REPORT

# Hot air: How pumped-up active ownership claims are failing our climate

MARKET FORCES

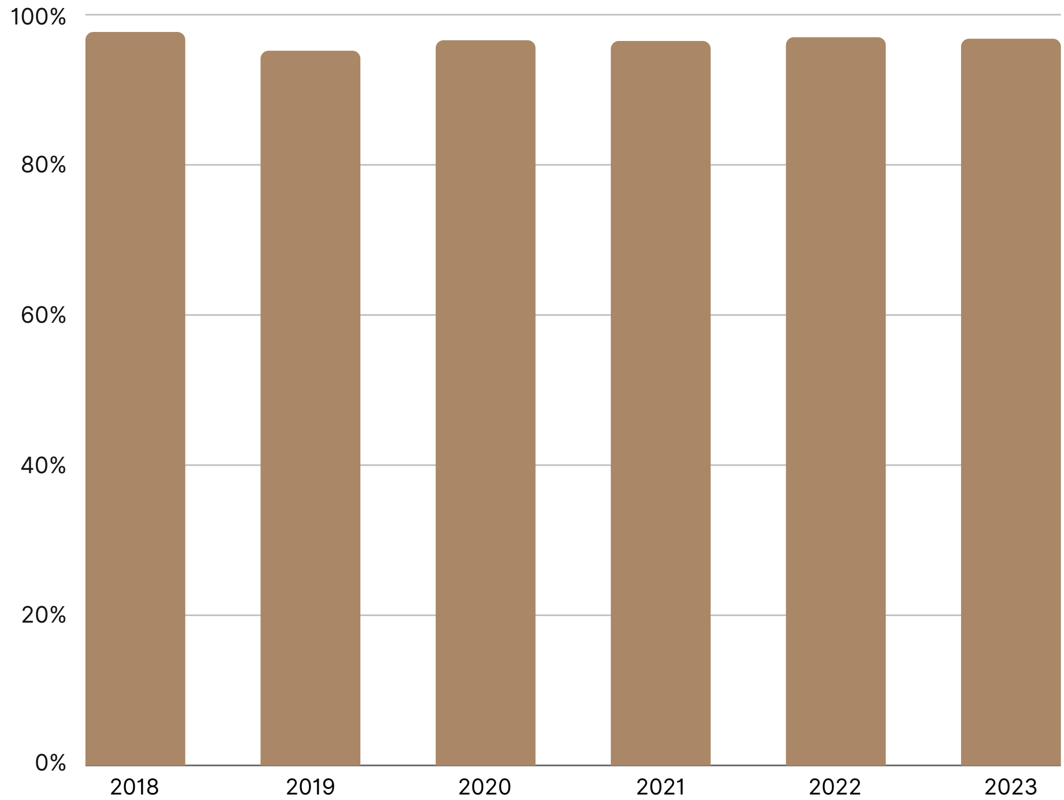
MARCH 2024

# Summary

Market Forces' latest analysis shows there is no correlation between investor support for directors at major fossil fuel developers and those companies' climate performance.

**Average director support by year**

45 CA100+ companies with largest fossil fuel expansion plans




Investors are failing to live up to claims of managing climate risks through 'active ownership' of companies in their portfolios.

Market Forces analysed director votes at the 45 companies with the biggest fossil fuel expansion plans in the Climate Action 100+ (CA100+) 'focus list', comparing levels of director support at each company against its performance on the CA100+ Net Zero Company Benchmark Disclosure Framework.

We found:

- Since the launch of the CA100+ initiative in 2017, there has been no discernible correlation between a company's climate performance and voting support for the election of its directors.

- Perversely, directors at companies failing to meet any criteria demonstrating "The Board has sufficient capabilities/competencies to assess and manage climate-related risks and opportunities" received higher support in 2023 than those that partially or fully met these criteria.

- Average support for directors was over 95% with over half receiving more than 98% support.

- Even companies failing to meet any CA100+ criteria for critical transition indicators 'Decarbonisation Strategy' and 'Capital Allocation' received more than 95% support on average in 2023.

- There is no trend of decreasing support for directors over time, despite the average company only aligning 40% or less with the CA100+ framework some six years into the initiative.

