RBC Global Asset Management

Climate change: Active Stewardship vs. Divestment

At RBC Global Asset Management (RBC GAM)[1], we believe that climate change is a material and systemic risk that has the potential to impact the global economy, markets and society as a whole. As an asset manager and fiduciary of our clients' assets, we have an important responsibility to consider all material factors that may impact the performance of our investments. In 2020, we took steps to formalize the actions we are taking to address climate change with the launch of *Our approach to climate change*. A cornerstone of this approach is active stewardship as an effective mechanism to motivate companies to build strategies that enable climate mitigation[*] and adaptation[**].

Some investors who are concerned about the impact of climate change and are seeking to align their investment strategies with these views have chosen a divestment approach. While RBC GAM does offer divestment solutions, we believe that the best approach to support the transition to a low-carbon economy is through active stewardship.

Active stewardship

Active stewardship refers to the suite of actions investors can take to better understand and influence the activities or behaviour of issuers. It can be thought of as a conversation between investors and issuers that typically occurs once an investor becomes a shareholder or debt owner, although in some cases engagement may occur before the investment decision is made. Active stewardship typically only ends when the investor decides to sell the security.

Active stewardship is effective because it gives investors a seat at the table with boards and management and the opportunity to express their views. There are two main avenues by which investors may express their views – through engagement, either directly or collaboratively with other like-minded investors, or through proxy voting on management and shareholder proposals. Active stewardship can also include the filing of shareholder proposals or, in extreme cases, the filing of lawsuits. As global investors continue to integrate climate change into their investment decisions, active managers use both engagement and proxy voting as a means of better understanding and influencing the activities or behaviour of issuers.

Engagement

Engagement involves meeting with the boards and management of issuers, typically corporations, and learning about how they are approaching strategic opportunities and material risks in their business. Engagement also provides investors with an opportunity to address any concerns they may have with the governance or operations of the business.

Engagement may be undertaken by investors individually or collectively. While both may be effective, collective engagement has the advantage for investors of increased leverage (due to a greater percentage of shareholders raising similar issues); for companies, it grants them the ability to consolidate their responses and hold joint discussions with investors. One of the most successful collaborative investor engagement models is Climate Action 100+, an investor-led initiative that engages with the largest global greenhouse gas (GHG) emitters (161 focus companies total) with the objective of seeking action on climate change.

[*] Climate mitigation refers to actions taken to reduce or prevent the emission of greenhouse gases.
[**] Climate adaptation refers to the actions taken to adjust to the adverse impacts of climate change.
[1] In this document, references to RBC GAM include the following affiliates: RBC Global Asset Management Inc. (including Phillips, Hager & North Investment Management), RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, and RBC Global Asset Management (Asia) Limited

Launched in 2017, Climate Action 100+ comprises 500 investors from dozens of countries, who collectively manage more than US$47 trillion in assets under management.[2] The purpose of the engagements is to encourage companies to take actions to reduce GHG emissions, improve governance oversight of climate change, and enhance climate-related disclosures.

Since its launch, Climate Action 100+ engagements have resulted in 120 companies nominating a board member or board committee for oversight of climate change, 50 companies announcing the goal of achieving net-zero emissions by 2050 or sooner, and 59 companies formally supporting the Task Force on Climate-related Financial Disclosure (TCFD) recommendations.[3] Research has shown that engagement can lead to positive change in company actions, as well as measurable financial outcomes for both the business and its shareholders, whether related to climate change or other environmental, social, and governance (ESG) issues.[4, 5]

At RBC GAM, our preference is for engagement rather than divestment. We engage, either individually or collectively, with the boards and management of companies so that we may better understand their strategy, encourage effective management of material risks, and require enhanced transparency on material issues. This approach is grounded in research from the UN Principles for Responsible Investment (UN PRI)[6, 7] and others[8, 9] as well as our own experience. As signatories to the UN PRI and Climate Action 100+, we also work collaboratively with other investors to share our views and discuss climate change directly with the boards and management of the companies in which we invest on behalf of our clients.

