

Responsible Investment

News and Views

Q3 2024

With global targets aiming to halt nature loss by 2030, we still lack the information required to focus efforts to address this challenge. Will TNFD become mandatory and, if so, when?

In September 2023, the Taskforce on Nature-related Financial Disclosures¹ (TNFD) published its long-awaited framework setting out how companies and institutions can start tackling the nature crisis. After over two years of consultation and market research, the TNFD launched its 'Final Recommendations', as well as a suite of supporting guidance and case studies (to find out more, see our TNFD briefing note).²

With over half of global GDP directly reliant on nature, and amid alarming statistics on the pace at which we're damaging our natural environment – including a 69% decline in vertebrate populations over the past 50 years³ – one can argue that tackling nature loss is one of the most important challenges of our generation. Despite the urgency of the crisis, TNFD remains only a voluntary guide.

What was the process for TCFD?

To understand how soon the TNFD could become mandatory, a natural place to look is the TCFD framework. The Financial Stability Board established the TCFD in December 2015, a few days before the historic Paris Agreement. The final recommendations were published two years later, and it then took a further four years for the UK government to formally endorse the TCFD recommendations in 2021.

The dates when different bodies were required to report in line with TCFD varied, with large asset owners reporting from October 2021, asset managers over 2022 (smaller managers from 2023) and large UK companies (including financial institutions) from 2022. We might consider, when learning from TCFD, whether this approach was best, given asset owners and managers rely on corporate-level disclosure.

What does this teach us for TNFD?

Mandatory compliance takes time – around five years elapsed from the publication of the final TCFD framework to the first mandatory reports.

While charting the path for TCFD was challenging, TNFD follows a similar structure, which may make the adoption process more straightforward. Further, TNFD has made significant progress integrating with existing reporting frameworks,⁴ pointing to the potential for combined TNFD and TCFD disclosures.

Conversely, some elements might lead to a slower pace of adoption: growing sustainability reporting fatigue; broader political pushback against environmental targets; and, crucially, the fact that nature and biodiversity are arguably more complex issues than climate. Importantly, without a headline metric analogous to carbon emissions, and given the importance of location for nature issues, TNFD disclosure comes with greater complexity.

¹<https://tnfd.global/>

²https://www.hymans.co.uk/media/uploads/Briefing_Note_on_TNFD.pdf

³<https://www.unep-wcmc.org/en/news/new-report-reveals-devastating-69-drop-in-wildlife-populations>

⁴<https://tnfd.global/efrag-and-tnfd-sign-a-cooperation-agreement-to-further-advance-nature-related-reporting/>

Where does this leave us?

Five years from September 2023 takes us to 2028. Given the objective to halt and reverse nature loss by 2030,⁵ mandating TNFD disclosures less than two years before the 2030 deadline will simply be too late.

