“Stewarding” the Energy Transition:

Asset Managers and the Battle Over Net Zero

Our Panelists

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Who we are:

- The Center for Active Stewardship is a project housed at the Jain Family Institute, run by a small and nimble team of **coders, data scientists, and financial analysts.**
- We were founded in late 2022 to tackle an **enormous challenge** facing governments, investors, companies in emissions-intensive sectors, and front-line communities affected by the climate crisis: how can for-profit companies set realistic climate goals without encouraging more green-washing?
- Our theory of change in a world where just three institutional investors cast over 25% of the vote at public companies is that we need to focus on both a critical **mechanism** – corporate governance– and on a clear **end goal:** building consensus in the asset management industry on what corporate emissions targets should actually look like.

A few observations to frame today's discussion:

i. The TCFD's recommendations – and their "risks and opportunities" framing of climate issues – are now widely accepted as table stakes among investors and public companies.

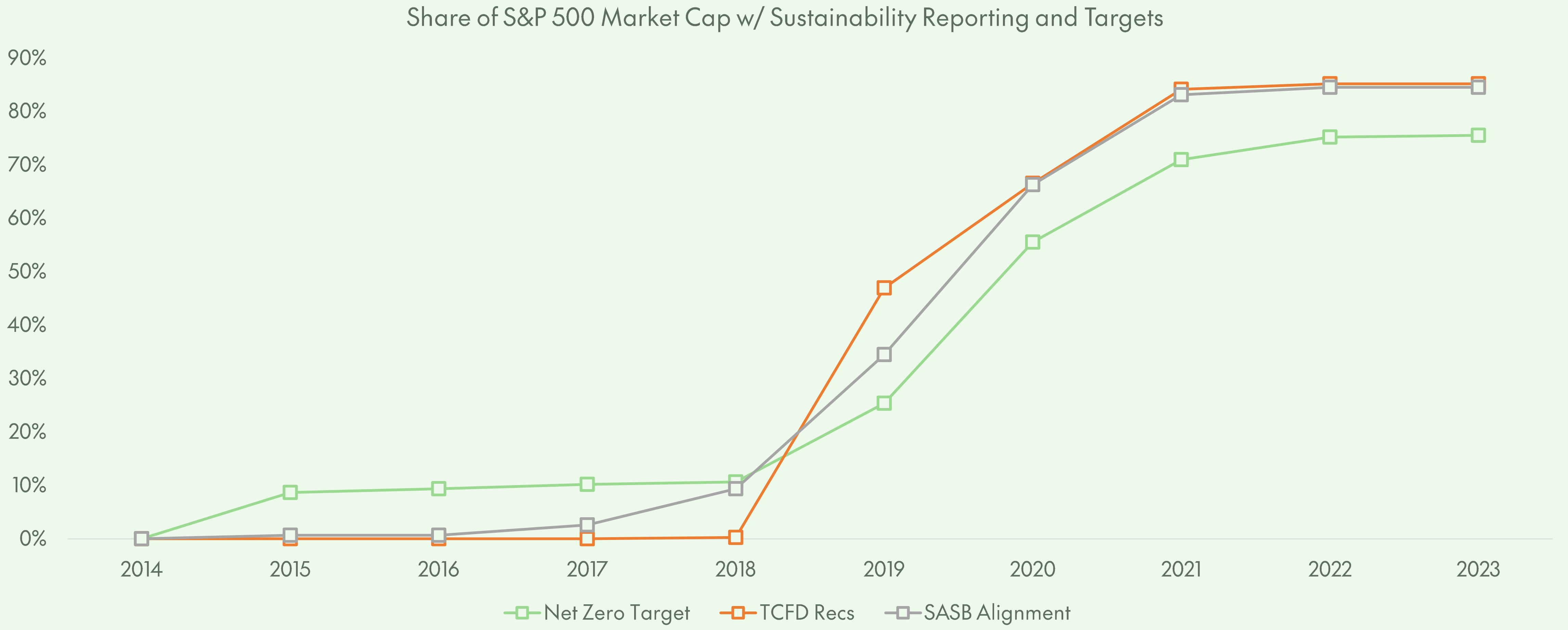
ii. Despite rapid progress on the adoption of SASB/TCFD-compliant reporting and net zero commitments, **the number of shareholder proposals demanding climate action** continues to increase.

iii. As more companies sign on to some kind of net zero goal, more of these proposals target companies **that already have some kind of net zero ambition,** so they are implicitly votes on **specific climate strategies.**

iv. In many cases, investors are using shareholder proposals to signal directional (dis)approval of how management teams are approaching the climate crisis – leading to confusion about what specific policies they actually support.

v. Our analysis of YTD climate votes shows **that investor support for these proposals is set to decline yet again.**

(Ia) The TCFD's recommendations, and company-claimed net-zero targets, have quickly become ubiquitous across large public companies in the US.