Examples of engagement outcomes

Say-on-pay and executive compensation: Through the Canadian Coalition for Good Governance (CCGG), institutional investors engaged with companies in an effort to increase transparency on executive compensation and to assess whether management incentives are aligned with long-term business goals. A study that looked at engagements from 2009 to 2016 found that 40% of the companies adopted say-on-pay in the year following the engagement with CCGG, compared to 12% of firms that were not engaged.[10]

Board gender diversity: The 30% Club Canada is a coalition of Canada's largest institutional investors with the objective of achieving a minimum 30% women on boards and in senior management roles of S&P/TSX Composite Index companies by 2022. Since its establishment in 2017, the group has engaged with numerous companies and has seen progress in both the number of women on boards and in senior management and the publishing of company diversity policies. Within the Canadian marketplace overall, a 2019 review found that the number of issuers with at least one woman on their board had increased from 61% in 2017 to 73% that year. The number of corporate issuers that adopted a policy specific to the representation of women on their board increased from 35% to 50% over the same period.[11]

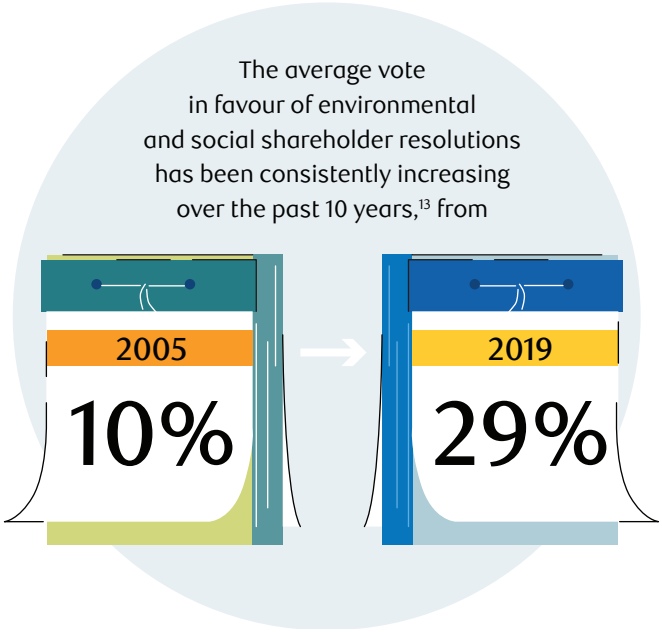
Cybersecurity: The UN PRI initiated a collaborative engagement with 53 companies across sectors that were identified as being exposed to cybersecurity risks. During the period of engagement (2017 to 2019), the percentage of companies that disclosed more than 10 material cybersecurity indicators rose from 13% to 42%, and the companies' disclosure scores improved from 6.1 to 8.5 (out of 10).[12]

[2] Climate Action 100+ website, accessed November 2, 2020. Source
[3] Climate Action 100+, CEO Letter, September 14, 2020 Source
[4] Board-Shareholder engagement practices: Findings from a survey of SEC-Registered companies, Tonello, M. and Gatti, M., The Conference Board, 2019. Source
[5] Active ownership on environmental and social issues, Stockholm School of Economics and Stockholm Sustainable Finance Centre, October 2020 Source
[6] Active Stewardship 2.0: the evolution stewardship urgently needs, November 2019, UN PRI Source
[7] A practical guide to active ownership in listed equity, UN PRI, 2018 Source
[8] Ownership, Activism and Engagement: Institutional Investors as Active Owners, McNulty, T. and Nordberg, D., Corporate Governance: An International Review, 2016, 24(3): 346–358, Source
[9] The Returns to Hedge Fund Activism: An International Study, Brecht, M., et. al., ESGI, Finance Working Paper N° 402/2014, March 2015 Source
[10] Craig Doidge, I.J. Alexander Dyck, Hamed Mahmudi and Aazam Virani, Collective Action and Governance Activism, Review of Finance (July 2015, updated May 2019) Source
[11] Report on Fifth Staff Review of Disclosure Regarding Women on Boards and in Executive Officer Positions, Canadian Securities Administrators, October 2, 2019 Source
[12] Engaging on cyber security: results of the PRI collaborative engagement 2017-2019, UN PRI, April 22, 2020 Source

Proxy voting

As shareholders in a company, equity investors have the right to vote on ballot items at annual general meetings, including management and shareholder proposals. While a decision to vote with management on routine matters is often warranted, the duty to maximize risk-adjusted returns for clients without undue risk of loss also imposes an important responsibility on asset managers to identify instances or issues where a vote does not warrant aligning with management. If a majority of investors vote against management on a proposal, this is a strong signal to the company, and an effective way of directing change.

The majority of proxy voting activity takes place at companies' annual general meetings, where companies provide updates on corporate strategies and governance items, and respond to shareholder concerns. Companies may provide their views on issues that investors raised by filing shareholder proposals, which typically seek additional disclosure on the company's activities or strategy, but which may also seek to direct a specific course of conduct for the company. While shareholder proposals represent a small percentage of the overall ballot items, they can be an important mechanism for shareholders to request that an investee company take action on material or emerging issues, such as climate change. Common shareholder proposals include requests for additional information on a company's policies or practices, executive compensation, lobbying activities, and disclosures related to climate change.