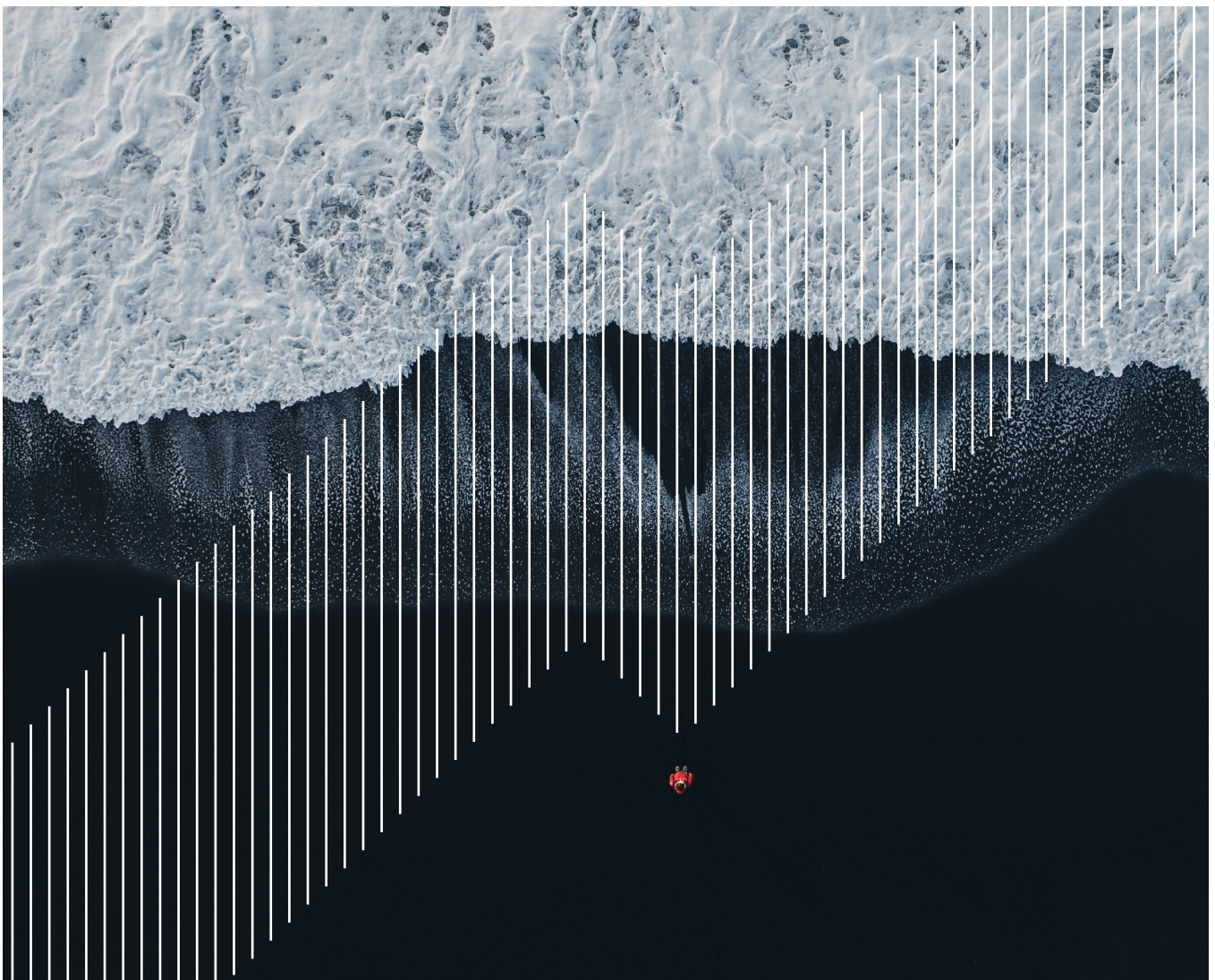
Given the path should be easier to follow, but for a more complex reporting topic, we predict that TNFD might become mandatory in the UK in the second half of 2026. It seems likely that it will take some time before nature disclosures move up the busy UK regulatory agenda.

Reporting isn't the end goal, action is

The goal of asset owners (and regulators) should be to achieve real-world progress. But it's difficult to know where to focus efforts without understanding the size and shape of the problem. To quote Lord Kelvin, "If you can't measure it, you can't improve it." Without robust data, stakeholders cannot set a clear strategy or measure progress.

There is, however, plenty that asset owners can do now. For example, considering exposure to key sectors and asset locations that are likely to have a material impact on biodiversity and where there is exposure to greatest nature-loss risk. Investors can also start engagement with their investment managers on this topic and consider how nature can be factored into their investment strategy.⁶

You can find out more on this topic from our [Nature Hub](#).



⁵<https://www.cbd.int/gbf>

⁶<https://www.hymans.co.uk/insights/webinars/factoring-nature-into-your-investment-strategy-why-how-and-what-next/>

SIGNIFICANT VOTES: CLIMATE CHANGE IN FOCUS

Climate change is the biggest systemic risk faced by our environment, our society and, as a consequence, our economic and financial systems. Investors not only need to consider climate in investment decision-making, but also in their stewardship strategy.

There have been recent setbacks to collective climate action, as several large US-based managers either left or amended their participation in Climate Action 100+ when the collaboration moved into the second phase of the initiative, covered in our [Q2 RI News and Views](#), and as ExxonMobil brought legal action against investors for submitting a climate-related shareholder resolution, opening the door for other companies to consider this route.

A look back at the proxy season

Despite these setbacks, shareholder engagement remained high over the proxy season, with a record number of shareholder proposal submissions.

The number of environmental proposals has slightly decreased since last year, with the increase in proposals primarily driven by increased governance and anti-ESG-related resolutions. Support for environmental proposals has also gradually been dropping since 2021, as the focus of resolutions has shifted from increased climate transparency and disclosures, which saw broad investor support, to a focus on corporate strategy, in line with Phase 2 of CA100+.

GHG reduction proposals that included Scope 3 emissions received less support in 2024 than similar proposals in 2022. While proposals focused only on Scope 1 and 2 emissions received higher average support than those that included Scope 3, support for these resolutions has also dropped.

Oil majors in focus

The oil supermajors – including ExxonMobil, Chevron, BP, Shell and TotalEnergies – have faced mounting pressure to transition towards low-carbon business models in line with the Paris Agreement. Shareholder activism has increased over the past decade, and firms were once again in the spotlight this AGM season, all facing climate-related resolutions, with the exception of BP.

