

Forceful Stewardship  
Virtual Dialogue 2:

# Post-COP21 Strategy

NOV 23-25, 2015

Hosted by the Preventable  
Surprises Team:



**Carolyn Hayman**

Independent innovator at Independent  
**PREVENTABLE SURPRISES**



**Olivia Stewart**

Head of Communications  
**PREVENTABLE SURPRISES**



**Raj Thamotheram**

Chief Executive Officer  
**PREVENTABLE SURPRISES**



**Bill Baue**

Corporate Sustainability Architect  
**FACILITATOR**

POWERED BY:



[www.convetit.com](http://www.convetit.com)



# ThinkTank Statistics

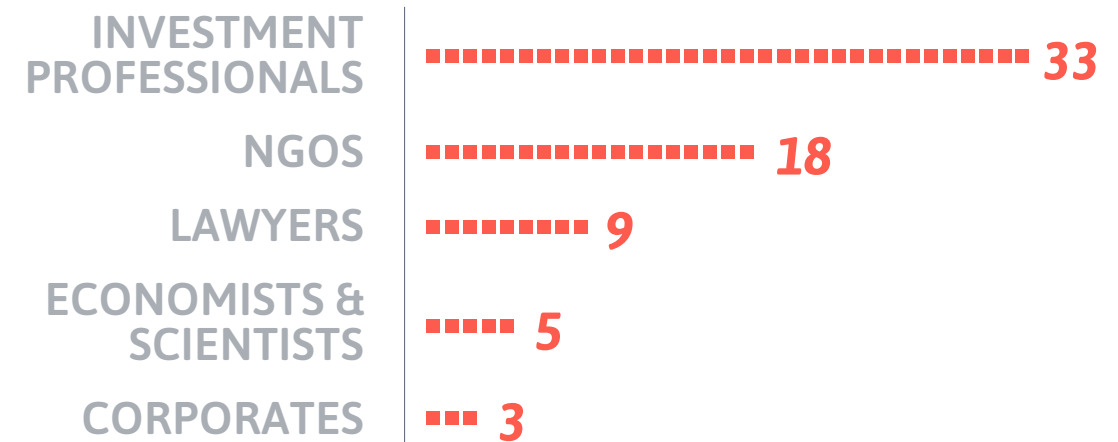
  
**68 Participants**  
from **12 Countries**

  
**3 On-Platform Surveys**  
+ Pre -and Post-  
ThinkTank Surveys

  
**282 Posts in 6 Session**  
Discussion Tabs

  
**Bibliographic Library**  
of **20 Resources**

## Participant Demographic



**Geographic Distribution of Participants**

# Executive Summary

**This second ThinkTank on Forceful Stewardship engages “positive maverick” participants from different disciplines, stakeholder groups and countries who participated in the first virtual dialogue, and some select new participants, to advance specific strategies on how investors can best address big climate risk in the wake of COP21 and heading into the 2016 Annual General Meeting season and beyond.**

## Convener's Introduction

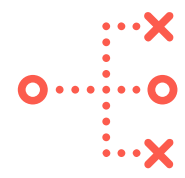
*“The context for this ThinkTank is the upcoming 21st COP. Clearly it’s going to be different from the earlier 20 that have achieved so little – there’s a lot of positive momentum to do things differently this time. The spectre of the 2009 Copenhagen fiasco, China’s strategic intent, President Obama’s desire for a legacy, the pricing of renewables...despite the worrying events in Paris, many things are going in our favour.*

*So, the political signaling effect of COP21 – like divestment – is very, very important. But it won’t answer how we keep warming below 1.5° - 2°C.*

*We’re convening this second ThinkTank now because, if investors engage forcefully enough, they can keep ratcheting up the agreements so that we do manage systemic risk. For example, companies are beginning to commit to science based targets – today there are 80 and Nigel Topping, the Director of We Mean Business, says we need 2000, so investors asking for 2° transition plans clearly helps.*

*The last ThinkTank delivered some marvelous insights, clear priorities and powerful arguments for forceful stewardship. It led to 2 reports and pilot activity. And now we want leverage this momentum to amplify impact.”*

