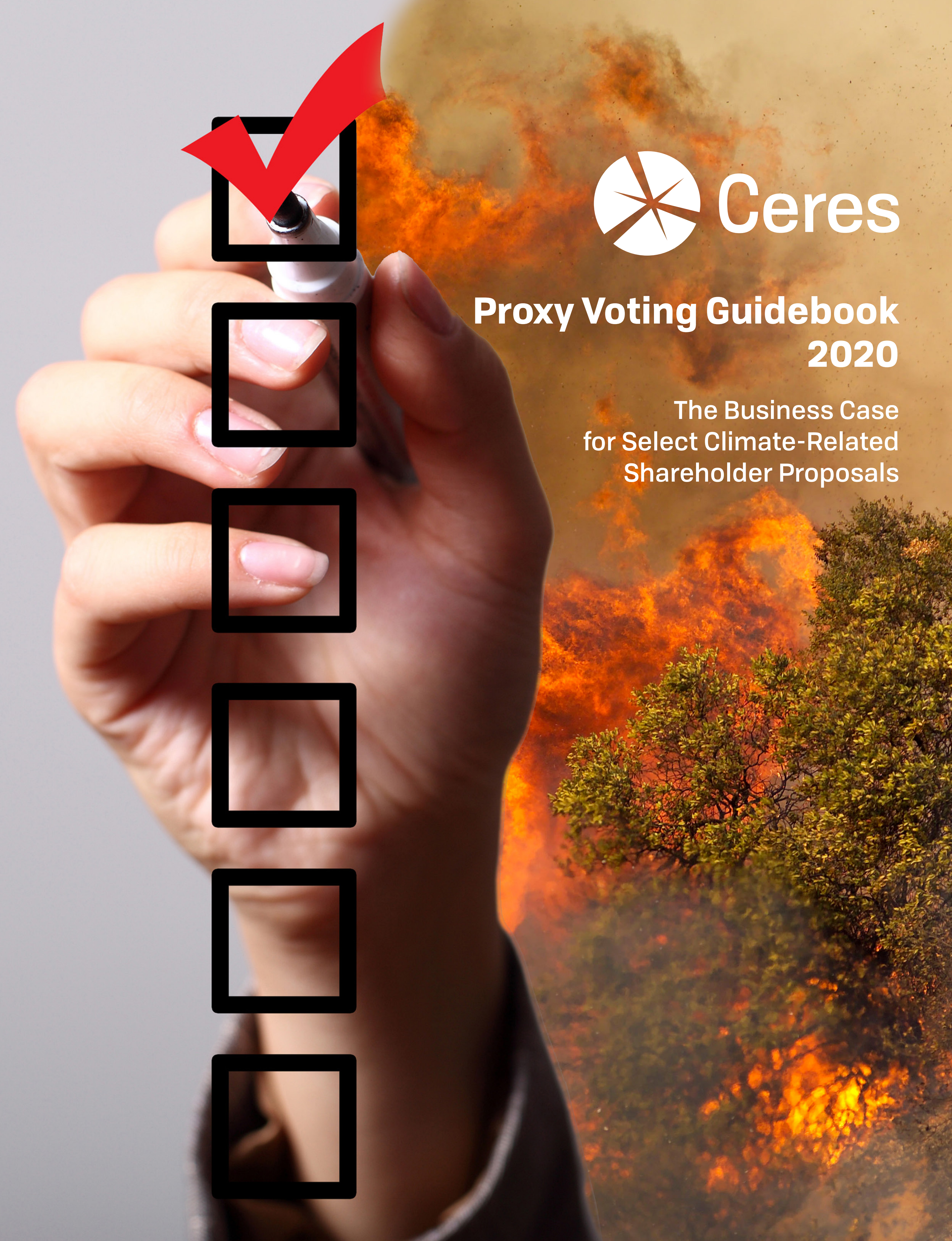
Ceres
Proxy Voting Guidebook
2020
The Business Case
for Select Climate-Related
Shareholder Proposals

About this guidebook
This guidebook is a compilation of memos that explore the business case and rationale for various climate-related shareholder proposals filed with U.S.-based companies. The proposals will appear on company proxy ballots during 2020.

About Ceres
Ceres is a sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Through our powerful networks and advocacy, we tackle the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses.

The Ceres Investor Network includes more than 175 institutional investors, collectively managing nearly $30 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. For more information, visit www.ceres.org.

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Introduction

At this moment of extreme market volatility resulting from the global outbreak of COVID-19, all sectors of the economy are understandably reeling from its devastating impacts. This global pandemic is a painful reminder of our collective vulnerability to seismic and sudden shocks to which our current capital market systems expose us. We see more clearly than ever before our interconnectedness, and the need for mass mobilization to tackle a common crisis, whether a result of a coronavirus or climate change.

As investors and companies grapple with the immediate, mounting impacts of the pandemic and begin to rebuild the economy, upcoming annual general meetings offer an important opportunity to re-open dialogues on a host of environmental, social and governance (ESG) issues that can help chart a course in this new reality. Although many of the 2020 annual general meetings will be held virtually instead of in person, if they are properly managed they provide a valuable forum for an exchange between directors, managers and shareholders.[1]

It has never been more clear that we need to strengthen the business model for long-term, sustainable shared value -- one that benefits employees, the environment, and the bottom line. Dozens of 2020 shareholder proposals, including several filed or co-filed by large institutional investors, get to the heart of the concept of shared value and will help to advance dialogue between investors and companies on tackling the climate crisis. Ceres highlights some of these proposals through offering this third-annual compilation of memos, most written by investors, in this Proxy Voting Guidebook, 2020.

The memos showcased in this Guidebook cover 24 shareholder proposals that will go to vote in 2020, two proposals omitted from proxy ballots with approval from the U.S. Securities and Exchange Commission, and one call for a vote against a corporate director. Each memo underscores the risks and opportunities posed by the climate crisis and makes the business case for voting “For” the respective shareholder proposal. It is our hope that this Guidebook serves as a helpful resource for voting investors making decisions about these specific proposals, and also on similar proposals filed with other companies.

To date, 131 climate-related shareholder proposals have been filed during the 2020 U.S. proxy season. Of that total number of proposals, 42 (or 32%) have already been withdrawn in return for commitments by companies, and 70 are expected to go to a vote.

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[1] Ceres agrees with the virtual meetings recommendations of the Council of Institutional Investors (https://www.cii.org/march2020virtualmeetings), which include: A live audio and video feed of all key company representatives in attendance, including, at a minimum, the chair, CEO, any lead/presiding director, chairs of key board committees and the corporate secretary; a continuously updated list of all shareholder questions submitted both before and during the meeting, accompanied by clear indication of any subsequent deletion or re-ordering in the queue; and a comprehensive Q&A tool.

In those 70 proposals, the following climate-related issues are addressed (in the following numbers): lobbying disclosure (20), carbon asset risk (12), board oversight (10), waste management (6), water (5), greenhouse gas (GHG) reduction goals (3), banking (3), sustainable agriculture (2), deforestation (2), utilities (2), proxy voting process review (2), clean energy and transportation (2) and food waste (1).

Investors who filed or co-filed climate-related proposals during the 2020 U.S. proxy season include some of the largest U.S. public pension funds, state and city comptrollers' offices, labor pension funds, asset managers who specialize in environmental, social and governance (ESG) investing, religious investors, foundations and individual investors. Some of these investors are also signatories to Climate Action 100+, an investor-led coalition of more than 450 international investors with more than $40 trillion in assets under management engaging with the world's largest corporate greenhouse gas (GHG) emitters.

Shareholder proposals have been shown to be effective in encouraging companies to appropriately address climate-related risks and opportunities. In 2019, 39% of climate-related shareholder proposals Ceres tracked were withdrawn by the filing investors in return for companies committing to take action on the issues raised in the proposals.

In 2019 and 2020, shareholder proposals related to sourcing clean energy (renewables and energy efficiency) were withdrawn in return for commitments by companies at rates above 90% and 70%, respectively, based on data tracked by Ceres.[2] We believe the rapidly declining price of renewable energy and batteries are contributing factors to companies' increasing action on these issues.

Many investors are also concerned about the systemic and financial risks to the global economy that result from government inaction due in part to corporate lobbying blocking progress on addressing the climate crisis. Accordingly, 20 lobbying disclosure proposals are likely to go to a vote this year. These proposals are considered climate-related because a company risks public controversy and reputational damage by lobbying, directly or indirectly, against solutions to climate change. Similar risks arise when companies are dues-paying members of trade associations that lobby on their members' behalf to block public policies needed to mitigate climate risks. Investors are also concerned about companies "spending against themselves" when they publicly support climate policy solutions to climate change but privately lobby against them.

In 2019, 200 institutional investors with a combined $6.5 trillion in assets under management asked 47 of the largest U.S. publicly traded corporations to align their climate lobbying with the goals of the Paris Agreement via an investor letter on "Investor Expectations on Corporate Lobbying on Climate Change."[3] These investors warned that lobbying activities inconsistent with the Agreement's goals are an investment risk, and we see by the number of lobbying-related proposals this year that the awareness of such risks continues to grow.

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[2] https://www.ceres.org/resources/tools/climate-and-sustainability-shareholder-resolutions-database

[3] https://bit.ly/2WFsoMX

Another important request investors are making through the 2020 proposal process is for companies to separate the roles of board chair and CEO. Such proposals requesting an independent board chair are climate-related when investors feel the board is unable or unwilling to establish governance and oversight structures that result in management appropriately addressing rapidly rising climate risks and opportunities.

The financial threats to companies and to the global economy from the climate crisis are now ubiquitous – and increasing:

- The 2020 World Economic Forum's Global Risks Report lists climate action failure as the number one risk (by impact) and the number two risk (by likelihood) to the global economy for the next ten years.
- In 2019, wildfires laid waste to portions of Australia larger than Vermont and New Hampshire combined, killing more than 30 people and an estimated one billion animals.
- In 2018, the deadliest wildfires in California's history killed more than 90 Californians and drove one of the largest electric utilities in the U.S. into bankruptcy.
- Overall, global property losses from extreme weather now reach into the hundreds of billions a year.
- Flooding of important agricultural regions including portions of the U.S. midwest impacted commodity prices after a record-breaking wet spring in 2019.
- GHG emissions continue to rise and, as a result, the global average temperature is already roughly 1 degree Celsius higher than pre-industrial levels. Scientists say a rise beyond 1.5 degrees Celsius will lead to catastrophe.

The mainstream global investment and business community has continued to deepen its understanding of and is acting on the climate crisis as a systemic and financial risk.

- In September of 2019, The Business Roundtable issued its "Statement on the Purpose of a Corporation," signed by 181 CEOs, and signaled the rise of "stakeholder capitalism" – with stakeholders defined as customers, employees, suppliers, communities (both human communities and ecosystems) and shareholders.
- BlackRock CEO Larry Fink told corporate CEOs in January 2020, "Climate change has become a defining factor in companies' long-term prospects," and is "compelling investors to reassess core assumptions about modern finance." [4]
- BlackRock and JPMorgan Chase joined Climate Action 100+, an investor-led initiative, co-founded by Ceres, with more than 450 investors managing more than $40 trillion calling on the largest corporate emitters to reduce emissions.
- More than 800 companies took science-based climate action and more than 300 approved science-based targets, according to the Science Based Targets Initiative (SBTI).
- Amazon, BP, Delta, Dominion and Repsol made commitments to go carbon

[4] https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

neutral by 2050 or earlier.

- In what may be a new trend, some major companies, including H&M, Ikea, Intuit, Microsoft, and Shopify have started issuing even more ambitious carbon-positive goals to eliminate more GHGs from the atmosphere than they emit.
- Through "RE 100," a global corporate initiative, 229 companies have made a commitment to move toward using "100% renewable energy... in the shortest possible timeline ... and no later than 2050."

As we enter the 2020 U.S. proxy season, voting investors must consider each shareholder proposal from the perspective of how it will help companies create long-term, sustainable, shared value. And, as we all work to steady and rebuild the economy in the months ahead, we'll want to remember how attention to good governance, strong business plans, robust risk management and transparency can successfully guide investors and companies managing risks and opportunities both now and in the future.

The global investor initiative Climate Action 100+ now encompasses more than 450 investors with a combined $40 trillion in assets under management engaging with 100 of the largest corporate greenhouse gas (GHG) emitters, as well as with 60 other influential companies positioned to drive the low-carbon transition.

Climate Action 100+'s engagement agenda prioritizes three main goals: strengthening climate governance, improving disclosure of climate risk, and reducing GHG emissions across supply chains in alignment with the Paris Agreement goals. Crossing all three of these goals is building company support for strong public policy frameworks to accelerate the transition to a low-carbon economy.

Resolutions flagged[1] by CA100+ this season filed with U.S. focus companies fall under five broad themes:

- **Independent Board Chairs:** Shareholders request that companies separate the roles of CEO and board chair to drive companies' strategic transformation to succeed in a carbon-constrained future. Related resolutions have been filed with:
    - **Dominion Energy - Filed by NYC Comptroller's Office***
    - **Duke Energy - Filed by NYC Comptroller's Office***
    - **ExxonMobil Corporation - Filed by Olga Monks Pertzoff Trust 1945***
    - **Southern Company - Filed by NYC Comptroller's Office***

- **Paris-aligned Transition Strategy:** Shareholders need to understand whether and how companies are transforming their business strategies and setting ambitious, Paris-aligned GHG emissions reduction targets.
    - **Devon Energy - Filed by As You Sow*** (challenge to SEC still pending as of March 25th)

[1]The Climate Action 100+ investor network partner organizations may flag relevant shareholder resolutions and circulate information from the lead investors and/or investor signatories filing or co-filing relevant shareholder resolutions, where the resolution is:
1. consistent with the goals of Climate Action 100+, directly addressing at least one aspect of the goals
2. worded such that the request of management is considered reasonable and not burdensome
3. complementary to existing engagement strategy as set out by the Climate Action 100+ investor engagement collaboration.

- **Disclosure of Direct and Indirect Climate and Energy Lobbying:** Shareholders want companies to disclose their climate and energy-related lobbying, including lobbying conducted by their trade associations. Related resolutions have been filed with:
    - **Caterpillar - Filed by SHARE**
    - **Duke Energy - Filed by Mercy Investments**
    - **ExxonMobil Corporation - Filed by United Steelworkers**
    - **Ford Motor Company- Filed by Unitarian Universalist Association**
    - **General Motors - Filed by NYC Comptroller's Office***

- **Lobbying for a Policy Framework Alignment with the Paris Agreement:** Shareholders request that lobbying is aligned with the goals of the Paris Agreement. Filed with:
    - **Chevron Corporation - Filed by BNP Paribas Asset Management***
    - **Delta Air Lines - Filed by BNP Paribas Asset Management***
    - **United Airlines - Filed by BNP Paribas Asset Management***

- **Environmental, Social and Governance (ESG) Metrics in Executive Compensation:** Shareholders are seeking to have boards link executive compensation to the company's ESG performance.
    - **United Airlines - Filed by Mercy Investments***

All investor signatories to the Climate Action 100+ initiative are responsible for their own voting decisions – including pre-declaration and vote solicitation. Climate Action 100+ investor networks do not seek to provide voting recommendations or to facilitate block voting.[2]

[2]This Guidebook is published to promote free discussion, debate, and learning among investors and the general public. Climate Action 100+ and Ceres do not seek directly or indirectly, either on their own or another's behalf, the power to act as proxy for a security holder and do not furnish or otherwise request, or act on behalf of a person who furnishes or requests, a form of revocation, abstention, consent or authorization. This Guidebook does not provide investment, legal, accounting or tax advice. Climate Action 100+ and Ceres do not necessarily endorse or validate the information contained herein.

* Denotes resolutions with memos included in this Guidebook.

Ameren Corp (AEE)

Proposal: Independent Board Chair

Proponent: The Nathan Cummings Foundation

Resolution:

Resolved: Shareholders of Ameren Corporation ("Ameren") ask the Board of Directors to adopt a policy, and amend the bylaws as necessary, to require the Chair of the Board to be an independent director. The policy should provide that (i) if the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the policy within 60 days of that determination; and (ii) compliance with this policy is waived if no independent director is available and willing to serve as Chair. This policy shall apply prospectively so as not to violate any contractual obligation.

Summary:

The role of the board is to supervise management, and if the board is chaired by the CEO then that person is his or her own boss. This lack of independent oversight of management is a governance weakness.

- According to proxy advisor Glass Lewis, "shareholders are better served when the board is led by an independent chairman who we believe is better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that exist when a CEO or other executive also serves as chairman."
- Intel's former Chair Andrew Grove stated, "The separation of the two jobs goes to the heart of the conception of a corporation. Is a company a sandbox for the CEO, or is the CEO an employee? If he's an employee, he needs a boss, and that boss is the board. The chairman runs the board. How can the CEO be his own boss?"
- In a recent *Harvard Business Review* article, Joseph Mandato and William Devine argued in favor of separating the chair and CEO roles, citing findings from interviews they conducted with CEOs, board chairs, investors and founders. Separation, they urged, "can strengthen the quality of the questions the corporation asks itself," which improves risk management, and amplifies the impact of feedback delivered to the CEO from the board's closed executive sessions, making it easier to "check a top exec steering the company astray." Mandato and Devine suggested that an independent chair could have helped

prevent or mitigate the cultural, organizational and strategic weaknesses that have damaged Boeing, Facebook and WeWork.[1]

Climate change has created unprecedented challenges and opportunities for electric utilities. Ameren lags far behind much of the utility industry in preparing to meet this challenge. Unlike a half dozen of its largest peers, Ameren refuses to acknowledge that net-zero carbon emissions by 2050 is the minimum credible goal to mitigate the risks of climate change and position itself to take advantage of the opportunities presented by the transformation to a zero-carbon economy. The company's plans to keep burning coal as its largest source of fuel until at least 2040 raises grave doubts about its ability to achieve even its substandard goal of an 80% reduction in greenhouse gas (GHG) emissions by 2050. We believe that the failure to respond adequately to this challenge is ultimately a failure of leadership and governance.

- Except for a brief apprenticeship period, Ameren CEOs have also served as chair of the board since 1997.
- The board of directors includes no one with proxy-identified renewable energy experience. Indeed, unlike many peers, Ameren omits environmental expertise from its board skills matrix.[2]
- As discussed below, both Independent Lead Director Richard J. Harshan and Finance Committee Chair Stephen R. Wilson led companies which rank among the nation's worst polluters and have been repeatedly fined for violations of environmental legislation.

Decarbonization of the economy and electrification of other sectors create unprecedented opportunities and challenges for utilities and their investors.

- Utilities are facing stagnant demand, with increases in usage from economic growth offset by increased efficiencies and development of distributed generation.
- Economy-wide decarbonization has the potential to drive a dramatic expansion of electricity usage as transportation, heating, and industrial activities are electrified.
- Ameren depends on coal for 75% of its electricity generation, more than twice the 30% average for all investor-owned utilities,[3] and has no plan for ending coal's role as its single most important fuel prior to an unspecified date after 2040.
- Ameren's decarbonization target, 80% by 2050, lags six of the top 20 U.S. electric utilities, which have made a commitment to achieve net-zero emissions by 2050.

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[1]Joseph Mandato and William Devine, "Why the CEO Shouldn't Also be the Board Chair," Harvard Business Review, Mar. 4, 2020, available at https://hbr.org/2020/03/why-the-ceo-shouldnt-also-be-the-board-chair.
[2] Ameren 2019 Proxy Statement, p. 10
[3] https://mjbradley.com/content/emissions-benchmarking-maps

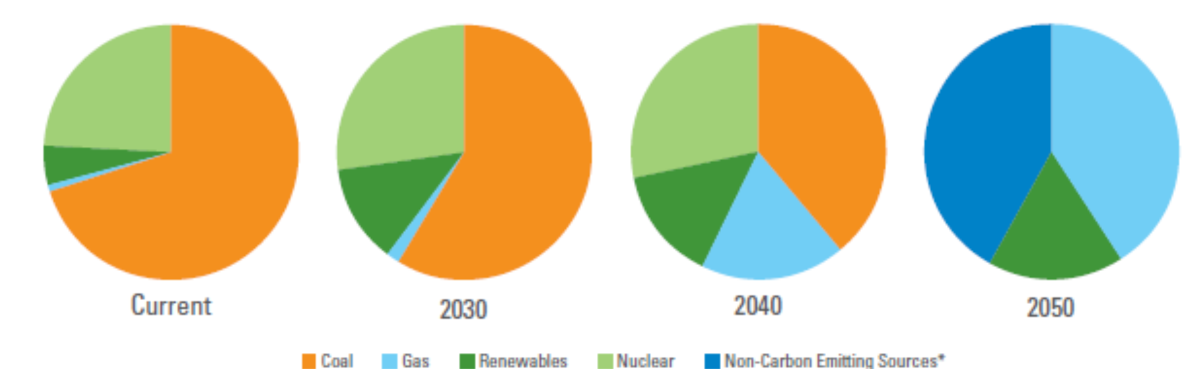
Background on Ameren's fossil-fuel related risks

Ameren's stated decarbonization goals (from 2005 levels) are to reduce GHG emissions 35% by 2030, 50% by 2040 and 80% by 2050. The company published these goals in its March 2019 report on "Building a Cleaner Energy Future" and reaffirmed them without change in its July 2019 CDP report.[4]

Ameren asserts that these targets are science-based, but concedes they have not been approved by the authoritative Science-Based Targets Initiative (SBTI).[5] SBTI's "Sectoral Decarbonization Approach" for the

Power Generation sector specifies that a science-based target must lead to "reduction by more than 95% compared with 2010 levels" by 2050.[6]

The company suggests in the chart below that it can achieve its decarbonization goals while continuing to obtain more than half its electricity from coal as late as 2030 and about 40% through 2040. It expects to achieve its 2050 goal partly by deploying new natural gas capacity to replace coal and partly by deploying unspecified "non-carbon emitting sources." Ameren says it doesn't know which non-carbon technologies will account for another 40% of 2050 electricity generation.[7]



[4] CDP Climate Change Questionnaire, 2019, p. 12 [Ameren CDP 2019]
[5] Ameren CDP 2019, pp. 48-50.
[6] https://bit.ly/2QxV32m, p. 51
[7] Ameren Corporation, "Building a Cleaner Energy Future," available at https://bit.ly/2UowpCv

Ameren's plan to continue burning coal until 2040 or beyond will be a drain on profitability, according to an economic analysis by CarbonTracker. CarbonTracker's review of the economics of each carbon-power plant operated by Ameren estimates that the company's least-cost path would involve retirement of all coal capacity by 2033.[8]

The company's over-dependence on coal may cost shareholders billions of dollars, especially in these two areas:

- The company faces significant "stranded asset" risk due to its failure to accelerate phase-out of coal generation. A plant-by-plant analysis by Carbon Tracker estimated that 51% of Ameren's coal fleet may have negative EBITDA today and that 77% could have negative EBITDA by 2030.[9] Analysts at Morgan Stanley project that accelerated capital investment to replace coal capacity with renewables could unleash a $1.1 billion "capex opportunity," i.e., a profitable increase in the firm's rate base.[10]

- Costly clean air violations at coal-fired plants could have a "material adverse effect on the results of operations, financial position and liquidity of Ameren and Ameren Missouri," according to the company's 2019 10K.[11] This risk stems from a judicial ruling requiring installation of $3.6 billion worth of emission controls to reduce emissions from Ameren's Rush Island coal-fired power plant, which the company expanded without permits and without installing required emissions control technology, and its Labadie, Missouri coal-fired plant.[12]

  Instead of making the needed improvements, the company appealed the court ruling with support from amicus briefs filed by the U.S. Chamber of Commerce, the National Mining Association and other business groups. Given the cost of pollution control equipment, Morgan Stanley recommended in its January 2020 industry assessment that "the utility should explore the potential of retiring these plants early."

On both issues, we believe the board would be better prepared to minimize risks if it included directors experienced with renewables and decarbonization. However, directors with such experience have not been recruited; instead, directors with a history of pollution-related violations have been appointed to key leadership positions.

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[8] https://companyprofiles.carbontracker.org/
[9] https://companyprofiles.carbontracker.org/
[10] Morgan Stanley, Key Utilities Themes for 2020, 1/8/20, p. 6.
[11] Ameren 2019 10K, p. 133.
[12] https://bit.ly/3dgMyT8

- **Richard J. Harshan** serves as Ameren's Independent Lead Director and Chair of the Nuclear and Operations Committee. Harshman served as Chairman, President and CEO of Allegheny Technologies Inc. (ATI) from 2011 to 2018 and as executive vice-president and CFO from 2000 to 2010. During his 18 years as a Named Executive Officer, the EPA assessed at least $14.75 million in fines and remediations costs against ATI for 21 violations of the Clean Air Act and other environmental laws. During the same period, ATI was fined 24 times for Occupational Safety and Health violations.[13]

  As of 2017, ATI ranked 49th on the "Toxic 100" list of the nation's worst air polluters, as compiled by the University of Massachusetts Amherst's Political Economy Research Institute (PERI). The index uses EPA data to rank companies "by comparative chronic human health risk from air pollutants directly released or transferred or incinerators and not destroyed."[14] A separate 2015 study by the PennEnvironment Research & Policy Center found that ATI owned two of the "Toxic Ten" manufacturing facilities,[15] a designation they gave to the 10 worst air pollution offenders in the Pittsburgh area.

- **Stephen R. WIlson,** who chairs the Finance Committee, is the retired head of CF Industries Holdings, a chemical company specializing in the production of nitrogen-based fertilizer.[16] CF Industries ranks 30th among the nation's worst GHG emitters and 42% of its GHG emissions affect members of minority groups, according to the EPA data analyzed by PERI.[17]

  Wilson served as chairman, president and CEO of CF Industry Holdings and its predecessor, CF Industries from 2003 to 2014. During his years leading the company, the EPA and state agencies assessed CF Industries more than $195 million in penalties and remediation costs for violations of the Clean Air Act and other environmental protection laws.[18] In one of those cases, involving harmful nitrogen oxide emissions at nine plants in Iowa, Mississippi and Oklahoma, an EPA official noted that "Illegal air pollution from the production of nitric acid can leave the public vulnerable to long-term health problems such as respiratory illness and asthma."[19]

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[13] https://violationtracker.goodjobsfirst.org/prog.php?parent=allegheny-technologies
[14] https://www.peri.umass.edu/toxic-100-air-polluters-index-current
[15] https://pennenvironmentcenter.org/sites/environment/files/reports/Toxic%20Ten%20vWeb.pdf
[16] https://www.cfindustries.com/
[17] https://www.peri.umass.edu/combined-toxic-100-greenhouse-100-indexes-current
[18] https://violationtracker.goodjobsfirst.org/parent/cf-industries
[19] https://bit.ly/2wsI8Ir

Conclusion:

We believe that a board chair independent of management would be better able to lead the process of setting a strategy to position Ameren to take advantage of increased demand for decarbonized electricity and more effectively evaluate and mitigate the risks that excessive investment in natural gas generation capacity could become a stranded asset.[20]

Prepared by Majority Action in support of a proposal filed by the Nathan Cummings Foundation. The Foundation's Director for Corporate and Political Accountability, Laura Campos, can be reached at (212) 787-7300.

[20] Mark Dyson et al, *Prospects for Gas Pipelines in the Era of Clean Energy*, Rocky Mountain Institute, 2019.

Amazon (AMZN)

Proposal: Food Waste

Proponent: JLens Investor Network
Joshua Ratner
rabbiratner@jlensnetwork.org

Resolution:

Resolved: Shareholders request that Amazon.com, Inc. issue an annual report, at reasonable cost and omitting proprietary information, on the environmental and social impacts of food waste generated from the company's operations given the significant impact that food waste has on societal risk from climate change and hunger.

Summary:

This proposal leaves the method of disclosure to management's discretion. It also defers to management on the specific approaches used to mitigate food waste and on which parts of Amazon's operations are best to target. Some options the proponent recommends include:

- Conducting evaluations to determine the causes, quantities, and destinations of food waste;
- Estimating greenhouse gas (GHG) emissions reductions that could be achieved or amounts of food redistributed to the food insecure if the company reduced the generation of food waste; and
- Assessing the feasibility of setting goals to reduce food waste and measuring progress made towards meeting these targets.

Background:

Despite one in seven U.S. households struggling to afford regular, healthy meals, 40% of all food produced in the U.S. is wasted, generating devastating social and environmental consequences. Decomposing food in landfills generates 23% of U.S. methane emissions, exacerbating climate change. Wasted food production is responsible for consuming 25% of U.S. fresh water, 19% of fertilizer, and 18% percent of cropland.

Project Drawdown cited food waste reduction as the third most impactful tactic in reducing global GHG emissions.

According to the U.N. Food and Agriculture Organization, ending food waste would preserve enough food to feed 2 billion people – more than twice the number of undernourished people in the world.

The Sustainability Accounting Standards Board (SASB) cites food waste management as material to food distributors' operating performance, recommending disclosure of the aggregate amount of food waste generated and the percentage diverted from landfills.

Rationale details:

Enhanced disclosure by Amazon.com, Inc. ("Amazon," "AMZN" or "the Company") of both its food waste footprint and its efforts to minimize the social and environmental consequences of food waste would enable shareholders to evaluate how the Company is managing related financial, operational, regulatory, and societal risks. Such disclosures could also help Amazon identify cost savings opportunities, enhance reputation, and, at a minimum, compete effectively with its peers in demonstrating action on this critical social and environmental issue.

1. Addressing food waste would create cost savings opportunities for Amazon:
According to a report by ReFED, a nonprofit that advocates for food waste reduction, the U.S. wastes approximately $218 billion of food each year – with retailers accounting for $57 billion of those losses.[1] Because AMZN has yet to report on the scope of food waste in its operations, the extent of product loss is unclear. Without additional transparency, shareholders are concerned that AMZN is missing meaningful opportunities to reduce product loss and related costs.

The financial benefits from reducing food waste are compelling:

- A study from the United Kingdom showed that when four major retailers partnered with six food manufacturers and conducted inventories to identify food waste in the supply chain, the outcome was a benefit-cost ratio of 5:1. These actions included better matching forecasts of supply and demand, standardizing labels, and stock reductions.[2]
- A 2017 report analyzing 700 companies over 17 countries found the median return from food waste reduction efforts was found to be $14 for every $1 invested.[3]
- Stop & Shop has saved $100 million following an analysis of freshness and product loss in its perishables department. Improved buying decisions and reduced operational waste have allowed Stop & Shop and other Ahold USA companies to further invest in customers' shopping experience.[4]

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[1] https://www.refed.com/?sort=economic-value-per-ton
[2] https://bit.ly/2xa3k5Y
[3] https://bit.ly/2xgBfK5
[4] https://www.greenbiz.com/blog/2012/09/17/cutting-food-waste-savings-sustainability

2. Failure to address food waste presents significant reputational risk to Amazon: There is also the potential for significant reputational risk to AMZN if it does not address food waste within its operations because of the dramatic social and environmental implications of food waste. AMZN has stated commitments to redefine the current model of consumption to eliminate waste and to invest in sustainability options. Failure to address its food waste footprint could put Amazon's reputation at risk as consumers and stakeholders would see such inaction as the inability of the Company to fulfill its commitments.

3. Amazon's approach to food waste greatly lags behind those of its competitors: In its Recommendation of the Board of Directors advising a vote against this resolution, the board highlights some admirable programs Amazon has in place to reduce food waste, primarily focused on food donation. It also discusses in broad terms various initiatives to increase its landfill diversion and recycling rates. Unfortunately, investors currently have no way to assess the effectiveness of these initiatives or the overall food waste footprint of the company because Amazon's disclosure is so deficient. Indeed, the website Amazon points to in its Recommendation only highlights food donations made to Feeding America in 2016: it does not disclose data from current years, any comprehensive data about annual food donations, or any information about how much food is being wasted in its operations and supply chain.

Amazon's failure to disclose comprehensive information about its food waste – either the amount of food waste or how it is being managed – is in sharp contrast to industry peers such as Ahold USA, Hello Fresh, Kroger, Walmart, Wegmans, and Weis Markets. These companies disclose or have committed to quantitative disclosure of food waste levels, set targets for reducing their food waste, and publish information on progress towards these goals. Unfortunately, despite reports that Amazon intends to expand its brick and mortar grocery business,[5] it has yet to report any company-wide food waste management strategy including context, metrics, and quantitative improvement goals.

Taking action to reduce food waste is even more imperative for online grocery retailers because they may be more susceptible to high rates of food waste given complex distribution systems and the inability to rely on solutions employed by conventional retailers. Amazon has captured 30% of U.S. online grocery spending, outpacing its peers. Amazon invested heavily in its Amazon Fresh and Amazon Direct online grocery services, and spent $13.7 billion to acquire Whole Foods, thereby increasing the company's exposure to products with greater rates of food waste and spoilage.

Strengthened disclosure of food waste reduction efforts will help Amazon meet its social and environmental goals, combat climate change and hunger, and bolster its brand reputation in a rapidly changing market.

[5] http://fortune.com/2019/03/01/amazon-may-launch-a-new-chain-of-grocery-stores/

Bloomin' Brands, Inc. (BLMN)

Proposal #: Report on efforts to mitigate supply chain deforestation and Scope 3 emissions

Green Century Capital Management
Jessye Waxman, jwaxman@greencentury.com, 617-482-0800

Resolution:

Resolved: Shareholders request that the Board of Directors issue a report to investors by October 31, 2020 at reasonable expense and excluding proprietary information, assessing how the company could increase the scale, pace, and rigor of efforts to mitigate supply chain greenhouse gas emissions, inclusive of deforestation and land use change.

