MEMO

To: Shareholder Initiative on Climate and Sustainability Participants
From: Ceres Investor Program Staff
Date: July, 2015
Re: Outcomes of Investor Engagements with Fossil Fuel Companies on Climate Change-Related Issues

Climate change, stranded assets, and the transition to a low carbon economy pose significant risks and opportunities for institutional investors. Current trends, including the recent oil price collapse, falling renewables prices and clean energy technology innovation, magnify these risks and opportunities. Ceres encourages investors to take action on climate and carbon asset risk, using the strategies that the investor deems appropriate, which can include shareholder engagement and filing shareholder resolutions, full or selective divestment, reducing portfolio carbon intensity, investing in climate solutions, policy advocacy, or some combination these strategies. Ceres believes multiple strategies are necessary to achieve the systemic changes necessary to mitigate these risks.

Although Ceres encourages investors to address climate risks through multiple approaches, this memo, provided at the request of a number of investors, compiles examples of productive shareholder engagement with fossil fuel energy companies on climate and related environmental, social and governance (ESG) issues. Before describing these results it is important to acknowledge that leading investors are not satisfied with the pace or scope of changes to date by the fossil fuel industry to address climate change. These investors continue to actively seek ways to boost the impact of their engagement strategies to achieve the shift to a low carbon economy within the time frame scientists say is needed.

(It is worth noting that shareholder engagement in other sectors such as manufacturing, food, agriculture and real estate, has an important role to play in spurring solutions to climate change such as reducing deforestation and boosting use of renewable energy. However this memo is limited to engagements in the fossil fuel and electric utility sectors.)

Through engagement with portfolio companies, shareholders have prompted numerous improvements to corporate practices in the energy sector, which have helped to reduce some investment risks related to climate change. In many cases, factors including regulatory and market forces contributed to these engagement outcomes.

1. **Gas Flaring**- Following a report published by the Investor Environmental Health

Network and the Interfaith Center on Corporate Responsibility, titled *Extracting the Facts: An Investor Guide to Disclosing Risks from Hydraulic Fracturing Operations;* an investor letter that Ceres coordinated in May 2012; a media effort; and several shareholder resolutions filed by Mercy Investment, Arjuna Capital, As You Sow and the Unitarian Universalist Association of Congregations, 4 of the 5 major oil producers in North Dakota set gas flaring reduction goals. A resolution filed by Mercy Investment at Continental Resources, the largest oil producer in the region, asking the company to adopt quantitative reduction goals, led to a dialogue in which Continental committed to reduce its flaring and associated emissions to as near zero as feasible. Subsequently, a task force representing oil production companies in North Dakota announced its intention to increase the capture of natural gas during drilling and believes that in six years, it will be able to capture up to 90% of carbon emissions now associated with flaring.[1]

2. **Methane & Water**- Following a long term shareholder engagement process, which began in 2003 and has been led by Boston Common Asset Management, and a Ceres report *Hydraulic Fracturing & Water Stress: Water Demand by the Numbers* released in February 2014, Apache Corporation, a large independent oil and gas exploration and production company, adopted new water recycling and water use reduction goals for its operations which are also included in the company's executive compensation metrics. Apache has also begun monitoring and reporting on its methane emissions and methane intensity of its oil and gas operations.

3. **GHG Goals, Coal & Clean Energy**- Shareholder engagements and resolutions filed by the Connecticut Office of the State Treasurer, the Office of the New York State Comptroller, the New York City Comptroller's Office, Trillium Asset Management, Calvert Investments, United Church of Christ and the Presbyterian Church with some of the largest coal-burning electric utilities have contributed to significant progress on climate change over a number of years. Companies including AEP, Xcel Energy and Duke Energy have set greenhouse gas (GHG) reduction goals and have met or are well on the way to meeting them. Following shareholder engagement with As You Sow, Connecticut Office of the State Treasurer, the Tri-State Coalition for Responsible Investment and New York State Comptroller, two electric power companies, Southern Company and FirstEnergy, have begun transitioning away from coal to natural gas and have increased their portfolio of renewables. Shareholder pressure from the California State Teachers' Retirement System and North Carolina Treasurer has also contributed to decisions by a number of power companies to cancel proposed coal plants, including NV Energy, Sempra Energy, TXU Energy and Westar Energy. Market and regulatory factors and NGO campaigns also contributed to these outcomes.

