

An aerial photograph of a large concrete dam with a reservoir. The water is a vibrant turquoise color. The dam's walkway is visible, with a few small figures of people. The background shows a lush green forest.

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Why Would Investors Vote *Against* a Climate Resolution?

CANDRIAM 
A NEW YORK LIFE INVESTMENTS COMPANY

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Sophie Deleuze joined Candriam's ESG Research Department in 2005. Following more than a decade as an ESG analyst, she specialized in Candriam's Engagement, Proxy voting, and Stewardship efforts, coordinating our engagement with our ESG analysis and all our investment management teams. Prior to Candriam, she spent four years as an SRI analyst at BMJ CoreRatings, and Arese. Mme. Deleuze holds an Engineering Degree in Water Treatment, and a Masters in Public Environmental Affairs.

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Spoiler Alert – Last Year, This Year

It seems as though we barely finished the tally of last year's Annual General Meetings and our 2021 Stewardship Report when we were already in the busiest part of the new 2022 season. The financial press may soon be full of the success of **Say-on-Climate** resolutions and votes.

Soon, we will be providing you with the lessons we are learning during the current 2022 Voting season, and the developments in proposals and Voting results. But first, how we got here



Proxy Voting in 2021 – Climate With a Twist

Two Voting cycles ago, in 2020, we saw **Say-on-Climate** resolutions added to shareholder meeting agendas **by the managements** for the first time. In 2021, this new fashion picked up speed.

Yet, whether through proposals by managements or shareholders, climate receives much less space in annual meetings than it receives in the news. During the 2021 Voting season, fewer than 80 resolutions from all proposers were climate-related, among the 26,605 resolutions in our Voting universe. In 2020, only 30 were climate-related. But 2022 will be major. Were investors ready for this year?

We individually analysed and voted on each of these climate resolutions, although we did not always vote **‘For’** these resolutions.

Figure 1:
Candriam 2021 Voting Instructions by ‘Origin’ of Climate Resolutions:

79 Climate resolutions voted in 2021, 70% For, 30% Against

	Management resolutions		Shareholder resolutions		Grand total	
	#	%	#	%	#	%
Votes For	14	74 %	41	68 %	55	70 %
Votes Against	5	26 %	19	32 %	24	30 %
Total	19		60		79	

Notes: Management resolutions were only “Say-on-Climate”. Shareholder resolutions were both “Say-on-Climate” and other climate resolutions. Please note that in some markets, companies include conditional governance items on their agenda on which will depend climate-related shareholder resolutions. As the first items condition the seconds, they are usually referenced as climate-related too in our systems. For strictness purpose, we reported in the above table only the second items.

Why, you ask, would a shareholder ever vote ‘Against’ a climate resolution? Most importantly, when the targets are not very ambitious!

And another clue – for 2022 and beyond, proxy advisors announced they will be strengthening their analysis of climate resolutions before making recommendations to asset owners. We applaud. And at Candriam, we feel our in-house attention to detail, involvement with our fundamental and ESG analysts and our investment teams, and some extra nights and weekends are being rewarded.

Focus on CLIMATE

We welcome **Say-on-Climate** resolutions. Their increased frequency made 2021 a key year in the fight against climate change, and an important milestone in the path to align corporate activities with the Paris Agreement emissions reduction objective. This change means that it is now legitimate, and even necessary, to discuss climate change and a just energy transition at Annual General Meetings (AGMs). And these early resolutions also set the stage for an exciting 2022.

But the devil is in the details. Responsible shareholders must carefully evaluate the indicators proposed by managements for their reporting, to determine whether these metrics are the relevant measurements for each particular case.

Changing Times

Climate resolutions have long been the preserve of shareholder resolutions, not management resolutions. Not until 2020 did investors first see a **management-sponsored Say-on-Climate** resolution. That is, after setting

ambitious emission reduction targets, a company commits to submit its climate action plan to an annual vote. This arose after pressure on Aena, the Spanish airport operator, from The Children's Investment Fund. Aena management responded with its own resolution. The number of management-sponsored **Say-on-Climate** resolutions is now growing exponentially.

The **Say-on-Climate** trend follows on naturally from the increased pressure by investors and other stakeholders. These involved parties have targeted dozens of big carbon emitters over the past five years, asking them to adopt a climate action plan, to align lobbying activities with the Paris Agreement, and/or to adopt an annual advisory vote to allow shareholders to judge whether the company's climate action plan is sufficiently ambitious. Introducing **Say-on-Climate** to the agenda has been an objective for numerous investors, including Candriam, through the Climate Action 100+ investor initiative, through multiple dedicated working groups within Institutional Investors Group on Climate Change, and through national forums for responsible investment.

Preparing for an Informed Vote

At Candriam, we want our approach to be as unbiased and as consistent as possible. We believe that for a Responsible Investor, **systematic support** of a Climate Action resolution **is not an option**.

Voting on these climate proposals requires in-depth analysis of management commitments. It also requires analysing whether the resources and targets are consistent with the stated goals. Results must be monitored, and changing circumstances must be considered.

The stated goals must be consistent with the underlying strategies put in place by the companies. **Well-meaning but unachievable intentions could even delay constructive action**. Therefore, and in full alignment with the July 2021 IIGCC Investor statement¹ which we supported, Candriam constructed a detailed framework which we apply to every **Say-on-Climate** resolution. Our process assesses the stringency and the alignment of company transition strategy with a 2050 net zero emissions pathway. We set the criteria based on the company and its sector. Our criteria for a Yes vote

are stricter for sectors which are key to the energy transition.

