

# NORTHERN LGPS 2025: Q4 QUARTERLY STEWARDSHIP REPORT

CLIMATE GOVERNANCE IN THE AUTO SECTOR / CLIMATE CHANGE /  
REMUNERATION / PUBLIC HEALTH: NUTRITION



# FOCUS

## Q4 ■ CLIMATE GOVERNANCE IN THE AUTO SECTOR



## Management of climate risks in the automotive sector

**Overview:** The automotive sector is a significant driver of global emissions and has increasingly come under scrutiny from both regulators and consumers. As environmental standards have tightened, long-established business models have and are being reshaped, creating disruption across the industry. This evolution brings material risks for investments in individual companies. It also makes the sector a critical focus for

investors seeking to understand and address systemic, market wide climate related challenges, particularly as the pace of decarbonisation has slowed.

It is estimated that around 11% of emissions originate from private cars and vans globally.<sup>1</sup> In the UK, road transport now accounts for 25% of emissions, making it the country's highest-emitting sector since 2014, as decarbonisation of transport has been slower than in other

sectors such as electricity.<sup>2</sup> Transitioning to electric vehicles (EVs) will be the most critical step in addressing emissions in the automotive sector. However, while the first all-electric vehicle came to mass market over 15 years ago, global market share had reached only 20% by 2024.<sup>3</sup> Consequently, the International Energy Agency (IEA) notes that greater efforts are needed for the sector to align with a 2050 net-zero emissions scenario.<sup>4</sup>

<sup>1</sup> International Energy Agency (2023). *Cars and Vans - Energy System*. [online] IEA. Available at: <https://www.iea.org/energy-system/transport/cars-and-vans>.

<sup>2</sup> Department for Transport (2024). *Greenhouse gas emissions from transport in 2022*. [online] GOV.UK. Available at: <https://www.gov.uk/government/statistics/transport-and-environment-statistics-2024/greenhouse-gas-emissions-from-transport-in-2022>.

<sup>3</sup> International Energy Agency (2025). *Executive summary - Global EV Outlook 2025 - Analysis* - IEA. [online] IEA. Available at: <https://www.iea.org/reports/global-ev-outlook-2025/executive-summary>.

<sup>4</sup> International Energy Agency (2023). *Cars and Vans - Energy System*. [online] IEA. Available at: <https://www.iea.org/energy-system/transport/cars-and-vans>.

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## CLIMATE GOVERNANCE IN THE AUTO SECTOR

One of the most fundamental challenges to decarbonisation in the automotive sector is the reliance of Internal Combustion Engines (ICE) on fossil fuels. The introduction of EVs to the market represented a significant step toward addressing the challenge to decarbonise. Over the last 5 years, there has been a strong uptake of EVs, signalling both consumer appetite and industry commitment to transition. The performance of EVs has improved considerably since their introduction to the market, with advances in battery technology delivering meaningful gains in driving range.

Despite this progress, several barriers continue to limit wider EV adoption. Among the most frequently cited challenges are, high purchase prices, driving ranges that – while improved – remain limited relative to their ICE counterparts, and a lack of charging infrastructure.<sup>5</sup> These barriers continue to slow the transition towards a decarbonised auto sector.

The shifting regulatory landscape surrounding EV adoption adds a further layer of complexity to the challenge to decarbonisation. While the EU, UK and Canada have all announced mandates for new vehicles to have zero tailpipe emissions by 2035, these targets have not gone unchallenged. The UK initially set a more ambitious phase-out target date of 2030 before delaying it 2035. The EU has also weakened its 2035 target to a 90% reduction, partly in response to pressure from carmakers. Under the revised EU framework, manufacturers must now compensate for the remaining emissions through alternative measures such as low-carbon steel, e-fuels or biofuels.<sup>6</sup> This is further complicated by recent policy shifts in the US which have seen the removal of several EV mandates and subsidies, all of which had made EVs a more attractive choice for both manufacturers and consumers.

This regulatory uncertainty has already begun to have tangible effects, with some automakers scaling back their electrification plans in response.<sup>7</sup> The absence of stable and long-term policy signals needed to justify the massive capital investments required for this transition are problematic. These challenges in regulation have led to a decrease in not only EV production but also in EV sales. This is especially prominent in the US where EV sales growth dropped to 1% in 2025, although growth remains stable elsewhere.<sup>8</sup> As many companies planned to meet their targets through increased EV sales, this dip in growth threatens their ability to deliver meaningful emissions reductions.

These regulations are also undermined by the persistent issue of inadequate supporting infrastructure. A lack of charging points and grid capacity means that consumers cannot reliably charge their vehicles, preventing further uptake of EVs. Current grid systems will also require significant upgrades to handle the increased demand, particularly during peak hours. These challenges are global and demand large, sustained investment across markets to resolve, with meaningful progress likely to take considerable time.

Despite these policy shifts, technological advancements and economies of scale are driving EVs toward cost parity with their ICE counterparts at a fast pace. In 2024 alone, the global average battery price fell by more than 25%, significantly reducing production costs.<sup>9</sup> Chinese EV manufacturers such as BYD and Chery are rapidly gaining market share by producing EVs at a lower cost, a development described by Ford's CEO as a "fight for our lives".<sup>10</sup> Ultimately, established European and American car manufacturers risk becoming uncompetitive in the long term if they are unable to accelerate their transition to EVs.

Beyond climate and supply chain

concerns, the transition to EVs poses substantial just transition risks for workers and communities dependent on the traditional automotive industry. The shift threatens manufacturing jobs, as EVs have simpler assembly processes and require less labour. Regions with concentrated automotive employment face potential economic disruption without adequate support measures.

A just transition requires proactive policies, including retraining programmes for displaced workers, support for affected communities to diversify their economic base, and ensuring new EV manufacturing jobs offer comparable conditions. However, the current regulatory landscape presents several challenges. The rollback of previously pro-EV regulations in certain markets has created uncertainty around the transition, raising concerns about job security across the automotive sector.

Given the transition risks faced by this industry, meetings were held with several of the world's largest carmakers on behalf of Northern LGPS. PIRC sought to understand how well their strategies are aligned with the goals of the Paris Agreement, and how well this ambition is embedded into their governance, operations and decision making.

