Ceres

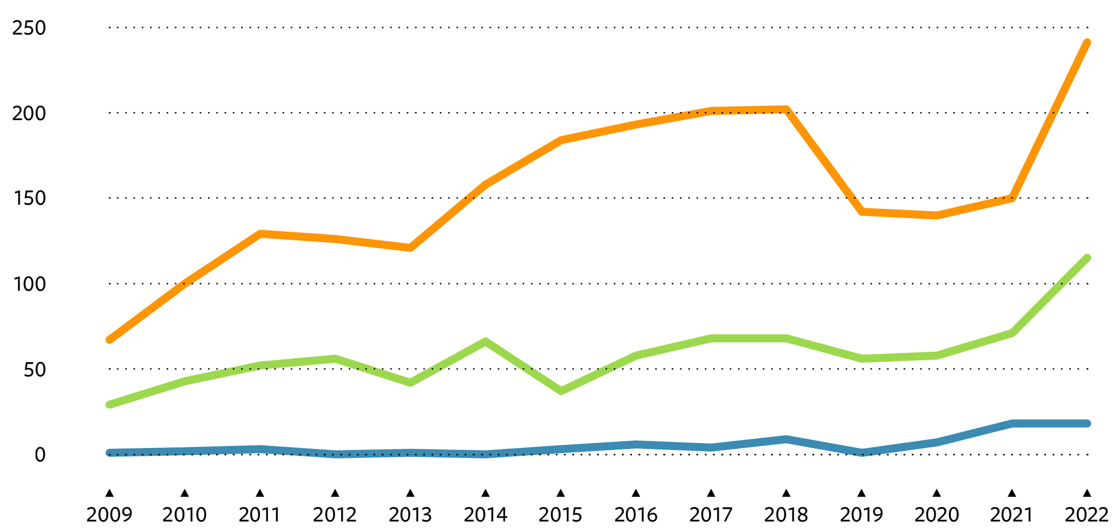
Hot and Cold

How Asset Managers Voted on Climate-Related Shareholder Proposals in 2022, and What It Means for 2023

As the 2023 proxy season approaches, clues of what to expect can be found in the 2022 trends. Last year, the number of climate-related proposals filed jumped a record-breaking 60% to 241 and—even more importantly—the number of corporations making commitments to shareholders in exchange for withdrawal of proposals prior to voting surged 62% to 115, according to a Ceres analysis.

The combination of these company commitments, along with 18 climate-related proposals that won a majority of shareholders' votes, means that shareholders prevailed in more than half of their climate engagements with companies they own last year.

Figure 1 · Climate-Related Proposal Outcomes (2009–2022)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Proposals	67	100	129	126	121	158	184	193	201	202	142	140	150	241
Commitments	29	43	52	56	42	66	37	58	68	68	56	58	71	115
Majority Votes	1	2	3	0	1	0	3	6	4	9	1	7	18	18

On the other hand, voting support for climate proposals declined last year among most, but not all, of the fifty asset managers that Ceres studied compared with 2021. Some possible short-term headwinds during 2022 included Russia's invasion of Ukraine, and the subsequent energy shortage, as well as a political backlash in the U.S. against asset managers and other investment and financial institutions who factor climate and other sustainability risks and opportunities into investment decisions and proxy voting. Another factor cited by some asset managers was that shareholder proposals in 2022 included more detailed requests of companies than had previously been typical.

