

2020 PROGRESS REPORT











ABOUT THIS REPORT

This report is the second update on progress, issued by the Climate Action 100+ initiative. It summarises overall progress of the initiative including an update on measurement and benchmarking, key focus company commitments against the initiative's goals, growth in signatories, and a sector level update on company performance against a set of indicators aligned to the aims of the initiative.

THANKS TO CLIMATE ACTION 100+ FUNDERS

The five investor networks are thankful for the support of our philanthropic partners: Bloomberg Philanthropies, Children's Investment Fund Foundation (UK), ClimateWorks Foundation with a contribution from the IKEA Foundation, The Grantham Foundation for the Protection of the Environment, KR Foundation, New York Community Trust — Lise Strickler and Mark Gallogly Charitable Fund, Sea Change Foundation International, Martha Records and Richard Rainaldi, Wellspring Climate Initiative, and our anonymous supporters.

CLIMATE ACTION 100+ IS SUPPORTED BY FIVE COORDINATING INVESTOR NETWORKS







The Institutional Investors Group on Climate Change





All values are in USD unless otherwise stated.

The reporting period ('this year') spans 1 October 2019 - 30 November 2020 unless otherwise stated. For 2019 data, please see the <u>2019 progress report</u>.



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SIGNATORY ASSETS UNDER MANAGEMENT TOTAL

\$52 TRILLION

REPORT INTRODUCTION AND HIGHLIGHTS

WHAT IS CLIMATE **ACTION 100+?**

Launched in 2017, Climate Action 100+ is now the largest ever investor engagement initiative on climate change. The initiative focuses investor engagements on 160 global companies that have significant greenhouse gas (GHG) emissions and/or are critical to the net-zero emissions transition and to meeting the objectives of the Paris Agreement.

By engaging with these focus companies, signatory investors to Climate Action 100+ are helping to accelerate the business transition to a net-zero emissions future and ensure that global economies are more resilient to climate change.

For more information, visit: www.ClimateAction100.org and follow: @ActOnClimate100.

WHO IS BEHIND THE **INITIATIVE?**

The initiative has been shaped and led by its participating investors who determine the engagement strategy pursued with each focus company and update the initiative on progress.

The management of the initiative day to day and engagement of investors is assisted by five investor networks: the Asia Investor Group on Climate Change (AIGCC), Ceres, the Investor Group on Climate Change (IGCC), the Institutional Investor Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI).

The investor networks provide secretariat support for investors, help facilitate meetings, provide technical assistance and create opportunities for engagement skills enhancement. The investor networks also lead regionally focused working groups that support engagement with a subset of focus companies and help to ensure engagements are effective.

For more detail on the governance and operations of the initiative please visit the website and the 2019 progress report.

CLIMATE ACTION 100+ AT A GLANCE

SIGNATORY INVESTORS

SIGNATORY ASSETS UNDER MANAGEMENT TOTAL¹ TRILLION

INVESTOR SIGNATORIES IN FOCUS COMPANIES IN 32 MARKETS²

COMPANIES ENGAGED BY THE INITIATIVE ARE RESPONSIBLE FOR AN ESTIMATED OF GLOBAL INDUSTRIAL **FMISSIONS³**

TOTAL MARKET CAP FOR ALL FOCUS COMPANIES IS

1 As at 30 November 2020.

- for more information about the companies added to our focus list in 2020.
- 3 Based on total 2018 emissions for all Climate Action 100+ focus companies (CDP data), compared to 2018 global emissions (Global Carbon Project data).
- 4 Bloomberg data as at 30 November 2020.

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HIGHLIGHTS: 2020 COMPANY COMMITMENTS

These highlights are a small selection of company commitments from 2020

FOCUS COMPANIES BY SECTOR¹



BP **ENEOS HOLDINGS INC OCCIDENTAL PETROLEUM** CORPORATION OIL AND GAS COMPANIES BP has set a new ambition to ENEOS updated management plans Occidental Petroleum announced become a net-zero emissions and company vision for carbon an operational net-zero by 2040 company by 2050 for scope 1, 2 neutrality by 2040 through its target and ambition for net-zero and 3 with a 50% cut in the carbon updated 'vision for 2040', including associated with the use of its intensity of products it sells by 2050 products by 2050. aspirations to link social and MINING AND METALS or sooner. It also became the first environmental goals to executive COMPANIES oil major to announce that it will cut remuneration and investing 14 billion production 40% by 2030. into its business transition plan. UTILITIES COMPANIES 26 **ROYAL DUTCH SHELL RELIANCE INDUSTRIES** REPSOL INDUSTRIALS COMPANIES 6 Reliance Industries announced a Repsol announced an ambition Shell has set a new long-term target to become net carbon zero to achieve net-zero emissions by ambition to reduce the net carbon bv 2035. 2050 for scope 1, 2 and 3 emissions footprint of its energy products by TRANSPORTATION becoming the first global oil and 65% by 2050, and by around 30% COMPANIES gas company to assume this goal. by 2035. To reach overall net-zero emissions, Shell will pivot towards serving customers that are aligned with its net-zero ambitions. CONSUMER PRODUCTS COMPANIES

1 The focus list includes one company that is classified as 'other' which is not included in this list.

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PETROCHINA CO. LTD

PetroChina announced a near-zero emissions target by 2050, and plans to use some of the \$38 billion received from gas pipeline sales to focus on wind and solar power.

SK INNOVATION CO LTD

SK Innovation reconfirmed its commitment to achieving <u>Green</u> <u>Balance 2030</u> by 2030, ultimately aiming to achieve net zero emissions in all material scope 1, 2 and 3 emissions by 2050.

HIGHLIGHTS: 2020 COMPANY COMMITMENTS





BHP

AGL ENERGY LTD

BHP made a significant

enhancement in its approach to industry associations and lobbying on climate to ensure improved climate policy positions from associations it is a member of, and to improve real-time disclosure on misalignment and escalation. The company also set a mediumterm target to reduce operational emissions by 30% by 2030.

AGL targeted net-zero emissions by 2050 and set out plans to invest more in renewable energies and tested the resilience of its plans against a 1.5°C climate pathway scenario.

PGE POLSKA GRUPA ENERGETYCZNA S.A. (PGE)

PGE published a new strategy which contained, among other things, a commitment to carbon neutrality by 2050. The long-term strategic goal of the company is for 100% of the energy sold by PGE to come from renewable sources by 2050. The company will also reduce its investment in coal. PGE also set interim targets and milestones. Specifically, by 2030, the share of renewable energy in the company's portfolio will increase to 50% and carbon dioxide emissions will be reduced by 85%.

THE SOUTHERN COMPANY

Southern Company reaffirmed its mid-term goal of a 50% reduction in GHG emissions by 2030 and set a new long-term goal of net-zero carbon emissions by 2050. The company complemented this commitment with the report 'Implementation and action toward net-zero.' The goal does not cover scope 3 emissions.

Unilever announced it would achieve net-zero emissions from all its products by 2039 in addition to its existing science-based target to reduce its scope 1 and 2 emissions 100% by 2030. It intends to establish a €1 billion Climate and Nature Fund to invest in projects such as reforestation, carbon sequestration and conservation.

XCEL ENERGY INC.

Xcel Energy published its 'Electric Vehicle Vision', announcing intent to power 1.5 million electric vehicles (EVs) in its service areas by 2030 and an investment of \$300 million to accelerate adoption of EVs in its communities.

WEC ENERGY GROUP. INC.

WEC Energy upgraded its 2030 goal from 40% to 70% emissions reduction, and its 2050 goal from 80% emissions reduction to net carbon neutral generation. The qoal does not yet cover scope 3 emissions.

Woolworths set a medium-term science-based target to reduce its operational emissions by 63% and scope 3 emissions by 19% by 2030, which was endorsed by the Science Based Targets Initiative.

CONSUMER PRODUCTS

UNILEVER PLC

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WOOLWORTHS GROUP LIMITED

HIGHLIGHTS: 2020 COMPANY COMMITMENTS



CEMEX S.A.B. DE C.V.

HON HAI PRECISION INDUSTRY

AMERICAN AIRLINES GROUP INC.

TRANSPORTATION

DELTA AIR LINES, INC.

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Cemex <u>committed</u> to delivering net-zero carbon dioxide (CO₂) concrete by 2050 and linking its targets/performance to executive compensation. The company will also be setting science-based targets for 2030. Hon Hai committed to ensuring that its GHG emissions policies across the value chain are consistent with the goals of the Paris Agreement with an aim to achieve net-zero GHG emissions by 2050. This comes with an acknowledgement as a response to the objectives set out by Climate Action 100+.

AMERICAN AIRLINES GROUP INC.

American Airlines released a new

ESG (Environmental Social and

Governance) report in October

2020 formally committing the

company to net-zero emissions

by 2050. The company intends to

efficiency, operational efficiencies,

energy at the company's facilities.

do this via a combination of fuel

fleet renewal, new aircraft types, sustainable aviation fuels, carbon offsets, and the use of renewable

Delta Air Lines <u>announced</u> a commitment to carbon neutrality and to offset all its emissions from March 2020 onward. It also announced a \$1 billion investment to meet its new goals. Ford announced its ambition to become <u>carbon neutral by 2050</u>, signed a <u>compromise agreement</u> with California ("California Agreement") under which it agreed to comply with standards stricter than the Trump Administration's vehicle emissions standard.

CUMMINS INC.

LAFARGEHOLCIM LTD

Cummins <u>announced</u> a new sustainability strategy, committing it to net-zero emissions by 2050 in company operations. The company also set new emissions reduction targets including a science-based target which included coverage of scope 3 emissions, committing it to reduce emissions by 25% from newly-sold products, and partnerships with customers to reduce emissions by 55 million tonnes by 2030. LafargeHolcim set a net-zero emissions by 2050 target and committed to set a science based 2030 emissions reduction target. It also announced that it is partnering with the Science Based Targets Initiative to pioneer setting climate targets for a 1.5°C future in the cement sector.

QANTAS AIRWAYS LIMITED

Qantas announced a net-zero by 2050 target, the first airline in the world to do so, to cap its emissions at 2019 levels, invested \$50 million in advanced biofuels research and development, and doubled its offset program.

ROLLS-ROYCE

Rolls-Royce <u>announced</u> a commitment to net-zero emissions in its operations by 2030 and to play a leading role in enabling the sectors in which it operates to reach net-zero emissions by 2050. It intends to publish a roadmap by the end of 2020 with interim targets to achieve these aims.

FORD MOTOR COMPANY

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FOREWORD FROM MARK CARNEY

As we navigate the recovery from the Covid crisis. there are high expectations that businesses adapt their strategies in a way that considers the most pressing issues for people and planet. Indeed this crisis has reinforced society's demand for a sustainable future that takes climate change into account. The transition to net-zero greenhouse gas emissions is both an imperative of climate physics and a commitment in 126 countries. It is therefore vital that this strategic reset across businesses sees the adoption of strategies to align with a net-zero future.

Climate change, and society's response to it, is creating unparalleled risks and opportunities. Those companies that are part of the solution and are making the transition to netzero have the opportunity to thrive and will create enormous value for their shareholders. Those that don't will become increasingly uncompetitive and could lose their social licence to operate. By the time of the 2021 UN Climate Change Conference in Glasgow, transition plans for large companies will increasingly be the norm, with their absence either signalling an intention to wind down the business over coming years, or an assertion that the business is somehow separate from the society in which it operates. The former may be logical, the latter would be unforgiveable.

Investors are increasingly focused on assessing how well companies are positioned for both climate change and the net-zero transition, by identifying which companies will be on the right and wrong side of climate history. Climate Action 100+ has been leading this charge, providing the momentum, stewardship and analysis to support the world's highest-emitting companies in the strategic resets they need to make. Companies are clearly taking note. As this progress report reveals, 2020 has seen a surge in net-zero announcements, with many of these commitments driven through investor engagement. I have been truly astounded by the momentum in the past year alone, particularly given the backdrop of the Covid-19 pandemic.

But there is still some distance to go. It's time for every company to engage with this conversation. This progress report highlights the imperative of starting with an appropriate level of ambition by building net-zero and interim targets that cover emissions across the full business value chain. It also outlines how companies need to do more to reconcile positive talk with action, including embedding net-zero across all aspects of their strategy and investment pipeline, and holding industry associations to account for the climate lobbying carried out in their name.

Our collective expectations of transition plans, as well as approaches to measuring the position of companies and portfolios on the transition path, will continue to evolve and ratchet up as we move towards net-zero. And as investors increasingly demand these strategies of companies, it may be desirable to give them a "Say on Climate" - an automatic annual advisory vote on transition plans just as there is an advisory "say on pay" in some jurisdictions. This would establish a critical link between responsibility. sustainability and accountability.

The new Climate Action 100+ Net-Zero Company Benchmark indicators give landmark clarity and transparency on the asks of companies by leading investors. Yet, over time, investors won't just judge company transition plans. They too shall be judged on their own plans and alignment to net-zero. With a sustained focus on transition by companies and financial institutions, we can build the net-zero future that our citizens are demanding and that future generations deserve.

MARK CARNEY, UNITED NATIONS SPECIAL ENVOY FOR CLIMATE ACTION AND FINANCE, AND THE UK PRIME MINISTER'S FINANCE ADVISER FOR COP26

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FOREWORD FROM THE **STEERING COMMITTEE**

Many of the world's largest corporate emitters are setting ambitious targets to decarbonise by mid-century.

In our second progress report on Climate Action 100+, we are pleased to present an update on the achievements of the initiative from October 2019 to November 2020. This report also contains detail on the recently released Climate Action 100+ Net-Zero **Company Benchmark**, provides a summary of company progress at sector level, and sets out initiative priorities for the coming year.

There is no doubt that 2020 has been a hugely challenging year globally. Communities continue to face fear and uncertainty because of the COVID-19 pandemic, an economic downturn with rising unemployment and financial stress, and in some parts of the world, growing social unrest. Despite these challenges, climate change has remained firmly on companies' and investors' agendas as an urgent issue.

A prosperous net-zero emissions world is increasingly within our reach: nine of the 15 largest economies have now set net-zero targets, and as this report shows, many of the world's largest corporate emitters are setting ambitious targets to decarbonise by mid-century. Calls for a sustainable recovery have been widespread as recognition grows that sparking fresh investments in zero and low-carbon industries, technologies and infrastructure can help countries stimulate their economies, drive growth and create new jobs.

The case for immediate action is clear. Unprecedented wildfires in Australia, the United States. the Amazon and Siberia, recordbreaking floods and typhoons in Asia, a record-breaking Atlantic hurricane season and the rapid retreat of polar ice sheets accelerating sea-level rise are all stark reminders that the physical impacts of climate change are here. While we don't have all of the answers to decarbonisation vet, we know the time to increase our collective ambition is now.

Investors have been calling for consistent metrics to assess company performance on climate risk. which the newly released Climate Action 100+ Net-Zero Company Benchmark delivers. The benchmark will provide more clarity to companies on specific disclosures and targets and is a useful tool for investors to assess and compare company performance. Climate Action 100+ announced the Net-Zero Company Benchmark to focus companies in August 2020 and are pleased to have had strong engagement on it to date with 117 companies indicating their support and intention to disclose in accordance with the framework.

We thank our investor signatories. Climate Action 100+ staff at the coordinating investor networks, and our funders, for continuing to support our efforts to address climate change risk.

CLIMATE ACTION 100+ STEERING COMMITTEE

Andrew Gray, Director ESG and Stewardship, AustralianSuper

Anne Simpson, Managing Investment Director, Board Governance and Sustainability, CalPERS

Emma Herd, CEO, Investor Group on Climate Change

Fiona Reynolds, CEO, Principles for Responsible Investment

Laetitia Tankwe. Advisor to President Jean-Pierre Costes, Groupe Caisse des Dépôts, Ircantec

Mindy Lubber, CEO and President, Ceres

Rebecca Mikula Wright, Executive Director, Asia Investor Group on Climate Change

Seiji Kawazoe, Senior Stewardship Officer, Sumitomo Mitsui Trust Asset Management (SMTAM)

Stephanie Maier, Director of Responsible Investment, HSBC Global Asset Management

Stephanie Pfeifer, CEO, Institutional Investors Group on Climate Change

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EXECUTIVE SUMMARY OF REPORT FINDINGS

The 2020 Climate Action 100+ Progress Report shows that while some companies are taking steps to decarbonisation in line with a net-zero emissions by 2050 trajectory, there is a long way to go.

The 2020 Climate Action 100+ Progress Report provides an overall update on the initiative and its activities, as well as an assessment of focus company progress at the sector level against a series of benchmark indicators.

- 1 The Climate Action 100+ Net-Zero Company Benchmark will only assess focus company greenhouse gas emission reduction targets against a well below 2°C climate scenario in the first assessment. In the future these will be assessed against a 1.5°C climate scenario where available.
- 2 In November 2020, an additional 9 companies were added and 2 companies removed from the Climate Action 100+ focus list. Reporting on progress of these companies is not included in the scope of this report.
- 3 See the IPCC Special Report on the impacts of global warming of 1.5C https://www.ipcc. ch/sr15/

Growth in signatories

Climate Action 100+ is growing. The initiative has now attracted 545 investor signatories, including notable new additions Blackrock and State Street Global Asset Management – the first and third largest asset managers in the world (respectively). Climate Action 100+ signatory assets under management now total \$52 trillion.

New approach to measuring company progress

In 2020, the initiative developed the Climate Action 100+ Net Zero Company Benchmark, which will be used to publicly benchmark focus companies. The first company scorecards will be released in early 2021. The Benchmark includes indicators which cover:

- Net zero by 2050 ambition.
- Targets and goals for greenhouse gas (GHG) emissions reduction in the short, medium and long-term and whether targets align with a 1.5°C climate scenario¹.
- Decarbonisation strategy.
- Capital allocation alignment.
- Climate policy engagement.

- Governance, including executive remuneration linked to climate targets.
- Just transition.
- Task Force on Climate related Financial Disclosures (TCFD) reporting, including scenario analysis.

A subset of these indicators has been used to assess company performance at the sector-level in this report. A full companylevel assessment against all the indicators in the new benchmark is underway and will be released in the form of company scorecards in early 2021.

It is recognised that for companies to improve their performance against these indicators as a region, actions led or incentivised by government and policymakers form an important part of the conversation. For many companies engaged by the initiative, policy settings will be key to driving the transition.

Company progress against selected indicators

The 160 companies² engaged by the Climate Action 100+ initiative represent over 80% of global industrial emissions and are, as a group and individually, critical to progressing the global economy to net-zero emissions by 2050. This level of ambition is necessary according to the IPCC³ in order to hold global warming to 1.5°C above pre-industrial levels, and to avoid the most catastrophic effects of climate change.

For this report, companies have been assessed against a subset of the new Climate Action 100+ Net-Zero Company Benchmark indicators, including disclosure assessments provided by Transition Pathway Initiative and capital allocation assessments provided by Carbon Tracker Initiative and 2° Investing Initiative.

The report shows that while some companies are taking steps to decarbonisation in line with a netzero emissions by 2050 trajectory, there is a long way to go. Nearly half (43%) of companies have set a net zero by 2050 target or ambition in some form, which is an important signal to investors that companies understand and are preparing for the transition. However, only 10% of focus companies have net-zero targets that explicitly cover the companies' most material scope 3 emissions.

Similarly, while more than half of focus companies (51%) have set a short-term (to 2025) emissions reduction target, and just under half (38%) have set a mediumterm target (2026 to 2035), these targets do not often cover both the companies' operational scope 1 and 2 emissions as well as the most material upstream and downstream scope 3 emissions.

At a sector-level, indicators assessing companies in the oil and gas, utilities and transportation (autos) sectors show gaps in companies' planned capital allocation and technology mix. For example, despite nearly half (54%) of oil and gas focus companies having a net-zero by 2050 target in some form, Carbon Tracker analysis shows that 194 of the new oil and gas projects sanctioned this year are misaligned with the <1.75°C climate scenario.

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The majority of oil and gas capital expenditure (68%) assessed by Carbon Tracker is also outside of this climate scenario. Carbon Tracker analysis also shows only 26% of electric utility focus companies have coal phase out plans aligned with the <1.75°C climate scenario (up from 13% in 2019).

2° Investing Initiative analysis similarly shows that automotive companies are falling short of the required investments required to switch technologies at an appropriate pace from internal combustion engines (ICE) to hybrid and electric vehicles.

While setting a net-zero by 2050 target or ambition is critical, there are clear gaps in target coverage, ambition, capital expenditure, strategy and planning to align with these long-term plans.

Key issues for 2020

The report also includes summaries of important issues raised by investors in their company engagements in 2020, including:

• Net-zero emissions ambitions and the need for companies to align capital expenditure, short and medium-term targets, and company strategy and planning on the long-term move to netzero emissions.

- Just transition and increasing investor expectations for companies to appropriately develop transition plans for workers and communities that are best practice, reflect broad consultation, and are clearly disclosed.
- Lobbying via industry associations, including the progress seen in 2020 on this issue globally via Climate Action 100+ engagements, and some analysis on the uptick in fossil fuel lobbying that has occurred as economic recovery proposals are being developed and released due to the COVID-19 pandemic.

New companies added

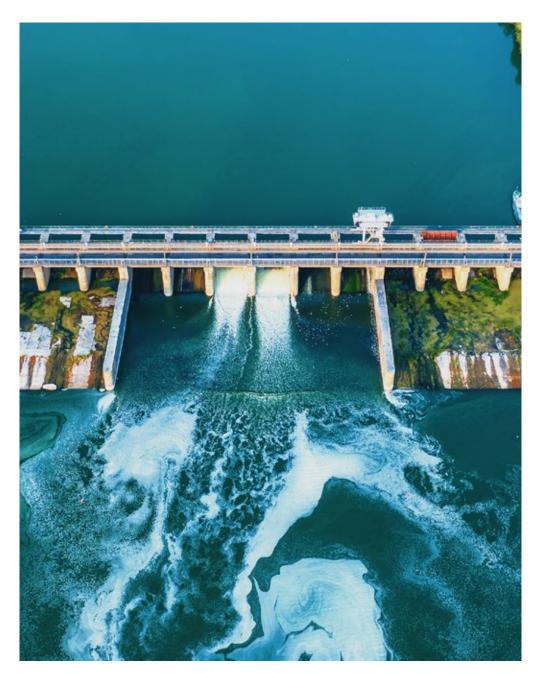
The Climate Action 100+ focus list now comprises 167 companies as a result of nine strategic additions and two removals. This progress report assesses the list of 160 companies that the initiative engaged during the 2019/2020 season, including the two companies that were recently removed from the list (Southern Copper Corporation and Wesfarmers). The nine companies added to the focus list this year will be assessed in the 2021 Progress Report.

Priorities ahead

In 2021, the initiative will focus on several key priorities:

- Company engagement on the Climate Action 100+ Net-Zero Company Benchmark and the rollout of the first company scorecards.
- Producing global sector decarbonisation position papers.
- Further development of lobbying, just transition and other indicators for the Climate Action 100+ Net-Zero Company Benchmark.
- Improving the signatory experience and boosting signatory accountability in the initiative.

These are in addition to priorities and projects advanced by regional engagement working groups, and the ongoing engagements led by signatories with focus companies globally.



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CLIMATE ACTION 100+ 2020 PROGRESS REPOR



HOW WE MEASURE PROGRESS

The Climate Action 100+ **Steering Committee and** supporting investor network organisations have worked to ensure the best data and research are available to investors engaging with companies, and that there is sufficient information to assess the alignment of companies with investor expectations and initiative goals.

During 2020 the initiative developed the Climate Action 100+ Net-Zero Company Benchmark. It draws upon two distinct analytical methodologies and data sets, each designed to evaluate company performance and provide greater transparency for investors.