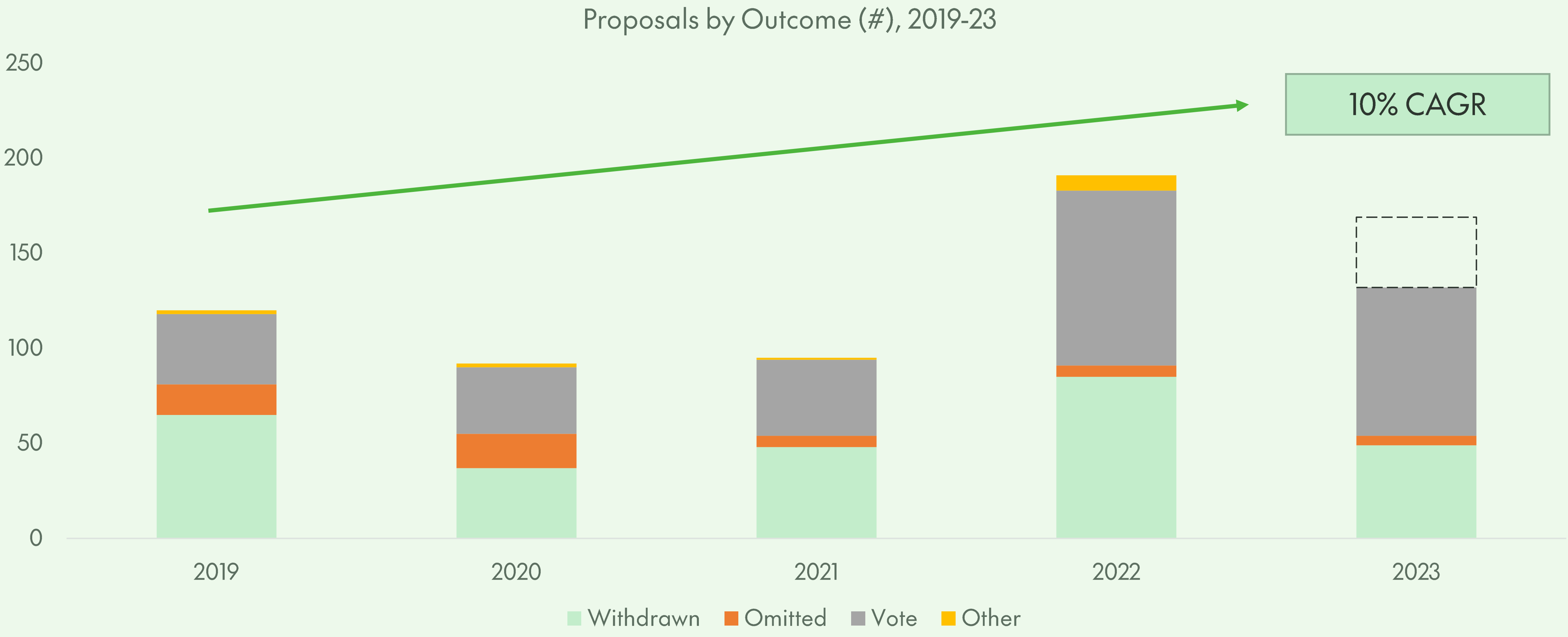
Based on Bloomberg data for current S&P 500 constituents, weighted by their market caps as of May 2023.

(Ib) The adoption of SASB & TCFD reporting standards, and GHG targets for sectors with material emissions, has been spurred along by asset managers' proxy voting policies.