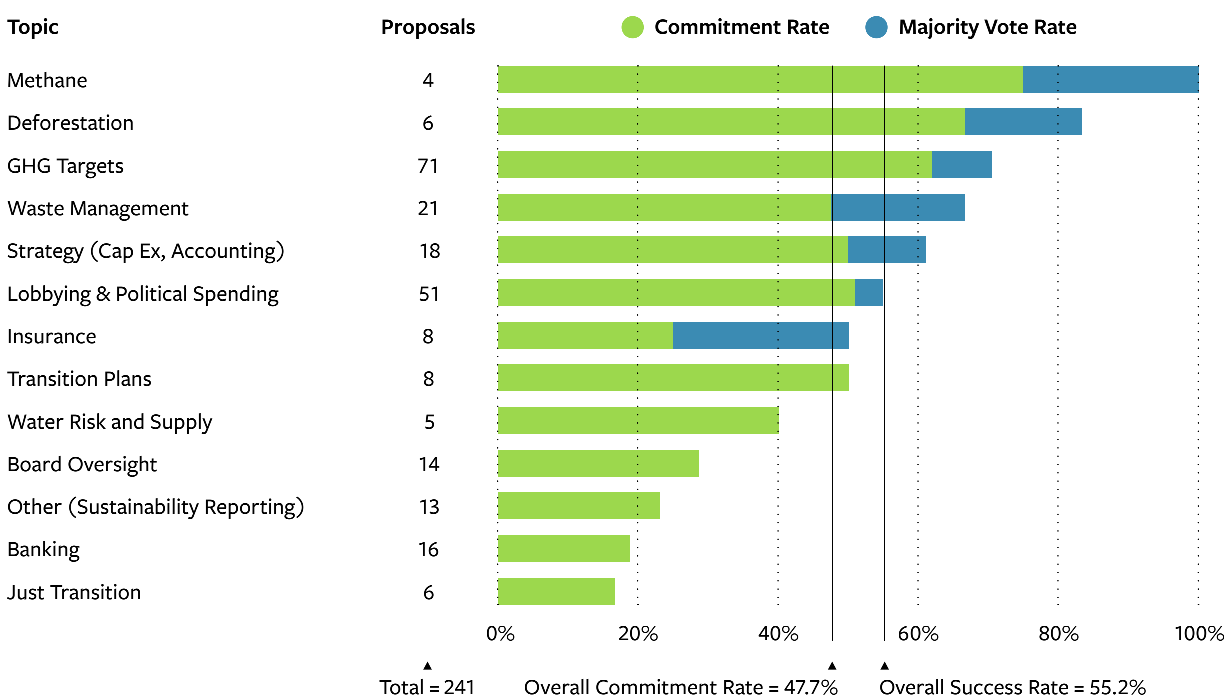
However, these factors don't justify the decline in voting support during the 2022 proxy season—the climate risks and opportunities that confront the economy, individual companies, and investors' portfolios are only continuing to grow and accelerate. All asset managers should follow the lead of several prominent asset managers who boosted their voting support on climate-related proposals in 2022—including Charles Schwab, Franklin Templeton, Invesco, and Northern Trust. These firms improved their voting in a way that is likely to better protect long-term returns for their customers.

As most companies' largest shareholders, asset managers have a critical voice on shareholder proposal votes and director elections that have the potential to greatly affect how companies respond to the climate crisis. The top-50 asset managers included in the study on average collectively hold over one third of the shares of companies that received climate-related proposals in 2022. That influence is the reason why each year Ceres analyzes the votes of the 50 or so largest asset managers on climate-related shareholder proposals. The four largest asset managers—BlackRock, Fidelity, State Street and Vanguard—hold approximately 19% of all shares at the companies in the study, on average, according to Proxy Insight data. Unfortunately, these managers appear near the very bottom of our ranking of support for 2022 climate proposals, and each of them also had among the largest declines in voting support among the fifty asset managers studied, -13%, -15%, -15%, and -23% respectively, as shown in Figure 4.

Climate Proposal Trends

Investors' primary goal in filing climate-related proposals is to persuade companies to take actions to address climate risks and seize opportunities. This is what makes the agreements that were reached on 48% of climate-related proposals in 2022 so significant. The 18 proposals that won majority support are also highly likely to lead to corporate action, because a basic expectation of corporate governance is that majority votes should be implemented. The policies of the Council of Institutional Investors (CII), Institutional Shareholder Services (ISS), and Glass Lewis, as well as Ceres' guidance on director engagement and voting clearly state that failure to implement a majority vote is a serious violation of board accountability. At least three quarters of 2021's 18 majority votes on climate-related proposals have been fully or partially implemented as of January 2022, based on Ceres research.

