CLIMATE VOTES: THE GREAT DECEPTION

An assessment of asset managers' climate votes in 2023

RECLAIM Finance

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EXECUTIVE SUMMARY

Shareholder engagement, including voting at AGM, is a growing trend in the world of so-called responsible investment.[1] Among the areas of engagement with companies, climate change is often cited as a priority by asset managers and asset owners, just like it is considered as a key issue for citizens which are their end clients.[2] As a result, most of the major investors assessed in this report[3] have joined the Climate Action 100+ investor coalition, which is dedicated to collaborative engagement on climate issues and aims to «achieve clear commitments to cut emissions» that are «in line with the goals of the Paris Agreement to pursue efforts to limit warming to 1.5°C». Keeping global temperature rise to 1.5°C must indeed be a key focus for long-term investors if they want to fulfil their responsibilities to their clients, which is to prevent economic and financial shocks in the long run. **At first glance, asset managers seem to be willing to exert significant efforts to help companies transition.**

However, when assessing the effectiveness of climate stewardship activities, it becomes evident that promises are not followed by sufficient actions to align investee companies with a credible 1.5°C pathway. Our analysis shows that the enthusiasm for climate-related shareholder engagement and voting is not met with robust policies and practice. In **fact, the assessment of 2023 voting reveals that asset managers are encouraging fossil fuel companies to pursue expansion plans, exacerbating the global warming crisis.** They therefore fail their responsibility to make long-term investment decisions integrating climate-related risks, and are at real risk of being accused of greenwashing.

In the context of the climate crisis, the 2024 AGM season will be crucial for aligning high-emitting companies with a 1.5°C pathway.

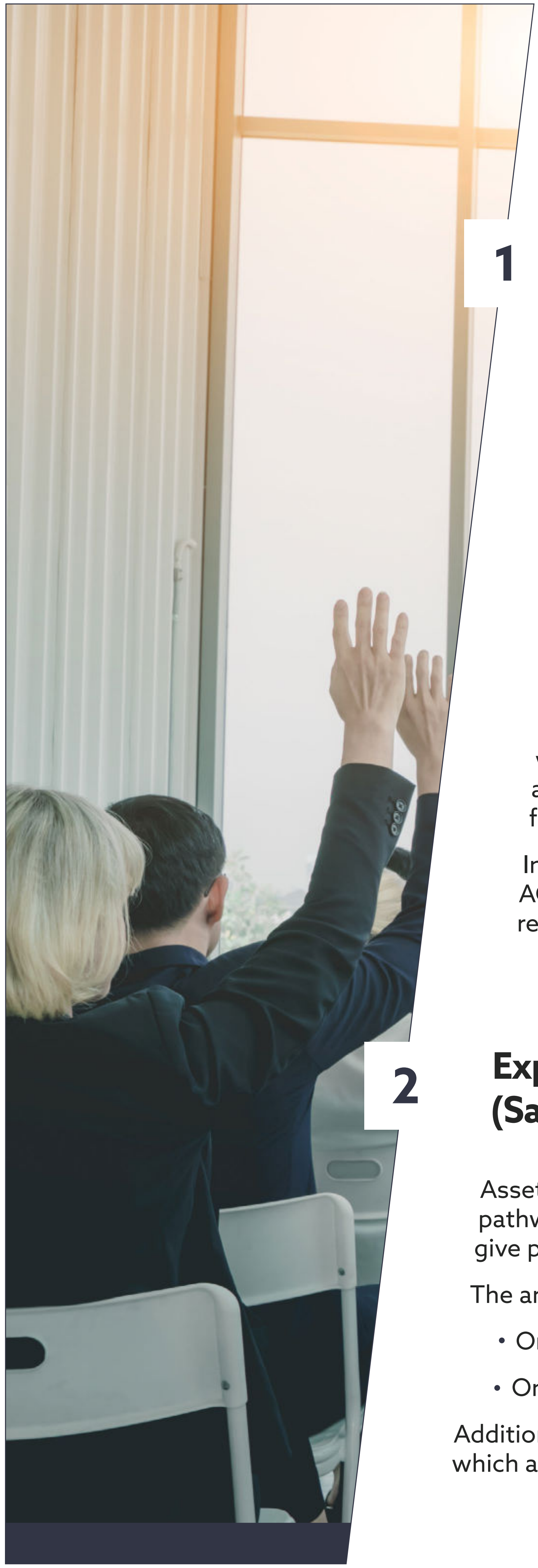
- **Asset managers must absolutely and radically change their approach to clearly condemn climate-hostile companies,** by publishing robust voting policies to set clear standards for companies in their portfolios and using the widest range of votes. **Fossil fuel expansion should be a redline for not supporting a company's strategy,** not only in specific climate-related votes but also in routine management-proposed votes.
- The findings of this report must also be a wake-up call for asset owners, who are entrusting their money to large asset managers working against climate action. **Asset owners must reassess which asset managers they work with and ensure their interests are aligned, as asset managers' short-term considerations often eclipse the long-term interests of their clients.** We hope this report can be used as a tool in support of this.[4,5]

METHODOLOGY

This report looks at whether asset managers (AMs) are using votes as levers to encourage companies to transition to a 1.5°C world. It assesses the 2023 proxy voting policies and voting records of 30 major asset managers headquartered in Europe (25) and the United States (5). These are among the biggest institutions worldwide in terms of assets under management. 25 of these asset managers are members of the Net Zero Asset Managers (NZAM) initiative, and others claim to take climate-related risks into account in their operations. Reclaim Finance analysed their practices regarding climate change, focusing on the fossil fuel sector as the priority area to tackle. Our analysis specifically addresses fossil fuel expansion, as putting an end to new fossil fuel projects is essential to avoid the worst effects of climate change and to remain on a 1.5°C pathway.[6]

The policy assessment in this report is based on publicly disclosed information and a survey sent to asset managers in September 2023. The analysis concentrates on the climate-related criteria considered when making voting decisions on Say on Climate resolutions, shareholder proposals, the re-election of directors, remuneration, and financial statements.

The voting record assessment focuses on votes cast at the respective annual general meeting (AGM) of 75 major listed fossil fuel developers. Resolutions considered are also Say on Climate proposals, climate-related shareholder proposals, the re-election of directors, remuneration, and financial statements.



KEY FINDINGS

1 Climate-related proposals (Say on Climate and shareholder proposals) are rare and inadequate to encourage real climate action in line with a 1.5°C pathway and the end of fossil fuel expansion. Asset managers should therefore use management-proposed votes for effective climate voting.

In 2023, out of the 75 fossil fuel developers assessed in this report, only two submitted climate plans to shareholder vote through a Say on Climate proposal. Both proposals were largely approved, with support rates higher than 80%, even though the companies develop projects that are incompatible with a 1.5°C pathway.[7] Only three of the asset managers we assessed clearly opposed both resolutions.

Asset managers should expect a credible corporate climate plan in this sector to include, at least: 1) a commitment to cease all fossil fuel expansion plans; 2) a public coal phase-out plan aligned with a 1.5°C pathway; and 3) oil and gas production reduction targets aligned with a 1.5°C pathway.[8] Failure to meet these conditions should be a redline for not voting in favour of the climate plan.

Climate-related shareholder proposals are also scarce. In 2023, only 22 climate-related shareholder resolutions were filed at 11 of the companies assessed in this report. Just 9% of these (two resolutions) were eventually approved. Furthermore, most of the proposals filed were disclosure-oriented, meaning they did not encourage fossil fuel developers to take material climate action to limit global warming to 1.5°C.

In total, 85% of companies assessed did not have a specific climate-related vote on the agenda of their respective AGM. Asset managers should therefore use routine management-proposed votes on the directors re-elections, remuneration, and financial accounts to express opposition to companies' inadequate climate plans.

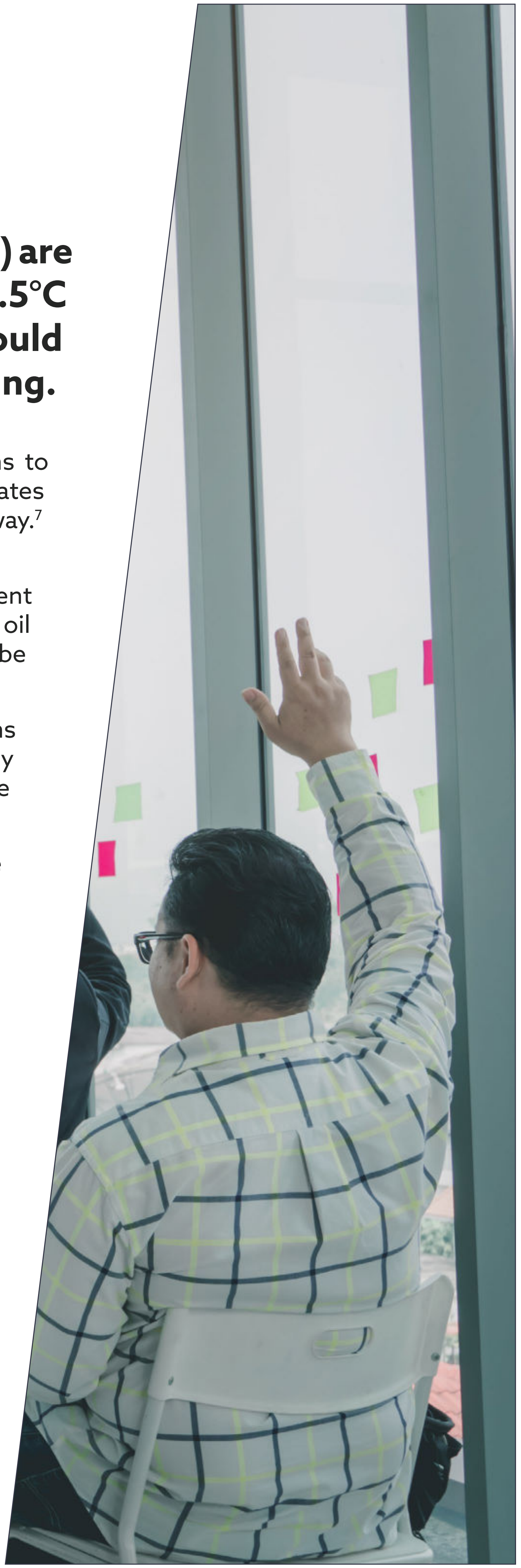
2 Expectations set out in proxy voting policies for climate-related resolutions (Say on Climate and shareholder proposals) are low and unsystematic.

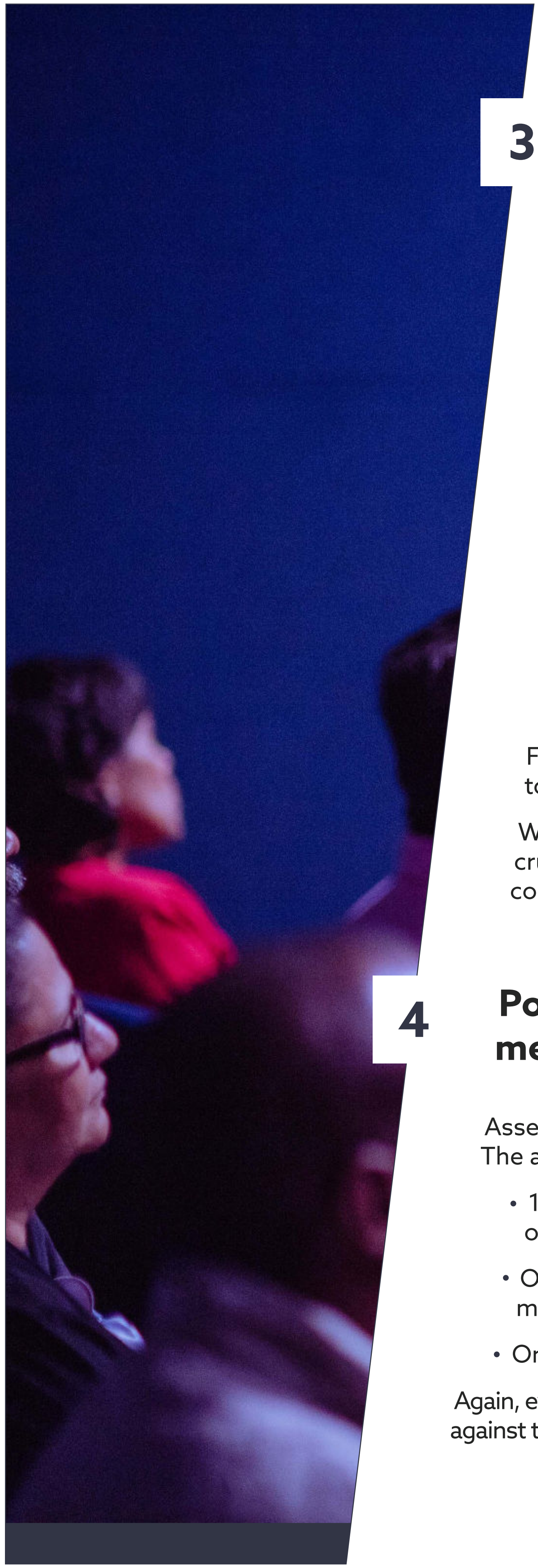
Asset managers' proxy voting policies are insufficient to encourage companies to align themselves with a pathway aimed at limiting global warming to 1.5°C. They include too few robust climate-related criteria and give priority to disclosure indicators over concrete climate action.

The analysis shows that:

- Only 7 asset managers expect companies to align with a 1.5°C scenario;
- Only 2 asset managers expect companies to end fossil fuel expansion plans.

Additionally, compliance with those climate-related criteria does not automatically determine voting decisions, which are mostly made on a case-by-case basis.





3 Through management-proposed votes, asset managers give their endorsement to the governance and the global strategies of climate-hostile companies.

Given that routine management-proposed votes directly target a company's core governance and strategy, it is essential that asset managers take advantage of them to make climate action the strategic priority of investee companies. Yet, to date, asset managers rarely seize the opportunity of these votes to oppose activities incompatible with a 1.5°C pathway. In other words, they do not use every possible engagement lever available to encourage companies to transition away from fossil fuels.