4. **Carbon Asset Risk Initiative**-In September 2013, 75 investors managing more than $3 trillion in assets wrote letters to 45 of the world's largest fossil fuel

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[1] Interfaith Center on Corporate Responsibility, "Invested in Change: Faith- Consistent Investing in a Climate Challenges World." (2015)

companies in the coal, oil, gas and electric power sectors, asking them to assess and disclose how their business plans address the range of risks posed by climate change. Still in an early stage, the Carbon Asset Risk (CAR) Initiative has two main goals: (1) to prevent shareholder capital from being wasted on developing high-carbon, high-cost fossil fuel reserves that cannot be used if the world is to avoid catastrophic climate change; and (2) to drive fossil fuel energy companies to acknowledge and plan for the escalating physical impacts of climate change such as higher temperatures, rising seas and stronger storms.[2] Progress to date includes the following:

Oil Companies:

- Statoil's new CEO, the former head of its renewables division, said in February that the company will make low carbon initiatives one of the three main pillars of its future strategy, and will increase the speed of its "transition to a low carbon society." Statoil has also recently announced that it will alter it's Energy Outlook process to include lower projections for economic growth in any scenario in which the two degree target is not met, making it the first major oil company to acknowledge the economic harm that would accompany global temperature rise.[3]
- The ConocoPhillips' board has asked the company to stress test its business plan against a number of low carbon scenarios, including three scenarios that would achieve the IEA's scenario of achieving a 50% probability of limiting the increase in average global temperature to 2 degrees C in accordance with IEA recommendations. [4]
- In response to global investor engagement, Royal Dutch Shell, BP, and Statoil recently endorsed shareholder resolutions that require the companies to examine their GHG emissions, consider investment in renewable energy and stress test their business models against the goal of limiting global warming to 2 degrees Celsius. These steps emerged from the investor campaign "Aiming for A," led by CCLA that includes 53 participating institutional investors from Europe and the U.S. [5]. These resolutions passed with votes in excess of 98 percent at all three companies.
- BP, Chevron and BHP Billiton are exploring the carbon asset risk issue in their strategic planning process. ExxonMobil, Suncor, ConocoPhillips and Occidental are now also debating the issue of carbon asset risk at the board level.
- Improved climate change-related disclosures were obtained in reports and other communications from ExxonMobil, Shell, Apache, BHP Billiton, Chevron, ConocoPhillips, Eni, Statoil, Total, Vale and others.

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[2] http://www.ceres.org/roadmap-assessment/roadmap-in-action/explore-by-topic/performance-operations/carbon-asset-risk

[3] http://www.rechargenews.com/wind/1390586/new-statoil-boss-signals-renewable-energy-ambitions

[4] http://www.conocophillips.com/sustainable-development/environment/climate-change/managing-risks-and-opportunities/Pages/carbon-asset-risk.aspx

[5] http://www.pionline.com/article/20150206/ONLINE/150209903/bp-follows-shell-in-endorsing-shareholder-proposal-on-climate-risk-disclosure

- In June, 2015, the CEOs of six major European oil & gas companies (Shell, BP, BG, Statoil, Total and Eni) sent an open letter to the UN and world leaders calling for a global price on carbon.

Mining & Coal Companies:

- Following a shareholder engagement led by the New York City Comptroller with CONSOL Energy, which raised concerns about its climate strategy and business risks, and in response to market and regulatory forces, the company decided to diversify its business away from coal and acquired a natural gas producer, helping it avoid the destruction in value that other coal companies have experienced.
- Following the CAR letter, shareholder engagement, and a board campaign focused largely on climate change as a business issue, BHP Billiton, a diversified mining company, acknowledged the scientific consensus on climate change, endorsed a price on carbon, and is working to divest some of its coal assets.[6]
- After engagement led by Boston Common Asset Management, PNC Bank committed in 2015 to end financing of mountain top removal coal mining.

