

# Trends in Investor Communications – Communicating Board Climate Responsibility in Light of Ceres and The B Team's Recommendations

In recent years, calls for enhanced disclosure around climate change have grown louder, and not just in the form of shareholder proposals. Institutional investors are increasingly asking companies to set out the risks and opportunities they face as a result of climate change, and how their boards are dealing with these issues.

Getting Climate Smart: A Primer for Corporate Directors in a Changing Environment, a recent report co-authored by Ceres and The B Team, notes:

"As more businesses in more sectors are materially impacted, major investors are engaging with their portfolio companies on climate change. BlackRock, State Street Global Advisors and Vanguard are calling for boards to address climate change as a part of their long-term sustainable value creation strategies."

The report goes on to describes how directors can get climate smart by building climate competency into their board. Specifically, it advocates that boards:

- 1. Drive the assessment of whether and how climate risk is material to the business;
- 2. Formalize climate change in the board structure;
- 3. Recruit climate-competent directors;
- 4. Educate the whole board on climate change;
- 5. Integrate climate change into strategic planning and risk oversight;
- 6. Tie executive compensation to climate change; and
- 7. Promote robust disclosure of climate change.

In this Thought Piece, we highlight disclosures that align with Ceres and The B Team's recommendations on building climate-competent boards.

<sup>&</sup>lt;sup>1</sup> Ceres & The B Team, *Getting Climate Smart: A Primer for Corporate Directors in a Changing Environment 3* (2018). Available at https://www.ceres.org/climatesmartboards.

## Featured Reports



Alcoa 2018 Proxy Statement



Allstate 2018 Proxy Statement



Aviva 2017 Annual Report



**Bank of America** 2018 Proxy Statement



**Barrick Gold** 



**BHP Billiton** 2018 Information Circular 2017 Annual Report



Citigroup 2018 Proxy Statement 2018 Proxy Statement



ConocoPhillips



**Edison International** 2018 Proxy Statement



ExxonMobil 2018 Proxy Statement



**General Motors** 2018 Proxy Statement



**International Paper** 2018 Proxy Statement



**JetBlue** 2018 Proxy Statement



**Newmont Mining** 2018 Proxy Statement 2017 Proxy Statement



Nike



PG&E 2018 Proxy Statement





**Shell** 2018 Proxy Statement 2017 Annual Report



**Southern Company** 



**UPS** 



**Xcel Energy** 2018 Proxy Statement 2018 Proxy Statement 2018 Proxy Statement



# Drive the Assessment of Whether and How Climate Risk is Material to the Business

From the Getting Climate Smart report:

"Climate change poses foreseeable risks to businesses. Directors should have management assess whether climate change has a material impact on the unique circumstances of their business and, if so, how this should be integrated into corporate strategy and enterprise risk. This assessment should consider whether critical stakeholders, such as investors, consider climate change to be relevant, for instance, as a part of their stated priorities or through investor engagement, including shareholder resolutions. The assessment should also consider how climate change could affect the creation of shareholder value, including in the long term."

We looked for:

#### Presentations of how boards lead assessments of climate risk materiality



#### PG&E 2018 Proxy Statement

PG&E outlines how the Board oversees climate change resilience and other sustainability commitments. They also address their sustainability strategy in the context of their key stakeholders.



http://s1.q4cdn.com/880135780/files/doc\_financials/2017/annual/2018-Proxy-Statement-Final.pdf







#### Edison International 2018 Proxy Statement

Edison uses a letter co-signed by the Chair and the President and CEO to explain the Board's role in overseeing their strategic transformation towards a low-carbon future. They go on to highlight specific areas of Board oversight over ESG-related issues that significantly impact the business.



https://www.edison.com/content/dam/eix/documents/investors/corporate-governance/2018-eix-sce-proxy-statement.pdf

