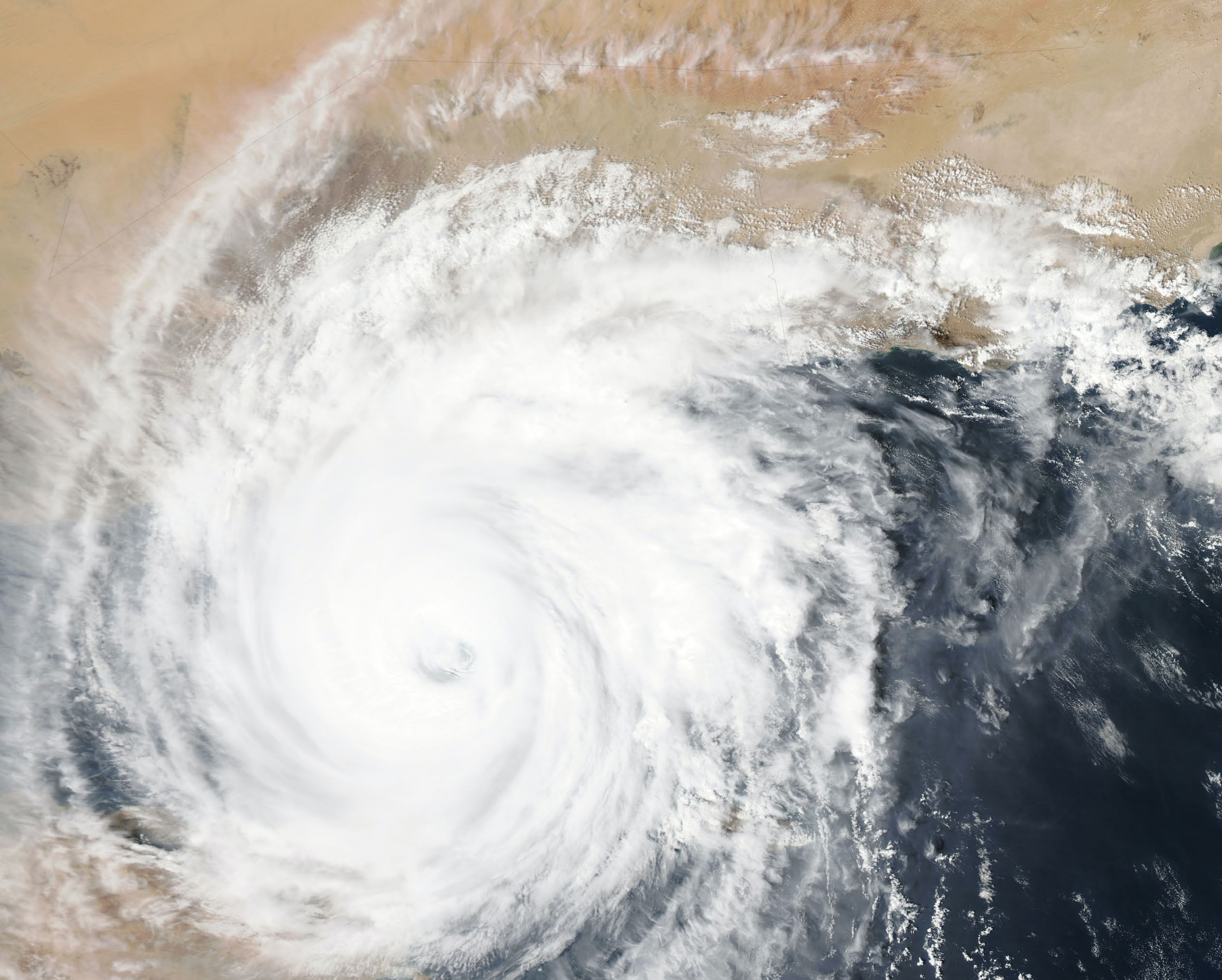
CLIMATE IN THE BOARDROOM

HOW ASSET MANAGER VOTING SHAPED CORPORATE CLIMATE ACTION IN 2022

majority action



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This study uses data obtained under license from Insightia (formerly Proxy Insight) between October 5 - November 25, 2022.

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I. EXECUTIVE SUMMARY

Climate change is a systemic, escalating, and irreversible crisis that will drive unprecedented harm and threatens the lives and livelihoods of millions. Climate change also imposes significant, undiversifiable, portfolio-wide risks to long-term and institutional investors with broad market exposure. In response to this crisis, the International Energy Agency (IEA) published a cost-effective and economically productive scenario for the energy sector to achieve net zero carbon emissions by 2050, thereby leaving open the possibility of limiting warming to 1.5°C. Under this net zero scenario, there is no need for new oil and gas development,[1] and wealthier nations, like the U.S., will need to reach net zero emissions from electricity generation by 2035.[2] Despite this, U.S.-based oil and gas companies, utilities, banks, and insurance companies continue to invest in and finance the continued use and expansion of fossil fuel production and consumption.

Given the systemic risk posed by climate change to the environmental, social, and financial systems on which the capital markets depend, investors should hold companies central to the clean energy transition accountable for aligning their business models and capital plans with the IEA's net zero scenario. Asset managers, on behalf of long-term, diversified investors, are responsible for mitigating the risks of climate change to their clients' portfolios. When companies fail to transform corporate business practices in line with a 1.5°C scenario, responsible shareholders must use their most powerful tool – proxy voting on corporate board elections – to hold directors accountable.

This report analyzes the 2022 proxy voting policies and decisions of the world's 20 largest asset managers (those with assets under management of more than $1 trillion) at S&P 500 companies in the energy, utilities, and financial services sectors.

KEY FINDINGS

1. **Overall, large asset managers' support for directors at climate-critical companies remains persistently high.** During the 2022 proxy season, 14 of the 20 asset managers supported more than 95 percent of management-sponsored directors at these companies, up from 13 asset managers in the prior season.

2. **The gap between the leading asset managers** – those with the lowest support for management-sponsored directors at climate-critical companies in 2022 – **and the majority of large asset managers continued to grow, further polarizing the group.**

- The five asset managers with the lowest support for such directors – PIMCO, Amundi Asset Management, Legal & General Investment Management, UBS Asset Management, and Franklin Templeton – further decreased their support by 6.7 percentage points on average from the previous season.
- By contrast, five large asset managers increased their support for such directors. This group included the two largest and most influential asset managers, BlackRock, which increased its support by 1.9 percentage points, and Vanguard, which increased its support by 0.5 percentage points. Vanguard supported 100 percent of management-sponsored directors at failing climate-critical companies.

3. The four largest asset managers – BlackRock, Vanguard, State Street Global Advisors, and Fidelity – have remained strong supporters of the status quo at climate-critical companies. **In 2022, they supported directors at climate-critical companies at an equivalent or greater rate than directors at S&P 500 index companies as a whole.** In the four years since the Intergovernmental Panel on Climate Change issued its groundbreaking report that detailed the dangerous impacts of global warming beyond 1.5°C above pre-industrial levels,[3] the four largest asset managers support for directors at climate-critical companies has remained between 96 and 100 percent.

4. **Most of the largest asset managers have acknowledged that climate oversight and accountability firmly rests with the board of directors.** Prior to the start of the 2022 proxy season, seven of the largest asset managers updated their respective proxy voting policies to enable voting against directors at companies failing to meet climate performance expectations, bringing the total asset managers with such policies to 12 of the 20 analyzed in this report.

5. **Despite this recognition of the need for director accountability, most asset manager proxy voting policies still set expectations for climate-critical companies that are so low as to rarely trigger a vote against a director for failures of climate oversight.** Of the 12 asset managers with policies that enable votes against directors for climate oversight failure, only three supported fewer than 95 percent of directors at climate-critical companies. Only one asset manager – LGIM – explicitly set limiting warming to 1.5°C as a goal of their proxy voting policies and expected companies to take action on emissions consistent with a 1.5°C trajectory.

THIS **REPORT RECOMMENDS** THAT ASSET MANAGERS **ADOPT OR UPDATE** PROXY VOTING POLICIES

This report recommends that asset managers adopt or update proxy voting policies that address the material and systemic climate risk facing shareholders. These policies should feature, at a minimum:

1. An intention that proxy voting be aligned to the goal of limiting global temperature rise to 1.5°C;

2. A clear and explicit expectation that portfolio companies take action on emissions consistent with a 1.5°C pathway, including target setting and capital allocation, instead of merely disclosing how the company perceives and manages its own climate risks; and

3. A commitment to vote against directors at companies that have failed to meet the climate performance targets.

II. INTRODUCTION

The pathway to limiting global temperature rise to 1.5°C above pre-industrial levels is narrowing but remains attainable, according to Fatih Birol,[4] Executive Director of the IEA. And despite the after-effects of the Russian invasion of Ukraine and soaring fossil fuel prices in 2022, the clean energy transition continues apace as countries seek to reduce reliance on fossil fuels and achieve net-zero greenhouse gas (GHG) emissions by 2050. The signing of the Inflation Reduction Act, which authorized $369 billion in funding for climate change-related and clean energy initiatives, bolstered the U.S. efforts to reduce GHG emissions. This landmark legislation provides the resources to enable U.S. GHG emissions to decrease emissions by up to 40% by the end of the decade.[5] As a result, companies central to the production and consumption of fossil fuels can no longer credibly maintain indifference, or hostility, towards the clean energy transition.

Climate change will impose significant, undiversifiable, portfolio-wide risks to long-term and institutional investors with broad market exposure. Research by BlackRock, the world's largest asset manager, found that the long-term implications of inaction on climate change could reduce global economic output by nearly 25 percent over the next two decades.[6]

Consistent with their fiduciary duties, asset managers can and should mitigate the impact of systemic risks such as climate change in the long-term best interest of their clients' portfolios. Eliminating emissions at carbon-intensive companies has benefits in reducing the impacts 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.[7]

In fulfilling those duties, asset managers must evaluate whether corporate boards of investee companies that drive the production and consumption of fossil fuels are ensuring that the companies they govern are aligning to 1.5°C pathways and use the shareholder voting power entrusted to them by their clients to hold those boards accountable if they fail to do so. Asset managers with fiduciary duties to their long-term diversified clients should not defer excessively to corporate managers and directors focused only on the short-term value of individual companies. Asset managers' proxy voting policies and voting decisions either set clear standards for boards or countenance the business-as-usual corporate behavior exacerbating systemic risks posed by climate change.

