



SHAREHOLDER RESOLUTIONS ON CLIMATE CHANGE AND OTHER ESG RISKS

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ABOUT THE AUTHOR

With over 20 years' experience in sustainability research and engagement, Jon leads the Responsible Investment programme at Old Mutual Investment Group. His focus is on driving systematic integration of material ESG issues across Old Mutual.

KEY TAKEOUTS

- 62% OF SHAREHOLDERS VOTED AGAINST STANDARD BANK PREPARING A REPORT ON ITS CLIMATE RISK.
- THE BANK MUST NOW PUBLICLY DISCLOSE A COAL POWER AND MINING LENDING POLICY.
- ASSET OWNERS PAYING GREATER ATTENTION TO THEIR INVESTMENTS' CARBON INTENSITY.

June this year saw South Africa's first ever climate risk-related resolutions tabled at the Standard Bank Annual General Meeting. The first resolution called on the bank to prepare a report on its exposure to climate risk in its lending, financing and investment activities. The second resolution called on the company to adopt and publicly disclose a coal power and mining lending policy. These resolutions, the first of their kind to be tabled by a South African listed company at its AGM, are a significant step in local shareholder activism on climate change.

While the majority of shareholders voted against the first resolution (62%), the second resolution received the support of 55% of the shareholders and is therefore binding on the company. The move may have set a new precedent and the



industry can expect to see more shareholder resolutions and activism of this kind this year, as well as on other ESG-related issues.

This is already evident in the recent news that Absa will become SA's first bank to voluntarily develop a comprehensive policy on climate change, an announcement that followed the events surrounding Standard Bank's AGM.

Despite the first resolution not being passed, the listed markets will never-the-less be forced to contend with one aspect of climate risk through the newly gazetted Carbon Tax Bill, which came into effect from 1 June. Ten years in the making, the Carbon Tax bill sends an important signal to the markets that the direction of travel is towards long-run decarbonisation of growth.

The Standard Bank resolutions and Absa's voluntary development of a climate change policy indicate that environmental, social and governance (ESG) issues will increasingly be showing up on the corporate agenda.

The fact that climate risks were raised at a large corporate's AGM shows that stakeholders and shareholders alike recognise that the risk associated with transitioning business models to align with a two degree Celsius future are material. For long-term investors, having transparency on this risk is not an unreasonable request, and so we expect that the climate change debate in South Africa will gain further traction going forward. Additionally, we expect greater consideration of these risks in the context of how our national energy system is planned, rolled out and capitalised.

The risks posed by climate change can be seen through the lenses of physical risk, technology/ disruption risk and tax/legal risk. Importantly, climate risk is a social risk multiplier and given the triple social challenges faced by South Africa of poverty, inequality and unemployment, it's critical that these knock on risks are considered. The climate models for South Africa predict that the country will generally get drier in the west and wetter in the east with higher intensity weather events. We have witnessed the

effects of the droughts in Western Cape and recent flooding in the KZN/ Eastern Cape and so, have first-hand experience of how these events impact the vulnerable, let alone industry.

In Old Mutual Investment Group's recently published Responsible Investment report, we penned an article which flagged that the remainder of 2019 will see a greater amount of shareholder proposed resolutions at company annual general meetings coupled with more vocal pushback from civil society organisations to corporate responses on ESG issues. The pressure that was applied to Standard Bank is sure to flow over to other companies and, from an ESG perspective, this should be seen as a positive move for the entire country.

Ultimately, the investment community is starting to realise that large asset owners will need to transition their asset registers to be aligned with a low-carbon future. For asset managers this presents an innovation challenge that calls for bringing low-carbon investment products to the market.

The retail market in South Africa is also waking up to the fact that they can, and should have, a choice when it comes to how ESG issues are incorporated into their investments. Our expectation is that there will be growth in demand for ESG-themed investment products and coupled with this, innovations in this area.

As a large asset manager, we recognise that the new paradigm of investing requires a shift from balancing risk and return to balancing risk, return and impact. We have embraced this shift and embed it as a part of our fiduciary commitment to our clients across all our investment capabilities. The climate change debate is an important one and we will continue to actively engage with investee companies to reduce investment risk and, additionally, seek further opportunities to build out our already substantial investments in the low carbon and renewable energy sectors.