RAJ THAMOTHERAM, CEO, PREVENTABLE SURPRISES



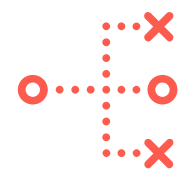
**BHP, Danone and other corporations are publishing climate policies/plans and we can expect many more after COP21. Preventable Surprises is developing a process for proposing what a 2°C transition plan should look like, and for scrutinizing 2° transition plans, using the BHP report as a case study.**

## Leverage Points

- 7 Accounting firms need to integrate 2° transition planning and climate risk mispricing into auditing frameworks.
- 7 Mainstream financial advisors lack integration of climate risk.
- 5 Engage market regulators with a common set of key questions on the Forceful Stewardship critique to get comparable responses.
- 3 Require transparency on lobbying to check alignment between corporate climate stances and lobbying positions.
- 2 Create a template for identifying consistency between remuneration / growth strategies and 2° business models.
- 2 "Think hard about credit rating analysts."

## Quotes

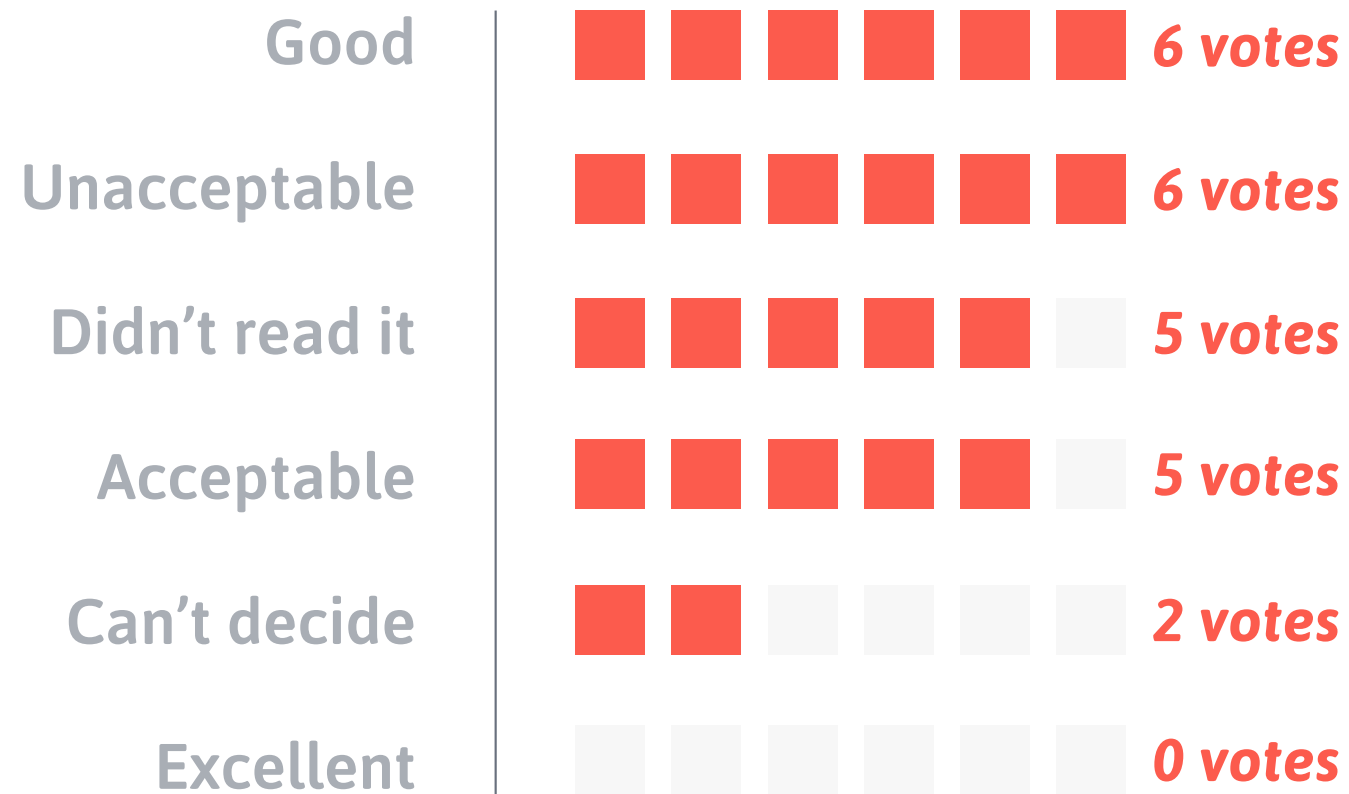
- 7 "Climate risk needs new specialist expertise to emerge. The Preventable Surprises approach is an excellent start."
- 6 "Build a task group comprised of 4 asset managers (eg. Blackrock, Vanguard) and 4 asset owners (large progressive pension funds) to share with them the BHP report analysis and InfluenceMap -- and ask if they would like to be involved in setting a higher standard for the industry. Just start with mining sector. If yes, let them organize themselves, establish objectives and set the timetable."
- 5 "Far fewer investors than one would think are engaging on these issues, in less depth than one might think and the value of the scrutiny report is to pull out the main 'push' elements for investors to have a unified voice."