III. CLIMATE-CRITICAL COMPANIES REMAIN OFF TRACK

While climate change and its mitigation implicates every sector of the economy, those large companies where fossil fuel production, consumption, and financing are central to their core business have outsized climate impact. Overwhelmingly, U.S.-based systemically important companies in the energy, utilities, and financial services sectors remain off track to decarbonize their operations and business models in line with limiting global temperature rise to 1.5°C. The clean energy transition contains significant upside potential for many companies. Forward-looking management teams and boards will develop profitable strategies that reduce emissions, thereby reducing the systemic risks of climate change to the benefit of long-term investors.

Climate Action 100+ is the largest investor-based initiative focused on engaging systemically important emitters to reduce emissions. In the last five years, the initiative has amassed 700 investor-signatories responsible for more than $68 trillion in assets under management[8] who have agreed to engage 166 systemically important focus companies, estimated to represent approximately 80% of global corporate industrial emissions, to "take necessary action on climate change."[9] [10] Despite some progress from leading companies toward Climate Action 100+ Benchmark expectations, many focus companies remain off track to achieve the emissions reductions by 2030 necessary for limiting warming to 1.5°C. They must rapidly catch up with the demands of the global net zero transition. Of the 23 U.S.-based energy "sector cluster" companies[11] included in the Climate Action 100+ March 2022 Benchmark Assessment:

- 70 percent had *not* taken the initial step to announce a "Net-zero GHG Emissions by 2050 (or sooner) ambition" that includes scopes 1 and 2 and relevant scope 3 emissions;

- *None* had set "Medium-term targets (2026-2035) GHG reduction target(s)" that include scopes 1 and 2 and relevant scope 3 emissions and was aligned to limiting warming to 1.5°C; and

- *None* had fully met the "Capital Alignment" criteria, and only one company had partially met the criteria.[12] Beyond target-setting and disclosures, action to align capital is the strongest and most important signal to investors of a company's commitment to decarbonizing the assets on its balance sheet to align with limiting warming to 1.5°C.

100 PERCENT OF U.S.-BASED CLIMATE ACTION 100+ FOCUS **ELECTRIC UTILITIES** WERE **MISALIGNED WITH THE GOAL OF NET ZERO EMISSIONS** FROM ELECTRICITY GENERATION BY 2035

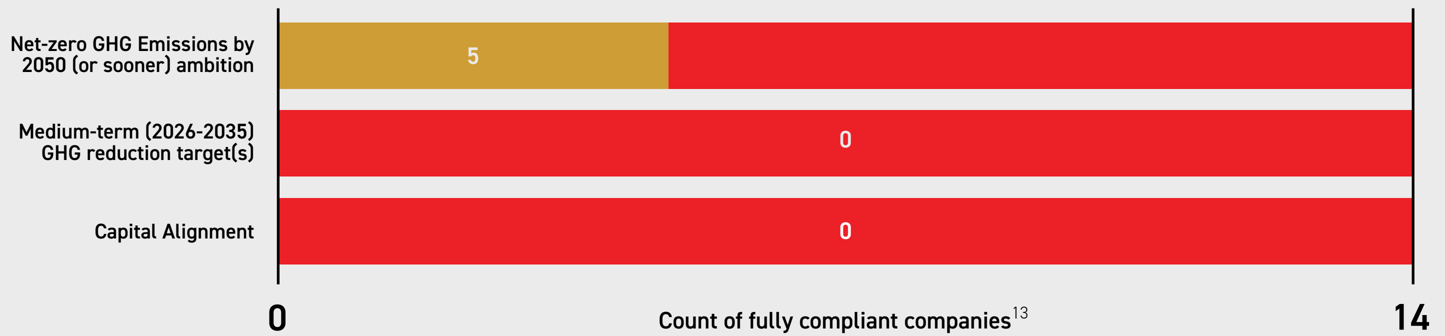


Figure 1: Count of fully compliant Climate Action 100+ electric utilities companies per key benchmark assessments. Source: Climate Action 100+, "Net Zero Benchmark Assessment," March 2022[14]

Large publicly traded electric utilities remain among the most significant sources of carbon dioxide emissions in the U.S. economy.[15] 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 industry is essential to electrifying the entire economy with carbon-free power. This industry remains a cornerstone of any robust effort to achieve net zero emissions economy-wide – and the otherwise stagnant sector has a once-in-a-generation growth opportunity.[16] However, ahead of the 2022 proxy season, none of the Climate Action 100+ focus electric utilities' company pledges to reduce emissions included medium-term targets that would achieve the emission reductions needed to meet the IEA's goal for wealthier nations of net zero emissions from electricity generation by 2035.[17] [18]

100 PERCENT OF U.S.-BASED CLIMATE ACTION 100+ FOCUS **OIL & GAS** COMPANIES WERE ON PACE TO **EXCEED THE CARBON BUDGET** FOR 2°C OF GLOBAL WARMING

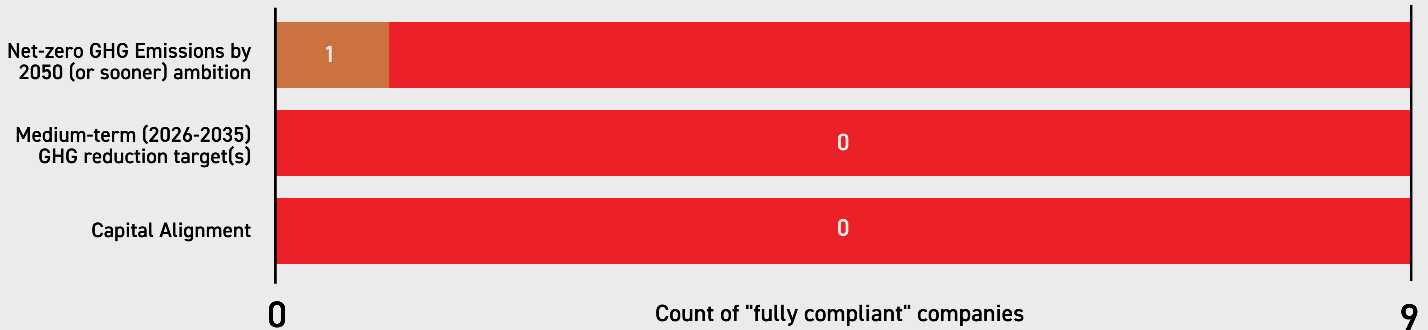


Figure 2: Count of fully compliant CA100+ oil and gas companies per key benchmark assessments. Source: Climate Action 100+, "Net Zero Benchmark Assessment," March 2022[19]

In 2021, the IEA published a cost-effective and economically productive scenario for the energy sector to achieve net zero carbon emissions by 2050.[20] Under this net zero scenario, there is no need for new conventional oil and gas development, and production will fall by 44 percent by 2035 compared to 2019.[21] Nonetheless, the world's largest oil companies have planned projects over the next two decades that would exceed the carbon budget for 2°C of global warming, let alone 1.5°C,[22] demonstrating the misalignment of these companies' capital expenditure plans with a net zero pathway that limits warming to 1.5°C. In fact, there is reason to believe that the oil and gas industry is in even more urgent need of transition, as new data from the Climate Trace project shows that global GHG emissions from oil and gas facilities are approximately three times higher than those producers claim.[23]

100 PERCENT OF U.S.-BASED CLIMATE-CRITICAL BANKS **CONTINUED TO ENABLE THE EXPANSION OF FOSSIL FUELS** DESPITE THEIR NET ZERO COMMITMENTS

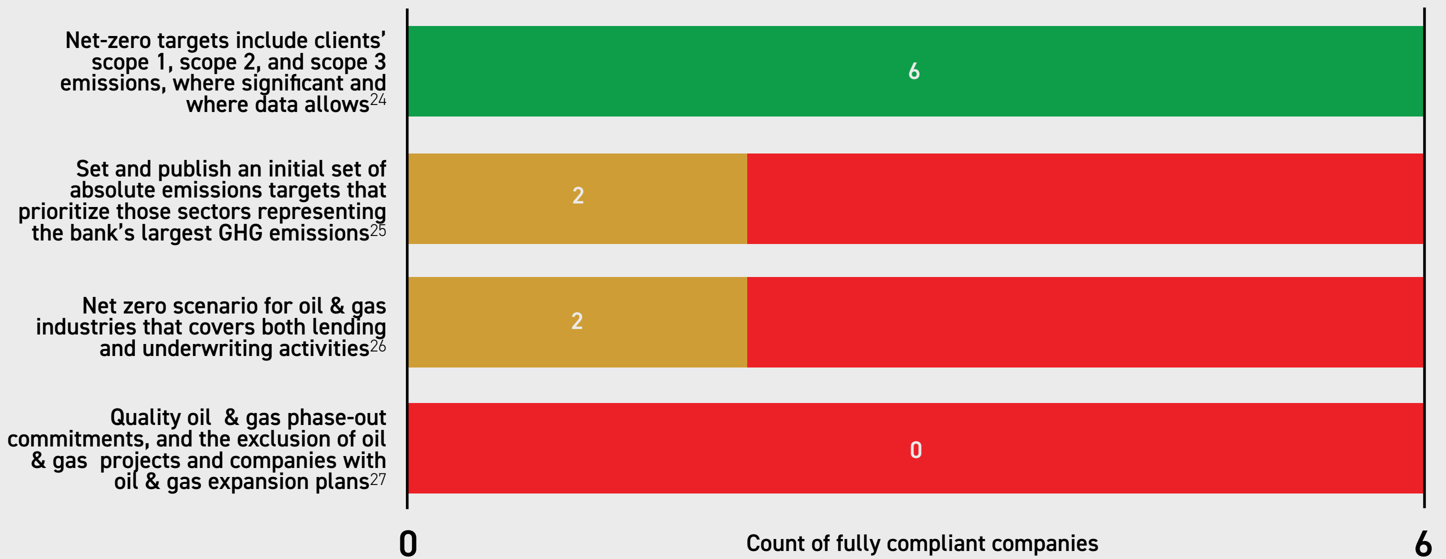


Figure 3: Count of fully compliant climate-critical banks per key NZBA assessments. Source: NZBA banks compliance tracker[28]

