

VPIC CLIMATE CHANGE ANALYSIS

March 3, 2023





VPIC recognizes the significance of global climate change as a critical issue and has acted to mitigate the risk of catastrophic climate change.



VPIC GOVERNANCE

Accountability: Oversight

The VPIC ESG Committee assists in oversight of matters related to VPIC's ESG policies and engagement activities.

Transparency: Disclosure

VPIC publishes a Sustainability Report annually and its proxy voting record. Morningstar noted VPIC "disclosures and voting rationale were exemplary."¹

Resources: Human Capital

VPIC hired Segal Marco to assist Staff in efficient and effective engagement with portfolio companies that will move the needle toward the global goal.

¹ "Public Pensions Overwhelmingly Vote for ESG", August 29, 2022

THE GLOBAL GOAL

The Intergovernmental Panel on Climate Change (IPCC) states to **avoid catastrophic impacts** of climate change, “global net human-caused emissions of carbon dioxide (CO₂) would need to **fall by about 45 percent** from 2010 levels **by 2030**, reaching **‘net zero’ around 2050.**”¹

* The Paris Agreement is a **legally binding** international treaty on climate change that went into effect on November 4, 2016. **It strives to achieve the global goal.**





Remaining Carbon Budget

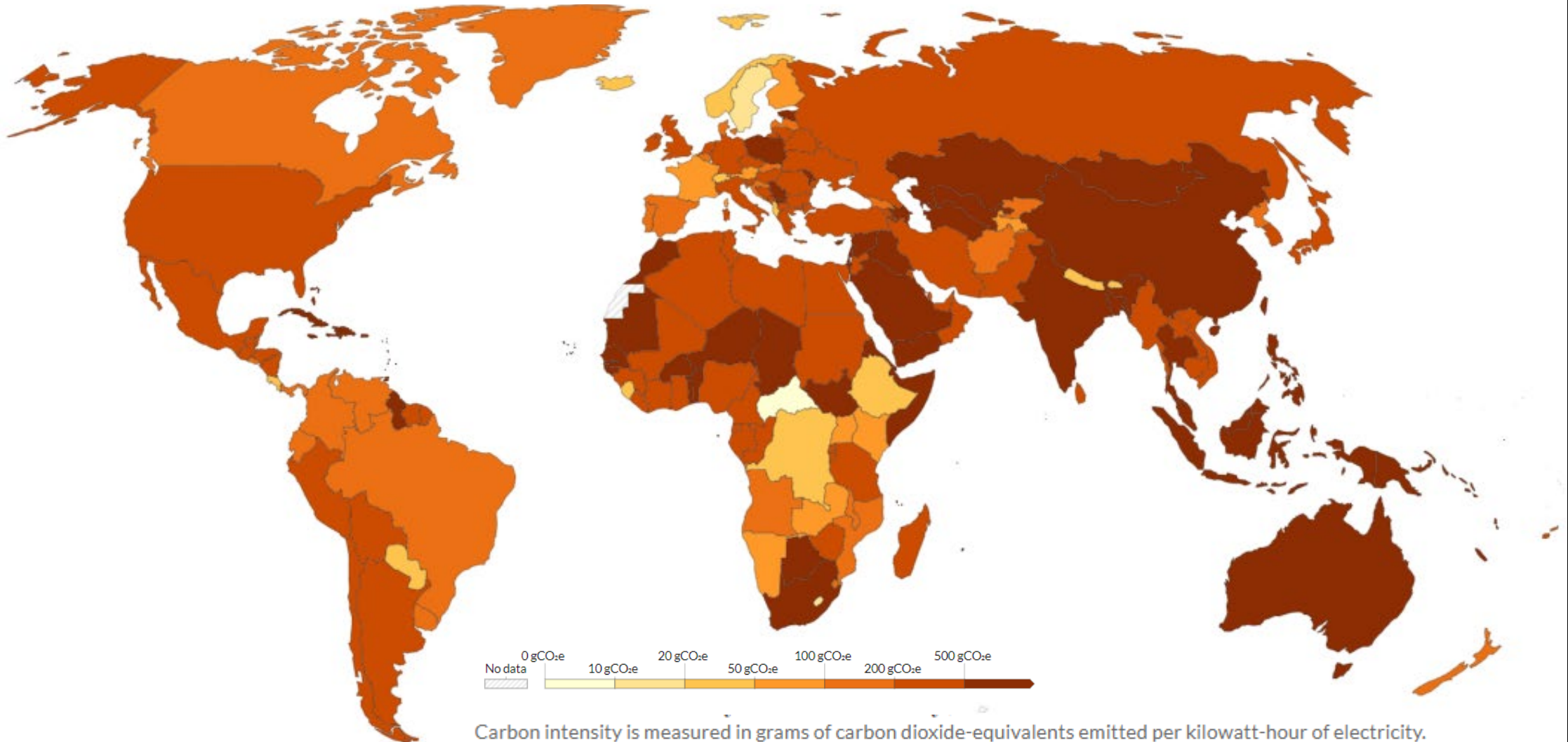
To reach net-zero by 2050 emissions need to be reduced annually about 1.4 GtCO₂.

