INVESTORS for PARIS COMPLIANCE

GUIDE TO CLIMATE-RELATED INVESTOR ENGAGEMENT WITH PUBLIC COMPANIES

For public equity investors wishing to manage climate-related financial risks and/or fulfill their climate commitments—aside from divestment—the most effective tool they have to reduce their financed emissions is corporate engagement. Indeed, engagement is often featured in investor net-zero strategies and within the guidance from the Glasgow Financial Alliance for Net Zero and the United Nations.[1]

Investors typically state a preference for engagement as an emissions reduction tool over divestment. In theory, this preference makes sense, because engagement has the potential to result in real-world emissions reductions that are verifiable via the investor's annual monitoring and reporting of its financed emissions. However, in reality, the details of investor corporate engagement strategies are often kept confidential and characterized by "tea and biscuit"-style, behind-closed-door meetings without any conditions attached to outcomes.

Climate engagement is a broad term, which includes everything from confidential meetings with companies, to public policy lobbying, to public questions at AGMs—but for it to achieve results, it must include a commitment to vote in support of reasonable climate-related resolutions, include a clear path for further escalation, and be made transparent. These three best practices are described in more detail below.

1 See, for example: Glasgow Financial Alliance for Net Zero, Recommendations and Guidance on Financial Institution Net-zero Transition Plans (November 2022) at 61; Net Zero Asset Managers Initiative, Commitment (n.d.) at 7; United Nations High-Level Expert Group on Net Zero Emissions Commitments of Non-State Entities, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions (November 2022) at 22; UNPRI, Making voting count: principle-based voting on shareholder resolutions (9 March 2021).

CLIMATE ENGAGEMENT BEST PRACTICES

Based on a review of international guidance, there are three key elements for effective climate engagement with publicly-listed companies:

I. CLEAR POLICY TO SUPPORT CLIMATE-RELATED SHAREHOLDER RESOLUTIONS

- Effective engagement is driven by an explicit commitment to support resolutions that encourage companies to disclose and make progress on their strategy for transitioning to net-zero greenhouse gas (GHG) emissions by 2050 or sooner,[2] which includes resolutions to improve climate governance.[3]
- Where investors enlist the services of external asset managers or proxy service providers, such as ISS or Glass Lewis, they should clearly advise them of their climate-related proxy voting policy and to support climate-related resolutions, unless there is a strong argument to the contrary.

2 United Nations Principle for Responsible Investing, online at: www.unpri.org/stewardship/climate-transition-plan-votes-investor-briefing/9096.article.

3 This is one of the three asks of Climate Action 100+, see: www.climateaction100.org/approach/the-three-asks/.

- Investors are often hesitant to micromanage the companies in which they are invested, and commonly rationalize votes against climate resolutions based on their "over-prescriptiveness." However, in the context of the climate crisis and associated financial risks, support for more prescriptive resolutions may be called for.

- Shareholder resolutions that receive majority support are not binding, but company management would be wise to take any shareholder resolution into account that obtains a significant amount of votes (i.e. 10% or more),[4] especially since the default on shareholder resolution is for investors to vote in support of management.

Some examples of best practices include,

- British Columbia Investment Management Corporation ('BCI') states that it will consider supporting more prescriptive shareholder proposals on climate change to publicly signal its expectation that companies must act immediately.[5]

- Ontario's University Pension Plan outlines how it advises external asset managers to vote on its behalf on climate-change issues, to promote a 1.5-degree Celsius-aligned pathway.[6]

4 See Frequently Asked Questions, "What does a successful shareholder resolution look like" at: www.asyousow.org/shareholder-advocacy.

5 BCI, Proxy Voting Guidelines (2021) at 6.

6 University Pension Plan, Proxy Voting Policy (2022) at 3.

II. ESCALATION POLICIES: VOTING AGAINST MANAGEMENT RESOLUTIONS, FLAGGING VOTES, AND DIVESTMENT

- Voting in support of shareholder resolutions is one key form of escalation, but on its own, it may be insufficient to drive real change.

- The influence of shareholder resolution votes is amplified when accompanied by the threat of further escalation if improvements are not made, notably:

  - voting against management resolutions related to director elections, auditor appointments, or approval of financial statements; and, eventually
  - divestment.[7]

- There may be instances where escalating directly to voting against management resolutions or divestment is justified.

- Finally, raising key votes to the attention of other investors, whether via the CA100+ flagging process or via other means, is also an effective means of engagement escalation.[8]

- Escalation policies are more effective with timelines.

Some examples of escalation policy best practices include:[9]

- New York State Common Retirement Fund: *"may withhold support from directors responsible for climate risk oversight or the entire board in the event that a company: supports public policies that adversely affect the low carbon transition and enhanced corporate climate disclosure;... [or] fails to demonstrate transition strategies."*[10]

7 Glasgow Financial Alliance for Net Zero, Recommendations and Guidance on Financial Institution Net-zero Transition Plans (November 2022) at 62.

