10/04/2019

Dear CEO,

We, the undersigned nine organisations who work on climate change and shareholder accountability, write to you as the CEO of a signatory investor of the Climate Action 100+ ('CA100+') to outline our expectations for this important initiative in its future engagement with companies and governments, as well as in its relationship with civil society.

It is now widely accepted that long-term investors' fiduciary duties oblige them to take active precautionary steps both to protect portfolios from climate-related risks and to protect beneficiaries from the wider damaging effects of climate change on their lives. To that end, we commend the premise of the CA100+ and are pleased that your organisation has joined the initiative.

The CA100+ initiative has the potential to be a highly effective vehicle through which to steward companies onto a path that is aligned with Article 2.1(a) and 4.1 of the Paris Agreement (the 'Paris Goals') over its five-year term to December 2022. We welcome the expectations set by investors for companies through CA100+. In particular, we welcome CA100+'s aim to "secure commitments from the boards and senior management [of some of the world's largest emitters] to (…) take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2-degrees Celsius above pre-industrial levels"[1].

The UN Intergovernmental Panel on Climate Change (IPCC) Special Report on 1.5°C warming[2] states with "high confidence" that the window for restricting warming to 1.5°C will close in just over 11 years, demonstrating the need for immediate action to reduce greenhouse gas emissions. The Special Report highlights the untapped potential and vital role that institutional investors can play in driving companies to reduce emissions and to meet the Paris Goals.

[1] http://www.climateaction100.org/

[2] https://www.ipcc.ch/sr15/

In light of the findings of the IPCC 1.5°C report, we urge CA100+ signatories to focus their efforts on limiting the global average temperature increase to 1.5°C and require that target companies align their business models with this goal. The IPCC Special Report on 1.5C showed that half a degree of additional warming can be expected to result in additional economic damage globally of between US$8tn and $11tn before 2050. It would impact the jobs, livelihoods and homes of millions of people across the globe. Populations disproportionately exposed to the adverse consequences of global warming of above 1.5°C include vulnerable populations, including communities dependent on agricultural or coastal livelihoods, that have contributed the least to climate change.

The nature and scale of the challenge of limiting global warming to 1.5°C calls on all of us to look beyond traditional thinking, and to form new alliances towards the achievement of that goal. It is in this spirit that we are writing to you today.

Below, we set out actions that in our view are needed from CA100+ investors and from the CA100+ secretariat bodies to enable the achievement of the objectives set by CA100+ itself and to ensure that this initiative contributes meaningfully to the achievement of climate security and a habitable planet for all.

Supporting CA100+ across your entire organisation

We urge you to ensure that action to support the objectives of the CA100+ is coordinated across your entire organisation, and not limited to ESG specialists working on corporate governance and stewardship functions. In particular, CA100+ signatory investors should ensure that portfolio managers of both equities and corporate bonds are explicitly supportive of the CA100+ and working in a coordinated manner to catalyse commitments from the boards and senior management of high carbon corporate issuers in their portfolios.

Furthermore, we request that your own board is fully briefed on your organisation's commitment to CA100+, and that your board will be kept up to date on the progress achieved over time.

We would also welcome strong and public signals of commitment to the CA100+ from you, as CEO in speeches, annual reports and other public communications. Your personal leadership can make a very positive difference within your organisation and beyond it.

Shareholder Voting Rights

We welcome the article on shareholder voting published by CA100+ signatories Sarasin and Partners and the Church Commissioners in the Financial Times on 29 January 2019[3] as well as the Institutional Investor Group on Climate Change's discussion paper[4] on the role of auditors and audit committees in considering climate risks. The FT piece called on investors to vote against directors at companies that have demonstrably failed to address the risks of climate change to shareholder capital, starting in 2019. It also invited investors to vote against auditors that fail to provide assurance that a company's annual report