For comparability, this equates to the fall in 2020 emissions resulting from COVID-19 measures.

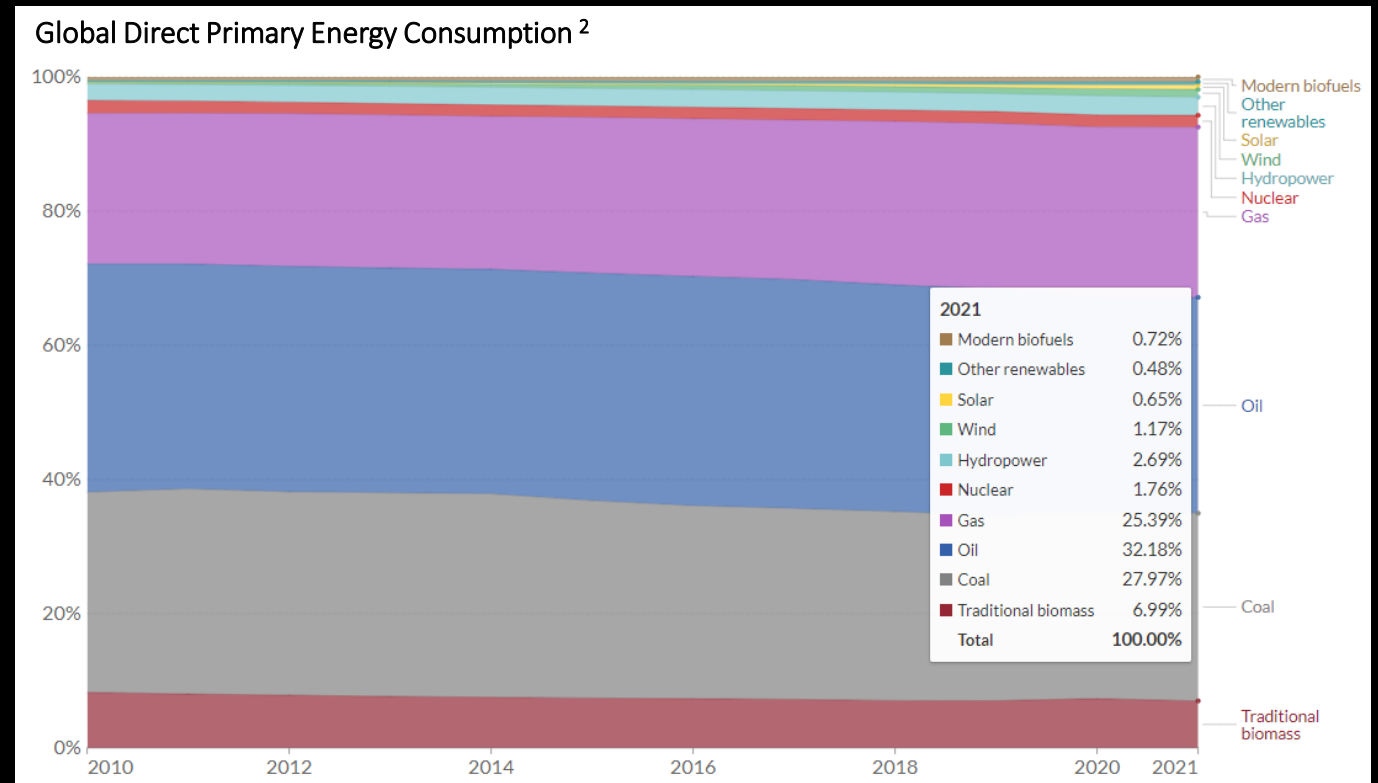
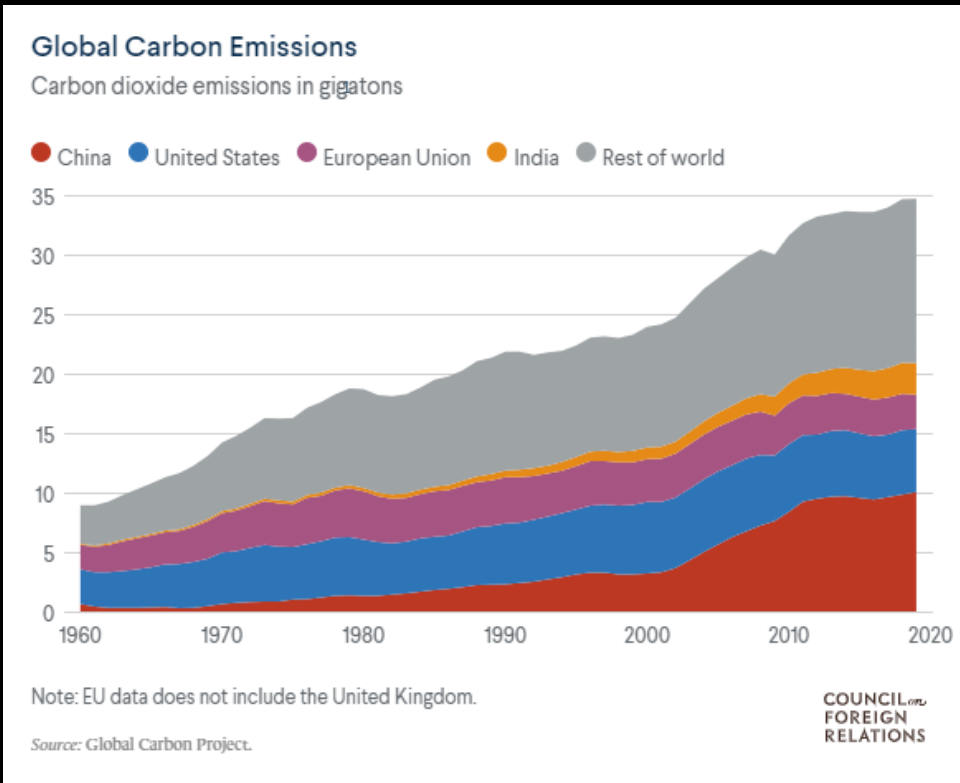
At 2022 emissions levels, the world has 9 years to limit global warming to 1.5°C, 18 years to 1.7°C, and 30 years to 2°C warming.

