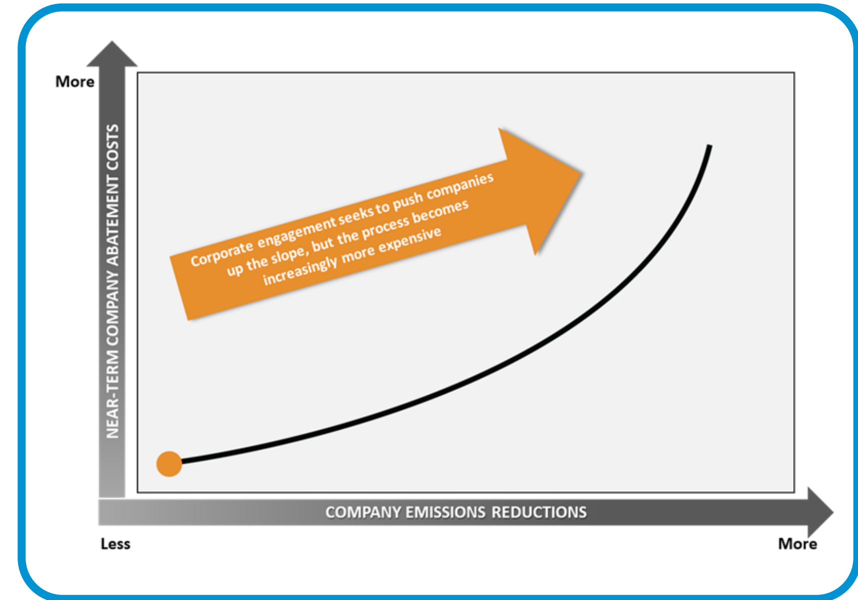
Rethinking how investors engage on climate risk

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:	Limit 2:	Limit 3:	Limit 4:	Limit 5:
Significant resources needed for effective engagement	A narrow, single company focus	Inefficiencies of focusing on voluntary, company-by-company, disclosure	An uneven investor focus across companies and asset classes	Boundaries set by the “rules of the game”

Changing the “Rules of the Game”

More

Near-term company abatement costs

1.5°C consistent
+1.3°C

D

Optimistic scenario:
+1.8°C

Policies & action:
+2.5–2.9°C

A

B

C

Less

Company emissions reductions

More

- 1.5°C orientation, but not viable given current rules of the game of policy framework
- Potential company cost/ emissions orientation
- Boundaries for viable business models in the given policy framework
- Marginal adabtement cost curve for emissions within policy framework