### Issues

These engagements were guided by PIRC's climate governance assessment, which rates high-emitting companies based on an assessment of their climate change-related governance mechanisms, ambition and disclosures. Target-setting was noted as a key area for improvement across the automotive sector. Whilst most companies had set targets in line with 'well below 2°C', some have not set any targets at all. In both cases, companies fell short of the best practice of very setting 1.5°C-aligned goals. The Science Based Targets initiative (SBTi) is currently

5. Pamidimukkala, A., Kermanshachi, S., Rosenberger, J.M. and Hladik, G. (2024). Barriers and Motivators to the Adoption of Electric Vehicles: a Global Review. *Green Energy and Intelligent Transportation*, 3(2), pp.100153–100153. doi:<https://doi.org/10.1016/j.geits.2024.100153>.

6. European Commission. (2025). *Cars and vans*. [online] Available at: [https://climate.ec.europa.eu/eu-action/transport-decarbonisation/road-transport/cars-and-vans\\_en](https://climate.ec.europa.eu/eu-action/transport-decarbonisation/road-transport/cars-and-vans_en).

7. Eckert, N. (2025). Ford retreats from EVs, takes \$19.5 billion charge as Trump policies grip industry. *Reuters*. [online] 16 Dec. Available at: <https://www.reuters.com/business/autos-transportation/ford-retreats-evs-takes-195-billion-charge-trump-policies-take-hold-2025-12-15/>.

8. Benchmark Source. (2026). *Global EV sales reach 20.7 million units in 2025, growing by 20% | Benchmark Source*. [online] Available at: <https://source.benchmarkminerals.com/article/global-ev-sales-reach-20-7-million-units-in-2025-growing-by-20>.

9. International Energy Agency (2025). *Trends in electric car affordability – Global EV Outlook 2025 – Analysis - IEA*. [online] IEA. Available at: <https://www.iea.org/reports/global-ev-outlook-2025/trends-in-electric-car-affordability>.

10. Jolly, J. (2025). *Driving competition: China's carmakers in race to dominate Europe's roads*. [online] *the Guardian*. Available at: <https://www.theguardian.com/business/2025/nov/07/china-in-push-to-dominate-europe-electric-vehicle-market-with-uk-as-gateway>.

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piloting a new automotive net-zero standard. This update will mandate 1.5°C-aligned targets, and importantly, will also cover supply chain emissions to address one of the largest sources of carbon emissions in the sector.

Participating in the SBTi's pilot process and ultimately setting new 1.5°C-aligned targets will be critical for the credibility of companies' climate commitments and the practical viability of the SBTi's automotive standard itself. The new targets will also be crucial in setting expectations to suppliers who are assessing the demand for greener batteries and materials.

Beyond target-setting, PIRC's climate governance assessment pays close attention to how climate considerations are embedded across the organisation. It is expected that the Board has a specific committee or individual responsible for overseeing the company's climate strategy. This ensures dedicated oversight and avoids the excessive "diffusion of responsibility" which can occur if the responsibility is split between the whole board. It is also expected that board members have relevant climate-related skills, which should be disclosed clearly to investors.

Companies should also move beyond purely descriptive accounts of their transition plans and quantify how each mitigation lever contributes towards their targets. Such disclosures would provide a valuable sense of scale and credibility to a transition plan. Similarly, for investors to understand if companies' Paris goals are properly integrated to their finances, companies need to disaggregate their capital expenditures (CapEx) between "green" and "brown" investments. A relevant CapEx disclosure would indicate to stakeholders how much a company is committed to spending on "green" activities such as EV production facilities and battery manufacturing. It would also reveal the extent of continued investment in "brown" activities, such as ICE vehicle production lines and development.

Additionally, it is expected that companies formally commit to aligning all policy engagement activities with their Paris ambitions. It is not unusual for companies to commit to net zero while supporting industry associations which lobby against climate policy. Several of these industry groups were instrumental in watering down of the EU's 2035 zero



tailpipe emissions mandate. Thus, the expectation is that companies disclose all industry association memberships and have a process to ensure trade bodies act in line with their climate goals.

## EFFECTIVE ENGAGEMENT

### GENERAL MOTORS COMPANY

**Issues:** General Motors (GM) has begun scaling back elements of its EV and battery investment programme due to a combination of softening consumer demand and regulatory changes. This has resulted in reduced activity and subsequent layoffs at facilities in Michigan, Ohio, and Tennessee, which were primarily driven by a slowdown in near-term EV demand. This has prompted concerns about the company's ability to achieve its stated goal of eliminating tailpipe emissions from new US light-duty vehicles by 2035, a target aligned with a 1.5°C pathway. These developments, alongside ongoing policy uncertainty following the expiry of federal EV tax credits, risk slowing the company's transition toward full electrification. In parallel, greater transparency is needed on how GM assesses the consistency between its climate commitments and the positions and activities of the industry associations with which it is affiliated.

**Engagement:** On 3 November 2025, PIRC met with GM to discuss its approach

to maintaining climate ambition amid these strategic adjustments. GM emphasised the importance of flexibility in responding to shifting market dynamics and evolving regulatory conditions. While acknowledging headwinds such as slower EV demand, the company outlined efforts to strengthen the attractiveness and accessibility of EVs. This includes expanding charging infrastructure through initiatives such as the IONNA, a joint venture with other car makers targeting 30,000 high-powered charging stalls by 2030, and over 2,000 fast-charging stalls installed with EVgo. To support road trips and longer journeys, GM is investing in a broader charging network, while introducing bi-directional charging technology to enable vehicles to power homes during outages or return energy to the grid.

**Outcomes:** GM confirmed it is reviewing the latest SBTi guidance, including the draft automotive net-zero standard, to inform the potential validation of its 1.5°C-aligned targets. The company reaffirmed its commitment to achieving carbon neutrality across global products and operations by 2040, clarifying that offsets are not a core component of its strategy and would be used only as a last resort. GM also highlighted its intention to strengthen transparency around policy advocacy by providing regular updates on its public policy positions and industry association memberships, while maintaining strategic flexibility as it continues to advance decarbonisation and EV adoption in a changing market.