3 FT (2019) Investors should fire directors who fail to act on climate change. Available at: https://www.ft.com/content/8403fb3a-22df-11e9-b20d-5376ca5216eb

[4] https://www.iigcc.org/

and accounts provides a 'true and fair view' of the business' economic health and that disclosures are 'complete and balanced'.[5]

We request that your organisation uses its proxy voting rights robustly to achieve timely progress towards the objectives of the CA100+ initiative, including in 2019. This includes: voting against directors of companies that have shown persistent inaction on climate change and/or have consistently engaged in obstructive lobbying on climate change and energy issues; voting against remuneration policies that do not reward executives for delivering a sustainable and resilient strategy that is aligned with 1.5°C warming; and voting against auditors where climate-related disclosures from the company are misleading. These are tools that, for the companies most resistant to improvement, we expect investors to use now, rather than waiting until the end of the five-year term. In this light, we welcome the Church Investors Group's public commitment to vote against the chairs of companies that have received a low score from the Transition Pathway Initiative. [6]

To ensure that progress is transparent and to encourage other investors to join you in taking bold action on climate change, CA100+ investor signatories should disclose how they voted at the AGMs of the 161 target companies. In addition, you should provide a rationale for votes cast on climate-related shareholder resolutions at *all* public companies in your portfolios.

Escalation in the Engagement with Companies

We also urge you to adopt a consistent, outcomes-focused and transparent escalation process for each of the 161 CA100+ companies in cases where boards are failing to take appropriate action on climate change or have been unwilling to enter a dialogue with investors about climate-related risks.

The UK's Financial Reporting Council's Stewardship Code[7] suggests ways in which investors can escalate their engagement activities when there are concerns about a "*company's strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters*". Escalation could involve investors making public statements, speaking at Annual General Meetings, proposing changes to board membership, filing and supporting shareholder resolutions, and using voting powers to drive change. Where escalation has been tried without success, we would expect CA100+ investors to reduce holdings or divest from uncooperative companies altogether.

In that context, we urge CA100+ signatories to support climate-related shareholder resolutions filed by smaller shareholders and civil society organisations at target CA100+ companies.

Including Banks in the List of CA100+ Target Companies

We strongly recommend that a selection of the largest global and regional banks be included in the group of CA100+ target companies. As systemically important financial institutions with ties to every industrial sector, banks face both climate-related risks and opportunities. On the one hand, they are exposed to the

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[5] See reference 3
[6] https://churchinvestorsgroup.org.uk/wp-content/uploads/public/2018-Voting-Press-Release.pdf
[7] https://www.frc.org.uk/investors/uk-stewardship-code

physical, transitional and liability risks linked to climate change via the clients they lend to and do business with. These risks can be managed by, for example, ending project finance for coal mines and coal power plants, and reassessing general corporate finance for companies highly dependent on coal. On the other hand, banks can make a positive contribution to tackling climate change by mobilising the finance required for a successful Net Zero transition, and by putting an end to the financing of assets such as fossil fuels. It is therefore crucial that institutional investors in banks (both equity and bondholders) ensure that the banking sector aligns its finance and lending decisions with the Paris goals and manages the low-carbon transition proactively.

Engaging with Policymakers on Climate Change and Countering Adverse Lobbying

It is essential that CA100+ signatories use their influence, individually and collectively, in support of an ambitious public policy framework that drives investment in low-carbon sectors and encourages robust environmental regulation.

Related to this, signatories should ensure that the indirect and direct lobbying activities of high-carbon companies do not obstruct the implementation of sensible climate policy and a net zero transition. Organisations such as InfluenceMap and the Union of Concerned Scientists have long documented the obstructive role that high-carbon companies, in particular fossil fuel and automotive companies, and their lobby groups have had on climate policy across numerous jurisdictions. CA100+ signatories must be prepared to address such lobbying forcefully. In this light, we strongly support AP7 and the Church of England Pensions Board's initiative to tackle harmful corporate lobbying on climate change in Europe[8] , as well as the coalition of US investors coordinated by Walden Asset Management that has been challenging high-carbon companies to disclose lobbying activities and review their indirect and direct lobbying on climate change[9]. We encourage you to support these initiatives.

