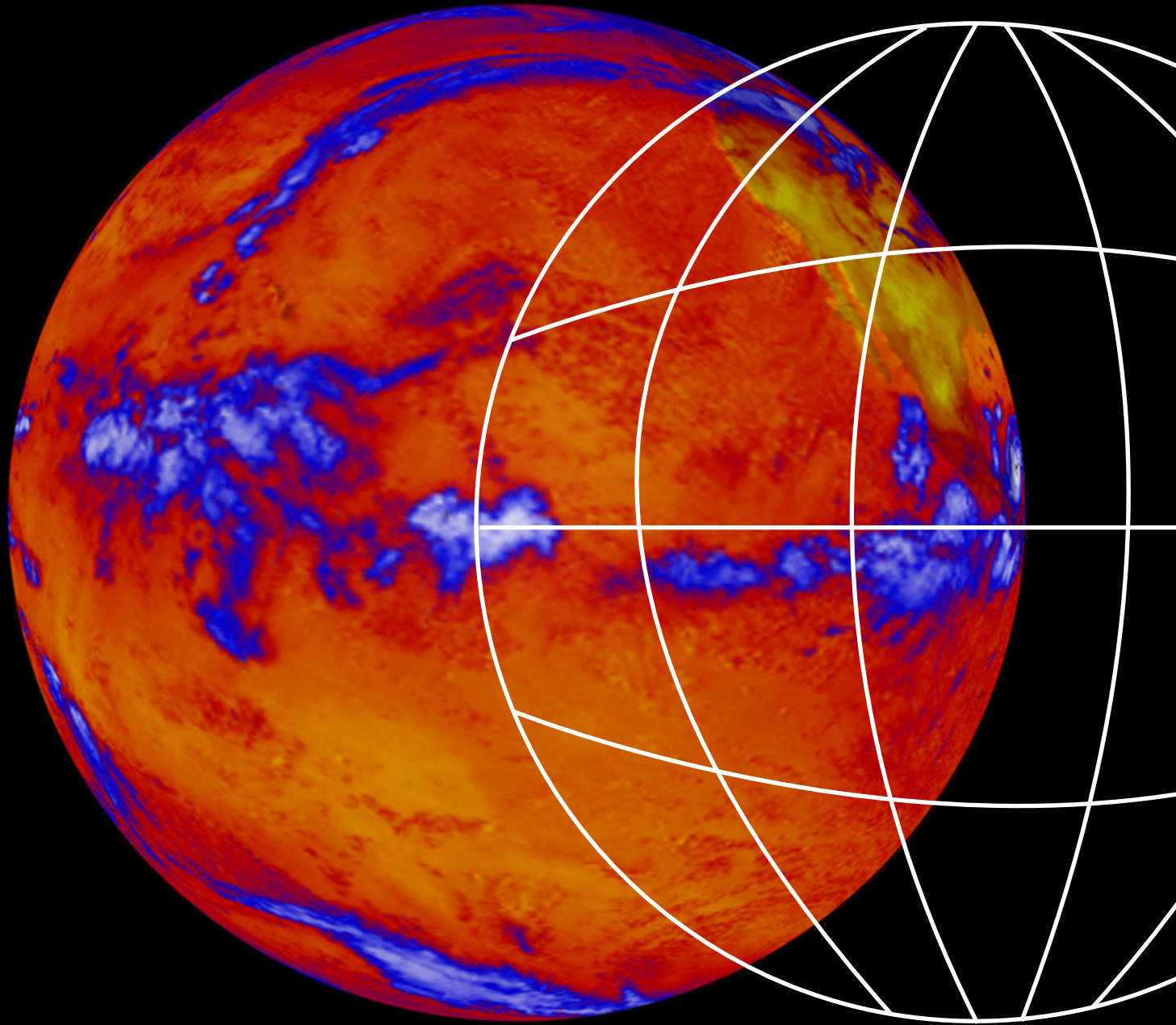


majorityaction



CLIMATE IN THE BOARDROOM

HOW ASSET MANAGER VOTING SHAPED CORPORATE CLIMATE ACTION IN 2021

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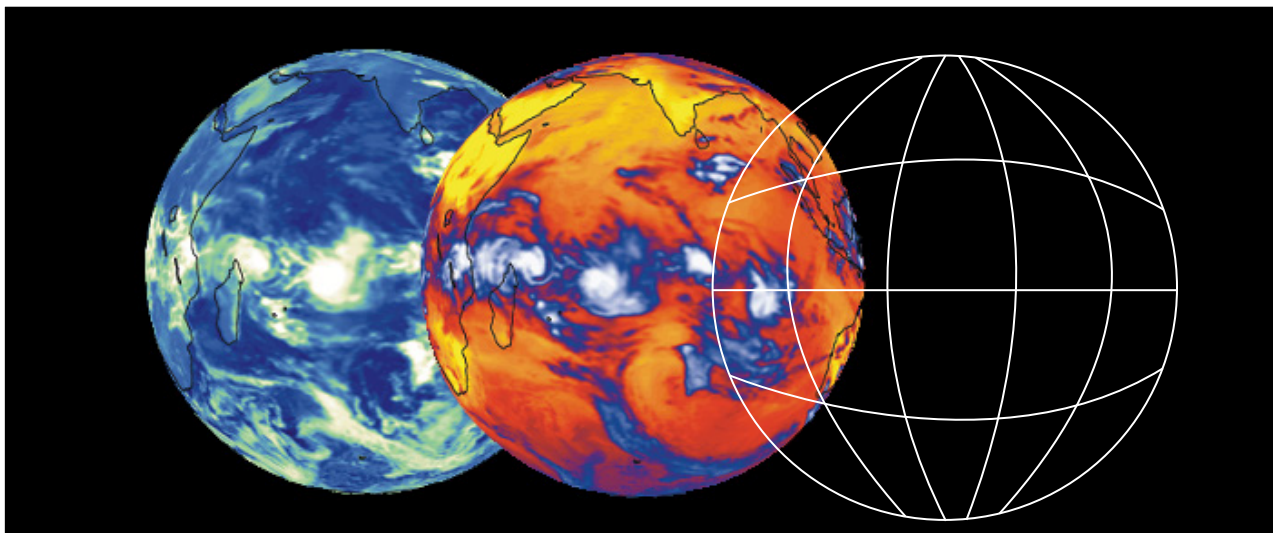
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This study uses data obtained under license from Proxy Insight between September 7-19, 2021.

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY.....	4
2 INTRODUCTION.....	6
3 CLIMATE-CRITICAL INDUSTRIES ARE NOT ON TRACK TO LIMIT WARMING TO 1.5°C.....	7
4 LONG-TERM INVESTOR ASSETS ARE PLACED AT SUBSTANTIAL RISK DUE TO THE CLIMATE CRISIS.....	10
5 LARGE ASSET MANAGERS HAVE OUTSIZED VOTING POWER – AND FIDUCIARY RESPONSIBILITY – TO HOLD CORPORATE BOARDS ACCOUNTABLE FOR ALIGNMENT TO NET-ZERO.....	11
6 ASSET MANAGER DIRECTOR VOTING IN CLIMATE-CRITICAL INDUSTRIES.....	13
A. DIRECTORS ACROSS CLIMATE-CRITICAL INDUSTRIES: OIL AND GAS, ELECTRIC POWER, AND FINANCIAL SERVICES.....	13
B. DIRECTOR ACCOUNTABILITY AT KEY COMPANIES FAILING ON CLIMATE PERFORMANCE.....	14
C. CASE STUDIES.....	15
1. CHEVRON.....	15
2. DUKE ENERGY.....	15
3. BERKSHIRE HATHAWAY.....	15
4. EXXONMOBIL PROXY CONTEST.....	15
7 CURRENT ASSET MANAGER PROXY VOTING POLICIES TOWARD CLIMATE RISK MANAGEMENT ARE INSUFFICIENT AND INCONSISTENT.....	17
8 RECOMMENDATIONS.....	22

EXECUTIVE SUMMARY



The world is currently on track to disastrous levels of warming, driving unprecedented harm and threatening the lives and livelihoods of millions. According to the International Energy Agency, **in order to achieve net-zero emissions globally by 2050, the electricity sector must reach net-zero emissions in OECD countries no later than 2035 and there can be no investment in new fossil fuel production from today.**¹ Despite this, U.S.-based oil and gas companies, utilities, and major banks continue to invest in and finance the expansion of fossil fuel production and consumption.

Given the systemic, escalating, and unhedgeable risks posed by climate change to long-term asset values and the stability of the financial system itself, the failure of climate-critical sectors to align with net-zero pathways requires bold and ambitious action by investors to avert further global economic and financial catastrophe. While past shareholder efforts at standard-setting, disclosure, and engagement have laid important groundwork, the company commitments won have been far too incremental, far too hard-fought, and collectively insufficient to the scale of the crisis. **When directors fail to transform corporate business practices in line with 1.5°C pathways, responsible shareholders must use their most powerful tool—their proxy voting on corporate board elections—to hold directors accountable.**

Our analysis of the 2021 voting decisions of asset managers with more than \$1 trillion in assets under management showed that, despite the urgency of the climate crisis, most overwhelmingly used their proxy voting power to elect management-backed directors at large U.S. companies in climate-critical industries that have failed to align their business operations and strategy with limiting warming to 1.5°C.

At S&P 500 oil and gas companies, utilities, and major banks:

- Vanguard, Fidelity, BNY Mellon, T. Rowe Price, Wellington Management, and JPMorgan Asset Management all voted for more than 98% of management-sponsored directors, demonstrating support for current management and governance of climate-related risks. Fidelity bears the ignominious distinction of supporting 100% of management-backed directors across these three critical industries.

- BlackRock, which undertook a notable shift by increasing its support for climate-related resolutions in 2021, nevertheless supported 96% of management-proposed directors in these key industries, down only marginally from its level of support in 2020. This was largely driven by a dip in its support for directors at U.S. oil and gas companies, where BlackRock supported 91% of directors in 2021, down from 98% in 2020.
- Meanwhile, leading asset managers such as Legal & General Investment Management (“LGIM”), PIMCO, and Amundi Asset Management only supported 75-83% of directors in these three industries; with each asset manager voting against at least one director at more than two-thirds of the companies analyzed. LGIM voted against at least one director at more than 80% of the companies.

In 2021, Majority Action issued company-specific director vote guidance at 19 large U.S. oil and gas, electric power, and financial services companies that exemplified target setting, capital expenditure, policy influence, and/or disclosure practices demonstrably out of alignment with limiting warming to 1.5°C. At companies like Chevron, Duke Energy, and Wells Fargo, these recommendations urged shareholders to vote against board chairs and lead independent directors (where present), recognizing that board leadership is responsible for ensuring corporate strategy is re-aligned to credible net-zero pathways. Large asset owners telegraphed support for such votes ahead of key annual meetings, and proxy advisor ISS backed many of these recommendations in its advice to clients of its Taft-Hartley and public funds services, among others.

- **Leading asset managers LGIM, PIMCO, and Amundi overwhelmingly opposed board leaders and directors at these 19 focus companies.** LGIM and Amundi voted to re-elect the entire board at only two of these companies, while PIMCO and its funds voted against, or its funds split their votes on at least one director at every company identified as being demonstrably out of alignment on key climate practices.

EXECUTIVE SUMMARY

- **In contrast, most large asset managers overwhelmingly supported board leadership at these companies.** Vanguard and Fidelity supported the chairs and lead independent directors at all 19 companies. BlackRock voted to re-elect the entire board at 11 of these 19 companies, and voted in favor of the chair and/or lead independent director at 15.

The proxy contest in 2021 at ExxonMobil forced large asset managers to contend with the company's multi-year failures to reckon with its impact on climate change and to engage productively with shareholders to mitigate climate risk and decarbonize its business. The support of the largest asset managers was critical to the election of three of the four dissident directors proposed by Engine No. 1. However, even at the highest profile opportunity to hold major corporations accountable for climate inaction, the largest asset managers failed to exercise their full influence to press for change.

- While all 14 asset managers reviewed in this report supported at least one of the dissident directors, few supported all four. Most large asset managers, including Vanguard, BlackRock, State Street, and Fidelity, voted against the election of Anders Runevad, the only dissident candidate for the ExxonMobil board with substantial experience in renewable energy.
- In contrast, asset managers such as LGIM and PIMCO funds not only voted for dissident directors, but also voted to hold the incumbent board accountable for Exxon's many years of climate recalcitrance by voting against Lead Independent Director Kenneth Frazier.

