Focused on Alpha & Outcomes

Engagement Campaign: Seizing the Moment for Climate Action

2021 was an important year for climate action as climate science turned the world's attention to the need to act quickly to slow global warming. The most recent scientific report by the [Intergovernmental Panel on Climate Change] concludes that "unless there are immediate, rapid and large scale reductions in greenhouse gas emissions, limiting warming to 1.5°C will be beyond reach." Meanwhile, the recovery from the pandemic underscores the interconnectedness of our global economy, along with broad recognition that every sector will be impacted by the transition to a low carbon future. Estimates suggest that higher temperatures could displace 1.2 billion people, accelerate stranded assets and destroy as much as 10% of global economic value by 2050.

OUR PHILOSOPHY ON ESG ENGAGEMENT

At Rockefeller Asset Management, we believe that rigorous, ESG-integrated analysis coupled with deep shareholder engagement can deliver strong long-term results for our clients. We also believe that companies working to improve their ESG performance will see stronger financial performance over time. Shareholder engagement is a core part of our investment process and is employed throughout the holding period. While our focus is on constructive dialogue, we have an escalation process designed to increase the probability of a positive outcome that occasionally includes shareholder resolutions.

MATERIAL RISKS REQUIRING STRATEGIC ACTION

As long-term investors serving our clients, we recognize the impact of climate change on our investment portfolios and view the fulfillment of the Paris Agreement as an imperative. We are increasingly incorporating climate preparedness analysis into our investment process. This includes deepening our evaluation of climate physical risk, transition risk, and GHG emissions reduction strategies. In high emitting sectors, we seek to understand how quickly companies plan to reduce emissions, the scope and ambition of reduction goals, and the probability of achieving them. Across sectors and geographies, we have seen an increase in climate action taken by companies in our portfolios. However, many companies still lack a plan for keeping temperature rise within 1.5°C, or how their business will remain competitive in a low carbon future.

ENGAGING WITH COMPANIES TO ENHANCE PERFORMANCE

For years, climate action has been a key topic of conversation with companies when material. Last year, we broadened this dialogue to a campaign called "Seize the Moment for Climate Action" which targeted 150 companies across our strategies. We focused on companies with emissions trajectories projected to be misaligned with the Paris Agreement, a carbon intensity output that is notably higher than peers, and that had not established an ambitious commitment to reduce emissions. In a letter addressed to the CEO, we asked companies to proactively develop a climate transition strategy that is approved by the board, disclose their emissions, set ambitious GHG reduction targets, publish an action plan to reach them and disclose their emissions and reduction efforts in accordance with TCFD and SASB guidelines.

Our goal was to alert companies of the gaps, risks, and growth potential we've identified and to outline the following specific expectations for companies in their approach to climate action.

Strategy	Most businesses will need to adapt to climate change in some way, particularly those in heavy emitting sectors. The goal is for companies to develop and disclose a climate action plan and seek board approval.
Targets	We encourage companies to set forward-looking time-bound decarbonization targets that are ambitious and credibly aligned with a 1.5°C scenario (such as accepted by a third-party organization like Science Based Targets Initiative). Targets should cover a meaningful portion of emissions and disclose the percentage of total emissions covered (scope 1, 2, and 3), including emissions across all products, JVs, and non-operated assets that are included in the targets.
Action plan	The credibility of GHG reduction goals is driven by detailed action plans that include specific initiatives bolstered by CapEx commitments. We encourage companies to publish action plans that include short (5-year), medium (5-10 year), and long-term targets with annual reporting and independent verification of performance.
Disclosure	We recognize the variety of reporting frameworks can cause confusion and commend companies that have disclosed emissions to CDP, and encourage disclosure according to SASB Standards and TCFD guidance. This includes a discussion of governance, strategy, management of climate physical and transition risks, metrics and targets.

COMPANIES HAVE STEPPED UP THEIR EFFORTS

With consensus around the need for action, the bar on companies' existing climate targets has risen. Our campaign letter was met with an echo of responses articulating the steps companies are taking which include enhanced targets, strengthened governance and investments in new technologies. Over the past year, dozens of companies have set or raised their emission reduction targets, with quite a few striving for net zero emissions by 2030 or 2050. Many companies have set targets that have been or will be approved by the Science Based Targets Initiative (SBTI). To achieve them, most companies have energy efficiency projects underway, a meaningful number are increasing the portion of renewable energy used, and some are shifting their business models. For example, Enel, an energy company, is exiting coal production while Neste, a Finnish oil refiner, closed a traditional oil refinery in Finland, and committed to a green energy strategy to lower carbon emissions. It issued its first Green Bond (500 MEUR) and established a Green Finance Framework to further integrate sustainability ambitions into financing. Penta Ocean, a Japanese civil engineering firm, is entering the offshore wind market and established a Carbon Neutral Promotion Committee, chaired by their President, to promote interdepartmental social responsibility targets.

