Climate Action 100+

Global Investors Driving Business Transition

2020 PROGRESS REPORT

Asia Investor Group on Climate Change

Ceres

IIGCC The Institutional Investors Group on Climate Change

Investor Group on Climate Change

PRI Principles for Responsible Investment

ABOUT THIS REPORT

This report is the second update on progress, issued by the Climate Action 100+ initiative. It summarises overall progress of the initiative including an update on measurement and benchmarking, key focus company commitments against the initiative's goals, growth in signatories, and a sector level update on company performance against a set of indicators aligned to the aims of the initiative.

THANKS TO CLIMATE ACTION 100+ FUNDERS

The five investor networks are thankful for the support of our philanthropic partners: Bloomberg Philanthropies, Children's Investment Fund Foundation (UK), ClimateWorks Foundation with a contribution from the IKEA Foundation, The Grantham Foundation for the Protection of the Environment, KR Foundation, New York Community Trust — Lise Strickler and Mark Gallogly Charitable Fund, Sea Change Foundation International, Martha Records and Richard Rainaldi, Wellspring Climate Initiative, and our anonymous supporters.

CLIMATE ACTION 100+ IS SUPPORTED BY FIVE COORDINATING INVESTOR NETWORKS

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Notes

All values are in USD unless otherwise stated.

The reporting period ('this year') spans 1 October 2019 - 30 November 2020 unless otherwise stated. For 2019 data, please see the 2019 progress report.

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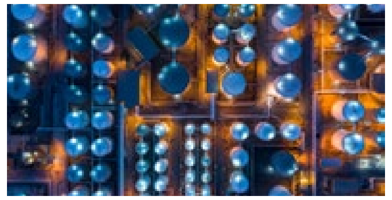

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WHO WE ARE

545

TOTAL SIGNATORIES

REPRESENTING

SIGNATORY ASSETS UNDER MANAGEMENT TOTAL

$52

TRILLION

REPORT INTRODUCTION AND HIGHLIGHTS

WHAT IS CLIMATE ACTION 100+?

Launched in 2017, Climate Action 100+ is now the largest ever investor engagement initiative on climate change. The initiative focuses investor engagements on 160 global companies that have significant greenhouse gas (GHG) emissions and/or are critical to the net-zero emissions transition and to meeting the objectives of the Paris Agreement.

By engaging with these focus companies, signatory investors to Climate Action 100+ are helping to accelerate the business transition to a net-zero emissions future and ensure that global economies are more resilient to climate change.

For more information, visit: www.ClimateAction100.org and follow: @ActOnClimate100.

WHO IS BEHIND THE INITIATIVE?

The initiative has been shaped and led by its participating investors who determine the engagement strategy pursued with each focus company and update the initiative on progress.

The management of the initiative day to day and engagement of investors is assisted by five investor networks: the Asia Investor Group on Climate Change (AIGCC), Ceres, the Investor Group on Climate Change (IGCC), the Institutional Investor Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI).

The investor networks provide secretariat support for investors, help facilitate meetings, provide technical assistance and create opportunities for engagement skills enhancement. The investor networks also lead regionally focused working groups that support engagement with a subset of focus companies and help to ensure engagements are effective.

For more detail on the governance and operations of the initiative please visit the website and the 2019 progress report.

CLIMATE ACTION 100+ AT A GLANCE

545
SIGNATORY INVESTORS

160
FOCUS COMPANIES IN 32 MARKETS[2]

SIGNATORY ASSETS UNDER MANAGEMENT TOTAL[1]
$52 TRILLION

COMPANIES ENGAGED BY THE INITIATIVE ARE RESPONSIBLE FOR AN ESTIMATED
80%+
OF GLOBAL INDUSTRIAL EMISSIONS[3]

INVESTOR SIGNATORIES IN
32 MARKETS

TOTAL MARKET CAP FOR ALL FOCUS COMPANIES IS
$8.4 TRILLION[4]

1 As at 30 November 2020.
2 Represents active engagements in 2019 and 2020, and does not include new additions to the Climate Action 100+ focus list. See page 85 for more information about the companies added to our focus list in 2020.
3 Based on total 2018 emissions for all Climate Action 100+ focus companies (CDP data), compared to 2018 global emissions (Global Carbon Project data).
4 Bloomberg data as at 30 November 2020.

HIGHLIGHTS: 2020 COMPANY COMMITMENTS

These highlights are a small selection of company commitments from 2020

FOCUS COMPANIES BY SECTOR[1]

39 OIL AND GAS COMPANIES

23 MINING AND METALS COMPANIES

31 UTILITIES COMPANIES

26 INDUSTRIALS COMPANIES

26 TRANSPORTATION COMPANIES

14 CONSUMER PRODUCTS COMPANIES

1 The focus list includes one company that is classified as 'other' which is not included in this list.

OIL AND GAS

BP

BP has set a new ambition to become a net-zero emissions company by 2050 for scope 1, 2 and 3 with a 50% cut in the carbon intensity of products it sells by 2050 or sooner. It also became the first oil major to announce that it will cut production 40% by 2030.

ENEOS HOLDINGS INC

ENEOS updated management plans and company vision for carbon neutrality by 2040 through its updated 'vision for 2040', including aspirations to link social and environmental goals to executive remuneration and investing 14 billion into its business transition plan.

OCCIDENTAL PETROLEUM CORPORATION

Occidental Petroleum announced an operational net-zero by 2040 target and ambition for net-zero associated with the use of its products by 2050.

PETROCHINA CO. LTD

PetroChina announced a near-zero emissions target by 2050, and plans to use some of the $38 billion received from gas pipeline sales to focus on wind and solar power.

RELIANCE INDUSTRIES

Reliance Industries announced a target to become net carbon zero by 2035.

REPSOL

Repsol announced an ambition to achieve net-zero emissions by 2050 for scope 1, 2 and 3 emissions becoming the first global oil and gas company to assume this goal.

ROYAL DUTCH SHELL

Shell has set a new long-term ambition to reduce the net carbon footprint of its energy products by 65% by 2050, and by around 30% by 2035. To reach overall net-zero emissions, Shell will pivot towards serving customers that are aligned with its net-zero ambitions.

SK INNOVATION CO LTD

SK Innovation reconfirmed its commitment to achieving Green Balance 2030 by 2030, ultimately aiming to achieve net zero emissions in all material scope 1, 2 and 3 emissions by 2050.

HIGHLIGHTS: 2020 COMPANY COMMITMENTS

MINING AND METALS

BHP

BHP made a significant enhancement in its approach to industry associations and lobbying on climate to ensure improved climate policy positions from associations it is a member of, and to improve real-time disclosure on misalignment and escalation. The company also set a medium-term target to reduce operational emissions by 30% by 2030.

UTILITIES

AGL ENERGY LTD

AGL targeted net-zero emissions by 2050 and set out plans to invest more in renewable energies and tested the resilience of its plans against a 1.5°C climate pathway scenario.

PGE POLSKA GRUPA ENERGETYCZNA S.A. (PGE)

PGE published a new strategy which contained, among other things, a commitment to carbon neutrality by 2050. The long-term strategic goal of the company is for 100% of the energy sold by PGE to come from renewable sources by 2050. The company will also reduce its investment in coal. PGE also set interim targets and milestones. Specifically, by 2030, the share of renewable energy in the company's portfolio will increase to 50% and carbon dioxide emissions will be reduced by 85%.

THE SOUTHERN COMPANY

Southern Company reaffirmed its mid-term goal of a 50% reduction in GHG emissions by 2030 and set a new long-term goal of net-zero carbon emissions by 2050. The company complemented this commitment with the report 'Implementation and action toward net-zero.' The goal does not cover scope 3 emissions.

XCEL ENERGY INC.

Xcel Energy published its 'Electric Vehicle Vision', announcing intent to power 1.5 million electric vehicles (EVs) in its service areas by 2030 and an investment of $300 million to accelerate adoption of EVs in its communities.

WEC ENERGY GROUP, INC.

WEC Energy upgraded its 2030 goal from 40% to 70% emissions reduction, and its 2050 goal from 80% emissions reduction to net carbon neutral generation. The goal does not yet cover scope 3 emissions.

CONSUMER PRODUCTS

UNILEVER PLC

Unilever announced it would achieve net-zero emissions from all its products by 2039 in addition to its existing science-based target to reduce its scope 1 and 2 emissions 100% by 2030. It intends to establish a €1 billion Climate and Nature Fund to invest in projects such as reforestation, carbon sequestration and conservation.

WOOLWORTHS GROUP LIMITED

Woolworths set a medium-term science-based target to reduce its operational emissions by 63% and scope 3 emissions by 19% by 2030, which was endorsed by the Science Based Targets Initiative.

HIGHLIGHTS: 2020 COMPANY COMMITMENTS

INDUSTRIALS

CEMEX S.A.B. DE C.V.

Cemex committed to delivering net-zero carbon dioxide (CO_2) concrete by 2050 and linking its targets/performance to executive compensation. The company will also be setting science-based targets for 2030.

HON HAI PRECISION INDUSTRY

Hon Hai committed to ensuring that its GHG emissions policies across the value chain are consistent with the goals of the Paris Agreement with an aim to achieve net-zero GHG emissions by 2050. This comes with an acknowledgement as a response to the objectives set out by Climate Action 100+.

CUMMINS INC.

Cummins announced a new sustainability strategy, committing it to net-zero emissions by 2050 in company operations. The company also set new emissions reduction targets including a science-based target which included coverage of scope 3 emissions, committing it to reduce emissions by 25% from newly-sold products, and partnerships with customers to reduce emissions by 55 million tonnes by 2030.

LAFARGEHOLCIM LTD

LafargeHolcim set a net-zero emissions by 2050 target and committed to set a science based 2030 emissions reduction target. It also announced that it is partnering with the Science Based Targets Initiative to pioneer setting climate targets for a 1.5°C future in the cement sector.

TRANSPORTATION

AMERICAN AIRLINES GROUP INC.

American Airlines released a new ESG (Environmental Social and Governance) report in October 2020 formally committing the company to net-zero emissions by 2050. The company intends to do this via a combination of fuel efficiency, operational efficiencies, fleet renewal, new aircraft types, sustainable aviation fuels, carbon offsets, and the use of renewable energy at the company's facilities.

DELTA AIR LINES, INC.

Delta Air Lines announced a commitment to carbon neutrality and to offset all its emissions from March 2020 onward. It also announced a $1 billion investment to meet its new goals.

FORD MOTOR COMPANY

Ford announced its ambition to become carbon neutral by 2050, signed a compromise agreement with California ("California Agreement") under which it agreed to comply with standards stricter than the Trump Administration's vehicle emissions standard.

QANTAS AIRWAYS LIMITED

Qantas announced a net-zero by 2050 target, the first airline in the world to do so, to cap its emissions at 2019 levels, invested $50 million in advanced biofuels research and development, and doubled its offset program.

ROLLS-ROYCE

Rolls-Royce announced a commitment to net-zero emissions in its operations by 2030 and to play a leading role in enabling the sectors in which it operates to reach net-zero emissions by 2050. It intends to publish a roadmap by the end of 2020 with interim targets to achieve these aims.

FOREWORD FROM MARK CARNEY

As we navigate the recovery from the Covid crisis, there are high expectations that businesses adapt their strategies in a way that considers the most pressing issues for people and planet. Indeed this crisis has reinforced society's demand for a sustainable future that takes climate change into account. The transition to net-zero greenhouse gas emissions is both an imperative of climate physics and a commitment in 126 countries. It is therefore vital that this strategic reset across businesses sees the adoption of strategies to align with a net-zero future.

Climate change, and society's response to it, is creating unparalleled risks and opportunities. Those companies that are part of the solution and are making the transition to net-zero have the opportunity to thrive and will create enormous value for their shareholders. Those that don't will become increasingly uncompetitive and could lose their social licence to operate. By the time of the 2021 UN Climate Change Conference in Glasgow, transition plans for large companies will increasingly be the norm, with their absence either signalling an intention to wind down the business over coming years, or an assertion that the business is somehow separate from the society in which it operates. The former may be logical, the latter would be unforgiveable.

Investors are increasingly focused on assessing how well companies are positioned for both climate change and the net-zero transition, by identifying which companies will be on the right and wrong side of climate history. Climate Action 100+ has been leading this charge, providing the momentum, stewardship and analysis to support the world's highest-emitting companies in the strategic resets they need to make. Companies are clearly taking note. As this progress report reveals, 2020 has seen a surge in net-zero announcements, with many of these commitments driven through investor engagement. I have been truly astounded by the momentum in the past year alone, particularly given the backdrop of the Covid-19 pandemic.

But there is still some distance to go. It's time for every company to engage with this conversation. This progress report highlights the imperative of starting with an appropriate level of ambition by building net-zero and interim targets that cover emissions across the full business value chain. It also outlines how companies need to do more to reconcile positive talk with action, including embedding net-zero across all aspects of their strategy and investment pipeline, and holding industry associations to account for the climate lobbying carried out in their name.

Our collective expectations of transition plans, as well as approaches to measuring the position of companies and portfolios on the transition path, will continue to evolve and ratchet up as we move towards net-zero. And as investors increasingly demand these strategies of companies, it may be desirable to give them a "Say on Climate" – an automatic annual advisory vote on transition plans just as there is an advisory "say on pay" in some jurisdictions. This would establish a critical link between responsibility, sustainability and accountability.

The new Climate Action 100+ Net-Zero Company Benchmark indicators give landmark clarity and transparency on the asks of companies by leading investors. Yet, over time, investors won't just judge company transition plans. They too shall be judged on their own plans and alignment to net-zero. With a sustained focus on transition by companies and financial institutions, we can build the net-zero future that our citizens are demanding and that future generations deserve.

MARK CARNEY,
UNITED NATIONS SPECIAL ENVOY FOR CLIMATE ACTION AND FINANCE, AND THE UK PRIME MINISTER'S FINANCE ADVISER FOR COP26

FOREWORD FROM THE STEERING COMMITTEE

In our second progress report on Climate Action 100+, we are pleased to present an update on the achievements of the initiative from October 2019 to November 2020. This report also contains detail on the recently released Climate Action 100+ Net-Zero Company Benchmark, provides a summary of company progress at sector level, and sets out initiative priorities for the coming year.

There is no doubt that 2020 has been a hugely challenging year globally. Communities continue to face fear and uncertainty because of the COVID-19 pandemic, an economic downturn with rising unemployment and financial stress, and in some parts of the world, growing social unrest. Despite these challenges, climate change has remained firmly on companies' and investors' agendas as an urgent issue.

A prosperous net-zero emissions world is increasingly within our reach: nine of the 15 largest economies have now set net-zero targets, and as this report shows, many of the world's largest corporate emitters are setting ambitious targets to decarbonise by mid-century. Calls for a sustainable recovery have been widespread as recognition grows that sparking fresh investments in zero and low-carbon industries, technologies and infrastructure can help countries stimulate their economies, drive growth and create new jobs.

The case for immediate action is clear. Unprecedented wildfires in Australia, the United States, the Amazon and Siberia, record-breaking floods and typhoons in Asia, a record-breaking Atlantic hurricane season and the rapid retreat of polar ice sheets accelerating sea-level rise are all stark reminders that the physical impacts of climate change are here. While we don't have all of the answers to decarbonisation yet, we know the time to increase our collective ambition is now.

Investors have been calling for consistent metrics to assess company performance on climate risk, which the newly released Climate Action 100+ Net-Zero Company Benchmark delivers. The benchmark will provide more clarity to companies on specific disclosures and targets and is a useful tool for investors to assess and compare company performance. Climate Action 100+ announced the Net-Zero Company Benchmark to focus companies in August 2020 and are pleased to have had strong engagement on it to date with 117 companies indicating their support and intention to disclose in accordance with the framework.

We thank our investor signatories, Climate Action 100+ staff at the coordinating investor networks, and our funders, for continuing to support our efforts to address climate change risk.

> Many of the world's largest corporate emitters are setting ambitious targets to decarbonise by mid-century.

CLIMATE ACTION 100+ STEERING COMMITTEE

Andrew Gray, Director ESG and Stewardship, AustralianSuper

Anne Simpson, Managing Investment Director, Board Governance and Sustainability, CalPERS

Emma Herd, CEO, Investor Group on Climate Change

Fiona Reynolds, CEO, Principles for Responsible Investment

Laetitia Tankwe, Advisor to President Jean-Pierre Costes, Groupe Caisse des Dépôts, Ircantec

Mindy Lubber, CEO and President, Ceres

Rebecca Mikula Wright, Executive Director, Asia Investor Group on Climate Change

Seiji Kawazoe, Senior Stewardship Officer, Sumitomo Mitsui Trust Asset Management (SMTAM)

Stephanie Maier, Director of Responsible Investment, HSBC Global Asset Management

Stephanie Pfeifer, CEO, Institutional Investors Group on Climate Change

EXECUTIVE SUMMARY OF REPORT FINDINGS

> "The 2020 Climate Action 100+ Progress Report shows that while some companies are taking steps to decarbonisation in line with a net-zero emissions by 2050 trajectory, there is a long way to go."

The 2020 Climate Action 100+ Progress Report provides an overall update on the initiative and its activities, as well as an assessment of focus company progress at the sector level against a series of benchmark indicators.

Growth in signatories

Climate Action 100+ is growing. The initiative has now attracted 545 investor signatories, including notable new additions Blackrock and State Street Global Asset Management – the first and third largest asset managers in the world (respectively). Climate Action 100+ signatory assets under management now total $52 trillion.

New approach to measuring company progress

In 2020, the initiative developed the Climate Action 100+ Net Zero Company Benchmark, which will be used to publicly benchmark focus companies. The first company scorecards will be released in early 2021. The Benchmark includes indicators which cover:

- Net zero by 2050 ambition.
- Targets and goals for greenhouse gas (GHG) emissions reduction in the short, medium and long-term and whether targets align with a 1.5°C climate scenario[1].
- Decarbonisation strategy.
- Capital allocation alignment.
- Climate policy engagement.
- Governance, including executive remuneration linked to climate targets.
- Just transition.
- Task Force on Climate related Financial Disclosures (TCFD) reporting, including scenario analysis.

A subset of these indicators has been used to assess company performance at the sector-level in this report. A full company-level assessment against all the indicators in the new benchmark is underway and will be released in the form of company scorecards in early 2021.

It is recognised that for companies to improve their performance against these indicators as a region, actions led or incentivised by government and policymakers form an important part of the conversation. For many companies engaged by the initiative, policy settings will be key to driving the transition.

Company progress against selected indicators

The 160 companies[2] engaged by the Climate Action 100+ initiative represent over 80% of global industrial emissions and are, as a group and individually, critical to progressing the global economy to net-zero emissions by 2050. This level of ambition is necessary according to the IPCC[3] in order to hold global warming to 1.5°C above pre-industrial levels, and to avoid the most catastrophic effects of climate change.

For this report, companies have been assessed against a subset of the new Climate Action 100+ Net-Zero Company Benchmark indicators, including disclosure assessments provided by Transition Pathway Initiative and capital allocation assessments provided by Carbon Tracker Initiative and 2° Investing Initiative.

The report shows that while some companies are taking steps to decarbonisation in line with a net-zero emissions by 2050 trajectory, there is a long way to go.

Nearly half (43%) of companies have set a net zero by 2050 target or ambition in some form, which is an important signal to investors that companies understand and are preparing for the transition. However, only 10% of focus companies have net-zero targets that explicitly cover the companies' most material scope 3 emissions.

Similarly, while more than half of focus companies (51%) have set a short-term (to 2025) emissions reduction target, and just under half (38%) have set a medium-term target (2026 to 2035), these targets do not often cover both the companies' operational scope 1 and 2 emissions as well as the most material upstream and downstream scope 3 emissions.

At a sector-level, indicators assessing companies in the oil and gas, utilities and transportation (autos) sectors show gaps in companies' planned capital allocation and technology mix. For example, despite nearly half (54%) of oil and gas focus companies having a net-zero by 2050 target in some form, Carbon Tracker analysis shows that 194 of the new oil and gas projects sanctioned this year are misaligned with the <1.75°C climate scenario.

1 The Climate Action 100+ Net-Zero Company Benchmark will only assess focus company greenhouse gas emission reduction targets against a well below 2°C climate scenario in the first assessment. In the future these will be assessed against a 1.5°C climate scenario where available.
2 In November 2020, an additional 9 companies were added and 2 companies removed from the Climate Action 100+ focus list. Reporting on progress of these companies is not included in the scope of this report.
3 See the IPCC Special Report on the impacts of global warming of 1.5C https://www.ipcc.ch/sr15/

EXECUTIVE SUMMARY OF REPORT FINDINGS

The majority of oil and gas capital expenditure (68%) assessed by Carbon Tracker is also outside of this climate scenario. Carbon Tracker analysis also shows only 26% of electric utility focus companies have coal phase out plans aligned with the <1.75°C climate scenario (up from 13% in 2019).

2° Investing Initiative analysis similarly shows that automotive companies are falling short of the required investments required to switch technologies at an appropriate pace from internal combustion engines (ICE) to hybrid and electric vehicles.

While setting a net-zero by 2050 target or ambition is critical, there are clear gaps in target coverage, ambition, capital expenditure, strategy and planning to align with these long-term plans.

Key issues for 2020

The report also includes summaries of important issues raised by investors in their company engagements in 2020, including:

- Net-zero emissions ambitions and the need for companies to align capital expenditure, short and medium-term targets, and company strategy and planning on the long-term move to net-zero emissions.
- Just transition and increasing investor expectations for companies to appropriately develop transition plans for workers and communities that are best practice, reflect broad consultation, and are clearly disclosed.
- Lobbying via industry associations, including the progress seen in 2020 on this issue globally via Climate Action 100+ engagements, and some analysis on the uptick in fossil fuel lobbying that has occurred as economic recovery proposals are being developed and released due to the COVID-19 pandemic.

New companies added

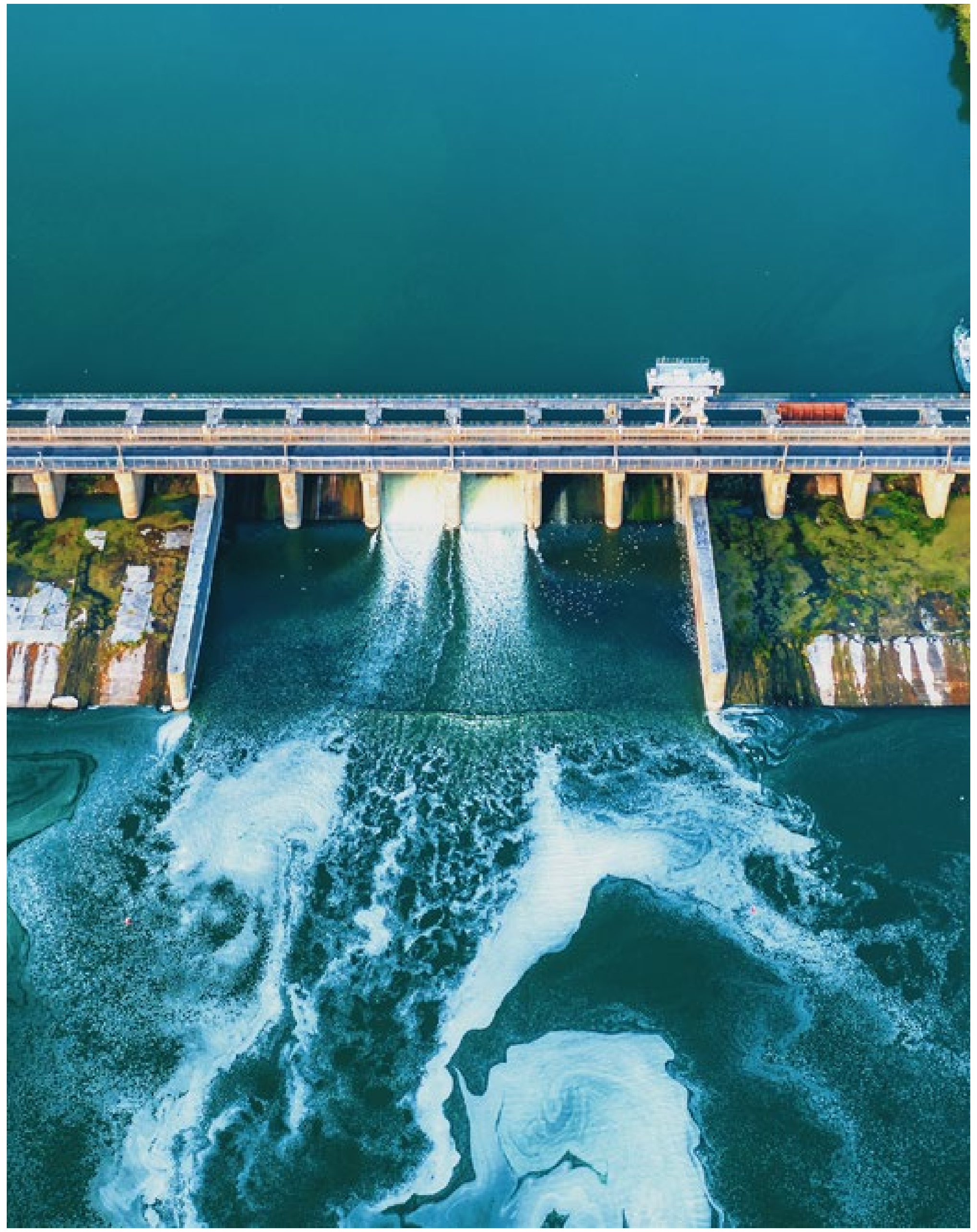
The Climate Action 100+ focus list now comprises 167 companies as a result of nine strategic additions and two removals. This progress report assesses the list of 160 companies that the initiative engaged during the 2019/2020 season, including the two companies that were recently removed from the list (Southern Copper Corporation and Wesfarmers). The nine companies added to the focus list this year will be assessed in the 2021 Progress Report.

Priorities ahead

In 2021, the initiative will focus on several key priorities:

- Company engagement on the Climate Action 100+ Net-Zero Company Benchmark and the rollout of the first company scorecards.
- Producing global sector decarbonisation position papers.
- Further development of lobbying, just transition and other indicators for the Climate Action 100+ Net-Zero Company Benchmark.
- Improving the signatory experience and boosting signatory accountability in the initiative.

These are in addition to priorities and projects advanced by regional engagement working groups, and the ongoing engagements led by signatories with focus companies globally.



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HOW WE MEASURE PROGRESS

HOW WE MEASURE PROGRESS

The Climate Action 100+ Steering Committee and supporting investor network organisations have worked to ensure the best data and research are available to investors engaging with companies, and that there is sufficient information to assess the alignment of companies with investor expectations and initiative goals.

During 2020 the initiative developed the Climate Action 100+ Net-Zero Company Benchmark. It draws upon two distinct analytical methodologies and data sets, each designed to evaluate company performance and provide greater transparency for investors.

Disclosure assessments

The framework has ten indicators that reflect the overall initiative goals. It will assess companies' alignment with specific points including ambition to align with the Paris Agreement goal, GHG emissions reduction targets, decarbonisation strategy, capital alignment, climate policy support, governance, just transition and disclosure. Transition Pathway Initiative (TPI) has been selected to conduct research and analysis on companies' disclosed information and based on this, score each company.

Capital allocation assessments

Carbon Tracker Initiative and 2° Investing Initiative will also analyse companies' capital expenditures (CAPEX) and output relative to a range of climate change scenarios to give investors additional insights on the relative adequacy and alignment of company action with the Paris Agreement goals.

These additional third-party analyses, which correspond with company disclosures' relative to indicator six in the benchmark, will be included for upstream oil and gas companies, electric utilities (coal and gas generation assets) and automotive companies. Similar analyses for companies in other sectors will be added in the future.

The Climate Action 100+ Technical Advisory Group, comprised of Carbon Tracker Initiative (CTI), InfluenceMap (IM), Transition Pathway Initiative (TPI) and 2° Investing Initiative (2DII) has been central to the overall development of the new Benchmark and the various approaches used to assess focus company alignment.

WHAT ARE THE KEY GOALS OF THE CLIMATE ACTION 100+ INITIATIVE?

