Investment Stewardship Group

Voting Bulletin: Ovintiv, Inc.

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	**Ovintiv Inc.**
Market	North America
Meeting Date	29th April 2020
Key Resolutions[1]	**Item 4:** Report on Climate Change
Board Recommendation	The company recommends shareholders vote AGAINST the shareholder proposal.
BlackRock Vote	We voted FOR the proposal given the materiality of climate risk to the company's business model and the uncertainty regarding the company's near-term timeframe for setting greenhouse gas emissions reduction targets.

[1] The full meeting resolutions and agenda can be accessed at: https://www.ovintiv.com/annual-meeting-shareholders/.

Overview

Ovintiv Inc. (formerly known as Encana Corporation) is a North American exploration & production company. The company focuses on developing its multi-basin portfolio of oil and natural gas assets located in the US and Canada. Its operations also include the marketing of oil, natural gas liquids (NGLs), and natural gas. On January 24th, 2020, Encana Corporation completed a corporate reorganization and migrated out of Canada to become a Delaware corporation. The company and its subsidiaries continue to carry on the business previously conducted by Encana and its subsidiaries prior to the completion of the reorganization.

BIS has a multi-year history of engagement with legacy Encana, where we have discussed climate reporting, methane reductions, strategy and the company's 2019 change in domicile to the US, among other topics.

Climate reporting and target-setting

Ovintiv received a shareholder proposal requesting that the company issue a report on climate change that "disclose[s] climate-related targets that are aligned with the goal of the Paris Agreement to limit global average temperature increase to well below [2] degrees Celsius relative to pre-industrial levels and pursue efforts to limit the increase to 1.5°C. These targets should address Encana's key climate-related risks and opportunities over medium and long-term time horizons. Such targets should be quantitative, subject to regular review, and progress against such targets should be reported to shareholders on an annual basis"[2].

We engaged with the company prior to the vote to set out our expectations for future reporting and action on climate risk. The company has evolved its reporting over the last several years including outlining the specific components of the company's governance oversight, and its strategy related to management of climate-related risks. Ovintiv currently reports its direct and indirect GHG emissions and has applied legally mandated methane reduction targets from its operations in Canada to its business outside of the country.

During our engagements, we have also discussed the expectations of investors, including BlackRock, that companies report in line with the full recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This includes the disclosures and actions outlined in Pillar Four, requesting "the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material"[3].

Under the Metrics and Targets Pillar, the TCFD recommends the following disclosures:

- The metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. The TCFD recommends that organizations consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable.
- Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions[4], and related risks. Importantly, GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions.
- The targets used by the organization to manage climate-related risks and opportunities and performance against targets. In describing their targets, organizations should consider:

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[2] https://www.ovintiv.com/wp-content/uploads/2020/03/2020-proxy-statement.pdf.

[3] https://www.fsb-tcfd.org/wp-content/uploads/2020/03/TCFD_Booklet_FNL_Digital_March-2020.pdf.

[4] The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

- whether the target is absolute or intensity-based
- timeframes over which the target applies
- base year from which progress is measured, and why, and key performance indicators used to assess progress against targets

While the company states that its ultimate goals for target-setting align with the requests of the proponent, the company conveyed discomfort with the timing and did not have a definitive short-term timeframe when it would be ready to establish such targets.

Rationale for BlackRock Vote

BlackRock voted in favor of the following agenda item and against management's recommendation:

Item 4: Report on Climate Change (FOR)

In the course of our multi-year engagement with the company on climate-related risks and opportunities, we have emphasized the importance of consistent disclosures in line with the TCFD and the Sustainability Accounting Standards Board (SASB). In endorsing the TCFD framework, we expect companies to disclose not only scenario analysis, but a credible plan for operating under a Paris-aligned 2 degree or lower scenario. This includes:

- Asking companies to outline their thinking about GHG emissions reduction target-setting, and plans to set and disclose such targets (and to explain their timeline if they have not already done so)
- Seeking disclosure on the company's anticipated transition to a lower carbon economy (i.e. plans to align the company's business model with the Paris Agreement)
- Seeking disclosure on the global warming path the company is on (e.g. based on the targets the company has selected, it anticipates X degree of warming)

For companies with a carbon-intensive business model, especially those such as Ovintiv with whom we have had prior engagement on the subject, we expect reporting that is substantially aligned with the TCFD framework. **While Ovintiv has made notable progress on their climate reporting from a governance and risk management perspective, the company has yet to set targets recommended by the TCFD framework or disclose a clear timeline for doing so.**

We believe information stemming from such disclosure is material to investment decision-making and BIS' assessment of the company's risk-management processes, including operational risks, the potential for decreased demand for the company's products over time, and physical, reputational and regulatory risks, among others. If a company's business model is not aligned with achieving the Paris Agreement's target of 2 degrees or less of global warming, we would expect the company to provide an evidence-based justification for why that is in long-term shareholders' interests.

Moreover, if the company has not already set carbon-reduction goals, we expect them to have targets in place in the next 12 months[5]. This is in line with our public requests over the last several years for companies to align their reporting with the TCFD. In the absence of robust disclosures, including information about target-setting approaches, we are increasingly concluding that companies, especially those with carbon-intensive businesses, are not adequately managing material risks and planning for the long-term[6].

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[5] If the company is unable to meet this timeframe, they should articulate the reasons for that position, and publish a timeframe for when investors can expect them to take substantive action.

[6] Please see previous footnote.