CLIMATE STEWARDSHIP

A guide for effective engagement and voting practices

RECLAIM Finance

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INTRODUCTION

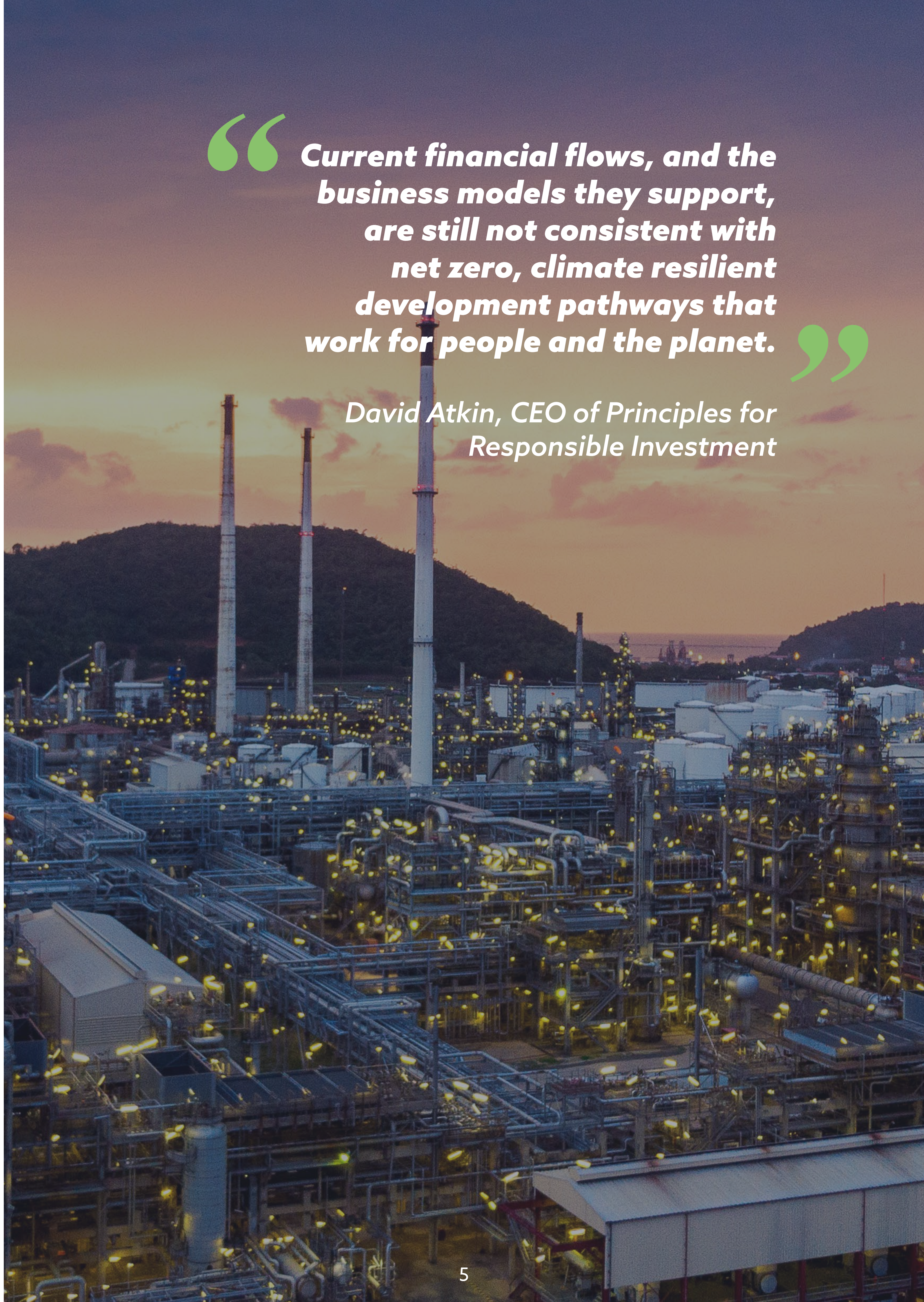
In the context of an unprecedented climate emergency, limiting the disastrous effects of climate change requires a close to 50% reduction of greenhouse gas (GHG) emissions by 2030 and reaching carbon neutrality by 2050, in line with a pathway to limit global warming to 1.5°C. This calls for a major transformation of the world economy. New economic activities will emerge in this sustainable world, but some will need to cease. **At a corporate level, high-emitting companies must urgently and deeply transform their activities if they want to survive the transition.** This will require companies to break with polluting activities and to massively develop activities compatible with a sustainable model of society.

While financial institutions are key to shaping the world of tomorrow and contributing to the goal of limiting global temperature rise to 1.5°C, they have failed to align their portfolios and practices with this up to now. Not only do most continue to support activities at project level that are inherently inconsistent with the remaining carbon budget, they also fail to catalyse the change that is needed at corporate level in high-emitting companies. The vast majority of financial institutions continue to provide these companies with financial services that allow them to develop climate-wrecking projects. This is the case in the energy sector, for example. Despite the urgent need to stop fossil fuel expansion, the 60 largest banks allocated $112 billion (USD) to fossil fuel developers in 2022,[1] and investors poured over $3,074 billion into fossil fuels through shares and bonds in 2023.[2]

Financial institutions need to improve if they want to achieve their own net zero and climate pledges. Engagement and exclusion are often brought into opposition by financial institutions, but actually they are complementary and reinforce each other effectively. **Exclusion makes engagement credible and effective, and engagement makes exclusion fair and acceptable.** Avoiding one or other of these two tools would prevent financial institutions from maximizing their influence on the companies that must transform most.

Today, stewardship is mainly undertaken by investors, but its principles are applicable to all financial institutions, since they can use their position of financial support to influence companies. **This briefing is a guide for investors wishing to establish robust and credible stewardship practices.** It presents recommendations for effective stewardship policies and reporting in general, and gives examples for effective climate stewardship practices.

Additionally, this guide focuses on stewardship undertaken by shareholders, but it can be conducted across all asset classes. Investors must also keep in mind that they have power through their investment decisions, especially in the bond market where they can adopt redlines for bond purchases – a key tool to influence the biggest polluters.[3]



OVERVIEW OF KEY RECOMMENDATIONS

The engagement policy checklist

Scope of application

- Cover all asset classes;
- Publish key metrics about companies engaged;
- Prioritize companies representing highest GHG emissions for all scopes.

Goals and demands

- Specify that your key goal is limiting global warming to 1.5°C and halving emissions by 50% by 2030;
- Have public and time-bound sectoral and general demands;
- Focus demands on alignment and real-world change rather than disclosure.

Types and tools

- Combine individual and collaborative engagement;
- Use all available tools, and combine them;
- Use dedicated tools depending on asset classes.