Climate Action 100+ recognises that decarbonisation of the global economy is complex and will require unique strategies and approaches across different businesses, regions and sectors. However, investors agree there should be a common global engagement agenda seeking commitments from boards and senior management to:

IMPROVE GOVERNANCE OF CLIMATE RISKS AND OPPORTUNITIES

REDUCE GHG EMISSIONS IN LINE WITH GOALS OF THE PARIS AGREEMENT

PROVIDE ENHANCED DISCLOSURE ALIGNED WITH THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD)

THE CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

The Climate Action 100+ Net-Zero Company Benchmark was developed during 2020 through collaboration and feedback with almost 50 signatory investors, investor network experts, leading climate research and data NGOs and corporate stakeholders to establish indicators that are robust, fair and applicable to local markets and across sectors.

BENCHMARK PURPOSE

Climate Action 100+ seeks to focus investor action on the world's largest GHG emitters, including emissions across the value chain, and companies that present the greatest climate-related risk to investors' portfolios or that have a significant opportunity to drive a broader net-zero economy transition. The Climate Action 100+ Net-Zero Company Benchmark supports this objective by providing investors with a tool that is both transparent and robust to facilitate focus company engagement. This framework may be used for:

- **Ongoing engagement:** The Benchmark resets and clarifies expectations for what companies need to do to align with the goals of the initiative and provides a mechanism for tracking progress.
- **Engagement advancement:** Focus company assessment results will inform advancement decisions including voting, for Climate Action 100+ focus companies.
- **Decision making:** The results of company assessments will be used by signatories to inform their actions during year five of the initiative (the original time horizon for Climate Action 100+) particularly with unresponsive or poor performing firms.
- **Initiative transparency and reporting:** Company assessment results will be a key input for the initiative's progress reports and used to assess the overall effectiveness of the initiative.
- **Assessing alignment or misalignment:** Between companies' stated ambitions and their planned investments, activities and projects.

DISCLOSURE INDICATORS

The disclosure indicators rely on companies' publicly disclosed information. There are ten overall indicators, each supported by one or more sub-indicators.

Transition Pathway Initiative (TPI) supported by its research and data providers the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE) and FTSE Russell, has been appointed as the research organisation for delivering the company data for the disclosure indicators within the Climate Action 100+ Net-Zero Company Benchmark. Company disclosed, public information will be collected by TPI and used to assess and score each focus company against the disclosure indicators. The results of this research and scoring will be made available in early 2021 on the Climate Action 100+ website. In this report, a subset of the disclosure indicators is reported on at the sector level.

	DISCLOSURE INDICATORS	DATA PROVIDER
1	**NET-ZERO GHG EMISSIONS BY 2050 (OR SOONER) AMBITION**[1]	
1.1	The company has set an ambition to achieve net-zero GHG emissions by 2050 or sooner.	TPI
1.1a	The company has made a qualitative net-zero GHG emissions ambition statement that explicitly includes at least 95% of scope 1 and 2.	TPI
1.1b	The company's net-zero GHG emissions target covers the most relevant scope 3 GHG emissions categories for the company's sector, where applicable.	TPI
2	**LONG-TERM (2036 to 2050) GHG REDUCTION TARGET**	
2.1	The company has set a long-term (2036 to 2050) target for reducing its GHG emissions on a clearly defined scope of emissions.	TPI
2.2	The long-term (2036 to 2050) GHG reduction target covers at least 95% of scope 1 & 2 emissions and most relevant scope 3 emissions (where applicable).	TPI
2.2a	The company has specified that this target covers at least 95% of total scope 1 and 2 emissions.	TPI
2.2b	If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.	TPI
2.3	The long-term target is aligned with a trajectory to achieve the Paris Agreement goal of limiting global temperature increase to 1.5°C with low or no overshoot (equivalent to IPCC Special Report on 1.5°[2] Celsius pathway P1 or net-zero emissions by 2050).[3]	TPI
3	**MEDIUM-TERM (2026 TO 2035) GHG REDUCTION TARGET**	
3.1	The company has set a medium-term (2026 to 2035) target for reducing its GHG emissions on a clearly defined scope of emissions.	TPI
3.2	The medium-term (2026 to 2035) GHG reduction target covers at least 95% of scope 1 and 2 emissions and most relevant scope 3 emissions (where applicable).	TPI
3.2a	The company has specified that this target covers at least 95% of total scope 1 and 2 emissions.	TPI

> Company disclosed, public information will be collected by TPI and used to assess and score each focus company against the disclosure indicators. The results of this research and scoring will be made available in early 2021.

	DISCLOSURE INDICATORS	DATA PROVIDER
3.2b	If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.	TPI
3.3	The medium-term target is aligned with a trajectory to achieve the Paris Agreement goal of limiting global temperature increase to 1.5°C with low or no overshoot (equivalent to the IPCC Special Report on 1.5°C[2] pathway P1 or net-zero emissions by 2050).[3]	TPI
4	**SHORT-TERM (2020 TO 2025) GHG REDUCTION TARGET**	
4.1	The company has set a short-term (2020 to 2025) target for reducing its GHG emissions on a clearly defined scope of emissions.	TPI
4.2	The short-term (2020 to 2025) GHG reduction target covers more than 95% of scope 1 and 2 emissions, and relevant scope 3 emissions (where applicable).	TPI
4.2a	The company has specified that this target covers at least 95% of total scope 1 and 2 emissions.	TPI
4.2b	If the company has set a scope 3 GHG emissions target, it covers the most relevant scope 3 emissions categories for the company's sector (for applicable sectors), and the company has published the methodology used to establish any scope 3 target.	TPI
4.3	The short-term target is aligned with a trajectory to achieve the Paris Agreement goal of limiting global temperature increase to 1.5°C[2] with low or no overshoot (equivalent to IPCC Special Report on 1.5° Celsius pathway P1 or net-zero emissions by 2050).[3]	TPI
5	**DECARBONISATION STRATEGY**	
5.1	The company has a decarbonisation strategy to meet its long, medium and short-term GHG reduction targets.[4]	TPI
5.1a	The company identifies the set of actions it intends to take to achieve its GHG reduction targets over the targeted timeframe. These measures clearly refer to the main sources of its GHG emissions, including Scope 3 emissions where applicable.	TPI
5.1b	The company quantifies key elements of this strategy with respect to the major sources of its emissions, including scope 3 emissions where applicable (eg. changing technology or product mix, supply chain measures, research and development spending).	TPI
5.2	The company's decarbonisation strategy includes a commitment to 'green revenues' from low carbon products and services.[5]	TPI

	DISCLOSURE INDICATORS	DATA PROVIDER
5.2a	The company already generates 'green revenues' and discloses their share in overall sales.	TPI
5.2b	The company has set a target to increase the share of green revenues in its overall sales or discloses green revenue share that is above sector average.	TPI
6	**CAPITAL ALLOCATION ALIGNMENT[6]**	
6.1	The company is working to decarbonise its future capital expenditures.	TPI
6.1a	The company explicitly commits to align future capital expenditures with its long-term GHG reduction target(s).	TPI
6.1b	The company explicitly commits to align future capital expenditures with the Paris Agreement's objective of limiting global warming to 1.5° C.	TPI
6.2	The company discloses the methodology used to determine the Paris Agreement alignment of its future capital expenditures.	TPI
6.2a	The company discloses the methodology it uses to align its future capital expenditure with its decarbonisation goals, including key assumptions and key performance indicators (KPIs).	TPI
6.2b	The methodology quantifies key outcomes, including the share of its future capital expenditures that are aligned with a 1.5° Celsius scenario, and the year in which capital expenditures in carbon intensive assets will peak.	TPI
7	**CLIMATE POLICY ENGAGEMENT[7]**	
7.1	The company has a Paris-Agreement-aligned climate lobbying position and all of its direct lobbying activities are aligned with this.	TPI
7.1a	The company has a specific commitment/position statement to conduct all of its lobbying in line with the goals of the Paris Agreement.	TPI
7.1b	The company lists its climate-related lobbying activities, e.g. meetings, policy submissions, etc.	TPI
7.2	The company has Paris Agreement-aligned lobbying expectations for its trade associations, and it discloses its trade association memberships.	TPI
7.2a	The company has a specific commitment to ensure that the trade associations the company is a member of lobby in line with the goals of the Paris Agreement.	TPI
7.2b	The company discloses its trade associations memberships.	TPI
7.3	The company has a process to ensure its trade associations lobby in accordance with the Paris Agreement.	TPI

	DISCLOSURE INDICATORS	DATA PROVIDER
7.3a	The company conducts and published a review of its trade associations' climate positions/alignment with the Paris Agreement.	TPI
7.3b	The company explains what actions it took as a result of this review.	TPI
8	**CLIMATE GOVERNANCE**	
8.1	The company's board has clear oversight of climate change.	TPI
8.1a	The company discloses evidence of board or board committee oversight of the management of climate change risks via at least one of the following: • There is a C-suite executive or member of executive committee who is explicitly responsible for climate change (not just sustainability performance) and that executive reports to the board or a board level committee, and/or; • The CEO is responsible for climate change AND he/she reports to the board on climate change issues, and/or; • There is a committee (not necessarily a board-level committee) responsible for climate change (not just sustainability performance) and that committee reports to the board or a board-level committee.	TPI
8.1b	The company has named a position at the board level with responsibility for climate change, via one of the following: • A board position with explicit responsibility for climate change, or; • The CEO is identified as responsible for climate change, if he/she sits on the board.	TPI
8.2	The company's executive remuneration scheme incorporates climate change performance elements,	TPI
8.2a	The company's CEO and/or at least one other senior executive's remuneration arrangements specifically incorporate climate change performance as a KPI determining performance-linked compensation (reference to 'ESG' or 'sustainability performance' are insufficient).	TPI
8.2b	The company's CEO and/or at least one other senior executive's remuneration arrangements incorporate progress towards achieving the company's GHG reduction targets as a KPI determining performance linked compensation (requires meeting relevant target indicators 2, 3, and/or 4).	TPI
8.3	The board has sufficient capabilities to assess and manage climate-related risks and opportunities.	TPI

	DISCLOSURE INDICATORS	DATA PROVIDER
8.3a	The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment.	TPI
8.3b	The company provides details on the criteria it uses to assess the board competencies with respect to managing climate risks and/or the measures it is taking to enhance these competencies.	TPI
9	**JUST TRANSITION[8]**	
9.1	The company considers the impacts from transitioning to a lower-carbon business model on its workers and communities.	TPI
10	**TCFD DISCLOSURE**	
10.1	The company has committed to implement the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).	TPI
10.a	The company explicitly commits to align its disclosures with the TCFD recommendations OR it is a listed as a supporter on the TCFD website.	TPI
10.1b	The company explicitly sign-posts TCFD aligned disclosures in its annual reporting or publishes them in a TCFD report.	TPI
10.2	The company employs climate-scenario planning to test its strategic and operational resilience.	TPI
10.2a	The company has conducted a climate-related scenario analysis including quantitative elements and disclosed its results.	TPI
10.2b	The quantitative scenario analysis explicitly includes a 1.5° Celsius scenario, covers the entire company, discloses key assumptions and variables used, and reports on the key risks and opportunities identified.	TPI

1 The necessary timeframe for companies to achieve net-zero GHG emissions differs depending on the sector. Some companies in certain sectors, such as electric utilities, may be expected to set more ambitious goals and achieve net-zero GHG emissions by 2040 or even sooner. Future iterations of the Net-Zero Company Benchmark will reflect these sector differences.
2 Note that sub-indicators 2.3, 3.3 and 4.3 will be based on Transition Pathway Initiative's Carbon Performance methodology, which applies the Sectoral Decarbonisation Approach (SDA), a science-based method for companies to set GHG reduction targets necessary to stay within a 2°C temperature rise above pre-industrial levels.
3 In the absence of a credible 1.5°C scenario, companies will be measured against a below 2°C scenario. Company assessments will be adjusted when a 1.5°C scenario becomes available, most likely in the next reporting cycle.
4 The use of offsetting or carbon credits should be avoided and limited, if at all applied. Offsetting or 'carbon dioxide removal' should not be used by companies operating in sectors where viable decarbonisation technologies exist. For example, offsetting would not be considered credible if used to offset emissions for a coal-fired power plant because viable alternatives exist to coal-fired power plants.
5 The assessment will leverage the EU's Green Taxonomy criteria on 'turnover' (or revenues) for companies headquartered in the European Union. Companies headquartered outside of the EU will not be assessed in the first quarter 2021 iteration of the framework. The criteria used to assess non-EU companies will be an ongoing area of development as part of broader discussions on the use of green revenue classification systems and regional taxonomies.
6 Related to Indicator 6, there will be an additional set of Capital Allocation Indicators in the company scorecards to be provided by Carbon Tracker (CT) and 2° Investing Initiative (2Dii). CT and 2Dii will analyse recent focus company CAPEX and output relative to a range of alternative climate change scenarios to give investors additional insights related to company capital allocation plans. Initially, these will apply to focus companies in the upstream oil and gas, electric utilities and auto sectors.
7 Note that current benchmark indicators, in particular Indicator #7 on Climate Policy Engagement are intended to be enhanced and will evolve over time with an update ready in advance of the next scoring cycle.
8 This indicator will be further developed, and companies will not be assessed in the 2021 company scorecards.

CAPITAL ALLOCATION INDICATORS

The capital allocation indicators are designed to complement the disclosure indicators by providing further insights to investors regarding the adequacy of companies' capital allocation plans, and relative alignment with the company's stated emissions reduction targets. These indicators are provided by Carbon Tracker (CTI) and 2° Investing Initiative (2DII) and currently apply to a subset of Climate Action 100+ companies[1].

CAPITAL ALLOCATION INDICATORS

The capital allocation indicators presented in this report are a subset of indicators developed by CTI and 2DII[2].

These indicators rely on a number of climate scenarios[3] provided by the International Energy Agency's (IEA) to assess companies, including the:

- **IEA's Beyond 2 Degrees Scenario (B2DS)**
- **IEA's Stated Policies Scenario (STEPS)**
- **IEA's Sustainable Development Scenario (SDS)**

Upstream oil and gas companies

INDICATOR	DATA PROVIDER
How many conventional and unconventional oil and gas projects were sanctioned by focus companies in 2019 that are outside of the IEA B2DS?	CTI
If the company provided impairment price assumptions - are they flat, declining or increasing?	CTI
Percentage of total potential capital expenditure (below STEPS cap) that is inside B2DS, for oil, gas and total.	CTI
Percentage of total potential capital expenditure (below STEPS cap) outside B2DS, for oil and gas.	CTI

Electric utilities

INDICATOR	DATA PROVIDER
Alignment of company's current and future capital stock and capital expenditures with climate scenarios.	2DII
Company's future (2025) technology mix compared to the market average.	2DII
Has the company announced a full phase-out of coal units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario?	CTI
Has the company announced a full phase-out of gas units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario?	CTI

Automotive companies (transportation sector)

INDICATOR	DATA PROVIDER
Alignment of company's current and future capital stock and capital expenditures with climate scenarios.	2DII
Company's future (2025) technology mix compared to the market average.	2DII

1 CTI indicators cover upstream oil and gas companies and electric utilities, and 2DII indicators cover automotive companies and electric utilities.
2 For more detail on the analysis available from 2 Degrees Investing Initiative on Climate Action 100+ focus companies visit: https://2degrees-investing.org/resource/pacta-company-profiles-engaging-with-companies-to-pursue-climate-action/ For more detail on the analysis available from Carbon Tracker on Climate Action 100+ focus companies, visit https://carbontracker.org/reports/making-it-mainstream-ca100-power-utility-profiles/
3 Climate Action 100+ intends to apply a 1.5 degree scenario that requires net-zero emissions by 2050 to assess companies. In October 2020 the IEA released a net-zero emissions by 2050 scenario in line with the pathways used by the Intergovernmental Panel on Climate Change for the Special Report on Global Warming of 1.5 °C (IPCC SR1.5). The IEA has not yet provided their net-zero analysis at a more detailed, sectoral level – a requirement to assess companies' alignment across a range of sectors.

NEXT STEPS FOR THE NET-ZERO COMPANY BENCHMARK

After its launch and the first company assessment cycle is completed, the Net-Zero Company Benchmark will continue to be updated and revised based on investor priorities and the latest available information and methodologies to assess companies' climate transition preparedness. In particular, there are five key topics which are top priorities for inclusion in future iterations of the Net-Zero Company Benchmark:

- **1.5°C Scenario:** Given the absence of a 1.5°C IEA scenario, Climate Action 100+ and its research provider Transition Pathway Initiative will assess available options and start to develop alternative methodologies as required.
- **Expanded sector alignment methodologies**: At present there are not sufficient methodologies available to assess GHG target alignment for companies in certain sectors, including chemicals, consumer goods, other industrials and services. Climate Action 100+ and TPI will look to develop these for future iterations of the benchmark.
- **Climate accounting:** A top priority is the development of a new disclosure indicator to assess whether or not a company's accounting practices and related disclosures reflect consideration of transition risk relative to a range of possible climate scenarios.
- **Just transition:** While companies will not be assessed on just transition in 2021, Climate Action 100+ will work with leading Just Transition advocates and experts to develop appropriate disclosure requirements and a related scoring approach to be applied during the next reporting cycle.
- **Expanded green revenue indicator:** The current indicator 5.2 applies the European Union's (EU) Green Taxonomy criteria on 'turnover' (or revenues) for companies headquartered in the EU). Thus, companies headquartered outside of the EU are not being assessed in the 2021 iteration of the benchmark. Future iterations of this indicator will assess non-EU companies using appropriate green revenue classification systems and regional taxonomies where available.

It is expected that these additional methodologies and indicators will be developed in time for the 2022 benchmark.

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FOCUS COMPANIES PROVIDED A FORMAL RESPONSE TO THE LETTER

HOW HAS THE NEW BENCHMARKING FRAMEWORK BEEN COMMUNICATED TO FOCUS COMPANIES?

In September 2020 the Net-Zero Company Benchmark was formally introduced to focus companies in a letter sent to the Chief Executive Officer, Board Chair or relevant focus company contacts. Acknowledging that many companies operate in jurisdictions where their governments are expected to ratchet up their Nationally Determined Contributions (NDCs) that are currently not on track to meet 1.5°C or well below 2°C, the letter invited companies to:

1. Work towards providing disclosures consistent with the new Climate Action 100+ Net-Zero Company Benchmark, which includes disclosure against TCFD, to enable investors to assess the company's potential for long-term value;
2. Confirm if the company will outline strategies that go beyond current NDCs, and/or implement appropriate capital investment decisions to achieve net-zero emissions by 2050 or sooner across all material GHG emissions, and establish medium-term targets consistent with a global reduction in emissions of 45% by 2030 relative to 2010 levels;[1]
3. Join investors working through Climate Action 100+ in the development and implementation of net-zero transition action plans to provide pathways toward achieving net-zero emissions for the company's sector or value chain overall.

1 The IPCC Special Report on Global Warming of 1.5°C published in October 2018 found that limiting global warming to 1.5°C would require 'rapid and far-reaching' transitions in land, energy, industry, buildings, transport, and cities. Global net human-caused emissions of carbon dioxide (CO_2) would need to fall by about 45% from 2010 levels by 2030, reaching 'net-zero' around 2050. The 2030 GHG emissions reduction targets required to achieve this outcome vary by sector. For more information, see here.

HOW DOES THE BENCHMARK ALIGN WITH NATIONALLY DETERMINED CONTRIBUTIONS, OTHER DISCLOSURE FRAMEWORKS AND TARGET SETTING APPROACHES?

Nationally Determined Contributions

Some focus companies are aligning their emissions reduction targets with those of their listed country's nationally determined contribution (NDC), which, in line with the UNFCCC process, will become more ambitious over time. The Climate Action 100+ Net-Zero Company Benchmark intends to assess companies on their targets and other metrics compared to credible net-zero by 2050 or sooner pathways with the goal of limiting global warming to 1.5°C. The benchmark also asks companies to identify the path that is needed to address this issue in their respective sectors and regions. In some instances, companies' targets, while aligned with their respective NDC[1], may not currently be aligned with a 1.5°C pathway once assessed via the benchmark.

It is recognised that there are gaps in the development of appropriate decarbonisation pathways in some sectors; thus it has been challenging for companies and investors alike to understand what a net-zero emissions pathway looks like in practice. Investors will continue to engage with companies over time to understand which pathway they are using to select GHG targets, and how this aligns with investor expectations.

Other leading frameworks and mechanisms

There are a number of climate reporting mechanisms (such as CDP), target setting mechanisms (such as the Science Based Targets Initiative), and frameworks assessing companies' preparedness for a low-carbon transition (such as TPI), as well as the TCFD framework. The Climate Action 100+ Net-Zero Company Benchmark is designed to be complementary to these initiatives, mechanisms and frameworks. It is designed to provide more detail on specific disclosures that investors want to see within the context of companies' reporting, with a particular emphasis on how companies are planning to transform their business in line with a net-zero emissions future.

1 Note: via the UNFCCC process as outlined in the Paris Agreement, more ambitious NDCs were due to be announced at COP26 in November 2020; however this has been delayed until 2021 due to COVID-19.

3

HOW COMPANIES ARE PROGRESSING

THIS REPORT SHOWS THAT WHILE 2050 NET-ZERO TARGETS SET BY FOCUS COMPANIES HAVE SHARPLY INCREASED IN NUMBER AND AMBITION THERE ARE CLEAR GAPS IN TARGET COVERAGE PARTICULARLY OF SCOPE 3 EMISSIONS. COMPANIES ALSO NEED TO DO FAR MORE TO ALIGN THEIR CAPITAL EXPENDITURE AND STRATEGIES TO THEIR NET-ZERO TARGETS.

43%

OF FOCUS COMPANIES ENGAGED BY THE CLIMATE ACTION 100+ INITIATIVE HAVE SET A NET-ZERO TARGET.

10%

OF FOCUS COMPANIES ENGAGED BY THE CLIMATE ACTION 100+ INITIATIVE HAVE SET A NET-ZERO BY 2050 TARGET THAT COVERS THE COMPANY'S MOST MATERIAL SCOPE 3 EMISSIONS.

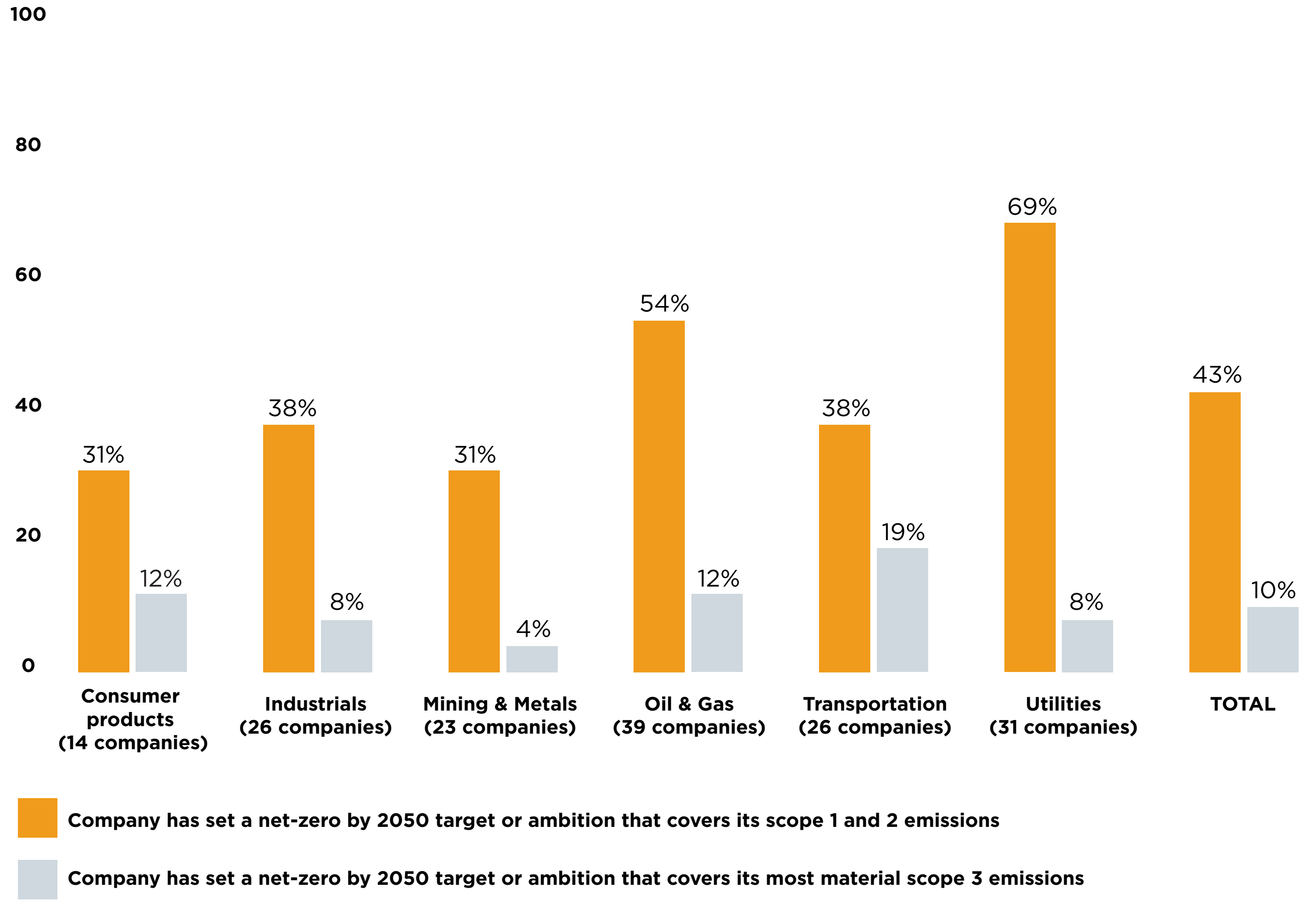
REVIEW OF COMPANY PROGRESS

The disclosure indicators presented here have been provided by TPI. These show the performance of all focus companies against a subset of the Climate Action 100+ Net-Zero Company Benchmark indicators.

Net-zero targets. Companies were assessed by TPI in November 2020.

Close to half (43%) of focus companies have now set a clear ambition to reach net-zero GHG emissions by 2050, which is a promising start. However, analysis shows that far fewer companies (10%) have set targets which cover the most material scope 3 emissions for their sector.

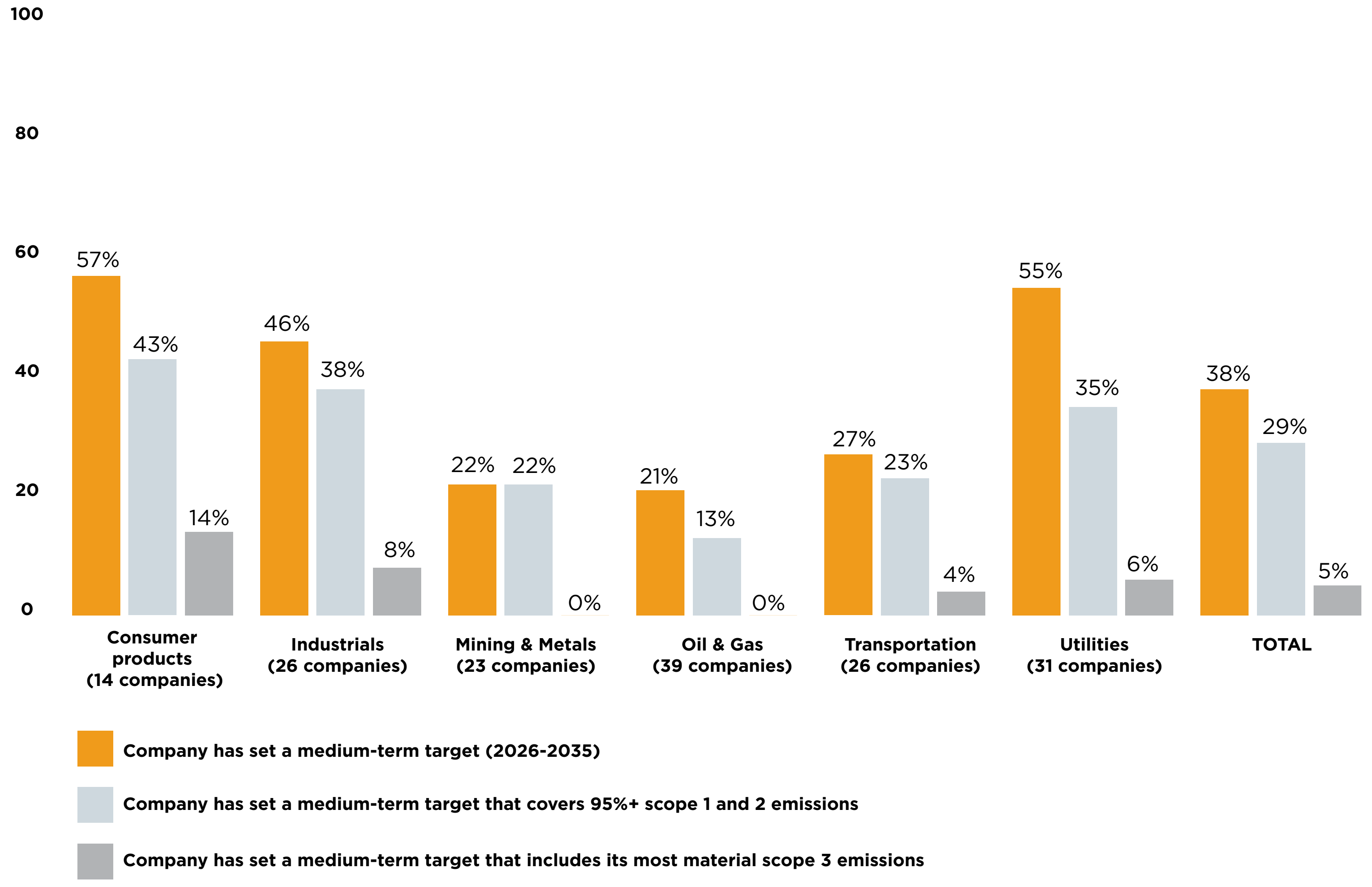
The company has set a target or ambition to reduce its GHG emissions to net-zero by 2050



Medium-term targets. Companies were assessed by TPI in March 2020.