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## HONDA MOTOR CORP

**Issues:** Honda has set interim targets that would see electric models account for a relatively small share of its sales by the early 2030s. Under its current plans, EVs are expected to make up around 20% of automobile sales by 2031, with even lower adoption in motorcycles at about 7%, and roughly 26% across other power products. This falls short of the expectations set by the SBTi and the International Energy Agency (IEA), both of which call for a faster phase-out of internal combustion engines powered by fossil fuels and a more rapid shift to electric vehicles. Furthermore, whilst Honda has set a 2050 carbon-neutrality target, it has not clarified the role of offsets, and climate governance remains fragmented, lacking a dedicated board-level committee or clear Just Transition commitment.

**Engagement:** On 22 October 2025, PIRC met with Honda to discuss how the

company's climate targets aligned with a 1.5°C pathway and whether the company plans to validate these targets through the SBTi.

Honda explained that it had previously engaged with the SBTi and sought validation under earlier versions of the framework. However, as the company's current targets do not meet the higher level of ambition required by the updated SBTi criteria the company was unable to secure validation. Positively, the company noted that it is currently reviewing the updated draft framework.

Honda initially aimed to align with a 1.5°C scenario around 2035 by ramping up EV sales, with a long-term goal of achieving carbon neutrality by 2050. The company now expects to align with a 1.5°C pathway between 2035 and 2040, once EV adoption becomes more widespread. By 2040, Honda plans for 100% of its new vehicle sales to be either battery electric or fuel cell electric models.

The company also highlighted that in some of its key markets, such as Southeast Asia and India, ICE vehicles remain in high demand and are expected to grow until around 2030. To help reduce emissions during this transition period, Honda plans to introduce hybrid vehicles, which offer roughly 10% better fuel efficiency compared to traditional ICE models.

**Outcomes:** Looking ahead to a major EV expansion from 2030 onward, Honda intends to launch 10 new electric vehicle models by 2027 to accelerate the electrification of its product lineup.

Honda has indicated that it will continue reviewing the evolving SBTi NetZero Standard and also recognised that its current plans do not align with the latest SBTi criteria but demonstrated openness to reassessing its approach. However, the company did not make any immediate commitments to updating its interim targets or accelerating its EV transition.

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## TOYOTA MOTOR CORP

**Issues:** Toyota has limited disclosure regarding supply chain emissions, particularly for high emitting materials such as steel. The company's use of the term "carbon neutral" rather than "net zero" leaves uncertainty regarding the potential utilisation of large-scale offsets. Toyota also does not yet provide clear disclosure on capital expenditure related to carbon-intensive activities.

**Engagement:** On 21 October 2025, PIRC met with Toyota to better understand how the company is addressing emissions from purchased goods and services (Scope 3 Category 1), which accounted for about 21% of total emissions in FY2023. Toyota replied that it is targeting a 30% reduction in life cycle emissions by 2030, including a 22% reduction in procurement emissions. The company noted that it is negotiating with suppliers but continues to face challenges in accessing green steel. PIRC encouraged Toyota to strengthen its approach by using its

purchasing influence to support early offtake agreements with green steel producers.

PIRC questioned the company's use of the term "carbon neutral" rather than "net zero". Toyota explained that as it does not yet have a clear pathway to eliminate all emissions by 2050, it expects that some neutralisation will be required. The company stated that it cannot yet quantify the potential use of offsets.

Toyota's significant investment in battery R&D was noted along with a request for the company to provide more transparency on capital expenditure that continues to support carbon-intensive activities. Toyota stated that it plans to disclose its capital expenditure breakdown under the EU Taxonomy framework in 2028.

**Outcomes:** The company is also engaging suppliers on emissions reduction strategies to better manage the company's scope 3 emissions. Finally, the company is committed to disclosing its capital expenditure breakdown under the EU Taxonomy framework in 2028.

Toyota has stated that it plans to disclose its capital expenditure breakdown under the EU Taxonomy framework in 2028.

## BMW AG

**Issues:** BMW currently has a 'well below 2°C' SBTi validated Scope 3 emissions target, falling short of the 1.5°C alignment required under PIRC's climate governance framework. The updated SBTi guidance issued in 2024 allows Scope 3 targets to be validated at 1.5°C, creating an opportunity for BMW to strengthen its ambition.

Further gaps identified under the framework include the absence of quantified disclosure on future CapEx tied to unabated, carbon intensive assets, which is relevant given the risk of internal combustion engine investments becoming stranded under tighter regulation. Finally, the lack of a standalone sustainability committee at board level is cause for concern as it can lead to a diffusion of responsibility.

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**Engagement:** On 1 October 2025, PIRC met with BMW to discuss the company's climate strategy. PIRC questioned whether BMW plans to revise and resubmit its Scope 3 targets under the 1.5°C framework, following the SBTi's 2024 update to allow for validation of use phase emissions. BMW explained that its current targets remain aligned with a "Well Below 2°C" pathway due to previous methodological limitations but acknowledged the updated guidance. The company noted that it has already shifted from relative to absolute targets, which PIRC welcomed.

PIRC asked whether BMW intends to commit to phasing out ICE vehicles, as suggested under the SBTi's Land Transport guidance for 1.5°C alignment. BMW stated that it supports a full transition to electric vehicles but raised concerns about feasibility. This was primarily about whether the conditions needed for an EV only transition are realistically in place across all markets where it operates. The company highlighted major barriers, including limited charging infrastructure in regions where public or home charging is still underdeveloped, uneven consumer readiness to adopt EVs, and political uncertainty in markets such as the US. BMW stressed that these challenges vary significantly across countries and could slow the pace of a universal ICE phaseout commitment.

BMW outlined how it is working to overcome current barriers to EV adoption by focusing on improving the overall appeal and practicality of electric vehicles. The company highlighted its newly launched sixth generation battery technology for the upcoming Neue Klasse models, which offers significantly longer ranges and much faster charging. The company is also exploring bi-directional charging, allowing customers to power their homes or return electricity to the grid. These innovations are intended to address worries about range, charging time and usability, helping accelerate consumer adoption of EVs.