CLIMATE ACTION 100+ 2020 PROGRESS REPORT

Disclosure assessments

The framework has ten indicators that reflect the overall initiative goals. It will assess companies' alignment with specific points including ambition to align with the Paris Agreement goal, GHG emissions reduction targets, decarbonisation strategy, capital alignment, climate policy support, governance, just transition and disclosure. Transition Pathway Initiative (TPI) has been selected to conduct research and analysis on companies' disclosed information and based on this. score each company.

Capital allocation assessments

Carbon Tracker Initiative and 2° Investing Initiative will also analyse companies' capital expenditures (CAPEX) and output relative to a range of climate change scenarios to give investors additional insights on the relative adequacy and alignment of company action with the Paris Agreement goals.

These additional third-party analyses, which correspond with company disclosures' relative to indicator six in the benchmark, will be included for upstream oil and gas companies, electric utilities (coal and gas generation assets) and automotive companies. Similar analyses for companies in other sectors will be added in the future.

The Climate Action 100+ Technical Advisory Group, comprised of Carbon Tracker Initiative (CTI), InfluenceMap (IM). Transition Pathway Initiative (TPI) and 2° Investing Initiative (2DII) has been central to the overall development of the new Benchmark and the various approaches used to assess focus company alignment.

WHAT ARE THE KEY GOALS OF THE CLIMATE ACTION 100+ **INITIATIVE?**

Climate Action 100+ recognises that decarbonisation of the global economy is complex and will require unique strategies and approaches across different businesses, regions and sectors. However, investors agree there should be a common global engagement agenda seeking commitments from boards and senior management to:



IMPROVE **GOVERNANCE OF** CLIMATE RISKS AND **OPPORTUNITIES**

REDUCE GHG EMISSIONS IN LINE WITH GOALS OF THE PARIS AGREEMENT

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PROVIDE ENHANCED DISCLOSURE ALIGNED WITH THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD)

THE CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

The <u>Climate Action</u> <u>100+ Net-Zero Company</u> <u>Benchmark</u> was developed during 2020 through collaboration and feedback with almost 50 signatory investors, investor network experts, leading climate research and data NGOs and corporate stakeholders to establish indicators that are robust, fair and applicable to local markets and across sectors.

BENCHMARK PURPOSE

Climate Action 100+ seeks to focus investor action on the world's largest GHG emitters, including emissions across the value chain, and companies that present the greatest climaterelated risk to investors' portfolios or that have a significant opportunity to drive a broader net-zero economy transition. The Climate Action 100+ Net-Zero Company Benchmark supports this objective by providing investors with a tool that is both transparent and robust to facilitate focus company engagement. This framework may be used for:

• Ongoing engagement: The Benchmark resets and clarifies expectations for what companies need to do to align with the goals of the initiative and provides a mechanism for tracking progress.

- Engagement advancement: Focus company assessment results will inform advancement decisions including voting, for Climate Action 100+ focus companies.
- Decision making: The results of company assessments will be used by signatories to inform their actions during year five of the initiative (the original time horizon for Climate Action 100+) particularly with unresponsive or poor performing firms.
- Initiative transparency and reporting: Company assessment results will be a key input for the initiative's progress reports and used to assess the overall effectiveness of the initiative.
- Assessing alignment or misalignment: Between companies' stated ambitions and their planned investments, activities and projects.





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DISCLOSURE INDICATORS

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The disclosure indicators rely on companies' publicly disclosed information. There are ten overall indicators, each supported by one or more subindicators.

Transition Pathway Initiative (TPI) supported by its research and data providers the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE) and FTSE Russell. has been appointed as the research organisation for delivering the company data for the disclosure indicators within the Climate Action 100+ Net-Zero Company Benchmark. Company disclosed, public information will be collected by TPI and used to assess and score each focus company against the disclosure indicators. The results of this research and scoring will be made available in early 2021 on the Climate Action 100+ website. In this report, a subset of the disclosure indicators is reported on at the sector level.

DISCLOSURE INDICATORS

NET-ZERO GHG EMISSIONS BY 2050 (OR SOONER) AMBITION¹

- The company has set an ambition to achieve net-zero GHG emissions by 2050 or sooner.
- 1.1a The company has made a qualitative net-zero GHG emissions ambition statement that explicitly includes at least 95% of scope 1 and 2, where applicable.
- 1.1b The company's net-zero GHG emissions target covers the most relevant scope 3 GHG emissions categories for the company's sector, where applicable.

LONG-TERM (2036 to 2050) GHG REDUCTION TARGET

- 2.1 The company has set a long-term (2036 to 2050) target for reducing its GHG emissions on a clearly defined scope of emissions.
- 2.2 The long-term (2036 to 2050) GHG reduction target or goal covers more than 95% of scope 1 and 2 emissions, and relevant scope 3 emissions (where applicable).
- 2.2a The company has specified that this target covers at least 95% of total scope 1 and 2 emissions.
- If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the 2.2b company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.
- The long-term target is aligned with a trajectory to achieve the Paris Agreement goal of limiting global temperature increase
- 2.3 to 1.5°C. This assumes low or no overshoot (equivalent to IPCC Special Report on 1.5°² Celsius pathway P1 or net-zero emissions by 2050).³

3 MEDIUM-TERM (2026 TO 2035) GHG REDUCTION TARGET

- 3.1 The company has set a medium-term (2026 to 2035) target for reducing its GHG emissions on a clearly defined scope of emissions.
- 3.2 The medium-term (2026 to 2035) GHG reduction target covers at least 95% of scope 1 and 2 emissions and most relevant scope 3 emissions (where applicable).
- 3.2a The company has specified that this target covers at least 95% of total scope 1 and 2 emissions.

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Company disclosed, public information will be collected by TPI and used to assess and score each focus company against the disclosure indicators. The results of this research and scoring will be made available in early 2021.

DISCLOSURE INDICATORS

- If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the
 company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.
- The medium-term target is aligned with a trajectory to achieve the Paris Agreement goal of limiting global temperature
 increase to 1.5°C. This assumes low or no overshoot (equivalent to IPCC Special Report on 1.5°² Celsius pathway P1 or netzero emissions by 2050).³

4 SHORT-TERM (2020 TO 2025) GHG REDUCTION TARGET

- 4.1 The company has set a short-term (2020 to 2025) target for reducing its GHG emissions on a clearly defined scope of emissions.
- 4.2 The short-term (2020 to 2025) GHG reduction target covers more than 95% of scope 1 and 2 emissions, and relevant scope 3 emissions (where applicable).
- 4.2a The company has specified that this target covers at least 95% of total scope 1 and 2 emissions.
- If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the
 4.2b company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.
- 4.3 The target or objective is aligned with the goal of limiting global warming to 1.5°C.² This assumes low or no overshoot (equivalent to IPCC Special Report on 1.5° Celsius pathway P1 or net-zero emissions by 2050).³

5 DECARBONISATION STRATEGY⁴

- 5.1 The company has a decarbonisation strategy to meet its long, medium and short-term GHG reduction targets (note scoring under this indicator requires scoring on targets indicators 2, 3 and/or 4).
- 5.1a The company identifies the set of actions it intends to take to achieve its GHG reduction targets over the targeted timeframe. These measures clearly refer to the main sources of its GHG emissions, including Scope 3 emissions
 - where applicable.

5.1b The company quantifies key elements of this strategy with respect to the major sources of its emissions, including scope 3 emissions where applicable (eg. changing technology or product mix, supply chain measures, research and development spending).

5.2 The company's decarbonisation strategy includes a commitment to 'green revenues' from low carbon products and services.⁵

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DISCLOSURE INDICATORS

- 5.2a The company already generates 'green revenues' and discloses their share in overall sales.
- 5.2b The company has set a target to increase the share of green revenues in its overall sales or discloses green revenue share that is above sector average.

6 CAPITAL ALLOCATION ALIGNMENT⁶

- 6.1 The company is working to decarbonise its capital stock.
- 6.2 The company discloses the methodology used to determine the Paris Agreement alignment of its future capital expenditures.

7 CLIMATE POLICY ENGAGEMENT⁷

- 7.1 The company has a Paris-Agreement-aligned climate lobbying position and all of its direct lobbying activities are aligned with this.
- 7.1a The company has a specific commitment/position statement to conduct all of its lobbying in line with the goals of the Paris Agreement.
- 7.1b The company lists its climate-related lobbying activities, e.g. meetings, policy submissions, etc.
- 7.2 The company has Paris Agreement-aligned lobbying expectations for its trade associations, and it discloses its trade association memberships.
- 7.2a The company has a specific commitment to ensure that the trade associations the company is a member of lobby in line with the goals of the Paris Agreement.
- 7.2b The company discloses its trade associations memberships.
- 7.3 The company has a process to ensure its trade associations lobby in accordance with the Paris Agreement.

8 CLIMATE GOVERNANCE

8.1 The company's board has clear oversight of climate change.

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The company discloses evidence of board or board committee oversight of the management of climate change risks via at least one of the following:

- There is a C-suite executive or member of executive committee who is explicitly responsible for climate change
- 8.1a (not just sustainability performance) and that executive reports to the board or a board level committee, and/or;
 - The CEO is responsible for climate change AND he/she reports to the board on climate change issues, and/or;
 - There is a committee (not necessarily a board-level committee) responsible for climate change (not just sustainability performance) and that committee reports to the board or a board-level committee.

The company has named a position at the board level with responsibility for climate change, via one of the following:

- 8.1b A board position with explicit responsibility for climate change, or;
 - The CEO is identified as responsible for climate change, if he/she sits on the board.
- 8.2 The company's executive remuneration scheme incorporates climate change performance elements,

The company's CEO and/or at least one other senior executive's remuneration arrangements specifically incorporate
 8.2a climate change performance as a KPI determining performance-linked compensation (reference to 'ESG' or 'sustainability performance' are insufficient).

The company's CEO and/or at least one other senior executive's remuneration arrangements incorporate progress towards achieving the company's GHG reduction targets as a KPI determining performance linked compensation (requires meeting

- relevant target indicators 2, 3, and/or 4).
- 8.3 The board has sufficient capabilities to assess and manage climate-related risks and opportunities.
- 8.3a The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment.
- 8.3b The company provides details on the criteria it uses to assess the board competencies with respect to managing climate risks and/or the measures it is taking to enhance these competencies.

9 JUST TRANSITION⁸

9.1 The company considers the impacts from transitioning to a lower-carbon business model on its workers and communities.

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| | DISCLOSURE INDICATORS |
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| 10 | TCFD DISCLOSURE |
| 10.1 | The company has committed to implement the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). |
| 10.a | The company explicitly commits to align its disclosures with the TCFD recommendations OR it is a listed as a supporter on the TCFD website. |
| 10.1b | The company explicitly sign-posts TCFD aligned disclosures in its annual reporting or publishes them in a TCFD report. |
| 10.2 | The company employs climate-scenario planning to test its strategic and operational resilience. |
| 10.2a | The company has conducted a climate-related scenario analysis including quantitative elements and disclosed its results. |
| 10.2b | The quantitative scenario analysis explicitly includes a 1.5° Celsius scenario, covers the entire company, discloses key assumptions and variables used, and reports on the key risks and opportunities identified. |
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¹ The necessary timeframe for companies to achieve net-zero GHG emissions differs depending on the sector. Some companies in certain sectors, such as electric utilities, may be expected to set more ambitious goals and achieve net-zero GHG emissions by 2040 or even sooner. Future iterations of the Net-Zero Company Benchmark will reflect these sector differences. 2 Note that sub-indicators 2.3, 3.3 and 4.3 will be based on Transition Pathway Initiative's Carbon Performance methodology, which applies the Sectoral Decarbonisation Approach (SDA), a science-

based method for companies to set GHG reduction targets necessary to stay within a 2°C temperature rise above pre-industrial levels.

³ In the absence of a credible 1.5°C scenario, companies will be measured against a below 2°C scenario. Company assessments will be adjusted when a 1.5°C scenario becomes available, most likely in the next reporting cycle.

⁴ The assessment will leverage the EU's Green Taxonomy criteria on 'turnover' (or revenues) for companies headquartered in the European Union. Companies headquartered outside of the EU will not be assessed in the first quarter 2021 iteration of the framework. The criteria used to assess non-EU companies will be an ongoing area of development as part of broader discussions on the use of green revenue classification systems and regional taxonomies.

⁵ The assessment will leverage the EU's Green Taxonomy criteria on 'turnover' (or revenues) for companies headquartered in the European Union. Companies headquartered outside of the EU will not be assessed in the first quarter 2021 iteration of the framework. The criteria used to assess non-EU companies will be an ongoing area of development as part of broader discussions on the use of green revenue classification systems and regional taxonomies.

⁶ Related to Indicator 6, there will be an additional set of Capital Allocation Indicators in the company scorecards to be provided by Carbon Tracker (CT) and 2° Investing Initiative (2Dii). CT and 2Dii will analyse recent focus company CAPEX and output relative to a range of alternative climate change scenarios to give investors additional insights related to company capital allocation plans. Initially, these will apply to focus companies in the upstream oil and gas, electric utilities and auto sectors.

⁷ Note that current benchmark indicators, in particular Indicator #7 on Climate Policy Engagement are intended to be enhanced and will evolve over time with an update ready in advance of the next scoring cycle.

⁸ This indicator will be further developed, and companies will not be assessed in the 2021 company scorecards..

CAPITAL ALLOCATION INDICATORS

The capital allocation indicators are designed to complement the disclosure indicators by providing further insights to investors regarding the adequacy of companies' capital allocation plans, and relative alignment with the company's stated emissions reduction targets. These indicators are provided by Carbon Tracker (CTI) and 2° Investing Initiative (2DII) and currently apply to a subset of Climate Action 100+ companies¹.

CAPITAL ALLOCATION **INDICATORS**

The capital allocation indicators presented in this report are a subset of indicators developed by CTI and 2DII².

These indicators rely on a number of climate scenarios³ provided by the International Energy Agency's (IEA) to assess companies, including the:

- IEA's Beyond 2 Degrees Scenario (B2DS)
- IEA's Stated Policies Scenario (STEPS)
- IEA's Sustainable Development Scenario (SDS)

Upstream oil and gas companies

INDICATOR

How many conventional and unconventional oil and gas projects were sanctioned by focus companies in 2019 that are outside of the IEA B2DS?

If the company provided impairment price assumptions

- are they flat, declining or increasing?

Percentage of total potential capital expenditure (below STEPS cap) that is inside B2DS, for oil, gas and total.

Percentage of total potential capital expenditure (below STEPS cap) outside B2DS, for oil and gas.

Electric utilities

INDICATOR

Alignment of company's current and future capital stock and capital expenditures with climate scenarios.

Company's future (2025) technology mix compared to the market average.

Has the company announced a full phase-out of coal units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario?

Has the company announced a full phase-out of gas units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario?

Automotive companies (transportation sector)

INDICATOR

Alignment of company's current and future capital stock and capital expenditures with climate scenarios.

Company's future (2025) technology mix compared to the market average.



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¹ CTI indicators cover upstream oil and gas companies and electric utilities, and 2DII indicators cover automotive companies and electric utilities.

² For more detail on the analysis available from 2 Degrees Investing Initiative on Climate Action 100+ focus companies visit: https://2degrees-investing.org/resource/pacta-company-profiles engaging-with-companies-to-pursue-climate-action/ For more detail on the analysis available from Carbon Tracker on Climate Action 100+ focus companies, visit https://carbontracker.org/reports/ making-it-mainstream-ca100-power-utility-profiles/

³ Climate Action 100+ intends to apply a 1.5 degree scenario that requires net-zero emissions by 2050 to assess companies. In October 2020 the IEA released a net-zero emissions by 2050 scenario in line with the pathways used by the Intergovernmental Panel on Climate Change for the Special Report on Global Warming of 1.5 °C (IPCC SR1.5). The IEA has not yet provided their net-zero analysis at a more detailed, sectoral level - a requirement to assess companies' alignment across a range of sectors.

HOW WF MFASURF PROGRESS

NEXT STEPS FOR THE NET-ZERO COMPANY BENCHMARK

After its launch and the first company assessment cycle is completed, the Net-Zero Company Benchmark will continue to be updated and revised based on investor priorities and the latest available information and methodologies to assess companies' climate transition preparedness. In particular, there are five key topics which are top priorities for inclusion in future iterations of the Net-Zero Company Benchmark:

• 1.5°C Scenario: Given the absence of a 1.5°C IEA scenario, Climate Action 100+ and its research provider Transition Pathway Initiative will assess available options and start to develop alternative methodologies as required.

- Expanded sector alignment methodologies: At present there are not sufficient methodologies available to assess GHG target alignment for companies in certain sectors. including chemicals, consumer goods, other industrials and services. Climate Action 100+ and TPI will look to develop these for future iterations of the benchmark.
- Climate accounting: A top priority is the development of a new disclosure indicator to assess whether or not a company's accounting practices and related disclosures reflect consideration of transition risk relative to a range of possible climate scenarios.
- Just transition: While companies will not be assessed on just transition in 2021, Climate Action 100+ will work with leading Just Transition advocates and experts to develop appropriate disclosure requirements and a related scoring approach to be applied during the next reporting cycle.

• Expanded green revenue

indicator: The current indicator 5.2 applies the European Union's (EU) Green Taxonomy criteria on 'turnover' (or revenues) for companies headquartered in the EU). Thus, companies headquartered outside of the EU are not being assessed in the 2021 iteration of the benchmark. Future iterations of this indicator will assess non-EU companies using appropriate green revenue classification systems and regional taxonomies where available.

It is expected that these additional methodologies and indicators will be developed in time for the 2022 benchmark.

FOCUS COMPANIES PROVIDED A FORMAL RESPONSE TO THE **I FTTER**

HOW HAS THE NEW BENCHMARKING FRAMEWORK **BEEN COMMUNICATED TO FOCUS COMPANIES?**

In September 2020 the Net-Zero Company Benchmark was formally introduced to focus companies in a letter sent to the Chief Executive Officer, Board Chair or relevant focus company contacts. Acknowledging that many companies operate in jurisdictions where their governments are expected to ratchet up their Nationally Determined Contributions (NDCs) that are currently not on track to meet 1.5°C or well below 2°C, the letter invited companies to:

- 1. Work towards providing disclosures consistent with the new Climate Action 100+ Net-Zero Company Benchmark, which includes disclosure against TCFD, to enable investors to assess the company's potential for long-term value;
- 2. Confirm if the company will outline strategies that go beyond current NDCs, and/or implement appropriate capital investment decisions to achieve net-zero emissions by 2050 or sooner across all material GHG emissions, and establish medium-term targets consistent with a global reduction in emissions of 45% by 2030 relative to 2010 levels;1
- 3. Join investors working through Climate Action 100+ in the development and implementation of net-zero transition action plans to provide pathways toward achieving net-zero emissions for the company's sector or value chain overall.

WHO WE ARE **HOW WE MEASURE** PROGRESS The Climate Action 100+ Net-Zero Company Benchmark Disclosure indicators Capital allocation indicators HOW COMPANIES ARE PROGRESSING WHERE WE ARE MAKING **PROGRESS KEY ISSUES IN 2020** HOW WE ARE GOVERNED

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¹ The IPCC Special Report on Global Warming of 1.5°C published in October 2018 found that limiting global warming to 1.5°C would require 'rapid and far-reaching' transitions in land, energy, industry, buildings, transport, and cities. Global net human-caused emissions of carbon dioxide (CO_2) would need to fall by about 45% from 2010 levels by 2030, reaching 'net-zero' around 2050. The 2030 GHG emissions reduction targets required to achieve this outcome vary by sector. For more information, see here.

HOW WE MEASURE PROGRESS

HOW DOES THE BENCHMARK ALIGN WITH NATIONALLY DETERMINED CONTRIBUTIONS, OTHER DISCLOSURE FRAMEWORKS AND TARGET SETTING APPROACHES?

Nationally Determined Contributions

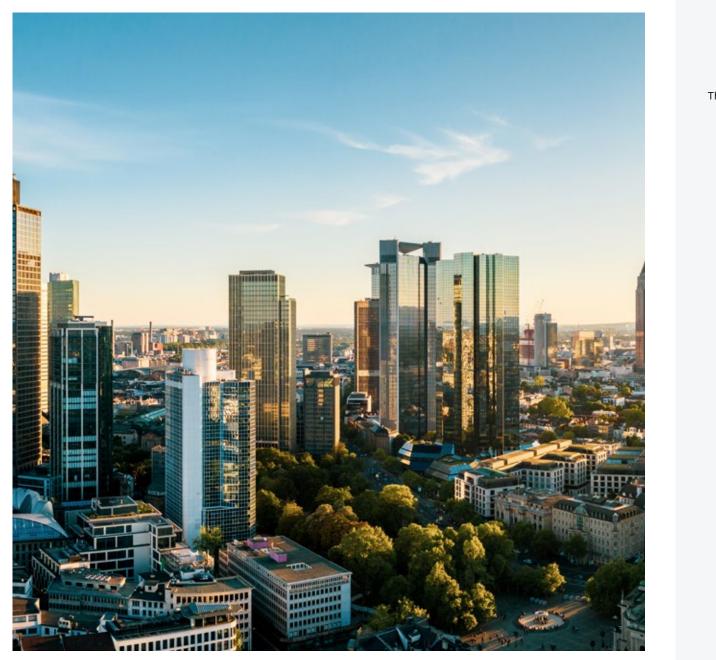
Some focus companies are aligning their emissions reduction targets with those of their listed country's nationally determined contribution (NDC), which, in line with the UNFCCC process, will become more ambitious over time. The Climate Action 100+ Net-Zero Company Benchmark intends to assess companies on their targets and other metrics compared to credible net-zero by 2050 or sooner pathways with the goal of limiting global warming to 1.5°C. The benchmark also asks companies to identify the path that is needed to address this issue in their respective sectors and regions. In some instances, companies' targets, while aligned with their respective NDC¹, may not currently be aligned with a 1.5°C pathway once assessed via the benchmark.

It is recognised that there are gaps in the development of appropriate decarbonisation pathways in some sectors; thus it has been challenging for companies and investors alike to understand what a net-zero emissions pathway looks like in practice. Investors will continue to engage with companies over time to understand which pathway they are using to select GHG targets, and how this aligns with investor expectations.

Other leading frameworks and mechanisms

There are a number of climate reporting mechanisms (such as CDP), target setting mechanisms (such as the Science Based Targets Initiative), and frameworks assessing companies' preparedness for a low-carbon transition (such as TPI), as well as the TCFD framework. The Climate Action 100+ Net-Zero Company Benchmark is designed to be complementary to these initiatives, mechanisms and frameworks. It is designed to provide more detail on specific disclosures that investors want to see within the context of companies' reporting, with a particular emphasis on how companies are planning to transform their business in line with a net-zero emissions future.

1 Note: via the UNFCCC process as outlined in the Paris Agreement, more ambitious NDCs were due to be announced at COP26 in November 2020; however this has been delayed until 2021 due to COVID-19.





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Company Benchmark Disclosure indicators Capital allocation indicators



WHERE WE ARE MAKING PROGRESS

KEY ISSUES IN 2020 (5)

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HOW COMPANIES ARE PROGRESSING

CLIMATE ACTION 10 00+ 2020 PROGRESS REPORT

THIS REPORT SHOWS THAT WHILE 2050 NET-ZERO TARGETS SET BY FOCUS COMPANIES HAVE SHARPLY INCREASED IN NUMBER AND AMBITION THERE ARE CLEAR GAPS IN TARGET COVERAGE PARTICULARLY OF SCOPE 3 EMISSIONS. COMPANIES ALSO NEED TO DO FAR MORE TO ALIGN THEIR CAPITAL EXPENDITURE AND STRATEGIES TO THEIR NET-ZERO TARGETS.