Divestment

Divestment is a term that refers to selling or avoiding investments in companies, sectors, or countries based on particular activities. While this term may be used to refer to selling or avoiding securities based on financial performance or risk management, when it comes to responsible investment it is most often used in reference to avoiding investments based on moral, social, or political motivations. Once an investor makes the decision to divest, they are typically no longer part of any active stewardship activities with that issuer.

Divestment may be a direct alternative to active stewardship for investors seeking to effect change or to avoid sectors or areas where they perceive outsized risks. This type of divestment strategy typically involves a negative or exclusionary screen on the investment portfolio (and is also referred to as socially responsible investment). Negative or exclusionary screens were applied to US$19.8 trillion in assets globally in 2018 (the most recent global data available).[14] Typical exclusions for divestment strategies include tobacco, munitions, gun manufacturing, adult entertainment, gaming, and fossil fuels. Recent research from Canada shows that out of 152 Canada-domiciled funds that employ exclusionary screening, the most common exclusions were for controversial weapons and tobacco.[15]

Investors who choose an investment strategy that excludes a sector or specific activity are typically motivated by a moral, social, or political objective. Whether an investor's personal divestment strategy achieves this intended objective or not depends entirely on what the objective is. If the exclusion of a sector or activity is strictly a moral or ethical issue, the act of divesting in and of itself may meet the investor's objective. However, if the objective is to effect change, influence government policy, or impact the profitability or social license to operate of a company, achievement of this objective is more nuanced and difficult to measure.

Fossil fuel divestment

The fossil fuel divestment movement first emerged in the 2010s and rapidly gained international attention and momentum. While universities and foundations were among the first to implement fossil fuel divestment strategies, a broader array of institutional and retail investors have since joined their ranks. According to Go Fossil Free, the number of global institutional investors who sought to cut fossil fuel stocks from their holdings increased from just 180 in 2014 to more than 1,115 in 2019 and these institutions have committed to divesting approximately US$11.48 trillion in total.[16]

[13] Concerns on Shareholders' Minds. Morningstar, August 21, 2019, Source
[14] Global Sustainable Investment Review 2018, Global Sustainable Investment Alliance, 2019 Source
[15] Sustainable Investing Landscape for Canadian Fund Investors Q2 2020, Morningstar, July 16, 2020 Source
[16] $11 trillion and Counting, Go Fossil Fuel Free, 350.org, Divest Invest, September 2019 Source

The scope of exclusions within fossil fuel divestment ranges from all fossil fuels (e.g., coal, oil, natural gas) to specific types of fossil fuel (e.g., thermal coal mining and power) to specific extraction methods (e.g., oil sands, shale fracking). Research is mixed as to whether fossil fuel divestment impacts returns or profitability. For example, in a 2018 study, researchers from the University of Waterloo found higher risk-adjusted returns between 2011 and 2015 for portfolios that applied a fossil fuel divestment strategy.[17] However, another research study considered an international sample of over 7,000 companies and found that investment performance of portfolios that excluded fossil fuel production companies did not significantly differ from unrestricted portfolios in terms of risk and return, and that these findings held under market conditions that would be expected to benefit the fossil fuel industry.[18]

"Investors who choose a fossil fuel divestment strategy are typically motivated by a desire to address climate change and/or to minimize financial risks."

According to the RBC GAM 2020 Responsible Investing Survey of global asset managers, asset owners, and service providers, the top three motivations for fossil fuel divestment were to align with the investor's moral or ethical values (57%), to reduce the financial risk of stranded assets (49%), and to influence political or regulatory change (46%). In the following section, we lay out four common motivations driving fossil fuel divestment strategies, and explore the effectiveness of divestment in achieving those objectives.

1 To minimize financial risks from asset stranding

Climate change refers to the warming of the planet that has occurred since pre-industrial times, due primarily to the burning of fossil fuels and land-use changes, such as deforestation. According to the Intergovernmental Panel on Climate Change (IPCC), to avoid the worst impacts of climate change, global warming should be limited to 1.5°C by the end of the century. The Paris Agreement, which was signed by 197 countries, aims to hold global warming to "well-below" 2°C. It has been estimated that to reach this target, more than 80% of the world's known coal reserves, 30% of known oil reserves, and 50% of gas reserves need to stay in the ground.[19] This concern gained international attention in financial markets when Mark Carney, then governor of the Bank of England, stated that "the vast majority of [fossil fuel] reserves" will be stranded in a 2°C world.[20]

The International Energy Agency (IEA) defines stranded assets as those investments that have already been made but which, at some time prior to the end of their economic life, will no longer be able to earn an economic return.[21] Research indicates that stranded fossil fuel assets will occur as a result of technological innovation regardless of climate change, but that losses are amplified if climate policies aligned with a 2°C scenario are put in place, or if low-cost producers maintain production despite declining demand.[22] The magnitude of this lost value was estimated to amount to a discounted global wealth loss of US$1-4 trillion, with some regions and companies emerging as "winners" or "losers." While asset stranding is often referred to in relation to fossil fuel reserves, the risk of asset stranding is not limited to the oil and gas sector and may impact other carbon-intensive sectors such as transportation (e.g., aviation and shipping), real estate, electricity generation (e.g., coal plants), heavy industry, and agriculture. For all of these sectors, climate change may materially impact the valuation of assets and could result in asset stranding. This is of concern not only to investors, but to regulators and government as well.