Finally, **our analysis of asset manager voting policies shows that the overall approach taken by asset managers to address climate issues in proxy voting is largely insufficient to the scale and speed of the transition necessary to limiting warming to 1.5°C.** These proxy voting policies are a critical tool for guiding voting decisions and communicating expectations to portfolio

companies, clients, and the market. **Effective voting policies and practices should hold boards of directors accountable for aligning company performance on climate to 1.5°C pathways, and go beyond simply expecting enhanced disclosures.**

- Leading asset owners and managers, including Engine No. 1's newly-launched fund management company, have adopted policies that declare to companies and the market that they intend to hold companies accountable for taking action to align their business to 1.5°C pathways. LGIM's voting policy anticipates voting sanctions against companies that do not meet minimum standards of climate disclosure and management, and the asset manager also publishes detailed guidance on its view of companies' performance against industry-specific standards.
- By contrast, the policies of laggard asset managers, including Vanguard, Fidelity, and State Street, do not even contemplate voting against directors on the basis of climate performance, and no major asset manager explicitly seeks to hold companies accountable for taking action to ensure global warming is limited to 1.5°C in its proxy voting policies.
- After years of pressure from investors and climate advocates, BlackRock undertook a major revision of its voting policies to clarify that votes against directors could be taken on the basis of climate-related business practices, and not just disclosures. However, when compared to peer and best-practice standards, BlackRock's implementation of this policy falls far short of the mark. BlackRock fails to specify any decarbonization standards to which it holds companies accountable, does not link director voting to performance along those standards, and does not publish its company assessment. This creates ample opportunity for obfuscation, delay, and half measures that are not aligned with the rapid reductions in greenhouse gas emissions necessary to limit warming to 1.5°C.

THE IPCC NOW ESTIMATES THAT CRITICAL CLIMATE THRESHOLDS WILL BE PASSED IN THE NEXT TWO DECADES

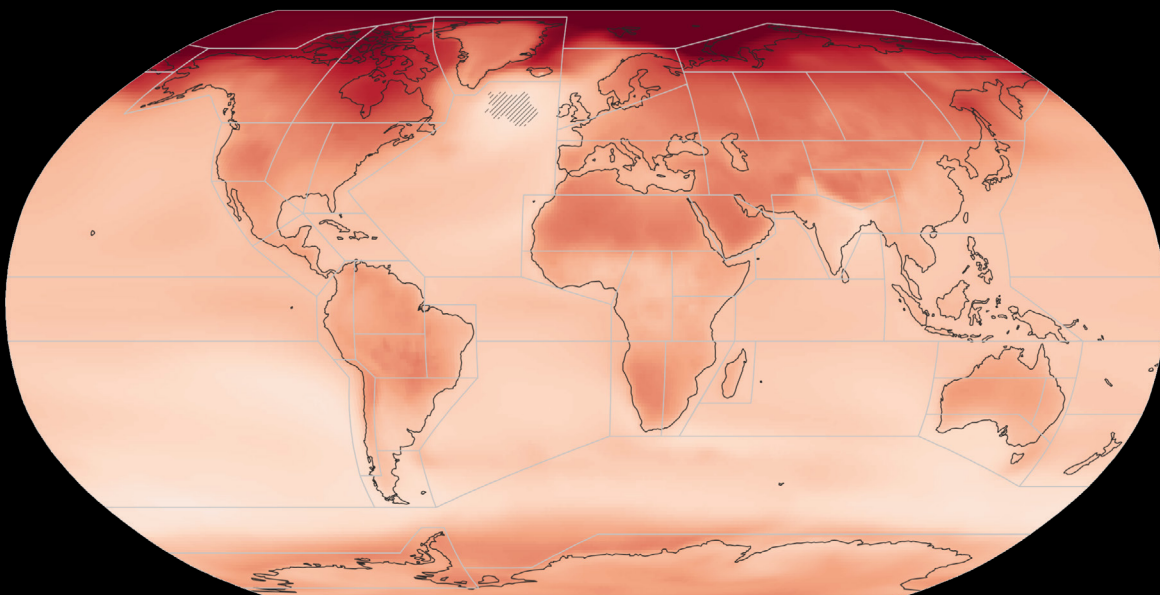
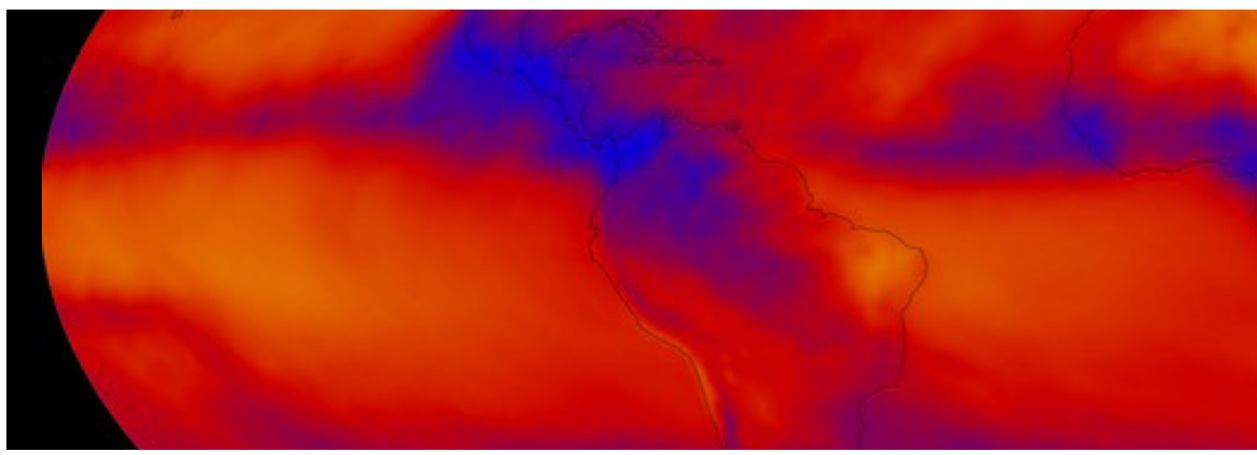


Figure 1 Source: IPCC, AR6, Working Group I, Summary for Policymakers, 2021

1 INTRODUCTION



The effects of human-induced climate change occurring in every region across the globe are nothing less than “a code red for humanity,” according to UN Secretary-General António Guterres. The recently released analysis by the World Meteorological Organization (WMO) on behalf of the United Nations, *United in Science 2021*, warned that the disruption of our climate and our planet is already worse than was previously believed and is moving faster than predicted,² with greenhouse gas (“GHG”) concentrations at record levels.³

Together, net-zero commitments from all nations, states and regions in the highest-emitting countries, cities with a population above 500,000, and companies in the Forbes Global 2000 list cover only 61 percent of greenhouse gas emissions,⁴ and the planet continues to move closer to the precipice of irreversible climate catastrophe. Each incremental increase of 0.5°C has a compounding effect on the intensity and frequency of heat extremes⁵ that will impose immense costs on all parts of society.

For long-term investors, the climate crisis poses risks that are large, quantifiable, and undiversifiable. These risks include extreme weather events, rising pollution-related risks to human health, heat-induced labor productivity losses, and biodiversity collapse. Increased death rates, severe political instability, famine, disease, and mass migration also drive material risks to investors.

Currently, economies are experiencing the escalating impacts of the climate crisis in the form of billions of working hours lost due to excessive heat and the increased frequency and cost of recorded weather disasters. Productivity losses due to heat currently cost the U.S. an estimated \$100 billion a year, according to a recent report published by the Atlantic Council.⁶ Similarly, data from the National Oceanic and Atmospheric Administration highlights the alarming fact that 2020 recorded the most billion-dollar major weather events (22), and the fourth-highest total event cost on record (\$98.9 billion).⁷ Projecting into the future in its updated 2021 Climate Scenarios, the Network for Greening the Financial System (NGFS) estimates that the losses from chronic physical risks could be as high as 13 percent of GDP by 2100 if no further action is taken on climate change beyond existing policy measures.⁸

As the source of around three-quarters of global emissions,⁹ the energy system holds the key to confronting climate change. Reducing global carbon dioxide emissions to net-zero by 2050 is required to limit the long-term increase in average global temperatures to

1.5°C, and achieving this goal requires nothing less than a complete transformation of how we produce, transport and consume energy.¹⁰

Corporate pursuit of maximizing short-term results is exacerbating the climate crisis through continued investments in the expanded production and use of fossil fuels. These investments are incompatible with the strong, rapid, and sustained reductions in greenhouse gas emissions needed to limit human-induced global warming.¹¹ Many changes due to past and future greenhouse emissions are irreversible for centuries to millennia,¹² and the greenhouse gases arising from continued production and consumption of these fossil fuels will lead to runaway warming well beyond 1.5°C.

“**ACCORDING TO THE IEA, BEGINNING IN 2021, NO NEW UNABATED COAL PLANTS OR OIL AND GAS FIELDS MAY BE APPROVED FOR DEVELOPMENT, AND THERE CAN BE NO NEW COAL MINES OR MINE EXTENSIONS.**”

In 2021, after decades of promoting energy supply through increased investments in fossil fuels,¹³ the International Energy Agency (IEA) published a cost-effective and economically productive pathway for the energy sector to achieve net-zero carbon dioxide emissions by 2050, “resulting in a clean, dynamic and resilient energy economy dominated by renewables like solar and wind instead of fossil fuels.”¹⁴ It is important to note that this net-zero pathway is achievable with no offsets from outside the energy sector, and with low reliance on negative emissions technologies.¹⁵ According to the IEA, beginning in 2021, no new unabated coal plants or oil and gas fields may be approved for development, and there can be no new coal mines or mine extensions.¹⁶ These immediate and critical milestones must be met in order to achieve the IEA’s pathway for overall net-zero emissions electricity in advanced economies by 2035, and net-zero emissions for the energy system by 2050.¹⁷ Investment in expanding production and consumption of fossil fuels must cease, and rapid reductions in global greenhouse gas emissions must begin to avoid climate catastrophe.

2

CLIMATE-CRITICAL INDUSTRIES ARE NOT ON TRACK TO LIMIT WARMING TO 1.5°C

The 2020 Emissions Gap report prepared by the United Nations Environment Programme estimates that current policies put the world on track to produce 59 gigatons of carbon dioxide equivalent in 2030, more than double the level required to limit warming to 1.5°C.¹⁸ As the energy system is responsible for 75 percent of global emissions, aligning and tracking the activities of climate-critical energy sectors is fundamental. Overwhelmingly, however, systemically important companies involved in the production, consumption, and financing of fossil fuels are not on track to decarbonize their operations and business models in line with the levels of urgency and transformation required to limit warming to 1.5°C.

Climate Action 100+, an investor-led initiative that engages the world's largest corporate greenhouse gas emitters, assessed the decarbonization commitments of these emitters, with the results released in March 2021 in advance of the most recent shareholder meeting season. Of the 45 U.S.-based focus companies analyzed in the report:

- Fewer than a quarter (22%) of U.S.-based focus companies had taken the initial step to announce net-zero emissions commitments by 2050 that included scope 1, 2, and 3 emissions.
- Only six (roughly 13%) of U.S.-based focus companies had taken the second step of completely disclosing a decarbonization strategy to meet their long and medium-term GHG targets, and another six (roughly 13%) of U.S.-based focus companies had 'partially' disclosed their decarbonization strategies.
- Capital allocation alignment measures the degree to which a company is taking action, beyond commitments and strategizing, to decarbonize its future capital expenditures. The action of aligning capital is the strongest and most important signal to investors that a company is committed to decarbonizing the assets on its balance sheet to align with limiting warming to 1.5°C. None of the U.S.-based focus companies had fully met the Climate Action 100+ benchmark on capital allocation.