Though financial services companies are not substantial direct emitters of GHGs,[29] these 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. The 2015 Paris Agreement declared the shared ambition of "[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development,"[30] and the Net Zero Banking Alliance formed in 2021 with the goal to transition all portfolios to align to net zero by 2050 or sooner.[31] However, since the adoption of the Paris Agreement, the six largest U.S. banks, all systemically important financial institutions, have provided $445 billion to the top 100 companies responsible for the expansion of fossil fuels.[32]

MOST U.S.-LISTED CLIMATE-CRITICAL INSURERS **CONTINUED TO OPERATE WITHOUT RESTRICTIONS** FOR INSURING AND INVESTING IN FOSSIL FUELS[33]

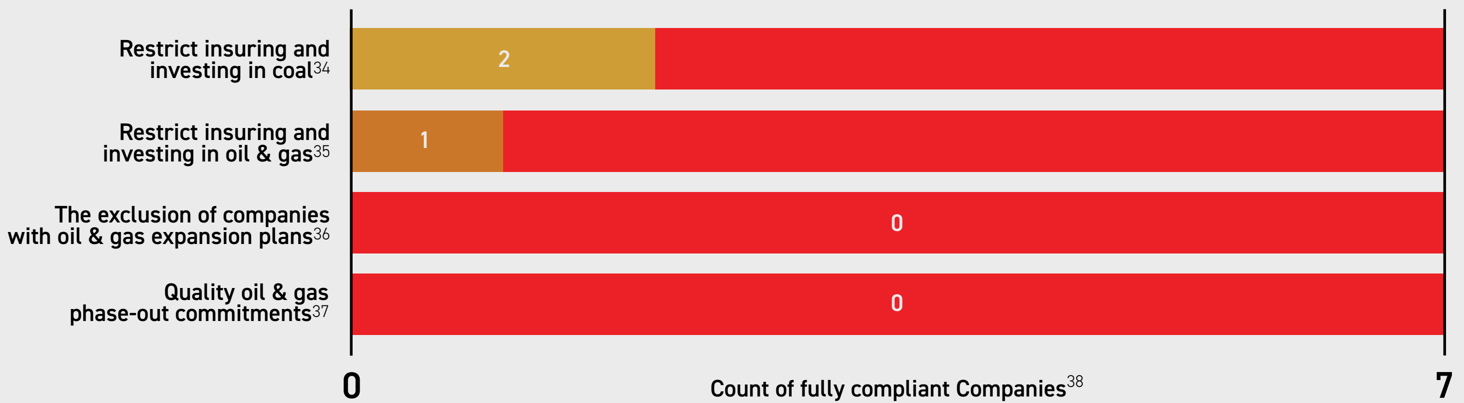


Figure 4: Count of fully compliant climate-critical banks per key Insure Our Future assessments. Source: Insure Our Future, 2021 Scorecard on Insurance, Fossil Fuels and Climate Change[39]

Similarly, the insurance industry is in a position to manage global climate risk through decisions about whether or not to insure fossil fuel projects. The Net-Zero Insurance Alliance recently published its Principles for Sustainable Insurance, which articulated a framework to strengthen the industry's contribution to net zero targets.[40] However, ahead of the 2022 proxy season, very few major insurers had adopted policies to restrict coverage for new fossil fuel production. Thus, insurers continue to underwrite the expansion of the oil and gas industry.[41] Moreover, with nearly $90 billion of investments in coal as of 2021, major U.S. insurance companies remain significant institutional investors in fossil fuels.[42]

DEEPER DIVE
THE SYSTEMIC RISKS ASSOCIATED WITH **RACIAL INEQUITIES AND CLIMATE CHANGE** ARE INTERTWINED

Companies engaged in fossil fuel production, consumption, and financing have a long track record of business practices that disproportionately harm communities of color in the U.S. and abroad. Furthermore, the continued misalignment of their capital expenditure plans with limiting global temperature rise to 1.5°C will cause more frequent natural disasters, compounding the environmental vulnerabilities within these communities. For example, hazardous heat extremes, which have become more common, longer in duration, and more intense globally as a result of climate change are expected to increase heat-related mortality in urban areas.[43]

In the U.S., these links have deep historical antecedents to racist real estate practices in more than 100 American cities that have placed heavier burdens from extreme heat on these cities' African American neighborhoods.[44] In its 2021 comment in favor of strengthening the Community Reinvestment Act (CRA), investor organization Ceres stated that "systemic racism has worsened climate impacts on vulnerable communities… climate change impacts — both the cause and the consequences — also fall harder on communities of color… high polluting power plants and refineries are more often sited closer to African American communities than white communities… result[ing] in poor air quality and adverse health impacts in those communities."[45]

The impacts of persistent systemic racial inequities are not isolated to those directly impacted people and communities. These inequities also have substantial negative impacts on long-term, broad-based economic growth. The impairments to GDP growth caused by systemic racial inequities have the inevitable consequence of lowering returns across portfolios for diversified investors. Provided the strong links among systemic inequities, economic growth, and portfolio performance, it is not enough for fiduciaries to consider only the risk that racial inequities and harmful corporate behavior pose to individual companies. To address both the systemic and company-specific risks and harms related to systemic racism, long-term investors must ensure that all portfolio companies are taking action to identify and eliminate ways that their products, policies, and practices may exacerbate systemic racial inequities.

Given the disparate impacts of climate change and fossil fuel production, asset managers should also view climate-related director elections and shareholder proposals through a racial equity lens in making proxy voting decisions. Majority Action's *Equity in the Boardroom* series provides both a deeper exploration of the fiduciary case for stewardship that addresses systemic racial inequalities and guidance on what it would look like for asset managers to apply an equity lens to their proxy voting policies in service of their fiduciary duties. Annually, asset managers have the opportunity to hold boards accountable on climate outcomes and back proposals at fossil fuel-intensive companies that would address specific company contributions to systemic racism, such as the pending 2023 racial equity audits at Valero Energy and Chevron.

DEEPER DIVE

PENDING 2023 **RACIAL JUSTICE SHAREHOLDER RESOLUTIONS** AT OIL AND GAS COMPANIES

VALERO ENERGY CORP. RACIAL EQUITY AUDIT[47]

Shareholders urge the Board of Directors to oversee an independent third-party racial equity audit analyzing Valero's impacts on nonwhite stakeholders and communities of color and Valero's plans, if any, to mitigate those impacts.

SUPPORTING STATEMENT KEY FINDINGS

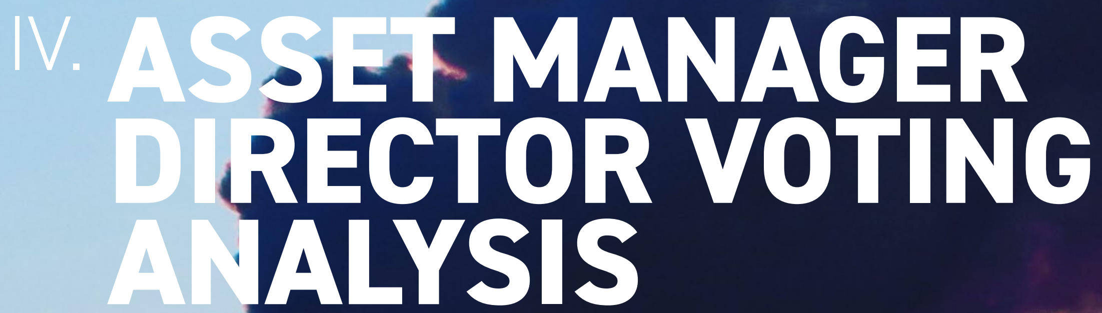
- Valero has come under fire for polluting communities of color. Residents have fought to limit a Texas refinery's emissions of hydrogen cyanide, a neurotoxin, in Latinx neighborhoods. The neighborhood in which another Texas refinery is located, which is 90% African American, "ranks above the 95th percentile nationally for both the EPA's air toxics cancer risk and respiratory hazard metrics."
- Valero ranks as the 39th worst toxic air polluter in the U.S., and 64% of those affected are nonwhite. It ranks as the 62nd worst water polluter and the 24th worst greenhouse gas polluter. As You Sow's Racial Justice Scorecard for S&P 500 companies placed Valero in the bottom 10, with negative scores on the environmental racism performance indicators, meaning that it harms communities of color more than benefits them.

CHEVRON CORP. RACIAL EQUITY AUDIT[46]

Shareholders request the Board of Directors commission and publicly disclose the findings of an independent racial equity audit, analyzing the adverse impacts of Chevron's policies and practices that discriminate against or disparately impact communities of color above and beyond legal and regulatory matters.

SUPPORTING STATEMENT KEY FINDINGS

- 80% of fenceline residents living near Chevron's Richmond, CA refinery are people of color, and they experience higher rates of cardiovascular disease, cancer, and asthma. Chevron's Richmond facility is the city's largest polluter and has received 150 environmental violations since 2016, most recently including a $200,000 settlement related to a 600 gallon oil spill in 2021. Chevron faces recent accusations of potentially illegal political advocacy in Richmond supporting a "race-baiting" redistricting campaign.
- Chevron's business disparately impacts Indigenous Peoples. Over 60% of publicly reported abuses from Chevron's operations impacted Indigenous Peoples, including violation of land rights, allegations of genocide, and violence against Indigenous women.



IV. ASSET MANAGER DIRECTOR VOTING ANALYSIS

This section analyzes the 2022 voting decisions of the 20 largest asset managers (those with more than $1 trillion in assets under management globally) at S&P 500 companies in climate-critical sectors. It measures support for management-sponsored director votes at companies across the energy, electric power, and financial services sectors that are central to fossil fuel production, consumption, and financing, and thus the clear energy transition. For additional detail on data and methods, please see Appendix A.