Asset stranding across all sectors is a risk factor that needs to be considered and integrated into investment decision-making, if it is material to a company's valuation. This can be done by identifying sectors and issuers that are exposed to this risk (e.g. energy, agriculture, real estate) and evaluating the likelihood of this risk being realized under different climate scenarios, such as a 2°C scenario.

For example, a recent report from Carbon Tracker found that US$60 billion in capital expenditures associated with the 15 largest oil and gas projects sanctioned by majors in 2019, including BP, Chevron, ExxonMobil, Shell and Total, would not be financially competitive under the International Energy Agency's 1.6-1.8˚C Sustainable Development Scenario.[23]

[17] Fossil Fuel Divestment Strategies: Financial and Carbon-Related Consequences, Hunt C. and Weber, O., Organization and Environment, 2019;32(1):41-61 Source
[18] Auke Plantinga & Bert Scholtens (2020) The financial impact of fossil fuel divestment, Climate Policy, DOI: 10.1080/14693062.2020.1806020
[19] McGlade, C., Ekins, P. The geographical distribution of fossil fuels unused when limiting global warming to 2 °C. Nature 517, 187–190 (2015). https://doi.org/10.1038/nature14016
[20] Mark Carney. 2015. Tragedy of the Horizon. Source
[21] IEA. 2013. "Redrawing the Energy Climate Map." World Energy Outlook Special Report, p.134. Source
[22] Mercure, J., Pollitt, H., Viñuales, J.E. et al. Macroeconomic impact of stranded fossil fuel assets. Nature Climate Change 8, 588–593 (2018). Source
[23] Carbon tracker, October 2020, Fault Lines: How diverging oil and gas company strategies Sourceto stranded asset risk. Source

Not all fossil fuel companies or reserves face the same degree of risk from asset stranding, and the timeline within which this risk may occur can vary greatly. Factors that determine whether these risks will be realized include whether reserves are developed or undeveloped, the capital costs for developing reserves, product pricing, social license to operate, and regulatory requirements in relevant jurisdictions (e.g., carbon pricing). There are also actions that a company can take to manage or mitigate this risk, such as through the diversification of assets (e.g., investing in renewable energy), selling off at-risk assets, integrating higher break-even points in capital investment decision-making, adjusting internal price assumptions, and increasing investments in negative emission technologies or carbon capture and storage. If asset stranding is identified as a material risk, there are also actions investors can take, such as adjusting portfolio weights or selecting investments that are less likely to be at risk.

While a fossil fuel divestment strategy may avoid exposure to asset stranding risk from the fossil fuel sector, it does not take into consideration the exposure to this risk across other sectors, nor does it differentiate between those companies that are proactively and effectively mitigating the risk versus those that are not.

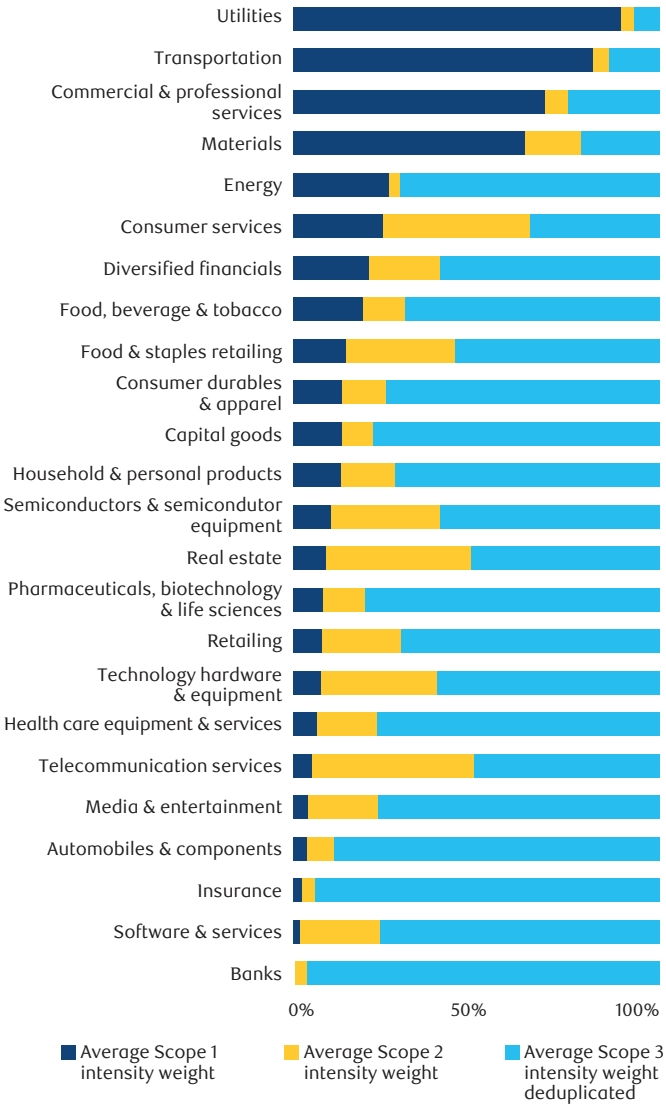
2 To reduce greenhouse gas (GHG) emissions