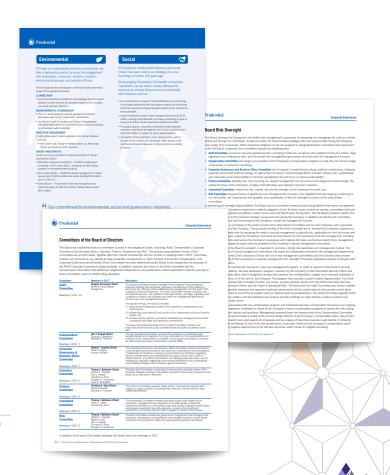


#### Prudential 2018 Proxy Statement

On the inside front cover, Prudential acknowledges the potential impact of climate risk on their business and explicitly identifies climate risk as contributing to reputational risk. The description of the Corporate Governance and Business Ethics Committee's responsibilities includes oversight of strategy and reputation regarding environmental stewardship and sustainability.



http://www3.prudential.com/annualreport/report2018/proxy/images/Prudential-Proxy2018.pdf



## Formalize Climate Change in the Board Structure

From the Getting Climate Smart report:

"When material, directors should formalize climate change oversight as a part of the board structure. For instance, they could incorporate it into the charter of relevant board committees. Once it is formalized, climate change will be regularly included in board agendas and considered systematically as a part of board deliberations, including on strategy, expenditures and risk."

#### We looked for:

Presentations of how boards integrate climate change risk and environmental sustainability policies into board structure



### International Paper 2018 Proxy Statement

International Paper incorporates sustainability policies under the Public Policy and Environment Committee.



https://s1.q4cdn.com/597881801/files/doc\_financials/2017/Annual/2018-Proxy-Statement-FINAL.pdf



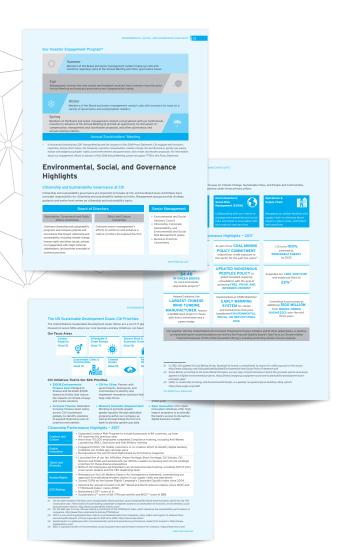


#### Nike 2017 Proxy Statement

Nike incorporates responsibility for sustainability under a dedicated Corporate Responsibility and Sustainability Committee.



https://materials.proxyvote.com/ Approved/654106/20170721/NPS\_331212/ images/NIKE-Proxy2017.pdf







#### Citigroup 2018 Proxy Statement

Citi incorporates climate change oversight into the responsibilities of their Nomination, Governance and Public Affairs Committee and includes an overview of their sustainability governance structure in the ESG highlights of their proxy summary.



https://www.citigroup.com/citi/investor/quarterly/2018/ar18p.pdf

### Recruit Climate-Competent Directors

From the Getting Climate Smart report:

"Board nominating committees should recruit corporate directors who have the appropriate skills, background and aptitude to make thoughtful decisions on climate risks and opportunities. Committees should cast a wide net through the nominating process so they can consider candidates with diverse backgrounds."

We looked for:

Boards with climate-competent directors and that actively recruit for environmentally knowledgeable candidates

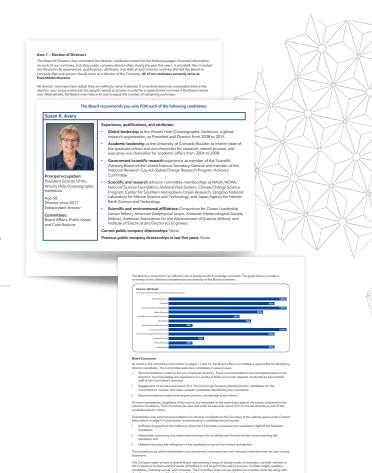


#### ExxonMobil 2018 Proxy Statement

In 2017, ExxonMobil's Board nominated Susan K. Avery, President Emerita of the Woods Hole Oceanographic Institution. In addition, the Board includes "Scientific/Environmental/Technical" as a competency considered for director nominees.