Escalation strategy

- Link every demand with escalating sanctions;
- Apply systematic sanctions every year if demands are not met;
- Use divestment as the ultimate sanction.

Reporting

- Publish an annual report;
- Include both activity and outcome indicators;
- Include an assessment of the progress achieved.

The voting policy checklist

Scope of application

- Cover at least 90% of companies in portfolio.

Criteria and demands for each type of resolution

- Cover both routine resolutions and ESG resolutions, including shareholder-proposed resolutions
- Make criteria consistent with goals and demands defined in the engagement policy.

Reporting

- Publish an annual consolidated report;
- Disclose individual votes, every year and within one month after the AGM;
- Disclose rationales for key ESG resolutions.

1. THE CURRENT FAILURE OF CLIMATE STEWARDSHIP

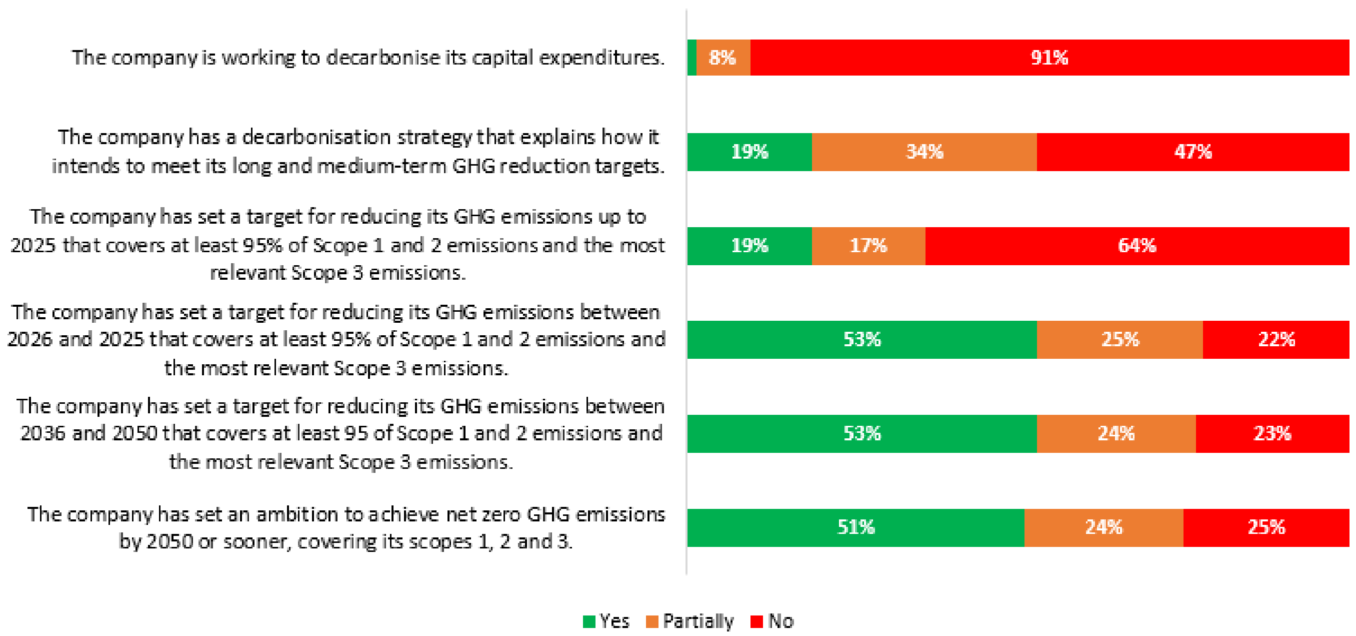
In theory, the promises of climate stewardship are tantalizing. **By using their position as financial support for the economy, investors would contribute to the transformation of high-emitting companies** without having to sell carbon-intensive assets. As such, they would have a key role in influencing companies to align with a trajectory to limit global warming to 1.5°C.

However, at present, stewardship appears to be a failure to align climate strategies with a 1.5°C trajectory.

More than five years after the launch of Climate Action 100+, the largest investor-led initiative dedicated to climate stewardship with 171 high carbon-emitting companies, the outcome is meagre. While company commitments to carbon neutrality by 2050 have multiplied, only 51% of these cover all scopes of emissions, and 24% do not include scope 3 emissions. In addition, 64% of focus companies have not set targets for reducing emissions in the short term covering all scopes, and 91% are not working to align their capital expenditure (capex) plans with the Paris Agreement's 1.5°C objective.[4]

Furthermore, investors fail to use all the tools at their disposal. Votes at annual general meetings (AGM), which is one of the most powerful tools available to shareholders, do not clearly sanction strategies that contribute to worsening global warming. No climate-related shareholder resolution calling for alignment with scientific recommendations has ever won a majority of investor votes. In addition, investors engaged in Climate Action 100+ still barely use one of the biggest engagement tools – the possibility to vote against re-election of board members at AGM,[5] and largely approve inadequate climate strategies through their voting. For instance, in 2023, 89% of TotalEnergies' investors approved its climate plan even though the company continues to develop new oil and gas fields, which is in total contradiction to scientific recommendations and the International Energy Agency (IEA)'s projections for limiting global warming to 1.5°C.

Assessment of CA100+ disclosure indicators



Source: Reclaim Finance's analysis of the Climate Action 100+ Net Zero Company Benchmark results

The poor results achieved by climate stewardship until now calls into question the efficiency of current stewardship practices, and the relevance of stewardship to tackle the climate crisis overall. Assuming stewardship really is able to contribute to company transformation, current practices have not yet demonstrated their ability to change a company's business model. In the context of the climate emergency, it is important to identify the obstacles to effective practices and overcome them.

The success of current stewardship practices is hampered by a number of factors:

- **Investor demands focus on improving the transparency of information published by the company, rather than on alignment** of the company's climate strategy with scientific recommendations to limit global temperature rise to 1.5°C.
- **Most current engagement and voting policies are not sufficiently robust.** The demands made by investors on companies are not clear, and escalation strategies do not specifically mention deadlines or the sanctions applicable at the end of these deadlines. As a result, sanctions are not systematically applied when no progress is made, often leading to the pursuit of an endless and ineffective dialogue.
- **Engagement sometimes serves as greenwashing and a delaying tactic, while giving the appearance of acting for the climate.** Pro-engagement rhetoric is used as an excuse by some investors to continue business-as-usual investments and maintain the status quo, while little is actually done to encourage companies to transition.

Based on these observations, it is essential to bring current stewardship policies and practices to maturity. To achieve this, engagement and voting policies need to meet certain key conditions, as outlined below.