Investor engagement seeking 2°C Transition Plans has resulted in Australian miner BHP Billiton publishing such a report.

## Question

Do you think the BHP Biliton climate report was:



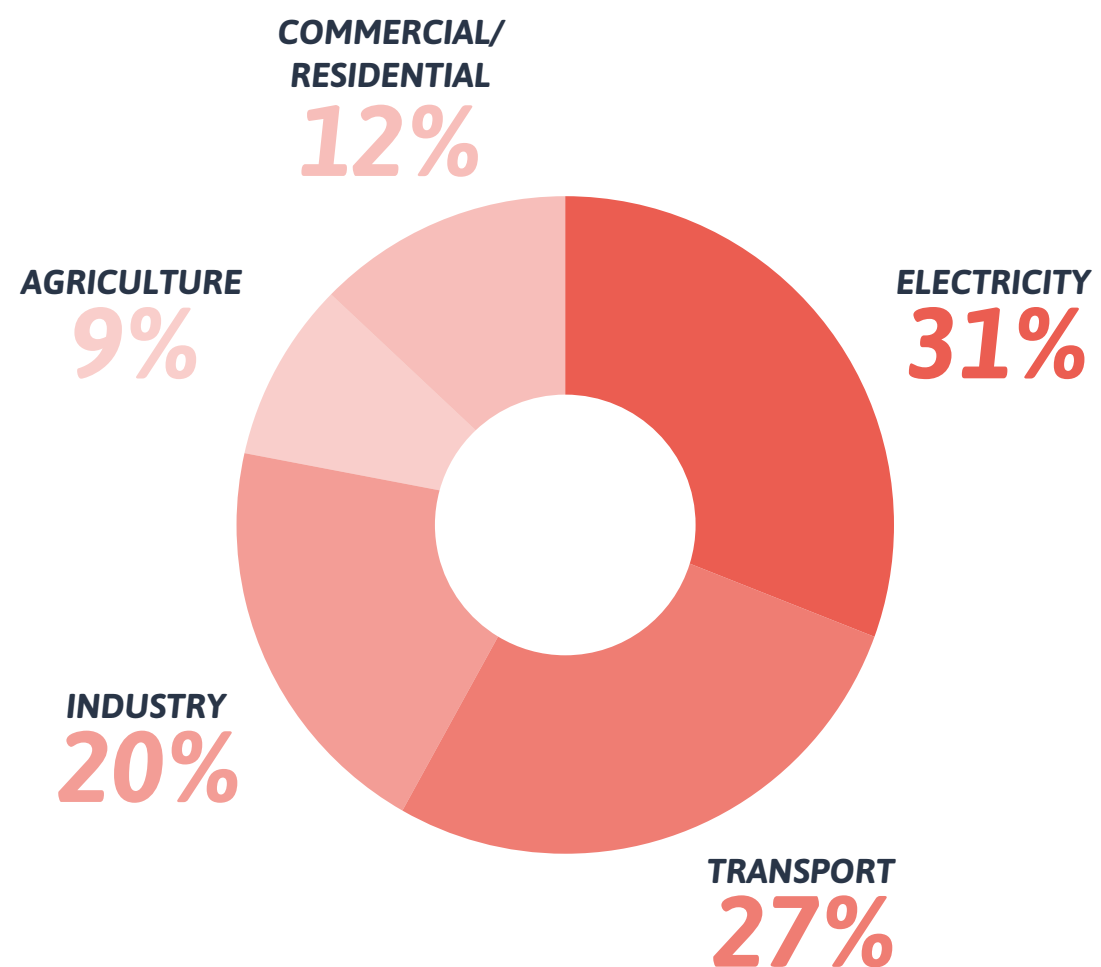


Based on feedback from the first virtual dialogue and October 2015 report, Preventable Surprises provisionally decided to focus on five sectors. This session addresses prioritizing which sectors to focus Forceful Stewardship on.

## Sector to Focus Forceful Stewardship?

- 23 👍 Transport (eg automotive)
- 17 👍 Fossil Fuels (e.g. Oil & Gas)
- 8 👍 Finance
- 8 👍 Ag (eg livestock)
- 6 👍 Utilities

## Direct GHG emissions by sector in the US, from the EPA



## Quotes

- ◆ “We need to balance supply-side targets with a demand-side strategy.”
- ◆ “There are no silver bullets”
- ◆ “If we are to practically detail the scale of the transition for sound transition plans, we need to start allocating the remaining (burnable)
- ◆ carbon budgets to all key sectors in society”



In the September report summarizing the first ThinkTank, Preventable Surprises proposed 3 country pilots: Canada, Netherlands and USA. This session assessed the Canada pilot, which had matured the most, to enhance it and harvest learnings for other country pilots.

## Canada

### SECTORS

- ◆ **Utilities** would benefit from articulating the impacts of climate change, developing technologies, and their strategic responses (eg. substituting with renewables or less carbon intensive fuel) and may actually trigger new investment and positive change.
- ◆ **Oil & gas lobby** and particularly Suncor.
- ◆ **Banks** due to:
  - i. Visibility and impact on public perception & broader business community,
  - ii. Enhance support from bank asset management arms
  - iii. Demonstrate that climate is an financial issue (not just an environmental issue that we raise with the polluters).