Mitigating climate change and limiting global warming will require a significant reduction in the amount of GHG emissions generated by the real economy. While not investing in companies that produce fossil fuels may seem like an effective approach to achieving this objective, there are several reasons why this is not the case.

The first has to do with the demand-supply relationship. Most fossil fuel divestment strategies focus on excluding energy companies that are involved in the extraction or production of fossil fuels (e.g., coal, oil, gas). However, for these energy companies the majority of their GHG emissions are generated by the use of their products (e.g., for transportation, buildings, electricity) – also referred to as their indirect Scope 3 emissions (see chart).[24] Unless there are structural changes in how we generate electricity, in the amount and type of energy we use to heat and cool our buildings, or in the transportation of people and goods, the ability to limit global GHG emissions will be minimal or negligible.

Divesting from fossil fuel securities removes the investor's exposure to fossil fuels, but their influence (as an equity investor) with the company as well. As long as there are financial incentives to continue investing in the company, a less discriminating investor is likely to purchase the security. Instead of reducing GHG emissions by divesting, the result is shifting GHG emissions elsewhere. For investors seeking to divest for moral or ethical reasons, this may be sufficient motivation. For those seeking to support or enable the structural changes required to reduce GHG emissions, this cannot be achieved through divestment.

Sector weights per scope emissions



Source: MSCI ESG Research, data as of July 2020

[24] Defined here as companies engaged in exploration & production, refining & marketing and storage & transportation of oil & gas and coal & consumable fuels.

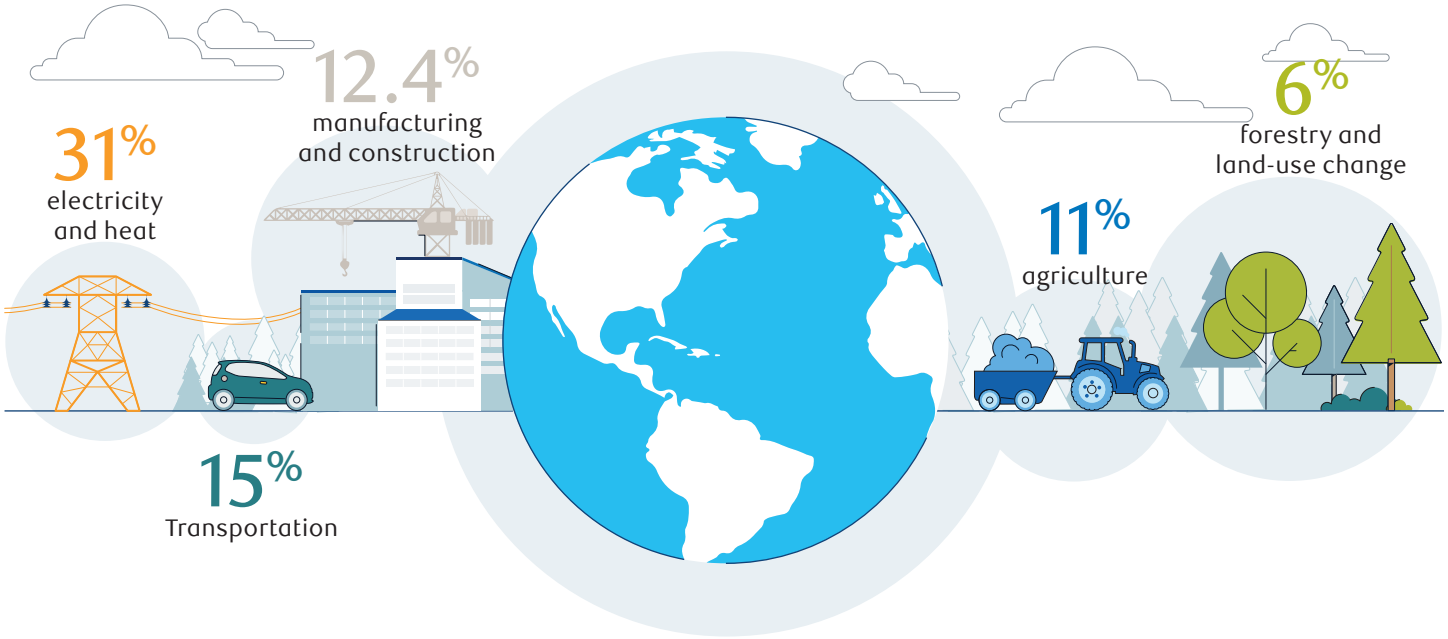
3 To accelerate the transition to a low-carbon economy