The analysis reveals that:

- The asset managers assessed supported 78% of resolutions on the re-election of directors on average. Also 19 asset managers supported more than 70% of re-elections of directors of fossil fuel companies, even though these board members are accountable for the development and implementation of climate-hostile strategies.[9]
- 15 supported more than 70% of proposals on remuneration of top management and directors in these companies, rewarding leaders who contribute to global warming.[10]
- 22 supported more than 70% of companies' financial accounts, despite a high risk of stranded assets.[11]

Furthermore, when voting against management-proposed resolutions, asset managers rarely publish a rationale to justify their voting decisions. This makes it difficult to discern if climate really drives their voting.

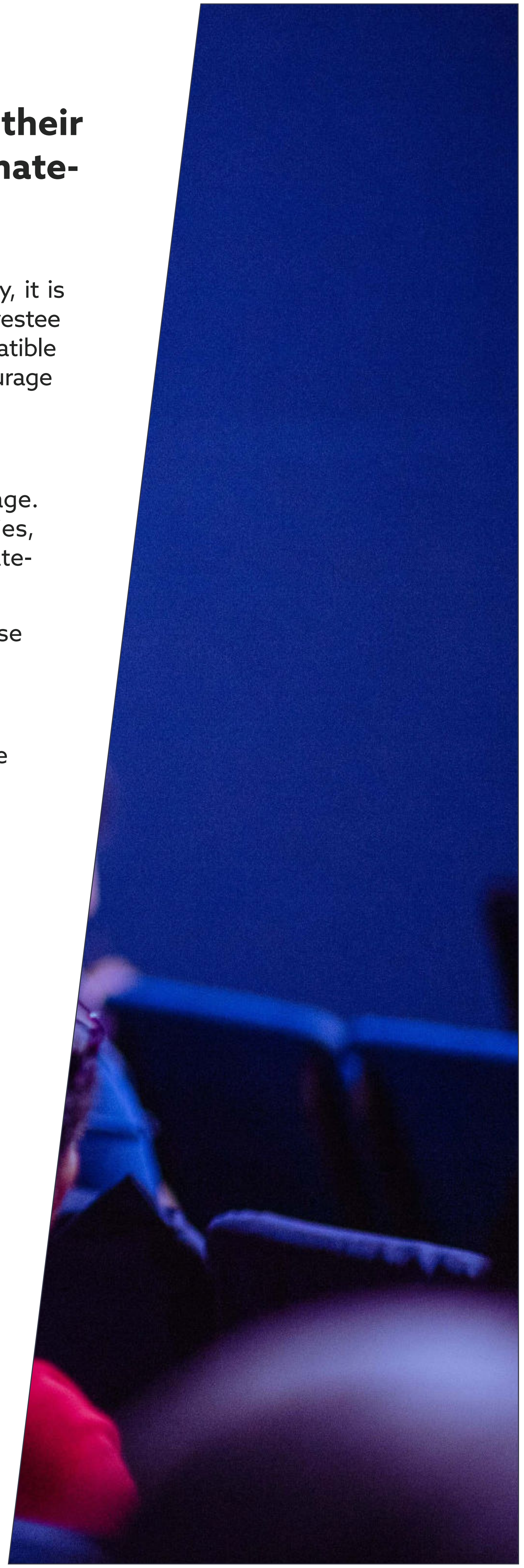
Where no specific climate-related vote is proposed, routine management-proposed votes are all the more crucial. In these cases, asset managers have no other options available to them for expressing their views on a company's climate plan.

4 Policies rarely include climate-related expectations for routine management-proposed resolutions.

Asset managers' proxy voting policies most often do not consider climate in their decisions on routine votes. The analysis indicates that:

- 11 asset managers have no climate-related expectations when voting on the re-election of directors, and others have mostly disclosure-oriented and/or unclear expectations.
- Only 2 asset managers expect all companies to include climate-related criteria in the remuneration of top management.
- Only 3 asset managers expect companies to integrate climate-related risks into financial statements.

Again, even when a climate-related criterion exists, failure to meet the expectation does not systematically lead to a vote against the resolution concerned.



INTRODUCTION

Summer 2023 stood out as the hottest on record[12] and the impacts of climate change are multiplying; climate action to limit global warming cannot be postponed any longer. The time frame for pursuing a 1.5°C pathway is tight, with the upcoming year being of paramount importance, as global greenhouse gas (GHG) emissions must peak by 2025.[13]

Given that most investors resist calls to divest from high-emitting companies by saying that they will engage to change them, they should adopt shareholder engagement practices that are coherent with their own statements on their potential for influence. Voting at AGM is presented by the investment community as a key lever among the shareholder engagement tools available. Effective voting would enable shareholders to influence management practices and corporate strategy, and to send a strong message in the event of the failure of a company's climate plan to align with a science-based scenario.

Yet, the persistent increase in greenhouse gas emissions and the incompleteness of heavy-emitting companies' climate plans[14] calls into question the effectiveness of current climate-related voting. It is therefore necessary to clearly diagnose the current voting policies and practices of asset managers in order to identify the shortcomings in this area. This report aims to carry out this assessment, as well as to make recommendations to asset managers and asset owners on how to adopt truly effective climate-related voting practices.

Since fossil fuel developers are crowning the list of companies responsible for climate disarray, this report focuses on the 2023 voting practices of asset managers at the AGMs of 75 large fossil fuel developers. The climate strategies of these companies remain in total contradiction with the scenarios and conclusions of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) on what is necessary to keep global warming within the 1.5°C target. Despite the persistent calls of the scientific community and international organisations for a reduction in fossil fuel production, current production trends are not headed in the right direction. In fact, 96% of upstream oil and gas companies are still exploring or developing new oil and gas fields, and 577 companies are continuing to develop new coals assets.[15]

1. SAY ON CLIMATE RESOLUTIONS

A Say on Climate resolution invites shareholders to vote on a company's climate strategy or its implementation. It allows investors to express their opinion on the completeness, credibility and quality of a company's climate plan.

How to vote for impactful climate action on Say on Climate resolutions

The Principles for Responsible Investment (PRI) clearly state that: *"When facing a transition plan vote, investors should carefully assess plans put forward by management and properly address unclear or insufficient ones, in view of the risks and potential negative unintended consequences of approving a transition plan that is unclear, unambitious or simply unfit to limit global warming to 1.5°C."*[16]

To ensure these votes are effective, asset managers should support Say on Climate resolutions only if:

- The company has published **a comprehensive climate strategy** that discloses key information enabling shareholders to evaluate its alignment with a 1.5°C scenario with low or no overshoot and a limited volume of negative greenhouse gas emissions.[17]
- The company's climate strategy itself is also **aligned with a 1.5°C scenario** with low or no overshoot and a limited volume of negative greenhouse gas emissions, and **key transition milestones are respected, such as the immediate end to fossil fuel expansion.**

Asset managers should commit to automatically oppose such resolutions in their proxy voting policies if the above-mentioned expectations are not met, regardless of the specific situation of any given company and the ongoing engagement with the company. As the Net-Zero Asset Owner Alliance (NZAOA) says: "*Proxy voting policies and supporting documents [...] include a commitment to Climate Votes being evaluated based on merit of the proposal and not current status of engagement or other management considerations.*"[18]

All the companies analysed in this report are fossil fuel developers. Since their expansion plans are de facto incompatible with a 1.5°C pathway, asset managers should systematically vote against their climate strategies. By not doing so, they risk aiding fossil fuel companies in exacerbating climate disarray.

Moreover, when voting for climate-hostile plans, asset managers are breaching their fiduciary duty, by prioritizing short-term financial gains over long-term sustainable investments. This shortsighted approach not only jeopardizes the well-being of future generations but also exposes portfolios to significant climate-related risks. As such, voting in favour of fossil fuel developers' Say on Climate proposals amounts to compromising the overall stability of client portfolios.

a. Assessment of proxy voting policies

We analysed the proxy voting policies of the 30 asset managers in this report to understand which criteria were taken into consideration when assessing climate plans and voting decisions for Say on Climate resolutions.

Our results found that only a minority of asset managers have robust public expectations regarding the information that should be disclosed in a comprehensive climate plan.

- **The expectations set out are mostly disclosure-oriented and do not focus on the climate action that companies should be prioritising:** 7 asset managers (23%) expect companies to align with a 1.5°C pathway. Only 2 asset managers (Legal and General Investment Management (LGIM) and Ostrum AM) expect companies to end fossil fuel expansion plans, showing it is possible to set out impactful action-oriented expectations.[19]
- **Only 4 of the asset managers assessed (LGIM, Aviva Investors, AXA Investment Managers and Amundi) expect companies to disclose short- and medium-term emissions reduction targets (covering all scopes), short- and medium-term capital expenditure, and the baseline scenario used to set these targets,** despite these criteria being part of the basic information to be included in a comprehensive climate strategy.
- **On climate disclosure itself, asset managers often have low expectations,** such as compliance of company reporting with the Task Force on Climate-Related Financial Disclosures (TCFD) standards. 18 asset managers (60%) set out this criterion as an expectation for their Say on Climate voting decision, even though the disclosure of a TCFD-aligned report does not prevent the company from developing activities incompatible with a 1.5°C pathway.

Disclosure-related expectations can help improve the quality and the quantity of the information published by engaged companies, but they are highly insufficient to ensure the alignment of a climate strategy with science-based scenarios. The NZAOA warns that "*focused and in-depth engagements on disclosure with each company in a market or portfolio can be an inefficient use of limited investor stewardship resources.*"[20]

Moreover, the analysis revealed that – even when expectations on Say on Climate proposals are specifically disclosed – asset managers failed to commit to vote against Say on Climate resolutions when companies did not comply with expectations. Only one asset manager (LGIM) partially links compliance with the criteria outlined above with its voting decisions on such proposals. All the other 29 asset managers still do not have systematic criteria for voting on Say on Climate resolutions.

Figure 1: Asset managers expecting companies to align with a science-based 1.5°C scenario when voting on Say on Climate proposals

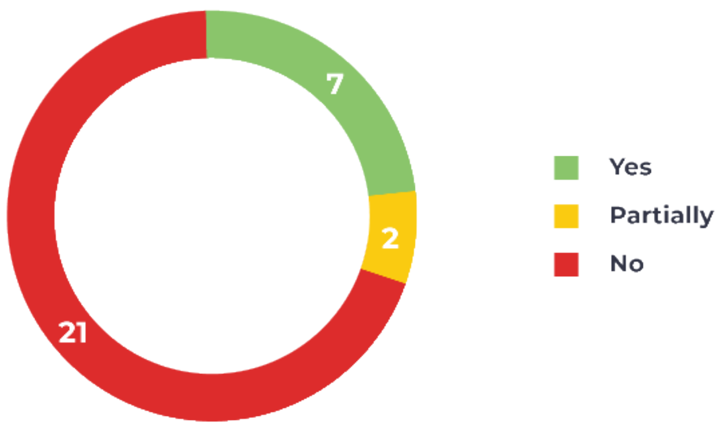


Table 1 - Assessment of proxy voting policies for Say on Climate resolutions

Asset manager	Public expectation that companies should disclose short- and medium-term GHG emissions reduction targets for all scopes	Public expectation that companies should disclose short- and medium-term capital expenditure plans	Public expectation that companies should disclose the baseline scenario used to set climate targets	Public expectation that companies should align with a 1.5°C scenario	Public expectation that companies should end fossil fuel expansion plans	Commitment to systematically vote against the resolution if companies fail to comply with any of the expectations
abrdn	✗	✗	✗	✗	✗	✗
Aegon AM	✗	✗	✗	✗	✗	✗
Allianz Global Investors	≈	✗	✗	✗	✗	✗
Amundi	✓	✓	✓	✗	✗	✗
APG AM	✗	✗	✗	✗	✗	✗
Aviva Investors	✓	✓	✓	✓	✗	✗
AXA Investment Managers	✓	✓	✓	✗	✗	✗
Baillie Gifford	✗	✗	✗	✗	✗	✗
BlackRock	≈	✗	✗	✗	✗	✗
BNP Paribas AM	≈	✗	✓	✓	✗	✗
Credit Suisse AM	✗	✗	✗	✗	✗	✗
DWS	✓	≈	✗	≈	✗	✗
Eurizon AM	≈	✗	✓	✓	✗	✗
Fidelity International	✗	✗	✓	✓	✗	✗
GIAM	✓	≈	✓	✓	✗	✗
HSBC AM	✗	✗	✗	✗	✗	✗
Insight Investment	✗	✗	✗	✗	✗	✗
Invesco	✗	✗	✗	✗	✗	✗
JP Morgan AM	✗	✗	✗	✗	✗	✗
LGIM	✓	✓	✓	✓	✓	≈
Loomis Sayles	✗	✗	✗	✗	✗	✗
M&G Investments	≈	≈	✗	≈	✗	✗
Nordea AM	✗	✗	✗	✗	✗	✗
Ostrum AM	✓	≈	≈	✗	✓	✗
PIMCO	✗	✗	✗	✗	✗	✗
Schroders	✓	≈	✓	✓	✗	✗
State Street Global Investors	≈	✓	✗	✗	✗	✗
UBS AM	≈	✗	✗	✗	✗	✗
Union Investment	✓	✗	✗	✗	✗	✗
Vanguard	✗	✗	✗	✗	✗	✗

