ShareAction»

Laying the Track: The Race to Zero

The role of asset managers in filing and voting on resolutions to tackle the climate crisis

This briefing is based on a distillation of the findings of the Voting Matters 2020 report which analysed the voting behaviours of 60 of the world's largest asset managers on 102 shareholder resolutions relating to climate change, climate-related lobbying and social issues between September 2019 and August 2020[i]. It aims to shine a spotlight on the state of play in the industry and sets out what policymakers can do to move investors in the right direction. The picture that emerges shows the investment sector overlooking essential aspects of stewardship, with weak climate-related resolutions and poor voting practices still too prevalent across asset managers' stewardship activities.

Led by the UNFCCC Champions for Climate Action, the global "Race to Zero" campaign aims to rally leadership from investors for a resilient, zero-carbon recovery that unlocks sustainable growth. This is the third in a series of briefings that will outline how policymakers can lay the track for the financial services sector to reach net zero by 2050.

Stewardship is the responsible allocation, management and oversight of capital on behalf of savers. It is a critical component of an efficient investment system. Effective stewardship helps reduce risks and maximise returns at the individual investment level, as well as enhance overall market stability and maximise positive impacts on society and the environment. Climate-related shareholder resolutions and voting are critical parts of effective stewardship and represent a key tool in enabling investors to reach net-zero. However, despite their importance, this briefing shows shareholder rights remain critically underused and underdeveloped.

Filing climate resolutions

The issue: Despite the urgency of the climate crisis, few European asset managers file climate-related shareholder resolutions in their own jurisdictions.

The details: Filing climate-related resolutions is a direct way of expressing asset managers' expectations and asks of portfolio companies about how they are addressing climate change.

However, last year only six out of the 53 climate resolutions filed globally were filed in Europe, and only two climate change proposals were filed in the UK[ii]. In filing so few climate resolutions, asset managers signal to companies that they are already doing enough to tackle climate change and do not need to increase their efforts, despite the urgency of the crisis and the business transformation required to achieve net-zero.

In the UK, shareholders filing a resolution are required to represent at least 5 per cent of the total voting rights or at least 100 shareholders with an average of £100 of capital (based on nominal value) per shareholder. Other countries in Europe require shareholders to own between 0.5 per cent and five per cent of a company to be able to file a resolution.

There are also administrative barriers, including a lack of clarity and a divergence between companies on the date and method of filing they require, and the permissibility of electronic filing. The cost and effort needed to file shareholder resolutions and rally other shareholders acts as an excessive barrier to the use of such a core stewardship tool.

The barriers: Practically, it is complex and difficult to file shareholder resolutions in most European countries, due to additional legal and regulatory hurdles, including higher ownership requirements.

Our recommendation is for the Department for Business, Energy & Industrial Strategy to issue guidance stating that companies clarify that electronic filing is permitted, and that companies publish on their website clear information regarding filing deadlines and how documentation on shareholder proposals is to be submitted.

We also support the recommendation by the Asset Management Taskforce that the UK government should examine whether the requirement of 100 shareholders who hold an average £100 of capital, or the five per cent threshold, is an excessive barrier to the use of shareholder resolutions as a stewardship tool[iii].

European policymakers should review legislative and regulatory barriers on filing shareholder resolutions and ensure harmonisation across member states.

The dominance of disclosure

The issue: The majority of climate resolutions that were voted on in the 2020 AGM season focused on disclosure, but concrete actions from companies are needed to tackle the climate crisis.

The details: Asset managers' climate resolutions focus on encouraging companies to disclose climate-related data, rather than take action to address their climate change impacts. Recurring asks include *'Publishing a Report on Climate Change' and 'Publishing a Report on Lobbying Payments and Policy'*[iv].

Climate disclosure resolutions tend to be less controversial in nature as their purpose is usually to provide investors with additional information on the company's exposure to environmental, social and governance (ESG) risks. However, there are very few asks for companies to take action beyond development of policies, as this is often perceived to be prescribing what specific actions companies should take[v].

While climate-related disclosures are necessary to account for climate risks in investments and ensure they are priced in by financial markets, they must be supported by robust action if we are to reach net-zero. Studies have found that climate disclosures resulting from shareholder resolutions do not lead to changes in corporate activity beyond disclosure itself, and that the relationship between disclosure and improvement often ranges from neutral to negative[vi]. ShareAction's recent report *Fit-for-Purpose? The future of the AGM*[vii], explores how Annual General Meetings could ensure that investors engage with stakeholders and corporate boards to better hold companies accountable for their impacts on communities and the environment.