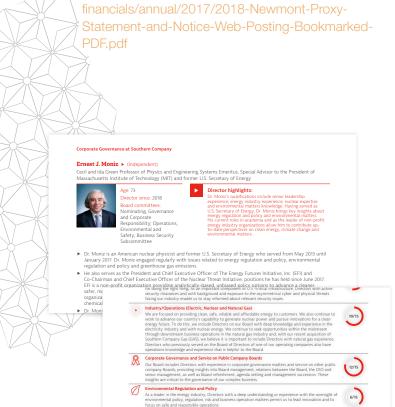
http://cdn.exxonmobil.com/~/media/global/files/investor-reports/2018/2018-proxy-statement.pdf





#### **Newmont Mining 2018 Proxy Statement**

Since 2011, Newmont's Board has included Jane Nelson, Founding Director of the Corporate Responsibility Initiative at Harvard Kennedy School. The Board also includes "Environmental & Social Responsibility Experience" as a competency considered for director nominees.







#### Southern Company 2018 Proxy Statement

This year, Southern Company's Board nominated Ernest J. Moniz, former U.S. Secretary of Energy, and Cecil and Ida Green Professor of Physics and Engineering Systems, Emeritus, at MIT. The Board also includes "Environmental Regulation and Policy" as a competency considered for director nominees.



https://s2.q4cdn.com/471677839/files/doc\_downloads/2018/2018-Proxy-Statement.pdf

## Educate the Whole Board on Climate Change

From the Getting Climate Smart report:

"Many companies require that their board stay current on the latest issues, trends and developments that could affect the company through formalized continuing education programs. Board Governance Committees could expand these efforts to include focused training programs that bring in independent climate experts to provide ongoing education. Another option is to create the capacity for ongoing advice on climate issues, for instance by establishing advisory boards of external stakeholders or experts to inform and engage company leadership and the board on the connections between climate change, among other sustainability issues, and corporate strategy."

#### We looked for:

Presentations of how boards are increasing their knowledge of climate change, the environment, and sustainability

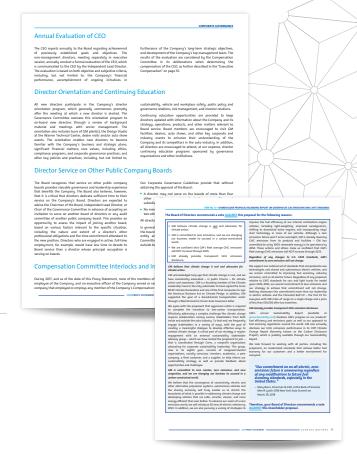


#### **General Motors 2018 Proxy Statement**

General Motors includes sustainability education as part of new director orientation. They also regularly engage with external sustainability stakeholder groups, including Ceres, to inform their sustainability strategy.



http://media.gm.com/static/proxy-statement/images/General\_Motors-Proxy2018.pdf





#### **UPS 2018 Proxy Statement**

UPS' Board is regularly briefed on issues of concern to stakeholders—including environmental topics and receives reports from the chief sustainability officer on sustainability issues.



http://media.corporate-ir.net/media files/ IROL/62/62900/UPS\_NPS\_Web\_Ready\_ Bookmarked.pdf

Area	Purpose	FY2017 activity			
Briefings	Provide each Director with a deeper understanding of the activities, environment, key issues and direction of the assets along with HSEC and public policy considerations.	Operating Model Technology update Petroleum strategic review			
Development sessions	Specific topics of relevance.	Climate change Shareholder activism			
Site visits	Bridfiggs on the assets, operations and other relevant issues and meetings with key personnel.	Chympic Dam, Copper, Australia Nickel West, Krickel, Australia Western Australia Iron Ore, Iron Ore, Australia BMM, Metallurjeic Cool, Australia Jamen Project, Potaler, Canada Jamen Jame			
External speakers	Addresses by experts to provide insight into current geopolitical, economic or social themes.	From various external experts, the Board received insights on broad macro-economic themes and the rise of populism insights into geopolitics, with a particular focus on Chile, and insights into climate change and social policy.			