### Quotes

- ◆ “I am a huge fan of the forceful stewardship recommendation for Canadian banks to adopt science-based targets to assess loan portfolio alignment with a 2° emissions budget. This sort of tangible tool is invaluable for conservative actors like banks who need the know-how”
- ◆ “You need to meet Canadian investors where they are comfortable - and that would be governance.”
- ◆ “I do not believe that Canadian investors are in denial or lack knowledge but rather, the business case for integrating climate change into company valuations has not been made from the perspective of professional investors. Don’t assume that that institutional investors do not get it.”
- ◆ “Inspiring the people with significant capacity to make change requires not shaming, but casting light on a new path ... the windows of opportunity are open for new dialogue on multiple levels in Canada.”



In the September report summarizing the first ThinkTank, Preventable Surprises proposed pilot activity focusing on information intermediaries, with a special emphasis on voting advisers and investment consultants. This session focused on strategic advice for this pilot.

- ◆ *Aiming For A investor coalition publishes not only co-filers, but also declarations of voting intent prior to the AGM.*
  - ◆ *Consider publicity around proxy voting advice from the major providers*
- ◆ *To craft proposals that are likely to get support from advisors:*

1. *Review publicly available voting policies for ISS, Glass, Lewis and others.*
2. *Review publicly available voting records for investors using research and recommendations from ISS, Glass, Lewis and others.*

*In order to influence policy going forward (could be around 2° transition plans or things like director qualifications)*