To date, the supermajors have been somewhat successful at minimising the impact of climate-related and environmental shareholder activism, with most resolutions unsuccessful. The same was true this AGM season:

Company	Date 2024 AGM	Resolution	Outcome
Exxon Mobil	29 May 2024	Shareholder resolution – revisit executive pay incentives for GHG emissions reductions	Not passed (2% support)
Chevron	29 May 2024	Shareholder resolution – Report on voluntary carbon-reduction risks	Not passed (1.5% support)
Shell	21 May 2024	Management resolution – Approval of Energy Transition Update and Energy Transition Strategy 2024	Passed (78% support)
		Shareholder resolution – Proposal regarding alignment of Scope 3 GHG target with Paris Agreement	Not passed (18.6% support)
Total Energies	24 May 2024	Management resolution – Opinion on the Sustainability and Climate Progress Report	Passed (79.7% support)

However, shareholders have seen success in their efforts with cases of voluntary changes in company policy, indicating the potential for shareholder advocacy to contribute to the low-carbon transition.

The shareholder proposal at Shell, filed by Follow This, received significant support, with 18.6% of shareholders voting for the resolution. The resolution requested Shell set a more credible Scope 3 target that is aligned with the Paris Agreement. 27 major investors co-filed the resolution with Follow This, including Amundi, Scottish Widows, NEST, London CIV and Candriam among others, with the founder of Follow This noting that: “this escalation of 27 leading investors puts the call for emissions reductions by energy companies front and centre for all institutional investors”.

A similar proposal focused on Scope 3 targets was filed at ExxonMobil but did not make its way to the company’s AGM.

Shareholders’ rights under attack?

In response to this mounting shareholder pressure, ExxonMobil took legal action to block the climate resolution filed by investors Follow This and Arjuna Capital, noting that the investors were following “extreme agendas”.

The resolution requested that the company set medium-term emissions targets, including for Scope 3 emissions. ExxonMobil is the only one of the five Western supermajors not to set targets for its Scope 3 emissions, with Shell, BP, Chevron and TotalEnergies all having set Scope 3 targets following similar climate resolutions. Although these climate-related shareholder resolutions did not pass, the pressure from shareholders was an important contributor in getting the companies to set Scope 3 targets. Further shareholder activism at these companies has focused on ensuring that targets are credible and aligned to the Paris Agreement.

Scope 3 emissions – emissions that are released downstream when their products are used – are typically where the largest percentage of emissions of a company lie. While Exxon has set a goal to reduce emissions from its own operations to net zero by 2050, with targets for Scope 1 and 2 emissions, given the bulk of emissions come from the burning of oil and gas, or Scope 3, rather than energy used in operations, setting a target for Scope 3 emissions is imperative in the transition to a low-carbon economy.

ExxonMobil based their legal case on the SEC rule that prevents shareholders from submitting proposals year after year if they fail to garner increasing investor support over time, claiming further that the proposal did not meet the SEC’s rule that stops shareholder proposals from attempting to “micromanage business decisions”.

This led to the withdrawal of the resolution by Arjuna Capital, which committed to not file similar climate proposals at ExxonMobil in the future. The judge presiding the case dismissed it, noting that the investors’ commitment had “eliminated any case or controversy”.

In response to Exxon’s use of legal channels to block the shareholder resolution, the founder of Follow This commented that “shareholders’ rights are under attack”, and that “with this remarkable step, ExxonMobil clearly wants to prevent shareholders using their voting rights”.

The impact of this escalation to legal measures is yet to be felt, but market commentators agree that a decrease in Scope-3-focused resolutions at US-headquartered companies is likely.

Voting against directors

In the face of declining support of, and pushback against, environmental shareholder resolutions, investors might consider voting against directors to hold companies accountable to climate action. This approach has the potential to be a more effective climate escalation, as board members play a crucial role in determining a company's direction, including how it manages and mitigates climate-related risks. Therefore, voting against a director re-appointment sends a powerful message that the investor is dissatisfied with the direction management is taking on a particular issue. Given that director votes happen annually, it allows investors to weigh in on critical issues, even if a shareholder resolution on the same topic hasn't been filed.

In response to ExxonMobil's lack of credible commitment to a clear climate strategy, investor groups in the US led by Majority Action recommended that shareholders vote against board members, as well as specific directors, at ExxonMobil's 2024 AGM. A similar recommendation was given by European non-profit Reclaim Finance, as it urged shareholders to vote against the re-election of directors and directors and executives remuneration at TotalEnergies 2024 AGM to "sanction and try to block their climate-wrecking strategies". While all director nominations were passed at both the ExxonMobil and TotalEnergies 2024 AGMs, the votes against these directors opens the door for dialogue and for investors to voice the reason for their dissatisfaction.

