are ramping up.

There is some evidence that the growth of investor pledges is helping to increase the success and scale of shareholder resolutions. However, the scale of these are still limited and on the whole, support for resolutions is still limited.

The crucial question of course is whether investors are defining portfolio / organizational targets that they are then cascading to their engagement and voting practices.

4 THE WAY FORWARD

This paper presents a set of classifications for climate related resolutions.

The application of such classifications can support evidence-based analysis of climate resolutions providing insights across sectors, companies, and countries together with the relative support for different resolutions, and the evolution of corporate actions in response.

2° Investing Initiative is developing a 'historical database' that will track changes to forward-looking investment and production plans, going back to 2016, allowing for an assessment of the impact of different climate resolutions on climate outcomes.

The combination of this database and the classification of shareholder resolutions will allow for more evidence as to the effectiveness of different strategies, in order to improve the overall impact of climate actions in financial markets.

The key idea is that tracking forward-looking plans over time allows for an assessment not just of emissions reduction, but also the change of these reductions versus the baseline plan.

While this paper represents a first attempt at 'classifying' resolutions, a market standard needs to emerge drawing from all stakeholders.

This paper represents one attempt to classify resolutions and set them in reference to the Paris Agreement. There is a healthy debate as to whether the choices made in this paper are shared by the market, meaningfully categorize resolutions, and can emerge as a market standard. This paper is not designed to present a 'solution', but rather a 'strawman' that can form the basis of such a discussion. Ultimately, assessing the impact of voting activities are one mechanism in a broader suite of engagement activities. In a similar vein, the classifications can be best understood as one measure of impact in a larger box of tools.

To facilitate such a development, a multi-stakeholder process is needed, potentially convened by the CA100+ investors in conjunction with key civil society partners.

On that basis, relevant NGOs may be in a position to develop labeling and certification schemes related to shareholder resolutions that allows users to identify different types of resolutions they may want to support and research to build evidence on effectiveness.

(*NB: 2° Investing Initiative does not itself plan to host the labeling scheme, given the presence of more appropriate actors in the market for such an exercise).*

The key applications of this work are the following. It allows stakeholders to identify types of resolutions and reduce the transaction cost of choosing which resolutions to support. It builds evidence as to the efficacy of resolutions.

Finally, and perhaps most importantly, the exercise suggested here helps ensure that portfolio and organizational pledges are translated and cascaded into shareholder resolutions and ultimately company actions.

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CONTACT:

David Cooke, Policy Manager
david@2degrees-investing.org
www.2degrees-investing.org

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