Over a third (38%) of focus companies have set a medium-term target, with 29% of these covering at least 95% of the company's operational emissions (scope 1 and 2). Only one in twenty (5%) of companies have medium-term targets which cover material scope 3 emissions.

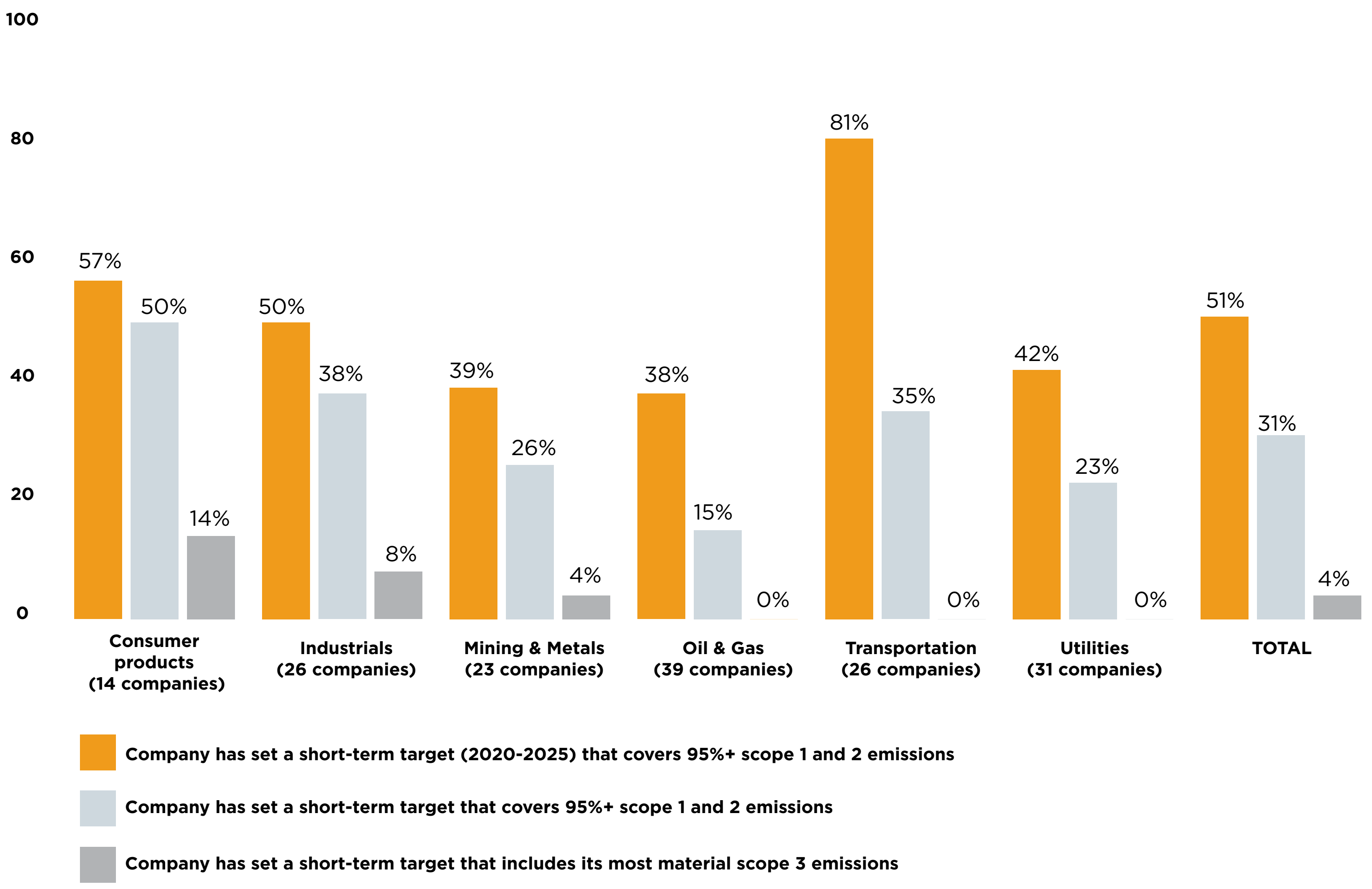
Has the company set a medium-term (2026-2035) GHG emissions reduction target?



Short-term targets. Companies were assessed by TPI in March 2020.

Over half (51%) of focus companies have short-term emissions reduction targets. Just under a third (31%) of companies have targets that cover at least 95% of the company's operational (scope 1 and 2 emissions), however once again a very small percentage of companies (4%) have targets that include coverage of material scope 3 emissions.

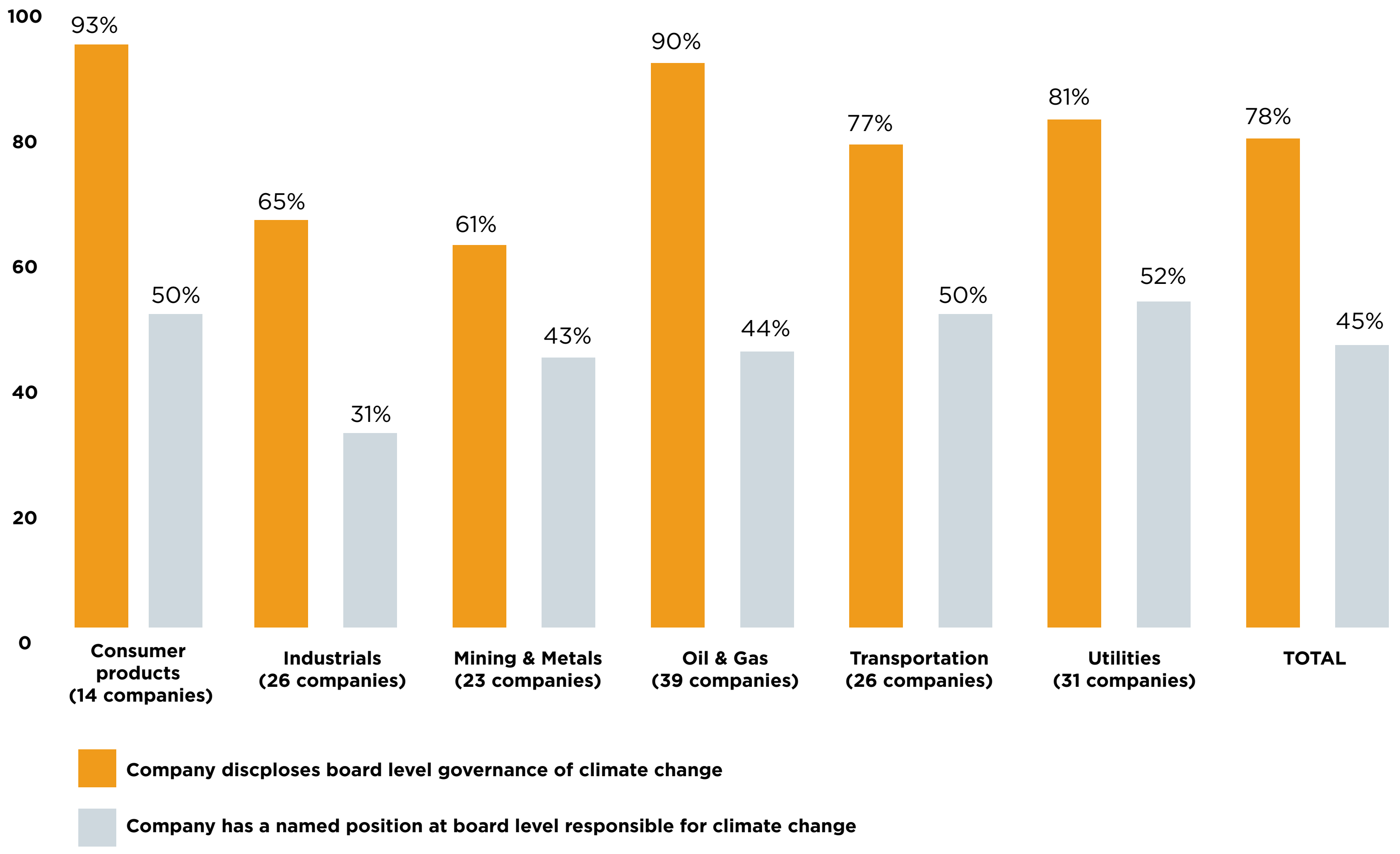
Has the company set a short-term (2020-2025) GHG emissions reduction target?



Board governance of climate change. Companies were assessed by TPI in March 2020.

Over three-quarters (78%) of focus companies have disclosed clear evidence of board or board committee oversight of the management of climate change risks. Nearly half (45%) have also created a named position at board level responsible for climate risk.

Does the company's board have clear oversight of climate change?



OIL AND GAS SECTOR

OIL AND GAS SECTOR

39
FOCUS COMPANIES

$1.9 TRILLION
MARKET CAPITALISATION[1]

The 39 oil and gas companies on the Climate Action 100+ focus list are a mix of upstream, midstream and downstream producers, with a number of integrated energy companies.

It is estimated that the oil and gas industry is responsible for around 53% of global emissions when scope 3 emissions are included[2]. The most material emissions for this sector arise from:

- Product use by the end user – the burning of oil and gas for energy, transportation and industrial processes.
- Upstream emissions from extraction and drilling, flaring and fugitive emissions from venting and leaks.
- Midstream emissions from transportation.
- Downstream emissions including electricity use from processing of oil and gas into other products.

Investors see significant transition risk arising from these companies given their very high emissions profiles, and significant uncertainty around the demand outlook for oil and gas products given the move to decarbonisation by mid-century. Investors are looking for companies to align their long-term objectives and targets with net-zero emissions by 2050, and to ensure their business plans, governance structures, portfolio sanction activities and strategies are aligned with this overarching goal. Each focus company is unique, so investors are seeking to understand how the company sees its own transformation into the future, and the assumptions companies are using to underpin decisions about future capital expenditure on oil and gas exploration and production. Another key issue for this sector is climate lobbying: industry associations representing the oil and gas sector have a particularly problematic record of lobbying against environmental regulations including carbon pricing, emissions trading schemes and lobbying for favourable government incentives. Investors see this misalignment as a key risk for companies.

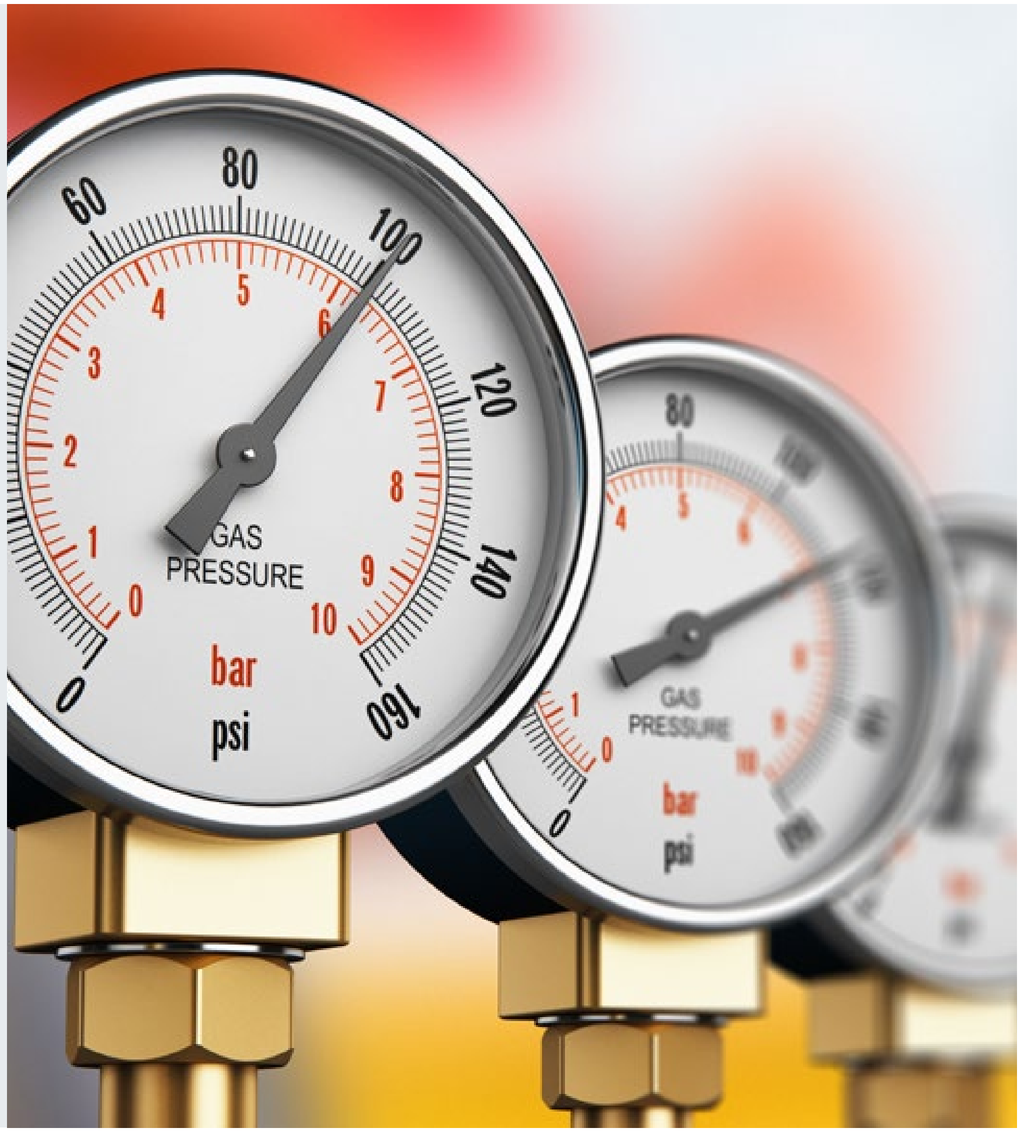
1 Source: Bloomberg, as at 30 Nov 2020.
2 https://www.iea.org/reports/world-energy-outlook-2019

In 2020, several companies have made progress toward meeting Climate Action 100+ requests:

- **Repsol** made a commitment to achieve net-zero emissions by 2050 covering scope 1 and 2, and part of its scope 3 emissions. The company was the first oil and gas company to commit to scope 3 targets.[1]
- **BP**, **Shell**, **OMV AG** and **Total**[2] made commitments to achieve net-zero emissions by 2050 including scope 1 and 2 emissions, and some coverage of scope 3 emissions.[3]
- **ENEOS** became the first oil and gas company in Asia to set net-zero emissions goals by 2040.
- **PetroChina** developed a climate change strategy signalling the company's intention to align its climate policy with the goals of the Paris Agreement, and pledged a 'near-zero' emissions target by 2050.
- **Woodside Energy**, **ConocoPhillips** and **Enbridge** made commitments to achieve net-zero operational emissions by 2050.
- **Occidental Petroleum** set an operational net-zero by 2040 target and expressed ambition for net-zero associated with the use of its products by 2050.

OIL AND GAS FOCUS COMPANIES

BP
Canadian Natural Resources Limited
Chevron Corporation
China National Offshore Oil Corporation (CNOOC) Limited
China Petroleum & Chemical Corporation (Sinopec)
ConocoPhillips
Devon Energy Corporation
Ecopetrol Sa
Enbridge Inc.
ENEOS Holdings Inc
Eni SpA
Equinor
Exxon Mobil Corporation
Formosa Petrochemical
Gazprom
Imperial Oil
Kinder Morgan, Inc.
Lukoil OAO
Marathon Petroleum
Occidental Petroleum Corporation
Oil & Natural Gas
OMV AG
Origin Energy
PetroChina Co. Ltd
Petróleo Brasileiro SA - Petrobras
Phillips 66
PTT
Reliance Industries
Repsol
Rosneft Oil Company
Royal Dutch Shell
Santos Limited
Sasol Limited
SK Innovation Co Ltd
Suncor Energy Inc.
TC Energy
Total
Valero Energy Corporation
Woodside Energy



1 The coverage of emissions reduction and net-zero targets for oil and gas varies considerably. There is the need for greater standardisation of targets which will be a priority for the initiative moving forward.
2 Total committed to net-zero emissions by 2050, including scopes 1 and 2 worldwide, net-zero emissions by 2050 including scopes 1, 2, and 3 in Europe; and 60% reduction by 2050 for scope 3 emissions worldwide with intermediate targets of 15% by 2030 and 35% by 2040.
3 These targets are varied in coverage and do not cover the full scope of the company's emissions in all cases.

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CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

More than half of the oil and gas focus companies (54%) have set a net-zero emissions by 2050 ambition or target which is a significant step forward. However only 12% of the companies have net-zero emissions targets that cover the majority of their most material emissions which stem from product end use. A smaller proportion of companies have set medium-term (21%) and short-term (38%) targets for reducing GHG emissions; but no companies have short and medium term targets that cover the most material scope 3 emissions.

On governance, a substantial portion of oil and gas focus companies (90%) have set out clear board-level governance of climate risks, and 44% of companies also have a named position responsible for climate at the board level.

SHORT-TERM TARGETS
BENCHMARK INDICATOR 4.1

Percentage of companies that have set a short-term (2020 to 2025) target for reducing GHG emissions on a clearly defined scope of emissions.

38%

2050 NET-ZERO AMBITION
BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

54%

MEDIUM-TERM TARGETS
BENCHMARK INDICATOR 3.1

Percentage of companies that have set a medium-term (2026 to 2035) target for reducing GHG emissions on a clearly defined scope of emissions.

21%

See Company Progress Review Summary for more details on these indicators.

90%

OF COMPANIES PROVIDED EVIDENCE OF **BOARD OR BOARD COMMITTEE OVERSIGHT** OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Capital allocation indicators

Projects sanctioned outside climate scenarios

According to Carbon Tracker analysis, three-quarters (76%) of the upstream oil and gas focus companies have sanctioned conventional or unconventional exploration projects in 2019 that are assessed as being outside the scope of the IEA B2DS[1]. This covers 194 total projects across these 25 companies equivalent to about US$64.5 billion in capital expenditures.

Conventional and unconventional oil and gas projects were sanctioned by focus companies in 2019-2020 that are outside of the IEA B2DS

194

SANCTIONED PROJECTS ACROSS 25 COMPANIES

1 In the International Energy Agency's Beyond 2 Degrees Scenario, the energy sector reaches carbon neutrality by 2060 to limit future temperature increases to under 1.75°C by 2100. See: https://www.iea.org/reports/energy-technology-perspectives-2017.

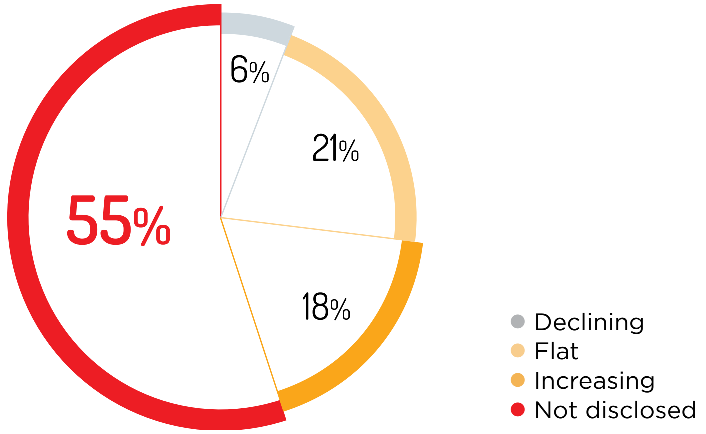
2 The aim of the Stated Policies Scenario is to provide a detailed sense of the direction in which existing policy frameworks and today's policy ambitions would take the energy sector out to 2040. See: https://www.iea.org/reports/world-energy-model/stated-policies-scenario

Impairment price assumptions

The future commodity price deck used for upstream asset impairment test provides a proxy for the company's view of future demand and therefore is an important indicator for investors.

In 2020, 15 of 33 upstream or 45% of oil and gas focus companies provided impairment price assumptions (compared to 14 or 42% in 2019). The largest share of focus companies' (21%) impairment price assumptions followed a flat trajectory, 18% increasing, and 6% declining. The remaining 55% did not disclose.

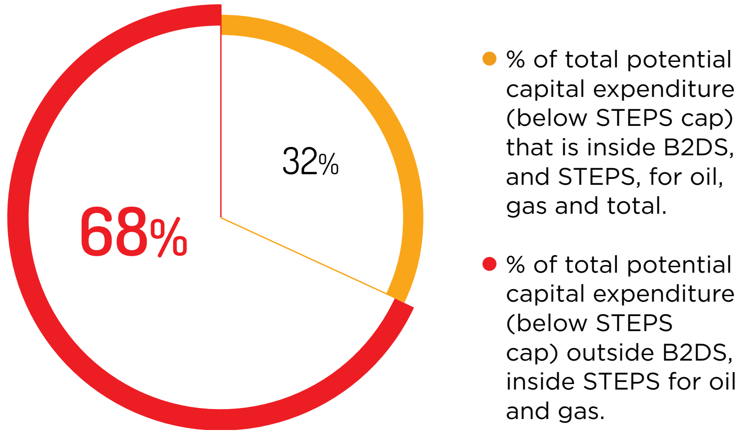
The company provided impairment price assumptions - flat, declining or increasing



Capital expenditure alignment

This indicator assesses all upstream oil and gas companies (33) on their potential capital expenditure for unsanctioned oil and gas projects between 2020 and 2030 with associated production between 2020 and 2040 and how this aligns with the demand constraints from IEA B2DS relative to the business as usual approach assumed in IEA STEPS[2]. Carbon Tracker's assessment shows that on average 32% of upstream oil and gas focus companies' unsanctioned oil and gas project capital expenditures match the demand constraints in the B2DS scenario, leaving 68% unmatched with such demand constraints. This metric is unchanged from 2019.

Percentage of total potential capital expenditure for oil and gas focus companies that aligns with IEA STEPS and IEA B2DS



REPSOL

Repsol[1] is an energy company headquartered in Madrid operating across upstream and downstream oil and gas, chemicals, renewables and other energy services. The Climate Action 100+ engagement with the company has been led by BNP Paribas AM, EOS at Federated Hermes and UBS Asset Management, and coordinated by IIGCC.

A constructive dialogue between Climate Action 100+ signatories and the company has been ongoing since the launch of the initiative in late 2017. The engagement has been led primarily by the CEO, the Chairman, the EMD In Technology Development, Resources and Sustainability and the Director of Investor Relations. It has also included internal specialists in climate change and other senior management in Sustainability.

There were four engagements with the company in the past 12 months, and the company has participated in two IIGCC convened roundtables seeking standardisation in approaches and reporting in oil and gas decarbonisation. At the company's 2020 annual general meeting the lead signatories submitted a statement that congratulated the company on its new net zero commitment and asked whether the current oil price situation and pandemic crisis would have a material impact on the climate change strategy and commitments to invest in low-carbon solutions. The CEO reaffirmed the company's commitment to net-zero and leading the energy transition, and confirmed a detailed strategy and roadmap would be published later in the year.

Progress seen to date has included:

- In December 2019 Repsol became the first oil and gas company to commit to a net-zero goal across scope 1, 2 and 3 emissions of the energy it produces, supported by a decarbonisation pathway with interim targets. This set a higher benchmark for the industry on commitments to climate action.
- The company assumed a new oil and gas price scenario consistent with scenarios aligned to the goals of the Paris Agreement.
- The company incorporated TCFD recommendations into its disclosures and continues to advance its climate reporting. In its 2018 and 2019 integrated management reports, the company provided greater detail on the short, medium and long-term risks and opportunities from low-carbon transition scenarios out to 2040.
- The company undertook an internal assessment to ensure the industry associations and initiatives it takes part in were aligned with the goals of the Paris Agreement and its own climate change strategy, and published the results last May, 2020.

Engagement in 2021 will cover key elements of Climate Action 100+ benchmark:

- Measurement, commitments and actions on material Scope 3 emissions.
- Implementation of the commitments, including aligned business planning and capital allocation and consistency with the EU taxonomy.
- Consideration of the IEA's Paris aligned 1.5°C scenario.
- The integration of interim targets into executive compensation.
- Actions taken with trade associations significantly misaligned on climate policy.

Photo: tanaonte - stock.adobe.com

1 Repsol's strategic plan for 2021-25 was released on November 26th following the writing of this case study.

CASE STUDY

PETROCHINA CO. LTD

PetroChina Co. Ltd is an oil and gas company, headquartered in China and listed on the Shanghai Stock Exchange, Hong Kong Stock Exchange and New York Stock Exchange. The Climate Action 100+ engagement is co-led by EOS at Federated Hermes, joined by Fidelity International at the beginning of 2020.

Given the circumstances of 2020, the lead and collaborating investors had one formal group meeting this year with the company, with several supporting conversations happening in parallel.

The engagement priorities with the company this year included:

- Climate change governance.
- Disclosure of scope 1 and 2 emissions.
- Setting ambitious GHG emission reduction targets.

In 2020, PetroChina has progressed on the following fronts:

- Disclosed scope 1 and 2 GHG emissions for the first time in its 2019 ESG report.
- Committed to raising the proportion of new energy and renewable energy produced to a new high by 2050.
- Further developed CCUS demonstration projects at Xinjiang and Changqing oil fields.

In August 2020, PetroChina pledged to cut carbon emissions to near-zero by 2050, and announced plans to invest in geothermal, wind, solar and pilot hydrogen projects. This plan calls for capital expenditure of $400-700 million per year for 2021-25 rising to $1.4 billion per year thereafter. Notably, this is the first near-zero pledge made by a major Chinese state-owned enterprise and was followed by China's pledge in September 2020 to be carbon neutral by 2060.

Engagement in 2021 will focus on obtaining further clarity on the transition plan towards near-zero emissions, particularly on supporting medium-term emission reduction targets, capex and decarbonisation pathways. Engagement will also encourage PetroChina to embed climate change in risk management processes through conducting scenario analysis and aligning reporting and underlying processes with the TCFD recommendations.

Photo: Игорь Головнёв - stock.adobe.com

MINING AND METALS SECTOR

The 23 mining and metals companies engaged by Climate Action 100+ include major steel makers, diversified miners, and several industrial firms that have metals operations. They are a diverse group with different emissions profiles, commodity and/or product portfolios, and decarbonisation challenges.

The most significant emissions sources for this sector are generated from:

- Energy products including thermal and metallurgical coal, and oil and gas[2].
- Ores requiring processing such as iron ore into steel or bauxite into aluminium.
- Energy consumed from fossil fuels and electricity in operations, including metals processing.