Supporting Statement: Proponents suggest that the Board of Directors consider including indicators in the report such as:

- Greenhouse gas emissions reduction targets associated with Bloomin's supply chains;
- Any progress toward specific no-deforestation policies for all relevant commodities in its global operations;
- Reporting progress toward these goals reported through CDP or similar platforms; and
- Any proactive implementation efforts by the company, such as time-bound plans, verification processes, or non-compliance protocols.

Summary:

Green Century Capital Management seeks your support for the deforestation-related proposal filed at **Bloomin' Brands, Inc.** (hereby referred to as "Bloomin'" or "the Company") in the 2020 proxy statement asking the Company to improve efforts to mitigate supply chain greenhouse gas emissions, with particular attention to addressing supply chain deforestation and land use change. The Proponent believes taking such action would serve the long-term interests of the Company by mitigating potential supply chain, regulatory, reputational, and competitive risks.

1. **Mitigation of operational and regulatory risks:** The environmental impacts caused by agriculture-driven deforestation can reduce agricultural productivity. Regulatory responses aimed at mitigating deforestation and the effects of climate change can lead to supply chain disruptions and associated expenses.

2. **Mitigation of reputational risks, including potential loss of market access:** Failure to adequately mitigate supply chain greenhouse gas emissions exposes Bloomin' to numerous risks, including shifting consumer demand and public awareness campaigns targeting companies linked to deforestation. Growing global concern about the environmental, social and climate-related impacts of deforestation is shifting public perception on corporate sustainability.
3. **Competitive disadvantage:** Bloomin' lacks public commitments on deforestation and is consequently ceding competitive advantage to its peers, which have identified deforestation risk as material and set and made progress toward no-deforestation targets.

Background:

Deforestation is primarily caused by cutting down forests to grow commodity crops like soybeans, palm oil, and timber and to raise cattle for the production of beef.[1] According to Chain Reactions Research, it is imperative that investors and banks pay attention to deforestation as it is "largely driven by specific economic activities and is thus a sector-specific risk."[2]

In its 2019 10-K, Bloomin' identifies increased commodity costs, changing consumer preferences, reputational perception, and failure to compete effectively, including against quick service and fast casual restaurants, as risk factors that could "materially and adversely affect" Bloomin's business.[3] **These risk factors are all exacerbated by exposure to deforestation.**

Deforestation significantly degrades the environment and is a leading contributor to climate change. Environmental degradation and climate change impair agricultural production, which potentially poses a material risk to Bloomin's sourcing operations. Deforestation is linked to soil erosion and disrupted rainfall patterns, which can compromise agricultural yields.

Furthermore, public awareness campaigns are bringing more consumer, investor, and regulatory attention to the environmental and social problems associated with deforestation. In response to the risks posed by deforestation, peer companies such as McDonald's and Yum! Brands have set goals and made significant progress toward their targets for mitigating deforestation exposure and greenhouse gas emissions. In contrast, Bloomin' has no public commitments on deforestation or greenhouse gas emissions. Proponents fear that Bloomin's lack of deforestation or emissions policies may expose the Company to material risks.

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[1] https://www.ucsusa.org/global-warming/stop-deforestation/whats-driving-deforestation
[2] https://chainreactionresearch.com/reports/economic-drivers-of-deforestation-sectors-exposed-to-sustainability-and-financial-risks/
[3] https://bit.ly/2xO9j0u

Rationale details:

1. **OPERATIONAL AND REGULATORY RISKS – ELIMINATING DEFORESTATION RISK CAN BUFFER THE COMPANY AGAINST COMPROMISED SUPPLY CHAINS AND REGULATORY RISK**

Bloomin' identified fluctuations in commodity availability and price, as well as the Company's ability to comply with changing laws, as risk factors in its 2019 10-K.[4] Meat, poultry, and fish are central menu items in Bloomin's restaurants and are commodities which can be linked to deforestation directly or indirectly through feed (the majority of soy is used for animal feed).[5] These commodities are subject to price volatility and changing availability in response to the impacts of deforestation and climate change. Deforestation and the associated effects of climate change negatively impact agricultural production,[6] create volatility in commodity markets, generate risk for global food security,[7] and pose risks to supply chain continuity for companies sourcing forest commodities. Deforestation and climate change are already causing adverse effects in key commodity-producing regions. The Company's supply chains are also vulnerable to regulatory risk as more governments adopt policies, including on deforestation and greenhouse gas emissions, in alignment with the Paris Climate Agreement. It is in Bloomin's interests to anticipate these regulations, rather than be forced to react under potentially adverse market and regulatory conditions.

Deforestation presents systemic operational risk to supply chain stability and commodity prices. Mitigating deforestation exposure correspondingly reduces financial risk.

- Deforestation driven by commodity agriculture compromises medium- and long-term agricultural productivity, which influences commodity availability. Deforestation drives soil erosion, which has caused nearly 33% of the world's adequate or high-quality food-producing land to be lost, threatening future commodity availability and agricultural productivity.[8] Bloomin's deforestation exposure thus contributes to the Company's own commodity shortages and costs.
- Clearing land to expand agriculture has begun to undermine the present and future profitability of Brazilian farmers and cattle ranchers – and consumer goods companies that depend on their commodities. Bloomin's main Brazilian beef suppliers, JBS and Marfrig, source soy for cattle feed from the Cerrado,[9] where

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[4] https://investors.bloominbrands.com/node/10596/html
[5] https://news.mongabay.com/2019/01/brazilian-hunger-for-meat-fattened-on-soy-is-deforesting-the-cerrado-report/
[6] https://bit.ly/3bgDk7U
[7] https://www.nytimes.com/2019/08/08/climate/climate-change-food-supply.html
[8] http://www.reuters.com/article/2014/12/05/us-food-soil-farming-idUSKCN0JJ1R920141205
[9] https://news.mongabay.com/2019/01/brazilian-hunger-for-meat-fattened-on-soy-is-deforesting-the-cerrado-report/

deforestation has reduced rainfall over the last 30 years. In 2012-2013 and 2015-2016, drought reduced soy production by as much as 40%.[10, 11]

- Research by the investor network Farm Animal Investment Risk and Return (FAIRR) found that changing precipitation patterns are causing animal protein industries to "suffer" from changes in feed costs, irrigation restrictions, and reductions in herd size.[12] Reduced crop yields increase the cost of feed and force ranchers to reduce herd size, which, in turn, can increase the price of meat.[13]
- The Intergovernmental Panel on Climate Change (IPCC) warned that climate change is reducing crop yields and risks putting the global food supply at risk. The IPCC highlights agriculture-driven deforestation as a key part of the problem.[14] Agricultural growth can be synchronous with sustainable sourcing practices: in the Amazon, soy production increased 400% while soy-driven deforestation declined.[15]

Bloomin's current supply chain is increasingly vulnerable to regulatory enforcement and the changing regulatory landscape on deforestation and climate change.

Bloomin's current sourcing arrangements are vulnerable to this impending wave of regulation, whether in the form of increased commodity costs or the need to find new suppliers when existing suppliers can no longer operate legally.

- Bloomin' sources beef from Marfrig and JBS, meat processors associated with illegal practices that operate in areas at high risk of deforestation.[16] JBS faced sanctions from the Brazilian government in 2017 for buying tens of thousands of cattle from illegally deforested areas in the Amazon. [17] A 2019 investigation from *Repórter Brasil* found both JBS and Marfrig have purchased cattle from ranches associated with illegal deforestation and slave labor.[18]
- The amount of climate change-related legislation has been increasing globally, from 72 laws and policies in 1997 to more than 1,500 in 2018.[19] The London School of Economics found that all 197 countries which signed the landmark

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[10] https://chainreactionresearch.com/report/cerrado-deforestation-disrupts-water-systems-poses-business-risks-for-soy-producers/
[11] https://chainreactionresearch.com/report/cerrado-deforestation-disrupts-water-systems-poses-business-risks-for-soy-producers/
[12] https://www.bloomberg.com/news/articles/2019-09-03/climate-change-is-already-costing-meat-and-dairy-producers-a-lot
[13] http://wordpress.vermontlaw.edu/environmentalhealth/2014/04/16/climate-change-and-the-rise-in-beef-prices/
[14] https://www.bloomberg.com/news/articles/2019-08-08/farmers-tree-cutters-also-add-to-climate-change-report-says
[15] https://www.fairr.org/engagements/amazon-soy-moratorium/
[16] https://chainreactionresearch.com/report/cattle-driven-deforestation-a-major-risk-to-brazilian-retailers/
[17] https://www.climatechangenews.com/2017/03/31/troubled-meatpacker-jbs-sanctioned-amazon-deforestation/
[18] https://news.mongabay.com/2019/09/worlds-biggest-meatpackers-buying-cattle-from-deforesters-in-amazon/
[19] https://bit.ly/3a03kE9

Paris Agreement now have at least one law in place to limit global temperatures.[20]

- The United Nations' Principles for Responsible Investment has forecast "inevitable policy responses" to climate change as pressure mounts on governments. Since all scenarios for meeting global emissions reductions targets require ending deforestation,[21] more legislation on deforestation can reasonably be expected.[22]

2. REPUTATIONAL RISKS – A COMMITMENT TO ADDRESS DEFORESTATION COULD IMPROVE THE COMPANY'S SOCIAL LICENSE TO OPERATE

Bloomin's "ability to effectively respond to changes in patterns of consumer traffic, consumer tastes and dietary habits" is a risk factor that the company identifies in its 10-K.[23] Growing global concern about the environmental, social, and climate-related impacts of deforestation and greenhouse gas emissions is shifting public perception on corporate sustainability and is changing consumer purchasing habits. Negative attention from media and NGO campaigns is increasing the public profile of deforestation as an environmental concern, and can influence consumer behavior. Bloomin' lacks policies for forest-risk commodities, heightening its potential for reputational damage. Bloomin' could mitigate these risks by adopting and implementing policies to mitigate their exposure to deforestation.

Companies linked to deforestation may receive negative attention, impairing brand reputation.

- Major media outlets, including *The New York Times*[24] and *Bloomberg,*[25] as well as risk analysis platforms like *Chain Reaction Research*, are increasingly covering deforestation, exposing laggard companies to reputational risk.
- Chain Reaction Research, which analyzes financial risk in soft commodity supply chains, has calculated that reputation events can impact company value by as much as 30%.[26] JBS's stock price fell 25% in 2017 after JBS purchased cattle from illegally deforested regions in Brazil; continued lack of progress on transparency and zero deforestation contributed to continued downward pressure on share price.[27]
- Influential NGOs have targeted companies, including restaurant brands with exposure to deforestation, in high-profile campaigns. Bloomin' peer Burger King,

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[20] http://www.climateaction.org/news/all-countries-of-the-paris-agreement-now-have-policies-to-fight-climate-cha
[21] https://news.mongabay.com/2019/12/paris-accord-impossible-to-implement-if-tropical-forest-loss-not-stopped/
[22] https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-macroeconomic-results/4879.article
[23] https://investors.bloominbrands.com/node/10596/html
[24] https://www.nytimes.com/2018/11/20/magazine/palm-oil-borneo-climate-catastrophe.html
[25] https://www.bloomberg.com/quicktake/deforestation
[26] https://chainreactionresearch.com/report/deforestation-driven-reputation-risk-could-become-material-for-fmcgs/
[27] https://bit.ly/2vzSiGF

for example, was the subject of an anti-deforestation campaign led by a coalition of NGOs, including Mighty Earth and the Union of Concerned Scientists.[28] Burger King was subsequently featured prominently in critical articles about deforestation in the *BBC*[29] and *The Guardian*, where Burger King made the headline for its supply chain impact.[30] The attention ultimately forced Restaurant Brands International, Burger King's parent company, to adopt new sustainability commitments.

- Conversely, where companies have strong policies in place, attention from NGOs can be an opportunity to demonstrate leadership and competitive advantage. McDonald's pledge to end deforestation in its supply chains was met with broad acclaim from NGO observers like the Union of Concerned Scientists[31] and the Environmental Defense Fund.[32] This endorsement was commended in major publications, such as *Reuters*,[33] that covered the company's no-deforestation commitment. An article in *The Guardian* emphasized that the World Wildlife Fund praised McDonald's move and capacity to lead and influence its peers. [34]

Consumers are increasingly concerned about sustainability, expecting companies to act, and are shifting their purchasing practices accordingly.

- More than two-thirds of restaurant customers "would be willing to pay more for a restaurant's green practices," according to a 2014 survey.[35] The National Restaurant Association's 2018 report on sustainability in the sector found that about half of consumers said that restaurants' sustainability efforts were "factors in choosing where to dine."[36]
- A 2018 survey found that 72% of Americans say global warming is important to them.[37]
- A survey from Cone Communications found that 83% of shoppers consider sustainability when making food purchasing decisions.[38]

3. COMPETITIVE RISKS – BLOOMIN'S CURRENT PRACTICES AND REPORTING ARE INADEQUATE TO ADDRESS RISKS AND PROTECT SHAREHOLDER VALUE AND SIGNIFICANTLY LAG BEHIND PEERS

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[28] http://www.mightyearth.org/burger-king-commits-to-stop-destroying-rainforestsin-13-years/
[29] https://www.bbc.com/news/uk-49973997
[30] https://www.theguardian.com/environment/2017/mar/01/burger-king-animal-feed-sourced-from-deforested-lands-in-brazil-and-bolivia
[31] https://thinkprogress.org/mcdonalds-commits-to-zero-deforestation-throughout-its-entire-supply-chain-602fd24e4e86/
[32] https://www.brandchannel.com/2015/04/22/mcdonalds-deforestation-042215/
[33] https://reut.rs/2Wu5Qia
[34] https://www.theguardian.com/sustainable-business/2015/apr/21/mcdonalds-deforestation-global-supply-chain
[35] https://journals.sagepub.com/doi/abs/10.1177/1096348014525632
[36] https://restaurant.org/Downloads/PDFs/Research/sustainability_report_2018.pdf
[37] http://climatecommunication.yale.edu/wp-content/uploads/2019/01/Climate-Change-American-Mind-December-2018.pdf
[38] http://www.conecomm.com/research-blog/2014-cone-communications-food-issues-study

Bloomin's efforts on supply chain sustainability lag well behind its peers, which have set and made significant progress toward achieving ambitious no-deforestation targets. The Company has no public statements or commitments on deforestation. By contrast, Bloomin's peers are successfully responding to the pressures of changing consumer demand and operational, reputational, and regulatory risk by increasing sustainability in their operations and supply chains. While the Board has drawn attention to the Company's work on food waste and sustainable packaging, Bloomin' has failed to address additional risks that peers evidently view as material. This failure to respond positions the Company as a laggard in the industry and leaves it at risk of competitive disadvantage.

Bloomin's current practices and disclosure are insufficient to inform consumers and investors of company risks and risk mitigation efforts.

- In communications with Green Century Capital Management in December 2019, Bloomin's VP of Corporate Affairs indicated that the company was "actively working on a public sourcing commitment and will update [its] website soon." The Company has since updated its website, though its published policies lack sufficient detail to communicate any clear targets and notably neglect to mention efforts on supply chain deforestation and Scope 3 emissions.[39] For example, the extent of Bloomin's commitment to ingredient sourcing is to "strive to source only products that are raised in a sustainable, ethical, and humane manner."[40]
- Bloomin's lack of transparency on its supply chain sourcing raises concerns about exposure. The Board has argued that Bloomin's main beef suppliers avoid "sourcing beef from deforested areas," but the Company sources beef from suppliers that operate in regions with high deforestation risk;[41] and one supplier, JBS, *reduced* the transparency of its supply-side reporting amid accusations of deforestation and corruption.[42]
- Bloomin' has scored well below competitors, such as McDonald's and Yum! Brands, on platforms that assess soft commodity risk. SCRIPT, a platform used by financial institutions to analyze soft commodity risk exposure, flags Bloomin' as "high-risk," scoring the company 3.5 out of 100.[43] CDP Forests, a reporting framework supported by investors representing $87 trillion in assets, scored Bloomin' an "F" across all forest-risk commodities in 2017, 2018, and 2019.[44]

In comparison, several of Bloomin's key peers have strong commitments that significantly mitigate their deforestation risk.

The Company's quick service peers have demonstrably mitigated their exposure to deforestation, giving them competitive advantages over Bloomin' in terms of their ability

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[39] https://www.bloominbrands.com/our-commitment/our-environment
[40] https://www.bloominbrands.com/our-commitment/our-ingredients
[41] https://www.theguardian.com/environment/2019/dec/11/dont-invest-in-brazilian-meat-warn-deforestation-campaigners
[42] https://chainreactionresearch.com/the-chain-jbs-backtracks-on-transparency-as-reputation-risks-grow/
[43] Bloomin' profile on Script. https://www.script.finance/tool/portfolio-risk/portfolios/company/5291
[44] https://bit.ly/2WpuWP7

to cater to consumer preferences for sustainable products, as well as the long-term stability of their supply chains.

- **McDonald's** has a 2020 zero-net deforestation policy that covers all major forest-risk commodities, including palm oil, beef, timber, and soy. The policy relies on best sourcing practices of prohibiting deforestation, development on peatlands, and workforce exploitation (NDPE). The company is a member of the Roundtable on Sustainable Palm Oil (RSPO) and reports to its Annual Communications of Progress (ACOP) survey on palm oil sourcing.[45] It also signed the New York Declaration of Forests (NYDF) in 2015[46] and the Cerrado Manifesto in 2017.[47] McDonald's scored 66.63/100 for soft commodity risk in SCRIPT.[48]
- **Yum! Brands** has a zero net-deforestation commitment for palm oil used for cooking, which it successfully transitioned to at the end of 2018. It signed the NYDF in 2019,[49] expanding its commitments to soy and beef. CDP Forests scored Yum! an "A-" for palm oil and a "B" for timber. The company is a member of the RSPO and reports to its ACOP survey on palm oil sourcing.[50] Yum! also implemented time-bound, quantifiable emissions reductions targets and reporting in 2018, including reporting on upstream and downstream emissions across its value chain (Scope 3 emissions).
- **The Cheesecake Factory** is committed to sourcing certified-sustainable palm oil by 2020 and establishing a buying preference for fully traceable palm oil that does not come from deforestation or clearing of high carbon stocks.[51] It is also working towards zero deforestation in the sourcing of its produce, cocoa, coffee, and tea.[52]
- **Restaurant Brands International (RBI)** has a commitment to eliminate deforestation in its global supply chain by 2030, covering commodities including beef, soy, and coffee.[53] RBI is the parent company of Burger King, Popeyes, and Tim Hortons.
- **Subway**'s work on climate action acknowledges that eliminating deforestation is a prime opportunity to reduce the company's greenhouse gas emissions.[54] Additionally, a majority of the company's paper and paper-based packaging is made with post-consumer recycled material, reducing Subway's reliance on virgin forest products.[55]

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45 https://rspo.org/members/908/McDonalds-Corporation
46 https://corporate.mcdonalds.com/corpmcd/scale-for-good/our-planet/conserving-forests.html
47 https://www.plantbasednews.org/news/giants-mcdonalds-unilever-sign-manifesto-calling-responsible-soy-production
48 McDonald's profile on Script. https://www.script.finance/tool/portfolio-risk/portfolios/company/5292
49 https://bit.ly/2WE9wxZ
50 https://rspo.org/members/7011/YUM-Brands-Inc
51 https://www.thecheesecakefactory.com/corporate-social-responsibility/sustainable-sourcing
52 https://www.thecheesecakefactory.com/corporate-social-responsibility/sustainable-sourcing
53 https://www.rbi.com/Responsible-Sourcing/Index?KeyGenPage=419600
54 https://www.subway.com/en-US/AboutUs/SocialResponsibility/EnvironmentalLeadership#ClimateAction
55 https://www.subway.com/en-US/AboutUs/SocialResponsibility/EnvironmentalLeadership#SustainablePackaging

CONCLUSION:

Bloomin' lacks sufficient policies and disclosure of efforts to address the risks posed by greenhouse gas emissions and deforestation in its supply chain. Reporting on Bloomin's ability to increase the scale, pace, and rigor of efforts to mitigate supply chain greenhouse gas emissions, inclusive of deforestation and land use change, would help the Company address competitive, reputational, and regulatory risk and the evolution of consumer preference.

The comparative weakness of Bloomin's current policies when compared with peers does not adequately protect Bloomin' or its investors from the risks associated with deforestation and greenhouse gas emissions. As competitors implement stronger initiatives to tackle exposure to deforestation within their own supply chains and as consumers continue to demonstrate demand for sustainably sourced products, the Company may be viewed as a laggard and lose customers and social license. As the environmental impacts of deforestation and climate change and rising consumer concerns become more pronounced, Bloomin' may face significant business risks if it fails to more aggressively manage its exposure to deforestation and greenhouse gas emissions in its supply chains.

Bloomin' has refused to meet with the proposal's proponents, despite repeated requests. The opposition statement fails to alleviate shareholder concerns about the company's management of supply chain deforestation and greenhouse gas emissions. The statement suggests that the Company views addressing supply chain deforestation as a distraction from work on risk mitigation and supply chain sustainability, even though competitors view deforestation both as a material risk and an effective way to "assist with the mitigation of supply chain greenhouse gas emissions."[56] In further contrast to peers, Bloomin' does not publicly disclose information on how it is managing either the risks above or the efforts mentioned in its opposition statement.

By failing to institute an effective policy for supply chain emissions, Bloomin' is increasingly vulnerable to these risk factors in a continually evolving consumer, competitive, and regulatory landscape. Reporting on the feasibility of adopting a Scope 3 emissions policy, including land use change, and including transparency of all factors and stakeholders considered, is instrumental in addressing these risks.

Shareholders are urged to vote "FOR" the proposal asking Bloomin' to improve its mitigation of climate change and initiate a no-deforestation policy.

[56] Bloomin' Brands' Board of Directors Opposition Statement to this stockholder proposal

Chevron Corporation (CVX)

Proposal: Climate Lobbying Report

Proponent: BNP Paribas Asset Management
Adam Kanzer, Head of Stewardship - Americas,
adam.kanzer@bnpparibas.com

Resolution:

Resolved: Shareholders request that the Board of Directors conduct an evaluation and issue a report within the next year (at reasonable cost, omitting proprietary information) describing if, and how, Chevron's lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal).

The report should also address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks.

Summary:

- Corporate lobbying activities that are inconsistent with meeting the goals of the Paris Agreement present regulatory, reputational and legal risks to investors.
- Delays in implementation of the Paris Agreement increase the physical risks of climate change, pose a systemic risk to economic stability and introduce uncertainty and volatility into our portfolios.
- We believe that Paris-aligned climate lobbying helps to mitigate these risks, and contributes positively to the long-term value of our investment portfolios.
- Of particular concern are the trade associations and other politically active organizations that speak for business but, unfortunately, too often present forceful obstacles to progress in addressing the climate crisis.
- Insufficient information is presently available to help investors understand how Chevron works to ensure that its lobbying activities, directly, in the company's name, and indirectly, through trade associations, align with the Paris Agreement's goals, and what Chevron does to address any misalignments it has found.
- Two hundred institutional investors managing $6.5 trillion wrote to Chevron in September 2019 seeking information on how the company is managing this critical governance issue. The company's response provided no information on how Chevron assesses policy alignment with the Paris Agreement.

Background:

As investors, we view fulfillment of the Paris Agreement's goal – to hold the increase in the global average temperature to "well-below" 2°C above pre industrial levels, and to pursue efforts to limit the temperature increase to 1.5°C – as an imperative. We are convinced that unabated climate change will have a devastating impact on our clients, plan beneficiaries, and the value of their portfolios. We see future "business as usual" scenarios of 3-4°C or greater as both unacceptable and uninvestable.

According to the most recent annual "Emissions Gap Report" issued by the United Nations Environment Programme (November 26, 2019), critical gaps remain between the commitments national governments have made and the actions required to prevent the worst effects of climate change. Companies have an important and constructive role to play in enabling policy-makers to close these gaps.

A set of Investor Expectations on Corporate Climate Lobbying, launched in Europe in 2018[1] and submitted to all U.S. members of Climate Action 100+ in 2019,[2] asks companies to lobby in favor of the Paris Agreement's goals, assess how direct and indirect lobbying activities align with the Paris Agreement, act on any misalignments found, and publicly report on this analysis.

Investors have reached agreement on the Investor Expectations with 16 major European corporations, including peer companies BP, Equinor, Repsol, Shell, and Total.

Insufficient information is presently available to help investors understand how Chevron works to ensure that its lobbying activities, directly, in the company's name, and indirectly, through trade associations, align with the Paris Agreement's goals, and what Chevron does to address any misalignments it has found.

Chevron's trade association memberships present potential Paris Agreement misalignments. For example, Chevron is a member of the American Fuel and Petrochemical Manufacturers (AFPM) and the Western States Petroleum Association. BP recently announced[3] it would be leaving both organizations due to misalignments on climate policy and Total[4] and Shell[5] both announced they will leave AFPM. All three companies have published reports discussing their analysis. The Proposal does not dictate what actions Chevron should take, and Chevron's board may ultimately disagree with BP, Shell, and Total's analyses, but these peer reports suggest that a review of trade associations is warranted.

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[1] https://bit.ly/392WT1H
[2] https://bit.ly/2QxzHCw
[3] https://on.bp.com/2wgkzCH
[4] https://bit.ly/2J0IlzK
[5] https://go.shell.com/2J4oPYM

Chevron Corporation (CVX)

Proposal: Paris Alignment

SEC Allowed Omission From Ballot

Proponent: As You Sow
Danielle Fugere
2150 Kittredge St., Suite 450
Berkeley, CA 94704
dfugere@asyousow.org

NOTE: Chevron challenged this resolution and the SEC advised the company that it could keep it off the proxy ballot. The SEC concurred with Chevron's argument that the proposal was "substantially implemented." We include the memo making the business case supporting the resolution below because *it could be useful to investors who engage in dialogue with Chevron, or those who seek to better understand the nature and extent of climate risks faced by the company.*

Resolution:

Resolved: Shareholders request that Chevron issue a report (at reasonable cost, omitting proprietary information) describing if, and how, it plans to reduce its total contribution to climate change and align its operations and investments with the Paris Agreement's goal of maintaining global temperature rise well below 2 degrees Celsius.

Summary:

1. Climate change increases risk to investor portfolios; Chevron's emissions continue to contribute significantly to climate risk.
2. Chevron does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well-below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.
3. Chevron compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.

Background:

The Paris Agreement, reached in 2015 at the COP21 conference, set a worldwide goal of maintaining global temperature rise well-below 2 degrees Celsius, including pursuing efforts to limit temperature rise to 1.5 degrees Celsius ("Paris Goal"). In an October 2018 report, the Intergovernmental Panel on Climate Change (IPCC) warned that global warming above 1.5 degrees Celsius will create catastrophic impacts. To avert such catastrophic impacts, it instructs that global emissions of carbon dioxide must reach "net

zero" by 2050. Limiting global warming to 1.5 degrees Celsius, versus 2 degrees, will avoid an estimated $20 trillion in damages to the global economy by 2100.[1]

The energy industry is one of the largest contributors to climate change; Chevron is the second largest global emitter in the sector. Chevron's investment choices matter.

Investors recognize that a warming climate is toxic to successful long-term portfolios not only due to climate risk to the company, but also due to the growing risks that a warming climate poses to the economy and thus to shareholder portfolios. To address these growing risks, the financial community is taking action. The European Investment Bank and the World Bank announced they will cease funding fossil fuel projects. Norway's sovereign wealth fund announced divestment from oil and gas exploration and production companies. Other investors such as the $40 trillion AUM Climate Action 100+ coalition are seeking Paris Alignment from large emitters. Criteria for Paris alignment include: disclosure of Scope 1 through 3 emissions; adoption of a net-zero by 2050 or equivalent target; a business plan for becoming Paris Aligned; and a declining carbon footprint. Despite disclosing its Scope 3 emissions, Chevron does not meet any of the other criteria.

Peer oil and gas companies are taking steps to align with Paris goals, including taking responsibility for their full carbon footprints, including Scope 3 emissions. Repsol, for example, announced a net-zero by 2050 target and a write down of billions in unaligned assets.[2] BP followed shortly after with an announcement to reach net-zero operations by 2050 for its Scope 1-2 emissions, while increasing the ambition of its Scope 3 intensity target to 50%.[3] Shell has decreased reserves life to below the industry standard and set targets addressing its Scope 3 emissions.[4] Orsted has moved significantly into offshore wind, positioning itself as a "green energy supermajor," and has been rewarded by a 70% increase in share value from early 2019 to early 2020.[5]

Chevron's apparent inaction with regard to Paris alignment serves to differentiate the company from its peers. While Chevron's reports suggest that it is aligning its actions with Paris goals, it does not take responsibility for its Scope 3 product emissions, the largest component of its greenhouse gas (GHG) footprint. Its GHG reduction goals are short term and limited to certain operations, addressing just a small portion of total emissions. Chevron has not provided a business plan to transition and align its enterprise with the Paris goal, instead announcing plans for substantial growth in its reserves base. Recent analysis from think tanks Carbon Tracker and the Transition Pathway Initiative indicate Chevron's trajectory is far above Paris goals.

[1] https://www.nature.com/articles/s41586-018-0071-9.epdf
[2] https://reut.rs/2J6r91l
[3] https://on.bp.com/33CIGI0
[4] https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
[5] https://www.ft.com/content/74b377c8-4435-11ea-abea-0c7a29cd66fe

Rationale details:

1. Climate change increases risk to investor portfolios; Chevron's emissions continue to contribute significantly to climate risk.

As a result of rising global temperatures, the world is already experiencing unprecedented and extreme weather events and disruptions. These events are predicted to occur with even greater frequency and impact as the world warms. Capital markets have begun to register this climate change crisis. Some of the largest and most influential actors in finance are mobilizing around the need to better assess the risks that climate change poses to the global economy and investor portfolios. BlackRock, the world's largest asset manager, with over $7 trillion in assets under management, recently issued a report in which CEO Larry Fink stated, "the evidence on climate risk is compelling investors to reassess core assumptions about modern finance."[6] His CEO Letter further declared, "companies have a responsibility – and an economic imperative – to give shareholders a clear picture of their preparedness. … Disclosure should be a means to achieving a more sustainable and inclusive capitalism."[7]

Climate Action 100+, a group made up of investors with more than $40 trillion in assets under management, is asking over 100 of the largest greenhouse gas emitting companies (including Chevron) to reduce their GHG emissions "consistent with the Paris Agreement's goal," implement a strong governance framework to account for climate change, and provide enhanced, relevant disclosures.[8] The Net-Zero Asset Owner Alliance, with nearly $4 trillion in assets under management, also aims to align its portfolio with a below-2 degree scenario. In early 2020, the Church of England and FSTE Russell created an index that includes companies working to align greenhouse gas emissions with the Paris Agreement and bars companies that are not.[9] At the end of 2019, 33 banks with $13 trillion in assets signed the U.N. Principles for Responsible Banking, committing to align their financing with the Paris Agreement goal,[10] an outcome that will affect oil and gas companies' access to capital,[11] while a nearly $40 billion pension fund – Brunel Pension Partnership – stated plans to vote against board members or divest from firms that are not aligning with the Paris Agreement.[12]

Chevron ranks second of the top-20 highest-carbon-emitting fossil fuel companies in the world.[13] Chevron expanded oil and gas capital expenditure from $18 billion in 2018 up to $20 billion in 2019.[14,15] The increased capital investments Chevron is now planning

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6 https://www.nytimes.com/2020/01/14/business/dealbook/larry-fink-blackrock-climate-change.html
7 https://www.blackrock.com/us/individual/larry-fink-ceo-letter
8 http://www.climateaction100.org/ (FAQ)
9 https://www.nytimes.com/2020/01/31/business/church-of-england-climate-change.html
10 https://www.unepfi.org/news/industries/banking/collective-commitment-to-climate-action/
11 https://www.unepfi.org/net-zero-alliance/
12 https://bloom.bg/33CcIeX
13 https://www.theguardian.com/environment/2019/oct/09/revealed-20-firms-third-carbon-emissions
14 https://www.chevron.com/stories/chevron-announces-20-billion-capital-and-exploratory-budget-for-2019
15 https://www.chevron.com/stories/chevron-announces-18-3-billion-capital-and-exploratory-budget-for-2018

will lock in higher carbon emissions for decades to come, making it more difficult for the world to achieve its climate goals. This alone suggests that Chevron is not aligning or transitioning its business plans to align with the Paris goal.

Chevron's apparent failure to align its business plan with the Paris goals exposes both the Company and shareholders' portfolios to avoidable risk. If, however, Chevron does plan to align its emissions with the Paris goal, this is a critical issue to investors and one that the Company should disclose to investors.

2. **Chevron does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.**

Nowhere within the Company's 2019 Climate Change Resilience and update reports does the Company clearly state whether or not it has an intent to align its climate footprint with the Paris goal of net-zero emissions by 2050. Instead, disclosures in recent years rely on phrases such as: it "shares the concerns of governments and public about climate change,"[16] it "aims to reduce emissions intensity while improving [its] operations and supporting the objectives of society as expressed in the Paris Agreement,"[17] that it "sees the Paris Agreement as a first step toward a global framework that is generally in line with the first of Chevron's Policy Principles of Addressing Climate Change,"[18] and it "remains committed to working with policymakers to help inform any decisions and actions."[19] The Company also refers to alignment with the Paris Agreement's focus on the stocktake milestones tied to Paris-relevant, near-term timelines (2016 to 2023).[20] This represents a procedural alignment of 5-year goal setting, but does not demonstrate whether the Company is or is not in substantive alignment with the Paris well-below 2 degree goal through year 2050. Statements such as this impede shareholders seeking clarity as to whether the company is in alignment with the Paris goal.