Figure 2 · 2022 Proposal Success Rates by Topic



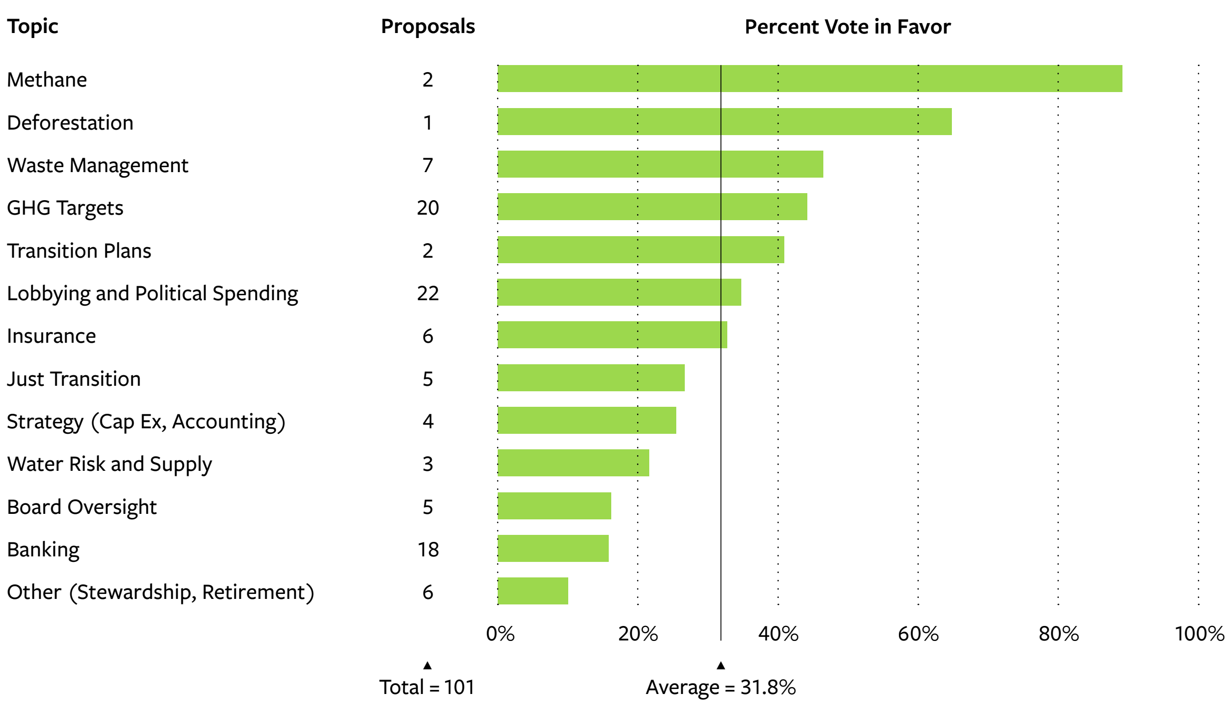
Digging into the different types of shareholder proposals, Ceres' analysis reveals an impressive combination of commitments and majority votes for most shareholder proposal topics in 2022. The topic with the most proposals filed (71) was greenhouse gas reduction targets, which had a success rate of 70% based on 6 majority votes and 44 commitments prior to votes, as shown in Figure 2. Proposals that asked companies to report on lobbying practices related to climate were the second most prevalent with 51 filed, yielding a success rate a bit over 50%.

Notably, Figure 3 shows that the 20 emissions reductions proposals garnered a high average vote of 42% average vote. This indicates that many institutional investors are well-informed on the climate risks companies are exposed to and view emissions target setting proposals as an effective solution.

Many of these proposals also requested that companies issue transition plans to describe how they will meet their goals.

Ceres expects many greenhouse gas reduction goal proposals to be filed in 2023, many of which will include requests for transition plans for meeting the goals. Through Ambition 2030, Ceres is working with companies to develop and implement climate transition plans. Last year, Ceres worked with its partners to develop a set of recommendations on what companies should include in those plans. Given the high vote percentages expected on these emissions targets proposals, and the thousands of companies that have already set science-based targets, pressure is mounting on companies to reduce emissions.