b. Assessment of 2023 proxy voting records

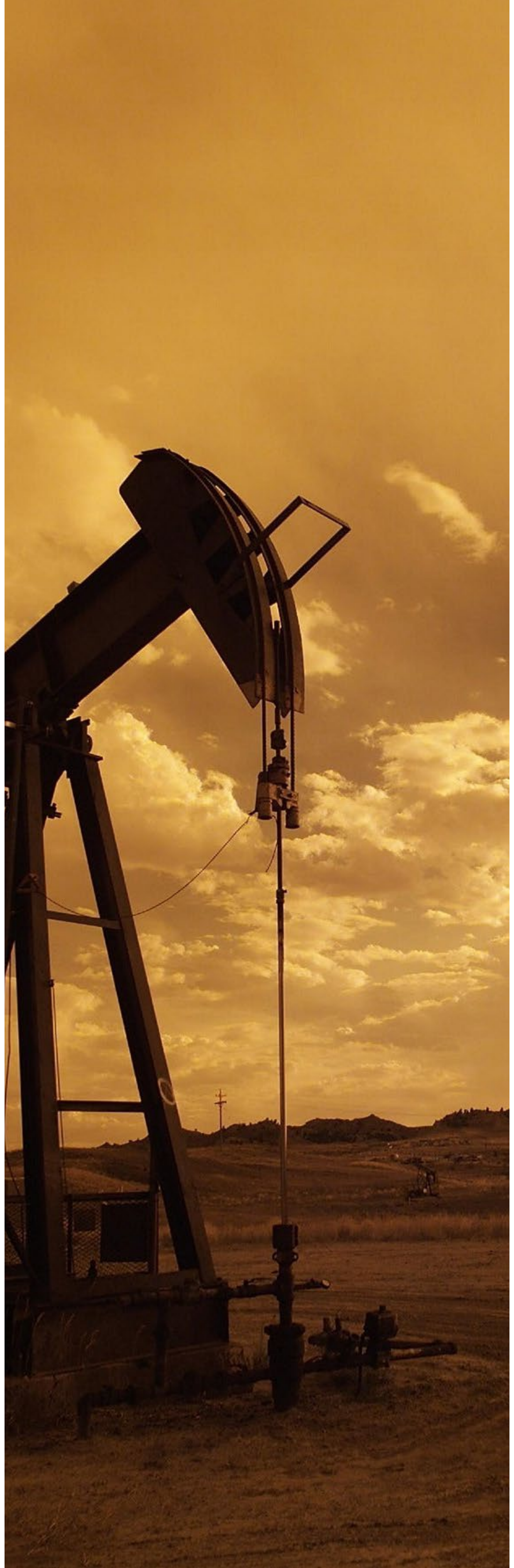
In 2023, only two of the biggest fossil fuel developers submitted a climate strategy to shareholder vote: TotalEnergies and Shell. This practice therefore remains very rare and must be encouraged by asset managers.

The climate plans from TotalEnergies and Shell lack granularity, however, and neither is aligned with a 1.5°C scenario with low or no overshoot and a limited volume of negative greenhouse gas emissions. Considering their respective oil and gas production targets, TotalEnergies' production in 2030 will be more than 40% higher than the level required to align with the IEA's 1.5°C-aligned NZE by 2050 scenario, while Shell's will be 35% higher.[21]

And yet, in line with the poor proxy voting guidelines already shown, the asset managers in this report gave massive support to the Say on Climate proposals put forward by both TotalEnergies and Shell. They sometimes justify this decision by wanting to reward the organization of a Say on Climate, and are therefore not voting on the basis of the climate plans' quality. **Through these votes, they make themselves complicit in their responsibility for global warming:**

- **Only 3 asset managers opposed both resolutions (LGIM, Nordea AM and Ostrum AM),** 11 supported both resolutions, and 9 supported one of the two.
- A further 3 asset managers abstained on at least one of the two Say on Climate resolutions (abrdn, DWS and GIAM). Abstention cannot be seen as a sign of support for a company, but it sends a confusing message and fails to clearly highlight the shortcomings of a climate plan.

As a result, TotalEnergies' climate strategy was approved by 88.76% of its shareholders (compared to 88.89% in 2022), and Shell's was supported by 80.01% of its shareholders (compared to 79.91% in 2022).



Asset managers approving the inadequate climate plans from TotalEnergies and Shell[22]

	TotalEnergies	Shell
Votes for	Aegon AM - Allianz Global Investors - Amundi - Aviva Investors - AXA Investment Managers - BlackRock - BNP Paribas AM - Eurizon AM - Fidelity International - HSBC AM - Invesco - JP Morgan AM - M&G Investments - State Street Global Advisors - UBS AM - Union Investment - Vanguard	Allianz Global Investors - Aviva Investors - BlackRock - DWS - Fidelity International - HSBC AM - Invesco - JP Morgan AM - M&G Investments - Schroders - State Street Global Advisors - Union Investment - Vanguard
Votes against	APG AM - Credit Suisse AM - LGIM - Nordea AM - Ostrum AM	Aegon AM - Amundi - AXA Investment Managers - Credit Suisse AM - Eurizon AM - LGIM - Nordea AM - Ostrum AM - UBS AM
Abstentions	abdrn - DWS - GIAM	abrdn
Split votes[23]	Schroders (For, Did Not Vote)	BNP Paribas AM (For, Abstain) - Insight Investment (For, Abstain)

2. CLIMATE-RELATED SHAREHOLDER RESOLUTIONS

Climate-related shareholder resolutions are proposals tabled by a group of shareholders that ask for more climate disclosure or action. They can be advisory or binding, depending on the legal context and the intentions of the investors filing the resolution.

How to vote for impactful climate action on shareholder resolutions

At a time of climate emergency, **it is crucial that investors vote in favour of all shareholder resolutions that contribute to improving a company's climate transparency and alignment with a science-based 1.5°C scenario,** and explicitly commit to support these resolutions in the future.

Supporting climate-related shareholder proposals sends a strong signal to a company that its climate ambition is insufficient, and therefore could be a key lever of climate-related shareholder engagement. The Principles for Responsible Investment (PRI) supports this view, stating that *"when utilised effectively, voting on shareholder resolutions can strengthen engagement"; specifically, it can "express [a wider set of shareholder views on that call to action] in a numerical form that resists mischaracterisation by companies, shareholders or commentators, and provides clarity to clients and beneficiaries."*[24]

a. Assessment of proxy voting policies

The proxy voting policies of the 30 asset managers in this report were analysed to understand which criteria were taken into consideration when making voting decisions for climate-related shareholder proposals.

Our assessment shows that most asset managers (73%) indicate support for shareholder proposals that ask for more climate disclosure. However, the type of disclosure supported varies greatly from one asset manager to another. Some do not specify the type of information expected, while others expect comprehensive TCFD reporting, and others expect specific elements to be published in company climate plans.

Unfortunately, support for resolutions asking for greater climate ambition or alignment with science-based 1.5°C scenarios is much rarer, even though these resolutions target real and impactful climate action:

- 10 asset managers (33%) theoretically and unambiguously support shareholder resolutions asking for alignment with the goals of the Paris Agreement, which are to "substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2°C while pursuing efforts to limit the increase even further to 1.5°C".
- 5 asset managers (17%) theoretically and unambiguously support shareholder resolutions asking for alignment with a science-based 1.5°C scenario.
- None of the 30 asset managers in this report indicate that they support shareholder proposals asking for the end of fossil fuel expansion, in addition to the fact that very few engage fossil fuel companies on this expectation.[25]

Table 2 - Assessment of proxy voting policies for climate-related shareholder resolutions

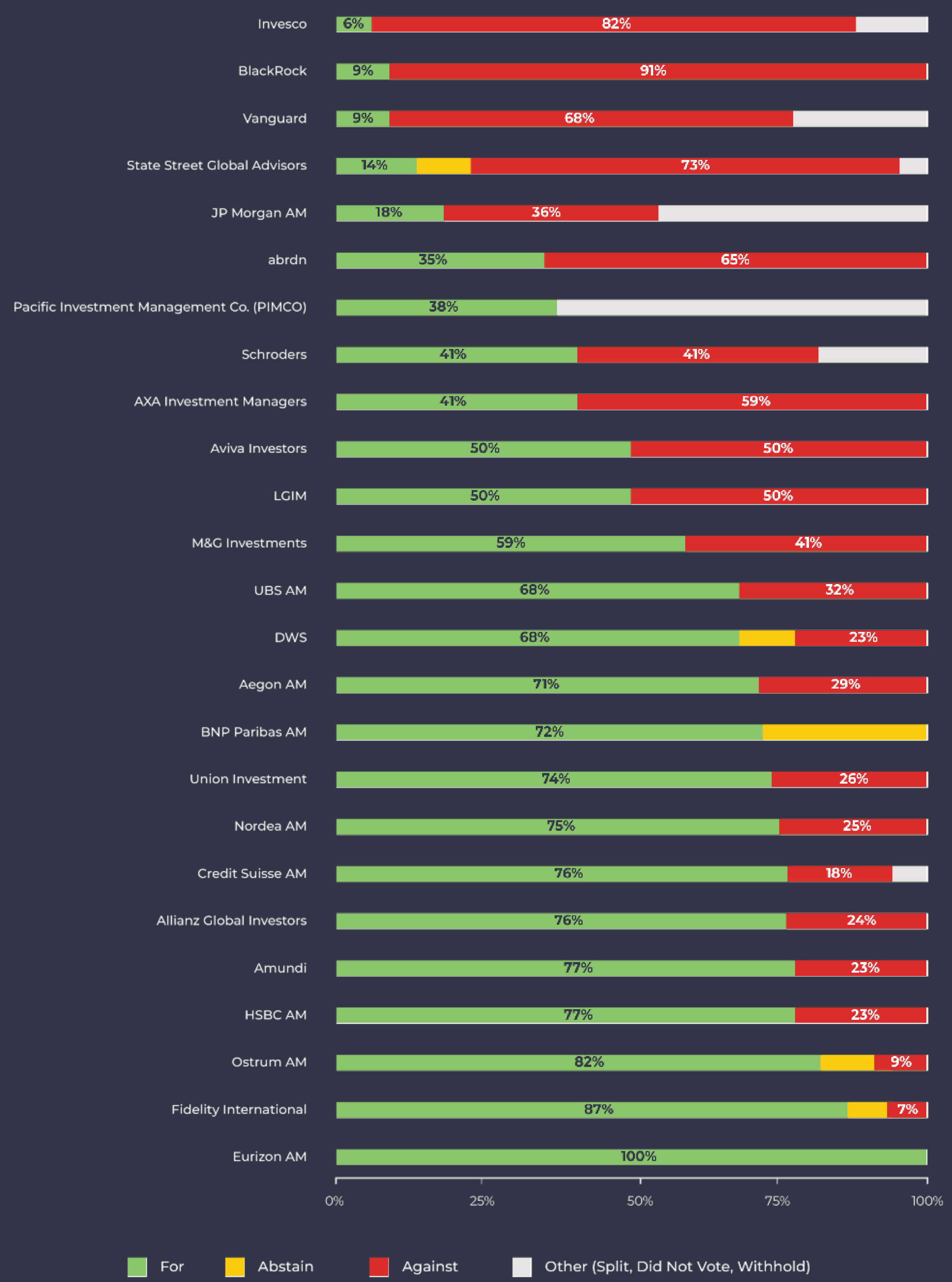
Asset manager	Support for resolutions asking for more climate-related disclosure	Support for resolutions asking for the end of fossil fuel expansion	Support for resolutions asking for the alignment of a company's climate plan with a 1.5°C pathway
abrdn	✓	✗	✗
Aegon AM	✗	✗	✗
Allianz Global Investors	✓	✗	✗
Amundi	✓	✗	✗
APG AM	=	✗	✗
Aviva Investors	✓	✗	✓
AXA Investment Managers	✓	✗	✗
Baillie Gifford	✗	✗	✗
BlackRock	✗	✗	✗
BNP Paribas AM	✓	✗	✓
Credit Suisse AM	✗	✗	✗
DWS	✓	✗	=
Eurizon AM	✓	✗	✓
Fidelity International	✓	✗	✗
GIAM	✓	✗	✗
HSBC AM	✓	✗	✗
Insight Investment	✗	✗	✗
Invesco	✓	✗	✗
JP Morgan AM	✓	✗	✗
LGIM	✓	=	✗
Loomis Sayles	✓	✗	✗
M&G Investments	✓	✗	✗
Nordea AM	✓	✗	✗
Ostrum AM	✓	✗	✗
PIMCO	✗	✗	✗
Schroders	✓	✗	✓
State Street Global Advisors	✓	✗	✗
UBS AM	✓	✗	✓
Union Investment	✓	✗	✗
Vanguard	✗	✗	✗

b. Assessment of proxy voting records

In 2023, only 22 climate-related shareholder resolutions were filed at 11 companies among the fossil fuel developers assessed in this report.[26] Consequently, 64 fossil fuel developers, representing 85% of the companies assessed, did not have a specific climate-related vote on the agenda of their AGM. The low number of climate-related shareholder resolutions among these high-emitting companies is a clear indication of the low level of climate-related shareholder engagement undertaken by asset managers, despite claims to the contrary.

The proposals that were filed in 2023 did not amass a lot of support. The asset managers assessed in this report showed an average support to climate-related shareholder resolutions of 55%, and a single asset manager alone (Eurizon AM) voted in favour of them all. The asset managers that voted least in favour of climate-related shareholder proposals are Invesco (only one proposal supported out of 17 votes), BlackRock and Vanguard (only two proposals supported out of 22 votes). These three asset managers are among those with the least ambitious voting policies for climate-related shareholder proposals, demonstrating the need for robust policies for effective practices.