It is vital for companies to better manage climate-related risks and the impacts of their activities in order to generate sustainable long-term value for beneficiaries. For this to happen, we believe asset managers need to file and vote for climate-related resolutions that are commensurate with the urgency of the climate crisis. This means climate resolutions need to be ambitious and encourage real-world impact, ensuring that companies integrate climate change risks and impacts into corporate decision-making and are held fully accountable when their actions are a significant driver of climate change.

The barriers: Lack of clarity on the role of investors as stewards means that asset managers often regard action-oriented climate resolutions as dictating company business activities and beyond their remit.

Our recommendation is for policymakers to review and promote the essential role of investors as stewards of capital. This should explore new mechanisms for incorporating the interests of stakeholders and pushing for change where companies are not doing enough to tackle the climate crisis.

The review should explore how investors can encourage companies to fulfil their responsibilities under section 172 of the Companies Act 2006, as discussed further in ShareAction's report *Fit-for-Purpose? The future of the AGM*[viii].

The limited use of voting rights

The issue: Voting across all holdings, particularly on climate resolutions, should be considered a base level of stewardship activity for the delivery of net-zero. However, asset managers are not using their voting rights to the fullest extent possible.

The details: One in six asset managers did not use their voting rights at over 10 per cent of the resolutions they could have voted for.

Furthermore, joining initiatives that aim to take action on climate change does not mean that asset managers will necessarily use their voting rights for climate resolutions. Climate Action 100+ (CA100+) is an investor initiative aiming to engage the world's largest carbon emitters. However, five out of 37 CA100+ members only voted for 50 per cent of climate resolutions or less in 2020.

Private engagement with companies is often cited by asset managers as the reason for abstaining or voting against climate resolutions. For example, one asset manager stated that it did not vote for a climate resolution because "an ongoing engagement with the company is in place addressing the same topics" and it would prefer "not to undermine good relationships in place"[ix].

Behind the scenes engagement is also a reason for the limited voting practices in asset managers whose large ownership stake means they have an outsized influence on companies[x].

BlackRock, Vanguard Group and State Street Global Advisors are the world's largest asset managers and largest shareholders of the vast majority of S&P companies[xi]. They often refrain from using their voting rights on the basis that they believe private engagement to be more effective in changing the behaviour of companies.

However, in practice, they engage with a very small proportion of their portfolio companies, only a small proportion of their portfolio companies have more than a single engagement in any year and many of their investee companies are failing to adopt the best practice principles that the climate crisis requires[xii].

The voting power and failure of the Big Three

Blackrock, Vanguard Group and State Street Global Advisors are responsible for 25 per cent of votes cast at S&P 500 companies[xiii], making their votes key to holding companies accountable for failures in combating climate change and aligning corporate strategies with net-zero targets.

Voting analysis for the Voting Matters 2020 report shows that 17 additional climate and social resolutions would have passed had one of more of the Big Three voted for them, including four on climate change issues and three on climate-related lobbying.

Voting is an essential component and inseparable part of effective stewardship. It is concerning that so many asset managers are delivering a sub-standard level of basic stewardship activity by voting at selected companies and for limited climate resolutions.

The barriers: While private engagement is important, it cannot constitute an adequate substitute for the exercise of asset managers' voting rights, especially when this does not translate into clear climate action outcomes by companies.

Without consistent voting, asset managers are not using their full stewardship capabilities to influence companies to take concrete action on climate change or hold them to account when this does not lead to change.

It is also important for asset owners to monitor and assess voting practices to ensure asset managers are acting appropriately on their behalf. However, asset owners often find it difficult to understand how and why voting decisions made by asset managers differ from their own voting policies, as highlighted in a recent report by the Association of Member Nominated Trustees[xiv].

As voting is often the only real evidence that asset owners and beneficiaries have of asset managers acting in their best interests on climate issues, it is essential that voting practices and rationales are more transparent.

We welcome the establishment of The Taskforce on Pension Scheme Voting Implementation that will propose solutions on voting issues in the UK[1] [xv]. Similar initiatives in other European jurisdictions could also address barriers to voting.

Our recommendation is for the taskforce to explore means of strengthening asset managers' voting policies. For example, this could include requiring them to vote on ESG-related resolutions on a comply or explain basis.

We also recommend that the Department for Business, Energy & Industrial Strategy and the Department for Work and Pensions work in collaboration to ensure industry develops a mandatory voting disclosure framework. This would provide asset owners with better transparency and comparability around voting practices and help them to identify key resolutions on climate change.

1 The Taskforce on Pension Scheme Voting Implementation was launched in December 2020 by the UK government in response to concerns that asset managers are not voting in line with asset owner policies. The group will investigate barriers preventing investors' voting policies from being implemented in pension funds and will present potential regulatory and non-regulatory measures to ensure convergence of voting policy and execution with trustees' policies and preferences.

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