Figure 3 · Average Vote by Topic

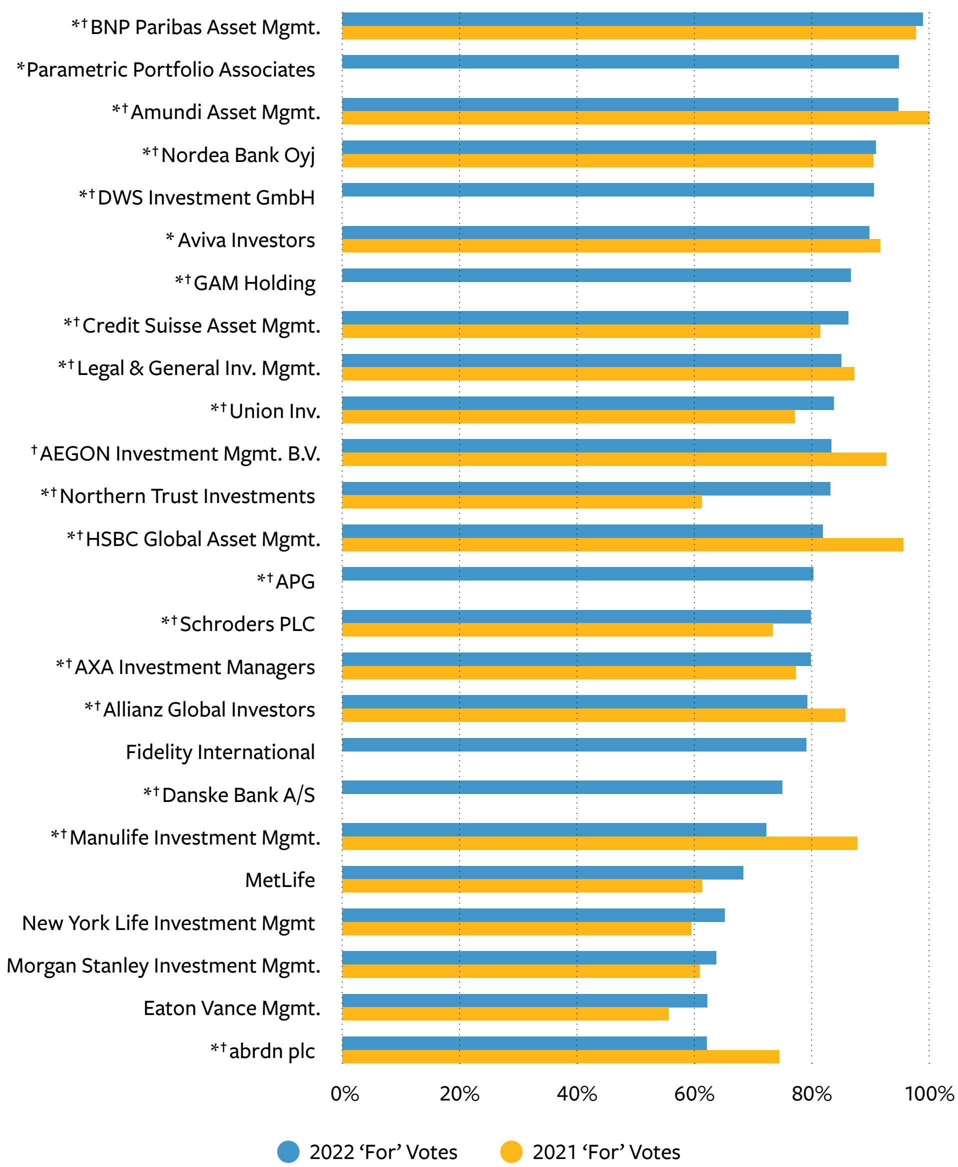


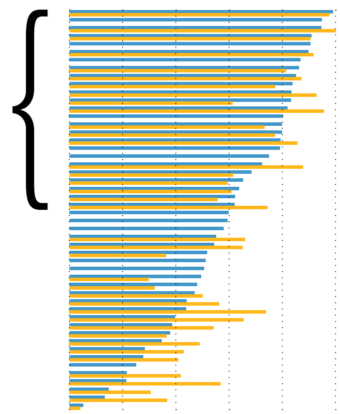
Rankings of the 50 Largest Asset Managers

Even as many investors took significant steps to address climate risk by joining initiatives to achieve net zero emissions across the economy by 2050, the very largest asset managers—the big mutual fund companies that millions of Americans entrust their retirement savings with—voted for fewer climate-related shareholder proposals this year than last. Since the climate crisis is a clear systemic risk that economists project to knock out 15% of global GDP and the U.S. military has on its highest threat list, it is a cause of wonder why the largest asset managers have slid backwards in their support.

Figure 4, below, ranks the 50 largest asset managers globally by their support for 2022 climate related proposals. The blue bars show the percentage of proposals each asset manager voted "For." The yellow bars show the same percentage for 2021 votes. (More details are available in the methodology.) Yellow bars are missing for asset managers not included in last year's study.

Figure 4 · Percentage of Votes 'For' Climate-Related Proposals





*Signatory to Climate Action 100+ initiative   †Signatory to Net Zero Asset Manager initiative

Note: In last year's analysis, we counted all split votes as "Against," but this year we gained access to fund-level voting data, which allowed us to count asset managers as supporting a proposal or director vote when at least 75% their funds voted "For." For Allspring Global Investments (formerly Wells Fargo Asset Mgmt.), Invesco Ltd., and Massachusetts Mutual Life Ins. Co., counting these supportive split votes raised the asset manager's 2022 result by at least five percentage points, compared to what it would have been if they had not been given credit for split votes.