Figure 2: Breakdown of votes for the climate-related shareholder resolutions of 11 fossil fuel developers at their respective 2023 AGM



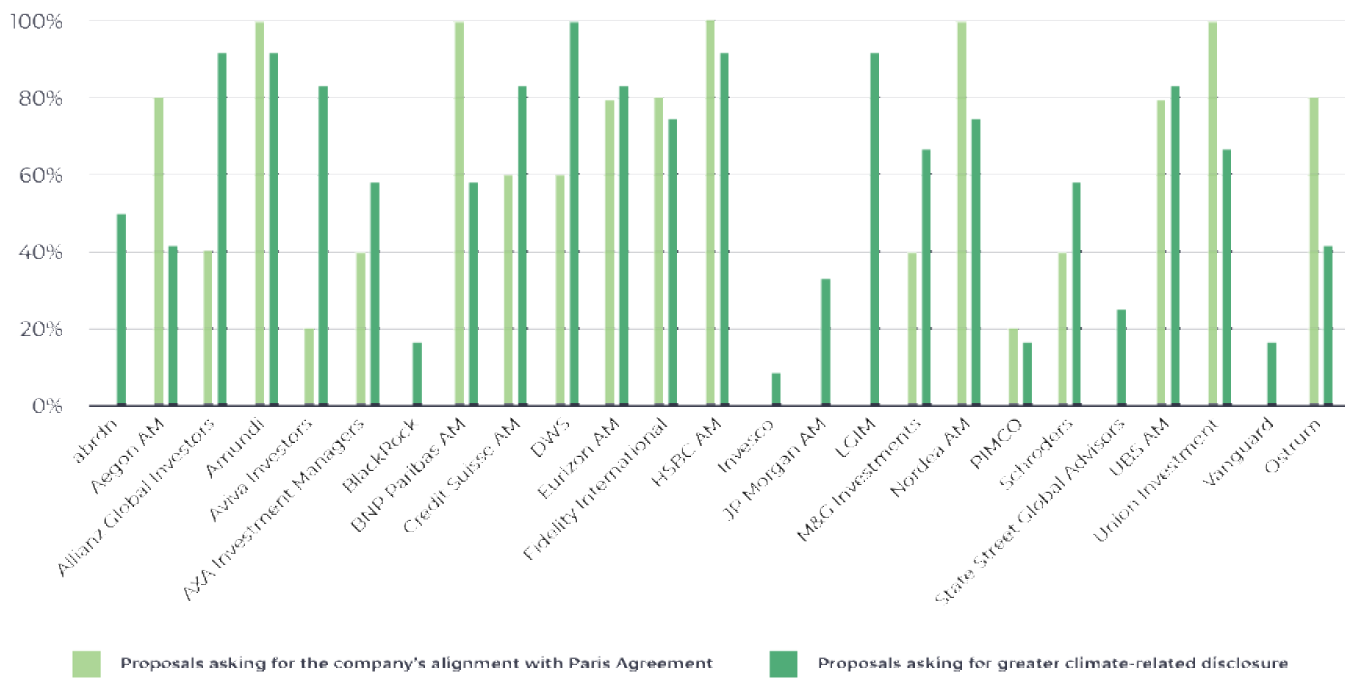
Data source: Diligent Market Intelligence.[27]

In line with our observations on proxy voting policies, asset managers tend to be more supportive of proposals calling for greater climate transparency, rather than those asking for alignment with the Paris Agreement or a 1.5°C pathway. On average, they approved 60% of disclosure-oriented proposals versus 49% of alignment-oriented proposals. Moreover, **only two of 2023's climate-related shareholder resolutions were approved by a majority of shareholders overall, representing just 9% of the year's proposals. Both of them asked for more disclosure.**[28]

Several asset managers have shown inconsistencies in their climate voting practices, displaying mixed positioning on the climate expectations of companies:

- 14 asset managers[29] cast different votes on an identical resolution under the coordination of the NGO Follow This that was submitted to five oil and gas companies (BP, Shell, ExxonMobil, Chevron and TotalEnergies).
- 7 asset managers[30] supported TotalEnergies' Say on Climate resolution, thus approving its climate plan, while also approving a climate-related shareholder proposal calling on the company to align its decarbonisation targets with the Paris Agreement.

Figure 3: Support rates per type of climate-related shareholder proposals, at the 2023 AGMs of 11 fossil fuel developers



Data source: Diligent Market Intelligence.[31][32]

Inconsistent voting positions at TotalEnergies' AGM

Seven asset managers supported TotalEnergies' Say on Climate resolution while supporting the climate-related shareholder proposal calling for greater climate ambition.

AEGON Asset Management

Amundi Asset Management

BNP Paribas Asset Management

Eurizon Asset Management

HSBC Asset Management

UBS Asset Magement

Union Investment

3. RE-ELECTION OF BOARD MEMBERS

Re-appointments of directors are routine items on which shareholders are regularly consulted at AGMs. Since board members are responsible for the development and the implementation of a company's strategy, they should be held accountable if this strategy fails to properly integrate climate issues.

How to vote for impactful climate action on re-election of board members

When making voting decisions regarding the re-election of board members, asset managers should clearly indicate in their proxy voting policies the climate-related criteria they consider. As stated by the NZAOA: *"Published voting materials explain how asset manager incorporates climate considerations into voting decisions beyond climate-specific shareholder proposals. Examples include: When directors have not made sufficient progress planning for and managing climate-related risks".*[33]

Board members are responsible for the development and implementation of a company's strategy. As such, **directors must ensure that a climate strategy is defined using a publicly disclosed, science-based 1.5°C scenario with low or no overshoot and a limited volume of negative greenhouse gas emissions,** and that it is well implemented in order to meet its climate objectives. Under these conditions, **board members should be held directly accountable if the company fails to provide sufficient disclosure on its climate strategy, or if it does not aim to align with a 1.5°C scenario**.

Consequently, asset managers should vote in favour of resolutions on the re-election of board members only if:

- The company has published **a comprehensive climate strategy** that discloses key information and enables shareholders to evaluate its alignment with a 1.5°C scenario with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company also respects **key transition milestones, such as the immediate end to fossil fuel expansion.**

a. Assessment of proxy voting policies

We analysed the proxy voting policies of the 30 asset managers in this report to understand which criteria were taken into consideration when making voting decisions on the approval of the re-appointment of board members.

Our findings show that asset managers have very low climate-related expectations when voting on the re-election of board members:

- **11 asset managers (37%) have no climate-related expectations related to these voting decisions.**
- **Among those who do have climate-related expectations, many are unclear.** For instance, Amundi indicates that it will vote against the re-election of the chairman and of some directors for "*a selection of companies with poor climate strategy while they operate in sectors for which transition is paramount for the alignment with the Paris Agreement*". UBS AM states that it may vote against the chairman when "*sufficient progress has not been made*". In both cases, it is not disclosed what is meant by these vague statements (in italics), leaving the door open for interpretation and avoidance of impactful voting decisions.
- **Only a minority of asset managers have robust disclosure-related expectations related to climate plans when voting on the re-appointment of directors.** For example, only 2 asset managers (AXA Investment Managers, and LGIM) expect all companies to disclose short- and medium-term capital expenditure plans.
- **Few asset managers consider action-oriented criteria when voting on the re-appointment of board members.** Only 3 asset managers (BNP Paribas AM, Fidelity International and Schroders) expect companies to align with a 1.5°C scenario, and only 2 asset managers (Ostrum AM and LGIM) expect companies to end fossil fuel expansion plans.
- **Governance-related climate criteria are used by some asset managers in their voting decisions on directors.** For instance, 4 asset managers (AXA Investment Managers, DWS, LGIM and Vanguard) publicly expect companies to have one or several directors with climate-related expertise within the board.

However, as for Say on Climate resolutions, even when climate-related expectations are disclosed for the re-election of directors, asset managers have failed to commit to vote against the corresponding resolution when companies do not comply with these expectations. Only 5 asset managers (Aviva Investors, BNP Paribas AM, Fidelity International, LGIM and Ostrum AM) partially link compliance with the above-mentioned criteria to their voting decisions on re-election proposals. All the other asset managers in this report still do not have systematic climate-related criteria for re-election resolutions.

Table 3 - Assessment of proxy voting policies for re-election of board members

Asset manager	Public expectation that companies should disclose short- and medium-term GHG emissions reduction targets for all scopes	Public expectation that companies should disclose short- and medium-term capital expenditure plans	Public expectation that companies should disclose the baseline scenario used to set their climate targets	Public expectation that companies should align with a 1.5°C scenario	Public expectation that companies should end fossil fuel expansion plans	Public expectation that companies should have a director with climate-related expertise within the board	Commitment to systematically vote against the resolution if companies fail to comply with any of the expectations
abrdn	✗	✗	✗	✗	✗	✗	✗
Aegon AM	✗	✗	✗	✗	✗	✗	✗
Allianz Global Investors	=	✗	✗	✗	✗	✗	✗
Amundi	✗	✗	✗	✗	✗	✗	✗
APG AM	✗	✗	✗	✗	✗	=	✗
Aviva Investors	=	✗	✗	✗	✗	✗	=
AXA Investment Managers	✓	✓	✗	✗	✗	✓	✗
Baillie Gifford	✗	✗	✗	✗	✗	✗	✗
BlackRock	✗	✗	✗	✗	✗	✗	✗
BNP Paribas AM	✓	✗	✓	✓	✗	✗	=
Credit Suisse AM	✗	✗	✗	✗	✗	✗	✗
DWS	✓	✗	✗	✗	✗	✓	✗
Eurizon AM	✗	✗	✗	✗	✗	✗	✗
Fidelity International	✗	✗	✓	✓	✗	✗	=
GIAM	✗	✗	✗	✗	✗	✗	✗
HSBC AM	✗	✗	=	✗	✗	✗	✗
Insight Investment	✗	✗	✗	✗	✗	✗	✗
Invesco	✗	✗	✗	✗	✗	✗	✗
JP Morgan AM	✗	✗	✗	✗	✗	✗	✗
LGIM	✓	✓	✗	✗	✓	✓	=
Loomis Sayles	✗	✗	✗	✗	✗	✗	✗
M&G Investments	=	=	✗	=	✗	✗	✗
Nordea AM	✗	✗	✗	✗	✗	✗	✗
Ostrum AM	=	=	=	✗	✓	✗	=
PIMCO	✗	✗	✗	✗	✗	✗	✗
Schroders	✓	=	✓	✓	✗	✗	✗
State Street Global Advisors	✗	✗	✗	✗	✗	✗	✗
UBS AM	✗	✗	✗	✗	✗	✗	✗
Union Investment	✓	✗	✗	✗	✗	✗	✗
Vanguard	✗	✗	✗	✗	✗	✓	✗

b. Assessment of proxy voting records

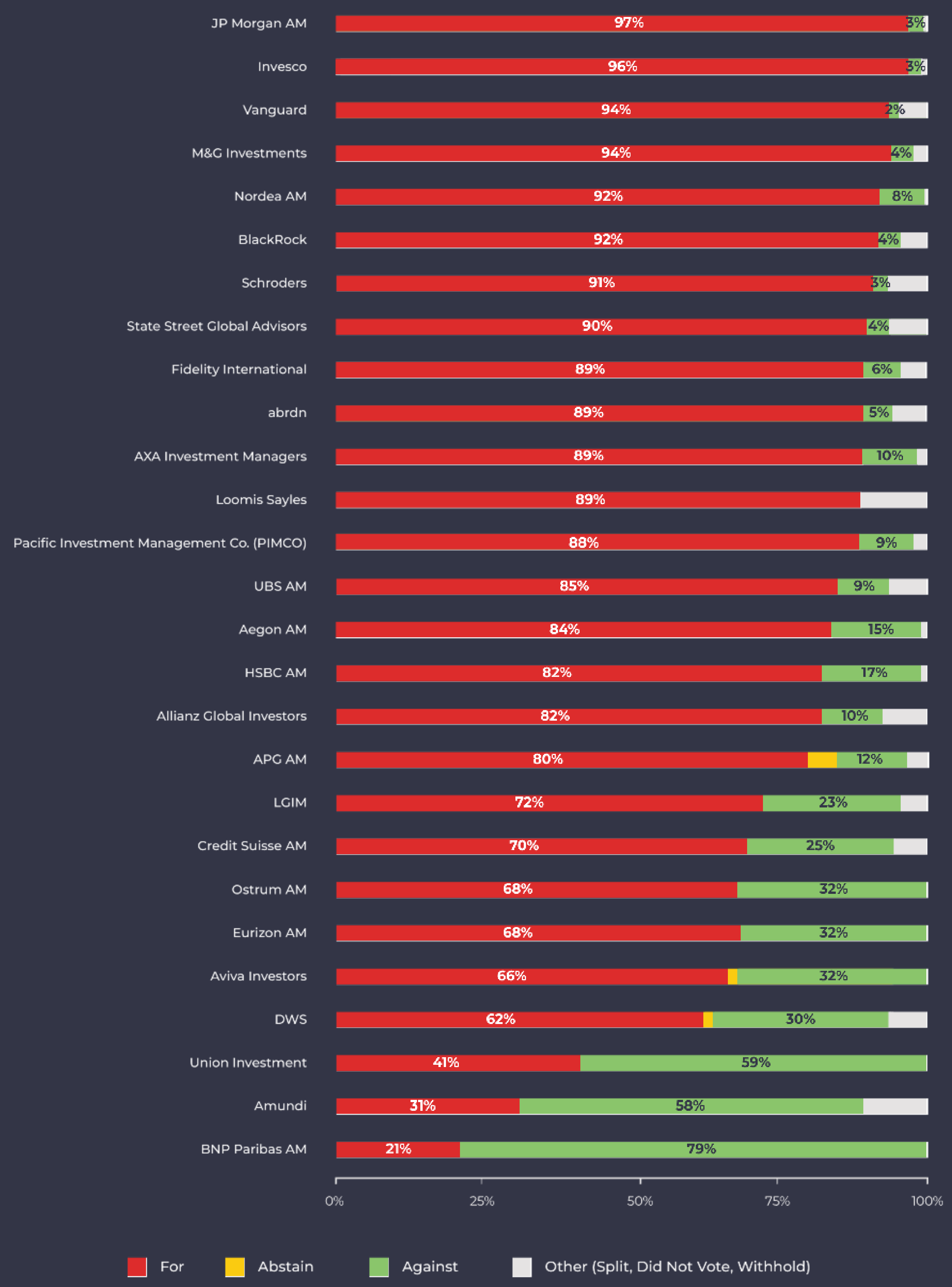
In 2023, the asset managers in this report were very supportive of the re-appointment of board members in companies developing new fossil fuel projects, and did not clearly oppose the climate-hostile strategies they are accountable for:

- **On average, the asset managers supported 78% of resolutions on the re-election of directors.** Through these votes, they bear a huge responsibility for the persistence of fossil fuel expansion strategies by these companies.
- **Some investors did not adopt clear voting positions (for or against), preferring to abstain, to withhold, or not to cast a vote.** For example, APG AM abstained on 5% of these resolutions, State Street Global Advisors did not vote on 5%, and Amundi withheld on 11%. This is a missed opportunity to voice dissent against strategies that are harmful for the climate and to send a strong signal to management.