KEY FINDING 1: LARGE ASSET MANAGERS' SUPPORT FOR DIRECTORS AT CLIMATE-CRITICAL COMPANIES REMAINS PERSISTENTLY HIGH

The 2022 proxy season saw institutional asset managers' average support for management-sponsored directors at climate-critical companies remain persistently high. Fourteen of the 20 asset managers analyzed supported greater than 95 percent of management-sponsored directors at climate-critical companies, up from 13 asset managers in the prior season.

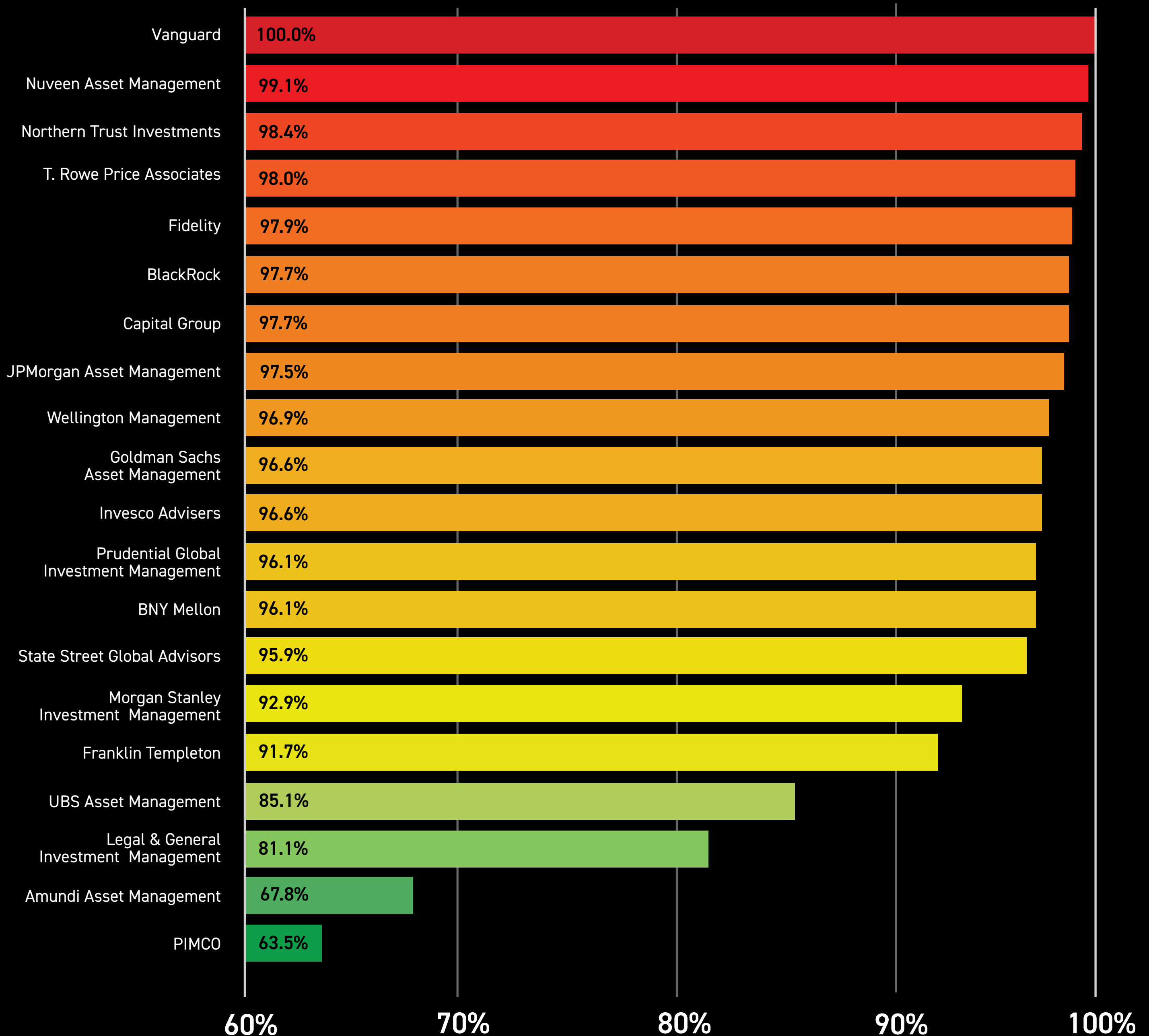


Figure 5: Percent of management-sponsored directors at climate-critical S&P 500 oil and gas, electric power, and financial services companies where asset manager voted in favor . Source: Insightia

KEY FINDING 2: THE GAP BETWEEN THE LEADERS AND LAGGARDS WIDENED

Leading asset managers further decreased their support for management-sponsored directors at failing climate-critical companies in alignment with the increased urgency of the climate crisis. Conversely, laggard asset managers increased support for those directors, further polarizing the industry. The five asset managers with the lowest support for such directors – PIMCO, Amundi Asset Management, Legal & General Investment Management, UBS Asset Management, and Franklin Templeton – decreased their support by a group average of 6.7 percentage points from the previous season. In comparison, five asset managers increased their support for such directors. This group included the largest and most influential asset manager, BlackRock, which increased its support by 1.9 percentage points.

THE **GAP BETWEEN LEADING AND LAGGING** ASSET MANAGERS **WIDENED** BETWEEN THE 2021 AND 2022 PROXY SEASONS

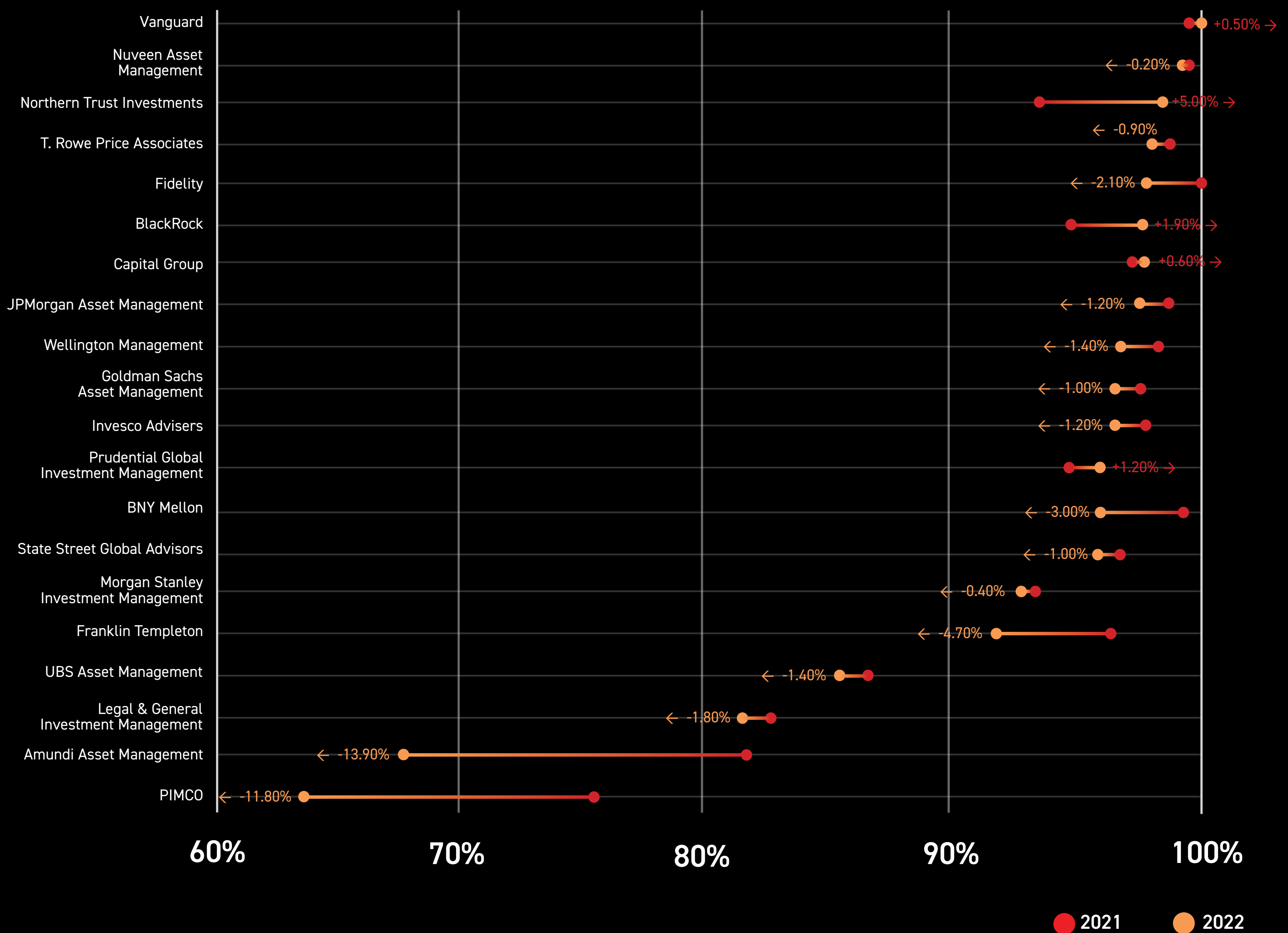


Figure 6: Year-to-year comparison of the percent of management-sponsored directors at climate-critical S&P 500 oil and gas, electric power, and financial services companies where asset managers voted in favor. Source: Insightia

Of those asset managers with the highest support for management-sponsored directors at climate-critical companies, two – Vanguard and Northern Trust Investments – increased their support from 2021 to 2022. Vanguard, which recently pulled out of the leading financial alliance committed to decarbonizing the global economy,[48] enjoys the ignominious distinction of supporting 100 percent of management-sponsored directors at climate-critical companies during the 2022 proxy season. Furthermore, though Fidelity decreased its support for such directors by 2.1 percentage points (from 100 percent the previous proxy season), the asset manager remained among the strongest supporters of management-sponsored directors, voting in favor of just under 98 percent of directors. Meanwhile, leading asset managers further decreased their support for management-sponsored directors during the 2022 proxy season (as observed in figure 8).