- Effective 2050 Net Zero Commitment -- 2050 at the latest, but sooner for power producers and others key to energy transition.
- **Alignment of targets with the International Energy Agency** scenario -- a minimum Sustainable Development Scenario, but stricter scenarios preferred. **Science-based Targets** also preferred. **Scope 3 emissions** should be included in the plan when relevant. The plan should be credible, and in line with relevant sector decarbonisation pathways.
- **Capital spending** plans and accounting practices should align with the commitments.
- **Lobbying** practices are evaluated.
- **Executive compensation** and transition targets should be linked.
- **Just Transition** aspects should be included in the company strategy.
- **Frequency** of the **Say-on-Climate** vote -- the vote on the strategy should be followed by periodic votes on implementation and results.

Our framework is not static. For the 2022 Voting season, we added new considerations such as the fair allocation of the added value from progress in energy transitions (part of the Just Transition framework).

Figure 2:
Voting Details for Management *Say-on-Climate* Resolutions

Company Name	Country	AGM Date	CANDRIAM Vote [main reasons for voting against]	Final Outcome
VINCI SA	France	08-Apr-21	Against [Scope 3 reduction target, 2050 net zero objective]	98,1% FOR
Ferrovial SA	Spain	08-Apr-21	For	97% FOR
Nestle SA	Switzerland	15-Apr-21	For	95,0% FOR
Moody's Corporation	USA	20-Apr-21	For	93,3% FOR
Canadian National Railway Company	Canada	27-Apr-21	For	92,1% FOR
Aena S.M.E. SA	Spain	27-Apr-21	For	95,7% FOR
S&P Global Inc.	USA	05-May-21	For	99,5% FOR
Unilever Plc	United Kingdom	05-May-21	For	99,6% FOR
Aviva Plc	United Kingdom	06-May-21	For	99,95% FOR
ATOS SE	France	12-May-21	For	97,1% FOR
Royal Dutch Shell Plc	United Kingdom	18-May-21	Against [Alignment with Paris Goal, CAPEX plan]	88,7% FOR
Total SE	France	28-May-21	Against [Alignment with Paris Goal, CAPEX plan]	91,9% FOR
HSBC Holdings Plc	United Kingdom	28-May-21	For	99,7% FOR
Iberdrola SA	Spain	17-Jun-21	For	97,3% FOR
Severn Trent Plc	United Kingdom	08-Jul-21	For	99,4% FOR
SSE Plc	United Kingdom	22-Jul-21	For	100% FOR
National Grid Plc	United Kingdom	26-Jul-21	For	99% FOR
BHP Group Plc	United Kingdom	14-Oct-21	Against [Scope 3 reduction target, SBTi]	84,9% FOR
BHP Group Limited	Australia	11-Nov-21	Against [Scope 3 reduction target, SBTi]	84,9% FOR

The 2021 Voting Season Left Us With Mixed Feelings

Some Voting outcomes, and especially the level of support, made us question the process: Were shareholders and proxy advisors prepared to make an informed vote?

Economists speak of the unintended consequences, such as seat belts encouraging faster driving. Will companies use this high level of votes **For** their proposals to waive any further climate related ask from stakeholders in the coming

years, arguing that shareholders already agreed with the managements' climate strategies? From the 2022 pre-AGM season conversations with managements, this already seems to be the reality.

The good news is that we all learned from this 2021 **Say-on-Climate** campaign. Proxy advisors are strengthening their analysis and checks, while we and other investors continue to reinforce our analytical frameworks. Now in the middle of the 2022 season, we are seeing encouraging change, which we will report soon.

Looking Ahead

Pressure from investors on climate is not expected to slow, and Candriam will make sure it shall not.

Through our range of collaborative initiatives, we expect 2022 will see an even greater emphasis on climate at annual general meetings. Several climate-related resolutions are expected, **even for companies that already achieved passage of management-sponsored resolutions with large majorities in 2021.**

We expect Paris-aligned accounting to increasingly be a part of these conversations. As a responsible investor, we believe it is legitimate to ask for transparency in how companies take into account decarbonisation or the physical impacts from climate change as they draw up their financial statements. However, a recent Carbon Tracker report² highlighted the failure of 107 publicly-listed carbon-intensive firms (and their auditors) to consider material climate-related risks in their financial reporting.

Candriam believes accounting firms should ensure material climate risks associated with the transition onto a 2050 net zero pathway are fully incorporated into financial statements. Pressure from regulators is also increasing.

We are particularly keen when it comes to sectors which are key to energy transition, or which are among the highest-GHG-emitting industries. We do not come to this conclusion lightly. We have spent more than three years engaging on this topic. Some companies, and their auditors, have already shown these disclosures are not only feasible, but can be produced in a short period of time.

As a result of the changing environment, we adapted our Voting policy and associated guidelines to align with our Engagement results, and to reflect the growing investor expectations from investors and requirements from regulators.³

More generally, during our yearly update process and as part of our continuous strengthening of our stewardship, we have revised our Voting policy for 2021. Visible trends in company policies or investor needs, regulatory amendments, needs to address specific ESG risks in Voting, as well as lessons learned from the past Voting season guide us in our Voting policy updates. For further information we invite you to consult its latest version on our website.⁴

Our final word? **Check the details before ticking the boxes!**

¹ <https://www.iigcc.org/download/investor-position-statement-vote-on-transition-planning/?wpdmdl=4798&refresh=6103b7c61998f1627633606>

² Flying blind: The glaring absence of climate risks in financial reporting, Carbon Tracker, September 2021 ; <https://carbontracker.org/reports/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/>

³ Please refer to our 2022 Voting policy under https://www.candriam.com/48f4fo/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxy_voting_policy_en_web.pdf

⁴ Ibid.



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AUM as of
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