3. *Identify the timelines and processes for providing comments to voting advisors in the future.*
4. *Prepare comments to submit along with supporting evidence, in the following priority areas*
  - a. *Operational risk disclosure*
  - b. *Strategic 2° business plans?*
  - c. *Remuneration alignment with this business plan*
  - d. *Board members blocking policy setting/risk disclosure*
  - e. *Lobbying payments / inconsistencies with disclosure*
5. *Encourage as many stakeholders as possible to submit comments.*







A clear view emerged in the first ThinkTank that litigation would be a critical ingredient in the mix of investor tools, even if its wasn't 'successful'. In 3 months since that dialogue, there has been major progress, including action by the New York Attorney General against Peabody and ExxonMobil. This session focused on harvesting advice on litigation strategy.

## ADVICE

### Financial

- ◆ Weigh implications of cost and time in pursuing litigation.

### Strategic

- ◆ **Clear definition of risks** directly linked to climate change needed.
- ◆ **Causation** needs to be demonstrated.

### Fiduciary Duty

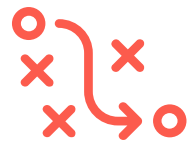
- ◆ **Financial loss** linked to the board's breach of duty or misleading disclosures needed (particularly before the carbon bubble bursts).
- ◆ US Department of Labor recently issued guidance for ERISA plans on the changing notions of fiduciary duty.

### Regulation

- ◆ Engage regulators around their statutory powers to require the production of information (without the evidentiary hurdles of proving causation and loss.)
- ◆ Settlements may result in "de facto" disclosure obligations.
- ◆ Climate change is now undeniably a **material financial issue**, triggering directors **duties of due care and diligence / prudence**.

### Jurisdictions

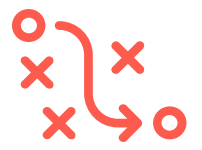
- ◆ The Delaware court is seen as a bellwether for governance issues, given the huge number of US companies registered there
- ◆ US corporate law framework amenable and even conducive to climate-friendly board decisions, according to legal scholars
  - ◆ Bank directors have latitude within American corporate law to increase their climate-friendly endeavors.
- ◆ Explore different jurisdictional rules around litigation costs (i.e. loser pays, and contingency fee arrangements).



**This session focused on strategies for filing shareholder resolutions seeking 2° Transition Plans.**

- ◆ *BHP Climate Change Portfolio Analysis is not a 2° Business Plan but rather a 3 -3.5° Business Plan with scenario sensitivities to test the implications a 2° Agreement.*
- ◆ *Resolutions are disclosure requests that also ask for a transformative plan that companies generally haven't wrapped their heads around.*
- ◆ *The true value (and genius) of the Aiming for A resolutions was that the companies supported the proposals.*
- ◆ *It may take more of a collaborative effort...having someone like Aiming for A file the resolution, but then work behind the scenes to get the institutional investors talking to the company about the resolution and voting for it.*
- ◆ *Focus is important: on asset managers whose products are ESG-themed, and on asset owners who have committed to an investment strategy that aims to reduce climate risk.*
- ◆ *In other important movements (apartheid, nuclear weapons), religious organizations have been fearless in engagement.*
- ◆ *I don't think we can under-estimate the knowledge gap (generally but specifically within the investment sector and its intermediaries).*
- ◆ *Training and evidence from credible sources are going to be crucial to backup a comprehensive engagement process.*
- ◆ *In a letter issued November 24, 2015, SEC Staff held that a proposal seeking to hold a mutual fund accountable for its poor voting record on climate proposals is not excludable from the proxy statement.*

