

Climate Change Stress Testing and Scenario Impact Assessment
Shareholder Proposal Withdrawal Statement: Chevron Corporation Proxy Item No. 7
May 2, 2017

Hermes EOS (Hermes) and Wespath Investment Management (Wespath) have withdrawn a shareholder proposal with Chevron Corporation, listed as Item No. 7 on the company's 2017 proxy ballot. The proposal requested an annual assessment of long-term portfolio impacts of plausible climate change scenarios, including disclosure of the impacts of multiple, fluctuating demand and price scenarios on the company's reserves and resource portfolio.

At Chevron's 2016 Annual General Meeting (AGM), 41% of shareholders supported the proposal requesting additional disclosure. Hermes and Wespath, along with multiple co-filers, re-submitted a similar proposal for consideration at the May 2017 AGM. In response, in March 2017, Chevron published a report: *Managing Climate Change Risks: a perspective for investors*.

Strong support for the proposal in 2016 emphasized to the board of directors that investors want to assess Chevron's resilience during the global transition to a lower-carbon economy. Subsequently, board members met with many of Chevron's largest investors to discuss climate change and supported publishing the *Managing Climate Change Risks* report. Hermes and Wespath acknowledge Chevron's actions to engage investors and produce the report.

Chevron's *Managing Climate Change Risks* report does not fully address the proposal's requests. The report lacks substantive discussion of Chevron's strategies and only describes the potential impact of one reduced demand/carbon-constrained scenario. Hermes and Wespath recognize the report as a "first step" toward explaining to investors how the company uses climate change scenarios as part of its planning for the future; however, investors expect a robust and comprehensive analysis that identifies the emerging risk factors and affirms Chevron's willingness to adjust its business plan to ensure its long-term resilience. Investors are encouraged to review the [attached analysis](#) which highlights areas for improvements in Chevron's disclosure.

Hermes and Wespath believe it is appropriate to provide Chevron with additional time to incorporate new best practice recommendations into its disclosure on how climate change is factored into its strategic planning. Resources (listed below) are currently available to guide companies in conducting scenario analysis and providing disclosure to their investors about their transition plans for a lower-carbon economy.

Resources:

- *Investor Expectations of Oil and Gas Companies: Transition to a lower carbon future*ⁱ
- *Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)*ⁱⁱ, issued in December 2016, supports scenario analysis as method of assessing potential business, strategic and financial risk. The TCFD also issued a technical supplement to guide issuers through the process.
- *A Framework for 2 Degrees Scenario Analysis: A Guide for Oil and Gas Companies and Investors for Navigating the Energy Transition*ⁱⁱⁱ provides detailed information on the steps required to conduct and utilize 2 degree scenario analyses.

ⁱ <http://www.iigcc.org/publications/publication/updated-guide-of-investor-expectations-of-oil-and-gas-companies-2016>.

ⁱⁱ <https://www.fsb-tcfd.org/publications/recommendations-report/>

ⁱⁱⁱ <https://www.ceres.org/resources/reports/a-framework-for-2-degree-scenario-analysis>