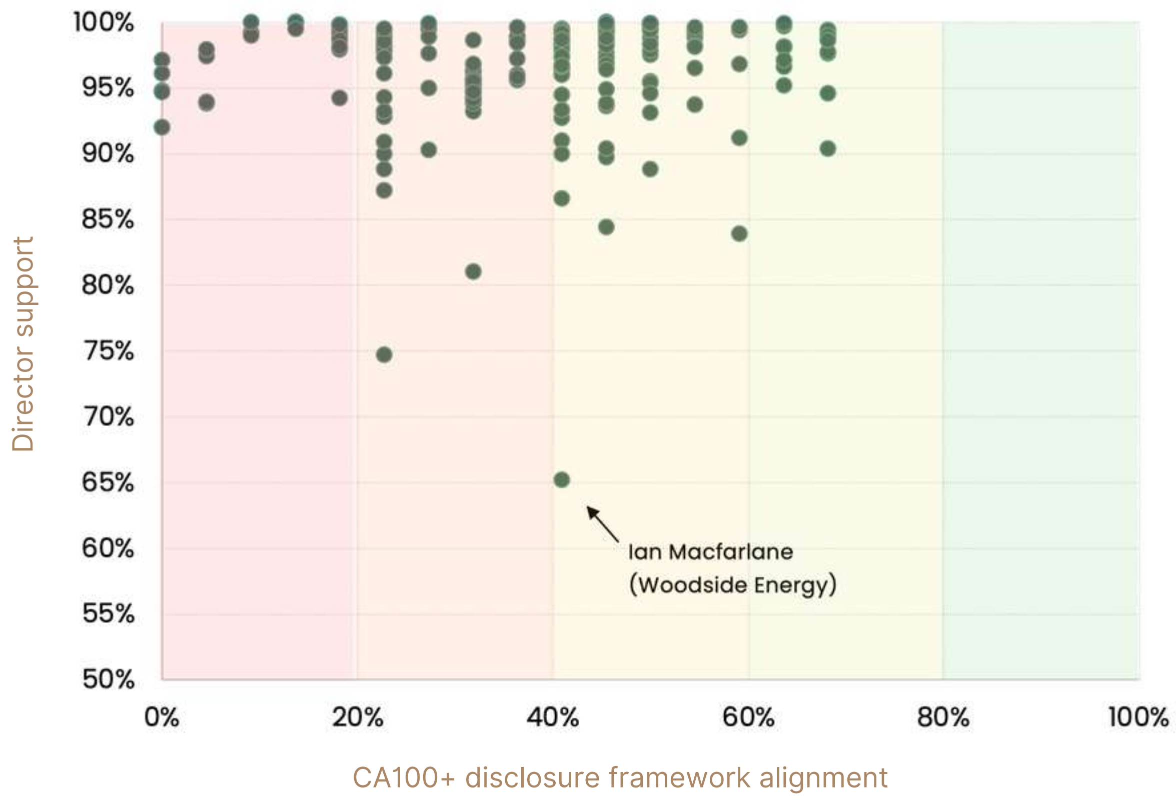
- On the three occasions in 2023 where climate concerns were most prominent in director voting rationales, six of the 10 largest CA100+ investor members voted in favour of all of these directors, and none voted against all three.

This lack of consistent and forceful active ownership allows companies to continue pursuing fossil fuel expansion strategies that exacerbate the staggering climate-related financial risks initiatives like the CA100+ seek to address.

# No closure on climate disclosure since CA100+ launch

Good climate governance is built on disclosure but fossil fuel companies on the CA100+ focus list are only partially aligning with the CA100+ disclosure framework. Damningly, the average alignment with the various metrics defined in the CA100+ Net Zero Company Benchmark Disclosure Framework **sits at under 40%** for the companies we analysed.

**2023 director votes and CA100+ disclosure alignment**




To summarise the many aspects of the CA100+ disclosure assessments (11 main indicators, with several sub-indicators), we created a simple score that gives a full point for alignment on one of the main indicators, a half-point for partial alignment and no points if they were assessed unaligned. Every company could score a maximum of 11 full points. When assessing 2023 director support against these scores, we found no obvious correlation, and in many cases companies with the lowest disclosure quality saw higher support for their directors than companies with better disclosures.