U.S.-BASED CLIMATE ACTION 100+ FOCUS COMPANIES ARE NOT ON TRACK TO NET-ZERO EMISSIONS

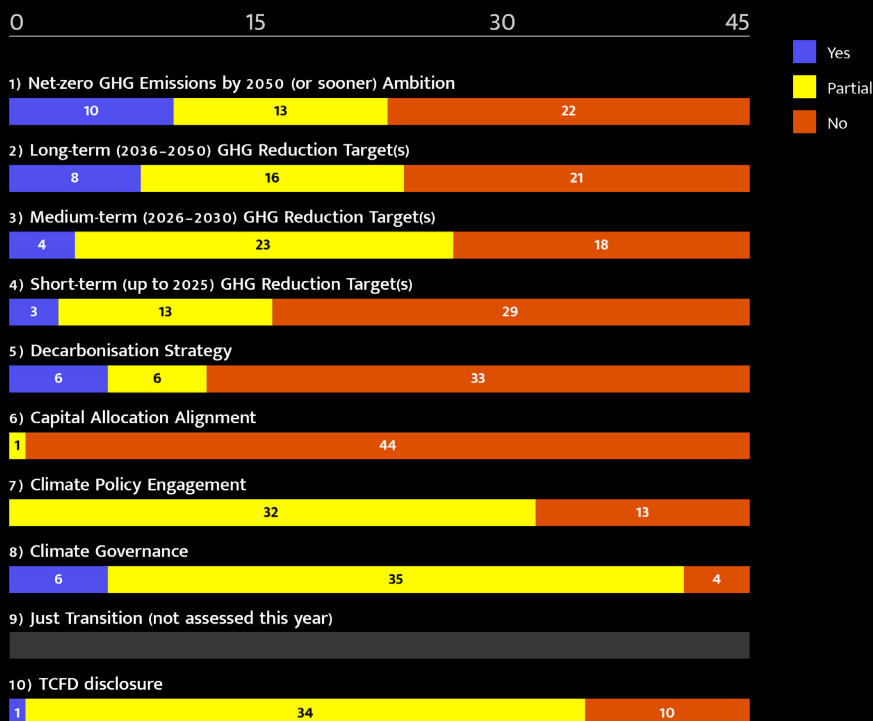


Figure 2: Climate Action 100+ Net-Zero Company Benchmark Assessments, U.S.-Based Companies
Source: Climate Action 100+, 2021¹⁹

CLIMATE-CRITICAL INDUSTRIES ARE NOT ON TRACK TO LIMIT WARMING TO 1.5°C

Large publicly traded electric utilities remain among the greatest sources of carbon dioxide emissions in the U.S. economy,²⁰ and their long-lived capital investments in electric power infrastructure have the potential to either eliminate or lock in emissions for decades to come. Swift and robust decarbonization of the entire electric power sector is essential to electrifying the entire economy with carbon-free power, and is therefore a cornerstone of any robust effort to achieve net-zero greenhouse gas emissions economy-wide—as well as a once-in-a-generation growth opportunity for the otherwise-stagnant industry.²¹ Retirement schedules for coal and natural gas power are vital to ensure companies collectively meet the temperature goal in the Paris Agreement and empower other sectors of the economy to decarbonize. Despite this, only one of the 14 U.S. utilities assessed by Climate Action 100+ had announced a full phase-out of coal units by 2040, let alone the 2030 deadline that would be required to limit warming to 1.5°C.²²

It is estimated that the oil and gas industry, and the fossil fuels it produces and sells, is responsible for approximately 53 percent of global emissions when scope 3 emissions are included.²³ According to Carbon Tracker, in addition to ceasing production expansion immediately, production levels must fall by at least 50% by the 2030s at major listed oil and gas companies in order for those companies to be aligned with the IEA's net-zero scenario.²⁴ Despite this, major oil and gas companies continue to invest in expanding fossil fuel supply incompatible with limiting warming to 1.5°C, including more than \$1 trillion in “business-as-usual” investments that risk either exacerbating warming if consumed, or becoming stranded assets if developed and not consumed.²⁵

“**ONLY ONE OF THE 14 U.S. UTILITIES ASSESSED BY CLIMATE ACTION 100+ HAD ANNOUNCED A FULL PHASE-OUT OF COAL UNITS BY 2040, LET ALONE THE 2030 DEADLINE THAT WOULD BE REQUIRED TO LIMIT WARMING TO 1.5°C.**”

Financial services companies, as providers of financing, advisory and underwriting services to fossil fuel projects and fossil fuel-intensive companies, have the power to accelerate or stall the decarbonization necessary to limit warming to 1.5°C. In December 2015, the Paris Agreement declared the shared ambition of “[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”²⁶ However, since then the financing of fossil fuels has steadily increased and was higher in 2020 than it was in 2016. Between 2016 and 2020, the 60 largest private sector banks financed fossil fuels with \$3.8 trillion.²⁷ The top four financiers of fossil fuels are all U.S. banks, providing \$976 billion in financing for fossil fuels in 2016-2020.²⁸ No major U.S. bank has committed to decarbonization targets for financed emissions in line with the IPCC benchmark of cutting global emissions in half by 2030,²⁹ and none have committed to phasing out lending and underwriting support for fossil fuel expansion that the IEA has made clear do not align to a net-zero pathway.³⁰

INTERNATIONAL ENERGY AGENCY (IEA) SETS OUT INDUSTRY-SPECIFIC PATHWAYS TO DECARBONIZE THE GLOBAL ENERGY SECTOR BY 2050

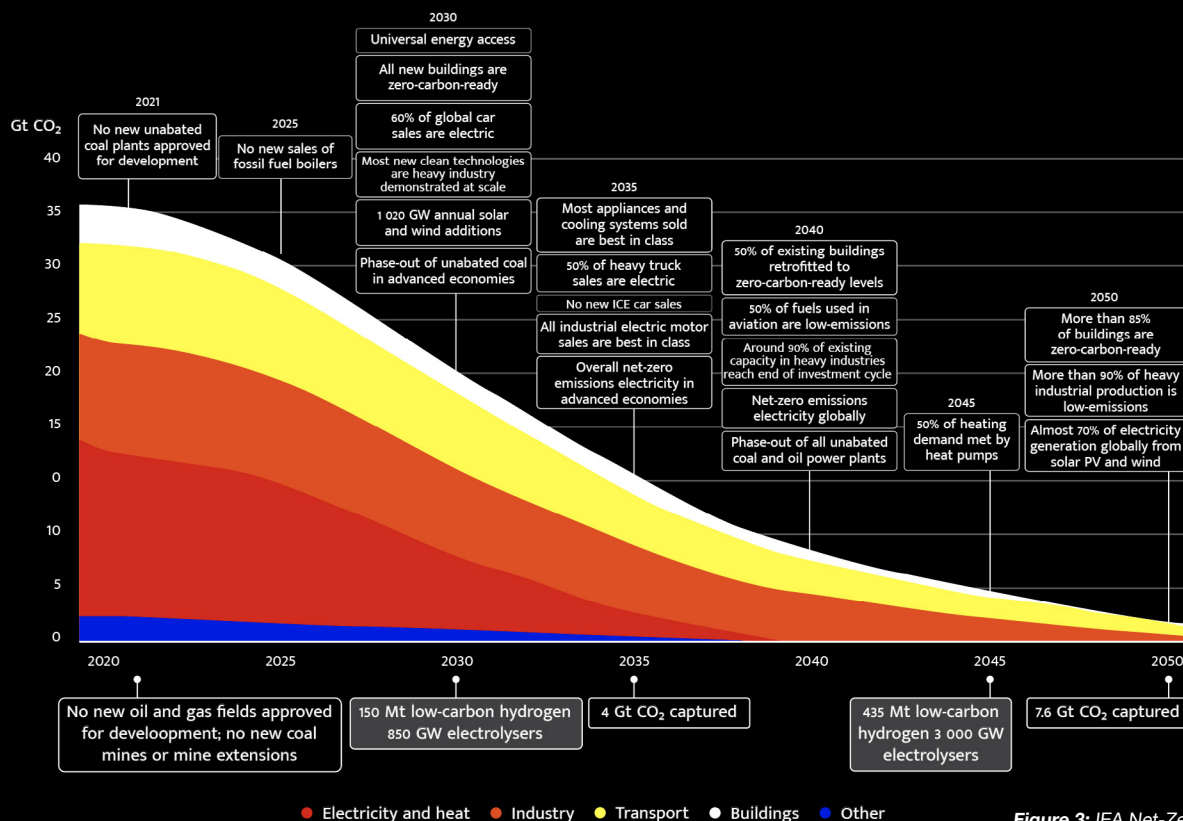


Figure 3: IEA Net-Zero Energy Milestone
Source: IEA, 2021

TO ALIGN WITH IEA NET-ZERO SCENARIO, OIL AND GAS COMPANIES, IN PARTICULAR U.S. BASED COMPANIES, MUST MAKE RAPID REDUCTIONS IN PRODUCTION OF FOSSIL FUELS BY 2030

US COMPANIES BOLDED IN CHART

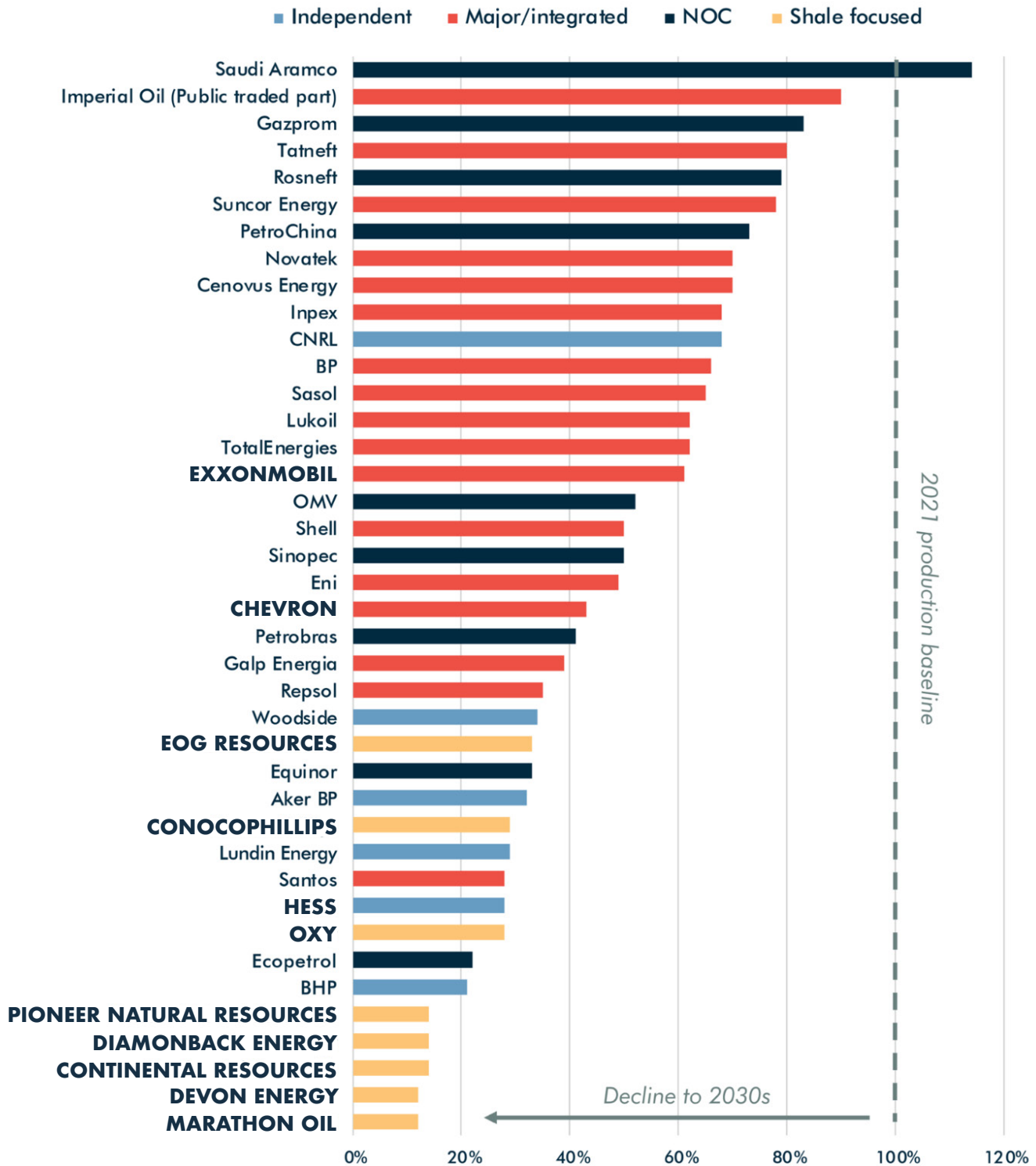


Figure 4: Oil and gas companies average 2030s production by company vs 2021 production baseline
Source: Carbon Tracker, Adapt to Survive, 2021