The World is Dependent on Reliable Electricity

Carbon Intensity of Electricity after the reduction in 2020 due to COVID measure (2021)



The World Needs to Move Toward Net Zero



¹ "China's Fight Against Climate Change and Environmental Degradation", Lindsay Maizland, Council on Foreign Relations, May 19, 2021

² Our World in Data based on Vaclav Smil (2017) and BP Statistical Review of World Energy

The World
needs
significant
capital
expenditure to
achieve the
global goal

Companies **need capital** from institutions like VPIC to go further and faster to reach net-zero targets

To **provide this capital** VPIC and other investors must hold companies transitioning to net zero in the portfolio.

Investors can hold portfolio companies accountable through engagement and monitoring. Including requests for:

Climate-related
Disclosure

Interim Carbon
Reduction Targets

Board-level
Oversight

ENGAGEMENT WORKS

Climate Action 100+, a coalition of 700 investors with \$68 trillion in assets, including VPIC, tracks the progress of engaging **166 companies** who collectively account for **80% of global industrial GHG emissions**.

In the last 5-years:

- **75% made net-zero commitments**, in contrast to 5 companies at the coalitions launch in late 2017.
- **92% have board-level oversight** of some climate change risks, increasing accountability
- **91% reported financials aligned to TCFD**, providing consistent, transparent climate-related reporting





Three professors at **Harvard University, University of Chicago, and Universita di Trento** conducted a study of divestment and engagement, and found “that in a competitive world exit [divestment] is less effective than voice [engagement] in pushing firms to act in a socially responsible manner.”¹

The Financial Times summarized the study:

“there is no guarantee that divestment will achieve a desired social goal, while **consistent badgering can.**”²

