Climate Action 100+ investors seek net zero business strategies through company engagement

- ***US$35 trillion Climate Action 100+ publishes first initiative progress report***
- ***Breakthrough commitments have been achieved, yet step change in broader corporate response to climate change is necessary given $20 trillion systemic risk to global economy***[1]

In its first progress report released today, Climate Action 100+ shows that despite significant progress achieved, far more needs to be done by the world's largest corporate greenhouse gas (GHG) emitters in tackling climate change.

Climate Action 100+ brings together more than 370 global investors with over $35 trillion in assets under management, in seeking to ensure some of the world's largest companies take necessary action on climate change. The 161 'focus companies' engaged through the initiative are collectively responsible for over two thirds of global industrial GHG emissions and represent a combined market capitalisation in excess of $8 trillion[2].

Supported by Climate Action 100+ investor engagement, a range of breakthrough net zero emission commitments are now in place. Significant progress has been seen across a range of industries, many of which are among the most challenging to decarbonise. Examples of focus companies making substantial net zero commitments over just the past seven months alone include; HeidelbergCement, Duke Energy, Nestle, Daimler, VW, Thyssenkrupp, ArcelorMittal, BHP Billiton, Centrica and Saint-Gobain, among others[3].

Despite these examples of first-wave leadership, analysis shows a significant step change is still required from the majority of focus companies in addressing climate change as a strategic business risk.

"We are now at a tipping point. A significant number of companies have made bold commitments to achieve net zero emissions, with others increasingly following suit," explains **Stephanie Maier, Director of Responsible Investment, HSBC Global Asset Management and steering committee member, Climate Action 100+.** "Given the urgency of the situation, the role of investor engagement is critical in ensuring we build on this momentum."

Analysis in the report demonstrates across the 161 focus companies:

- 70% have set long-term emissions reduction targets.
- 9% have emissions targets that are in line with (or go beyond) the minimum goal of the Paris Agreement to keep the rise in global temperature to below 2°C, highlighting a crucial ambition gap to be addressed[4].
- 8% of companies have policies in place to ensure their lobbying activity is aligned with necessary action on climate change (leaving scope for obstructive, negative or evasive lobbying).
- 40% undertake and disclose climate scenario analysis, and 30% of companies have formally supported recommendations of the Task force on climate-related Financial Disclosures.

- 77% have defined board level responsibility for climate change.

This and other data in the report is provided by leading climate research partners to the initiative, and provides an initial baseline of progress against the core goals of the initiative across relevant sectors. The research partners include Carbon Tracker Initiative, CDP, InfluenceMap, Transition Pathway Initiative and 2° Investing Initiative, with additional data provided by the Science Based Targets Initiative.

The need to ensure a smooth and orderly transition to a decarbonised global economy has never been clearer, while the latest science shows the scale and pace of change must be rapid. Given the size of their collective GHG emissions as 'systemically important emitters', a more ambitious response by the Climate Action 100+ focus companies is pivotal – on both a company and global level – in ensuring the transition is realised in the timeframe required.

"Investor engagement through Climate Action 100+ is playing a major role in changing corporate attitudes on climate change and we have seen some very significant commitments from companies," adds **Stephanie Pfeifer, CEO, Institutional Investors Group on Climate Change and steering committee member, Climate Action 100+**. *"Yet we have much more to do before business is on track to meet the goals of the Paris Agreement. We must now build on the momentum achieved to date if we are to succeed in addressing the climate crisis and safeguarding investments on which the futures of millions of pensioners depend."*

Issued by the Climate Action 100+ steering committee, the report also contextualises the contribution investor engagement has made to progress achieved to date. Highlights and broader examples of impact include:

- Securing four Climate Action 100+ investor led agreements with global companies – Shell, Glencore, BP and Equinor – each covering a broad range of commitments.
- Breaking new ground in defining investor expectations on corporate lobbying activity, to ensure activity is aligned with and supports delivery of the Paris Agreement on climate change. 11 commitments have been secured to date from companies in line with investor expectations, to review and act on alignment of lobbying activity, inclusive of trade bodies[5].
- Mainstreaming the expectation that companies need to take responsibility for and act on emissions across their value chain (scope 3 emissions).
- Defining new approaches to alignment of emissions in line with the goals of the Paris Agreement, through both target-setting and future capital expenditure.