10% **OF FOCUS COMPANIES** ENGAGED BY THE CLIMATE ACTION 100+ INITIATIVE HAVE SET A NET-ZERO BY 2050 TARGET THAT COVERS THE COMPANY'S MOST MATERIAL SCOPE 3 EMISSIONS.

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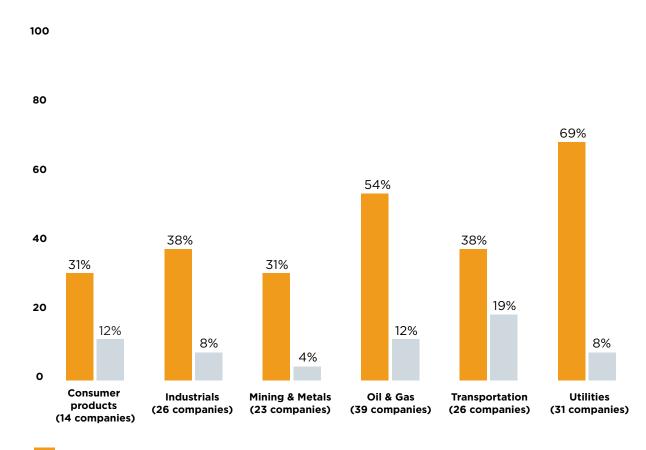
REVIEW OF COMPANY PROGRESS

The disclosure indicators presented here have been provided by TPI. These show the performance of all focus companies against a subset of the Climate Action 100+ Net-Zero **Company Benchmark** indicators.

Net-zero targets. **Companies were assessed** by TPI in November 2020.

Close to half (43%) of focus companies have now set a clear ambition to reach netzero GHG emissions by 2050, which is a promising start. However, analysis shows that far fewer companies (10%) have set targets which cover the most material scope 3 emissions for their sector.





Company has set a net-zero by 2050 target or ambition that covers its scope 1 and 2 emissions

Company has set a net-zero by 2050 target or ambition that covers its most material scope 3 emissions

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WHO WE ARE (1)

HOW WE MEASURE PROGRESS (2)

HOW COMPANIES ARE PROGRESSING

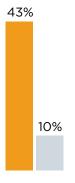
Review of company progress Oil and gas sector Mining and metals sector Utilities sector Industrials sector Transportation sector Consumer products sector

WHERE WE ARE MAKING 4 PROGRESS

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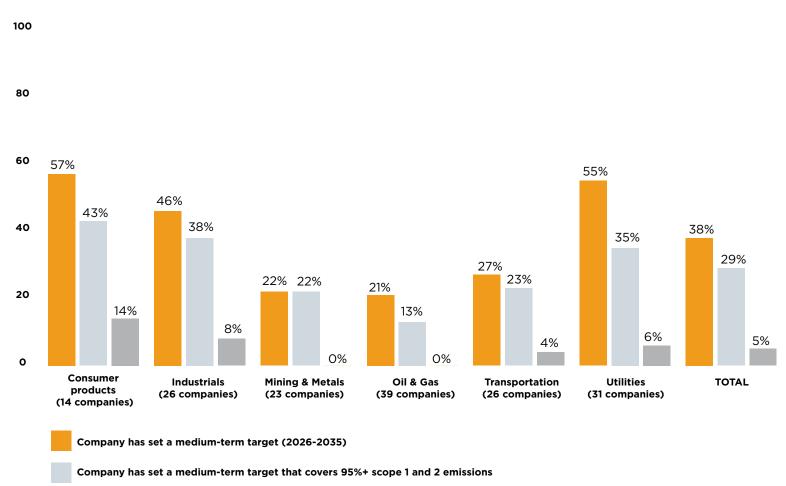
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REVIEW OF COMPANY PROGRESS

Medium-term targets. Companies were assessed by TPI in March 2020.

Over a third (38%) of focus companies have set a medium-term target, with 29% of these covering at least 95% of the company's operational emissions (scope 1 and 2). Only one in twenty (5%) of companies have medium-term targets which cover material scope 3 emissions.

Has the company set a medium-term (2026-2035) GHG emissions reduction target?



Company has set a medium-term target that includes its most material scope 3 emissions

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WHO WE ARE

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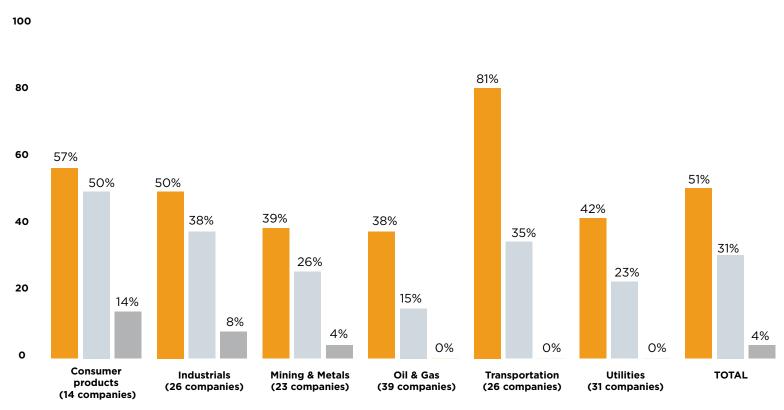
APPENDIX

REVIEW OF COMPANY PROGRESS

Short-term targets. Companies were assessed by TPI in March 2020.

Over half (51%) of focus companies have shortterm emissions reduction targets. Just under a third (31%) of companies have targets that cover at least 95% of the company's operational (scope 1 and 2 emissions), however once again a very small percentage of companies (4%) have targets that include coverage of material scope 3 emissions.

Has the company set a short-term (2020-2025) GHG emissions reduction target?



Company has set a short-term target (2020-2025) that covers 95%+ scope 1 and 2 emissions

Company has set a short-term target that covers 95%+ scope 1 and 2 emissions

Company has set a short-term target that includes its most material scope 3 emissions

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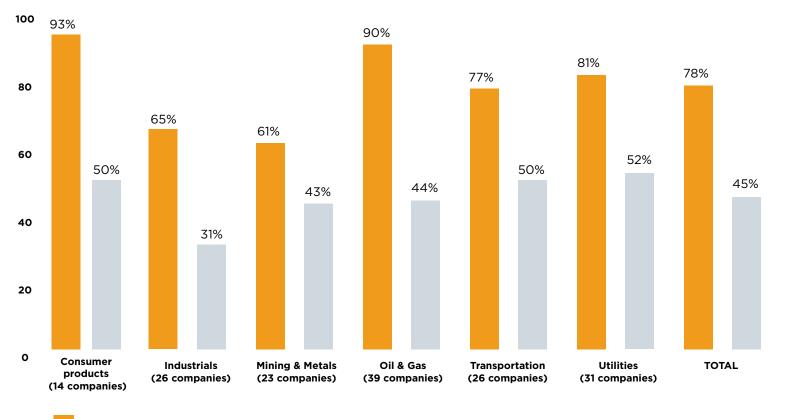
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REVIEW OF COMPANY PROGRESS

Board governance of climate change. Companies were assessed by TPI in March 2020.

Over three-quarters (78%) of focus companies have disclosed clear evidence of board or board committee oversight of the management of climate change risks. Nearly half (45%) have also created a named position at board level responsible for climate risk.

Does the company's board have clear oversight of climate change?



Company discploses board level governance of climate change

Company has a named position at board level responsible for climate change

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WHO WE ARE 1

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Review of company progress Oil and gas sector Mining and metals sector Utilities sector Industrials sector Transportation sector Consumer products sector

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Investors see significant

companies given their very

high emissions profiles, and

significant uncertainty around

the demand outlook for oil and

gas products given the move

companies to align their long-

to ensure their business plans,

goal. Each focus company is

unique, so investors are seeking

the future, and the assumptions

decisions about future capital

expenditure on oil and gas

exploration and production.

is climate lobbying: industry

including carbon pricing, emissions trading schemes and lobbying for favourable

risk for companies.

problematic record of lobbying

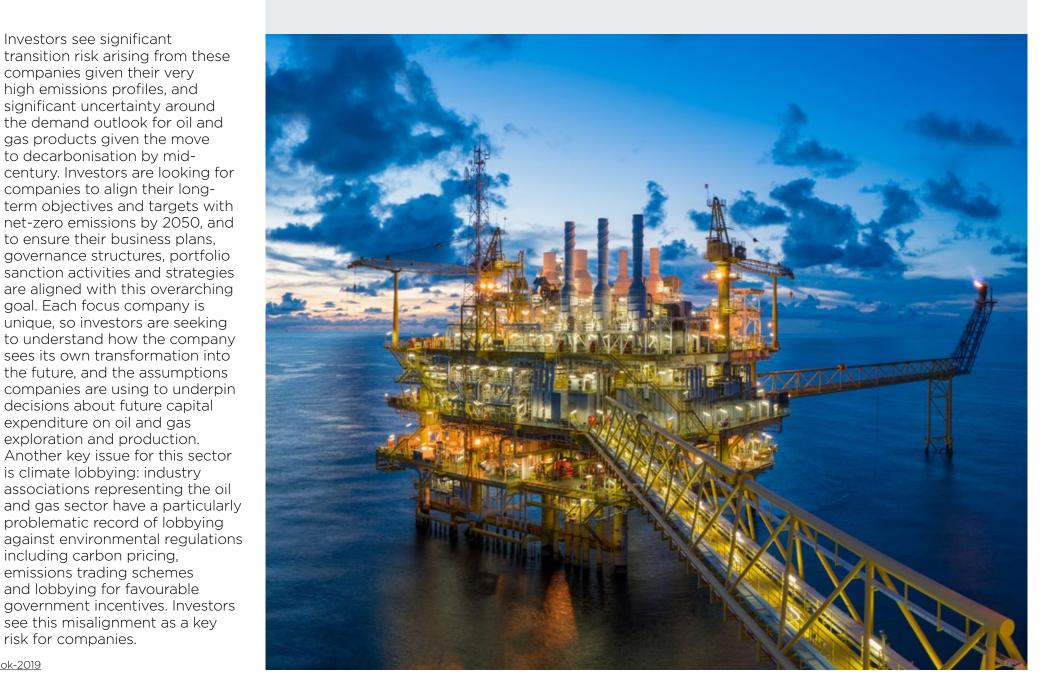
see this misalignment as a key

to decarbonisation by mid-

OIL AND GAS SECTOR

FOCUS COMPANIES

\$1.9 TRILLION MARKET CAPITAL ISATION¹



The 39 oil and gas companies on the Climate Action 100+ focus list are a mix of upstream, midstream and downstream producers, with a number of integrated energy companies.

It is estimated that the oil and gas industry is responsible for around 53% of global emissions when scope 3 emissions are included². The most material emissions for this sector arise from:

- Product use by the end user - the burning of oil and gas for energy, transportation and industrial processes.
- Upstream emissions from extraction and drilling, flaring and fugitive emissions from venting and leaks.
- Midstream emissions from transportation.
- Downstream emissions including electricity use from processing of oil and gas into other products.

1 Source: Bloomberg, as at 30 Nov 2020. 2 https://www.iea.org/reports/world-energy-outlook-2019

CLIMATE ACTION 100+ 2020 PROGRESS REPORT

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OIL AND GAS SECTOR

In 2020, several companies have made progress toward meeting Climate Action 100+ requests:

- **Repsol** made a commitment to achieve net-zero emissions by 2050 covering scope 1 and 2, and part of its scope 3 emissions. The company was the first oil and gas company to commit to scope 3 targets.¹
- BP, Shell, OMV AG and Total² made commitments to achieve netzero emissions by 2050 including scope 1 and 2 emissions, and some coverage of scope 3 emissions.³
- ENEOS became the first oil and gas company in Asia to set netzero emissions goals by 2040.
- PetroChina developed a climate change strategy signalling the company's intention to align its climate policy with the goals of the Paris Agreement, and pledged a 'near-zero' emissions target by 2050.
- Woodside Energy, ConocoPhillips and **Enbridge** made commitments to achieve net-zero operational emissions by 2050.
- Occidental Petroleum set an operational net-zero by 2040 target and expressed ambition for net-zero associated with the use of its products by 2050.

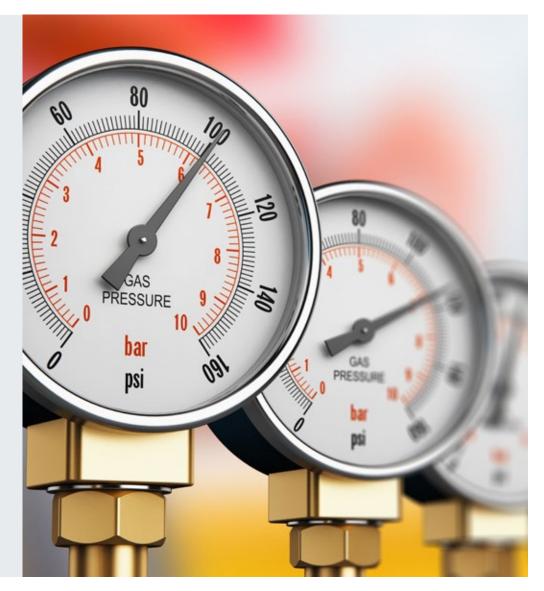


OIL AND GAS FOCUS COMPANIES

BP **Canadian Natural Resources Limited** Chevron Corporation **China National** Offshore Oil Corporation (CNOOC) Limited China Petroleum & Chemical Corporation (Sinopec) ConocoPhillips **Devon Energy** Corporation **Ecopetrol Sa** Enbridge Inc. ENEOS Holdings Inc SA - Petrobras Eni SpA Equinor

Exxon Mobil Corporation Formosa Petrochemical Gazprom Imperial Oil Kinder Morgan, Inc. Lukoil OAO Marathon Petroleum Ltd Occidental Petroleum Corporation Oil & Natural Gas OMV AG **Origin Energy** PetroChina Co. Ltd Petróleo Brasileiro Phillips 66 PTT

Reliance Industries Repsol **Rosneft Oil** Company **Royal Dutch Shell** Santos Limited Sasol Limited SK Innovation Co Suncor Energy Inc. **TC Energy** Total Valero Energy Corporation Woodside Energy



1 The coverage of emissions reduction and net-zero targets for oil and gas varies considerably. There is the need for greater standardisation of targets which will be a priority for the initiative moving forward.

2 Total committed to net-zero emissions by 2050, including scopes 1 and 2 worldwide, net-zero emissions by 2050 including scopes 1, 2, and 3 in Europe; and 60% reduction by 2050 for scope 3 emissions worldwide with intermediate targets of 15% by 2030 and 35% by 2040.

3 These targets are varied in coverage and do not cover the full scope of the company's emissions in all cases.

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OIL AND GAS SECTOR

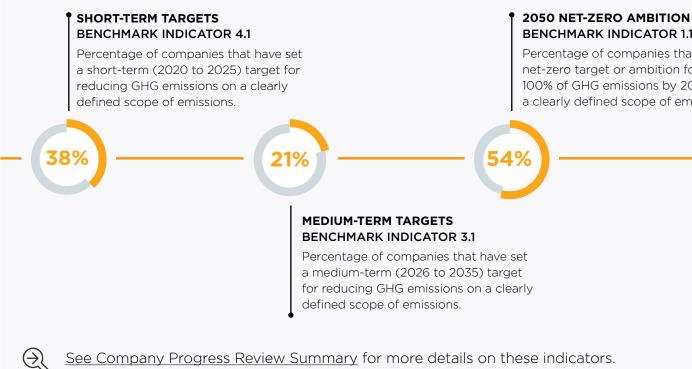
CLIMATE ACTION 100+ NET-ZERO **COMPANY BENCHMARK**

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

More than half of the oil and gas focus companies (54%) have set a net-zero emissions by 2050 ambition or target which is a significant step forward. However only 12% of the companies have net-zero emissions targets that cover the majority of their most material emissions which stem from product end use. A smaller proportion of companies have set medium-term (21%) and short-term (38%) targets for reducing GHG emissions; but no companies have short and medium term targets that cover the most material scope 3 emissions.

On governance, a substantial portion of oil and gas focus companies (90%) have set out clear board-level governance of climate risks, and 44% of companies also have a named position responsible for climate at the board level.



OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS **BENCHMARK INDICATOR 8.1**

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BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

OII AND GAS SECTOR

CLIMATE ACTION 100+ NET-ZERO **COMPANY BENCHMARK**

Capital allocation indicators

Projects sanctioned outside climate scenarios

According to Carbon Tracker analysis, three-guarters (76%) of the upstream oil and gas focus companies have sanctioned conventional or unconventional exploration projects in 2019 that are assessed as being outside the scope of the IEA B2DS¹. This covers 194 total projects across these 25 companies equivalent to about US\$64.5 billion in capital expenditures.

Conventional and unconventional oil and gas projects were sanctioned by focus companies in 2019-2020 that are outside of the IEA B2DS

Impairment price assumptions

The future commodity price deck used for upstream asset impairment test provides a proxy for the company's view of future demand and therefore is an important indicator for investors.

In 2020, 15 of 33 upstream or 45% of oil and gas focus companies provided impairment price assumptions (compared to 14 or 42% in 2019). The largest share of focus companies' (21%) impairment price assumptions followed a flat trajectory, 18% increasing, and 6% declining. The remaining 55% did not disclose.

Declining

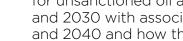
Increasing

Not disclosed

Flat

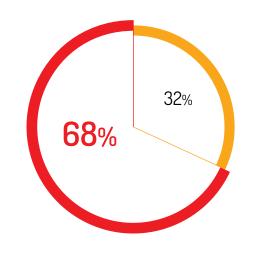
The company provided impairment price assumptions - flat, declining or increasing

6%



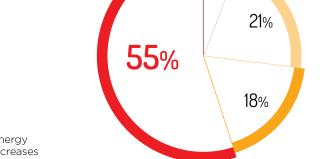
This indicator assesses all upstream oil and gas companies (33) on their potential capital expenditure for unsanctioned oil and gas projects between 2020 and 2030 with associated production between 2020 and 2040 and how this aligns with the demand constraints from IEA B2DS relative to the business as usual approach assumed in IEA STEPS². Carbon Tracker's assessment shows that on average 32% of upstream oil and gas focus companies' unsanctioned oil and gas project capital expenditures match the demand constraints in the B2DS scenario, leaving 68% unmatched with such demand constraints. This metric is unchanged from 2019.

Percentage of total potential capital expenditure for oil and gas focus companies that aligns with IEA STEPS and IEA B2DS



1 In the International Energy Agency's Beyond 2 Degrees Scenario, the energy sector reaches carbon neutrality by 2060 to limit future temperature increases to under 1.75°C by 2100. See: https://www.jea.org/reports/energy-technologyperspectives-2017.

2 The aim of the Stated Policies Scenario is to provide a detailed sense of the direction in which existing policy frameworks and today's policy ambitions would take the energy sector out to 2040. See: https://www.iea.org/reports/worldenergy-model/stated-policies-scenario



SANCTIONED PROJECTS

ACROSS 25 COMPANIES

Capital expenditure alignment

- % of total potential capital expenditure (below STEPS cap) that is inside B2DS, and STEPS, for oil. gas and total.
- % of total potential capital expenditure (below STEPS cap) outside B2DS, inside STEPS for oil and gas.

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CASE STUDY REPSOL

Repsol¹ is an energy company headquartered in Madrid operating across upstream and downstream oil and gas, chemicals, renewables and other energy services. The Climate Action 100+ engagement with the company has been led by **BNP** Paribas AM, EOS at Federated Hermes and UBS Asset Management, and coordinated by IIGCC.

A constructive dialogue between Climate Action 100+ signatories and the company has been ongoing since the launch of the initiative in late 2017. The engagement has been led primarily by the CEO, the Chairman, the EMD In Technology Development, Resources and Sustainability and the Director of Investor Relations. It has also included internal specialists in climate change and other senior management in Sustainability.

There were four engagements with the company in the past 12 months, and the company has participated in two IIGCC convened roundtables seeking standardisation in approaches and reporting in oil and gas decarbonisation. At the company's 2020 annual general meeting the lead signatories submitted a statement that congratulated the company on its new net zero commitment and asked whether the current oil price situation and pandemic crisis would have a material impact on the climate change strategy and commitments to invest in low-carbon solutions. The CEO reaffirmed the company's commitment to netzero and leading the energy transition, and confirmed a detailed strategy and roadmap would be published later in the year.

Progress seen to date has included:

• In December 2019 Repsol became the first oil and gas company to commit to a net-

zero goal across scope 1, 2 and 3 emissions of the energy it produces, supported by a decarbonisation pathway with interim targets. This set a higher benchmark for the industry on commitments to climate action.

- The company assumed a new oil and gas price scenario consistent with scenarios aligned to the goals of the Paris Agreement.
- The company incorporated TCFD recommendations into its disclosures and continues to advance its climate reporting. In its 2018 and 2019 integrated management reports, the company provided greater detail on the short, medium and long-term risks and opportunities from low-carbon transition scenarios out to 2040.
- The company undertook an internal assessment to ensure the industry associations and initiatives it takes part in were aligned with the goals of the Paris Agreement and its own climate change strategy, and published the results last May. 2020.

Engagement in 2021 will cover key elements of Climate Action 100+ benchmark:

- Measurement, commitments and actions on material Scope 3 emissions.
- Implementation of the commitments, including aligned business planning and capital allocation and consistency with the EU taxonomy.
- compensation.



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• Consideration of the IEA's Paris aligned 1.5°C scenario.

• The integration of interim targets into executive

• Actions taken with trade associations significantly misaligned on climate policy.

Photo: tanaonte - stock.adobe.com

CASE STUDY **PETROCHINA CO. LTD**

PetroChina Co. Ltd is an oil and gas company, headquartered in China and listed on the Shanghai Stock Exchange, Hong Kong Stock Exchange and New York Stock Exchange. The Climate Action 100+ engagement is co-led by EOS at Federated Hermes, joined by Fidelity International at the beginning of 2020.

Given the circumstances of 2020, the lead and collaborating investors had one formal group meeting this year with the company, with several supporting conversations happening in parallel.

The engagement priorities with the company this year included:

- Climate change governance.
- Disclosure of scope 1 and 2 emissions.
- Setting ambitious GHG emission reduction targets.

In 2020. PetroChina has progressed on the following fronts:

- Disclosed scope 1 and 2 GHG emissions for the first time in its 2019 ESG report.
- Committed to raising the proportion of new energy and renewable energy produced to a new high by 2050.
- Further developed CCUS demonstration projects at Xinjiang and Changging oil fields.

In August 2020, PetroChina pledged to cut carbon emissions to near-zero by 2050, and announced plans to invest in geothermal, wind, solar and pilot hydrogen projects. This plan calls for capital expenditure of \$400-700 million per year for 2021-25 rising to \$1.4 billion per year thereafter. Notably, this is the first near-zero pledge made by a major Chinese state-owned enterprise and was followed by China's pledge in September 2020 to be carbon neutral by 2060.

Engagement in 2021 will focus on obtaining further clarity on the transition plan towards near-zero emissions, particularly on supporting medium-term emission reduction targets, capex and decarbonisation pathways. Engagement will also encourage PetroChina to embed climate change in risk management processes through conducting scenario analysis and aligning reporting and underlying processes with the TCFD recommendations.



Photo: Игорь Головнёв - stock.adobe.com

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D MINING AND METALS SECTOR

The 23 mining and metals companies engaged by Climate Action 100+ include major steel makers, diversified miners, and several industrial firms that have metals operations. They are a diverse group with different emissions profiles, commodity and/ or product portfolios, and decarbonisation challenges.

The most significant emissions sources for this sector are generated from:

- Energy products including thermal and metallurgical coal, and oil and gas².
- Ores requiring processing such as iron ore into steel or bauxite into aluminium.
- Energy consumed from fossil fuels and electricity in operations, including metals processing.