According to the Intergovernmental Panel on Climate Change's 2018 report, limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities.[25] The report also finds that achieving this goal would require that investments in low-carbon energy technology and energy efficiency increase by roughly a factor of five by 2050, as compared to 2015 levels.

Transitioning to a low-carbon economy will require both absolute GHG emission reductions across sectors, as well as structural changes to our fossil-fuel based energy and transportation systems and our energy-intensive manufacturing and building sectors. The factors that enable this transition are government policies and regulations (e.g., carbon pricing, building standards, fuel efficiency, phase-out of internal combustion engines), the development and use of low-carbon technologies (e.g., renewable electricity, electric vehicles, mass transit, smart thermostats), and changing customer demand and behaviours (e.g., plant-based proteins, buying locally).

Fossil fuels such as coal, oil, and natural gas are the world's primary energy source – they comprise 80% of global energy demand and are responsible for two thirds of global emissions.[26] While shifting to a less carbon-intensive energy system is possible, it also faces numerous challenges if this is to occur in a way that maintains prosperity and quality of life.

Globally, the primary sources of GHG emissions are:[27]



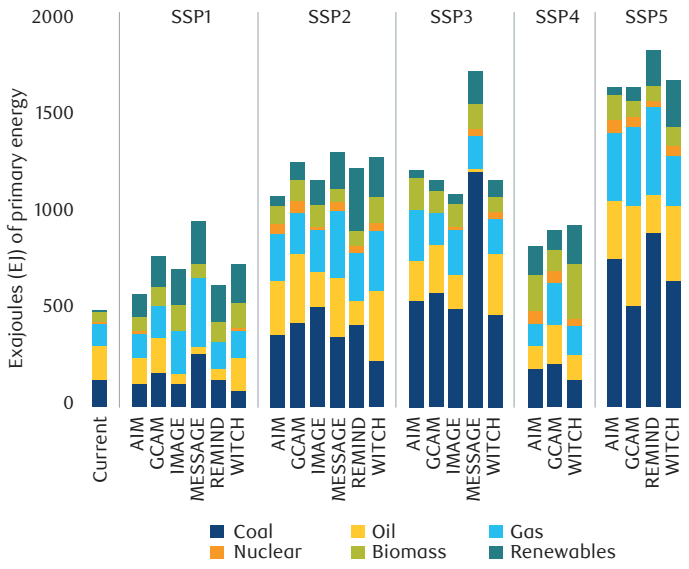
Technologies that support the transition, such as wind and solar power, energy storage and carbon capture and storage, already exist but need to be rolled out on a vast scale to be effective. Other technologies that show potential are still early in their development and not yet commercially viable – the timeframe from invention to widespread commercialization for new technology is a multi-decade process.[28] Similarly, government policies and investments that enable this transition already exist in many jurisdictions: 22.3% of global GHG emissions occur in jurisdictions with a price on carbon.[29]

However, while policies such as carbon pricing exist, these are often not sufficient to drive the behaviour change required. For example, while Canada's carbon price in 2020 is C$30 per tonne, a recent report from the Government of Canada estimates that a carbon price ranging from C$117 to C$289 per tonne in 2030 would be required in order for Canada to meet its targets under the Paris Agreement.[30] In December 2020, the Government of Canada announced a plan to increase the federal carbon price to C$170/tonne by 2030.

