

*The economics are with us; the policy makers are with us; and the United Nations Climate Change Conference (COP26) is right around the corner. The only question that remains is whether we can right the ship before we reach an irreversible tipping point.*

## IT'S A HOT ONE.

It's considered polite to talk about the weather—at least it used to be before the phrase “heat domes” entered my vocabulary and human-caused global warming became a political football.

On July 9<sup>th</sup>, the temperature in Death Valley reached 130 degrees Fahrenheit. It's possibly the hottest “reliably measured” day on Earth—the competition being a 134-degree reading from 1913. Oh, and it nearly reached 130 degrees there last summer too. And while hot, Death Valley's record temps don't quite freak me out as much as the fact that Oregon hit 118 and temps reached 121 in Canada—Canada!

The National Weather Service predicted as much, calling for a “historic, dangerous, prolonged and unprecedented” heat wave. But this kind of intense heat is so statistically rare one might expect it every couple thousand years, not every couple. And as a result, a million acres in the west are now on fire. Add this to a backdrop of record rainfall and flooding in Europe and China (worst in a thousand years—displacing 1.2 million people) and coastal flooding exacerbated by sea-level rise in the US.

## ENOUGH WITH THE BAD NEWS.

So that's enough bad news for one month. Let's turn to what's working and what we can do about it.

First and foremost in my mind is the incredible upset at this year's ExxonMobil annual meeting, where hedge fund Engine #1 ousted three Exxon board members to place three of their own candidates on the board—all bringing climate expertise to bear. This upset builds on the work we started with our clients seven years ago—pressing Exxon to address existential climate risk.

Following our 2014 landmark negotiation with ExxonMobil that led to the company's first report on carbon-asset risk, our clients filed subsequent shareholder proposals challenging the company's capital investments in high-cost, high-carbon reserves, its

readiness to transition to a carbon-constrained future, and the preparedness of its board to address the transition. Echoing our own concerns, Engine #1 gained enough support from mega-asset manager Blackrock and others to affect an unprecedented coup. And while they spent over \$12 million to do so, it takes all kinds of pressure to make change—from citizens, policy makers, and now (who would have thought it?) hedge funds.

## WHY SO IMPORTANT?

The reason this is so important is two-fold. One, Exxon continues to subvert meaningful climate action. And two, systemic climate risk will affect all companies in a diversified investor's portfolio, not just the ones creating the problem.

## AN IMPEDIMENT TO PROGRESS.

Starting with the first reason: On July 1<sup>st</sup>, Greenpeace activists pretending to be recruiters, compelled Exxon's senior director for federal relations (i.e., top lobbyist) to reveal the company's lobbying tactics—from working with “shadow groups,” to supporting a carbon tax they don't believe will happen, to pressing senators to water down climate elements of Biden's infrastructure plan. It's no secret that Exxon has a history of sowing climate doubt, but they are also big spenders on climate lobbying. A 2019 report by InfluenceMap showed Exxon spends over \$40 million per year to delay, control, or block policies to tackle climate change, while spending another \$50+ million on branding campaigns suggesting it supports climate action.

But it's not just lobbying where Exxon speaks out of both sides of its mouth. A 2019 trial brought by the Attorney General of New York alleged Exxon reported it managed climate risk using one set of metrics, while the company used a different set of metrics for its own internal management purposes. As Arjuna pressed for such disclosures, I was called as the first witness in the trial. Beforehand, I was also subject to seven hours of

deposition and bullying by Exxon lawyers—intimidation being another tool in the company’s toolbelt.

### A RISK TO INVESTOR PORTFOLIOS.

The second reason we need change on Exxon’s board, as well as those of other oil majors, is that “universal investors”—those with highly-diversified portfolios representative of the broad economy (like you)—are exposed to growing and widespread climate costs generated by some companies but ultimately shouldered by everyone else. That is, the carbon emissions from a minority of companies are predicted to lower the earnings potential of a majority of companies because of the resulting climate change impacts, leading to a weaker economy overall (think, a 10.5% cut to US GDP by 2100).

Unfortunately, fossil-fuel divestment (which we have practiced since 2014) does not mitigate this kind of systemic climate risk. So, for the last seven years, we have exercised the share ownership of a few clients with Exxon and Chevron stock to press for change. Our latest campaign is to press the oil majors to develop a governance model and business plan that can “maximize returns” within a 1.5-degree global-temperature-rise threshold, but not beyond it. The logic here is that investors with broadly diversified portfolios are unalterably harmed when companies operate outside of a 1.5-degree climate model—1.5 degrees being the threshold for global temperature rise that results in catastrophic climate change.

### THE OTHER GOOD NEWS.

The other good news is that change doesn’t come just from the bold action of some. The writing is on the wall and the energy transition is on its way. In 2013, the year we started our campaign, Exxon was the largest company in the US with a \$446 billion market capitalization. Last year, Tesla not only surpassed Exxon, but today is over two times the size at \$628 billion while Exxon has shaved \$200 billion from its market cap—now \$246 billion. This is why we invest in climate solutions in our client’s public- and private-market equity portfolios: to hedge climate risk and to profit from the opportunities presented by firms commercializing solutions to climate change. We are proud to report that our sister company, New Summit Investments, is launching the third vintage of our solutions-based private-equity strategy this year, continuing our work in this vein.

### TO SUM IT UP.

The economics are with us; the policy makers are with us; and the United Nations Climate Change Conference (COP26) is right around the corner. The only question that remains is whether we can right the ship before we reach an irreversible tipping point. Placing climate experts on Exxon’s board is a good place to start, but we need more investor action—action in which our clients will continue to take part. Mother Earth is clearly telling us it’s time.

### Natasha Lamb, Director of Equity Research & Shareholder Engagement

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