The three asset managers least supportive of director re-election (BNP Paribas AM, Amundi and Union Investment) still supported a high proportion of re-appointments among fossil fuel developers overall, especially in European-based companies. For instance, all three voted in favour of all director re-appointments at TotalEnergies and Shell, which are respectively the 7th and 12th biggest oil and gas upstream developers.[35] This shows real inconsistency in the voting of asset managers in relation to fossil fuel developers.

> ***A number of papers find that shareholder votes against the (re-) election of directors can prompt company-level behaviour change.***
>
> *Ellen Quigley,*
> *Principal Research Associate*
> *at the University of Cambridge*

Figure 4: Breakdown of votes on the re-appointment of directors at 75 fossil fuel developers at their respective 2023 AGM, by asset manager.

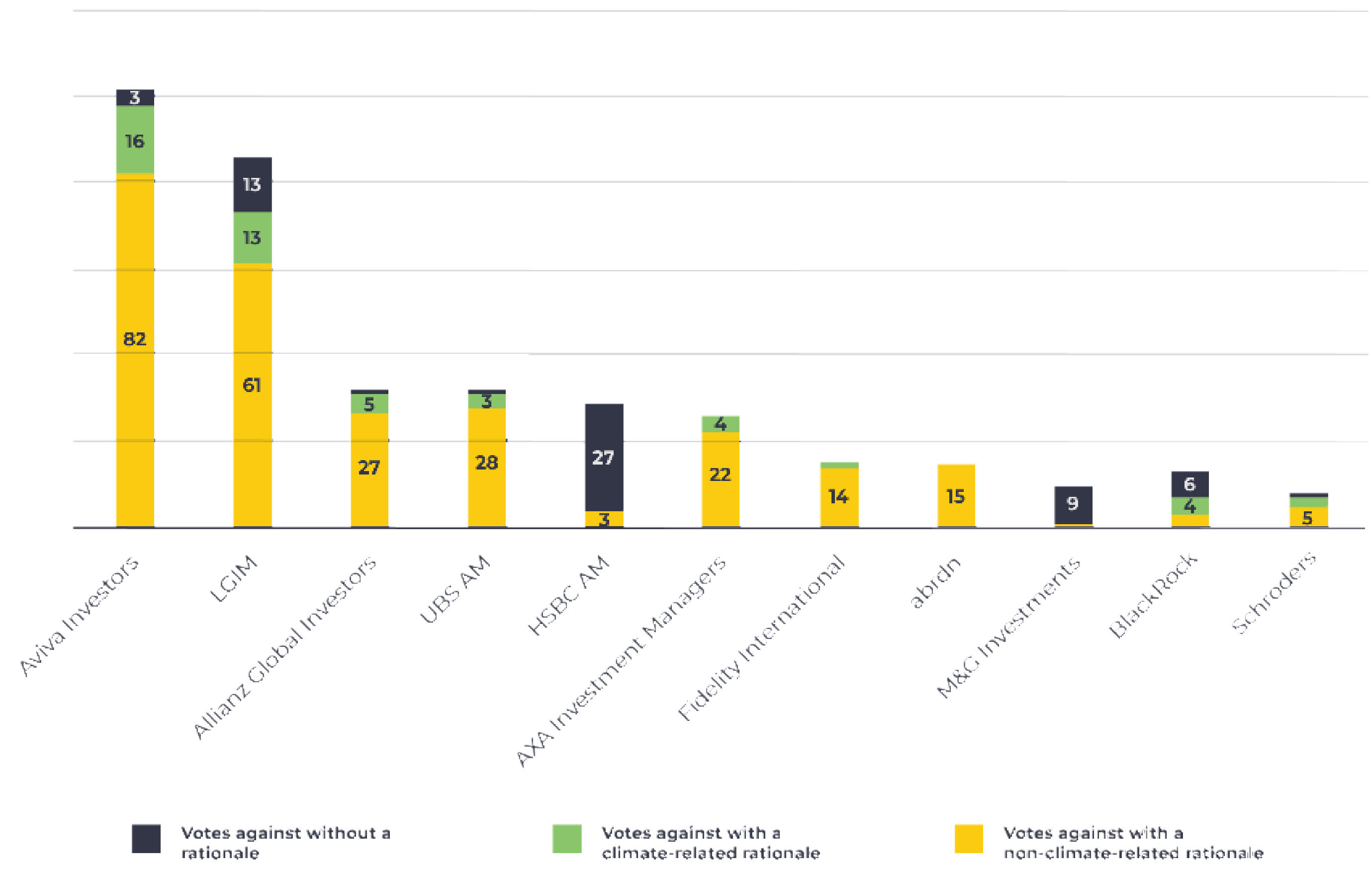


Data source: Diligent Market Intelligence.[34]

With the current information available, it is very difficult to know the extent to which votes against the re-election of directors are decided because of climate-related concerns.

- Asset managers rarely justify their voting decisions. Only 11 asset managers assessed published a rationale for their votes against the re-appointment of board members.
- When asset managers do justify their decisions, climate is not necessarily the main argument put forward. Only 8 asset managers disclosed at least one climate-related rationale,[36] with climate-related rationales representing on average 17% of all those disclosed for these asset managers. Other reasons put forward most often concerned the lack of diversity or independence within the board of directors.

Figure 5: Disclosure of rationales for the re-election of directors at 75 fossil fuel developers at their respective 2023 AGM, by type of resolution and by asset manager with published rationales.



Data source: Diligent Market Intelligence.

4. REMUNERATION

Remuneration of top management and directors is a routine item on which shareholders are frequently consulted at AGMs. Remuneration schemes should encourage companies' managers to adopt an ambitious climate strategy in line with scientific recommendations.

How to vote for impactful climate action on remuneration

Asset managers are expected to clearly indicate in their proxy voting policies the climate-related expectations they consider when making voting decisions on remuneration. The NZAOA recommendations encourage: *"Published voting materials [that] explain how asset manager incorporates climate considerations into voting decisions beyond climate-specific shareholder proposals. Examples include: [...] When executive remuneration insufficiently incentivizes addressing climate risks or opportunities".*[37] In addition, the Institutional Investors Group on Climate Change (IIGCC), an investor-led organisation, highlights as good practice *"vote[s] against remuneration where climate [is] not addressed or using the principle of a 'climate underpin' whereby until a comprehensive net zero strategy has been set the remuneration policy should be considered misaligned with investor interests".*[38]

Effective climate proxy voting policies should sanction remuneration of top management and directors if the company's climate strategy is inadequate or unclear. Consequently, asset managers should vote in favour of resolutions regarding remuneration only if:

- The company includes and discloses **robust quantitative climate-related criteria** in its top management remuneration.
- The company has published **a comprehensive climate strategy** that discloses key information and enables shareholders to evaluate its alignment with a 1.5°C scenario with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company also respects **key transition milestones, such as the immediate end to fossil fuel expansion.**

a. Assessment of proxy voting policies

We analysed the proxy voting policies of the 30 asset managers in this report to understand which criteria were taken into consideration when making voting decisions on the approval of the remuneration of top management.

The analysis revealed that almost no asset manager had specific climate-related criteria when making voting decisions on remuneration:

- **Only 1 asset manager (abrdn) expects all companies to include climate-related criteria in the variable remuneration of their top management, and has expectations regarding the relevance of the criteria used.**[39]
- 6 other asset managers expect some companies to include climate-related criteria in top management remuneration, but this expectation is limited to certain companies, mostly in high-emitting sectors.
- Almost all asset managers have expectations that companies integrate ESG-related criteria into top management remuneration, but they have no specific expectations regarding the inclusion of climate-related criteria.

None of the proxy voting policies assessed in this report included a commitment from asset managers to vote against resolutions regarding remuneration when companies fail to integrate robust climate-criteria in top management remuneration.

Table 4 - Assessment of proxy voting policies for remuneration

Asset manager	Public expectation that companies should include climate-related criteria in the variable remuneration of top management	Public expectation that companies should have robust quantitative climate-related criteria to determine the variable remuneration of top management	Commitment to systematically vote against the resolution if companies fail to comply with any of the expectations
abrdn	✅	✅	❌
Aegon AM	❌	❌	❌
Allianz Global Investors	❌	❌	❌
Amundi	✅	❌	❌
APG AM	❌	❌	❌
Aviva Investors	≃	❌	❌
AXA Investment Managers	≃	≃	❌
Baillie Gifford	❌	❌	❌
BlackRock	❌	❌	❌
BNP Paribas AM	❌	❌	❌
Credit Suisse AM	❌	❌	❌
DWS	❌	❌	❌
Eurizon AM	❌	❌	❌
Fidelity International	❌	❌	❌
GIAM	❌	❌	❌
HSBC AM	≃	❌	❌
Insight Investment	❌	❌	❌
Invesco	❌	❌	❌
JP Morgan AM	❌	❌	❌
LGIM	≃	≃	❌
Loomis Sayles	❌	❌	❌
M&G Investments	≃	❌	❌
Nordea AM	❌	❌	❌
Ostrum AM	≃	❌	❌
PIMCO	❌	❌	❌
Schroders	❌	≃	❌
State Street Global Advisors	❌	❌	❌
UBS AM	❌	❌	❌
Union Investment	❌	❌	❌
Vanguard	❌	❌	❌

b. Assessment of proxy voting records

Overall, asset managers largely supported remuneration of top management and board members in companies developing new fossil fuel projects. On average, they voted in favour of 66% of resolutions regarding remuneration at fossil fuel developers. Instead of using negative voting to show discontent about remuneration schemes, votes were broadly cast to reward leaders that contribute to worsening global warming and whose short-term vision might lead to the company's financial distress in the long-term due to the risk of stranded assets.

Moreover, as anticipated by our proxy voting policy assessment showing a lack of integration of climate into votes on remuneration, voting decisions against remuneration seem rarely to be made based on climate-related concerns.

- As with voting on the re-appointment of directors, it is difficult to understand the reasons behind these votes because asset managers do not often justify their decisions. In our assessment, only 9 asset managers published a rationale for votes against remuneration.
- **When reasons are provided, climate is almost never cited. Just 1asset manager (LGIM) disclosed climate-related rationales for votes against remuneration.** While the only asset manager with robust expectations regarding the integration of climate into the remuneration of top management (abrdn) did not mention climate in its voting justifications. The other rationales put forward most often concern excessive remuneration and the lack of disclosure regarding the criteria considered.

Again, some investors did not adopt clear voting positions (for or against), electing instead to abstain, to withhold, or not to cast a vote. BNP Paribas AM, for example, abstained on 21% of remuneration resolutions.