Investors see significant transition risk arising from these companies given their typically high emissions profiles, but also recognise the critical importance of the sector to the economy and the transition to a netzero emissions world. Materials produced by miners are used in almost all aspects of modern society including housing, healthcare, infrastructure and technology. They also provide essential commodities for the low-carbon transition such as copper for electrical components and lithium for batteries.

Engaging with these companies, as with other sectors, investors are looking for robust climate governance practices, TCFD disclosure reflecting best practice for the sector, and to see ambitious emissions reduction targets including consideration of scope 3 emissions. Lobbying by trade associations continues to be a significant challenge for many mining and metals firms, given many of the associations that represent the sector have historically played a detrimental role in lobbying against effective climate policy.

MINING AND METALS SECTOR

23 FOCUS COMPANIES

\$666 BILLION MARKET CAPITALISATION¹



1 Source: Bloomberg, as at 30 November 2020.

2 Where a company's primary business is oil and gas, they have been covered in the oil and gas sector chapter.

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MINING AND METALS SECTOR

The other key focus globally for investor engagement is understanding how these companies are developing strategies for decarbonisation. Depending on the company this may focus on: diversifying away from thermal coal mining given its expected decline in the global energy mix; and reducing or eliminating emissions from the processing of metals, both via decarbonisation of electricity sources (switching to renewables) and development into zero emissions production pathways for key metals (for example substituting hydrogen for metallurgical coal). Investors are also interested in broader value chain risks such as emissions arising from the global shipping and transportation of commodities.

In 2020, several focus companies have made progress aligned with investor expectations:

- Swedish steel company SSAB **AB** launched the world's first pilot plant for fossil-free steel using renewable electricity and hydrogen.
- ArcelorMittal announced an interim target to reduce its total emissions 30% by 2030 and in June released its first climate action report. It also announced a net-zero emissions by 2050 target.
- Anglo American committed to align its lobbying practice with the Paris Agreement via a plan to escalate misalignments that emerge between its policy positions and those of its industry associations, which will include publishing the membership of all its industry associations, including fees paid and rationale for each membership. It also announced its ambition to cut its operational emissions to net-zero by 2040, with eight of its sites set to become carbon neutral by 2030.

- Glencore plc published a scope 3 emissions reduction projection of 30% by 2035 and investors are now expecting the company to release long-term 'Parisaligned' scope 1 and 2 targets this year.
- Rio Tinto conducted an asset by asset review of emissions reduction targets which was disclosed in its 2020 annual report. The company also announced plans to reduce GHG emissions to net-zero by 2050 and committed to spending \$1 billion towards this new goal.
- Teck Resources Limited committ<u>ed</u> to net-zero emissions by 2050 in its own operations (scope 1 and 2), and announced an intensity emissions reduction target of 33% by 2030. The company also withdrew its application for a \$15 billion Alberta oil sands project and wrote-off associated costs, citing climate change and environmental concerns.



MINING AND METALS FOCUS COMPANIES

| Aneka Tambang Tbk | Glencore plc |
|-------------------------|---|
| (ANTAM) | Nippon Steel |
| Anglo American | Corporation |
| ArcelorMittal | Norilsk Nickel |
| BHP | POSCO |
| Bluescope Steel | Rio Tinto |
| Limited | Severstal |
| Bumi Resources | South32 |
| China Shenhua Energy | Southern Copper Corporation ¹ |
| China Steel | SSAB AB |
| Corporation | |
| Coal India | Teck Resources Limited |
| | |

1 Southern Copper is a subsidiary of Grupo México and was removed from the Climate Action 100+ focus list in 2020. Grupo México will be the focus of Climate Action 100+ engagement moving forward.

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thyssenkrupp AG United Tractors Vale

Vedanta Ltd

MINING AND METALS SECTOR

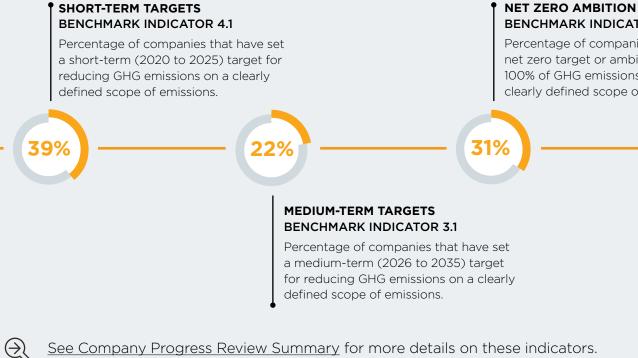
CLIMATE ACTION 100+ NET-ZERO COMPANY **BENCHMARK**

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Just under one in three (31%) mining and metals focus companies have set a net-zero emissions by 2050 target, however only 4% of companies have targets which cover material scope 3 emissions. A minority of companies are setting medium-term targets (22%), and short-term targets (39%), however some companies have set targets that do not cover all of their scope 1 and 2 emissions. Further none of the companies' medium-term targets, and less than one in 20 companies (4%) have short-term targets which cover the majority of material scope 3 emissions.

Nearly two-thirds (61%) of focus companies in this sector have disclosed a clear governance framework for climate risk with board or board committee oversight, and 43% have a named position at the board level responsible for climate risks.



OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE **CHANGE RISKS**

BENCHMARK INDICATOR 8.1

CLIMATE ACTION 100+ 2020 PROGRESS REPORT

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BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

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CASE STUDY **BHP**

BHP is a diversified mining company, headquartered in London and Melbourne and listed on both the London Stock Exchange and the Australian Stock Exchange. The Climate Action 100+ engagement has been co-led by investors AMP **Capital and HSBC Global** Asset Management with support from BMO Global Asset Management, and investor network support from IGCC and IIGCC.

The investors had had five formal meetings with the company this year, in addition to many more informal meetings. Several roundtables on specific topics also took place.

The major engagement priorities for this company in 2020 have included:

- Engaging with BHP on its industry association policy review.
- Establishing medium-term scope 1 and 2 emissions targets.

- BHP's approach to its scope 3 emissions.
- An enhanced and explicit link to climate change in executive remuneration.
- Updated scenario analysis, including a 1.5-degree scenario.
- Equity-based emissions disclosures.
- Capital expenditure, the US\$400 million Climate Investment Program (CIP), and seeking to understand how the company will align these to its commitment to the Paris Agreement goals.

In July 2020 the company announced an update to its industry association approach which included:

- A commitment to developing minimum standards for the associations of which it is a member.
- A protocol for the allocation of industry advocacy accountabilities.
- The requirement for associations to publish an annual advocacy plan in advance.
- The development of a realtime escalation process to

deal with industry association misalignment.

• Enhancements to its own disclosures on industry associations and the company's influence.

In October 2020, the company suspended its membership of the **Queensland Resources Council** when it found the association to be engaging in direct advertising to voters on the Queensland elections, in misalignment with its new policy.

In September 2020 it also announced:

- A series of projects and milestones aimed at reducing its scope three emissions.
- Further transport electrification and renewable energy commitments.
- Scenario analysis that applied three transition scenarios to the company's portfolio. This showed it was most profitable in a 1.5°C world, and least so in a disruptive late transition.
- A 30% medium-term emissions reduction target to 2030 for scope 1 and 2 emissions.

- A scope 3 goal for 2030 to help develop technologies and approaches to make steelmaking 30% less carbon intensive and shipping 40% less carbon intensive. BHP has also developed two steel value chain partnerships, investing up to US\$35 million under an MOU with steel producer China Baowu.
- An enhanced link to climate change in the Cash and Deferred Plan (CDP) scorecard, with 10% weighting to reductions in operational

emissions and the achievement of key actions and milestones to reduce scope 1. 2 and 3 emissions.

Engagement in 2021 will focus on monitoring the company's implementation of its new industry association policy including further detail on how it will deal with misalignment, getting additional clarity on its transition plans including capital expenditure, development of reporting on physical risk, and further discussion of its scope 3 plans.



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CASE STUDY ARCELORMITTAL

ArcelorMittal is a steel and mining company headquartered in Luxembourg. Engagement with the company was led by Aegon, LAPFF and Ruffer, and coordinated by IIGCC.

To date investors have had a number of meetings with ArcelorMittal management, and the company has joined an IIGCC convened roundtable on decarbonisation of the steel sector. The company has been positive and responsive to engagement so far.

Progress seen to date has included:

- In October 2020, ArcelorMittal announced a group-wide commitment to be carbon neutral by 2050, building on the commitment made in 2019 for its European business to reduce emissions by 30% by 2030 and be carbon neutral by 2050.
- In mid-2020 the company also released an updated

lobbying review of its industry association memberships taking into account investor feedback.

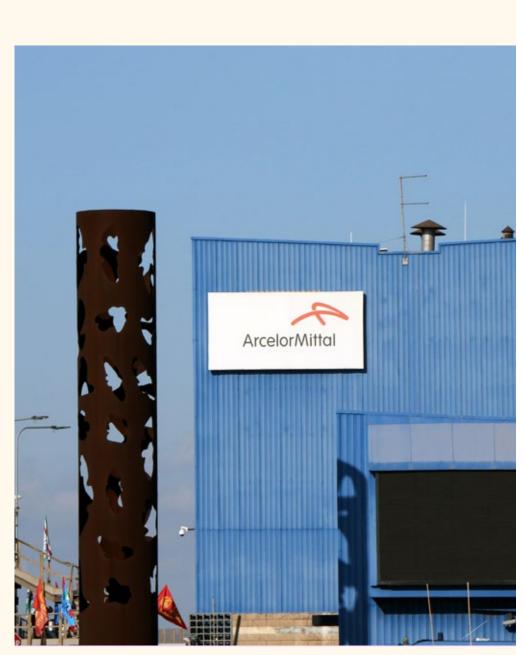
- Working on various pilot technologies for carbonneutral steelmaking and will be producing steel with hydrogen from renewables from 2020.
- Joined the Energy Transition Commission and is a driving force behind the net-zero pathway.
- The company published its first Climate Action report in 2019, which included scenario analysis.

Investors intend to engage with ArcelorMittal in the future on:

- The company's second Climate Action report is due to be published in December 2020 or January 2021 which will include more details of how the carbon neutral 2050 target will be achieved.
- How the company plans to reduce emissions from its operations including ensuring its transition plan is aligned with the goals of the Paris Agreement.

- Governance of climate change risks and the company's transition plan.
- Linking the achievement of greenhouse gas reduction targets to executive remuneration.
- Additional disclosures aligned with the TCFD.

Investors will continue to engage with the company on its transition plan and monitor the implementation of its greenhouse gas reduction targets.



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Photo: Massimo Todaro - stock.adobe.com

CASE STUDY TECK RESOURCES LIMITED

Teck Resources Limited (Teck) is Canada's largest diversified mining company and is headquartered in Vancouver, British Columbia. The Climate Action 100+ engagement with Teck has been jointly led by the British Columbia **Investment Management Corporation and the** Shareholder Association for Research & Education (SHARE), along with three additional collaborating investors.

Climate Action 100+ signatories held four group-wide meetings with the company's senior management and independent board directors since the beginning of the initiative, and participating investors have had individual interactions with the company to reinforce expectations. Engagement priorities with Teck have included:

- Offering input and support to the company's post-2020 emissions target-setting process, including highlighting the importance of establishing a long-term net-zero emissions goal with interim milestones, and encouraging the company to set a more ambitious alternative energy generation target for some mining operations.
- Asking for enhanced climate scenario analysis including additional disclosure of climate considerations associated with Teck's existing energy portfolio as well as its proposed Frontier oil sands mining project under review.
- Advocating for Teck to assess the climate lobbying alignment of industry associations it is a member of with its own internal climate positions.

• Emphasising the importance of executive compensation and incentive structures in support of climate strategy.

Progress to date has included:

- Teck has been an official supporter of the TCFD since September 2018, one amongst very few North American extractive companies, and subsequently published two TCFD-aligned reports.
- In February 2020, Teck <u>committed</u> to net-zero emissions by 2050 in its own operations (scope 1 and 2), and <u>announced</u> an intensity emissions reduction target of 33% by 2030.
- Teck achieved its alternative energy generation target for 2030 ahead of schedule and set a clean energy target of 100% for its Chile operations.
- In addition to enhanced climate scenarios disclosure, Teck <u>announced</u> in February 2020 it was withdrawing the regulatory application for the Frontier oil sands project from federal review, and wrote off associated costs.

• In May 2020, Teck announced it would not renew its membership in a major Canadian energy industry association as part of a costcutting drive. This change substantially addressed investors' previous concerns on climate lobbying.

Building from the productive engagement so far, continued dialogue with Teck in 2021 would be beneficial to address opportunities and challenges of capturing some scope 3 emissions in future target-setting exercises and to further assess the company's approach to incentivising employees and executives to achieve its climate targets. 습

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The 31 electric utility focus companies engaged via Climate Action 100+ are electric and gas power companies.

Electricity production is responsible for just under a third of global emissions², due to the high prevalence of fossil fuels (thermal coal and natural gas) in the energy mix. Engagement with electric utilities via Climate Action 100+ is focused on the transition away from emissions intensive forms of power generation such as gas and coal, to zero emissions technologies such as renewables. Investors are looking for companies in this sector to be ramping up investments in renewable energy projects and infrastructure including battery storage, and to be providing a clear pathway to net-zero emissions by 2050.

Investors are engaging with utilities to understand how investment decisions and transition plans align with the goals of the Paris Agreement, including investments to retire, maintain or expand fossil fuel infrastructure. They are also calling for ambitious emissions reduction targets.

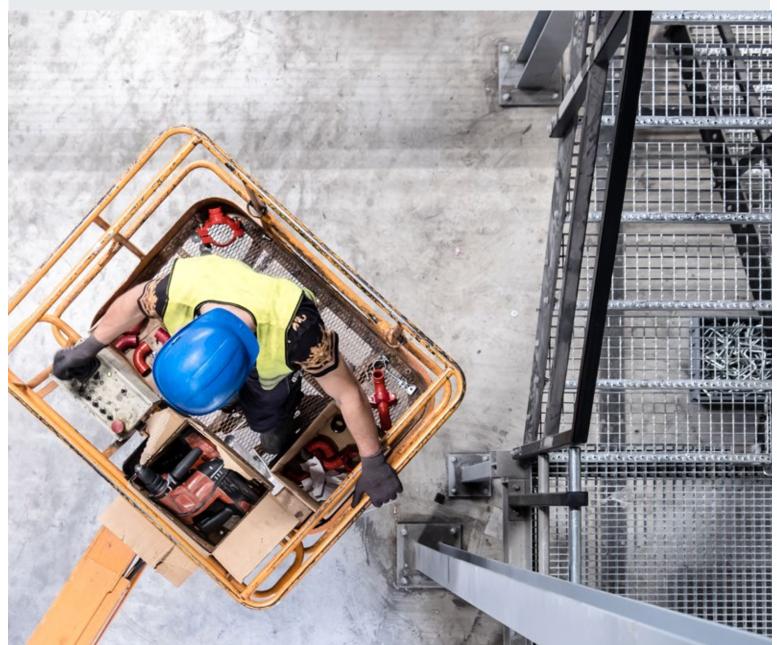
Electricity production and distribution is highly regulated, so the issue of engagement with policymakers continues to be important for investors both at the company level and via trade associations. Investors are also keen to understand companies' transition plans as the closure of coal and gas fired power stations over the coming decades has implications for workers and communities.

While policy settings in the United States, parts of Asia and Australia have been challenging, there has been significant momentum in this sector this year. Notable progress has occurred in the United States, where six electric utilities have now committed to net-zero emissions by 2050: Dominion Energy, Inc., Duke Energy Corporation, NRG Energy, Inc., The Southern Company, WEC Energy Group, Inc., and Xcel Energy Inc..

UTILITIES SECTOR

31 FOCUS COMPANIES





Source: Bloomberg, as at 30 November 2020.
 World Resources Institute Climate Data Explorer <u>http://cait.wri.org/</u>.

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Other company commitments include:

- AES Corporation committed to a 70% emissions reduction target by 2030.
- Vistra Energy Corp. announced the retirement of its Midwest coal fleet by 2027, a new emissions reduction target of 60% by 2030, and a long-term objective of net-zero emissions by 2050.
- Duke Energy Corporation and Dominion Energy, Inc. abandoned the proposed Atlantic Coast Pipeline after billions of dollars spent and years of delays.

• Dominion Energy, Inc.

announced that it is selling most of its natural gas assets to Berkshire Hathaway and has positioned itself as a 'sustainability-focused utility operation'.

- AGL Energy Ltd, the largest corporate emitter in Australia, has linked executive remuneration to its new netzero emissions by 2050 target.
- NTPC Ltd, India's largest electric power generator, and ONGC, the country's top oil and gas producer, have agreed to set up a renewable joint venture in India which will include renewable power assets such as offshore wind in India and overseas.



UTILITIES FOCUS COMPANIES

AES Corporation AGL Energy Ltd **American Electric** Power Company, Inc. Centrica CEZ. A.S. **Dominion Energy**, Inc. **Duke Energy** Corporation E.ON SE EDF Enel SpA

ENGIE

Eskom Holdings SOC Ltd **Exelon Corporation Power Assets** FirstEnergy Corp. Fortum Oyj Naturgy Energy Iberdrola, S.A. Korea Electric Power Corp National Grid PLC NextEra Energy, Inc. NRG Energy, Inc. NTPC Ltd

PGE - Polska Grupa Energetyczna S.A. Holdings Limited **PPL** Corporation RWE Aktiengesellschaft SSE PLC The Southern Company Vistra Energy Corp. WEC Energy Group, Inc. Xcel Energy Inc.

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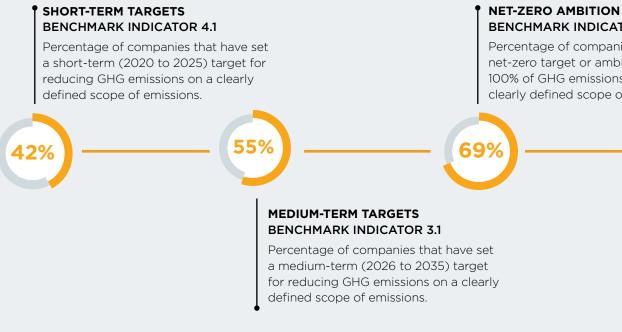


CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Over two-thirds (69%) of utilities focus companies have now set a netzero emissions reduction ambition or target, though only 8% of these cover material scope 3 emissions.¹ Over half (55%) of companies have set medium-term GHG reduction targets, but only 35% of these cover at least 95% of the company's operational (scope 1 and 2) emissions, and only 6% of companies have set a target that covers their most material scope 3 emissions¹. 42% of companies have a short-term GHG emissions reduction target, but only around half (23%) of these cover at least 95% of scope 1 and 2 emissions. No companies have set short-term targets and only 6% of companies have set mediumterm targets that cover the most relevant scope 3 emissions. Four out of five companies (81%) have disclosed board level responsibility for the management of climate risks, and half (52%) of companies have disclosed a named position at the board level for this oversight.



See Company Progress Review Summary for more details on these indicators.

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1PANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

1 The most material sources of scope 3 emissions for utilities companies arises from the provision of natural gas and procurement of electricity for customers. For a full list of material scope 3 emissions according to the Climate Action 100+ Net-Zero Company Benchmark, please visit: https://climateaction100.wpcomstaging.com/wp-content/uploads/2020/12/Climate-Action-100-Benchmark-Indicators-December-2020-FINAL-1.pdf.

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BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

CLIMATE ACTION 100+ NET-ZERO COMPANY **BENCHMARK**

Capital allocation indicators

Carbon Tracker

Both coal and gas fired generation must be phased out to achieve global net-zero emissions by mid-century. Carbon Tracker's validation work checks whether companies are phasing these generation sources out in a timely way. Carbon Tracker examines actual and announced retirements since these are the critical, realworld steps companies must take to reduce emissions. The model tracks ~95% of global operating, under-construction and planned coal powered capacity at boilerlevel and approximately 45% of natural gas-powered capacity¹.

Retirement schedules for coal and natural gas power are vital to ensure companies collectively meet the temperature goal in the Paris Agreement for three main reasons:

- 1. Climate change is about absolute emissions rather than emissions intensity.
- 2. Long-term retirement schedules will likely minimise out-of-market payments.

3. Growing clean energy capacity without retiring fossil capacity could create a negative investment signal in the future.

For a company to be Parisaligned it will need to publish and announce:

- 1. A coal and natural gasgeneration retirement schedule consistent with a credible climate scenario such as IEA B2DS or IEA Sustainable Development Scenario (SDS)².
- 2. A retirement date assigned to each coal or gas unit.

Companies will fall into one of four categories;

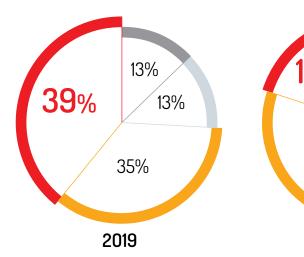
- 1. Announced full retirement schedule with assigned retirement years for all units that is consistent with the temperature goals from the Paris Agreement.
- 2. Announced full retirement schedule with assigned retirement years for all units that is not consistent with the temperature goals of the Paris Agreement.

- 3. Announced a partial retirement schedule for parts of the operating fleet and with assigned retirement years to parts of the operating plants.
- 4. Insufficient or no information provided.

Retirement of coal and gas fired power stations in 2020

The data show some promising trends — the number of companies that have announced a full coal phase out consistent with the IEA B2DS has doubled since last year (13% in 2019, versus 26% in 2020). Also, the percentage of companies that have begun to announce a partial phase out of coal has increased from 35% to 48%. Overall, more than 80% of the utilities examined have announced plans for coal retirements.

This year. Carbon Tracker began evaluating retirements from gasfired generators. Among Climate Action 100+ target companies, only 3% have announced retirements consistent with the IEA B2DS scenario (or lack gasgeneration capacity altogether).

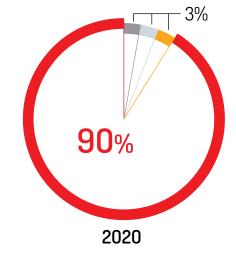


Has the company announced a full phaseout of coal units by 2040 that is consistent with Carbon Tracker Initiative's interpretation of the IEA B2DS?

• Full retirement, consistent with B2DS Full retirement. not consistent with B2DS Partial retirement • Unannounced/ totally insufficient

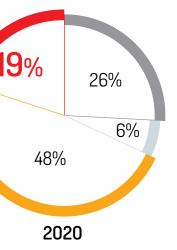
Has the company announced a full phaseout of gas units by 2040 that is consistent with CTI's interpretation of the IEA B2DS?

- Full retirement. consistent with B2DS Full retirement, not
- consistent with B2DS Partial retirement
- Unannounced/ totally insufficient



1 All assumptions and modelling details are discussed in Powering down Coal and How to waste over half a trillion dollars by Carbon Tracker (2018, 2020). Coal capacity is global and natural gas capacity analysed is within US, the EU, Australia, India and South Korea. Additional countries and regions will be added in early 2021.

2 The IEA Sustainable Development Scenario sets out an energy transformation aligned with achieving three energy related Sustainable Development Goals. The SDS holds the temperature rise to below 1.8°C with a 66% probability without reliance on global net-negative CO₂ emissions; this is equivalent to limiting the temperature rise to 1.65°C with a 50% probability.



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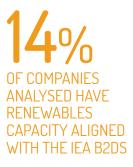
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CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Capital allocation indicators (cont)





- 1 2DII uses GlobalData for the utilities sector.
- 2 The IEA Sustainable Development Scenario provides an integrated approach to energy and sustainable development and focuses on achievement of three energyrelated sustainable development goals. The scenario aligns with approximately 1.75°C-2°C in global warming by 2100.
- 3 This column only assesses companies that have coal capacity. Note that 10% of Climate Action 100+ target utilities companies do not own coal capacity.