Investors see significant transition risk arising from these companies given their typically high emissions profiles, but also recognise the critical importance of the sector to the economy and the transition to a net-zero emissions world. Materials produced by miners are used in almost all aspects of modern society including housing, healthcare, infrastructure and technology. They also provide essential commodities for the low-carbon transition such as copper for electrical components and lithium for batteries.

Engaging with these companies, as with other sectors, investors are looking for robust climate governance practices, TCFD disclosure reflecting best practice for the sector, and to see ambitious emissions reduction targets including consideration of scope 3 emissions. Lobbying by trade associations continues to be a significant challenge for many mining and metals firms, given many of the associations that represent the sector have historically played a detrimental role in lobbying against effective climate policy.

MINING AND METALS SECTOR

23 FOCUS COMPANIES

$666 BILLION MARKET CAPITALISATION[1]

1 Source: Bloomberg, as at 30 November 2020.
2 Where a company's primary business is oil and gas, they have been covered in the oil and gas sector chapter.

The other key focus globally for investor engagement is understanding how these companies are developing strategies for decarbonisation. Depending on the company this may focus on: diversifying away from thermal coal mining given its expected decline in the global energy mix; and reducing or eliminating emissions from the processing of metals, both via decarbonisation of electricity sources (switching to renewables) and development into zero emissions production pathways for key metals (for example substituting hydrogen for metallurgical coal). Investors are also interested in broader value chain risks such as emissions arising from the global shipping and transportation of commodities.

In 2020, several focus companies have made progress aligned with investor expectations:

- Swedish steel company **SSAB AB** launched the world's first pilot plant for fossil-free steel using renewable electricity and hydrogen.
- **ArcelorMittal** announced an interim target to reduce its total emissions 30% by 2030 and in June released its first climate action report. It also announced a net-zero emissions by 2050 target.
- **Anglo American** committed to align its lobbying practice with the Paris Agreement via a plan to escalate misalignments that emerge between its policy positions and those of its industry associations, which will include publishing the membership of all its industry associations, including fees paid and rationale for each membership. It also announced its ambition to cut its operational emissions to net-zero by 2040, with eight of its sites set to become carbon neutral by 2030.
- **Glencore plc** published a scope 3 emissions reduction projection of 30% by 2035 and investors are now expecting the company to release long-term 'Paris-aligned' scope 1 and 2 targets this year.
- **Rio Tinto** conducted an asset by asset review of emissions reduction targets which was disclosed in its 2020 annual report. The company also announced plans to reduce GHG emissions to net-zero by 2050 and committed to spending $1 billion towards this new goal.
- **Teck Resources Limited** committed to net-zero emissions by 2050 in its own operations (scope 1 and 2), and announced an intensity emissions reduction target of 33% by 2030. The company also withdrew its application for a $15 billion Alberta oil sands project and wrote-off associated costs, citing climate change and environmental concerns.

MINING AND METALS FOCUS COMPANIES

Aneka Tambang Tbk (ANTAM)	Glencore plc	thyssenkrupp AG
Anglo American	Nippon Steel Corporation	United Tractors
ArcelorMittal	Norilsk Nickel	Vale
BHP	POSCO	Vedanta Ltd
Bluescope Steel Limited	Rio Tinto	
Bumi Resources	Severstal	
China Shenhua Energy	South32	
China Steel Corporation	Southern Copper Corporation[1]	
Coal India	SSAB AB	
	Teck Resources Limited	

1 Southern Copper is a subsidiary of Grupo México and was removed from the Climate Action 100+ focus list in 2020. Grupo México will be the focus of Climate Action 100+ engagement moving forward.

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Just under one in three (31%) mining and metals focus companies have set a net-zero emissions by 2050 target, however only 4% of companies have targets which cover material scope 3 emissions. A minority of companies are setting medium-term targets (22%), and short-term targets (39%), however some companies have set targets that do not cover all of their scope 1 and 2 emissions. Further none of the companies' medium-term targets, and less than one in 20 companies (4%) have short-term targets which cover the majority of material scope 3 emissions.

Nearly two-thirds (61%) of focus companies in this sector have disclosed a clear governance framework for climate risk with board or board committee oversight, and 43% have a named position at the board level responsible for climate risks.

61%

OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

SHORT-TERM TARGETS
BENCHMARK INDICATOR 4.1

Percentage of companies that have set a short-term (2020 to 2025) target for reducing GHG emissions on a clearly defined scope of emissions.

39%

MEDIUM-TERM TARGETS
BENCHMARK INDICATOR 3.1

Percentage of companies that have set a medium-term (2026 to 2035) target for reducing GHG emissions on a clearly defined scope of emissions.

22%

NET ZERO AMBITION
BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

31%

See Company Progress Review Summary for more details on these indicators.

CASE STUDY
BHP

BHP is a diversified mining company, headquartered in London and Melbourne and listed on both the London Stock Exchange and the Australian Stock Exchange. The Climate Action 100+ engagement has been co-led by investors AMP Capital and HSBC Global Asset Management with support from BMO Global Asset Management, and investor network support from IGCC and IIGCC.

The investors had had five formal meetings with the company this year, in addition to many more informal meetings. Several roundtables on specific topics also took place.

The major engagement priorities for this company in 2020 have included:

- Engaging with BHP on its industry association policy review.
- Establishing medium-term scope 1 and 2 emissions targets.
- BHP's approach to its scope 3 emissions.
- An enhanced and explicit link to climate change in executive remuneration.
- Updated scenario analysis, including a 1.5-degree scenario.
- Equity-based emissions disclosures.
- Capital expenditure, the US$400 million Climate Investment Program (CIP), and seeking to understand how the company will align these to its commitment to the Paris Agreement goals.

In July 2020 the company announced an update to its industry association approach which included:

- A commitment to developing minimum standards for the associations of which it is a member.
- A protocol for the allocation of industry advocacy accountabilities.
- The requirement for associations to publish an annual advocacy plan in advance.
- The development of a real-time escalation process to deal with industry association misalignment.
- Enhancements to its own disclosures on industry associations and the company's influence.

In October 2020, the company suspended its membership of the Queensland Resources Council when it found the association to be engaging in direct advertising to voters on the Queensland elections, in misalignment with its new policy.

In September 2020 it also announced:

- A series of projects and milestones aimed at reducing its scope three emissions.
- Further transport electrification and renewable energy commitments.
- Scenario analysis that applied three transition scenarios to the company's portfolio. This showed it was most profitable in a 1.5°C world, and least so in a disruptive late transition.
- A 30% medium-term emissions reduction target to 2030 for scope 1 and 2 emissions.
- A scope 3 goal for 2030 to help develop technologies and approaches to make steelmaking 30% less carbon intensive and shipping 40% less carbon intensive. BHP has also developed two steel value chain partnerships, investing up to US$35 million under an MOU with steel producer China Baowu.
- An enhanced link to climate change in the Cash and Deferred Plan (CDP) scorecard, with 10% weighting to reductions in operational emissions and the achievement of key actions and milestones to reduce scope 1, 2 and 3 emissions.

Engagement in 2021 will focus on monitoring the company's implementation of its new industry association policy including further detail on how it will deal with misalignment, getting additional clarity on its transition plans including capital expenditure, development of reporting on physical risk, and further discussion of its scope 3 plans.

Photo: Alexander Sánchez - stock.adobe.com

CASE STUDY

ARCELORMITTAL

ArcelorMittal is a steel and mining company headquartered in Luxembourg. Engagement with the company was led by Aegon, LAPFF and Ruffer, and coordinated by IIGCC.

To date investors have had a number of meetings with ArcelorMittal management, and the company has joined an IIGCC convened roundtable on decarbonisation of the steel sector. The company has been positive and responsive to engagement so far.

Progress seen to date has included:

- In October 2020, ArcelorMittal announced a group-wide commitment to be carbon neutral by 2050, building on the commitment made in 2019 for its European business to reduce emissions by 30% by 2030 and be carbon neutral by 2050.
- In mid-2020 the company also released an updated lobbying review of its industry association memberships taking into account investor feedback.
- Working on various pilot technologies for carbon-neutral steelmaking and will be producing steel with hydrogen from renewables from 2020.
- Joined the Energy Transition Commission and is a driving force behind the net-zero pathway.
- The company published its first Climate Action report in 2019, which included scenario analysis.

Investors intend to engage with ArcelorMittal in the future on:

- The company's second Climate Action report is due to be published in December 2020 or January 2021 which will include more details of how the carbon neutral 2050 target will be achieved.
- How the company plans to reduce emissions from its operations including ensuring its transition plan is aligned with the goals of the Paris Agreement.
- Governance of climate change risks and the company's transition plan.
- Linking the achievement of greenhouse gas reduction targets to executive remuneration.
- Additional disclosures aligned with the TCFD.

Investors will continue to engage with the company on its transition plan and monitor the implementation of its greenhouse gas reduction targets.

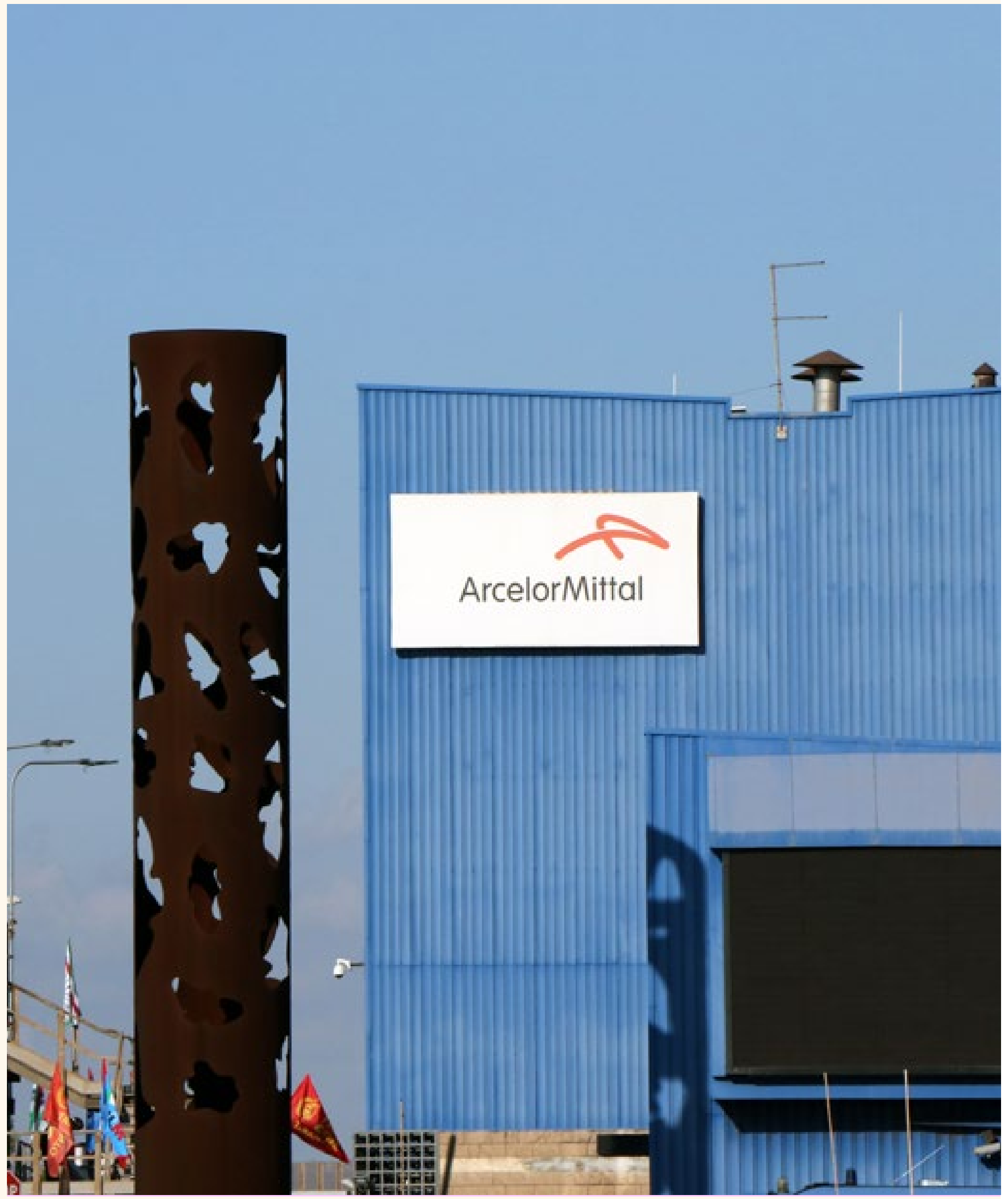


Photo: Massimo Todaro - stock.adobe.com

CASE STUDY

TECK RESOURCES LIMITED

Teck Resources Limited (Teck) is Canada's largest diversified mining company and is headquartered in Vancouver, British Columbia. The Climate Action 100+ engagement with Teck has been jointly led by the British Columbia Investment Management Corporation and the Shareholder Association for Research & Education (SHARE), along with three additional collaborating investors.

Climate Action 100+ signatories held four group-wide meetings with the company's senior management and independent board directors since the beginning of the initiative, and participating investors have had individual interactions with the company to reinforce expectations.

Engagement priorities with Teck have included:

- Offering input and support to the company's post-2020 emissions target-setting process, including highlighting the importance of establishing a long-term net-zero emissions goal with interim milestones, and encouraging the company to set a more ambitious alternative energy generation target for some mining operations.
- Asking for enhanced climate scenario analysis including additional disclosure of climate considerations associated with Teck's existing energy portfolio as well as its proposed Frontier oil sands mining project under review.
- Advocating for Teck to assess the climate lobbying alignment of industry associations it is a member of with its own internal climate positions.
- Emphasising the importance of executive compensation and incentive structures in support of climate strategy.

Progress to date has included:

- Teck has been an official supporter of the TCFD since September 2018, one amongst very few North American extractive companies, and subsequently published two TCFD-aligned reports.
- In February 2020, Teck committed to net-zero emissions by 2050 in its own operations (scope 1 and 2), and announced an intensity emissions reduction target of 33% by 2030.
- Teck achieved its alternative energy generation target for 2030 ahead of schedule and set a clean energy target of 100% for its Chile operations.
- In addition to enhanced climate scenarios disclosure, Teck announced in February 2020 it was withdrawing the regulatory application for the Frontier oil sands project from federal review, and wrote off associated costs.
- In May 2020, Teck announced it would not renew its membership in a major Canadian energy industry association as part of a cost-cutting drive. This change substantially addressed investors' previous concerns on climate lobbying.

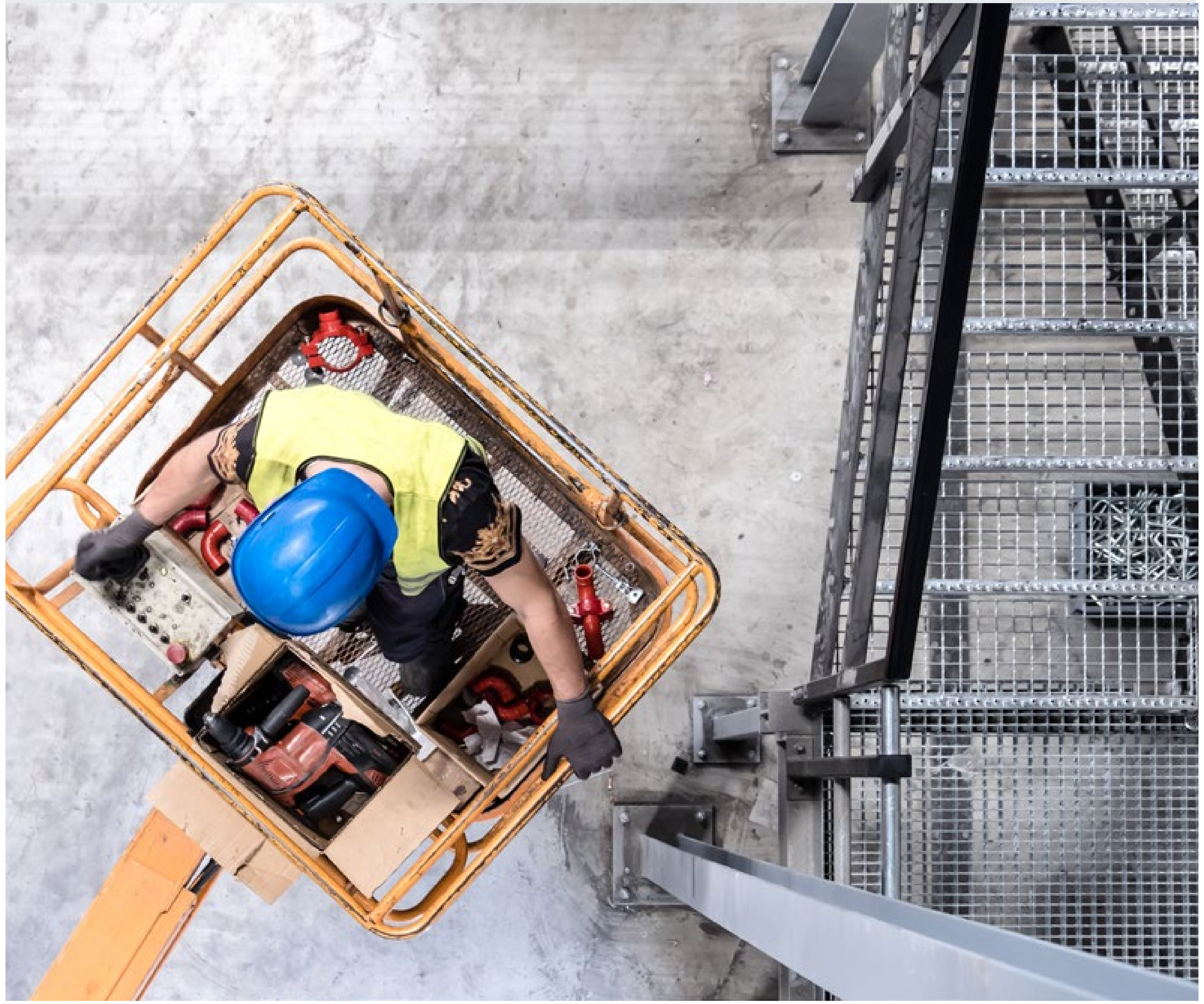
Building from the productive engagement so far, continued dialogue with Teck in 2021 would be beneficial to address opportunities and challenges of capturing some scope 3 emissions in future target-setting exercises and to further assess the company's approach to incentivising employees and executives to achieve its climate targets.

UTILITIES SECTOR

UTILITIES SECTOR

31
FOCUS COMPANIES

$1 TRILLION
MARKET CAPITALISATION[1]



The 31 electric utility focus companies engaged via Climate Action 100+ are electric and gas power companies.

Electricity production is responsible for just under a third of global emissions[2], due to the high prevalence of fossil fuels (thermal coal and natural gas) in the energy mix. Engagement with electric utilities via Climate Action 100+ is focused on the transition away from emissions intensive forms of power generation such as gas and coal, to zero emissions technologies such as renewables. Investors are looking for companies in this sector to be ramping up investments in renewable energy projects and infrastructure including battery storage, and to be providing a clear pathway to net-zero emissions by 2050.

Investors are engaging with utilities to understand how investment decisions and transition plans align with the goals of the Paris Agreement, including investments to retire, maintain or expand fossil fuel infrastructure. They are also calling for ambitious emissions reduction targets.

Electricity production and distribution is highly regulated, so the issue of engagement with policymakers continues to be important for investors both at the company level and via trade associations. Investors are also keen to understand companies' transition plans as the closure of coal and gas fired power stations over the coming decades has implications for workers and communities.

While policy settings in the United States, parts of Asia and Australia have been challenging, there has been significant momentum in this sector this year. Notable progress has occurred in the United States, where six electric utilities have now committed to net-zero emissions by 2050: Dominion Energy, Inc., Duke Energy Corporation, NRG Energy, Inc., The Southern Company, WEC Energy Group, Inc., and Xcel Energy Inc..

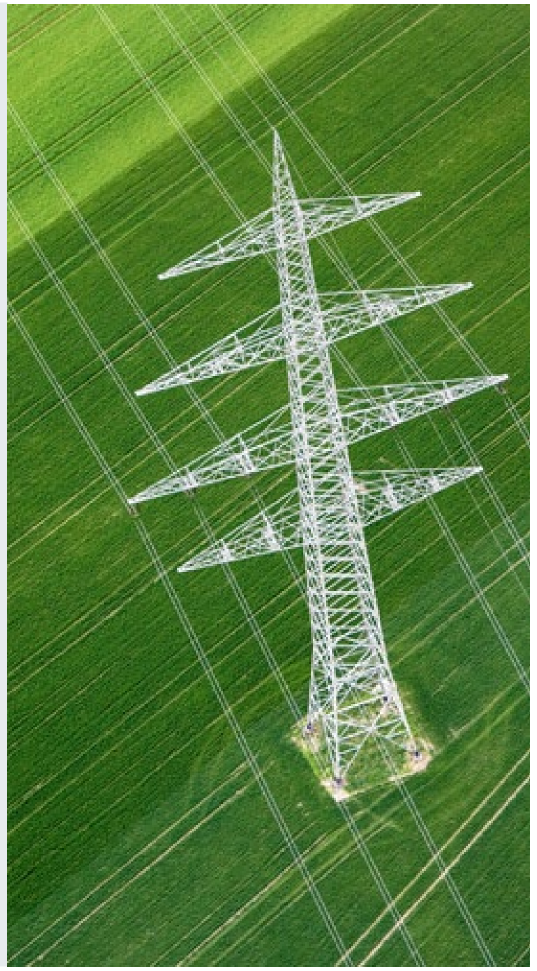
1 Source: Bloomberg, as at 30 November 2020.
2 World Resources Institute Climate Data Explorer http://cait.wri.org/.

Other company commitments include:

- **AES Corporation** committed to a 70% emissions reduction target by 2030.
- **Vistra Energy Corp.** announced the retirement of its Midwest coal fleet by 2027, a new emissions reduction target of 60% by 2030, and a long-term objective of net-zero emissions by 2050.
- **Duke Energy Corporation** and **Dominion Energy, Inc.** abandoned the proposed Atlantic Coast Pipeline after billions of dollars spent and years of delays.
- **Dominion Energy, Inc.** announced that it is selling most of its natural gas assets to Berkshire Hathaway and has positioned itself as a 'sustainability-focused utility operation'.
- **AGL Energy Ltd**, the largest corporate emitter in Australia, has linked executive remuneration to its new net-zero emissions by 2050 target.
- **NTPC Ltd**, India's largest electric power generator, and ONGC, the country's top oil and gas producer, have agreed to set up a renewable joint venture in India which will include renewable power assets such as offshore wind in India and overseas.

UTILITIES FOCUS COMPANIES

AES Corporation
AGL Energy Ltd
American Electric Power Company, Inc.
Centrica
CEZ, A.S.
Dominion Energy, Inc.
Duke Energy Corporation
E.ON SE
EDF
Enel SpA
ENGIE
Eskom Holdings SOC Ltd
Exelon Corporation
FirstEnergy Corp.
Fortum Oyj
Naturgy Energy
Iberdrola, S.A.
Korea Electric Power Corp
National Grid PLC
NextEra Energy, Inc.
NRG Energy, Inc.
NTPC Ltd
PGE - Polska Grupa Energetyczna S.A.
Power Assets Holdings Limited
PPL Corporation
RWE Aktiengesellschaft
SSE PLC
The Southern Company
Vistra Energy Corp.
WEC Energy Group, Inc.
Xcel Energy Inc.



CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Over two-thirds (69%) of utilities focus companies have now set a net-zero emissions reduction ambition or target, though only 8% of these cover material scope 3 emissions.[1] Over half (55%) of companies have set medium-term GHG reduction targets, but only 35% of these cover at least 95% of the company's operational (scope 1 and 2) emissions, and only 6% of companies have set a target that covers their most material scope 3 emissions[1]. 42% of companies have a short-term GHG emissions reduction target, but only around half (23%) of these cover at least 95% of scope 1 and 2 emissions. No companies have set short-term targets and only 6% of companies have set medium-term targets that cover the most relevant scope 3 emissions. Four out of five companies (81%) have disclosed board level responsibility for the management of climate risks, and half (52%) of companies have disclosed a named position at the board level for this oversight.

81%

OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

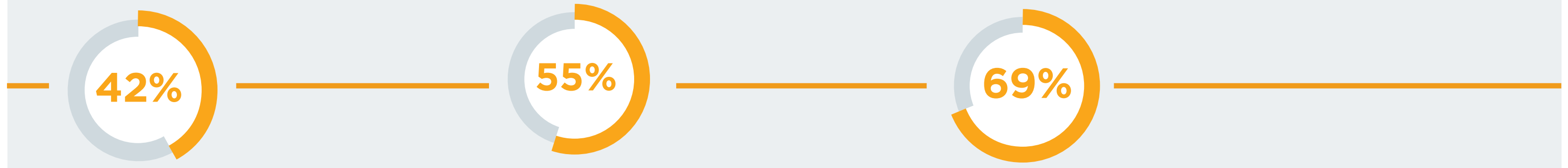
BENCHMARK INDICATOR 8.1

SHORT-TERM TARGETS
BENCHMARK INDICATOR 4.1

Percentage of companies that have set a short-term (2020 to 2025) target for reducing GHG emissions on a clearly defined scope of emissions.

NET-ZERO AMBITION
BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.



MEDIUM-TERM TARGETS
BENCHMARK INDICATOR 3.1

Percentage of companies that have set a medium-term (2026 to 2035) target for reducing GHG emissions on a clearly defined scope of emissions.

See Company Progress Review Summary for more details on these indicators.

1 The most material sources of scope 3 emissions for utilities companies arises from the provision of natural gas and procurement of electricity for customers. For a full list of material scope 3 emissions according to the Climate Action 100+ Net-Zero Company Benchmark, please visit: https://climateaction100.wpcomstaging.com/wp-content/uploads/2020/12/Climate-Action-100-Benchmark-Indicators-December-2020-FINAL-1.pdf .

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Capital allocation indicators

Carbon Tracker

Both coal and gas fired generation must be phased out to achieve global net-zero emissions by mid-century. Carbon Tracker's validation work checks whether companies are phasing these generation sources out in a timely way. Carbon Tracker examines actual and announced retirements since these are the critical, real-world steps companies must take to reduce emissions. The model tracks ~95% of global operating, under-construction and planned coal powered capacity at boiler-level and approximately 45% of natural gas-powered capacity[1].

Retirement schedules for coal and natural gas power are vital to ensure companies collectively meet the temperature goal in the Paris Agreement for three main reasons:

1. Climate change is about absolute emissions rather than emissions intensity.
2. Long-term retirement schedules will likely minimise out-of-market payments.
3. Growing clean energy capacity without retiring fossil capacity could create a negative investment signal in the future.

For a company to be Paris-aligned it will need to publish and announce:

1. A coal and natural gas-generation retirement schedule consistent with a credible climate scenario such as IEA B2DS or IEA Sustainable Development Scenario (SDS)[2].
2. A retirement date assigned to each coal or gas unit.

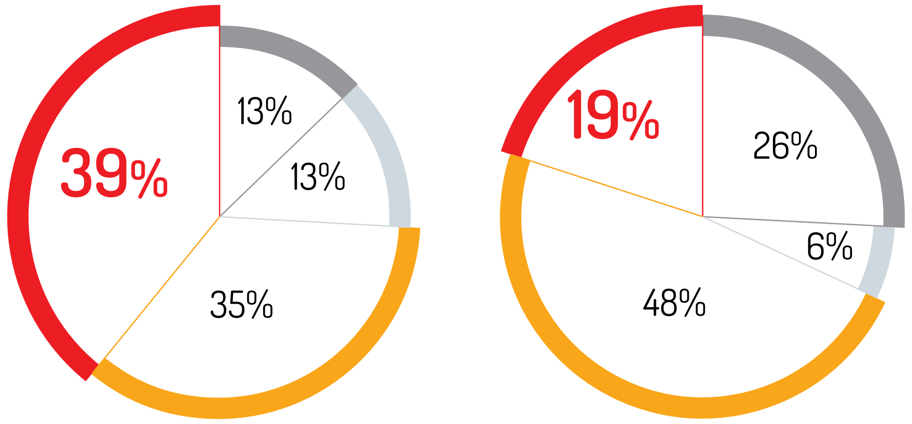
Companies will fall into one of four categories;

1. Announced full retirement schedule with assigned retirement years for all units that is consistent with the temperature goals from the Paris Agreement.
2. Announced full retirement schedule with assigned retirement years for all units that is not consistent with the temperature goals of the Paris Agreement.
3. Announced a partial retirement schedule for parts of the operating fleet and with assigned retirement years to parts of the operating plants.
4. Insufficient or no information provided.