Investors care about disclosure[1], yet in 2023 there was **no significant decline in support for directors at companies that fell short on key disclosure metrics.**

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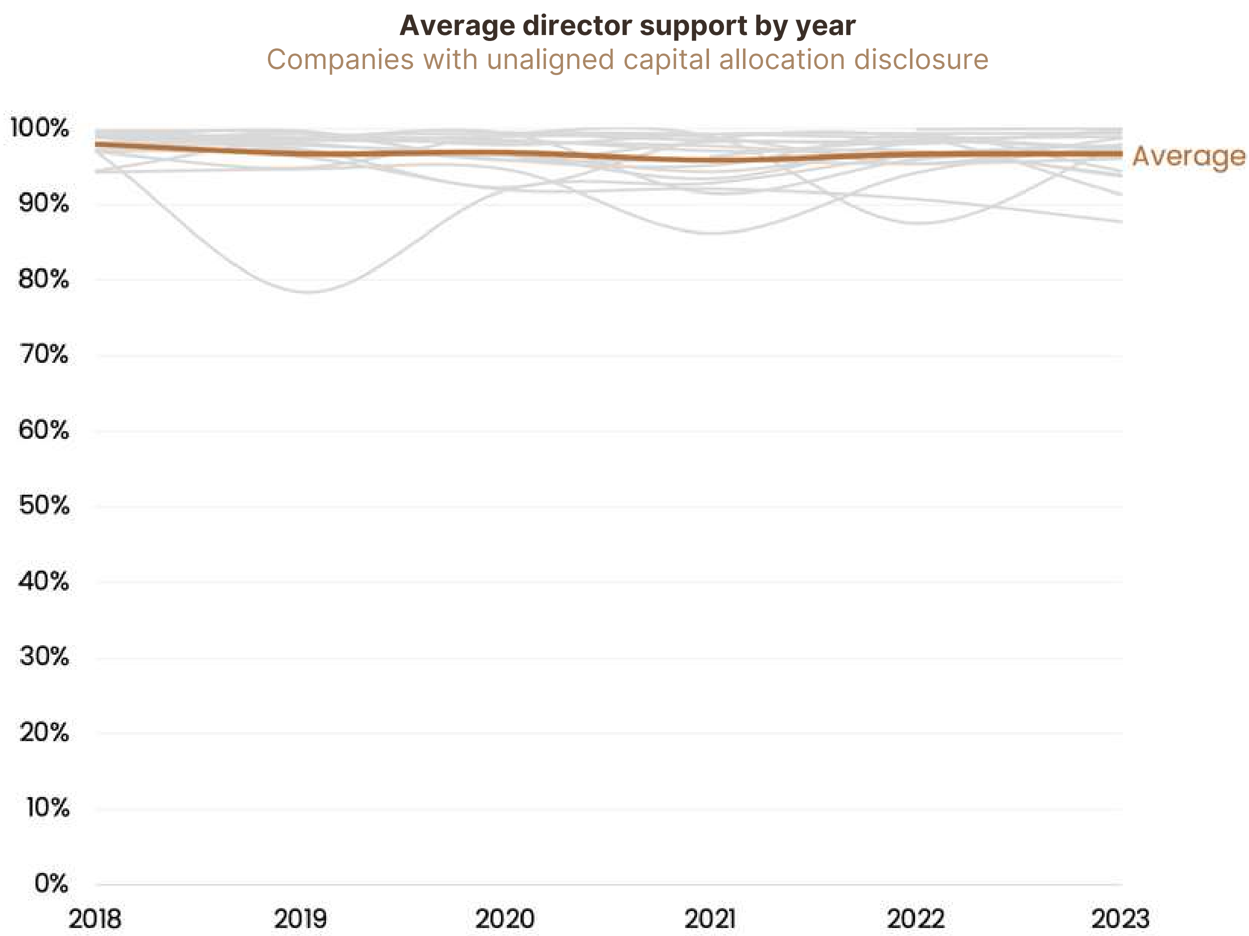
**1** See igcc.org.au/150-trillion-of-investors-call-for-mandatory-reporting-of-climate-transition-plans/

Since CA100+ was launched in 2017, fossil fuel companies have had six years to align with the initiative's Net Zero Company Benchmark Disclosure Framework.

