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Proxy Voting Guidelines for External Managers

Topic: Environmental Issues
Subtopic: Report on Greenhouse Gas (GHG) Emissions Goals
Approved: March 1, 2021

Description:

Resolutions on this topic ask companies to report on goals for greenhouse gas (GHG) reduction and steps the company is taking to align its business practices with a 1.5°C or 2°C scenario and the goals of the Paris Agreement.

Topic background:

Shareholders in recent years have taken note of the scientific consensus that greenhouse gas emissions from human activity are driving an increase in average global temperatures and an associated increase in severe and damaging weather events. Shareholder proposals on GHG emissions that drive climate change reflect not only grave concern about the threat climate change poses to society, but also an understanding, from an investor perspective, that the effects of climate change, and of policies to address climate change, pose material financial risks for unprepared companies. Conversely, shareholders may view companies with robust climate change mitigation or adaptation strategies as positioned for longer-term competitive advantage. The goal of the Paris Agreement is to limit global average temperature change to less than 2°C above pre-industrial levels, with the aim of limiting temperature rise to 1.5°C. A recent UN Intergovernmental Panel on Climate Change (IPCC) report further supports limiting average temperature rise to 1.5°C to lower the risk of triggering catastrophic consequences such as ecosystem loss, compromised water supply and food security, and sea-level rise. These risks could have material financial impact on companies' operations and long-term value.

In moving towards a low-carbon economy, a growing number of companies are adopting GHG emissions reduction targets. The Task Force on Climate-related Financial Disclosures (TCFD), supported by both investors and industry leaders, recommends that companies adopt emissions reduction targets to manage climate-related risks and disclosure related strategies. According to the Science Based Target Initiative (SBTi) 672 companies are taking climate action and 276 have approved targets.¹ Lowering GHG emissions can also drive innovation, reduce costs, improve operational efficiency, better position a company for regulatory changes, and maintain a company's reputation.

Considerations for voting:

- As a signatory to Climate Action 100+², the Harvard University endowment supports the goals of the initiative, including that companies take action to reduce GHG emissions across the value chain. We are generally supportive of any well-

constructed resolutions targeting GHG reductions for systematically important emitters as identified by Climate Action 100+. The scope of the request should be reviewed, including whether GHG reduction targets are measured by absolute emissions or emissions intensity, whether the targets cover all business units (i.e., are company-wide), and whether the targets are science-based and quantitative.

Additionally, we recommend considering:

- whether the company is lagging its industry peers in setting GHG reduction goals, or in any of the factors outlined above, and
- whether the company has been forthcoming regarding GHG emissions goals.
- At the same time, we have tended to oppose or abstain on proposals that encroach upon management’s discretion to conduct ordinary business by imposing highly prescriptive requirements for policies or plans to address climate change. An example of this would be a proposal that directs a utility company to substantially alter its energy mix.
- We have typically considered whether a company’s progress on emissions reduction would depend in part upon the availability of energy from renewable and nuclear sources.
- Recognizing the critical importance of confronting climate change, Harvard has committed to emissions-related goals in its Climate Action Plan.³

Illustrative examples of votes:

1. Vote in support of resolutions that request a company to adopt time-bound, quantitative, company-wide, science-based targets for reducing total GHG emissions, taking into account the goals of the Paris Agreement, and report, at reasonable cost and omitting proprietary information, on its plans to achieve these goals.
2. Vote in support of resolutions that ask a company to prepare a report on plans and processes for achieving greenhouse gas emissions reductions in line with the goals of the Paris Agreement for those parts of the business directly owned and operated by the company.
3. Vote in support of resolutions that ask a company to report on the business risks of climate change to their business and steps the company is considering, including greenhouse gas emissions reduction, to mitigate such risks.
4. Vote against resolutions that prescribe specific pathways to decarbonization or that are not aligned with science-based targets.

Harvard offers broader general guidance on its recommended approach to considering shareholder resolutions in “Overview of Harvard University’s Proxy Voting Guidelines for External Managers” (follow [link](#) to download full text). When determining votes on resolutions, we consider each resolution in light of this general guidance as well as in light of a resolution’s specific request and contextual information about the relevant company and its approach to the issue.

¹ The Science Based Targets Initiative is a collaboration between CDP, The United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). The initiative promotes best practices in setting targets and developing a pathway for target adoption. For more information please see <https://sciencebasedtargets.org/companies-taking-action/>.

² Harvard joined the Climate Action 100+ as a supporter in September 2019 and will be engaging with companies on the goals of CA100+ through Harvard Management Company, for more information see [Harvard joins Climate Action 100+](#), *The Harvard Gazette*, September 17, 2019.

³ As part of Harvard's Climate Action Plan, the University has committed to be fossil fuel-neutral by 2026, and fossil fuel-free by 2050. For more information please see <https://green.harvard.edu/campaign/harvards-climate-action-plan>.