2. RECOMMENDATIONS FOR A CREDIBLE ENGAGEMENT POLICY

a. Scope of application

The scope of application defines the companies covered by the engagement policy.

Key information to publish

- ✅ Asset classes covered by the engagement policy and justification for those not covered.
- ✅ Key metrics:
  - Number of companies engaged globally;
  - Breakdown of companies engaged individually and collaboratively;
  - Share of assets under management corresponding to the companies engaged;
  - Share of the portfolio's greenhouse gas emissions covered by engagement initiatives.
- ✅ Prioritization criteria and method used to define the list of companies engaged.
- ✅ Complete list of companies engaged, and breakdown between individual engagement and collaborative engagement.

An engagement policy should cover all assets that are relevant and, in all cases, be transparent about the type of asset class and overall share of portfolio covered. While most engagement initiatives concern corporate shares, engagement can be applied to all other asset classes: corporate bonds, sovereign bonds, private equity, infrastructure, real estate, etc. **Asset managers should justify why certain asset classes are not covered by the engagement policy, where applicable.**

Investors should also disclose several key metrics to help understand the typology of companies engaged. This information includes: the number of companies engaged (globally and through collaborative engagement); a breakdown by sector; the share of assets under management concerned; and the share of the portfolio's greenhouse gas emissions covered.

Investors should publish the criteria and methods used to select companies engaged. Criteria that may be considered when drawing up the list of companies to engage are, in order of priority: the weight of the company in the portfolio; the chance of success of engagement (which can depend on the geographical or cultural proximity between the investor and the issuer); the investor's knowledge of the sector, and the history of engagement; and any engagement already pursued (or not) by other investors.

Best practice would be to publish the full list of companies engaged and when engagement began.

Example for climate-related issues

In the context of the climate crisis, investors must focus their efforts on companies with the highest current and future greenhouse gas emissions, taking all scopes (1, 2 and 3) into account. These companies mostly operate in the following sectors: oil and gas production; coal mining and other types of mining; power generation; steel production; cement production; automobile manufacturing; shipping; air transport; agriculture and chemicals.

b. Goals and demands

An engagement policy should specify the overall goals pursued and the demands addressed to the targeted companies.

Key information to publish

- Overall engagement goals.
- Time-bound general demands addressed to companies engaged.
- Time-bound specific demands addressed to companies engaged, by sector or by company.

A robust engagement policy precisely defines and discloses the global goals pursued by investors as part of their engagement approach. These goals should specify the general changes investors aim to achieve through their engagement process.

Next, investors must translate these global goals into concrete, precise and impactful demands, which should be published in the engagement policy and communicated to the companies targeted by the engagement process. Impactful demands target real-world change and concrete greenhouse gas emissions reduction. **Investors should detail general demands as well as specific sectoral demands.** To have examples of concrete, precise and impactful demands regarding climate issues, please see the table below.

For the engagement policy to be credible, all demands must be time-bound. A demand addressed to an issuer runs the risk of going unheeded if it is not associated with a deadline beyond which the company's failure to comply will result in sanctions. These deadlines should be defined in absolute terms (for example, 2025) rather than in relative terms (for example, 3 years from now).

Example for climate-related issues

To tackle climate challenges, **investors must commit to support the following global goals through their engagement strategy**: limit global warming to 1.5°C; achieve net-zero greenhouse gas emissions by 2050; and a 50% reduction of emissions by 2030.

These global goals should translate into general and sectoral demands that focus on alignment with a 1.5°C trajectory and aim at real-world emissions reduction.

Sectoral demands

Coal	Oil & Gas
✓ A commitment to close all the global coal facilities in the OECD and European countries by 2030, and globally by 2040. ✓ No expansion plans: immediate stop of new and expanded coal mines, plants and infrastructure projects. ✓ Facility-by-facility closure dates. Assets shall not be sold or converted to fossil-based activities or biomass, or only under very specific conditions.	✓ End of new upstream and midstream oil and gas projects. ✓ Adoption of oil AND gas production reduction targets by 2030. ✓ Allocation of most of capex to sustainable power.
Power generation	**Steel**
✓ End of new unabated fowssil fuel-fired and biomass-fired plants. ✓ Commitment to end coal-related activities by 2030 at the latest in OECD and European countries, and by 2040 worldwide. ✓ Commitment to bring fossil gas-related activities close to zero by 2035 at the latest in OECD and European countries, and by 2040 worldwide. ✓ Spend at least 5 dollars in sustainable power for every 1 dollar of capex investment in fossil fuel-fired power by 2030.[6]	✓ Commitment not to open any new coal-fired blast furnaces that will come online after 2025. ✓ Commitment not to expand the capacity of existing coal-fired blast furnaces. ✓ Commitment not to reline existing blast furnaces that reach end of lifetime. ✓ Commitment to invest in alternatives to coal-based steelmaking, including Electric Arc Furnaces (EAF) powered with renewable sources of energy and hydrogen-based Direct Reduced Iron (DRI).

General demands

- Immediately commit to a 2050 net-zero objective based on a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- Adopt a comprehensive climate transition plan that includes at least the following criteria:
  - Short- and medium-term greenhouse gas emissions reduction targets for scopes 1, 2 and 3, expressed in both absolute and intensity terms, and encompassing all activities;
  - Possible contributions of captured greenhouse gas emissions volumes to each of the emissions reduction targets;
  - Carbon offsetting approaches that may be implemented to complement the emissions reduction targets;
  - Short- and medium-term capex plans that are disaggregated by activity and by orientation between maintenance and development of the company's assets;
  - The baseline scenario used to set the above-mentioned climate targets;
  - Other sector-specific relevant information, such as the short- and medium-term targeted energy mix evolution for companies in the energy sector.

While the adoption of a comprehensive climate plan is necessary for a company's transition, investors should aim in priority to assess the quality of the plan against science-based climate milestones and a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.

- Submit the company's climate transition plan (containing the above-mentioned elements) and its implementation to an annual shareholder vote via two separate Say on Climate votes.

Since the urgency of climate change calls for immediate action, the first deadlines associated with these demands should be close: 2024 or 2025.

c. Types and tools

An engagement policy should specify the processes implemented to ensure that its demands are satisfied. This means precisely outlining the types of engagement practiced (individual, collaborative, sectoral) and the tools of engagement (possible actions) used.

Key information to publish

- ✅ Types of engagement:
  - List of types of engagement undertaken (individual, collaborative, sectoral) and details on exactly how these are practiced;
  - Explanation of the cases in which each type of engagement is chosen.
- ✅ Tools of engagement:
  - List of tools used (see below for examples);
  - Explanation of the cases in which each tool of engagement is chosen.