[25] Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments, October 2018, Intergovernmental Panel on Climate Change Source
[26] The Role of Fossil Fuels in a Sustainable Energy System, United Nations Chronicle, accessed November 26, 2020 Source
[27] Global emissions, Centre for Climate and Energy Solutions, accessed November 26, 2020. Source
[28] Robert Gross, Richard Hanna, Ajay Gambhir, Philip Heptonstall, Jamie Speirs, How long does innovation and commercialisation in the energy sectors take? Historical case studies of the timescale from invention to widespread commercialisation in energy supply and end use technology, Energy Policy,Volume 123, 2018, Pages 682-699, ISSN 0301-4215. Source
[29] World Bank Carbon Pricing Dashboard (2020). Source
[30] Carbon pricing for the Paris target: Closing the gap with output-based pricing, October 8, 2020, Office of the Parliamentary Budget Officer, Government of Canada, Source

Thus, while the foundational steps that are required in order to transition to a low-carbon economy exist, the transition itself will take time. While global discussions continue on how best to accelerate this transition, credible climate models expect fossil fuels to continue playing a role in this transition. For example, Integrated Assessment Models (IAM) such as AIM, GCAM, MESSAGE, REMIND and WITCH (see chart),[31] as well as the recently released International Energy Agency World Energy Outlook 2020,[32] all include fossil fuels in the energy mix in 2100. In addition, transitioning to a low-carbon economy will affect all sectors and geographies, not just the energy sector. Decarbonization will need to take place across all of these sectors, which takes time.

Primary energy in 2100 by model for SSP† baseline scenarios



Source: Global primary energy use by fuel type in 2100 in exajoules (EJ) for baseline scenarios in each IAM and SSP. Current energy use (as of 2010) is shown for reference in the far left bar. Data from the SSP database and Riahi et al 2017; chart by Carbon Brief using Highcharts.

There is no doubt that the energy sector is critical to the transition to a low-carbon economy. It is also important, however, to recognize that the sector as it exists today is diverse and consists of companies with vastly different business models, asset mixes, corporate strategies, governance, and approaches to climate change.

This is important because it is the energy sector that has the infrastructure, resources, technology, and the expertise to implement the structural changes that are required to transition to a low-carbon economy. A divestment strategy that targets an entire industry or sub-industry eliminates the ability of investors to direct their investment dollars towards the climate leaders within that industry, and away from its laggards. As such, this can remove the incentive for these companies to strive towards climate leadership. Investors may also be missing out on opportunities to maximize long-term, risk-adjusted returns by directly supporting companies that are taking actions to materially reduce their carbon intensity, achieve net-zero emissions targets, or provide products, technologies, and services that enable others to do so.

Fossil fuel divestment strategies have the unfortunate effect of removing climate conscious investors from a position of influence with energy companies, which are critical to the low-carbon transition. As we have seen through successes in collaborative engagement initiatives such as Climate Action 100+, actively engaging with energy companies can be a highly effective approach to influencing companies to address their climate change risks and opportunities.

4 To send a signal to companies and regulators

For some investors, the objective of a fossil fuel divestment strategy is to drive change by sending a signal to companies and policy makers. The underlying motivation is often to remove the fossil fuel companies' social license to operate, which is the perception by stakeholders of whether a company, industry, or project is socially acceptable or legitimate. Having a social license to operate is important for both cost reduction and revenue generation as it can enable more efficient and less costly regulatory approvals, increased productivity, improved employee retention, and positive brand value for a company. The impact of removing the social license to operate is perhaps most evident for Canadian oil sands companies. A decade of targeted environmental campaigns, contentious regulatory approvals, technological innovation, and a withdrawal of financing from (mostly European) banks have negatively impacted the sector's reputation, cost of capital, and financial performance. In the past several years, a number of insurance companies have also announced that they will no longer underwrite oil sands assets, including Hartford Financial Services Group Inc.,[34] Axis Capital Holdings Ltd.,[35] MunichRe,[36] and AXA Group.[37]

† Shared Socioeconomic Pathways (SSPs) provide qualitative narratives describing five alternative socio-economic development pathways out to 2100. SSP1 (Sustainable development); SSP2 (Middle of the Road); SSP3 (Regional Rivalry-A rocky road); SSP4 (Inequality-A road divided); SSP5 (Fossil-fueled development). SSPs are combined with IAMs to assess future climate pathways.

[31] Climate models: Global Change Analysis Model (GCAM), MESSAGE-GLOBIOM, REMIND-MAgPIE, World Induced Technical Change Hybrid (WITCH)

[32] International Energy Agency World Energy Outlook 2020. Source

[33] Raufflet E., Baba S., Perras C., Delannon N. (2013) Social License. In: Idowu S.O., Capaldi N., Zu L., Gupta A.D. (eds) Encyclopedia of Corporate Social Responsibility. Springer, Berlin, Heidelberg. https://doi.org/10.1007/978-3-642-28036-8_77

[34] The Hartford Announces Its Policy On Insuring, Investing In Coal, Tar Sands, BusinessWire, December 20, 2019 Source

[35] AXIS Announces Thermal Coal and Oil Sands Underwriting and Investment Policy to Support Transition to Low-Carbon Economy, BusinessWire, October 16, 2019 Source