PIRC welcomed BMW's forward-looking CapEx plan for 2024–2030, which goes beyond EU Taxonomy requirements. PIRC asked whether BMW would consider disclosing the CapEx allocated to unabated, carbon-intensive activities. BMW reiterated that it has a "technology

open" approach which allows for continued investments in internal combustion engines alongside battery electric and hydrogen vehicles. BMW explained that the company's flexible architecture allows for ICE and electric powertrains to be produced on the same line, which reduces stranded asset risk, protects employees from sudden job losses and maintains strategic adaptability.

**Outcomes:** BMW showed encouraging progress across several areas. The move from relative to absolute Scope 1 and 2 targets is considered a sign of strengthened climate ambition. The company's forward-looking CapEx plan for 2024–2030 exceeded EU Taxonomy requirements, offering transparency on investments in electrification. PIRC also welcomed BMW's active participation in the SBTi pilot and working group reflects a commitment to shaping sectoral best practice. BMW stated that the SBTi remains the preferred standard for the company's climate targets. Technological developments such as battery innovation demonstrate a clear intent to remove hurdles for consumers and support the broader transition to electric mobility.

## VOLKSWAGEN

**Issues:** While the company has a verified 1.5°C science based target covering its scope 1 and 2 emissions, its scope 3 target is aligned to a 2°C pathway. The company also does not provide explicit estimates of the weight of individual initiatives in delivering long-term emissions reductions. A clear breakdown, defining the relative weight of each strategy, and how they work in combination, is valuable for assessing progress toward net zero by 2040 to 2050. While the company disclosed current and planned CapEx for green transition activities, it did not provide comparable disclosure for unabated carbon-intensive assets and products.

**Engagement:** On 18 September 2025, PIRC met Volkswagen to discuss the company's climate strategy. The company shared that it has published a new ESG Fact Book to serve as a central reference

point for its sustainability disclosures. A key issue raised by PIRC was that the company's Scope 3 emissions target is currently aligned with a 2°C pathway rather than the more ambitious 1.5°C. The company acknowledged this and explained that it is actively involved in the SBTi, including participation in its advisory council and upcoming framework updates.

Efforts to decarbonise include expanding the electric vehicle portfolio, with a focus on compact and more affordable models. However, the company highlighted that these products typically yield lower margins compared to traditional fuel-based vehicles, and that the transition requires significant capital investment. Volkswagen has already committed around €30 billion to this area, with a large proportion directed towards electrification, underscoring the scale and seriousness of its commitment, despite the shifting market demands. On terminology, the company clarified that while it uses the term "carbon neutral," its net zero strategy is aligned with recognised standards. It explained that its approach involves 90% direct abatement of emissions, with the remaining 10% covered by carbon offsets, which is consistent with SBTi guidance.

PIRC encouraged the company to provide a breakdown of how much each action contributes towards its overall emissions reduction targets. This could include, for example, the percentage of reductions expected to come from increased sales of electric or hybrid vehicles. While the company was receptive to the suggestion, they noted that there is currently no standardised approach for such disclosure.

**Outcomes:** A positive outcome from the discussion was the company's openness and engagement across a range of climate-related topics. The company's active involvement with the SBTi, including participation in the advisory council and upcoming framework updates, reflects a commitment to staying aligned with evolving best practice. Additionally, Volkswagen expressed interest in improving disclosures, including quantifying the impact of specific decarbonisation actions, and welcomed examples from peers to guide future reporting.

# ENGAGEMENT HIGHLIGHTS

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## CLIMATE FINANCE

**Overview:** The banking sector has a systemically important role in the transition to net zero. The industry can provide the capital needed to scale up climate solutions while withholding financing from the most polluting activities. However, while the International Energy Agency (IEA) has stated that investment in new oil and gas fields is not compatible in a 1.5°C-aligned scenario<sup>11</sup>, banks continue to provide substantial financing to the sector. In

2024, 65 of the largest banks globally committed \$429 billion to companies expanding fossil fuel production and infrastructure, with over two thirds of them increasing their financing year-on-year.<sup>12</sup>

Banks face a multitude of financially material climate risks, which are heightened if they do not align their portfolios with net zero. Physical risks to borrowers' assets – such as extreme weather or rising sea levels – could limit their ability to repay loans. Similarly, transition risks – such as carbon taxes and climate regulation – could lead to stranded assets and threaten shareholder

value. Furthermore, if banks are accused of greenwashing, they could face not only reputational backlash but also litigation or trigger a broader regulatory response. On the other hand, decarbonisation offers opportunities, banks can access lucrative new markets and scale their sustainable financing rapidly.

Despite some positive high-level commitments by banks regarding climate, the robustness of their underlying policies varies significantly. While many banks have made commitments to quit or limit financing to specific oil and gas projects, the vast majority of financing (95%) comes in the

<sup>11</sup> IEA (2021). *Net Zero by 2050*. [online] International Energy Agency. Available at: <https://www.iea.org/reports/net-zero-by-2050>.

<sup>12</sup> Rainforest Action Network et al. (2025) *Banking on Climate Chaos: Fossil Fuel Finance Report 2025*. Available at: [https://www.bankingonclimatechaos.org/wp-content/uploads/2025/06/BOCC\\_2025\\_FINAL3.pdf](https://www.bankingonclimatechaos.org/wp-content/uploads/2025/06/BOCC_2025_FINAL3.pdf)

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form of corporate-level financing – lending to a company active in fossil fuel extraction.<sup>13</sup>

A concerning development arose in September 2025, when the UN-backed Net Zero Banking Alliance (NZBA) ceased operations after many of its members withdrew following attacks from US lawmakers alleging antitrust breaches.<sup>14</sup> The demise of the NZBA, along with the US administration's focus on scrapping environmental regulations and incentives, leaves banks' existing green finance programmes in a fragile and uncertain position. Several banks have argued that leaving the NZBA has not altered their level of ambition; but some, such as Wells Fargo and HSBC, have abandoned climate targets altogether or watered down their fossil fuel exclusion policies, in some cases through subtle changes in wording.