Regarding the types of engagement, investors may decide to operate individually, or join forces with other investors as part of a collaborative engagement effort. Several investor networks dedicated to collaborative engagement exist, such as the Climate Action 100+ coalition or the European Shareholders for Change network. **Investors should specify in their engagement policy whether they practice individual and/or collaborative engagement. Best practice uses a combination of the two types to benefit from the advantages of each.** While collaborative engagement has the advantage of multiplying the capacity for influence, due to the number of investors and assets under management represented, individual engagement enables the development of a tailor-made strategy as well as freedom in the application of sanctions.

Additionally, investors may choose to focus efforts exclusively on one or more economic sectors to capitalize on sector-specific knowledge and leverage comparability. **In this case, investors should specify which sectors are targeted in their engagement policy and explain why.**

A good engagement policy should also indicate the tools of engagement that will be used. The range of possible means is broad, and includes the following actions:

- Meetings with Corporate Social Responsibility (CSR) representatives or operational teams;
- Meetings with members of the general management;
- Meetings with members of the board of directors;
- Sending private letters;
- Sending public letters;
- Making public statements;
- Suspending new investments – specifying the asset classes concerned;
- Reducing holdings;
- Litigation;
- Total exclusion of the company and sale of all assets.

Depending on the asset class concerned, investors need to develop dedicated strategies. For example, shareholders should take advantage of all the tools at their disposal in connection with AGMs, such as voting (including pre-declaring voting intentions and publishing voting rationales), sending written questions, asking oral questions, filing shareholder resolutions, or appointing new board members in the applicable companies and jurisdictions. Bondholders should also use all possible means, such as submitting questions and statements to investor meetings, convening bondholder meetings to discuss specific ESG topics and to make demands heard, or integrating climate transition considerations into bond indentures and prospectuses.

Investors should integrate the results of engagement undertaken for a company relating to all asset classes. For instance, progress and outcomes achieved – or not achieved – through engagement via bonds should be considered by shareholder engagement teams when making AGM voting decisions.

Engagement policies should make use of all available tools, and combine them. It is also important that the tools mentioned above, including voting against management recommendations at AGM and impact on capital allocation (suspension of new investments, exclusion), are indicated in the engagement policy as possible tools of action. This will increase pressure on issuers and make the policy truly effective.

It should also be specified whether the investor prioritizes certain companies among all the companies engaged and, if it does, which companies, how they are selected and how engagement compares to that undertaken with others.

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Principles for Responsible Investment Collaboration Platform

Launched in 2006, the Principles for Responsible Investment (PRI) Collaboration Platform allows investors to pool resources (such as draft letters, draft resolutions, or company assessments)**, share information, and enhance their engagement with companies on ESG issues.** Investors post proposals for collaborative engagement on the platform, and other investors can react and declare their interest in participating. For instance, posts can include: invitations to sign joint letters to companies; proposals for in-depth research and investor guidance; opportunities to join investor-company engagements on particular ESG themes; requests for support on upcoming shareholder resolutions.

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HOW SHOULD CORPORATE BONDHOLDERS ENGAGE COMPANIES?

Although corporate bondholders do not have the same rights as shareholders, they remain key stakeholders with important opportunities to engage issuers. **The tools of engagement of fixed income investors depend on the issuance lifecycle and type of bond.**[7]

Prior to issuance, investors can be in discussion with the issuer through roadshows or management meetings, and voice their expectations of companies. Investors should:

- Set out key transition expectations – for instance, a redline on the development of new fossil fuel projects.
- Require the inclusion of ESG-related information or criteria in bond indentures and prospectuses.
- Request that issuers disclose their ESG policies and strategies in marketing materials to encourage higher standards of ESG transparency.

Expectations should be published in the engagement policy to send a signal to the market and establish redlines to bond purchases. Investing decisions should be based on expectations set and information obtained before the issuance. **If key expectations are not met, investors should not take part in the bond issuance.**

After issuance and during the holding period, investors should engage in direct dialogue in the case of private placement, or indirect dialogue via dealers, underwriters, other intermediaries or advisers in the case of public issuance. Investors should engage issuers during conferences, investor calls, roadshows and meetings with management. They should also convene bondholder meetings to discuss ESG issues if they attain the required proportion of bonds in the relevant class. In addition, investors should engage companies on ESG issues when issuers seek to renegotiate contractual terms or refinance, and they should take advantage of these situations to introduce new ESG clauses.

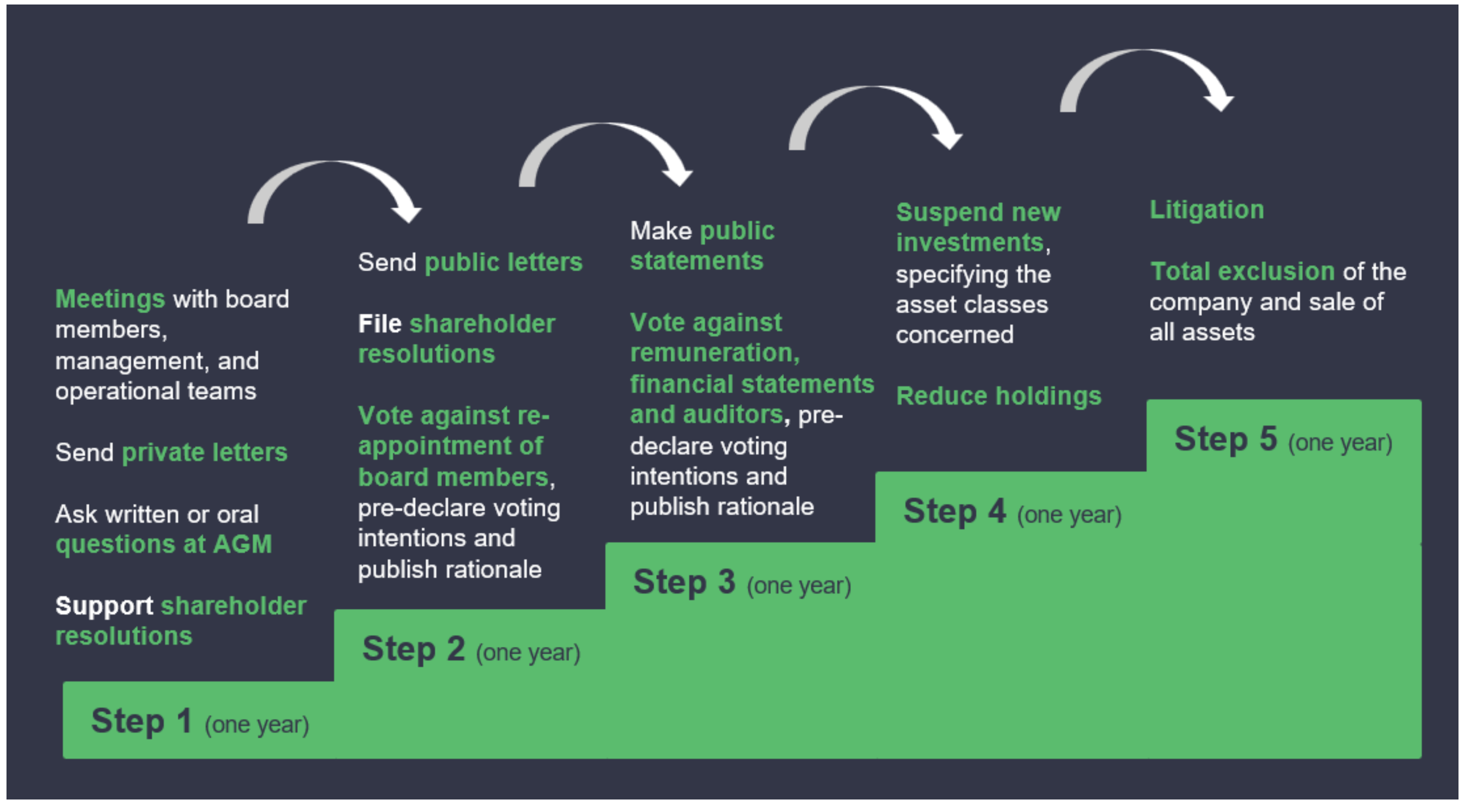
Finally, if engagement demands are not satisfied, investors should use cases of **refinancing** to apply sanctions, such as not taking part in any refinancing.