3

LONG-TERM INVESTOR ASSETS ARE PLACED AT SUBSTANTIAL RISK DUE TO THE CLIMATE CRISIS

Climate change will impose undiversifiable, portfolio-wide risks to long-term and institutional investors with broad market exposure. It will impact all sectors and all asset classes, including equities, fixed income, real estate, private equity and commodities. As the Managing Climate Risks in the Financial System report released by the Commodity Futures Trading Commission in 2020 stated, “[a] world racked by frequent and devastating shocks from climate change cannot sustain the fundamental conditions supporting our financial system.”³¹

“[A] WORLD RACKED BY FREQUENT AND DEVASTATING SHOCKS FROM CLIMATE CHANGE CANNOT SUSTAIN THE FUNDAMENTAL CONDITIONS SUPPORTING OUR FINANCIAL SYSTEM.”
- Commodity Futures Trading Commission

A report by the Cambridge Centre for Risk Studies found that portfolio-wide risks imposed by climate change would be “unhedgeable,” since any actions that investors can take—changing asset allocations among asset classes and regions, for example—would only negate about half of the projected negative impacts.³²

Climate change can seem to be a slow-moving crisis, with atmospheric carbon and global temperatures rising inexorably over many years. However, there are dangerous tipping points that, once

reached, can cause abrupt and irreversible damage. The same is true of the economic impacts of climate change, where the effects of rising temperatures on factors such as labor productivity or crop yields can become nonlinear above certain thresholds.³³

Many estimates of the impacts of climate change do not take into account the possibility of these tail risks with the potential for massive harm and black swan-type events.³⁴ These include large-scale food and water shortages, more extreme weather disruptions, destruction of ecosystems, major population centers becoming uninhabitable, and the geopolitical risks of major social upheaval.³⁵ Merely extrapolating from historical data will not be sufficient to adequately price and manage these risks.³⁶

In addition to the substantial physical risks posed to the assets, infrastructure, and communities that companies rely on to operate, the transition to a net-zero economy could lead to substantial stranded assets if not achieved in an orderly manner, resulting in substantial devaluations and potential shocks within the global financial system through the abrupt reassessment of asset values.³⁷ A recent study published in Nature asserted that, by 2050, nearly “60 percent of oil and fossil methane gas, and 90 percent of coal must remain unextracted to keep within a 1.5°C carbon budget.”³⁸ These stranded assets will leave investors considerably exposed to financial contracts and securities issued by the E.U.- and U.S.-listed companies whose revenues are directly or indirectly related to fossil fuels’ extraction and combustion.³⁹ A recent climate stress test concluded that pension funds and insurance funds are exposed for 45.2 percent of their equity portfolios to assets that could become stranded in a disorderly transition to a low-carbon economy.⁴⁰

U.S. BANKS ARE THE LARGEST FINANCIERS OF FOSSIL FUELS GLOBALLY U.S. BANKS BOLDED IN CHART

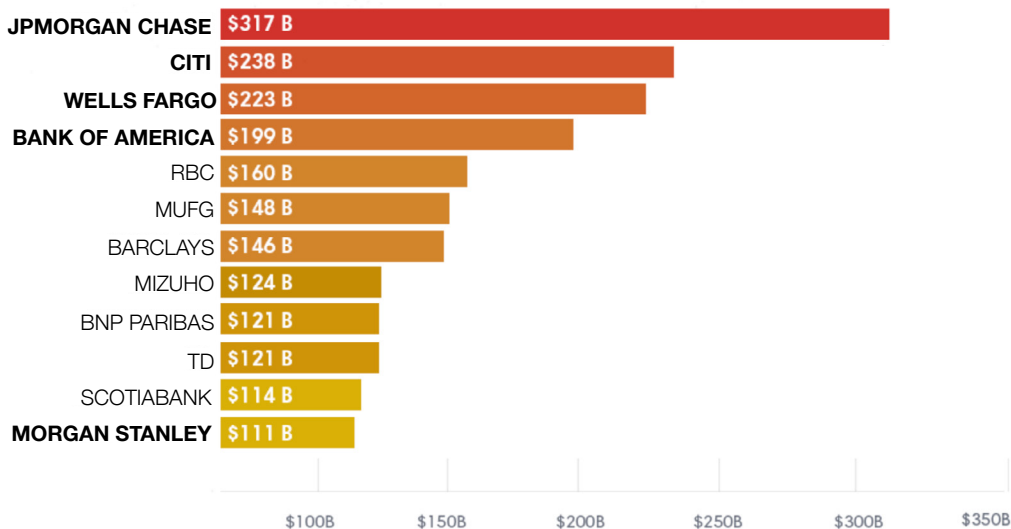
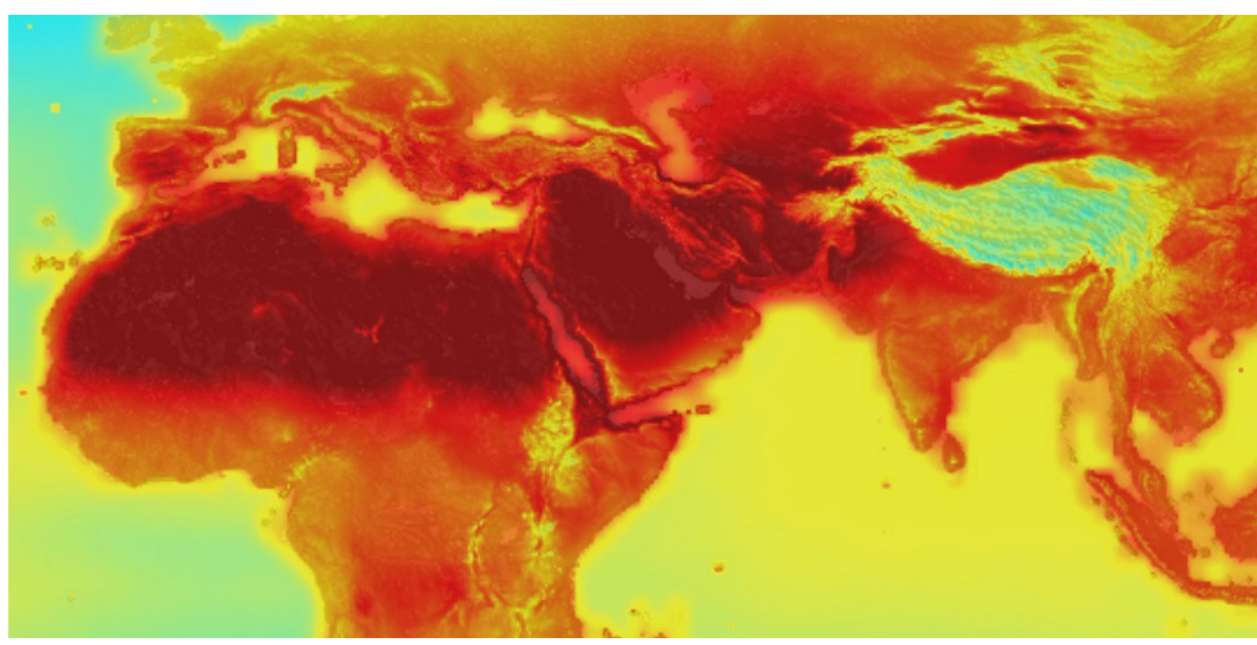


Figure 5: Cumulative fossil fuel financing by major banks since Paris Agreement, 2016-2020

Source: Rainforest Action Network, Banking on Climate Chaos, 2021

4

LARGE ASSET MANAGERS HAVE OUTSIZED VOTING POWER—AND FIDUCIARY RESPONSIBILITY—TO HOLD CORPORATE BOARDS ACCOUNTABLE FOR ALIGNMENT TO NET-ZERO



Large institutional investors and asset managers managing portfolios on behalf of clients and their beneficiaries have a responsibility to enhance returns and mitigate risks in the long-term interest of those clients' portfolios. The severe, systemic, and escalating nature of the climate crisis puts the value of those portfolios at unprecedented risk, which cannot be eliminated through diversification or hedging.

As Columbia professors John Coffee and Jeffrey Gordon have described in recent papers, diversified investors have no incentive under modern portfolio theory to try to reduce unsystematic, or company-specific risk. Such risks are definitionally those that diversification minimizes. Instead, they urge, it is rational for diversified investors to focus on systematic risks that affect the value of investments across the portfolio. Both identify climate change as an exemplar risk of this type. According to Professor Coffee, climate change is the "clearest example" of such systematic risk; he suggested that "[diversified investors] may want to take actions (either by voting, litigation, or persuasion) to induce changes that reduce [climate change] risk (even if they cause losses to some companies in their portfolio, so long as the action taken implies greater gains than losses to the portfolio)."⁴¹

The clean energy transition contains significant upside potential for many companies and industries, and forward-looking management teams and boards in carbon-intensive sectors will develop profitable strategies in alignment with the objective of limiting warming to 1.5°C, to say nothing of taking action to reduce risks of climate change to those companies' own operations. Eliminating emissions at carbon-intensive companies has benefits in reducing the risks of climate change across the portfolio, even if, in an extreme case where management is unwilling or unable to identify and pursue a business strategy aligned with a net-zero future, it has the effect of depressing the share price of an individual company, at least in the short term. The fiduciary duty of asset managers to their clients cannot and must not be outsourced to company directors focused only on the short-term value of individual companies.

To fulfill their fiduciary duties in light of the escalating systemic risks of climate change, asset managers bear the responsibility of rigorously evaluating whether corporate boards in carbon-intensive sectors are ensuring that the companies they govern are aligning to 1.5°C pathways, and using the shareholder voting power entrusted to them by their clients to hold those boards accountable if they fail to do so. Such action does not constitute micromanagement on the part of shareholders, as decisions and oversight of *which* investments and strategies to pursue in alignment with 1.5°C pathways rightly rests with management teams and boards. But given that actions of systemically important carbon-intensive companies exacerbate risks for the entirety of client portfolios, asset managers must step in when boards fail to determine *whether* they will align to the urgency of the net-zero transition.

In the United States, all directors at most large companies are elected annually, and most large company boards require directors to resign if they fail to receive majority support from voting shareholders. Through the exercise of this power, asset managers effectively define what constitutes acceptable corporate governance and behavior on climate change. Asset managers' voting decisions either draw bright lines for boards—demanding that incumbent directors align their targets, capital expenditures, and policy influence with the demands of a 1.5°C pathway—or give approval to the business-as-usual corporate behavior that is exacerbating these systemic risks to their clients.

“**THROUGH THE EXERCISE OF SHAREHOLDER VOTING POWER, ASSET MANAGERS EFFECTIVELY DEFINE WHAT CONSTITUTES ACCEPTABLE CORPORATE GOVERNANCE AND BEHAVIOR ON CLIMATE CHANGE.**”

LARGE ASSET MANAGERS HAVE OUTSIZED VOTING POWER—AND FIDUCIARY RESPONSIBILITY—TO HOLD CORPORATE BOARDS ACCOUNTABLE FOR ALIGNMENT TO NET-ZERO

Unfortunately, a significant obstacle to boardroom accountability has been the concentrated voting power of the world's largest asset managers. As of 2019, BlackRock, Vanguard, and State Street alone collectively voted an average of 25 percent of shares at shareholder meetings of S&P 500 companies,⁴² and these large firms routinely control the largest voting stakes in many of the largest publicly-traded companies responsible for the production and consumption of fossil fuels. However, as Majority Action's prior *Climate in the Boardroom* reports have demonstrated, these and other major asset managers have shielded boards of carbon-intensive companies from accountability by overwhelmingly voting to re-elect management-backed directors, as well as rubber-stamping executive pay packages and voting against shareholder resolutions asking companies to disclose lobbying and political contributions and address risks related to climate change.⁴³

Years of accountability efforts from clients, advocates, elected officials, and fellow shareholders yielded long-overdue shifts from large asset managers in proxy voting on such proposals in the 2021 shareholder season, leading to majority votes at an unprecedented number of companies. BlackRock and Vanguard, the most consistent voting laggards among large asset managers in previous cycles, had the most significant improvements in votes for environmental shareholder proposals in 2021, with Insightia reporting BlackRock supporting 54% of such proposals (versus 16% in 2020) and Vanguard 46% (versus 22% in 2020).⁴⁴

Shareholder proposals in the U.S. are an important tool of shareholder engagement, providing an avenue for raising concerns about forward-looking risks and corporate responsibilities. However, while shareholder resolutions in the U.S. undoubtedly send an important signal to management and directors about investor priorities, they are not a substitute for holding directors accountable to clear standards of 1.5°C alignment. Companies often seek to have such proposals excluded from the proxy statement, and many of those that advance to a vote are non-binding and narrow in scope. Unfortunately, large carbon-intensive companies like ExxonMobil and Chevron have a clear track record of minimum compliance with the letter of those proposals that receive majority support—issuing supplementary disclosures on scenario planning or policy influence activity, for example—but fail to undertake the required shifts in behavior that animate these shareholder concerns.⁴⁵

As precatory, non-binding requests, shareholder proposals are thus only as strong as shareholder willingness to back them up with action to hold directors accountable. Moreover, not every company that must urgently realign to a net-zero pathway faces a shareholder proposal demanding that it do so every year. Not having such a resolution to support does not relieve these asset managers of the responsibility to hold the directors accountable to clear net-zero aligned standards.