"Climate change is a financial risk of unprecedented scale and impact," said **Emma Herd, Chief Executive Officer, Investor Group on Climate Change (IGCC) and steering committee member, Climate Action 100+.** *"Through Climate Action 100+ investors are telling companies it's time to get serious about climate change. While more work is clearly needed to really drive company action, this report shows that engagement is having an impact and companies must listen to their shareholders."*

The initiative has also achieved significant progress in 'mainstreaming' shareholder engagement by investors globally. Highlights include:

- Achieving over 65% growth in investor participation in the initiative since launch, with an additional $9 trillion in assets under management added in the process[6].
- Setting new records for investor support of climate change shareholder resolutions. This includes the largest ever co-filing backing secured for a climate change shareholder resolution (from investors owning equivalent to 10% of BP in the form of a $12 billion stake in the company). Over 99% of shareholders then voted in support of the resolution.

- Setting a new precedent on the scale, growth and nature of collaborative investor engagement across Asia.
- Building further capacity and strengthening investor engagement globally.

Numerous case study examples included in the report highlight the significance of shareholder engagement as a key factor in contributing to progress by companies, in line with goals of the initiative.

The global role and impact of Climate Action 100+ has been especially transformative. This has been achieved in large part through the collaboration of the five regional partner organisations with a key role in driving the initiative forward. They are: the Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

Investors are nonetheless cognisant of the significant progress that still needs to be seen from focus companies. Priorities for engagement to help build on existing momentum include:

- **Lobbying reform:** securing more disclosure commitments on climate lobbying and expecting companies to demonstrate support for critical climate policy.
- **Net zero goals or targets**: expecting companies to articulate how their businesses are compatible with the carbon neutral world envisaged by the Paris Agreement. Building on existing engagement, this includes long-term goals to achieve carbon neutrality mid-century, supported by medium- or short-term targets and appropriate business plans.
- **TCFD implementation:** looking for all of the 161 companies to produce credible TCFD reporting and climate scenario analysis that tests the financial resilience of the business.

The focus by investors on net zero emission targets is in line with the latest science in meeting the Paris Agreement's preferred target to keep global warming below 1.5°C[7]. This builds on existing engagement through the initiative and will increasingly be a priority in dialogue with companies[8].

Publication of the progress report follows a key United Nation's climate conference in New York last week, in which progress towards a net zero emissions future was further strengthened. Responding to the science, 65 countries and the EU have now announced efforts to achieve net zero emissions by 2050 or sooner, effectively meaning economy wide decarbonisation[9].

"Cutting carbon in half by 2030 and reaching net zero carbon before 2050 will help avoid the most catastrophic impacts of climate change on our economy, communities and environment," said ***Mindy Lubber, CEO and President of Ceres and steering committee member, Climate Action 100+.*** *"In the first two years of Climate Action 100+, we have already seen progress towards this goal. But time is running out. We need more investors to join us in our efforts and more companies to act on the global climate crisis more quickly, boldly and broadly than ever before."*

Other **members of the Climate Action 100+ steering committee**, commenting on report findings and progress of the initiative, explain:

"Climate Action 100+ is the most ambitious investor engagement initiative launched to date – and rightly so given the scale and urgency of the challenge we face," adds **Anne Simpson, CalPERS Director of Board Governance and Strategy.** *"This first progress report shows we have begun to tackle those challenges. The financial markets are putting the wind in our sails, but we will need to navigate efforts to achieve net zero by 2050. There is no room for complacency."*

