



Sunset – Eiffel Tower, Paris, France.

Paris climate change negotiations

On 12 December 2015, the Paris Agreement was signed by 195 nations after two weeks of negotiations at the 21st Conference of Parties (COP21) of the United Nations Framework Convention on Climate Change (UNFCCC). It represents a commitment by those 195 states to address climate change through mitigation, adaptation, technology transfer and capacity building, supported by financial flows. Developed countries are called upon to take the lead in mitigation and finance; all are called upon to collaborate. For the first time, the level of ambition has been heightened to address the concerns of the small island developing states which face the most real and imminent danger from the impacts of climate change. And whilst this is a phenomenal feat of diplomatic prowess, it is not quite time to open the champagne. Targets are vague (keeping the increase in global average temperatures to “well-below 2 degrees” above pre-industrial levels and peaking emissions “as soon as possible”), country-level binding reduction

targets are absent and there are no punitive measures for non-compliance.

Overall though, is the fact that we got an agreement in Paris important? Absolutely. Is it enough? Absolutely not.

Many balls have been kicked down the road and therefore the true success of the Paris Agreement did not happen on 12 December, it will be what happens in the next 10–15 years. Ultimately, what the Paris Agreement has done is to take any hint of debate away from the reality or significance of climate change – whilst for many of us this happened a long time ago, it is fair to say that not everyone has been on the same page. Now we are. Now we agree that it is happening and that we need to do something. Now the international policy is in place. Business has already worked this out in the most part – and this is likely to be the order of things for the foreseeable future, with the private sector leading the way and policy catching up.



Christiana Figueres, executive secretary of the UNFCCC.
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The voice from business was a defining point of these negotiations – with one of the greatest successes in the lead up being to mobilise a strong positive lobby for change to counteract the historically loud voices of the fossil fuel industry. This came in the form of a strong voice for carbon pricing, an end to fossil fuel subsidies and clear policy direction, as well as individual commitments to the funding and rolling out of innovative low carbon technology development. This is what we will be following up on next year: which companies are part of the low carbon future, which businesses are well placed to gain competitive advantage from the transition (regardless of the sector they operate in) and which emerging technologies can stimulate disruptive change.

The high drama of the VW emissions scandal

Was it portentous then, with the world's attention turning towards Paris, that Volkswagen was exposed for an emissions fraud on a global scale?

This might be the right point to note that we weren't invested in VW on your behalf. But it is interesting to review the story as it currently stands, acknowledging that there are likely to be more skeletons in cupboards. There remains a lot of 'noise', with little clarity as to where responsibility lies, and as we write this we don't know how many people were involved in the deception; we may never.

This episode, in the immediate aftermath of the initial announcement, was described as being more significant than the Enron scandal. The reason for this is that by falsifying emissions data, VW management didn't just manipulate numbers that were of financial significance – they endangered people's health.

But should we be surprised? This is an industry in transition, competitive pressures are huge, there remains uncertainty around the direction of future policy, and low vehicular emissions are a competitive advantage. We have already identified the automobile sector as one ripe for disruption.

VW is now facing a variety of potential law suits and class actions worldwide. Deliberate fraud and criminal intent with egregious deception of the public and regulators will not go unpunished by the industry authorities, financial regulators or shareholders. The full ramifications are still unknown: the costs to the company have no upper limit at the moment; the impact on the parent company's other brands, namely Audi, Skoda and Porsche, are unidentified, and the bearing it has on the rest of the sector unknown.

So why did it happen? This may be simplistic, but essentially there were competitive advantages to reporting low carbon dioxide and nitrogen oxide emissions. We do know these pressures are not going to reduce any time soon.

Research themes

The observations above refer to external events. But the question is how we think about these issues and develop our research capability internally to respond to these developing themes. At the recent team away day we focused our efforts on determining the research themes we want to focus on in 2016. These are Governance for Growth, Climate Change, Modern Living, and Sustainable Production. We have produced a report that provides additional detail on the individual themes, including our thoughts on the following points:

- Governance for Growth is about the governance structures required for long-term sustainable growth and the role of active positive stewardship
- Modern Living encapsulates many of the social aspects of disruption
- Sustainable Production and Climate Change are essentially about labour, energy and resources efficiency

We would be delighted to send this piece to you and to discuss it in further detail if it would be of interest. We're looking forward to a busy and research-filled 2016, with research focused on environmental, social and governance matters very high on the agenda.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	1	Companies	None	Companies	None
Resolutions	1	Resolutions	None	Resolutions	None

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During 2016, the Corporate Governance team will focus its research efforts on Governance for Growth, Climate Change, Modern Living, and Sustainable Production

Firmwide Company Engagement

Engagement Type	Company
Corporate Governance	Amazon.com, Inc., Novozymes A/S, Splunk Inc., Twitter Inc.
Environmental/Social	Housing Development Finance Corporation Limited , Novozymes A/S

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Company	Engagement Report
Housing Development Finance Corporation Limited	<p>In India, an amendment to the 2013 Companies Act requires companies to spend 2% of net profits on corporate social responsibility (CSR) activities. A year after the amendment was implemented, we spoke to several Indian companies about the opportunities, challenges and practicalities involved in spending this money. We had an interesting call with HDFC in which we discussed changing societal attitudes. In the business community, it is considered fashionable for people to discuss their role in educating street children, helping after a natural disaster, or sitting on a board of a charity. This is a big change from five years ago. HDFC's CSR projects are focused on low income communities, health, education and natural disaster relief. As 2% of net profits is a significant amount of money, the processes for identifying and monitoring projects will develop over time. Initially, the due diligence process is critical. As far as we can tell, the company is taking a positive and proactive approach to this government mandate. This is a huge opportunity for the Indian third sector economy, and it will be interesting to see how it develops over the next few years.</p>

Votes Cast in Favour

Companies	Voting Rationale
Ctrip.com Intl Sponsored ADR	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.