AGENDA

What to Expect at Climate Engagement Meetings

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By Alana Pipe September 7, 2021

Investors around the world say that climate issues will be their most-pressing engagement topic this year, according to an **ISS** survey of 133 global investors. Some 86% named it as a top-three concern, followed by human rights at 47% and gender equality and biodiversity, tied for third place at 43% in the survey.

Similarly, the vast majority of U.S. investors in the same survey, 82%, ranked climate among their top three engagement priorities, followed by board independence and gender equality and human capital management, which were tied for third place.

The increase in company rhetoric surrounding climate issues, such as announcements of net-zero plans, has coincided with more engagement in the area. Meanwhile, companies in a broader range of industries are being targeted for climate engagements this year, said **Jackie Cook**, director of sustainability stewardship research for **Morningstar**.

In addition to the energy and utility companies that have traditionally been targeted by investors for climate talks, now industrials, airlines, auto manufacturers and a slew of consumer-facing companies are being approached as well, said Cook, who added that investors are interested in discussing supply chain issues having to do with climate concerns. Companies whose supply chains are linked with forest issues are being targeted particularly often now, she said.

At climate engagement meetings, investors are first and foremost going to be looking at whether the strategy in place to achieve greenhouse gas emissions reduction goals is realistic, sources said.

At engagement meetings, investors are likely to ask questions that answer whether companies' reduction goals for Scope 1, Scope 2 and Scope 3 emissions are in line with science-based targets, said **Heidi Welsh**, executive director at the **Sustainable Investments Institute**. Scope 1 and 2 emissions cover the company itself and immediate suppliers, while Scope 3 covers indirect emissions from use of the company's products.

The execution of reducing emissions is going to be as important as the stated targets themselves, said **John Wilson**, director of corporate engagement at **Calvert**. Last year Calvert targeted 15 companies, but will be taking on fewer engagements this year in order to work with companies on a deeper level, said Wilson.

Investors' baseline expectations on data disclosures have advanced substantially in recent years, said **Kate Monahan**, director of shareholder advocacy at **Trillium Asset Management**. Data on greenhouse gas and Scope 1 and 2 emissions is the "bare minimum" of information that Trillium expects, she said.

Indeed, much of Trillium's focus will be on ensuring that the climate goals stated by companies are the right goals, said Monahan. As a result, Trillium will likely be asking for reports from a third-party auditor on whether companies' stated goals align with their net-zero targets, she said.

GHG emissions are just the tip of the iceberg on investors' climate concerns, sources said.

Aside from data on emissions, Trillium will also be asking companies for other quantifiable aspects of the business as they relate to climate. The activist investor may ask chain restaurants for data on food waste, for example, said Monahan. For agricultural companies, Trillium may ask for data on pesticide use, she said.

Similarly, Walsh said that she expects to see more social factors linked to climate issues included as topics of discussion this year. For instance, climate-related government actions that disproportionately affect people of color and the type of assistance that companies give to people affected by climate change are areas that could receive increased investor attention in coming years, she said.

For example, when petrochemical plants were flooded in Houston, Texas, during Hurricane Harvey in 2017, people of color living in low-lying areas were affected particularly negatively, Walsh pointed out. Questions then arose about what type of responsibility those companies should assume, said Walsh. "If boards don't pay attention to issues like this, they are asleep at the switch," she said.

Meanwhile, amid increased investor attention to where money is being spent politically, boards should also be ready to answer questions about corporate political spending and lobbying with respect to climate change, said Walsh.

Bruce Freed, president at the **Center for Political Accountability**, agreed, adding that the growing scrutiny on political spending was evident in the brief but public pause in corporate political spending following the Jan. 6 riots. The same type of pressure could apply to climate actions that contradict statements that companies are making on climate, said Freed.

For instance, this year at **Duke Energy**, shareholders voted to increase transparency surrounding direct and indirect political spending. The proposal, which was brought by the **New York State Common Retirement Fund**, received 52% support from shareholders. Earlier this year, NYSCRF withdrew similar shareholder resolutions at **First Energy** and **Molson Coors Beverage Company** after both companies agreed to enhance transparency of political spending.

Over the last few years, more companies are getting used to the idea of engaging on climate issues, said Wilson. “It used to be a challenge to get a good engagement going with a company,” he said. “They weren’t accustomed to it and didn’t see the value,” he said. “Now we’re having more robust discussions and are seeing companies come more prepared,” he said.