Retirement of coal and gas fired power stations in 2020

The data show some promising trends — the number of companies that have announced a full coal phase out consistent with the IEA B2DS has doubled since last year (13% in 2019, versus 26% in 2020). Also, the percentage of companies that have begun to announce a partial phase out of coal has increased from 35% to 48%. Overall, more than 80% of the utilities examined have announced plans for coal retirements.

This year, Carbon Tracker began evaluating retirements from gas-fired generators. Among Climate Action 100+ target companies, only 3% have announced retirements consistent with the IEA B2DS scenario (or lack gas-generation capacity altogether).

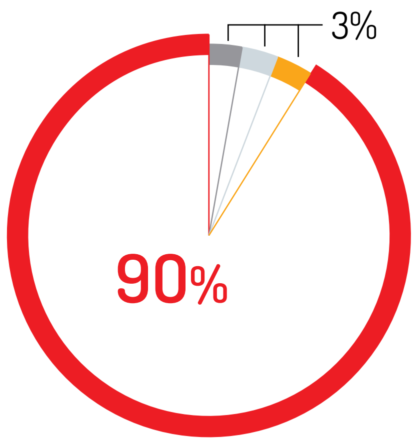


Has the company announced a full phase-out of coal units by 2040 that is consistent with Carbon Tracker Initiative's interpretation of the IEA B2DS?

- Full retirement, consistent with B2DS
- Full retirement, not consistent with B2DS
- Partial retirement
- Unannounced/ totally insufficient

Has the company announced a full phase-out of gas units by 2040 that is consistent with CTI's interpretation of the IEA B2DS?

- Full retirement, consistent with B2DS
- Full retirement, not consistent with B2DS
- Partial retirement
- Unannounced/ totally insufficient



1 All assumptions and modelling details are discussed in Powering down Coal and How to waste over half a trillion dollars by Carbon Tracker (2018, 2020). Coal capacity is global and natural gas capacity analysed is within US, the EU, Australia, India and South Korea. Additional countries and regions will be added in early 2021.
2 The IEA Sustainable Development Scenario sets out an energy transformation aligned with achieving three energy related Sustainable Development Goals. The SDS holds the temperature rise to below 1.8°C with a 66% probability without reliance on global net-negative CO_2 emissions; this is equivalent to limiting the temperature rise to 1.65°C with a 50% probability.

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Capital allocation indicators (cont)

12%

FOCUS COMPANIES HAVE INCREASED THEIR INSTALLED RENEWABLE CAPACITY FROM 10% IN 2019 TO **12% IN 2020**

14%

OF COMPANIES ANALYSED HAVE RENEWABLES CAPACITY ALIGNED WITH THE IEA B2DS

2° Investing Initiative (2DII)

2DII assesses the current and future capital stock of utilities companies, based on business intelligence and financial data providers[1] and assesses their alignment with climate change scenarios. This data is based on actual capital expenditure plans of the utility companies. This can therefore give an assessment of whether the utilities companies' stated ambitions and actions reflect their efforts to transition the business model.

The technology mix tables provided by 2DII assesses utilities based on their energy technology mix (renewables, hydro, nuclear, gas, oil and coal) in terms of current and planned installed generation capacity against the IEA B2DS (<1.75°C). It shows that a market aligned with this scenario would see renewable electricity installed capacity rising to 19% of the technology mix by 2025. This shows that companies need to change the technological mix of their generation more rapidly than currently planned (16%), while decreasing their installed capacity from gas and coal. On a positive note, the second table does show that focus companies have increased their installed renewable capacity from 10% in 2019 to 12% in 2020.

Planned and required (under a <1.75°C scenario[2]) electric utilities focus companies generation capacity technology mix for renewables, hydro, nuclear, gas, oil and coal.

	REQUIRED 2025	PLANNED 2025
Renewable capacity	19%	16%
Gas capacity	26%	27%
Coal capacity	24%	29%
Hydro capacity	11%	11%
Nuclear capacity	16%	14%
Oil capacity	3%	4%

Actual 2019 and 2020 electric utilities generation capacity technology mix for renewables, hydro, nuclear, gas, oil and coal.

	ACTUAL 2019	ACTUAL 2020
Renewable capacity	10%	12%
Gas capacity	32%	28%
Coal capacity	29%	29%
Hydro capacity	9%	11%
Nuclear capacity	15%	17%
Oil capacity	5%	4%

The third table shows what percentage of utility companies are aligned with which IEA scenario in terms of their renewable power capacity and their coal power capacity. The table shows whether these companies are aligned with IEA B2DS, IEA Sustainable Development Scenario[2], or above IEA SDS. It shows that only 14% of companies analysed have renewables capacity aligned with the IEA B2DS.

Utilities companies climate scenario alignment for coal and renewable capacity

CLIMATE SCENARIOS	PERCENTAGE COMPANIES WITH ALIGNED RENEWABLE CAPACITY	PERCENTAGE COMPANIES WITH ALIGNED COAL CAPACITY[3]
B2DS (<1.75C)	14%	15%
SDS (1.75C-2C)	3%	4%
Above SDS (>2C)	83%	81%

1 2DII uses GlobalData for the utilities sector.
2 The IEA Sustainable Development Scenario provides an integrated approach to energy and sustainable development and focuses on achievement of three energy-related sustainable development goals. The scenario aligns with approximately 1.75°C-2°C in global warming by 2100.
3 This column only assesses companies that have coal capacity. Note that 10% of Climate Action 100+ target utilities companies do not own coal capacity.

CASE STUDY

WEC ENERGY GROUP, INC.

WEC Energy Group, Inc. (WEC) is an electric power and natural gas utility company, headquartered in the US. The Climate Action 100+ engagement is led by UBS Asset Management and Wespath Benefits and Investments, and supported by Ceres.

Investors had one group meeting with the company over the past 12 months, wrote a letter to the company urging increased long-term ambition, delivered a separate letter outlining investor expectation on climate lobbying, and presented a statement at the virtual AGM. Engagement has focused on increased ambition of medium and long-term targets, discussion of scope 3 emissions from natural gas delivery in targets, working towards robust TCFD-aligned disclosure, and advocating for responsible policy engagement on climate.

Over the past year, WEC has progressed in the following areas:

- In July 2020, WEC increased the ambition of its medium and long-term targets. The company upgraded its 2030 target from 40% to 70% reduction of CO_2 emissions. Additionally, it upgraded its 2050 target from an 80% reduction of CO_2 emissions to net carbon neutral generation.
- WEC released its 2019 Corporate Responsibility Report.

Future engagement will focus on benchmark assessment, clarity about capital expenditure alignment with targets, defining the role of natural gas within the company's portfolio, and responsible policy engagement on climate at the state and federal levels.

CASE STUDY

KEPCO

Korea Electric Power Corporation (KEPCO) is an electric utility company, headquartered in South Korea and listed on the Korea Composite Stock Price Index and New York Stock Exchange. The Climate Action 100+ engagement has been led by APG Asset Management and Sumitomo Mitsui Trust Asset Management and is supported by a group of collaborating investors from Europe.

Over the past 12 months, investors have had three formal group meetings, several letter exchanges with the company, and delivered a public statement to its largest shareholder, the Ministry of Economy and Finance.

Engagement priorities with the company this year have focused on engaging KEPCO on its plans to limit and exit overseas coal and fossil fuel exposure, in particular, investors have expressed their concerns about KEPCO's coal power projects in Indonesia (Jawa 9 and 10) and in Vietnam (Vung Ang 2).

Wider investor pressure in parallel to engagements has also captured attention from international and local media and has added weight to ongoing conversations with KEPCO. APG Asset Management, Church Commissioners for England, Legal and General Investment Management, Sumitomo Mitsui Trust Asset Management and UBS Asset Management have been public in their concerns, quoted in FT articles in February, August and October this year and in local Korean media in the Korean Herald and Chosun Biz.

Other recurring themes in group engagement meetings with KEPCO have included:

- Request for a disclosure of emissions reduction targets with a detailed breakdown of emissions at parent level and from independent power producers.
- Working towards alignment of corporate disclosure with TCFD recommendations.
- Raising emissions reduction targets beyond South Korea's NDC.

Concerted international pressure led to delay of key decisions for overseas coal fired power plants in Indonesia and Vietnam, however these were ultimately approved by KEPCO. Soon afterwards, KEPCO confirmed that it will not pursue the remaining two coal power pipeline projects in the Philippines and South Africa.

This has been a significant year of progress in discussions on coal phase-out within Korea. Investors were referenced repeatedly in the National Assembly during ministerial questioning on KEPCO's overseas coal projects. In a significant regional announcement, in October 2020, the South Korean government committed to achieve net-zero emissions by 2050, pledging to spend US$7 billion on green-focused growth. This continued the momentum of earlier national plans to close 30 coal-fired power plants by 2034 and 10 of those by 2022, phase out nuclear power and triple the number of solar and wind power installations by 2025. As KEPCO owns the majority of coal-fired power plants in South Korea, this plan is likely to have a significant impact on accelerating the reduction of its GHG emissions. South Korea's parliament is also debating new legislation to ban participation in the construction, operation and maintenance of foreign coal power projects, following Japan's recent tightening of financing criteria for overseas coal-fired power plants.

Engagement in 2021 will focus on obtaining further clarity on coal plant closures as per the government's directive, phase-out timeline of overseas coal plants and commitment to the full alignment of corporate disclosure with TCFD recommendations.

CASE STUDY

ENGAGING WITH STATE-OWNED ENTITIES IN INDIA

NTPC Limited (NTPC), Oil & Natural Gas Corp. (ONGC), and Coal India Limited (CIL) are majority-state-owned corporations headquartered in India. NTPC is the largest electric utility in the country and predominately a coal-based thermal power producer. CIL is the largest coal producer in the world, and ONGC is Indias largest crude oil and natural gas producer. The Climate Action 100+ engagements for these companies have been led by SBI Funds Management Private Limited and supported by the AIGCC and the PRI.

As a result of consistent outreach to the company since 2019, the investors were able to arrange three formal engagement meetings with NTPC in 2020 despite the difficult environment created by COVID-19. The investors also commenced engagements with ONGC and CIL this year and held one meeting with each company.

Engagement priorities with the three companies have included raising management awareness on climate change issues, improving disclosure on carbon emissions based on TCFD recommendations, and plans to increase the use of renewable energy. Electricity demand in India is expected to grow rapidly as the economy grows and the government electrifies rural areas aiming to increase energy access for its population. In this context, reduction of thermal power generation is a challenge, and fast expansion of renewables-based power generation is crucial in preventing a sharp increase in domestic GHG emissions.

Progress to date for the three engagements has included the following:

- Climate-related disclosure improved significantly. NTPC released a 2019 CDP climate report publicly in early 2020, included disclosure of its scope 3 emissions in its integrated report in September 2020, and its 2020 report incorporated several aspects of TCFD aligned disclosure.
- NTPC announced a new sustainability strategy in September 2020, setting carbon intensity and renewables targets for 2022 and 2032.
- NTPC acquired two hydro power companies from the government of India in March 2020 to increase its share of renewable energy.
- NTPC and ONGC entered into an agreement in May 2020 to establish a joint venture for a new renewable energy business.
- CIL is investing heavily in efficiency improvement at its coal mines, and in a coal-to-methanol plant in West Bengal.

Engagements for the three companies in 2021 will focus on monitoring progress on TCFD implementation, renewables investment, introducing the concept of just transition, and seeking opportunities to set ambitious emissions reduction targets. Lead investors are also open to including investors from other regions to strengthen the case of global engagement with state-owned entities in India.

INDUSTRIALS SECTOR

INDUSTRIALS SECTOR

26
FOCUS COMPANIES

$956 BILLION
MARKET CAPITALISATION[1]

The 26 industrials focus companies include firms focused on the production of materials including cement, heavy-duty machinery and equipment, construction materials, and chemicals.

Material emissions sources vary widely by firm and according to the products produced:

- The majority of emissions from cement production arise from the chemical reaction and heat required to produce clinker, a core component of cement.
- Emissions from chemicals companies arise from energy-intensive operations, including ammonia production and steam cracking. Many chemicals firms also have significant scope 3 emissions associated with product use.
- Construction materials and heavy-duty equipment firms have upstream and downstream emissions sources that vary by company, and many also have significant scope 2 emissions from energy use.

Many of these companies are considered hard to abate as there are currently no cost-effective and readily available decarbonisation options. It is likely that many of the emissions intensive processes particularly the production of clinker for cement and some chemical production processes will require significant carbon capture and storage (CCS) in order to reach net-zero emissions. As in other energy intensive sectors, the rapid decarbonisation of global electricity grids via switching to renewables will also be key to reduce emissions from this sector.

Investors engaging with industrial companies within Climate Action 100+ are setting out specific engagement priorities depending on the company and its products and operations. At a high-level, investors are looking for companies to set net-zero emissions targets and to disclose the way they are approaching and acting on the need to decarbonise by mid-century.

1 Source: Bloomberg, as at 30 November 2020.

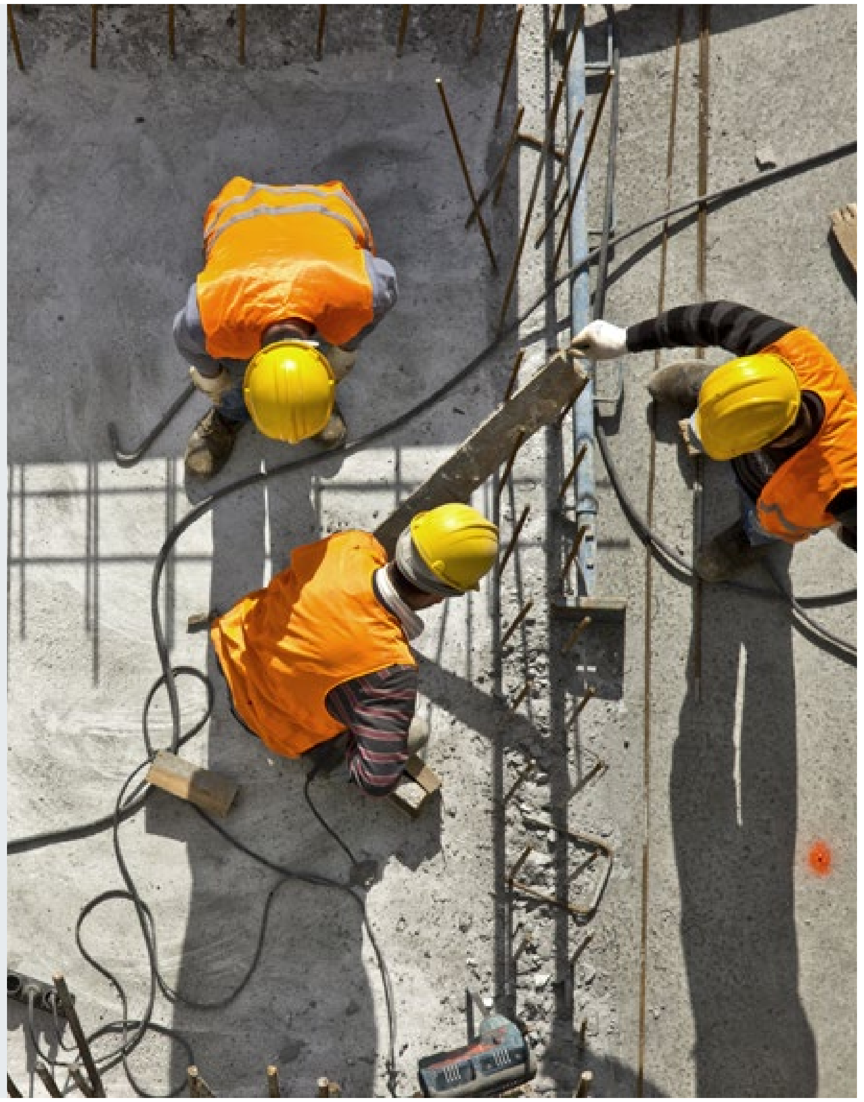
For many companies this includes partnerships with research organisations, industry bodies and other organisations within their sector to look at decarbonisation options including CCS. Other key areas of focus include electricity use and energy efficiency measures companies can take to achieve emissions reduction targets in the short term. As in other sectors, establishing strong climate governance frameworks at the board level, and ensuring alignment between companies' internal climate policies with those of industry associations of which they are member is also a key priority. These companies are highly exposed to both transition risks from increased regulatory requirements, and to physical risks depending on the location of the companies' operations, so investors are increasingly asking companies to model, assess, and disclose a plan to manage these climate risks.

There have been a number of noteworthy company commitments and progress by industrials focus companies this year:

- **CEMEX S.A.B. de C.V.**, **CRH**, and **Daikin Industries, Ltd.** committed to net-zero emissions by 2050 across all scopes.
- **LafargeHolcim Ltd**, set a science-based target including scope 1 and 2 emissions and a net-zero ambition. The company claims to be the first global building materials company to sign the 'Business Ambition for 1.5°C' pledge with intermediate targets approved by the Science-Based Targets initiative (SBTi) in alignment with net-zero pathway.
- **Boral Limited** conducted a physical risk analysis across its assets identifying vulnerabilities related to extreme weather for its global operations.
- **Bayer AG** set a science-based target to reduce its emissions 42% by 2029.
- **Cummins Inc.** committed to net-zero emissions by 2050 across its operations, and a science-based target to reduce absolute GHG emissions 50% by 2030 (scope 1 and 2). In addition, the company set a science-based target to reduce emissions from newly-sold products 25% by 2030.

INDUSTRIALS FOCUS COMPANIES

Adbri Ltd
Anhui Conch Cement Company Limited
BASF SE
Bayer AG
Boral Limited
Caterpillar Inc.
CEMEX S.A.B. de C.V.
CRH
Cummins Inc.
Daikin Industries, Ltd.
Dangote Cement Plc
Dow Inc
General Electric Company
HeidelbergCement AG
Hitachi, Ltd.
Hon Hai Precision Industry
Koninklijke Philips NV
LafargeHolcim Ltd
L'Air Liquide
LyondellBasell Industries Cl A
Martin Marietta Materials, Inc.
Panasonic Corporation
Saint Gobain
Siemens Energy[1]
Toray Industries, Inc.
Trane Technologies PLC



1 Note that Siemens AG was the original focus of Climate Action 100+ until a demerger in September 2020. Siemens Energy will be the focus of the initiative moving forward.

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

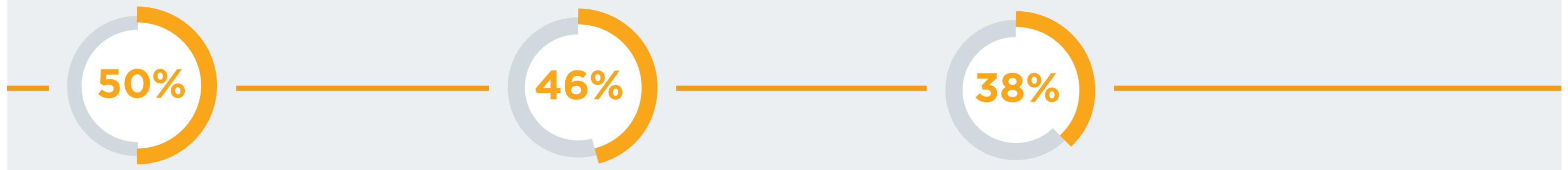
Over one-third (38%) of industrials focus companies have now set a net-zero emissions by 2050 ambition or target, however just 8% of companies have a target that covers the most relevant scope 3 emissions. Nearly half of companies (46%) have set a medium-term emissions reduction target and half (50%) have set a short-term target, however a slightly smaller share of companies have set targets that cover over 95% of their operational emissions for both medium-term (38%) and short-term (38%) targets. Only 8% of companies have set a medium-term target that includes coverage of their most material scope 3 emissions, and the same is true of short-term targets. Nearly two in three (65%) of companies have disclosed clear board level responsibility for climate change, and nearly half (31%) have a named position on the board responsible for managing climate risks.

SHORT-TERM TARGETS
BENCHMARK INDICATOR 4.1

Percentage of companies that have set a short-term (2020 to 2025) target for reducing GHG emissions on a clearly defined scope of emissions.

NET-ZERO AMBITION
BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.



MEDIUM-TERM TARGETS
BENCHMARK INDICATOR 3.1

Percentage of companies that have set a medium-term (2026 to 2035) target for reducing GHG emissions on a clearly defined scope of emissions.

See Company Progress Review Summary for more details on these indicators.

65%

OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

CASE STUDY

CUMMINS INC.

Cummins is an engine, power systems and industrial machinery manufacturing company headquartered in Columbus, Indiana in the United States. The Climate Action 100+ engagement with Cummins has been jointly led by Wespath Benefits and Investments and AGF Investments, along with seven additional collaborating investors.

Climate Action 100+ signatories held two meetings with the company over the year covered by this progress report.

Engagement priorities with the company this year included:

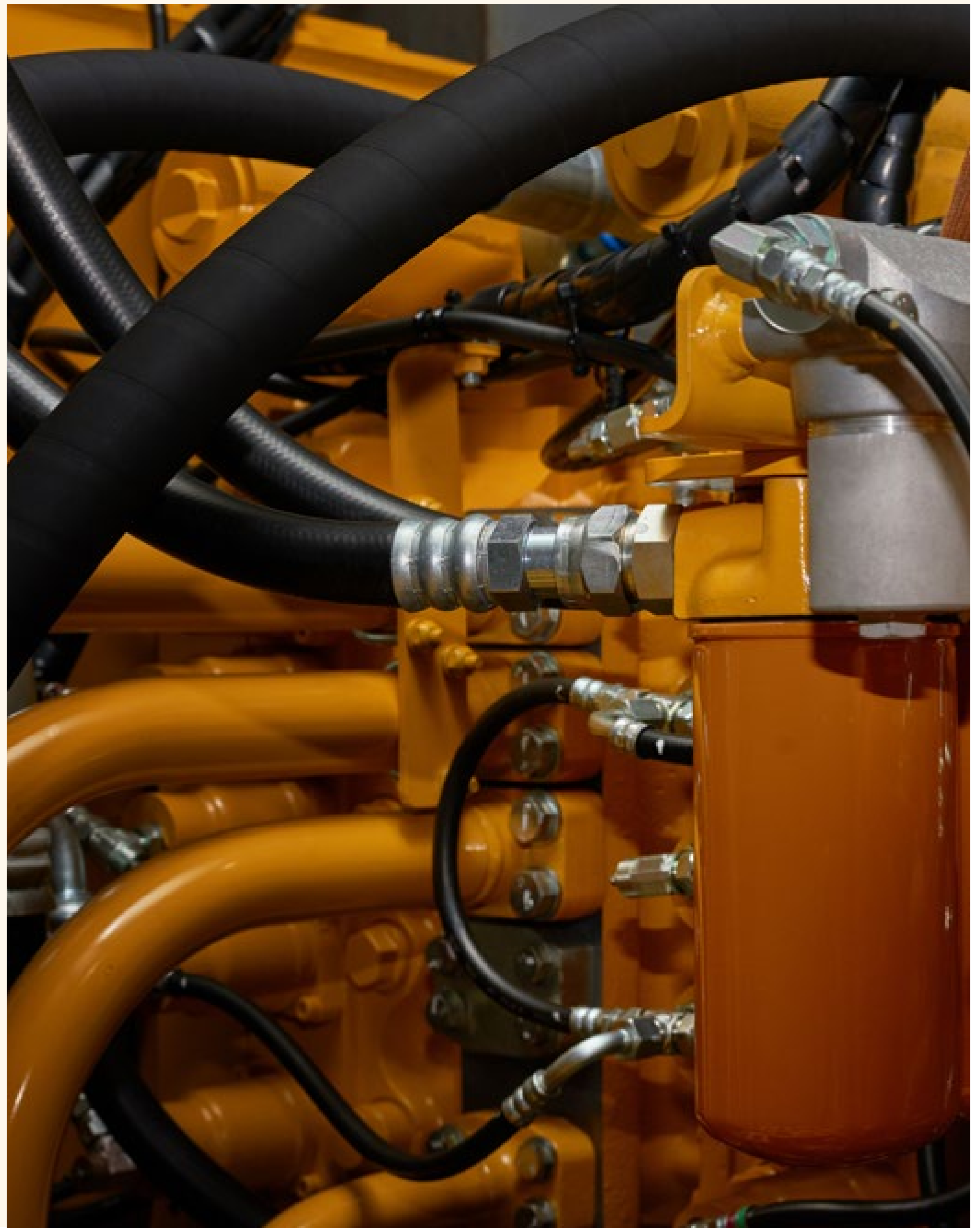
- Offering input and support to Cummins' new 'Planet 2050' strategy and other sustainability work the company is undertaking.
- Seeking clarity on the company's strategy for transitioning to net-zero emissions within distinct business lines.
- Encouraging the company to consider tying executive compensation to climate change performance metrics.
- Asking the company to evaluate its climate lobbying practices and ensure alignment between its internal climate change policy and the lobbying activities of trade associations of which it is a member.

Progress to date has included:

- In November 2019, Cummins announced its 'Planet 2050' sustainability strategy, committing it to net-zero emissions by 2050 in company operations. In addition, the strategy had several interim emissions goals for 2030, including:
  - Reduce absolute GHG emissions from the company's facilities and operations by 50% (a science-based target).
  - Reduce absolute lifetime GHG emissions from newly sold products by 25% (a science-based target).
  - Partner with customers to reduce GHG emissions from products in the field by 55 million metric tonnes.

The lead investors believe that the engagement with Cummins has been highly constructive and that the company is emerging as a sector leader in addressing its climate change risks and opportunities.

Among other topics, engagement in 2021 will focus on encouraging Cummins to provide more granular reporting about the actions it intends to take to meet its net-zero emissions by 2050 target (for example: changes to its product mix, specified low-carbon R&D investments). Signatories continue to advocate that the company tie executive compensation to climate change performance metrics. They also intend to hold a discussion with the company to go over relevant elements of the new Climate Action 100+ Net-Zero Company Benchmark, including an exploration of just transition considerations in Cummins' 'Planet 2050' strategy.



CASE STUDY

CEMEX S.A.B. DE C.V.

CEMEX S.A.B. de C.V. (CEMEX) is a cement-making and building materials company headquartered in Mexico. The Climate Action 100+ engagement with CEMEX has been led by Wells Fargo Asset Management, with support from Universities Superannuation Scheme (USS) and Alfore XXI Banorte (one of the largest pension funds in Mexico).

Climate Action 100+ signatories held two meetings with the company over the period covered by this progress report. The second meeting focused on a detailed letter from the engagement coalition setting out expectations, assessing CEMEX's relative position against expectations, and asking for more clarity and commitments.

Engagement priorities with the company this year have included:

- Supporting CEMEX's new 2030 GHG reduction goal, including asking the company for more details on establishing interim milestones between 2030 and 2050, and the R&D investments necessary to achieve its goals.
- Suggesting that the company consider a more restrictive central scenario than the IEA's 2-Degree Scenario (2DS) in its target-setting process and to include an assessment of the impact this would have on its emissions reduction goals.
- With already strong board-level climate oversight practices in place, encouraging the company to disclose more to showcase this and provide more formulaic details on executive-linked pay to climate performance.
- Asking the company to disclose more information about its scope 3 emissions and supply chain management.
- Advocating for the company to issue a standalone TCFD report.

Progress to date has included:

- In February 2020, CEMEX committed to delivering net-zero CO_2 concrete by 2050. The company also set an enhanced target for 2030 consistent with science-based methods. Specifically, CEMEX increased its goal to reduce net CO_2 emissions 35% by 2030 (compared to 1990 levels), a 5% ratchet on its 2019 goal of 30% by 2030.
- CEMEX has tied its new GHG reduction targets to its CEO and top management variable compensation scheme.
- CEMEX reports against the TCFD framework via its 2019 Integrated Report and became one of only eight companies in Mexico and one of only 10 in the global construction sector to be an official supporter of the TCFD (as of March 2020).