During Q4, PIRC engaged with five banks on managing climate risk. These included follow-up meetings with two European banks – BBVA and Nordea. In addition, PIRC engaged with three Canadian banks – CIBC, Bank of Nova Scotia and Toronto-Dominion (TD) Bank. Canadian banks are responsible for 15% of total fossil fuel financing globally – and are disproportionately exposed as a proportion of their total assets.

**Engagements:** Across the banks engaged during the period, several common issues emerged regarding the credibility, scope, and implementation of climate strategies. While most institutions have made highlevel netzero commitments and established sustainable finance targets, gaps remain in target coverage, fossil fuel restrictions, and the treatment of highemitting sectors. These challenges are often compounded by data limitations, policy loopholes, and, in some cases, weakening ambition following withdrawals from the NZBA.

A recurring issue was the limited coverage of financedemissions targets. Scotiabank, for example, has set sector targets for oil and gas, power, and autos, but has no interim targets for agriculture, cement, or residential real estate, despite these sectors accounting for a substantial

share of its financed emissions. Similarly, CIBC and TD Bank have large exposures to highemitting sectors but have not set targets for agriculture, citing data and methodological challenges. Swedbank covers six sectors, but these represent less than 40% of total financed emissions due to gaps among SME clients.

Weak or inconsistent fossil fuel restrictions also remain a key concern. Scotiabank and CIBC apply no constraints on financing new or expanding oil and gas activities, despite evidence that continued fossil expansion undermines netzero alignment. TD Bank has removed previous exclusions for Arctic oil and thermal coal, replacing them with enhanced due diligence processes, while BBVA applies restrictions to new upstream projects but allows midstream activities such as pipelines. Nordea no longer finances oil and gas expansion projects but still provides general corporate financing to fossil fuel companies, which may indirectly support continued production.

A further issue lies in the treatment of capital markets facilitation. Nordea and Swedbank both exclude capital markets emissions from their netzero targets, despite these activities being material to overall emissions responsibility and increasingly scrutinised by stakeholders.

Across engagements, banks often attributed gaps to data quality constraints -especially in agriculture and SME-dominated sectors - and to geopolitical or energy security considerations, particularly in relation to oil and gas financing. Several banks that recently exited the NZBA, including Scotiabank, CIBC, and TD Bank, emphasised that internal frameworks have since matured, though their withdrawals nonetheless raise questions about longterm ambition.

**Outcomes:** Despite the challenges, engagements revealed several positive developments and areas of progress. Banks demonstrated openness to strengthening disclosure and improving transparency around sustainable finance methodologies. Scotiabank and CIBC both conduct annual thirdparty assurance of

sustainable finance allocations, with Scotiabank expressing willingness to expand realeconomy impact reporting over time. BBVA's enhanced disclosure on eligibility criteria and its expanded sustainable finance target indicate growing momentum within its commercial strategy.

Another emerging trend is the gradual development of more structured transition engagement frameworks. CIBC, TD Bank, Nordea, and BBVA each outlined processes to assess client transition plans and escalate where progress is insufficient, ranging from scoring matrices and transition indicators to integration of transition risk into credit assessments.

Banks also continue to make progress on exiting coal. Nordea has phased out coal lending and maintains firm timelines for its investment entities, while BBVA and Swedbank maintain restrictions on high thermal coal exposure. Nordea's oil and gas exposure has also decreased significantly over time.

Finally, there is growing attention to data improvements in hardtomeasure sectors. Swedbank and TD Bank described partnerships aimed at enhancing agricultural emissions data, while several banks referenced the role of evolving PCAF methodologies and the forthcoming CSRD regime in improving emissions accuracy.

## REMUNERATION

### AG BARR:

**Issues:** The company has proposed a rise in the maximum annual bonus opportunity from 125% to 150% of salary, AG Barr is also planning to increase the pay of its non-executive directors to match the market average. The potential optics of these changes raise concerns due to how they may be perceived by the wider workforce. In addition, the company only discloses its strategic performance metrics retrospectively, meaning that shareholders cannot evaluate their appropriateness when voting on the remuneration policy.

<sup>13</sup> Rainforest Action Network et al. (2025) *Banking on Climate Chaos: Fossil Fuel Finance Report 2025*. Available at: [https://www.bankingonclimatechaos.org/wp-content/uploads/2025/06/BOCC\\_2025\\_FINAL3.pdf](https://www.bankingonclimatechaos.org/wp-content/uploads/2025/06/BOCC_2025_FINAL3.pdf)

<sup>14</sup> Jessop, S. and Furness, V. (2025). Net-Zero Banking Alliance folds after mass exodus by members. *Reuters*. [online] 3 Oct. Available at: <https://www.reuters.com/sustainability/cop/net-zero-banking-alliance-stop-operations-after-member-vote-2025-10-03/>.

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**Engagement:** PIRC asked how the company had considered the potential optics of remuneration changes among the wider workforce. The company responded that workforce engagement is a priority, with attendance at three or four workforce engagement sessions each year. PIRC expressed concern that reliance on peer benchmarking perpetuates excessive pay across the market. The company stated that the talent market is highly competitive and cited recent experience recruiting a new non-executive director as evidence. PIRC welcomed efforts to improve disclosure of strategic metrics in the annual bonus and asked whether the company would consider prospective disclosure of specific KPIs. The company replied that it will consider providing an indication of thematic focus areas prospectively but, due to commercial sensitivity, will not disclose detailed metrics until the end of the year.

**Outcome:** The company's planned improvements in disclosure are welcomed. PIRC will consider the quality of disclosure and the level of variable pay

when making a vote recommendation on its remuneration policy ahead of the company's AGM.

## LLOYDS BANKING GROUP

**Issues:** Lloyds Banking Group is proposing significant changes to its executive compensation scheme in the "third stage" of changes following the repeal of the bankers' bonus cap. The company plans to cut fixed pay by 45% and pensions from 15% to 10%, while sharply increasing variable pay. The CEO's bonus will rise from 140% to 300% of salary and Long-Term Incentive Plan (LTIP) from 300% to 500%, lifting total potential reward by 53%. The LTIP will place more weight on financial metrics (75%) and less on strategic and environmental ones, while the bonus will slightly reduce its environmental component in favour of customer measures.