Asset Management Firm	Assets Under Mgmt. ($bn)	Key Document	Last Revised	TCFD	SASB	Other
BlackRock	$10,010	Global Principles	Jan-23	"BlackRock **encourages companies** to use the framework developed by [TCFD] ... and to supplement that disclosure with industry-specific metrics such as those specified by [SASB]" (p. 12).		"We look to companies to disclose short-, medium- and long-term [GHG] targets, **ideally science-based targets**..."
Vanguard	$8,466	Proxy voting policy for U.S. portfolio companies	Feb-23	"... a fund **may support** shareholder proposals" that address shortcomings relative to SASB or TCFD frameworks (p. 11).		"Shareholders typically do not have sufficient information ... to propose specific targets or [ESG] policies for a company."
State Street Global Advisors	$4,138	Proxy Voting and Engagement Guidelines for North America	Mar-23	"With disclosure aligned with relevant [SASB] standards as a floor, [SSGA] aims to enhance TCFD adoption across the market" (January 2022).		Expects companies in select sectors to adopt short-, medium- and long-term GHG targets.
Fidelity	$4,234	Proxy Voting Guidelines	Feb-23	Not explicitly mentioned in "Proxy Voting Guidelines" document.		Stewardship principles outline view that "natural capital is finite" and must be appropriately managed (p. 3).
J.P. Morgan AM	$3,113	Global proxy voting guidelines	Mar-23	Not explicitly mentioned in "Global proxy voting guidelines" document.		Votes against board directors considered for companies lagging peers on ESG disclosures/practices.
Capital Group	$2,715	Proxy voting procedures and principles	Feb-23	"... we expect companies to disclose against **the standards set forth by the [SASB]** and **the recommendations of the [TCFD]**" (p. 13).		"Will generally vote against" props calling for directors w/ specific enviro. expertise.

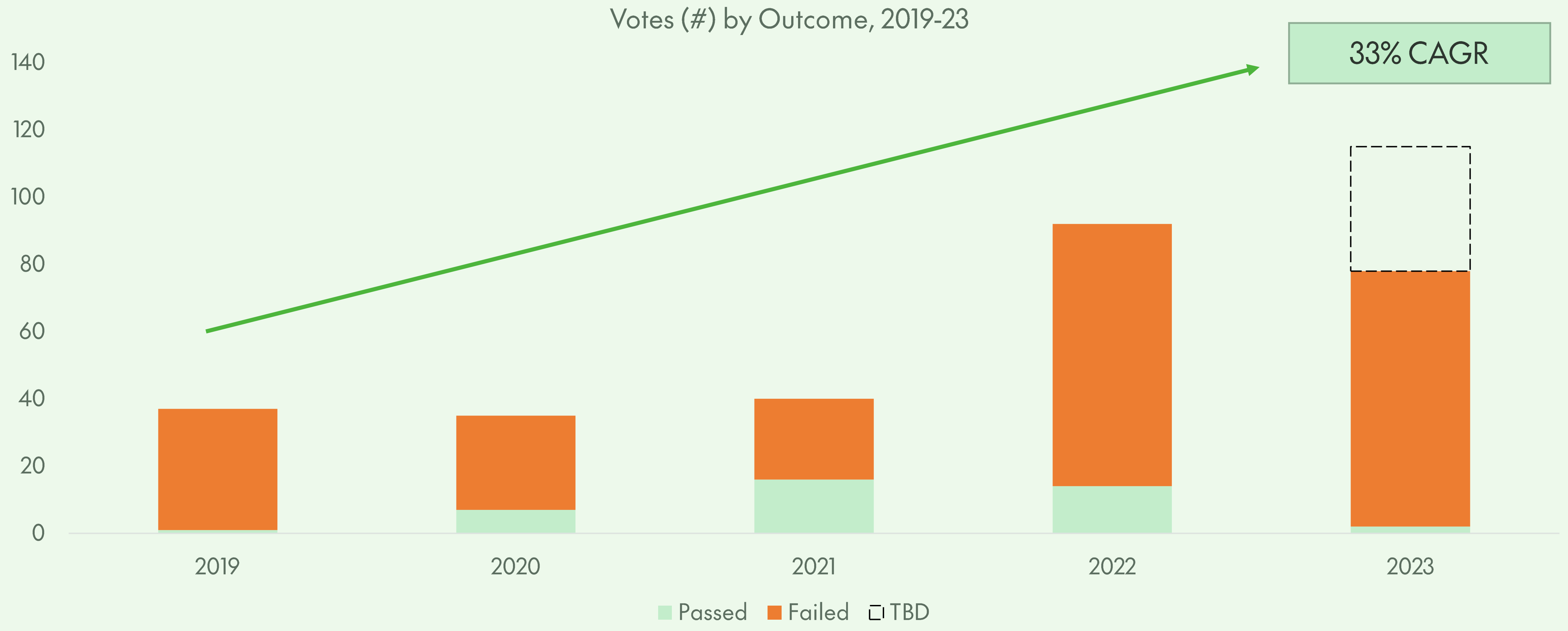
AUM data is as of the last TAI/P&I ranking of global asset managers, published October 2022, and includes all asset classes.