#### 29 Director induction, training and development

The development of industry and Group knowledge is a continuous and ongoing process. The Board's development activity reflects the diversification of the portfolio through the provision of regular updates to Directors on BHP's assets, commodities, geographies and markets, and on the changing extrnal environment, to enable the Board to remain up-to-date.

Upon appointment, each new Non-executive Director undertakes an induction program specifically tailored to his or her needs.



Following the induction program, Non-executive Directors participate in continuous improvement activities (fraining and Development Convenience Conven

These sessions and site visits also allow an opportunity to disciplination in detail the changing risk environment and the potential for impacts on the achievement of our corporate purpose and business plans. For information on the management of principal risks, refer to sections 1.8.3 and 2.14.

Dusnies parts. For indivination of the management of principal miss, refer to sections 18.3 and 214.

The Chairman throughout the year discusses development areas with each Director. Soard committees in turn review and agree their training needs. The benefit of this approach is that induction and learning opportunities can be tallowed to Directors' committee accession planning soard menewith, training and development and committee committees are confirmed process in relation to succession planning, Board menewit, training and development and committee composition, which are all relevant to the Normitation and Governance Committees role in securing the supply of talent to the Board.

Each Board committee provides a standing invitation for any Non-executive Director to attend committee meetings (rather than just limiting attendance to committee meetings). Committee agendas are provided to all Directors to ensure Directors are aware of matters to be considered by the committees and any Director can elect to attend meetings where appropriate.



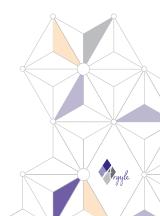


#### **BHP Billiton 2017 Annual Report**

BHP's Training and Development Program includes director education on environmental matters. They go on to list specific activities under the program, which include development sessions and external speakers on the subject of climate change.



bhpannualreport2017.pdf?la=en



## Integrate Climate Change into Strategic Planning and Risk Oversight

From the Getting Climate Smart report:

"Directors should ensure that management is taking the business impacts of climate change into account at every level of the company as a part of existing and new strategic planning and enterprise risk management frameworks. Board audit and risk committees play a critical role in creating the right connections.

Scenario planning for climate impacts can be an effective tool for gathering insight into strategic plans and enterprise risk management programs. That can help a company be more resilient to climate change and pinpoint climate-related opportunities it can leverage."

We looked for:

Presentations of how boards formalize climate change risks into strategic planning and oversight



#### ConocoPhillips 2018 Proxy Statement

ConocoPhillips' Public Policy Committee utilizes scenario planning in its strategic planning process to help manage climate risk. They have also set a target to reduce GHG intensity.



http://static.conocophillips.com/files/resources/conocophillips-2018proxy.pdf







In 2017, Allstate continued its efforts to assess and refine its exposure management, pricing, modeling, and underwriting practices related to climate risks. Some of Allstate's initiatives included:

- Strengthening its catastrophe response and risk management programs through technology such as drone usage, OuickFoto Claim\*, and Mobile Claims Centers, which expedited Alistate's catastrophe response.
- Addressing the risk of loss from catastrophes by continuing to purchase reinsurance for specific states and countrywide for its personal lines property insurance
- Active participation in shaping federal legislation for the Write Your Own Flood Insurance Program. Being selective with personal homeowners insurance new business underwritings in certain coastal areas, as well as other deductibles or exclusions where appropriate
- Assisting customers in mitigating their carbon footprint through an endorsement that allows customers to replace covered, damaged, or destroyed items with more energy efficient ones



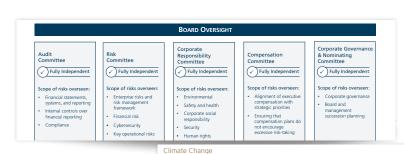
#### Allstate 2018 Proxy Statement

Allstate's Risk and Return Committee oversees enterprise risk and return management practices and regularly reviews risk exposure. Material risks, including climate risk, are identified and reported to management and the full Board. They go on to highlight management, pricing, modeling, and underwriting practices related to climate risk.



meeting-materials-full-report.pdf





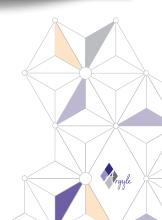
#### **Barrick Gold 2018 Information Circular**

Barrick's Corporate Responsibility Committee is responsible for overseeing programs related to climate change and works with the managementlevel Climate Change Committee to perform a climate change risk assessment and set GHG reduction targets.