As a constituent of the FTSE 100, Lloyds Banking Group's remuneration practices are subject to regulatory

scrutiny, investor expectations around ESG metrics, and reputational risks associated with perceived compensation during periods of cost pressures or underperformance.

**Engagement:** PIRC raised concern about the company excluding car financing outcomes from LTIP financial metrics, arguing this would misalign executives with shareholders. The company said that while this was partially a legacy issue, executives would still be financially impacted by it. PIRC also acknowledged the mix of absolute and relative financial metrics in the LTIP but expressed a preference towards absolute metrics, which are more aligned in the interest of asset owners. The company acknowledged the advantages of using absolute metrics but noted the significant market demand for relative metrics. PIRC also raised concerns that the increase in variable pay could encourage excessive risk-taking. The company cited regular RemCo reviews of risk and annual individual risk ratings. PIRC also asked the company if it had

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consulted employees on the planned changes. The company explained that it does not formally consult employees on pay policy changes, although executive pay is a topic of discussion in the company's people forum.

**Outcome:** PIRC remains concerned about the significant increase in the level of variable pay. PIRC will review the final policy proposal before making a vote recommendation on the company's pay structures.

## GOVERNANCE: FERRARI

**Issues:** A number of directors, including the Chair, have served beyond nine years, raising questions about independence and board refreshment. Executive Chair John Elkann received notable opposition to his re-election due to potential conflicts linked to his senior roles and shareholdings at Exor and Stellantis. The nomination and remuneration committees are not fully independent, diverging from best practice. Ferrari has also yet to meet Italian and Dutch gender diversity requirements, both of which apply specifically to the board. Separately, within the wider workforce women represent only 12.4% of managers and senior managers, which, while not part of the legal requirements, highlights broader diversity challenges. In addition, there are concerns about executive remuneration. The CEO's maximum potential payout of 545% of base salary appears high, and the use of Adjusted EBITDA in both short and long-term incentives risks duplication of reward.

**Engagement:** On 26 November 2025, PIRC met Ferrari to discuss its approach to governance. PIRC raised concerns regarding extended director tenure and the balance of independent and executive members on the board. Ferrari explained that although it does not impose a formal tenure limit, annual elections allow regular scrutiny of each director's suitability. PIRC also addressed the lack of full independence on the nomination and remuneration committees. Ferrari responded that the nomination function is integrated within the ESG committee and that the presence of an executive

provides operational insight, while noting that the composition of the committee is under review. The company also addressed questions regarding opposition to John Elkann's re-election, emphasising that potential conflicts of interest are managed through established review processes involving the audit, risk and compliance functions.

On remuneration, PIRC reiterated concerns about the overall quantum and the apparent duplication of Adjusted EBITDA across both the short and long-term incentive plans. Ferrari reassured that the two measures capture different aspects of performance, as the long-term plan assesses the metric over a longer period. The company also highlighted improvements to its variable pay framework, including a refined peer group aligned with premium automotive peers and enhanced ESG metrics that link executive incentives to increasing female representation at senior levels. PIRC welcomed these developments.

**Outcome:** Ferrari was open to the feedback on director tenure and the importance of maintaining strong independence on the board. It emphasised that the majority of its committees are independent and noted that it is considering adjustments to the composition of the ESG (nominations) committee. The company also demonstrated an enhanced commitment to workforce diversity, having tied part of executive remuneration to increasing female representation at managerial and senior managerial levels. This step reflects a positive focus on driving long-term cultural progress within the organisation.

## CHEMICALS: AIR LIQUIDE

**Issues:** Air Liquide is making progress on renewable electricity, signing 2.5 TWh of PPAs in 2024 and increasing its renewable share to 23.1%. However, its operations require significant energy use and decarbonisation will depend on securing large volumes of low-carbon electricity as it electrifies processes and expands production through acquisitions such as DIG Airgas.

Air Liquide is a founding supporter of the newly launched Carbon Measures

Initiative, which plans to create a product-level carbon accounting system. Early information suggests that the initiative challenges standard scope 3 accounting, raising concerns that the initiative could be used to avoid full responsibility for scope 3 emissions. The Greenhouse Gas (GHG) Protocol already provides a widely accepted framework. Any concerns raised could instead be channelled through the GHG Protocol consultation process, which would prevent additional reporting burdens.

**Engagement:** On 19 November 2025, PIRC met with Air Liquide to discuss decarbonisation as part of ShareAction's Chemicals Decarbonisation Working Group. Investors asked the company to set a near-term renewable electricity target that covers both existing and newly acquired assets, noting the company's rising consumption and its expansion into regions with higher-carbon grids.

The company confirmed that it is increasing renewable procurement and is working on a potential target, but it is not ready to publish one. It indicated that a decision may come within the next year as part of the next strategic plan. Key obstacles include differing market conditions, regulatory uncertainty and rising competition for renewable power, particularly from data centres. Newly acquired assets are included in the company's absolute scope 1 and 2 reduction target.

Investors raised RE100 as a way to address structural barriers and support policy advocacy. The company outlined that it tracks RE100 criteria but has not joined, partly because it prefers to treat all zero-carbon power sources equally and wants to retain flexibility across geographies, though it agreed to examine the policy work further.

PIRC also asked about the rationale for joining the Carbon Measures Initiative and its relationship to the GHG Protocol. The company outlined that current policy frameworks do not create strong markets for low-carbon products and that product-level carbon intensity metrics could support future mandates. Air Liquide emphasised that this approach is focused on products rather than corporate inventories.

Finally, PIRC questioned the long timeline for the new framework and how it would avoid slowing progress on scope

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3 accounting. The company confirmed it will continue reporting through the GHG Protocol and views the initiative as a long-term tool, with existing methods for calculating product carbon intensity still available.

**Outcome:** The company indicated that it may introduce proportional renewable energy and scope 3 targets within the next year, but it is still unclear whether this timeline refers to setting the targets or simply providing further updates. The company also confirmed that there is no time-bound plan to electrify the ASUs at the Secunda site, as this depends on negotiations with its customer.