**WHILE SHAREHOLDER
RESOLUTIONS IN THE U.S.
UNDOUBTEDLY SEND AN
IMPORTANT SIGNAL TO
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**NOT EVERY COMPANY THAT
MUST URGENTLY REALIGN TO
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5

ASSET MANAGER DIRECTOR VOTING IN CLIMATE-CRITICAL INDUSTRIES

This report analyzes the 2021 voting decisions at companies in climate-critical sectors of asset managers with more than \$1 trillion in assets under management. It measures votes on director elections at large U.S. companies in three critical sectors central to the production, consumption, and financing of fossil fuels and thus the clean energy transition: oil and gas, electric power, and banking. For additional detail on data and methods, please see Appendix A.

DIRECTORS ACROSS CLIMATE-CRITICAL INDUSTRIES: OIL AND GAS, ELECTRIC POWER, AND FINANCIAL SERVICES

Despite the urgency of the climate crisis, large asset managers overwhelmingly used their proxy voting power to elect management-backed directors in climate-critical industries that have failed to align their business operations and strategy with limiting warming to 1.5°C.

Vanguard, BNY Mellon, T. Rowe Price, Wellington Management, and JPMorgan Asset Management all voted for more than 98% of management-sponsored directors across S&P 500 oil and gas companies, utilities, and major banks, demonstrating support for

current management and governance of climate-related risks. Fidelity bears the ignominious distinction of supporting 100% of management-backed directors across these three critical industries.

BlackRock, which undertook a notable shift by increasing its support for climate-related shareholder resolutions in 2021, still supported 96% of management-supported directors at the largest U.S.-based companies in industries critical to the net-zero transition. Across all its U.S.-based portfolio companies, BlackRock supported only 91% of management-backed directors, indicating that BlackRock's support for directors in these climate-critical industries was higher than the average across its portfolio.⁴⁶ BlackRock reported that it voted against 255 directors globally for climate-related reasons, representing only 3.9% of the total 6,560 votes the asset manager took against directors globally.⁴⁷

Meanwhile, leading asset managers such as Legal & General Investment Management ("LGIM"), PIMCO, and Amundi Asset Management voted against at least one director at more than two-thirds of the companies analyzed, supporting only 75-83% of directors in these three industries overall. LGIM voted against at least one director at more than 80% of the companies.

MAJOR ASSET MANAGERS OVERWHELMINGLY SUPPORTED STATUS QUO CLIMATE GOVERNANCE IN CLIMATE-CRITICAL INDUSTRIES

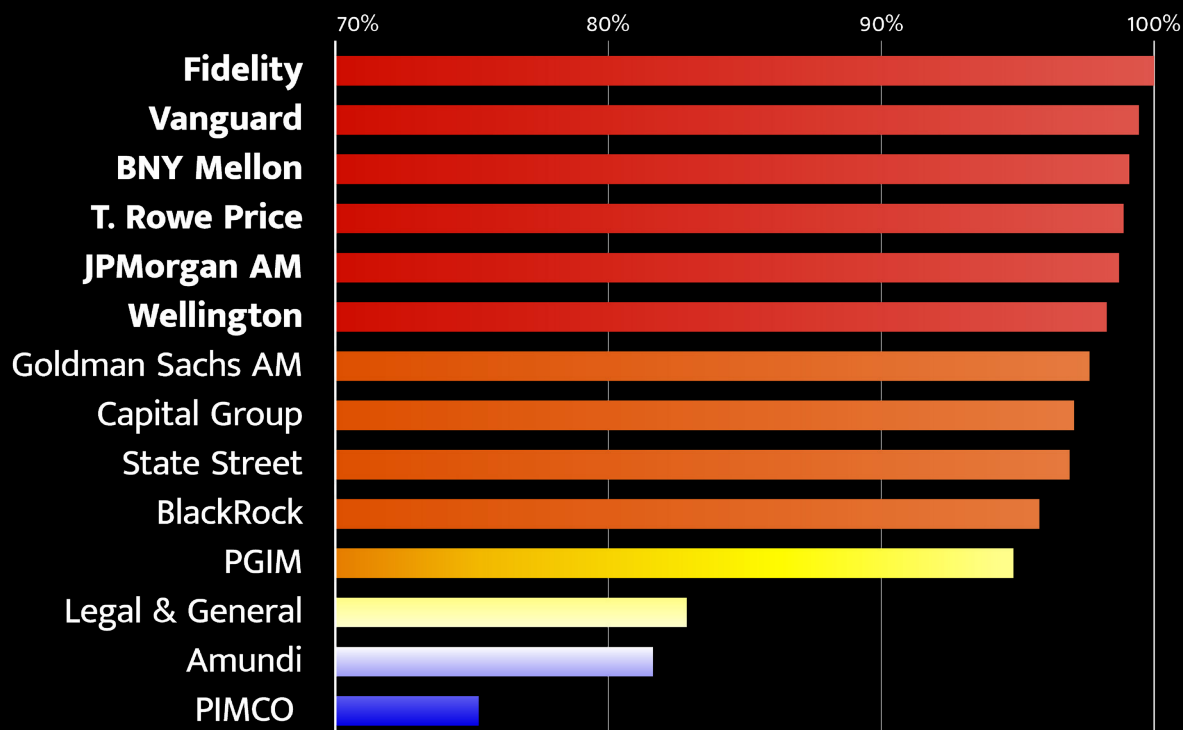


Figure 6: Percent of management-sponsored directors at climate-critical S&P 500 oil and gas, electric power, and financial services companies where asset manager voted in favor
Source: Proxy Insight

DIRECTOR ACCOUNTABILITY AT KEY COMPANIES FAILING ON CLIMATE PERFORMANCE

In 2021, Majority Action issued company-specific director vote guidance at 19 U.S. oil and gas, electric power, and financial services companies that were demonstrably out of alignment with limiting warming to 1.5°C.⁴⁸ The purpose of these recommendations was to provide investors with detailed resources about the lack of alignment of these companies' targets, capital expenditures, and policy influence to sector-specific net-zero pathways, empowering shareholders with the information required to hold these boards accountable. These recommendations urged investors to vote against the board chairs and, when the chair was also the CEO, lead independent directors, in recognition of the whole-of-company transformation required in these industries to align with net-zero pathways.

In making these recommendations, Majority Action drew from key sources to establish baseline practices needed to ensure net-zero alignment, including the Science-Based Targets Initiative, IPCC modeling, and the Carbon Disclosure Project. Major companies in climate-critical sectors were then evaluated using data from Climate Action 100+, Carbon Tracker, Influence Map, and other trusted sources.

COMPANIES WHERE WE ISSUED VOTING GUIDANCE INCLUDED:

- Oil and gas firms like Chevron and ConocoPhillips, which unlike European peers had no commitments to align to a net-zero pathway which included their Scope 3 emissions;⁴⁹

- Electric power companies like Duke Energy and Southern Company, which despite headline net-zero commitments planned significant expansion of fossil fuel generation capacity, failed to have coal plants retirement schedules in line with a credible decarbonization pathway, and demonstrated track records of utilizing policy influence in ways that hamper the clean energy transition;⁵⁰ and
- Major U.S. banks like JPMorgan Chase and Wells Fargo with substandard decarbonization commitments, ongoing financing of fossil fuel expansion, and failure to commit to the best practice disclosure framework proposed by the Partnership for Carbon Accounting Framework (PCAF).⁵¹

The list of sector-specific standards and companies can be found at Appendix D.

Leading asset owners telegraphed support for such votes ahead of key annual meetings,⁵² and proxy advisor ISS backed many of these recommendations in its advice to clients of its Taft-Hartley and public funds services, among others.⁵³ Leading asset managers Amundi and Legal & General voted to re-elect the entire board at only two of these companies, while PIMCO and its funds voted against, or its funds split their votes, on at least one director at every company Majority Action identified as being demonstrably out of alignment on key climate practices.

By contrast, most of these large asset managers overwhelmingly supported management-backed directors at these companies. Vanguard, Fidelity, and BNY Mellon supported the chairs and lead independent directors at all 19 companies. BlackRock voted to re-elect the entire board at 11 of these 19 companies, and voted in favor of the chair and/or lead independent director at 15.

MOST MAJOR ASSET MANAGERS FAILED TO OPPOSE BOARD LEADERSHIP AT 19 COMPANIES WITH CLIMATE PLANS DEMONSTRABLY OUT OF ALIGNMENT WITH LIMITING WARMING TO 1.5°C

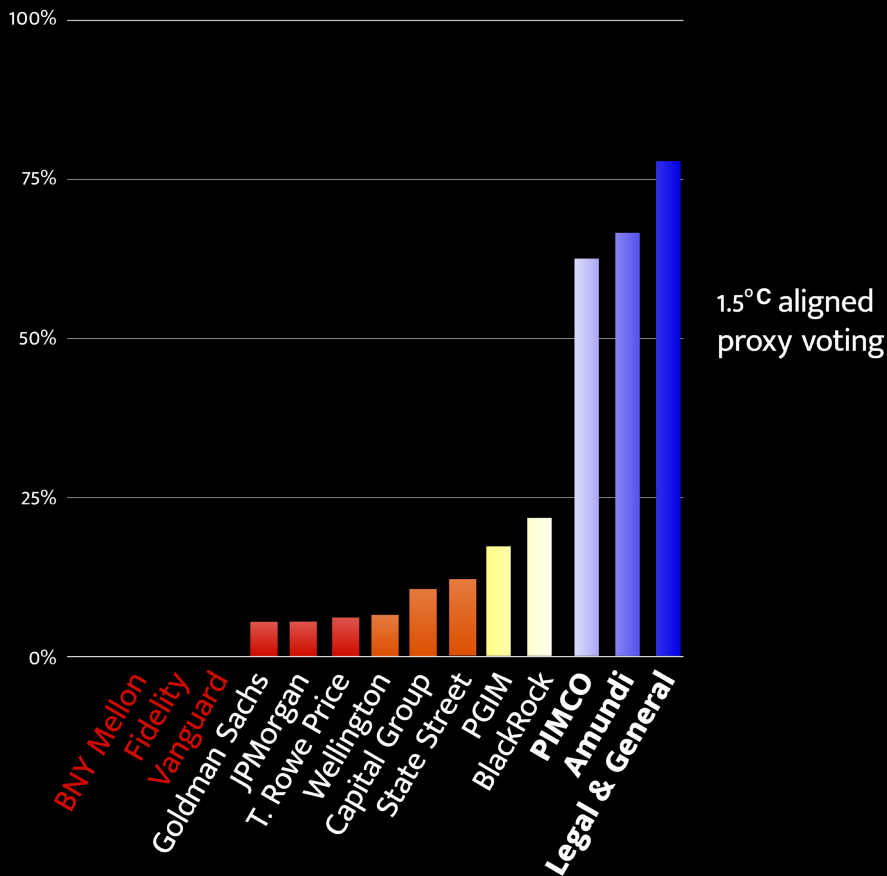


Figure 7: Percent of companies where asset manager voted against the chair, lead independent director, and/or other director with Majority Action "vote no" recommendations on the basis of climate failure
Source: Proxy Insight

CASE STUDIES

CHEVRON

The second largest integrated energy company in the U.S., Chevron met none of the Climate Action 100+ benchmarks for net-zero and greenhouse gas reduction target setting, and had not set targets that cover the most relevant Scope 3 emissions categories for its sector as of its annual meeting. According to Carbon Tracker, 60-70% of Chevron's potential capital expenditures in unsanctioned projects between 2020-2030 exceeded the carbon budget for the IEA's Beyond 2°C scenario, and therefore fell well outside the 1.5°C carbon budget. According to the Climate Action 100+ benchmark report, Chevron did not meet any of the criteria for climate policy engagement alignment, except its disclosure of trade association memberships. As noted by Influence Map, these disclosures do not include an assessment of Chevron's "alignment with its industry associations, nor how it tries to influence their climate policy."⁵⁴

Shareholder opposition to Chevron Lead Independent Director Ronald Sugar grew significantly in line with Majority Action's recommendation, with support for his re-election falling to only 76%, a drop of over 10 percentage points since 2020.⁵⁵ Shareholders also expressed concerns about his long tenure and capacity to dedicate time to his role as Lead Independent Director given the three other boards on which he serves.⁵⁶ However, despite the clear misalignment of the company's strategy with a 1.5°C pathway, BlackRock, Vanguard, and Fidelity all voted to re-elect Sugar—as well as every other member of the Chevron board of directors.