d. Escalation strategy

An effective engagement policy includes an escalation strategy which provides for the implementation of systematic sanctions of increasing intensity in the event of unsuccessful engagement.

Key information to publish

- ✅ Description of each step of the escalation strategy:
  - Intermediate and final deadlines corresponding to each demand;
  - Applicable sanctions for each deadline;
  - Tools of engagement used for each step.



Source: Reclaim Finance's recommended general shareholder engagement escalation strategy

A good escalation strategy should specify the deadlines corresponding to each demand, and the sanctions applicable at each step of escalation (recommended to be every year) when demands are not met. **It is important that the application of sanctions is systematic,** so that issuers do not think they can avoid them if they do not comply.

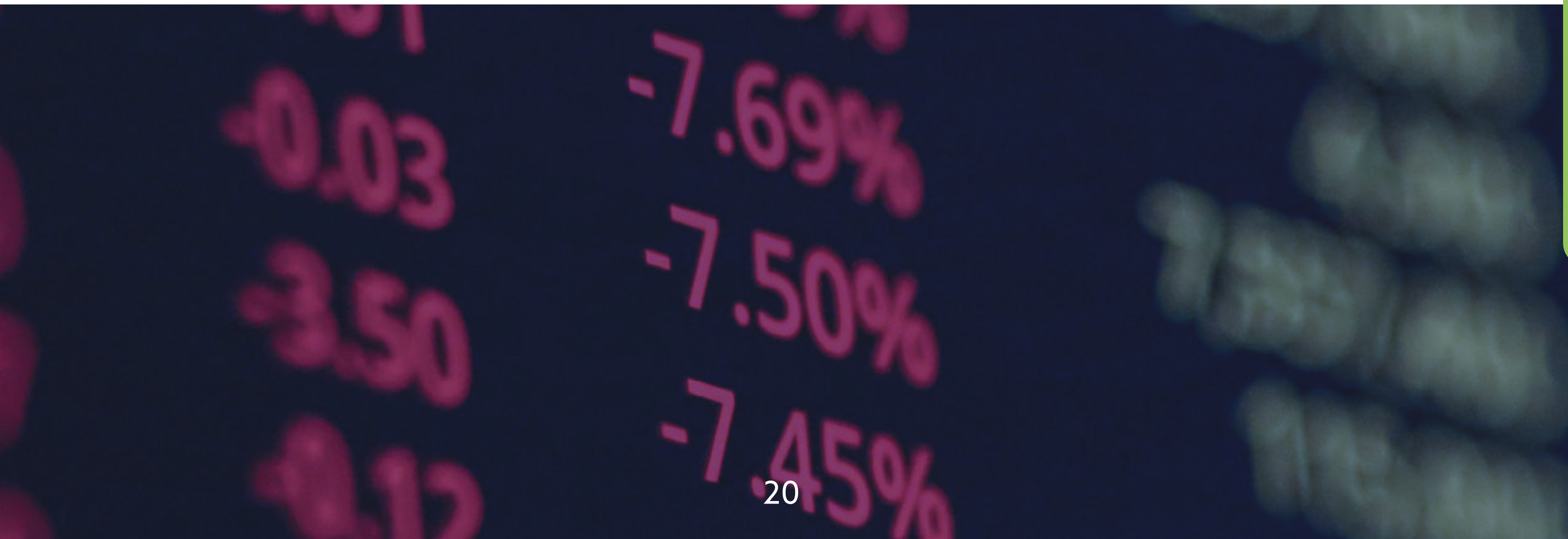
To make the engagement policy credible and effective, total exclusion – divestment – must be mentioned as the ultimate sanction in the escalation strategy, and this should be set within a sufficiently short timeframe.

Reclaim Finance recommends implementing the shareholder engagement escalation strategy presented below when demands are not met. The sanctions implemented progressively must be cumulative. Based on the nature and importance of the demands, the number of steps and associated sanctions should be adapted.

Example for climate-related issues

Through new investments, investors can contribute to the development of activities that are strictly compatible with a 1.5°C trajectory, with low or no overshoot and a limited volume of negative greenhouse gas emissions. As this is the case, the use of investment as a tool can be applied earlier in the engagement process if necessary. For example, it is recommended that investors suspend new investments immediately when the business model of a company does not align with a 1.5°C trajectory, such as fossil fuel developers.

This tool also can be used to compensate for a lack of capacity to implement an engagement strategy. **Therefore, high-emitting companies in portfolios that are not engaged should be subject to a suspension of new investments.**



e. Reporting

The engagement policy should specify the disclosure framework within which the associated engagement reporting will be published.

Key information to publish

- Scope of application.
- Frequency of the reporting.
- Format of the reporting.
- Indicators to be published in the reporting.

The engagement reporting framework should specify different information, such as the frequency and format of the reporting, and the indicators that will be included. To enable regular monitoring and transparency of engagement practices, the reporting should cover the same scope of application as the engagement policy, which is ideally all asset classes and the entire portfolio.

