The Missing 55%

Investors diverge over climate risk

An investor stampede into passive strategies post 2008 triggered an intense concentration in control of US assets. The top five fund complexes managed *almost half* of the $19.2 trillion sitting in mutual fund and ETF accounts in 2016, according to the Investment Company Institute.[1]

With increased control of the stocks and bonds of America's corporations comes increased scrutiny of investors' fiduciary responsibility to clients, particularly on climate risk. To help manage the risks that climate change poses to investors, a Financial Stability Board task force has recommended that listed companies disclose their exposure to climate-related risks and opportunities. Nine U.S. utilities faced 2017 shareholder resolutions supporting these recommendations. Only one received majority support. The remaining resolutions were voted down by 55% of the utilities' shareholders—the Missing55. Preventable Surprises ranked the ten largest investors in utilities based on the degree to which they supported these resolutions, factoring in their ownership position. The results are below.

The Power Players in the Power Industry

	Voting score	Ownership average	Score
Vanguard	-9	8.94	**-80.46**
BlackRock	-9	7.97	**-71.73**
BNY Mellon	-9	1.29	**-11.61**
Invesco	-3	1.45	**-4.35**
Geode	0	1.01	**0**
FranklinTempleton	2	1.88	**3.76**
GoldmanSachs	5	1.28	**6.40**
Fidelity	6	1.33	**7.98**
Northern Trust	9	1.36	**12.24**
StateStreet	3	5.04	**15.12**

For details on methodology and to see company profiles, please see the full report at:
www.preventablesurprises.com/missing55

Utilities are the largest source of greenhouse gas emissions in the U.S. and are key to reducing emissions in line with the Paris Agreement. Yet many have fought emissions controls and the transition to clean energy. The evolution of clean technologies has left these companies exposed to rapid changes in consumer demand, regulatory structures, and valuation of assets stranded by cheaper, cleaner renewable energy. We hope asset owners will use this report as a springboard for discussion with their investment managers. Asset owners' investment horizons extend to a period when average global warming could surpass 4°C—a risk that can be avoided through forceful stewardship now.

1. https://www.ici.org/pdf/2017_factbook.pdf

Our full report, available at www.preventablesurprises.com/missing55, provides details on the votes of the top ten utility investors on 2°C scenario resolutions. Among the report's insights:

- The largest investors support private engagement over supporting scenario resolutions, despite decades of active resistance to emissions reduction in the sector.
- Ownership concentration among top ten firms ranges from 25% to 40% at the nine utilities. Concentration rises significantly if ownership is calculated against shares voted rather than shares outstanding.
- The emissions gap between the best and worst utilities is extreme due largely to the differing incentives of regulated and deregulated markets.
- Legal & General Investment Management provides a case study in forceful stewardship with its 84-company target list, including 17 utilities.
- The lack of support for renewables from the Trump White House does not faze LGIM and State Street Global Advisors. "It's an investment issue, not a political issue," said Rakhi Kumar, Head of ESG Investments and Asset Stewardship at State Street.

We believe that if responsible investment is to mean anything, investors must view climate change as a systemic risk and act accordingly. To combat this risk and protect shareholders, investors must:

- Work with energy utilities to understand the implications of the transition to a clean power system, which must occur by 2050.
- Demand transparent transition plan that aligns with the Paris Agreement on:
  - Emissions targets
  - Executive compensation
  - State and federal public policy engagement, including through trade bodies.
- Voting in support of 2°C shareholder resolutions until the utility delivers a clean-energy transition plan that aligns with the Paris Agreement.

> *Investment firms must use their immense leverage as fiduciaries to protect their portfolios and our planet.*

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