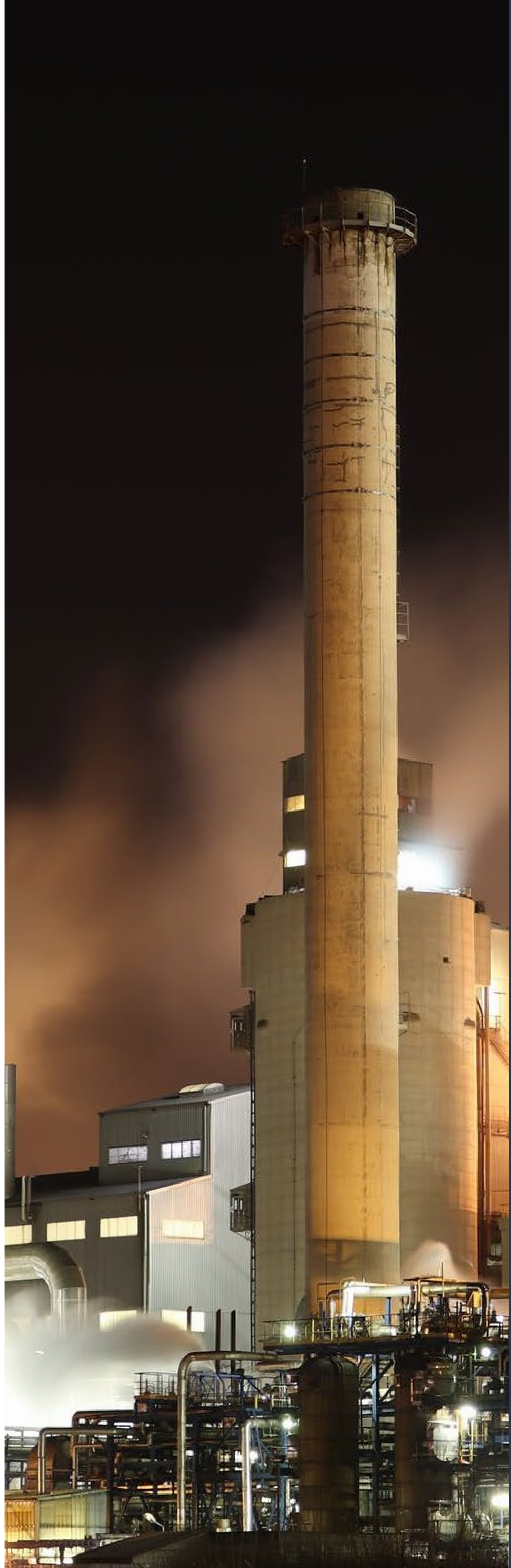
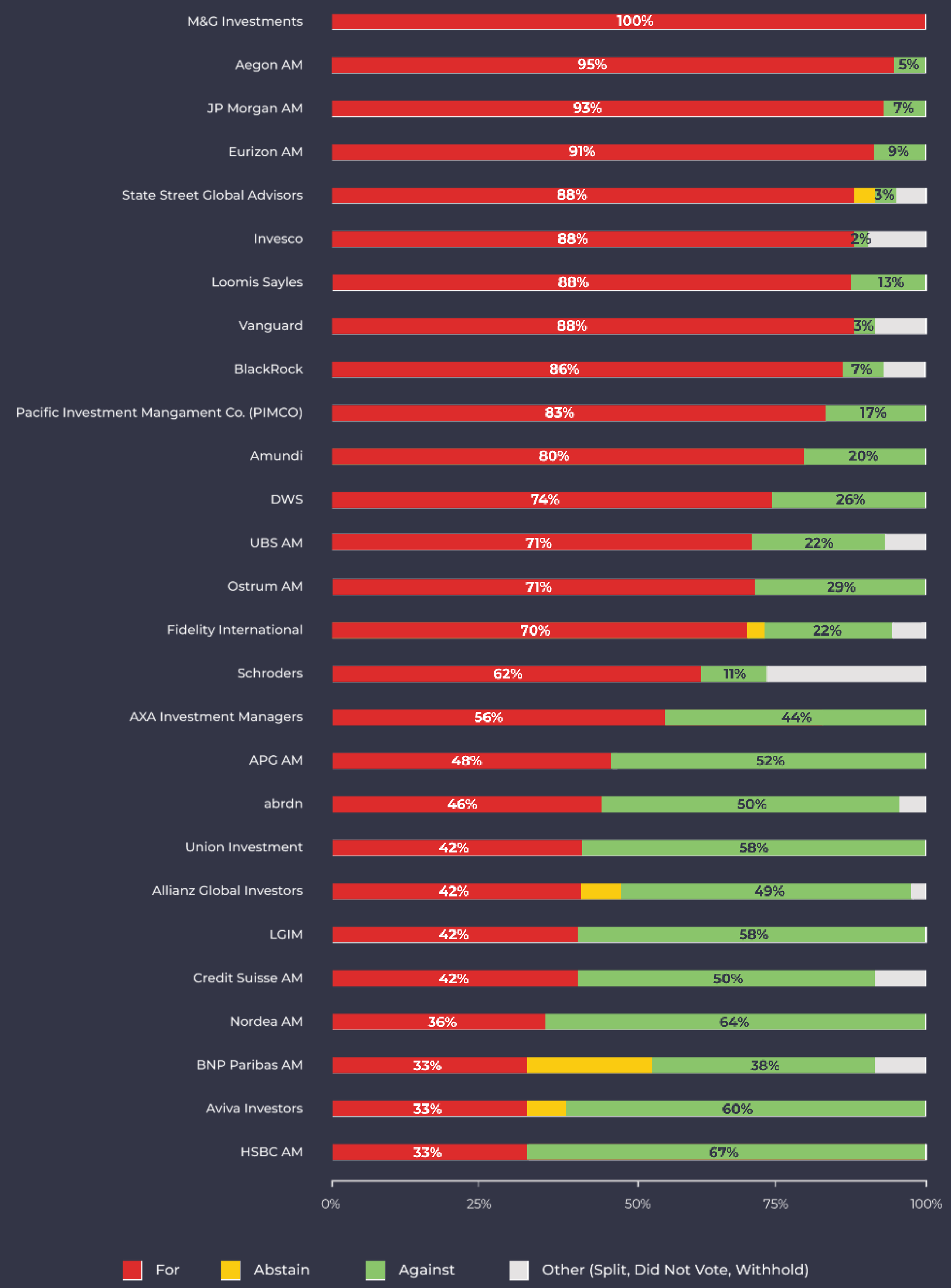


Figure 6: Breakdown of votes regarding remuneration of top management and directors at 75 fossil fuel developers at their respective 2023 AGM, by asset manager.



Data source: Diligent Market Intelligence.[40]

5. FINANCIAL STATEMENTS

Reliable financial statements should integrate climate-related risks, such as physical and transition risks, in order to provide a transparent and accurate depiction of a company's financial health and performance.

How to vote for impactful climate action on financial statements

Reliable financial statements are essential for investors to be able to make relevant investment choices over the long term. They play a crucial role in providing a transparent and accurate depiction of a company's financial health and performance. **As such, financial statements must take into account all the risks to which a company is exposed, including potential material climate change impacts (physical risks) and risks related to global decarbonisation efforts (transition risks).** The International Accounting Standards Board (IASB) points in this direction when it states that climate-related risks may have financial implications on different accounting items, such as asset impairment, useful life of assets or fair valuation of assets.[41]

Any new investment in fossil fuels creates a financial asset with a value based on an economic model incompatible with limiting global warming to 1.5°C. As a result, all fossil assets will suffer losses in value as the transition away from fossil fuels makes progress due to regulatory or market changes, eventually becoming "stranded assets".[42] The IEA has underlined this risk in the context of oil and gas demand, stating: *"If companies and investors misread demand trends amid uncertainty about the future, there is a risk of either market tightening or of over investment leading to underutilised and stranded assets."[43]* Research further suggests that *"fossil fuel reserves will suffer a devaluation of 37%-50%, amounting to $13-$17 trillion", and that"[o]ver half (51%-63%) of the reserve devaluation stems not from fuels left in the ground but from price decreases for fuels that will still be extracted and sold during climate stabilization".[44]*

To this date, most high-emitting companies still fail to integrate climate-related risks in their financial reporting.[45] **Asset managers should vote in favour of resolutions regarding financial statements only if these incorporate material climate-related risks. As such, they should clearly indicate in their proxy voting policies the climate-related expectations they consider when making voting decisions on the approval of financial statements.** The IIGCC highlights as good practice a *"vote against the annual report & accounts where no reference to climate risk is made in the notes on the preparation of the financial statements".[46]*

a. Assessment of proxy voting policies

We analysed the proxy voting policies of the 30 asset managers in this report to understand which criteria were taken into consideration when making voting decisions on the approval of consolidated financial statements.

Our assessment showed that the vast majority of asset managers do not expect companies to integrate climate-related risks into their financial statements.

- **Only 3 asset managers (Aviva Investors, LGIM and Schroders) explicitly disclose this expectation for all companies.**
- 6 additional asset managers partially set out this expectation. For example, Union Investment does not cover all climate-related risks: *"Important sustainability assumptions (e.g. CO2 pricing), which are to be in line with existing climate protection agreements, are to be adequately taken into account in the accounting."[47]*

Moreover, even in the few cases where asset managers expect companies to integrate climate-related risks into financial statements, they do not commit to vote against the corresponding resolutions if companies fail to do so.

Table 5 - Assessment of proxy voting policies for financial statements

Asset manager	Public expectation that companies should integrate climate-related risks in their financial statements	Commitment to systematically vote against the resolution if companies fail to comply with any of the expectations
abrdn	✗	✗
Aegon AM	✗	✗
Allianz Global Investors	✗	✗
Amundi	✗	✗
APG AM	◐	✗
Aviva Investors	✓	✗
AXA Investment Managers	✗	✗
Baillie Gifford	◐	✗
BlackRock	◐	✗
BNP Paribas AM	✗	✗
Credit Suisse AM	✗	✗
DWS	✗	✗
Eurizon AM	✗	✗
Fidelity International	✗	✗
GIAM	✗	✗
HSBC AM	◐	✗
Insight Investment	✗	✗
Invesco	✗	✗
JP Morgan AM	✗	✗
LGIM	✓	✗
Loomis Sayles	✗	✗
M&G Investments	◐	✗
Nordea AM	✗	✗
Ostrum AM	✗	✗
PIMCO	✗	✗
Schroders	✓	✗
State Street Global Advisors	✗	✗
UBS AM	✗	✗
Union Investment	◐	✗
Vanguard	✗	✗

b. Assessment of proxy voting records

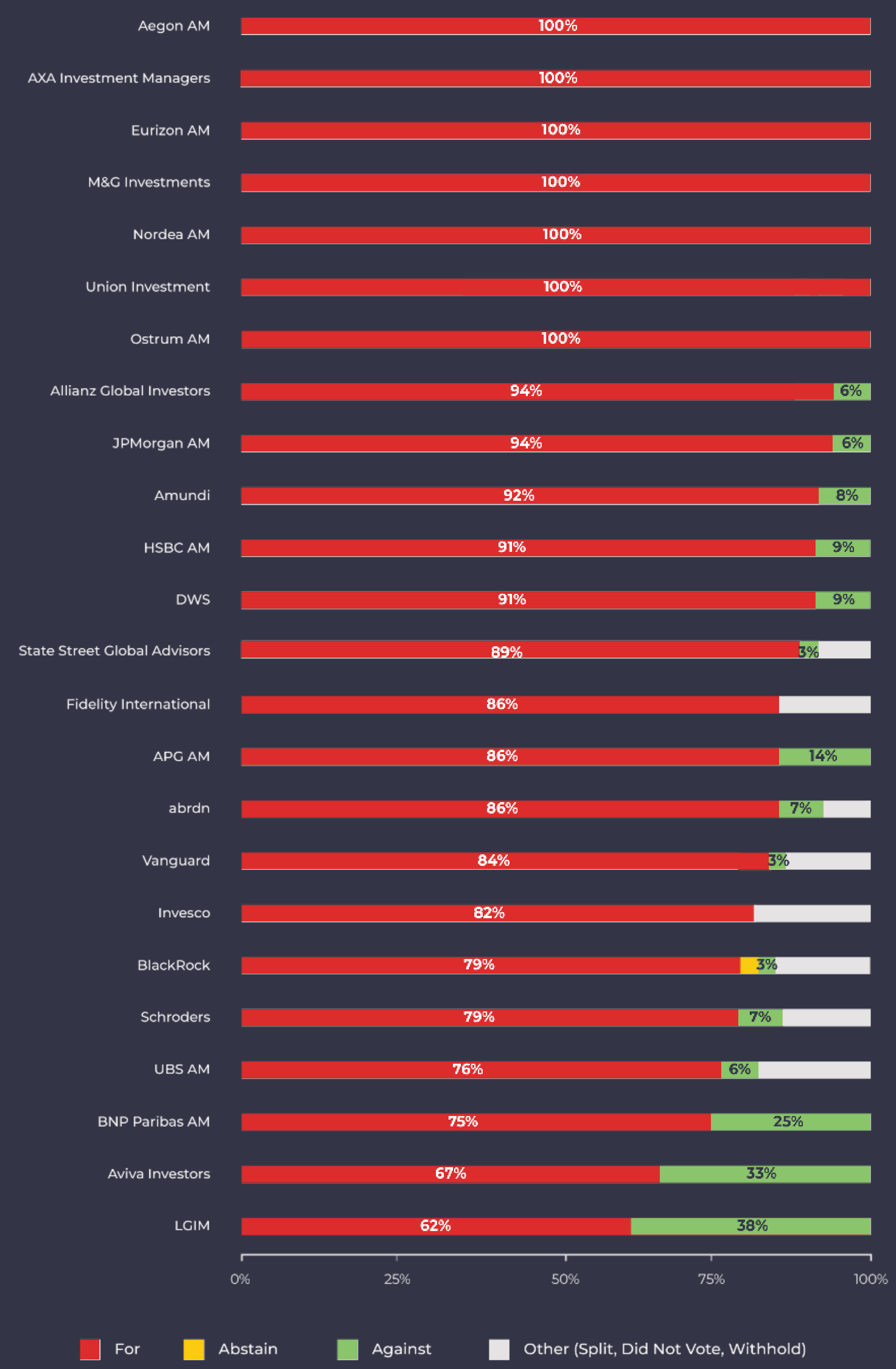
Consistent with their weak proxy voting policies, asset managers overwhelmingly approved the financial statements of companies developing new fossil fuel projects, despite the tremendous risk of stranded assets. On average, the asset managers in this report voted in favour of 88% of the financial statements of fossil fuel developers. By electing to use their votes in this way, asset managers support economic models that are incompatible with a transition to a 1.5°C world, and promote a short-term approach that could potentially place companies in jeopardy in the long run due to the risk of stranded assets.

Even though the non-integration of climate-related risks into accounts leads to a lack of reliability of financial statements, votes against financial statements are hardly ever justified on the grounds of climate-related concerns:

- Overall, asset managers rarely justify their voting decisions. Only 7 of the asset managers assessed in this report published a rationale for their votes against financial statements.
- When they do justify their decisions, climate is almost never mentioned. **Only 1 asset manager (LGIM) disclosed climate-related rationales for votes against financial statements.** The other reasons put forward are most often related to the reliability of the financial statements and concerns raised by auditors.

Again, some investors did not adopt clear voting positions (for or against), preferring to abstain, to withhold, or not to cast a vote. For instance, BlackRock, Fidelity International, Invesco, UBS AM and Vanguard did not cast votes for more than 10% of financial statements resolutions.

Figure 7: Breakdown of votes regarding the financial statements of 75 fossil fuel developers at their respective 2023 AGM, by asset manager.



Data source: Diligent Market Intelligence.[48]

FOCUS: Is the top of the class really voting for climate?

Some asset managers stand out by voting better on certain types of resolutions. For example, LGIM voted against all the Say on Climate proposals analysed in this report, Eurizon AM voted for all the climate-related shareholder resolutions covered, and Amundi and BNP Paribas AM were the best performers when it came to voting against the re-election of directors.

We looked at the details of the votes of these four asset managers for three key oil and gas developers (TotalEnergies, Shell and BP)[49] to check the overall consistency of their climate voting. The result of this analysis is clear: **good practice on one type of resolution may hide bad practice on another. None used the full range of votes at their disposal** to engage these companies, which are among the world's biggest emitters.

When analysing climate votes, it is important to take a global view and consider all the votes that could integrate climate considerations – to ensure consistent and effective climate voting, a robust voting policy must cover all these resolutions.