Chevron has set targets to reduce only some *operational* emissions: upstream oil net-GHG intensity (5-10% by 2023) and upstream natural gas net-GHG emission intensity (2-5% by 2023),[21] as well as flaring intensity (25-30% by 2023) and methane intensity (20-25% by 2023).[22] While the planned operational emissions reductions are a

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[16] https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf, p. 20
[17] https://www.chevron.com/-/media/shared-media/documents/update-to-climate-change-resilience.pdf, p. 8
[18] https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf, p. 20
[19] https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf, p. 20
[20] https://www.chevron.com/-/media/shared-media/documents/update-to-climate-change-resilience.pdf, p. 8
The Company states that it assigns 2016 as the baseline year for its targets and that this "aligns with the year the Paris Agreement was ratified." While true, this is a non-sequitur for purposes of the Proposal
[21] https://www.chevron.com/stories/chevron-sets-new-greenhouse-gas-reduction-goals
[22] https://www.chevron.com/-/media/shared-media/documents/update-to-climate-change-resilience.pdf, p. 8

necessary first step, Chevron does not explain to shareholders that such reductions will reduce only a small fraction of the Company's full climate footprint; full operational and energy-related emissions account for an estimated 13%, according to 2017 numbers provided by Chevron.[23] Chevron's planned emission reductions are thus likely to appear larger than they are to the average investor not schooled in climate science. Chevron does not address the limited extent of its planned emissions reductions.

While touting its planned operational emission reductions, the Company has disclaimed any goals or plans to substantially reduce the largest part of its climate footprint – its product emissions. Chevron affirmatively fails to address or take responsibility for product emissions, which account for most of the company's overall emissions.[24] Instead, the Company has announced plans for ambitious and aggressive growth of product output in the next few years – projecting 3-4% compound annual production growth from 2020 through 2023 – that will only hasten destructive climate change.[25] While the company does mention research related to low-carbon technologies such as carbon capture and biofuels,[26] Chevron has disclosed no information to indicate that it has a program to scale these projects along the timelines necessary to align with Paris goals. From the Company's Reports, it is impossible to conclude that these activities are being invested in or accomplished at a scale, pace, and level of ambition that will reduce the Company's full climate footprint in alignment with global goals of well below 2°C.

The Company must be clear with investors. While mentioning the Paris Agreement frequently in its reports, it fails to disclose if and how it intends to align with the Paris goal. To answer this first question, whether Chevron plans to align with the Paris goal or not – a clear "Yes" or "No" response is required. If the Company answers "Yes," that it intends to align with the Paris goal as described by investors, it must demonstrate how and when it plans to meet the criteria of alignment, including: disclose Scope 1 through 3 emissions; adopt a net-zero by 2050 or equivalent target; provide a business plan for becoming Paris Aligned; and demonstrate a declining carbon footprint. While disclosing its Scope 3 emissions, Chevron neither answers the question, nor describes how it plans to meet the remaining Paris-aligned criteria. Clarity on these issues is important to investors who seek to compare Chevron to its peers.

3. **Chevron compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.**

While Chevron retains the title of one of the top carbon-polluting, investor-owned oil and gas companies globally, peers have been engaging proactively with shareholders and

[23] https://www.chevron.com/-/media/shared-media/documents/update-to-climate-change-resilience.pdf, p.18
[24] https://www.chevron.com/-/media/shared-media/documents/update-to-climate-change-resilience.pdf, p.18
[25] https://www.chevron.com/stories/chevron-outlines-strategy-for-disciplined-growth-and-higher-returns
[26] https://www.chevron.com/-/media/shared-media/documents/update-to-climate-change-resilience.pdf, p.8

adopting policies to meaningfully reduce their operational and product emissions to align with the Paris goal. For example, Repsol recently announced a net-zero by 2050 goal, including product emissions, while announcing a write-down on non-aligned oil and gas assets.[27] In early 2020, BP also set a net-zero by 2050 target for its operations and oil and gas production, while further agreeing to cut the carbon intensity of products by 50%.[28] Royal Dutch Shell announced Scope 3 greenhouse gas intensity reduction ambitions and has decreased reserves life to below the industry standard.[29] Total has invested in renewable energy, is reducing the carbon intensity of its energy products, and has significant reduction ambitions through 2040 for its full climate footprint.[30] Equinor (formerly Statoil) is investing in wind energy development.[31] Orsted, previously a Danish oil and gas company, sold its oil and gas portfolio and is positioning itself to become the first global “green supermajor.”[32] While the majority of these companies are not yet fully aligned with Paris goals, they have stated with clarity both their intentions and their broad plans for achieving their stated goals. By stating ambitions to align with globally recognized climate goals, peer companies are providing assurance to investors not only that they will be well-positioned to thrive in a low-carbon energy future, but also that they are reducing their full range of greenhouse gas emissions to help achieve global goals.

Vote “Yes” on this Shareholder Proposal regarding if and how the Company is aligning business plans with the Paris Climate Change Agreement.

Chevron, one of the largest carbon emitters, appears to be moving in the wrong direction for achieving the global Paris goal of well-below 2ºC warming, as it expands business-as-usual capital expenditures in new fossil fuel projects. Chevron’s disclosures reference emissions reductions and the Paris Agreement, while the Company fails to set targets to dramatically reduce its full climate footprint. If Chevron has a plan to transition toward alignment with the Paris goal, it should be clear with investors and outline its business plans as to how it might do so. If it does not intend to align with the Paris goal of net-zero emissions by 2050, it should be clear with shareholders that it does not intend to do so.

Shareholders are seeking meaningful disclosures from Chevron – and every company with significant greenhouse gas emissions – about if and how it is aligning its business plans at the scale and pace necessary to avoid exceeding the Paris goal of maintaining global warming below 2 degrees Celsius.

Shareholders urge strong support for this proposal, which will bring increased transparency, and potentially action, on one of the largest risks facing the company and shareholders – the potential for catastrophic climate change.

[27] https://bit.ly/3ddhaoN
[28] https://on.bp.com/2WzD0N5
[29] https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
[30] https://www.total.com/sites/default/files/atoms/files/total_climat_2018_en.pdf, p. 35, p. 6
[31] https://www.equinor.com/en/how-and-why/climate-change.html
[32] https://www.ft.com/content/57482c0b-db29-3147-9b7e-c522aea02271

Chevron Corporation (CVX)

Proposal: Report on Petrochemical Risks

Proponent: As You Sow
Lila Holzman
2150 Kittredge St., Suite 450
Berkeley, CA 94704
lholzman@asyousow.org

Resolution:

Resolved: Shareholders request that Chevron, with board oversight, publish a report, omitting proprietary information and prepared at reasonable cost, assessing the public health risks of expanding petrochemical operations and investments in areas increasingly prone to climate change-induced storms, flooding, and sea level rise.

Summary:

1. Chevron's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.
2. Chevron does not provide shareholders with sufficient analysis and disclosure on managing growing risks to its petrochemical operations.

Background:

Investors are concerned about the financial, health, environmental, and reputational risks associated with operating and building-out new chemical plants and related infrastructure in Gulf Coast locations increasingly prone to catastrophic storms and flooding associated with climate change. Chevron Phillips Chemical Company (CPChem), owned jointly by Chevron and Phillips 66, is a major petrochemical producer in the Gulf Coast.

Petrochemical facilities like ethane crackers and polyethylene processing plants produce dangerous pollutants, including benzene (a known carcinogen), volatile organic compounds, and sulfur dioxide. These operations can become inundated and pose significant chemical release risks during extreme weather events.

Growing storms and the costs they bring our company are predicted to increase in frequency and intensity as global warming escalates. Recent reports show that greenhouse gas emissions throughout the petrochemical and plastic supply chain contribute significantly to climate change, thereby exacerbating the threat of physical risks such as storms. Flood-related damage is projected to be highest in Texas, where many of CPChem's petrochemical plants are concentrated, and Houston alone has

seen three 500-year floods in a three-year span. Hazardous chemical releases, such as those experienced by CPChem's petrochemical facilities during Hurricane Harvey, put surrounding communities at risk and erode the Company's social license to operate. Hurricane Harvey's impacts also contributed to lower earnings of $70 million from CPChem in 2017, which could burgeon if facilities are hit by worse and more frequent events in the future.[1]

While the Company rapidly expands its petrochemical assets in climate-impacted areas, investors seek improved disclosure to understand whether CPChem is adequately evaluating and mitigating public health risks associated with climate-related impacts and the dangerous chemicals it uses.

Rationale details:

1. **Chevron's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.**

Chevron has announced major billion-dollar investments for Gulf Coast-based projects over the next number of years.[2,3] The announced investment will significantly build-out petrochemical infrastructure along the Gulf Coast, constructing a major petrochemical plant with an ethylene cracker and two high-density polyethylene units. Existing and proposed petrochemical projects have the potential to create major liability during extreme weather events. Chevron was noted as being the source of some of the largest pollution leaks during Hurricane Harvey, indicating that the Company may be ill-prepared to manage the risks posed by climate change.[4]

Physical damage that occurs from flooding can result in major hazardous leaks, impacting local communities. The Center for International Environmental Law (CIEL) published a report in 2019 noting the extent to which petrochemical refining operations use and produce hazardous pollutants that cause health impacts including cancer, reproductive and birth defects, etc. The report emphasizes that fenceline communities are especially at risk, and that the risk is exacerbated by extreme weather events. During Hurricane Harvey roughly one million pounds of dangerous air pollutants like benzene, 1,3-butadiene, sulfur dioxide, and toluene were released by local refineries and plants.[5]

Leaks are a danger and liability for Chevron outside of more extreme events, which can compound vulnerabilities and impacts. Its facilities have been listed as the 2nd and the 6th largest offenders in the Houston region.[6,7] Peer companies are already facing civil

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1 https://chevroncorp.gcs-web.com/static-files/87b5b33d-4328-494b-afe9-6a0dc01dd556
2 https://bit.ly/3afypnC
3 https://www.chevron.com/stories/celebrating-our-growth-in-petrochemicals
4 https://bit.ly/2J3wOoN p.12
5 https://bit.ly/3di7s4v, p.17-22
6 https://environmentalintegrity.org/wp-content/uploads/2020/02/Benzene-Report-2.6.20.pdf
7 https://bit.ly/3dj7ZTL, p.21

legal action regarding the emerging issue of climate resiliency. In 2019, a judge in a Boston federal court allowed a lawsuit by the Conservation Law Foundation to move forward seeking $110 million for Exxon's failure to fortify an oil storage facility to withstand the physical impacts of climate change.[8]

Insurance companies are also becoming more acutely aware of climate-specific risks related to insuring companies, especially in areas subject to greater climate impacts such as hurricanes and flooding. Swiss Re has published a report on the rapidly growing costs of natural disasters, which reached $337 billion in 2017; Lloyd's of London cited natural disasters for its first loss in six years; and AXA has spoken out saying that major global warming would make the world uninsurable this century.[9] BlackRock, the world's largest asset manager, with $6 trillion in assets under management, released a report in April of 2019 on its assessment of physical climate risks, noting: "Our early findings suggest investors must rethink their assessment of vulnerabilities. Weather events such as hurricanes and wildfires are underpriced in financial assets."[10]

2. **Chevron does not provide shareholders with sufficient analysis and disclosure on managing growing risks to its petrochemical operations.**

Despite clear risks, Chevron provides investors with minimal discussion of its physical risks from climate change. In Chevron's last CDP disclosure in 2017 (it has declined to report to CDP beyond 2017), the Company states that it "has managed risks associated with the impact of severe weather on [its] operations" and that these "long-standing practices are being applied and extended to reflect possible climate impacts."[11] Similarly vague and non-descriptive language is offered by Chevron in its 2018 Climate Change Resilience report,[12] 2019 update,[13] and its 10-K, which does not even mention climate change under the "Risk Factors" section discussing natural causes.[14]

This lack of transparency is especially worrisome considering Chevron's large pollution leaks and loss of earnings during Hurricane Harvey, which underscore that Chevron's current risk management strategy is inadequate.[15] For instance, the company does not: identify which of its current and planned facilities are in areas at high risk of experiencing climate-related severe weather events; provide assumptions made and describe measures used to evaluate how climate change will affect its Gulf Coast facilities; report estimated emissions from unplanned upsets such as those that occur during hurricanes; outline strategies to communicate with key local stakeholders during emergency situations; or describe measures taken to minimize health impacts of associated chemical releases.

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[8] https://www.wbur.org/news/2019/03/13/exxonmobil-conservation-law-foundation-lawsuit-moves-forward
[9] https://www.ft.com/content/0f530242-02c1-11e9-9d01-cd4d49afbbe3
[10] https://www.blackrock.com/us/individual/literature/whitepaper/bii-physical-climate-risks-april-2019.pdf
[11] Chevron CDP report 2017. Section CC5.1b
[12] https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf, p.8
[13] https://www.chevron.com/-/media/shared-media/documents/update-to-climate-change-resilience.pdf
[14] https://bit.ly/3929e6s, p.19
[15] https://chevroncorp.gcs-web.com/static-files/87b5b33d-4328-494b-afe9-6a0dc01dd556, p.33

While some information on major spills must be reported to state and federal governments, companies are not required to report this to counties. Relying on required reporting can leave communities in the dark about the health risks they face; companies should therefore improve disclosures beyond what is required by law to retain and improve the goodwill and trust of local communities and governments and to indicate to shareholders the type of best management practices in place. As the risks of climate change become more apparent and urgent, shareholders require robust analysis and transparent disclosure of risks and company mitigation strategies in order to make appropriately informed investment decisions.

Vote "Yes" on this Shareholder Proposal regarding the risks of climate change to Chevron's petrochemical operations expansion.

Shareholders urge strong support for this proposal, which will bring increased transparency from Chevron toward the goal of better understanding the Company's level of preparedness to address climate risks to its significant petrochemical growth plans.

THE FOREGOING INFORMATION MAY BE DISSEMINATED TO SHAREHOLDERS VIA TELEPHONE, U.S. MAIL, E-MAIL, CERTAIN WEBSITES AND CERTAIN SOCIAL MEDIA VENUES, AND SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE OR AS A SOLICITATION OF AUTHORITY TO VOTE YOUR PROXY. THE COST OF DISSEMINATING THE FOREGOING INFORMATION TO SHAREHOLDERS IS BEING BORNE ENTIRELY BY ONE OR MORE OF THE CO-FILERS. PROXY CARDS WILL NOT BE ACCEPTED BY ANY CO-FILER. PLEASE DO NOT SEND YOUR PROXY TO ANY CO-FILER. TO VOTE YOUR PROXY, PLEASE FOLLOW THE INSTRUCTIONS ON YOUR PROXY CARD.

Dominion Energy, Inc. (D)

Proposal: Independent Board Chair

Proponent: Office of New York City Comptroller Scott Stringer and the New York City pension funds

Resolution:

Resolved: Shareholders of Dominion Energy, Inc. ("Dominion") ask the Board of Directors to adopt a policy, and amend the bylaws as necessary, to require the Chair of the Board to be an independent director. The policy should provide that (i) if the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the policy within 60 days of that determination; and (ii) compliance with this policy is waived if no independent director is available and willing to serve as Chair. This policy shall apply prospectively so as not to violate any contractual obligation.

Summary:

The role of the board is to supervise management, and if the board is chaired by the CEO then that person is his or her own boss. This lack of independent oversight of management is a governance weakness.

- According to proxy advisor Glass Lewis, "shareholders are better served when the board is led by an independent chairman who we believe is better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that exist when a CEO or other executive also serves as chairman."
- Intel's former Chair Andrew Grove stated, "The separation of the two jobs goes to the heart of the conception of a corporation. Is a company a sandbox for the CEO, or is the CEO an employee? If he's an employee, he needs a boss, and that boss is the board. The chairman runs the board. How can the CEO be his own boss?"
- In a recent *Harvard Business Review* article, Joseph Mandato and William Devine argued in favor of separating the chair and CEO roles, citing findings from interviews they conducted with CEOs, board chairs, investors and founders. Separation, they urged, "can strengthen the quality of the questions the corporation asks itself," which improves risk management, and amplifies the impact of feedback delivered to the CEO from the board's closed executive

sessions, making it easier to “check a top exec steering the company astray.” Mandato and Devine suggested that an independent chair could have helped prevent or mitigate the cultural, organizational and strategic weaknesses that have damaged Boeing, Facebook, and WeWork.[1]

Climate change has created unprecedented challenges and opportunities for electric utilities. Even after its February 2020 announcement of a “Net-Zero by 2050 decarbonization target,”[2] Dominion has failed to demonstrate that it has adopted the science-based strategies and done the planning required to meet that target. Dominion has not undertaken the necessary business transformation to mitigate the risks of climate change and position itself to take advantage of the opportunities presented by the shift to a zero-carbon economy. We believe that the failure to respond adequately to this challenge is ultimately a failure of leadership and governance.

- Except for a brief transition period, Dominion’s board has been chaired by current or former Dominion CEOs since 1992.
- Directors on boards with a joint CEO-Chair report being more likely to have difficulty voicing a dissenting view (57% versus 41%) and to believe that one or more of their fellow directors should be replaced (61% versus 47%), according to a 2019 survey by PwC.
- Concerns about weak board leadership are deepened by the fact that long-serving directors with long-standing ties to Chair and CEO Thomas F. Farrell II--but little or no public company experience outside of Dominion--hold *all* board leadership positions, including lead independent director, each committee chair, and all the seats on the Compensation, Governance and Nominating Committee. We are specifically referring to Lead Director John W. Harris and Committee Chairs Robert H. Spilman Jr., Mark J. Kington, and Helen E. Dragas.

    - Mr. Harris, Dominion’s lead director and chair of the Compensation, Governance and Nominating Committee, has served on the board for over 20 years. According to ISS Governance QualityScore, “an excessive tenure is considered to potentially compromise a director’s independence.” CalPERS’ Governance and Sustainability Principles state that independence “can be compromised at 12 years of service.”
    - Mr. Harris’ background raises other concerns in addition to long tenure. He is a real estate executive with no proxy-reported executive experience in any publicly traded company. His only prior proxy-reported public company board experience was at a natural gas company, Piedmont Natural Gas (1997-2014),[3] which was subsequently acquired by Duke Energy and has continuing ties to Dominion through the Atlantic Coast Pipeline (ACP) project.[4]

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[1] Joseph Mandato and William Devine, “Why the CEO Shouldn’t Also be the Board Chair,” Harvard Business Review, Mar. 4, 2020, available at https://bit.ly/2J2qkXe

[2] https://bit.ly/3ac3hVR

[3] Dominion Energy 2019 Proxy, p. 11.

[4] https://atlanticcoastpipeline.com/about/default.aspx

- Sustainability Committee Chair Dragas (board member since 2010) and Finance Committee Chair Kington (2005) have no proxy-reported public company experience apart from their Dominion board positions,[5] but they do have long-standing ties to Farrell, having served with him on the University of Virginia governing board of visitors. Dragas and Kington remained on the University of Virginia board in its two top positions (rector and vice-rector) after Farrell left and were the two key figures in a governance debacle which resulted in widespread criticism of the board's decision to fire the University president (later reversed) and, more broadly, their leadership approach.
- Robert H. Spilman Jr. (board member since 2009) chairs the Audit Committee.[6] He is the only committee chair and only compensation committee member with proxy-reported executive experience at a publicly traded company. Spillman is chair, president and CEO of Bassett Furniture Industries, a publicly traded Virginia company with market capitalization under $100 million, compared with Dominion Energy's $72.9 billion market capitalization.[7] Dominion deems him an "audit committee financial expert" as defined by the SEC[8] but the 2019 Dominion Proxy (p. 13) does not identify any specific audit or accounting experience.

- Dominion's 2019 proxy statement identifies eight directors with "environmental experience [which] is important to assess Dominion's environmental compliance obligations and operations." None of the eight have proxy-identified experience with renewable energy and several have backgrounds which cast doubt on their designation. The directors identified as environmental experts include:

  - Retired Altria Group (formerly Philip Morris Tobacco) President, Chair and CEO Michael E. Szymanczyk. Mr. Szymanczyk's past efforts to minimize the health impacts of smoking include a highly publicized joint appearance with Farrell, then serving as University of Virginia rector, to announce the tobacco firm's $25 million donation creating a "partnership that we believe has the potential to reduce the harm caused by smoking."[9]
  - Ronald W. Jibson, who headed Questar Corporation, a natural gas utility and pipeline operator, prior to its acquisition by Dominion.[10]
  - Committee Chairs Dragas and Spilman, whose proxy biographies provide no support for the environmental experience claims.

[5] Dominion Energy, 2019 Proxy, pp. 9-12

[6] Dominion Energy, 2019 Proxy, p. 12.

[7] Based on closing share prices, March 4, 2020.

[8] Dominion 2019 Proxy, p. 24.

[9] https://at.virginia.edu/2UobS0Y

[10] https://prn.to/2JhFx77

- The company missed a zboard refreshment opportunity following its acquisition of SCANA Corporation, a scandal-ridden, financially troubled South Carolina regulated utility.[11] Dominion selected two directors from the SCANA board with strong local ties to the South Carolina service area, but little business experience relevant to the governance of one of the nation's largest publicly traded utility companies.
- In the period leading up to Dominion's acquisition of SCANA, political and community leaders blamed SCANA's V.C. Sumner nuclear plant fiasco partly on lack of competence among all nine SCANA board members. "There isn't an engineer among them," South Carolina House of Representatives member Micah Caskey complained at a 2017 hearing. "I just think it's a damn shame none of them know anything about building a nuclear plant." League of Women Voters Vice President Lynn Teague agreed: "Maybe just one member who understood would have helped?"[12]
- In late February 2020, the Securities and Exchange Commission sued SCANA, Dominion and two former SCANA executives for fraud, charging that the utility had improperly taken more than one billion dollars from investors and ratepayers by lying about progress in construction of the nuclear reactors.[13]

Background:

Decarbonization of the economy and electrification of other sectors create unprecedented opportunities and challenges for utilities and their investors.

- Utilities are facing stagnant demand, with increases in usage from economic growth offset by increased efficiencies and development of distributed generation.
- Economy-wide decarbonization has the potential to drive a dramatic expansion of electricity usage as transportation, heating, and industrial activities are electrified.
- For Dominion, concerns about failure to decarbonize are compounded by the company's investment in a proposed natural gas pipeline beset by three years of delays, $3 billion in cost overruns and the company's long and costly history of violations of environmental laws and regulations.

On February 11th, Dominion announced a "Net-Zero by 2050" decarbonization goal but provided no transition plan.[14] The company's prior targets, 50% reduction by 2030 and 80% by 2050, were by its own admission not science-based.[15] Moreover, the company's most recent climate change disclosure statement, issued in 2019, said the company did "not anticipate" setting science-based targets within the next two years.[16]

[11] https://prn.to/2QuYA1F
[12] https://bit.ly/2xYqkFu
[13] https://bit.ly/2vEJfnT
[14] https://bit.ly/2U7DGrp
[15] Dominion 2018 CDP report, p. 30, available at https://bit.ly/2J2byQg
[16] https://bit.ly/2J4iVXl, p. 30.

On the very same day that Dominion announced the “Net-Zero” target, the company increased its fossil fuel investments by announcing plans to purchase Southern Company’s share of the ACP.[17]

An independent chair and directors with renewable energy experience might have helped Dominion avoid decisions which have cost the company billions of dollars and continue to threaten shareholder value:

1) Compliance with environmental laws and regulations

Dominion has a long and costly history of environmental violations. In each full year since Farrell became company president in 2004, the company has been fined for one or more violations of environmental laws or regulations. Over the past 20 years, Dominion has been fined at least $1.25 billion by agencies responsible for protecting the environment.[18]

2) The risks and costs associated with the ACP

Environmental fines pale in comparison with the financial risks looming for the ACP, which is managed and 53% owned by Dominion. The ACP was more than three years behind schedule and faced $3 billion in cost overruns by the time Dominion announced, on February 11, that it would gain majority ownership of this natural gas project by paying $175 million to acquire Southern Company’s 5% share.[19]

The project has faced multiple legal challenges. Although a Supreme Court ruling allowing the ACP to cross the Appalachian Trail seems likely, Morgan Stanley is pessimistic on prospects for completion based on a separate challenge also making its way through the courts. Morgan Stanley analysts see a “high risk that the ACP is not completed, given our view that the project will fail to satisfy endangered species requirements.” A “biological opinion” needed before the pipeline may be completed has been rejected three times at the Appeals Court level.[20] Investors have already partly discounted Dominion’s stock price due to the project’s uncertainty, according to Morgan Stanley, but the firm’s energy analysts see an additional 3%-5% downside if the courts definitively block completion.[21]

Even if the ACP wins every court test, the Institute for Energy Economics and Financial Analysis warns that it is likely to unnecessarily burden rate payers while losing money for its owners:

[17] https://bit.ly/3a4I1RT
[18] https://bit.ly/33ATYw3
[19] https://bit.ly/2WxwsP3
[20] https://ieefa.org/uncertainty-delay-continue-for-dominions-atlantic-coast-gas-pipeline/
[21] Morgan Stanley, Key Utilities Themes for 2020, 1/8/20

"The biggest threat to the project's profitability may come if and when the project is ever completed. The demand outlook for gas has changed dramatically since the project's inception and much of the project's original justification has evaporated. Indications are that the project's affiliated utility customers may struggle to convince state regulators to pass the full cost of pipeline transportation agreements through to utility customers. Indeed, the project does not represent good value to the ratepayer."[22]

3) Stranded asset risks

Financial analysts at Morgan Stanley estimate that between 89% and 100% of Dominion's coal capacity will be uneconomic by 2030.[23] An analysis by CarbonTracker estimates that Dominion's coal plants present a stranded asset risk of $2.5 billion.[24] The Morgan Stanley report suggests that Dominion could turn this stranded asset risk into a major "capex opportunity," growing its rate base as it invests $5 billion to replace the uneconomic coal plants with solar and wind capacity.

We believe that a board chair independent of management would be better able to lead the process of setting a strategy to position Dominion to take advantage of increased demand for decarbonized electricity and more effectively evaluate and mitigate the risks that excessive investment in natural gas generation capacity could become a stranded asset.[25]

Prepared by Majority Action in support of a proposal filed by the Office of the New York City Comptroller. The Assistant Comptroller for Corporate Governance, Michael Garland, can be reached at 212-669-2517.

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[22] https://ieefa.org/wp-content/uploads/2019/01/Atlantic-Coast-Pipeline_January-2019.pdf
[23] Morgan Stanley, Key Utilities Themes for 2020, 1/8/20
[24] https://companyprofiles.carbontracker.org/
[25] Mark Dyson et al, *Prospects for Gas Pipelines in the Era of Clean Energy*, Rocky Mountain Institute, 2019.

Delta Air Lines (DAL)

Proposal: Climate Lobbying Report

Proponent: BNP Paribas Asset Management
Adam Kanzer
Head of Stewardship - Americas
adam.kanzer@bnpparibas.com

Resolution:

Resolved: Shareholders request that the Board of Directors conduct an evaluation and issue a report within the next year (at reasonable cost, omitting proprietary information) describing if, and how, Delta's lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal).

The report should also address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks.

Summary:

- Corporate lobbying activities that are inconsistent with meeting the goals of the Paris Agreement present regulatory, reputational and legal risks to investors.
- Delays in implementation of the Paris Agreement increase the physical risks of climate change, pose a systemic risk to economic stability and introduce uncertainty and volatility into our portfolios.
- We believe that Paris-aligned climate lobbying helps to mitigate these risks, and contributes positively to the long-term value of our investment portfolios.
- Of particular concern are the trade associations and other politically active organizations that speak for business but, unfortunately, too often present forceful obstacles to progress in addressing the climate crisis.
- Insufficient information is presently available to help investors understand how Delta works to ensure that its lobbying activities, directly, in the company's name, and indirectly, through trade associations, align with the Paris Agreement's goals, and what Delta does to address any misalignments it has found.
- Two hundred institutional investors managing $6.5 trillion wrote to Delta in September 2019, seeking information on how the company is managing this critical governance issue. The company did not respond.

Background:

As investors, we view fulfillment of the Paris Agreement's agreed goal – to hold the increase in the global average temperature to "well below" 2°C above pre industrial levels, and to pursue efforts to limit the temperature increase to 1.5°C – as an imperative. We are convinced that unabated climate change will have a devastating impact on our clients, plan beneficiaries, and the value of their portfolios. We see future "business as usual" scenarios of 3-4°C or greater as both unacceptable and uninvestable.

According to the most recent annual "Emissions Gap Report" issued by the United Nations Environment Programme (November 26, 2019), critical gaps remain between the commitments national governments have made and the actions required to prevent the worst effects of climate change. Companies have an important and constructive role to play in enabling policy-makers to close these gaps.

A set of Investor Expectations on Corporate Climate Lobbying, launched in Europe in 2018[1] and submitted to all U.S. members of Climate Action 100+ in 2019,[2] asks companies to lobby in favor of the Paris Agreement's goals, assess how direct and indirect lobbying activities align with the Paris Agreement, act on any misalignments found, and publicly report on this analysis.

Investors have reached agreement on the Investor Expectations with 16 major European corporations, including Anglo American, BP, Equinor, Repsol, Shell, and Total.

The aviation industry is not on course to meet the Paris Agreement's goals. According to the International Coalition for Sustainable Aviation (ICSA)[3]:

> "... international aviation and domestic aviation together represent 918 Mt of CO2, or equivalent to the combined fossil fuel emissions of Germany (6th largest country emitter) and the Netherlands (36th largest country emitter).
>
> Countries in the U.N.'s International Civil Aviation Organization (ICAO) have agreed to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a market-based measure that sets a target of net CO2 emissions of international aviation at the average of 2019-2020 levels for the years 2021-2035. … While CORSIA is anticipated to address up to 2.5 Gt of CO2 emissions between 2021-2035, this is not enough to ensure that this rapidly growing

[1] https://bit.ly/39bg6ye
[2] https://bit.ly/2WxyAXh
[3] ICSA was established in 1998 by a group of national and international environmental Non-Governmental Organizations (NGOs) as official observers at the United Nations International Civil Aviation Organization (ICAO). See https://www.icsa-aviation.org/icsa-aviation-about-us/

> industry decarbonizes at levels and timeframes required to meet the 1.5C temperature goal of the Paris Agreement."[4] (*internal footnotes omitted)*

Delta responded to CDP's annual climate change survey, including information on the company's direct (in the company's name) and indirect (through trade associations and other organizations) lobbying efforts related to climate change and their consistency with corporate policy. This proposal seeks to answer a different question: How does Delta work to ensure that its direct and indirect lobbying activities align with the Paris Agreement's goals, and what does the company do to address any misalignments it has found?

Two hundred institutional investors managing $6.5 trillion wrote to Delta in September about its climate lobbying activities, and received no response. The report requested by this proposal would help to address the concerns raised in this letter, ensure a board review of Delta's climate lobbying efforts and help to reduce the risks related to climate lobbying that is misaligned with the Paris Agreement's "well-below 2 degrees" goal.

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[4] https://www.icao.int/Meetings/a40/Documents/WP/wp_561_en.pdf

Duke Energy (DUK)

Proposal: Independent Board Chair

Proponent: Office of New York City Comptroller Scott Stringer and the New York City pension funds

Resolution:

Resolved: Shareholders of Duke Energy Corporation ("Duke") ask the Board of Directors to adopt a policy, and amend the bylaws as necessary, to require the Chair of the Board to be an independent director. The policy should provide that (i) if the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the policy within 60 days of that determination; and (ii) compliance with this policy is waived if no independent director is available and willing to serve as Chair. This policy shall apply prospectively so as not to violate any contractual obligation.

Summary:

The role of the board is to supervise management, and if the board is chaired by the CEO then that person is his or her own boss. This lack of independent oversight of management is a governance weakness.

- According to proxy advisor Glass Lewis, "shareholders are better served when the board is led by an independent chairman who we believe is better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that exist when a CEO or other executive also serves as chairman."
- Intel's former Chair Andrew Grove stated, "The separation of the two jobs goes to the heart of the conception of a corporation. Is a company a sandbox for the CEO, or is the CEO an employee? If he's an employee, he needs a boss, and that boss is the board. The chairman runs the board. How can the CEO be his own boss?"
- In a recent *Harvard Business Review* article, Joseph Mandato and William Devine argued in favor of separating the chair and CEO roles, citing findings from interviews they conducted with CEOs, board chairs, investors and founders. Separation, they urged, "can strengthen the quality of the questions the corporation asks itself," which improves risk management, and amplifies the impact of feedback delivered to the CEO from the board's closed executive sessions, making it easier to "check a top exec steering the company astray." Mandato and Devine suggested that an independent chair could have helped

prevent or mitigate the cultural, organizational and strategic weaknesses that have damaged Boeing, Facebook, and WeWork.[1]

Climate change has created unprecedented challenges and opportunities for electric utilities. In September 2019, Duke Energy announced a new decarbonization goal of Net-Zero by 2050.[2] However, the company has not provided details on its plan to get there. Instead of announcing a timetable for significant reductions, Duke's most recent projections say reliance on fossil fuels to produce electricity will decline only slightly in the next ten years, from 63% in 2018 to 56% by 2030.[3] This and other statements in the company's own reports show that Duke is not doing what is needed to mitigate the risks of climate change and position itself to take advantage of the opportunities presented by the shift to a zero-carbon economy. We believe that the failure to respond adequately to this challenge is ultimately a failure of leadership and governance.

- Except for two transition periods, Duke CEOs have also served as chair of the board since 1999, compared with the 53% of S&P 500 companies whose boards have separated the roles of CEO and chair.
- Directors on boards with a joint CEO-chair report being more likely to have difficulty voicing a dissenting view (57% versus 41%) and to believe that one or more of their fellow directors should be replaced (61% versus 47%), according to a 2019 survey by PwC.
- Concerns about weak board leadership are exacerbated by Independent Lead Director Michael G. Browning's extremely long service (30 years as a director of Duke and predecessor companies) and his lack of relevant public company experience apart from that service. He would have been compelled to retire from the board years ago if the company followed its own retirement policy.
- Daniel DiMicco, an executive known for his outspoken denials that climate change is real, also sits on Duke's board.

