ARJUNA CAPITAL
ENLIGHTENED INVESTING

SHAREHOLDER ENGAGEMENT
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GLOBAL WEIRDING

As they say in Boston, this summah was a scorchah. And it's true. 2022 set records across the globe. Europe and China hit all-time highs, while North America and Asia faced their second-hottest summer. But "global weirding" is not limited to hotter temps. In October, we saw hurricane Ian go down as one of the costliest natural catastrophes on record in the U.S., estimated at $60-70B. Meanwhile, one-third of Pakistan is under water, so throw another $40B into the natural disaster pot. But these numbers don't come close to accounting for the human and environmental devastation. As Prime Minister Shehbaz Sharif said, "Despite having less than 1% share in global carbon emission[s], Pakistan is one of the ten countries most affected by climate change."

So, what of those who are contributing more than their fair share? We always look to the top emitting countries like China, the United States, India, and Russia. But what of the investors bankrolling global commerce and the companies they invest in?

NET ZERO ASSET MANAGERS

Outside of government policy, and seemingly out of nowhere, climate change has become a front burner topic for investors. And not just niche players like Arjuna Capital. While 3 years ago one heard little more than platitudes, today, over $60 trillion in global investment assets have signed onto the Net Zero Asset Managers initiative (NZAM). And with not a moment to lose.

The latest science tells us we need to halve global greenhouse gas (GHG) emissions by 2030, and reach "net zero" by 2050 to avoid the worst effects of climate change. Net zero is a state where GHGs going into the atmosphere are balanced by their removal out of the atmosphere. And NZAM supports just that—asking investors and companies alike to set near- and long-term science-based targets (SBTs) to produce close to zero emissions.

Alternatively, if we stay on our current path, we are set to exceed 3 degrees Celsius warming, resulting in catastrophic climate impacts far beyond the latest record-setting temps, storms, and floods.

So, while November's United Nations Climate Change Conference (COP 27) will be a litmus test to see whether or not global governments are willing to enact net zero policy, we are also seeing private market forces take effect.

SETTING TARGETS

After committing to become a Net Zero Asset Manager last year, Arjuna, on October 14th, submitted our net zero targets to NZAM. As part of our commitment, we will press companies in our clients' investment portfolios to also commit to net zero goals. That's because our net zero goals are only as good as the goals of the underlying companies in our clients' portfolios. As it stands, 68% of the companies we invest in have already committed to net zero through a rigorous science-based target (SBT) framework. That's compared to 37% of companies in the S&P 500 and MSCI World benchmarks. And when we measure the carbon footprint of our portfolios, we are 66-70% less carbon intensive than our benchmarks. While Arjuna is ahead of the curve simply through our portfolio selection, there is more work to be done to press those companies not yet setting targets.

In 2020, we started doing just that—working alongside other investors to successfully press Citigroup, Bank of America, JP Morgan, and Wells Fargo to adopt net zero goals, not only for their internal operations, but for their lending portfolios. That's because these banks finance projects that can be quite carbon intensive—lending to oil and gas companies or the power sector, for instance. And those financed emissions can be 700x greater than a financial company's direct emissions. This year, we will continue to press other companies, including Bank of

New York Mellon, where we recently filed a net zero shareholder proposal. We also plan to file proposals at two oil majors—asking one for a report on whether its climate lobbying is in line with net zero, and the other for disclosure of Scope 1, 2, and 3 GHG emissions. That means, we are asking the company to report not only emissions from its operations, but also emissions embedded in the oil and gas products it sells. While Arjuna's investment strategies are fossil-fuel-free as a rule, we use clients' legacy holdings to engage oil and gas companies, as we recognize these emissions pose economy-wide climate and financial risks.

The required objective is to have 100% of our clients' investments adopt science-based net zero goals by 2040, at the latest (although we would hope to do so much sooner). This gives us an additional 10 years for the companies to actually hit net zero by the 2050 deadline.

SOME SWIM AGAINST THE TIDE

Unfortunately, not all investors are on board with these climate ambitions. As part of this year's conservative scheme to discredit ESG (environmental, social, governance) investing (see my prior letter), politicians are *targeting* net zero initiatives—and not in the way we would hope. Groups aligned with the fossil fuel industry, including billionaire funders like the Koch brothers, the Heritage Foundation, the Heartland Institute, and the American Petroleum Institute, have been coordinating with the State Financial Officers Foundation to oppose climate action. The result? Lawmakers in more than a dozen states are pushing legislation to bar state pension funds from doing business with investment firms that are shrinking their coal or fossil fuel holdings, integrating climate change risk, or applying any kind of ESG lens to their investments.

While that's no doubt discouraging, those legislators are swimming against the tide. And while NZAM may simply be a promise today, it is the biggest and most broadly reaching one we've seen to date. And, it has the benefit of translating into real climate action—outside the political sphere.

Natasha Lamb, Managing Partner