Barrick considers climate change to be a company, community, and global concern. In developing Barrick's climate change strategy, we have aligned it with our overall business strategy to grow free cash flow per share through safe and responsible mining. In 2017, we affirmed our commitment to support the voluntary recommendations of the industry-led financial Stability Board TCFD and will seek to implement the full recommendations of the TCFD over the next two years. Governance over climate-related risks and opportunities is provided at both the Board and management level. The Board's Corporate Responsibility Committee meets at least quarterly and is responsible for overseeing Barrick's policies, programs, and performance relating to climate change. Where appropriate, this Comm makes recommendations to the Board on significant matters relating to climate change. At the management level, our Climate Change Committee is chaired by our Chief Sustainability Officer and is comprised of senior members of our management team including our Chief Innovation Officer, Chief Investment Officer, Executive Vice President and Chief Financial Officer, and Senior Vice President, Operational and Technical Excellence. Our Climate Change Committee provides strategic oversight and governance over key decisions related to

https://barrick.q4cdn.com/788666289/files/agm/ Barrick-2018-Information-Circular.pdf



# Tie Executive Compensation to Climate Change

From the Getting Climate Smart report:

"Once climate change is integrated into business strategy and goals are set, Board compensation committees can tie short and long-term executive compensation to climate outcomes. For example, executive compensation can be tied to a company's progress on GHG emissions reduction goals, creating meaningful incentives."

#### We looked for:

Presentations of how companies link executive compensation to the business' impact on climate change

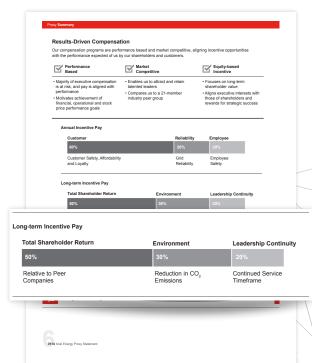


#### **Xcel Energy 2018 Proxy Statement**

Xcel Energy ties 30% of its long-term incentive pay to reductions in  $\rm CO_2$  emissions over a three-year performance period.



http://investors.xcelenergy.com/Interactive/ NewLookAndFeel/4025308/Xcel\_Energy\_Inc-Hosting\_Page\_2018\_ClientDL/proxy/images/Xcel\_ Energy-Proxy2018.pdf





#### Alcoa 2018 Proxy Statement

Alcoa links 5% of its annual incentive compensation to CO<sub>2</sub> emissions reductions (as well as linking a further 10% to diversity).



documents/2018-proxy-statement.pdf

annual bonus scorecard measures including their weightings, targets and outcomes. Charts illustrating the calculation of the final 2017 bonus payable to the CEO and CFO are also provided. nation of the 2017 annual bonus sematical scorecard outcome for 2017 was 1.13 and REMCO of this outcome without exercising discretion. The outcome was bass or cash flow from opperating activities and project delivery and ing performance in UNG liquefaction volumes. The overall score for Score [0-2] 1.32 1.11 0.79 2.00 0.00 1.30 2.00 0.89 1.50 0.00 Measures

Cash flow from operating activities (\$ billion) [A]
Operational excellent
Production (Bock)

ING (Sapidanton volumes Jengo)

Radionary and chamical plant availability [A]
Project delivery on schedule [S]
Project delivery on budger [B]

Sustainable development 3,664 33.2 90.7 86 93

	2017 annual bonus scorecard measures and weightings							
PERFORMANCE MEASURE AND WEIGHTING	LINK TO OPERATING PLAN							
Cash flow from operating activities (30%)	This reflects our business performance.							
Operational excellence (50%)	Project delivery: Indicator of our ability to deliver projects, on time, and on budget.							
	Operations: Maximising oil and gas production, UNG liquefaction volumes, and the availability of refineries and chemical plants are indicators of the full and effective use of our resources; which in turn generate cash flow.							
Sustainable development (20%)	Safety and environmental performance are both core to how we operate.							
	Safety: Is implicit in all our activities. A safe work environment has been, and will always be, an important indicator of Shell's commitment to its employees and contractor staff.							
	Environmental performance: We are managing Shell's carbon intensity as part of the long-term transition to a lower carbon energy system. Therefore greenhouse gas measures are now included.							