Background on Duke's fossil-fuel related risks

Decarbonization of the economy and electrification of other sectors create unprecedented opportunities and challenges for utilities and their investors.

- Duke has the highest CO2 emissions of any U.S. investor-owned power producer.[4]
- Utilities face stagnant demand, with increases in usage from economic growth offset by increased efficiencies and development of distributed generation.
- Economy-wide decarbonization has the potential to drive a dramatic expansion of electricity usage as transportation, heating, and industrial activities are electrified.

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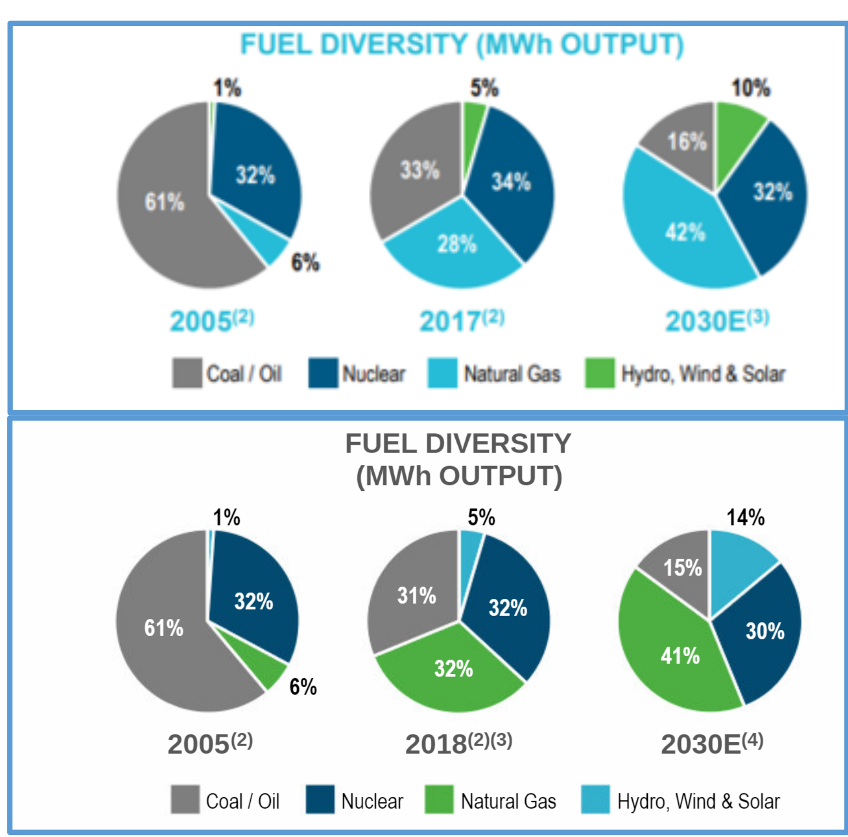
[1]Joseph Mandato and William Devine, "Why the CEO Shouldn't Also be the Board Chair," Harvard Business Review, Mar. 4, 2020, available at https://bit.ly/3a8exT5.
[2] Duke Energy aims to achieve net-zero carbon emissions by 2050
[3] https://bit.ly/2wnQiSc, p. 18
[4] MJ Bradley, Benchmarking Air Emissions, June 2019, available at https://bit.ly/2Upq1ej p. 19.

Duke's acknowledgement that it will generate most of its electricity from fossil fuels for at least the next decade undermines the credibility of the company's "Net-Zero" pledge.

In September 2019, Duke announced new goals: Net-Zero by 2050 and reduction of emissions by 50% from 2005 levels by 2030.[5] However, the announcement included no details on capital investments, retirement of plants that use fossil fuels to generate electricity, or other steps Duke will take to achieve those goals.

In its January 2020 investor update, Duke not only confirmed that it hasn't updated its fuel diversity target to reflect its new goals but also implied in a footnote that it may never be able to make firm projections because the "2030 estimate will be influenced by customer demand for electricity, weather, fuel availability and prices."[6]

Available data raises concerns further about the robustness of Duke's decarbonization goals. Duke's planned future fuel mix barely changed in projections published before and after its announcement of the new 2030 and 2050 targets. And its reliance on fossil fuels is increasing. In 2018, coal and natural gas provided 63% of Duke's electric power, up from 61% in 2017.



Duke: fuel diversity by output (January 2020 version above, November 2018 version below)

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[5] Duke Energy aims to achieve net-zero carbon emissions by 2050

[6] Winter Update January 2020 Slides, Slide 18.

Over-reliance on fossil fuels creates significant risks in three areas:

- **The Atlantic Coast Pipeline**

Duke is a 47% stakeholder in the troubled Atlantic Coast Pipeline project. Duke has remained fully committed to this project through three years of delays and $3 billion in cost overruns.

Although a Supreme Court ruling allowing the ACP to cross the Appalachian Trail seems likely, Morgan Stanley is pessimistic on prospects for completion based on a separate challenge also making its way through the courts. Morgan Stanley analysts see a "high risk that the ACP is not completed, given our view that the project will fail to satisfy endangered species requirements." A "biological opinion" needed before the pipeline may be completed has been rejected three times at the Appeals Court level.[7] Investors have already partly discounted the price of Duke's stock due to the project's uncertainty, according to Morgan Stanley, but the firm's energy analysts see an additional 3%-5% downside if the courts definitively block completion.[8]

Even if the ACP wins every court test, the Institute for Energy Economics and Financial Analysis warns that it is likely to unnecessarily burden rate payers while losing money for its owners:

> *"The biggest threat to the project's profitability may come if and when the project is ever completed. The demand outlook for gas has changed dramatically since the project's inception and much of the project's original justification has evaporated. Indications are that the project's affiliated utility customers may struggle to convince state regulators to pass the full cost of pipeline transportation agreements through to utility customers. Indeed, the project does not represent good value to the ratepayer."* [9]

- **The multi-billion coal ash cleanup**

In January, Duke settled long-running environmental litigation by agreeing to spend $8-9 billion over the next 10-15 years to clean up hazardous coal ash waste dumps for which it had already pled guilty to nine federal misdemeanors stemming from environmental violations.[10] On the company's fourth quarter investor conference call, Chairman, President and CEO Lynn Good warned that the settlement will be "detrimental" to the company's balance sheet if it fails to shift these costs to consumers as part of its rate base.[11]

- **Stranded asset risk**

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[7] https://ieefa.org/uncertainty-delay-continue-for-dominions-atlantic-coast-gas-pipeline/
[8] Morgan Stanley, Key Utilities Themes for 2020, Jan. 8, 2020
[9] https://ieefa.org/wp-content/uploads/2019/01/Atlantic-Coast-Pipeline_January-2019.pdf
[10] Duke agrees to largest coal ash cleanup in US after years of fighting with environmentalists
[11] Coal ash, Atlantic Coast Pipeline remain a headache for Duke as it expands 5 year spending by $6B

Duke's plan to continue burning coal until 2030 or beyond will be a drain on profitability, according to an economic analysis by CarbonTracker. CarbonTracker's review of the economics of each carbon-power plant operated by Duke estimated that the company faces a $6 billion stranded asset risk from its current coal fleet. The research group concluded that 89% of the company's coal fleet may have a negative effect on EBITDA today and 96% by 2030. They also said that Duke's entire coal fleet may have a long-run marginal cost greater than the levelized cost of replacing it with wind or utility-scale solar today. (Levelized Cost is the lifetime cost of a power generation facility divided by the total energy it produces).[12]

Utility analysts at Morgan Stanley argue that Duke could turn this stranded asset risk into a major "capex opportunity" by investing $7-$14 billion to replace its uneconomic coal plants. Analysts say such investments would increase Duke's rate base by 9% to 18%: "We see an opportunity for the company to accelerate its EPS growth rate by phasing out most, if not all the remaining coal generation."[13]

Slow planning for zero-carbon future ignores political realities in North Carolina

In October 2019, North Carolina Governor Roy Cooper issued a state Clean Energy Plan which recommends a more ambitious 2030 goal than Duke's: 70% reduction in electrical sector greenhouse gas emissions by 2030 relative to 2005. The North Carolina plan also calls for carbon-neutral electricity production by 2050[14] and incorporates the state's pre-existing goal of a 40% reduction in GHG emissions from all economic sectors by 2025.[15]

The Clean Energy Plan document says that Duke's current plans for "significant growth in natural gas electricity production" run counter to state objectives. It warns that this "business as usual approach will not achieve the goal to reduce power sector GHG emissions 70% below 2005 unless the additional generation need is met by clean energy sources." The report notes the declining cost of clean energy technologies and explicitly calls on state regulators to "consider the rapidly changing market dynamics that could lead to stranded natural gas assets."[16]

Background on Board of Directors Concerns

Duke's under-qualified Independent Lead Director

Duke's Corporate Governance Committee (the "Committee") is chaired by Independent Lead Director Michael Browning, who should have retired from the board as a result of Duke's mandatory retirement age and director tenure limit. Duke's Principles of Corporate Governance (the "Principles"), in effect until December 2018, provided,

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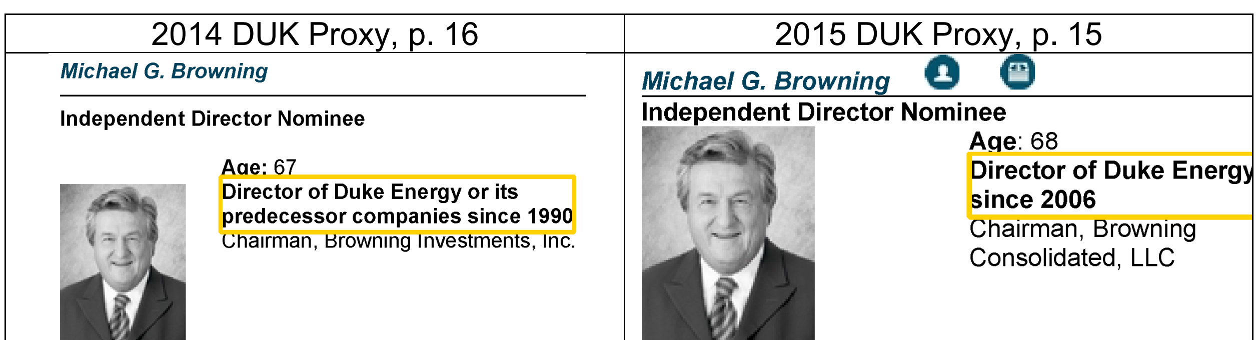
[12] https://companyprofiles.carbontracker.org/
[13] Morgan Stanley, Key Utilities Themes for 2020, Jan. 8, 2020, p. 7.
[14] North Carolina Clean Energy Plan, October 2019, p. 57, available at Clean Energy Plan. [NC Plan]
[15] NC Plan, p. 56.
[16] NC Plan, pp. 24-25.

without any mention of waiver, that “the normal retirement date will be the annual meeting held in the calendar year following the calendar year in which such director reaches the age of 71.”[17] Browning turned 71 in May 2017, and thus should have retired at the 2018 annual meeting. Duke’s 2018 proxy statement asserted that the board “may elect to waive the policy in circumstances it deems necessary” and disclosed that the Committee (of which Browning was chair[18]) had recommended that the board waive the retirement age as applied to Browning and another director, which it did.[19] (The other director did not stand for reelection at the 2019 annual meeting.[20]) In December 2018, the Principles were amended to permit such waivers.[21]

The December 2018 amendment of the Principles also added a director tenure limit, which states that “independent directors are normally expected to retire from the board by not standing for reelection” in the year of their fifteenth anniversary of service, unless the board has requested that the director serve an additional term or terms.[22] Duke’s proxy statements from 2015 through 2019 state that Browning’s tenure as a Duke director began in 2006, putting him at 13 years of service. But proxy statements in earlier years stated that Browning had been a director of Duke or its predecessor companies since 1990, which would mean his tenure is 29 years, much longer than the 15-year tenure limit contained in the Principles.[23] Duke has not disclosed a waiver of the tenure limit for Browning.

Browning’s biographies from the 2014 and 2015 proxy statements show the change in how Duke describes Browning’s tenure:

Figure 1: Browning Biographies from Duke's 2014 and 2015 Proxy Statements



2014 DUK Proxy, p. 16	2015 DUK Proxy, p. 15
Michael G. Browning	***Michael G. Browning***
Independent Director Nominee	**Independent Director Nominee**
Age: 67	**Age**: 68
Director of Duke Energy or its predecessor companies since 1990	**Director of Duke Energy since 2006**
Chairman, Browning Investments, Inc.	Chairman, Browning Consolidated, LLC

[17] Principles of Corporate Governance amended and restated as of Dec. 10, 2015 (available at https://bit.ly/2QBEfaX)
[18] See Definitive Proxy Statement of Duke Energy Corp. filed Mar. 22, 2018 (“2018 Proxy Statement”), at 5; Definitive Proxy Statement of Duke Energy Corp. filed Mar. 21, 2019 (“2019 Proxy Statement”), at 4.
[19] 2018 Proxy Statement, at 9.
[20] 2019 Proxy Statement, at 4.
[21] Principles of Corporate Governance amended and restated as of Dec. 13, 2018 (available at https://bit.ly/2WAJqf0. Browning was chair of the Committee when these amendments were adopted.
[22] Principles of Corporate Governance amended and restated as of Dec. 13, 2018 (available at https://bit.ly/2QAeMOW)
[23] See, e.g., Definitive Proxy Statement of Duke Energy Corp. filed on Mar. 17, 2011, at 6; Definitive Proxy Statement of Duke Energy Corp. filed on Mar. 20, 2014, at 16.

Duke's reliance on unqualified directors, including a climate denier and a natural gas enthusiast, to provide environmental expertise

Duke's 2019 proxy statement asserts that ten of the company's 13 directors have "environmental experience [which] is important to assess Duke Energy's environmental compliance obligations and operations."[24] Only one of these ten "environmental" board members has proxy-reported experience which *might* be related to renewable energy generation. She is Anne K. Clayton, who joined the Board in 2019. Clayton is President and CEO for North American Operations at Schneider Electric, SA,[25] which provides goods and services across the energy sector: for solar power,[26] for oil and natural gas production, distribution and refining[27] as well as for coal mining and coal-fired power plants.[28]

Directors inappropriately credited with "environmental experience" include:

- Regulatory Policy Committee Chair **Thomas E. Skains,** who is one of the energy industry's leading advocates for natural gas as a permanent solution to the climate crisis. Skains led Piedmont Natural Gas first into its 2014 agreement with Duke to jointly invest in the Atlantic Coast Pipeline and subsequently into its 2015 agreement to merge with Duke. If we count his pre-merger board service at Piedmont, 2020 will be his 18th year on the company's board of directors. Mr. Skains' record as a natural gas promoter includes the following actions and statements:
    - As chairman of the American Gas Association in 2009, Skains led opposition to legislation which would have required that electric utilities use efficiency measures to achieve 15% reduction in consumer demand and natural gas utilities achieve a 10% usage savings by 2020.[29]
    - He has argued that natural gas deserves "a unique and favored position" because "quite simply, natural gas is friendly to the environment."
    - He has also insisted that we should not "talk about natural gas as being a bridge to the future; we don't want to be a bridge to nowhere. We think we can be a long-term player in a clean and green energy economy."[30]

- Audit Committee Chair **Theodore Craver,** the former head of Edison International, was widely criticized for his handling of his company's 2012 San Onofre nuclear power plant leak, which led to years of litigation and regulatory disputes on the question of how to allocate the $4.7 billion closure cost.[31] Craver

[24] 2019 Proxy Statement, at 5.
[25] https://solar.schneider-electric.com/
[26] https://solar.schneider-electric.com/
[27] https://www.se.com/us/en/work/solutions/for-business/oil-and-gas/
[28] https://bit.ly/2Uox4UJ
[29] Electric Utility Week, Apr. 27, 2009.
[30] SNL Daily Gas Report Apr. 12, 2010.
[31] https://bit.ly/2WCI2J3

became a target of investigations and litigation related to alleged corruption in the relationship between Edison and the California Public Utilities Commission (CPUC) regarding the ratepayer bailout of the company following the San Onofre leak. Allegations include charges of improper secret conversations between Craver and Gov. Brown aimed at influencing Brown's CPUC appointees and ex parte communications between Craver and CPUC members[32]

- Most bizarrely, Duke identifies climate change denier Daniel DiMicco, the retired chairman, president and CEO of Nucor Steel, as one of its environmentally experienced directors. His history merits particularly close examination by concerned shareholders, who may wonder if this outspoken opponent of efforts to control CO2 emissions, whose own company has a track record of repeated environmental violations, should be disqualified from serving on the board of a company committed to eliminating all CO2 emissions. **DiMicco** is the second-longest-serving director after Browning. He retired from executive leadership at Nucor in 2013 but continues to serve, according to the 2019 Duke proxy statement, as Nucor's "chairman emeritus."[33]
    - DiMicco has publicly ridiculed efforts to reduce carbon emissions, claiming in 2015 that they were not a serious problem but rather a "Gov't $$$$ grab."[34] While DiMicco was Nucor's CEO, the company funded the Heartland Institute, which describes its climate program as countering "U.N. climate nonsense" and "global warming alarmism and propaganda."[35] In 2012, Heartland launched a billboard campaign that linked acceptance of the scientific evidence on climate change to Unabomber Ted Kaczynski (see Figure 2 below).[36] DiMicco defended continued funding of Heartland, claiming that "Nucor has been consistent in its support for scientific answers instead of political consensus."[37]

Billboard from the Heartland Institute

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[32] https://www.sandiegouniontribune.com/news/watchdog/sd-me-watchdog-brown-20171214-story.html
[33] 2019 proxy statement, at 11.
[34] https://twitter.com/danrdimicco/status/676408672902209536
[35] https://bit.ly/3bf9gti
[36] https://bit.ly/2QAxeqZ, https://bit.ly/2QwnEoM.
[37] https://bit.ly/3bc0sEc

- During DiMicco's tenure as Nucor CEO, the company paid fines to the EPA and Justice Department for environmental violations on 16 occasions, with a total outlay of more than $105 million.[38] This is by far the worst record in the U.S. steel industry.[39]
- Nucor remains the 28th largest emitter of toxic air pollutants in the U.S. and the 43rd worst water polluter, according to a University of Massachusetts Amherst study which used Environmental Protection Agency data to identify the nation's 100 worst polluters in each category.

<u>Conclusion:</u>

We believe that a board chair independent of management would be better able to lead the process of setting a strategy to position Duke to take advantage of increased demand for decarbonized electricity and more effectively evaluate and mitigate the risks that excessive investment in natural gas generation capacity could become a stranded asset.[40]

Prepared by Majority Action in support of a proposal filed by the Office of the New York City Comptroller. The Assistant Comptroller for Corporate Governance, Michael Garland, can be reached at 212-669-2517.

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[38] https://violationtracker.goodjobsfirst.org/prog.php?parent=nucor&company=nucor
[39] https://violationtracker.goodjobsfirst.org/parent/united-states-steel
[40] Mark Dyson et al, *Prospects for Gas Pipelines in the Era of Clean Energy*, Rocky Mountain Institute, 2019.

Devon Energy (DVN)

Proposal: Paris Alignment

Proponent: As You Sow
Danielle Fugere
2150 Kittredge St., Suite 450
Berkeley, CA 94704
dfugere@asyousow.org

Resolution:

Resolved: Shareholders request that Devon Energy issue a report (at reasonable cost, omitting proprietary information) describing if, and how, it plans to reduce its total contribution to climate change and align its operations and investments with the Paris Agreement's goal of maintaining global temperature rise well below 2 degrees Celsius.

Summary:

1. Climate change increases risk to investor portfolios; Devon's emissions continue to contribute significantly to climate risk.
2. Devon does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well-below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.
3. Devon compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.

Background:

The Paris Agreement, reached in 2015 at the COP21 conference, set a worldwide goal of maintaining global temperature rise well-below 2 degrees Celsius, including pursuing efforts to limit temperature rise to 1.5° degrees Celsius ("Paris Goal"). In an October 2018 report, the Intergovernmental Panel on Climate Change (IPCC) warned that global warming above 1.5 degrees Celsius will create catastrophic impacts. To avert such catastrophic impacts, it instructs that global emissions of carbon dioxide must reach "net zero" by 2050. Limiting global warming to 1.5 degrees Celsius, versus 2 degrees, will avoid an estimated $20 trillion in damages to the global economy by 2100.[1]

[1] https://www.nature.com/articles/s41586-018-0071-9.epdf

The energy industry is one of the largest contributors to climate change; Devon's emissions are significant. Devon's future investment choices matter.

Investors recognize that a warming climate is toxic to successful long-term portfolios not only due to climate risk to the company, but also due to the growing risks that a warming climate poses to the economy and thus to shareholder portfolios. To address these growing risks, the financial community is taking action. The European Investment Bank and the World Bank announced they will cease funding fossil fuel projects. Norway's sovereign wealth fund announced divestment from oil and gas exploration and production companies. Other investors such as the $40 trillion AUM Climate Action 100+ coalition are seeking Paris Alignment from large emitters. Criteria for Paris alignment include: disclosure of Scope 1 through 3 emissions; adoption of a net-zero by 2050 or equivalent target; a business plan for becoming Paris Aligned; and a declining carbon footprint. Devon does not meet these criteria.

Peer oil and gas companies are taking steps to align with Paris goals, including taking responsibility for their full carbon footprints including Scope 3 emissions. Repsol, for example, announced a net-zero by 2050 target and a write down of billions in unaligned assets.[2] BP followed shortly after with an announcement to reach net-zero operations by 2050 for its Scope 1-2 emissions, while increasing the ambition of its Scope 3 intensity target to 50%.[3] Shell has decreased reserves life to below the industry standard and set targets addressing its Scope 3 emissions.[4] Orsted has moved significantly into offshore wind, positioning itself as a "green energy supermajor," and has been rewarded by a 70% increase in share value from early 2019 to early 2020.[5]

Devon's apparent inaction with regard to Paris alignment serves to differentiate the company from its peers. Devon does not report or take responsibility for its Scope 3 product emissions, the largest component of its greenhouse gas footprint. Its methane reduction intensity target is short term and limited to operated assets. Furthermore, intensity targets increase efficiency but do not ensure reductions in the company's total carbon footprint. Devon has not provided a business plan to transition and align its enterprise with the Paris goal; instead, its direct greenhouse gas emissions and greenhouse gas intensity increased each year from 2016-2018. Analysis from think-tank the Transition Pathway Initiative indicates that Devon's trajectory is far above Paris goals.[6]

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[2] https://reut.rs/33zUDxT
[3] https://on.bp.com/398Ad0f
[4] https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
[5] https://www.ft.com/content/74b377c8-4435-11ea-abea-0c7a29cd66fe
[6] https://www.transitionpathwayinitiative.org/tpi/companies/devon-energy

Rationale details:

1. **Climate change increases risk to investor portfolios; Devon's emissions continue to contribute significantly to climate risk.**

As a result of rising global temperatures, the world is already experiencing unprecedented and extreme weather events and other disruptions. These events are predicted to occur with even greater frequency and stronger impacts as the world warms. Capital markets have begun to register this climate change crisis. Some of the largest and most influential actors in finance are mobilizing around the need to better assess the risks that climate change poses to the global economy and investor portfolios. BlackRock, the world's largest asset manager, with over $7 trillion in assets under management, recently issued a report in which CEO Larry Fink stated, "the evidence on climate risk is compelling investors to reassess core assumptions about modern finance."[7] His CEO Letter further declared, "companies have a responsibility – and an economic imperative – to give shareholders a clear picture of their preparedness. Disclosure should be a means to achieving a more sustainable and inclusive capitalism."[8]

Climate Action 100+, a group made up of investors with more than $40 trillion in assets under management, is asking over 100 of the largest greenhouse gas emitting companies (including Devon) to reduce their greenhouse gas emissions "consistent with the Paris Agreement's goal," implement a strong governance framework to account for climate change, and provide enhanced, relevant disclosures.[9] The Net-Zero Asset Owner Alliance, with nearly $4 trillion in assets under management also aims to align its portfolio with a below 2 degree scenario. In early 2020, the Church of England and FSTE Russell created an index that includes companies working to align greenhouse gas emissions with the Paris Agreement and bars companies that are not.[10] At the end of 2019, 33 banks with $13 trillion in assets signed the U.N. Principles for Responsible Banking, committing to align their financing with the Paris Agreement goal,[11] an outcome that will affect oil and gas companies' access to capital,[12] while a nearly $40 billion pension fund – Brunel Pension Partnership – stated plans to vote against board members or divest from firms that are not aligning with the Paris Agreement.[13]

Over the past 30 years, Devon has been the among highest-carbon-emitting fossil fuel companies in the world.[14] The oil and gas company's emissions have grown year on year between 2016 and 2018.[15] While it sold its Canadian assets in 2019, continued capital investments by Devon in oil and gas elsewhere will lock in higher carbon

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7 https://www.nytimes.com/2020/01/14/business/dealbook/larry-fink-blackrock-climate-change.html
8 https://www.blackrock.com/us/individual/larry-fink-ceo-letter
9 http://www.climateaction100.org/ (FAQ)
10 https://www.nytimes.com/2020/01/31/business/church-of-england-climate-change.html
11 https://www.unepfi.org/news/industries/banking/collective-commitment-to-climate-action/
12 https://www.unepfi.org/net-zero-alliance/
13 https://bloom.bg/3aaPejw
14 https://bit.ly/2UmuAGs
15 https://www.devonenergy.com/sustainability/performance-metrics

emissions for decades to come, making it more difficult for the world to achieve its climate goals. This alone suggests that Devon is not aligning with or transitioning its business plans to align with the Paris goal.

Devon's apparent failure to align its business plan with Paris goals exposes both the Company and shareholders' portfolios to avoidable risk. If, however, Devon does plan to align its emissions with the Paris goal, this is a critical issue to investors and one that the Company should disclose to investors.

2. **Devon does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well-below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.**

Nowhere does the Company clearly state whether or not it has an intent to align its climate footprint with the Paris goal of net-zero emissions by 2050. Devon's recent 2019 Sustainability and CDP reports note that the Company is taking minimal actions to reduce operational emissions and increase efficiency.[16] For example, while Devon aims to "achieve a methane-emissions intensity rate of 0.28%, down from an estimated 0.32% currently"[17] by 2025 for its operations, methane emissions only constitute a portion of overall operational emissions. Total operational and energy-related emissions account for, on average, less than 30% of oil and gas companies' emissions and may be substantially less.[18] Devon's planned emission reductions are thus likely to appear larger than they are to the average investor not schooled in climate science. Devon does not address the limited extent of its planned emissions reductions.

While touting its planned operational emission reductions, the Company has not announced any plans to substantially reduce the largest part of its climate footprint – its product emissions.[19] Devon fails to address or take responsibility for product emissions, which account for most of the company's overall emissions. It is impossible to assess Devon's full footprint since the Company does not disclose its Scope 3 emissions.

The Company must be clear with investors. Devon fails to disclose if and how it intends to align with the Paris goal. To answer the first question, whether Devon plans to align with the Paris goal – a clear "Yes" or "No" response is required. If the Company answers "Yes," that it intends to align with the Paris goal as described by investors, it must demonstrate how and when it plans to meet the criteria of alignment, including:

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[16] https://devonener.gy/2Wyhk42, p.18

[17] https://devonener.gy/393IB0R

[18] A company's carbon footprint accounts for the total greenhouse gases produced by a company inclusive of direct Scope 1 (operational emissions), indirect Scope 2 (energy use emissions), and Scope 3 (product & other indirect emissions). https://bit.ly/33zIqsZ. If the Company were to fully eliminate its operational emissions, which is impracticable, approximately 75-80% or more of its carbon footprint would remain. https://bit.ly/2x9ocue. Here, since Devon does not disclose its Scope 3 emissions in its reporting, shareholders are unsure what exact percentage operational emissions comprise of its total carbon footprint. 30% is a conservative estimate of such emissions.

[19] https://bit.ly/3dlXNtG

disclose Scope 1 through 3 emissions; adopt a net-zero by 2050 or equivalent target; provide a business plan for becoming Paris Aligned; and demonstrate a declining carbon footprint. Devon neither answers the question nor describes how it plans to meet the Paris-aligned criteria. Clarity on these issues is important to investors who seek to compare Devon to its peers.

3. **Devon compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.**

While Devon continues to be one of the top carbon-polluting companies globally, peer oil and gas companies have been engaging proactively with shareholders and adopting policies to meaningfully reduce their operational and product emissions to align with the Paris goal. For example, Repsol recently announced a net-zero by 2050 goal, including product emissions, while announcing a write-down on non-aligned, oil and gas assets.[20] In early 2020, BP also set a net-zero by 2050 target for its operations and oil and gas production, while further agreeing to cut the carbon intensity of products by 50%.[21] Royal Dutch Shell announced Scope 3 greenhouse gas intensity reduction ambitions and has decreased reserves life to below the industry standard.[22] Total has invested in renewable energy, is reducing the carbon intensity of its energy products, and has significant reduction ambitions through 2040 for its full climate footprint.[23] Equinor (formerly Statoil) is investing in wind energy development.[24] Orsted, previously a Danish oil and gas company, sold its oil and gas portfolio and is positioning itself to become the first global "green supermajor."[25] While the majority of these companies are not yet fully aligned with Paris goals, they have stated with clarity both their intentions and their broad plans for achieving their stated goals. By stating ambitions to align with globally recognized climate goals, peer companies are providing assurance to investors not only that they will be well-positioned to thrive in a low-carbon energy future, but also that they are reducing their full range of greenhouse gas emissions to help achieve global goals.

Vote "Yes" on this Shareholder Proposal regarding if and how the Company is aligning business plans with the Paris Climate Change Agreement.

Devon, one of the largest carbon emitters, appears to be moving in the wrong direction for achieving the global Paris goal of well-below 2° degrees Celsius warming, as it continues business-as-usual capital expenditures in fossil fuel projects. Devon's disclosures reference emissions reductions, but the Company fails to report out its full greenhouse gas emissions, including Scope 3 product emissions, or to set targets to dramatically reduce its full climate footprint. If Devon has a plan to transition toward

[20] https://bit.ly/3ddL8ZI
[21] https://on.bp.com/2WCFVVD
[22] https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
[23] https://www.total.com/sites/default/files/atoms/files/total_climat_2018_en.pdf, p. 35, p. 6
[24] https://www.equinor.com/en/how-and-why/climate-change.html
[25] https://www.ft.com/content/57482c0b-db29-3147-9b7e-c522aea02271

alignment with the Paris goal, it should be clear with investors and outline its business plans as to how it might do so. If it does not intend to align with the Paris goal of net-zero emissions by 2050, it should be clear with shareholders that it does not intend to do so. Shareholders are seeking meaningful disclosures from Devon – and every company with significant greenhouse gas emissions – on if and how it is aligning its business plans at the scale and pace necessary to avoid exceeding the Paris goal of maintaining global warming well-below 2 degrees Celsius.

Shareholders urge strong support for this proposal, which will bring increased transparency, and potentially action, on one of the largest risks facing the company and shareholders – the potential for catastrophic climate change.

THE FOREGOING INFORMATION MAY BE DISSEMINATED TO SHAREHOLDERS VIA TELEPHONE, U.S. MAIL, E-MAIL, CERTAIN WEBSITES AND CERTAIN SOCIAL MEDIA VENUES, AND SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE OR AS A SOLICITATION OF AUTHORITY TO VOTE YOUR PROXY. THE COST OF DISSEMINATING THE FOREGOING INFORMATION TO SHAREHOLDERS IS BEING BORNE ENTIRELY BY ONE OR MORE OF THE CO-FILERS. PROXY CARDS WILL NOT BE ACCEPTED BY ANY CO-FILER. PLEASE DO NOT SEND YOUR PROXY TO ANY CO-FILER. TO VOTE YOUR PROXY, PLEASE FOLLOW THE INSTRUCTIONS ON YOUR PROXY CARD.

General Motors Company (GM)

Proposal: Lobbying expenditure disclosure

Proponents:

New York City Office of the Comptroller (lead)
Co-filers: AP7, CalPERS, PKA; Presbyterian Church USA; Portico Benefits on behalf of Wespath; Mercy Investment Services

Resolution:

Resolved, the shareholders of GM request the preparation of a report, updated annually, disclosing:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
2. Payments by GM used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
3. Description of management's decision-making process and the Board's oversight for making payments described above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which GM is a member.

Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Governance and Corporate Responsibility Committee and posted on GM's website.

Summary:

- Through the Climate Action 100+ initiative, over 450 investors managing $40 trillion are asking companies to align their lobbying with the goals of the Paris Agreement.
- GM's current disclosures on lobbying are not sufficient.
- The lobbying of GM and its trade association seeking to weaken the existing fuel

economy (CAFE)/GHG-vehicle standards, as well as GM's intervention on behalf of the Trump Administration in litigation concerning the revocation of California's vehicle emissions waiver are misaligned with the Paris Agreement's goals.

- GM has not engaged constructively with investors, having rejected previous shareholder proposals asking for disclosure on how future fleet emissions will align with existing fuel economy (CAFE)/GHG-vehicle standards through 2025, and has agreed to take the above measures.

Rationale:

This proposal aligns with Climate Action 100+'s engagement agenda, which includes three main goals: improving governance, improving disclosure of climate risk, and reducing greenhouse gas (GHG) emissions across supply chains in alignment with the Paris Agreement goals. Cutting across all three of these goals is building company support for strong public policy frameworks to accelerate the transition to a low-carbon economy.

