

# HOW 500 INVESTORS CONFRONTED CLIMATE RISK

**WE AND OTHER INVESTORS SIGNED ON FOR AN INITIATIVE JUST A FEW YEARS AGO TO ENCOURAGE CLIMATE-FRIENDLY CORPORATE POLICIES. IT ALREADY IS MAKING A DIFFERENCE.**

As a steward of clients' assets, we want to invest in companies that demonstrate a clear and consistent commitment to sustainability. We believe that companies' long-term financial returns are connected to their strategic environmental, social and governance performance. By serving as an active owner on behalf of our clients, we will help portfolio companies produce sustainable value. In the case of addressing climate risks, we have improved our effectiveness on behalf of clients by partnering with other investors to encourage companies to set goals and make steps to confront climate change.

## POWER IN NUMBERS

We are one of the founding investors in Climate Action 100+, formed in 2017 to engage with companies to address their climate risks. More than 540 investors with \$52 trillion in assets participate in this initiative today,



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engaging with 167 companies who represent 80% of corporate greenhouse gas emissions globally.

Investors are asking companies to create governance that articulates management accountability and boardroom oversight of climate risks and opportunities, take action to reduce greenhouse gas emissions consistent with the Paris Agreement's goals, and improve climate-related disclosures. We are a co-lead investor focusing on three companies: Valero Energy, Glencore and National Grid. We take part in 12 more Climate Action 100+ engagement groups as a supporting investor.

### A RISE IN CORPORATE COMMITMENTS

Climate Action 100+ already is making an impact. At least 70% of companies on its list have set long-term quantitative targets for reducing greenhouse gas emissions linked to global warming. Fifty-nine companies have formally supported the [Task Force on Climate-related Financial Disclosure](#) recommendations to improve the quality and consistency of climate-change data reported by companies. Also, 120 companies have nominated a board member or created a board committee with explicit responsibility for oversight of climate change.

Finally, 51 Climate Action 100+ companies have announced commitments to become net-zero emissions businesses or achieve carbon neutrality by 2050. Net-zero emissions occurs when a company switches to low carbon energy, energy efficient technologies and green products to abate its emissions. Here's how some companies plan to achieve net-zero emissions by 2050:

- **Royal Dutch Shell:** reduce the carbon emission of its products (net carbon footprint) by 65% by 2050 and pivot to only sell its energy products to customers that also commit to net zero by 2050
- **BP:** cut oil and gas production by 40% in the next 10 years and invest in low-carbon technologies
- **Southern Company:** reduce carbon emissions by 50% by 2030
- **Ford Motor Company:** focus initially on three areas that account for approximately 95% of its carbon emissions — vehicle use, its supply base and the company facilities
- **Walmart:** focus on electric vehicles, electric heat, renewable energy and low-impact refrigerants

### INSIGHT ON THE CHALLENGE AHEAD

Working closely with these companies, we have gained insight on their challenges. Companies need to adjust or even reinvent their business models to adopt meaningful climate-mitigating strategies. In 2019, mining



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giant Glencore announced a commitment to setting and disclosing long-term targets on reducing its carbon emissions. It took the company another year, until February 2020, to announce a projection of 30% reduction by 2035. This reduction targeted the most important part of Glencore's emissions, those associated with the use of their products (Scope 3). To achieve this, the company will have to massively downsize its coal business, which in 2019 represented more than a quarter of profit. In early December, Glencore announced its net-zero-carbon by 2050 goal and extended its carbon reduction target to 40% by 2035, now encompassing both product-related and operational (Scope 1 and 2) emissions. This work signifies a pivot from the previous "business as usual" model and takes substantial time and effort.

The impact of government policies and regulations can be very significant, particularly when a company is in a regulated business segment. National Grid, an electric utility operating in the U.K. and U.S., has set a group-wide net-zero carbon target by 2050. The company developed a large-scale investment program for green technologies such as enhanced offshore interconnections, electrification of heat, electric vehicle charging stations, and production of climate-friendly hydrogen. However, the company must work with the U.K. regulator on setting its prices, which creates uncertainty over the company's ability to fund its aggressive de-carbonization plan. Climate Action 100+ participants have helped to support the case for green investments.

Our experience has highlighted the importance of using analytical tools to support the research by individual members of Climate Action 100+. The initiative recently announced its new analytical tool, The Net-Zero Company Benchmark. The purpose of this new tool is to create a much needed robust and comprehensive framework for assessing companies' strategic commitment and progress towards the climate goals.

Although there has been progress made at many companies, we encourage investors to keep striving for further positive change at all high-emitting companies.

#### **A GOOD START**

Reducing climate risk is a challenge for investors just as it is a challenge for all countries globally. We still seek more cooperation from energy companies, as well as high-carbon emitters in other industries. However, in just a few years, we believe that Climate Action 100+ has proven its unique capacity and value by influencing companies to set goals, create strategies and be more transparent about how they are aiding in the fight against global warming. In turn, this makes us more effective at aligning our investments with our clients' goals.



*In just a few years, we believe that Climate Action 100+ has proven its value by influencing companies to set goals, create strategies and be more transparent about how they are aiding in the fight against global warming.*

Reducing exposure to climate risk is a key challenge for investors, as it is a challenge for countries globally. At Northern Trust Asset Management, we are proud to have integrated our commitment to climate change risk assessment and reduction through our support for the Task Force on Climate-related Financial Disclosures and to express this commitment through our voting and engagement activities, including through effective and efficient collaborative engagements such as Climate Action 100+.

[Learn more](#) about how we are active owners to produce sustainable value.

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