	TotalEnergies	Shell	bp
Amundi Asset Management	Say on Climate ❌ Shareholder proposal ✅ Re-elections of directors ❌	Say on Climate ✅ Shareholder proposal ✅ Re-elections of directors ❌	Shareholder proposal ✅ Re-elections of directors: • Chairman ✅ • Other directors ❌
BNP Paribas Asset Management	Say on Climate ❌ Shareholder proposal ✅ Re-elections of directors ❌	Say on Climate ❌[50] Shareholder proposal ✅ Re-elections of directors ❌	Shareholder proposal ✅ Re-elections of directors ✅
Eurizon Asset Management	Say on Climate ❌ Shareholder proposal ✅ Re-elections of directors ❌	Say on Climate ✅ Shareholder proposal ✅ Re-elections of directors: • Chairman ✅ • Other directors ❌	No vote disclosed[51]
Legal & General Investment Management	Say on Climate ✅ Shareholder proposal ❌ Re-elections of directors ✖️[52]	Say on Climate ✅ Shareholder proposal ❌ Re-elections of directors ✖️	Shareholder proposal ❌ Re-elections of directors: • Chairman ✅ • Other directors ❌

❌ ✖️ The asset manager did not vote in favour of more climate action. In the case of Say on Climate or re-election resolutions, it voted for the resolution. In the case of a climate-related shareholder proposal, it voted against the resolution.

✅ The asset manager voted in favour of more climate action. In the case of Say on Climate or re-election resolutions, it voted against the resolution. In the case of a climate-related shareholder proposal, it voted for the resolution.

FOCUS: How should asset owners use split votes to require accountability from asset managers?

Split voting is a practice in which an asset manager casts different votes for the same resolution. This situation may arise where different funds make different voting decisions, or where an asset owner wishes to vote differently from the asset manager.

Some asset managers are particularly keen on this practice. Among those analysed, 11 asset managers presented split votes at least once on all the resolutions reviewed in this report.

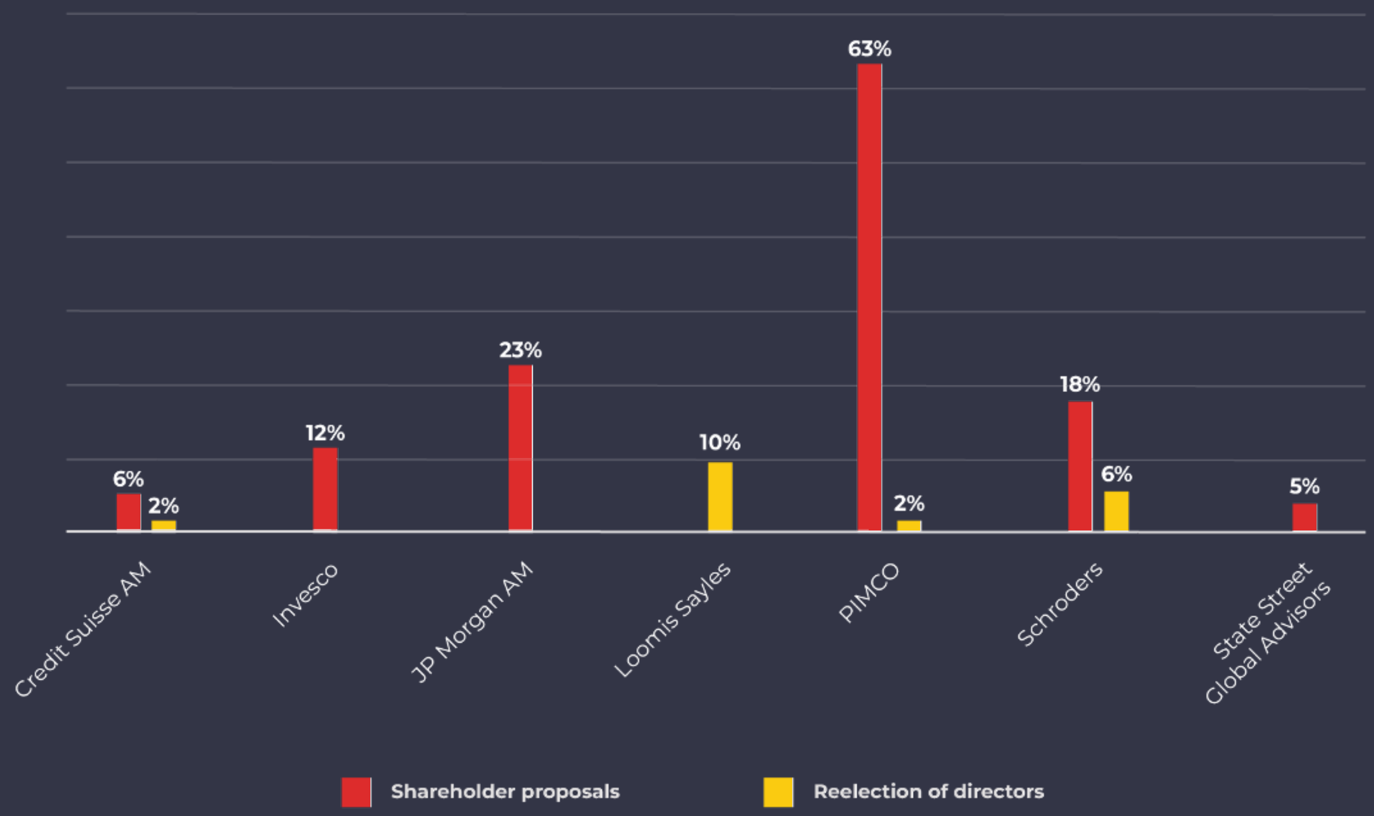
- Some use it specifically for certain types of resolution. For example, JP Morgan AM cast split votes 23% of the time for climate-related shareholder proposals, but none for resolutions regarding the re-election of directors, remuneration or financial statements.
- By contrast, others use it regularly. For instance, Schroders use this practice at least once for each type of resolution analysed in this report, including for 25% of resolutions regarding remuneration.

The practice of split voting represents an opportunity for asset owners to take responsibility for their climate votes. By defining strong policies of their own, clients can require asset managers to apply their specific choices and vote accordingly, for specific financial products.

However, this should not exempt asset managers from developing credible default climate policies themselves. Asset managers must properly integrate climate considerations into voting decisions, and have a strong default position on climate votes. **At the moment, on the contrary, most asset managers' proposing split voting have a very weak default position where they do not expect companies to take adequate action,** and let their clients be more ambitious than them if they wish. This approach needs a thorough overhaul.

Beyond requiring votes on their behalf that align with their own climate voting policies, asset owners should inform their asset managers that they require them to have clear and consistent climate voting practices to promote a rapid transition away from fossil fuels. Ultimately, asset owners should take their business elsewhere if their current managers fail to introduce this.

Figure 8: Use of split votes for each of the 75 fossil fuel developers covered in this report at their respective 2023 AGM, for shareholder proposals and the re-election of directors. Focus is on the top seven asset managers using this practice most.



Data source: Diligent Market Intelligence.

RECOMMENDATIONS

In the context of the current climate emergency, investors must radically rethink their approach to voting at AGMs to ensure climate change is a priority in all corporate strategies, while asset owners should engage with and push asset managers on effective default climate voting practices. The 2024 proxy season should send a wake-up call to all companies with climate strategies that are incompatible with limiting global warming to 1.5°C.

1. Adopt robust voting policies.

The voting policies of asset managers and asset owners should clearly and precisely disclose the climate-related criteria taken into account when making voting decisions for each type of resolution presented at AGM. Resolutions should be assessed on their own merits, not on the basis of historical engagement with the company or any subjective concerns.

Consideration of these climate-related criteria should be systematic, and failure to comply with them should lead to votes against management. Case-by-case assessments should be avoided.

2. Make voting decisions on all climate-related votes on the basis of alignment with a 1.5°C scenario with low or no overshoot and a limited volume of negative greenhouse gas emissions.

Voting decisions on management-proposed Say on Climate resolutions and climate-related shareholder proposals should be based on publicly disclosed, precise and impactful criteria.

These climate-related criteria should primarily focus on alignment with a 1.5°C pathway and emissions reductions, rather than on company transparency relating to climate action. They should be both general and sector specific. For instance, in the energy sector, the existence of fossil fuel development plans should be a redline for not supporting a Say on Climate proposal.

3. Use management-proposed votes to oppose inadequate, unclear or incomplete climate strategies.

Given the climate emergency and the fact that climate-related resolutions remain rare on the agenda of AGMs, investors should also use management-proposed votes to express their disagreement with climate-hostile plans, or their disapproval of a lack of disclosure of a comprehensive climate plan. The resolutions concerned include those relating to the re-election of board members, the remuneration of top management and directors, and financial accounts.

4. Improve disclosure on proxy voting records.

All individual proxy voting records should be disclosed annually, and at the very latest one month after AGM. This information must be easily accessible from investor websites.

Asset managers and asset owners should also publish rationales for abstentions, votes against climate-related management-proposed resolutions, and votes on climate-related shareholder-proposed resolutions.

5. Engagement of asset managers by asset owners.

Asset owners should actively engage asset managers in adopting robust climate-related voting policies and practices, based on the above recommendations. They should use split voting when available and encourage asset managers to make truly effective climate voting decisions in all cases.[53]

APPENDIX 1 - METHODOLOGY

Asset managers scope

Asset managers were selected based on the size of their assets under management (AUM) and their geographical zone (Europe) with adjustment to include five big US asset managers that are present in the European market.

This sample consists of:

- The 25 biggest asset managers headquartered in Europe: Ostrum AM, Loomis Sayles, AXA Investment Managers, Amundi, BNP Paribas AM, Legal and General Investment Managers (LGIM), Generali Insurance Asset Management (GIAM), Nordea AM, M&G Investments, Union Investment, Aviva Investors, Eurizon AM, UBS AM, Fidelity International, Aegon AM, Allianz Global Investors, APG AM, Schroders, abrdn, DWS, HSBC AM, PIMCO, Insight Investment, Credit Suisse AM, Baillie Gifford.
- 5 asset managers headquartered in the US: BlackRock, State Street Global Advisors, JP Morgan AM, Invesco, Vanguard.[54]

Despite being one of the biggest European asset managers, we did not include Natixis Investment Managers in our assessment because of its model, which is made up of some 20 affiliates each of which makes its own proxy voting decisions. The two biggest affiliates, Ostrum AM and Loomis Sayles, are included in this report. It is worth noting, however, that since it does not have climate policies that apply to all its affiliates, Natixis Investment Managers is not taking account of all its responsibilities in the face of the climate emergency.[55]

Companies scope

This report features the voting practices of 30 asset managers participating at the annual general meetings (AGMs) of 75 fossil fuel developers. This list of fossil fuel developers was obtained via two steps.

First, the complete list of companies initially considered included:

- The top 75 upstream oil ang gas developers by resources under development or field evaluation in 2022, according to the Global Oil & Gas Exit List (GOGEL) compiled by Urgewald.[56]
- The top 25 coal mining developers by annual coal mining capacity, and the top 50 coal power developers by planned coal power capacity, totalling 75 companies due to overlap, according to the Global Coal Exit List (GCEL) compiled by Urgewald.[57]

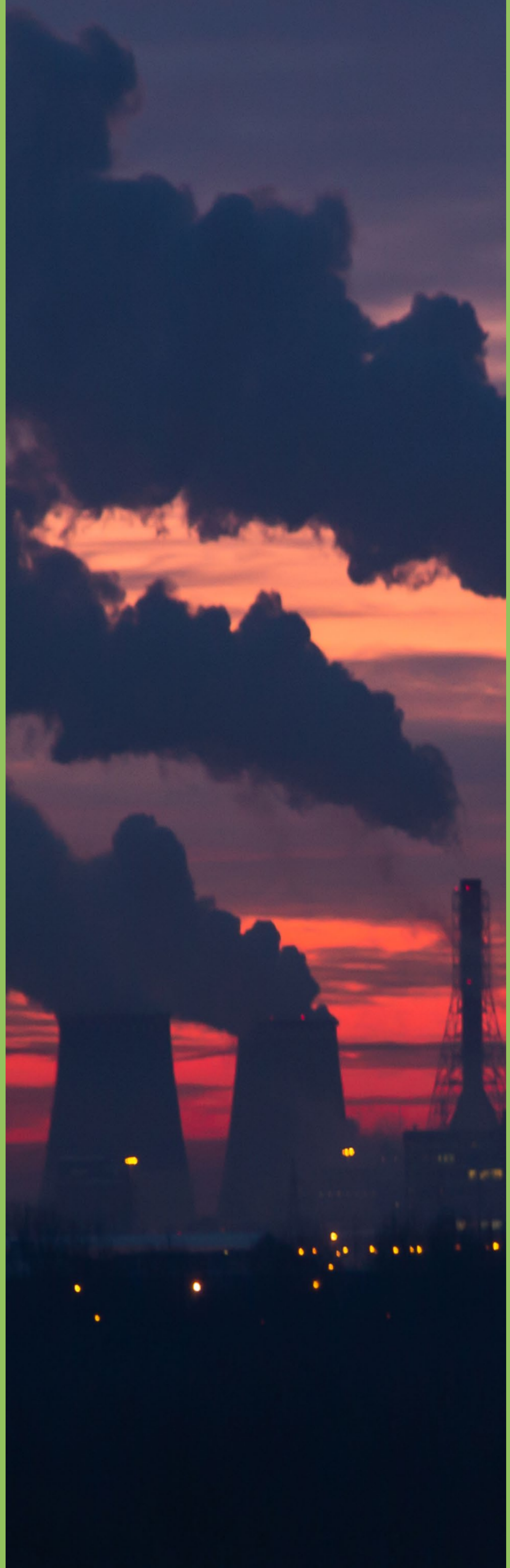
Then, from these companies, only listed companies or their listed subsidiaries active in fossil fuel expansion were selected for this report, totalling a final number of 75 fossil fuel developers (see appendix 2 for the entire list).