2° Investing Initiative (2DII)

2DII assesses the current and future capital stock of utilities companies, based on business intelligence and financial data providers¹ and assesses their alignment with climate change scenarios. This data is based on actual capital expenditure plans of the utility companies. This can therefore give an assessment of whether the utilities companies' stated ambitions and actions reflect their efforts to transition the business model.

The technology mix tables provided by 2DII assesses utilities based on their energy technology mix (renewables, hydro, nuclear, gas, oil and coal) in terms of current and planned installed generation capacity against the IEA B2DS (<1.75°C). It shows that a market aligned with this scenario would see renewable electricity installed capacity rising to 19% of the technology mix by 2025. This shows that companies need to change the technological mix of their generation more rapidly than currently planned (16%), while decreasing their installed capacity from gas and coal. On a positive note, the second table does show that focus companies have increased their installed renewable capacity from 10% in 2019 to 12% in 2020.

Planned and required (under a <1.75°C scenario²) electric utilities focus companies generation capacity technology mix for renewables, hydro, nuclear, gas, oil and coal.

| | REQUIRED 2025 | PLANNED 2025 |
|--------------------|---------------|--------------|
| Renewable capacity | 19% | 16% |
| Gas capacity | 26% | 27% |
| Coal capacity | 24% | 29% |
| Hydro capacity | 11% | 11% |
| Nuclear capacity | 16% | 14% |
| Oil capacity | 3% | 4% |

Actual 2019 and 2020 electric utilities generation capacity technology mix for renewables, hydro, nuclear, gas, oil and coal.

| | ACTUAL 2019 | ACTUAL 2020 |
|--------------------|-------------|-------------|
| Renewable capacity | 10% | 12% |
| Gas capacity | 32% | 28% |
| Coal capacity | 29% | 29% |
| Hydro capacity | 9% | 11% |
| Nuclear capacity | 15% | 17% |
| Oil capacity | 5% | 4% |

The third table shows what percentage of utility companies are aligned with which IEA scenario in terms of their renewable power capacity and their coal power capacity. The table shows whether these companies are aligned with IEA B2DS, IEA Sustainable Development Scenario², or above IEA SDS. It shows that only 14% of companies analysed have renewables capacity aligned with the IEA B2DS.

Utilities companies climate scenario alignment for coal and renewable capacity

| CLIMATE SCENARIOS | PERCENTAGE COMPANIES WITH ALIGNED RENEWABLE CAPACITY | PERCENTAGE COMPANIES WITH ALIGNED COAL CAPACITY ³ |
|-------------------|--|--|
| B2DS (<1.75C) | 14% | 15% |
| SDS (1.75C-2C) | 3% | 4% |
| Above SDS (>2C) | 83% | 81% |

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CASE STUDY WECENERGY GROUP, INC.

WEC Energy Group, Inc. (WEC) is an electric power and natural gas utility company, headquartered in the US. The Climate Action 100+ engagement is led by UBS Asset Management and Wespath Benefits and Investments, and supported by Ceres.

Investors had one group meeting with the company over the past 12 months, wrote a letter to the company urging increased long-term ambition, delivered a separate letter outlining investor expectation on climate lobbying, and presented a statement at the virtual AGM. Engagement has focused on increased ambition of medium and long-term targets, discussion of scope 3 emissions from natural gas delivery in targets, working towards robust TCFD-aligned disclosure, and advocating for responsible policy engagement on climate.

Over the past year, WEC has progressed in the following areas:

- In July 2020, WEC increased the ambition of its medium and long-term targets. The company upgraded its 2030 target from 40% to 70% reduction of CO₂ emissions. Additionally, it upgraded its 2050 target from an 80% reduction of CO₂ emissions to net carbon neutral generation.
- WEC released its <u>2019</u> <u>Corporate Responsibility</u> <u>Report</u>.

Future engagement will focus on benchmark assessment, clarity about capital expenditure alignment with targets, defining the role of natural gas within the company's portfolio, and responsible policy engagement on climate at the state and federal levels.



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CASE STUDY

Korea Electric Power Corporation (KEPCO) is an electric utility company, headquartered in South Korea and listed on the Korea Composite Stock **Price Index and New** York Stock Exchange. The Climate Action 100+ engagement has been led by APG Asset Management and Sumitomo Mitsui Trust Asset Management and is supported by a group of collaborating investors from Europe.

Over the past 12 months, investors have had three formal group meetings, several letter exchanges with the company, and delivered a public statement to its largest shareholder, the Ministry of Economy and Finance.

Engagement priorities with the company this year have focused on engaging KEPCO on its plans to limit and exit overseas coal and fossil fuel exposure, in particular, investors have expressed their concerns about KEPCO's coal power projects in Indonesia (Jawa 9 and 10) and in Vietnam (Vung Ang 2).

Wider investor pressure in parallel to engagements has also captured attention from international and local media and has added weight to ongoing conversations with KEPCO. APG Asset Management, Church Commissioners for England, Legal and General Investment Management, Sumitomo Mitsui Trust Asset Management and UBS Asset Management have been public in their concerns, quoted in FT articles in February. August and October this year and in local Korean media in the Korean Herald and Chosun Biz.

Other recurring themes in group engagement meetings with KEPCO have included:

- Request for a disclosure of emissions reduction targets with a detailed breakdown of emissions at parent level and from independent power producers.
- Working towards alignment of corporate disclosure with TCFD recommendations.

 Raising emissions reduction targets beyond South Korea's NDC.

Concerted international pressure led to delay of key decisions for overseas coal fired power plants in Indonesia and Vietnam, however these were ultimately approved by KEPCO. Soon afterwards, KEPCO confirmed that it will not pursue the remaining two coal power pipeline projects in the Philippines and South Africa.

This has been a significant year of progress in discussions on coal phase-out within Korea. Investors were referenced repeatedly in the National Assembly during ministerial questioning on KEPCO's overseas coal projects. In a significant regional announcement, in October 2020, the South Korean government committed to achieve net-zero emissions by 2050, pledging to spend US\$7 billion on greenfocused growth. This continued the momentum of earlier national plans to close 30 coal-fired power plants by 2034 and 10 of those by 2022, phase out nuclear power and triple the number of solar and wind power installations by 2025. As KEPCO owns the majority of coal-fired power plants in South Korea, this plan is likely to have a significant impact on accelerating the reduction of its GHG emissions. South Korea's parliament is also debating new legislation to ban participation in the construction, operation and maintenance of foreign coal power projects, following Japan's recent tightening of financing criteria for overseas coal-fired power plants.

Engagement in 2021 will focus on obtaining further clarity on coal plant closures as per the government's directive, phase-out timeline of overseas coal plants and commitment to the full alignment of corporate disclosure with TCFD recommendations. 습

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CASE STUDY ENGAGING WITH STATE-OWNED ENTITIES IN INDIA

NTPC Limited (NTPC), Oil & Natural Gas Corp. (ONGC), and Coal India Limited (CIL) are majoritystate-owned corporations headquartered in India. NTPC is the largest electric utility in the country and predominately a coalbased thermal power producer. CIL is the largest coal producer in the world, and ONGC is Indias largest crude oil and natural gas producer. The Climate Action 100+ engagements for these companies have been led by SBI Funds Management Private Limited and supported by the AIGCC and the PRI.

As a result of consistent outreach to the company since 2019, the investors were able to arrange three formal engagement meetings with NTPC in 2020 despite the difficult environment created by COVID-19. The investors also commenced engagements with ONGC and CIL this year and held one meeting with each company.

Engagement priorities with the three companies have included raising management awareness on climate change issues, improving disclosure on carbon emissions based on TCFD recommendations, and plans to increase the use of renewable energy. Electricity demand in India is expected to grow rapidly as the economy grows and the government electrifies rural areas aiming to increase energy access for its population. In this context, reduction of thermal power generation is a challenge, and fast expansion of renewables-based power generation is crucial in preventing a sharp increase in domestic GHG emissions.

Progress to date for the three engagements has included the following:

• Climate-related disclosure improved significantly. NTPC released a 2019 CDP climate report publicly in early 2020, included disclosure of its scope 3 emissions in its integrated report in September 2020, and its 2020 report incorporated several aspects of TCFD aligned disclosure.

- NTPC announced a new sustainability strategy in September 2020, setting carbon intensity and renewables targets for 2022 and 2032.
- NTPC acquired two hydro power companies from the government of India in March 2020 to increase its share of renewable energy.
- NTPC and ONGC entered into an agreement in May 2020 to establish a joint venture for a new renewable energy business.
- CIL is investing heavily in efficiency improvement at its coal mines, and in a coal-tomethanol plant in West Bengal.

Engagements for the three companies in 2021 will focus on monitoring progress on TCFD implementation, renewables investment, introducing the concept of just transition, and seeking opportunities to set ambitious emissions reduction targets. Lead investors are also open to including investors from other regions to strengthen the case of global engagement with state-owned entities in India.



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INDUSTRIALS SECTOR

26 FOCUS COMPANIES

\$956 BILLION MARKET CAPITALISATION¹

The 26 industrials focus companies include firms focused on the production of materials including cement, heavy-duty machinery and equipment, construction materials, and chemicals.

Material emissions sources vary widely by firm and according to the products produced:

- The majority of emissions from cement production arise from the chemical reaction and heat required to produce clinker, a core component of cement.
- Emissions from chemicals companies arise from energyintensive operations, including ammonia production and steam cracking. Many chemicals firms also have significant scope 3 emissions associated with product use.
- Construction materials and heavy-duty equipment firms have upstream and downstream emissions sources that vary by company, and many also have significant scope 2 emissions from energy use.

Many of these companies are considered hard to abate as there are currently no costeffective and readily available decarbonisation options. It is likely that many of the emissions intensive processes particularly the production of clinker for cement and some chemical production processes will require significant carbon capture and storage (CCS) in order to reach net-zero emissions. As in other energy intensive sectors, the rapid decarbonisation of global electricity grids via switching to renewables will also be key to reduce emissions from this sector.

Investors engaging with industrial companies within Climate Action 100+ are setting out specific engagement priorities depending on the company and its products and operations. At a high-level, investors are looking for companies to set net-zero emissions targets and to disclose the way they are approaching and acting on the need to decarbonise by mid-century.



1 Source: Bloomberg, as at 30 November 2020.

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For many companies this includes partnerships with research organisations, industry bodies and other organisations within their sector to look at decarbonisation options including CCS. Other key areas of focus include electricity use and energy efficiency measures companies can take to achieve emissions reduction targets in the short term. As in other sectors, establishing strong climate governance frameworks at the board level, and ensuring alignment between companies internal climate policies with those of industry associations of which they are member is also a key priority. These companies are highly exposed to both transition risks from increased regulatory requirements, and to physical risks depending on the location of the companies' operations, so investors are increasingly asking companies to model, assess, and disclose a plan to manage these climate risks.

There have been a number of noteworthy company commitments and progress by industrials focus companies this year:

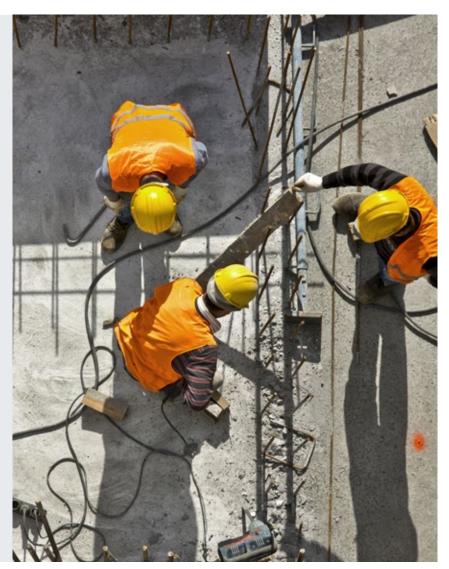
- CEMEX S.A.B. de C.V., CRH, and Daikin Industries, Ltd. committed to net-zero emissions by 2050 across all scopes.
- LafargeHolcim Ltd, set a science-based target including scope 1 and 2 emissions and a net-zero ambition. The company claims to be the first global building materials company to sign the 'Business Ambition for 1.5°C' pledge with intermediate targets approved by the Science-Based Targets initiative (SBTi) in alignment with net-zero pathway.
- **Boral Limited** conducted a physical risk analysis across its assets identifying vulnerabilities related to extreme weather for its global operations.
- **Bayer AG** set a science-based target to reduce its emissions 42% by 2029.
- **Cummins Inc.** committed to net-zero emissions by 2050 across its operations, and a science-based target to reduce absolute GHG emissions 50% by 2030 (scope 1 and 2). In addition, the company set a science-based target to reduce emissions from newly-sold products 25% by 2030.



INDUSTRIALS FOCUS COMPANIES

Adbri Ltd Anhui Conch **Cement Company** Limited BASF SE Bayer AG **Boral Limited** Caterpillar Inc. CEMEX S.A.B. de C.V. CRH Cummins Inc. Daikin Industries, Ltd. **Dangote Cement** Plc Dow Inc General Electric Company

HeidelbergCement AG Hitachi. Ltd. Hon Hai Precision Industry Koninklijke Philips NV LafargeHolcim Ltd L'Air Liquide LyondellBasell Industries CI A Martin Marietta Materials. Inc. Panasonic Corporation Saint Gobain Siemens Energy¹ Toray Industries, Inc. **Trane Technologies** PLC



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¹ Note that Siemens AG was the original focus of Climate Action 100+ until a demerger in September 2020. Siemens Energy will be the focus of the initiative moving forward.

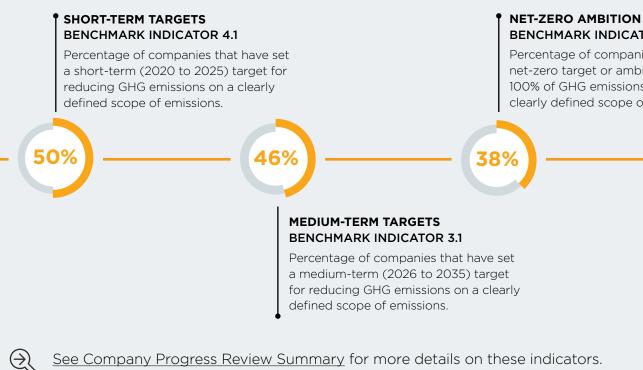
INDUSTRIALS SECTOR

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Over one-third (38%) of industrials focus companies have now set a net-zero emissions by 2050 ambition or target, however just 8% of companies have a target that covers the most relevant scope 3 emissions. Nearly half of companies (46%) have set a medium-term emissions reduction target and half (50%) have set a short-term target, however a slightly smaller share of companies have set targets that cover over 95% of their operational emissions for both medium-term (38%) and short-term (38%) targets. Only 8% of companies have set a medium-term target that includes coverage of their most material scope 3 emissions, and the same is true of short-term targets. Nearly two in three (65%) of companies have disclosed clear board level responsibility for climate change, and nearly half (31%) have a named position on the board responsible for managing climate risks.



MPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

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BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

CASE STUDY **CUMMINS INC.**

Cummins is an engine, power systems and industrial machinery manufacturing company headquartered in Columbus, Indiana in the United States. The Climate Action 100+ engagement with Cummins has been jointly led by Wespath Benefits and Investments and AGF Investments, along with seven additional collaborating investors.

Climate Action 100+ signatories held two meetings with the company over the year covered by this progress report.

Engagement priorities with the company this year included:

- Offering input and support to Cummins' new 'Planet 2050' strategy and other sustainability work the company is undertaking.
- Seeking clarity on the company's strategy for transitioning to net-zero emissions within distinct business lines.

- Encouraging the company to consider tying executive compensation to climate change performance metrics.
- Asking the company to evaluate its climate lobbying practices and ensure alignment between its internal climate change policy and the lobbying activities of trade associations of which it is a member.

Progress to date has included:

- In November 2019, Cummins <u>announced</u> its 'Planet 2050' sustainability strategy, committing it to net-zero emissions by 2050 in company operations. In addition, the strategy had several interim emissions goals for 2030, including:
- Reduce absolute GHG emissions from the company's facilities and operations by 50% (a science-based target).
- Reduce absolute lifetime GHG emissions from newly sold products by 25% (a sciencebased target).
- Partner with customers to reduce GHG emissions from products in the field by 55 million metric tonnes.

The lead investors believe that the engagement with Cummins has been highly constructive and that the company is emerging as a sector leader in addressing its climate change risks and opportunities.

Among other topics, engagement in 2021 will focus on encouraging Cummins to provide more granular reporting about the actions it intends to take to meet its net-zero emissions by 2050 target (for example: changes to its product mix, specified low-carbon R&D investments). Signatories continue to advocate that the company tie executive compensation to climate change performance metrics. They also intend to hold a discussion with the company to go over relevant elements of the new Climate Action 100+ Net-Zero Company Benchmark, including an exploration of just transition considerations in Cummins' 'Planet 2050' strategy.



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CASE STUDY CEMEX S.A.B. DE C.V.

CEMEX S.A.B. de C.V. (CEMEX) is a cementmaking and building materials company headquartered in Mexico. The Climate Action 100+ engagement with **CEMEX** has been led by Wells Fargo Asset Management, with support from Universities Superannuation Scheme (USS) and Alfore XXI **Banorte (one of the largest** pension funds in Mexico).

Climate Action 100+ signatories held two meetings with the company over the period covered by this progress report. The second meeting focused on a detailed letter from the engagement coalition setting out expectations, assessing CEMEX's relative position against expectations, and asking for more clarity and commitments.

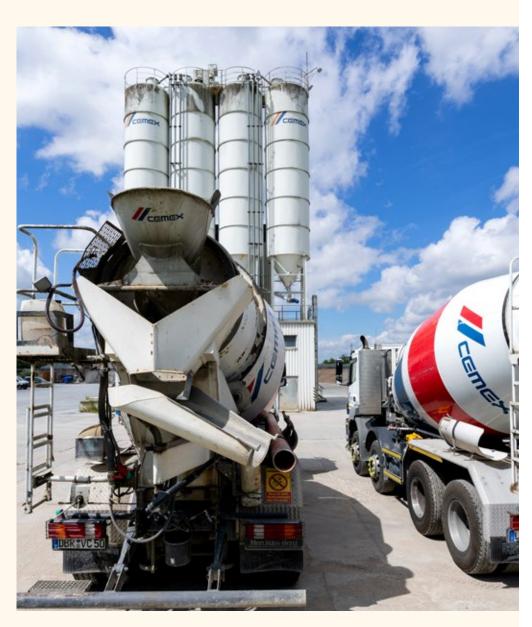
Engagement priorities with the company this year have included:

- Supporting CEMEX's new 2030 GHG reduction goal, including asking the company for more details on establishing interim milestones between 2030 and 2050, and the R&D investments necessary to achieve its goals.
- Suggesting that the company consider a more restrictive central scenario than the IEA's 2-Degree Scenario (2DS) in its target-setting process and to include an assessment of the impact this would have on its emissions reduction goals.
- With already strong board-level climate oversight practices in place, encouraging the company to disclose more to showcase this and provide more formulaic details on executive-linked pay to climate performance.
- Asking the company to disclose more information about its scope 3 emissions and supply chain management.
- Advocating for the company to issue a standalone TCFD report.

Progress to date has included:

- In February 2020, CEMEX committed to delivering net $zero CO_2$ concrete by 2050. The company also set an enhanced target for 2030 consistent with science-based methods. Specifically, CEMEX increased its goal to reduce net CO_2 emissions 35% by 2030 (compared to 1990 levels), a 5% ratchet on its 2019 goal of 30% by 2030.
- CEMEX has tied its new GHG reduction targets to its CEO and top management variable compensation scheme.
- CEMEX reports against the TCFD framework via its 2019 Integrated Report and became one of only eight companies in Mexico and one of only 10 in the global construction sector to be an official supporter of the TCFD (as of March 2020).

Among other topics, engagement in 2021 may focus on continuing to seek improvements in CEMEX's climate-related disclosures where necessary, as well as holding further discussions on the company's plans for achieving its ambitious net-zero emissions by 2050 goal.



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Photo: Björn Wylezich - stock.adobe.com



TRANSPORTATION SECTOR

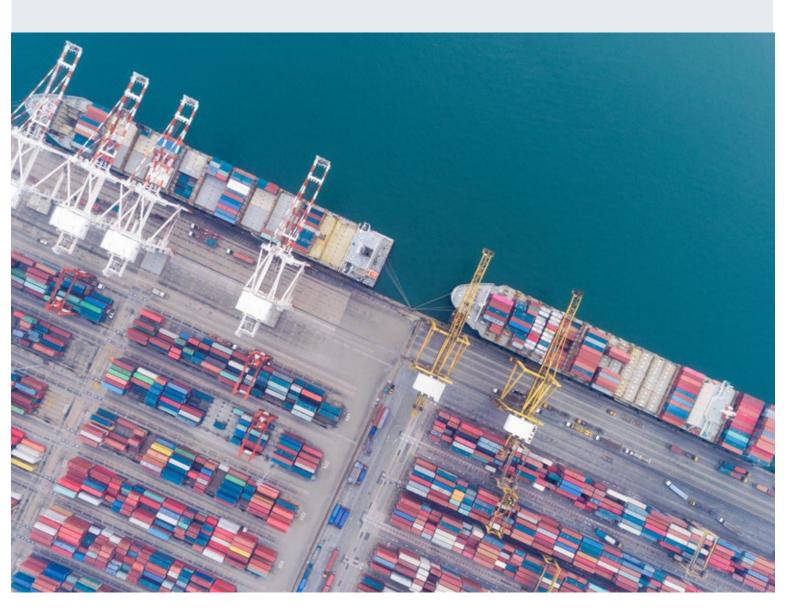
26 FOCUS COMPANIES **\$1.3** TRILLION MARKET CAPITALISATION¹

There are 26 transportation companies on the Climate Action 100+ focus list. These include automobile and truck manufacturers, aerospace companies, airlines and shipping firms.

For the vehicle manufacturers (automobile and truck makers) and airplane manufacturers, the most material emissions sources are their downstream emissions (scope 3) due to fuel used in their products. These companies will need to increase vehicle and plane efficiency and shift to electrification and zero emission technologies over the next decade.

For airlines and shipping companies, the most material source of emissions comes from the use of fuel for transportation. These companies are generally considered 'hard to abate' – given the lack of cost-effective, readily-available technologies for these companies to decarbonise. There is potential for significant reductions from marine shipping from improving efficiency in maritime vessels and adopting zero emission technologies, as well as the use of advanced biofuels.

Investors are engaging with airlines and aerospace companies to understand how they plan to manage transition risks including the likelihood of increased regulation and carbon pricing, as well as physical and reputational risks. Investors are also seeking to understand how carbon offsets and fleet upgrades will be used during the transition alongside R&D investments and commercialisation measures for low-carbon fuels and alternative propulsion technologies. Physical risk is an important issue particularly for airlines as a result of increased frequency of extreme weather events due to climate change that could impact airports, flight patterns, and other company assets. While COVID-19 has hit airlines and aerospace companies particularly hard, given the critical long-term implications of GHG emissions from the sector, investors are continuing to seek progress on these issues.



1 Source: Bloomberg, as at 30 November 2020.

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TRANSPORTATION SECTOR

Investors engaging with automotive companies are seeking net-zero emissions across their value chain by or before 2050, while ramping up production of zero emissions fleets in the medium term. With an average 15 year product lifecycle, automotive companies will need to develop zero emissions fleets much earlier. as California committed to by 2035. Short-term objectives include committing to set sciencebased targets, investments in electrification and ICE improvements, remuneration incentives for executives linked to climate targets, and Paris-aligned lobbying, including by companies' industry associations.

Select progress by companies this year has included:

- Qantas Airways Limited
- became the first airline in the world to commit to net-zero emissions by 2050 in October 2019, alongside a \$10 million investment in sustainable aviation fuels, and a pledge to double its offset program.