8 Majority Action, Fulfilling The Promise 2023, at 23.

9 For other examples of escalation best practices, see: Majority Action, Fulfilling the Promise (2022) at 19; Share Action, Power in Numbers? An assessment of CA100+ engagement on climate change (2022) at 20.

10 New York State Common Retirement Fund, Environmental, Social and Governance Principles and Proxy Voting Guidelines (2020) at 27.

- Aviva Investors, a UK-based multinational insurance and asset management company with over £357 billion in AUM, in 2021 committed to engaging with 30 important carbon emitters on specific asks (e.g. delivering net zero Scope 3 emissions and establishing robust transition roadmaps), with the potential to divest within 12 to 36 months, if the company does not make serious progress. And Aviva works through the alliances of other asset owners and investors to increase this pressure.[11]

- Sarasin and Partners, a UK-based asset manager with £18 billion in AUM, provides a clear engagement escalation process, which includes "coalition building, tactical voting and AGM action, media outreach, regulatory complaints, etc" (see **Figure 1**).

- Ontario's University Pension Plan has a proxy voting policy that clearly states that it will vote against Directors where they see a failure of climate-change oversight.[12]

- BCI will also escalate to the targeting of directors for weak responses to climate change risk.

III. TRANSPARENT ENGAGEMENT POLICY, VOTING INTENTIONS, AND VOTING RECORD

- Transparency helps ensure accountability to shareholders and more effective engagement with target companies.

- In the case of engagement policies, transparency means ensuring that:
  - the engagement policy is clear and publicly available;
  - voting records are easily accessible to investors;
  - voting rationales are disclosed (especially for high-profile votes); and,
  - where possible, intentions to vote on climate-related resolutions are made public in advance of AGMs.[13]

- This final bullet helps build support among investors which creates added pressure on management.

- Examples of best practices of engagement transparency include:
  - BCI not only provides the public with access to a searchable database of its proxy voting (and reasons), it also published its rationale for supporting climate-related resolutions in its Proxy voting guidelines 2021.

- UNPRI built an online forum for signatories to voluntarily communicate how they intend to vote on shareholder proposals at company AGMs. The Collaboration Platform helps make sharing vote declarations simpler and clearer for signatories.

11 Aviva, Taking Climate Action (March 2021).

12 University Pension Plan, Proxy Voting Policy (Dec. 2021) at s.4.2.4 - s.4.2.5.

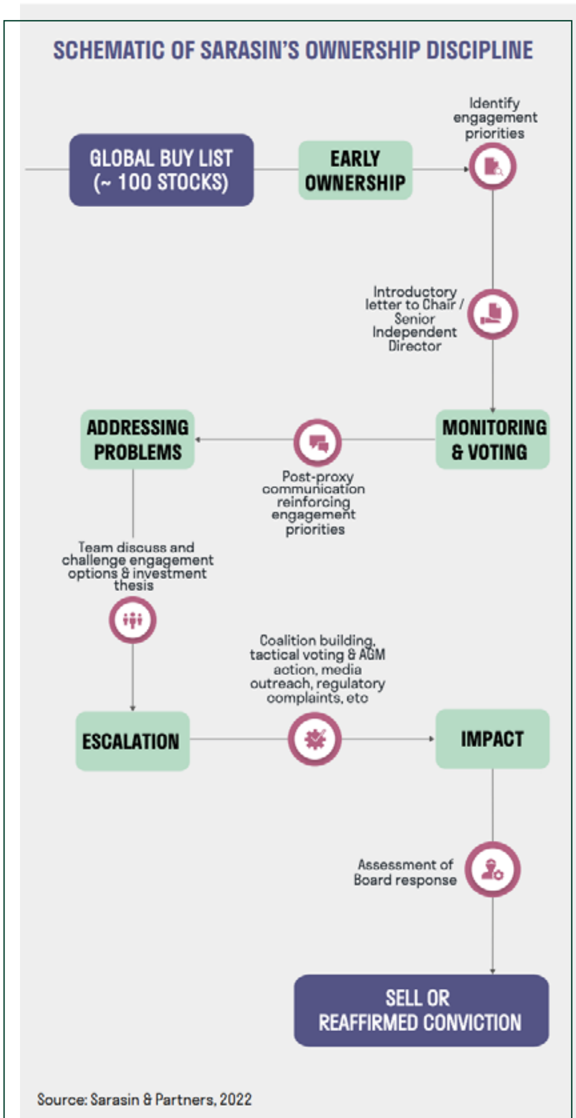

Figure 1

13 Investors are encouraged to use the PRI's Collaboration Platform to pre-declare their voting intentions and/or publicly disclose that information in their own platforms (e.g. Neuberger Berman's NB Votes).

ADDITIONAL SOURCES OF CLIMATE-RELATED PROXY VOTING GUIDANCE

+ SHARE, 2022 Model Proxy Voting Policy, at 16-17, 37-38.
+ Environmental Defence, Ecojustice and SHIFT, Roadmap to a Sustainable Financial System in Canada (2022) at 34-36.
+ Share Action, Voting Expectations of Asset Managers (2022).
+ Majority Action, Climate in the Boardroom (2021) p.20-22.

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