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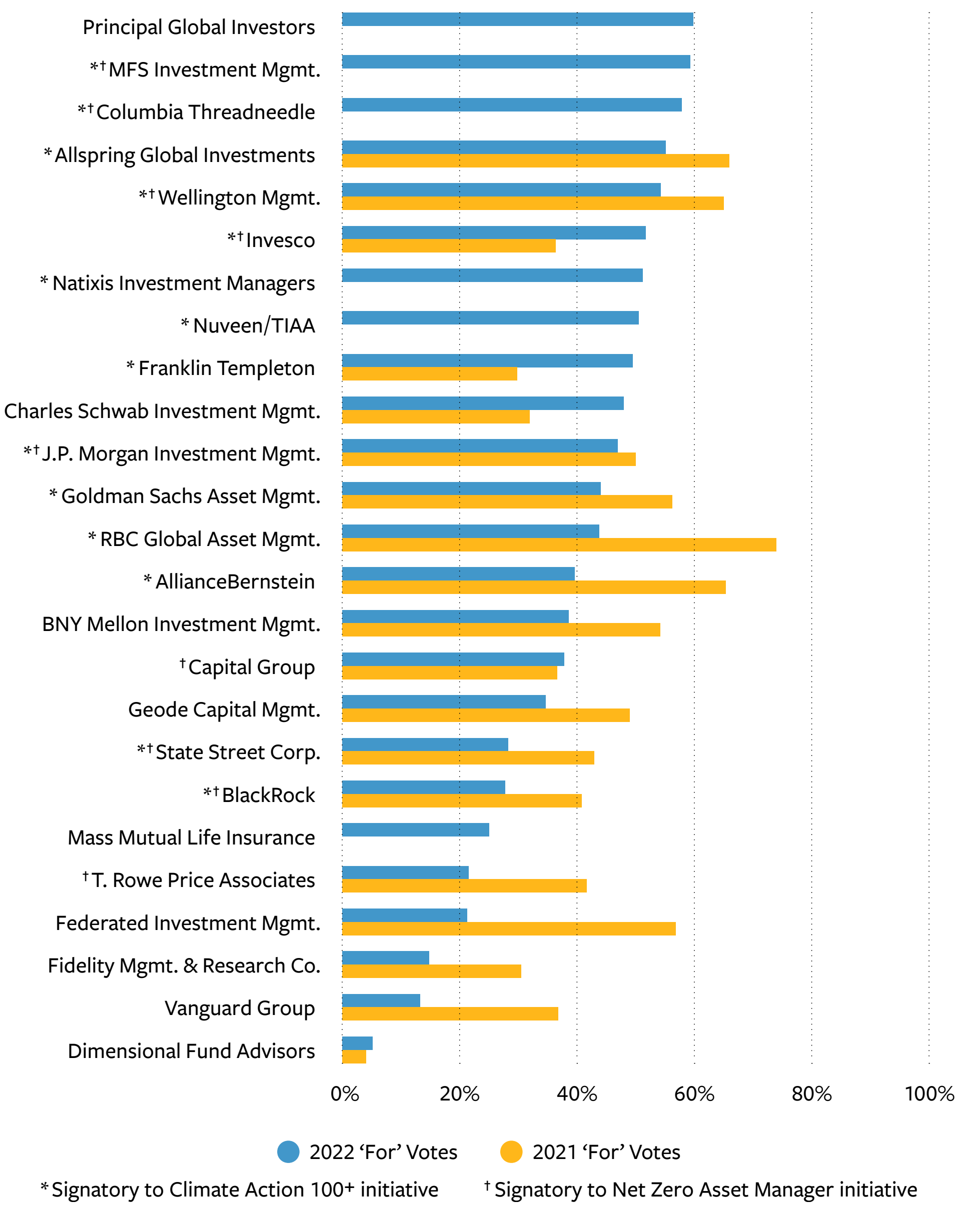
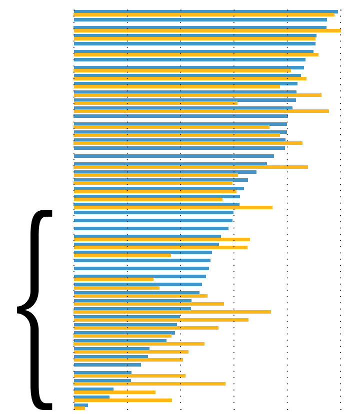
Figure 4 · Percentage of Votes 'For' Climate-Related Proposals, continued





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Why Do Large Asset Managers Vote on Items on Proxy Ballots?

As stewards of their customers' assets, asset managers have a fiduciary duty to act in their customers' best interest and maximize risk-adjusted value creation including through voting on proxy shareholder resolutions. Asset managers who vote "For" climate-related proposals are responding to the material risks and opportunities that climate change presents to companies and the consensus in the scientific community that, if greenhouse gas pollution is not rapidly eliminated, the global economy is likely to suffer widespread, devastating harm. The necessary transition to net zero emissions entails key risks that companies need to manage, including reputational, competitive, regulatory, and legal risks.

Companies can both cause and suffer from climate-related harm. How companies are addressing climate risk by reducing greenhouse gas emissions that are the main driver of climate harm is one main focus of investors. But just as consequential is corporate lobbying against the public policies needed to address climate change, since that lobbying can slow or prevent entire industries or countries from reducing emissions. From the investor perspective, lobbying against climate solutions is harmful at the portfolio level because it reduces the possibility that governments will act on economy-wide emissions and, since climate change reduces GDP and raises costs through extreme weather damages and supply chain disruptions. Lobbying can also create reputational risks directly to companies if it is misaligned with their public stance on climate.

> Climate risks are relevant to the value of our investments; our investment teams have sought to support high quality shareholder resolutions that represent meaningful proponent engagement, where we can expect the outcome to improve the resilience of the company, underpinning our fiduciary duty to deliver repeatable risk adjusted returns to our clients.
>
> Piers Hugh Smith
> Investment Stewardship Manager
> Franklin Templeton

Analysis of Climate Action 100+ Flagged Votes

Climate Action 100+, the world's largest investor engagement initiative on climate change with more than 700 signatories responsible for combined assets of more than $68 trillion, is working to ensure that the world's largest corporate greenhouse gas emitters take action to address risks associated with climate change. Company progress on the goals of the initiative is publicly tracked using the Climate Action 100+ Net Zero Company Benchmark ("Benchmark"). Shareholders often rely upon this analysis to decide whether to file shareholder resolutions and how to vote.

Each year, the Climate Action 100+ initiative flags shareholder proposals and other votes for investors to take into consideration during proxy season. "Other votes" include climate transition plans, directors, financial statements, and auditors. Figure 5 below ranks asset managers on their voting record on these flagged votes in 2022.

After the resounding success in 2021 of shareholders asserting their concerns about climate governance at ExxonMobil by electing three new dissident directors, a number of institutional investors began to consider the effectiveness of directors at other companies. Climate Action 100+ signatories flagged 12 votes against directors at 11 companies as worthy of other shareholders' consideration. Results for all votes flagged by Climate Action 100+ investors can be seen here. (Since the only director votes flagged in 2021 were the four ExxonMobil directors, we did not include a director voting column in Figure 5 for 2021.)

Figure 5 · Investor Voting on Items Flagged by Climate Action 100+

		2022 Proposals	2022 Directors	All 2022 Flagged Votes		2021 Proposals	All 2021 Flagged Votes	
Investor	AUM ($bn)	For/Total	Against or Withhold/ Total	Matches Flag/Total	**Percent Matching**	For/Total	Matches Flag/Total	**Percent Matching**
BNP Paribas Asset Mgmt.*	$612	10/10	9/9	19/19	**100%**	13/13	17/17	**100%**
Union Investment*	$438	9/9	8/9	17/18	**94%**	5/7	5/7	**71%**
Parametric Portfolio Assoc.*	$429	11/11	7/10	18/21	**86%**			
AEGON Inv. Mgmt. B.V.	$461	7/7	6/9	13/16	**81%**	11/11	14/15	**93%**
Amundi Asset Mgmt.*	$1,811	10/11	7/10	17/21	**81%**	8/8	8/8	**100%**
AXA Inv. Managers*	$1,000	10/11	7/10	17/21	**81%**	11/12	14/16	**88%**
DWS Investment GmbH*	$833	10/11	7/10	17/21	**81%**			
Credit Suisse Asset Mgmt.*	$508	9/10	4/7	13/17	**76%**	11/11	14/15	**93%**
Aviva Investors*	$405	9/11	7/10	16/21	**76%**	11/11	15/15	**100%**
Nordea Bank Oyj*	$667	8/8	5/10	13/18	**72%**	12/12	16/16	**100%**
APG*	$711	2/2	3/6	5/8	**63%**			
Allianz Global Investors*	$578	10/11	3/10	13/21	**62%**	13/14	16/18	**89%**
Legal & General Inv. Mgmt.*	$1,327	10/11	3/10	13/21	**62%**	13/13	17/17	**100%**
Schroders PLC*	$939	11/11	2/10	13/21	**62%**	12/13	16/17	**94%**
HSBC Global Asset Mgmt.*	$621	10/11	2/10	12/21	**57%**	13/13	13/13	**100%**
Manulife Inv. Mgmt.*	$444	10/11	2/10	12/21	**57%**	14/14	18/18	**100%**
Danske Bank A/S*	$704	3/3	1/4	4/7	**57%**			
MetLife	$558	10/10	1/10	11/20	**55%**	8/11	11/15	**73%**
Fidelity International	$401	9/10	1/9	10/19	**53%**			
abrdn plc*	$508	10/11	1/10	11/21	**52%**	13/14	17/18	**94%**
Goldman Sachs Asset Mgmt.*	$2,470	10/11	1/10	11/21	**52%**	11/13	15/17	**88%**
Morgan Stanley Inv. Mgmt.	$633	10/11	1/10	11/21	**52%**	12/14	15/18	**83%**
Principal Global Investors	$577	10/11	1/10	11/21	**52%**			
Wellington Mgmt.*	$1,488	10/11	1/10	11/21	**52%**	9/11	13/15	**87%**
BNY Mellon Inv. Mgmt.	$2,400	9/10	1/10	10/20	**50%**	12/13	16/17	**94%**

Note: In last year's analysis we counted all split votes as "Against," but this year we gained access to fund-level voting data, which allowed us to count asset managers as supporting a proposal or director vote when at least 75% their funds voted "For." In Figure 5, counting these supportive split votes cast by Allianz Global, Invesco, Massachusetts Mutual, Franklin Templeton, and Capital Group raised their 2022 Percent Matching results by at least five percentage points, compared to what it would have been if they had not been given credit for split votes.
* = Indicates Signatory to CA100+ Initiative.

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Figure 5 · Investor Voting on Items Flagged by Climate Action 100+, continued

		2022 Proposals	2022 Directors	All 2022 Flagged Votes		2021 Proposals	All 2021 Flagged Votes	
Investor	AUM ($bn)	For/Total	Against or Withhold/ Total	Matches Flag/Total	**Percent Matching**	For/Total	Matches Flag/Total	**Percent Matching**
MFS Inv. Mgmt.*	$557	8/8	1/10	9/18	**50%**			
Natixis Inv. Managers*	$1,400	6/7	0/5	6/12	**50%**			
Nuveen/TIAA*	$1,100	9/11	1/10	10/21	**48%**			
Columbia Threadneedle*	$459	7/8	1/9	8/17	**47%**			
Allspring Global Invs.*	$648	8/11	1/10	9/21	**43%**	13/14	16/18	**89%**
Charles Schwab Inv. Mgmt.	$701	8/11	1/10	9/21	**43%**	8/13	11/17	**65%**
Invesco*	$1,476	8/11	1/10	9/21	**43%**	7/13	8/17	**47%**
Northern Trust Invs.*	$1,607	9/11	0/10	9/21	**43%**	11/14	11/18	**61%**
Mass Mutual Life Insurance	$771	6/11	2/10	8/21	**38%**			
Franklin Templeton*	$1,478	3/9	4/10	7/19	**37%**	9/14	10/18	**56%**
New York Life Inv. Mgmt.	$600	4/4	0/7	4/11	**36%**	9/11	12/15	**80%**
Eaton Vance Mgmt.	$500	5/5	0/9	5/14	**36%**	4/5	4/5	**80%**
AllianceBernstein*	$722	6/11	1/10	7/21	**33%**	11/14	14/18	**78%**
Geode Capital Mgmt.	$915	7/11	0/10	7/21	**33%**	11/14	11/18	**61%**
J.P. Morgan Inv. Mgmt.*	$2,960	6/11	1/10	7/21	**33%**	11/14	14/18	**78%**
RBC Global Asset Mgmt.*	$476	6/11	1/10	7/21	**33%**	12/12	15/16	**94%**
Capital Group	$2,600	4/9	2/10	6/19	**32%**	6/12	10/16	**63%**
BlackRock*	$8,487	5/11	1/10	6/21	**29%**	8/14	11/18	**61%**
State Street*	$3,475	4/11	1/10	5/21	**24%**	10/14	12/18	**67%**
Federated Inv. Mgmt.	$669	4/11	0/10	4/21	**19%**	12/12	16/16	**100%**
Fidelity Mgmt. & Research Co.	$4,283	4/11	0/10	4/21	**19%**	5/14	7/18	**39%**
T. Rowe Price Associates	$1,310	4/11	0/10	4/21	**19%**	10/14	13/18	**72%**
Vanguard Group	$7,796	4/11	0/10	4/21	**19%**	7/14	9/18	**50%**
Dimensional Fund Advisors	$743	2/11	1/10	3/21	**14%**	2/14	4/18	**22%**

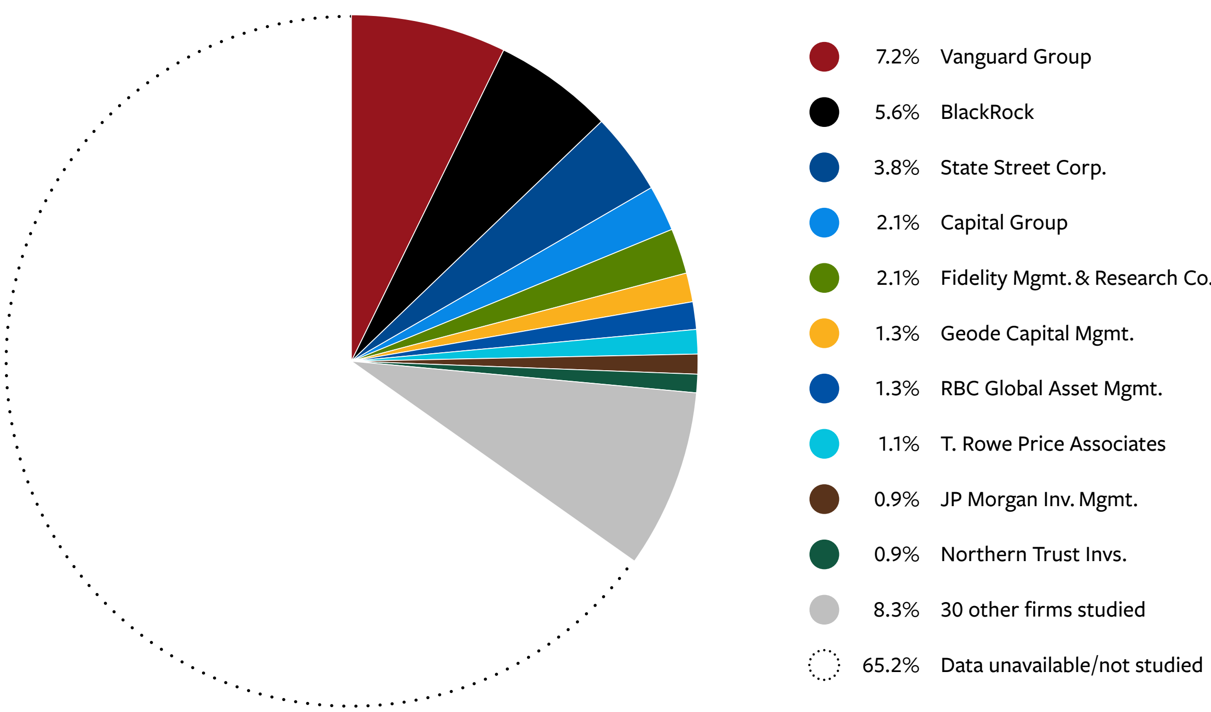
Note: In last year's analysis we counted all split votes as "Against," but this year we gained access to fund-level voting data, which allowed us to count asset managers as supporting a proposal or director vote when at least 75% their funds voted "For." In Figure 5, counting these supportive split votes cast by Allianz Global, Invesco, Massachusetts Mutual, Franklin Templeton, and Capital Group raised their 2022 Percent Matching results by at least five percentage points, compared to what it would have been if they had not been given credit for split votes.
* = Indicates Signatory to CA100+ Initiative.