There is broad investor support for lobbying transparency. In September, 2019, 200 institutional investors with a combined $6.5 trillion in assets under management asked 47 of the largest U.S. publicly traded corporations[1] to align their climate lobbying with the goals of the Paris Agreement, warning that lobbying activities that are inconsistent with meeting climate goals are an investment risk. General Motors was one of these companies.

European investors presented a similar document on expectations on corporate climate lobbying to a large group of European companies last year, and about a dozen companies, including BP, Equinor, Royal Dutch Shell, and Unilever, have already committed to taking these steps.[2] BP recently published a comprehensive review of its climate policy positions and their alignment with trade associations.[3]

The proponents of this resolution encourage transparency in the use of GM's corporate funds to influence legislation and regulation. GM spent $79,265,000 from 2010 – 2018 on federal lobbying. This does not include state lobbying in the 49 states where GM lobbies, but where disclosure is uneven or even absent.[4] For example, GM spent $2,992,235 on lobbying in California from 2010 – 2018. GM's lack of disclosure presents reputational risks when its lobbying contradicts the company's public positions. For example, GM claims it supports the Paris climate agreement, yet a 2019 InfluenceMap report found GM to be among the strongest opponents lobbying to undermine it.[5]

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[1] https://bit.ly/2WFsoMX
[2] See Climate Action 100+ 2019 Progress Report page 67 https://bit.ly/2QJdZLK
[3] See BP "Our participation in Trade Associations: Climate" Feb 26 2020 https://on.bp.com/2xoha4C
[4] https://publicintegrity.org/state-politics/amid-federal-gridlock-lobbying-rises-in-the-states/
[5] https://bit.ly/2JdSYEQ

In May 2019, before GM's Annual Meeting, 18 investors with nearly $18 trillion in assets wrote a letter to CEO Mary Barra to express concerns about General Motors' efforts to weaken the U.S. Corporate Average Fuel Economy (CAFE) and GHG vehicle standards.[6] Investors have also expressed significant concerns about GM's support for removing California's vehicle emissions waiver, as California's authority under the Clean Air Act has been a major driver of investment in and availability of clean vehicles. In October 2019, investors with over $1 trillion in assets wrote Mary Barra urging GM to join a compromise agreement with California,[7] which BMW, Ford, Honda, and VW had already joined. In October 2019, NYC Comptroller Scott Stringer published an op-ed criticizing GM for its decision to intervene on behalf of the Trump Administration in support of the Administration's revocation of California's waiver.[8] Investors argue that by lobbying against strong standards and seeking to undermine California's authority, GM exposes itself, and them, to significant reputational and legal risks, regulatory uncertainty and delay, and systemic economic risks.[9]

GM's limited lobbying and trade association disclosure presents reputational risk, especially where its trade associations positions contradict the company's public positions. For example, GM states that it believes climate change is real and is committed to reducing GHG emissions, yet the Alliance of Automobile Manufacturers has questioned climate science[10] and both the Alliance and GM[11] have sought to weaken existing CAFE standards, which are already insufficient to meet climate goals.[12]

[6] GM's public comments call for about a 1% improvement per year in fuel economy standards, along with increased credits. GM's proposal for a National ZEV program would effectively preempt CA and states that have adopted its program, undermining state authority and likely delivering similar EV deployment as current standards without the additional benefits of improvement to internal combustion engines. GM's overall proposal would provide about a 1.4% improvement per year (current National Program calls for approximately 4.5-5% improvement per year).
See GM's public comments on the NPRM dated October 26, 2018, which call for a 1% annual improvement in fuel economy for MY 2021-2026, additional credits, and a National Zero Emission Vehicle (NZEV) program. GM's full proposal - estimated to provide approximately 1.4% improvement per year - would constitute a significant weakening of the current National Program, which provides for approximately 4.5-5% improvement per year.
[7] https://bit.ly/39dY2DW; https://on.nyc.gov/39gavH1
[8] https://cnb.cx/2wDfhBh
[9] https://bit.ly/2y80or5
[10] In its February 2018 regulatory filing, the Alliance questioned climate science. The same filing also "cast doubt on the negative effects of tailpipe pollution on human health," evidently conflicting with settled science. NYT 2018
[11] GM's public comments call for about a one percent improvement per year in fuel economy standards, along with increased credits. GM's proposal for a National ZEV program would effectively preempt CA and states that have adopted its program, undermining state authority and likely delivering similar EV deployment as current standards without the additional benefits of improvement to internal combustion engines. GM's overall proposal would provide about a 1.4 percent improvement per year (Obama standards call for approximately five percent improvement per year).
[12] A 2017 Rhodium Group study found that even if current standards were preserved, the U.S. would still fall short of its commitment under the Paris Agreement. A University of Michigan study found that additional reductions in the automotive sector beyond those provided under the current CAFE/GHG standards would be necessary at the latest by 2025 (plus or minus 2 years) in order to meet climate goals and avoid increased costs. (In contrast, the Auto Alliance claims that the sector is approaching the Paris goals.) U.S. Paris commitments assumed retention of current (Obama) standards through 2025; a recent

Weakening fuel efficiency standards will undermine GM's global competitiveness, increase its exposure to fuel price spikes (especially as its fleet moves to larger vehicles), and create significant regulatory uncertainty. GM's efforts to undermine California's authority by investing in litigation supporting the revocation of California's vehicle emissions waiver will lead to additional regulatory and legal uncertainty.

Twenty-three states, as well as businesses, utilities and other stakeholders, have joined litigation opposing the revocation. Fourteen states, representing approximately 40% of the U.S. market, have adopted California's standards (and more are taking steps to do so).

California has announced that if the federal GHG standards are weakened, California's rule will effectively revert to the existing standards, and has also offered an alternative compliance pathway via its compromise agreement (which GM has refused to join). In addition, California and several other states, as well as other stakeholders, have announced that they will challenge the rollback of the standards. Evidently, GM's current course will lead to significant regulatory uncertainty, litigation delay, and significant logistical challenges.

As a signatory to the Global Reporting Initiative (GRI), GM uses GRI's standards to help guide its sustainability reporting; accordingly, it should report significant lobbying and public policy issues. GRI Standard 415: Public Policy[13] "addresses the topic of public policy. This includes an organization's participation in the development of public policy, through activities such as lobbying and making financial or in-kind contributions to political parties, politicians, or causes." Under GRI Standard 415, a company "should report: (1) the significant issues that are the focus of its participation in public policy development and lobbying; and (2) the company's stance on these issues, and any differences between its lobbying positions and any stated policies, goals, or other public positions."

This means that GM should be disclosing the significant issues it lobbies on and any differences between its lobbying positions and its stated policies, goals and public positions. GM's current GRI reporting for Standard 415 fails to disclose the significant issues that GM lobbies on and any differences between its lobbying positions and public positions.

Investors have articulated how companies should disclose their climate lobbying activities through the Investor Expectations on Corporate Lobbying on Climate Change. If General Motors has not published such information by the time of their general meeting, investors should vote in favor of this resolution. Such disclosure should include:

UN report found that G-20 nations (especially the U.S. as one of the four largest emitters) would need to raise their original Paris emissions reduction targets by three times to meet the 2 C threshold and by five times to meet the 1.5 C mark. See also (https://bit.ly/2O3FRI5).

[13] https://bit.ly/2QIc8XE

- The company's position on climate change and policies to mitigate climate risks;
- The company's direct and indirect lobbying on climate change policies;
- The company's membership in, or support for, third party organizations that engage on climate change issues (including political organizations);
- The specific climate change policy positions adopted by these third-party organizations, including discussion of whether these align with the company's climate change policies and positions; and
- The assessment that the company has made of the material impact of lobbying by the organization taking a contrary position to the public position of the company.

This memo was prepared by Ceres. For additional information please contact: Morgan LaManna at lamanna@ceres.org.

Hess Corporation (HES)

Proposal: Paris Alignment

Proponent: As You Sow
Danielle Fugere
2150 Kittredge St., Suite 450
Berkeley, CA 94704
dfugere@asyousow.org

Resolution:

Resolved: Shareholders request that Hess Corporation issue a report (at reasonable cost, omitting proprietary information) describing if, and how, it plans to reduce its total contribution to climate change and align its operations and investments with the Paris Agreement's goal of maintaining global temperature rise well below 2 degrees Celsius.

Summary:

1. Climate change increases risk to investor portfolios; Hess' emissions continue to contribute significantly to climate risk.
2. Hess does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well-below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.
3. Hess compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.

Background:

The Paris Agreement, reached in 2015 at the COP21 conference, set a worldwide goal of maintaining global temperature rise well-below 2 degrees Celsius, including pursuing efforts to limit temperature rise to 1.5°degrees Celsius ("Paris Goal"). In an October 2018 report, the Intergovernmental Panel on Climate Change (IPCC) warned that global warming above 1.5 degrees Celsius will create catastrophic impacts. To avert such catastrophic impacts, it instructs that global emissions of carbon dioxide must reach "net-zero" by 2050. Limiting global warming to 1.5 degrees Celsius, versus 2 degrees, will avoid an estimated $20 trillion in damages to the global economy by 2100.[1]

[1] https://www.nature.com/articles/s41586-018-0071-9.epdf

The energy industry is one of the largest contributors to climate change; Hess' emissions are significant. Hess' future investment choices matter.

Investors recognize that a warming climate is toxic to successful long-term portfolios not only due to climate risk to the company, but also due to the growing risks that a warming climate pose to the economy and thus to shareholder portfolios. To address this growing risk, the financial community is taking action. The European Investment Bank and the World Bank announced they will cease funding fossil fuel projects. Norway's sovereign wealth fund announced divestment from oil and gas exploration and production companies. Other investors such as the $40 trillion AUM Climate Action 100+ coalition are seeking Paris Alignment from large emitters. Criteria for Paris alignment include: disclosure of Scope 1 through 3 emissions; adoption of a net zero by 2050 or equivalent target; a business plan for becoming Paris Aligned; and a declining carbon footprint. Hess does not meet these criteria.

Peer oil and gas companies are taking steps to align with Paris goals, including taking responsibility for their full carbon footprints, including Scope 3 emissions. Repsol, for example, announced a net-zero by 2050 target and a write down of billions in unaligned assets.[2] BP followed shortly after with an announcement to reach net-zero operations by 2050 for its Scope 1-2 emissions, while increasing the ambition of its Scope 3 intensity target to 50%.[3] Shell has decreased reserves life to below the industry standard and set targets addressing its Scope 3 emissions.[4] Orsted has moved significantly into offshore wind, positioning itself as a "green energy supermajor," and has been rewarded by a 70% increase in share value from early 2019 to early 2020.[5]

Hess' apparent inaction with regard to Paris alignment serves to differentiate the company from its peers. Hess does not take responsibility for its Scope 3 product emissions, the largest component of its greenhouse gas footprint. Its greenhouse gas reduction targets are short term, limited to certain operations, do not address Scope 3 emissions, and are intensity based. Intensity targets increase efficiency but do not ensure reductions in the company's total carbon footprint. Hess has not provided a business plan to transition and align its enterprise with the Paris goal, and analysis from think-tank the Transition Pathway Initiative indicates that Hess' trajectory is far above Paris goals.[6]

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[2] https://reut.rs/2UsxMQV
[3] https://on.bp.com/33KqAE1
[4] https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
[5] https://www.ft.com/content/74b377c8-4435-11ea-abea-0c7a29cd66fe
[6] https://www.transitionpathwayinitiative.org/tpi/companies/hess

Rationale details:

1. **Climate change increases risk to investor portfolios; Hess' emissions continue to contribute significantly to climate risk.**

As a result of rising global temperatures, the world is already experiencing unprecedented and extreme weather events and disruptions. These events are predicted to occur with even greater frequency and stronger impacts as the world warms. Capital markets have begun to register this climate change crisis. Some of the largest and most influential actors in finance are mobilizing around the need to better assess the risks that climate change poses to the global economy and investor portfolios. BlackRock, the world's largest asset manager, with over $7 trillion in assets under management, recently issued a report in which CEO Larry Fink stated, "the evidence on climate risk is compelling investors to reassess core assumptions about modern finance."[7] His CEO Letter further declared, "companies have a responsibility – and an economic imperative – to give shareholders a clear picture of their preparedness. … Disclosure should be a means to achieving a more sustainable and inclusive capitalism."[8]

Climate Action 100+, a group made up of investors with more than $40 trillion in assets under management, is asking over 100 of the largest greenhouse gas emitting companies to reduce their greenhouse gas emissions "consistent with the Paris Agreement's goal," implement a strong governance framework to account for climate change, and provide enhanced, relevant disclosures.[9] The Net-Zero Asset Owner Alliance, with nearly $4 trillion in assets under management, also aims to align its portfolio with a below 2 degree scenario. In early 2020, the Church of England and FSTE Russell created an index that includes companies working to align greenhouse gas emissions with the Paris Agreement and bars companies that are not.[10] At the end of 2019, 33 banks with $13 trillion in assets signed the U.N. Principles for Responsible Banking, committing to align their financing with the Paris Agreement goal,[11] an outcome that will affect oil and gas companies' access to capital,[12] while a nearly $40 billion pension fund – Brunel Pension Partnership – stated plans to vote against board members or divest from firms that are not aligning with the Paris Agreement.[13]

Over the past 30 years, Hess has been the among highest-carbon-emitting fossil fuel companies in the world.[14] Continued capital investments by Hess in oil and gas will lock in higher carbon emissions for decades to come, making it more difficult for the world to achieve its climate goals. This alone suggests that Hess is not aligning with or transitioning its business plans to align with the Paris goal.

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7 https://www.nytimes.com/2020/01/14/business/dealbook/larry-fink-blackrock-climate-change.html
8 https://www.blackrock.com/us/individual/larry-fink-ceo-letter
9 http://www.climateaction100.org/ (FAQ)
10 https://www.nytimes.com/2020/01/31/business/church-of-england-climate-change.html
11 https://www.unepfi.org/news/industries/banking/collective-commitment-to-climate-action/
12 https://www.unepfi.org/net-zero-alliance/
13 https://bloom.bg/3a31Vg5
14 https://bit.ly/3a7XxfR

Hess' apparent failure to align its business plan with Paris goals exposes both the Company and shareholders' portfolios to avoidable risk. If, however, Hess does plan to align its emissions with the Paris goal, this is a critical issue to investors and one that the Company should disclose to investors.

2. **Hess does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well-below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.**

Nowhere does the Company clearly state whether or not it has an intent to align its climate footprint with the Paris goal of net-zero emissions by 2050. Hess' recent 2019 CDP Climate Change response notes that the Company is taking minimal actions to reduce operational emissions and increase efficiency.[15] For example, while Hess aims to achieve a 25% reduction in emissions intensity rate by 2020 (from a 2014 base year) for its Scope 1 and 2 emissions, these only constitute a small portion of overall emissions.[16] Total operational and energy-related emissions account for, on average, less than 30% of oil and gas companies' emissions and may be substantially less.[17] Hess' planned emission reductions are thus likely to appear larger than they are to the average investor not schooled in climate science. Hess does not address the limited extent of its planned emissions reductions.

While touting its planned operational emission reductions, the Company has not announced any plans to substantially reduce the largest part of its climate footprint – its product emissions.[18] Hess fails to address or take responsibility for product emissions, which account for most of the company's overall emissions.[19]

The Company must be clear with investors. Hess fails to disclose if and how it intends to align with the Paris goal. To answer the first question, whether Hess plans to align with the Paris goal – a clear "Yes" or "No" response is required. If the Company answers "Yes," that it intends to align with the Paris goal as described by investors, it must demonstrate how and when it plans to meet the criteria of alignment, including: disclose Scope 1 through 3 emissions; adopt a net-zero by 2050 or equivalent target; provide a business plan for becoming Paris Aligned; and demonstrate a declining carbon footprint. While disclosing its Scope 3 emissions, Hess neither answers the question, nor describes how it plans to meet the remaining Paris-aligned criteria. Clarity on these issues is important to investors who seek to compare Hess to its peers.

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[15] https://www.hess.com/docs/default-source/sustainability/hess-cdp-final.pdf?sfvrsn=c99d786b_10, p.26
[16] https://www.hess.com/docs/default-source/sustainability/hess-cdp-final.pdf, p.26
[17] A company's carbon footprint accounts for the total greenhouse gases produced by a company inclusive of direct Scope 1 (operational emissions), indirect Scope 2 (energy use emissions), and Scope 3 (product & other indirect emissions). https://bit.ly/33wTyXK. If the Company were to fully eliminate its operational emissions, which is impracticable, approximately 75-80% or more of its carbon footprint would remain. https://bit.ly/2wqJqDB. 30% is a conservative estimate of operational emissions.
[18] https://www.wri.org/resources/data-visualizations/upstream-emissions-percentage-overall-lifecycle-emissions
[19] https://www.hess.com/docs/default-source/sustainability/hess-cdp-final.pdf, p. 68

3. **Hess compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.**

While Hess – one of the top carbon-polluting companies globally – continues its business-as-usual path, peer oil and gas companies have been engaging proactively with shareholders and adopting policies to meaningfully reduce their operational and product emissions to align with the Paris goal. For example, Repsol recently announced a net-zero by 2050 goal, including product emissions, while announcing a write-down on non-aligned oil and gas assets.[20] In early 2020, BP also set a net-zero by 2050 target for its operations and oil and gas production, while further agreeing to cut the carbon intensity of products by 50%.[21] Royal Dutch Shell announced Scope 3 greenhouse gas intensity-reduction ambitions and has decreased reserves life to below the industry standard.[22] Total has invested in renewable energy, is reducing the carbon intensity of its energy products, and has significant reduction ambitions through 2040 for its full climate footprint.[23] Equinor (formerly Statoil) is investing in wind energy development.[24] Orsted, previously a Danish oil and gas company, sold its oil and gas portfolio and is positioning itself to become the first global "green supermajor."[25] While the majority of these companies are not yet fully aligned with Paris goals, they have stated with clarity both their intentions and their broad plans for achieving their stated goals. By stating ambitions to align with globally recognized climate goals, peer companies are providing assurance to investors not only that they will be well-positioned to thrive in a low-carbon energy future, but also that they are reducing their full range of greenhouse gas emissions to help achieve global goals.

Vote "Yes" on this Shareholder Proposal regarding if and how the Company is aligning business plans with the Paris Climate Change Agreement.

Hess, one of the largest carbon emitters, appears to be moving in the wrong direction for achieving the global Paris goal of well-below 2°C warming, as it continues business-as-usual capital expenditures in fossil fuel projects. Hess' disclosures reference emissions reductions, while the Company fails to set targets to dramatically reduce its full climate footprint. If Hess has a plan to transition toward alignment with the Paris goal, it should be clear with investors and outline its business plans as to how it might do so. If it does not intend to align with the Paris goal of net-zero emissions by 2050, it should be clear with shareholders that it does not intend to do so. Shareholders are seeking meaningful disclosures from Hess – and every company with significant greenhouse gas emissions – on if and how it is aligning its business plans at the scale and pace necessary to avoid exceeding the Paris goal of maintaining global warming well-below 2 degrees Celsius.

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[20] https://bit.ly/2WtUvOS
[21] https://on.bp.com/2U5XStJ
[22] https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
[23] https://www.total.com/sites/default/files/atoms/files/total_climat_2018_en.pdf, p. 35, p. 6
[24] https://www.equinor.com/en/how-and-why/climate-change.html
[25] https://www.ft.com/content/57482c0b-db29-3147-9b7e-c522aea02271

Shareholders urge strong support for this proposal, which will bring increased transparency, and potentially action, on one of the largest risks facing the company and shareholders – the potential for catastrophic climate change.

THE FOREGOING INFORMATION MAY BE DISSEMINATED TO SHAREHOLDERS VIA TELEPHONE, U.S. MAIL, E-MAIL, CERTAIN WEBSITES AND CERTAIN SOCIAL MEDIA VENUES, AND SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE OR AS A SOLICITATION OF AUTHORITY TO VOTE YOUR PROXY. THE COST OF DISSEMINATING THE FOREGOING INFORMATION TO SHAREHOLDERS IS BEING BORNE ENTIRELY BY ONE OR MORE OF THE CO-FILERS. PROXY CARDS WILL NOT BE ACCEPTED BY ANY CO-FILER. PLEASE DO NOT SEND YOUR PROXY TO ANY CO-FILER. TO VOTE YOUR PROXY, PLEASE FOLLOW THE INSTRUCTIONS ON YOUR PROXY CARD.

JPMorgan Chase (JPM)

JPMORGAN CHASE & CO.

Proposal: Independent Board Chair

Proponent: Kenneth Steiner

Resolution:

Resolved: Shareholders request our Board of Directors adopt as policy, and amend our governing documents as necessary, to require that the Chairman of the Board be an independent member of the Board whenever possible. Although it would be better to have an immediate transition to an independent Board Chairman, the Board would have the discretion to phase in this policy for the next Chief Executive Officer transition.

If the Board determines that a Chairman, who was independent when selected is no longer independent, the Board shall select a new Chairman who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived in the unlikely event no independent director is available and willing to serve as Chairman under the succession- planning program of JPM.

Summary:

Climate change poses risks to JPM and to the entire financial system. Responsibility for overseeing JPM's risks and responsibilities with respect to the climate crisis lies with JPM's board of directors. JPM's board structure and leadership lacks the independence needed to comprehensively address these issues. An independent board chair is needed to drive reforms on climate, promote long-term shareholder value at JPM, and help protect the financial system as a whole.

- JPM CEO Jamie Dimon has held the dual roles of chief executive officer ("CEO") and board chair since 2006.
- The board's lack of independent oversight is compounded by Lead Independent Director and former ExxonMobil Chair/CEO, Lee Raymond, who has served on the board of JPM and its predecessor corporations since 1987, far beyond when governance experts believe extended service raises independence concerns.
- A substantial proportion of shareholders has previously supported splitting the positions.

Background:

In our view, shareholder value is enhanced by an independent board chair who can provide a balance of power between the CEO and the board and support strong board oversight of management. According to proxy advisor Glass Lewis, “shareholders are better served when the board is led by an independent chairman who we believe is better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that exist when a CEO or other executive also serves as chairman.”[1] With the threat that climate change poses to the financial system, independent board leadership is needed to provide oversight of JPM’s efforts to manage those risks.

Rationale details:

Since 2006, JPM’s Jamie Dimon has served as both CEO and chair of the JPM board of directors. He has retained that control even as JPM paid tens of billions of dollars in fines and regulatory settlements over the past decade. Now, as global financial regulators and the company’s own economists warn of the catastrophic risks of climate change, shareholder interests require strong independent oversight of the largest bank in the U.S.

JPM has received significant attention for its continued underwriting of, lending to, and investment in fossil fuel industries. While Dimon has made public pronouncements acknowledging climate change, a 2019 report found $196 billion in JPM fossil fuel underwriting and lending from 2015-2018, by far the largest among the top global banks.[2] JPM’s exposure to fossil fuel assets, its lagging climate-related disclosures, and its influence as a steward of vast portfolio holdings make climate-competent governance and active oversight of risk vital to shareholders.

Separating the roles of board chair and CEO is a governance best practice already implemented by 53% of S&P 500 boards. Yet JPM has repeatedly ignored shareholder calls to split the roles and appoint an independent chair, failing to act after shareholder proposals in eight of the last ten years, one of which garnered as high as 40.2% of the vote in 2012.

JPM has taken a troubling approach to shareholder concerns. When shareholders again, in 2013, sought a shift to independent board leadership following a global risk oversight scandal involving a $6.2 billion trading loss,[3] JPM launched an aggressive campaign against the measure with the direct involvement of Lead Independent Director Lee Raymond. The *New York Times* quoted an anonymous shareholder reporting that JPM used the threat of Dimon leaving the firm to deter votes for this basic accountability

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[1] www.glasslewis.com/wp-content/uploads/2016/03/2016-In-Depth-Report-INDEPENDENT-BOARD-CHAIRMAN.pdf
[2] https://www.ran.org/wp-content/uploads/2019/03/Banking_on_Climate_Change_2019_vFINAL1.pdf
[3] https://www.theguardian.com/business/2013/may/19/jp-morgan-shareholders-revolt-jamie-dimon

measure: "First we hear Jamie might leave if things go against him and then people start talking about the damage to the stock price."[4]

JPM has defended the effectiveness of its current structure, in which Raymond leads the board's efforts to oversee JPM's management. However, Raymond's 33-year service on the board of JPM and predecessors is inconsistent with key governance recommendations. For example, the guidelines of the California Public Employee Retirement System (CalPERS) caution that "extended periods of service may adversely impact a director's ability to bring an objective perspective to the boardroom. We believe director independence can be compromised at 12 years of service."[5] Further, in his role as head of the Compensation & Management Development Committee, Raymond has been responsible for Dimon's industry-topping compensation packages, which have repeatedly earned the opposition of proxy advisors and significant shareholders.

Raymond is uniquely ill-suited to provide the independent oversight of climate-related risks that shareholders require. Like Dimon, Raymond also held the powerful joint titles of CEO and board chair of ExxonMobil (and its predecessor Exxon) from 1993-2005. In that capacity, he was the architect and public face of ExxonMobil's efforts to promote denial of the risks and likelihood of climate change, even after the company's own scientists warned executives of the dangers of warming due to rising CO2 emissions. One of JPM's former managing directors said of Raymond, given ExxonMobil's global warming record, "how he is not on trial for crimes against humanity is beyond me." [6]

Sound governance and management of climate change risk demand strong independent board leadership. An independent chair of the board is a critical element of that oversight. We urge shareholders to vote "FOR" the proposal.

See Majority Action's exempt solicitation for more information.[7]
Prepared by Majority Action on behalf of Kenneth Steiner; Contact: Lisa Lindsley, Director of Investor Engagement, lisa@majorityact.org

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[4] https://dealbook.nytimes.com/2013/05/21/jpmorgan-seen-to-defeat-effort-to-split-top-2-jobs-at-bank/
[5] https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf
[6] https://bit.ly/2QxPFMJ
[7] https://www.sec.gov/Archives/edgar/data/19617/000138713120001193/jpm-px14a6g_021020.htm

JPMorgan Chase (JPM)

JPMORGAN CHASE & CO.

Proposal: Paris-Aligned Lending

Proponent: As You Sow
Danielle Fugere
2150 Kittredge St., Suite 450
Berkeley, CA 94704
dfugere@asyousow.org

Resolution:

Resolved: Shareholders request that JPMorgan Chase issue a report, at reasonable cost and omitting proprietary information, outlining if and how it intends to reduce the GHG emissions associated with its lending activities in alignment with the Paris Agreement's goal of maintaining global temperature rise at 1.5 degrees Celsius.

Summary:

1. JPMorgan's financing of carbon-intensive activities increases risk to the global climate and investor portfolios.
2. JPMorgan does not provide shareholders with sufficient analysis and disclosure on if or how it will reduce the significant GHG emissions associated with its lending activities in alignment with the Paris Agreement's goals.
3. JPMorgan compares poorly to peers in addressing the climate impact of its financing activities.

Background:

Banks can play a critical role in meeting the Paris Agreement's goal of limiting global temperature rise to well-below 2 degrees Celsius. Further, limiting global warming below 1.5 degrees, versus 2 degrees, will avoid an estimated $20 trillion in economic damages globally by 2100.[1] Despite these risks, the Bank of England notes that the global financial system is currently supporting carbon-producing projects that will cause global temperature rise of over 4 degrees Celsius – more than double the limit necessary to avoid catastrophic warming.[2] Recently, just 215 global companies reported almost $1 trillion at risk from climate impacts, with many of the impacts likely to occur within five years.[3]

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[1] https://go.nature.com/33xFBsF
[2] https://bit.ly/2Qz07Ug
[3] https://www.cdp.net/en/articles/media/worlds-biggest-companies-face-1-trillion-in-climate-change-risks

Despite the recognized and growing global risk of climate change to the economy, between 2016 and 2018, JPMorgan, the largest funder of fossil fuel industries, spent an annual average of $65.22 billion, and a total of $195.66 billion, in fossil fuel-financing.[4,5]

Shareowners concerned with preventing the systemic risks associated with a rapidly warming planet seek to understand whether JPMorgan Chase intends to follow peer banks in reducing the substantial GHG emissions associated with its lending activities and align with the Paris Agreement goal.

Rationale details:

1) **JPMorgan's financing of carbon-intensive activities increases risk to the global climate and investor portfolios.**

As a result of rising global temperatures, the world is experiencing unprecedented and extreme weather events and disruptions, which are predicted to occur with even greater frequency and stronger impacts as the world warms.

Capital markets have begun to register this climate change crisis. Some of the largest and most influential actors in finance are mobilizing around the need to address the risks that climate change poses to the global economy and investor portfolios. Mark Carney, governor of the Bank of England, has warned that "enormous human and financial costs of climate change are having a devastating effect on our collective well-being…" and that "if some companies and industries fail to adjust to this new world, they will fail to exist." Carney underscores how critical financial actors are in helping to "avoid a climate-driven 'Minsky moment.'"[6] BlackRock, the world's largest asset manager, with over $7 trillion in assets under management, recently issued a report in which CEO Larry Fink stated, "the evidence on climate risk is compelling investors to reassess core assumptions about modern finance."

The European Central Bank has warned that "more frequent and severe disasters" will harm the banking industry. Its new president, Christine Lagarde, has committed to putting "climate risk and protection of the environment at the core of their understanding of their mission."[7] Underscoring the importance of action, a group of 59 central banks, including some of the most influential – such as the Bank of England, Bank of Japan, Deutsche Bundesbank, and the People's Bank of China – have formed the Network for Greening the Financial System to help strengthen "the global response required to meet the goals of the Paris agreement."[8] Importantly, the European Investment Bank, the biggest multilateral lender in the world, will stop funding fossil fuel projects in 2021.[9]

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[4] https://www.ran.org/wp-content/uploads/2019/03/Banking_on_Climate_Change_2019_vFINAL1.pdf
[5] https://www.wri.org/finance/banks-sustainable-finance-commitments/
[6] https://www.bankofengland.co.uk/news/2019/april/open-letter-on-climate-related-financial-risks
[7] https://www.nytimes.com/2019/09/04/business/climate-change-ecb-lagarde.html
[8] https://www.ngfs.net/en/about-us/governance/origin-and-purpose
[9] https://reut.rs/2WCGWg2

JPMorgan Chase's funding contributes substantially to global climate change. In 2018, the company was the largest source of financing to fossil fuel companies globally, averaging $65 billion annually since the Paris Agreement was signed.[10] This funding creates systemic portfolio risks to the global economy, investors, and its own operations.

JPMorgan has been singled out in particular for its immense financing in oil sands, ultra-deepwater oil and gas, fracked oil and gas, and LNG.[11] Given growing awareness that climate change presents major risks to global markets, the Company's high carbon investments expose both its own and its shareholders' portfolios to avoidable risks.

2) **JPMorgan does not provide shareholders with sufficient analysis and disclosure on if or how it will reduce the significant GHG emissions associated with its lending activities in alignment with the Paris Agreement's goals.**

The Company states it supports the Paris Agreement and recently announced restrictions to its coal and Arctic drilling activities. These restrictions, however, account for just 0.6%of JPMorgan's $196 billion in fossil-fuel funding between 2016 and 2018.[12] JPMorgan also has increased its "clean" financing, recognizes climate change, and is sourcing renewable energy for its own operations.[13] But its average $22 billion in clean financing *over 9 year*s is substantially outweighed by its fossil fuel funding activities.[14]

While JPMorgan has recently joined the Climate Action 100+ group, which asks the world's largest GHG-emitting companies to align with the Paris goal, it has not articulated if it intends to align its total lending portfolio with the Paris Agreement's goal and, if so, how it plans to do so – and how quickly.[15]

3) **JPMorgan compares poorly to peers in addressing the climate impact of its financing activities.**

In contrast to JPMorgan, globally, peer banks are beginning to responsibly address their GHG contributions. More than 50 financial institutions have publicly committed to set emissions reduction targets with the Science Based Targets initiative,[16] including HSBC and Société Générale. At the end of 2019, 33 banks with $13 trillion in assets signed the U.N. Principles for Responsible Banking, committing to align business with the Paris Agreement,[17] an outcome that will affect oil and gas companies' access to capital,[18]

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[10] https://www.ran.org/wp-content/uploads/2019/03/Banking_on_Climate_Change_2019_vFINAL1.pdf
[11] https://www.ran.org/wp-content/uploads/2019/03/Banking_on_Climate_Change_2019_vFINAL1.pdf, p.3
[12] https://www.axios.com/jp-morgan-fossil-fuels-support-4b755a24-d57c-4d8b-8424-a401e994ec89.html
[13] https://impact.jpmorganchase.com/impact/sustainability
[14] https://www.wri.org/finance/banks-sustainable-finance-commitments/
[15] https://www.asyousow.org/press-releases/jpmorgan-chase-coal-arctic-funding-climate-change
[16] https://sciencebasedtargets.org/financial-institutions/
[17] https://www.unepfi.org/news/industries/banking/collective-commitment-to-climate-action/
[18] https://www.unepfi.org/net-zero-alliance/

while a broader group of 130 banks with $47 trillion in assets committed to strategically align their business with the goals of the Paris Agreement and scale up contributions to achieving it.[19] BNP Paribas, ING, Standard Chartered, and other banks have committed to measure the climate alignment of their lending portfolios against Paris goals.[20]

Recently, other U.S. banks have begun to take action. Citibank joined the Principles for Responsible Banking, committing to align its business strategy with the Paris Agreement's global climate goals. Amalgamated Bank is participating in the development and adoption of initiatives to calculate and report the bank's full carbon footprint through the Partnership for Carbon Accounting Financials (PCAF) and align all of its lending with the Paris goal.[21] Bank of America, Goldman Sachs, Morgan Stanley, and Wells Fargo are taking initial steps to measure their financed emissions toward Paris-alignment.