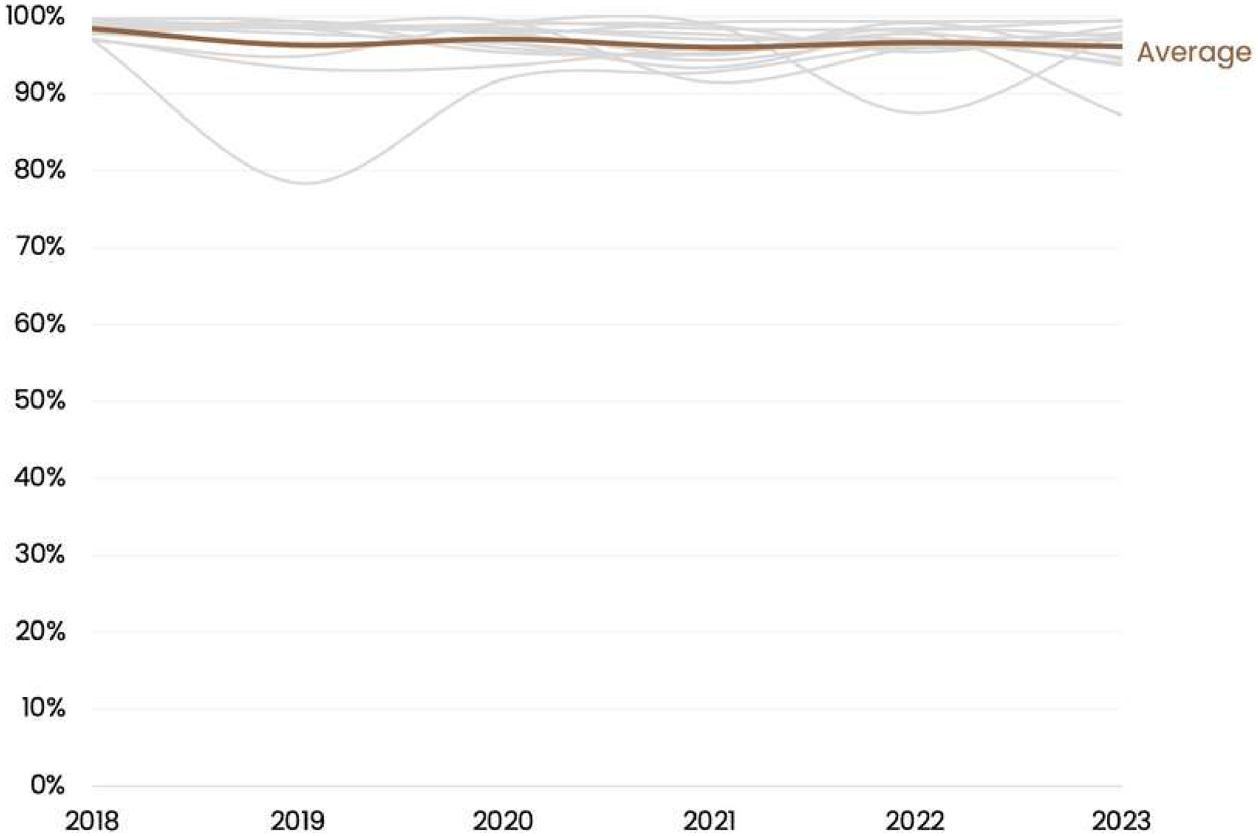
**This means that for the last six years, 45 climate wrecking companies have maintained little alignment with investors' climate disclosure expectations. Yet, incumbent board members continue to be elected to these boards with over 90% of investors voting in support.**

Our research also shows that complete failure to disclose some of the most critical metrics of a credible climate plan – including decarbonisation and capital allocation strategies – have no bearing on support for directors.




Shows companies with a "No" on the overall assessment of indicator 5 (Decarbonisation Strategy) of the CA100+ Disclosure Framework Assessment. Each grey line represents an individual company's average director support level.

**Average director support by year**
Companies with unaligned decarbonisation strategy disclosure




Shows companies with a "No" on the overall assessment of indicator 6 (Capital Allocation) of the CA100+ Disclosure Framework Assessment. Each grey line represents an individual company's average director support level.

