Principles for Responsible Investment

UN environment programme finance initiative

Elevating Climate Diligence on Proxy Voting Approaches:

A Foundation for Asset Owner Engagement of Asset Managers

U.N.-CONVENED NET-ZERO ASSET OWNER ALLIANCE

In partnership with:

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Preamble

The United Nations Convened Net-Zero Asset Owner Alliance („the Alliance“) understands that aligning our investment portfolios with a 1.5°C scenario requires significant collaboration and action to decarbonize the real economy. As asset owners, we can play a unique role in this effort by using our influence as stewards of large pools of capital to advocate for accelerated climate action.

All our work must contribute to the Alliance's goal of achieving net-zero emissions in our investment portfolios by 2050. This includes our partnerships with asset managers. Through their scale and expertise, asset managers are strategically positioned to steward and select portfolio companies in a way that supports our net-zero ambitions.

Recognizing that properly representing our long-term interests through proxy voting is a key element of the asset owner-asset manager relationship, the Alliance offers the following foundational guidelines for asset owners to construct their own expectations of their asset managers' proxy voting approaches. Assets owners may also use these guidelines to inform direct engagements of publicly traded asset management firms, which may be particularly relevant for asset owners with mostly internally managed portfolios.

Reading This Document

This document outlines a set of topics and principles to assess an asset manager's overall approach to climate-related proxy voting (referred to as "Climate Voting" approaches). These guidelines are centered on four themes: governance, interest alignment, merit-based evaluation, and transparency.

We define Climate Voting as proxy voting wherein the consideration of climate factors affects the outcome of an asset manager's voting decision. This includes shareholder proposals that are explicitly climate focused, such as greenhouse gas reduction targets or reporting, but also extends to votes on issues where the asset manager explicitly specifies that climate considerations have an influence (which might include board director elections, approval of the report and accounts, auditor reappointment, remuneration votes, or others). Likewise, in addition to an asset manager's actual proxy voting policies, we consider all additional published documents offering climate guidance on proxy voting as part of its climate voting approach. This document builds on the broad principles within the PRI's Active Ownership 2.0. We also encourage asset managers to transparently share how climate engagement frameworks such as the Climate Action 100+ Net-Zero Company Benchmark, Transition Pathway Initiative, PRI Making Voting Count, and Say on Climate, among others, inform their voting decisions. Supporting documents may also include organizational structure charts related to voting and evaluation, disclosure statements, sector-specific position statements, stewardship commitments, and more.

Guidelines

1. Governance for Climate Voting

An asset manager's Climate Voting approach should include a clear organizational structure and delegation of roles and responsibilities that demonstrates its capacity to identify, evaluate and execute Climate Voting. This strengthens the asset manager's ability to maintain consistent considerations, focuses, and/or voting records over time and between companies or sectors. The following sub-points are used to guide our assessment of an asset manager's Climate Voting approach (as part of its overall proxy voting activities):

- Proxy voting guidelines contain Climate Voting-specific structure, roles and responsibilities for identifying and evaluating Climate Votes and:
  - Are supported by an organizational structure diagram
  - Explain role of voting committee or any other expertise consulted for Climate Voting
  - Explain rationale of delegation of duties between roles
  - Explain involvement from experts who are, or have accountability to, a climate or environmental, social and governance (ESG) expert
  - Explain how conflicts of interest that may arise in voting considerations are resolved (e.g., issuers that are also clients)

- Asset manager can demonstrate that consistent guidance is provided to proxy voting professionals to maintain congruence between Climate Voting commitments in proxy voting guidelines and Climate Voting decisions
- Climate Voting approach (or encompassing voting policy) is reviewed at least annually and updated when necessary, including an explanation of who maintains this responsibility

2. Climate Voting approach aligned with long-term interests

Asset managers have an important role in influencing their portfolio companies and the larger business community. The Alliance members desire to see our asset managers representing our long-term interests to the companies in our portfolios; this includes their actions on Climate Voting. An asset manager's approach to Climate Voting should be driven by a set of clearly communicated principles, thus driving confidence that long-term interests are properly and consistently stewarded through Climate Voting activities. The following sub-points are used to guide our assessment of an asset manager's Climate Voting stewardship alignment with our long-term interests:

- Proxy voting policies and supporting documents outline the key principles by which the asset manager's Climate Voting approach is guided and:
  - Describe firm-wide climate positioning and explain how it informs the Climate Voting approach
  - Include a commitment to Climate Votes being evaluated based on merit of the proposal and not current status of engagement or other management considerations
    - For example, a productive engagement is not used as an excuse for a vote against a shareholder proposal with which the manager finds merit
    - Acknowledge that voting for a climate proposal should not be used as an escalation tactic for engagement, but as a normal means of representing ownership interests to the company based on the merit of the proposal

- Asset manager can explain the extent to which the recommendations of proxy voting advisors are utilized
  - Asset manager is able to describe how such recommendations influence its final decisions, and what actions are taken when its decision differs from an advisor's recommendation
    - Asset manager describes if it subscribes to a customized "ESG-oriented" proxy advisory service or customized service that reflects climate voting policy
    - This applies to both standard advisor recommendations and recommendations that are customized per the asset manager's policy

- 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
  - When executive remuneration insufficiently incentivizes addressing climate risks or opportunities
  - When auditors appear to have failed to play their role in ensuring the company's accounts reflect climate risk

- When applicable, asset manager can explain variances in approaches in different localities/markets
- Asset manager can explain to what extent and under what circumstances it files its own climate proposals

3. Measured, merit-based evaluation of climate relevant votes

To ensure a proper and consistent Climate Voting approach, we expect merit-based evaluations of Climate Votes to be guided by a set of consistent criteria. The following sub-points are used to guide our assessment of an asset manager's approach to identify and subsequently evaluate Climate Votes:

- Clear process and criteria for identifying Climate Votes (e.g., identified by proxy service provider, flagged by industry groups, in-house identification methods, etc.)
- Voting guidance states general (or specific where possible) evaluation criteria used when considering common topics of Climate Votes (e.g., transparency, capital alignment, emission target setting, lobbying disclosure, scenario analyses, etc.)
  - This guidance can be written explicitly in the voting policy or in supplemental materials detailing the asset manager's approach to different sectors, topics, etc., which are clearly linked to within the voting policy or otherwise readily accessible
- Climate Voting record demonstrates consistency with Climate Voting guidelines
- Proxy voting policy explains how asset manager's Climate Voting approach is conveyed to engaged companies to ensure clear and consistent messaging between Climate Voting and engagement programs
  - This section makes the connection between voting and engagement clear, with encouragement to communicate reasons for supporting Climate Votes directly with companies

4. Transparency, consistency and accessibility of voting records, with focus on Climate Voting

To clearly demonstrate outcomes of their Climate Voting approach, asset managers should report their voting records in an accessible and timely manner. In addition to reporting voting records, asset managers should provide specific explanations of key Climate Votes that they find representative or exceptionally important. The following sub-points are used to guide our assessment of the asset manager's Climate Voting reporting and transparency:

- Voting records are published in full, in a user friendly and timely manner, and are clearly available or referred to on an asset manager's website
- Voting records provide a clear explanation for votes against directors resulting from the dissatisfaction of climate-related risk or opportunity management
- Voting memos/explanations are publicly posted to demonstrate the reasoning behind decisions on key Climate Votes that the asset manager finds representative or exceptionally important
  - Explains relevant considerations within the context of their documented Climate Voting approach

Conclusion

The Alliance believes the above guidelines deliver our members and their managers—as well as other asset owners, managers and the broader investment community—a basis for cooperatively empowering and engaging on effective and robust Climate Voting approaches.

Ultimately, the long-term effectiveness of these guidelines depends largely on progress and collaboration. This document will be updated regularly based on the evolution of market practices, asset owner climate ambitions, and the evolution of frameworks from industry leaders and peers—including, but not limited to, Climate Action 100+ Net-Zero Company Benchmark, Transition Pathway Initiative, PRI Making Voting Count, and Say on Climate.

Finally, we recognize that the path to net zero is not "one size fits all." We encourage asset owners to leverage these guidelines, alongside other proprietary and shared best practices, to create proxy voting assessment solutions that work for their organizations, while supporting net-zero goals and 1.5°C scenario alignment.

For more information please visit our website:
unepfi.org/net-zero-alliance

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