Additionally, **the engagement reporting should be published annually on the investor's website in the form of a report containing both qualitative and quantitative information, and both activity and outcome indicators.**

> ***"While private dialogue will likely remain a key tool for investors, more specific, time bound objective setting paired with escalation will likely need to become the norm."***
>
> *Net Zero Stewardship Toolkit, IIGCC*

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ENGAGEMENT OF ASSET MANAGERS BY ASSET OWNERS

Asset owners committed to the UN-convened Net-Zero Asset Owner Alliance (NZAOA) must engage 20 companies, at a minimum, focusing on those responsible for the most financed emissions or those responsible for a combined 65% of financed emissions. **To respect this commitment, asset owners need to engage their asset managers to ensure they have robust stewardship practices.** To do so, they can use the tools described below.

First, before selecting an asset manager, asset owners should implement a strong due diligence process that reviews the sustainable, sectoral, engagement and voting policies of all those considered. **The asset owner must then select an asset manager based on the ambition and robustness of these policies. Asset manager policies should:**

- **Be aligned with the goal to limit global warming to 1.5°C.**
- **Have robust fossil fuel policies** that
  - cover all products and services offered by a company;
  - cover coal, oil and gas sectors;
  - plan to cease the provision of financial services to companies involved in coal, oil and gas expansion;
  - phase out the provision of financial services to coal projects and companies by 2030 in OECD countries, and by 2040 in the rest of the world at the latest;
  - require companies to publish a phase-out plan in line with a 1.5°C trajectory.
- **Have robust engagement and voting policies** that respect the recommendations presented in this guide.

To compare the fossil fuel policies of asset managers, asset owners can use tools such as the Coal Policy Tool, the Oil & Gas Policy Tracker and the annual Asset Manager Scorecard published by Reclaim Finance.[8]

When selecting an asset manager, asset owners should clearly state their demands regarding engagement, voting practices and reporting. Expectations should also be integrated as much as possible into Investment Management Agreements.

When already the client of an asset manager, asset owners should engage them to publish and improve their engagement, voting policies and reporting. For example, through the COP26 Declaration initiative, some UK-based asset owners engaged their asset managers to vote in favour of shareholder resolutions on climate change and to vote against management-proposed resolutions, such as director re-appointments, for fossil fuel developers.

Some asset managers also offer asset owners the chance to exert voting rights themselves. In this situation, asset owners should seize the opportunity and develop their own robust voting policy in line with the criteria described in this guide. **Nevertheless, it remains necessary to engage asset managers on their voting policies as well, since those will apply by default to the majority of assets under management and because asset managers have a key role to play in global voting results.**

If asset managers do not meet some or all expectations, and do not show progress over time, asset owners should end their mandates and seek more climate-conscious asset managers.

3. RECOMMENDATIONS FOR COMPREHENSIVE ENGAGEMENT REPORTING

The aim of reporting is to monitor the progress of the goals defined and the actions carried out as part of the engagement policy. It covers the engagement practices undertaken over the past year and the year-on-year progress, taking stock of the state of the portfolio and the escalation strategy applied.

Current reporting practices focus mainly on activity indicators. **To fully report on the effectiveness of the engagement policy, investors must publish both activity and outcome indicators.** Activity indicators show the resources deployed by investors to achieve the goals set and to make demands to issuers. Outcome indicators reveal the results of the engagement process, and its effectiveness or lack of effectiveness. Moreover, **good engagement reporting ensures the granularity of the information published:** the indicators selected should be varied, precise and relate to key aspects of the engagement process.

Last, but not least, a comprehensive engagement report should present an overall portfolio assessment of the progress of the engagement process, showing results achieved in terms of demands met and application of the escalation strategy. The following template can be used:

	Step 1	Step 2	Step 3	Step 4	Step 5
Demand n°1	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management
Demand n°2	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management
Demand n°3	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management	X companies Y% assets under management

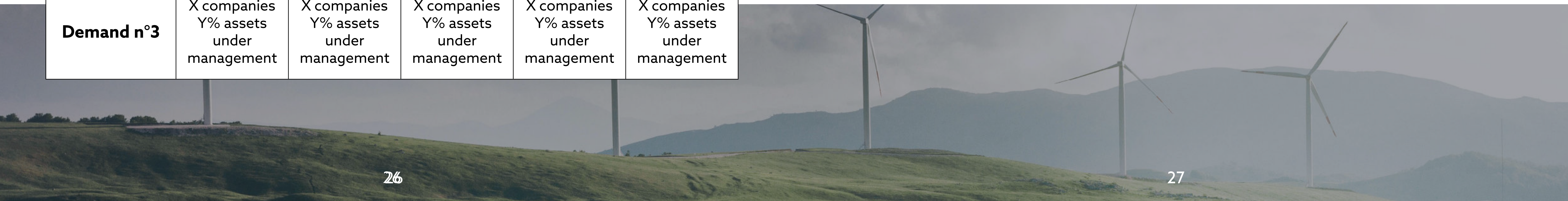
Key information to publish

Activity indicators

- ✅ Scope of application:
  - Asset classes covered;
  - Number of companies engaged, including the number engaged collaboratively;
  - Breakdown of companies engaged by sector;
  - Share of assets under management corresponding to companies engaged;
  - Complete list of companies engaged.
- ✅ Types and tools of engagement:
  - Total number of engagement actions undertaken;
  - Breakdown by type (individual, collaborative);
  - Breakdown by tool;
  - Breakdown by ESG topic;
  - Explanation of the role of the investor in the collaborative engagement practiced, if any.

Outcome indicators

- ✅ Overall portfolio assessment on the progress of the engagement process (see example opposite).
- ✅ Number of demands that reached deadline, and a breakdown of those that were met and those that were not.
- ✅ Number of sanctions applied, and breakdown by type of sanction.



4. RECOMMENDATIONS FOR A CREDIBLE VOTING POLICY

Voting at AGM is one of the key tools in a robust engagement policy for shareholders. It is recommended that investors have a separate voting policy, while also including voting-related actions in the engagement policy. Voting is indeed a potential sanction in an effective escalation strategy. The distinction between the two policies is recommended because a credible voting policy requires a high level of detail to cover all types of existing resolutions and to foresee all possible scenarios. Additionally, voting policies include considerations unrelated to the content of an engagement policy, such as financial or governance issues.

a. Scope of application

The scope of application defines the companies covered by the voting policy.

Key information to publish

- Minimum share of proposed resolutions and companies for which the investor commits to take part in voting.
- Corresponding share of assets under management.
- Prioritization criteria and method used to define the resolutions and companies concerned.

A credible voting policy should begin by specifying its scope of application. Given that voting is a crucial tool in a credible engagement process, investors should commit to voting on as many resolutions as possible.