Investors concerned with climate change and reducing systemic risk need clarity on whether JPMorgan plans to join its peers and begin reducing its lending portfolio in alignment with Paris goals.

Vote "Yes" on this Shareholder Proposal seeking information on whether and how JPMorgan intends to align its lending portfolio with the Paris Goal.

JPMorgan is directing billions annually toward greenhouse gas-emitting fossil fuel projects that contribute to global climate risk. This funding locks in carbon emitting infrastructure for decades to come. Will JPMorgan signal a reduction in its lending in alignment with global climate goals, or continue business as usual?

Shareholders urge strong support for this proposal, which will bring increased transparency from JPMorgan about its intentions – or lack thereof – to help meet global goals to avoid the most significant risk facing not only shareholders, but all of humanity. We believe that every company in which we invest must contribute to reducing climate risk and solving this growing crisis, or be clear that it chooses not to do so.

THE FOREGOING INFORMATION MAY BE DISSEMINATED TO SHAREHOLDERS VIA TELEPHONE, U.S. MAIL, E-MAIL, CERTAIN WEBSITES AND CERTAIN SOCIAL MEDIA VENUES, AND SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE OR AS A SOLICITATION OF AUTHORITY TO VOTE YOUR PROXY. THE COST OF DISSEMINATING THE FOREGOING INFORMATION TO SHAREHOLDERS IS BEING BORNE ENTIRELY BY ONE OR MORE OF THE CO-FILERS. PROXY CARDS WILL NOT BE ACCEPTED BY ANY CO-FILER. PLEASE DO NOT SEND YOUR PROXY TO ANY CO-FILER. TO VOTE YOUR PROXY, PLEASE FOLLOW THE INSTRUCTIONS ON YOUR PROXY CARD.

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[19] https://bit.ly/3aantaD
[20] https://www.ingwb.com/insights/news/2018/banks-join-ing-in-aligning-loan-portfolios-to-fight-climate-change
[21] https://carbonaccountingfinancials.com/

JPMorgan Chase (JPM)

JPMORGAN CHASE & CO.

Proposal #: Vote Against Director

Proponent: Majority Action
Lisa Lindsley, Director of Investor Engagement
lisa@majorityact.org

Resolution:

Proponents recommend a vote AGAINST the re-election of Director Lee Raymond.

Summary:

Shareholders should oppose the election of JPM's Lead Independent Director, Lee Raymond, as he is uniquely unqualified to provide the board oversight needed to protect long-term shareholder value in the face of climate change risk.

- Climate change poses systemic risks to the global financial system and specific risks to financial institutions. JPM, the largest U.S. bank, is by far the largest global lender and underwriter to the fossil fuel sector and faces climate change risks across its portfolio.
- CEO Jamie Dimon is also the chair of the company's board of directors, which places the onus on Raymond to provide the oversight and guidance that long-term shareholders require as the climate crisis escalates.
- Raymond has served on the board of JPM (and its predecessor) for 33 years, far longer than corporate governance best practices suggest. At 81 years old, he has also long passed the retirement age set forth in JPM's own corporate governance principles.[1]
- Raymond was chair and CEO of ExxonMobil (and its predecessor Exxon) from 1993-2005. During that time, he was the architect and public face of ExxonMobil's efforts to deny the risks and likelihood of climate change, even after Exxon scientists warned executives of the dangers of warming caused by rising CO2 emissions.

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[1] https://www.jpmorganchase.com/corporate/About-JPMC/ab-corporate-governance-principles.htm

Background:

According to the Federal Reserve Bank of San Francisco, the combination of loan losses resulting from extreme weather and disasters, transition risks in fossil-exposed sectors, and credit risks in regions exposed to rising oceans could "threaten the stability of the financial system as a whole."[2] Financial institutions urgently need to assess and disclose their financed emissions, commit to reduce those emissions in alignment with meeting the goals of the Paris Agreement, and phase out lending to the riskiest and most harmful fossil fuel-projects. The board of directors has a vital role to play in overseeing the Company's management of these immense risks to protect long-term shareholders, and climate-competent governance starts from the top. Insufficiently independent board leadership that violates governance best practices would alone raise real concerns. JPM's lead director has played an active role in climate change denial and worsening the climate crisis, and thus does not represent the interests of prudent shareholders.

Rationale details:

Since the adoption of the Paris Agreement in 2015, JPM has been by far the largest of the major global banks in lending and underwriting to the fossil fuel sector, accounting for just under $196 billion from 2016-2019. JPM was also the leading lender and underwriter of the 100 companies most directly involved in the expansion of fossil fuels.[3] Given its exposure to these assets, JPM may be particularly exposed to credit risks and losses if fossil assets undergo swift re-valuations. However, JPM's 2019 Task Force on Climate-related Financial Disclosures (TCFD)[4] report to its stakeholders does not account for the magnitude or potential severity of these risks, nor does it make firm commitments to measure and reduce the magnitude of the company's financed emissions.

The company's own economists warn of catastrophic risks.[5] JPM recently recognized that the bank's financing decisions matter to the climate crisis by announcing an end to direct financing of Arctic oil and gas projects and to the financing of certain coal companies and projects, as well as new engagement commitments.[6] These modest steps are inadequate to address the scale of the risk at hand, and lag those taken by global leaders.[7] As shareholders in the largest bank in the U.S. and a systemically important financial institution, any system risk is a risk for JPM shareholders: far beyond its direct fossil fuel assets, JPM will be exposed to climate change's impact on core sectors from travel to insurance to agricultural commodities as physical risks and transition risks spread across the economy.

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[2] https://bit.ly/2wsUsZd
[3] https://www.ran.org/bankingonclimatechange2019/
[4] https://www.fsb-tcfd.org/about/#
[5] https://bit.ly/2WvlHgj
[6] https://bit.ly/3a86ZQf
[7] https://bit.ly/2J40Zwg and https://bit.ly/2WvEt77.

JPM has resisted past shareholder calls for an independent board chair to oversee Dimon. Instead, JPM has asserted that Raymond, as lead independent director, provides effective independent leadership. Raymond served 33 years on the board of JPM and its predecessor. The Council of Institutional Investors cautions that “extended periods of service may adversely impact a director’s ability to bring an objective perspective to the boardroom.”[8] Raymond was also responsible for leading the board as JPM paid tens of billions of dollars in fines and regulatory settlements over the past decade.

Raymond also chairs the JPM board’s Compensation Committee, which is responsible for Jamie Dimon’s remuneration packages that have repeatedly drawn the objection of proxy advisors and significant shareholder opposition. And, at 81 years old, he has long since passed the retirement age set forth in JPM’s own corporate governance principles, which recommend that directors generally offer to retire at 72.[9]

Raymond’s continued service as lead director is a risk for shareholders seeking climate-competent governance at JPM. Global environmental leader Bill McKibben wrote that **“no single human being was better positioned to do something that might have slowed the chaos now engulfing us.”[10]** Raymond was the architect and a key public proponent of Exxon’s climate denial strategy as chair and CEO of ExxonMobil (and its predecessor Exxon) from 1993 to 2005. At a time when Exxon scientists and leadership knew about the risks of climate change, and had briefed him on it,[11] Raymond chose to lead a public effort to undermine climate science and restrict policy efforts to combat it.

- Under Raymond’s leadership, Exxon spent an amount estimated by two different groups at $16 and 30 million, from 1998 to 2005, to wage a campaign raising questions about climate change rather than embrace the scientific consensus.[12]
- Raymond publicly espoused these positions: In 1997, at a meeting of the World Petroleum Council in Beijing, he said, “Many people – politicians and the public alike – believe that global warming is a rock-solid certainty... But it's not.”[13] In a 2005 interview, Raymond cast doubt on climate science, saying climate change was caused by sunspots and “the wobble of the earth.”[14]
- While Raymond retired from Exxon over a decade ago, all three of Raymond’s sons own firms focused on investment in or services to the fossil fuel industries - including pipelines and other new fossil fuel infrastructure, exploration and drilling, mining, oil and gas, and more. Raymond himself has been involved in several of these ventures. His post-Exxon ties to the fossil fuel sector could affect his willingness to support action by JPM that might impact either the flow of capital to the fossil fuel sector or the market valuation of fossil fuel-backed assets.

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[8] https://www.cii.org/corp_gov_policies#indep_director
[9] https://www.jpmorganchase.com/corporate/About-JPMC/ab-corporate-governance-principles.htm,
[10] https://bit.ly/3a7O4VT
[11] https://bit.ly/2Ukt73g and https://bit.ly/2J5vFgx
[12] https://bit.ly/2J8Umsd and https://bit.ly/2vHPSGc
[13] https://nyti.ms/2J4ulKQ
[14] https://bit.ly/33KkSSB; https://bit.ly/33AUnif and https://bit.ly/2wqCuGz.

Lee Raymond’s continued service on, and leadership of, the JPM board violates core principles of good governance and is a barrier to ensuring responsible oversight of JPM’s management of the serious risks of climate change. ***We urge JPM shareholders to vote AGAINST Lee Raymond for re-election to the Board of Directors.***

See Majority Action’s exempt solicitation for more information.[15]

[15] https://www.sec.gov/Archives/edgar/data/19617/000138713120001193/jpm-px14a6g_021020.htm

Pilgrim's Pride (PPC)

Proposal #5: Provide a report regarding the reduction of water pollution

Proponent: Mercy Investment Services, Inc.
Mary Minette
mminette@mercyinvestments.org

Resolution:

Shareholders of Pilgrim's Pride Corporation ("Pilgrim's") request a report assessing if and how the company plans to increase the scale, pace, and rigor of its efforts to reduce water pollution from its supply chain. This report should omit proprietary information, be prepared at reasonable cost, and be made available to shareholders by December 1, 2020.

Supporting statement:
Although we defer to management for the precise contents, investors believe that meaningful disclosure within the report could include:

- requirements for manure management practices intended to prevent water pollution
- requirements for leading practices for nutrient management and pollutant limits throughout contract farms and feed suppliers, with a focus on verifiably reducing nitrate contamination
- plans to verify suppliers' compliance with Pilgrim's policies

Summary:

- **The vast majority of Pilgrim's Pride Corporation's (PPC's) water pollution footprint is associated with its supply chain.** Two of the most significant drivers of nutrient pollution of freshwater ecosystems are runoff from fertilizer used to grow crops for animal feed, and improperly managed animal waste.
- **Supply chain water pollution poses material financial risks to PPC.** Potential state and federal regulation of agricultural practices contributing to water pollution may impose additional costs of compliance. Many of PPC's largest customers expect improvements in the management of risks associated with supply chain water pollution. Failing to mitigate water pollution impacts may therefore harm PPC's position as a competitive supplier, resulting in reduced market share. Failing to address supply chain water pollution also threatens PPC's reputation and brand value.

- **PPC lags its competitors in managing risks associated with supply chain water pollution.** PPC's industry peers, including several of its principal competitors, have either implemented practices to mitigate pollution from fertilizer and manure runoff or have committed to disclosing relevant information on this topic to investors.
- **PPC's existing disclosures are inadequate to assure investors that it is proactively managing risks associated with supply chain water pollution.** Neither PPC's disclosures nor its policies specifically address the primary drivers of its water pollution footprint, including manure from contracted facilities and nutrient runoff from animal feed crops.

Shareholders are urged to vote "FOR" proposal #6.

Rationale:

Meat production is the leading source of water pollution in the U.S., exposing 5.6 million Americans to nitrates in drinking water and many more to toxic algal blooms.[1] Proponents are concerned that as the country's second largest poultry processor,[2] PPC's extensive impacts on water quality pose material regulatory, market and reputational risks to long-term shareholder value. PPC's existing disclosures lack sufficient detail to assure investors that it is adequately managing these risks.

The vast majority of PPC's water pollution footprint is associated with its supply chain

Our company asserts that its "current practices and procedures sufficiently address the concerns raised" by this proposal.[3] However, while PPC's existing disclosures focus mainly on its treatment of discharges from its facilities, the vast majority of PPC's water pollution footprint is associated with its agricultural supply chain.

Nutrient pollution from crop and livestock production is a leading cause of water contamination globally.[4] Two of the most significant contributors of nitrogen and phosphorus runoff from meat production are:

- fields that produce row-crops for animal feed, and
- manure from animal feeding operations[5,6]

PPC is the second largest poultry processor in the United States. The cultivation of feed ingredients (primarily corn and soybeans) for the 45 million[7] chickens produced weekly

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[1] https://ehjournal.biomedcentral.com/articles/10.1186/s12940-018-0442-6
[2] http://www.wattpoultryusa-digital.com/201903/index.php#/20
[3] Statement in opposition of the Board of Directors of the Company to Mercy Investment Services Inc.'s stockholder proposal. Copy on file with the author.
[4] http://www.fao.org/3/CA0146EN/ca0146en.pdf
[5] Ibid.
[6] https://www.epa.gov/nutrientpollution/sources-and-solutions
[7] https://www.pilgrims.com/about-us/

by PPC can be a significant source of water pollution due to nitrates and phosphates, if improperly managed, washing off fields.

PPC procures livestock from approximately 5,200 poultry farms.[8] This supply chain generates large volumes of animal waste, which may contain nitrates, phosphates, antibiotic-resistant bacteria and pathogens. When these contaminants pollute waterways, they endanger public health, damage ecosystems and inflict financial harm to downstream industries.[9]

Supply chain water pollution poses financially material risks to PPC

The extensive impacts of PPC's supply chain on water quality pose material regulatory, market and reputational risks to long-term shareholder value.

Potential state and federal regulation of agricultural practices contributing to water pollution may impose additional costs of compliance

Public demand for increased state and federal oversight of the meat industry's water pollution footprint is growing. PPC notes that its feed mills are "strategically located in the areas where we have processing operations."[10] Several states where Pilgrim's has processing operations[11] have tightened requirements related to nutrient management plans, manure disposal, field application of manure and groundwater monitoring for animal agriculture.[12]

At the federal level, legislation introduced in December 2019 would place a moratorium on the use of the concentrated animal feeding operations (CAFOs). Many of the growers supplying PPC rely on the use of CAFOs. The impetus for this legislation came in part from the meat industry's persistent contamination of U.S. waterways through fertilizer and manure runoff.[13] This legislation was introduced weeks after the American Public Health Association urged federal, state and local governments to impose a moratorium on all new and expanding CAFOs, citing public health concerns.[14]

Increased state and/or federal regulation of nutrient pollution from agricultural supply chains may impose increased costs of compliance on PPC. Reducing the company's nutrient load would reduce its exposure to these regulatory risks.

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[8] http://ir.pilgrims.com/static-files/e3600306-6cfa-4e6e-bae6-30bd760a13c5
[9] https://noaa.maps.arcgis.com/apps/Cascade/index.html?appid=9e6fca29791b428e827f7e9ec095a3d7
[10] https://www.pilgrimsusa.com/our-chickens/
[11] https://www.epa.gov/toxics-release-inventory-tri-program/tri-basic-data-files-calendar-years-1987-2018
[12] https://www.opb.org/news/article/washington-dairy-pollution-regs/
https://www.environmentalintegrity.org/wp-content/uploads/2017/02/Shenandoah-Report.pdf
https://bit.ly/2whKWYW
https://www.nytimes.com/2018/07/09/us/algae-blooms-florida-nyt.html
https://www.flgov.com/wp-content/uploads/2019/01/EO-19-12-.pdf
https://bit.ly/2UnxJpo
[13] https://www.booker.senate.gov/?p=press_release&id=1036
[14] https://bit.ly/33zWu5P

PPC's largest customers increasingly expect improvements in the management of risks associated with supply chain water pollution. Failing to address supply chain water pollution may therefore harm PPC's position as a competitive supplier, resulting in reduced revenue

Several of PPC's largest customers have made public commitments to substantially reduce the greenhouse gas (GHG) emissions of their animal protein supply chains. Just as fertilizer for animal feed and the storage and field application of manure are significant drivers of water pollution, they are also prominent sources of GHG emissions. Emissions from these sources comprise approximately 55% of the livestock sector's total GHG emissions.[15]

Walmart Inc., PPC's fourth-largest customer by percentage of revenue, has introduced detailed supplier expectations on management of water, manure, nutrients and fertilizer.[16]

Tesco Inc., PPC's seventh-largest customer by percentage of revenue[17] has set a target to reduce its Scope 3 GHG emissions by 17% by 2030.[18] Tesco notes that emissions from agriculture account for over 60% of its total carbon footprint.[19] In discussing its efforts to meet its emissions reduction targets, Tesco notes that "We expect all our largest suppliers to have their own sustainable agriculture strategies to address their most material farm-level impacts and risks."[20]

McDonald's Corporation and Yum! Brands Inc. have also made commitments to reduce GHG emissions from their meat supply chains.[21] Both companies are customers of PPC.[22]

In light of these commitments and expectations from several of PPC's largest customers, failing to address the water and emissions impacts of fertilizer and manure may harm PPC's position as a competitive supplier, resulting in reduced market share.

In addition to McDonald's and Yum! Brands, other large PPC customers face growing concerns from their investors regarding the water pollution impacts of their animal protein supply chains. In January 2019, more than 80 investors representing more than $6.5 trillion in combined assets called on fast food chains Chipotle Mexican Grill, Domino's Pizza Group, McDonald's Corporation, Restaurant Brands International, Yum!

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[15] http://www.fao.org/3/a-i8276e.pdf
[16] https://www.walmartsustainabilityhub.com/project-gigaton/agriculture
[17] Revenue ranks from Bloomberg as of March 2, 2020
[18] https://sciencebasedtargets.org/case-studies-2/case-study-tesco/
[19] https://www.tescoplc.com/sustainability/sourcing/topics/environment/sustainable-agriculture/
[20] Ibid.
[21] https://corporate.mcdonalds.com/corpmcd/scale-for-good/climate-action.html#goals
https://www.supplychaindive.com/news/yum-brands-science-based-carbon-emissions-targets/550789/
[22] https://www.gainesville.com/news/20170309/pilgrims-pride-sued-over-wastewater-in-river
http://ir.pilgrims.com/static-files/e3600306-6cfa-4e6e-bae6-30bd760a13c5

Brands, and The Wendy's Company to set policies and goals to address the water use, water quality, and emissions impacts of their animal protein supply chains. Over the last year, this coalition of investors nearly doubled in size, and now represents more than $11.4 trillion in combined assets.[23] The 75% growth of this coalition demonstrates that investors are increasingly concerned that the environmental impacts of animal protein production threaten shareholder value.

Supply chain water pollution poses a risk to PPC's brand value

In addition to regulatory and market risks, the poultry industry's water pollution footprint represents a considerable reputational risk. PPC has been the focus of a public campaign seeking to hold it accountable for water contamination across the country through its supply chain practices. The campaign suggests that agricultural runoff from feed crops produced to raise livestock is the leading cause of the growing hypoxic "dead zone" that forms annually in the Gulf of Mexico. Further, the campaign suggests that as one of the primary sources of demand for feed crops, meat producers bear responsibility for addressing the water contamination problem.[24]

PPC lags its competitors in managing supply chain water pollution

Two of PPC's principal competitors have recently disclosed measures intended to address supply chain water pollution.

Tyson Foods has committed to support improved fertilizer practices on two million acres of corn by the end of 2020. This represents enough corn to feed all of Tyson's annual broiler chicken production in the United States. Tyson notes that optimizing the application of fertilizer presents a cost-saving opportunity.[25]

Sanderson Farms has committed to disclose its efforts to manage environmental risks which the Sustainability Accounting Standards Board (SASB) classifies as financially material for poultry processors.[26] One of the metrics SASB recommends poultry processors disclose is the amount of poultry litter generated by the company and what percentage of it is managed according to a nutrient management plan.[27]

Other industrial meat processors have taken steps to address water pollution from their supply chains. Pork producer Smithfield Foods exceeded its target to purchase 75% of its feed grain from farms managed to reduce water pollution. Smithfield noted that optimizing the application of fertilizer improved farmers' profits, and "strengthens

[23] https://bit.ly/2UaieCb
[24] https://bit.ly/2QDHsqv
http://www.mightyearth.org/wp-content/uploads/2017/08/Meat-Pollution-in-America.pdf
[25] https://www.tysonsustainability.com/environment/nutrient-management
[26] http://ir.sandersonfarms.com/news-releases/news-release-details/sanderson-farms-inc-holds-annual-meeting-stockholders-6
[27] Meat, Poultry, and Dairy Sustainable Accounting Standard – Version 2018-10. Available at https://www.sasb.org/standards-overview/download-current-standards/

Smithfield's relationship with the grain suppliers that are critical to our business".[28] Perdue Farms has invested $80 million in a poultry litter recycling operation to prevent nutrient pollution.[29] Hormel Foods has adopted a sustainable agriculture policy addressing fertilizer and manure management.[30]

Conclusion:

Proponents commend our company's efforts to reduce the quantity of water it uses at its facilities, and the recent completion of a water risk assessment of its facilities.[31] Proponents acknowledge PPC's environmental policy requiring "vendors" to comply with all applicable environmental laws and regulations and encouraging vendors to "use best efforts to meet industry best practices and standards and responsibly manage the environmental impact of their operations."[32]

However, neither our company's disclosures nor its policies specifically address the primary drivers of its water pollution footprint, including manure from contracted facilities and nutrient runoff from animal feed crops. Our company's existing disclosures therefore lack sufficient detail to assure investors that it is adequately managing risks associated with water pollution from its supply chain.

We therefore urge shareholders to vote "FOR" Proposal #6 requesting that PPC issue a report at reasonable cost, omitting proprietary information, assessing if and how it plans to increase the scale, pace, and rigor of its efforts to reduce water pollution from its supply chain.

For questions, please contact:

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[28] https://www.smithfieldfoods.com/sustainability/report/2018/environment/supply-chain/grain-production
[29] https://corporate.perduefarms.com/pdfs/perdue-farms-responsibility-report.pdf
[30] https://www.hormelfoods.com/wp-content/uploads/Responsibility_Sustainable_Agriculture_Policy_07.25.17.pdf
[31] https://sustainability.pilgrims.com/chapters/environment/water/
[32] https://sustainability.pilgrims.com/stories/supplier-code-of-conduct/

The Phillips 66 Company (PSX)

Proposal: Report on Petrochemical Risks

Proponent: As You Sow
Lila Holzman
2150 Kittredge St., Suite 450
Berkeley, CA 94704
lholzman@asyousow.org

Resolution:

Resolved: Shareholders request that Phillips 66, with board oversight, publish a report, omitting proprietary information and prepared at reasonable cost, assessing the public health risks of expanding petrochemical operations and investments in areas increasingly prone to climate change-induced storms, flooding, and sea level rise.

Summary:

1. **Phillips 66's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.**

2. **Phillips 66 does not provide shareholders with sufficient analysis and disclosure on managing the growing risks to its petrochemical operations.**

Background:

Investors are concerned about the financial, health, environmental, and reputational risks associated with operating and building-out new chemical plants and related infrastructure in Gulf Coast locations increasingly prone to catastrophic storms and flooding associated with climate change. Chevron Phillips Chemical Company (CPChem), owned jointly by Chevron and Phillips 66, is a major petrochemical producer in the Gulf Coast.

Petrochemical facilities like ethane crackers and polyethylene processing plants produce dangerous pollutants including benzene (a known carcinogen), volatile organic compounds, and sulfur dioxide. These operations can become inundated and pose significant chemical release risks during extreme weather events.

Growing storms and the costs they bring our company are predicted to increase in frequency and intensity as global warming escalates. Recent reports show that greenhouse gas emissions throughout the petrochemical and plastic supply chain

contribute significantly to climate change, thereby exacerbating the threat of physical risks such as storms. Flood-related damage is projected to be highest in Texas, where many of CPChem's petrochemical plants are concentrated, and Houston alone has seen three 500-year floods in a three-year span. Hazardous chemical releases, such as those experienced by CPChem's petrochemical facilities during Hurricane Harvey, put surrounding communities at risk and erode the Company's social license to operate. Hurricane Harvey's impacts also contributed to a $123 million decrease in pre-tax income from Phillips 66's Chemicals segment in 2017, which could burgeon if facilities are hit by worse and more frequent events in the future.[1]

While the Company rapidly expands its petrochemical assets in climate-impacted areas, investors seek improved disclosure to understand whether CPChem is adequately evaluating and mitigating public health risks associated with climate-related impacts and the dangerous chemicals it uses.

Rationale details:

1) **Phillips 66's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.**

Phillips 66 has announced major billion-dollar investments in Gulf Coast-based projects over the next several years.[2] The announced investment will significantly build out petrochemical infrastructure along the Gulf Coast, constructing a major petrochemical plant with an ethylene cracker and two high-density polyethylene units. Existing and proposed petrochemical projects have the potential to create major liability during extreme weather events. In fact, Phillips 66 was noted as being the source of some of the largest pollution leaks during Hurricane Harvey, indicating that the Company may be ill-prepared to manage the risks posed by climate change.[3]

Physical damage that occurs from flooding can result in major hazardous leaks, impacting local communities. The Center for International Environmental Law (CIEL) published a report in 2019 noting the extent to which petrochemical refining operations use and produce hazardous pollutants that cause health impacts including cancer, reproductive and birth defects, etc. The report emphasizes that fenceline communities are especially at risk, and that the risk is exacerbated by extreme weather events. During Hurricane Harvey roughly one million pounds of dangerous air pollutants like benzene, 1,3-butadiene, sulfur dioxide, and toluene were released by local refineries and plants.[4]

Leaks are a danger and liability for Phillips 66 even outside of more extreme events, which can only compound vulnerabilities and impacts. Its facilities have been listed as

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[1] https://s22.q4cdn.com/128149789/files/doc_financials/annual_report/2018/PSX_2018_AnnualReport.pdf
[2] https://bit.ly/2WCFc6u
[3] https://bit.ly/2U7tPSI, p.12
[4] https://bit.ly/33xIV6Q, p.17-22

the 2nd and the 6th largest offenders in the Houston region.[5,6] Peer companies are already facing civil legal action regarding the emerging issue of climate resiliency. In 2019, a judge in a Boston federal court allowed a lawsuit by the Conservation Law Foundation to move forward seeking $110 million for Exxon's failure to fortify an oil storage facility to withstand the physical impacts of climate change.[7]

Insurance companies are also becoming more acutely aware of the climate-specific risks related to insuring companies, especially in areas subject to greater climate impacts such as hurricanes and flooding. Swiss Re has published a report on the rapidly growing costs of natural disasters, which reached $337 billion in 2017; Lloyd's of London cited natural disasters for its first loss in six years; and AXA has spoken out saying that major global warming would make the world uninsurable this century.[8] BlackRock, the world's largest asset manager, with nearly $7 trillion in assets under management, released a report in April of 2019 on its assessment of physical climate risks, noting: "Our early findings suggest investors must rethink their assessment of vulnerabilities. Weather events such as hurricanes and wildfires are underpriced in financial assets."[9]

2) **Phillips 66 does not provide shareholders with sufficient analysis and disclosure on managing the growing risks to its petrochemical operations.**

Despite clear risks, Phillips 66 provides investors with minimal discussion of its physical risks from climate change. In Phillips 66's "Energy: Policy Risks and Disclosures" report, the Company states that "the possible physical effects of climate change on coastal assets are incorporated into planning, investment, and risk management decision-making."[10] Similarly vague and non-descriptive language is offered by Phillips 66 in its 10-K, as the Company states "...[the] potential physical effects of climate change on our operations are highly uncertain and depend upon the unique geographic and environmental factors present… [w]e have systems in place to manage potential acute physical risks..."[11]

This lack of transparency is especially worrisome considering Phillips 66's large pollution leaks and loss of earnings during Hurricane Harvey, which underscore that Phillips 66's current risk management strategy is inadequate.[12] For instance, the company does not: identify which of its current and planned facilities are in areas at high risk of experiencing climate-related severe weather events; provide assumptions made

[5] https://environmentalintegrity.org/wp-content/uploads/2020/02/Benzene-Report-2.6.20.pdf
[6] https://bit.ly/2wqBIcD, p.21
[7] https://www.wbur.org/news/2019/03/13/exxonmobil-conservation-law-foundation-lawsuit-moves-forward
[8] https://www.ft.com/content/0f530242-02c1-11e9-9d01-cd4d49afbbe3
[9] https://www.blackrock.com/us/individual/literature/whitepaper/bii-physical-climate-risks-april-2019.pdf
[10] https://www.phillips66.com/Sustainability-site/Documents/energy-policy-risks-disclosures-2018.pdf, p.8
[11] https://d18rn0p25nwr6d.cloudfront.net/CIK-0001534701/2c2b7a68-e8de-45fc-9871-9b1b2bf16e22.pdf, p.21
[12] https://s22.q4cdn.com/128149789/files/doc_financials/annual_report/2018/PSX_2018_AnnualReport.pdf, p.41

and describe measures used to evaluate how climate change will affect its Gulf Coast facilities; report estimated emissions from unplanned upsets such as those that occur during hurricanes; outline strategies to communicate with key local stakeholders during emergency situations; or describe measures taken to minimize health impacts of associated chemical releases.

While some information on major spills must be reported to state and federal governments, companies are not required to report this to counties. Relying on required reporting can leave communities in the dark about the health risks they face; companies should therefore improve disclosures beyond what is required by law to retain and improve the goodwill and trust of local communities and governments and to indicate to shareholders the type of best management practices in place. As the risks of climate change become more apparent and urgent, shareholders require robust analysis and transparent disclosure of risks and company mitigation strategies in order to make appropriately informed investment decisions.

Vote "Yes" on this Shareholder Proposal regarding the risks of climate change to Phillips 66's petrochemical operations expansion.

Shareholders urge strong support for this proposal, which will bring increased transparency from Phillips 66 toward the goal of better understanding the Company's level of preparedness to address climate risks to its significant petrochemical growth plans.

THE FOREGOING INFORMATION MAY BE DISSEMINATED TO SHAREHOLDERS VIA TELEPHONE, U.S. MAIL, E-MAIL, CERTAIN WEBSITES AND CERTAIN SOCIAL MEDIA VENUES, AND SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE OR AS A SOLICITATION OF AUTHORITY TO VOTE YOUR PROXY. THE COST OF DISSEMINATING THE FOREGOING INFORMATION TO SHAREHOLDERS IS BEING BORNE ENTIRELY BY ONE OR MORE OF THE CO-FILERS. PROXY CARDS WILL NOT BE ACCEPTED BY ANY CO-FILER. PLEASE DO NOT SEND YOUR PROXY TO ANY CO-FILER. TO VOTE YOUR PROXY, PLEASE FOLLOW THE INSTRUCTIONS ON YOUR PROXY CARD.

The Southern Company (SO)

Proposal: Independent Board Chair

Proponent: Office of New York City Comptroller Scott Stringer and the New York City pension funds

Resolution:

Resolved: Shareholders of The Southern Company ("Southern") ask the Board of Directors to adopt a policy, and amend the bylaws as necessary, to require the Chair of the Board to be an independent director. The policy should provide that (i) if the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the policy within 60 days of that determination; and (ii) compliance with this policy is waived if no independent director is available and willing to serve as Chair. This policy shall apply prospectively so as not to violate any contractual obligation.

Summary:

The role of the board is to supervise management, and if the board is chaired by the CEO then that person is his or her own boss. This lack of independent oversight of management is a governance weakness.

- According to proxy advisor Glass Lewis, "shareholders are better served when the board is led by an independent chairman who we believe is better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that exist when a CEO or other executive also serves as chairman."
- Intel's former Chair Andrew Grove stated, "The separation of the two jobs goes to the heart of the concept of a corporation. Is a company a sandbox for the CEO, or is the CEO an employee? If he's an employee, he needs a boss, and that boss is the board. The chairman runs the board. How can the CEO be his own boss?"
- In a recent *Harvard Business Review* article, Joseph Mandato and William Devine argued in favor of separating the chair and CEO roles, citing findings from interviews they conducted with CEOs, board chairs, investors and founders. Separation, they urged, "can strengthen the quality of the questions the corporation asks itself," which improves risk management, and amplifies the impact of feedback delivered to the CEO from the board's closed executive sessions, making it easier to "check a top exec steering the company astray." Mandato and Devine suggested that an independent chair could have helped

prevent or mitigate the cultural, organizational and strategic weaknesses that have damaged Boeing, Facebook, and WeWork.[1]

Climate change has created unprecedented challenges and opportunities for electric utilities. Southern lags many of its peers in setting a science-based net-zero target and planning to meet that target. Southern has not undertaken the business transformation needed to mitigate the risks of climate change and position itself to take advantage of the opportunities presented by the transformation to a zero-carbon economy. We believe that the failure to respond adequately to this challenge is ultimately a failure of leadership and governance.

- Southern CEOs have held the dual role of board chair since 1994, compared with the 53% of S&P 500 companies whose boards have separated the roles of CEO and chair.
- Directors on boards with a joint CEO-chair report being more likely to have difficulty voicing a dissenting view (57% versus 41%) and to believe that one or more of their fellow directors should be replaced (61% versus 47%), according to a 2019 survey by PwC.
- Concerns about weak board leadership are exacerbated by board composition and lack of refreshment.
    - Unlike 71% of S&P 500 companies, Southern's governance documents do not mandate a director retirement age. Seven of the 14 directors listed in the 2019 proxy statement will be 70 years old or older at the time of the 2020 shareholder meeting.
    - The company's 2019 proxy statement identifies four directors with nuclear energy experience but none with experience relevant to renewable energy.

Background

Decarbonization of the economy and electrification of other sectors create unprecedented opportunities and challenges for utilities and their investors.