(IIa) At the same time, climate-related proposals continue to multiply, with the 2023 vintage set to top the 2019-21 average by 65%.

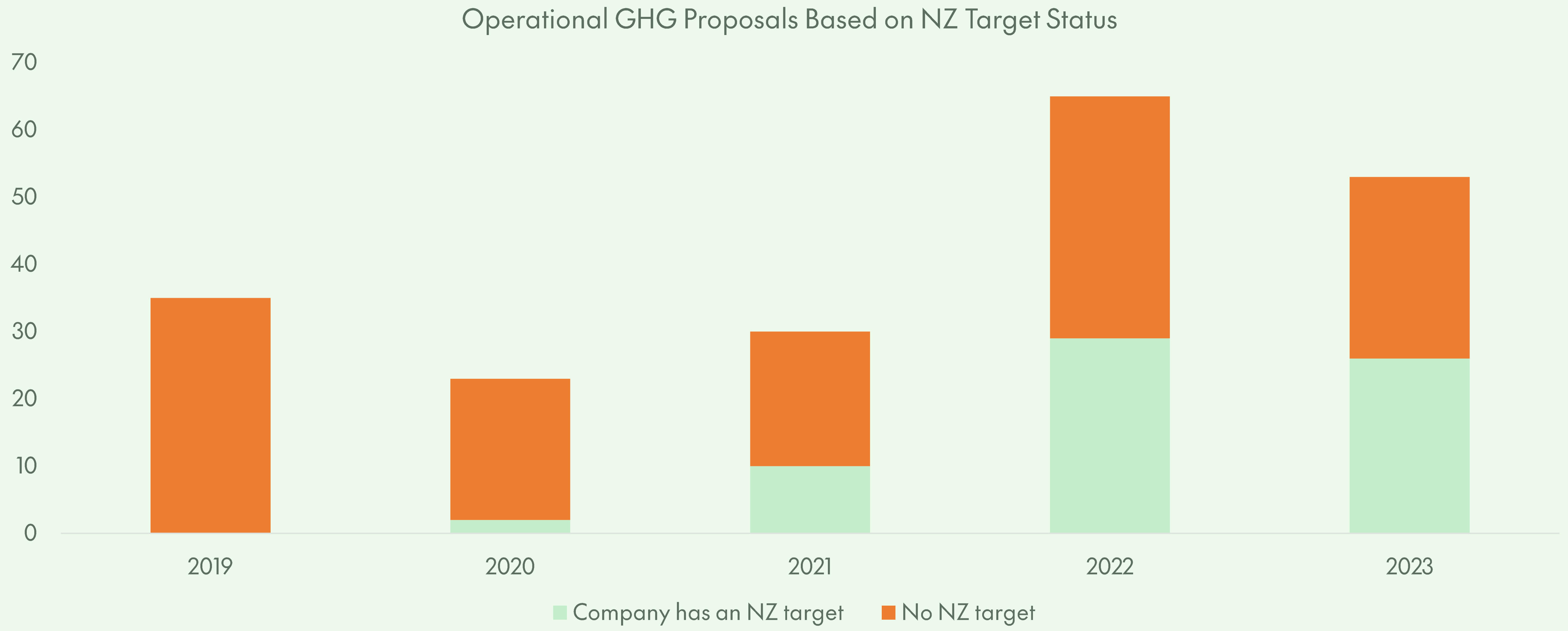


Voting data in this presentation is based on CAS analysis of free and publicly available data sources.