- Delta Air Lines, Inc. announced a commitment to carbon neutrality, to offset all its emissions from March 2020 onward, and a \$1 billion investment to meet its goals.
- Rolls-Royce announced a commitment to net-zero emissions in its operations by 2030 (a science-based target) and to play a leading role in enabling the sectors in which it operates to reach net-zero emissions by 2050. It intends to publish a roadmap by the end of 2020 with interim targets to achieve these aims.
- In October 2020, American Airlines Group Inc. released an ESG report formally committing the company to net-zero emissions by 2050. The report also included a TCFD index for the first time.



TRANSPORTATION FOCUS COMPANIES

A.P. Moller - Maersk Air France KLM S.A. Airbus Group American Airlines Group Inc. Bayerische Motoren Werke Aktiengesellschaft BMW **Boeing Company** Daimler AG Delta Air Lines. Inc. Fiat Chrysler Automobiles NV Ford Motor Company General Motors Company Honda Motor Company Lockheed Martin Corporation

Nissan Motor Co. Ltd

PACCAR Inc Peugeot SA **Qantas Airways** Limited **Raytheon Technologies** Renault S.A. **Rolls-Royce** Saic Motor Corporation Suzuki Motor Corporation Toyota Motor Corporation **United Airlines**

Volkswagen AG Volvo

Holdings, Inc.





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TRANSPORTATION SECTOR

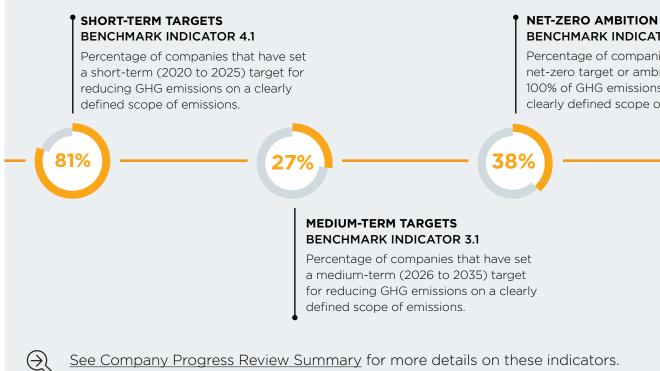
CLIMATE ACTION 100+ NET-ZERO COMPANY **BENCHMARK**

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Over a third (38%) of transportation focus companies have set netzero emissions by 2050 targets or ambitions, and 19% of companies have set targets which cover material scope 3 emissions. Over half (27%) of companies have set medium-term targets, and four of five (81%) have set short-term targets. However as with other sectors, very few of these targets cover the full scope 1 and 2 emissions for the company (23% of companies for medium-term targets and 35% of companies for short-term targets). Less than one in five (4%) have medium-term targets that include their most relevant scope 3 emissions, and no companies have short-term targets that do.

Nearly four out of five (77%) companies have clear board or board committee oversight of climate risks and half (50%) have a named position at the board level responsible for managing climate risks.



COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

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BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

CLIMATE ACTION 100+ NET-ZERO COMPANY **BENCHMARK**

Capital allocation assessment indicators (cont)

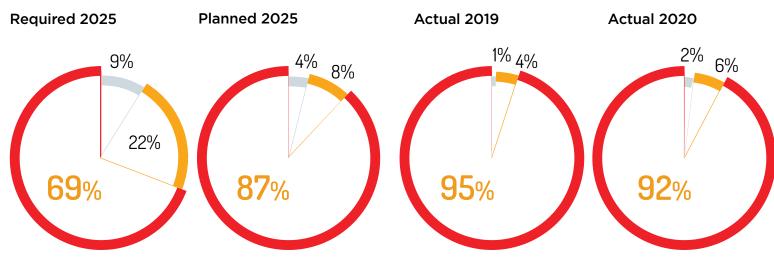
2° Investing Initiative (2DII)

2DII assesses the current and future technology mix of automotive companies (the share of electric, hybrid and internal combustion engine vehicles) based on business intelligence and financial data providers, and assesses companies' alignment with climate change scenarios. This data is based on actual production plans of the automotive companies. This can therefore give an assessment of whether the automotive companies' stated ambitions reflect their currently known capital expenditure efforts to transition their vehicle production to lower carbon.

The table below shows the technology mix of automotive companies and assesses their planned production against the IEA B2DS. The data shows that production aligned with the IEA's B2DS scenario would see the share of electric vehicles rising to 9% of the auto sector's technology mix by 2025. The companies assessed are not aligned with this scenario, as only 4% of their planned production mix by 2025 is expected to be in electric vehicles. To align with the B2DS scenario automobile companies assessed will need to more than double their planned production of electric cars and almost triple their planned production of hybrid cars.

Planned and required (under a <1.75C° scenario¹) automotive focus companies vehicle types

Actual 2019 and 2020 automotive focus companies' vehicle types



Electric • Hybrid • ICE

CLIMATE ACTION 100+ 2020 PROGRESS REPORT

1 2DII uses AutoForecast Solutions data for the automotive sector.

2 2DII classifies 'above SDS' as being aligned with a climate scenario that sees over 2°C of warming.

To align with IEA's B2DS scenario automobile companies assessed will need to more than double their planned production of electric cars and almost triple their planned production of hybrid cars. 😑 🧲

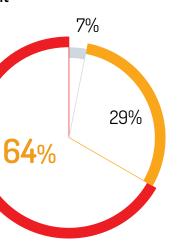
The chart below shows what percentage of auto companies are aligned with which IEA scenario in terms of their production of electric cars. The table shows whether these companies are aligned with IEA's B2DS, IEA's SDS, or above SDS.²

Auto focus companies scenario alignment

Beyond 2° Scenario (<1.75°C)

- Sustainable Development Scenario (1.75°C-2°C)
- Above Sustainable Development Scenario (>2°C)





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CASE STUDY **QANTAS AIRWAYS LIMITED**

Qantas is an airline headquartered in Sydney and Australia's largest airline by fleet size. The Climate Action 100+ engagement has been led by AustralianSuper and supported by IGCC.

Engagement priorities for Qantas include:

- The company's long-term plans for decarbonisation and associated investments and activities, including its offset program.
- Short and medium-term targets typically associated with improvements in fuel efficiency and fleet upgrades.
- Scenario analysis including understanding financial implications of both transition risk and physical risk.

In late 2019. Qantas made a number of significant commitments:

- A target of net-zero emissions by 2050, making it only the second airline worldwide to do SO.
- A commitment to cap emissions at current (2019) levels.
- Enhancements of its offset program, to effectively double the size of the program.
- A \$50 million investment in sustainable aviation biofuels over the coming decade.

In 2020 Qantas also retired its Boeing 747 fleet, which were 20% less efficient than similar sized aircraft. It also signed on to a joint commitment with 12 other major airlines who are members of the oneworld airline alliance, which sets a goal of net-zero emissions across the alliance by 2050. oneworld is the only global airline alliance to make this commitment.

COVID-19 presented a significant challenge for Qantas during 2020 given the extensive domestic border closures between states. and the effective international border closure enacted by the Australian government to manage the pandemic. Due to this, less progress towards Climate Action 100+ goals occurred in 2020 than originally planned. However, it is expected that the engagement will resume as normal in 2021/22. Key priorities for the next two years will include: a) Qantas planned biofuels investments and how the airline plans to work with other stakeholders to advance this, b) enhanced scenario analysis, and c) linking business strategy with climate targets and capital investment.



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Photo: Steve Mann - stock.adobe.com

CASE STUDY ROLLS ROYCE

Rolls-Royce is a civil aerospace, power systems and defence company headquartered in the United Kingdom. The Climate Action 100+ engagement with Rolls-Royce has been led by EOS at Federated Hermes, along with seven collaborating investors.

Engagement has been influenced by the COVID-19 pandemic, in particular a significant drop in revenue due to reduced flying hours of planes using the company's engines. Rolls-Royce is seeking new fund raising via a recapitalisation package which includes a rights issue, a bond offering and a new term-loan facility.

Engagement has been ongoing and constructive with the company since 2017. Meetings have taken place with internal specialists, senior management and the chair of the board. There were three meetings with the company in the past 12 months including a visit to a production facility to meet with additional internal experts. At the company's 2020 AGM the leads welcomed the company's goal of net-zero emissions by 2050 and presented questions related to engagement priorities. The CEO reiterated the company's commitment to playing a leading role in enabling the sectors in which it operates to get to netzero emissions by 2050 and that this must be a core part of the post-COVID recovery of aviation in particular.

Engagement priorities with the company this year have included:

- 1. Encouraging the setting of new interim emissions targets, including goals to address scope 3 emissions, aligned with net-zero emissions by 2050.
- 2. Seeking climate-related scenario analysis to be undertaken, disclosed and integrated into business planning.
- 3. Seeking enhancements to the company's climate-related financial disclosures.
- 4. Asking for the company to consider linking executive compensation to climate performance metrics.

Progress to date has included:

- Rolls-Royce continued to advance its reporting against the TCFD recommendations in its <u>2019 Annual Report</u>, published in early 2020.
- In June 2020, Rolls-Royce <u>announced</u> a commitment to net-zero emissions in its operations and facilities by 2030 (a science-based target) and to play a leading role in enabling the sectors in which it operates to reach its net-zero emissions by 2050. The company indicated it would pursue several measures to reach its new targets, including:
- Working with the fuels industry to increase the availability of lower-carbon alternative fuels.
- Accelerating the development and deployment of disruptive new technologies (e.g. electric and hybrid technologies, and small modular nuclear power stations).
- Producing technologies that could increase uptake of low-carbon energy (e.g. microgrids).
- Using 100% renewable energy in its own operations.

- Implementing closed-loop manufacturing techniques on high-value metals.

Engagement in 2021 will include assessing the company's plans to reach net-zero emissions and interim targets (in particular in a post-COVID recovery in the aviation industry), the integration of climate-related scenarios and goals into business planning, further improvements to climate-related disclosures, the integration of executive compensation with the net-zero pathway and the governance of direct and indirect policy advocacy.



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Photo: Steve Mann stock.adobe.com

CASE STUDY FORD MOTOR COMPANY

Ford Motor Company (Ford) is a global automaker, headquartered in the US. The Climate Action 100+ engagement has been led by New York City Office of the Comptroller and New York State Common Retirement Fund and supported by Ceres.

Investors had more than six meetings with the company over the past 12 months, including a Ceres-convened roundtable. Additionally, investors filed a shareholder resolution on lobbying disclosure and delivered a letter outlining investor expectation on climate lobbying. Engagement priorities with the company this year have included:

- Increased long-term ambition.
- Lobbying and responsible policy engagement.
- Robust scenario analysis.

Over the past year, Ford has progressed in the following areas:

- In June 2020, Ford set a carbon neutral by 2050 target.
- In August 2020, Ford finalised a compromise agreement with California ('California Agreement') under which it agreed to comply with a standard stricter than the Trump Administration's vehicle emissions standard.
- In September 2020, Ford launched a new California ad campaign, voicing support for California's emissions standards and calling out rivals Chevrolet (GM), Jeep (FCA) and Toyota for siding with the Trump Administration.
- The company also signed onto the UN's Business Ambition for 1.5°C campaign and committed to set a science-based target for its scope 1, 2, and 3 emissions.

Engagement in 2021 will focus on further discussion of climate lobbying and related disclosures, including playing a constructive role in the development of post-2025 vehicle emissions standards, and any modifications to the Trump standards. Investors will also monitor the company's progress on setting a sciencebased target.



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The 14 consumer products focus companies engaged by Climate Action 100+ include retail, food and beverage, consumer products and paper companies.

For these companies the most material emissions depend on the composition of the firm but could include:

- Supply chain (scope 3) emissions from the purchase of materials or products for sale in retail stores, which could include agricultural emissions, industrial emissions, deforestation, other land-use change emissions, and emissions from waste;
- Transportation emissions both direct and indirect (via supply chains); and
- Electricity emissions for companies with a large retail footprint.

Investors engaging with these companies are asking them to set net-zero emissions by 2050 targets that include coverage of scope 3 emissions. Many of the focus companies in this sector source significant products via agricultural or forestry supply chains, so investors are seeking to understand how the companies intend to manage these risks. In turn many of these supply chains are exposed to physical risks from a changing climate so investors are asking companies to produce physical risk scenario analysis covering these value chains. Several companies in this sector also use significant electricity via large retail stores and/or operational facilities, so decarbonisation of electricity use via power purchase agreements or other renewable energy procurement projects is also a key priority.

CONSUMER PRODUCTS SECTOR



MARKET CAPITALISATION¹



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CONSUMER PRODUCTS SECTOR

A number of companies have made notable progress against Climate Action 100+ goals this year:

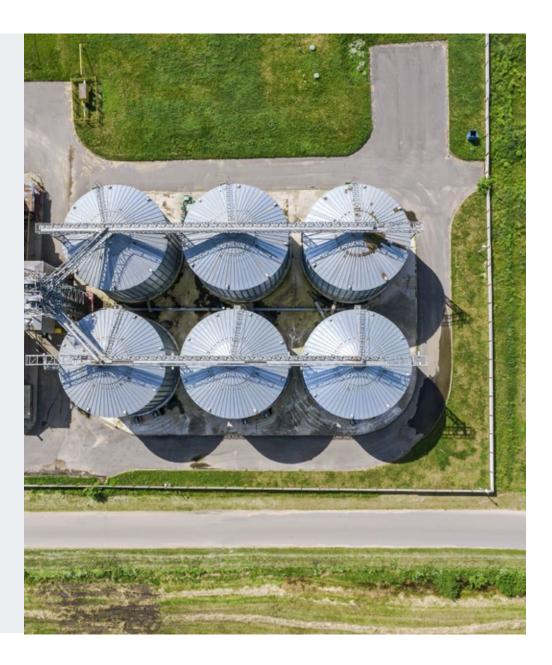
- Coca-Cola Company set a <u>science-based target</u> committing the company to reduce GHG emissions (including scope 1, 2, and 3) 25% by 2030 from a 2015 baseyear.
- Colgate-Palmolive Company <u>announced</u> new sustainability targets, including a commitment to net-zero emissions by 2040.
- Danone S.A. <u>committed</u> to align its climate targets with a 1.5°C global warming trajectory across its operations and value chain.
- **PepsiCo, Inc.** committed to 100% renewable energy for all direct US operations by the end of 2020 and signed the UN's Business Ambition for 1.5°C commitment.

- **Unilever PLC** committed to netzero emissions from all of the company's products by 2039.
- Walmart, Inc. <u>announced</u> a new target to achieve net-zero GHG emissions by 2040 (scope 1 and 2). As part of this the company will protect, manage or restore 50 million acres of land and 1 million square miles of ocean by 2030.
- Woolworths Group Limited committed to net-zero emissions by 2050 and set a science-based target to reduce absolute operational emissions by 63% and to reduce scope 3 emissions by 19% by 2030 from a 2015 base year.



CONSUMER PRODUCTS FOCUS COMPANIES

Bunge Limited Coca-Cola Company **Colgate-Palmolive** Company Danone S.A. **International Paper** Company Nestlé PepsiCo, Inc. Procter & Gamble Company Suzano S.A. Unilever PLC Walmart. Inc. Wesfarmers Weyerhaeuser Company Woolworths Group Limited



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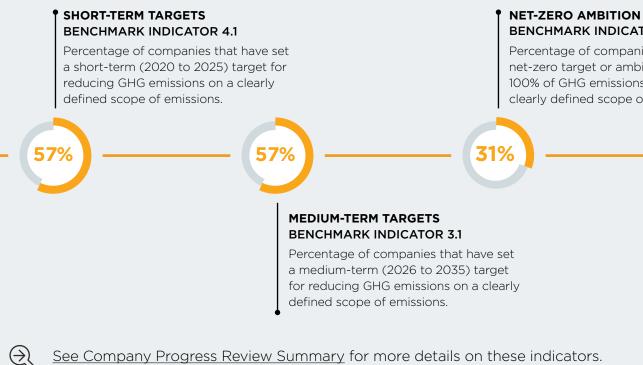
CONSUMER PRODUCTS SECTOR

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Just under a third (31%) of focus companies in the consumer products sector have set a net-zero emissions target or ambition, and 12% have set a target that covers their most relevant scope 3 emissions. Over half of companies (57%) have set a short and medium-term emissions reduction target. As for the net-zero targets however only 14% of companies have included the most material scope 3 emissions in their short and medium-term targets respectively. Nearly all (93%) of these companies have clear board or board committee oversight of climate change risks, and half have named a specific board member who is responsible for managing climate risks.



OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

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BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

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CASE STUDY **UNILEVER PLC**

Unilever is a multinational consumer goods company headquartered in London, **United Kingdom. The** Climate Action 100+ engagement with Unilever is led by CCLA, along with six additional collaborating investors. The group was originally led by APG Asset Management until September 2020. Majedie **Asset Management also** engages Unilever as part of Climate Action 100+ on an individual basis.

Climate Action 100+ signatories in the engagement group held three meetings with Unilever over the period covered by this progress report. This included meetings with Unilever's Reporting and Sustainability staff, where investors worked together with the company to press for strategies that could create crosssector change.

Engagement priorities with the company this year have included:

• Expanding and improving Unilever's TCFD reporting, including the metrics used.

- Amplifying, supporting, and encouraging the company's leading practices on managing climate risks and opportunities.
- Using Unilever's approach to climate change to create wider sector change.

Progress to date has included:

- Unilever's June 2020 commitment to achieve netzero emissions from all its products by 2039, which builds upon its previous science-based target to reduce scope 1 and 2 emissions 100% by 2030. To achieve its scope 3 target. Unilever said it would prioritise partnerships with suppliers who have set science-based targets. All Unilever packaging will show the carbon footprint of the product in the future.
- Unilever's goal to make all product formulations biodegradable and achieve a deforestation-free supply chain by 2023. The company said it will use several digital technologies to increase traceability and transparency within its supply chain, as well as introduce a new Regenerative Agriculture Code for all its suppliers.

- Unilever's announcement that the company will establish a new Climate & Nature Fund. initially capitalised by a €1 billion investment. Over the next 10 years, the fund will invest in projects such as landscape restoration, reforestation, carbon sequestration, wildlife protection and water preservation.
- Unilever reports in line with the TCFD recommendations via its annual reports and is also an official supporter of the TCFD.

Among other topics, engagement in 2021 may focus on continuing to draw insights from the company's leading practices to expand its positive impact across the sector. This might be done, for example, by highlighting the company's leadership as part of Climate Action 100+'s forthcoming workstreams on sector decarbonisation strategies. The coalition may also seek to secure a meeting with Unilever's CFO and encourage the company to make further improvements to its climate-related disclosures where necessary.



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CLIMATE ACTION 100+ ENGAGES WITH:











AIGCC-PRI ASIA **WORKING GROUP UPDATE**

The Asia Working Group is co-convened by the AIGCC and the PRI. It includes Asian, European, Australian and US investors who are interested in engaging with a diverse group of 32 Asian focus companies.

STRATEGIC ACTIVITIES IN 2020

This year the Working Group has:

- Expanded the Asia Advisory Group, its strategic advisory body, to include more Asian investor representatives.
- Convened webinars and workshops covering topics including: Asian automotive companies, power and utilities company updates with Carbon Tracker Initiative, lobbying practices of Japanese industry associations with InfluenceMap, and a strategy session on engagement tools and escalation in Asian markets.
- Delivered an in-person workshop in Beijing which covered investor engagement strategy and best practice. analysis, and facilitated cross sector collaboration.
- Convened regular Working Group calls.

Progress in Asia in 2020 has been meaningful with many company engagements reaching senior levels of the organisation, and a number of net-zero emissions commitments arising from investor-company dialogues. Disclosure, including

alignment with the TCFD, has improved quickly and there is more progress expected. The engagement approach pursued via the Asia Working Group; to partner Asia-based investors that can bring local and cultural knowledge with international investors which have significant engagement experience continues to prove successful. The move to online meetings due to COVID-19 presented a challenge in Asian engagements, as in-person meetings were the norm, however many engagements have resumed via digital platforms, and this has allowed greater participation of investors from the US and Europe.

The challenges in the region are also significant and complex. In many markets, the government's energy policy and NDCs under the Paris Agreement strongly influence the company's management of climate risk and its own emissions reduction targets which can curb ambition. For example, Chinese companies, especially Chinese state-owned enterprises (SOEs), are more policy-driven and lack incentives to change with no regulation in place. Notably in September 2020, the Chinese government announced a national target for

net-zero by 2060, quickly followed by governments of Japan and South Korea publicly announcing commitments to net-zero by 2050. These announcements in the region will create additional opportunities for company engagements and galvanise companies into setting more ambitious targets. Where previously the government's energy policy was reliant on fossil fuels, this has hindered companies' decarbonisation plans.

These announcements follow recent trends with Japanese and Korean financial groups having pledged to cease financing new coal projects, already changing the short and medium-term financing options for coal power in key Asian markets. The role now for investors is to follow up with companies on how they intend to implement these policies and see progress in annual engagements.

Engagement with regional policy makers and recruitment of more local investors will continue to be priorities in 2021, as well as better understanding the decarbonisation plans for companies that are targeting net-zero emissions.

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Progress in Asia in 2020 has been meaningful with many company engagements reaching senior levels of the organisation, and a number of net-zero emissions commitments arising from investorcompany dialogues.

AIGCC-PRI ASIA WORKING GROUP UPDATE



Thank you to the Asia Advisory Group for their work to support Climate Action 100+ in Asia in 2020

Amar Gill, Managing Director and Head of Investment Stewardship for Asia Pacific, **BlackRock**

Anne Simpson, Managing Investment Director, Board Governance & Sustainability, **CalPERS**

Ben Pincombe, Head of Stewardship, Climate Change, **PRI**

Crystal Geng, Head of Group ESG, **Ping An Insurance (Group) Company of China**

Hiroshi Komori, Senior Director, Head of Stewardship and ESG, Public Markets Investment Department, **Government Pension Investment Fund (GPIF)**

Srinivas Jain, Executive Director & Chief of Strategy, Digital & Technology, **SBI Funds Management Private Limited**

Rebecca Mikula-Wright, Executive Director, AIGCC

Richard Pan, Managing Director, Head of QFII Investment, Head of International Business, **China Asset Management Co Ltd**.

Seiji Kawazoe, Senior Stewardship Officer, Sumitomo Mitsui Trust Asset Management

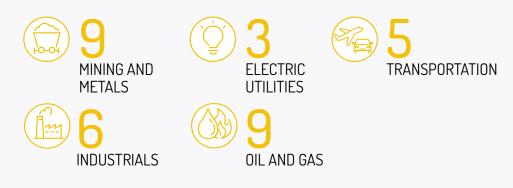
Sophia Cheung, CIO, Cathay Financial Holdings

FOCUS COMPANIES ENGAGED BY THE AIGCC-PRI WORKING GROUP

FOCUS COMPANIES BY MARKET



FOCUS COMPANIES BY SECTOR



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CERES NORTH AMERICA WORKING GROUP UPDATE

The Ceres North America Working Group engages with 32 companies. Participating investors span multiple regions, with the largest numbers coming from the US as well as Canada, **Europe and Asia.**

In 2020, the working group has:

- Established four new sector working groups focused on oil and gas refiners, oil and gas midstream, electric power (utilities), and transportation.
- Launched a bi-monthly newsletter to provide sector and engagement topic updates to investors.
- Supported investor escalation strategies, including a buildthe-vote roadshow for 10 Climate Action 100+ flagged shareholder resolutions.

Climate Action 100+ engagement has been conducted against a challenging backdrop. The US has experienced significant economic, social and political upheaval during 2020, and a very high number of COVID-19 infections. Restrictions and lockdowns have led to economic challenges for companies and investors. Additionally, the physical impacts of climate change have been evident in North America, with major wildfires burning millions of acres of land throughout the Western US, Mexico and Canada, and an extremely active Atlantic hurricane season that broke records for the number of US named storm landfalls.