5. Policy- As recently as 2015, there have been significant changes in fossil fuel corporations' corporate lobbying practices where investors demonstrated that lobbying initiatives were contrary to their public positions on climate change issues and to investor (and corporate) interests.

- In 2014, following a letter from Walden Asset Management, Occidental Petroleum announced that they will not renew their membership in the conservative political group, the American Legislative Exchange Council (ALEC), which lobbies against legislation to address climate change and against renewable energy mandates.[7] ConocoPhillips also confirmed to filers of a lobbying disclosure resolution that they had not renewed their membership in ALEC. Following a shareholder resolution on climate change risk during the 2015 proxy season, BP announced in March 2015 that it too would leave ALEC [8]. This brings the total number of companies cutting ties to ALEC to over 100.
- Following shareholder resolution withdrawals, Trillium Asset Management has persuaded key companies in the oil and gas supply chain, including Halliburton, Hess and Marathon Petroleum, to make major improvements in their political lobbying expenditure disclosures, which include the disclosure of payments to trade associations and other third-party conduits.

6. **Other Disclosures**- Shareholder engagement on corporate disclosure has led to progress in moving companies on climate and ESG issues. "What gets measured gets managed" is a key strategy for improving company performance on climate and

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[6] http://fuelfix.com/blog/2014/03/04/energy-ceo-climate-change-is-real-and-driven-by-humans/
[7] http://www.nationaljournal.com/energy/large-oil-company-bolts-from-alec-20140929
[8] http://fortune.com/2015/03/23/bp-alec-dropout/

sustainability.

- Following withdrawal of a proposal by Wespath Investment Management, co-filed by Needmor Fund and Zevin Asset Management, ExxonMobil has agreed "to provide additional disclosure on executive compensation and sustainability performance … and to continue in dialogue" with the shareholders. [9]
- Shareholder proposals and other engagements by Trillium Asset Management resulted in EOG Resources, one of the largest independent oil and gas companies, improving its disclosures on methane emissions. While the company has not provided sufficient information, the new disclosure does show that the company is reducing its methane emissions.
- Following a shareholder resolution by Walden Asset Management in 2014 and resolutions by LIUNA and New York State in 2015, Denbury Resources, an independent oil and gas company, agreed to significantly augment its sustainability disclosures, including: following Global Reporting Initiative G4 guidelines for their next sustainability report, increasing discussion of climate change, and its intent to use more anthropogenic CO_2 in its 'enhanced oil recovery' operations. Denbury also committed to further explore setting a public GHG reduction goal.[10]
- Cabot Oil & Gas, an independent oil and natural gas exploration company, also took an incremental step forward in expanding disclosure related to energy Management and climate change following a shareholder resolution from Walden Asset Management. Increased disclosure by Cabot includes a combination of qualitative and quantitative goals and targets for the coming year related to climate and energy issues.

A new long-term strategy investors are employing is to add "climate competent" directors to fossil energy company boards. A key element is to gain "proxy access" which will allow long-term, major holders of company shares to nominate board members. 33 proxy access resolutions were filed with fossil fuel energy companies by the New York City Comptroller's Office in 2015, which resulted in 23 majority votes and one successful withdrawal.

Shareholder engagement has had these and other positive ESG results with fossil fuel energy companies, but this should be understood as a long-term strategy, using evolving tactics, to move companies to adopt sustainable business strategies that protect shareholder value. As such, it typically requires several years of continued engagement to achieve significant progress and results.

[9] http://www.pionline.com/article/20150323/ONLINE/150329967/exxon-mobil-to-disclose-sustainability-metrics-in-setting-executive-pay

[10] http://www.denbury.com/csr-home/our-environment/managing-our-carbon-footprint/)