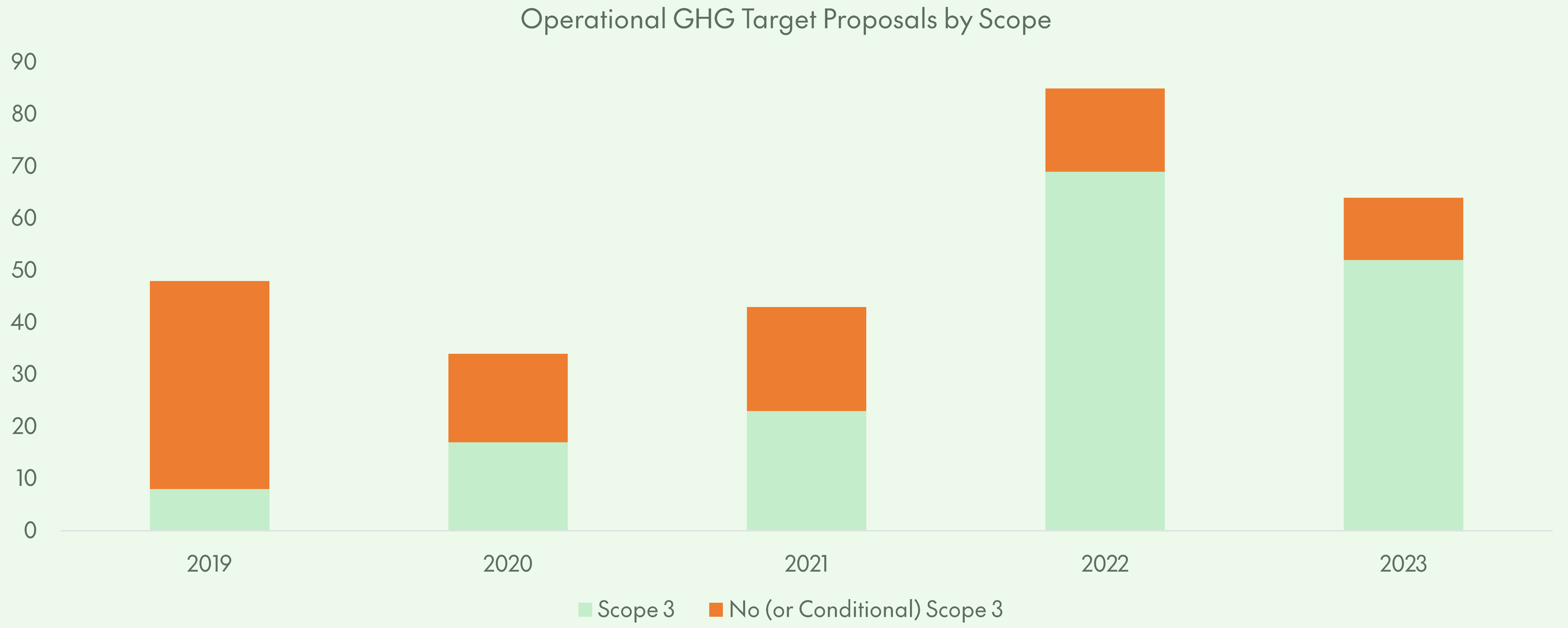
(IIb) The number of voted proposals has outgrown the total as the SEC grants no-action relief more sparingly and negotiated settlements harder to reach.



(IIIa) More and more proposals calling for GHG targets are aimed at companies with a pre-existing net zero commitment.



(IIIb) Over the last two cycles, nearly ~80% of GHG target focused proposals explicitly call for Scope 3 targets, which are controversial at best.