ASSET MANAGERS WITH THE **HIGHEST SUPPORT** FOR MANAGEMENT-SPONSORED DIRECTORS AT CLIMATE-CRITICAL COMPANIES

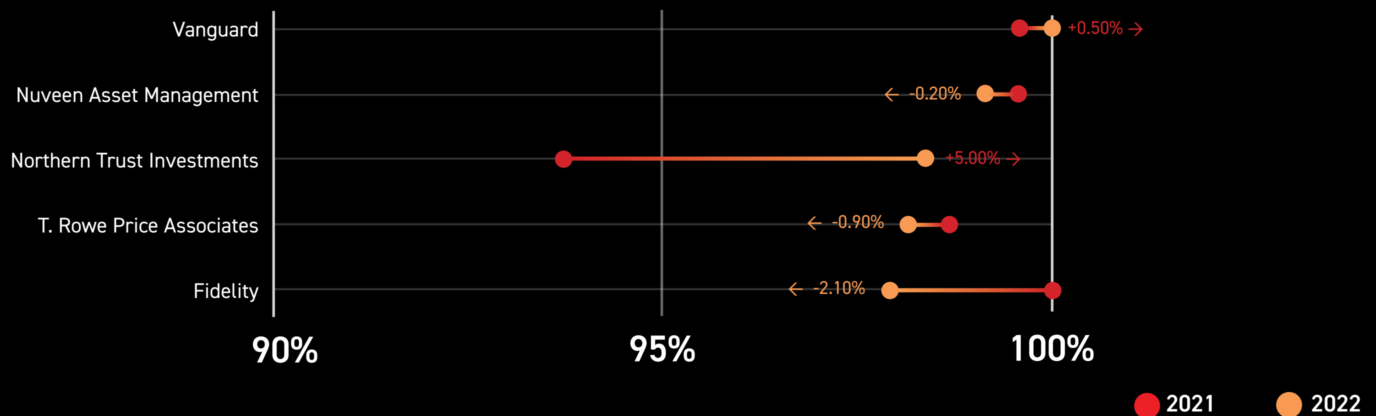


Figure 7: Percent of management-sponsored directors at climate-critical S&P 500 oil and gas, electric power, and financial services companies where asset managers voted in favor – upper quartile of asset managers analyzed. Source: Insightia

ASSET MANAGERS WITH THE **LOWEST SUPPORT** FOR MANAGEMENT-SPONSORED DIRECTORS AT CLIMATE-CRITICAL COMPANIES

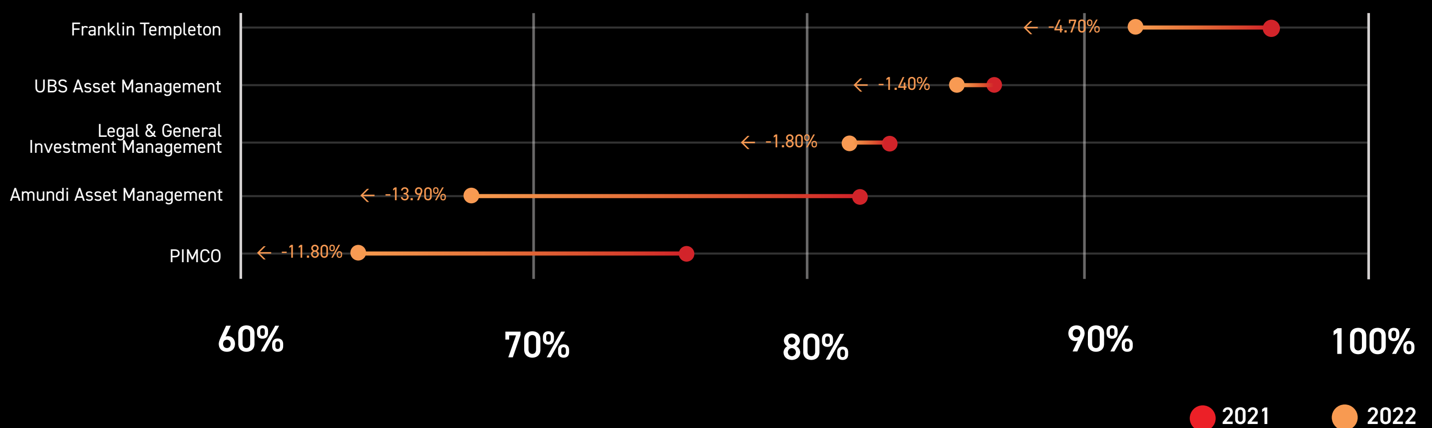


Figure 8: Percent of management-sponsored directors at climate-critical S&P 500 oil and gas, electric power, and financial services companies where asset managers voted in favor – lower quartile of asset managers analyzed. Source: Insightia

KEY FINDING 3: THE FOUR LARGEST ASSET MANAGERS SUPPORTED DIRECTORS AT CLIMATE-CRITICAL COMPANIES AT AN EQUIVALENT OR GREATER RATE THAN AT S&P 500 COMPANIES AS A WHOLE

The largest asset managers have outsized voting power and influence on the global standards for the entire financial services sector. As of 2019, BlackRock, Vanguard, and State Street Global Advisors (SSGA) collectively voted an average of 25 percent of shares at shareholder meetings of S&P 500 companies.[49] The asset management industry has continued to grow more concentrated over the last three years to the point that the four largest asset managers collectively hold just under $25 trillion in assets under management – compared to the $27 trillion in assets under management held by the remaining 16 asset managers analyzed in this report.[50] 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.

BlackRock was one of only five asset managers to increase support for management-sponsored directors at climate-critical companies from the prior season, following criticism from state treasurers in oil and gas-producing states for alleged hostilities to fossil fuels.[51] The asset manager increased its support for management-sponsored directors at those companies by 1.9 percentage points – the second-largest increase in support for such directors.

SSGA maintained its position in the middle of the pack and decreased its support for directors at climate-critical companies by only 1.0 percentage point from the prior season. Notably, SSGA's 2022 support for these directors (95.9 percent) more closely resembled that of Fidelity (97.9 percent) than Franklin Templeton (91.7 percent) and Morgan Stanley Investment Management (92.9 percent) – its U.S.-based peers that displayed significantly lower support for the same group of directors.

During the 2022 proxy season, the four largest asset managers supported directors at climate-critical companies at an equivalent or greater rate than directors at S&P 500 index companies as a whole (see figure 9). Climate change is the clearest example of an irreversible systemic risk that asset managers cannot escape through diversification.[52] Their support for the directors of companies that are overwhelmingly 1.5°C-misaligned places the environmental, social, and financial systems on which the capital markets depend at substantial risk.

THE FOUR LARGEST ASSET MANAGERS **SUPPORTED DIRECTORS** AT CLIMATE-CRITICAL COMPANIES AT AN **EQUIVALENT OR GREATER** PERCENTAGE TO DIRECTORS ACROSS **THE ENTIRE** S&P 500 INDEX

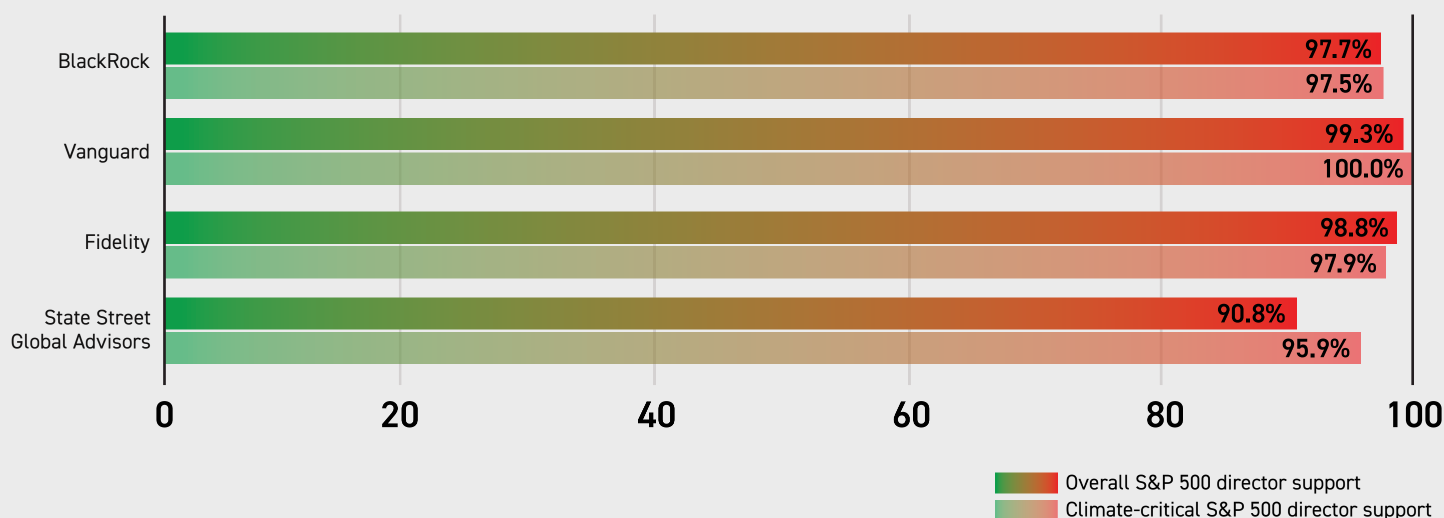


Figure 9: 2022 asset manager proxy voting policy expectations of companies (beyond TCFD disclosure), 2022 overall director support at S&P500 climate-critical companies, overall directors support at all S&P500 companies. Source: Asset manager proxy voting guidelines, Insightia

A longitudinal analysis of the four largest asset managers demonstrates their persistently high support for management-sponsored directors at companies central to the clean energy transition. The four largest asset managers' support for management-backed directors at climate-critical companies has remained within a narrow range between approximately 96 and 100 percent support over the last four years. As a consequence, their voting policies have shielded the boards of carbon-intensive companies.