Among other topics, engagement in 2021 may focus on continuing to seek improvements in CEMEX's climate-related disclosures where necessary, as well as holding further discussions on the company's plans for achieving its ambitious net-zero emissions by 2050 goal.

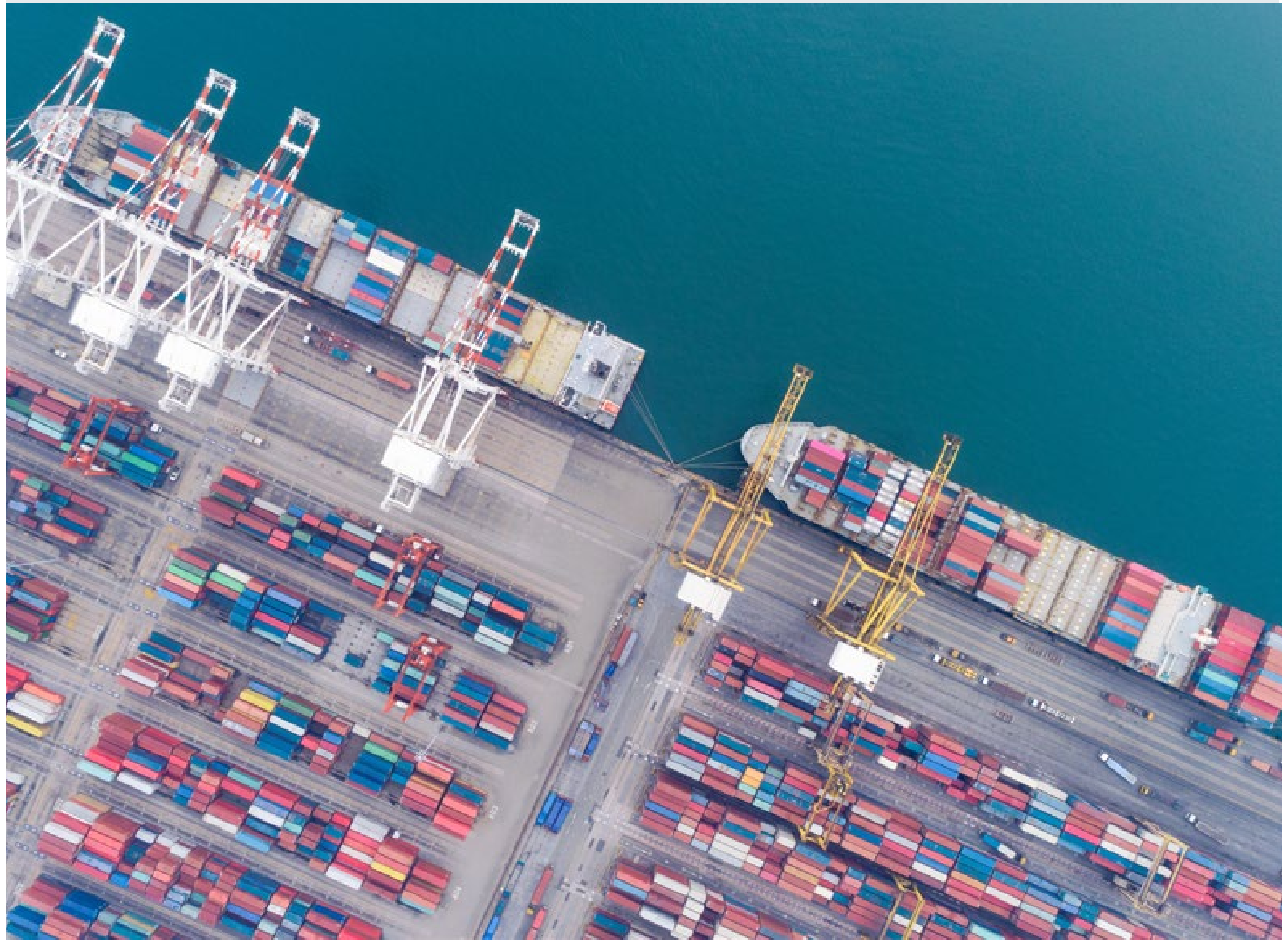
Photo: Björn Wylezich - stock.adobe.com

TRANSPORTATION SECTOR

TRANSPORTATION SECTOR

26
FOCUS COMPANIES

$1.3 TRILLION
MARKET CAPITALISATION[1]



There are 26 transportation companies on the Climate Action 100+ focus list. These include automobile and truck manufacturers, aerospace companies, airlines and shipping firms.

For the vehicle manufacturers (automobile and truck makers) and airplane manufacturers, the most material emissions sources are their downstream emissions (scope 3) due to fuel used in their products. These companies will need to increase vehicle and plane efficiency and shift to electrification and zero emission technologies over the next decade.

For airlines and shipping companies, the most material source of emissions comes from the use of fuel for transportation. These companies are generally considered 'hard to abate' – given the lack of cost-effective, readily-available technologies for these companies to decarbonise.

There is potential for significant reductions from marine shipping from improving efficiency in maritime vessels and adopting zero emission technologies, as well as the use of advanced biofuels.

Investors are engaging with airlines and aerospace companies to understand how they plan to manage transition risks including the likelihood of increased regulation and carbon pricing, as well as physical and reputational risks. Investors are also seeking to understand how carbon offsets and fleet upgrades will be used during the transition alongside R&D investments and commercialisation measures for low-carbon fuels and alternative propulsion technologies. Physical risk is an important issue particularly for airlines as a result of increased frequency of extreme weather events due to climate change that could impact airports, flight patterns, and other company assets. While COVID-19 has hit airlines and aerospace companies particularly hard, given the critical long-term implications of GHG emissions from the sector, investors are continuing to seek progress on these issues.

1 Source: Bloomberg, as at 30 November 2020.

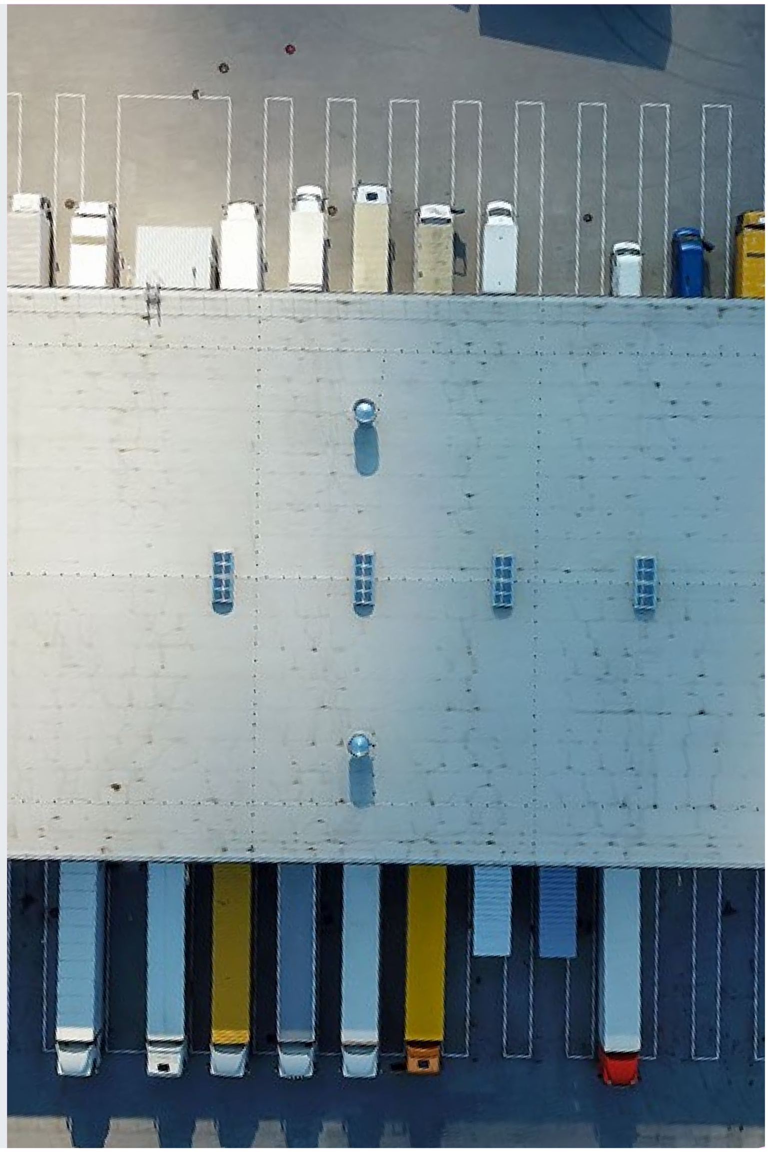
Investors engaging with automotive companies are seeking net-zero emissions across their value chain by or before 2050, while ramping up production of zero emissions fleets in the medium term. With an average 15 year product lifecycle, automotive companies will need to develop zero emissions fleets much earlier, as California committed to by 2035. Short-term objectives include committing to set science-based targets, investments in electrification and ICE improvements, remuneration incentives for executives linked to climate targets, and Paris-aligned lobbying, including by companies' industry associations.

Select progress by companies this year has included:

- **Qantas Airways Limited** became the first airline in the world to commit to net-zero emissions by 2050 in October 2019, alongside a $10 million investment in sustainable aviation fuels, and a pledge to double its offset program.
- **Delta Air Lines, Inc.** announced a commitment to carbon neutrality, to offset all its emissions from March 2020 onward, and a $1 billion investment to meet its goals.
- **Rolls-Royce** announced a commitment to net-zero emissions in its operations by 2030 (a science-based target) and to play a leading role in enabling the sectors in which it operates to reach net-zero emissions by 2050. It intends to publish a roadmap by the end of 2020 with interim targets to achieve these aims.
- In October 2020, **American Airlines Group Inc.** released an ESG report formally committing the company to net-zero emissions by 2050. The report also included a TCFD index for the first time.

TRANSPORTATION FOCUS COMPANIES

A.P. Moller - Maersk
Air France KLM S.A.
Airbus Group
American Airlines Group Inc.
Bayerische Motoren Werke Aktiengesellschaft BMW
Boeing Company
Daimler AG
Delta Air Lines, Inc.
Fiat Chrysler Automobiles NV
Ford Motor Company
General Motors Company
Honda Motor Company
Lockheed Martin Corporation
Nissan Motor Co. Ltd
PACCAR Inc
Peugeot SA
Qantas Airways Limited
Raytheon Technologies
Renault S.A.
Rolls-Royce
Saic Motor Corporation
Suzuki Motor Corporation
Toyota Motor Corporation
United Airlines Holdings, Inc.
Volkswagen AG
Volvo



CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Over a third (38%) of transportation focus companies have set net-zero emissions by 2050 targets or ambitions, and 19% of companies have set targets which cover material scope 3 emissions. Over half (27%) of companies have set medium-term targets, and four of five (81%) have set short-term targets. However as with other sectors, very few of these targets cover the full scope 1 and 2 emissions for the company (23% of companies for medium-term targets and 35% of companies for short-term targets). Less than one in five (4%) have medium-term targets that include their most relevant scope 3 emissions, and no companies have short-term targets that do.

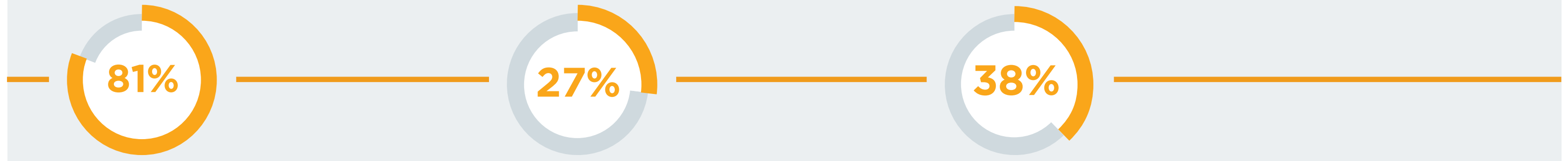
Nearly four out of five (77%) companies have clear board or board committee oversight of climate risks and half (50%) have a named position at the board level responsible for managing climate risks.

SHORT-TERM TARGETS
BENCHMARK INDICATOR 4.1

Percentage of companies that have set a short-term (2020 to 2025) target for reducing GHG emissions on a clearly defined scope of emissions.

NET-ZERO AMBITION
BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.



MEDIUM-TERM TARGETS
BENCHMARK INDICATOR 3.1

Percentage of companies that have set a medium-term (2026 to 2035) target for reducing GHG emissions on a clearly defined scope of emissions.

See Company Progress Review Summary for more details on these indicators.

77%

OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Capital allocation assessment indicators (cont)

2° Investing Initiative (2DII)

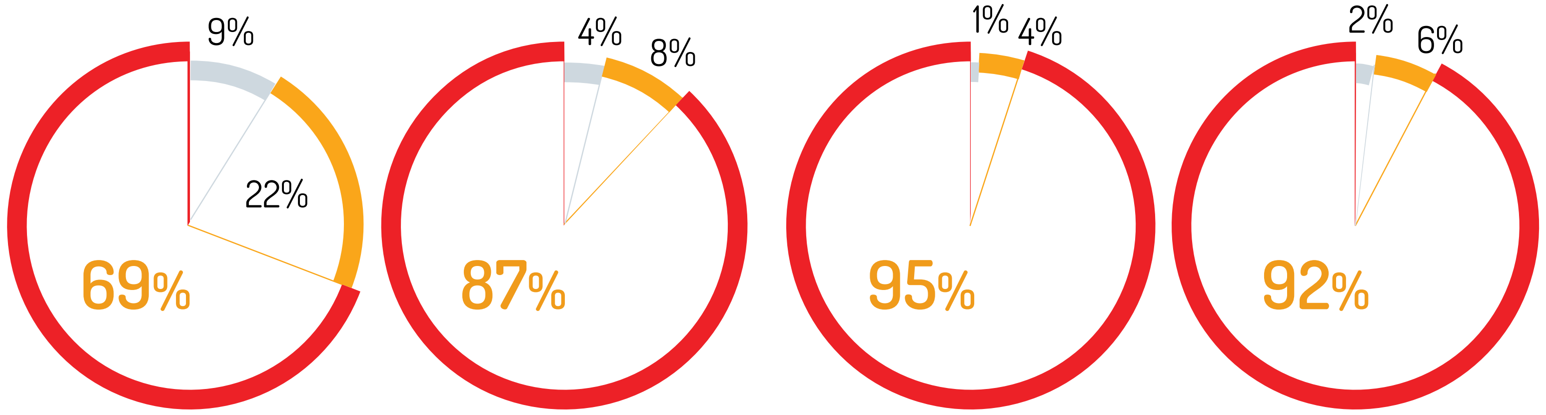
2DII assesses the current and future technology mix of automotive companies (the share of electric, hybrid and internal combustion engine vehicles) based on business intelligence and financial data providers, and assesses companies' alignment with climate change scenarios. This data is based on actual production plans of the automotive companies. This can therefore give an assessment of whether the automotive companies' stated ambitions reflect their currently known capital expenditure efforts to transition their vehicle production to lower carbon.

The table below shows the technology mix of automotive companies and assesses their planned production against the IEA B2DS. The data shows that production aligned with the IEA's B2DS scenario would see the share of electric vehicles rising to 9% of the auto sector's technology mix by 2025. The companies assessed are not aligned with this scenario, as only 4% of their planned production mix by 2025 is expected to be in electric vehicles. To align with the B2DS scenario automobile companies assessed will need to more than double their planned production of electric cars and almost triple their planned production of hybrid cars.

Planned and required (under a <1.75C° scenario[1]) automotive focus companies vehicle types

Actual 2019 and 2020 automotive focus companies' vehicle types

Required 2025 | Planned 2025 | Actual 2019 | Actual 2020



Electric • Hybrid • ICE

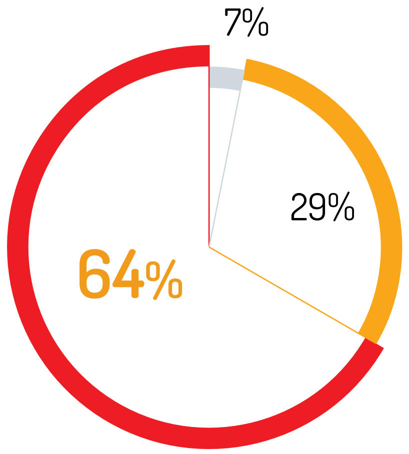
1 2DII uses AutoForecast Solutions data for the automotive sector.
2 2DII classifies 'above SDS' as being aligned with a climate scenario that sees over 2°C of warming.

> "To align with IEA's B2DS scenario automobile companies assessed will need to more than double their planned production of electric cars and almost triple their planned production of hybrid cars."

The chart below shows what percentage of auto companies are aligned with which IEA scenario in terms of their production of electric cars. The table shows whether these companies are aligned with IEA's B2DS, IEA's SDS, or above SDS.[2]

Auto focus companies scenario alignment

- Beyond 2° Scenario (<1.75°C)
- Sustainable Development Scenario (1.75°C-2°C)
- Above Sustainable Development Scenario (>2°C)



CASE STUDY

QANTAS AIRWAYS LIMITED

Qantas is an airline headquartered in Sydney and Australia's largest airline by fleet size. The Climate Action 100+ engagement has been led by AustralianSuper and supported by IGCC.

Engagement priorities for Qantas include:

- The company's long-term plans for decarbonisation and associated investments and activities, including its offset program.
- Short and medium-term targets typically associated with improvements in fuel efficiency and fleet upgrades.
- Scenario analysis including understanding financial implications of both transition risk and physical risk.

In late 2019, Qantas made a number of significant commitments:

- A target of net-zero emissions by 2050, making it only the second airline worldwide to do so.
- A commitment to cap emissions at current (2019) levels.
- Enhancements of its offset program, to effectively double the size of the program.
- A $50 million investment in sustainable aviation biofuels over the coming decade.

In 2020 Qantas also retired its Boeing 747 fleet, which were 20% less efficient than similar sized aircraft. It also signed on to a joint commitment with 12 other major airlines who are members of the oneworld airline alliance, which sets a goal of net-zero emissions across the alliance by 2050. oneworld is the only global airline alliance to make this commitment.

COVID-19 presented a significant challenge for Qantas during 2020 given the extensive domestic border closures between states, and the effective international border closure enacted by the Australian government to manage the pandemic. Due to this, less progress towards Climate Action 100+ goals occurred in 2020 than originally planned. However, it is expected that the engagement will resume as normal in 2021/22. Key priorities for the next two years will include: a) Qantas planned biofuels investments and how the airline plans to work with other stakeholders to advance this, b) enhanced scenario analysis, and c) linking business strategy with climate targets and capital investment.

Photo: Steve Mann - stock.adobe.com

CASE STUDY

ROLLS ROYCE

Rolls-Royce is a civil aerospace, power systems and defence company headquartered in the United Kingdom. The Climate Action 100+ engagement with Rolls-Royce has been led by EOS at Federated Hermes, along with seven collaborating investors.

Engagement has been influenced by the COVID-19 pandemic, in particular a significant drop in revenue due to reduced flying hours of planes using the company's engines. Rolls-Royce is seeking new fund raising via a recapitalisation package which includes a rights issue, a bond offering and a new term-loan facility.

Engagement has been ongoing and constructive with the company since 2017. Meetings have taken place with internal specialists, senior management and the chair of the board. There were three meetings with the company in the past 12 months including a visit to a production facility to meet with additional internal experts. At the company's 2020 AGM the leads welcomed the company's goal of net-zero emissions by 2050 and presented questions related to engagement priorities. The CEO reiterated the company's commitment to playing a leading role in enabling the sectors in which it operates to get to net-zero emissions by 2050 and that this must be a core part of the post-COVID recovery of aviation in particular.

Engagement priorities with the company this year have included:

1. Encouraging the setting of new interim emissions targets, including goals to address scope 3 emissions, aligned with net-zero emissions by 2050.
2. Seeking climate-related scenario analysis to be undertaken, disclosed and integrated into business planning.
3. Seeking enhancements to the company's climate-related financial disclosures.
4. Asking for the company to consider linking executive compensation to climate performance metrics.

Progress to date has included:

- Rolls-Royce continued to advance its reporting against the TCFD recommendations in its 2019 Annual Report, published in early 2020.
- In June 2020, Rolls-Royce announced a commitment to net-zero emissions in its operations and facilities by 2030 (a science-based target) and to play a leading role in enabling the sectors in which it operates to reach its net-zero emissions by 2050. The company indicated it would pursue several measures to reach its new targets, including:
  - Working with the fuels industry to increase the availability of lower-carbon alternative fuels.
  - Accelerating the development and deployment of disruptive new technologies (e.g. electric and hybrid technologies, and small modular nuclear power stations).
  - Producing technologies that could increase uptake of low-carbon energy (e.g. microgrids).
  - Using 100% renewable energy in its own operations.
  - Implementing closed-loop manufacturing techniques on high-value metals.

Engagement in 2021 will include assessing the company's plans to reach net-zero emissions and interim targets (in particular in a post-COVID recovery in the aviation industry), the integration of climate-related scenarios and goals into business planning, further improvements to climate-related disclosures, the integration of executive compensation with the net-zero pathway and the governance of direct and indirect policy advocacy.

Photo: Steve Mann - stock.adobe.com

CASE STUDY

FORD MOTOR COMPANY

Ford Motor Company (Ford) is a global automaker, headquartered in the US. The Climate Action 100+ engagement has been led by New York City Office of the Comptroller and New York State Common Retirement Fund and supported by Ceres.

Investors had more than six meetings with the company over the past 12 months, including a Ceres-convened roundtable. Additionally, investors filed a shareholder resolution on lobbying disclosure and delivered a letter outlining investor expectation on climate lobbying. Engagement priorities with the company this year have included:

- Increased long-term ambition.
- Lobbying and responsible policy engagement.
- Robust scenario analysis.

Over the past year, Ford has progressed in the following areas:

- In June 2020, Ford set a carbon neutral by 2050 target.
- In August 2020, Ford finalised a compromise agreement with California ('California Agreement') under which it agreed to comply with a standard stricter than the Trump Administration's vehicle emissions standard.
- In September 2020, Ford launched a new California ad campaign, voicing support for California's emissions standards and calling out rivals Chevrolet (GM), Jeep (FCA) and Toyota for siding with the Trump Administration.
- The company also signed onto the UN's Business Ambition for 1.5°C campaign and committed to set a science-based target for its scope 1, 2, and 3 emissions.

Engagement in 2021 will focus on further discussion of climate lobbying and related disclosures, including playing a constructive role in the development of post-2025 vehicle emissions standards, and any modifications to the Trump standards. Investors will also monitor the company's progress on setting a science-based target.

CONSUMER PRODUCTS SECTOR

The 14 consumer products focus companies engaged by Climate Action 100+ include retail, food and beverage, consumer products and paper companies.

For these companies the most material emissions depend on the composition of the firm but could include:

- Supply chain (scope 3) emissions from the purchase of materials or products for sale in retail stores, which could include agricultural emissions, industrial emissions, deforestation, other land-use change emissions, and emissions from waste;
- Transportation emissions both direct and indirect (via supply chains); and
- Electricity emissions for companies with a large retail footprint.

Investors engaging with these companies are asking them to set net-zero emissions by 2050 targets that include coverage of scope 3 emissions. Many of the focus companies in this sector source significant products via agricultural or forestry supply chains, so investors are seeking to understand how the companies intend to manage these risks. In turn many of these supply chains are exposed to physical risks from a changing climate so investors are asking companies to produce physical risk scenario analysis covering these value chains. Several companies in this sector also use significant electricity via large retail stores and/or operational facilities, so decarbonisation of electricity use via power purchase agreements or other renewable energy procurement projects is also a key priority.

CONSUMER PRODUCTS SECTOR

14
FOCUS COMPANIES

$1.9 TRILLION
MARKET CAPITALISATION[1]

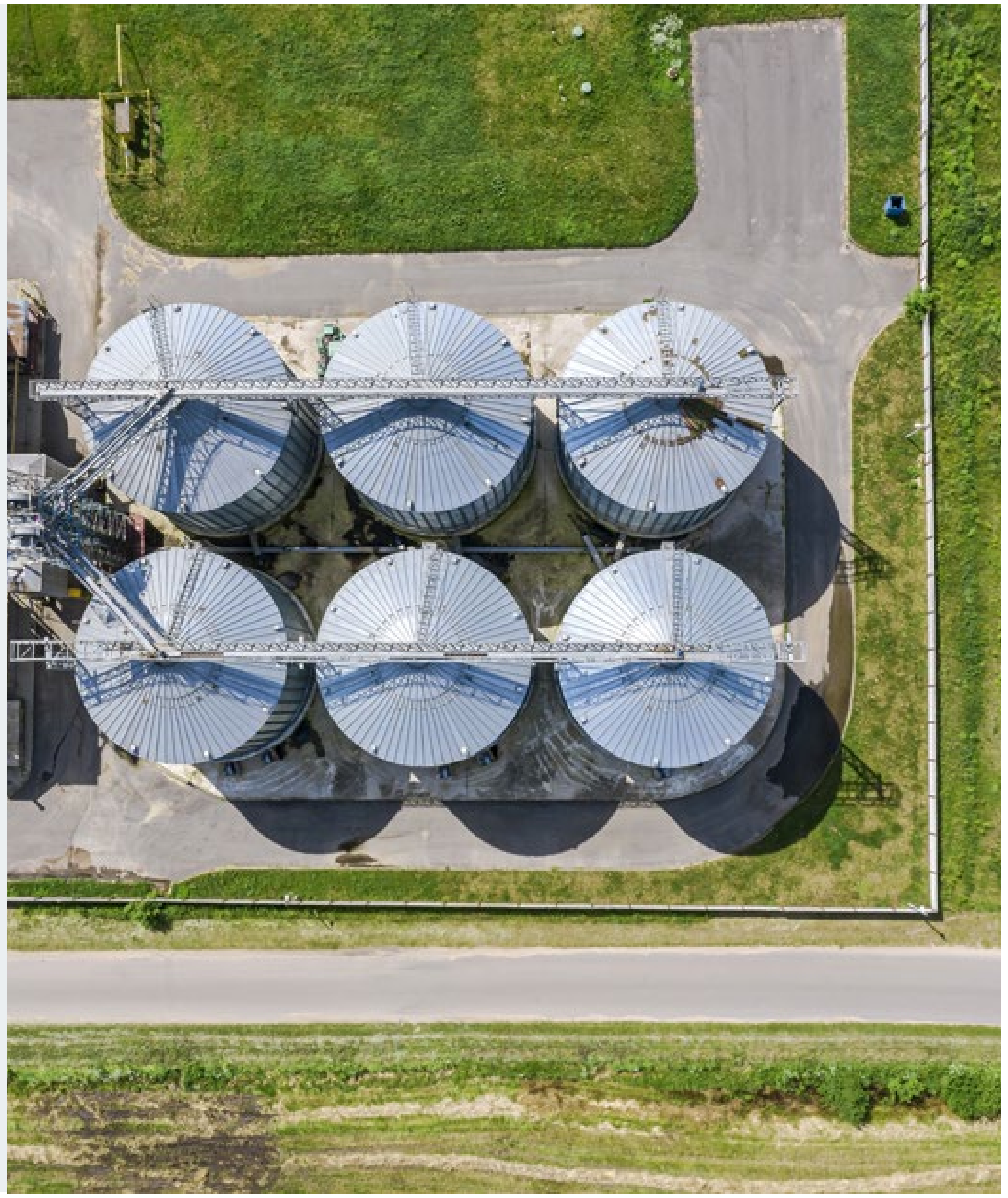
1 Source: Bloomberg, as at 30 November 2020.