## BASF:

**Issues:** BASF's transition plan identifies four emissions reduction levers: renewable energy, operational improvements, low emissions steam generation

and climate smart technologies. While these levers are estimated to deliver 5.5 MtCO<sub>2</sub>e reductions between 2024 and 2030, BASF does not disclose targets or time bound strategies for their deployment, limiting transparency on how they will scale to meet the company's net zero by 2050 ambition. Transition capex represents around 5.5% of total planned expenditure, which appears misaligned with the pace required for a Paris-aligned pathway, particularly given BASF's reliance on carbon-intensive steam crackers and the slow timeline for large-scale electrification. Alternative feedstocks remain limited at around 4% in 2023, and the company has not set a target to increase this share despite their importance for chemical-sector decarbonisation.

**Engagement:** On 11 December 2025, during a collaborative investor meeting, BASF was asked how its transition capex aligns with net zero pathways and rising

carbon pricing assumptions. The company outlined near-term transformation spending of around €600 million per year between 2025 and 2028, covering direct capex as well as equity investments, supplier financing and offtake agreements. BASF explained that long-term capex visibility is constrained by geopolitical uncertainty, evolving regulation and volatile markets, and that large-scale investments in technologies such as electric steam crackers depend on sufficient demand for low-carbon products.

BASF also discussed the implications of rising carbon prices under the European Union Emissions Trading System (ETS), the EU's carbon pricing mechanism that requires companies to pay for each tonne of CO<sub>2</sub> emitted. The company noted that its EU ETS costs already exceed €100 million per year and are expected to rise significantly by 2030. Higher carbon prices in Europe, without comparable global pricing, risk

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undermining the competitiveness of European chemical manufacturing. BASF stated that this could accelerate shifts in investment and production towards regions such as China, India and the United States, where it aims to build assets with industry leading cost positions and materially lower CO<sub>2</sub> intensity.

On alternative feedstocks, BASF explained that it plans to establish a dedicated unit to oversee the sourcing and trading of renewable and circular feedstocks and highlighted ongoing engagement in projects involving biomethane, bioethanol and methanol, while noting that supply remains fragmented and conversion challenges persist.

**Outcome:** BASF acknowledged investor concerns regarding the pace, scale and visibility of its transition strategy and reiterated that insufficient market demand for low carbon products remains the primary constraint on accelerating decarbonisation. While investors welcomed BASF's clarity on commercial and policy challenges, they highlighted the need for clearer interim signals, stronger alignment between transition ambitions and capital allocation, and continued engagement to support confidence in the company's net zero pathway.

## PUBLIC HEALTH – NUTRITION

### TESCO:

**Issues:** The UK Government is introducing mandatory reporting and target-setting rules for large food companies, and these are expected to require both sales-weighted average measures of product healthiness and proportionate metrics, all based on recognised models such as the UK Nutrient Profiling Model (NPM). These measures are likely to push companies to use sales-weighted average targets as they drive improvements across whole product ranges.

As this policy shift approaches, Tesco faces pressure to refresh its health strategy and establish new targets that reflect industry best practice. The

company must demonstrate to investors that it is prepared to meet increasing demand for healthier products. Tesco has nearly reached its 2025 target of 65% healthier sales, with the figure currently at 64%. The company must now determine its next steps with regards to updating its target and setting new goals beyond this milestone.

**Engagement:** On 17 November 2025, PIRC met with Tesco to discuss nutrition as part of ShareAction's healthy markets initiative. Tesco noted that the company supports mandatory government reporting and is working with industry bodies and the Department of Health and Social Care (DHSC) as policy develops. The company explained that its upgraded data systems already allow for detailed nutrition and sales analysis, putting it in a strong position for future requirements.

Investors asked how Tesco plans to integrate a best-practice, proportional NPM target into future commitments. In response, Tesco stated that significant investment in data systems has already positioned the company strongly for future reporting that is aligned with broad industry consensus. Tesco noted that the company is actively involved in DHSC working groups and engaging with bodies such as IGD, the British Retail Consortium and Nesta. However, the company noted that a lack of clarity from the government on Healthy Food Standard Requirements and the government's plans to modernise the 2004/5 target to shift the focus from total sugar content to free sugars both posed challenges in setting a new commitment.

PIRC followed up by questioning when new healthy sales commitment for 2026 onwards should be expected. Tesco explained that it is awaiting government decisions before setting new targets, as it wants clarity on mandatory reporting rules and alignment across the sector. In the interim, the company will maintain its current rate of progress on improving healthy sales and begin integrating the sales-weighted average NPM score into internal monitoring. Tesco noted that it has publicly supported the Healthy Food Standard and intends to move forward with the rest of the industry rather than acting alone and expects to provide further updates once it has met its current target by the end of FY 2025/26.

**Outcome:** The engagement group will follow up with Tesco to reinforce that policy uncertainty should not delay progress on healthy sales, noting that consensus on reporting metrics already exists and that Tesco has the data capabilities to use them. The investor group will encourage Tesco to make a public, measurable commitment that maintains momentum during the interim period. The group will also track Tesco's updates on commitments for 2026 onwards, expecting clarity by the end of FY 2025/26, and will decide next steps once the ambition of those commitments is known.

### THE HERSHEY COMPANY:

**Issues:** Hershey's portfolio remains weighted towards less healthy products, with only 4.8 per cent of sales classified as healthier in the Access to Nutrition initiative (ATNi) 2024 Global Index. Although the company is primarily known for chocolate, the limited proportion of healthier products highlights the need for diversification given potential regulatory, reputational and financial risks.

The 'Better For You' strategy introduced in 2021 was a positive step, but the company could provide more regular updates on its implementation, its indicators of performance and any forward-looking targets for improving the nutritional quality or affordability of its products.

Consumers in the United States continue to experience cost of living pressures, while Hershey is dealing with sharp increases in cocoa and sugar prices driven by weather events, supply shortages and geopolitical pressures. As the company implements a new pricing strategy, it remains uncertain how the affordability of products, including healthier options, will be maintained.