[36] Large reinsurer to stop writing oil sands business: Memo, Canadian Underwriter, October 15, 2019 Source

[37] AXA Group Policy on investments in and underwriting of Tar Sands / Oil Sands, AXA Group, July 2020 Source

Divestment campaigns have succeeded in putting questions of finance and climate change on the public agenda and played a part in changing discourse around the legitimacy, reputation, and viability of the fossil fuel industry. Research also shows a short-term negative effect on stock price following prominent divestment announcements, also indicating the potential influence of divestment.[38]

Campaigns that target public companies do not, however, have the same impact on state-owned oil companies (e.g., Saudi Aramco, Rosneft, National Iranian Oil Company) or those in less regulated and/or less democratic jurisdictions (e.g., Libya, Nigeria, Venezuela) who do not need a social license to operate. Overall, the percentage of fossil fuel companies or reserves that are impacted by divestment is relatively small. The global oil and gas industry for example is dominated by national oil companies that control at least US$3 trillion in assets and produce most of the world's oil and gas.[39] A potential negative side-effect of fossil fuel divestment campaigns is that fossil fuel companies that operate in democratic jurisdictions with environmental laws, social justice, and freedom of expression are impacted and potentially pushed out of the market, while less discriminating state-owned companies are not.

RBC GAM: Our approach to climate change

As asset managers and investors, and stewards of our clients' assets, we believe considering climate-related risks and opportunities in our investment approach can enhance our long-term risk-adjusted results. Our approach to climate change describes how we are doing this: by integrating climate change into the investment process via active stewardship through engagement, proxy voting, and advocacy on climate change, and by aligning climate-based solutions with client demand and providing transparent and meaningful reporting on climate-related issues. Below are some specific actions we are taking to address climate change:

- We calculate the carbon footprint for many of our investment portfolios so that we can measure the GHG emissions produced. While carbon footprinting is an important and useful metric, we also recognize that it is a backwards-looking metric that tells us what a company's emissions were last year, but not what they will be in the future. It is for this reason that we also conduct forward-looking analysis that considers the policy changes and technological innovations that are required to achieve a 1.5°C or 2°C climate pathway.
- We integrate climate change into our investment process and assess transition risks (e.g., product, operational, asset stranding) and opportunities (e.g., low-carbon technologies, climate strategy, and targets) at both a company and portfolio level. From a climate perspective, investment teams not only consider the sector in which a company operates, but actively assess board and management oversight of climate change, strategic priorities and business models, climate targets and commitments, low-carbon patents and technology, and capital investments.
- We convey our views on climate change through thoughtful proxy voting and engagement with issuers and regulatory bodies, either directly or through collaboration with other like-minded investors.
- We are a signatory to Climate Action 100+, an investor-led initiative that engages with the world's largest GHG emitters in order to seek reductions in GHG emissions, stronger governance of climate change, and enhanced climate-related disclosures.
- We are a formal supporter of the Task Force on Climate-related Financial Disclosures (TCFD).

[38] Dordi, T. and Weber, O. The Impact of Divestment Announcements on the Share Price of Fossil Fuel Stocks. Sustainability 2019, 11(11), 3122; https://doi.org/10.3390/su11113122

[39] Data-driven Insights into National Oil Companies, April 2019, Natural Resource Governance Institute, Source

We believe that the energy sector is a key player in the transition to a low-carbon economy, as are the workers, communities, and consumers who depend upon the sector, either directly or indirectly. The concept of a just transition is critical, as it recognizes the need to create a bridge from where we are today to an inclusive and sustainable low-carbon future. This transition must be done thoughtfully and with consideration of issues such as energy security and resilience, employment and re-skilling, community transformation and revitalization, poverty alleviation and equality. Canada's energy sector is, and will continue to be, an important partner in designing and building a diverse and sustainable low-carbon economy. We are committed to working with companies in the energy sector and all sectors to continue to be an engaged partner in the climate change conversation.

Moving forward, RBC GAM will continue to fully integrate climate change in our investment processes and in our approach to active stewardship. We will do this by continuing to invest in companies that are taking actions to reduce their GHG emissions and that position themselves for the transition to a low-carbon economy. We will also use our influence as active investors to make sure that companies have in place robust governance oversight of climate change and report transparently on the actions they are taking to integrate climate change into their strategic, financial and risk management processes. We make investment decisions on a case-by-case basis and use stewardship activities to motivate companies to implement strategies and take actions that enable climate mitigation and adaptation. We recognize the importance of our role as an active investor and we will continue to be an active part of the climate change conversation and the transition to a low-carbon economy.

Learn more about Our approach to responsible investment.

(07/2022)
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