LONGITUDINAL ANALYSIS OF **THE FOUR LARGEST ASSET MANAGERS' SUPPORT** FOR DIRECTORS AT CLIMATE-CRITICAL COMPANIES

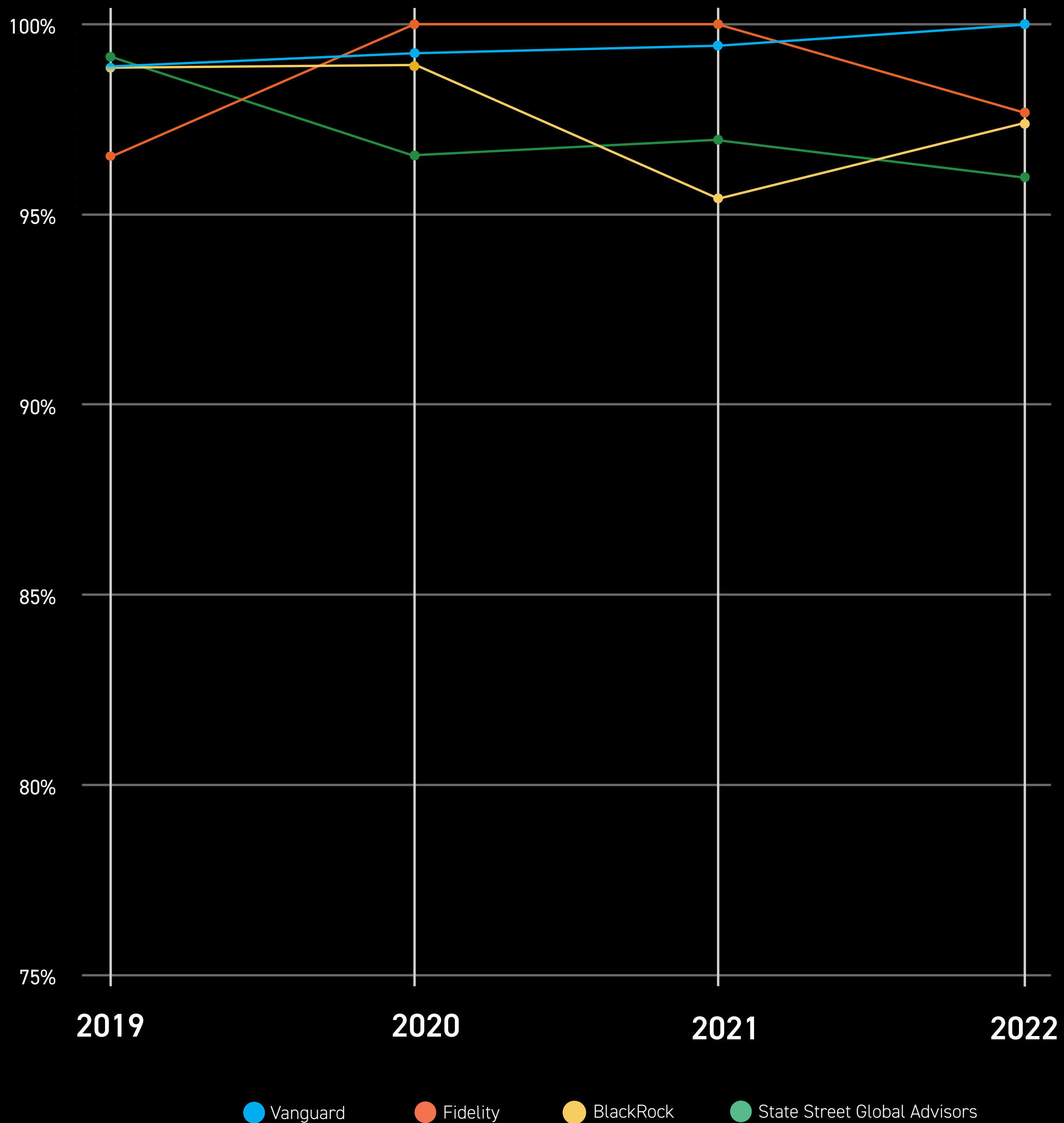


Figure 10: Line graph of the four largest asset managers' overall support for directors at climate-critical companies 2019 - 2022. Source: Insightia

V. ASSET MANAGER PROXY VOTING GUIDELINES AND POLICIES ANALYSIS

Proxy voting outcomes do not emerge at random; rather, they flow from policies and guidelines that reflect an asset manager's point of view regarding company and director responsibilities and standards. These policies and guidelines 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.

Voting on director elections at climate-critical companies is the most direct action long-term investors with broad market exposure can take to influence corporate decision-making and protect the value of their portfolios as a whole from climate change impacts. Recently, SSGA's Global Head of Asset Stewardship, Ben Colton, described director voting as "the most effective tool we have" for conducting effective stewardship. While dialogue and resolutions have been used to encourage change in corporate behavior for many years, limited progress on reducing companies' impact on climate change has transpired. The imperative of driving near-term change requires clear and explicit proxy voting policies that hold directors accountable for climate oversight and that address the material and systemic risk facing diversified investors, particularly from companies that have demonstrated reluctance to align with net zero pathways.

ASSET MANAGER PROXY VOTING POLICIES ON CLIMATE ARE **INSUFFICIENT**

Asset Manager	Sets limiting warming to 1.5c as a goal of proxy voting	Expects companies to take action to reduce emissions beyond disclosure	Enables votes against directors on the basis of climate performance
Amundi Asset Management	Partial	Partial	✓
BlackRock	Partial	Partial	✓
BNY Mellon	—	—	—
Capital Group	✗	✗	✗
Fidelity	✗	✗	✗
Franklin Templeton	✗	✗	✗
Goldman Sachs Asset Management	✗	✗	✓
Invesco Advisors	✗	✗	✓
JPMorgan Asset Management	✗	Partial	✓
Legal & General Invesment Management	✓	✓	✓
Morgan Stanley Investment Management	✗	✗	✗
Northern Trust Investments	✗	✗	✗
Nuveen Asset Management (ISS)	✗	✗	✓
PIMCO	✗	✗	✗
Prudential Global Investment Management	—	—	—
State Street Global Advisors	✗	Partial	✓
T. Rowe Price Associates	✗	✗	✓
UBS Asset Management	✗	Partial	✓
Vanguard	✗	✗	✓
Wellington Management	Partial	Partial	✓

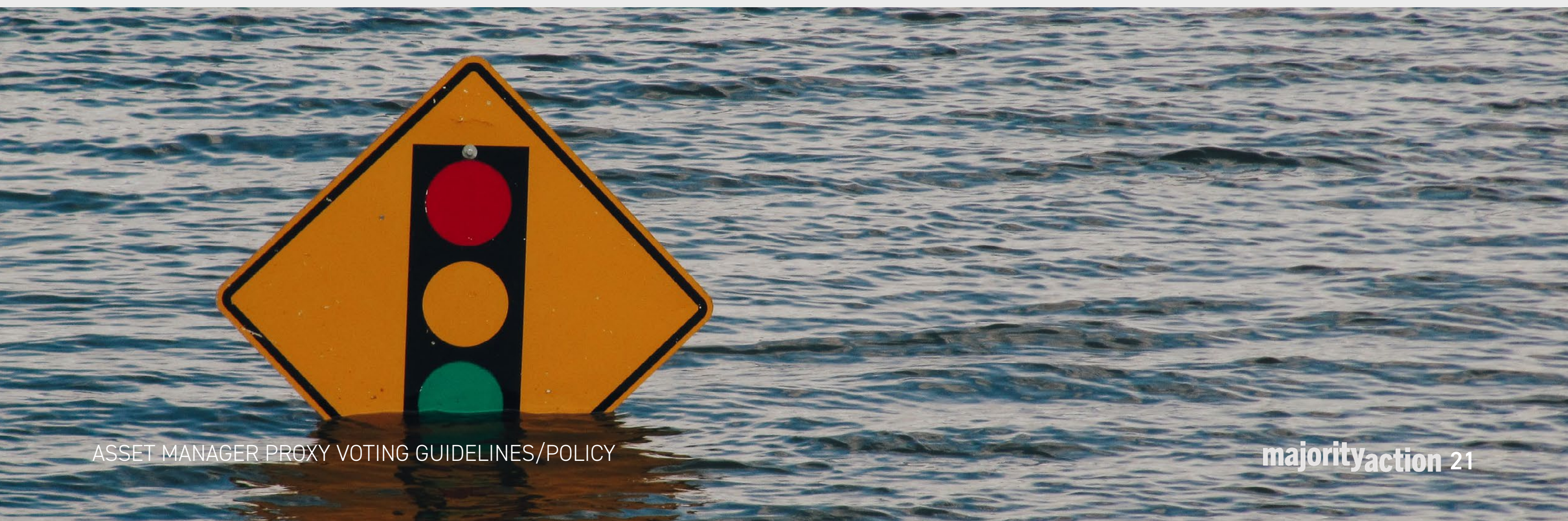
Yes

No

Partial: declares proxy voting objective of limiting warming to the Paris agreement, but does not specify 1.5C

Partial: expects companies to take action, but does not require 1.5C-aligned action

Figure 11: Review of asset manager proxy voting guidelines. Source: Asset manager voting guidelines accessed October 5 - November 25, 2022



KEY FINDING 4: MOST OF THE LARGEST ASSET MANAGERS HAVE ACKNOWLEDGED THAT CLIMATE OVERSIGHT AND ACCOUNTABILITY FIRMLY RESTS WITH THE BOARD OF DIRECTORS

Prior to the start of the 2022 proxy season, seven of the largest asset managers updated their respective policies to enable voting against directors at companies failing to meet climate performance expectations – bringing the total to 12 overall among the 20 asset managers analyzed. Notably, proxy advisor ISS similarly modified its U.S. proxy voting guidelines to enable votes against directors where the firm had determined that "[a] company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change."[54 55] The systemic risks associated with climate change reach far beyond the domains of nonbinding shareholder proposals or specialized sustainability strategies into the core of corporate governance at climate-critical companies.