A number of companies have made notable progress against Climate Action 100+ goals this year:

- **Coca-Cola Company** set a science-based target committing the company to reduce GHG emissions (including scope 1, 2, and 3) 25% by 2030 from a 2015 base-year.
- **Colgate-Palmolive Company** announced new sustainability targets, including a commitment to net-zero emissions by 2040.
- **Danone S.A.** committed to align its climate targets with a 1.5°C global warming trajectory across its operations and value chain.
- **PepsiCo, Inc.** committed to 100% renewable energy for all direct US operations by the end of 2020 and signed the UN's Business Ambition for 1.5°C commitment.
- **Unilever PLC** committed to net-zero emissions from all of the company's products by 2039.
- **Walmart, Inc.** announced a new target to achieve net-zero GHG emissions by 2040 (scope 1 and 2). As part of this the company will protect, manage or restore 50 million acres of land and 1 million square miles of ocean by 2030.
- **Woolworths Group Limited** committed to net-zero emissions by 2050 and set a science-based target to reduce absolute operational emissions by 63% and to reduce scope 3 emissions by 19% by 2030 from a 2015 base year.

CONSUMER PRODUCTS FOCUS COMPANIES

Bunge Limited
Coca-Cola Company
Colgate-Palmolive Company
Danone S.A.
International Paper Company
Nestlé
PepsiCo, Inc.
Procter & Gamble Company
Suzano S.A.
Unilever PLC
Walmart, Inc.
Wesfarmers
Weyerhaeuser Company
Woolworths Group Limited



CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK

Disclosure indicators provided by TPI

The data presented here show sector level performance against a preliminary set of indicators from the Climate Action 100+ Net-Zero Company Benchmark.

Just under a third (31%) of focus companies in the consumer products sector have set a net-zero emissions target or ambition, and 12% have set a target that covers their most relevant scope 3 emissions. Over half of companies (57%) have set a short and medium-term emissions reduction target. As for the net-zero targets however only 14% of companies have included the most material scope 3 emissions in their short and medium-term targets respectively. Nearly all (93%) of these companies have clear board or board committee oversight of climate change risks, and half have named a specific board member who is responsible for managing climate risks.

SHORT-TERM TARGETS
BENCHMARK INDICATOR 4.1

Percentage of companies that have set a short-term (2020 to 2025) target for reducing GHG emissions on a clearly defined scope of emissions.

57%

MEDIUM-TERM TARGETS
BENCHMARK INDICATOR 3.1

Percentage of companies that have set a medium-term (2026 to 2035) target for reducing GHG emissions on a clearly defined scope of emissions.

57%

NET-ZERO AMBITION
BENCHMARK INDICATOR 1.1

Percentage of companies that have set a net-zero target or ambition for reducing 100% of GHG emissions by 2050 on a clearly defined scope of emissions.

31%

See Company Progress Review Summary for more details on these indicators.

93%

OF COMPANIES PROVIDED EVIDENCE OF BOARD OR BOARD COMMITTEE OVERSIGHT OF THE MANAGEMENT OF CLIMATE CHANGE RISKS

BENCHMARK INDICATOR 8.1

CASE STUDY

UNILEVER PLC

Unilever is a multinational consumer goods company headquartered in London, United Kingdom. The Climate Action 100+ engagement with Unilever is led by CCLA, along with six additional collaborating investors. The group was originally led by APG Asset Management until September 2020. Majedie Asset Management also engages Unilever as part of Climate Action 100+ on an individual basis.

Climate Action 100+ signatories in the engagement group held three meetings with Unilever over the period covered by this progress report. This included meetings with Unilever's Reporting and Sustainability staff, where investors worked together with the company to press for strategies that could create cross-sector change.

Engagement priorities with the company this year have included:

- Expanding and improving Unilever's TCFD reporting, including the metrics used.
- Amplifying, supporting, and encouraging the company's leading practices on managing climate risks and opportunities.
- Using Unilever's approach to climate change to create wider sector change.

Progress to date has included:

- Unilever's June 2020 commitment to achieve net-zero emissions from all its products by 2039, which builds upon its previous science-based target to reduce scope 1 and 2 emissions 100% by 2030. To achieve its scope 3 target, Unilever said it would prioritise partnerships with suppliers who have set science-based targets. All Unilever packaging will show the carbon footprint of the product in the future.
- Unilever's goal to make all product formulations biodegradable and achieve a deforestation-free supply chain by 2023. The company said it will use several digital technologies to increase traceability and transparency within its supply chain, as well as introduce a new Regenerative Agriculture Code for all its suppliers.
- Unilever's announcement that the company will establish a new Climate & Nature Fund, initially capitalised by a €1 billion investment. Over the next 10 years, the fund will invest in projects such as landscape restoration, reforestation, carbon sequestration, wildlife protection and water preservation.
- Unilever reports in line with the TCFD recommendations via its annual reports and is also an official supporter of the TCFD.

Among other topics, engagement in 2021 may focus on continuing to draw insights from the company's leading practices to expand its positive impact across the sector. This might be done, for example, by highlighting the company's leadership as part of Climate Action 100+'s forthcoming workstreams on sector decarbonisation strategies. The coalition may also seek to secure a meeting with Unilever's CFO and encourage the company to make further improvements to its climate-related disclosures where necessary.

Photo: JHVEPhoto - stock.adobe.com

4

WHERE WE ARE MAKING PROGRESS

HOW WE'RE ENGAGING WITH COMPANIES REGIONALLY

CLIMATE ACTION 100+ ENGAGES WITH:

160
COMPANIES IN

32
MARKETS VIA FIVE REGIONAL WORKING GROUPS

AIGCC-PRI ASIA WORKING GROUP UPDATE

The Asia Working Group is co-convened by the AIGCC and the PRI. It includes Asian, European, Australian and US investors who are interested in engaging with a diverse group of 32 Asian focus companies.

STRATEGIC ACTIVITIES IN 2020

This year the Working Group has:

- Expanded the Asia Advisory Group, its strategic advisory body, to include more Asian investor representatives.
- Convened webinars and workshops covering topics including: Asian automotive companies, power and utilities company updates with Carbon Tracker Initiative, lobbying practices of Japanese industry associations with InfluenceMap, and a strategy session on engagement tools and escalation in Asian markets.
- Delivered an in-person workshop in Beijing which covered investor engagement strategy and best practice, analysis, and facilitated cross sector collaboration.
- Convened regular Working Group calls.

Progress in Asia in 2020 has been meaningful with many company engagements reaching senior levels of the organisation, and a number of net-zero emissions commitments arising from investor-company dialogues. Disclosure, including alignment with the TCFD, has improved quickly and there is more progress expected. The engagement approach pursued via the Asia Working Group; to partner Asia-based investors that can bring local and cultural knowledge with international investors which have significant engagement experience continues to prove successful. The move to online meetings due to COVID-19 presented a challenge in Asian engagements, as in-person meetings were the norm, however many engagements have resumed via digital platforms, and this has allowed greater participation of investors from the US and Europe.

The challenges in the region are also significant and complex. In many markets, the government's energy policy and NDCs under the Paris Agreement strongly influence the company's management of climate risk and its own emissions reduction targets which can curb ambition. For example, Chinese companies, especially Chinese state-owned enterprises (SOEs), are more policy-driven and lack incentives to change with no regulation in place. Notably in September 2020, the Chinese government announced a national target for net-zero by 2060, quickly followed by governments of Japan and South Korea publicly announcing commitments to net-zero by 2050. These announcements in the region will create additional opportunities for company engagements and galvanise companies into setting more ambitious targets. Where previously the government's energy policy was reliant on fossil fuels, this has hindered companies' decarbonisation plans.

These announcements follow recent trends with Japanese and Korean financial groups having pledged to cease financing new coal projects, already changing the short and medium-term financing options for coal power in key Asian markets. The role now for investors is to follow up with companies on how they intend to implement these policies and see progress in annual engagements.

Engagement with regional policy makers and recruitment of more local investors will continue to be priorities in 2021, as well as better understanding the decarbonisation plans for companies that are targeting net-zero emissions.

> “Progress in Asia in 2020 has been meaningful with many company engagements reaching senior levels of the organisation, and a number of net-zero emissions commitments arising from investor-company dialogues.”

Thank you to the Asia Advisory Group for their work to support Climate Action 100+ in Asia in 2020

Amar Gill, Managing Director and Head of Investment Stewardship for Asia Pacific, **BlackRock**

Anne Simpson, Managing Investment Director, Board Governance & Sustainability, **CalPERS**

Ben Pincombe, Head of Stewardship, Climate Change, **PRI**

Crystal Geng, Head of Group ESG, **Ping An Insurance (Group) Company of China**

Hiroshi Komori, Senior Director, Head of Stewardship and ESG, Public Markets Investment Department, **Government Pension Investment Fund (GPIF)**

Srinivas Jain, Executive Director & Chief of Strategy, Digital & Technology, **SBI Funds Management Private Limited**

Rebecca Mikula-Wright, Executive Director, **AIGCC**

Richard Pan, Managing Director, Head of QFII Investment, Head of International Business, **China Asset Management Co Ltd**.

Seiji Kawazoe, Senior Stewardship Officer, **Sumitomo Mitsui Trust Asset Management**

Sophia Cheung, CIO, **Cathay Financial Holdings**

FOCUS COMPANIES ENGAGED BY THE AIGCC-PRI WORKING GROUP

FOCUS COMPANIES BY MARKET

FOCUS COMPANIES BY SECTOR

9 MINING AND METALS

3 ELECTRIC UTILITIES

5 TRANSPORTATION

6 INDUSTRIALS

9 OIL AND GAS

CERES NORTH AMERICA WORKING GROUP UPDATE

The Ceres North America Working Group engages with 32 companies. Participating investors span multiple regions, with the largest numbers coming from the US as well as Canada, Europe and Asia.

In 2020, the working group has:

- Established four new sector working groups focused on oil and gas refiners, oil and gas midstream, electric power (utilities), and transportation.
- Launched a bi-monthly newsletter to provide sector and engagement topic updates to investors.
- Supported investor escalation strategies, including a build-the-vote roadshow for 10 Climate Action 100+ flagged shareholder resolutions.

Climate Action 100+ engagement has been conducted against a challenging backdrop. The US has experienced significant economic, social and political upheaval during 2020, and a very high number of COVID-19 infections. Restrictions and lockdowns have led to economic challenges for companies and investors. Additionally, the physical impacts of climate change have been evident in North America, with major wildfires burning millions of acres of land throughout the Western US, Mexico and Canada, and an extremely active Atlantic hurricane season that broke records for the number of US named storm landfalls.

Despite this, investors have continued to press companies to address the systemic risk of climate change. While some engagements have slowed due to COVID-19, many were able to resume online. In some cases, lack of in-person AGMs prevented investors from being able to make planned statements. As in previous years, shareholder resolutions have been filed with companies that refuse to engage with investors through Climate Action 100+.

The electric utility sector has made significant progress this year, with most companies setting net-zero emissions targets. Many companies have also accelerated their decarbonisation plans with more ambitious interim emissions reduction targets. Additionally, a number of oil and gas companies have started to write down assets that are no longer aligned with their long-term decarbonisation plans and have announced new investments in renewables and carbon offsets.

CERES SECTOR EXPERTISE

Thank you to the Ceres sector experts for their support of Ceres-led engagements in North America:

Andrew Logan, Senior Director, Oil and Gas

Dan Bakal, Senior Director, Electric Power

Dan Seligman, Director, Energy Efficiency

Carol Lee Rawn, Senior Director, Transportation

Meryl Richards, Ph.D., Director, Food and Forests

Tracey Cameron, Senior Manager, Corporate Climate Engagement

The policy landscape was also challenging for engagements in the US. Regulatory rollbacks led by the current US Federal Administration (the Trump Administration) removed many of the country's major climate and environmental policies, including limits on carbon dioxide emissions from power plants. Despite the regulatory rollback, declining demand for coal by electric utilities is being driven by the economic advantages of lower carbon emitting fuels, including renewables. The Trump Administration dismantled measures to reduce GHG emissions from cars and trucks. The new fuel economy and GHG emissions rules drastically reduce requirements for increased fuel economy and reduced emissions by 2025 from approximately 5% improvement per year down to a minimal 1.5% improvement per year. The Trump Administration also revoked state authority to set more stringent standards.

In November, Joe Biden and Kamala Harris won the 2020 US Presidential Election. The new Administration is likely to drive a significant shift in US climate policy. Under a Biden Administration, the US is expected to rejoin the Paris Agreement and set a country-wide target of 100% clean energy by 2035. The Biden Administration also intends to reverse many of the Trump Administration regulatory rollbacks on environment and climate policy and make a historic $2 trillion investment in the transition to net-zero by 2050.

Investors in the Climate Action 100+ engagement group will look to capitalise on the momentum created by the expected shift in domestic climate policy and use this to encourage more ambition from focus companies in the US.

FOCUS COMPANIES ENGAGED BY THE CERES NORTH AMERICA WORKING GROUP

FOCUS COMPANIES BY MARKET

FOCUS COMPANIES BY SECTOR

10 ELECTRIC UTILITIES

14 OIL AND GAS

3 TRANSPORTATION

5 OTHER

IGCC AUSTRALASIAN WORKING GROUP UPDATE

The IGCC Australasian Working Group includes just over 60 investors from Australia, Europe and Asia. It engages with 13 companies listed on the Australian Stock Exchange (ASX).

During the reporting period this group has:

- Delivered two investor roundtables on physical and transition risk.
- Delivered webinars on topics including science-based targets, regional oil and gas transition pathways, and briefings on reports from Carbon Tracker Initiative, InfluenceMap, and Transition Pathway Initiative.
- Established an oil and gas working group for the Australasian region to focus particularly on issues related to gas.
- Run bi-monthly working group calls and held an in-person planning day in Melbourne in February 2020.

More than half (62%) of the companies engaged in this region have now announced a target or ambition to reach net-zero emissions by 2050, and all of the companies in this region are now producing reporting aligned with the recommendations of the TCFD. Many companies are now producing disclosures on trade association memberships including assessments of alignment with internal climate policies. Two of the focus companies have set a science-based target approved by the SBTi.

However, while the trend towards long-term decarbonisation is promising, Australian focus companies currently lack detail on the scope of these targets, particularly whether they cover material sources of scope 3 emissions. Companies are also continuing to support trade associations that engage in problematic climate lobbying without clearly articulated escalation and exit plans. The role of natural gas in Australia's export future and energy mix is an issue that Australian investors are keenly focused on particularly in light of significant asset write downs in this sector in 2020, changing gas demand dynamics globally and the improving economic proposition of alternatives including renewables and batteries.

The impacts of COVID-19 as in other regions have been challenging. Extensive domestic and international border closures and lockdowns in Australia have affected company priorities and made engagement more difficult. An uptick in fossil fuel lobbying and the 'gas fired recovery' proposed by the Australian Federal Government has also been a factor influencing engagement on the role of Australian gas. Investors continue to push for climate change as a critical priority for companies and will continue to call for increased ambition in 2021.

Priorities for the next phase of engagement will include: calling for more short, medium- and long-term targets aligned with net-zero emissions by 2050 trajectories, engaging with companies to understand detailed sector decarbonisation strategies including planned capex, scope 3 emissions, physical risk assessments, and trade association disclosures and policies.

FOCUS COMPANIES ENGAGED BY THE IGCC AUSTRALASIAN WORKING GROUP*

FOCUS COMPANIES BY SECTOR

TRANSPORTATION	1
MINING AND METALS	4
INDUSTRIALS	2
OIL AND GAS	3
ELECTRIC UTILITIES	1
CONSUMER PRODUCTS	2

* Two of these companies are also engaged by the IIGCC Europe Working Group.

IIGCC EUROPE WORKING GROUP UPDATE

The IIGCC Europe Working Group engages with 46 European companies in 15 countries.

In the reporting period the working group has:

- Run roundtables with companies and investors on the decarbonisation of the steel sector, a net-zero standard for the oil and gas sector, nature-based solutions, heavy duty vehicle decarbonisation, CCS, and hydrogen.
- Run quarterly sector updates and strategy meetings for the oil and gas, mining, power, cement and chemicals sectors.
- Established an Advisory Group, comprised of investors, to provide additional guidance to the IIGCC Corporate team.

Nearly half of the companies engaged by the IIGCC Europe Working Group have now set a net-zero emissions by 2050 target. While these are of varying degrees of detail and coverage, the trend towards decarbonisation ambitions is promising and there are more companies setting scope 3 targets where these are material emissions. There is also an uptick in companies that have set a science-based target, and improvements in corporate disclosure on climate lobbying.

As in other regions, engagement with state-owned firms has been challenging. The European group is also engaging across a range of different legal jurisdictions, which can present complexities in exercising shareholder rights.

IIGCC EUROPE WORKING GROUP UPDATE

In 2021, the group intends to:

- Develop a net-zero emissions standard for the oil and gas, utilities, steel, and trucks and automobile sectors.
- Develop additional guidance for investors on escalating engagement and using a range of engagement tools to achieve outcomes.
- Further engage with companies on the Climate Action 100+ Net-Zero Company Benchmark and seek new commitments to disclose against it.

> "Nearly half of the companies engaged by the IIGCC Europe Working Group have now set a net-zero emissions by 2050 target."

FOCUS COMPANIES ENGAGED BY THE IIGCC EUROPE WORKING GROUP

FOCUS COMPANIES BY MARKET

*Two of the companies are also engaged by the IGCC Australasia Working Group

FOCUS COMPANIES BY SECTOR

- 4 CONSTRUCTION MATERIALS
- 8 INDUSTRIALS
- 9 MINING AND METALS
- 10 OIL AND GAS
- 7 TRANSPORTATION
- 13 ELECTRIC UTILITIES

PRI GLOBAL WORKING GROUP UPDATE

The PRI Global Working Group is comprised of 39 companies within 16 countries. Investors engaging these companies come from multiple regions, with the largest numbers coming from Europe and the US.

This year, the PRI Global Working Group:

- Built on existing work with smaller, sector-level working groups focused on sharing experiences and best practices among lead investors engaging Aviation and Food, Beverage and Forestry companies.
- Launched a new working group for lead investors engaging state-owned oil and gas companies.
- Ran investor webinars on decarbonisation strategies within the aviation sector, oil and gas sector, and pulp, paper and timber sector.
- Conducted quarterly webinars with all investors engaging companies in the working group.
- Produced the first-ever Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies, which was initially signed by 122 institutional investors with nearly $6 trillion in AUM.
- Ran two recruitment webinars for investors in Latin America.

The companies engaged by the PRI Global Working Group have made meaningful but mixed progress this year. To date at least 17 companies have committed to net-zero emissions by 2050 or sooner in some capacity, and there has also been an increase in TCFD-aligned disclosures and climate governance commitments by companies. Notably companies engaged in Latin America have made meaningful progress this year, despite early obstacles. Eight engagements in the region are now underway (PEMEX, Grupo México, Grupo Argos S.A., CEMEX, Ecopetrol, Vale, Suzano and Petrobras). Three new Latin American investor signatories have joined, adding to the local knowledge and engagement capacity in the region.

> "The companies engaged by the PRI Global Working Group have made meaningful but mixed progress this year. To date, at least 17 companies have committed to net-zero emissions by 2050 or sooner in some capacity, and there has also been an increase in TCFD aligned disclosures and climate governance commitments."

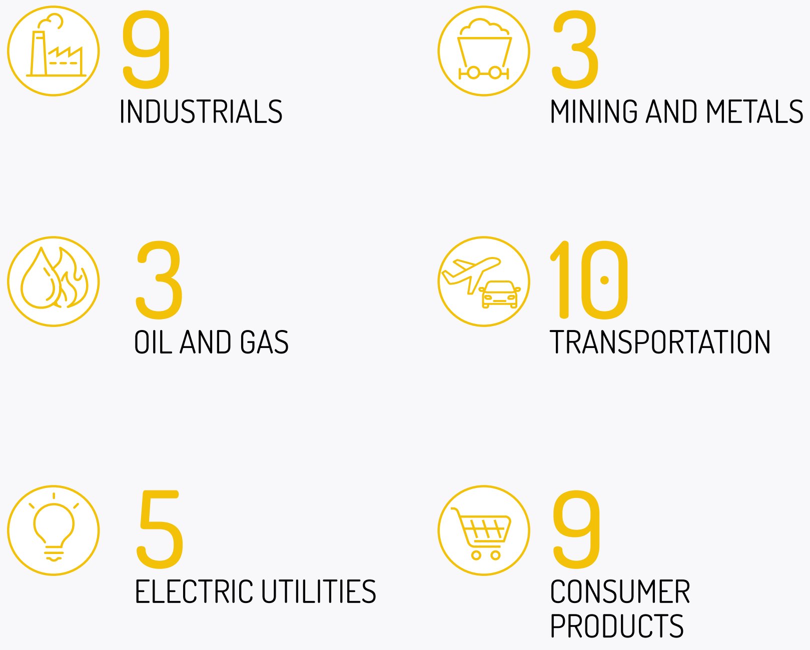
Given the global nature of this group, the challenges of engagement are varied. State-owned companies continue to be a challenge for investors to engage, and several existing company commitments could stand to be more robust and ambitious. The COVID-19 pandemic has also made engagements with aviation firms more challenging, in particular due to the pandemic's sweeping impact on tourism and travel.

In 2021, the group will focus on providing and developing additional guidance to address the challenges faced in engaging some of the companies in this cohort (particularly aviation) and will seek to leverage the Climate Action 100+ Net-Zero Company Benchmark to push for more ambition and new commitments. It will also seek to accelerate some engagements that took more time and resources to establish.

FOCUS COMPANIES ENGAGED BY THE PRI GLOBAL WORKING GROUP

FOCUS COMPANIES BY MARKET

FOCUS COMPANIES BY SECTOR



5

KEY ISSUES IN 2020

TOWARDS NET-ZERO EMISSIONS BY 2050

The climate science is clear on the need to reach net-zero global GHG emissions by mid-century in order to limit global warming to 1.5°C and to avoid the most devastating impacts of climate change to communities and the natural world.

These commitments matter to investors for several important reasons, including that they:

- Provide a long-term market and policy signal.
- Reduce regulatory uncertainty.
- Improve profitability and competitiveness.
- Create opportunities for partnership and innovation.
- Provide confidence to investors that companies are working towards addressing climate risks.

There are a number of challenges that investors will be working with companies to address. Firstly, the need for clear standards in the setting of net-zero targets by sector. For example, the majority of net-zero targets in the oil and gas sector do not include coverage of the companies' scope 3 product emissions which are the sector's most material source of emissions. While some companies state that they have poor control of the end-use of their product, value chain risks are high as the global community moves to a lower-carbon future.

Investors are also looking for more than a long-term target. They want to see companies set interim targets that set a clear glide pathway from 2020 to 2050 with ambitious emission reduction milestones along the way, such as a 45% emissions reduction by 2030 as per the IPCC SR.15.

Investors are conscious that for many companies the transition to net-zero emissions will require a fundamental transformation. For example, some companies may transition from being fossil fuel companies to those specialising in renewables or carbon capture and storage. This will have a number of follow-on effects including site closures, staffing changes, new investments, and new skill sets or training for employees. Investors seek to understand how the company is planning for these changes and how it will manage the impact of these adjustments on communities and employees.

Finally, investors want to see that companies are aligning current and planned capital investments with their long-term decarbonisation goals. Many companies are still investing in long-life, carbon intensive (for example fossil fuel) projects which may represent a stranded asset risk in the medium and long-term for the company and its investors. Understanding how companies are making capital allocation decisions, and under what scenarios or methodologies is critical to evaluating whether a company is aligning its business and investments to a net-zero emissions future.

FOCUS COMPANIES WITH NET-ZERO EMISSIONS TARGETS

A.P. Moller - Maersk
AGL Energy Ltd
American Airlines Group Inc.
Anglo American
ArcelorMittal
Bayer AG
Bayerische Motoren Werke Aktiengesellschaft BMW
BHP
BP
CEMEX S.A.B. de C.V.
Centrica
Colgate-Palmolive Company
ConocoPhillips
CRH
Cummins Inc.
Daikin Industries, Ltd.
Daimler AG
Danone S.A.
Delta Air Lines, Inc.
Dominion Energy, Inc.
Dow Inc
Duke Energy Corporation
E.ON SE
EDF
Enel SpA
ENEOS Holdings Inc
Ford Motor Company
General Electric Company
Honda Motor Company
Iberdrola, S.A.
Koninklijke Philips NV
National Grid PLC
Naturgy Energy
Nestlé
NRG Energy, Inc.
OMV AG
Panasonic Corporation
PGE - Polska Grupa Energetyczna S.A.
Procter & Gamble Company
Qantas Airways Limited
Repsol
Rio Tinto
Rolls-Royce
Royal Dutch Shell
RWE Aktiengesellschaft
Saint Gobain
Santos Limited
Siemens Energy
South32
SSE PLC
Teck Resources Limited
The Southern Company
thyssenkrupp AG
Total
Toyota Motor Corporation
Trane Technologies PLC
Unilever PLC
Vale
Volkswagen AG
Volvo
Walmart, Inc.
WEC Energy Group, Inc.
Woodside Energy
Woolworths Group Limited
Xcel Energy Inc.

WHAT ARE INVESTORS' EXPECTATIONS ON ROBUST NET-ZERO EMISSIONS AMBITIONS AND TARGETS?

Additional work is being done to set clear and specific standards for some sectors on net-zero emissions targets, however in general investors are looking for:

- Net-zero emissions target with a clear timeframe (e.g. 2050 or sooner).
- Clear scope and coverage of at least 95% of emissions for scope 1 and 2.
- Coverage of material scope 3 emissions.
- Short and medium-term science-based emissions reduction targets that align with the overall pathway to net-zero.
- Clear disclosure on the business changes required to achieve the targets. For example: personnel or business structure changes, new skill sets required for the board or executive, expected changes to or closures of operational sites or product lines, e.g. an end-date for production of ICE vehicles, or closure of mine sites or coal-fired power stations.
- Transition plans for workers and communities affected by business changes.
- Assessment of current and planned capital expenditure including underlying commodity price assumptions, modelling, methodologies and climate pathways that the companies have used to arrive at these decisions.

"Investors are looking for net-zero emissions targets which cover scope 1 and 2 emissions with coverage of material scope 3 emissions."

RECENTLY ANNOUNCED NET-ZERO TARGETS

The following companies announced new net-zero targets that have not yet been assessed by the initiative. These include:

- Enbridge Inc
- Imperial Oil
- Hon Hai Precision Industry Co.

TRADE ASSOCIATION LOBBYING IN 2020

An intense battle over Paris-aligned climate policy has continued to play out in 2020, heightened by the COVID-19 pandemic.

Industry players in fossil fuel value chain sectors have sought to leverage the COVID-19 crisis to secure financial support, project approvals and regulatory rollbacks on a global scale, with potentially long-lasting effects on efforts to mitigate climate change. At the same time, a slower-to-organise but much broader coalition of businesses has rallied behind a 'clean recovery'.

InfluenceMap's platform has tracked this evolving picture. It now covers nearly 300 companies and 150 industry associations with detailed assessments of these entities' climate change lobbying activities against science-based and Paris-aligned policy benchmarks.

We continue to see increased corporate support for climate policy ambition (evident in 75% of Climate Action 100+ focus companies covered by InfluenceMap's analysis). However, we also continue to see the industry associations representing these companies engage in problematic lobbying on climate. Over 80% of the same Climate Action 100+ focus companies remain members of industry associations holding back Paris-aligned climate policy.

Positive trends driven by investor engagement are beginning to challenge this picture, including increasing numbers of Climate Action 100+ companies undergoing industry association audits. Shareholder pressure has resulted in more robust responses from companies on the issue, for example, BHP and Origin's recent decision to suspend membership of the Queensland Resources Council in response to a campaign against a political party targeting voters in the Queensland State Election. There are early indications of reform amongst powerful industry associations once positioned in opposition to climate change policy.

Despite steps forward, 2020 has also highlighted the need for fact-checking of an increasing stream of disclosures, PR statements and high-level commitments from both companies and industry associations to check for alignment between statement and practice. While nominally positive, InfluenceMap's deep-dive assessments have shown that in numerous cases (e.g. the US Chamber of Commerce, the Minerals Council of Australia) such high-level communications are divorced from the ongoing detailed regulatory lobbying of the industry groups.

It is of note that Europe, where strong investor pressure has seen the highest number of Climate Action 100+ companies strengthen their climate lobbying governance and disclosure practices, has seen a shift towards more ambitious policy outcomes in 2020. The picture is very different in other regions. For example, Australia, where recent InfluenceMap analysis[1] found that industry lobbyists opposing Paris-aligned climate policy have an outsized influence over climate policy, has retained a focus on fossil fuels in its COVID-19 recovery measures.

