

CASE STUDY

December 2019

FACILITATING COLLABORATIVE ENGAGEMENT ON CLIMATE CHANGE



Engagement objective: **Environment**
Climate change

Hermes EOS has actively engaged with some of the world's largest emitters of greenhouse gasses, asking for development of more sustainable long-term business models, reductions in greenhouse gas emissions and improved governance and disclosure.

A key pillar of our engagement strategy is to support and facilitate effective collaborative engagement. This includes playing an active role in support of the Climate Action 100+, an investor-led initiative with the support of over 360 investors, representing more than \$35tn¹ of assets under management that aims to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Working collaboratively with global investors helps to develop our approach to engagement and explore solutions

Hermes EOS' active-ownership strategy seeks tangible corporate outcomes such as the setting of science-based targets, conducting climate-risk stress tests, linking executive pay to the achievement of climate change outcomes and enhanced disclosure. Hermes EOS is engaging with a broad range of companies on climate change across Asia, the US, and Europe, making full use of the size and breadth of its stewardship team. Working collaboratively with global investors helps to develop our approach to engagement and explore solutions with companies.

Sustainable Development Goals



The project in practice and challenges overcome

Hermes EOS has used a number of noteworthy approaches in furthering its active-engagement strategy, using a broad range of engagement tools in pursuit of achieving engagement objectives. In 2018/19, these included:

- Facilitating collaborative engagement on climate change with a broad range of companies across different sectors and regions, working alongside investors in the initiative to develop the engagement strategy and coordinate the agenda of engagement meetings between the support group of nominated investors and senior executives.
- Sharing best practices on climate change with companies across different geographies, including Petrobras, PetroChina and Sinopec.
- Attending annual shareholder meetings, raising climate change at seven such meetings in 2018 and six in 2019 (Anglo American, BP, Centrica, Daimler, General Motors, and Volkswagen) to promote action on climate change.

¹ As at November 2019



Hermes EOS helps coordinate the work of the IIGCC's shareholder resolutions sub-group

- Systematically recommending its clients to vote against re-election of relevant responsible directors at climate laggards, based on poor performance, informed by the Transition Pathway Initiative scoring mechanism.
- Advocating for industry best practices and public policy change, for example helping to finalise the drafting of a utilities industry investor expectations letter supported by 95 investors and published in the Financial Times in December 2018 and contributing to the collaborative engagement with the International Energy Agency to request publication of an authoritative energy scenario based on 1.5 degrees Celsius targets.
- Playing an active role in considering and supporting climate change resolutions. This included facilitating the development of a shareholder resolution at BP calling for the company to set out a business strategy that is consistent with the goals of the Paris Agreement on climate change. It was co-filed by 9.6% of shareholders, supported by the board and subsequently passed with the support of over 99% of shareholders.
- Stewardship co-ordination: Hermes EOS helps coordinate the work of the IIGCC's shareholder resolutions sub-group, identifying companies that could be potential targets for climate change-related resolutions, and the utilities sector sub-group, formulating and coordinating engagement strategies for the sector.

✓ Success against objectives

Notable positive outcomes at companies following collaborative engagement, supported by Hermes EOS include:

- ✓ *Anglo American* announcing greenhouse gas targets to 2030, set using a science-based methodology.
- ✓ *Centrica* announcing the ambition to help its customers reduce emissions by 25% by 2030, and to develop a path to net zero by 2050.
- ✓ *Chevron* improving disclosure of its portfolio resilience to climate change.
- ✓ *Daimler* and *Volkswagen* announcing the ambition or goal for all new car sales to be carbon neutral by 2040.
- ✓ *Maersk* setting the goal to reach carbon neutrality by 2050.
- ✓ *PetroChina* improving disclosure of its climate change risks and opportunities, including its plans to contribute to the goal of limiting climate change to below 2C.

25%

Centrica's ambition to reduce emissions by 2030

2040

The year when Daimler and Volkswagen aim for all new car sales to be carbon neutral by

Building on this progress to date, which reflects the collaborative work of many investors, Hermes EOS, on behalf of its clients, will continue to actively encourage some of the world's biggest polluters – across Asia, the US and Europe – to reduce emissions and take tangible action on climate change. Recognising the effectiveness of working collaboratively, Hermes EOS has shown a strong desire and commitment to work with investors to formulate and pursue shared climate-related engagement objectives in the interests of long-term investors and their ultimate beneficiaries.

First published by the Principles for Responsible Investment, September 2019.

HERMES INVESTMENT MANAGEMENT

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

Our investment solutions include:

Private markets

Infrastructure, private debt, private equity, commercial and residential real estate

High active share equities

Asia, global emerging markets, Europe, US, global, small and mid-cap and impact

Credit

Absolute return, global high yield, multi strategy, unconstrained, real estate debt and direct lending

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

Why Hermes EOS?

Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

For more information, visit www.hermes-investment.com or connect with us on social media:



For professional investors only. The activities referred to in this document are not regulated activities. This document is for information purposes only. It pays no regard to any specific investment objectives, financial situation or particular needs of any specific recipient. Hermes Equity Ownership Services Limited ("HEOS") and Hermes Stewardship North America Inc. ("HSNA") do not provide investment advice and no action should be taken or omitted to be taken in reliance upon information in this document. Any opinions expressed may change. This document may include a list of clients. Please note that inclusion on this list should not be construed as an endorsement of HEOS' or HSNA's services. HEOS has its registered office at Sixth Floor, 150 Cheapside, London EC2V 6ET. HSNA's principal office is at 1001 Liberty Avenue, Pittsburgh, PA 15222-3779. EOS000502. 0007627 11/19.