Fidelity was the largest of the eight asset managers not to have updated its proxy voting guidelines to enable votes against directors for climate oversight failure prior to the start of the 2022 proxy season. The firm's guidelines did not refer to climate change. Specifically, Fidelity provided examples in which it may oppose a director: "where a director clearly appears to have failed to exercise reasonable judgment or otherwise failed to sufficiently protect the interests of shareholders." However, climate change was not among the examples provided.[56]

SEVEN ASSET MANAGERS UPDATED THEIR PROXY VOTING POLICIES TO **ENABLE VOTING AGAINST DIRECTORS AT COMPANIES FAILING TO MEET CLIMATE PERFORMANCE EXPECTATIONS** – BRINGING THE TOTAL TO 12 OVERALL AMONG THE ASSET MANAGERS ANALYZED

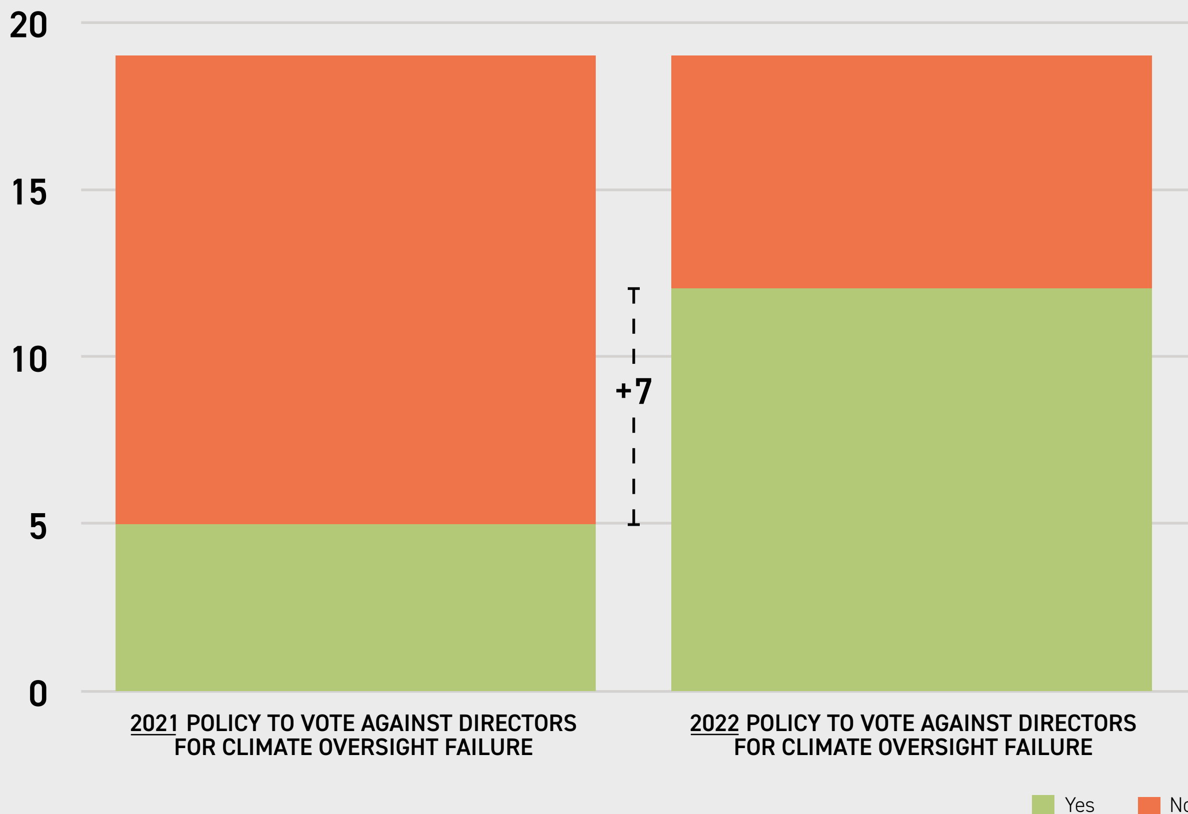


Figure 12: Count of Asset managers with proxy voting policies that enable votes against directors for failing to meet climate performance expectations in 2021 vs asset managers with the same policy in 2022. Source: Asset manager voting guidelines accessed October 5 - November 25, 2022

KEY FINDING 5: THE EXPECTATIONS AGAINST WHICH CLIMATE-CRITICAL COMPANIES ARE BEING HELD ARE SO LOW AS TO RARELY TRIGGER A VOTE AGAINST A DIRECTOR FOR FAILURES OF CLIMATE OVERSIGHT

Despite this recognition of the need for director accountability for corporate climate performance, most asset manager proxy voting policies still set expectations for climate-critical companies that are so low as to rarely trigger a vote against a director for failures of climate oversight. Of the 12 asset managers with policies that enable votes against directors for climate oversight failure, only three supported fewer than 95 percent of such directors (see figure 13). Only one asset manager – Legal & General Investment Management – explicitly set limiting warming to 1.5°C as a goal of their proxy voting policies *and* expected companies to take action on emissions consistent with a 1.5°C trajectory rather than merely make climate-related disclosures. The absence of a clear expectation that companies reduce emissions in alignment with a 1.5°C pathway communicates an acceptance of the status quo to portfolio companies and the market at large.

OF THE 12 ASSET MANAGERS WITH POLICIES THAT ENABLE VOTES AGAINST DIRECTORS FOR CLIMATE OVERSIGHT FAILURE, **ONLY THREE SUPPORTED FEWER THAN 95 PERCENT OF SUCH DIRECTORS**

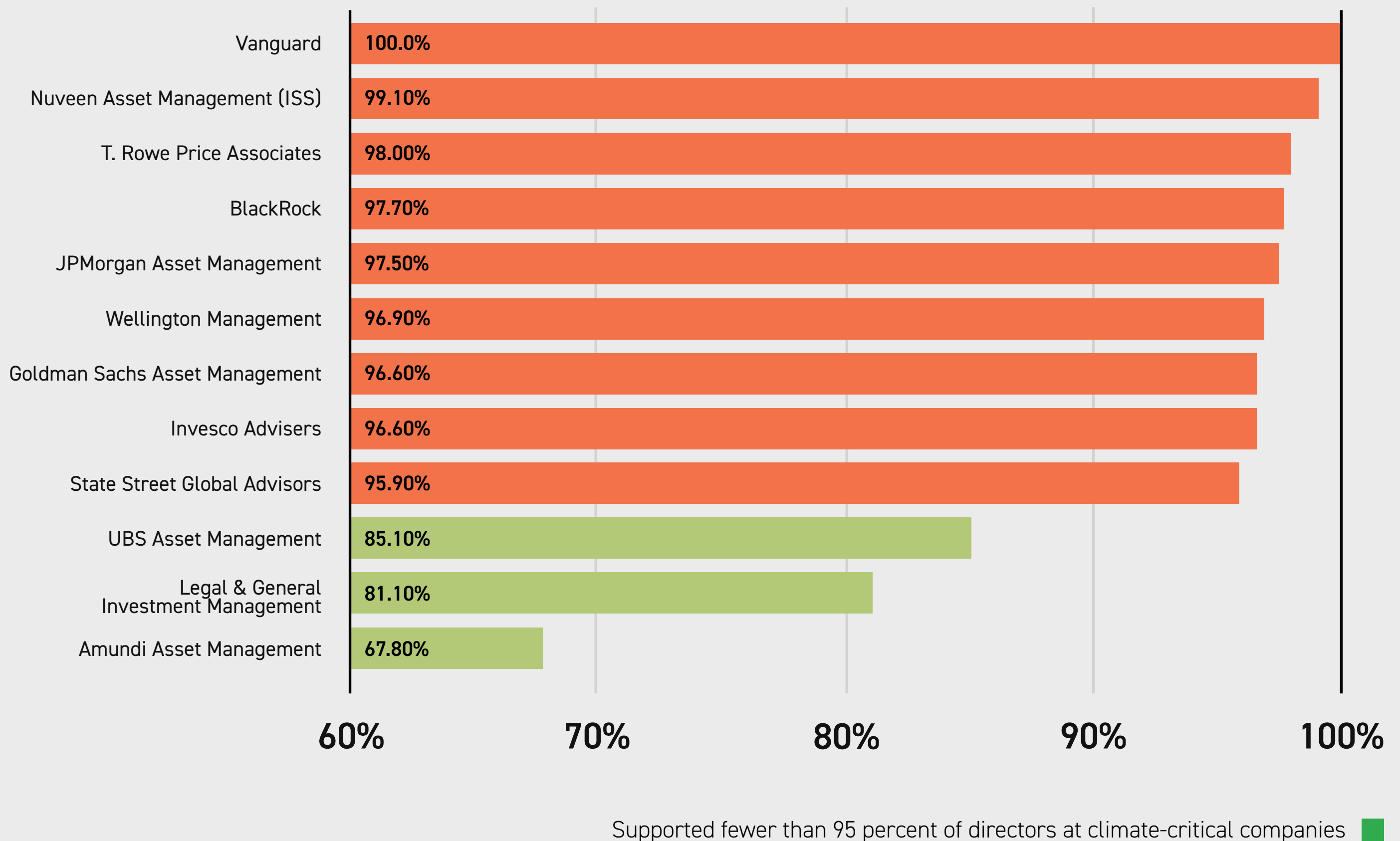


Figure 13: Asset managers with proxy voting policies that have enabled votes against directors for failures of climate performance and their percentage support for directors at climate-critical companies. Source: Asset manager voting guidelines, Insightia accessed October 5 - November 25, 2022

Beyond disclosures in TCFD reports, BlackRock's 2022 proxy voting guidelines expected the publication of SASB (or comparable) industry-specific, material metrics and targets.[57] [58] While critical to establishing a uniform approach to sustainability standards and metrics, SASB allows management to determine which disclosure topics represent financial risks for their business and which associated metrics to disclose.[59] Additionally, BlackRock's scope 1 and scope 2 emissions reduction targets do not specify alignment with a 1.5°C pathway (permitting emissions reductions on pathways incompatible with a net zero future) or the inclusion of material scope 3 emissions. **As a result of BlackRock's deference to corporate management concerning climate materiality and its minimal target expectations, the firm supported S&P 500 climate-critical directors at approximately the same rate as directors across the overall index (see figure 9).**

Vanguard's 2022 proxy voting policy imposed no specific climate performance expectations on climate-critical companies. Instead, to assess climate risk oversight failure, the firm focused solely on the effectiveness of disclosures to enable the market to determine risk.[60] As with BlackRock, **Vanguard's deference to management concerning climate materiality resulted in across-the-board support for all directors at S&P 500 climate-critical companies (see figure 9).**

For carbon-intensive sectors, SSGA's only expectation, beyond TCFD reporting, was that companies "adopt short- and/or medium-term [greenhouse] gas emissions [reduction] targets."[61] Neither the firm's 2022 proxy voting guidelines nor the accompanying guidance on climate-related disclosures required these targets to align with limiting warming to 1.5°C or include scope 3 emissions.[62] **As a result, the vast majority of climate-critical companies achieved the firm's benchmark, and directors at these companies received significantly higher support from SSGA when compared to its support for directors across the entire S&P 500 index (see figure 9).**

During the 2022 season, SSGA launched an engagement campaign on climate transition plan disclosure targeting significant emitters in carbon-intensive sectors. The firm has stated that in 2023 it will hold directors accountable if companies fail to show adequate progress against updated disclosure expectations.[63] However, it still needs to set clear 1.5°C aligned performance standards for assessing such progress. It remains to be seen whether SSGA's updated disclosure expectations will spur it to use its significant shareholder voting power to hold boards of companies in carbon-intensive sectors accountable for ensuring 1.5°C alignment.