#### 2017 Annual Incentive Compensation

We based annual cash incentive opportunities for 2017 on the following parameters:

- 80% financial targets, equally weighted as adjusted free cash flow (40%) and adjusted EBITDA (40%) metrics, as more fully described below; and
- 20% non-financial targets, consisting of safety (5%), environmental (5%), and diversity (10%) metrics, each as more fully described below.

The below chart describes the specific 2017 metrics and results for Alcoa's annual incentive compensation awards

Performance Metrics(1)	Metric Weight	Minimum	Performance Target (100%)	Performance Maximum (200%)	Performance Results	Achievement %	Weighted Result			
Financial Metrics (80%)										
Adjusted Free Cash Flow (\$M)(2)	40%	(329)	21	671	523	179%	71.5%			
Adjusted EBITDA (\$M)(2)	40%	1,157	1,482	1,982	1,247	30%	12.0%			
Non-Financial Metrics (20%)										
Safety FSI-Actual (count)(3)(5)	5%	4	3	2	5	0%	0.0%			
Environmental CO <sub>2</sub> Emissions Reduction (KTons)(4)(5)	5%	100.2	163.7	227.1	-59	0%	0.0%			
Diversity Global Women %(5)	10%	14.2%	14.5%	14.8%	14.6%	127%	12.7%			
Total	100%						96.2%			

- (1) The maximum payout for each financial and non-financial metric is 200%.

  (2) Please see "Additional Information Regarding Financial Measures" below for more information about how these nocalculated from Alcoa's consolidated financial statements.

  (3) The safety metric focuses on reducing the number of fatal and serious injuries/illnesses that are life-altering or life-ending.

  (4) The environmental metric relates to a reduction of carbon dioxide emissions in 2017.

  (5) Threshold performance for each non-financial measure is 50%.





#### Shell 2017 Annual Report

At Shell, 20% of the annual bonus is determined using sustainable development metrics, including 7% coupled with reductions in GHG intensity.



shell\_annual\_report\_2017.pdf



# Promote Robust Disclosure of Climate Change

From the Getting Climate Smart report:

"Directors should promote robust disclosure of climate change in financial filings, including meaningful discussion of climate oversight, risk, opportunities and business strategies. Without robust disclosure, investors and other stakeholders cannot analyze the quality of a company's strategic response to this key risk and its capacity for capturing the value of relevant opportunities. The [Financial Stability Board's Task Force on Climate-related Financial Disclosures] TCFD framework provides guidance on disclosure that is intended to help markets price climate risk accurately and make informed investment recommendations."

#### We looked for:

Presentations of commitment to increased disclosure and accountability around climate change through participation in the TCFD framework



#### Bank of America 2018 Proxy Statement

Bank of America mentions their participation in the TCFD framework under a list of governance enhancements informed by stockholder input.



http://media.corporate-ir.net/media\_files/IROL/71/71595/BOAM\_2018\_Proxy.pdf





#### JetBlue 2018 Proxy Statement

JetBlue states their adherence to the TCFD framework and points readers towards their website for more information.



http://investor.jetblue.com/~/media/Files/J/ Jetblue-IR-V2/Annual-Reports/proxy-statementfor-2018-annual-meeting-of-stockholders.pdf

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#### Aviva 2017 Annual Report

Aviva dedicates a section of their strategic report to information about their climate-related financial disclosure and reaffirms their commitment to the most updated standards of the TCFD framework.



https://www.aviva.com/content/dam/aviva-corporate/documents/investors/pdfs/reports/2017/Annual\_Report\_and\_Accounts\_2017.pdf