Despite this, investors have continued to press companies to address the systemic risk of climate change. While some engagements have slowed due to COVID-19, many were able to resume online. In some cases, lack of in-person AGMs prevented investors from being able to make planned statements. As in previous years, shareholder resolutions have been filed with companies that refuse to engage with investors through Climate Action 100+.

The electric utility sector has made significant progress this year, with most companies setting net-zero emissions targets. Many companies have also accelerated their decarbonisation plans with more ambitious interim emissions reduction targets. Additionally, a number of oil and gas companies have started to write down assets that are no longer aligned with their long-term decarbonisation plans and have announced new investments in renewables and carbon offsets.



reduction targets.

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plans with more ambitious interim emissions

CERES NORTH AMERICA WORKING GROUP UPDATE

CERES SECTOR EXPERTISE

Thank you to the Ceres sector experts for their support of Ceres-led engagements in North America:

Andrew Logan, Senior Director. Oil and Gas

Dan Bakal. Senior Director. **Flectric Power**

Dan Seligman, Director, Energy Efficiency

Carol Lee Rawn, Senior Director, Transportation

Meryl Richards, Ph.D., Director. Food and Forests

Tracey Cameron, Senior Manager, Corporate Climate Engagement

The policy landscape was also challenging for engagements in the US. Regulatory rollbacks led by the current US Federal Administration (the Trump Administration) removed many of the country's major climate and environmental policies, including limits on carbon dioxide emissions from power plants. Despite the regulatory rollback, declining demand for coal by electric utilities is being driven by the economic advantages of lower carbon emitting fuels, including renewables. The Trump Administration dismantled measures to reduce GHG emissions from cars and trucks. The new fuel economy and GHG emissions rules drastically reduce requirements for increased fuel economy and reduced emissions by 2025 from approximately 5% improvement per year down to a minimal 1.5% improvement per year. The Trump Administration also revoked state authority to set more stringent standards.

In November, Joe Biden and Kamala Harris won the 2020 US Presidential Election. The new Administration is likely to drive a significant shift in US climate policy. Under a Biden Administration, the US is expected to rejoin the Paris Agreement and set a countrywide target of 100% clean energy by 2035. The Biden Administration also intends to reverse many of the Trump Administration regulatory rollbacks on environment and climate policy and make a historic \$2 trillion investment in the transition to net-zero by 2050.

Investors in the Climate Action 100+ engagement group will look to capitalise on the momentum created by the expected shift in domestic climate policy and use this to encourage more ambition from focus companies in the US.

FOCUS COMPANIES ENGAGED BY THE CERES **NORTH AMERICA WORKING GROUP**

FOCUS COMPANIES BY MARKET



FOCUS COMPANIES BY SECTOR







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HOW WE ARE GOVERNED





IGCC AUSTRALASIAN WORKING GROUP UPDATE

The IGCC Australasian Working Group includes iust over 60 investors from Australia, Europe and Asia. It engages with 13 companies listed on the Australian Stock Exchange (ASX).

During the reporting period this group has:

- Delivered two investor roundtables on physical and transition risk.
- Delivered webinars on topics including science-based targets, regional oil and gas transition pathways, and briefings on reports from Carbon Tracker Initiative, InfluenceMap, and Transition Pathway Initiative.
- Established an oil and gas working group for the Australasian region to focus particularly on issues related to gas.
- Run bi-monthly working group calls and held an in-person planning day in Melbourne in February 2020.

More than half (62%) of the companies engaged in this region have now announced a target or ambition to reach net-zero emissions by 2050, and all of the companies in this region are now producing reporting aligned with the recommendations of the TCFD. Many companies are now producing disclosures on trade association memberships including assessments of alignment with internal climate policies. Two of the focus companies have set a sciencebased target approved by the SBTi.

However, while the trend towards long-term decarbonisation is promising, Australian focus companies currently lack detail on the scope of these targets, particularly whether they cover material sources of scope 3 emissions. Companies are also continuing to support trade associations that engage in problematic climate lobbying without clearly articulated escalation and exit plans. The role of natural gas in Australia's export future and energy mix is an issue that Australian investors are keenly focused on particularly in light of significant asset write downs in this sector in 2020. changing gas demand dynamics

globally and the improving economic proposition of alternatives including renewables and batteries.

The impacts of COVID-19 as in other regions have been challenging. Extensive domestic and international border closures and lockdowns in Australia have affected company priorities and made engagement more difficult. An uptick in fossil fuel lobbying and the 'gas fired recovery' proposed by the Australian Federal Government has also been a factor influencing engagement on the role of Australian gas. Investors continue to push for climate change as a critical priority for companies and will continue to call for increased ambition in 2021.

Priorities for the next phase of engagement will include: calling for more short, mediumand long-term targets aligned with net-zero emissions by 2050 trajectories, engaging with companies to understand detailed sector decarbonisation strategies including planned capex, scope 3 emissions, physical risk assessments, and trade association disclosures and policies.

FOCUS COMPANIES ENGAGED BY THE **IGCC AUSTRALASIAN WORKING GROUP***

FOCUS COMPANIES BY SECTOR



* Two of these companies are also engaged by the IIGCC Europe Working Group.

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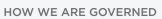


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KEY ISSUES IN 2020 (5)





IIGCC EUROPE WORKING GROUP UPDATE

The IIGCC Europe Working Group engages with 46 European companies in 15 countries.

In the reporting period the working group has:

- Run roundtables with companies and investors on the decarbonisation of the steel sector, a net-zero standard for the oil and gas sector, naturebased solutions, heavy duty vehicle decarbonisation, CCS, and hydrogen.
- Run quarterly sector updates and strategy meetings for the oil and gas, mining, power, cement and chemicals sectors.
- Established an Advisory Group, comprised of investors, to provide additional guidance to the IIGCC Corporate team.

Nearly half of the companies engaged by the IIGCC Europe Working Group have now set a net-zero emissions by 2050 target. While these are of varying degrees of detail and coverage, the trend towards decarbonisation ambitions is promising and there are more companies setting scope 3 targets where these are material emissions. There is also an uptick in companies that have set a science-based target, and improvements in corporate disclosure on climate lobbying.

As in other regions, engagement with state-owned firms has been challenging. The European group is also engaging across a range of different legal jurisdictions, which can present complexities in exercising shareholder rights.



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IIGCC EUROPE WORKING GROUP UPDATE

In 2021, the group intends to:

- Develop a net-zero emissions standard for the oil and gas, utilities, steel, and trucks and automobile sectors.
- Develop additional guidance for investors on escalating engagement and using a range of engagement tools to achieve outcomes.
- Further engage with companies on the Climate Action 100+ Net-Zero Company Benchmark and seek new commitments to disclose against it.

Nearly half of the companies engaged by the IIGCC Europe Working Group have now set a net-zero emissions by 2050 target.

FOCUS COMPANIES BY SECTOR FOCUS COMPANIES BY MARKET CONSTRUCTION SWEDEN MATERIALS FINLAND NORWAY 5 LUXEMBOURG RUSSIA GERMANY UNITED KINGDOM IRELAND MINING AND THE NETHERLANDS METALS CZECH REPUBLIC FRANCE AUSTRIA SWITZERLAND 3 ITALY TRANSPORTATION SPAIN

*Two of the companies are also engaged by the IGCC Australasia Working Group

FOCUS COMPANIES ENGAGED BY

THE IIGCC EUROPE WORKING GROUP

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PRI GLOBAL WORKING GROUP UPDATE

The PRI Global Working Group is comprised of 39 companies within 16 countries. Investors engaging these companies come from multiple regions, with the largest numbers coming from Europe and the US.

This year, the PRI Global Working Group:

- Built on existing work with smaller, sector-level working groups focused on sharing experiences and best practices among lead investors engaging Aviation and Food, Beverage and Forestry companies.
- Launched a new working group for lead investors engaging state-owned oil and gas companies.
- Ran investor webinars on decarbonisation strategies within the aviation sector, oil and gas sector, and pulp, paper and timber sector.
- Conducted quarterly webinars with all investors engaging companies in the working group.

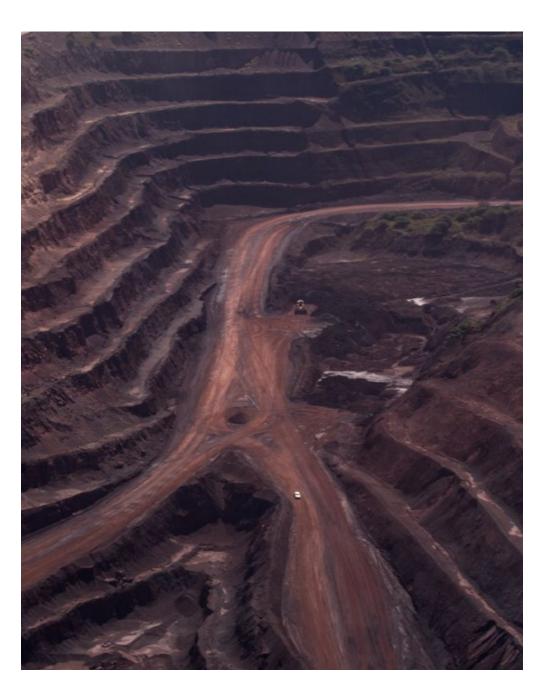
- Produced the first-ever <u>Investor</u> <u>Expectations Statement on</u> <u>Climate Change for Airlines</u> <u>and Aerospace Companies</u>, which was initially signed by 122 institutional investors with nearly \$6 trillion in AUM.
- Ran two recruitment webinars for investors in Latin America.

The companies engaged by the PRI Global Working Group have made meaningful but mixed progress this year. To date at least 17 companies have committed to net-zero emissions by 2050 or sooner in some capacity, and there has also been an increase in TCFDaligned disclosures and climate governance commitments by companies. Notably companies engaged in Latin America have made meaningful progress this year, despite early obstacles. Eight engagements in the region are now underway (PEMEX, Grupo México, Grupo Argos S.A. CEMEX, Ecopetrol, Vale, Suzano and Petrobras). Three new Latin American investor signatories have joined, adding to the local knowledge and engagement capacity in the region.

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The companies engaged by the PRI Global Working Group have made meaningful but mixed progress this year. To date, at least 17 companies have committed to net-zero emissions by 2050 or sooner in some capacity, and there has also been an increase in TCFD aligned disclosures and climate governance commitments.

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AIGCC-PRI Asia Working Group update Ceres North America Working Group update IGCC Australasian Working Group update IIGCC Europe Working Group update PRI Global Working Group update

KEY ISSUES IN 2020 (5)



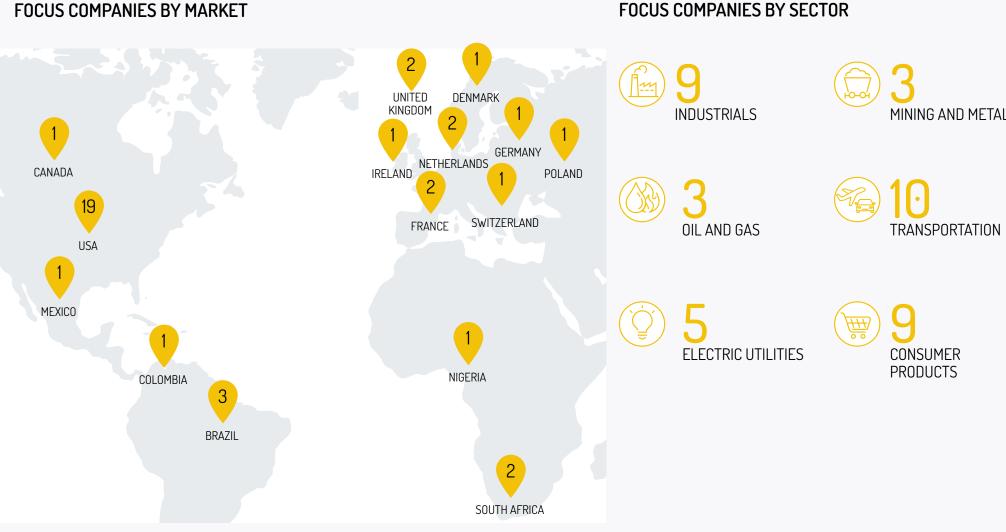
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PRI GLOBAL WORKING **GROUP UPDATE**

Given the global nature of this group, the challenges of engagement are varied. Stateowned companies continue to be a challenge for investors to engage, and several existing company commitments could stand to be more robust and ambitious. The COVID-19 pandemic has also made engagements with aviation firms more challenging, in particular due to the pandemic's sweeping impact on tourism and travel.

In 2021, the group will focus on providing and developing additional guidance to address the challenges faced in engaging some of the companies in this cohort (particularly aviation) and will seek to leverage the Climate Action 100+ Net-Zero Company Benchmark to push for more ambition and new commitments. It will also seek to accelerate some engagements that took more time and resources to establish.

FOCUS COMPANIES ENGAGED BY THE PRI GLOBAL WORKING GROUP



FOCUS COMPANIES BY SECTOR

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CLIMATE ACTION 100 + 2020 PROGRESS REPORT



TOWARDS NET-ZERO EMISSIONS BY 2050

The climate science is clear on the need to reach net-zero global GHG emissions by mid-century in order to limit global warming to 1.5°C and to avoid the most devastating impacts of climate change to communities and the natural world.

These commitments matter to investors for several important reasons, including that they:

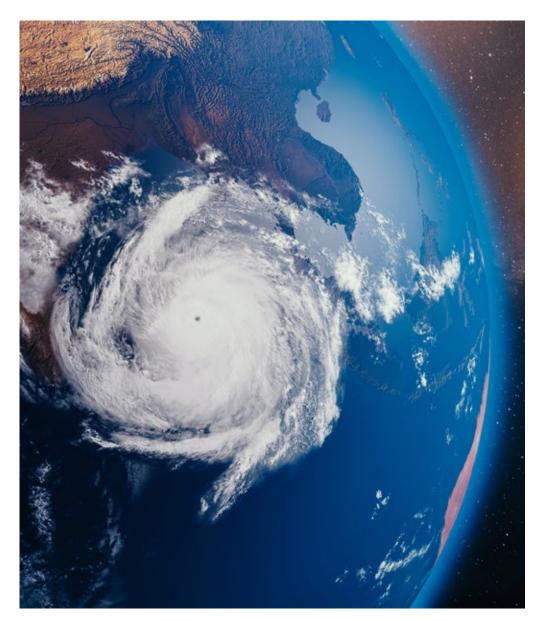
- Provide a long-term market and policy signal.
- Reduce regulatory uncertainty.
- Improve profitability and competitiveness.
- Create opportunities for partnership and innovation.
- Provide confidence to investors that companies are working towards addressing climate risks.

There are a number of challenges that investors will be working with companies to address. Firstly, the need for clear standards in the setting of net-zero targets by sector. For example, the majority of netzero targets in the oil and gas sector do not include coverage of the companies' scope 3 product emissions which are the sector's most material source of emissions. While some companies state that they have poor control of the end-use of their product, value chain risks are high as the global community moves to a lower-carbon future.

Investors are also looking for more than a long-term target. They want to see companies set interim targets that set a clear glide pathway from 2020 to 2050 with ambitious emission reduction milestones along the way, such as a 45% emissions reduction by 2030 as per the IPCC SR.15.

Investors are conscious that for many companies the transition to net-zero emissions will require a fundamental transformation. For example, some companies may transition from being fossil fuel companies to those specialising in renewables or carbon capture and storage. This will have a number of follow-on effects including site closures, staffing changes, new investments, and new skill sets or training for employees. Investors seek to understand how the company is planning for these changes and how it will manage the impact of these adjustments on communities and employees.

Finally, investors want to see that companies are aligning current and planned capital investments with their long-term decarbonisation goals. Many companies are still investing in long-life, carbon intensive (for example fossil fuel) projects which may represent a stranded asset risk in the medium and long-term for the company and its investors. Understanding how companies are making capital allocation decisions, and under what scenarios or methodologies is critical to evaluating whether a company is aligning its business and investments to a net-zero emissions future.



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FOCUS COMPANIES WITH NET-ZERO **EMISSIONS TARGETS**

A.P. Moller - Maersk AGL Energy Ltd American Airlines Group Inc. Anglo American ArcelorMittal Bayer AG **Bayerische Motoren Werke** Aktiengesellschaft BMW BHP BP CEMEX S.A.B. de C.V. Centrica Colgate-Palmolive Company ConocoPhillips CRH Cummins Inc. Daikin Industries, Ltd. Daimler AG Danone S.A. Delta Air Lines, Inc. Dominion Energy, Inc. Dow Inc **Duke Energy Corporation** E.ON SE EDF Enel SpA **ENEOS Holdings Inc** Ford Motor Company General Electric Company Honda Motor Company Iberdrola, S.A. Koninklijke Philips NV National Grid PLC Naturgy Energy

Nestlé NRG Energy, Inc. OMV AG Panasonic Corporation PGE - Polska Grupa Energetyczna S.A. **Procter & Gamble Company** Qantas Airways Limited Repsol **Rio Tinto Rolls-Royce Royal Dutch Shell** RWE Aktiengesellschaft Saint Gobain Santos Limited Siemens Energy South32 SSE PLC **Teck Resources Limited** The Southern Company thyssenkrupp AG Total **Toyota Motor Corporation** Trane Technologies PLC Unilever PLC Vale Volkswagen AG Volvo Walmart, Inc. WEC Energy Group, Inc. Woodside Energy **Woolworths Group Limited** Xcel Energy Inc.

WHAT ARE INVESTORS' EXPECTATIONS ON ROBUST NET-ZERO EMISSIONS AMBITIONS AND TARGETS?

Additional work is being done to set clear and specific standards for some sectors on net-zero emissions targets. however in general investors are looking for:

- Net-zero emissions target with a clear timeframe (e.g. 2050 or sooner).
- Clear scope and coverage of at least 95% of emissions for scope 1 and 2.
- Coverage of material scope 3 emissions.
- Short and medium-term science-based emissions reduction targets that align with the overall pathway to net-zero.
- Clear disclosure on the business changes required to achieve the targets. For example: personnel or business structure changes, new skill sets required for the board or executive, expected changes to or closures of operational sites or product lines, e.g. an end-date for production of ICE vehicles, or closure of mine sites or coal-fired power stations.
- Transition plans for workers and communities affected by business changes.
- Assessment of current and planned capital expenditure including underlying commodity price assumptions, modelling, methodologies and climate pathways that the companies have used to arrive at these decisions.

RECENTLY ANNOUNCED NET-ZERO TARGETS

- Enbridge Inc
- Imperial Oil
- Co.

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Towards net zero emissions by 2050 Trade association lobbying in 2020 Just transition

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Investors are looking for net-zero emissions targets which cover scope 1 and 2 emissions with coverage of material scope 3 emissions.

The following companies announced new net-zero targets that have not yet been assessed by the initiative. These include:

• Hon Hai Precision Industry

TRADE ASSOCIATION LOBBYING IN 2020

An intense battle over Paris-aligned climate policy has continued to play out in 2020, heightened by the **COVID-19** pandemic.

Industry players in fossil fuel value chain sectors have sought to leverage the COVID-19 crisis to secure financial support, project approvals and regulatory rollbacks on a global scale, with potentially long-lasting effects on efforts to mitigate climate change. At the same time, a slower-to-organise but much broader coalition of businesses has rallied behind a 'clean recovery'.

InfluenceMap's platform has tracked this evolving picture. It now covers nearly 300 companies and 150 industry associations with detailed assessments of these entities' climate change lobbying activities against science-based and Parisaligned policy benchmarks.

We continue to see increased corporate support for climate policy ambition (evident in 75% of Climate Action 100+ focus companies covered by InfluenceMap's analysis). However, we also continue to see the industry associations representing these companies engage in problematic lobbying on climate. Over 80% of the same Climate Action 100+ focus companies remain members of industry associations holding back Paris-aligned climate policy.

Positive trends driven by investor engagement are beginning to challenge this picture, including increasing numbers of Climate Action 100+ companies undergoing industry association audits. Shareholder pressure has resulted in more robust responses from companies on the issue, for example, BHP and Origin's recent decision to suspend membership of the Queensland Resources Council in response to a campaign against a political party targeting voters in the Queensland State Election. There are early indications of reform

1 See Influence Map report Australian Industry Groups and their Carbon Policy Footprint report here https://influencemap.org/report/Australian-Industry-Groups-And-their-Carbon-Policy-Footprint-

amongst powerful industry associations once positioned in opposition to climate change policy.

Despite steps forward, 2020 has also highlighted the need for factchecking of an increasing stream of disclosures. PR statements and high-level commitments from both companies and industry associations to check for alignment between statement and practice. While nominally positive, InfluenceMap's deepdive assessments have shown that in numerous cases (e.g. the US Chamber of Commerce, the Minerals Council of Australia) such high-level communications are divorced from the ongoing detailed regulatory lobbying of the industry groups.

It is of note that Europe, where strong investor pressure has seen the highest number of Climate Action 100+ companies strengthen their climate lobbying governance and disclosure practices, has seen a shift towards more ambitious policy outcomes in 2020. The picture

is very different in other regions. For example, Australia, where recent InfluenceMap analysis¹ found that industry lobbyists opposing Paris-aligned climate policy have an outsized influence over climate policy, has retained a focus on fossil fuels in its COVID-19 recovery measures.

Corporate sector influence on climate policy is also of critical importance in Japan, which is revising its Strategic Energy Plan to determine the path forward in light of the country's new 2050 net-zero ambition. Climate Action 100+ engagements in the country are currently using InfluenceMap analysis, released in August 2020. Investors are engaging both with companies and also directly with industry associations on climate in Japan.

This commentary was provided by Edward Collins of InfluenceMap.

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HOW WE ARE GOVERNED

We also continue to see the industry associations representing these companies engage in problematic lobbying on climate. Over 80% of the same Climate Action 100+ focus companies remain members of industry associations holding back Paris-aligned climate policy.



JUST TRANSITION

The necessity for a just transition was written into the 2015 Paris Agreement to recognise that the transition to a low-carbon economy needs to be both fast and fair. Just transition incorporates consideration of the positive and negative impacts on employees and their communities and relates to both energy transition and ecological transition.

A just transition is crucial for companies and investors as it is interlinked with the systemic risk posed by delayed climate action. This contributes to the transition risks faced by companies, including their employees and social or legal licence to operate.¹ In recognition of the significant risks and opportunities that a just transition presents focus companies, the new Climate Action 100+ Net-Zero Company

Benchmark will assess² whether focus companies disclose the impacts from transitioning to a lower-carbon business model on its workers and communities. Preliminary assessment criteria include whether the company has, for example:

- Disclosed its engagement with workers, communities and other stakeholders such as NGOs, union groups and local government actors, to assess the anticipated impacts of its low-carbon transition strategy and plans.
- Developed and disclosed a lowcarbon transition strategy and plans to incorporate the specific recommendations of impacted workers and communities.

There is an ongoing effort to develop just transition indicators for incorporation into the Climate Action 100+ Net-Zero Company Benchmark, working with the London School of Economics, Harvard Kennedy School, International Trade Union Confederation alongside investor signatories to the initiative.

The transition to a net-zero emissions economy offers the opportunity to improve equity in access to economic opportunities, reduce social risks for both companies and their investors, and diminish negative health impacts related to a carbon-based economy.

Investor expectations related to just transition risks and opportunities for companies differ by sector and region. For example:

- Workers in electric utilities operating coal-fired power stations are vulnerable to permanent closure and may require retraining for new opportunities or early retirement packages.
- Oil and gas companies and mining companies have significant operations located in emerging economies. Closure of these facilities will have a flow-on effect to workers and local communities, including for Indigenous and First Nations communities.

