Rethinking how investors engage on climate risk
Defining Key Terms

- **Stewardship**: Encompassing commonly used terms such as *corporate engagement* and *proxy voting*, as well as nascent tools covered in new paper

- **Systemic Risk**: A type of investment risk that can’t be “diversified away”, i.e., climate change or income inequality

- **Net-Zero Asset Owner Alliance**: UN-convened coalition featuring 70+ asset owners from around the world and over $10 trillion in AUM
  - Committed to reaching net-zero portfolio / financed emissions by 2050
  - Setting interim targets over five-year periods
  - Accurate and comparable climate-related information is *essential* for measuring alignment with targets
The Steepening Cost Curve for Corporate Decarbonization

• In many cases, companies have already acted on opportunities to reduce emissions that also improve their short-term profitability.

• Thus, any new emission abatement efforts come at an increasing marginal cost—investor engagement essentially seeks to push corporations up this steepening cost curve.

• Despite some companies having good reason to move up the curve, we have identified at least five limits which restrict investors’ ability to keep pushing companies up this curve.
Limits of Corporate Engagement

Limit 1:
Significant resources needed for effective engagement

Limit 2:
A narrow, single company focus

Limit 3:
Inefficiencies of focusing on voluntary, company-by-company, disclosure

Limit 4:
An uneven investor focus across companies and asset classes

Limit 5:
Boundaries set by the “rules of the game”
Changing the “Rules of the Game”