



## Fiduciary duty and 2°C resolutions—Urgent!

*Pressure needed to get investment firms to support resolutions at US energy utilities*

The 2°C transition plan resolution at Southern Company last year gained 36% votes in favor—an impressive first outing. To rapidly cut carbon emissions, we must push past 50% on this and similar measures. In 2017 there are eight resolutions at US energy utility companies relating to 2°C scenarios or business plans (**AES Corp, Ameren, Dominion Resources, DTE Energy, Duke Energy, First Energy, PPL Corp, and Southern Company**). The next vote will be at Ameren on April 27.

Preventable Surprises is working with allies to persuade large investment firms to vote their clients’ proxies **in favor** of these resolutions. Too many of these firms joined the Missing60 last year—when 60% of investors voted inconsistently between the US and European versions of the same resolution, based on whether or not management supported it. Below are some of the largest investment firms’ 2016 voting records on two 2°C stress tests and one transition plan.

Asset manager	ExxonMobil	Chevron	Southern
BlackRock	Against	Against	Against
JP Morgan	Against	Against	Against
Vanguard	Against	Against	Against
State Street	For	For	Against
Capital	Unknown	Unknown	Unknown
Bank of America	Unknown	Unknown	Unknown
UBS	For	For	Unknown
T Rowe Price	For	For	Unknown

We are asking **investment companies** to not only vote for 2017 climate resolutions at the eight utilities listed earlier, but also to encourage others by pre-declaring through the Ceres proxy vote declaration system (<https://ceres.secure.force.com/2DSResolutions>). We are lobbying **asset owners** to make the same ask of their investment managers. To help asset owners in conversations with their relationship managers, we’ve listed details of the eight resolutions in Table 1 below. Table 2 lists the ownership stakes of the largest asset managers in the eight utilities.

Investment firms should vote in favor of these resolutions because:

- Climate change threatens to reduce value across a diversified portfolio.
- Technological change, which opens the door to new entrants, threatens BAU at slow-to-adapt portfolio holdings.
- In the absence of federal action, many states are issuing regulations that, combined with the above items, pose potential existential threats to outdated utility business models.

To fulfill their fiduciary responsibility to their clients, hired investment managers must be **forceful stewards**. They must publicly encourage investee companies to quickly transition to a low-carbon operating model. In the case of energy utilities, the International Energy Agency suggests that keeping warming to 2°C or less requires 95% clean electricity by 2050.

**BlackRock, UBS and JP Morgan** are represented on the Task Force on Climate-related Financial Disclosure. In December, the TCFD recommended that companies disclose how climate-related risks and opportunities could impact their businesses, strategies, and financial planning (<https://goo.gl/Hr12G0>). If these three asset managers vote against 2°C scenarios in 2017, we believe they will undermine the Task Force and their role in it.

BlackRock has recently acknowledged heightened client interest in climate-related proxy voting and also indicated a more proactive approach to climate risk. We are hopeful that BlackRock will vote for the resolutions this year but, as with other investment firms, clients hold the key. State Street voted in favor of the Exxon/Mobil and Chevron resolutions but against the Southern resolution in 2016. The firm is saying the right things:

*“Our mission is to invest responsibly on behalf of our clients to enable sustainability, economic prosperity and social progress over the long term. A focus on ESG issues is a critical requirement for us to deliver against the mission.”*

*Ron O’Hanley, president and CEO, State Street*

Let’s hope State Street can be persuaded to vote for the Southern resolution this year, reflecting a consistent approach to systemic risk posed by climate change. We are seeing revisions to proxy voting policies on ESG resolutions at many of the largest investors and we hope this augurs well for a successful 2017 AGM season.

Table 1

2° resolutions at U.S. utilities

Utility	Resolution title	AGM
AES Corp.	Proposal 6: Nonbinding stockholder proposal seeking a report on company policies and technological advances through 2040.	April 20
Ameren	Item 6: Report on the impact on the company’s generation portfolio of public policies and technological advances that are consistent with limiting global warming.	April 27
Dominion Resources	Item 8: Assessment of the impact of public policies and technological advances consistent with global warming	May 10
DTE Energy	Proposal No. 5 Assessment of Public Policies and Technological Advances Consistent with Two Degree Global Warming Limit	May 4
Duke Energy	Proposal 7: Preparing an assessment of the impacts on Duke Energy’s portfolio of climate change consistent with a two degree scenario	May 4
First Energy	Item 10: Report on Climate Change Strategy	May 16

PPL Corp	Proposal 6: Climate change: 2 degree scenario analysis	May 17
Southern Company	Item 6: Report on Strategy For International Energy Agency 2°C Scenario	May 24

Source: Preventable Surprises research.

**Table 2**

**Top 10 ownership stakes in U.S. utilities**

	AES	Ameren	Dominion	DTE Energy	Duke	First Energy	PPL	Southern
Vanguard	11.2	10.2	6.8	10.3	6.7	7.6	7.1	6.7
BlackRock	11.3	6.3	7.2	8.6	6.0	7.8	7.0	6.1
State Street	5.3	5.5	4.9	5.3	4.9	9.8	5.1	5.0
Capital	5.2	--	8.4	2.9	3.1	--	0.3	2.7
Franklin	--	0.4	3.1	1.0	1.5	1.2	1.8	1.7
Invesco	1.0	0.7	1.3	0.6	1.1	2.9	0.4	3.3
Wellington	0.1	0.6	4.7	--	0.9	0.1	0.1	0.1
Northern Trust	1.2	1.1	1.3	1.2	1.2	1.1	1.1	1.2
Federated	--	--	1.1	0.1	1.3	0.1	2.1	1.5
T Rowe Price	8.6	0.2	0.2	3.0	0.2	5.9	0.2	0.6
<b>Total</b>	<b>43.9</b>	<b>25.0</b>	<b>39.0</b>	<b>33.0</b>	<b>26.9</b>	<b>36.5</b>	<b>25.2</b>	<b>28.9</b>

Source: FactSet, 20<sup>th</sup> April 2017. Data is grouped at parent company level and includes all subsidiaries.

**If you have any questions, please don't hesitate to contact:**

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