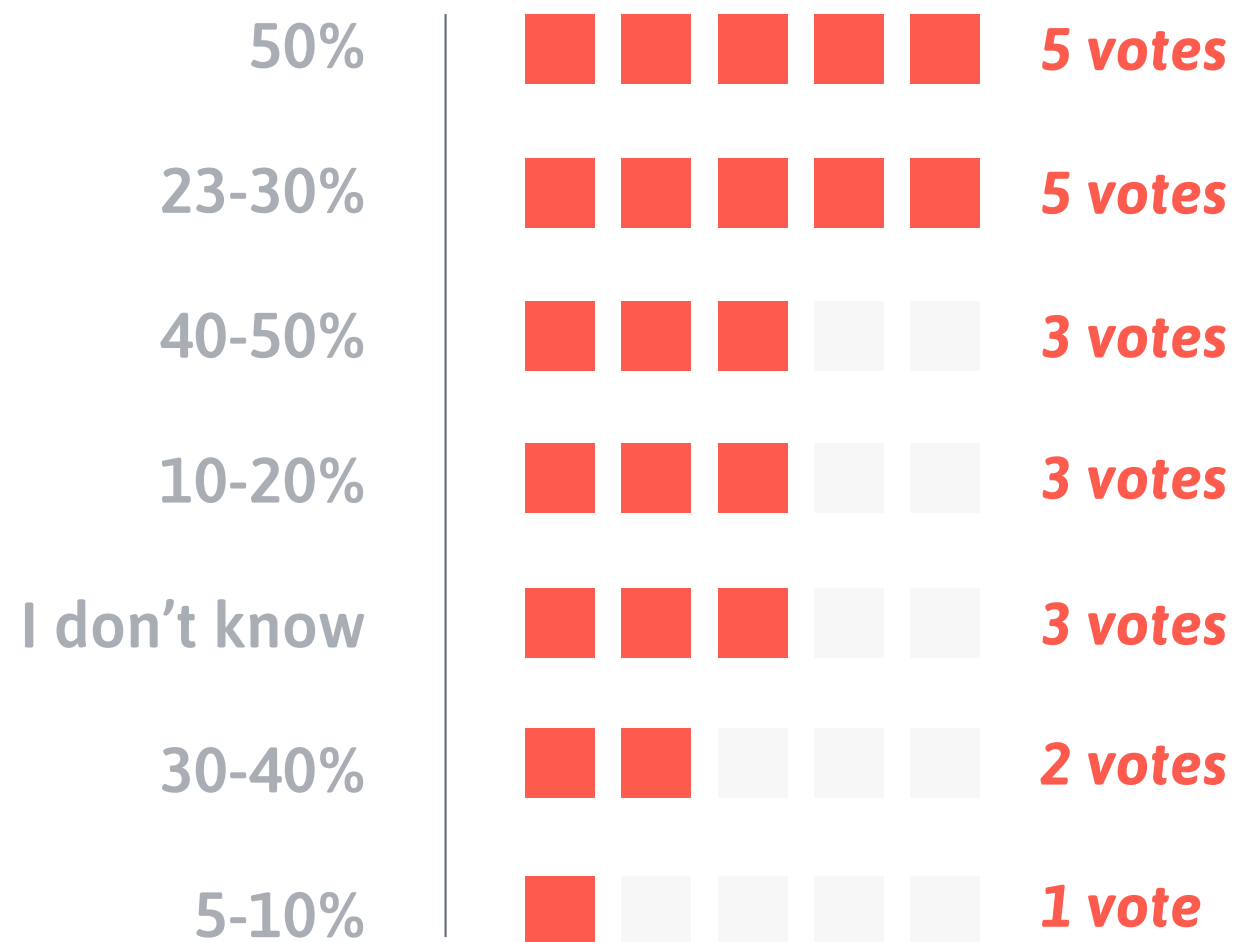




## Support needed for 2°C Transition Plans resolutions.

### Question

What percentage of investors would need to vote in favour of a 2°C Transition Plan to get a company like HP Bilton to do this?