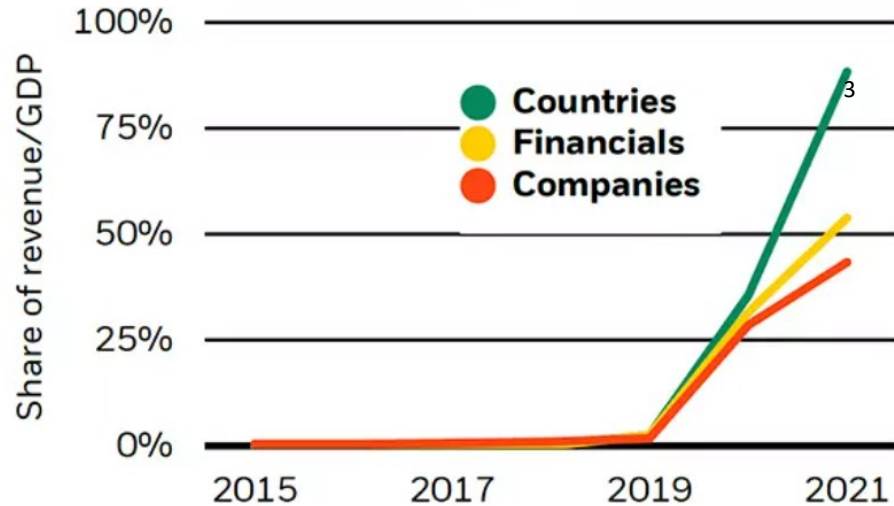
¹ [Eleonora Broccado, Oliver Hart, Luigi Zingales. “Exit vs. Voice”. December 2020](#)

² [Patrick Temple-West. “The ESG Investor’s Dilemma: to engage or divest?” January 26, 2021, Financial Times](#)

Over 40% of the world's 2,000 largest public companies have committed to net-zero emissions ¹

The times they are a-changin'

Share of net-zero pledges by key players, 2015-2021



Source: BlackRock Investment Institute, with data from [Net Zero Tracker consortium](#), Feb 1, 2022. Notes: The chart shows the progress of country, financial institution and company net zero commitments. Companies and financial commitments are shown as a share of revenue, country commitments as a share of GDP. Countries include the 197 members of the United Nations Climate Change secretariat. Companies are the 2,000 largest publicly traded companies tracked by Net Zero Tracker, and financials are a subset of this group.



Apple commits to carbon neutrality by 2030



Transitioning to an all-electric fleet by 2035, net zero emissions by 2040



Mexican-based cement company committed to delivering net zero CO₂ concrete by 2050



Net zero emissions by 2050 by investing \$11.5 billion to electrify its nameplate vehicles



Investing \$12B to develop climate-focused technology to help itself & others achieve net zero



Cutting oil and gas production by 20-30% from 2019 levels over the next decade to help meet its net zero emissions goals by 2050



Ambition for net zero GHG emissions by 2050²

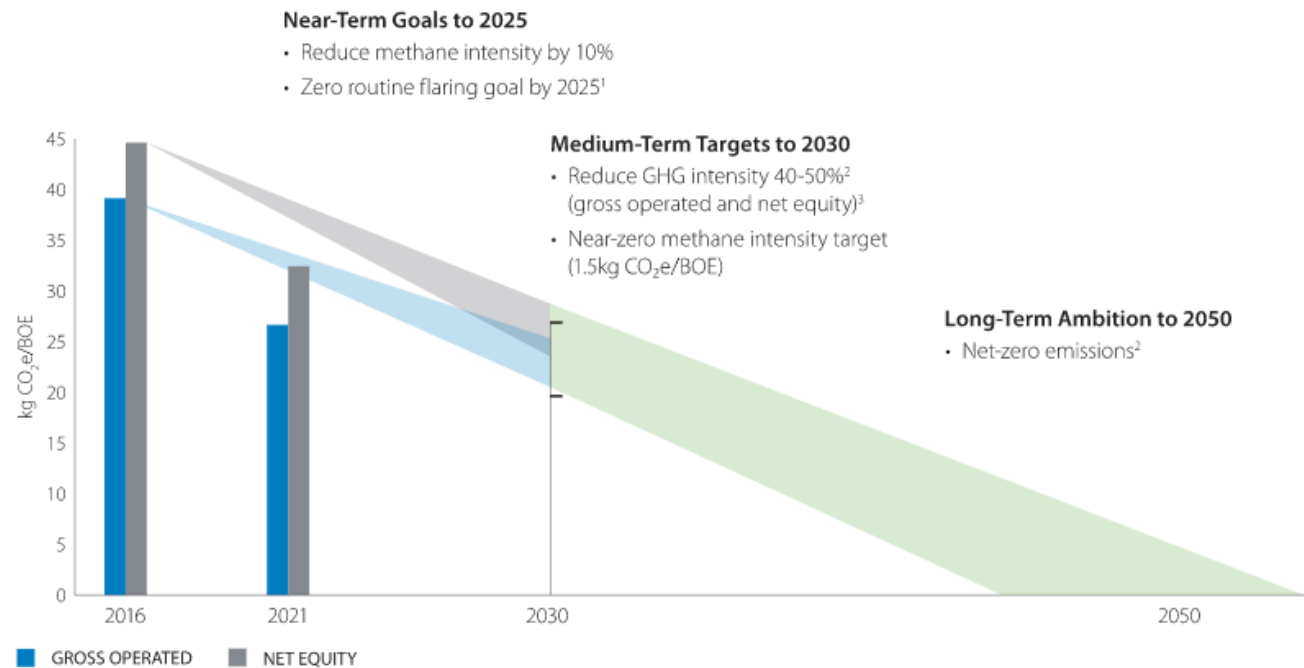
¹ ["Why 2023 might just be a turning point for climate action", Financial Times, February 27, 2023](#)