DUKE ENERGY

Duke Energy is the largest generator of electricity and second largest CO2 emitter among U.S. power producers. Climate Action 100+ found that Duke met none of its criteria for capital allocation alignment in its 2021 Net-Zero Company Benchmarks Assessments. At the time of its 2021 shareholder meeting, Duke Energy had firmly committed to retire only 11% of its coal generation before 2030, even though coal phase-out by 2030 by power producers in the U.S. is critical to decarbonization pathways that limit warming to 1.5°C. The company's plans called for construction of more than 7,800 MW of new natural gas capacity by 2030, more than twice the planned increased gas capacity of any other utility, and a further expansion of 5,500 MW beyond 2030. Failure to manage and oversee key ESG risks led to a \$1.6 billion writedown in 2020 associated with the ill-fated Atlantic Coast Pipeline fossil fuel infrastructure project. Lead Independent Director Michael Browning has served on the board of Duke and its predecessors for 31 years, long past best practice for director tenure.⁵⁷

Shareholder opposition to Duke's lead independent director grew in line with Majority Action's recommendation, with support for Browning falling over 7 percentage points to 88%.⁵⁸ Asset managers LGIM and Amundi voted against Browning's re-election. However, despite the clear misalignment of the company's strategy with a 1.5°C pathway, BlackRock, Vanguard, Fidelity, and State Street all voted to re-elect Browning—as well as every other member of the Duke Energy board of directors.

BERKSHIRE HATHAWAY

Berkshire Hathaway's Berkshire Hathaway Energy (BHE) subsidiary is the seventh largest investor-owned U.S. electric utility and the fifth largest producer of carbon dioxide emissions. As of Berkshire

Hathaway's 2021 annual meeting, BHE was the largest U.S. investor-owned electric utility (as measured by power generation) to fail to set any carbon reduction targets. According to Climate Action 100+ 2021 benchmarking, Berkshire met none of the criteria for net-zero and greenhouse gas reduction target setting. Moreover, as of Q1 2021, the company had committed to retire only 10% of its coal generation by 2030. In contrast to many other companies that lack an independent chair, Berkshire has no independent director serving in a Lead Independent Director role.⁵⁹

Buoyed by a dual-class share structure and large (42%) insider ownership of Class A shares with 10,000 times the voting power of Class B shares,⁶⁰ Berkshire Hathaway Chair Warren Buffet received 97.8% support, a slight drop from 2020.⁶¹ Vanguard and Fidelity both voted in support of the entire board.

BlackRock, while also voting to re-elect Berkshire's chair, did vote against two directors who were not the chair due to climate and governance concerns. However, Berkshire Hathaway's board has no committee that is responsible for oversight of climate-related risks, and the director BlackRock opposed due to its concerns about Berkshire's climate performance was no longer even the chair of Berkshire's audit committee, the committee that BlackRock believed was the closest stand-in for a committee responsible. Curiously, BlackRock voted to support Berkshire director Gregory Abel, despite his direct and ongoing connection to Berkshire's failures on decarbonization as chairman of Berkshire Hathaway Energy. BlackRock publicly promoted this voting action, disconnected as it was from opposing any actual board-level decision-maker on climate policy, declaring in a 2021 vote bulletin "we have held the company accountable for shortfalls in its governance practices and sustainability disclosure."⁶²

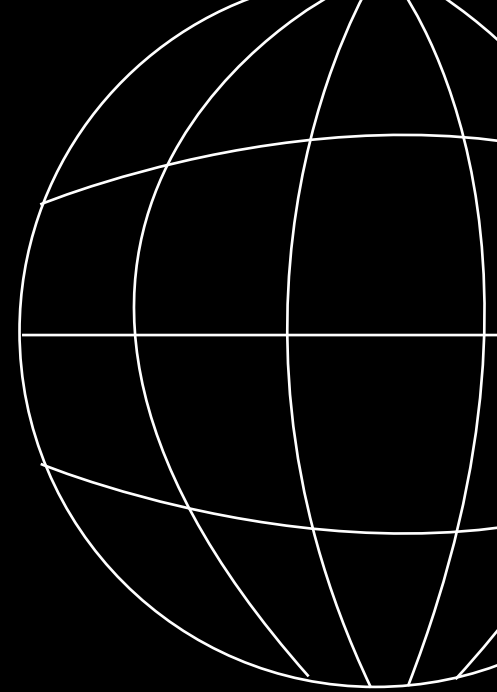
EXXONMOBIL PROXY CONTEST

The proxy contest in 2021 at ExxonMobil forced large asset managers to contend with the company's multi-year failures to reckon with its impact on climate change and to engage productively with shareholders to mitigate climate risk and decarbonize its business. Investment firm Engine No. 1 nominated four dissident directors to ExxonMobil's board, citing concerns regarding Exxon's financial performance and debt-burdened capital structure, as well as its failure to position the company to meaningfully prepare for the coming energy transition away from fossil fuels.⁶³ The support of the largest asset managers was critical to the election of three of the four directors proposed by dissident Engine No. 1. However, even at the highest-profile opportunity to hold a major corporation accountable for climate inaction, the largest asset managers failed to exercise their full influence to press for change.

While all 14 asset managers reviewed in this report supported at least one of the dissident directors, few supported all four. Most large asset managers, including Vanguard, BlackRock, State Street, and Fidelity, voted against the election of Anders Runevad, the only dissident candidate with substantial experience in renewable energy.⁶⁴

By contrast, leading asset managers such as LGIM and PIMCO funds not only voted for dissident directors, but also voted to hold the incumbent board accountable for Exxon's many years of climate recalcitrance by voting against Lead Independent Director Kenneth Frazier.

**ASSET MANAGER DIRECTOR VOTING
IN CLIMATE-CRITICAL INDUSTRIES**



WHILE ALL MAJOR ASSET MANAGERS VOTED FOR AT LEAST ONE DISSIDENT DIRECTOR AT EXXONMOBIL, FEW VOTED TO HOLD THE INCUMBENT BOARD LEADERSHIP ACCOUNTABLE FOR THE COMPANY'S CLIMATE FAILURES

	Voted FOR chair and lead independent director	Voted AGAINST chair and/or lead independent director
Voted FOR all dissident directors	BNY Mellon, Capital Group, Goldman Sachs, Wellington	LGIM
Failed to support some dissident directors	Amundi, BlackRock, Fidelity, JPM Asset Management, PGIM, State Street, T Rowe Price, Vanguard	PIMCO

Figure 8: Asset manager voting record on proxy contest at ExxonMobil
Source: Proxy Insight

6

CURRENT ASSET MANAGER PROXY VOTING POLICIES TOWARDS CLIMATE RISK MANAGEMENT ARE INSUFFICIENT AND INCONSISTENT

Asset manager proxy voting outcomes do not emerge at random; rather, they flow from asset manager policies and guidelines that reflect the asset manager's point of view regarding company and director responsibilities and standards. These policies' strength and specificity (or lack thereof) play a key role in communicating to portfolio companies, and the market at large, the asset manager's

expectations for company strategy and board oversight of climate risks, challenges, and opportunities. They also provide one of the benchmarks against which fellow shareholders and clients can assess the asset manager's approach to corporate strategy and governance on climate.

PROXY VOTING POLICIES ON CLIMATE CHANGE DESIGNED TO ACTUALLY ADDRESS THE MATERIAL AND SYSTEMIC RISKS FACING SHAREHOLDERS SHOULD FEATURE, AT MINIMUM:

1

An intention that proxy voting be aligned to the goal of limiting warming to 1.5°C:

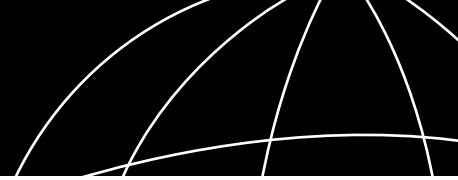
2

A clear and explicit expectation that portfolio companies take action on emissions consistent with limiting warming to 1.5°C, not merely disclose how the company perceives and manages climate

3

A commitment to vote against directors at companies that have failed to meet climate performance standards.

All three components are essential. Leading asset owners and managers have already adopted policies that signal to companies and the market that they intend to hold directors accountable for taking action to reduce emissions and align their business to 1.5°C pathways.



**EXAMPLE POLICIES TO HOLD DIRECTORS
ACCOUNTABLE FOR ACHIEVING 1.5°C ALIGNMENT**

Leading asset owners and managers are incorporating the objective of limiting warming to 1.5°C directly into their proxy voting policies, and empowering themselves to hold directors accountable for corporate climate performance failures against this standard.



A core goal of these voting guidelines is to **accelerate the economy's transition towards the recommendations** of the Intergovernmental Panel on Climate Change (IPCC) to meet a 1.5° Celsius scenario. For many companies, we believe this requires significant changes in transparency, accountability, strategy, and operations to achieve net zero emissions. This includes ensuring that the company's board and senior management are properly considering the environmental, social, and economic risks relevant to climate change, which may require adoption of net zero-aligned transition plans...

Generally we vote against or withhold votes from directors individually, or relevant responsible committee members, due to a failure to adequately address climate-related risks, or capitalize on climate-related opportunities. We believe the entire board is responsible for climate governance processes and reporting weaknesses, and we consider **holding boards accountable when they have failed in their oversight over material climate-related risks**, including providing adequate disclosure on material issues.”

- Engine No. 1 ETF Proxy Voting Guidelines, August 2021⁶⁵



The CRPTF may vote against directors at companies that have failed to align their business plans with the goals of limiting global warming to 1.5 degrees Celsius, as set forth in the Paris Climate Agreement, and/or establishing a plan to achieve net zero emissions by 2050.”

- Connecticut Retirement Plans and Trust Funds Policy, amended 2021⁶⁶



Directors will not be supported where the board has failed in its oversight responsibilities (such as where there is significant corporate misbehavior, repeated financial restatements or inadequate responses to systemic risks including climate change that may have a material impact on performance). We may vote against directors at companies that have failed to set science-based emissions targets aligned to the goal of limiting warming to 1.5°C or failed to disclose material climate risk exposures and how the company governs, manages, and mitigates those risks.”

- Office of the Illinois State Treasurer 2021 Proxy Voting Policy Statement⁶⁷

Our analysis of large asset manager voting policies shows that the overall approach taken by these asset managers to address climate issues in proxy voting is largely insufficient to the scale and speed of the transition necessary to limit warming to 1.5°C. No asset manager with over \$1 trillion in AUM explicitly seeks to hold companies accountable for taking action to ensure global warming is limited to 1.5°C in their

proxy voting policies. Setting a goal of limiting warming to 1.5°C and aligning business plans with achieving such a goal is critical, as every 0.5°C in additional warming implies substantial increases in the systemic risks posed to portfolios. In addition, limiting warming to 1.5°C (as compared to 1.8°C, 2°C, or higher) requires stronger short-term actions and targets to reduce emissions this decade.