Business model and governance changes like these are a sign of the rising attention to climate within companies. Quite a few companies, in fact, have similarly adapted their governance structures to increase board oversight of climate goals and implement cross-functional efforts to meet them. Others, like Air Liquide, an industrial gas and technology company, have integrated climate objectives into managers compensation. ESG objectives such as reaching the firm's carbon intensity target will now comprise 10% of managers' performance shares granted for achieving long-term targets.

ACTIONS UNDERWAY

We recognize that the time, cost, and resources needed to transition to a low carbon economy. In our letter, we encouraged companies that have not disclosed their strategy, targets and action plan to start the conversation. Many of their responses showed that changes are underway.

> "The encouragement, engagement, and support from shareholders like Rockefeller that share our values are what bolsters and make possible our efforts."
>
> *Lonnie Ledbetter,*
> *EVP Chief Purpose and Inclusion Officer,*
> *American Campus Communities*

Numerous companies are in the process of setting their first GHG emission reduction targets, developing their first action plans and formalizing environmental policies. Many others are in the process of strengthening existing targets. In fact, one of the most frequently mentioned actions was the current pursuit of setting GHG emission reduction targets that are approved by SBTI.

> "In response to your request, we wish to advise you that, although we do not yet have a Board-approved climate transition strategy or decarbonization targets, we are working diligently towards those goals."
>
> *Lawrence I. Sills,*
> Chairman of the Board of Standard Motor Products, Inc. *(US-based auto parts manufacturer)*

This is important as validated targets aligned with the Paris Agreement become more commonplace.

ESG reporting is also an evolving process. A surprising number of companies are currently preparing their first ESG report, and an even larger number have said they intend to publish TCFD-aligned disclosures for the first time in 2022. Among companies that have already mapped their targets and overall plans for scope 1 and 2 emissions, several are moving on to tackle scope 3 emissions by partnering with suppliers to both calculate and reduce emissions where possible.

We learned of numerous meaningful actions companies are currently undertaking. Here are a few:

- A European renewable energy company is decarbonizing its fleet and working on a methodology to capture and report Scope 3 emissions from their supply chain to define decarbonization targets for those suppliers.
- An American biopharma company is in the process of developing a long term ESG strategy which will include GHG emission reduction targets with final oversight from the board of Directors
- A Chinese_consumer goods company has recently set up a designated team to move the company toward carbon neutrality.
- An American cement company is piloting carbon capture technologies.
- A European specialty chemicals company is developing new targets beyond 2025 which will include steps such as expanding the share of renewable energy and seeking confirmation of their trajectory by external consultants.

NEXT STEPS

We are encouraged by the momentum that resulted from last year's heavy focus on climate action and intend to follow up on company commitments in our regular one-on-one engagements. As we bolster our research with data assessing climate physical risk exposure, climate transition risk exposure, and company's efforts to reduce emissions, we believe that our dialogue with companies will encourage steps to assess risk, incorporate climate change into strategic planning and reduce real world emissions. We think about these issues in the context of the nuances of each sector, acknowledging the challenges faced by companies in high emitting sectors where we have societal dependencies or when technologies to enable the transition are not viable. Our hope is that ongoing shareholder engagement dialogue will create shareholder value and position the companies we own to thrive in a sustainable future.

SUSTAINABLE DEVELOPMENT GOALS

Engagement Targets:

- Proactively develop a climate transition strategy that is approved by the board
- Set GHG emission reduction targets aligned with a 1.5°C climate scenario
- Publish action plans that include CapEx commitments
- Disclose data points recommended by TCFD and SASB

Goal 13

Climate Action

Goal listed above represent the United Nations Sustainable Developments Goals, which seek to promote prosperity while protecting the planet, established in 2015.

Mia Overall

Director of Shareholder Engagement

moverall@rockco.com

Emily Claire Mackey

ESG Engagement Analyst

ROCKEFELLER

ASSET MANAGEMENT

rockco.com/RAM