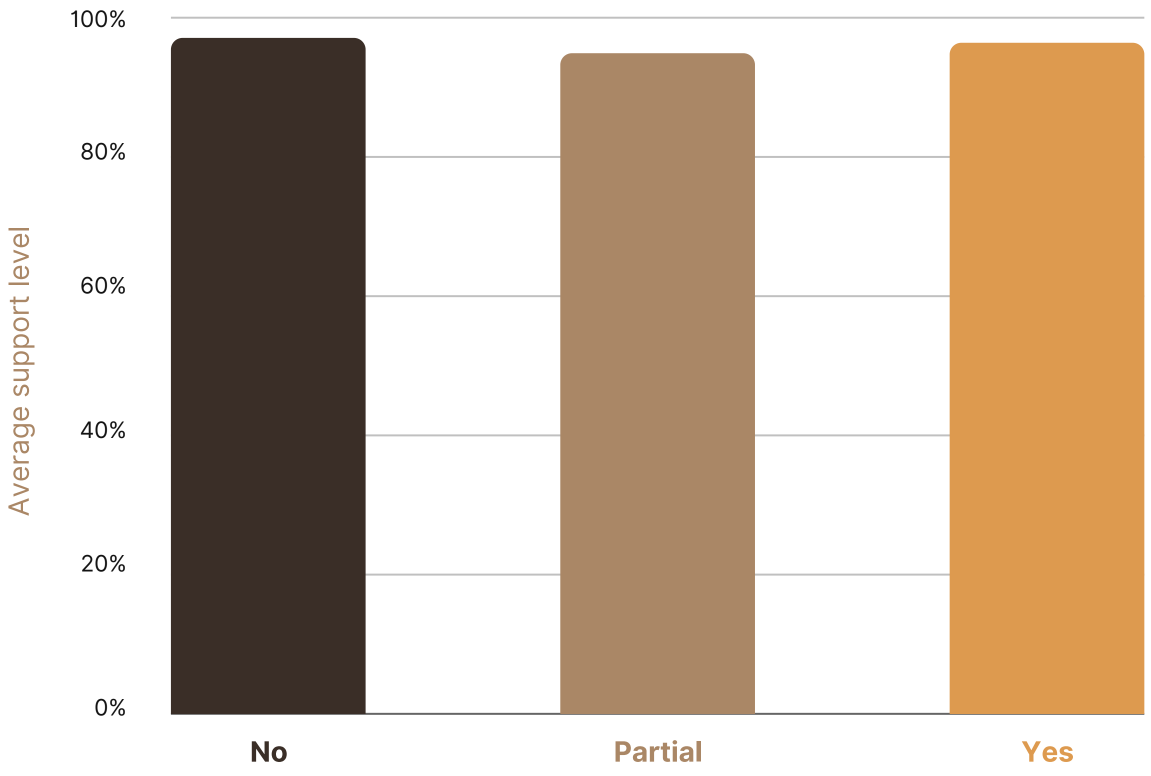
Important indicators like a decarbonisation strategy and plans to align capital with global climate goals are no longer 'nice-to-haves' for the fossil fuel industry. **Directors of companies failing to fully meet these disclosure requirements need to be voted off boards for exacerbating transition risk, rather than managing it.**

# Director incompetence invites no consequence

The Climate Action 100+ Benchmark provides clear guidance on climate governance and alignment measures across the companies it assesses. One of the most relevant indicators for director elections is sub-indicator 8.3, which captures the board's capability to assess and manage climate risk and opportunities.

**Directors on company boards judged incompetent (or partially competent) on sub-indicator 8.3 continued to receive over 95% support on average in 2023. Fossil fuel boards that do not meet this metric perversely see higher votes than those partially or fully meet it.**

**2023 director elections**
By CA100+ board climate competency alignment




Does the board have sufficient capabilities/competencies to assess and manage climate-related risks and opportunities?

# Investor inaction in action

**Investors are not punishing directors for inadequate climate risk management at target fossil fuel companies. Companies are taking this as approval to keep forging ahead with flawed expansion strategies.**

The companies assessed include notorious laggards such as Australian oil and gas producers Woodside Energy Group and Santos Limited. Both companies received scathing assessments of their climate plans from investors in 2022, facing the highest votes *against* any climate plan ever, globally[2]. Director elections were opposed by some directors on climate grounds at both companies in 2023, but not enough to change the companies' board compositions, nor shake them from their climate wrecking expansion strategies.

