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COMMENTARY

The ExxonMobil vote: A tiger in the responsible investing tank?

The high profile resolution drew strong support from shareholders, including Mellon Capital. Was it meaningful or merely symbolic?

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During a week filled with climate change-related headlines, 62% of ExxonMobil Corporation's (ExxonMobil or the Company) shareholders voted in favor of a proposal asking the Company to annually report the risks posed to its business by policies aimed at stemming climate change, including the goal of the Paris Climate Accord to limit the increase in global temperatures to no more than 2 degrees Celsius above preindustrial levels.

The vote that took place on May 31, 2017, was particularly notable for two reasons. First, ExxonMobil's management had urged shareholders to vote against the proposal; the defeat is one of only a handful in the company's history. Two, a similar resolution at last year's annual meeting only garnered 38% support, indicating a significant increase in investor awareness and conviction levels related to climate issues over the past 12 months.

SUMMARY OF THE RESOLUTION

The proposal submitted by the New York State Common Retirement Fund and a number of co-filers requested that ExxonMobil assess, on a yearly basis, the long-term impacts of public climate change policies, particularly those policies framed within the Paris Climate Accord that aim to keep global temperatures less than 2 degrees Celsius above the pre-industrial era. The resolution specifically stated:

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"Shareholders request that, beginning in 2018, ExxonMobil publish an annual assessment of the long-term portfolio impacts of technological advances and global climate change policies, at reasonable cost and omitting proprietary information. The assessment can be incorporated into existing reporting and should analyze the impacts on ExxonMobil's oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2 degree target. This reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond, and address the financial risks associated with such a scenario."

WHY MELLON CAPITAL SUPPORTED THE PROPOSAL

As an ExxonMobil shareholder, Mellon Capital's decision to vote in favor of this resolution was driven by our corporate values, including our long-term commitment to promoting responsible investing. Mellon Capital shares with many investors the viewpoint that climate change is a systematic global risk that demands better risk disclosures from companies more vulnerable to such risk.

In this specific instance, our vote was also informed by analysis conducted by Institutional Shareholder Services (ISS) and Glass Lewis, both of whom have recommended voting in favor of the resolution. Key elements of their analysis include:

- ExxonMobil does not provide a thorough assessment of the impacts on the Company's portfolio from carbon restrictions resulting from regulations that are consistent with a 2 degree warming target, including related financial risks.
- Given that the Paris Climate Accord aims to limit global temperature increases to no more than 2 degrees Celsius over pre-industrial levels, shareholders would benefit from more comprehensive information about the impact that climate change policies aimed at implementing the Paris Climate Accord might have on the Company, particularly bearing in mind ExxonMobil's significant projected capital investments in oil and gas projects.
- The Company's current disclosure might not provide shareholders with sufficiently accessible or up-to-date information concerning the potential risks facing the Company and its operations on account of possible climate change regulations. Moreover, the Company lags its international peers and Chevron in regard to 2ºC scenario analysis disclosure.

Importantly, although the outcome of the vote is nonbinding, ExxonMobil CEO Darren W. Woods said the board would consider the result because it reflected the views of a majority of the Company's shareholders. Supporters welcomed the resolution as sending a clear message that investors believed companies should take bolder steps to move toward a low-carbon economy.

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OH, THE IRONY

While the Exxon vote highlights investors' growing focus on understanding the impact of climate policies on businesses, in an ironic twist that occurred the following day (June 1, 2017), the United States announced its intention to withdraw from the Paris Climate Accord by the end of 2020, joining Syria and Nicaragua as current non-signatories of the pact.

However, initial indications are that individual states (such as California and New York) and municipalities may take further steps of their own to mandate the terms of the Paris Climate Accord through state regulations, potentially limiting the emissions impact of the US decision to withdraw.

Similar steps have been taken in the past. For example, while President Trump may have been "elected to represent the citizens of Pittsburgh, not Paris" (in his own words), the former "Smoky City" is a case study on how climate change legislation like the Paris Climate Accord can help foster a turnaround from a fossil fuel dependent economy to a strong economic, sustainably developed region.

LOOKING AHEAD

We believe the ExxonMobil vote bodes well for the future of climate change awareness. Going forward, we think investors will continue to:

- Demand more and better disclosures from companies regarding climate change-related risks; and
- Engage companies to embrace and contribute to the transition to a lower carbon global economy.

PUBLICATION DISCLOSURES

ABOUT US

Mellon Capital – Global. Insightful. Engaged. Mellon Capital has provided investors with distinct insights into complex capital markets since 1983. Our unique approach to fundamentals-based systematic investing drives our capabilities, which include multi-asset, active, smart beta, and indexing strategies. We're committed to helping our clients reach their investment goals. That's why we've been an innovative pioneer of dynamic multi-asset allocation for more than 30 years. Our intellectual curiosity, sophisticated research platform, global reach, and flexibility to transact in all liquid asset classes help us deliver powerful and unique investment solutions.

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