WHEREAS: Decarbonizing heavy transport is critical to achieving the Paris Agreement's 1.5°C goal and mitigating the severe economic impacts of climate change.[1] Cummins is a leading manufacturer and servicer of industrial vehicle components and is ranked one of the world's largest corporate emitters. [2] Despite acknowledging climate-related risks in its 10-K, Cummins fails to align its incentive structures with its decarbonization commitments.[3]

The Climate Action 100+, a coalition of over 700 investors with $60 trillion in assets, issued a Net-Zero Company Benchmark (Benchmark) outlining key indicators to assess corporate alignment with the Paris Agreement, reflecting the reality of increasing climate-related financial risk. Investor expectations include setting long-term and interim 1.5°C-aligned emission reduction goals across all relevant scopes and establishing executive compensation metrics linked to the achievement of such goals. [4]

While Cummins' 2023 proxy statement commends its CEO's role in advancing Cummins' decarbonization strategy, there is no evidence of a direct payout linked to climate change performance. In its 2023 CDP disclosures, Cummins states its CEO is entitled to a monetary incentive for advancing Cummins' PLANET 2050 goals, which are partially related to reducing emissions.[5] However, Cummins fails to provide a quantitative emissions-reduction incentive that has a specified payout percentage. Furthermore, the company's most recent proxy states that Return on Average Net Assets was the sole performance measure for 2022 annual bonus payouts and does not mention PLANET 2050 goals.[6]

The CA100+ Benchmark expectations are that a company's CEO remuneration arrangements specifically incorporate climate change performance and achievement of emission reduction targets in determining performance-linked compensation. References to vague terms such as sustainability performance are insufficient.[7]

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[1] https://iea.blob.core.windows.net/assets/13dab083-08c3-4dfd-a887-42a3ebe533bc/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf, p.88
[2] https://www.climateaction100.org/company/cummins-inc/;
[3] https://www.sec.gov/ix?doc=/Archives/edgar/data/26172/000002617223000005/cmi-20221231.htm, p.21
[4] https://www.climateaction100.org/
[5] https://www.cummins.com/sites/default/files/2023-08/cummins-2023-cdp-climate-report.pdf, p.6
[6] https://www.sec.gov/ix?doc=/Archives/edgar/data/26172/000110465923037109/tm231795d2_def14a.htm#tEXCO, p.35,40
[7] https://www.climateaction100.org/wp-content/uploads/2023/03/Climate-Action-100-Net-Zero-Company-Benchmark-Framework-2.0..pdf, p.33

Cummins's current compensation arrangements fail to provide a direct incentive for achieving emission reductions.

Tying executive compensation to 1.5°C-aligned emissions reductions will incentivize leadership to integrate climate risk management, oversee capital allocation, and address this critical issue with long-term value creation and effective risk management. Boards and executives can leverage existing standards and disclosure frameworks to incorporate best practices into compensation and transition planning.

BE IT RESOLVED: Shareholders request the Board disclose a plan, at reasonable expense and excluding confidential information, to link executive compensation to 1.5°C-aligned greenhouse gas emissions reductions across the Company's full value chain.

SUPPORTING STATEMENT: Proponents suggest, at Company discretion, the plan:

- Links executive compensation to emission reductions across the Company's full value chain;
- Links compensation to a: (1) standalone, (2) quantitative emissions reduction metric, (3) that is not a de minimis portion of total pay;
- Includes emission reductions in the long-term incentive plan, preferably as performance share units; and
- Involves annually reporting progress towards meeting emissions reduction compensation goals.