In early 2024, Woodside dismissed climate transition-focused board candidates investors suggested it elect to the board[3]. The move comes nearly a year after Woodside director Ian Macfarlane faced a 35% vote against his re-election on climate grounds. Mr Macfarlane was the outlier in our dataset – with the highest vote against any director not involved in a proxy fight at a company.

Too many investors are still clearly missing in action for companies like Woodside to care.

**2** See marketforces.org.au/woodside-agm-2022/ and marketforces.org.au/investor-demands-for-santos-to-wind-down-oil-and-gas-production-increase-to-15/

**3** See accr.org.au/news/no-change-at-woodside-chair-richard-goyder-rebuffs-investor-push-for-board-up-skill/

# CA100+ Phase 2 presents opportunities for investors to improve

With Phase 2 of the CA100+ now in play, investors have the opportunity to right the current trend of inadequate climate stewardship.

Phase 2 calls for escalatory steps in relation to engagement, voting and disclosure. Investors are expected to disclose:

1. Engagement objectives
2. Engagement schedules
3. Relevant escalatory steps if engagement objectives are not met
4. An assessment of whether engagement objectives have been delivered and whether escalation options have been progressed
5. Key engagement outcomes
6. Voting activity including rationale, especially in relation to companies identified as priorities

Concerningly, these much-needed upgraded expectations of investors have scared off some large global investors like State Street Global Advisors, who said the Phase 2 requirements went “too far”. While these moves send the wrong message entirely, the fact is investors that were unwilling to take reasonable escalatory steps should never have been able to greenwash their inaction by remaining involved with initiatives like the CA100+. These blockers should have been expelled for their lack of meaningful action, which has seen target companies failing to meet critical progress metrics set by the CA100+.

**Even as some smaller investors have pushed for greater action and voted against directors on climate grounds, clearly outlined in rationale, the largest global asset managers have waved through these same directors with alarmingly high levels of support. This effectively blocks much-needed climate governance improvements at companies.**

**Controversial director elections in 2023**

Elections with the highest incidence of climate-related voting rationales[4]; votes by 10 largest CA100+[5] members by AUM

| Investor | AUM (US$ trillions) | Ian Macfarlane | Susan Avery | Joseph Hooley |
|---|---|---|---|---|
| | | Woodside Energy | ExxonMobil | ExxonMobil |
| BlackRock Inc. | 8.5 | AGAINST | FOR | FOR |
| State Street Corporation | 3.5 | FOR | FOR | FOR |
| JP Morgan | 3.0 | FOR | FOR | FOR |
| Goldman Sachs Asset Management LP | 2.5 | FOR | FOR | FOR |
| BNY Mellon | 1.9 | FOR | FOR | FOR |
| Amundi Asset Management | 1.8 | FOR | AGAINST | AGAINST |
| Wellington Management | 1.2 | AGAINST | FOR | FOR |
| Nuveen | 1.1 | FOR | FOR | FOR |
| Northern Trust Investments | 1.0 | FOR | FOR | FOR |
| Schroders PLC | 0.9 | AGAINST | FOR | AGAINST |

Apart from Ian MacFarlane at Woodside, Susan Avery, and Joseph Hooley at ExxonMobil received the highest votes against from investors on climate grounds, with a number of smaller investors clearly declaring support for greater climate action from the company in their voting rationale.

While any director of a company failing to meet investors' stated climate risk management expectations should be in the cross-hairs, these three votes present the clearest examples of investor discontent on this issue. Yet large investors like BlackRock, State Street, and JP Morgan Asset Management – who have all recently reduced membership or exited the CA100+ initiative – almost unanimously voted for these directors. With only a very small subset of directors seeing any significant drop in support on climate grounds, it is clear that the investors with the most voting power are generally doing the least.

**4** Defined as the number of unique mentions of "climate", "ESG" or "CA100" disclosed in rationales for voting against directors.

**5** Some investors mentioned in this piece of research voted on AGMs in 2023 when they were still members of CA100+ but have since exited the initiative. These include Blackrock Inc., JP Morgan Asset Management, and State Street Corporation.