**Preventable Surprises is considering writing to the largest investment firms after COP21, to invite them to support Forceful Stewardship. This session invited advice on the letter.**

- ◆ *Investors should see this as an opportunity to prepare their portfolios for the changes in the economy that the Paris agreement brings.*
- ◆ *More focus in the potential losses that investors may face if decarbonisation of the economy is not achieved. Also, it could highlight the potential benefits of “strategic allocation” perhaps quoting recent studies such as the one released by Mercer.*
- ◆ *Making stronger connections to the fourth pillar of the Paris framework and the leadership role required by non-state actors i.e. the 50 largest investors in the world, should play to the leadership impulse.*
- ◆ *Best not to advocate the case for action, but make the case for the problem with research that identifies implications.*
- ◆ *This letter is essentially an appeal to follow their conscience and rebuff the market, but at what cost to them and with what benefit?*
- ◆ *More focus on specific sectors could make the letter more concrete.*





## Support needed for 2°C Transition Plans resolutions.



### Question

*My advice on the letter is:*

Yes - I definitely think you should go for it. It wil help raise awareness of Forceful Stewardship and may trigger action by key decision makers in ways which can't be predicted

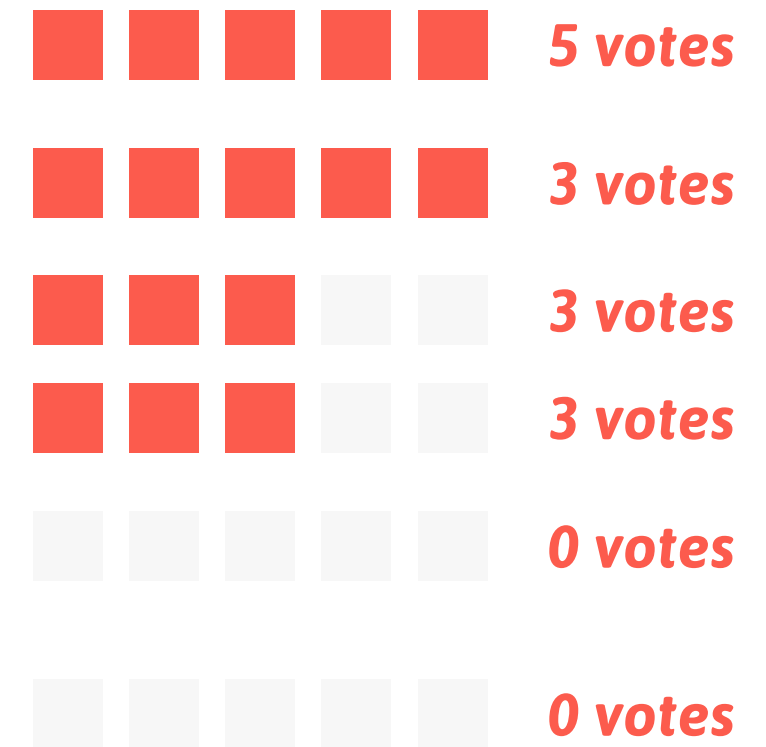
Yes - I think it's a pretty good idea but I suggest this change... (please complete below)

I am not sure / I don't have a strong view

I don't think you should do it. It could position Preventable Surprises unhelpfully

I don't think you should do it. It's a lot of work and won't have as much impact as... (please complete below)

I don't think you should do it. It might stop others doing more efective work with these same big investors



## Conclusion

- ◆ *We were gratified to see the level of support for the scrutiny process on corporate climate disclosure as proposed. While there is healthy disagreement on whether or not the BHP climate report is an effective approach, what is encouraging is the positive feedback we have had on our crowdsourced commentary: we have found a way to work towards consensus despite the lack of agreement on the quality of the corporate report in question!*
- ◆ *It is good to know that many of you think that our independence/tough mindedness coupled with our ability to access great brains like yours could mean we have an enduring role. The focus on sectors, going deep and using insider knowledge to then be able to challenge companies across the sector seems to resonate with many.*
- ◆ *Where we do see a big gap is on constructive pressure to do Forceful Stewardship. There are currently no NGOs focusing on this in a global fashion. We believe that Preventable Surprises has a useful role to play for those insiders who are ready to make use of the space for discreet discussion, leading to action, that we offer.*
- ◆ *Finally, **news** on the need for alignment with mutual funds climate change policy and their voting practices – congratulations if you had a hand in it – is of a piece with the growing interest in calling out organisations – both companies and investors – that say one thing and do another. This is an area to watch out for in the next twelve months.*

CAROLYN HAYMAN, PREVENTABLE SURPRISES CHAIR