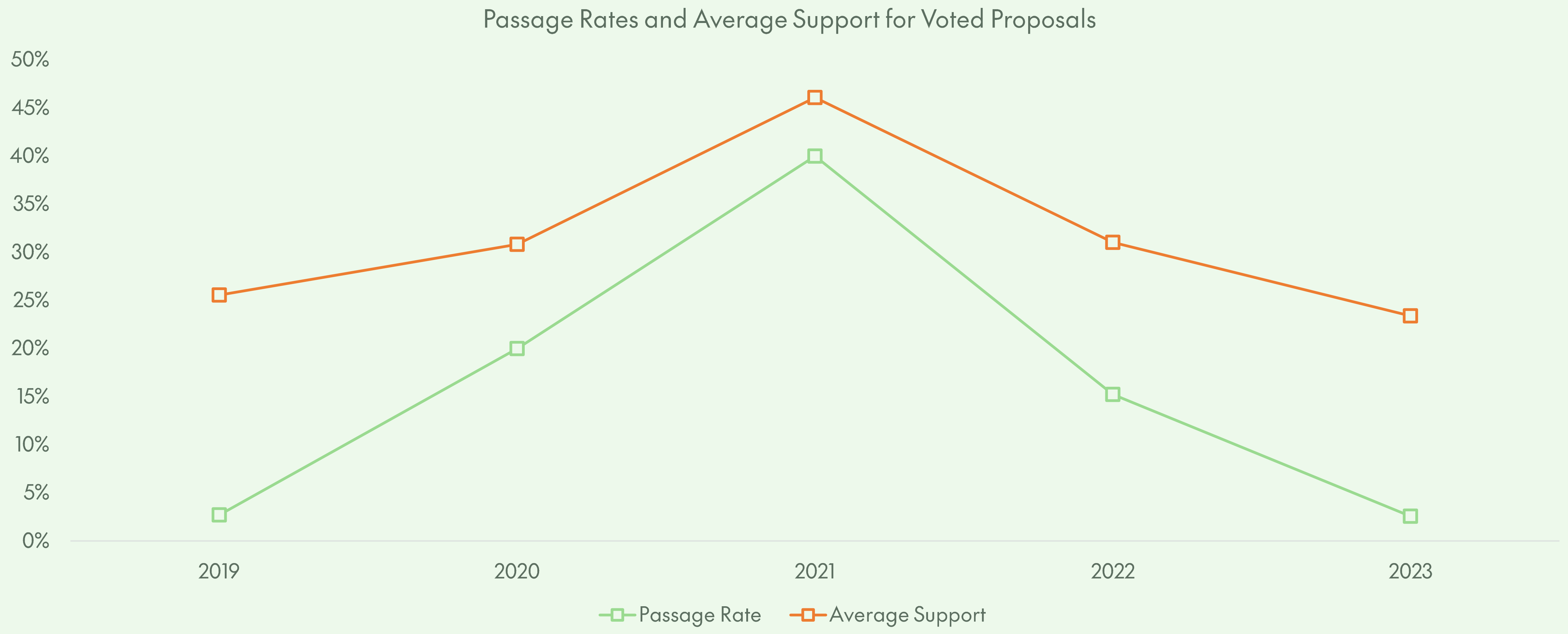


(IVa) Investors are using shareholder proposals creatively to signal directional views on management climate strategies, but a lack of uniform disclosures can lead to confusion among issuers and activists.