Depending on the resources available, investors may not be able to vote on all the resolutions of the companies in their portfolios. In this case, **investors should commit to voting on a minimum share of proposed resolutions and companies, and publishing this number and the corresponding share of assets under management in the voting policy.** It is recommended that the voting policy covers at least 90% of companies in the portfolio. **In addition, investors should disclose the criteria and method used to select the resolutions and companies for which they take part in voting.**

Example for climate-related issues

In the context of climate urgency, investors must prioritize participation in all votes (both directly climate-related and not directly climate-related) regarding the companies with the current and future highest greenhouse gas emissions, taking all scopes into account. These companies mostly operate in the following sectors: oil and gas production; coal mining and other types of mining; power generation; steel production; cement production; automobile manufacturing; shipping; air transport; agriculture and chemicals.

For other companies, investors should prioritize taking part in votes relating to climate-related resolutions.

b. Criteria and demands for each type of resolution

The voting policy should clearly specify the criteria against which voting decisions are made for each type of resolution that can be tabled at AGM.

Key information to publish

✅ For each type of resolution:

- Criteria a company must meet for the investor to vote for, to vote against, or to abstain;
- Link between criteria and demands covered in the engagement policy.

For each type of resolution, investors must list in their voting policy the criteria a company must meet before they can vote for, vote against, or abstain. Note that investors should avoid abstaining, as doing so shirks their responsibilities to make clear science-based decisions.

Criteria must be defined at least for the following types of resolutions:

- **Routine resolutions**
  - Approval of financial statements;
  - Appointment and re-appointment of auditors;
  - Setting and paying of dividends;
  - Appointment and re-appointment of board members;
  - Appointment of management representatives;
  - Approval of remuneration of board members and management representatives.
- **ESG-related resolutions**
  - Say on Climate;
  - Other ESG-related management-proposed resolutions;
  - ESG-related shareholder-proposed resolutions, with a focus on climate-related resolutions.

It is essential that the voting policy integrates the goals and demands defined in the engagement policy. Compliance with general and sectoral demands must be a key criterion for voting on the corresponding ESG resolutions, as well as for routine votes.

Transparency on voting policies is essential since it sets clear demands for companies to improve their ESG practices, and in particular their climate strategies.

Example for climate-related issues

Climate-conscious investors should specify in their voting policies that they will vote against Say on Climate resolutions if:

- The company does not disclose key information on its climate strategy, preventing investors from assessing its alignment with a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company's climate strategy is not aligned with a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions, as is the case for fossil fuel developers.

Climate-conscious investors should mention in their voting policies that they will vote for a climate-related shareholder-proposed resolution if:

- The resolution contributes to an increase of the company's climate-related transparency.
- The resolution supports the alignment of the company's climate plan with reference-based scientific scenarios.

Climate-conscious investors should specify in their voting policies that they will vote against re-appointment of board members if:

- There is no Corporate Social Responsibility or Sustainability committee within the board of directors.
- The company does not disclose a comprehensive climate strategy that enables investors to assess its alignment with a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company does not align with key transition milestones, such as the end of fossil fuel expansion activities.

For more information on integrating climate issues into voting, please consult our full voting recommendations.[9]

c. Reporting and disclosure of votes

As for the engagement policy, the voting policy should specify the disclosure framework within which the voting reporting will be published.

Key information to publish

- Scope of application.
- Frequency of the reporting.
- Format of the reporting.
- Indicators to be published in the reporting.
- Frequency and conditions of disclosure of individual votes.

FOCUS

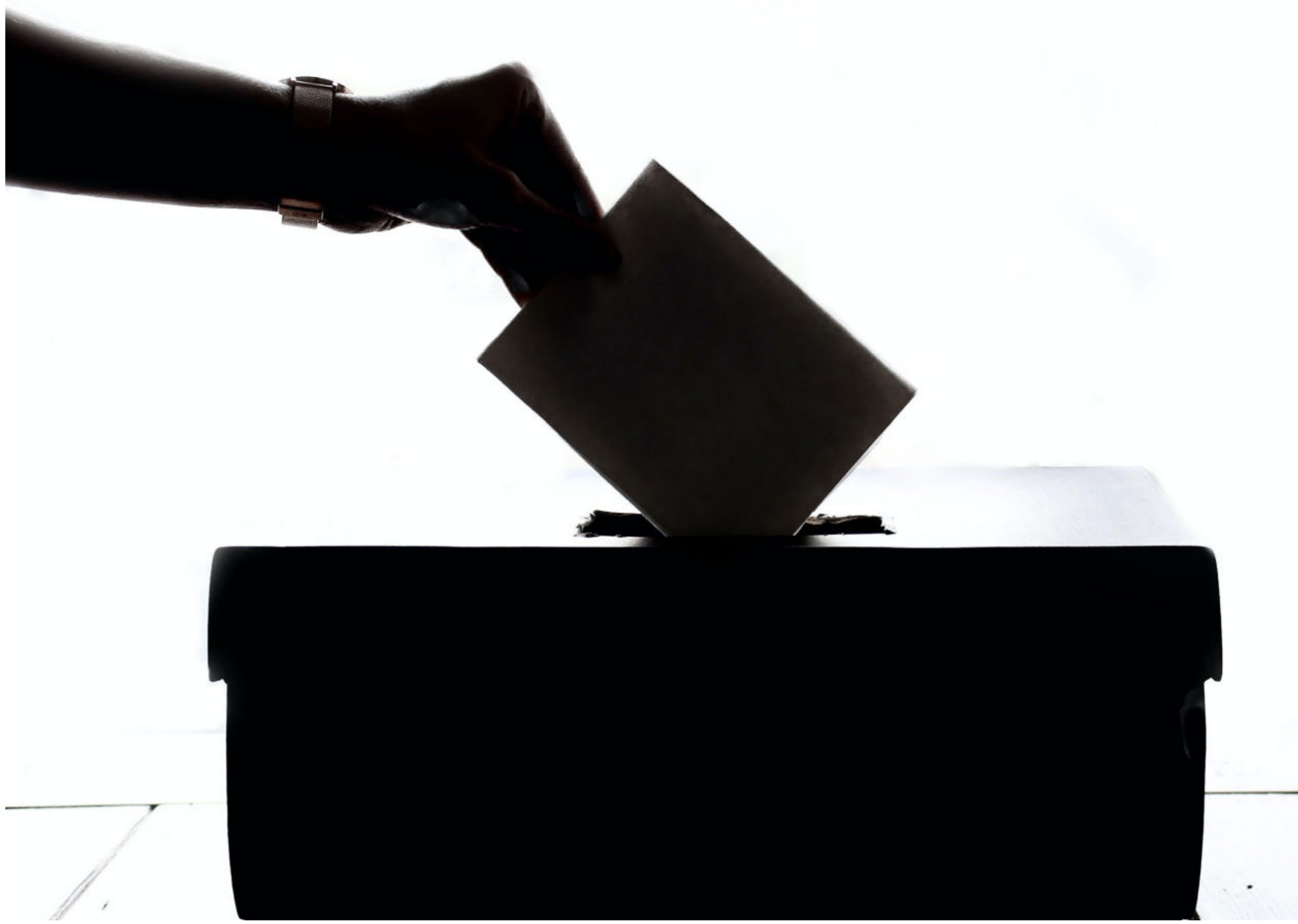
The PRI Resolution Database

As part of the PRI Collaboration Platform, **the PRI Resolution Database allows investors to pre-declare their voting intentions on ESG-related resolutions.** Those voting intentions are then made public through the PRI website. The database includes shareholder-proposed resolutions and management-proposed resolutions. **Its overall goal is to improve the transparency of engagement and voting, and to facilitate communication among shareholders.**