² [ExxonMobil Press Release, January 18, 2022](#)

³ [BlackRock Investment Institute: Managing the Net-Zero Transition, February 2022](#)

Many companies plan to transition to net zero emissions using quantifiable interim targets

ConocoPhillips: Goals for Net-Zero Ambition¹



¹ In line with the World Bank Zero Routine Flaring initiative.

² Scope 1 and 2 emissions on a net equity and gross operated basis.

³ 2030 target relative to a 2016 baseline.

***Note: GHG emissions intensity measure is stated as both "gross operated" covering assets operated by the company, and "net equity" for those where the company has an equity ownership.²*

The interim steps are achieved through a variety of solutions:

- **invest** in low carbon technology
- **retire** inefficient infrastructure
- **acquire** sustainable energy sources

These actions by the company **diversify** operations and boost efficiency to increase shareholder **value** and **divest** stranded assets.

¹ [ConocoPhillips, ICCR. Sustainable Development: Plan for the Net-Zero Energy Transition. April 2022, Julie Dalzell.](#)

² [ConocoPhillips. "Emissions Reduction Target Principles"](#)

VPIC ENGAGEMENT: AN EVOLVING DIALOGUE OVER TIME

VPIC: In a shareholder resolution filed, VPIC requested the Company report if/how they would curtail their impacts on climate change from routine flaring beyond existing efforts. VPIC recommended time-bound goals and join the World Bank's "Zero Routine Flaring by 2030" initiative.

COMPANY: Agreed in early 2021 to include a Bakken flaring reduction metric as part of their 2021 annual incentive plan, further tying executive compensation to the EHS and Climate Change goals. VPIC withdrew the resolution from the proxy ballot.

Further, the Company established an executive led Net Zero taskforce to lead its climate change strategy implementation.

Company successfully reduced its flaring intensity from 2014 levels by 59%, surpassing its 50% target for 2020.

VPIC: Discussing with 4 companies the reliability and methodology used to measure methane emissions. VPIC seeks to understand the material differences between reported methane emissions and direct measurement results and whether the differences would materially impact Scope 1 emissions. We suggest the companies evaluate joining the [OGMP coalition](#) to further the goal of methane emission reductions.

RESPONSE: All companies requested meetings with VPIC to discuss the topic and our questions. One announced it is joining OGMP. ²

VPIC has shifted the discussion to focus on methane emissions that are 80 times as potent of a GHG as carbon dioxide over a 20-year period. Methane emissions multiply climate risk and represent a valuable wasted product. Low-cost reductions to minimize methane emissions could account for nearly 15% of total GHG reductions to keep the world on a 2-degree path.¹

2020

2021

2022-23

Company announced it joined the World Bank's flaring initiative and set a target to eliminate routine flaring by 2025.

VPIC: Met with leadership to discuss the progress of their Net Zero taskforce.

COMPANY: As required by TCFD guidance, the Company disclosed a low carbon transition framework with short, medium and long-term targets.



¹ "Challenge" Oil & Gas Methane Partnership 2.0

² "APA Corporation Announces 2023 ESG Goals", March 1, 2023

RECENT FEDERAL POLICY PROGRESS

Federal Funding

- The US passed the Inflation Reduction Act (2022) and the Infrastructure Investment & Jobs Act (IIJA), that aims to invest nearly \$480 billion into infrastructure upgrades and climate change mitigation spending.
- February 2023 EU unveiled its “green deal industrial plan” with a “net zero industry act” to incentivize clean energy projects.

Federal Regulations

- The SEC is finalizing climate-related disclosure rules
- The EU rolled out the Corporate Sustainability Reporting Directive in 2023 requiring large companies to report on sustainability-related issues as outlined by the European Financial Reporting Advisory Group
- In February 2023, the EU required tighter sustainability management of companies’ supply chain and production
- Financial Conduct Authority (FCA) of the UK has set rules to combat greenwashing by investment managers

Click on links to see source

Chart Source: [“COP26: Here’s What Countries Pledged, Lindsey Maizland, November 15, 2021](#)