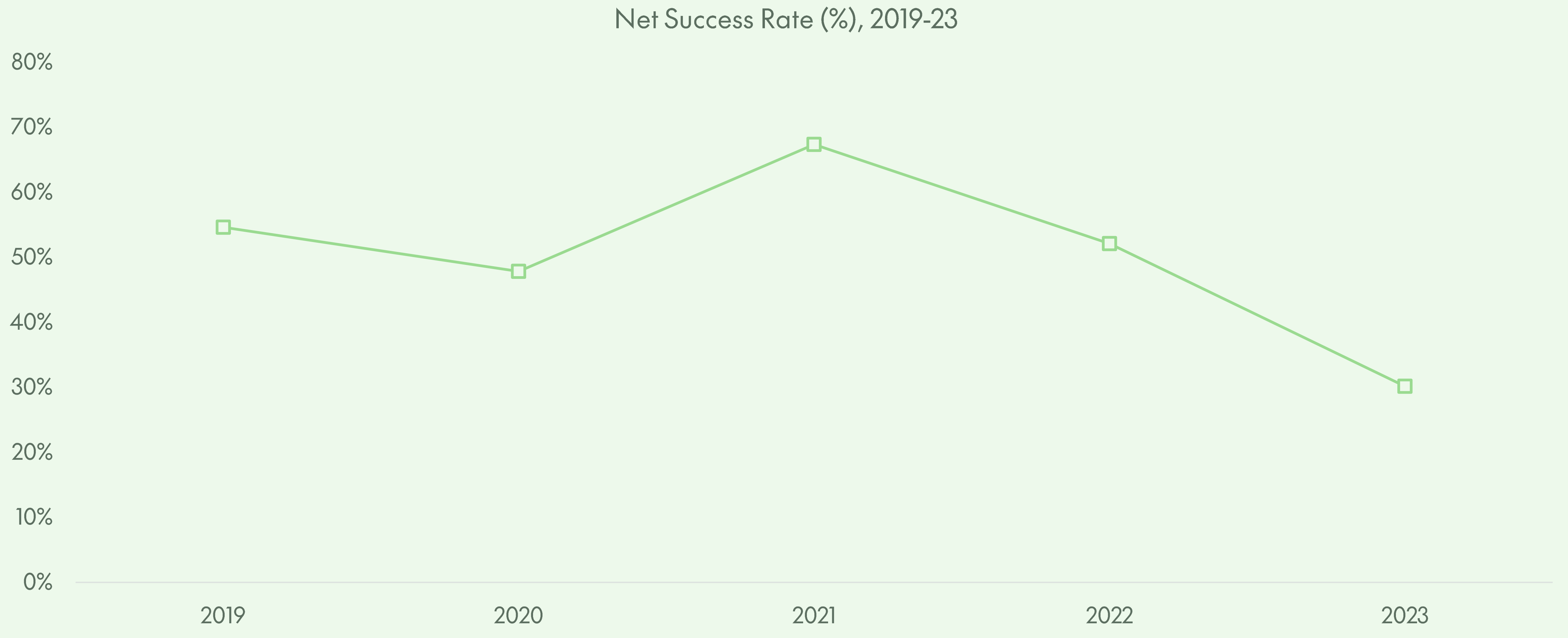
BlackRock votes on essentially identical resolutions calling for Scope 1-3 GHG targets at oil & gas companies:

Target Company	2020		2021		2022	
ExxonMobil					Against	*“Proposal is not in shareholders' best interests at this time.”*
Chevron			For	No detailed commentary	Against	*“Proposal is not in shareholders' best interests. The company already provides sufficient disclosure and/or reporting regarding this issue.”*
Shell	Against	*"Proposal is not in shareholders' best interests."*	Against	*“Proposal is not in shareholders' best interests. The company already provides sufficient disclosure... regarding this issue, or is already enhancing its relevant disclosure.”*	Against	*“Proposal is not in shareholders' best interests.”*
TotalEnergies	Against	*"Proposal is not in shareholders' best interests."*				
ConocoPhillips			For	*"We recognize the company's efforts to date, but believe that supporting the proposal may accelerate the company's progress on climate risk management and oversight."*	Against	*“Proposal is not in shareholders' economic best economic interests at this time.”*
BP plc			For	*"We recognize the company's efforts to date but believe that supporting the proposal may accelerate the company's progress on climate risk management and/or oversight."*	Against	*“Proposal is not in shareholders' best interests.”*
Equinor	Against	*"Proposal is not in shareholders' best interests."*	For	No detailed commentary	Against	*“Proposal is not in shareholders' best interests.”*
Occidental					Against	*“The company already provides sufficient disclosure and/or reporting regarding this issue, or is already enhancing its relevant disclosures.”*
Phillips 66			For	*Rationale: We believe this issue is both material and urgent.*	Against	*“The company already provides sufficient disclosure and/or reporting regarding this issue, or is already enhancing its relevant disclosures.”*

