



BUSINESS

# A Tiny Fund Has Scored A Historic Win Against ExxonMobil Over The Future Of Oil

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Pictured are pumps at an Exxon gas station in Charlotte, N.C. A tiny fund got two board members elected to the oil giant's board, delivering a historic defeat to ExxonMobil.

*Logan Cyrus/AFP via Getty Images*

## Updated at 7:15 p.m. ET

In a dramatic boardroom battle on Wednesday, a tiny hedge fund fought with the energy giant ExxonMobil over the future of the oil and gas industry — and won.

The brand-new activist hedge fund, Engine No. 1, successfully placed at least two new candidates on the company's board of directors in hopes that they can use that position to push Exxon to take climate change more seriously. For two more seats on the board, the vote was too close to call.

Winning a seat for any directors at all is an unprecedented achievement by activist shareholders, who have spent decades trying to persuade companies to cut their carbon emissions. To do it at ExxonMobil, once the world's most influential oil company, makes the feat all the more astonishing.

During Wednesday's shareholder meeting, Charlie Penner of Engine No. 1 described his fund's campaign as a "long shot." Seemingly braced for defeat, he lambasted the investment community for accepting "the idea that humanity will inevitably drive itself off the cliff" as "hard-headed realism or sound business practice."

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But then the votes were tallied. The long shot, it turns out, was a success. And instead of accepting the inevitability of climate change, the mainstream investment community sent a signal that it was embracing the possibility that the world will shift away from using oil and gas.

Exxon CEO Darren Woods, who is also the chair of his own board, welcomed the new board members, saying "we look forward to working with them constructively and collectively on behalf of all shareholders."



#### ENERGY

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Public companies have a board of directors that's responsible for oversight of the CEO and overall corporate strategy. The members of the board are technically elected by shareholders, but normally those elections are uncontested and voting is just a formality.

Sometimes, though, unhappy investors decide to make it a real race by putting forward

rival candidates. That's exactly what happened at Exxon.

Engine No. 1 was formed just last year with the express purpose of challenging Exxon's corporate strategy. It nominated four new candidates to the board. The two elected, Kaisa Hietala and Gregory Goff, have backgrounds in oil and gas (Hietala focused on renewable products within a refining company.) Two other candidates had experience in wind energy and new clean technologies.

The company and the upstart fund have been vying for shareholders' votes through slideshows, letters and public statements.

The fund pointed to Exxon's poor performance, relative to its peers, during the years leading up to the pandemic. It also forcefully argued that the company has not laid out a viable plan to be profitable if the world makes a rapid transition away from oil and gas to ward off the worst effects of climate change.

Large European oil and gas companies are investing in renewable energy and pledging to slash their emissions to zero, but Exxon has consistently rejected that strategy. The company says its core strengths are in oil and gas, and it argues that the world simply will not pivot away from those energy sources very quickly.

Instead of branching into new industries where it doesn't have a competitive advantage, it argues that it can invest in carbon capture technology — capturing greenhouse gases in the atmosphere — and continue to make money off oil and gas in a "lower-carbon" future.

This vision of the future is increasingly at odds with the goals espoused by world governments and the pathways laid out by organizations like the International Energy Agency.

**ENERGY**

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Exxon regards those goals and pathways as unrealistic, skeptically noting that some plans for fighting climate change would require people to immediately adjust their home thermostats and take significantly fewer flights. Those are behavioral changes the company does not believe likely enough to factor in to its business planning.

The vote to defy management and add at least two dissident members to the board represents a repudiation of that philosophy.

"Investors are no longer standing on the sidelines," said Anne Simpson, the chair of the steering committee of climate investor group Climate Action 100+. "This is a day of reckoning."

Engine No. 1 holds a tiny fraction of Exxon shares — just 0.02%, according to the proxy advisory firm ISS. By itself, it had no chance to sway the company.

But it spent months building support for its case. CalSTRS, the California teachers pension, was an early backer, citing frustration with Exxon's lack of response to previous shareholder proposals and direct appeals from investors.

"When Engine No. 1 brought this idea to us around replacing some of the incumbent directors, we were very intrigued — because we had tried everything else," says Aeisha Mastagni, a portfolio manager with CalSTRS' sustainable investment and stewardship strategies unit.

The influential proxy advisory firms ISS and Glass Lewis, which issue recommendations on how investors should vote in shareholder meetings, also partially endorsed Engine No. 1's nominations.

Their reports provide a striking glimpse into how arguments that were initially made by climate activists are becoming increasingly mainstream in the investor community.

Both firms used the word "inevitable" to describe the energy transition, or the world's shift away from relying on fossil fuels, and agreed that Exxon has inadequately prepared for this future.

Heading into Wednesday's meeting, all eyes were on the three companies with the biggest sway in this vote: BlackRock, Vanguard and State Street Global Advisors.

Those companies manage huge funds — including many people's retirement accounts — and their votes are weighted accordingly, giving them tremendous power in these kinds of proxy votes.

All three have pledged support for investor initiatives focused on fighting climate change.

BlackRock voted in favor of three of Engine No. 1's candidates, explaining that it believes "Exxon's energy transition strategy falls short of what is necessary."

exxon    exxonmobil    climate change