CURRENT ASSET MANAGER PROXY VOTING POLICIES TOWARDS CLIMATE RISK MANAGEMENT ARE INSUFFICIENT AND INCONSISTENT

ASSET MANAGER PROXY VOTING POLICIES ON CLIMATE ARE INSUFFICIENT

Company	Sets limiting warming to 1.5°C as a goal of proxy voting	Expects companies to take action to reduce emissions, including target setting	Enables votes against directors on the basis of climate performance
Amundi ⁶⁸	☑ ¹	✓	✓
BlackRock ⁶⁹	☑ ¹	☑ ²	✓
BNY Mellon ⁷⁰	✗	✗	✗
Capital Group ⁷¹	✗	✗	✗
Fidelity ⁷²	✗	✗	✗
Goldman Sachs AM ⁷³	✗	✗	✗
JPMorgan AM ⁷⁴	✗	✓	✓
Legal & General ⁷⁵	☑ ¹	✓	✓
PGIM ⁷⁶	—	—	—
PIMCO ⁷⁷	✗	✗	✗
State Street ⁷⁸	✗	✗	✗
T. Rowe Price ⁷⁹	✗	✗	✗
Vanguard ⁸⁰	✗	✗	✗
Wellington ⁸¹	☑ ¹	✗	✗

LEGEND

- ✓ Yes
- ✗ No
- ☑¹ Partial: declares proxy voting objective of limiting warming to the Paris Agreement, but does not specify 1.5°C
- ☑² Partial: Calls on companies to “articulate” how plans are consistent with a world that achieves net-zero, but does not specify actions required

Figure 9: Review of asset manager proxy voting guidelines
Source: Asset manager voting policies

CURRENT ASSET MANAGER PROXY VOTING POLICIES TOWARDS CLIMATE RISK MANAGEMENT ARE INSUFFICIENT AND INCONSISTENT

The policies of laggard asset managers, including Vanguard,⁸² Fidelity,⁸³ and State Street,⁸⁴ do not even contemplate voting against directors on the basis of climate performance. Their proxy voting policies for U.S. portfolio companies do not refer to any standards of climate performance to which they will hold companies, only indicating that votes against directors may be cast where there is a material risk oversight failure, including material environmental risks.⁸⁵ In Vanguard's guidelines for climate-related shareholder proposals, an action with less direct consequences for companies than voting on director elections, proposal topics that Vanguard generally supports are limited to enhanced disclosure, reporting, and scenario analysis.⁸⁶

BlackRock's voting guidelines indicate that it expects companies to "articulate" their alignment with limiting warming to well below 2°C and for "carbon-intensive companies to disclose explicit GHG emissions reduction targets."⁸⁷ While this does reference setting targets, it only requires companies to disclose targets rather than set them to a particular level, or take specific action to reduce greenhouse gas emissions.

BEST PRACTICES FOR POLICY IMPLEMENTATION

Ultimately, proxy voting policies are only as robust as their implementation. In implementing effective proxy voting policies to limit warming to 1.5°C, asset managers and owners should:

1. Establish and communicate clear, industry-specific standards by which company decarbonization plans are assessed, including how those standards are aligned to 1.5°C pathways;
2. Disclose how they are evaluating company performance against those standards; and
3. Specify voting consequences for companies that fail to meet them.

LGIM's voting policy and supplemental documents anticipate voting sanctions, including voting against the board chair, at companies that do not meet minimum standards of climate disclosure and strategy,⁸⁸ and provides clear "red lines" for companies in providing

guidance on how it believes companies should go about meeting those standards.⁸⁹ These "red lines" include phasing out coal for the electric utilities sector and restrictions on thermal coal financing for banks.⁹⁰ The asset manager also publishes detailed information on its view of individual companies' performance, an essential component of responsible asset stewardship on this issue.⁹¹

After years of pressure from investors and climate advocates, BlackRock undertook a major revision of its voting policies to clarify that votes against directors could be cast on the basis of climate risk management practices, and not just disclosures.⁹³ However, BlackRock's 2021 Proxy Voting Guidelines for U.S. Securities and supplemental stewardship materials fail to specify any sectoral standards to which companies should be held, only saying that company plans should be "consistent with a global aspiration to reach net zero GHG emissions by 2050."⁹⁴

As Climate Action 100+'s benchmarking report illustrated, however, many firms in the U.S. and abroad are setting net-zero targets or making statements in support of net-zero alignment while undertaking capital expenditures or policy influence activities that undermine that objective. In this context, BlackRock's failure to set clear standards for what global net-zero alignment requires of firms in carbon-intensive sectors creates ample opportunity for obfuscation, delay, and half measures that are not aligned with the rapid reductions in greenhouse gas emissions necessary to limit warming to 1.5°C.

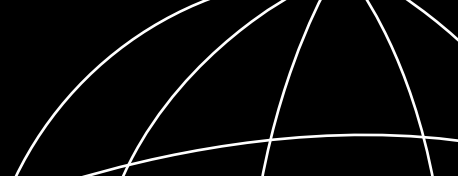
In addition, BlackRock's voting guidelines indicate that while the company may support shareholder proposals that ask companies to disclose aligned climate plans, it reserves voting against directors only for circumstances where the board has "failed to exercise sufficient oversight with regard to material ESG risk factors."⁹⁵ Corporate boards, shareholders, and clients all need clarity from BlackRock as to the standards it uses to hold directors accountable on climate performance -- and how those standards align to the urgency and comprehensiveness of the net-zero transformation.

BEST PRACTICES FOR POLICY IMPLEMENTATION

1 Establish and communicate clear, industry-specific standards by which company decarbonization plans are assessed, including how those standards are aligned to 1.5°C pathways

2 Disclose how they are evaluating company performance against those standards

3 Specify voting consequences for companies that fail to meet them



COMPARING TWO SAMPLE POLICIES: LEGAL & GENERAL AND BLACKROCK

EXCERPT FROM LGIM VOTING POLICIES AND SUPPLEMENTAL MATERIALS



As part of our Climate Impact Pledge, we expect companies to not only have greenhouse gas (GHG) reduction targets in place, but also to disclose board oversight of climate change and other sector-specific policies.... Companies that do not meet our minimum standards on climate change strategy and disclosure may be subject to voting sanctions and ultimately divestment from certain LGIM's Future World range of funds.

...Where we deem insufficient action is being taken, we have already publicly committed to vote against the chair of the board on the issue of climate change on a global basis.”

- LGIM Corporate Governance and Responsible Investment Policy North America 2021⁹²

LGIM's policy calls on companies to take responsibility for setting GHG reduction targets and specifies voting consequences for directors that fail to meet LGIM's specific standards for climate strategy.

BlackRock's policy speaks to net-zero alignment, but does not set forth any standards on decarbonization or the consequences for directors that fail to meet them.

EXCERPT FROM BLACKROCK VOTING POLICY



BOARDS OF DIRECTORS: OVERSIGHT

We will consider voting against committee members and/or individual directors in the following circumstances:

-Where the board has failed to exercise sufficient oversight with regard to material ESG risk factors, or the company has failed to provide shareholders with adequate disclosure to conclude appropriate strategic consideration is given to these factors by the board.



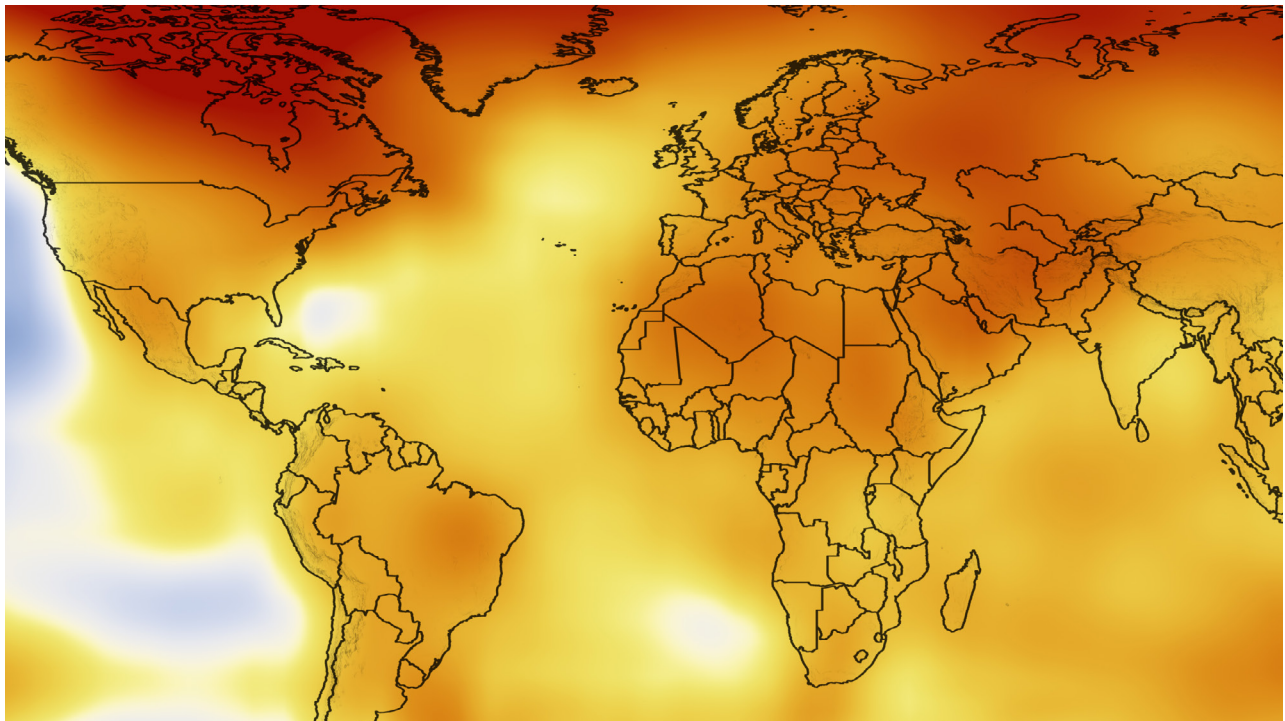
CLIMATE RISK

[BlackRock expects] companies to articulate how they are aligned to a scenario in which global warming is limited to well below 2°C and is consistent with a global aspiration to reach net zero GHG emissions by 2050. In order to assess companies' progress, [BlackRock] expects carbon-intensive companies to disclose explicit GHG emissions reduction targets.

...We may support shareholder proposals that ask companies to disclose climate plans aligned with our expectations.”

- BlackRock 2021 Proxy Voting Guidelines for U.S. Securities⁹⁶

7 RECOMMENDATIONS



Both asset managers and owners have a responsibility to mitigate the systemic risks posed by climate change to their clients' and beneficiaries' portfolios. As clients of large asset managers, asset owners can hold asset managers accountable for managing their proxy voting strategies to ensure that companies are aligning their targets, business models, policy influence, and governance to the objective of limiting warming to 1.5°C.

RECOMMENDATIONS FOR ASSET MANAGERS:

1. Adopt or update proxy voting policies before the 2022 shareholder annual meeting season to ensure that they include:
 - a. An intention that proxy voting be aligned to the goal of limiting warming to 1.5°C
 - b. A clear and explicit expectation that portfolio companies take action on emissions consistent with limiting warming to 1.5°C, not merely disclose how the company perceives and manages climate risks to itself; and
 - c. A commitment to vote against directors at companies that have failed to meet climate performance standards.
2. Adopt and publicly communicate the industry-specific standards by which companies will be assessed and how those standards align with the goal of limiting warming to 1.5°C
3. Communicate to clients, fellow shareholders, and the corporate governance community how companies have been assessed according to those standards and the proxy voting consequences for companies that fail to meet those standards.

RECOMMENDATIONS FOR ASSET OWNERS:

1. Review and update voting policies to ensure that they enable asset owners to hold directors accountable for climate performance at systemically important carbon emitting companies, including alignment with the standards set out for asset managers above;
2. Vote in accordance with those policies to vote against or withhold support for chairs, lead independent directors, and other directors where necessary at climate-critical companies that have failed to take action to decarbonize their business model and operations in line with limiting warming to 1.5°C; and
3. Review relationships with existing asset managers in light of proxy voting performance, engage those asset managers on the need to enhance proxy voting to limit warming to 1.5°C, and seek alternative asset managers if necessary. Asset owners should engage with their current asset managers over their voting record and plans for holding boards accountable for systemic climate risk. They should expect full transparency and sufficient contemporaneous explanation regarding the reasoning and justification for votes cast by the asset manager. Asset owners should also consider incorporating criteria regarding proxy voting on systemic climate risk and at climate-critical companies into their asset manager search criteria,

This report analyzes the votes of asset managers with assets under management (AUM) of greater than \$1 trillion. Proxy Insight identified 14 such managers as of September 7, 2021. The list of asset managers and relevant subsidiaries and voting entities can be found in Appendix B.