Assessment of proxy voting policies

A questionnaire was pre-filled and sent to the 30 asset managers analysed for this report. We received a response from 21 of them.[58] The assessments subsequently featured here are based only on publicly available information as of September 2023. Documents taken into consideration include proxy voting policies, sectoral policies, and articles published on asset managers' websites. The questionnaire did not consider regional proxy voting policies due to our focus on the ways in which climate-related issues are integrated into voting procedures and applied systematically to all proxy voting decisions.

All asset managers were subsequently provided with the opportunity to review the assessment and respond. Information was collected between August and October 2023.

Unlike the assessment of proxy voting records, which focuses only on fossil fuel developers, the assessment of proxy voting policies is multi-sector (i.e. rules and expectations applying to all companies) and includes a focus on fossil fuel expansion (i.e. rules and expectations applying to fossil fuel developers).



Assessment of proxy voting records

Proxy voting records were assessed on the basis of data from Diligent Market Intelligence (formerly known as Insightia) as of October 19th, 2023, which itself is based on asset managers' disclosures and regulatory filings. As a result, Reclaim Finance is not responsible in the case of data errors.

Resolutions considered include: Say on Climate proposals (two resolutions were found among the 75 companies analysed), climate-related shareholder proposals (22 resolutions), the re-election of directors (421 resolutions), remuneration (67 resolutions), and financial accounts (48 resolutions).

For some asset managers, only partial vote disclosure data was available:

- American-based asset managers have not disclosed their votes between July 1st and December 2023. They are required to publish their records every year as of June 30th and before the end of August through N-PX filings.
- For APG AM, Baillie Gifford, GIAM, Insight Investment and M&G Investments, which often do not appear in the graphs and tables in this report, partial data may be due to the absence of shareholdings, or the non-publication of the votes concerned. The non-publication of votes was sometimes justified by asset managers by the fact that clients have retained voting rights, or that the asset manager is delegated by its clients to exert voting rights.

Consequently, asset managers were not assessed when the number of votes disclosed by category was not representative (less than 5 votes for shareholder proposals, less than 30 votes for re-election of directors, less than 10 votes for remuneration, less than 5 votes for financial accounts). All percentages were computed based on votes disclosed, which means that absence of shareholdings was not considered in calculations.

APPENDIX 2 – LIST OF COMPANIES CONSIDERED IN THE VOTING RECORD ASSESSMENT

Adani Enterprises Ltd.	Datang International Power Generation Co. Ltd	NTPC Ltd.
Adani Power Ltd	Devon Energy Corporation	Occidental Petroleum Corporation
Aker BP ASA	Diamondback Energy Inc.	Oil & Natural Gas Corporation Ltd.
An Hui Wenergy Co Ltd	Energean PLC	Ovintiv Inc.
Anhui Hengyuan Coal-Electricity Group Co Ltd	Eni SpA	PDC Energy Inc.
Antero Resources Corporation	EOG Resources Inc.	Permian Resources Corporation
APA Corporation	EQT Corporation	Petrochina Company Limited
ARC Resources Ltd.	Equinor ASA	Petroleo Brasileiro S.A. (Petrobras)
BP PLC	ExxonMobil Corporation	Pioneer Natural Resources Company
Canadian Natural Resources Limited	Gazprom PJSC	Power Finance Corporation Ltd.
Cenovus Energy Inc.	Guangdong Electric Power Development Co., Ltd.	PTT Exploration & Production PCL
Chesapeake Energy Corporation	Guodian Changyuan Electric Power Co Ltd	Range Resources Corporation
Chevron Corporation	Hebei Construction Group Corporation Limited	Repsol S.A.
China Coal Energy Company Limited	Hess Corporation	Rosneft Oil Co PJSC
China Energy Engineering Corp Ltd	Huadian Power International Corporation Ltd.	Santos Ltd.
China Power International Development Ltd.	Huaihe Energy Group Co Ltd	SDIC Power Holdings Co., Ltd.
China Resources Power Holdings Co., Ltd.	Huaneng Power International Inc.	Shaanxi Coal Industry Company Limited
China Shenhua Energy Co., Ltd.	Inpex Corporation	Shanxi Coking Coal Energy Group Co.,Ltd.
CNOOC Limited	Jinneng Holding Shanxi Coal Industry Co Ltd	Shell plc
Coal India Ltd.	Jinneng Holding Shanxi Electric Power Co.,LTD.	Southwestern Energy Company
Comstock Resources Inc.	Lukoil PJSC	Suncor Energy Inc.
ConocoPhillips	Marathon Oil Corporation	TotalEnergies SE
Coterra Energy Inc.	Mitsui & Co.	Tourmaline Oil Corp.
Dana Gas PJSC	NLC INDIA LTD	Woodside Energy Group Ltd.
Datang Huayin Electric Power Co. Ltd	Novatek OAO	Xinjiang Zhongtai Chemical Co Ltd

References

1. Sustainalytics, Recent market trends put engagement and voting front and centre for responsible investors, September 2021
   Boston Consulting Group, A Blueprint for Leading in Sustainable Investing, April 2021
2. For instance, in Europe, 93% of EU citizens believe climate change is a serious problem, and 88% agree that greenhouse gas emissions should be reduced to make the EU climate neutral by 2050.
   European Commission, Special Eurobarometer 538 – Climate Change, 2023
3. All 30 asset managers assessed in this report are members of the Climate Action 100+ initiative, except for Eurizon and Loomis Sayles.
4. Another useful tool will be the research that the UK Asset Owner Roundtable is currently carrying out on voting alignment between asset owners and their asset managers at European fossil fuel companies since the Paris Agreement.
5. Institutional investors can rely on a legal framework to address key environmental and social issues.
   UNPRI, UNEP FI, and The Generation Foundation, A Legal Framework for Impact, July 2021
6. The Intergovernmental Panel on Climate Change (IPCC) indicates that putting an end to new fossil fuel projects is essential to avoid the most severe consequences of climate change. The IEA states that it is possible to meet the world's energy needs and limit global warming to 1.5°C without new fossil fuel projects.
   IPCC, Climate Change 2022: Mitigation of Climate Change, 2022
   IEA, Net Zero Emissions by 2050 Scenario, May 2021
   In this report, references to a "1.5°C pathway" or a "1.5°C scenario" mean a science-based 1.5°C scenario with low or no overshoot and a limited volume of negative greenhouse gas emissions.
7. The IPCC indicates that putting an end to new fossil fuel projects is essential to avoid the most severe consequences of climate change. The IEA states that it is possible to meet the world's energy needs and limit global warming to 1.5°C without new fossil fuel projects.
   IPCC, Climate Change 2022: Mitigation of Climate Change, 2022
   IEA, Net Zero Emissions by 2050 Scenario, May 2021
8. According to the IPCC, UNEP and the IEA, several conditions must be met for the coal and oil and gas sectors to be aligned with the objective of limiting global warming to 1.5°C. Please refer to our Reclaim Finance website Asset Manager Recommendations for more details and sources.
9. Out of a total number of 421 re-elections of board members.
10. Out of a total number of 67 resolutions regarding remuneration.
11. Out of a total number of 48 resolutions regarding financial accounts.
12. Copernicus, Summer 2023: the hottest on record, September 2023
    World Meteorological Organization, Earth had hottest three-month period on record, with unprecredented sea surface temperatures and much extreme weather, September 2023
13. IPCC, Climate Change 2022: Mitigation of Climate Change, 2022
14. Among the Climate Action 100+'s targeted companies, only 2% have phased out or commit to phasing out CapEx in unabated carbon-intensive assets, and only 3% disclose sufficient detail on how they are planning to employ offsets and negative emissions technologies to meet their GHG reduction targets.
    Climate Action 100+, Climate Action 100+ Net Zero Company Benchmark 2.0 – 2023 Results, October 2023
15. Urgewald, Global Coal Exit List (GCEL) and Global Oil and Gas Exit List (GOGEL).
16. UNPRI, Climate transition plan votes: Investor update, December 2022
17. Key information includes:
    - 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 reduction targets.
    - Short- and medium-term capital expenditure (CAPEX) plans that are disaggregated by activity and by orientation between maintenance and development of the company's assets.
    - A baseline scenario used to set the above-mentioned climate targets, and how it takes into account the best available scientific knowledge.

    Other relevant information might be asked for specific sectors. For example, the targeted energy mix evolution for the short- and medium-term should be required for companies in the energy sector.
18. NZAOA, Elevating Climate Diligence on Proxy Voting Approaches: A Foundation for Asset Owner Engagement of Asset Managers, April 2021
19. LGIM expects companies to oversee and disclose answers to the following questions:
    - In the oil and gas sector, does the company place restrictions on investing in the exploration of new greenfield sites?
    - In the mining sector, does the company place restrictions on investing in the opening of new coal mines?

    Ostrum AM excludes coal developers and engages oil and gas companies on the alignment of their strategy with the IEA's recommendations for meeting the Paris Agreement, including fossil fuel development.
20. Net-Zero Asset Owner Alliance, The future of investor engagement: A call for systematic stewardship to address systemic climate risk, April 2022
21. Reclaim Finance, Assessment of oil and gas companies' climate strategy, April 2023, updated in October 2023
22. Some of the asset managers assessed do not appear in this table. This may be due to the absence of shareholdings or the non-publication of the votes concerned. See more information in the methodological appendix.
23. Split voting is the practice by which an asset manager casts different votes for the same resolution.
24. PRI, Making Voting Count: How principle-based voting on shareholder resolutions can contribute to clear, effective and accountable stewardship, March 2021
25. Reclaim Finance, Who's managing your future? An assessment of asset managers' climate action, June 2023
26. Among the 2023 climate-related shareholder resolutions filed at fossil fuel developers:
    - 12 proposals asked for greater climate-related disclosure.
    - 5 proposals asked for the company's alignment with the Paris Agreement.
    - 5 proposals asked for the company to end fossil fuel development plans.
    - 1 proposal asked for the company's alignment with the target to limit global warming to 1.5°C.
27. Some of the asset managers assessed do not appear in this graph. This may be due to the absence of shareholdings or the non-publication of the votes concerned. See more information in the methodological appendix.

28. One proposal asked Cenovus Energy to report on 'Lobbying and Policy Advocacy with its Net Zero Goal', which was supported by the management, and got 99.5% support. The other asked Coterra Energy to report on 'Reliability of Methane Emission Disclosures' and got 74.4% of votes.

29. Allianz Global Investors, Aviva Investors, AXA Investment Managers, Credit Suisse AM, DWS, Fidelity International, Invesco, M&G Investments, PIMCO, Schroders, State Street Global Advisors, UBS AM, Ostrum AM, Insight Investment.

30. Aegon AM, Amundi, BNP Paribas AM, Eurizon, HSBC AM, UBS AM, Union Investment.

31. Absence of one of the columns for an asset manager means that it did not support any proposal of this type.

32. Some of the asset managers assessed do not appear in this graph. This may be due to the absence of shareholdings or the non-publication of the votes concerned. See more information in the methodological appendix.

33. NZAOA, Elevating Climate Diligence on Proxy Voting Approaches: A Foundation for Asset Owner Engagement of Asset Managers, April 2021

34. Some of the asset managers assessed do not appear in this graph. This may be due to the absence of shareholdings or the non-publication of the votes concerned. See more information in the methodological appendix.

35. Urgewald, Global Oil and Gas Exit List, 2022

36. These asset managers are: Allianz Global Investors, Aviva Investors, AXA Investment Managers, BlackRock, Fidelity International, LGIM, Schroders and UBS AM.

37. NZAOA, Elevating Climate Diligence on Proxy Voting Approaches: A Foundation for Asset Owner Engagement of Asset Managers, April 2021

38. IIGCC, Net Zero Stewardship Toolkit, April 2022

39. abrdn expects companies to link absolute emissions reduction targets to remuneration.

40. Some of the asset managers assessed do not appear in this graph. This may be due to the absence of shareholdings or the non-publication of the votes concerned. See more information in the methodological appendix.

41. IASB, IFRS Standards and climate-related disclosures, November 2019
IASB, Effects of climate-related matters on financial statements, November 2020

42. Carbon Tracker, The Grantham Research Institute on Climate Change and the Environment, Wasted Capital and Stranded Assets, April 2013

43. IEA, World Economic Outlook, 2021

44. T.A. Hansen, Stranded assets and reduced profits: Analyzing the economic underpinnings of the fossil fuel industry's resistance to climate stabilization, Renewable and Sustainable Energy Reviews, Volume 158, April 2022

45. Carbon Tracker, Climate Accounting Project, Flying Blind: The glaring absence of climate risk in financial reporting, September 2021
Carbon Tracker, Climate Accounting Project, Still Flying Blind: The Absence of Climate Risk in Financial Reporting, October 2022

46. IIGCC, Net Zero Stewardship Toolkit, April 2022

47. Union Investment, Proxy Voting Policy 2023

48. Some of the asset managers assessed do not appear in this graph. This may be due to the absence of shareholdings or the non-publication of the votes concerned. See more information in the methodological appendix.

49. These three companies (TotalEnergies, Shell and BP) are the biggest European-based oil and gas developers.

50. On Shell's Say on Climate proposal, BNP Paribas AM cast a split vote, with a mix of votes for and abstentions.

51. This may be due to an absence of shareholdings in this company.

52. LGIM voted against one of the two director re-elections, but not for climate-related reasons. It supported the other director re-elections.

53. The NZAOA provides useful insights on this topic in its *Elevating Asset Manager Net-Zero Engagement Strategies* discussion paper, published in November 2023.

54. Thinking Ahead Institute, The world's largest 500 asset managers, October 2022

55. To learn more, see: Reclaim Finance, The dirty secrets of Natixis IM, France's second-largest asset manager, August 2023.

56. https://gogel.org/about

57. https://www.coalexit.org/

58. We received no answer from Aegon AM, APG AM, Insight Investment, Invesco, Loomis Sayles, PIMCO, State Street Global Advisors, UBS AM and Vanguard. Credit Suisse AM decided not to review the questionnaire because of the upcoming integration of Credit Suisse AM into UBS AM in 2024.

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An assessment of asset managers' climate votes in 2023

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 financial players, 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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