VI. RECOMMENDATIONS

Asset managers, asset owners, and policymakers all have a role to play in averting the systemic, escalating, and irreversible effects of the climate crisis and its impacts on investors and the broader U.S. economy.

FOR ASSET MANAGERS

Before the 2023 shareholder season, asset managers should adopt or update proxy voting policies designed to address the material and systemic risk facing shareholders from climate change, featuring, at a minimum:

1. An intention that proxy voting be aligned to the goal of limiting global temperature rise to 1.5°C;
2. A clear and explicit expectation that portfolio companies take action on emissions consistent with a 1.5°C pathway, including target setting, capital allocation, and policy influence, instead of merely disclosing how the company perceives and manages its own climate risks; and
3. A commitment to vote against directors at companies that have failed to meet climate performance targets.

All three components are essential. In implementing such policies, leading asset managers have publicly communicated 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. Lastly, these asset managers have disclosed 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 have failed to meet them.

FOR ASSET OWNERS

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. To that end, asset owners should:

1. Review and update voting policies to ensure that they enable asset owners to hold board leadership accountable for climate performance at systemically important companies involved in the production and consumption of fossil fuels, including alignment with the standards set out for asset managers above;
2. Engage with their current asset managers over their voting record and plans for holding boards accountable for systemic climate risk; and
3. Incorporate criteria regarding proxy voting on systemic climate risk and at climate-critical companies into their asset manager search and selection criteria.

FOR POLICYMAKERS

Given the size and influence of the largest asset managers, and the substantial systemic risks posed by climate change to individual investors and the financial system writ large, policymakers should:

1. Clarify that the consideration of systemic risks such as climate change are not just consistent with, but required by asset managers' fiduciary duties to long-term diversified investors; and
2. Require that asset managers update and disclose their policies, including proxy voting policies, to mitigate systemic risks to the portfolios of long-term, diversified investors.

VII. APPENDICES

APPENDIX A: NOTE ON DATA AND METHODS

This report analyzes the votes of the 20 global asset managers with assets under management greater than $1 trillion according to data from Insightia as of May 16, 2022 and confirmed through asset manager sources via web research as of June 30, 2022. The list of asset managers can be found in Appendix B.

This report analyzes the extent to which the largest asset managers supported management recommendations on director elections at oil & gas, utilities, and financial services firms in the S&P 500. This analysis included 61 major oil & gas, utilities, and financial services companies listed in the United States, defined as S&P 500 companies that are in one of the following sectors and industries, as categorized by Insightia:

- The "Energy" sector, excluding "Alternative energy";
- The "Utilities" sector, excluding "Renewable Utilities" and "Water Utilities";
- The "Financial Services" sector, excluding "Asset Management," "Credit Services," "Financial Exchanges," and "Insurance-Life." Additional companies within the Financial Services sector were excluded for their lack of centrality to the production, consumption, and financial servicing of fossil fuels. These companies include Allstate Corporation (The), Arch Capital Group, Assurant Inc., Charles Schwab Corp/The, Cincinnati Financial Corporation, Loews Corporation, MarketAxess Holdings Inc., Progressive Corporation (The), and Raymond James Financial Inc.

The full list of companies in this universe can be found in Appendix C.

Voting data was provided by Insightia between October 5 - November 25, 2022, based on 2022 N-PX filings for those funds that file N-PX reports with the SEC, other public data sources, and direct investor reporting to Insightia. The proxy votes of relevant funds and subsidiaries as categorized by Insightia, and additional voting entities, were assigned to the appropriate fund sponsor or parent company for the purposes of this review. Within a single fund sponsor or parent company, there may be multiple reporting funds, which vote independently of one another, use different advisors, and follow different proxy voting policies

Votes are counted as "for" if 75 percent or more of funds within a fund family voted for a director and "against" if at least 75 percent of funds within a fund family opposed them. Director votes may be registered as "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 counted as non-votes.

APPENDIX B: TOP 20 ASSET MANAGERS

ASSET MANAGER	AuM ($B)
Amundi Asset Management	$1,963
BlackRock Inc.	$8,487
BNY Mellon	$2,400
+Newton Investment Management	
Capital Group	$2,600
+Capital Guardian Trust Co.	
Fidelity Management & Research Co. (FMR)	$4,238
+Fidelity Institutional Asset Management	
Franklin Templeton	$1,500
Goldman Sachs Asset Management LP	$2,000
Invesco Advisers, Inc.	$1,390
JPMorgan Asset Management	$2,500
Legal & General Investment Management (LGIM)	$1,700
Morgan Stanley Investment Management, Inc.	$1,400
Northern Trust Investments	$1,610
Nuveen Asset Management LLC	$1,200
Pacific Investment Management Co. (PIMCO)	$1,820
+Parametric Portfolio Associates (PIMCO labeled funds only)	
Prudential Global Investment Management	$1,300
+Jennison Associates LLC	
+PGIM Quantitative Solutions	
State Street Global Advisors	$4,100
T. Rowe Price Associates, Inc.	$1,690
UBS Asset Management	$1,200
Vanguard Group, Inc.	$7,796
Wellington Management	$1,000

APPENDIX C: CLIMATE-CRITICAL COMPANIES — S&P 500 OIL & GAS, ELECTRIC POWER, AND FINANCIAL SERVICES COMPANIES

TICKER	ISSUER	SECTOR
AIG	American International Group Inc.	Financial Services
BAC	Bank of America Corporation	Financial Services
BRK	Berkshire Hathaway Inc.*	Financial Services
CB	Chubb Ltd	Financial Services
C	Citigroup Inc.	Financial Services
RE	Everest Re Group, Ltd.	Financial Services
GS	Goldman Sachs Group Inc. (The)	Financial Services
HIG	Hartford Financial Services Group (The)	Financial Services
JPM	JPMorgan Chase & Co	Financial Services
MS	Morgan Stanley	Financial Services
TRV	Travelers Companies Inc/The	Financial Services
WRB	W.R. Berkley Corporation	Financial Services
WFC	Wells Fargo & Company	Financial Services
APA	APA Corporation	Oil & Gas
BKR	Baker Hughes Company	Oil & Gas
CVX	Chevron Corporation	Oil & Gas
COP	ConocoPhillips	Oil & Gas
CTRA	Coterra Energy Inc.	Oil & Gas
DVN	Devon Energy Corporation	Oil & Gas
FANG	Diamondback Energy Inc.	Oil & Gas
EOG	EOG Resources	Oil & Gas
XOM	Exxon Mobil Corporation	Oil & Gas
HAL	Halliburton Company	Oil & Gas
HES	Hess Corporation	Oil & Gas
KMI	Kinder Morgan Inc.	Oil & Gas
MRO	Marathon Oil Corporation	Oil & Gas
MPC	Marathon Petroleum Corporation	Oil & Gas
OXY	Occidental Petroleum Corporation	Oil & Gas
OKE	ONEOK Inc.	Oil & Gas
PSX	Phillips 66	Oil & Gas
PXD	Pioneer Natural Resources Company	Oil & Gas
SLB	Schlumberger Limited	Oil & Gas

**Berkshire Hathaway has substantial subsidiaries operating across both the insurance and electric power industries.*

TICKER	ISSUER	SECTOR
VLO	Valero Energy Corporation	Oil & Gas
WMB	Williams Companies Inc. (The)	Oil & Gas
AES	AES Corporation (The)	Utilities
LNT	Alliant Energy Corporation	Utilities
AEE	Ameren Corporation	Utilities
AEP	American Electric Power Company Inc.	Utilities
ATO	Atmos Energy Corporation	Utilities
CNP	CenterPoint Energy Inc.	Utilities
CMS	CMS Energy Corporation	Utilities
ED	Consolidated Edison Inc	Utilities
D	Dominion Energy Inc	Utilities
DTE	DTE Energy Company	Utilities
DUK	Duke Energy Corporation	Utilities
EIX	Edison International	Utilities
ETR	Entergy Corporation	Utilities
EVRG	Evergy Inc	Utilities
ES	Eversource Energy	Utilities
EXC	Exelon Corporation	Utilities
FE	FirstEnergy Corporation	Utilities
NEE	NextEra Energy, Inc.	Utilities
NI	NiSource, Inc	Utilities
NRG	NRG Energy Inc.	Utilities
PNW	Pinnacle West Capital Corporation	Utilities
PPL	PPL Corporation	Utilities
PEG	Public Service Enterprise Group Incorporated	Utilities
SRE	Sempra Energy	Utilities
SO	Southern Company (The)	Utilities
WEC	WEC Energy Group, Inc.	Utilities
XEL	Xcel Energy Inc.	Utilities

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