Examples of Proposals that Most Asset Managers Voted For

While there were no clear victories on director votes related to climate in 2022, there were, as mentioned earlier, many high votes garnered on climate-related shareholder proposals. Among the examples of 2022 proposals that almost all asset managers in the study supported are:

- Green Century Capital Management requested that the retailing giant Costco set science-based targets for its full value chain. The proposal received 70% shareholder support. Costco then agreed to set emissions reduction targets as announced by Green Century. 36 out of 46 managers who held Costco shares voted "For"; the only managers that did not were AllianceBernstein, BlackRock, Federated, Fidelity, Geode, J.P. Morgan, Natixis, RBC, State Street, and T. Rowe Price.
- At ExxonMobil, 37 out of 46 managers holding shares supported a proposal filed by Christian Brother's Investment Services requesting an audited report on how the International Energy Agency's Net Zero by 2050 pathway would affect the accounting underlying its financial statements. The vote was 51% in favor. Only Capital Group, DWS, Dimensional, Federated, Fidelity, Franklin Templeton, RBC, State Street, and Vanguard did not support the request.

Figure 6 · Estimated Influence on 2022 Climate Proposals: Average Holdings of Managers Studied
(Data available for 40 managers)



Voting Power

Some managers are much larger shareholders than others, which gives them proportionally more influence on vote outcomes. The ten largest shareholders reported holding 26% of company shares on average, where climate votes were cast. See methodology for details. Of these ten managers shown in Figure 6 above, seven of them reduced voting support from 2021 levels, each falling by 10 percentage points or more in 2022. Capital Group and J.P. Morgan Asset Management barely changed their voting behavior, and Northern Trust Investments raised its vote support by nearly 20 percentage points, voting for 83% of proposals it saw in 2022.

What Can We Expect in 2023 and Recommendations for Asset Managers

Based on data we've gathered about the upcoming 2023 proxy season, Ceres expects a continuation of several of the key trends from 2022. The most common type of climate-related proposal by far will be those requesting science-based emissions reductions targets including transition plans describing how companies will begin to meet the targets. Lobbying disclosure is likely to be the second most prevalent type of climate-related shareholder proposal. As more investors add language to their proxy voting guidelines about voting against directors for climate reasons, we also expect an uptick in the number of votes against directors at companies that lack disclosure based on frameworks similar to the Task Force on Climate-Related Financial Disclosure (TCFD) or the Climate Action 100+ Benchmark.

Asset managers should update their proxy voting guidelines to encourage voting support for climate-related shareholder proposals and director votes that are well designed to reduce risks to individual companies and to investor portfolios. We also recommend that more investors disclose their voting rationales, including sufficient detail to provide feedback that will help filers of proposals better meet the investors' needs.

As climate impacts such as severe weather events continue to intensify, climate risk to investors, companies, and the global economy will continue to grow. Voting in support of sensible climate-related shareholder proposals and director campaigns is a concrete and necessary step asset managers need to take to address these risks.

This Ceres analysis is authored by Rob Berridge, senior director of shareholder engagement, and Ryan Taylor, senior associate of shareholder engagement, based on the 2022 proxy voting records of the fifty largest asset managers globally covered by data provider Insightia (formerly Proxy Insight), a Diligent brand. Thank you to Barbara Grady and Charles Gibbons, our colleagues at Ceres who contributed their expertise to this report. The methodology used for this analysis is publicly available here.

For questions or comments, please contact:

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About Ceres

Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world's greatest sustainability challenges. Through our powerful networks and global collaborations of investors, companies, and nonprofits, we drive action and inspire equitable market-based and policy solutions throughout the economy to build a just and sustainable future. For more information, visit ceres.org and follow @CeresNews.