

Using engagement to drive progress on climate change

By: Kimberly Stokes | April 22, 2021

Washington - Making progress against climate change is a year-round effort, and corporations and investors each have an essential role to play. Companies can make a difference by establishing best practices to reduce their environmental impact. Asset managers can help by utilizing a rigorous corporate engagement approach to encourage improvement in corporate behaviors in a way that contributes to a more sustainable and equitable world, and potentially contributes to an investment's business prospects.

Since January 2019, Calvert has conducted 33 engagements specifically on climate change, both on our own and with industry partners. These engagements have touched on issues like clean air, water and energy, managing climate risk, sustainable sourcing, climate change vulnerabilities, and disclosure and transparency, among others.

We filed one shareholder resolution on climate change for the 2020 proxy season, with Hawaiian Electric. We subsequently withdrew the resolution after the company agreed to add board members and link executive compensation to the achievement of renewable energy investment objectives. We continue to meet with the company to monitor its implementation of its climate strategy.

Engagement example: Sempra Energy

In the current proxy season, Calvert, in cooperation with As You Sow and the Illinois Treasurer's Office, has filed a shareholder resolution at Sempra Energy asking the board of directors to evaluate and issue a report describing if, and how, the company's lobbying activities align with the Paris Agreement's goal to limit temperature rise to 1.5 degrees Celsius, as well as how Sempra plans to mitigate risks presented by any misalignment.

Sempra claims it supports climate goals, but currently lobbies for policies that promote natural gas and against policies that promote climate solutions. The company has disclosed that it has plans to grow its natural gas footprint, acknowledging that "this activity will significantly increase [the] company's emissions ...".¹ In recent years, Sempra has received widespread negative press and scrutiny over its effort to block climate-related policy in California, including a recommended financial penalty for hundreds of millions of dollars.² Such controversy and risk exposure merits further attention.

Moreover, Sempra's disclosures do not enable investors to understand how its specific lobbying and advocacy activities, especially in support of natural gas use, do or do not align with global efforts to transition to net-zero greenhouse gas (GHG) emissions by 2050 or earlier. Additionally, current disclosures do not enable investors to adequately understand how Sempra mitigates growing risks in instances of apparent misalignment.

Continued misalignment of Sempra's lobbying with state and federal climate policies increases both regulatory and reputational risk, which may ultimately impact financial performance. Given the scrutiny Sempra's lobbying is already under, this risk may continue to grow.

In short, we believe Sempra is using direct and indirect lobbying that misaligns with its stated climate goals. This lobbying may result in slowed decarbonization efforts and may lock in carbon-emitting infrastructure for decades beyond the timeline necessary to achieve climate stabilization as outlined in the Paris Agreement's goals.

Bottom line: Calvert believes that every company in which we invest, as a matter of necessary risk oversight and effective corporate governance, must disclose climate-related risk exposures and align its lobbying and political spending activities with the net-zero transition.

1. *Sempra Energy, 2019 Corporate Sustainability Report, p. 36.*

2. *Sammy Roth, "SoCalGas should be fined \$255 million for fighting climate action, watchdog says," Los Angeles Times, Nov. 6, 2020.*

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- AusNet Services Limited
- Avangrid, Inc.
- BKW AG
- EDP-Energias de Portugal SA
- Elia Group SA/NV
- Enel SpA
- Eversource Energy
- Hawaiian Electric Industries, Inc.
- Hydro One Limited
- Iberdrola SA
- Infratil Limited
- Mercury NZ Ltd.
- NextEra Energy, Inc.
- Orsted
- Portland General Electric Company
- Red Electrica Corp. SA
- SSE plc
- Terna S.p.A.
- VERBUND AG Class A
- Xcel Energy Inc.

As of March 31, 2021, Calvert portfolios hold the following companies within its Multi-Utilities subindustry:

- A2A S.p.A.
- Acea S.p.A.
- Algonquin Power & Utilities Corp.
- Ameren Corporation
- CenterPoint Energy, Inc.
- CMS Energy Corporation
- Consolidated Edison, Inc.
- ENGIE SA.
- Hera S.p.A.
- National Grid plc
- Sempra Energy
- SUEZ SA
- Veolia Environnement SA



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