**Engagement:** On 18 November 2025, PIRC met with Hershey to discuss its approach to better nutrition. PIRC asked how the company intends to increase the proportion of healthier products and how it is progressing with the 'Better For You' strategy. Hershey highlighted that many of its recent acquisitions have been in the category of healthier and more permissible snacks, citing brands such as

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'LesserEvil' and 'Lily's Sweets'. The company framed its strategy as meeting consumer demand and expanding the range of choices available to consumers. PIRC encouraged Hershey to publish a clearer nutrition strategy for 2025, to set targets to increase the healthier share of its portfolio and report progress.

PIRC welcomed existing disclosures such as the year-on-year reporting of revenue from products labelled or marketed with health or nutrition attributes. PIRC asked whether Hershey uses standardised nutrition profile models. The company explained that it does not and instead applies its own internal methodology, which it views as more suitable for confectionery products. Hershey noted that standardised nutrition profile models rely on a 100 gram baseline which can be problematic because it does not reflect typical consumption of chocolate or snacks.

The company also stated that it is not a centre of plate brand, but a snacking brand. This means that some of the nutrient criteria used in NPMs, such as the expectation of vegetables, legumes or significant protein content, are not appropriate for its category.

PIRC also raised forthcoming regulatory developments in the United States. On front of pack labelling, PIRC asked whether Hershey supports the Food and Drug Administration's (FDA) proposals. Hershey is engaging with the FDA through its industry associations and is providing feedback on the seven proposed label designs. The company referred to its own voluntary initiative, the 'Facts Up Front' front of pack nutrition labelling scheme which is intended to give consumers quick access to nutritional information. Regarding the FDA's work to develop a definition for ultra processed foods, Hershey is contributing through its trade associations but believes that the science is not yet sufficiently developed for this to be adopted in policy.

Given significant increases in raw material costs, PIRC asked how the company was ensuring that healthier products, which are often priced at a premium, would remain accessible.

PIRC also raised responsible marketing and asked whether Hershey's restriction on marketing to children under 13 applies beyond the United States and the United Kingdom. The company confirmed the

policy currently applies only in these two markets, while in other jurisdictions it complies with local regulations. PIRC noted that the WHO recommends raising the age threshold to 18 and asked whether this would be considered.

**Outcome:** Hershey provided useful insight into the steps it is taking to expand its healthier snacking portfolio, including recent acquisitions and increased disclosure on nutrition related product revenues. The company continues to refine its internal approach to assessing product nutrition and is actively engaging with the FDA on front of pack labelling proposals and the development of guidance on ultra processed foods, building on its earlier participation in the 'Facts Up Front' scheme. Hershey also outlined how its scale and brand partnerships can support wider accessibility of healthier products as consumer demand grows. It reaffirmed its commitment to responsible marketing and confirmed that related discussions continue internally, although no changes are planned at present.

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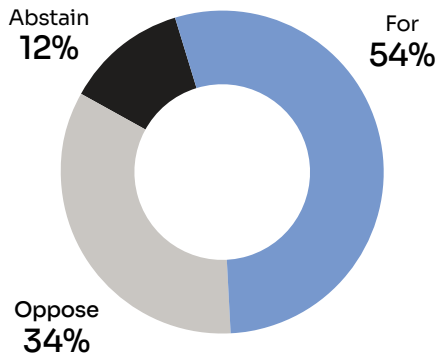
### Q3 Engagements

Company	Topic	Domicile
BAYERISCHE MOTOREN WERKE AG	Climate Change	DEU
TOYOTA MOTOR CORP	Climate Change	JPN
A G BARR PLC	Remuneration	GBR
BALFOUR BEATTY PLC	Human Rights	GBR
HONDA MOTOR CO LTD	Climate Change	JPN
GENERAL MOTORS COMPANY	Climate Change	USA
LLOYDS BANKING GROUP PLC	Remuneration	GBR
HONEYWELL INTERNATIONAL INC.	Climate Change	USA
THE HERSHEY COMPANY	Other	USA
AIR LIQUIDE SA	Climate Change	FRA
TESCO PLC	Social Risk	GBR
FERRARI NV	Board Composition	NLD
BANCO BILBAO VIZCAYA ARGENTARIA SA (BBVA)	Climate Change	ESP
JBS NV	Human Rights	NLD
CANADIAN IMPERIAL BANK OF COMMERCE	Climate Change	CAN
SHELL PLC	Climate Change	GBR
NORDEA BANK ABP	Climate Change	FIN
OBAYASHI CORP	Diversity Equity and Inclusion	JPN
KAJIMA CORP	Diversity Equity and Inclusion	JPN
BANK OF NOVA SCOTIA	Climate Change	CAN
BASF SE	Climate Change	DEU
NISSAN MOTOR CO LTD	Environmental Risk	JPN
HENKEL AG & Co KGaA	Environmental Risk	DEU

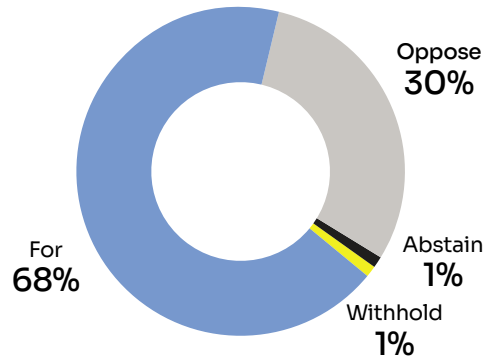
# PIRC VOTE RECOMMENDATIONS FOR AGMS

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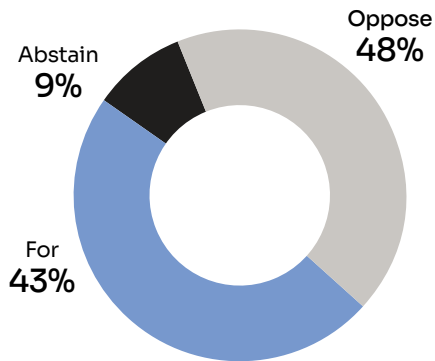
Votes on remuneration advisory, Q4 2025



Director elections, Q4 2025



Votes on remuneration binding, Q4 2025



Auditor appointments, Q4 2025