BlackRock CEO Larry Fink’s annual letters have previously referred to climate risk being investment risk[6] but his firm chooses to eschew escalatory action, regularly voting for board members that are steering their companies towards yet more climate risk. How this inaction stacks up against BlackRock’s “risk-adjusted returns strategy”[7] is one of the great mysteries of life.

Without the credible threat that directors will be voted off boards, companies exacerbating climate risk by expanding fossil fuels will maintain their course and investor engagement will be as useless as a water pistol fighting bushfires.

**Investors must take more meaningful action, pre-declaring votes against directors failing on climate risk management. If investors cannot curtail reckless fossil fuel expansion plans, safe investments may be a luxury they and their beneficiaries will be unable to enjoy.**

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**6** See blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

**7** ibid

# Methodology

Voting data, including voting rationales, was sourced primarily from Diligent; Market Forces also supplemented with data from company disclosures for a handful of entities. All data pertaining to the CA100+ was sourced from their website, using the 2.0 (October 2023) version of the Net Zero Benchmark assessments.

CA100+ assesses disclosures by their focus companies in the form of qualitative Yes/Partial/No marks, scored over 11 main indicators that each contain several sub-indicators. To simplify this data and make it plottable against voting results, we created a simple score for the 11 main indicators that assigns a 1 for “Yes”, 0.5 for “Partial” and 0 for “No”. The resulting ‘summary score’ has a maximum of 11 points (“Yes” on all indicators). We present the results as a percentage of this max score.

The company universe selection for the report starts with our Climate Wreckers Index (2023 edition). The index comprises the 190 publicly listed companies with the largest coal, oil, gas and LNG terminal expansion plans globally. Of these 190, only 47 are CA100+ ‘focus companies’. Of these 47, we excluded Saudi Aramco due to lacking voting data, and Petrobras due to low data quality both in Diligent and original disclosures. The final list of 45 companies analysed in the report are in the table below. Two of these companies (EOG Resources and EQT Corporation) were not assessed by the CA100+ in the Net Zero Benchmark 2.0, so are excluded from any charts that display those assessments.

| Company | ISIN |
|---|---|
| Anglo American | GB00B1XZS820 |
| AES Corporation | US00130H1059 |
| ArcelorMittal | LU1598757687 |
| BHP | AU000000BHP4 |
| BP | GB0007980591 |
| Canadian Natural Resources | CA1363851017 |
| BUMI Resources | ID1000068703 |
| CEZ | CZ0005112300 |
| Chevron | US1667641005 |
| China Shenhua Energy Company Ltd | CNE1000002R0 |
| CNOOC | HK0883013259 |

| Company | ISIN |
|---|---|
| Coal India | INE522F01014 |
| ConocoPhillips | US20825C1045 |
| Ecopetrol | COC04PA00016 |
| Électricité de France (EDF) SA | FR0010242511 |
| Engie SA | FR0010208488 |
| Eni SpA | IT0003132476 |
| EOG Resources | US26875P1012 |
| EQT Corporation | US26884L1098 |
| Equinor | NO0010096985 |
| ExxonMobil | US30231G1022 |
| General Electric Company (GE) | US3696043013 |
| Glencore | JE00B4T3BW64 |
| Imperial Oil Ltd | CA4530384086 |
| Korea Electric Power Corporation (KEPCO) | KR7015760002 |
| NTPC | INE733E01010 |
| Occidental Petroleum Corporation | US6745991058 |
| OMV | AT0000743059 |
| ONGC | INE213A01029 |
| PetroChina | CNE1000003W8 |
| Polska Grupa Energetyczna (PGE) | PLPGER000010 |
| Reliance Industries Ltd | INE002A01018 |
| Repsol | ES0173516115 |
| RWE | DE0007037129 |
| Santos | AU000000STO6 |
| Shell plc | GB00BP6MXD84 |
| Sasol | ZAE000006896 |
| Siemens Energy AG | DE000ENER6Y0 |

| Company | ISIN |
|---|---|
| Sinopec | CNE1000002Q2 |
| SSE PLC | GB0007908733 |
| Suncor Energy | CA8672241079 |
| Teck Resources | CA8787422044 |
| TotalEnergies | FR0000120271 |
| Vedanta | INE205A01025 |
| Woodside Energy | AU0000224040 |

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