Corporate sector influence on climate policy is also of critical importance in Japan, which is revising its Strategic Energy Plan to determine the path forward in light of the country's new 2050 net-zero ambition. Climate Action 100+ engagements in the country are currently using InfluenceMap analysis, released in August 2020. Investors are engaging both with companies and also directly with industry associations on climate in Japan.

This commentary was provided by Edward Collins of InfluenceMap.

> “We also continue to see the industry associations representing these companies engage in problematic lobbying on climate. Over 80% of the same Climate Action 100+ focus companies remain members of industry associations holding back Paris-aligned climate policy.”

1 See Influence Map report Australian Industry Groups and their Carbon Policy Footprint report here https://influencemap.org/report/Australian-Industry-Groups-And-their-Carbon-Policy-Footprint-c0f1578c92f9c6782614da1b5a5ce94f

JUST TRANSITION

The necessity for a just transition was written into the 2015 Paris Agreement to recognise that the transition to a low-carbon economy needs to be both fast and fair. Just transition incorporates consideration of the positive and negative impacts on employees and their communities and relates to both energy transition and ecological transition.

A just transition is crucial for companies and investors as it is interlinked with the systemic risk posed by delayed climate action. This contributes to the transition risks faced by companies, including their employees and social or legal licence to operate.[1] In recognition of the significant risks and opportunities that a just transition presents focus companies, the new Climate Action 100+ Net-Zero Company Benchmark will assess[2] whether focus companies disclose the impacts from transitioning to a lower-carbon business model on its workers and communities. Preliminary assessment criteria include whether the company has, for example:

- Disclosed its engagement with workers, communities and other stakeholders such as NGOs, union groups and local government actors, to assess the anticipated impacts of its low-carbon transition strategy and plans.
- Developed and disclosed a low-carbon transition strategy and plans to incorporate the specific recommendations of impacted workers and communities.

There is an ongoing effort to develop just transition indicators for incorporation into the Climate Action 100+ Net-Zero Company Benchmark, working with the London School of Economics, Harvard Kennedy School, International Trade Union Confederation alongside investor signatories to the initiative.

The transition to a net-zero emissions economy offers the opportunity to improve equity in access to economic opportunities, reduce social risks for both companies and their investors, and diminish negative health impacts related to a carbon-based economy.

Investor expectations related to just transition risks and opportunities for companies differ by sector and region. For example:

- Workers in electric utilities operating coal-fired power stations are vulnerable to permanent closure and may require retraining for new opportunities or early retirement packages.
- Oil and gas companies and mining companies have significant operations located in emerging economies. Closure of these facilities will have a flow-on effect to workers and local communities, including for Indigenous and First Nations communities.
- Auto manufacturers may relocate facilities for electric vehicles from other ICE assembly plants, impacting communities dependent on the employment and tax base of their operations.
- Food and consumer goods companies may transition due to physical impacts from climate, for example, crops once suitable to certain regions may no longer grow well due to changes in rainfall or accelerating desertification processes brought on by climate change.

WHY IS A JUST TRANSITION IMPORTANT?

Economist Nicholas Stern, Chair of the Grantham Research Institute on Climate Change and the Environment, said:

'We should see the just transition as part of the new story of inclusive, sustainable growth. This is a highly attractive economic model, with strong innovation and growth and able to overcome poverty in an effective and lasting way. But it requires us to manage the process of change in much better ways within modern market economies. We need to be organising for transitions in the plural including technologies, economic structures, cities and the international division of labour. And we must accelerate the pace of decision making if we are to respond to the urgency of climate change.'

1 Robins and Ridge (2019) "Why a just transition is crucial for effective climate action" https://www.unpri.org/download?ac=7092
2 Assessment indicators on just transition will be part of the 2022 benchmark, however will not be included in the initial 2021 company assessment.

HOW ARE COMPANIES RESPONDING TO THE CALL FOR A JUST TRANSITION?

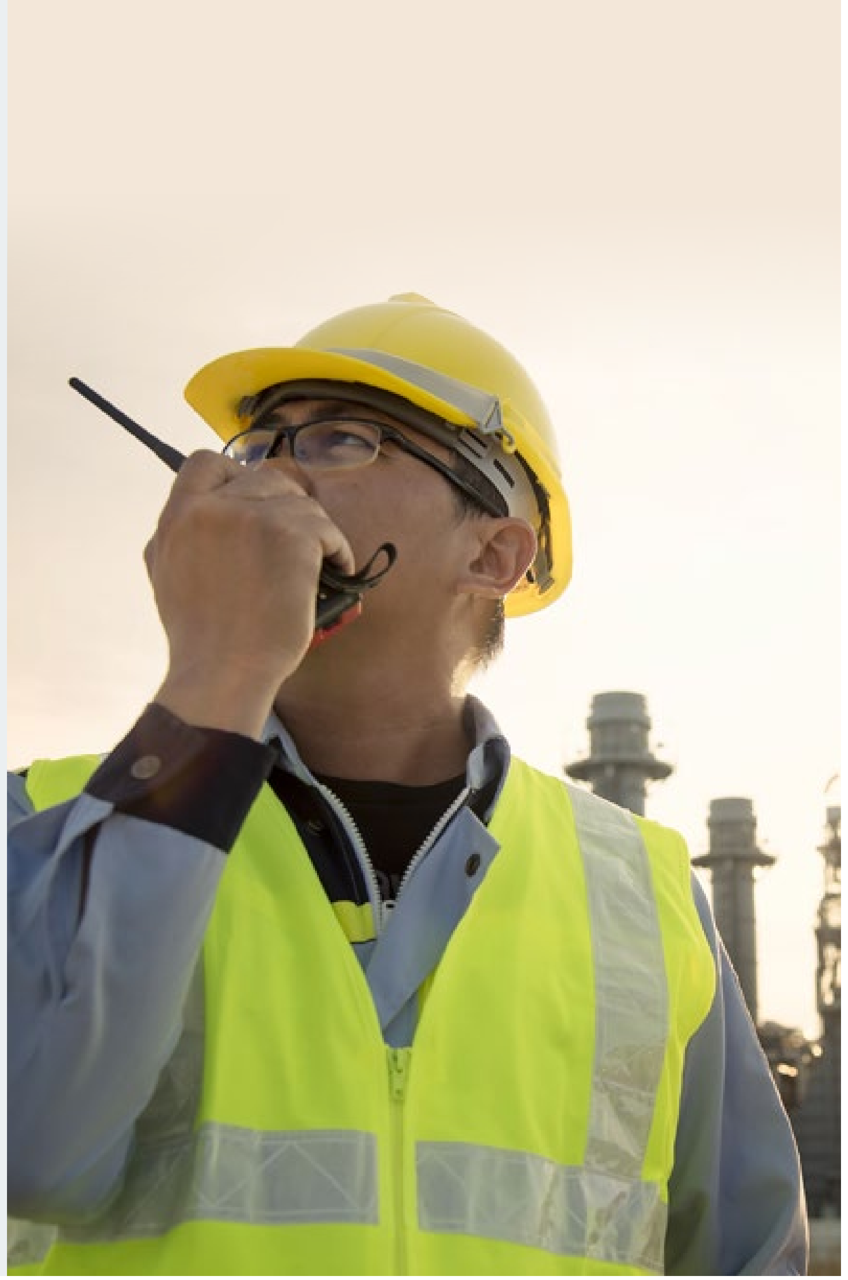
Globally, several companies are setting out plans to ensure a just transition for workers and communities. For example:

- Xcel Energy, when announcing the closure of three coal fired power stations in Minnesota in 2019, also announced plans for workers and the local community. The company had engaged with labour groups, unions, regulators and other key stakeholders. Their plan sees some workers retire early and others moving into new jobs created by the opening of a data centre.
- AGL Energy announced the closure of its Liddell Power Station located in the Hunter Valley in Australia with seven years notice and released a transition plan with clear principles for just transition including economic impact, employment and skills alignment. Working with a local organisation the Hunter Energy Transition Alliance, they intend to repurpose the current site and are engaging with community and stakeholders to ensure there is a clear transition plan for the site and the community.
- Vistra Energy provided advance notice of its planned closure of its Midwest coal fleet. They intend to use this time to work with impacted communities and employees to ensure transition plans are in place. It is yet to announce plans on how this will take place.

There are promising first steps of companies beginning to assess and manage just transition, but far more needs to be done. Investors will continue to engage to ensure this issue is a high priority for companies throughout the transition.

WHAT ARE INVESTORS DOING TO ADVANCE THE ISSUE OF JUST TRANSITION?

- Investors representing over $10 trillion in AUM have signed on to the Investor Statement of Commitment to Support a Just Transition on Climate Change.
- Interfaith Center on Corporate Responsibility's (ICCR) Investor Expectations on the Just Transition describes how investors are engaging with electric power companies to integrate distributional issues, especially those affecting vulnerable workers and communities.
- Presbyterian Church U.S.A., a signatory to Climate Action 100+, uses an engagement framework informed by the initiative as well as metrics to assess corporate impact on communities who have been historically marginalised. As part of its engagement, the fund's Responsible Investment Committee meets directly with residents impacted by corporate actions such as pollution and plant expansion, as in the case of Marathon Petroleum refineries in Detroit.
- The PRI released a report in 2018 called Climate Change and the Just Transition: A Guide to Investor Action. The guide draws on an international review of just transition approaches as well as an extensive dialogue with investors to provide a framework that can be applied both by individual institutions and collaborative initiatives.
- Ceres released a new report called Practices for Just, Equitable and Sustainable Development of Clean Energy Resources.
- IGCC released a report in 2017 called Coal Carbon and the Community: Investing in a Just Transition. An updated report will be released in early 2021.
- The PRI launched a Just Transition Working Group which is convened by the Acting Chair of Climate Action 100+, Laetitia Tankwe of Ircantec.



HOW WE ARE GOVERNED

> The initiative is governed by a global Steering Committee (SC) composed of the five investor network CEOs and five investor signatories representing the regional focus of each investor network.

HOW THE INITIATIVE IS GOVERNED

Climate Action 100+ is led by signatory investors and coordinated by the five investor networks (AIGCC, Ceres, IGCC, IIGCC, and PRI). The initiative is governed by a global Steering Committee (SC) composed of the five investor network CEOs and five investor signatories representing the regional focus of each investor network.

The governance of the initiative is supported by a series of standing and project-based working groups that advance key activities and coordinate strategic projects. These working groups are tasked with ensuring that cross-initiative elements of Climate Action 100+ are delivered. The working groups are comprised of staff from the five investor networks and representatives from the SC. This year working groups have included: the Governance Working Group, the Fundraising Working Group, the Communications Working Group, the Engagement Coordination Working Group, and the Strategic Projects Working Group. Company engagement is cross-coordinated by regular calls between investor network staff.

In 2020, the initiative has:

- Developed and launched the Climate Action 100+ Net-Zero Company Benchmark, an assessment of company progress to align with both the initiative's goals as well as the Paris Agreement.
- Created a new website with dedicated signatory resources.
- Launched a Signatory Handbook to improve the investor experience and provide additional support to investor signatories.
- Strengthened communication and transparency by engaging more regularly with key stakeholders including climate NGOs, issue experts, climate and economics researchers and financial regulators.

HOW MANY INVESTORS HAVE SIGNED ON TO CLIMATE ACTION 100+?

THE INITIATIVE HAS

545

SIGNATORIES AS AT 30 NOVEMBER 2020

Signatory assets under management total **$52 trillion** USD. The initiative has seen **143%** growth since launch.

The initiative continues to attract new investor signatories. Notably three of the top 20 asset managers (Blackrock, Invesco, and State Street Global Asset Management) joined the initiative.

HOW ARE SIGNATORIES PARTICIPATING?

65%

OF SIGNATORIES ARE PARTICIPANTS, 35% ARE SUPPORTERS

Participants in Climate Action 100+ are required to join at least one engagement group and actively contribute to company engagement. Supporters of the initiative must be asset owners (asset managers can only join as participants) and are required to encourage their asset managers to join the initiative to engage on their behalf.

- **267 signatories are asset managers**
- **273 signatories are asset owners**
- **15 are engagement service providers** who are formally representing assets and/or typically engage with companies directly.[1]

1 Many signatories are a combination of asset owners, asset managers, and service providers, and are therefore reflected in multiple categories.

SIGNATORY COMMUNICATION AND PROGRESS UPDATES

Over the past year, Climate Action 100+ hosted global webinars in December 2019 and July 2020 for signatories to provide updates on company engagement progress and share insights across the initiative. Both webinars featured engagement case studies presented by investors and updates on the initiative presented by investor network staff. The initiative also launched a Signatory Handbook and made a number of improvements to the signatory onboarding process.

In addition to the global working groups staffed by the coordinating investor networks, there are a number of regional working groups that are sector-specific and led by investors. These provide a forum for the exchange of engagement updates, sector trends and leading practices. Updates from the regional working groups and sector groups are covered in more detail on page 66.

CLIMATE ACTION 100+ AND SHAREHOLDER RESOLUTIONS

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

In 2020, the initiative developed a process for flagging resolutions that are filed by investor signatories and aligned with the Climate Action 100+ company engagement goals. Flagged resolutions are featured on the Climate Action 100+ website with information on the content for investor signatories.

When relevant climate resolutions are filed by external organisations such as NGOs, investors and coordinating investor networks may also share that information with the working groups as deemed relevant and appropriate (although they are not flagged).

WHAT IS A FLAGGED RESOLUTION?

Resolutions may be flagged by the initiative when they are deemed to be:

- Consistent with the goals of Climate Action 100+, directly addressing at least one aspect of the initiative's goals.
- Worded such that the request of management is considered reasonable and not burdensome.
- Complementary to existing engagement strategy as set out by the Climate Action 100+ collaborative engagement group for the company affected by the resolution.

HOW CLIMATE ACTION 100+ INTERACTS WITH POLICYMAKERS AND REGULATORS

Investors recognise that addressing climate risks in the global economy and in their portfolios requires a global transformation of which government and policymaker action is an important part. Other investor initiatives directly engaging on these issues include the Investor Agenda and the UN-convened Net-Zero Asset Owner Alliance.

For many companies engaged by the initiative, policy settings will be key to driving the transition. Investors will continue to advocate for:

- Appropriate and effective climate policy including carbon pricing.
- Regulations on company disclosure of climate risks and accounting.
- Investable policy frameworks for low-carbon and net-zero emissions investments.

> "Over the past year, Climate Action 100+ hosted global webinars in December 2019 and July 2020 for signatories to provide updates on company engagement progress and share insights across the initiative."

THE CLIMATE ACTION 100+ GLOBAL STEERING COMMITTEE

The Chair and Vice Chair role of the Steering Committee rotates every six months to a different investor network and region, with the investor representative acting in the Chair role and the investor network CEO from the same region acting in the Vice Chair role.

In 2020, there was one change to the membership of the Steering Committee, with Emily Chew stepping off the committee in April 2020. Her role as Asia investor representative has been filled by Seiji Kawazoe of Sumitomo Mitsui Trust Asset Management.

October 2019 – March 2020

Emily Chew, formerly of Manulife Investment Management

Rebecca Mikula-Wright, Asia Investor Group on Climate Change

April 2020 – September 2020

Andrew Gray, AustralianSuper

Emma Herd, Investor Group on Climate Change

October 2020- (to March 2021)

Laetitia Tankwe, Irantec

Fiona Reyonds, PRI

UPDATES TO THE CLIMATE ACTION 100+ FOCUS LIST

The Climate Action 100+ Steering Committee agreed that in 2020 it would be prudent to review the focus list of companies and consider limited changes to refresh the list based on the original selection criteria. As a result, two companies have been removed from the focus list and nine companies have been added; thus a net increase of seven companies.

Company removals are only considered where there is a significant corporate action or other material change to the company that substantially changes the potential of a Climate Action 100+ engagement with the company.

The following companies were removed under this criteria:

Wesfarmers	The company had a demerger with its major supermarket chain asset and all of its coal assets, rendering it a substantially different company than when it was initially added to the focus list in December 2017.
Southern Copper Corporation	Company is to be replaced with its parent organisation (Grupo México which has been added to the focus list.)

A number of companies were also added. These were all assessed against the original criteria for inclusion on the Climate Action 100+ focus list, meaning companies must either be a significant emitter and/or have significant opportunities to drive a broader clean energy economic transition. Investor signatories have now initiated engagement with all of these companies.

Company	Country	Sector
Incitec Pivot	Australia	Industrials
Saudi Arabian Oil Company (Aramco)	Saudi Arabia	Oil and gas
Ultratech Cement	India	Industrials
Grupo Argos S.A.	Colombia	Industrials
Grupo México	Mexico	Metals and mining
Orica	Australia	Industrials
Oil Search	Papua New Guinea/ Australia	Oil and gas
Petróleos Mexicanos - PEMEX	Mexico	Oil and gas
Uniper	Germany	Utilities

These companies are not included in the company progress data or other updates presented in this report.

COMPANIES WITHOUT LEAD INVESTORS IN 2020

One of the roles of the coordinating investor networks is to appoint lead investors and establish engagement groups for each focus company.

While the majority of company engagements in the initiative have complete engagement groups, several are yet to appoint a lead investor. Where companies are headquartered in emerging markets it has been more challenging to find investors to lead engagements. This is likely due to ESG engagement being newer or less established in some markets, and due to lower numbers of local signatories who tend to bring substantial cultural, language and local market skills and knowledge to engagements.

In 2020, there are three Climate Action 100+ focus companies that are not formally being engaged due to the lack of a lead investor. These are: ANTAM, United Tractors, and ESKOM Holdings SOC Limited.

SUPPORTING EFFECTIVE ENGAGEMENT TEAMS

The individual company engagement teams across Climate Action 100+ are investor led, while the coordinating investor networks provide support through:

- Engagement groups.
- Onboarding of new investors.
- Providing additional investors or external expertise to support engagement priorities.
- Topical webinars and sector working groups.
- Cross-regional meetings to progress engagement.

Lead investors and investors engaging with companies individually must disclose their engagement goals to the coordinating investor networks through a bi-annual engagement survey. Through this process, they recap recent progress and outline their engagement plans and priorities over the ensuing 12 months to ensure strong and concerted action.

PRIORITIES FOR 2021

While more Climate Action 100+ focus companies are increasing their decarbonisation ambitions and setting targets for net-zero emissions by 2050, there are huge and persistent gaps in company action.

For all companies to achieve the goals of the initiative, it will require transformation at the heart of most of these businesses.

Signatory investors supported by the coordinating investor networks will focus on a number of strategic priorities to accelerate corporate action on climate change in the next phase of the initiative. High-level priorities globally for 2021 are:

1. Company engagement on the Climate Action 100+ Net-Zero Company Benchmark

The first company-level assessments against the new benchmark indicators will be released in early 2021. Company performance on specific indicators will be a key focus of engagements in 2021, as well as continued engagement with important stakeholders to ensure the benchmark evolves to reflect best practices over time.

2. Global sector decarbonisation strategies

The initiative is committed to publishing a series of global position papers on sector pathways to decarbonisation by mid-century. This work will roll out at a global level informed by industry, sector and climate experts, and investors. In addition, substantially more thought leadership on sector pathways is planned at the regional working group level.

3. A new standard for responsible lobbying on climate change

Investor expectations on lobbying by trade associations have evolved significantly over the past few years. It is widely recognised that the systemic economic risk that investors face due to climate change is hastened by ongoing problematic climate lobbying by trade associations funded by the companies they are invested in. Such lobbying is blocking policies that would help to make the transition to a net-zero emissions economy smoother and more orderly. Investors will be looking for companies to adopt new standards on Paris Agreement aligned lobbying, including positive lobbying that seeks to advance effective climate policy including market-based mechanisms to price carbon.

This issue is also being advanced via a project convened by AP7, BNP Paribas Asset Management and the Church of England Pensions Board which seeks to develop a framework to guide responsible corporate climate change lobbying. The project is also being advised by all five Climate Action 100+ investor networks and InfluenceMap.

Other priorities

Each regional engagement working group will also be implementing additional priorities. For engagements with Asian, Latin American and African companies, there remains a need to recruit additional local market investors. Many of the engagements in these markets are focused on issues such as governance and disclosure of climate risk including TCFD aligned reporting. Each investor network also has plans to expand regional capacity recognising that investors from local markets have different levels of experience and skills in engagement on climate, unique cultural norms and different climate policy settings.

FOCUS ON COP26

The 2021 United Nations climate change conference, known as COP26, is the 26th United Nations Framework Convention on Climate Change (UNFCCC) conference. Postponed in 2020 due to the COVID-19 pandemic, it is scheduled to be held in Glasgow, Scotland from 1 to 12 November 2021.

Under the Paris Agreement, COP26 is an important milestone for Nationally Determined Contributions (NDCs) to be set and communicated under the agreement's ratchet mechanism, which requires all parties to the agreement to increase the ambition of their NDC every five years. Unfortunately, the postponement of COP26 in 2020, which is the critical decade for climate action, will wait one more year.

For Climate Action 100+ signatory investors, climate policy settings are critical. For substantial private capital to flow into climate solutions, government needs to facilitate an appropriate and consistent policy environment for climate finance. The initiative also recognises the role that companies and investors have in sending a clear market signal to governments via emissions reduction target setting, improved voluntary climate-related disclosure and investing in climate solutions.

In November 2020, Climate Action 100+ participated in the Race to Zero dialogues. This event facilitated discussion among investors and business leaders about the need for greater ambition in the lead-up to COP26 in 2021.

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APPENDIX

A: DATA INDICATORS USED IN THIS REPORT

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK INDICATORS USED IN THIS REPORT					
DISCLOSURE INDICATORS	**INDICATOR TYPE**	**SECTOR(S)**	**NUMBER OF COMPANIES**	**RESEARCH PROVIDER**	**ASSESSMENT DATE**
Has the company set a net-zero target for reducing 100% of its GHG emissions by 2050 on a clearly defined scope of emissions?	1.1	All	160	TPI	November 2020
Does the company's net-zero GHG emissions target cover the most relevant scope 3 emissions categories for the company's sector (where applicable)?	1.1b	All	160	TPI	November 2020
Has the company set long-term (2036 to 2050) targets for reducing its GHG emissions?	2.1	All	160	TPI	March 2020
Has the company specified that this target covers at least 95% of total scope 1 and 2 emissions?	2.2a	All	160	TPI	March 2020
Does the long-term (2036 to 2050) GHG reduction target cover the most relevant scope 3 emissions (where applicable)?	2.2b	All	160	TPI	March 2020
Has the company set a medium-term (2026 to 2035) target for reducing its GHG emissions on a clearly defined scope of emissions?	3.1	All	160	TPI	March 2020
Has the company specified that this target covers at least 95% of total scope 1 and 2 emissions?	3.2a	All	160	TPI	March 2020
Does the medium-term (2026 to 2035) GHG reduction target cover the most relevant scope 3 emissions (where applicable)?	3.2b	All	160	TPI	March 2020
Has the company set a short-term (2020 to 2025) target for reducing its GHG emissions on a clearly defined scope of emissions?	4.1	All	160	TPI	March 2020
Has the company specified that this target covers at least 95% of total scope 1 and 2 emissions?	4.2a	All	160	TPI	March 2020
Does the short-term (2020 to 2025) GHG reduction target cover the most relevant scope 3 emissions (where applicable)?	4.2b	All	160	TPI	March 2020
Has the company provided evidence of board or board committee oversight of the management of climate change risks?	8.1a	All	160	TPI	March 2020
Has the company provided evidence of a named position at the board level with responsibility for climate change?	8.1b	All	160	TPI	March 2020

CLIMATE ACTION 100+ NET-ZERO COMPANY BENCHMARK INDICATORS USED IN THIS REPORT (CONT.)				
CAPITAL ALLOCATION INDICATORS	SECTOR(S)	NUMBER OF COMPANIES	RESEARCH PROVIDER	ASSESSMENT DATE
How many conventional and unconventional oil and gas projects were sanctioned by focus companies in 2019-2020 that are outside of the IEA B2DS?	Upstream oil and gas	33	Carbon Tracker	August 2020
If the company provided impairment price assumptions - are they flat, declining or increasing?	Upstream oil and gas	33	Carbon Tracker	August 2020
Percentage of total potential capital expenditure (below STEPS cap) outside B2DS, inside STEPS for oil and gas.	Upstream oil and gas	33	Carbon Tracker	August 2020
Percentage of total potential capital expenditure (below STEPS cap) that is inside B2DS, and STEPS, for oil, gas and total.	Upstream oil and gas	33	Carbon Tracker	August 2020
Has the company announced a full phase-out of coal units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario?	Utilities (coal and gas generation assets)	31	Carbon Tracker	August 2020
Has the company announced a full phase-out of gas units by 2040 that is consistent with CTI's interpretation of the IEA's B2DS scenario?	Utilities (coal and gas generation assets)	31	Carbon Tracker	August 2020
How does the company's capital stock align with climate scenarios?	Automotives Utilities	14 automotives 31 utilities	2° Investing Initiative	August 2020
How does the company's planned technology mix by 2023 align with climate scenarios?	Automotives Utilities	31 utilities 14 automotives	2° Investing Initiative	August 2020

B: TECHNICAL ADVISORY GROUP

2° Investing Initiative

The 2° Investing Initiative (2DII) is an international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals.

Working globally with offices in Paris, New York, Berlin, and London, we coordinate the world's largest research projects on climate metrics in financial markets. In order to ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, regulators, policymakers, universities, and NGOs.

2DII has worked with Climate Action 100+ since its inception, and provides data, insights and expert view on the transition for companies in key sectors.

InfluenceMap

InfluenceMap launched its corporate climate lobbying platform on the eve of the Paris Agreement in late 2015 in response to growing demand from investors and other stakeholders.

InfluenceMap takes an objective, innovative and data-driven approach to identifying systemic blockages to climate progress. The analysis provides clarity, and a novel measurement approach of how corporations influence policy needed to address climate change. It introduced the concept of a corporation's Carbon Policy Footprint.

The content provided by InfluenceMap has become a mainstream investor tool in assessing and engaging with companies, including Climate Action 100+ , and has been cited in over 1,000 media articles globally. It feeds into numerous NGO campaigns and helps the corporate sector engage more positively on climate policy.

Carbon Tracker Initiative

Carbon Tracker is an independent financial think tank that carries out in-depth analysis on the impact of the energy transition on capital markets and the potential investment in high-cost, carbon-intensive fossil fuels.

Its team of financial market, energy and legal experts apply ground-breaking research using leading industry databases to map both risk and opportunity for investors on the path to a low carbon future.

It has cemented the terms "carbon bubble", "unburnable carbon" and "stranded assets" into the financial and environmental lexicon.

Carbon Tracker has worked with Climate Action 100+ since its inception, and provides data, insights and expert view on the transition for companies in key sectors.

Transition Pathway Initiative

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, TPI's insights and data assess companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change.

Transition Pathway Initiative, supported by Chronos Sustainability, the Grantham Research Institute at the London School of Economics and FTSE Russell, have been appointed to deliver the Climate Action 100+ Net-Zero Company Benchmark data.

C: ACKNOWLEDGEMENTS

The Climate Action 100+ Steering Committee would like to acknowledge the following key stakeholders, individuals and organisations that have contributed to Climate Action 100+ this year and in an ongoing capacity.

THANKS TO CLIMATE ACTION 100+ SIGNATORY INVESTORS

Thanks to the Climate Action 100+ signatory investors which support the initiative, lead engagements with companies and participate in a range of working groups, events and projects to advance the goals of the initiative.

THANKS TO OUR TECHNICAL ADVISORY GROUP AND DATA PARTNERS

Thank you to the Climate Action 100+ Technical Advisory Group and other data partners for providing data, insights and commentary for this report, and on an ongoing basis to support engagements through the initiative. The TAG includes Carbon Tracker Initiative (CTI), CDP, InfluenceMap (IM), Transition Pathway Initiative (TPI) and 2° Investing Initiative (2DII). We also acknowledge the key role of Chronos Sustainability, the Grantham Research Institute at the London School of Economics and FTSE Russell in supporting the delivery of the Climate Action 100+ Net-Zero Company Benchmark.

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