- Auto manufacturers may relocate facilities for electric vehicles from other ICE assembly plants, impacting communities dependent on the employment and tax base of their operations.
- Food and consumer goods companies may transition due to physical impacts from climate, for example, crops once suitable to certain regions may no longer grow well due to changes in rainfall or accelerating desertification processes brought on by climate change.

Economist Nicholas Stern. Chair of the Grantham Research Institute on Climate Change and the Environment, said:

1 Robins and Ridge (2019) "Why a just transition is crucial for effective climate action" https://www.unpri.org/download?ac=7092

2 Assessment indicators on just transition will be part of the 2022 benchmark, however will not be included in the initial 2021 company assessment.



WHY IS A JUST **TRANSITION IMPORTANT?**

'We should see the just transition as part of the new story of inclusive. sustainable growth. This is a highly attractive economic model, with strong innovation and growth and able to overcome poverty in an effective and lasting way. But it requires us to manage the process of change in much better ways within modern market economies. We need to be organising for transitions in the plural including technologies, economic structures. cities and the international division of labour. And we must accelerate the pace of decision making if we are to respond to the urgency of climate change.'

JUST TRANSITION

HOW ARE COMPANIES RESPONDING TO THE CALL FOR A JUST TRANSITION?

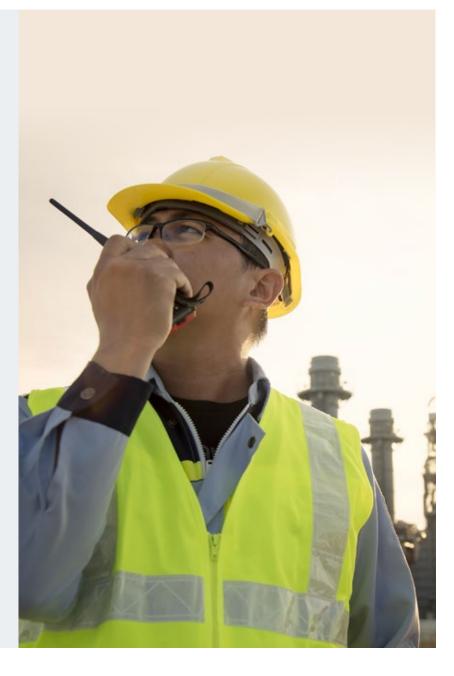
Globally, several companies are setting out plans to ensure a just transition for workers and communities. For example:

- Xcel Energy, when announcing the closure of three coal fired power stations in Minnesota in 2019, also announced plans for workers and the local community. The company had engaged with labour groups, unions, regulators and other key stakeholders. Their plan sees some workers retire early and others moving into new jobs created by the opening of a data centre.
- AGL Energy announced the closure of its Liddell Power Station located in the Hunter Valley in Australia with seven years notice and released a transition plan with clear principles for just transition including economic impact, employment and skills alignment. Working with a local organisation the Hunter Energy Transition Alliance, they intend to repurpose the current site and are engaging with community and stakeholders to ensure there is a clear transition plan for the site and the community.
- Vistra Energy provided advance notice of its planned closure of its Midwest coal fleet. They intend to use this time to work with impacted communities and employees to ensure transition plans are in place. It is yet to announce plans on how this will take place.

There are promising first steps of companies beginning to assess and manage just transition, but far more needs to be done. Investors will continue to engage to ensure this issue is a high priority for companies throughout the transition.

WHAT ARE INVESTORS DOING TO ADVANCE THE ISSUE OF JUST TRANSITION?

- Investors representing over \$10 trillion in AUM have signed on to the <u>Investor Statement of Commitment to Support a Just</u> <u>Transition on Climate Change</u>.
- Interfaith Center on Corporate Responsibility's (ICCR) Investor Expectations on the Just Transition describes how investors are engaging with electric power companies to integrate distributional issues, especially those affecting vulnerable workers and communities.
- Presbyterian Church U.S.A., a signatory to Climate Action 100+, uses an engagement framework informed by the initiative as well as metrics to assess corporate impact on communities who have been historically marginalised. As part of its engagement, the fund's Responsible Investment Committee meets directly with residents impacted by corporate actions such as pollution and plant expansion, as in the case of Marathon Petroleum refineries in Detroit.
- The PRI released a report in 2018 called <u>Climate Change and</u> <u>the Just Transition: A Guide to Investor Action.</u> The guide draws on an international review of just transition approaches as well as an extensive dialogue with investors to provide a framework that can be applied both by individual institutions and collaborative initiatives.
- Ceres released a new report called <u>Practices for Just, Equitable</u> and <u>Sustainable Development of Clean Energy Resources.</u>
- IGCC released a report in 2017 called Coal Carbon and the Community: Investing in a Just Transition. An updated report will be released in early 2021.
- The PRI launched a Just Transition Working Group which is convened by the Acting Chair of Climate Action 100+, Laetitia Tankwe of Ircantec.



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HOW WE ARE GOVERNED



6 HOW WEARE GOVERNED

CLIMATE ACTION 100+ 2020 PROGRESS REPORT



6 The initiative is governed by a global Steering Committee (SC) composed of the five investor network CEOs and five investor signatories representing the regional focus of each investor network. 77

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HOW THE INITIATIVE IS GOVERNED

Climate Action 100+ is led by signatory investors and coordinated by the five investor networks (AIGCC. Ceres, IGCC, IIGCC, and PRI). The initiative is governed by a global **Steering Committee (SC)** composed of the five investor network CEOs and five investor signatories representing the regional focus of each investor network.

The governance of the initiative is supported by a series of standing and project-based working groups that advance key activities and coordinate strategic projects. These working groups are tasked with ensuring that crossinitiative elements of Climate Action 100+ are delivered. The working groups are comprised of staff from the five investor networks and representatives from the SC. This year working groups have included: the Governance Working Group, the Fundraising Working Group, the Communications Working Group, the Engagement Coordination Working Group, and the Strategic Projects Working Group. Company engagement is crosscoordinated by regular calls between investor network staff.

In 2020, the initiative has:

- Developed and launched the Climate Action 100+ Net-Zero Company Benchmark, an assessment of company progress to align with both the initiative's goals as well as the Paris Agreement.
- Created a new website with dedicated signatory resources.
- Launched a Signatory Handbook to improve the investor experience and provide additional support to investor signatories.
- Strengthened communication and transparency by engaging more regularly with key stakeholders including climate NGOs, issue experts, climate and economics researchers and financial regulators.

HOW MANY INVESTORS HAVE SIGNED ON TO CLIMATE ACTION 100+?

THE INITIATIVE HAS

SIGNATORIES AS AT **30 NOVEMBER 2020**

Signatory assets under management total **\$52 trillion** USD. The initiative has seen 143% growth since launch.

The initiative continues to attract new investor signatories. Notably three of the top 20 asset managers (Blackrock, Invesco, and State Street Global Asset Management) joined the initiative.

HOW ARE **SIGNATORIES PARTICIPATING?**

OF SIGNATORIES ARE PARTICIPANTS. **35%** ARE SUPPORTERS

Participants in Climate Action 100+ are required to join at least one engagement group and actively contribute to company engagement. Supporters of the initiative must be asset owners (asset managers can only join as participants) and are required to encourage their asset managers to join the initiative to engage on their behalf.

- managers
- owners
- 1 Many signatories are a combination of asset owners, asset managers, and service providers, and are therefore reflected in multiple categories.

267 signatories are asset

• 273 signatories are asset

• 15 are engagement service

providers who are formally representing assets and/ or typically engage with companies directly.¹



APPENDIX



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HOW THE INITIATIVE IS GOVERNED

SIGNATORY COMMUNICATION AND PROGRESS UPDATES

Over the past year, Climate Action 100+ hosted global webinars in December 2019 and July 2020 for signatories to provide updates on company engagement progress and share insights across the initiative. Both webinars featured engagement case studies presented by investors and updates on the initiative presented by investor network staff. The initiative also launched a Signatory Handbook and made a number of improvements to the signatory onboarding process.

In addition to the global working groups staffed by the coordinating investor networks, there are a number of regional working groups that are sectorspecific and led by investors. These provide a forum for the exchange of engagement updates, sector trends and leading practices. Updates from the regional working groups and sector groups are covered in more detail on page 66.

CLIMATE ACTION 100+ AND SHAREHOLDER RESOLUTIONS

All investor signatories to the Climate Action 100+ initiative are responsible for their own voting decisions - this includes predeclaration and vote solicitation. Climate Action 100+ investor networks do not seek to provide voting recommendations or to facilitate block voting.

In 2020, the initiative developed a process for flagging resolutions that are filed by investor signatories and aligned with the Climate Action 100+ company engagement goals. Flagged resolutions are featured on the Climate Action 100+ website with information on the content for investor signatories.

When relevant climate resolutions are filed by external organisations such as NGOs, investors and coordinating investor networks may also share that information with the working groups as deemed relevant and appropriate (although they are not flagged).

WHAT IS A FLAGGED **RESOLUTION?**

Resolutions may be flagged by the initiative when they are deemed to be:

- Consistent with the goals of Climate Action 100+, directly addressing at least one aspect of the initiative's goals.
- Worded such that the request of management is considered reasonable and not burdensome.
- Complementary to existing engagement strategy as set out by the Climate Action 100+ collaborative engagement group for the company affected by the resolution.

HOW CLIMATE ACTION 100+ INTERACTS WITH POLICYMAKERS AND REGULATORS

Investors recognise that addressing climate risks in the global economy and in their portfolios requires a global transformation of which government and policymaker action is an important part. Other investor initiatives directly engaging on these issues include the Investor Agenda and the UN-convened Net-Zero Asset Owner Alliance.

For many companies engaged by the initiative, policy settings will be key to driving the transition. Investors will continue to advocate for:

- Appropriate and effective climate policy including carbon pricing.
- Regulations on company disclosure of climate risks and accounting.
- Investable policy frameworks for low-carbon and net-zero emissions investments.

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APPENDIX

Over the past year, Climate Action 100+ hosted global webinars in December 2019 and July 2020 for signatories to provide updates on company engagement progress and share insights across the initiative.

HOW THE INITIATIVE IS GOVERNED



THE CLIMATE ACTION 100+ GLOBAL STEERING COMMITTEE

The Chair and Vice Chair role of the Steering Committee rotates every six months to a different investor network and region, with the investor representative acting in the Chair role and the investor network CEO from the same region acting in the Vice Chair role.

In 2020, there was one change to the membership of the Steering Committee, with Emily Chew stepping off the committee in April 2020. Her role as Asia investor representative has been filled by Seiji Kawazoe of Sumitomo Mitsui Trust Asset Management.

October 2019 - March 2020

Emily Chew, formerly of Manulife Investment Management

Rebecca Mikula-Wright, Asia Investor Group on Climate Change

April 2020 - September 2020

Andrew Gray, AustralianSuper Emma Herd, Investor Group on Climate Change

October 2020- (to March 2021)

Laetitia Tankwe, Irantec Fiona Reyonds, PRI

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Priorities for 2021



UPDATES TO THE CLIMATE ACTION 100+ FOCUS LIST

The Climate Action 100+ Steering Committee agreed that in 2020 it would be prudent to review the focus list of companies and consider limited changes to refresh the list based on the original selection criteria. As a result, two companies have been removed from the focus list and nine companies have been added; thus a net increase of seven companies.

Company removals are only considered where there is a significant corporate action or other material change to the company that substantially changes the potential of a Climate Action 100+ engagement with the company.

The following companies were removed under this criteria:

Wesfarmers The company had a demerger with its major supermarket chain asset and all of its coal assets, rendering it a substantially different company than when it was initially added to the focus list in December 2017. Southern Company is to be replaced with its Copper **Corporation** parent organisation (Grupo México which has been added to the focus list.)

A number of companies were also added. These were all assessed against the original criteria for inclusion on the Climate Action 100+ focus list. meaning companies must either be a significant emitter and/or have significant opportunities to drive a broader clean energy economic transition. Investor signatories have now initiated engagement with all of these companies.

| Company | Country | Sector |
|---------------------------------------|--------------------------------|-------------------|
| Incitec Pivot | Australia | Industrials |
| Saudi Arabian Oil Company (Aramco) | Saudi Arabia | Oil and gas |
| Ultratech Cement | India | Industrials |
| Grupo Argos S.A. | Colombia | Industrials |
| Grupo México | Mexico | Metals and mining |
| Orica | Australia | Industrials |
| Oil Search | Papua New Guinea/ Australia | Oil and gas |
| Petróleos Mexicanos - PEMEX | Mexico | Oil and gas |
| Uniper | Germany | Utilities |

These companies are not included in the company progress data or other updates presented in this report.

COMPANIES WITHOUT LEAD INVESTORS IN 2020

One of the roles of the coordinating investor networks is to appoint lead investors and establish engagement groups for each focus company.

While the majority of company engagements in the initiative have complete engagement groups, several are yet to appoint a lead investor. Where companies are headquartered in emerging markets it has been more challenging to find investors to lead engagements. This is likely due to ESG engagement being newer or less established in some markets, and due to lower numbers of local signatories who tend to bring substantial cultural, language and local market skills and knowledge to engagements.

In 2020, there are three Climate Action 100+ focus companies that are not formally being engaged due to the lack of a lead investor. These are: ANTAM, United Tractors, and ESKOM Holdings SOC Limited.

SUPPORTING EFFECTIVE ENGAGEMENT TEAMS

The individual company engagement teams across Climate Action 100+ are investor led, while the coordinating investor networks provide support through:

- Providing additional investors or external expertise to support engagement priorities.
- Topical webinars and sector working groups.
- Cross-regional meetings to progress engagement.

Lead investors and investors engaging with companies individually must disclose their engagement goals to the coordinating investor networks through a bi-annual engagement survey. Through this process, they recap recent progress and outline their engagement plans and priorities over the ensuing 12 months to ensure strong and concerted action.

• Engagement groups.

Onboarding of new investors.



APPENDIX



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PRIORITIES FOR 2021

While more Climate Action 100+ focus companies are increasing their decarbonisation ambitions and setting targets for net-zero emissions by 2050, there are huge and persistent gaps in company action.

For all companies to achieve the goals of the initiative, it will require transformation at the heart of most of these businesses.

Signatory investors supported by the coordinating investor networks will focus on a number of strategic priorities to accelerate corporate action on climate change in the next phase of the initiative. Highlevel priorities globally for 2021 are:

1. Company engagement on the Climate Action 100+ Net-Zero **Company Benchmark**

The first company-level assessments against the new benchmark indicators will be released in early 2021. Company performance on specific indicators will be a key focus of engagements in 2021, as well as continued engagement with important stakeholders to ensure the benchmark evolves to reflect best practices over time.

2. Global sector decarbonisation strategies

The initiative is committed to publishing a series of global position papers on sector pathways to decarbonisation by mid-century. This work will roll out at a global level informed by industry, sector and climate experts, and investors. In addition, substantially more thought leadership on sector pathways is planned at the regional working group level.

3. A new standard for responsible lobbying on climate change

Investor expectations on lobbying by trade associations have evolved significantly over the past few years. It is widely recognised that the systemic economic risk that investors face due to climate change is hastened by ongoing problematic climate lobbying by trade associations funded by the companies they are invested in. Such lobbying is blocking policies that would help to make the transition to a net-zero emissions economy smoother and more orderly. Investors will be looking for companies to adopt new standards on Paris Agreement aligned lobbying, including positive lobbying that seeks

to advance effective climate policy including market-based mechanisms to price carbon.

This issue is also being advanced via a project convened by AP7, BNP Paribas Asset Management and the Church of England Pensions Board which seeks to develop a framework to guide responsible corporate climate change lobbying. The project is also being advised by all five Climate Action 100+ investor networks and InfluenceMap.

Other priorities

Each regional engagement working group will also be implementing additional priorities. For engagements with Asian. Latin American and African companies, there remains a need to recruit additional local market investors. Many of the engagements in these markets are focused on issues such as governance and disclosure of climate risk including TCFD aligned reporting. Each investor network also has plans to expand regional capacity recognising that investors from local markets have different levels of experience and skills in engagement on climate, unique cultural norms and different climate policy settings.

FOCUS ON COP26

The 2021 United Nations climate change conference, known as COP26, is the 26th United Nations Framework Convention on Climate Change (UNFCCC) conference. Postponed in 2020 due to the COVID-19 pandemic, it is scheduled to be held in Glasgow. Scotland from 1 to 12 November 2021.

Under the Paris Agreement, COP26 is an important milestone for Nationally Determined Contributions (NDCs) to be set and communicated under the agreement's ratchet mechanism, which requires all parties to the agreement to increase the ambition of their NDC every five years. Unfortunately, the postponement of COP26 in 2020, which is the critical decade for climate action, will wait one more year.

For Climate Action 100+ signatory investors, climate policy settings are critical. For substantial private capital to flow into climate solutions, government needs to facilitate an appropriate and consistent policy environment for climate finance. The initiative also recognises the role that companies and investors have in sending a clear market signal to governments via emissions reduction target setting, improved voluntary climaterelated disclosure and investing in climate solutions.

In November 2020, Climate Action 100+ participated in the Race to Zero dialogues. This event facilitated discussion among investors and business leaders about the need for greater ambition in the lead-up to COP26 in 2021.

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How the initiative is governed Priorities for 2021





APPENDIX

CLIMATE ACTION 100+ 2020 PROGRESS RE



A: DATA INDICATORS USED IN THIS REPORT

| CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK | IN THIS REPOR | т | | |
|--|----------------|-----------|------------------------|--------------------|
| | INDICATOR TYPE | SECTOR(S) | NUMBER OF COMPANIES | RESEARC PROVIDE |
| Has the company set a net-zero target for reducing 100% of its GHG emissions by 2050 on a clearly defined scope of emissions? | 1.1 | All | 160 | TPI |
| Does the company's net-zero GHG emissions target cover the most relevant scope 3 emissions categories for the company's sector (where applicable)? | 1.1b | All | 160 | TPI |
| Has the company set long-term (2036 to 2050) targets for reducing its GHG emissions? | 2.1 | All | 160 | TPI |
| Has the company specified that this target covers at least 95% of total scope 1 and 2 emissions? | 2.2a | All | 160 | TPI |
| Does the long-term (2036 to 2050) GHG reduction target cover the most relevant scope 3 emissions (where applicable)? | 2.2b | All | 160 | TPI |
| Has the company set a medium-term (2026 to 2035) target for reducing its GHG emissions on a clearly defined scope of emissions? | 3.1 | All | 160 | TPI |
| Has the company specified that this target covers at least 95% of total scope 1 and 2 emissions? | 3.2a | All | 160 | TPI |
| Does the medium-term (2026 to 2035) GHG reduction target cover the most relevant scope 3 emissions (where applicable)? | 3.2b | All | 160 | TPI |
| Has the company set a short-term (2020 to 2025) target for reducing its GHG emissions on a clearly defined scope of emissions? | 4.1 | All | 160 | TPI |
| Has the company specified that this target covers at least 95% of total scope 1 and 2 emissions? | 4.2a | All | 160 | TPI |
| Does the short-term (2020 to 2025) GHG reduction target cover the most relevant scope 3 emissions (where applicable)? | 4.2b | All | 160 | TPI |
| Has the company provided evidence of board or board committee oversight of the management of climate change risks? | 8.1a | All | 160 | TPI |
| Has the company provided evidence of a named position at the board level with responsibility for climate change? | 8.1b | All | 160 | TPI |
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A: Data indicators used in this report B: Technical Advisory Group C: Acknowledgements

| RCH DER | ASSESSMENT DATE |
|------------|--------------------|
| I | November 2020 |
| I | November 2020 |
| I | March 2020 |
| l | March 2020 |
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| I | March 2020 |
| | |

A: DATA INDICATORS USED IN THIS REPORT

| CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK INDICATORS USED IN THIS REPORT (CONT.) | | | | | | | |
|---|---|--------------------------------|----------------------------|--------------------|--|--|--|
| CAPITAL ALLOCATION INDICATORS | SECTOR(S) | NUMBER OF COMPANIES | RESEARCH PROVIDER | ASSESSMENT DATE | | | |
| How many conventional and unconventional oil and gas projects were sanctioned by focus companies in 2019-2020 that are outside of the IEA B2DS? | Upstream oil and gas | 33 | Carbon Tracker | August 2020 | | | |
| If the company provided impairment price assumptions - are they flat, declining or increasing? | Upstream oil and gas | 33 | Carbon Tracker | August 2020 | | | |
| Percentage of total potential capital expenditure (below STEPS cap) outside B2DS, inside STEPS for oil and gas. | Upstream oil and gas | 33 | Carbon Tracker | August 2020 | | | |
| Percentage of total potential capital expenditure (below STEPS cap) that is inside B2DS, and STEPS, for oil, gas and total. | Upstream oil and gas | 33 | Carbon Tracker | August 2020 | | | |
| Has the company announced a full phase-out of coal units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario? | Utilities (coal and gas generation assets) | 31 | Carbon Tracker | August 2020 | | | |
| Has the company announced a full phase-out of gas units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario? | Utilities (coal and gas generation assets) | 31 | Carbon Tracker | August 2020 | | | |
| How does the company's capital stock align with climate scenarios? | Automotives Utilities | 14 automotives 31 utilities | 2° Investing Initiative | August 2020 | | | |
| How does the company's planned technology mix by 2023 align with climate scenarios? | Automotives Utilities | 31 utilities 14 automotives | 2° Investing Initiative | August 2020 | | | |

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A: Data indicators used in this report B: Technical Advisory Group C: Acknowledgements

B: TECHNICAL ADVISORY GROUP



InfluenceMap

The 2° Investing Initiative (2DII) is an international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals.

2° Investing Initiative

Working globally with offices in Paris, New York, Berlin, and London, we coordinate the world's largest research projects on climate metrics in financial markets. In order to ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, regulators, policymakers, universities, and NGOs.

2DII has worked with Climate Action 100+ since its inception, and provides data, insights and expert view on the transition for companies in key sectors.

Transition Pathway Initiative

Carbon Tracker

InfluenceMap

InfluenceMap launched its corporate climate lobbying platform on the eve of the Paris Agreement in late 2015 in response to growing demand from investors and other stakeholders.

InfluenceMap takes an objective, innovative and data-driven approach to identifying systemic blockages to climate progress. The analysis provides clarity, and a novel measurement approach of how corporations influence policy needed to address climate change. It introduced the concept of a corporation's Carbon Policy Footprint.

The content provided by InfluenceMap has become a mainstream investor tool in assessing and engaging with companies, including Climate Action 100+ , and has been cited in over 1,000 media articles globally. It feeds into numerous NGO campaigns and helps the corporate sector engage more positively on climate policy.

Carbon Tracker Initiative

Carbon Tracker is an independent financial think tank that carries out in-depth analysis on the impact of the energy transition on capital markets and the potential investment in highcost, carbon-intensive fossil fuels.

Its team of financial market, energy and legal experts apply ground-breaking research using leading industry databases to map both risk and opportunity for investors on the path to a low carbon future.

It has cemented the terms "carbon bubble", "unburnable carbon" and "stranded assets" into the financial and environmental lexicon.

Carbon Tracker has worked with Climate Action 100+ since its inception, and provides data, insights and expert view on the transition for companies in key sectors.

Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, TPI's insights and data assess companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change.

Transition Pathway Initiative, supported by Chronos Sustainability, the Grantham Research Institute at the London School of Economics and FTSE Russell, have been appointed to deliver the Climate Action 100+ Net-Zero Company Benchmark data. 습



B: Technical Advisory Group

C: Acknowledgements

Grantham Research Institute on Climate Change and the Environment

C: ACKNOWLEDGEMENTS

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APPENDIX

A: Data indicators used in this report B: Technical Advisory Group C: Acknowledgements