This report analyzes the extent to which asset managers supported management recommendations on directors elections at oil & gas, utility and financial services companies in the S&P 500. This analysis included 49 major oil and gas, electric utility, and financial services companies domiciled in the United States, defined as S&P 500 companies that are in one of the following sectors and industries, as categorized by Proxy Insight:

- The “Energy” industry, excluding “Alternative Energy,” “Oil & Gas Equipment & Services”;
- The “Utilities” industry, excluding “Renewable Utilities,” “Water Utilities”;
- The “Banks,” “Banks - Global” or “Capital Markets” industries, which are also designated as global systemically important banks for 2020 by the Financial Stability Board.

The full list of companies in this universe can be found in Appendix C. ExxonMobil has been excluded from the overall industry figures for 2021 due to the proxy contest at that company. Votes at ExxonMobil have been analyzed separately.

Separately, this report analyzes asset managers’ votes on chairs and lead independent directors at companies where Majority Action made recommendations for investors to vote against such directors on the basis of climate performance. The full list of companies and directors can be found in Appendix D.

Voting data was provided by Proxy Insight as of September 19, 2021, based on 2021 N-PX filings for those asset managers that file N-PX reports with the SEC, other public data sources, and direct investor reporting to Proxy Insight.

Votes are counted as “for” if 75% or more of funds within a fund family voted for a director and “against” if at least 75% of funds within a fund family opposed it. Director votes may be “against” or “withhold,” depending on a company’s voting standard for director elections. Both are treated as “against” votes. Votes where there was less agreement among funds in the same fund family are recorded as “mixed.” Only actual votes are considered votes in support, with abstentions being counted as non-votes.

APPENDIX B: TOP 14 ASSET MANAGERS

Asset Manager	Assets under management (USD billions)	Percentage directors voted for in climate-critical industries	Percent of companies where asset manager voted against the chair, lead independent director, and/or other director(s) in line with Majority Action “vote no” recommendations on the basis of climate failure
BlackRock	\$7,808	95.8%	21.1%
Vanguard Group, Inc.	\$6,670	99.5%	0%
SSgA Funds Management, Inc. (State Street)	\$2,810	96.9%	10.5%
Fidelity Management & Research Co. (FMR)	\$2,530	100%	0%
JPMorgan Investment Management, Inc.	\$2,100	98.7%	5.3%
T. Rowe Price Associates, Inc.	\$1,817	98.9%	5.6%
BNY Mellon	\$1,800	99.1%	0%
Amundi Asset Management	\$1,792	81.7%	66.7%
Pacific Investment Management Co. (PIMCO)	\$1,760	75.3%	68.8%
Legal & General Investment Management	\$1,637	82.9%	77.8%
Goldman Sachs Asset Management	\$1,600	97.6%	5.3%
Capital Group	\$1,600	97.1%	9.1%
Wellington Management Company	\$1,372	98.3%	5.9%
Prudential Global Investment Management (PGIM)	\$1,152	94.9%	16.7%

The proxy votes of relevant subsidiaries as categorized by ProxyInsight, and additional voting entities, were assigned to the appropriate parent company for the purposes of this review.

Asset Manager	Additional voting entities
BlackRock	BlackRock Sustainability Funds
BNY Mellon	Newton Investment Management
Capital Group	Capital Guardian Trust Co.
Fidelity Management & Research Co. (FMR)	Fidelity Institutional Asset Management
Pacific Investment Management Co. (PIMCO)	Parametric Portfolio Associates (PIMCO funds only)
Prudential Global Investment Management (PGIM)	Quantitative Management Associates Jennison Associates LLC

APPENDIX C: S&P 500 OIL AND GAS, UTILITY, AND FINANCIAL SERVICES COMPANIES

Ticker	Issuer	Industry
BAC	Bank of America Corporation	Financial Services
C	Citigroup Inc.	Financial Services
GS	Goldman Sachs Group Inc. (The)	Financial Services
JPM	JP Morgan Chase & Co	Financial Services
MS	Morgan Stanley	Financial Services
WFC	Wells Fargo & Company	Financial Services
COG	Cabot Oil & Gas Corporation	Oil & Gas
COP	ConocoPhillips	Oil & Gas
DVN	Devon Energy Corporation	Oil & Gas
FANG	Diamondback Energy Inc.	Oil & Gas
EOG	EOG Resources Inc.	Oil & Gas
XOM	ExxonMobil*	Oil & Gas
HES	Hess Corporation	Oil & Gas
MRO	Marathon Oil Corporation	Oil & Gas
OXY	Occidental Petroleum Corporation	Oil & Gas
PXD	Pioneer Natural Resources Company	Oil & Gas
CVX	Chevron Corporation	Oil & Gas
KMI	Kinder Morgan Inc.	Oil & Gas
OKE	ONEOK Inc.	Oil & Gas
WMB	Williams Companies Inc. (The)	Oil & Gas
MPC	Marathon Petroleum Corporation	Oil & Gas
PSX	Phillips 66	Oil & Gas
VLO	Valero Energy Corporation	Oil & Gas
AES	AES Corporation (The)	Utilities
AEE	Ameren Corporation	Utilities
ED	Consolidated Edison Inc	Utilities
D	Dominion Energy Inc	Utilities
DUK	Duke Energy Corporation	Utilities
EIX	Edison International	Utilities
ETR	Entergy Corporation	Utilities
EXC	Exelon Corporation	Utilities
FE	FirstEnergy Corporation	Utilities
PPL	PPL Corporation	Utilities
PEG	Public Service Enterprise Group Incorporated	Utilities
SRE	Sempra Energy	Utilities
NRG	NRG Energy Inc.	Utilities
LNT	Alliant Energy Corporation	Utilities
AEP	American Electric Power Company Inc.	Utilities
CMS	CMS Energy Corporation	Utilities
DTE	DTE Energy Company	Utilities
EVRG	Evergy Inc	Utilities
ES	Eversource Energy	Utilities
NEE	NextEra Energy, Inc.	Utilities
PNW	Pinnacle West Capital Corporation	Utilities
SO	Southern Company (The)	Utilities
WEC	WEC Energy Group, Inc.	Utilities
XEL	Xcel Energy Inc.	Utilities
ATO	Atmos Energy Corporation	Utilities
CNP	CenterPoint Energy Inc.	Utilities
NI	NiSource, Inc	Utilities

Note: Due to the proxy contest, ExxonMobil was excluded from the overall industry analysis and analyzed separately in the text of this report.

APPENDIX D: PROXY VOTING FOR 1.5°C INDUSTRY STANDARDS, COMPANY ASSESSMENTS, AND RECOMMENDATIONS

In 2021, Majority Action issued company-specific director vote guidance at 19 U.S. oil and gas, electric power, and financial services companies that were demonstrably out of alignment with limiting warming to 1.5°C. The purpose of these recommendations was to provide investors with detailed resources about the lack of alignment of these companies' targets, capital expenditures, and policy influence to sector-specific net-zero pathways, empowering shareholders with the information required to hold these boards accountable. These recommendations urged investors to vote against the board chairs and, when the chair was also the CEO, lead independent directors, in recognition of the whole-of-company transformation required in these industries to align with net-zero pathways.

In making these recommendations, Majority Action drew from key sources to establish baseline practices needed to ensure net-zero alignment, including the Science-Based Targets Initiative, IPCC modeling, and the Carbon Disclosure Project to establish baseline practices needed to ensure net-zero alignment. Major companies in climate-critical sectors were then evaluated using data from Climate Action 100+, Carbon Tracker, Influence Map, and other trusted sources.

Full analysis of these standards and company performance against them can be found at proxyvoting.majorityaction.us.

Utilities

Target setting	1.1	Net-zero commitment by no later than 2050 for power production
	1.2	Net-zero commitment clearly includes all relevant emissions sources and has limited use of offsets, negative emissions, or unproven or uncommercialized technologies, including carbon capture and storage
	1.3	Robust interim targets of at least 80% by 2030 or at least 3% per year on a straight-line basis between 2019-2030
Capital allocation	2.1	Firm plan to phase out coal by 2030
	2.2	Limited investment in new gas generation planned
Policy influence	3.1	Alignment of policy influence activities with net-zero target and limiting warming to 1.5°C

Oil & Gas

Target setting	1.1	Net-zero by 2050 commitment that covers all relevant emissions sources, in particular Scope 3 emissions from the burning of products sold, and on a full equity share basis
	1.2	Net-zero commitment has limited use of offsets, negative emissions, or unproven or uncommercialized technologies, including carbon capture and storage
Capital allocation	2.1	Plan to realign capital expenditures to meet a net-zero decarbonization commitment
Policy influence	3.1	Alignment of policy influence activities with net-zero target and limiting warming to 1.5°C

Financial Services

Target setting	1.1	Net-zero by 2050 commitment for financed emissions
	1.2	Commitment to set interim targets within a year, pursuant to a net-zero financed emissions target
Fossil fuel financing policies	2.1	Robust near-term exclusion policies for fossil fuel-intensive projects, in particular, Arctic and tar sands oil and gas, and coal mining and power production
Disclosure and measurement	3.1	Commitment to disclose and measure of climate impact and financed emissions through the rigorous and internationally accepted framework developed by Partnership for Carbon Accounting Financials

APPENDIX E: PROXY VOTING FOR 1.5°C INDUSTRY STANDARDS, COMPANY ASSESSMENTS, AND RECOMMENDATIONS

Oil & Gas Companies

Ticker	Company	Vote against recommendations	1.1	1.2	2.1	3.1
COP	ConocoPhillips	Chair/CEO: Ryan M. Lance Lead Director: Robert A. Niblock	X	N/A	X	X
DVN	Devon Energy Corporation	Executive Chairman: David A. Hager Lead Independent Director: Kelt Kindick	X	N/A	X	X
XOM	ExxonMobil	Competing director slates, no recommendations made	X	N/A	X	X
OXY	Occidental Petroleum Corporation	Chair: Stephen I. Chazen	√	X	X	X
CVX	Chevron Corporation	Chair/CEO: Michael K. Wirth Lead Director: Ronald D. Sugar	X	N/A	X	X
KMI	Kinder Morgan Inc.	Executive Chair: Richard D. Kinder Lead Director: Michael C. Morgan	X	N/A	X	X
MPC	Marathon Petroleum Corporation	Chair of the Sustainability Committee: Abdulaziz F. Alkhayyal	X	N/A	X	X
PSX	Phillips 66	Directors and members of the Public Policy and Sustainability Committee: Julie L. Bushman; Lisa A. Davis	X	N/A	X	X
VLO	Valero Energy Corporation	Chair/CEO: Joseph W. Gorder Lead Director: Robert A. Profusek	X	N/A	X	X

Electric Power Companies

Ticker	Company	Vote against recommendations	1.1	1.2	1.3	2.1	2.2	3.1
BRKA/ BRKB	Berkshire Hathaway Inc.*	Chair/CEO: Warren E. Buffett	X	N/A	X	X	X	X
DUK	Duke Energy Corporation	Chair/CEO: Lynn Good Lead Independent Director: Michael G. Browning	√	X	X	X	X	X
ETR	Entergy Corporation	Chair/CEO: Leo P. Denault Lead Director: Stuart L. Levenick	√	X	X	—	X	X
FE	FirstEnergy Corporation	Chair: Donald T. Misheff	√	X	—	X	√	X
PPL	PPL Corporation	Chair: Craig A. Rogerson	X	N/A	N/A	X	√	X
EVRG	Evergy Inc	Chair: Mark A. Ruelle Lead Independent Director: Thomas D. Hyde	X	N/A	X	X	√	X
NEE	NextEra Energy, Inc.	Chair/CEO: James L. Robo Lead Director: Sherry S. Barrat	X	N/A	X	—	X	X
SO	Southern Company (The)	Chair/CEO: Thomas A. Fanning	√	X	X	X	X	X

Financial Service Companies

Ticker	Company	Vote against recommendations	1.1	1.2	2.1	3.1
GS	Goldman Sachs Group Inc.	Chair/CEO: David M. Solomon Lead Director: Adebayo O. Ogunlesi	√	√	X	X
JPM	JP Morgan Chase & Co	Chair/CEO: Jamie Dimon Lead Director: Stephen B. Burke	X	N/A	X	X
WFC	Wells Fargo & Company	Chair: Charles H. Noski	√	X	X	X

Legend

√ = met criteria X = did not meet criteria — = partially met criteria N/A = not assessed

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ENDNOTES

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