"The future of the climate and the future of investing are completely intertwined," adds **Emily Chew, Global Head of ESG Research and Integration, Manulife Investment Management**. *"Ensuring corporate strategy of the companies in which we invest is aligned with our interest in a safe climate helps protect the long-term value of portfolios across all sectors and asset classes."*

"We have already shown the benefits collaboration with investors offers," explains **Laetitia Tankwe, Adviser to Ircantec President Jean-Pierre Costes, Groupe Caisse des dépôts.** *"Strengthening corporate governance, bringing emissions in line with the goals of the Paris Agreement and improving climate-related financial disclosures, all help build stronger more resilient companies."*

"Given climate change threatens the ability of long-term investors to generate investment value and meet their investment objectives over time, the importance of the Climate Action 100+ initiative cannot be underestimated," sets out **Andrew Gray, Director - ESG and Stewardship, AustralianSuper**. *"Its real success has been in the way it has helped shape corporate priorities and put climate change at the centre of conversations on business strategy through engagement with such a large group of investors."*

"As we reflect on the meaningful progress of Climate Action 100+, we also look forward to even greater engagement and action from corporations to reduce their greenhouse gas emissions," explains **Fiona Reynolds, CEO, Principles for Responsible Investment**. *"It's time for the decade of action on climate broadly, and further collective engagement with the worst emitters to achieve net zero commitments is critical."*

"*This initiative is a vitally important tool to collectively reiterate to companies that investors, as part owners of their investee companies, want them to succeed now and in the long-term,"* adds **Rebecca Mikula-Wright, Director, Asia Investor Group on Climate Change (AIGCC).** *"However, with climate impacts affecting companies and their supply chains now, and increasingly in the future, investors need companies to articulate how they are adapting their strategies to successfully transition to net zero by 2050."*

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About Climate Action 100+:
Climate Action 100+ is a five-year investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. More than 370 investors with over $35 trillion in assets collectively under management are engaging companies on improving governance, curbing emissions and strengthening climate-related financial disclosures. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.

Launched in December 2017, Climate Action 100+ is coordinated by five partner organisations: Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI). These organisations, along with five investor representatives from AustralianSuper, California Public Employees' Retirement System (CalPERS), HSBC Global Asset Management, Ircantec and Manulife Asset Management, form the global Steering Committee for the initiative. For more information, visit: www.ClimateAction100.org and follow: @ActOnClimate100.

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Notes to Editor

I link to report to be added to reporting: https://climateaction100.wordpress.com/progress-report

As the first progress report issued, the assessment approach and framework utilised by Climate Action 100+ will continue to evolve and be further refined. The report findings and more in-depth company specific analysis will also be used by Climate Action 100+ investors to inform engagement with focus companies.

1. 34 leading central banks have highlighted that global assets in the order of $20 trillion are at risk of stranding through a failure to pre-empt and act on the necessary transition to a low-carbon global economy (see here).
2. See report or here for a full list of focus companies.
3. With many commitments made in a short timeframe, this points to a growing comprehension of the significant change required and a display of corporate leadership for other companies to follow. The pace of progress with recent announcements means there is a lag in how these commitments are factored into analysis within the report.
4. Some 39% of the 161 company focus list were not able to be assessed on alignment with the goals of the Paris Agreement.
5. 11 commitments to produce reviews of lobbying activity from companies across industrials, mining, oil and gas: namely Anglo American, ArcelorMittal, BASF, BHP, BP, Equinor, Glencore, HeidelbergCement, Rio Tinto, RWE, Shell. A similar programme will operate in the United States to secure commitments (see here).
6. Individual investor signatories have grown from 225 (representing $26 trillion in AUM) at launch to over 370 today.
7. IPCC special report on the impacts of global warming of 1.5 °C (see here).
8. While expectations will be tailored to sector and company specific engagement strategies, commitments would be expected to cover both company operational and value chain (scope 3 emissions).
9. Many countries, with the addition of the EU, are in the process of developing, setting or have already passed net zero emissions target legislation. This includes the UK and France as leading G7 global economies with targets already in law. See here for source on 65 countries referenced.