Transparency and Accountability of the CA100+ Initiative

We urge CA100+ signatories and the five partner organisations managing the coordination of CA100+ to increase the transparency of the process that is underway. It is essential to the credibility and long-term success of CA100+ that a list of the investors allocated to take the lead each year in engaging with specific target companies is published for all stakeholders, including beneficiaries of signatories, to see.

In addition, we recommend that the CA100+ publish an annual report outlining priorities for the forthcoming year, progress made by each company, details of the learning from past engagements with target companies, how this learning will be drawn upon in the following year, and future milestones for engagement and escalation.

We welcome the CA100+ outcomes negotiated in Europe, and shareholder proposals filed by CA100+ investors in Europe and the USA in recent months. However, we are concerned that other jurisdictions are not keeping pace with these developments. Australia, Africa, Asia and Latin America are of particular concern. We appreciate the challenges in some jurisdictions in proposing shareholder resolutions and

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[8] https://www.churchofengland.org/more/media-centre/news/pension-funds-challenge-major-european-emitters-climate-lobbying

[9] https://waldenassetmgmt.com/wp-content/uploads/2019/02/Announcement-of-2019-lobbying-resolutions.pdf

public engagement, but clear and transparent justification should be given for any lack of ambitious action.

Collaboration with external stakeholders

Collaboration and stakeholder engagement are the cornerstones of effective climate action. We believe that the CA100+ has a responsibility to work collaboratively and supportively with global civil society, which has been recognised by the IPCC, amongst others, as a necessary lever of change.

We see considerable scope for the CA100+ to collaborate further with external stakeholders, including academics and civil society organisations, on what is needed from companies to achieve alignment with the Paris goals. These stakeholders possess a wide range of expertise on climate-related risk and can be useful in areas where investors lack capacity. This type of collaboration will be most effective when directed at companies that are resisting engagement and at those that fail to effectively operationalise their climate commitments.

Furthermore, CA100+ investors and coordinating bodies should commit not to stand in the way of more ambitious proposals put by civil society organisations, and collaborate with and, where possible, support other investor initiatives working towards the same goal of corporate decarbonisation.

Conclusion

The CA100+ initiative is supported by philanthropic funders, whose responsibility is to deliver public benefit. Rapid action to decarbonise the global economy, focusing on the world's highest carbon public companies, is manifestly in the public interest. We believe that by supporting the recommendations laid out above, the CA100+ will secure stronger public support and deliver greater public benefit, whilst protecting pension savers and other clients of CA100+ signatories from climate risks.

We acknowledge the important progress that the CA100+ has achieved thus far in engaging with some of the world's largest high carbon companies, and fully support the ambition and goals that the initiative is working towards. We believe that fulfilling the expectations laid out in this letter will help the CA100+ to realise its full potential.

We would welcome the opportunity to meet with you or the CA100+ partner organisations to discuss the expectations set out in this letter, and look forward to receiving your response. Please respond via jeanne.martin@shareaction.org.

Yours sincerely,

Catherine Howarth
Chief Executive
ShareAction (Fairshare Educational Foundation)

Brynn O'Brien
Director
Australasian Centre for Corporate Responsibility (ACCR)

James Thornton

Chief Executive Officer
ClientEarth

Mark van Baal
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Follow This

Jennifer Morgan & Bunny McDiarmid
Executive Directors
Greenpeace International

Tracey Davies
Executive Director
Just Share

Raj Thamotheram
Founder and Chair
Preventable Surprises

Jason Opeña Disterhoft
Climate and Energy Senior Campaigner
Rainforest Alliance Network

Kelly Martin
Beyond Dirty Fuels Campaign Director
Sierra Club