The voting reporting framework should specify the frequency and format of reporting, and the indicators that will be included. It is also recommended that the reporting covers the same scope of application as the voting policy. The reporting should be published annually on the investor's website in the form of a report containing both qualitative and quantitative information. **The voting reporting should provide consolidated data on the investor's voting practices by type of resolution and geography.**

The voting policy should also indicate the frequency and conditions of disclosure of individual votes, and mention the publication of rationales for key ESG-related resolutions. Disclosure of votes and rationales is recommended annually and at the very latest one month after the AGM. All this information should be made public on the investor's website.

Finally, the voting policy should also mention the possibility of pre-declaring voting intentions on key ESG resolutions, such as Say on Climate and ESG-related shareholder resolutions, ideally two weeks before the AGM, where possible. Pre-declaration of votes aims to incentivise companies to understand the level of investor concern and to make clear the need for change in line with investor expectations. It also draws the market's attention to insufficient ESG practices, including an inadequate climate plan, and can convince other investors to vote similarly. It is possible to disclose voting intentions on the PRI Resolution Database.



5. RECOMMENDATIONS FOR COMPREHENSIVE VOTING REPORTING

The aim of voting reporting is to provide both a consolidated view and a detailed view of investor voting practices.

Key information to publish annually

In a consolidated voting report:

✅ Scope of application:

- Share of proposed resolutions and companies for which the investor took part in voting, and corresponding share of assets under management;
- Share of the assets under management for which clients exercise voting rights themselves.

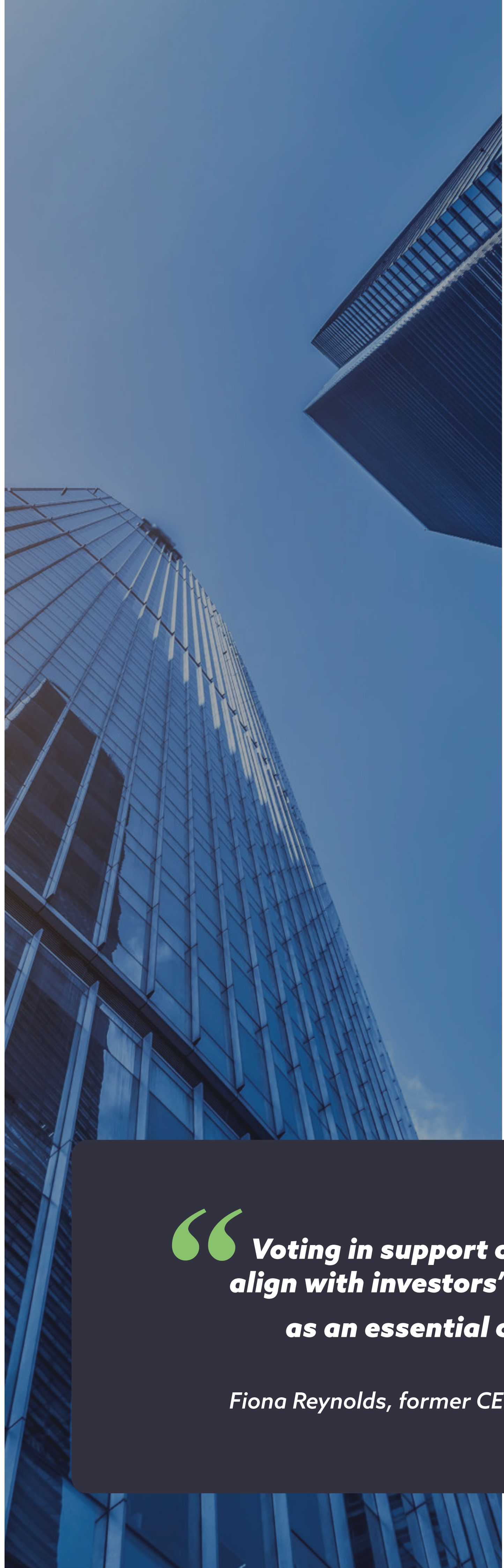
✅ For each type of resolution:

- Breakdown of votes between votes for, votes against, abstentions, and votes withheld;
- Breakdown of votes between votes for, votes against, abstentions, and votes withheld by geography for ESG-related shareholder resolutions.

✅ Other:

- Share of votes against management recommendations;
- Share of votes that differed from proxy advisor recommendations;
- Share of votes that differed from the voting policy, and explanation of the rationale;
- Number of resolutions filed.

All individual votes should be disclosed annually and at the very latest one month after the AGM, including rationales for abstentions, votes against ESG management-proposed resolutions, and votes on ESG shareholder-proposed resolutions.



First, investors should publish a consolidated voting report which presents an overview of the votes. Investors should disclose several quantitative indicators relating to the scope of application of voting practices and the results of voting decisions, as mentioned above. The report should also include a breakdown of votes (for, against, abstentions, withheld) for each type of resolution, with a geographic focus for ESG-related shareholder resolutions. Qualitative information should be published to give additional details, especially if some votes differed from the voting policy.

In addition to this reporting, investors should publicly disclose the details of all individual votes, at least on an annual basis and at the very latest one month after the AGM. Rationales for votes on resolutions relating to ESG for all companies should also be published annually.

Disclosure post-AGM enables investors to:

- Highlight the qualities or shortcomings of company strategies.
- Announce and explain any sanctions.
- Be accountable to clients and other stakeholders through increased transparency.
- Underline voting rationale and increase influence on companies.
- Influence other shareholders to act similarly in the future.

> ***“Voting in support of shareholder resolutions that align with investors’ ESG principles should be viewed as an essential complement to engagement.”***
>
> *Fiona Reynolds, former CEO of Principles for Responsible Investment*

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CLIMATE STEWARDSHIP
A guide for effective engagement and voting practices

Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of some financial actors, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

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