



Focus Area *Climate Change*

THE ISSUE

Climate change is the world's foremost environmental challenge. Moreover, unmitigated climate change has profound societal impacts. For example, changes in precipitation patterns disrupt agricultural systems, causing or exacerbating food insecurity. Rising sea levels imperil coastal infrastructure and populations. Both could force migration and precipitate or amplify conflicts. The environmental and social implications of climate change create risk and opportunities for companies and investors.

OUR STRATEGY

We have led efforts to raise awareness and address climate change within the investor community for well over a decade. This longstanding priority utilizes active ownership strategies to encourage companies to aggressively pursue a path toward a carbon-neutral future. As investors who hold shares of publicly-traded companies, we believe that we have a unique ability to influence corporate leadership to embrace their role as a significant part of the solution to climate change. We encourage companies to:

- 1) **Set greenhouse gas (GHG) emissions reduction targets based on widely accepted scientific research.** Specifically, we ask companies to set "science-based targets" (SBTs) that are aligned with the Paris Climate Agreement, which aims to limit the increase in the global average temperature to below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. To achieve this goal, analysis from the Intergovernmental Panel on Climate Change indicates that GHG emissions should be reduced 55% by 2050 and reach net zero emissions by the end of the century.
- 2) **Advocate for and support effective climate policy with lawmakers at the local, state, national, and international levels.** Many corporations are members of lobbying groups and trade associations that have hindered progress on climate change. We believe a vocal corporate constituency in support of effective climate policy is crucial for continued progress.

The two threads of our climate engagement strategy are interrelated and self-reinforcing. As companies set science-based targets they are signaling to lawmakers that addressing climate change makes good business sense, enabling legislators and regulators to develop sound public policy solutions to mitigate climate change. With a rational and effective public policy framework in place, companies are better able to achieve climate-related goals.

Key Considerations

- We consider several indicators of corporate performance related to climate that inform our engagement, including GHG reduction initiatives, energy efficiency and natural resource conservation, commitment to renewable fuel sources, and public policy positions.
- Solutions to climate change must consider the supply and demand for energy. Thus we engage both energy suppliers (i.e. fossil fuel companies and utilities) and corporate users.
- Climate change affects different sectors and industries in distinct ways. The Sustainability Accounting Standard Board (SASB) describes climate risk as "ubiquitous but differentiated." While companies face unique discrete risks associated with climate change, we believe all companies have an opportunity to help reduce emissions.
- Company-specific action to mitigate climate change can be cost-effective, as demonstrated by the return on investment companies receive from energy efficiency projects and the competitive price companies are now paying for renewable energy.