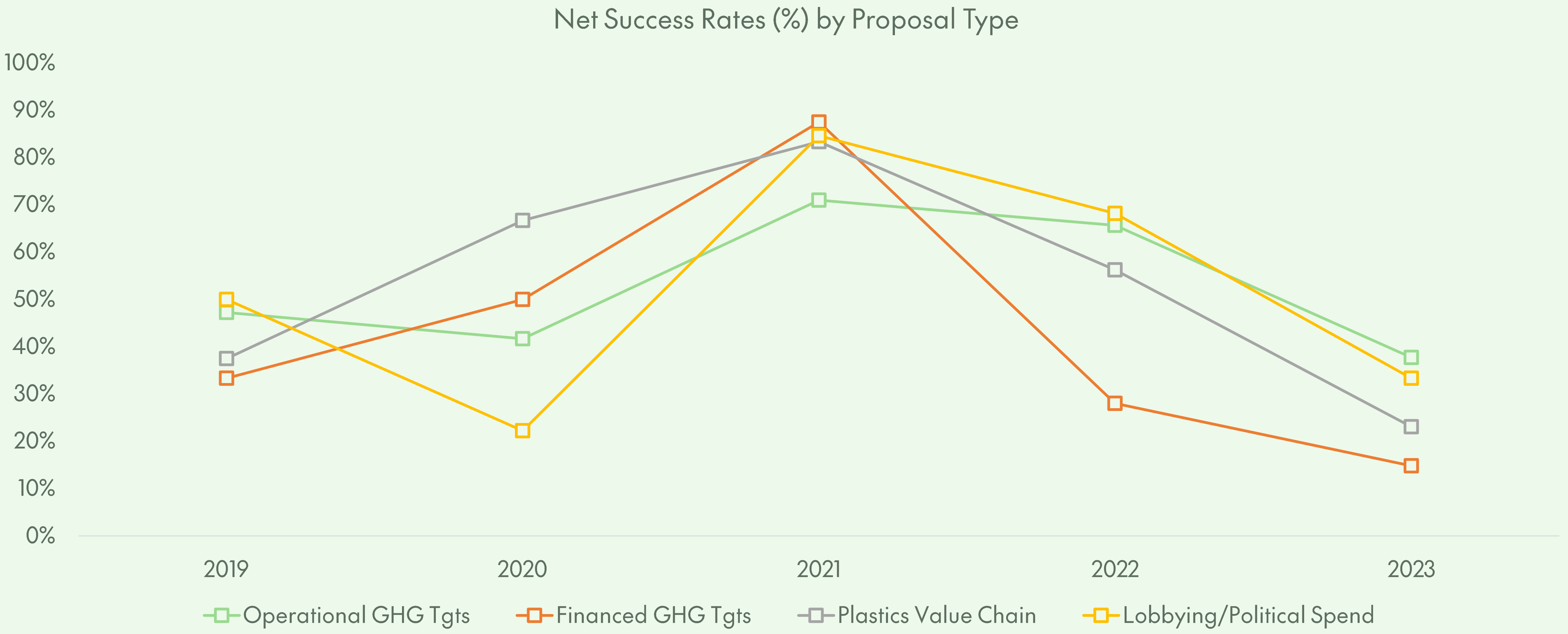
(Va) Our analysis of the 2023 proposal slate shows <u>investor support for proposals continues to evaporate</u>.



(Vb) This is not just a function of "higher quality" proposals reaching settlements – "net success rates" are falling too.



(Vc) Finally, this is not just an issue of "mix shift" to unpopular proposals targeting financial services – all proposal categories face declining win rates.



For shareholder pressure to be a productive lever for driving voluntary climate action in the private sector, investors, issuers and activists will have to turn from aligning on table-stakes reporting to the big, hairy problems of GHG target-setting.

- **Scope 3:** How should individual industries/companies manage emissions from use of sold products (upstream value chain emissions are less controversial)?
- **Financed Emissions:** To what extent should banks pressure their clients to adopt specific GHG target frameworks?
- **Sectoral Pathways:** How should targets align with specific technology adoption (& emissions) trajectories?
- **Scenario Alignment:** Why should individual companies plan their businesses around a scenario (e.g. policy changes to drive ≤ 1.5C of warming) that is not likely to occur?
- **"Science-Based" Targets:** What needs to happen for the SBTi to reach the SASB or TCFD's level of legitimacy?
- **Accounting:** Are GHG targets doomed from the start thanks to deeper flaws in emissions accounting constructs?
- **Gaming:** Is there any way around common ways to hack emissions reporting (e.g. divestitures, offsets, PPAs)?
- **Private Companies:** What sort of standard-setting and disclosures need to be in place for SMEs, privately-held companies, and SOEs? How realistic is implementing any of that?
- **Emissions Reduction vs. Technology Shifts:** As the public policy conversation shifts from taxing carbon to subsidizing emerging renewable value chains, should we refocus our concept of "transition risk"?

And now, our panelists weigh in: