CLIMATE IN THE BOARDROOM

HOW ASSET MANAGER VOTING SHAPED **CORPORATE CLIMATE ACTION** IN 2023

majorityaction

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This study uses data obtained under license from Diligent Market Intelligence (formerly Insightia) between September 25 - September 29, 2023, and 2023 proxy vote analyses purchased from ISS Corporate Solutions, Inc.

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I. EXECUTIVE SUMMARY

Investors across the shareholder ecosystem witnessed one of the hottest years on record, with 2022 economic losses from climate-related disasters totaling $165.1 billion in the U.S. alone,[1] which impacted short, and, more importantly, long-term value creation in substantive and growing ways. The net zero reality is here. And yet, the majority of the largest U.S.-based asset managers have continued to shirk their responsibility to hold climate-critical companies accountable for a stable and responsible transition.

In the 2023 season, most of the largest U.S.-based asset managers continued to use the shareholder voting power entrusted to them by their clients to rubber-stamp the strategies of carbon-intensive companies failing to take necessary action on climate change. Their proxy voting decisions largely countenanced business-as-usual corporate behavior responsible for exacerbating both company-specific and systemic risks posed by climate change—once again setting them at odds with their fiduciary duty to long-term investors.

However, not all of the largest asset managers continued to fail their long-term clients and investors. Three asset managers' voting records in 2023 demonstrated their leadership among those analyzed: Amundi (France), Franklin Templeton (U.S.), and Legal & General Investment Management (U.K.) All three of these asset managers held companies vital to the net zero transition accountable for their failures to take necessary action in the face of escalating climate risks.

This report is designed to support investors as we look ahead to 2024, providing a thorough analysis of the proxy voting decisions of the largest asset managers. Clients and investors alike would greatly benefit from evaluating whether their current asset manager is supporting or undermining their own efforts to ensure long-term value creation in the face of escalating climate risks. All asset managers have the opportunity to demonstrate to their clients and investors that they are willing to take the necessary steps to protect their long-term interests through updated proxy voting policies and key votes against directors of recalcitrant climate-critical companies, in order to help us meet the net zero reality.

KEY FINDINGS FROM THE 2023 PROXY SEASON

1. Three asset managers—Amundi, Franklin Templeton, and Legal & General Investment Management (LGIM)—stood out for their leadership in using proxy voting to hold the directors of companies vital to the net zero transition accountable for ensuring their operations and business models are in alignment with 1.5°C-aligned pathways.

2. Conversely, the four largest and most influential asset managers, BlackRock, Vanguard, State Street, and Fidelity provided overwhelming support to the directors of U.S.-based companies with operations and business models that were most misaligned with 1.5°C pathways. BlackRock and State Street supported the entire board at 82% and 76% of these companies, respectively, while Vanguard and Fidelity supported the entire board at 100% of these companies.

3. ISS' U.S. benchmark recommendations supported the entire board of directors at 88 percent of the most 1.5°C-misaligned companies vital to the net zero transition. At these climate-critical companies, the proxy advisor's benchmark recommendations were more management-aligned than all but four of the 16 asset managers analyzed.

4. Overall, the largest asset managers failed to hold boards accountable at the subset of 1.5°C-misaligned companies without a net zero by 2050 ambition. Ten of the 16 asset managers and proxy advisor ISS' U.S. benchmark recommendations supported the entire board at the majority of these companies without this crucial precondition for alignment with the aims of the Paris Agreement. Only Amundi, Franklin Templeton, and LGIM voted against at least one director at each of the companies without a net zero ambition.

5. Among the firms analyzed, there was no year-over-year increase in acknowledgement that climate oversight firmly rests with the board of directors. Furthermore, while most proxy voting policies analyzed recognized the need for director accountability at companies that did not meet climate performance expectations, the overwhelming majority of these expectations were so low as to rarely trigger a vote against the directors of companies with operations and business models most misaligned with the Paris Agreement goal of limiting warming to 1.5°C.

II. PROXY VOTING FOR A **1.5°C WORLD**

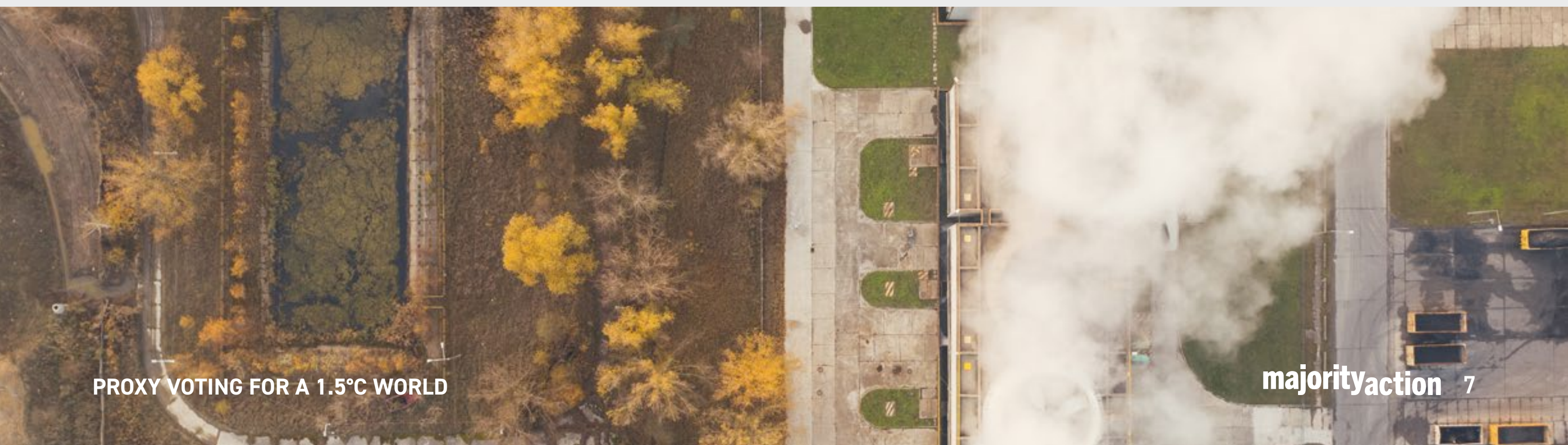
The urgent need to immediately transition the global energy system in line with the Paris Agreement goal of limiting warming to 1.5°C has never been greater. The increased frequency and severity of extreme heat and other acute climate risk drivers that scientists have long feared are becoming a growing reality.[2] For example, the harmful effects of extreme heat on economic output are now widespread,[3] going far beyond the anticipated agricultural sector to lower productivity at an even higher rate in labor-intensive nonfarming sectors.[4] By 2030, extreme heat-related productivity loss in the U.S. economy could be equivalent to that of 389,300 full-time jobs.[5] In addition to direct economic costs, uncertainty about the frequency, severity, and location of extreme heat and other related weather events may lead to higher volatility in financial markets,[6] thereby increasing portfolio-wide risks to long-term and institutional investors with broad market exposure.

Moreover, the risk drivers associated with a disorderly energy transition—the more imminent risk factor to diversified investors' portfolios[7]—are becoming manifest. Though more analysis to better understand how markets are currently pricing climate risks is needed,[8] evidence suggests ambitious policy action to limit warming to 1.5°C and technological changes resulting from switching to carbon-neutral fuels are already impacting the cost of borrowing for high GHG emitters. After the signing of the Paris Agreement, the credit ratings of the top 15 GHG-emitting industries fell relative to other low-emitting industries.[9] Fitch Ratings, S&P Global Market Intelligence, Moody's Investors Service, or their independent divisions have signaled that escalating climate risks will create rating volatility that could trigger a cascade of bond sell-offs as early as 2035.[10] Exponential growth in electric vehicle sales and increased fleet efficiency that could put nearly half of the projected oil demand at risk is contributing to downgrade pressure within the oil and gas industry.[11] These changes in policy, technology, and sentiment could limit the flow of growth capital to companies failing to implement a Paris-aligned decarbonization strategy, causing an abrupt repricing of financial assets that expose long-term and institutional investors to increased and unhedgable risks in the form of systemic shocks.[12]

The path to 1.5°C has narrowed but remains open. In September 2023, the International Energy Agency (IEA) published an updated version of the Net Zero Emissions by 2050 Scenario (NZE) that accounts for the latest shifts in technologies, markets, and policies since the NZE's initial 2021 publication.[13] The 2023 NZE scenario lays out a cost-effective and economically productive scenario for the energy sector to achieve net zero carbon emissions by 2050, thereby leaving open the possibility of limiting warming to 1.5°C. Under this scenario, there is no need for investment in new coal, oil, or natural gas, and emissions in advanced economies must collectively decline by 80% by 2035 from 2022 levels.[14]

When companies fail to transform operations and business models in line with a 1.5°C pathway, responsible shareholders must use their most powerful tool—proxy voting on corporate board elections—to hold directors accountable. To help investors exercise this power, Majority Action evaluated the climate disclosures of industry laggards in the energy and utilities sectors against closely aligned CA100+ Net Zero Company Benchmark metrics,[15] evaluated commitments and policies of the financial sector, and issued company-specific vote guidance against directors responsible for climate oversight, including board leadership, at companies that have failed in the critical areas of target setting, capital expenditure alignment, and policy influence.

Following years of pressure from activists, investors, and clients to upgrade their climate voting policies and practices, a number of large asset managers expanded the eligibility for programs designed to allow clients to choose how their equity investments in funds are voted (known as "pass-through voting"). BlackRock,[16] Vanguard,[17] and SSGA[18] are the most prominent asset managers to offer some types of pass-through voting. Currently, this option accounts for a small fraction of eligible investors' equity investments at these firms.[19] The availability and use of pass-through voting options does not relieve asset managers of their fiduciary duty to clients with respect to their stewardship and proxy voting activities, both in the direct application of proxy voting power, the selection of policy options and third-party providers such as ISS and Glass Lewis, and the presentation of information to clients. While this report does not analyze pass-through voting results, it is worth noting that a significant increase in its application could alter the outcomes of climate-related proxy votes in the future.



III. PROGRESS ON OIL & GAS DECARBONIZATION **HAS STALLED**

Ahead of the 2023 proxy season, the Climate Action 100+ initiative's Net Zero Company Benchmark indicator demonstrated that while limited progress toward decarbonization at U.S.-based systemically important companies in the utilities sector had occurred, their counterparts in the energy sector remained overwhelmingly off track to decarbonize in line with the IEA's 2021 version of the NZE and the goal of limiting global temperature rise to 1.5°C.

While climate change and its mitigation implicate every sector of the economy, the subset of large companies where fossil fuel production and consumption are central to their core business has outsized climate impact. Furthermore, financial services companies, as providers of lending, underwriting, and insurance services to capital-intensive fossil fuel projects and fossil fuel-intensive companies, can accelerate or stall the decarbonization necessary to limit warming to 1.5°C. Therefore, the actions of companies in the energy, electric utility, and financial services sectors that fail to align operations and business models to decarbonization pathways that limit warming to 1.5°C pose significant risks to investor portfolios and the financial system as a whole.

Between the 2022 and 2023 proxy seasons, three companies in the utilities sector and two companies in the financial services sector made meaningful progress towards 1.5°C alignment in one of the critical indicators of target setting, capital expenditure plans, or policy engagement prompting removal from the list of the most misaligned focus companies. Accordingly, directors responsible for climate oversight at four of the five companies received a substantial increase in year-over-year support from shareholders.

A NUMBER OF COMPANIES **CRITICAL TO THE NET ZERO TRANSITION** PROGRESSED TOWARDS 1.5°C ALIGNED STANDARDS

ELECTRICITY UTILITIES		FINANCIAL SERVICES	
	Inclusion of scope 3 emissions in medium-term targets		Implementing oil and gas underwriting exclusion policy
	Elimination of carbon emissions from operations by 2045		Set absolute oil and gas 2030 financed emissions targets
	Climate Policy Engagement Score >50%		

Figure 1: List of climate-critical companies at which Majority Action recommended no director action be taken at 2023 annual general meetings due to meaningful progress made towards 1.5C alignment between the 2022 and 2023 proxy season.

ELECTRICITY **GENERATION**

The largest publicly traded electric utilities remain among the largest sources of carbon emissions in the U.S. economy,[20] contributing one-third of energy-related carbon emissions in 2022.[21] Their capital expenditure plans in fossil fuel-based electric power infrastructure have the potential to lock in greenhouse gas emissions for decades to come. In addition to curbing a direct source of emissions, the decarbonization of electricity production also enables increased electrification efficiencies that can decarbonize the transportation and buildings sectors.[22]

While power generation globally has made some progress towards decarbonization,[23] the decreasing emissions intensity of electricity production has yet to be matched by reductions in absolute emissions. Given the substantial increase in electricity production necessary to decarbonize and electrify transportation and building activities, only deep reductions to electric utilities' absolute emissions can deliver the broader reductions needed to limit warming to 1.5°C.

ELECTRICITY GENERATION **1.5°C RED LINES** THAT PROMPT **VOTES AGAINST** DIRECTORS

TARGET SETTING

- The company does NOT have the ambition to achieve net zero GHG emissions by 2050 or sooner that covers at least 95% of its scope 1 and 2 emissions and relevant scope 3 emissions. (CA100+ indicator 1 assessment)
- The company does NOT have a medium-term GHG reduction target that covers at least 95% of its scope 1 and 2 emissions and relevant scope 3 emissions. (CA100+ indicator 3 assessment)

CAPITAL EXPENDITURE

- The percentage of the company's operating and planned coal capacity that is aligned with a Beyond 2°C Scenario is less than or equal to 50 percent. (CA100+ Electric Utilities Assessment - Carbon Tracker Initiative data point #3)
- The percentage of the company's operating and planned gas capacity that is aligned with a Beyond 2°C Scenario is less than or equal to 50 percent. (CA100+ Electric Utilities Assessment - Carbon Tracker Initiative data point #4)

POLICY ENGAGEMENT

- The company does NOT have an InfluenceMap climate policy "organizational" engagement score above 50%, indicating significant misalignment between the Paris Agreement and the company's publicly available climate policy engagement. (CA100+ Climate Policy Engagement Assessment)

UTILITIES SECTOR **1.5°C PATHWAY ASSESSMENT AND COMPANY-SPECIFIC 2023 PROXY SEASON** VOTE GUIDANCE

COMPANY	TARGET SETTING		CAPITAL EXPENDITURE		POLICY ENGAGEMENT	RECOMMENDATION
	Net Zero by 2050	Medium-term GHG reduction target	Percent Coal Phase Out aligned with B2DS	Percent Gas Phase Out aligned with B2DS	Climate Policy Organizational Score	
Berkshire Hathaway Energy	Excludes scope 3	–	–	–	–	Vote against director(s)
NRG Energy Inc.	Excludes scope 3	–	–	–	–	Vote against director(s)
The Southern Company	Excludes scope 3	–	–	–	–	Vote against director(s)
WEC Energy Group Inc.	Excludes scope 3	–	–	–	–	Vote against director(s)
Dominion Energy Inc.	Yes	Excludes scope 3	–	–	–	Vote against director(s)
FirstEnergy Corp.	Yes, scope 3 not applicable	Not aligned with 1.5C	<50%	–	–	Vote against director(s)
American Electric Power Company Inc.	Yes, scope 3 not applicable	Not aligned with 1.5C	50–80%	<50%	–	Vote against director(s)
NextEra Energy Inc	Yes, scope 3 not applicable	Not aligned with 1.5C	50–80%	50–80%	50–80%	No action
AES Corp.	Yes, scope 3 not applicable	Not aligned with 1.5C	50–80%	50–80%	50–80%	No action
Duke Energy Corp.	Yes	Not aligned with 1.5C	50–80%	50–80%	50–80%	No action
PPL Corp.	Yes, scope 3 not applicable	Not aligned with 1.5C	50–80%	50–80%	50–80%	No action
Vistra Corp.	Yes, scope 3 not applicable	Not aligned with 1.5C	50–80%	50–80%	50–80%	No action
Xcel Energy Inc.	Yes	Not aligned with 1.5C	80–100%	50–80%	50–80%	No action

– This metric was not relevant to the recommendation to vote against the director(s)

Figure 2: Assessment of U.S.-based CA100+ companies in the Utilities sector and their progress as of Oct 2022 against key CA100+ net zero company benchmark metrics in the areas of target setting, capital expenditures, and policy engagement. Please refer to page 10 "Electricity generation 1.5C red lines" for the indicator-specific failures that prompt votes against directors.

OIL & GAS PRODUCTION AND DISTRIBUTION

The energy sector remains overwhelmingly off track to decarbonize. According to analyses by the Carbon Tracker Initiative, the world's largest oil companies have projects both sanctioned (those currently producing or under development) and unsanctioned (those not yet under development) over the course of the next two decades that would exceed the carbon budget for limiting warming to 2.0°C, let alone 1.5°C.[24]

Under the IEA's updated NZE scenario, no new long-lead time upstream oil and natural gas projects are necessary as demand for oil and natural gas peaks in this decade—even without demand pressures from new climate policies.[25] The projected project build-out by the world's largest oil companies directly conflicts with the fossil fuel demand projections of the updated NZE scenario. This conflict highlights the potential stranded asset risks faced by energy companies failing to decarbonize as society transitions to a net zero economy. Foremost among these is a sharp decline in fossil fuel demand in the 2030s prompting the early write-down of many oil and gas assets that are unable to generate returns sufficient to cover the capital invested.[26]

OIL & GAS PRODUCTION AND DISTRIBUTION **1.5°C RED LINES** THAT PROMPT **VOTES AGAINST** DIRECTORS

TARGET SETTING

- The company does NOT have the ambition to achieve net zero GHG emissions by 2050 or sooner that covers at least 95% of its scope 1 and 2 emissions and relevant scope 3 emissions. (CA100+ indicator 1 assessment)

- The company does NOT have a medium-term GHG reduction target that covers at least 95% of its scope 1 and 2 emissions and relevant scope 3 emissions. (CA100+ indicator 3 assessment)

CAPITAL EXPENDITURE

- The percentage of the company's potential future (through 2030) unsanctioned oil and gas capex that is inconsistent with a Beyond 2°C Scenario is greater than or equal to 50 percent. (CA100+ Oil and Gas Assessment - Carbon Tracker Initiative data point #2)

POLICY ENGAGEMENT

- The company does NOT have an Influence Map climate policy "organizational" engagement score above 50%, indicating significant misalignment between the Paris Agreement and the company's publicly available climate policy engagement. (CA100+ Climate Policy Engagement Assessment)

OIL AND GAS **1.5°C PATHWAY ASSESSMENT AND COMPANY-SPECIFIC 2023 PROXY SEASON** VOTE GUIDANCE

COMPANY	TARGET SETTING		CAPITAL EXPENDITURE	POLICY ENGAGEMENT	RECOMMENDATION
	Net Zero by 2050	Medium-term GHG reduction target	Percent of capex inconsistent with B2DS	Climate Policy Organizational Score	
Chevron	No	–	–	–	Vote against director(s)
Kinder Morgan	No	–	–	–	Vote against director(s)
Marathon Petroleum	No	–	–	–	Vote against director(s)
Phillips 66	No	–	–	–	Vote against director(s)
Valero	No	–	–	–	Vote against director(s)
ConocoPhillips	Excludes Scope 3	–	–	–	Vote against director(s)
Devon Energy	Excludes Scope 3	–	–	–	Vote against director(s)
ExxonMobil	Excludes Scope 3	–	–	–	Vote against director(s)
Occidental Petroleum	Yes	No	–	–	Vote against director(s)

– This metric was not relevant to the recommendation to vote against the director(s)

Figure 3: Summary of U.S.-based CA100+ companies in the Energy sector and their progress as of Dec 2022 against key CA100+ net zero company benchmark metrics in the areas of target setting, capital expenditures, and policy engagement. Please refer to the text above Figure 3 "Oil & Gas 1.5C red lines" for the indicator-specific failures that prompt votes against directors.

FINANCIAL SERVICES

Banks, as providers of lending and underwriting services to fossil fuel projects and fossil fuel-intensive companies, have a crucial role to play in decarbonizing high GHG-emitting sectors. The industry-led Net-Zero Banking Alliance (NZBA), launched in April 2021, now has 134 members, representing more than 40 percent of global banking assets.[27] In joining the NZBA, banks must commit to aligning financed emissions with net zero by 2050 pathways and set intermediate targets for priority GHG-intensive and GHG-emitting sectors.[28]

Insurance companies are in a unique position to accelerate the transition to a renewable energy future. Fossil fuel projects and operations require insurance to initiate and operate, and many major insurance companies have backed away from insuring new coal projects.[29] A critical mass of insurers have begun limiting coverage for oil and gas projects,[30] including Chubb Limited,[31] one of the world's most significant publicly traded property and casualty insurers.

FINANCIAL SERVICES **1.5°C RED LINES** THAT PROMPT **VOTES AGAINST** DIRECTORS

BANKS

- The company does NOT have a commitment to reducing its scope 3 financed emissions to net zero by 2050.
- The company does NOT have a medium-term financed GHG emissions reduction target that is aligned with a 1.5°C scenario.

INSURANCE

- The company does NOT have a commitment to reducing its scope 3 insured emissions to net zero by 2050, OR
- The company does NOT have exclusion policies and exit strategies to phase out all insurance coverage for coal projects and companies and restrictions for insuring oil & gas projects and companies.

FINANCIAL SERVICES SECTOR **1.5°C PATHWAY ASSESSMENT** AND **COMPANY-SPECIFIC** 2023 PROXY SEASON **VOTE GUIDANCE**

COMPANY	TARGET SETTING		RECOMMENDATION
	Net Zero by 2050 ambition	1.5°C scenario used for target sectors[32]	
Bank of America	Yes	Yes	No Action
Citi	Yes	Yes	No Action
Goldman Sachs	Yes	Yes	No Action
Morgan Stanley	Yes	Yes	No Action
Wells Fargo	Yes	Yes	No Action
JPMorgan Chase	Yes	No[33]	Vote against director(s)

COMPANY	TARGET SETTING	EXCLUSION POLICIES	RECOMMENDATION
	Net Zero by 2050 ambition	Exclusion policy covers coal and oil & gas	
AIG	Yes	Yes	No Action
The Hartford	Yes	Yes	No Action
Chubb	No	Yes	No Action
Travelers	No	Yes	No Action
Berkshire Hathaway insurance operations	No	No	Vote against director(s)

Figure 4: Summary of U.S.-based companies in the Financial sector and their pre-2023 proxy season progress against key net zero company benchmark metrics in the areas of target setting and exclusion policies. Please refer to page 14 "Financial Services 1.5C red lines" for the indicator-specific failures that prompt votes against directors.

IV. PROXY **VOTING ACCOUNTABILITY**

Given the material risk posed by climate change to the portfolios of diversified investors, asset managers must hold those companies involved in the production, consumption, and financing of fossil fuels accountable for achieving the GHG reductions aligned with limiting global warming to 1.5°C. When companies fail to commit to aligning their operations and business models to this goal, asset managers must use their most powerful tool—proxy voting on corporate board elections—to hold directors accountable.

Voting on director elections at companies vital to the net zero transition is the most direct action long-term investors with broad market exposure can take to influence corporate decision-making and protect the value of their portfolios as a whole from climate change impacts. While dialogue and resolutions have been used to encourage change in corporate behavior for many years, the imperative of driving near-term change requires clear and explicit proxy voting policies and action that hold directors accountable for climate oversight and that address the material risk facing diversified investors, particularly from companies that have demonstrated reluctance to achieve net zero carbon emissions by 2050.

METHODOLOGY

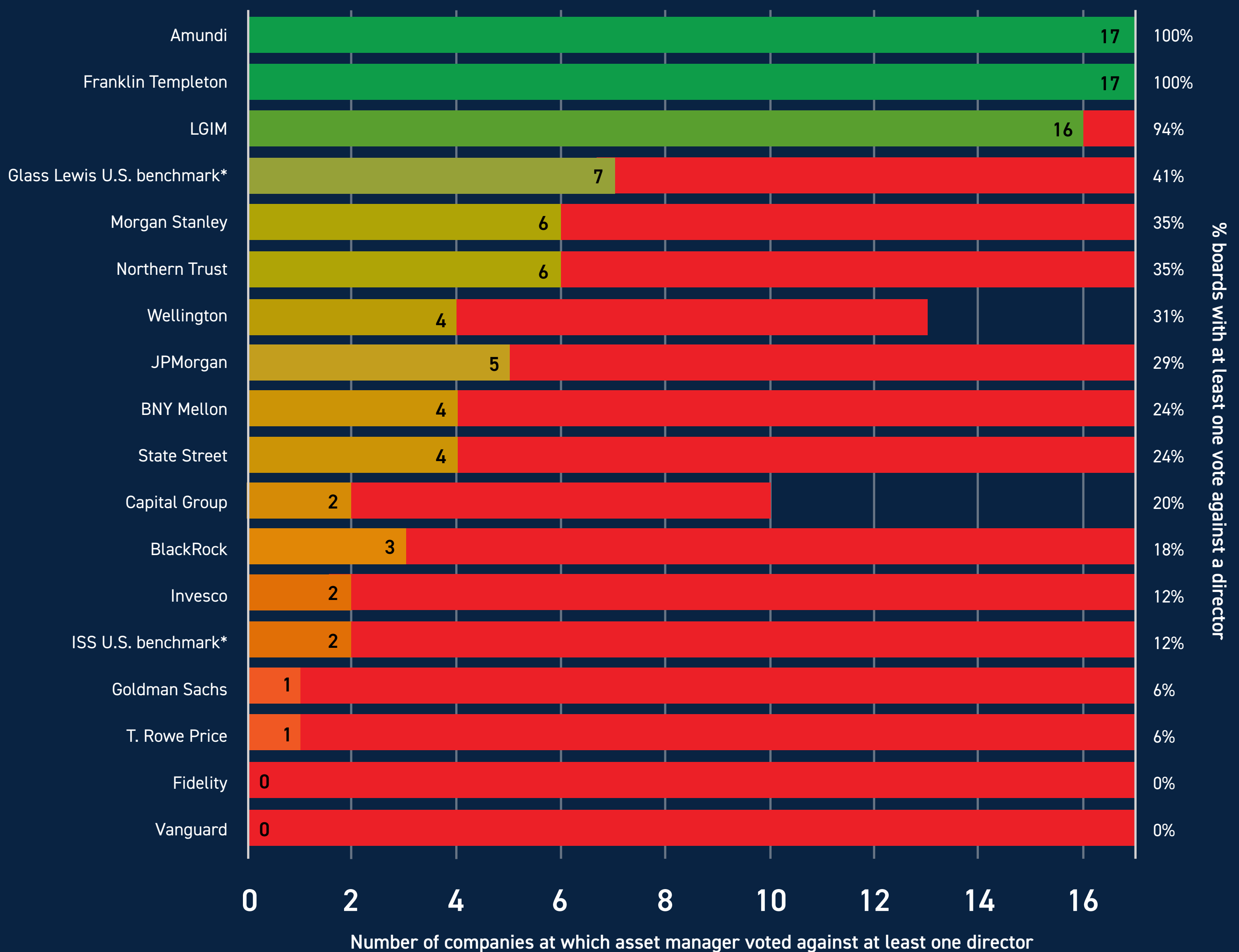
This section analyzes the 2023 proxy voting policies and decisions of the world's largest asset managers—those with total worldwide assets under management of more than $1 trillion and equity holdings greater than 20 percent.[34] Proxy advisors Institutional Shareholder Services (ISS) and Glass Lewis were also included in the 2023 proxy season analysis. Asset manager proxy votes and Glass Lewis proxy vote recommendations were obtained under license from Diligent Market Intelligence (formerly Insightia) between September 25 - September 29, 2023.[35] 2023 ISS proxy vote analyses were purchased from ISS Corporate Solutions, Inc.

Asset manager proxy votes and proxy advisor recommendations were evaluated at those companies most misaligned with the Climate Action 100+ Net Zero Benchmark indicators in the energy and utilities sectors. Additionally, companies in the financial services sector with worst-in-class scope 3 emissions reduction targets and fossil fuel exclusion policies were included in the evaluation.

Majority Action had previously evaluated asset manager proxy votes more broadly at S&P 500 companies in the energy, utilities, and financial services sectors that were central to fossil fuel production, consumption, and financing. However, given the widening spread between leaders and laggards in these sectors and the development and greater acceptance of tools for measuring and benchmarking corporate climate performance, Majority Action updated its 2023 climate performance metrics to more closely align with the Climate Action 100+ Net Zero Company Benchmark indicators. This allows for a more standardized assessment across companies that is widely accepted by investors.

2023 PROXY SEASON **VOTE ANALYSIS**

The table below (Figure 5) measures the extent to which asset managers supported the full boards of companies with operations and business models that were the most misaligned with a 1.5°C decarbonization pathway during the 2023 proxy season. Additionally, the percentage of full boards supported (out of a total of 17 misaligned companies) is calculated. For additional details on data and methods, including treatment of proxy advisor recommendations, please see Appendix A.



**Proxy advisor*

Figure 5: This chart measures the number of times the asset manager voted against at least one board director at each of the 17 companies with operations and business models that were the most misaligned with a 1.5°C decarbonization pathway during the 2023 proxy season.

Among the 16 firms analyzed, three asset managers stood out for their leadership in using proxy voting to hold the directors of companies vital to the net zero transition accountable for ensuring their operations and business models are in alignment with 1.5°C-aligned pathways. Asset managers Franklin Templeton (U.S.) and Amundi (France) voted against at least one director on all of the boards of the most 1.5°C-misaligned companies during the 2023 proxy season. LGIM voted against at least one director on all but one board of the most 1.5°C-misaligned companies.

While the 2023 proxy voting outcomes of these three asset managers aligned with the goals of limiting warming to 1.5°C, the majority of asset managers continued to use the shareholder voting power entrusted to them by their clients to rubber-stamp the strategies of carbon-intensive companies failing to take necessary action on climate change. Ten of the 16 asset managers supported the entire board of directors at more than 75% of companies flagged for the failure to set adequate net zero targets reducing greenhouse gas emissions, fully realign capex plans to limit warming to 1.5°C, and/or ensure alignment of policy influence positions and activities with 1.5°C pathways. This group of 10 asset managers included the four largest and most influential: BlackRock, Vanguard, State Street, and Fidelity. BlackRock and State Street supported the entire board at 82% and 76% of companies, respectively. Vanguard and Fidelity earned the ignominious distinction of supporting the entire board at 100% of companies with operations and business models that were most misaligned with a 1.5°C pathway.

The largest asset managers have outsized voting power and influence on the global standards for the entire financial services sector. As of 2021, collectively, these asset managers held more than 20 percent of the shares of the S&P 500 and accounted for more than 25 percent of the shares voted.[36] These large firms routinely control the largest voting stakes in many of the largest publicly traded companies responsible for fossil fuel production, consumption, and financing. Responsible clients and investors would greatly benefit from interrogating how the proxy voting outcomes of these four large asset managers are supporting, or undermining, their efforts to ensure long-term, sustainable value creation.

PROXY VOTING POLICIES **REMAIN MISALIGNED** WITH THE **1.5°C GOAL**

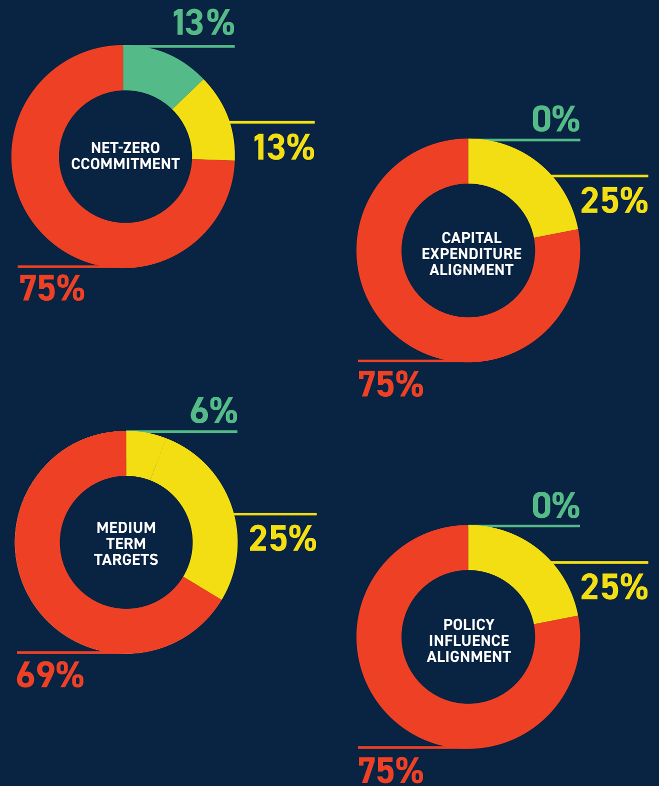
Majority Action's assessment of the proxy voting policies of the largest asset managers suggests that most asset managers at least partially recognized the need for director accountability at companies that did not meet climate performance expectations. However, the overwhelming majority of these expectations were so low as to rarely trigger a vote against the directors of companies with operations and business models most misaligned with the Paris Agreement goal of limiting warming to 1.5°C.

Asset managers' proxy voting outcomes directly reflect their proxy voting policies that either facilitate or inhibit mitigating the material risks facing shareholders from climate change. These policies and guidelines communicate the asset manager's expectations to portfolio companies for board oversight of climate risks and opportunities. They also provide one of the benchmarks against which fellow shareholders and clients can assess the asset manager's approach to corporate strategy and governance on climate.

As director voting has emerged in recent years as a key stewardship lever for mitigating climate risk, best practice in proxy voting policies has crystallized around two key elements:

1. EXPECTATIONS FOR **PORTFOLIO COMPANIES**

First, asset managers should clarify what criteria constitute competent climate strategy, including expectations on target-setting as well as alignment of capital expenditure and policy influence to those targets.



Fully meets expectations

Partially meets expectations

Does not meet expectations

Figure 6: The charts on the right aggregate the 2023 proxy season evaluations of the largest asset managers' climate expectations on target setting as well as alignment of capital expenditures and policy influence to those targets. See appendix F for the detailed description of full, partial, and non-adherence to the voting expectations.

2. BOARD **ACCOUNTABILITY**

Second, asset managers should make clear the proxy voting consequences for companies that do not meet those expectations—in particular, votes against responsible board members.

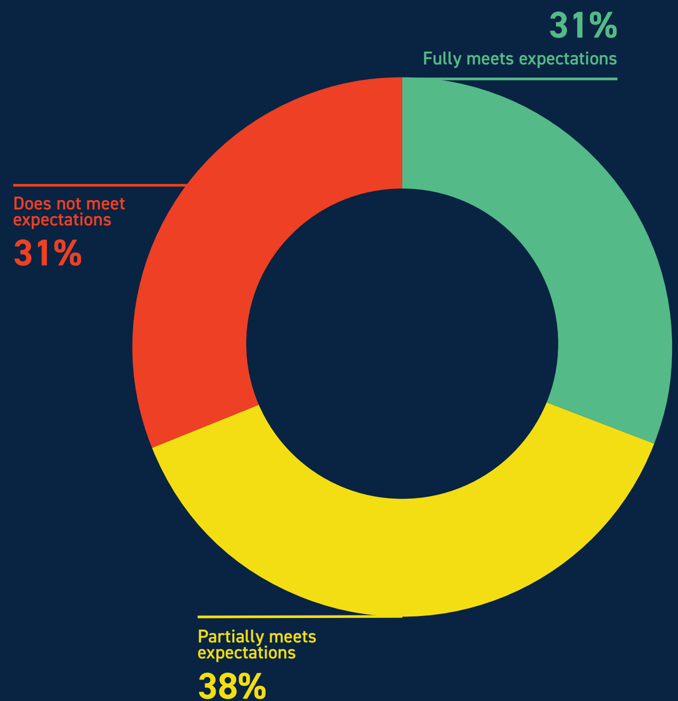


Figure 7: The chart on the right aggregates the 2023 proxy season evaluations of the largest asset managers' approach to board accountability for company climate performance expectations. See appendix F for the detailed description of full, partial, and non-adherence to the voting expectations.

THE **MOST PROMINENT PROXY ADVISORS'** BENCHMARK RECOMMENDATIONS WERE **MORE MANAGEMENT-ALIGNED THAN ALL BUT FOUR** OF THE 16 ASSET MANAGERS ANALYZED

The most prominent proxy advisors, ISS and Glass Lewis, have a material influence over the proxy voting outcomes of companies vital to the net zero transition.[37] Research has shown that the institutional investors that dominate shareholder voting vote significantly in agreement with proxy advisor recommendations across a broad set of governance issues, including climate-related ones.[38, 39] During the 2023 proxy season, ISS' U.S. benchmark recommendations did not recommend votes against at least one board director at 88 percent of the most 1.5°C-misaligned companies vital to the net zero transition. Subsequently, in August 2023, a group of leading investors led by an IIGCC working group called on ISS to further integrate climate into its proxy advice service.[40]

ISS' U.S. BENCHMARK RECOMMENDATIONS **SUPPORTED THE ENTIRE BOARD OF DIRECTORS** AT 88 PERCENT OF THE **MOST 1.5°C-MISALIGNED COMPANIES** VITAL TO THE NET ZERO TRANSITION

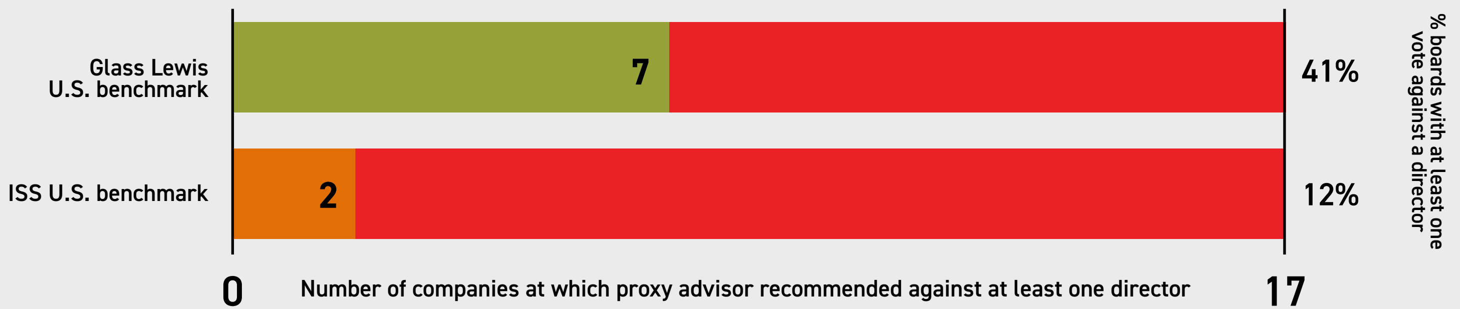


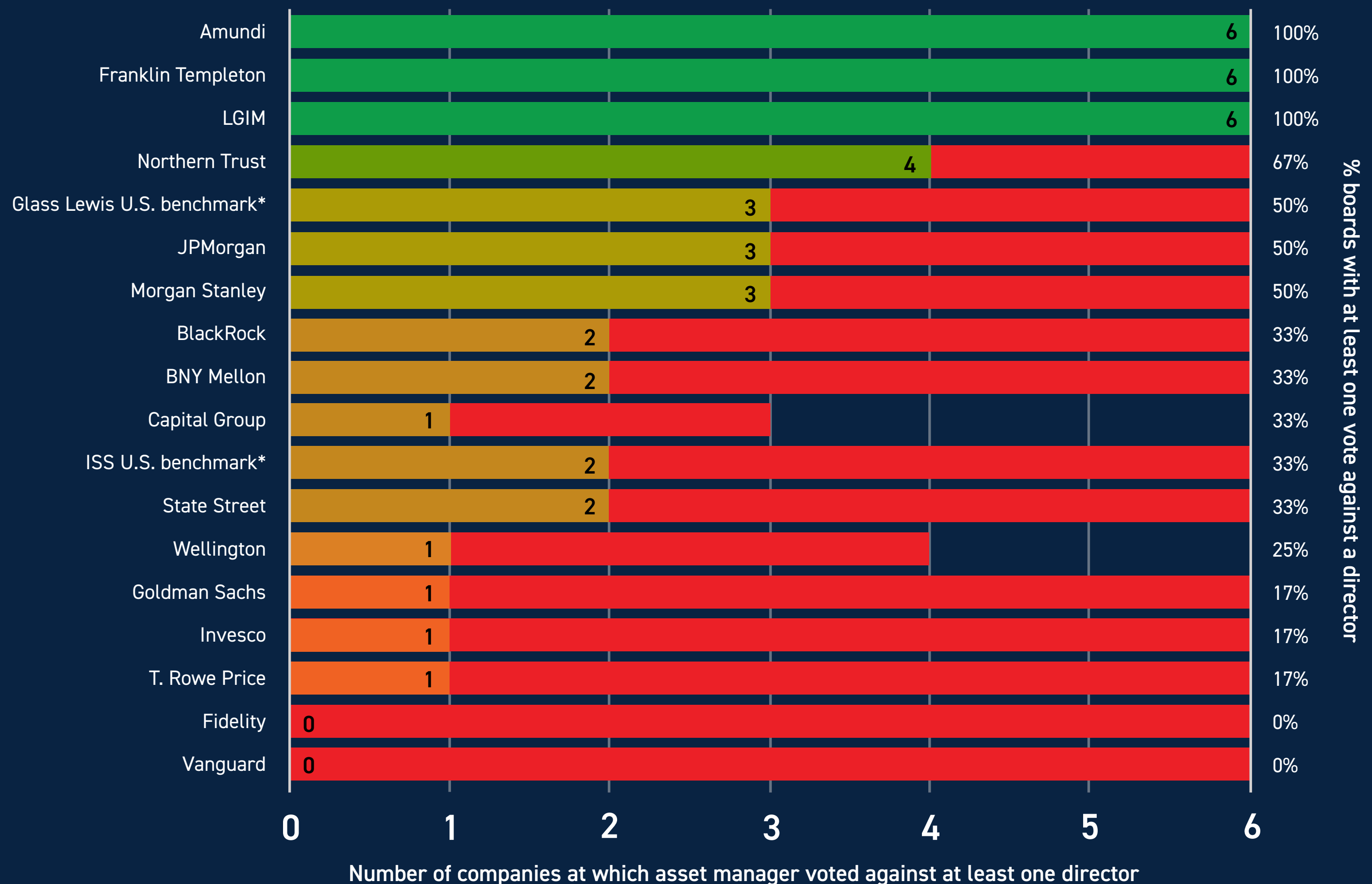
Figure 8: This chart measures the number of times the proxy advisor voted against at least one board director at each of the 17 companies with operations and business models that were the most misaligned with a 1.5°C decarbonization pathway during the 2023 proxy season.

OVERALL **LACK OF ACCOUNTABILITY** AT COMPANIES WITHOUT A **NET ZERO AMBITION**

While each indicator of the CA100+ Net Zero Benchmark company assessment is essential, the ambition to achieve net zero GHG emissions by 2050 remains the crucial precondition for alignment with the aims of the Paris Agreement. After years of investor engagement, any company failing to achieve even partial compliance with the net zero by 2050 criteria represents a direct impediment to avoiding the worst effects of climate change that will inevitably result in lower returns across portfolios for diversified investors. During the 2023 proxy season, the overwhelming majority of asset managers failed to act in the long-term best interest of their clients by not using the shareholder voting power entrusted to them to hold directors at these laggard companies accountable for this critical climate oversight failure.

Prior to the start of the 2023 proxy season, five U.S.-based CA100+ focus companies in the energy sector[41] and one U.S.-based insurer identified as a top provider of insurance coverage to the coal industry[42] failed to disclose a net zero ambition. However, 10 of the largest asset managers and ISS' U.S. benchmark recommendations supported the entire board at the majority of these companies. Worse still, Fidelity and Vanguard supported every director at each company flagged for not having a net zero ambition.

ASSET MANAGERS **FAILED TO HOLD BOARDS ACCOUNTABLE** AT COMPANIES WITHOUT THE CRUCIAL PRECONDITION OF A NET ZERO BY 2050 AMBITION



*Proxy advisor

Figure 9: This chart measures the number of times the asset manager voted against at least one board director at each of the 6 climate-critical companies without a net zero by 2050 ambition during the 2023 proxy season.

VI. RECOMMENDATIONS

Climate-related risks are escalatory and irreversible, with the capacity to drive huge potential human costs and inequities.[43] Moreover, the impacts of climate-related risks are not solely born by directly impacted people, businesses, or communities. The impacts of these risks are systemic, with spillovers and interlinkages within the real economy and the capital markets that will negatively impact long-term, broad-based economic growth. By the end of the decade, extreme heat alone will produce an annual $200 billion drag on the U.S. economy due to losses in labor productivity.[44] Comparable climate-induced impairments will also inevitably result in lower returns across portfolios for diversified investors.

Given the linkages among climate impacts, economic output, and portfolio performance, it is not enough for asset managers, as the stewards of clients' capital, to consider only the risk that climate change poses to individual companies. Consistent with their fiduciary duties, asset managers can and should mitigate the drivers of systemic climate-related risks in the long-term best interest of their client's portfolios as well.[45] To address both the company-specific and systemic risks related to climate change, shareholders must evaluate whether corporate boards of investee companies ensure that the companies they govern align to 1.5°C pathways.

Asset managers, proxy advisors, asset owners, and policymakers all have a role to play in averting the systemic, escalating, and irreversible effects of the climate crisis and its impacts on investors and the broader U.S. economy.

FOR ASSET MANAGERS AND PROXY ADVISORS

Before the 2024 shareholder season, asset managers and proxy advisors should adopt or update proxy voting policies designed to address the material and systemic risks facing shareholders from climate change, featuring, at a minimum:

- Acknowledgement that climate change (a) is a systemic risk that (b) the asset manager should mitigate via proxy voting, consistent with fiduciary duty.
- Expectations for company climate performance that include:
  - A commitment to achieve net zero by 2050 at the latest;
  - Medium-term targets consistent with cutting emissions in alignment with the IEA's NZE scenario;
  - Capital expenditures consistent with net zero by 2050; and
  - Policy engagement consistent with net zero by 2050.
- A commitment to generally vote against directors at companies that do not meet climate performance expectations.

FOR **ASSET OWNERS**

Asset owners, as clients of large asset managers, can hold those managers accountable for managing their proxy voting strategies to ensure that companies are aligning their targets, business models, policy influence, and governance to the objective of limiting warming to 1.5°C. To that end, asset owners should:

- Review and update voting policies to ensure that they enable asset owners to hold board leadership accountable for climate performance at systemically important companies involved in the production and consumption of fossil fuels, including alignment with the standards set out for asset managers above;
- Engage with their current asset managers over their voting record and plans for holding boards accountable for companies' contributions to systemic climate risk; and
- Incorporate criteria regarding proxy voting on systemic climate risk and at companies vital to the net zero transition into their asset manager search and selection criteria, for example as an explicit element of due diligence questionnaires.

FOR **POLICYMAKERS**

Given the size and influence of the largest asset managers, and the substantial systemic risks posed by climate change to individual investors and the financial system, we urge policymakers to take action, including the below:

- Congress should pass legislation requiring asset managers to consider systemic risks such as climate change in order to comply with their fiduciary duties
- Congress should pass legislation that requires asset managers to update and disclose policies, including proxy voting policies, to mitigate systemic risks to the portfolios of long-term, diversified investors.
- The Securities and Exchange Commission (SEC) should finalize the proposed rule to enhance and standardize climate-related disclosures for investors.
  - The final rule should require companies to disclose information about its direct GHG emissions (scope 1).
  - The final rule should require companies to disclose information about its indirect emissions from purchased electricity or other forms of energy (scope 2).
  - The final rule should require GHG emissions from upstream and downstream activities in its value chain (scope 3) if a company has set a GHG emissions target or goal that includes scope 3 emissions, or otherwise when those emissions are deemed financially material.

VII. APPENDICES

APPENDIX A: NOTE ON DATA AND METHODS

This report analyzed the 2023 proxy voting policies and decisions of the world's largest asset managers—those with total worldwide assets under management of more than $1 trillion and equity holdings greater than 20 percent.[46] Proxy advisors Institutional Shareholder Services (ISS) and Glass Lewis were also included in the 2023 proxy season analysis. Asset manager proxy votes and Glass Lewis proxy vote recommendations were obtained under license from Diligent Market Intelligence (formerly Insightia) between September 25 - September 29, 2023.[47] 2023 ISS proxy vote analyses were purchased from ISS Corporate Solutions, Inc.

Asset manager proxy votes and proxy advisor recommendations were evaluated at those companies most misaligned with the Climate Action 100+ Net Zero Benchmark indicators in the energy and utilities sectors. Additionally, companies in the financial services sector with worst-in-class scope 3 emissions reduction targets and fossil fuel exclusion policies were included in the evaluation.

Majority Action had previously evaluated asset manager proxy votes more broadly at S&P 500 companies in the energy, utilities, and financial services sectors that were central to fossil fuel production, consumption, and financing. However, given the widening spread between leaders and laggards in these sectors and the development and greater acceptance of tools for measuring and benchmarking corporate climate performance, Majority Action updated its 2023 climate performance metrics to more closely align with the Climate Action 100+ Net Zero Company Benchmark indicators. This allows for a more standardized assessment across companies that is widely accepted by investors.

The full list of companies in this universe can be found in Appendix C. Votes are counted as "for" if 75% or more of funds within a fund family voted for a director and "against" if at least 75% of funds within a fund family opposed it. Director votes may be "against" or "withhold," depending on a company's voting standard for director elections. Both are treated as "against" votes. Votes where there was less agreement among funds in the same fund family are recorded as "mixed." Only actual votes are considered votes in support, with abstentions being counted as non-votes.

The information in this report has been prepared from sources and data the authors believe to be reliable, but we assume no liability for and make no guarantee as to its adequacy, accuracy, timeliness, or completeness. Proxy votes of relevant subsidiaries as categorized by Diligent, and additional voting entities, were assigned to the appropriate parent company for the purposes of this analysis.

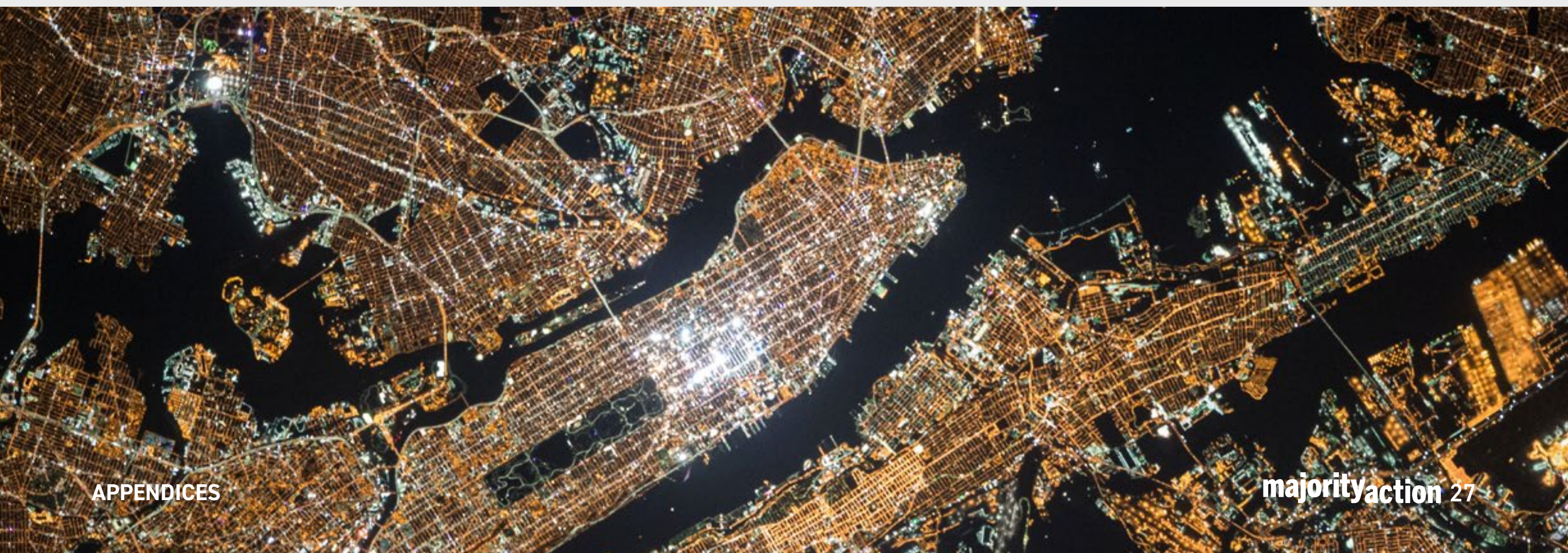
ADDITIONAL **VOTING ENTITIES**

ASSET MANAGER (AS LISTED IN DILIGENT, SEP 25-29, 2023)	ADDITIONAL VOTING ENTITIES
BlackRock	BlackRock Sustainability Funds
BNY Mellon	Newton Investment Management
Capital Group	Capital Guardian Trust
Fidelity Management & Research	Geode Capital Management
	Fidelity Institutional Asset Management
Invesco Advisors	Invesco Capital Management
T. Rowe Price Associates	T. Rowe Price Investment Management
Vanguard	Vanguard Proxy Voting Choice Funds

APPENDIX B: TOP ASSET MANAGERS

ASSET MANAGER (AS LISTED IN PENSIONS & INVESTMENT)	TOTAL WORLDWIDE ASSETS IN MILLIONS AS OF DEC. 31, 2022 (PENSION & INVESTMENT)[48]
Amundi[49]	$2,031,753
BlackRock	$8,594,488
BNY Mellon	$1,836,032
Capital Group	$2,175,96
Fidelity Investments	$3,655,574
Franklin Templeton	$1,387,686
Goldman Sachs Group	$2,547,000
Invesco	$1,409,204
Legal & General Investment	$1,444,393
JP Morgan Asset & Wealth	$2,765,710
Morgan Stanley Investment Management	$1,234,226
Northern Trust Asset Management	$1,038,406
State Street Global	$3,481,473
T. Rowe Price Associates	$1,274,700
Vanguard Group	$7,252,612
Wellington Management	$1,149,360

Figure 10: Asset managers with total worldwide assets under management of more than $1 trillion and equity holdings greater than 20 percent, per Pensions & Investments 2023 survey. Data for Nuveen Asset Management was not available at the time of analysis, therefore the firm was excluded from this report.



APPENDIX C: COMPANIES

COMPANY	CA100+ FOCUS COMPANY	CA100+ INDICATOR	1.5C MISALIGNED ASSESSMENT
American Electric Power	Yes	Electric Utilities CTI #4	Gas phase out < 50% aligned to B2DS
Berkshire Hathaway	Yes	Benchmark #1	Utilities operations: Net zero ambition excludes scope 3; Insurance operations: No net zero ambition and no fossil fuel exclusion policies
Chevron Corp	Yes	Benchmark #1	No net zero ambition
ConocoPhillips	Yes	Benchmark #1	Net zero ambition excludes scope 3
Devon Energy	Yes	Benchmark #1	Net zero ambition excludes scope 3
Dominion Energy	Yes	Benchmark #3	Medium term target excludes scope 3
Exxon Mobil Corp	Yes	Benchmark #1	Net zero ambition excludes scope 3
First Energy	Yes	Electric Utilities CTI #3	Coal phase out < 50% aligned to B2DS
JPMorgan Chase	No	N/A	Medium term targets are intensity only and misaligned with 1.5C
Kinder Morgan	Yes	Benchmark #1	No net zero ambition
Marathon Petroleum	Yes	Benchmark #1	No net zero ambition
NRG Energy	Yes	Benchmark #1	Net zero ambition excludes scope 3
Occidental Petroleum	Yes	Benchmark #3	No medium term target
Phillips 66	Yes	Benchmark #1	No net zero ambition
Southern Company	Yes	Benchmark #1	Net zero ambition excludes scope 3
Valero	Yes	Benchmark #1	No net zero ambition
WEC Energy	Yes	Benchmark #1	Net zero ambition excludes scope 3

Figure 11: Asset manager proxy votes and proxy advisor recommendations were evaluated at those companies most misaligned with the Climate Action 100+ Net Zero Benchmark indicators in the energy and utilities sectors. Additionally, companies in the financial services sector with worst-in-class scope 3 emissions reduction targets and fossil fuel exclusion policies were included in the evaluation.

APPENDIX D: 2023 PROXY SEASON FULL BOARD SUPPORT - BY COMPANY

2023 FULL BOARD SUPPORT

ASSET MANAGERS AND PROXY ADVISORS	American Electric Power	Berkshire Hathaway	Chevron Corp	ConocoPhillips	Devon Energy	Dominion Energy	Exxon Mobil Corp	First Energy	JPMorgan Chase	Kinder Morgan	Marathon Petroleum	NRG Energy	Occidental Petroleum	Phillips 66	Southern Company	Valero	WEC Energy
Fidelity	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Vanguard Group	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Goldman Sachs	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
T. Rowe Price Associates	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Invesco Advisers, Inc.	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
ISS U.S. Benchmark	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
BlackRock	Y	N	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y
Capital Group	Y	Y	N	Y	Y	Y	Y	Y	N						Y	Y	
BNY Mellon	Y	N	Y	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
State Street	Y	N	Y	N	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y
JPMorgan Asset Management	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	N	N	Y
Wellington Management	N	N	Y	Y		Y	Y	Y	N		Y	N	Y	Y	Y		
Morgan Stanley Investment Management	Y	N	Y	N	Y	N	Y	N	Y	N	N	Y	Y	Y	Y	Y	Y
Northern Trust Investments	Y	N	Y	N	Y	Y	Y	Y	Y	N	N	N	Y	N	Y	Y	Y
Glass Lewis U.S. Benchmark	N	Y	Y	N	N	N	Y	Y	Y	N	Y	Y	Y	N	N	Y	Y
Legal & General Investment Management	N	N	N	N	Y	N	N	N	N	N	N	N	N	N	N	N	N
Amundi	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Franklin Templeton	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

Figure 12: This chart lists the instances in which the asset manager or proxy advisor provided full support to the entire board of directors (Y-red) or voted against at least one board director (N-green) at each of the 17 companies included in the 2023 proxy season analysis.

APPENDIX E: PROXY VOTING GUIDELINES AND POLICY ASSESSMENT

ASSET MANAGER	NET ZERO COMMITMENT	MEDIUM-TERM GHG REDUCTION TARGET	CAPITAL EXPENDITURE ALIGNMENT	POLICY EXPENDITURE ALIGNMENT	BOARD ACCOUNTABILITY
Amundi[50]	Partially meets expectations	Partially meets expectations	Partially meets expectations	Does not meet expectations	Fully meets expectations
BNY Mellon +	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations
Capital Group[51,52]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations
Franklin Templeton ++	Partially meets expectations	Partially meets expectations	Partially meets expectations	Partially meets expectations	Partially meets expectations
Goldman Sachs[53]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Fully meets expectations
Invesco[54]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Partially meets expectations
JPMorgan Chase[55]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations
LGIM[56,57,58]	Fully meets expectations	Fully meets expectations	Partially meets expectations	Fully meets expectations	Fully meets expectations
Morgan Stanley[59]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations
Nothern Trust[60]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Partially meets expectations
Black Rock[61]	Does not meet expectations	Partially meets expectations	Partially meets expectations	Does not meet expectations	Partially meets expectations
Fidelity[62,63]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations
State Street[64,65]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Partially meets expectations
T.Rowe Price[66, 67]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Partially meets expectations
Vanguard[68]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Fully meets expectations
Wellington[69]	Fully meets expectations	Partially meets expectations	Does not meet expectations	Does not meet expectations	Fully meets expectations
ISS[70]	Partially meets expectations	Partially meets expectations	Does not meet expectations	Does not meet expectations	Fully meets expectations
Glass Lewis[71, 72]	Does not meet expectations	Does not meet expectations	Does not meet expectations	Does not meet expectations	Partially meets expectations

Fully meets expectations **Partially meets expectations** **Does not meet expectations**

+ BNY Mellon Investment Management majority-owned investment firms, listed in the BNY Mellon 2022 Annual Report,[73] were reviewed for details concerning the applicable firm's proxy voting policies and procedures. The full list of BNY Mellon Firms reviewed is available in the endnotes.[74]

++ Franklin Templeton affiliated Investment Managers' proxy voting policy and procedure documents were consulted for proxy voting process details.[75] The full list of Franklin Templeton affiliated Investment Managers reviewed is available in the endnotes.[76]

Figure 13: This chart evaluates asset manager and proxy advisor 2023 proxy season voting polices and guidelines in the 1.5C critical areas of portfolio company expectations and board accountability. Refer to Appendix F for specific assessment criteria in the categories of: Net zero commitment, Medium-term targets, capex alignment, policy engagement, and board accountability.

APPENDIX F: 2023 PROXY SEASON POLICY AND GUIDELINE 1.5C ASSESSMENT CRITERIA

EXPECTATIONS FOR COMPANY CLIMATE PERFORMANCE				BOARD ACCOUNTABILITY FOR COMPANY CLIMATE PERFORMANCE EXPECTATIONS
POLICY INFLUENCE ALIGNMENT	CAPITAL EXPENDITURE ALIGNMENT	MEDIUM-TERM TARGETS	NET-ZERO COMMITMENT	
Expects policy influence alignment, consistent with net-zero by 2050 and halving emissions by 2030	Expects capital expenditure alignment, consistent with net-zero by 2050 and halving emissions by 2030	Expects medium-term targets, consistent with cutting emissions in half by 2030	Expects net zero commitment, by 2050 at latest	Will generally vote against directors at companies that do not meet climate performance expectations
Expects policy influence alignment, weaker standard specified, or no standard specified	Expects capital expenditure alignment, weaker standard specified, or no standard specified	Expects medium-term targets, weaker standard specified, or no standard specified	Expects net zero commitment, by later date, or no date specified	May vote against directors at companies that do not meet climate performance expectations
Expects disclosure if a company has policy alignment commitments, or does not expect policy influence alignment	Expects disclosure if a company has capital expenditure alignment commitments, or does not expect capital expenditure alignment	Expects disclosure if a company has medium-term targets, or does not expect medium-term targets	Expects disclosure if a company has a net-zero commitment, or does not expect net zero commitment	No mention of voting against directors at companies that do not meet climate performance expectations

Figure 14: This chart lists the 1.5°C-aligned proxy voting expectations against which Majority Action assessed asset manager 2023 proxy season vote policies and guidelines and the detailed description of full, partial, and non-adherence to the voting expectations.

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