- Utilities are facing stagnant demand, with increases in usage from economic growth offset by increased efficiencies and development of distributed generation.
- Economy-wide decarbonization has the potential to drive a dramatic expansion of electricity usage as transportation, heating, and industrial activities are electrified.
- Southern has the second highest CO2 emissions of any U.S. privately/investor-owned power producer.[2]

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[1] Joseph Mandato and William Devine, "Why the CEO Shouldn't Also be the Board Chair," Harvard Business Review, Mar. 4, 2020, available at https://bit.ly/2J5io7v.

[2] MJ Bradley, Benchmarking Air Emissions, June 2019, available at https://bit.ly/3bhgKMn, p. 19.

Southern's decarbonization target is a 50% reduction by 2030 and an 80% reduction (which the company refers to as "low to no" carbon emissions) by 2050, compared with 2007 levels. This commitment lags six of the top 20 U.S. electric utilities which have made a commitment to achieve net-zero emissions by 2050.

Southern's public-facing documents describe the company's support for "advanced research" and its work with "scientists and technology developers" to develop "solutions for a clean energy future." However, in its CDP report, Southern acknowledges that its 2030 and 2050 targets are "not science-based." The company further states that it does not expect to set science-based emission targets in the next two years.[3]

Southern reports that in 2019 it relied on coal for 22% of energy used to serve its electricity customers.[4] The Carbon Tracker Initiative's 2019 plant-by-plant review of the company's coal assets warned that the company faces a $6.8 billion stranded asset risk, equal to 12% of its market capitalization, if it fails to accelerate retirement of coal fired plants. Carbon Tracker estimated that 82% of Southern's coal capacity already has a higher long-run marginal cost than utility-scale solar or wind; this figure could reach 100% by 2030. Carbon Tracker further states that a least-cost approach would eliminate half of coal capacity by 2024 and the remainder by 2034.[5]

This concern about over-reliance on coal was echoed in an early January 2020 Morgan Stanley report which estimated that between 36% and 63% of the company's coal fleet will be uneconomic by 2030. By replacing the uneconomic coal units with renewables, Morgan Stanley estimated, Southern could achieve a $3-$6 billion "capex opportunity," i.e., an increase to its rate base. Stranded asset risk could be avoided and the "capex opportunity" could be captured by the company, analysts said, if the company chooses to "accelerate its investment in renewables."[6] Later in January, Morgan Stanley took a more detailed look at the company and recommended that investors underweight Southern Company.[7]

Southern's romance with coal has already cost the company billions of dollars, principally due its failed $7.5 billion attempt to build a "clean coal" plant in Kemper County, Mississippi. The company wrote off $6.4 billion in costs after abandoning the project in 2017. As the company notes in its 2019 10-K, it still faces Kemper-related "litigation and other disputes" that could have a material effect on the company's future performance.[8] Southern acknowledged in 2019 that its handling of the project, which received hundreds of millions of dollars in federal funding, was the target of a Justice Department investigation.[9] Southern also faces a shareholder derivative lawsuit

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[3] https://bit.ly/2U9Z2ER, p. 34.

[4] Southern Company Fourth Quarter 2019 Earnings Call (slides), 2/20/20, page 17.

[5] https://companyprofiles.carbontracker.org/

[6] Morgan Stanley Research, *Year-Ahead Outlook, Key Utility Themes for 2020*, January 8, p. 8.

[7] Morgan Stanley Research, "The Second Wave of Clean Energy - Part II: Who can ride the wave," January 29, 2020, p. 53.

[8] 2019 10K, p. vii.

[9] Walton, Robert. "DOJ opens investigation into Kemper plant as Southern warns of possible 'material impact'". *Utility Dive*. May 2, 2019. Available at: https://bit.ly/2QzhAMl.

claiming that the company committed securities fraud by knowingly making false statements about the project.[10]

We believe that a board chair independent of management would be better able to lead the process of setting a strategy to position Southern to take advantage of increased demand for decarbonized electricity and more effectively evaluate and mitigate the risks that excessive investment in natural gas generation capacity could become a stranded asset.[11]

Prepared by Majority Action in support of a proposal filed by the Office of the New York City Comptroller. The Assistant Comptroller for Corporate Governance, Michael Garland, can be reached at 212-669-2517.

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[10] https://bit.ly/2vCRAZn

[11] Mark Dyson et al, *Prospects for Gas Pipelines in the Era of Clean Energy*, Rocky Mountain Institute, 2019.

The Southern Company (SO)

Proposal: Lobbying Disclosure

Proponent: Joyce Lanning

Resolution:

Resolved, stockholders of The Southern Company ("Southern") request the preparation of a report, updated annually, disclosing:

1. Payments by Southern or its subsidiaries used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
2. Southern's membership in and payments to any tax-exempt organization that writes and endorses model legislation.

For purposes of this proposal, "lobbying" is attempting to influence the actions, policies, regulations, or decisions of government officials, legislators, regulators or regulatory bodies. A "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which Southern or any subsidiary is a member.

Summary:

Southern's failure to fully disclose the content and extent of its attempts to influence government by communicating with both officeholders and the general public prevents shareholders from determining if such lobbying is inconsistent with both Paris Agreement goals and the company's own "planning for a lower-carbon future."[1] The full extent of undisclosed spending to influence policy is, by definition, unknown. However, as will be documented below, available evidence shows that:

- As investigative reports revealed last year, Southern made undisclosed contributions to at least one organization working to influence policy at the national level, creating a credible concern that it may have made similar contributions to other organizations.[2]
- Southern's policy on the disclosure of lobbying payments to trade associations and industry coalitions refers to spending covered by "lobbyist registration and

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[1] https://bit.ly/2Wu5VlJ
[2] https://www.politico.com/story/2019/02/20/epa-air-pollution-regulations-wehrum-1191258

disclosure reporting obligations" and thus does not appear to cover spending for grassroots lobbying, as defined in the resolution, by those groups.[3]

- State-level disclosures – to which Southern's lobbying policy refers shareholders for "information about their lobbying activities" – do not actually fully report lobbying expenditures.
- Southern provides no disclosures about its own "grassroots lobbying communication" and critics have expressed concern that the company "may use charitable giving to influence politics."[4]

The risks associated with the existing disclosure regime were described in a September 2019 letter sent to Southern Chairman, President and CEO Thomas A. Fanning, on behalf of 200 institutional investors with $6.5 trillion in assets-under-management.[5] The signers of that letter expressed concern that non-disclosure may conceal lobbying activities that delay action needed to meet Paris Agreement goals, thereby creating risks to the company as follows:

- Regulatory risks: Delay in action now will likely result in the need for stronger and more drastic regulatory interventions later, leading to much higher costs for companies.
- Systemic economic risks: Delay in the implementation of the Paris Agreement increases the physical risks of climate change, which elevates uncertainty and volatility in our portfolios and poses a systemic risk to global economic stability.
- Reputational and legal risks: Companies may face backlash from their consumers, investors or other stakeholders if they, or the organizations they support, are seen to be delaying or blocking effective climate policy."[6]

<u>Background on the company's lobbying-related risks</u>

The evidence that Southern's lobbying practices run counter to Paris Agreement goals and its published plan for a "Low-Carbon Future"[7] is substantial. An October 2019 study by Influence Map identified "50 of the most influential companies on climate policy globally" and concluded that Southern is one of the world's most aggressive opponents of Paris-aligned climate policies. Only three firms – the oil giants BP, Chevron, and ExxonMobil – play a more harmful role than Southern, according to the study.[8]

"Southern Company is actively and negatively lobbying" on climate change policy, Influence Map reported. The group noted that "CEO Tom Fanning has stated his opposition to government interference in the U.S. energy mix" and "defended a continuing role for coal in the U.S. energy mix."

[3] https://bit.ly/2wnGS9i
[4] https://bit.ly/2vDDHKv
[5] https://bit.ly/39bs373
[6] https://bit.ly/2xZ0Fwx
[7] https://bit.ly/2wsuNzE
[8] https://bit.ly/3ddM7Jz

Southern's "Policies and Practices For Lobbying-Related Activities" ("the Policies"), adopted in April 2012, provide for disclosure on the company website of the lobbying portion of payments to trade associations and coalitions which receive $50,000 or more annually from the company.[9] However, the company and its subsidiaries do not publish disclosures of their own lobbying expenditures, but instead refer shareholders to documents filed with Congress and state agencies "disclosing information about their lobbying activities."[10]

The current disclosure regime fails to provide the information shareholders need to determine the extent to which Southern attempts "to influence the actions, policies, regulations, or decisions of government officials, legislators, regulators or regulatory bodies." Specifically:

- At the national policy level, Southern suffered public embarrassment when an investigative report by *Politico* disclosed previously secret contributions to an industry coalition which argued and litigated against air pollution and climate regulations.[11] *Politico* revealed that Southern gave $663,453 to the Utility Air Regulatory Group (UARG) in 2017, making it the second-largest donor.[12] In May 2019, UARG responded to the controversy following the *Politico* revelations by closing up shop. However, Southern and other utilities remained targets of a Congressional investigation that sought to answer, among other questions, whether UARG dues bought the companies special treatment from the Trump Administration.[13] Southern's failure to disclose contributions to UARG means that shareholders don't know how much money Southern gave the group before or after 2017. The proposal's broad requirement that Southern disclose all spending to "influence the actions, policies, regulations, or decisions of government officials, legislators, regulators or regulatory bodies" would make it clear that the company must disclose contributions to UARG and similar groups in the future.

- The existing policy contains no provision for disclosure of the portion of Southern payments to trade associations and coalitions used for "grassroots lobbying."

To cite one example, Southern's most recent disclosure identifies $33,963 in 2018 contributions "for lobbying-related activities" by the American Gas Association (AGA)[14] However, in addition to directly lobbying public officials, AGA's activities also include the use of consultants to help companies develop grassroots political support for expanded natural gas drilling and production.[15] Southern's current disclosure policy contains no provision for disclosure of indirect support for grassroots lobbying through trade associations.

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[9] https://bit.ly/2wp5gHK
[10] https://bit.ly/2UC0uPp
[11] https://www.politico.com/story/2019/05/10/epa-air-chief-3238271
[12] https://static.politico.com/59/f4/19e386684cde98d283683e8bbb54/utility-air-regulatory-group.pdf
[13] https://www.politico.com/story/2019/05/10/epa-air-chief-3238271
[14] https://bit.ly/3bhgr4b
[15] https://www.aga.org/about/mission/natural-gas-messaging-research-presentation-/

One of the firms used by AGA to support grassroots lobbying, Public Opinion Strategies (POS), reports that half its "political client base" consists of elected officials; the other half "is involved in complex public policy battles, working with industry coalitions, government entities and private companies."[16] As part of its work for AGA, POS surveyed 1,200 registered voters and conducted 12 focus groups to test public support for industry goals as described in this slide from a "Natural Gas Messaging Research Presentation." The website hosting this presentation also includes AGA's media releases on specific natural gas-related legislation.[17]

Objectives:

- Profile demographically natural gas audiences (natural gas supporters, natural gas persuadables, and natural gas opponents)
- Explore attitudes towards natural gas and its use
- Explore attitudes towards the "Keep It In The Ground" position and test messages to counter this position
- Explore attitudes towards increasing natural gas production, expanding the natural gas infrastructure, and pipelines
- Test messaging to increase support for increasing natural gas use and expanding the natural gas infrastructure

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- Other trade groups funded by Southern also use the media and their own websites for public outreach to seek support on specific regulatory and legislative issues affecting the utility industry, including:
  - The Electric Reliability Coordinating Council, a group promoting "the shared belief that coal-based energy should play an important role as our nation moves toward a clean energy future."[18]
  - The Edison Electric Institute[19]
  - The Interstate Natural Gas Association[20]
  - The Nuclear Energy Institute[21]
  - The U.S. Chamber of Commerce[22]

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[16] https://pos.org/
[17] https://www.aga.org/about/mission/natural-gas-messaging-research-presentation-/
[18] https://www.electricreliability.org/
[19] https://www.eei.org/resourcesandmedia/newsroom/Pages/pressreleases.aspx
[20] https://www.ingaa.org/News/PressReleases.aspx
[21] https://nei.org/advocacy
[22] https://www.uschamber.com/issue-brief/environmental-affairs-and-sustainability-policy-objectives-2020

- Southern's existing policy contains no provision for disclosure of the company's own "grassroots lobbying communication" as defined in the resolution. Critics have argued that much of the charitable giving by Southern Company and its affiliates constitutes grassroots lobbying expenditures designed to "influence politics." Southern Company and its affiliates made charitable donations averaging more than $40 million per year in 2013 through 2017, according to a report by the Energy and Policy Institute (EPI).[23]

- Many of the political decisions which shape Southern's response to climate change are made at the state level in Alabama, Georgia and Mississippi. The Policies refer shareholders and other stakeholders to disclosures made to state ethics agencies "about lobbying activities." In fact, a careful review of state laws and disclosure documents[24] found that those disclosures are incomplete. States require Southern and its lobbyists to disclose the amounts spent on meals, drinks, event tickets and other gifts they give to public officials – but not their full lobbying budgets. We thus do not know how much they spend on lobbyists' salaries or expenses incurred by each lobbying operation. Furthermore, none of the three states requires disclosure of grassroots lobbying expenditures. For example:

    - State filings by Southern's Alabama Power subsidiary reveal that the company employed 12 individual lobbyists and four lobbying firms in 2019.[25] However, Alabama lobbying disclosures are limited to requiring those lobbyists to disclose only gifts worth more than $250 to "a public official, employees and members of his or her respective household."[26] Alabama disclosures do not indicate how much money the company spent to pay for the work of those lobbyists.

    - Georgia Power's lobbying reports for 2018-19 reveal that 36 lobbyists serving the company spent more than $25,000 on food, drinks and event tickets for Georgia elected officials or their spouses and more than $40,000 on events with groups of Georgia politicians. Southern's Georgia disclosures do not indicate how much the company paid for the services of its lobbyists. Georgia lobbyist reporting forms include a space to identify the bill number or general subject matter discussed with officials. Unlike most organizations reporting lobbying expenses, Georgia Power left this field blank on more than 1000 lobbying reports submitted in 2018 and 2019.[27]

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[23] https://bit.ly/2xcPsYC
[24] State-by-state summaries of lobbying disclosure regulations may be found at https://bit.ly/2xOKAZY. [NCSL Ethics]
[25] http://ethics.alabama.gov/search/ViewReports.aspx?pid=22594&rpt=rptPrincipalRegistration
[26] http://ethics.alabama.gov/lobbyists.aspx and NCSL Ethics.
[27] http://media.ethics.ga.gov/search/lobbyist/lobbyist_byname.aspx

Conclusion:

The limited information available on Southern's undisclosed report for a major public policy group, Southern's direct involvement in grassroots lobbying, its role in at least one trade association which supports grassroots lobbying, and the inadequacy of state-level lobbying disclosures all raise well-founded fears that the company is devoting substantial resources to lobbying activities which create regulatory, economic, reputational and legal risks. More comprehensive disclosures are needed to allow shareholders to fully assess the extent of these risks.

Prepared by Majority Action in support of a proposal filed by Joyce Lanning. The Director of Investor Engagement for Majority Action, Lisa Lindsley, can be reached at (201) 321-0301.

United Airlines Holdings (UAL)

Proposal: Climate Lobbying

Proponent: BNP Paribas Asset Management
Adam Kanzer
Head of Stewardship - Americas
adam.kanzer@bnpparibas.com

Resolution:

Resolved: Shareholders request that the Board of Directors conduct an evaluation and issue a report within the next year (at reasonable cost, omitting proprietary information) describing if, and how, United's lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal).

The report should also address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks.

Summary:

- Corporate lobbying activities that are inconsistent with meeting the goals of the Paris Agreement present regulatory, reputational and legal risks to investors.
- Delays in implementation of the Paris Agreement increase the physical risks of climate change, pose a systemic risk to economic stability and introduce uncertainty and volatility into our portfolios.
- We believe that Paris-aligned climate lobbying helps to mitigate these risks, and contributes positively to the long-term value of our investment portfolios.
- Of particular concern are the trade associations and other politically active organizations that speak for business but, unfortunately, too often present forceful obstacles to progress in addressing the climate crisis.
- Insufficient information is presently available to help investors understand how United works to ensure that its lobbying activities, both directly, in the company's name, and indirectly, through trade associations, align with the Paris Agreement's goals, and what United does to address any misalignments it has found.
- Two hundred institutional investors managing $6.5 trillion wrote to United in September 2019, seeking information on how the company is managing this critical governance issue. The company did not respond.

Background:

As investors, we view fulfillment of the Paris Agreement's agreed goal – to hold the increase in the global average temperature to "well-below" 2°C above pre industrial levels, and to pursue efforts to limit the temperature increase to 1.5°C – as an imperative. We are convinced that unabated climate change will have a devastating impact on our clients, plan beneficiaries, and the value of their portfolios. We see future "business as usual" scenarios of 3-4°C or greater as both unacceptable and uninvestable.

According to the most recent annual "Emissions Gap Report" issued by the United Nations Environment Programme (November 26, 2019), critical gaps remain between the commitments national governments have made and the actions required to prevent the worst effects of climate change. Companies have an important and constructive role to play in enabling policymakers to close these gaps.

A set of Investor Expectations on Corporate Climate Lobbying, launched in Europe in 2018[1] and submitted to all U.S. members of the Climate Action 100+ in 2019,[2] asks companies to lobby in favor of the Paris Agreement's goals, assess how direct and indirect lobbying activities align with the Paris Agreement, act on any misalignments found, and publicly report on this analysis.

Investors have reached agreement on the Investor Expectations with 16 major European corporations, including Anglo American, BP, Equinor, Repsol, Shell, and Total.

The aviation industry is not on course to meet the Paris Agreement's goals. According to the International Coalition for Sustainable Aviation (ICSA)[3]:

> "International aviation and domestic aviation together represent 918 Mt of CO2, or equivalent to the combined fossil fuel emissions of Germany (6th largest country emitter) and the Netherlands (36th largest country emitter).
>
> Countries in the UN's International Civil Aviation Organization (ICAO) have agreed to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a market-based measure that sets a target of net CO2 emissions of international aviation at the average of 2019-2020 levels for the years 2021-2035. … While CORSIA is anticipated to address up to 2.5 Gt of CO2 emissions between 2021-2035, this is not enough to ensure that this rapidly growing

[1] https://bit.ly/2UdzHdd
[2] https://bit.ly/33DJMDj
[3] ICSA was established in 1998 by a group of national and international environmental Non-Governmental Organizations (NGOs) as official observers at the United Nations International Civil Aviation Organization (ICAO). See https://www.icsa-aviation.org/icsa-aviation-about-us/

> industry decarbonizes at levels and timeframes required to meet the 1.5C temperature goal of the Paris Agreement."[4] (*internal footnotes omitted*)

United Airlines responded to CDP's annual climate change survey, including information on the company's direct (in the company's name) and indirect (through trade associations and other organizations) lobbying efforts related to climate change and their consistency with corporate policy. This proposal seeks to answer a different question: How does United work to ensure that its direct and indirect lobbying activities align with the Paris Agreement's goals, and what does the company do to address any misalignments it has found?

Two hundred institutional investors managing $6.5 trillion wrote to United in September about its climate lobbying activities, and received no response. The report requested by this proposal would help to address the concerns raised in this letter, ensure a board review of United's climate lobbying efforts and help to reduce the risks related to climate lobbying that is misaligned with the Paris Agreement's "well-below 2 degrees" goal.

[4] https://www.icao.int/Meetings/a40/Documents/WP/wp_561_en.pdf

United Airlines Holdings (UAL)

Proposal: Link executive pay to sustainability metrics

Proponent: Mercy Investment Services
Mary Minette, mminette@mercyinvestments.org
Caroline Boden, cboden@mercyinvestments.org

Resolution:

Resolved: Shareholders request the Board Compensation Committee prepare a report assessing the feasibility of integrating objective sustainability metrics into performance measures, performance goals or vesting conditions that may apply to senior executives under United's compensation incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy over the long term.

Summary:

We understand that measures taken to contain the outbreak of COVID-19 are impacting travel, and that United Airlines Holdings ("United", or "the Company") and its peers are struggling in the short term to manage the loss of business. However, as long-term investors in the Company, we believe that attention to environmental, social, and governance (ESG) risks will help the company to prosper in both the long and short term. We see that the Company has taken steps to reduce its greenhouse gas (GHG) emissions, address the substantial risk that climate change poses to its operations, respect human and worker rights in its operations and supply chain, and prevent human trafficking through employee training. However, United has not explicitly linked sustainability goals with senior executive incentives. With this proposal, investors seek clarity on how United drives sustainability improvement and how that strategy is supported by executive accountability.

- Recently the Business Roundtable and large Investors have outlined their expanded view of the purpose of corporations that Includes social and environmental concerns and the needs of society more broadly, rather than just narrow concerns of shareholder value. Publicly traded companies such as United must demonstrate to investors that they are responsibly managing environmental and social risks.

- Companies are increasingly expected to disclose sustainability policies and goals to address environmental and social risks to their business and to show how those policies are being implemented and goals are being met. United's disclosures lag those of peers.
- Linking executive compensation to sustainability metrics encourages management to incorporate ESG topics and risk management approaches to these issues throughout the company and into everyday business decisions.
- United faces environmental risks to its business, particularly the long-term risk of climate change, and social risks, including potential human rights violations in its direct operations and supply chain. Linking progress in managing these risks to executive compensation could reduce reputational and financial risks related to sustainability underperformance, incentivize employees to meet sustainability goals and achieve resultant benefits, and increase accountability.

Background:

1. **2019 saw rapidly changing views of the role of corporations in society that emphasize environmental and social concerns and are compelling new approaches to investing.**

In August 2019, the Business Roundtable (BRT) issued a revised "Statement on the Purpose of a Corporation" which was signed by 181 CEOs including Oscar Munoz, the CEO of United Airlines.[1] The new statement painted an expanded picture of the role of corporations in society: creating value for customers; investing in employees; fostering diversity and inclusion; dealing fairly and ethically with suppliers; supporting the communities in which they work; and protecting the environment. This statement represents a shift from the BRT's previous policy that stressed the primacy of shareholder value: "The paramount duty of management and of boards of directors is to the corporation's stockholders ...The interests of other stakeholders are relevant as a derivative of the duty to stockholders."[2]

Investors, including some of the largest owners of many publicly traded corporations, are also changing how they view the role of the corporation in society and placing new emphasis on ESG factors. In his 2019 letter to CEOs, BlackRock chairman Larry Fink emphasized the importance of companies serving a purpose beyond profits.[3] State Street's CEO Cyrus Taraporevala has similarly stated that addressing material ESG issues is good business practice and is essential to long-term financial performance.[4] Together, BlackRock and State Street own more than 10% of most publicly traded companies.

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[1] https://bit.ly/2QGonUG
[2] https://fortune.com/longform/business-roundtable-ceos-corporations-purpose/
[3] https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter
[4] https://www.ssga.com/us/en/individual/etfs/insights/informing-better-decisions-with-esg

Going forward, publicly traded companies such as United will need to assure investors that the company's management is focused on these changing societal values and market expectations for the role of their business.

2. **Companies are increasingly expected to disclose policies and goals that address environmental and social risks to their business and to show how those policies are being implemented and goals are being met.**

Large and small investors are increasingly turning to established sustainability metrics and disclosure guidelines, such as those developed by the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainable Accounting Standards Board (SASB), in evaluating their holdings. In his letter to CEOs, BlackRock chairman Larry Fink outlined their evolving expectations for company disclosures on sustainability issues:

> BlackRock has been engaging with companies for several years on their progress towards TCFD- and SASB-aligned reporting. This year, we are asking the companies that we invest in on behalf of our clients to: (1) publish a disclosure in line with industry-specific SASB guidelines by year-end, if you have not already done so, or disclose a similar set of data in a way that is relevant to your particular business; and (2) disclose climate-related risks in line with the TCFD's recommendations, if you have not already done so. This should include your plan for operating under a scenario where the Paris Agreement's goal of limiting global warming to less than two degrees is fully realized, as expressed by the TCFD guidelines.

State Street's CEO in his 2020 letter to directors noted that "addressing material ESG issues is good business practice and essential to a company's long-term financial performance – ***a matter of value, not values.***"[5] State Street also announced that it will be using a new ESG rating framework, "R-Factor", to measure the performance of a company's business operations and governance as it relates to financially material ESG issues facing the company's industry.[6]

Investors with more than $40 trillion in assets under management have joined together in the Climate Action 100+ initiative with three primary requests of companies on their engagement list (which includes United Airlines Group): implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk and opportunities; take action to reduce GHG emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well-below 2 degrees Celsius above pre-industrial levels; and provide enhanced corporate disclosure in line with the TCFD recommendations.

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[5] https://www.ssga.com/us/en/institutional/ic/insights/informing-better-decisions-with-esg (emphasis in original).
[6] https://www.ssga.com/us/en/institutional/ic/insights/esg-oversight-framework-for-directors

Sustainability reporting frameworks increasingly will be a measure for evaluating the effectiveness of company management:

- "[BlackRock] will use these disclosures and our engagements to ascertain whether companies are properly managing and overseeing these risks within their business and adequately planning for the future. In the absence of robust disclosures, investors, including BlackRock, will increasingly conclude that companies are not adequately managing risk."[7]
- "[State Street believes] ***a company's ESG score will soon effectively be as important as its credit rating***."[8]

While United produces an annual sustainability report and set goals in some areas, it lags in reporting progress against its goals and the company's current reporting does not conform to either TCFD or SASB guidelines. United's peer companies are moving to adopt these reporting frameworks: JetBlue has used SASB guidelines for its reporting for several years and is moving to report under TCFD;[9] and in 2019 Qantas issued a report summarizing how it aligns to TCFD and included initial findings from the first phase of the company's climate scenario analysis.[10]

United also lags on social risk reporting, including on human rights issues in its operations and supply chain. In contrast, Delta and American Airlines have reported on their efforts to address human rights issues, including preventing human trafficking, in their most recent CSR reports.[11] [12]

3. **Companies can demonstrate commitment to environmental and social goals and drive progress in meeting those goals by linking executive compensation to key environmental and social metrics.**

Incentive structures can help companies drive performance on their ESG goals and demonstrate their commitment to stakeholders and society as well as to markets and investors. Studies have found that companies with strong ESG business practices, including risk management processes, financially outperform companies that do not.[13] Companies that link executive compensation and sustainability are 2.1 times more likely to have stronger sustainability commitments.[14]

A growing number of multinational companies from diverse sectors including Alcoa, the Kellogg Company, the Walt Disney Company and Xcel Energy, have integrated

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[7] https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter
[8] https://www.ssga.com/us/en/institutional/ic/insights/informing-better-decisions-with-esg (emphasis in original).
[9] https://bit.ly/2UfxBcO
[10] https://www.qantas.com/us/en/qantas-group/acting-responsibly/our-reporting-approach.html
[11] http://www.corporatereport.com/delta/2018/crr/Delta_2018_CRR.pdf
[12] http://s21.q4cdn.com/616071541/files/doc_downloads/crr/CRR-Report-2018.pdf
[13] https://www.glasslewis.com/glass-lewis-publishes-greening-green-2014-linking-compensation-sustainability/
[14] SYSTEMS RULE: How Board Governance Can Drive Sustainability Performance

sustainability metrics into their executive pay incentive plans.[15] Royal Dutch Shell announced in 2018 its plans to tie a portion of executive pay to targets linked to the company's net carbon footprint[16] and in 2019 Southern Company announced it was linking a portion of its CEO's pay to achievement of its carbon reduction goals.[17]

Linking executive compensation to sustainability metrics incentivizes management to incorporate ESG topics and risk management approaches to these issues throughout the company and into everyday business decisions. A Harvard Business School study of S&P 500 executives' pay packages found a positive relationship between the presence of explicit incentive compensation for corporate social responsibility and firms' social performance.[18]

United clearly recognizes the role that executive compensation can play in meeting its goals: the Company has linked executive compensation to safety goals, operational metrics (on-time departures, flight completion factor, and mishandled baggage ratio) and other financial metrics.[19] Following a widely publicized event where a customer was forcibly removed from a United plane, the company added a customer satisfaction metric to its compensation program.[20] However, the company has not recognized the growing investor focus on sustainability and the company's vulnerability to environmental and social risks by creating links between its sustainability goals and executive pay.

4. United faces key environmental and social risks to the long-term value of its business

United faces environmental risks to its business, particularly the long-term risk of climate change, and social risks, including human rights, in its direct operations and supply chain, worker health and safety, diversity and inclusion, and data privacy and security. Effectively managing for these sustainability concerns should be a key metric by which senior executives are judged. Linking sustainability metrics to executive compensation could reduce risks related to sustainability underperformance, incentivize employees to meet sustainability goals and achieve resultant benefits, and increase accountability.

A. Environmental risks

United's 10-K identifies environmental regulation and risks associated with climate change as risks to the company.[21]

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[15] https://www.ceres.org/resources/roadmap-for-sustainability/companies-action
[16] https://go.shell.com/2xmBqDH
[17] https://www.southerncompany.com/newsroom/2019/april-2019/ceo-2019-compensation.html
[18] http://nrs.harvard.edu/urn-3:HUL.InstRepos:dash.current.terms-of-use#LAA
[19] http://ir.united.com/node/22126/html#ds12501_other_compensation_components
[20] https://bit.ly/2QGXPT9
[21] https://bit.ly/2QGXUWX

Airline travel is expected to grow over the coming decades, as are associated environmental impacts. The International Air Travel Association (IATA) predicted in 2018 that the number of passengers traveling by commercial airline will reach 8.2 billion in 2037, based on a 3.5% compound annual growth rate. As the number of people traveling by plane increases, so do the GHG emissions from the industry. The aviation industry currently contributes 2% of all GHG emissions in the U.S. economy and 9% of all U.S. transportation sector emissions, but is expected to have the highest growth rate of all transportation modes in coming years.[22] Under business-as-usual scenarios, carbon dioxide emissions from aviation are expected to triple by 2050[23], which could come to represent 22% of transportation sector emissions. Although there has been some improvement in aircraft fuel efficiency, this has not offset industry emissions growth. In 2019, airlines in the United States increased their fuel efficiency by 3%, on average.[24] However, GHG emissions from the industry grew by 7%.[25]

Climate change poses significant operational risks to the airline industry: as extreme heat days increase due to climate change, United will need to replace vulnerable equipment and may be forced to lighten cargo and passenger loads, impacting operations and its bottom line.[26] In addition, hotter weather is likely to result in more turbulent flights, and extreme storms can wreak havoc on flight schedules, creating further business risk. Rising sea levels and severe weather also pose physical risks to airport Infrastructure, with associated negative impacts for airline operations.

Another increasing risk for the airline industry is consumer concern over the climate impacts of flying. A recent note to clients from Citi raised the issue of consumer “flight shaming,” or guilt over the impact of leisure travel, as a growing risk to the industry that could have a significant financial impact.[27] How United and other airlines meet their climate change goals, and how executives drive progress toward those goals, is both a risk and an opportunity as consumer preferences change.

United is a participant in the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and has set GHG targets that exceed those required by CORSIA. Neither of these targets are aligned with the “well-below 2 degrees Celsius” goals of the Paris Agreement. In addition, United’s disclosures lack detail about the company’s plans to meet its targets. The company’s absolute emissions increased between 2015 and 2017, as did its jet fuel and electricity consumption.[28] According to MSCI, United’s current absolute emissions reduction rate, together with its low rate of aircraft replacement, puts it at risk for not being able to meet even the lower CORSIA targets.[29]

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[22] https://www.wired.com/2015/06/planes-get-efficient-heres/http://www.wired.com
[23] https://theicct.org/aviation
[24] https://www.scientificamerican.com/article/rising-emissions-overshadow-airlines-fuel-efficiency-gains/#
[25] Ibid.
[26] https://www.nytimes.com/2017/06/20/business/flying-climate-change.html
[27] https://www.cnbc.com/2019/10/24/citi-flight-shaming-getting-traction-could-cost-airlines-billions.html
[28] http://crreport.united.com/fact-sheets/environment
[29] United Airlines MSCI ESG Ratings, Dec. 18, 2019.

In contrast, some of United's peer companies are disclosing substantial plans to address their climate risk by addressing emissions growth and moving toward becoming carbon neutral by mid-century. In February 2020 Delta Airlines committed $1 billion to mitigating its carbon emissions for its international and domestic flights and operations over the next 10 years.[30] In November 2019 Quantas announced plans to cap its net-GHG emissions at 2020 levels and committed to net-zero emissions by 2050.[31] Linking United's climate change goals to executive compensation would push the company's management to address these concerns and to meet investors' rising expectations.

B. Social risks

In its opposition statement to the proposal United notes its commitment "to good social practices in the workplaces and community" and outlines its efforts to promote a diverse and inclusive workplace, as well as activities to support local communities. While these are examples of good social practices, they are not representative of all social risks that a company, particularly one in the transportation sector, may face in its operations and supply chain.

The U.N. Guiding Principles on Business and Human Rights detail how and why business enterprises should respect human rights, including how corporations should "address adverse human rights impacts with which they are involved" through their operations or business relationships.[32] On any given day, 40 million people are victims of trafficking, forced labor, and other forms of modern-day slavery. Companies in the transport and logistics sector may be exposed to and associated with a number of human rights risks, including trafficking, forced labor in the supply chain, poor working conditions, and other risks. In light of recent immigrant and refugee crises around the world, several airline companies have faced public criticism and reputational risk for participating in the involuntary transfer and forced removal activities of asylum seekers and migrants. In response to concerns about human rights abuses associated with immigration policies in the U.S., several airlines, including United, asked the federal government to stop using commercial planes for transporting children who had been separated from their families.

The U.S. Department of State has emphasized the importance of trafficking prevention training for any individuals who may encounter trafficking victims and has identified transportation professionals as being particularly well-placed to identify trafficking victims. United recognized the risk to its business, as well as the opportunity to be part of the solution in preventing human trafficking, and as of 2018, had trained all flight attendants and committed to train all 54,000 customer-facing employees.