Companies, investors and regulators increasingly recognise climate change poses a systemic risk to financial markets and is expected to have unprecedented impacts on the global economy. Asset owners, and the investment managers that invest on their behalf, should be active stewards, holding portfolio companies accountable and pushing them to align with global climate goals and deliver emissions reductions in the real economy. Why not ask your investment manager how they voted on the climate-related resolutions tabled at the 2024 AGMs of oil & gas majors, and their rationales for doing so. Further, ask your investment managers whether they voted against directors' re-election due to dissatisfaction with the company's climate strategy.



ESG SNIPPETS

Book festivals and fossil fuels

Several UK book festivals suspended Baillie Gifford as their sponsor after decades of partnership. This followed pressure from Fossil Fuel Free Books, who called on Baillie Gifford to divest from the fossil-fuel industry. Baillie Gifford, which subsequently withdrew its sponsorship from other festivals, argued that across its portfolios, fossil-fuel holdings are less relative to the wider economy – citing only 2% of client money invested in businesses related to fossil fuels, with a greater amount invested in climate solutions.

To engage or divest depends on the nature of the investment and the investor's beliefs. Asset owners should hold their managers accountable and use their role to push for real-world change. It's important that asset owners are aware of their managers' positioning on critical environmental topics such as fossil fuel financing, to ensure that their own beliefs align with their asset managers' approach and subsequent actions.

IIGCC updates Net Zero Framework

The Institutional Investors Group on Climate Change (IIGCC) has updated its Net Zero Investment Framework (NZIF) to include clarity on how to support portfolio alignment, by placing greater emphasis on “financing reduced emissions” rather than “reducing financed emissions” through the new Portfolio Decarbonisation Reference Objective. The second iteration also provides new guidance for sovereign bonds, real estate and private debt, as well as a new emissions performance criterion for listed equities and corporate fixed income.

The publication of additional guidance materials in support of net-zero alignment continues to develop, further formalising support for the low-carbon transition. Asset owners should utilise guidance materials such as the IIGCC's updated NZIF to ensure they are clear on their actions and are working towards aligning their portfolios with net zero. We've actively supported clients in developing their net-zero strategies and the types of assets that are most suitable for a net-zero-compliant portfolio.

ShareAction seeks stronger approach towards fossil-fuel producers

ShareAction has released a new paper setting out how asset managers can adopt a more selective approach to investing in fossil fuel companies, and advocates for a more purposeful use of stewardship levers.

ShareAction have suggested that asset managers embrace a new blueprint for action. These suggestions include the setting of tight investment restrictions on thermal coal and unconventional oil and gas companies, limiting exposure to oil and gas companies who are expanding capacity or increasing production, and engaging with fossil-fuel companies where exposure is retained as well as escalating where change isn't forthcoming.

Involvement with fossil-fuel companies is an area in which asset managers and asset owners should be giving a great deal of thought. Engaging with asset managers and holding them accountable on an ongoing basis to ensure appropriate consideration is given in this area is an important step for asset owners.

SBTi announces transformation but faces internal tribulations

The Science Based Target Initiative (SBTi) has announced its intention to transform from an initiative to a formal voluntary standard-setter with a separate validation services entity. A five-member independent Validation Council has been appointed to oversee decisions within the validation services entity once fully operational. The independent validation would increase the credibility of the SBTi's targets. In addition, the SBTi is opening a call for non-executive directors to serve on the validation entity's Board. Both steps underline the separation between the SBTi's standard-setting and target validation entities.

However, SBTi CEO Luiz Amaral resigned, following controversy over the recent announcement that SBTi intends to extend the use of environmental attribute certificates, such as emissions reduction credits, as part of its planned update for corporate net-zero target setting. SBTi staff issued a letter indicating that they were "deeply concerned" about the plans, and reportedly called for the resignation of the CEO and board members.

Important Information

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We believe it's important for asset owners to consider how they measure transition alignment and be clear on their views regarding the use of carbon offsets. Our May 2024 edition of Investment Perspectives provide greater clarity on the role of carbon offsets in net-zero plans. [Link here.](#)



André Ranchin
Investment Consultant
and Biodiversity Lead

andre.ranchin@hymans.co.uk
0131 656 5127



Tashemia Glen
Senior Responsible
Investment Analyst

tash.glen@hymans.co.uk
0207 082 6041



Jaid Longmore
Responsible Investment
Consultant

jaid.longmore@hymans.co.uk
0207 082 6103