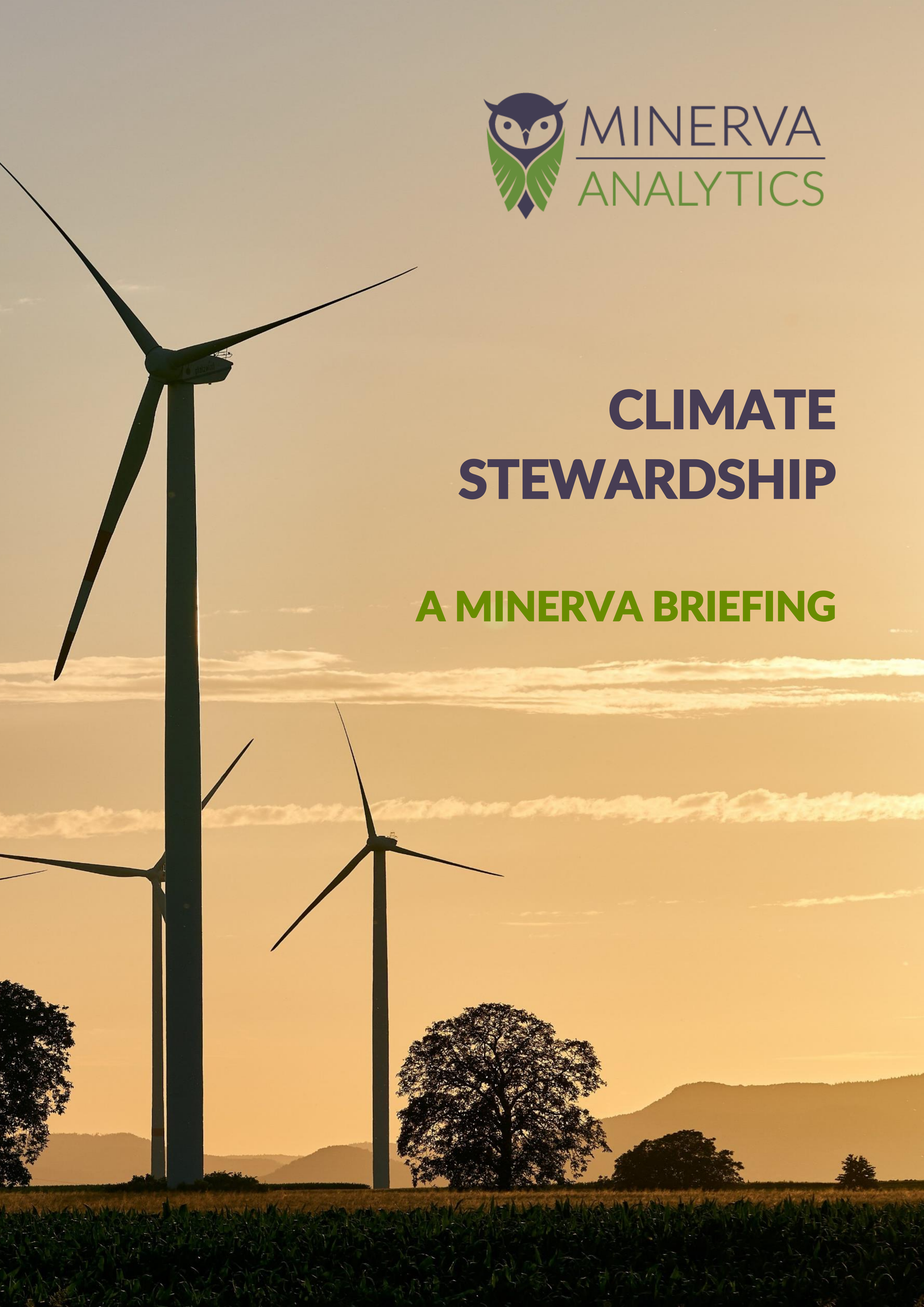
# CLIMATE STEWARDSHIP

## A MINERVA BRIEFING



MINERVA ANALYTICS

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# 1 INTRODUCTION

In August 2021, the Intergovernmental Panel on Climate Change (IPCC) published the first instalment of its sixth assessment report. The report found that it is unequivocal that human influence has warmed the atmosphere, ocean and land, and human-induced climate change is already affecting many weather and climate extremes in every region across the globe[i]. Climate change is already impacting economies and markets today. Left unabated, conservative estimates suggest the global costs of climate inaction are equivalent to losing between 5 and 20% of global gross domestic product each year, now and forever.[ii] Climate action has been internationally prioritised as Goal 13 of the United Nations Sustainable Development Goals (SDGs), a framework for overcoming global challenges such as poverty and public health, all inextricably linked to climate change. Achieving the SDGs requires a shift in investments of US$5 to US$7 trillion per year until 2030, with climate-related costs of inaction valued at US$1 trillion per year.[iii]

Climate risks have tangible financial implications for institutional investors, which gives them a key role to play in driving progress in the transition to a low-carbon world. As the risk of climate inaction becomes clear, investors have begun calling for proactive climate-related disclosures, moving away from retroactive, year-end climate reporting. Companies have come under increasing pressure to align their business models with the Paris Agreement climate goals, which call for global warming to be capped at 1.5°C compared with pre-industrial levels.

With the acceptance of sustainability risk issues as legitimate fiduciary considerations[1], and the exponential growth of the ESG funds market, more and more institutional investors are adopting climate policies and providing statements of intent to address climate risks. This offers significant potential for progressing the transition to a low-carbon economy. However, investors' ambition requires meaningful action. Holding investee companies to account for their climate reduction strategies through thoughtful stewardship activities can play a pivotal role in achieving Paris-aligned Net zero targets.

This Minerva Briefing looks at the implications of Paris-aligned sustainable stewardship and outlines some of the key choices that investors can apply to support the Race to Net Zero and how Minerva's research and voting guidelines can support investors through informed stewardship.

[1] Globally, there are over 730 hard and soft-law policy revisions, across some 500 policy instruments, that support, encourage or require investors to consider long-term value drivers, including ESG issues. Policy change has clarified that ESG incorporation and active ownership are part of investors' fiduciary duties to their clients and beneficiaries. Source: Fiduciary Duty in the 21st Century, PRI and UNEPFI, 2019

## 1.1 Climate Stewardship – Minerva's Net Zero Commitment

Since 2015, the Minerva Say on Sustainability research and voting guidelines have offered consistent and comparable insights into the world's largest company's approach to sustainability reporting disclosure quality and are fully aligned to both the Transition Pathway Initiative and TCFD's principles.

In September 2021, Minerva announced its participation in the Glasgow Financial Alliance (GFANZ) Net Zero Financial Service Providers Alliance. Central to that commitment is the alignment of relevant products and services to support the scaling and mainstreaming of Paris Agreement alignment into the core of our business.

## 1.2 Climate Stewardship - Have Your Say

Reflecting on the emergence of climate change risk as a priority area for investors and companies, we can expect an increasing number of companies voluntarily putting forward climate transition reports and potentially climate-related resolutions. Minerva would therefore like to hear not only from our clients about their individual stewardship preferences, but also to understand the perspectives of the wider investment community, as well as issuers and other stakeholders. Click here to complete our stakeholder survey. We look forward to hearing from you.

**HAVE YOUR SAY**

*"We are not on a path to stabilise temperature. If there is no action, we will be in a climate emergency... A question for every company, every financial institution, every asset manager, pension fund or insurer: what's your plan?"*

Mark Carney, UN Special Envoy on Climate Action and Finance, Chair of the COP 26 Private Finance Hub (2019).

*Source:* *Bank of England*

# 2 CLIMATE STEWARDSHIP EXECUTIVE SUMMARY

- Climate-related voting is growing due to legal, regulatory and market expectations.
- Several competing initiatives and approaches are emerging.
- Institutional investors need to be ready for a step change in approach to climate stewardship.
- At minimum, investors need to review the following as soon as possible:
    - Investment policies, including benchmarking, stock selection and retention
    - Stewardship and voting guidelines including:
        - Integration with other climate initiatives
        - Treatment of shareholder resolutions vs management resolutions
        - Market by market differences
        - Legal implications
        - Sustainable stock lending practices
        - Pooled fund voting considerations
        - Manager monitoring
    - Disclosure and reporting practicalities.

## 2.1 Minerva - Here to Help

The pace of change in ESG regulations and increased complexity and plethora of choices can appear intimidating for busy stewardship teams. Minerva, together with its strategic shareholder, Solactive, is ready to help investors integrate climate and sustainability into their strategy and stewardship activities through custom indexes and benchmarks, together with science-based temperature alignment measurement tools.

Minerva's award-winning services are aligned with key climate-related frameworks UN-SDGs, TCFD, GRI, and TPI; together with legal and regulatory requirements including the FCA, European Taxonomy, SEC guidance and UK pensions laws.

For more information, please email hello@minerva.info or call + 44 (0)1376 503500

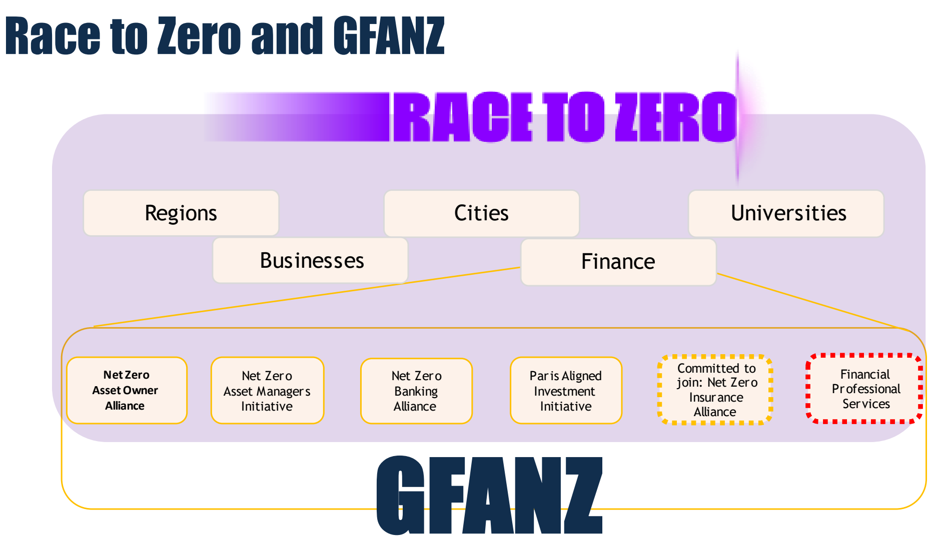
# 3 INVESTOR CLIMATE INITIATIVES

Numerous initiatives have emerged to support climate-aware investors in recent years. The table overleaf is just a brief snapshot of the initiatives helping to drive climate stewardship in the finance sector. If you wish to find out more about any of the below initiatives, check out 'Minerva Briefing: The road to COP 26.'

**More recently, the Net Zero Financial Service Providers Alliance (NZFSPA) has also been added to the line-up of initiatives, with Minerva as a founding member.** Announced at the UN Climate Week in New York, September 2021, the Alliance brings financial service providers together committed to the goal of net zero greenhouse gas emissions by 2050 or sooner, consistent with a maximum average global temperature rise of 1.5°C above pre-industrial levels.

Minerva joins a range of other service providers from around the world who are committed to raise the urgency of net zero alignment and integrate net zero alignment into the products and services we offer capital market participants. The NZFSAP is accredited by the Race to Zero and is a member organisation of the Glasgow Financial Alliance for Net Zero (see Figure 1). It shares an ambition with the Net Zero Asset Owner Alliance and the Net Zero Asset Managers Initiative.

**Figure 2 – Organisational members of the GFANZ Race to Zero initiative**




*Source: GFANZ*

**Sustainability is the future of investing. Find out how Minerva is supporting Sustainable Stewardship from some of our other Briefings, including:**
COP 26 | Biodiversity & Stewardship | Greenwashing | Sustainable Securities Lending

## 3.1 Climate Investment Initiatives

| Name | Convenor(s) | Commitments/Details | Cost |
|---|---|---|---|
| Race to Zero | Convened by the United Nations Framework Convention on Climate Change and the COP26 High-level Champions for Climate Action, Nigel Topping and Gonzalo Muñoz. | Engaging as an investor requires you to contact the Net-Zero Asset Owners Alliance. | Dependent on the cost of joining the UN-Convened Net Zero Asset Owner Alliance or the Net Zero Asset Manager Initiative. |
| Net Zero Asset Manager Initiative | This initiative is convened by the AIGCC, CDP, Ceres, IGCC, IIGCC and the PRI. | Signatories must commit to work with asset owner clients on 2050 decarbonisation goals, set an interim decarbonisation target, and review the interim targets at least every five years until 100% of assets are included. | No cost mentioned. |
| UN-Convened Net Zero Asset Owner Alliance | This initiative is convened by the UNEP Finance Initiative. | Investors must publicly commit to transitioning their investment portfolios to net-zero GHG emissions by 2050. They must also carry out and disclose a portfolio baseline assessment, set a 2025 four-part target (by sub-portfolio, sector, engagement, and financing), and public a first aggregate target report by COP26. | Signatories are required to make an annual contribution of €20,000. Some adjustments are made for investors with smaller AUM. |
| Net Zero Financial Service Providers Initiative | This initiative is still in a formative state, convened by a group of service providers. | Service providers must sign a commitment listing several actions necessary to transition their business toward a net zero pathway. | No cost currently. |
| Glasgow Financial Alliance for Net Zero | This initiative is convened by Mark Carney, the UK Prime Minister's Finance Advisor for COP26, and the COP26 Private Finance Hub. | GFANZ membership will be channelled exclusively through the entry criteria and process of the Race to Zero campaign. | Dependent on the cost of joining the many climate initiatives listed in Figure 1. |
| Paris Aligned Investment Initiative | This initiative is convened by the IIGCC, APG, the Church of England Pension Board, and Ceres. | Members of the IIGCC who wish to begin their net zero journey will be able to join this initiative. Joining the IIGCC does not require any commitments to net zero or reduced carbon footprint, so barrier to entry is low. | Dependent on the cost of joining IIGCC. |
| Climate Action 100+ | This initiative is convened by the AIGCC, Ceres, IGCC, IIGCC, and PRI. | Sign the Climate Action 100+ 'Sign-on Statement'. To join, investors must be an asset owner, an asset manager, or a service provider that is formally representing assets and that typically conducts engagements with companies; a member of one of the co-ordinating investors networks; and, able to participate in engagements with focus companies. | Dependent on the cost of joining the convening investor networks. |

# 4 CLIMATE STEWARDSHIP

While a useful starting point, public policy frameworks and grass roots initiatives are really only just a starting point. Tackling climate change also means being a good steward of your investments. This means casting a critical eye over investee company climate commitments and disclosure and driving change where needed through informed voting and engagement.

Historically, where shareholders have had concerns with sustainability or climate risk and transition plans, the key voting options have been to register dissent on the election of the board chair and/or directors with ESG responsibility, or alternative to vote against the report and accounts.

However, there have been three recent developments in climate stewardship that aim to give shareholders a direct say over a company's climate stewardship:

1. More prominent use of shareholder-sponsored climate resolutions;
2. The emergence of the Say on Climate Initiative; and
3. More management-sponsored resolutions on climate plans.

As a result of these developments, shareholders found themselves voting on a record number of climate-related resolutions in 2021 and it is widely expected that 2022 will see a further increase in climate-specific resolutions. Markets such as the UK are also requiring institutional investors to integrate ESG, stewardship and climate change issues into their Investment Strategy Statements.

Asset managers and owners therefore need to be prepared for increased levels of climate voting. Key preparations include:

- **Policies:** Investment and stewardship policies showing a strong commitment to the net-zero transition;
- **Voting Guidelines:** Robust guidelines in place to support informed voting and engagement decisions; and
- **Reporting**: Clear and accessible disclosure capabilities are needed to support the increasing regulatory and market expectations around stewardship and voting records. These are being required to enable beneficiaries and stakeholders to directly assess how investors are embedding climate risk factors in their investment strategy and to understand the specific rationales for voting and stewardship.

## 4.1 Shareholder Proposals

The 2021 voting season has been described as a watershed moment for shareholder activism on climate change. Not only was the number of climate resolutions standing at unprecedented levels, a number of climate-focused shareholder proposals urging companies to enhance disclosure and strengthen mitigation strategies were successful. These results highlight the rapidly changing investor expectation on climate action and the risks for companies seen as not responding to the climate transition.

In addition to successful climate disclosure proposals, activist shareholder Engine No. 1 saw success in its proxy fight with major oil and gas firm Exxon Mobil, with shareholders voting to install three of its nominees onto the board in order to drive Exxon's climate risk and energy transition strategy. Some of the most notable climate-related shareholder resolutions in 2021 included:

**Table 2: Notable climate-related shareholder resolutions in 2021**

**Management Supported**

| Company | Resolution Focus | For Votes % |
|---|---|---|
| DSV Panalpina AS | Climate-related Financial Risk Disclosure | 98.75% |
| Rio Tinto Ltd | Climate Lobbying | 98.59% |
| Rio Tinto Ltd | Emission Targets | 98.52% |
| Bunge Ltd | Deforestation Policy and Disclosure | 98.43% |
| General Electric Company Inc | Net-Zero Commitment | 96.58% |

**Non-Management Supported**

| Company | Resolution Focus | For Votes % |
|---|---|---|
| DuPont de Nemours Inc | Plastic Pollution Policy and Disclosure | 79.90% |
| Phillips 66 | Emission Targets | 79.37% |
| Norfolk Southern Corp | Climate Lobbying | 75.96% |
| Bloomin Brands Inc | Climate Policy and Disclosure | 75.64% |
| United Airlines Holding Inc | Climate Lobbying | 65.04% |
| Delta Airlines Inc | Climate Lobbying | 62.66% |
| Phillips 66 | Climate Lobbying | 62.01% |
| Exxon Mobil Corp | Climate Lobbying | 61.67% |
| Chevron Corp | Emission Targets | 59.78% |
| ConocoPhillips | Emission Targets | 58.63% |
| Booking Holdings Inc | Climate Transition Report | 56.15% |

## 4.2 Say on Climate Initiative

The Say on Climate Initiative, launched in 2020 by the Children Investment Fund Foundation (CIFF), is led by billionaire philanthropist Sir Chris Hohn and focuses on investors' approach to climate stewardship. Specifically, Hohn's team are targeting asset owners, asset managers, companies, proxy advisors and regulators to endorse a shareholder vote on climate disclosure.

CIFF calls on companies to **provide annual disclosure of emissions, present a detailed climate action transition plan and to put forward an annual resolution at the AGM seeking shareholder approval of the climate transition action plan.** Of course, shareholders have always had the power to hold directors accountable for their risk management and strategic plans; but until relatively recently, broad sustainability or specific climate change issues have rarely been on the policy agenda for most investors and investee companies.

Despite being a relatively recent initiative, CIFF has already succeeded in getting a shareholder vote on climate plans on the agenda of companies in several major markets in 2021 and so has a significance for both investors and service providers. Minerva's proxy voting services are no exception and so in the next chapter, we look in more detail at the issued raised by the Say on Climate campaign to answer three questions:

I. What is the CIFF Say on Climate campaign asking for?
II. What are its potential drawbacks?
III. What alternatives exist for climate-aware voting?

We will also address how Minerva's recently updated Say on Sustainability voting guidelines address the needs of Paris-aligned Net zero investors whether they support the climate sensitive voting generally or the Say on Climate initiative specifically.

**The Children's Investment Fund Foundation**

CIFF was established in 2002 by Chris Hohn and Jamie Cooper and is the world's largest philanthropic organisation that focuses on improving children's lives, with an endowment of around $6bn. TCI Fund Management was established in June 2003 by Chris Hohn who manages The Children's Investment Master Fund.

# 5 WHY A "SAY ON CLIMATE"?

The CIFF Say on Climate initiative argues that disclosure alone cannot drive the change we need from businesses to address climate change risks. Furthermore, the initiative contends that ad-hoc voting against individual directors without public explanation has so far failed to deliver results. Instead, CIFF proposes that sustained shareholder pressure through systematic engagement and evidence-based voting are needed to secure change.

Say on Climate therefore proposes **advisory and non-binding resolution that allows shareholders to express their opinion on a company's climate strategy and performance**.

The underlying intention is to encourage:

- better disclosure of and transparency around company climate metrics and transition plans
- greater shareholder engagement with companies in respect of climate risks, and
- board accountability to shareholders through an annual vote on the climate transition.

Say on Climate encourages companies to disclose climate-related risks and opportunities, targets, and, subject to consultation, transition plans in line with the reporting framework created by the **Task Force on Climate-related Financial Disclosures**;[2] thereby also encouraging greater standardisation in climate disclosures.

Adoption of Say on Climate also formalises the issue of climate change as a routine agenda item and, in theory, forces both companies and investors to take climate stewardship seriously by requiring the development of guidelines to inform disclosure, assessment and voting decisions. However, as the votes are non-binding, this means there are no legal implications on the company if shareholders reject a Say on Climate vote.

### The Say on Climate Initiative Ask

The Say on Climate proponents, including: the climate change charity, CDP; Share Action, and the Australasian Centre for Corporate Responsibility (ACCR) are calling for the following minimum commitments:

- Annual disclosure of emissions and a plan to reduce emissions
- An annual shareholder vote on the climate transition plan at the AGM.

[2] The G20's Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) has developed voluntary, consistent climate-related financial risk disclosures to help investors, lenders, insurers, and other stakeholders understand, measure and respond to climate change risks. The TCFD framework recommends companies to make public disclosures, i.e. in annual reports, on: (i) Governance: The organisation's governance around climate-related risks and opportunities. (ii) Strategy: The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning. (iii) Risk Management: The processes used by the organisation to identify, assess, and manage climate-related risks. (iv) Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

## 5.1 Say on Climate's Thesis

The Say on Climate initiative argues that companies and investors are failing to address climate change. Their core arguments can be grouped into three main propositions.

### Core arguments by Say on Climate

| |
|---|
| **1. Every company needs to publish a credible climate transition action plan:** |
| • The G30 report co-chaired by Mark Carney and Janet Yellen says: "At a minimum, companies will have to set out targets for their Scope 1, 2 and 3 emissions, and set credible milestones."[iv]<br>• $55tn Climate Action 100+ group of investors has called on companies to set out net zero strategies.<br>• Regulators and standard setters are moving towards requiring disclosure of plans. |
| **2. Companies are failing to show how they will make the transition to net zero:** |
| • Fewer than 5% of companies have committed to set a Science-Based Target. |
| **3. Investors are failing in their fiduciary duty to hold companies to account:** |
| • Fewer than 100 companies globally face their shareholders on climate change each year, and this is largely ad hoc. This must be the standard for every company, every year.<br>• Until recently, the biggest asset managers as detailed by public voting records have failed to support the relatively few climate resolutions that get filed. |

Source: http://sayonclimate.org

## 5.2 The Drawbacks of Say on Climate

Although Say on Climate initiative intends to encourage greater climate disclosure and accountability, and arguably being more proactive in using existing shareholder rights to progress action on an important governance risk factor rather than waiting for centralised regulation, it is not without its detractors.

Professor Robert G Eccles, Founding Chairman of the Sustainability Accounting Standards Board and one of the founders of the International Integrated Reporting Council, has called Say on Climate:

> *'well-intentioned, futile, and a drain on the engagement bandwidth of investors who have more effective tools for getting their portfolio companies to mitigate and adapt to climate change. It is modelled after the "Say on Pay" initiative and this has proven to be of no consequence in the U.S., although it may be a bit more effective in a few other jurisdictions. For the most part it has served to insulate directors for accountability on pay and it is likely that "Say on Climate" will do the same.'* [v]

Minerva's stewardship team has closely studied the Say on Climate initiative and considered the various claims and counterclaims. We've brought these together in the tables below.

### 5.2.1 Say on Climate - Accountability and Liability

| Accountability |
| --- |
| There are questions over executive and shareholder accountability for strategy as company climate strategy is increasingly integral to the overall business model and strategy. Shareholders need to be careful in potentially signing off on company strategy and Say on Climate should not be used to delegate strategic oversight to shareholders or to micromanage businesses.<br>Demonstrating this concern, the world's largest asset manager, Blackrock, has expressed concerns stating: *Say on Climate 'could shift accountability from boards to investors. Although advisory votes are non-binding in nature and have no legal impact on the company should a proposal be rejected by shareholders, this approach has the potential to weaken board accountability if used in isolation. Blackrock Investment Stewardship believes it is the board's responsibility to oversee all risks to the company, including climate, and ensure appropriate reporting to shareholders.'* [vi]<br>Accountability concerns are also reflected in the IIGC's position statement on Say on Climate. Whilst the IIGC endorses Say on Climate, it also calls for companies to identify any principal directors that have been assigned responsibility for the climate transition plan and for shareholders to consider voting against the chair of the board and the responsible director(s) where there are concerns regarding a company's climate transition[vii]. |
| **Say on Pay Effectiveness** |
| Say on Climate is modelled on Say on Pay and, arguably, the introduction of Say on Pay has not only not resulted in lower executive remuneration, but it has also had the unintended consequence of contributing to pay complexity and excessive disclosure. Say on Pay votes are routinely voted through by shareholders with high levels of support and so it is questionable that this is a successful model to emulate. |
| **Shareholder Liability** |
| There are concerns that shareholders could become liable for corporate climate change failings if they approve climate plans. For example, they may be unable to participate in future legal action if they voted through a company's climate strategy whose disclosures later prove to be fraudulent or inaccurate. With climate litigation on the rise, as demonstrated by the recent landmark court case ordering Royal Dutch Shell to cut its CO2 emissions, there is an increasing risk of legal action for listed companies over climate strategy.[viii]<br>Shareholders therefore need to ensure they do not inadvertently take steps which could lead to further downstream harm or constraints. |

### 5.2.2 Say on Climate – Wider Financial Sector Issues

**Crowded Field**

There are already numerous climate change initiatives and with the global market coalescing around TCFD as the desired reporting framework. Questions can therefore be asked as to whether another initiative is needed and if an annual non-binding Say on Climate vote is more effective than holding individual directors accountable.

Asset manager State Street has expressed reservations with the effectiveness of Say on Climate stating that if it *'were to become a formal market practice, resulting adverse outcomes could include insulating directors from accountability, distracting from already existing frameworks (such as TCFD, SASB, and GRI) which are increasingly beginning to harmonize and become widely adopted, and straining investors' limited proxy voting resources.'* [ix]

**Lack of Good Practice Frameworks**

While some jurisdictions such as the UK have very strong reporting requirements for issuers, the same is not true of all global markets. The Say on Climate resolutions are new, and guidelines and frameworks have yet to be developed to assist investors and companies. Companies voluntarily adopting a Say on Climate vote have also taken a varied resolution format. Greater standardisation in Say on Climate votes is needed for the mechanism to be effective and good practice guidelines developed to assist shareholders in assessing decarbonisation plans and making climate voting decisions.

### 5.2.3 Say on Climate - Greenwashing and Rubber-stamping

**Greenwashing**

The voluntary adoption of Say on Climate at carbon-intensive companies could be viewed as an attempt in trying to take back control following an increase in shareholder support for climate shareholder proposals. In 2021 several climate-related shareholder proposals were successful in the US market, including proposals going beyond disclosure requests and asking for more substantive changes, and adoption of Say on Climate could be used as a mechanism to prevent and exclude future proposals. Voluntary adoption can also serve as a defence mechanism to appear more progressive than peers. Alternatively, companies that are confident shareholders will pass their climate plan may be more likely to adopt Say on Climate meaning the worse emitters and contributors to climate change will simply avoid shareholder scrutiny.

**Rubber-Stamping**

There are concerns that if Say on Climate becomes routine, investors may be passive and simply vote through climate plans; investors may also lack the expertise to analyse company climate disclosures, and the time and resources required for yet another new vote. Investors will find it challenging to conduct meaningful analysis of every investee company's climate plan and may find themselves with less resources to engage climate laggards and companies with greater exposure to climate risk.

Additionally, reports published by various shareholder advocacy and research groups have already raised concerns with the voting records of some of the world's largest asset managers on ESG and climate issues.[x] The voting results for Say on Climate votes held in 2021 have averaged over 90% shareholder support, signalling shareholders are supporting management to a considerable degree on climate strategy. Say on Climate will only be effective if investors are able and willing to hold companies to account for failures on the climate transition through a negative vote.

## 5.3 Say on Climate in Action

The Say on Climate initiative has moved quickly and has received support from companies, asset managers and asset owners. Several companies have voluntarily adopted a Say on Climate vote without the need for a shareholder proposal to be filed.

### Table 1: Say on Climate Supporters

| Say on Climate Supporters | | | | |
|---|---|---|---|---|
| Companies | | Asset Managers | | Asset Owners |
| Anglo American | Nestle | Algebris Investment | NinetyOne (Investec Asset Management) | Children's Investment Fund Foundation |
| Aviva | Oil Search | Appian Way Asset Management | Oceanwood Capital Management | Gjensidige Stiftelsen |
| Barclays | Origin Energy | BDL Capital Management | Rothschild & Co Wealth Management | Local Authority Pension Fund Forum |
| BHP | Rio Tinto | BlueDrive Global | Sarasin & Partners | London CIV |
| Canadian National Railway | Royal Dutch Shell | Boussard & Gavaudan | Soros Fund Management | Northern LGPS |
| Canadian Pacific | S&P Global | Campion Capital | TCI Fund | University of Oxford |
| Ferrovial | Santos | Capricorn Investment | Vista Equity Partners | Vision Super |
| Glencore | Total | Caxton Associates | | |
| LafargeHolcim | Unilever | CDPQ | | |
| M&G | Vinci | Douglass Winthrop-Environment Strategy | | |
| Moody's | Woodside Petroleum | Legal & General | | |
| National Grid | | Menhaden | | |

*As at 21/09/2021. https://sayonclimate.org/supporters/*

U.N. climate envoy and former Bank of England Governor Mark Carney has added his backing for annual shareholder votes on company climate plans (although not referencing Say on Climate initiative directly):

***"Rather than have authorities be overly prescriptive on plans, it may be desirable to have investors have a say on transition. This would establish a critical link between responsibility, accountability and sustainability."[xi]***

## 5.4 Say on Climate Early Adoption

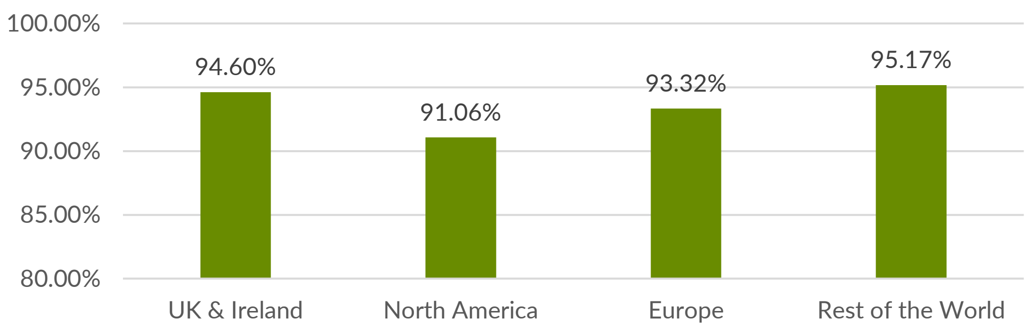
In 2020, TCI Fund Management filed a resolution at Spanish airport operator Aena SA asking the board to present a climate transition action plan to the AGM and prepare an annual progress report drawn in accordance with the TCFD recommendations. The proposal also asked the board to hold an annual advisory vote on the climate progress report. Additionally, TCI filed a second resolution asking the board to insert a new article into the bylaws to reflect the requested Say on Climate.

The resolution seeking an annual advisory vote on the climate transition action plan passed with 98.15% support and the bylaw amendment resolution passed with 96.52% support. This early success provided the Say on Climate initiative the platform to expand its approach and target other companies. The initiative has outlined an intention to submit proposals to hundreds of companies globally during the coming years.

The adoption of the **say on climate has quickly become a global trend, with several companies voluntarily holding a vote in 2021**. The early adopters come from a range of markets including the UK, United States, Canada, France, Spain, and Switzerland. As more companies adopt a say on climate vote, it may prove itself as undemanding on companies and attract those that want to present themselves as global leaders in good practice. However, whilst say on climate has received support in Europe and North America, with Australia set to see its first climate votes in 2022, no companies from Asia or South America have adopted a say on climate, and the only African company to offer a climate vote has a dual listing in the UK.

Of those companies that held a say on climate vote in 2021**, no company received shareholder dissent of 20% or more**, the threshold typically used to signify material dissent. Five companies have received more than 10% dissent (Atos SA, Glencore plc, Royal Dutch Shell plc, S&P Global Inc, Total SA).

**Figure 4: Shareholder Support on Mgmt. Say on Climate**




Despite the comparatively restrictive framework in place for shareholders to file resolutions in Australia, the Say on Climate initiative has been active ahead of the 2021 proxy season with the Australian Council of Superannuation Investors has expressed support for a Say on Climate advisory vote.

Australian company law does not give shareholders the ability to propose advisory non-binding resolutions. Instead, boards are required to amend the constitution to allow this right. Several Australian companies have now committed to offering a management-sponsored climate resolution to avoid a shareholder resolution process.

- AGL Energy Ltd
- Oil Search Ltd
- Origin Energy Ltd
- Rio Tinto Ltd
- Santos Ltd
- Woodside Petroleum Ltd

Other companies have recommended shareholders to vote against shareholder proposals requesting a Say on Climate. Of the shareholder requests for an introduction of a Say on Climate vote voted on in 2021, only the Canadian Pacific Railway Ltd Board recommended shareholders support the request. There have been six shareholder proposals in 2021 requesting the introduction of Say on Climate vote and they received on average 32.73% votes in favour.

### Table 2: UK & Ireland Say on Climate Votes 2021

| Company | Resolution | For Votes % | Management Support |
|---|---|---|---|
| Investec plc* | Management-sponsored Say on Climate | 99.83% | For |
| AVIVA plc | Management-sponsored Say on Climate | 99.57% | For |
| HSBC Holdings plc | Management-sponsored Say on Climate | 99.27% | For |
| SSE plc | Management-sponsored Say on Climate | 98.62% | For |
| Unilever plc | Management-sponsored Say on Climate | 97.42% | For |
| Severn Trent plc | Management-sponsored Say on Climate | 95.09% | For |
| National Grid plc | Management-sponsored Say on Climate | 93.32% | For |
| Ninety One plc | Management-sponsored Say on Climate | 90.50% | For |
| Glencore | Management-sponsored Say on Climate | 89.27% | For |
| Royal Dutch Shell plc | Management-sponsored Say on Climate | 83.15% | For |

### Table 3: North America Say on Climate Votes 2021

| Company | Resolution | For Votes % | Management Support |
|---|---|---|---|
| Canadian National Railway Company | Management-sponsored Say on Climate | 92.09% | For |
| Moody's Corp | Management-sponsored Say on Climate | 93.30% | For |
| S&P Global Inc | Management-sponsored Say on Climate | 87.78% | For |
| Canadian Pacific Railway | Shareholder-sponsored request for the introduction of Say on Climate | 85.36% | For |
| Booking Holdings plc | Shareholder-sponsored request for the introduction of Say on Climate | 34.08% | Against |
| Charter Communications | Shareholder-sponsored request for the introduction of Say on Climate | 36.77% | Against |
| Monster Beverage Corporation | Shareholder-sponsored request for the introduction of Say on Climate | 6.90% | Against |
| Union Pacific Corp | Shareholder-sponsored request for the introduction of Say on Climate | 30.66% | Against |

### Table 4: Europe Say on Climate Votes 2021

| Company | Resolution | For Votes % | Management Support |
|---|---|---|---|
| Iberdrola SA | Management-sponsored Say on Climate | 99.00% | For |
| Ferrovial SA | Management-sponsored Say on Climate | 96.76% | For |
| Ferrovial SA | Management-sponsored Say on Climate | 96.59% | For |
| Vinci SA | Management-sponsored Say on Climate | 96.57% | For |
| Aena SA | Management-sponsored Say on Climate | 95.66% | For |
| Nestle SA | Management-sponsored Say on Climate | 95.01% | For |
| Atos SE | Management-sponsored Say on Climate | 84.22% | For |
| Total SA | Management-sponsored Say on Climate | 82.78% | For |
| Hennes & Mauritz AB | Shareholder-sponsored request for the introduction of Say on Climate | 2.63% | Against |

### Table 5: Rest of the World Say on Climate Votes 2021

| Company | Resolution | For Votes % | Management Support |
|---|---|---|---|
| Investec Ltd* | Management-sponsored Say on Climate | 99.83% | For |
| Ninety One ltd* | Management-sponsored Say on Climate | 90.50% | For |

*Investec and Ninety One (formerly Investec Asset Management) are dual-listed companies with Investec plc and Ninety One listed in the UK and Invested Ltd and Ninety One Ltd listed in South Africa.

# 6 MINERVA AND CLIMATE VOTING

Despite the potential drawbacks and unintended consequences of the CIFF Say on Climate initiative, climate-conscious **shareholders are ready to use their votes to accelerate change to meet the Paris Agreement.** Minerva therefore expects more to voluntarily propose climate resolutions ahead of regulatory guidance or legal changes.

**Simply put, in addition to shareholders using their existing rights to vote on climate issues, for example through audit or director votes, we expect to see a significant number of climate-specific resolutions in the 2022 AGM season; both companies and investors need to be prepared for this.**

Since the launch of Minerva's "Say on Sustainability" research reports in 2012 our team has been a strong advocate for better disclosure and reporting on the full range of sustainability factors, including climate change. The Say on Climate initiative, however, is intended to generate a widespread increase in focus of listed companies and their investors on developing and delivering **Paris-aligned plans specifically**. Therefore, climate resolutions could result in greater disclosure on how companies plan to reach net zero and how they perform in getting there in line with the TCFD framework. Very importantly, by using existing shareholder rights rather than waiting for company law to change, investors can:

- Enable accelerated alignment with Paris Treaty commitments.
- Provide an opportunity to express their approval or disapproval of a company's decarbonisation strategy; and
- Create a channel for ongoing engagement and dialogue.

However, investors need to avoid rubber-stamping climate plans for the sake of appearances which could descend into greenwashing. Therefore, investors may additionally wish to send a clear signal of dissent to companies with inadequate transition plans by voting against the Say on Climate. In more challenging scenarios, a negative Say on Climate vote can be coupled with votes against director elections to ensure the board accountability link for climate strategy is maintained.

However, **boards and shareholders need to be careful in ensuring that board accountability and responsibility for strategy is maintained and that any form of "Say on Climate" does not undermine this principle**. Minerva's guidelines aim to tackle this by taking a holistic and responsible approach to climate stewardship.

Shareholders also need to be mindful of the potentially adverse consequences of voting through climate plans that are integral to a company's overall strategy. Specifically, they will need to consider whether supporting climate strategy proposals could constrain further action in the future, including, but not limited to litigation or director liability discharge resolutions (where such resolutions operate).

## 6.1 Minerva's Research Approach

The Minerva research and voting framework is unique in that it does not operate a one-size-fits-all recommendations model. Instead, clients can tailor their voting preferences to take account of high-level policy principles as well as the types of resolutions available. This is because there is rarely a one-to-one match between the issues and resolutions and there may be wider engagement or investment issues which are only known to the shareholders.

In addition to aligning their climate stewardship policy towards director accountability, we recognise that shareholders may also wish to have a policy for non-binding/advisory say on climate votes. To assist clients in climate stewardship and voting, Minerva is therefore introducing two additional climate resolution guidelines which complement our existing Say on Sustainability voting policy framework. The new guidelines will become operationalised in Q4 2021.

In the first instance we will categorise the resolutions by the proponent i.e. management or shareholder and within this framework offer more granular analysis of the types of issues under consideration. This enables Minerva's analysts and clients to, for example, identify resolutions which are governance and accountability focussed versus strategy specific, such as divestment.

In terms of specific disclosures, the Minerva team will be looking for clear references to the (non-exhaustive) list of issues in Table 6 overleaf.

## 6.2 Climate Voting – Stakeholder Consultation

Minerva would like to hear from investors and stakeholders on our proposed research framework summary outlined above, and what items they consider to be the key issues when voting on climate transition plans. To enable us to gauge stakeholder views we have created a web portal to gather feedback and to let everyone have a say. Our survey is looking for your feedback across a range of issues and addresses the following themes:

1. What are the most material issues for climate-related stewardship?
2. What are your views on climate-related performance targets?
3. Are you supportive of the introduction of shareholder-sponsored resolutions on climate change?
4. What are your thoughts about climate greenwashing?
5. Are climate-related votes a meaningful response to greenwashing concerns?
6. What issues do you consider when voting on shareholder requests on climate change?
7. Are there any issues that you consider to be **not** material?
8. Are there any additional climate issues that you would consider when making voting decisions that we have not considered?

HAVE YOUR SAY

If you would like to understand more about Minerva's approach to research and voting guidelines, please contact: hello@minerva.info or call + 44 (0)1376 503500 and ask to speak to the Stewardship team.

### Table 6: Minerva Climate Voting Guidelines Framework

**Climate Governance**

- Is there board-level responsibility for oversight of climate risks, either collectively or an individually nominated responsible director or committee?
- How are directors and employees incentivised to incorporate climate change either through reward or other forms of recognition?

**Climate Accounting and Capital Allocation**

- The Board has provided explicit affirmation that climate risks are incorporated in the financial statements, including consideration of the Paris Agreement.
- The auditor has disclosed how it has taken account of climate risks in the auditor report.
- The company has committed to aligning capital expenditures with the Paris Goals.

**Climate targets, disclosure, and strategy**

Has the company:

- disclosed Scope 1, 2 and 3 emissions, in full, consistently and preferably in a machine-readable format?
- Has the company disclosed a commitment to be net zero by 2050?
- Has the company disclosed short- and medium-term reduction targets covering at least 95% of Scope 1 and 2 emissions?
- Has the company's emission targets been accredited by a third-party as science-based (such as by Science Based Targets Initiative)?

**International Frameworks**

Has the company:

- at minimum referenced the TCFD?
- referenced alignment with the UN SDGs?

**Climate Engagement Policy**

- Has the Company disclosed a specific commitment to conduct all of its lobbying in line with the Paris Agreement Goals?

**Shareholder Requests for Say on Climate**

- Whether the proposal is intended to by binding or advisory
- Whether the proposal is effectively bundled and that in addition to governance and disclosure requests, it also contains an underlying request on climate strategy in the resolution narrative and/or supporting statement i.e., it includes an expectation that the company will divest from a certain climate activity or sell assets as part of its climate transition plan.
- Whether the resolution is supported by management or the supervisory board

**Legal Liability Concerns**

Clients that are concerned with the potential shifting of accountability for strategy from the board to shareholders have the option to withhold support for shareholder proposal requests for a climate vote but instead vote on other resolutions, for example, director liability discharge, director election or adoption of financial statements. We would always encourage shareholders to write directly to investee companies to explain their preferred approach. The Minerva Engagement Letter module can make this process completely seamless.

# About Minerva

Minerva helps investors and other stakeholders to overcome data disclosure complexity with robust, objective research and voting policy tools. Users can quickly and easily identify departures from good practice based on their own individual preferences, local market requirements or apply a universal good practice standard across all markets.

## Other Briefings Available

- Board Evaluation in Europe
- Board Gender Diversity in Europe
- Board Independence – A Global Review
- Chair Independence
- Cybersecurity
- Employee Board Representation in Europe
- Global Research and Voting Policy Guidelines 2019
- Investment Association Remuneration Guidelines
- Shareholder Rights Directive II
- Sustainability and Remuneration
- Tax Secrecy
- Regulatory Round-up
- Voting Trends

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# 7 REFERENCES


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