Although United has taken steps to help prevent trafficking and other human rights abuses, including the involuntary movement of migrants and refugees, the company has

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[30] https://news.delta.com/delta-commits-1-billion-become-first-carbon-neutral-airline-globally
[31] https://bit.ly/2WCcC5n
[32] https://www.business-humanrights.org/en/un-guiding-principles

not disclosed how it conducts human rights due diligence. In its latest CSR report, United notes that its Human Rights policy statement and Global Policy on Worker Welfare reflect the company's commitment to conducting business in a manner consistent with international human rights principles. However, United does not publicly disclose the Global Policy on Worker Welfare or offer any further details on how it is protecting and respecting worker rights in its operations and supply chain. Additionally, United's Human Rights policy statement was adopted in 2014, and since then, the company has not substantively reported on how that policy is being implemented or how United is ensuring compliance with it, nor disclosed how it is remediating any human rights risks that are identified in its operations or supply chain.

Including social responsibility metrics in the executive compensation program would encourage United's leadership to take a more proactive approach to addressing and reporting on efforts to mitigate human rights risks. This would help the company join its peers and alleviate reputational risk, as well as meet investors' growing expectations.

Conclusion:

When key sustainability metrics are linked to executive compensation, management gains a personal incentive to consider sustainability in their business decisions, sending the message that sustainability is a business imperative. This can result in multiple benefits for stakeholders, society, and the company's financial performance. By linking management of environmental and social risks to executive pay, United would demonstrate to current and potential shareholders, as well as to other key stakeholders, its commitment to meeting goals and managing risk.

For these reasons, we urge a YES vote on the proposal requesting that United issue a report on the feasibility of integrating objective sustainability metrics into executive compensation.

United Parcel Service (UPS)

Proposal: Report on lobbying

Proponent: Boston Trust Walden Company
Tim Smith
tsmith@bostontrustwalden.com

Resolution:

Resolved: The shareowners of UPS request the Board prepare a report, updated annually, disclosing:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
2. Payments by UPS used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
3. UPS' membership in and payments to any tax-exempt organization that writes and endorses model legislation.
4. Description of management's and the Board's decision-making process and oversight for making payments described in sections 2 and 3 above.

For purposes of this proposal, a “grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation.

"Indirect lobbying" is lobbying engaged in by a trade association or other organization of which UPS is a member. "Direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Nominating and Corporate Governance Committee and posted on UPS' website.

Summary:

- Company lobbying is a very powerful tool that companies use to influence legislation. UPS’ lobbying disclosure is insufficient; the Company does not disclose lobbying payments made through trade associations or state lobbying.

- Due to the lack of disclosure, the Company is facing reputational risk due to misalignment, i.e., if their lobbying activities do not match their public stand on an issue such as climate change.
- Company lobbying is a large source of spending for companies, and has a large impact on the regulatory environment of the United States. Investors are concerned that UPS might be "spending against itself" or actively lobbying against issues that investors might support (like more stringent environmental regulations), or vice versa.
- Since 2011, investors have filed more than 400 shareholder proposals on the issue of lobbying disclosure. The campaign has led to 90 agreements to provide greater lobbying disclosure.

Background:

Company lobbying is a very effective and powerful tool corporations have to influence government legislation. Large corporations spend millions of dollars each year to support or push back against legislation, as the company sees fit. The U.S. Chamber of Commerce, a DC powerhouse, has spent more than $1.5 billion in lobbying since 1998. When a large and powerful company chooses to support or push back against a specific piece of legislation, it has a large effect. Companies also join trade associations to work together with other companies in the same industry to maximize their power. Companies have to pay yearly dues to be a part of these associations, and in return the associations use the funds collected to lobby for what they believe is in the "best interest" of the industry. However, some trade associations are quite outdated on issues like climate change, still try to deny its effects, and fight against regulations that would make companies lower their contributions to this problem.

Even though company lobbying can be a very effective tool for companies to achieve positive change, it can also be used by them – especially through trade associations to which they can funnel large amounts of money without having to disclose it – to advance causes they might not publicly support. Doing so can embroil a company in public controversy and cause reputational risk, particularly when its lobbying contradicts its publicly stated position.

There are many trade associations that, as stated above, are quite outdated in their views on systemic risks such as climate change. For this reason, a growing number of companies are challenging their trade associations both privately and publicly. For example, BP announced in early March that it would leave the American Fuel & Petrochemical Manufacturers (AFPM), the Western States Petroleum Association (WSPA), and the Western Energy Alliance (WEA). Other forward-looking companies are speaking out publicly to support the Paris Agreement and/or advocate for strong climate policies and regulations. Other companies are being alerted to their trade associations' lobbying efforts to limit the right of investors to file resolutions on issues like climate change and have been urged by investors to disassociate themselves from that lobbying and/or work to change the position of their trade associations.

Even though companies that are part of these trade associations might not be directly lobbying for these outcomes, by being a part of an association and paying dues they should feel responsible for these efforts. For example, companies that are prominent, dues-paying members of the U.S. Chamber of Commerce, American Petroleum Institute and/or the National Association of Manufacturers are (at least) indirectly supporting those associations' public policy positions on climate. On issues like climate change, investors are worried about the harm to the economy – and to long-term, portfolio-wide returns – when companies work to prevent public policies needed to address such systemic risks.

Rationale details:

A corporation's payments made through trade associations, or its mere membership in them, can be a large source of spending and political influence and impacts the Company's overall standing. This spending and these memberships are very important pieces of information that strongly affect investors.

We appreciate UPS' website disclosure on political contributions, but UPS' lobbying payments made through trade associations remain secret. UPS spent $60.7 million from 2010 - 2018 on federal lobbying. This does not include state lobbying, where UPS also lobbies, but where disclosure is uneven or entirely absent. One study found UPS spent $1,587,609 lobbying in six states from 2012 - 2015.[1]

Lobbying payments made to trade associations can be very large and have strong impacts. UPS sits on the board of the U.S. Chamber of Commerce and belongs to the Business Roundtable, which is lobbying against shareholders' rights to file resolutions. UPS does not disclose its memberships in, or payments to, trade associations, or the amounts spent on lobbying. And UPS does not disclose its membership in tax-exempt organizations that write and endorse model legislation, such as sitting on the Private Enterprise Advisory Council of the American Legislative Exchange Council (ALEC).

We believe UPS' lack of trade association disclosure presents reputational risks. Investors worry that UPS may be "spending against itself" by publicly supporting a cause, such as strongly supporting efforts to mitigate the impact of climate change, but then secretly funding organizations that fight against these publicly stated views. UPS is already doing so by being a part of ALEC, which has worked to block forward-looking climate legislation at the state level. UPS also sits on the Board of the U.S. Chamber of Commerce, which opposed the Paris Agreement. While UPS uses the Global Reporting Initiative (GRI) for sustainability reporting, it currently fails to report "any differences between its lobbying positions and any stated policies, goals, or other public positions" as requested under GRI Standard 415.[2] We believe these inconsistencies pose grave reputational threats and that investors should know of UPS' lobbying efforts.

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[1] Sustainable Investments Institute, February 2017
[2] https://www.globalreporting.org/standards/gri-standards-download-center/gri-415-public-policy-2016/

ExxonMobil Corporation (XOM)

Proposal: Separate chair/CEO

Proponents:
Olga Monks Pertzoff Trust 1945 (lead)
Vermont Pension Investment Committee
New York State Comptroller

Resolution:

Resolved:

The shareholders request the Board of Directors to adopt as policy, and amend the bylaws as necessary, to require the Chair of the Board of Directors, whenever possible, to be an independent member of the Board. This policy would be phased in for the next CEO transition.

If the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair.

Summary:

1. ExxonMobil has omitted from its proxy ballot, with the consent of the SEC, a shareholder proposal asking ExxonMobil to set greenhouse gas (GHG) emissions reduction targets consistent with the goal of the Paris Agreement to restrict warming to well-below 2°C.
2. ExxonMobil's inadequate response to climate change and to engagement with investors affiliated with Climate Action 100+ constitutes a serious failure of governance to which shareholders should respond firmly.
3. This proposal, which would establish needed independence within the ExxonMobil board, represents an important first step in reforming the company's climate governance. It is also the principal vehicle on this year's proxy ballot that investors can use to express their dissatisfaction with the company's climate strategy.

Background:

ExxonMobil's response to climate change and to engagement with Climate Action 100+ has been grossly inadequate.

ExxonMobil:

- has failed its fiduciary duty to "develop an understanding of shareholder perspectives on the company and foster long-term relationships with shareholders, as well as deal with the requests of shareholders for meetings to discuss governance and the business portfolio and operating strategy" as provided by NYSE guidance;[1]
- has no business-wide targets for GHG emissions reductions for its own operations;
- does not disclose the GHG emissions associated with the use of its products;
- has no targets for the reduction of GHG emissions associated with the use of its products;
- offers no guidance on the extent of its ambition to reduce, over time, the GHG emissions associated with the use of its products; and
- has been unresponsive to requests for assurance from investors participating in Climate Action 100+ about the consistency of the corporation's strategy with the goals of the Paris Agreement.

By contrast, its peers – including BP, Eni and Repsol and Shell – have disclosed detailed plans for managing the low-carbon transition, including through the setting of scope 3/product GHG targets in response to engagement with investors. Significantly, the boards of each of these companies has an independent chair from outside the industry.

Rationale details:

We believe:

- boards are accountable to shareholders, should be responsive and proactive to understand the shareholder perspective;
- independent directors should engage with shareholders on matters of significance, in order to understand shareholders' views;
- the role of the CEO and management is to run the company;
- the role of the board of directors is to provide independent oversight of management and the CEO;
- there is a potential conflict of interest for a CEO to be her/his own boss as chair while managing the business.

Exxon Mobil's CEO Darren Woods serves both as CEO and chair of the Company's board of directors. We believe the combination of these two roles in a single person weakens the corporation's governance structure.

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[1] https://www.nyse.com/publicdocs/nyse/listing/NYSE_Corporate_Governance_Guide.pdf, p. iv

Chairing and overseeing the board is a time-intensive responsibility. A separate independent chair also frees the CEO to manage the company and build effective business strategies.

We believe that ExxonMobil's inadequate response to climate change and to engagement with members of Climate Action 100+ results in large part from a board that is not functioning effectively in the absence of an Independent chair.
An independent chair at ExxonMobil would provide a vital channel of communication for investors with concerns about strategy, governance and disclosure; would be able to ensure that the views of investors were adequately considered in all board discussions; and would constitute a check and balance within the governance and decision-making structure of the corporation.

With regard to climate change alone, ExxonMobil faces a hugely challenging strategic environment: a fast-changing energy system as the transition to a lower carbon economy picks up pace; mounting public concern about climate change including calls for the achievement of net-zero emissions as early as 2050; pronounced uncertainties about the future direction of policy and technology; and elevated expectations from shareholders for climate-related engagement.

It is not necessary to hold the view that *all* companies would benefit from having an independent chair to conclude there is abundant evidence that, at this time, *this* corporation would be more likely to face its challenges, and relate to its shareholders, with greater success with an independent chair.

This memo was prepared by Ceres. For additional information please contact: Andrew Logan at logan@ceres.org.

ExxonMobil Corporation (XOM)

Proposal #: Paris Alignment

SEC Allowed Omission

Proponent: As You Sow
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Berkeley, CA 94704
dfugere@asyousow.org

NOTE: ExxonMobil challenged this resolution and the SEC advised the company that it could keep it off the proxy ballot. The SEC concurred with ExxonMobil's argument that the proposal was "substantially implemented." We include the memo making the business case supporting the resolution below because *it could be useful to investors who engage in dialogue with ExxonMobil, or those who seek to better understand the nature and extent of climate risks faced by the company.*

Resolution:

Resolved: Shareholders request that ExxonMobil issue a report (at reasonable cost, omitting proprietary information) describing if, and how, it plans to reduce its total contribution to climate change and align its operations and investments with the Paris Agreement's goal of maintaining global temperature rise well below 2 degrees Celsius.

Summary:

1. **Climate change increases risk to investor portfolios; Exxon's emissions continue to contribute significantly to climate risk.**
2. **Exxon does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well-below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.**
3. **Exxon compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.**

Background:

The Paris Agreement, reached in 2015 at the COP21 conference, set a worldwide goal of maintaining global temperature rise well-below 2 degrees Celsius, including pursuing efforts to limit temperature rise to 1.5° Celsius ("Paris Goal"). In an October 2018 report, the Intergovernmental Panel on Climate Change (IPCC) warned that global warming above 1.5 degrees Celsius will create catastrophic impacts. To avert such catastrophic impacts, it instructs that global emissions of carbon dioxide must reach "net-zero" by 2050. Limiting global warming to 1.5 degrees Celsius, versus 2 degrees, will avoid an estimated $20 trillion in damages to the global economy by 2100.[1]

The energy industry is one of the largest contributors to climate change; ExxonMobil is the fourth largest global emitter in the sector. ExxonMobil's investment choices matter.

Investors recognize that a warming climate is toxic to successful long-term portfolios not only due to climate risk to the company, but also due to the growing risks that a warming climate pose to the economy and thus to shareholder portfolios. To address this growing risk, the financial community is taking action. The European Investment Bank and the World Bank announced they will cease funding fossil fuel projects. Norway's sovereign wealth fund announced divestment from oil and gas exploration and production companies. Other investors such as the $41 trillion AUM Climate Action 100+ coalition are seeking Paris Alignment from large emitters. Criteria for Paris alignment include: disclosure of Scope 1 through 3 emissions; adoption of a net zero by 2050 or equivalent target; a business plan for becoming Paris Aligned; and a declining carbon footprint. Exxon does not meet these criteria.

Peer oil and gas companies are taking steps to align with Paris goals, including taking responsibility for their full carbon footprints, including Scope 3 emissions. Repsol, for example, announced a net-zero by 2050 target and a write down of billions in unaligned assets.[2] BP followed shortly after with an announcement to reach net-zero operations by 2050 for its Scope 1-2 emissions, while increasing the ambition of its Scope 3 intensity target to 50%.[3] Shell has decreased reserves life to below the industry standard and set targets addressing its Scope 3 emissions.[4] Orsted has moved significantly into offshore wind, positioning itself as a "green energy supermajor," and has been rewarded by a 70% increase in share value from early 2019 to early 2020.[5]

ExxonMobil's apparent inaction with regard to Paris alignment serves to differentiate the company from its peers. While Exxon's reports suggest that it is aligning its actions with Paris goals, it does not report or take responsibility for its Scope 3 product emissions, the largest component of its greenhouse gas (GHG) footprint. Its GHG reduction goals

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1 https://www.nature.com/articles/s41586-018-0071-9.epdf
2 https://reut.rs/2WCC0I2
3 https://on.bp.com/3dez4Hz
4 https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
5 https://www.ft.com/content/74b377c8-4435-11ea-abea-0c7a29cd66fe

are short term, limited to certain operations, and address less than 7.5% of its total emissions.[6] Exxon has not provided a business plan to transition and align its enterprise with the Paris goal; instead it announced plans for substantial growth in its reserves base, including carbon intensive tar sands. Recent analysis from think tanks Carbon Tracker and the Transition Pathway Initiative indicate Exxon's trajectory is far above Paris goals.

Rationale details:

1) **Climate change increases risk to investor portfolios; Exxon's emissions continue to contribute significantly to climate risk.**

As a result of rising global temperatures, the world is already experiencing unprecedented and extreme weather events and disruptions. These events are predicted to occur with even greater frequency and stronger impacts as the world warms. Capital markets have begun to register this climate change crisis. Some of the largest and most influential actors in finance are mobilizing around the need to better assess the risks that climate change poses to the global economy and investor portfolios. BlackRock, the world's largest asset manager, with nearly $7 trillion in assets under management, recently issued a report in which CEO Larry Fink stated, "the evidence on climate risk is compelling investors to reassess core assumptions about modern finance."[7] His CEO Letter further declared, "companies have a responsibility – and an economic imperative – to give shareholders a clear picture of their preparedness. … Disclosure should be a means to achieving a more sustainable and inclusive capitalism."[8]

Climate Action 100+, a group of investors with more than $40 trillion in assets under management, is asking over 100 of the largest GHG- emitting companies (including Exxon) to reduce their GHG emissions "consistent with the Paris Agreement's goal," implement a strong governance framework to account for climate change, and provide enhanced, relevant disclosures.[9] The Net-Zero Asset Owner Alliance, with nearly $4 trillion in assets under management, also aims to align its portfolio with a below-2 degree scenario. In early 2020, the Church of England and FSTE Russell created an index that includes companies working to align GHG emissions with the Paris

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[6] A company's carbon footprint accounts for the total greenhouse gases produced by a company inclusive of direct
Scope 1 (operational emissions), indirect Scope 2 (energy use emissions), and Scope 3 (product & other indirect
emissions). https://bit.ly/2WvA04l. If the Company were to fully eliminate its operational emissions, which is impracticable, approximately 75-80% or more of its carbon footprint would remain. https://bit.ly/2U7qD9G. Here, since Exxon does not disclose its Scope 3 emissions in its Reports, shareholders are unsure what exact percentage operational emissions comprise of its total carbon footprint. 30% is a conservative estimate of such emissions. 25% (Exxon's most stringent target that applies only to flaring) of 30% = 7.5%. While this is a rough estimate, it demonstrates that Exxon's planned emissions reductions are much smaller than they would appear.

[7] https://www.nytimes.com/2020/01/14/business/dealbook/larry-fink-blackrock-climate-change.html

[8] https://www.blackrock.com/us/individual/larry-fink-ceo-letter

[9] http://www.climateaction100.org/ (FAQ)

Agreement and bars companies that are not.[10] At the end of 2019, 33 banks with $13 trillion in assets signed the U.N. Principles for Responsible Banking, committing to align their financing with the Paris Agreement goal,[11] an outcome that will affect oil and gas companies' access to capital,[12] while a nearly $40 billion pension fund – Brunel Pension Partnership – stated plans to vote against board members or divest from firms that are not aligning with the Paris Agreement.[13]

Exxon ranks fourth in the top 20 highest-carbon-emitting fossil fuel companies in the world.[14] Exxon plans to dramatically expand oil and gas output through 2025.[15] The increased capital investments Exxon is now planning will lock in higher carbon emissions for decades to come, making it more difficult for the world to achieve its climate goals. This alone suggests that Exxon is not aligning with or transitioning its business plans to align with the Paris goal.

Exxon's apparent failure to align its business plan with Paris goals exposes both the Company and shareholders' portfolios to avoidable risk. If, however, Exxon does plan to align its emissions with the Paris goal, this is a critical issue to investors and one that the Company should disclose to investors.

2) **Exxon does not provide shareholders with sufficient disclosure on whether it plans to reduce its total climate footprint in alignment with the Paris goal of maintaining global temperatures well-below 2 degrees Celsius and, if so, how. Instead, its current disclosures are unclear.**

Nowhere within the Company's Energy & Carbon Summary reports does it clearly state whether or not it has an intent to align its climate footprint with the Paris goal of net-zero emissions by 2050. Instead, disclosures rely on phrases such as: it "supports the Paris Agreement," is "committed to mitigating emissions," is "taking action ... to help address the risk of climate change," and it "contemplates a future energy mix that shifts toward lower carbon-intensive fuels." The Company also refers to alignment with the Paris Agreement's focus on the National Determined Contributions (NDC) that countries have set, which fall far short of the ultimate Paris goal.

Exxon's Energy & Carbon Summary reports present a sampler of actions the Company is taking to reduce *operational* emissions, such as reduced flaring (aiming to reduce 25% by 2020) and methane leaks (aiming to reduce 15% by 2020), and increasing efficiency (aiming to reduce GHG intensity at Imperial operated tar sands 10% by 2023).[16] While the planned operational emissions reductions are a necessary first step, Exxon does not explain to shareholders that such reductions will reduce only a small fraction of the Company's full climate footprint; operational and energy-related

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[10] https://www.nytimes.com/2020/01/31/business/church-of-england-climate-change.html
[11] https://www.unepfi.org/news/industries/banking/collective-commitment-to-climate-action/
[12] https://www.unepfi.org/net-zero-alliance/
[13] https://bloom.bg/3a7O5Jp
[14] https://www.theguardian.com/environment/2019/oct/09/revealed-20-firms-third-carbon-emissions
[15] https://reut.rs/2FayHPd
[16] https://exxonmobil.co/2E08lPk

emissions account for, on average, less than 30% of Exxon's total GHG emissions and may be substantially less. Even if Exxon were to reduce 25% of its total operational and energy emissions (which it is not planning to do), that would be equal to less than approximately 7.5% of the Company's total emissions.[17] Exxon's planned emission reductions are thus likely to appear larger than they are to the average investor not schooled in climate science. Exxon does not address the limited extent of its planned emissions reductions.

While touting its planned operational emission reductions, the Company has not disclosed any goals or plans to substantially reduce the largest part of its climate footprint – its product emissions. Exxon affirmatively fails to address or take responsibility for product emissions, which account for most of the company's overall emissions.[18] Instead, the Company has announced plans for ambitious and aggressive growth of product output in the next few years – projecting a 25% increase in oil and gas production by 2025 from 2017 levels – that will only hasten destructive climate change.[19] While the company does mention research related to low-carbon technologies such as carbon capture and algae based biofuels,[20] Exxon has disclosed no information to indicate that it has a program to scale these projects along the timelines necessary to align with Paris goals. From the Company's reports, it is impossible to conclude that these activities are being invested in or accomplished at a scale, pace, and level of ambition that will reduce the Company's full climate footprint in alignment with global goals of well-below 2°C.

The Company must be clear with investors. While mentioning the Paris Agreement frequently in its reports, it fails to disclose if and how it intends to align with the Paris goal. To answer the first question, whether Exxon plans to align with the Paris goal – a clear "Yes" or "No" response is required. If the Company answers "Yes," that it intends to align with the Paris goal as described by investors, it must demonstrate how and when it plans to meet the criteria of alignment, including: disclose Scope 1 through 3 emissions; adopt a net-zero by 2050 or equivalent target; provide a business plan for becoming Paris Aligned; and demonstrate a declining carbon footprint. Exxon neither answers the question, nor describes how it plans to meet the Paris-aligned criteria. Clarity on these issues is important to investors who seek to compare Exxon to its peers.

3) **Exxon compares poorly to peers that have announced plans to reduce emissions, including product emissions, toward alignment with Paris Agreement goals.**

While Exxon retains the title of one of the top carbon-polluting investor-owned oil and gas companies globally, peers have been engaging proactively with shareholders and

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[17] 25% of 30% = 7.5%. While this is a rough estimate, it demonstrates that Exxon's planned emissions reductions are much smaller than they would appear.
[18] https://exxonmobil.co/2E08lPk
[19] https://www.economist.com/briefing/2019/02/09/exxonmobil-gambles-on-growth
[20] https://exxonmobil.co/2U6zd8v

adopting policies to meaningfully reduce their operational and product emissions to align with the Paris goal. For example, Repsol recently announced a net-zero by 2050 goal, including product emissions, while announcing a write-down on non-aligned, oil and gas assets.[21] In early 2020, BP also set a net-zero by 2050 target for its operations and oil and gas production, while further agreeing to cut the carbon intensity of products by 50%.[22] Royal Dutch Shell announced Scope 3 GHG intensity-reduction ambitions and has decreased reserves life to below the industry standard.[23] Total has invested in renewable energy, is reducing the carbon intensity of its energy products, and has significant reduction ambitions through 2040 for its full climate footprint.[24] Equinor (formerly Statoil) is investing in wind energy development.[25] Orsted, previously a Danish oil and gas company, sold its oil and gas portfolio and is positioning itself to become the first global "green supermajor."[26] While the majority of these companies are not yet fully aligned with Paris goals, they have stated with clarity both their intentions and their broad plans for achieving their stated goals. By stating ambitions that align with globally recognized climate goals, peer companies are providing assurance to investors not only that they will be well-positioned to thrive in a low-carbon energy future, but also that they are reducing their full range of GHG emissions to help achieve global goals.

Vote "Yes" on this Shareholder Proposal regarding if and how the Company is aligning business plans with the Paris Climate Change Agreement.

Exxon, one of the largest carbon emitters, appears to be moving in the wrong direction for achieving the global Paris goal of well-below 2°C warming, as it substantially expands business-as-usual capital expenditures in new fossil fuel projects. Exxon's disclosures reference emissions reductions and the Paris Agreement, while the Company fails to report out its full GHG emissions, including Scope 3 product emissions, or set targets to dramatically reduce its full climate footprint. If Exxon has a plan to transition toward alignment with the Paris goal, it should be clear with investors and outline its business plans as to how it might do so. If it does not intend to align with the Paris goal of net-zero emissions by 2050, it should be clear with shareholders that it does not intend to do so. Shareholders are seeking meaningful disclosures from Exxon – and every company with significant GHG emissions – on if and how it is aligning its business plans at the scale and pace necessary to avoid exceeding the Paris goal of maintaining global warming below 2 degrees Celsius.

Shareholders urge strong support for this proposal, which will bring increased transparency, and potentially action, on one of the largest risks facing the company and shareholders – the potential for catastrophic climate change.

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[21] https://bit.ly/2xNT2sr
[22] https://on.bp.com/3bhdCA7
[23] https://www.bloomberg.com/opinion/articles/2019-06-05/shell-spending-plans-show-oil-s-end-is-no-longer-talk
[24] https://www.total.com/sites/default/files/atoms/files/total_climat_2018_en.pdf, p. 35, p. 6
[25] https://www.equinor.com/en/how-and-why/climate-change.html
[26] https://www.ft.com/content/57482c0b-db29-3147-9b7e-c522aea02271

THE FOREGOING INFORMATION MAY BE DISSEMINATED TO SHAREHOLDERS VIA TELEPHONE, U.S. MAIL, E-MAIL, CERTAIN WEBSITES AND CERTAIN SOCIAL MEDIA VENUES, AND SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE OR AS A SOLICITATION OF AUTHORITY TO VOTE YOUR PROXY. THE COST OF DISSEMINATING THE FOREGOING INFORMATION TO SHAREHOLDERS IS BEING BORNE ENTIRELY BY ONE OR MORE OF THE CO-FILERS. PROXY CARDS WILL NOT BE ACCEPTED BY ANY CO-FILER. PLEASE DO NOT SEND YOUR PROXY TO ANY CO-FILER. TO VOTE YOUR PROXY, PLEASE FOLLOW THE INSTRUCTIONS ON YOUR PROXY CARD.

ExxonMobil Corporation (XOM)

Proposal: Report on Petrochemicals

Proponent: As You Sow
Lila Holzman
2150 Kittredge St., Suite 450
Berkeley, CA 94704
lholzman@asyousow.org

Resolution:

Resolved: Shareholders request that ExxonMobil, with board oversight, publish a report, omitting proprietary information and prepared at reasonable cost, assessing the public health risks of expanding petrochemical operations and investments in areas increasingly prone to climate change-induced storms, flooding, and sea level rise.

Summary:

1. **Exxon's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.**
2. **Exxon does not provide shareholders with sufficient analysis and disclosure on managing growing risks to its petrochemical operations.**

Background:

Investors are concerned about the financial, health, environmental, and reputational risks associated with operating and building-out new chemical plants and related infrastructure in Gulf Coast locations increasingly prone to catastrophic storms and flooding associated with climate change. ExxonMobil is a major petrochemical producer in the Gulf Coast.

Petrochemical facilities like ethane crackers and polyethylene processing plants produce dangerous pollutants including benzene (a known carcinogen), volatile organic compounds, and sulfur dioxide. These operations can become inundated and pose significant chemical release risks during extreme weather events.

Growing storms and the costs they bring our company are predicted to increase in frequency and intensity as global warming escalates. Recent reports show that greenhouse gas (GHG) emissions throughout the petrochemical and plastic supply chain contribute significantly to climate change, exacerbating the threat of physical risks like storms. Flood-related damage is projected to be highest in Texas, where many ExxonMobil petrochemical plants are concentrated. Houston alone has seen three 500-year floods in a three-year span. Hazardous chemical releases, such as those

experienced by Exxon's petrochemical facilities during Hurricane Harvey, put surrounding communities at risk and erode the Company's social license to operate. Hurricane Harvey's impacts also contributed to decreased earnings of approximately $40 million for the Company in 2017, which could burgeon if facilities are hit by worse and more frequent events in the future.[1]

As the Company rapidly expands its petrochemical assets in climate-impacted areas, investors seek improved disclosure to understand whether ExxonMobil is adequately evaluating and mitigating public health risks associated with climate-related impacts and the dangerous chemicals it uses.

Rationale details:

1) **Exxon's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.**

Exxon has announced major investments of more than $20 billion in Gulf Coast-based projects over a 10-year period through an initiative the Company is calling "Growing the Gulf."[2] The announced investment will significantly build out petrochemical infrastructure along the Gulf Coast, constructing and expanding 11 different manufacturing facilities. Existing and proposed petrochemical projects have the potential to create major liability during extreme weather events. In fact, Exxon was noted as being the source of some of the largest pollution leaks during Hurricane Harvey, indicating that the Company may be ill-prepared to manage the risks posed by climate change.

Physical damage that occurs from flooding can result in major hazardous leaks, impacting local communities. The Center for International Environmental Law (CIEL) published a report in 2019 noting the extent to which petrochemical refining operations use and produce hazardous pollutants that cause health impacts including cancer, reproductive and birth defects, etc. The report emphasizes that fenceline communities are especially at risk, and that the risk is exacerbated by extreme weather events. During Hurricane Harvey roughly one million pounds of dangerous air pollutants like benzene, 1,3-butadiene, sulfur dioxide, and toluene were released by local refineries and plants.[3]

Leaks are a danger and liability even outside of more extreme events, which can compound vulnerabilities and impacts.[4] Exxon is already facing civil legal action regarding the emerging issue of climate resiliency. In 2019, a judge in a Boston federal court allowed a lawsuit by the Conservation Law Foundation to move forward seeking $110 million for Exxon's failure to fortify an oil storage facility to withstand the physical impacts of climate change.[5,6]

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[1] https://www.sec.gov/Archives/edgar/data/34088/000003408818000015/xom10k2017.htm
[2] https://exxonmobil.co/2QyVklR
[3] https://bit.ly/2x8wVN7, p.17-22
[4] https://bit.ly/3a9GHwW
[5] https://www.bostonglobe.com/2019/11/18/opinion/holding-exxonmobil-accountable/
[6] https://www.wbur.org/news/2019/03/13/exxonmobil-conservation-law-foundation-lawsuit-moves-forward

Insurance companies are also becoming more acutely aware of climate-specific risks related to insuring companies, especially in areas subject to greater climate impacts such as hurricanes and flooding. Swiss Re has published a report on the rapidly growing costs of natural disasters, which reached $337 billion in 2017; Lloyd's of London cited natural disasters for its first loss in six years; and AXA has spoken out saying that major global warming would make the world uninsurable this century.[7] BlackRock, the world's largest asset manager, with nearly $7 trillion in assets under management, released a report in April of 2019 on its assessment of physical climate risks, noting: "Our early findings suggest investors must rethink their assessment of vulnerabilities. Weather events such as hurricanes and wildfires are underpriced in financial assets."[8]

2) **Exxon does not provide shareholders with sufficient analysis and disclosure on managing the growing risks to its petrochemical operations.**

Despite clear risks, Exxon provides investors with minimal discussion of its physical risks from climate change. In Exxon's last CDP disclosure in 2017 (it has declined to report to CDP beyond 2017), the Company merely states that it "is aware of the risks posed by extreme weather events and recognizes the risks that climate change could potentially introduce," and that "risks are mitigated with appropriate contingency planning and the application of a comprehensive risk management system."[9] Similarly vague and non-descriptive language is offered by Exxon in its 2020 Energy and Carbon Summary report[10] and in its 10-K.[11] Even though a significant 25% of shareholders voted in favor of this proposal last year, Exxon's related disclosures have not improved.

This lack of transparency is especially worrisome considering Exxon's large pollution leaks and loss of earnings during Hurricane Harvey, which underscore that Exxon's current risk management strategy is inadequate. For instance, the company does not: identify which of its current and planned facilities are in areas at high risk of experiencing climate-related severe weather events; provide assumptions made and describe measures used to evaluate how climate change will affect its Gulf Coast facilities; report estimated emissions from unplanned upsets such as those that occur during hurricanes; outline strategies to communicate with key local stakeholders during emergency situations; or describe measures taken to minimize health impacts of associated chemical releases.

While some information on major spills must be reported to state and federal governments, companies are not required to report this to counties. Relying on required reporting can leave communities in the dark about the health risks they face; companies should therefore improve disclosures beyond what is required by law to retain and improve the goodwill and trust of local communities and governments, and to indicate to

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[7] https://www.ft.com/content/0f530242-02c1-11e9-9d01-cd4d49afbbe3
[8] https://www.blackrock.com/us/individual/literature/whitepaper/bii-physical-climate-risks-april-2019.pdf
[9] Exxon CDP report 2017. Section CC5.1b
[10] https://exxonmobil.co/3ddJqYt, p.34
[11] https://www.sec.gov/ix?doc=/Archives/edgar/data/34088/000003408820000016/xom10k2019.htm, p.4

shareholders the type of best management practices in place. As the risks of climate change become more apparent and urgent, shareholders require robust analysis and transparent disclosure of risks and company mitigation strategies in order to make appropriately informed investment decisions.

Vote “Yes” on this Shareholder Proposal regarding the risks of climate change to Exxon’s petrochemical operations expansion.

Shareholders urge strong support for this proposal, which will bring increased transparency from Exxon toward the goal of better understanding the Company’s level of preparedness to address climate risks to its significant petrochemical growth plans.

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