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ShareAction's

2022 Voting Expectations of Asset Managers

ShareAction»

About ShareAction

ShareAction is a NGO working globally to define the highest standards for responsible investment and drive change until these standards are adopted worldwide. We mobilise investors to take action to improve labour standards, tackle climate change and address pressing global health issues. Over 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. Our vision is a world where the financial system serves our planet and its people.

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Introduction

This publication focuses on shareholder voting and proposes a standard of voting for 2022. It complements other voting-related research issued by ShareAction including our annual Voting Matters series (which assesses the voting performance of large asset managers across a range of environmental and social shareholder resolutions) and our annual Resolutions to Watch list (which tracks a number of significant environmental and social resolutions).

The next benchmarking process for asset managers will be undertaken during 2022 and we expect firms who meet the voting expectations set out in this publication to score strongly on this topic.

Shareholder voting is also a key topic in ShareAction's biennial global benchmarking of asset managers' approaches to responsible investment (see the 2020 Point of No Returns series). The next benchmarking process for asset managers will be undertaken during 2022 and we expect firms who meet the voting expectations set out in this publication to score strongly on this topic.

ShareAction expects asset managers who are serious about mitigating or avoiding the negative impacts of their investments on people and planet to put into practice the voting behaviours as presented in this standard.

Why focus on voting?

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Active ownership is central to responsible investment. Within the range of active ownership tools available, voting is a vital way in which asset managers can influence companies on social and environmental concerns.

However, our own research has found that asset managers are not harnessing the full potential of this tool. In fact, they often vote against ESG-related shareholder proposals that aim to have a positive influence on companies. ShareAction's 2021 voting analysis of 65 of the world's largest asset managers looked at voting behaviour on 146 carefully selected environmental and social resolutions. Our analysis found only one fifth of these resolutions received majority support, with three asset managers not even voting on 80 per cent or more of the assessed resolutions where they had shareholdings.

Asset owners are also raising the standards they expect from their asset managers when it comes to shareholder voting. The COP26 Declaration of asset owner climate expectations of asset management includes explicit expectations on voting. Moreover, members of the UK's Occupational Pensions Stewardship Council recently set out their expectations to asset managers on voting in a letter. This notes that voting and engagement are "key enablers for pension funds to influence companies, in which they invest, to do the right thing and drive better outcomes for society, the planet and pension savers".

Executive summary

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With respect to voting in 2022, ShareAction expects asset managers to:

1 Set public and ambitious ESG-related expectations for investee companies with explicit voting consequences

1.1 Set and communicate clear expectations of corporate policies and practices that respect planetary boundaries and social foundations

1.2 Vote in support of ESG-related shareholder proposals as a default position on a 'comply or explain' basis

1.3 Leverage votes against standing item resolutions (such as director re-elections) where ESG-related performance is unsatisfactory

1.3.1 Reinforce votes against 'Say on Climate' resolutions with votes against standing item resolutions (such as director re-elections)

1.4 Pre-disclose ESG-related voting intentions

1.5 Vote consistently and across all holdings

2 Promote these voting standards within investor ESG-related coalitions

3 Offer all clients a range of options on voting services

4 Be transparent to all stakeholders across all dimensions of voting

Expectations for asset managers

Expectations for investors

1 Expectation #1 – Set public and ambitious ESG-related expectations for investee companies with explicit voting consequences

Asset managers should set transparent and consistent sector-relevant expectations of companies that respect planetary boundaries and social foundations - and publish these. The expectations of companies should underpin voting decisions (both to support ESG-related shareholder proposals and to vote against standing items put forward by management at company AGMs). Investor expectations should be sufficiently demanding and specific to ESG-related issues that are not only financially material but also material in impacts on people and the environment (in line with the concept of 'double materiality'). Expectations should highlight minimum expectations of ESG-related performance by companies that if not satisfied will trigger voting consequences.

Asset managers will then ensure companies are made aware of their expectations via continuous engagement and dialogue.

Asset managers should set out their general and sector-level expectations in publicly-available voting policies, as the foundation for additional company-specific expectation setting. These public expectations should be evolved over time to reflect rising ambition on ESG topics, though not updated so frequently as to undermine the credibility or efficacy of the policies.

Asset managers should coordinate with like-minded investors (insofar as possible within regulatory constraints) to create consensus and generate critical mass on framing ESG-related expectations of companies. Any such coordination should promote company expectations that are sufficiently demanding. It should not be used to slow down or halt progress by companies on ESG-related or systemic issues.

Expectation #1.1 – Set and communicate clear expectations of corporate policies and practices that respect planetary boundaries and social foundations.

ShareAction expects asset managers to provide sector-relevant expectations on systemically important ESG topics, including (but not limited to):

- **Climate change**
- **Biodiversity loss**
- **Human and labour rights, and**
- **Population health.**

On the topics listed above, ESG-related expectations for companies should address both the disclosures and concrete actions that investors want to see.

On the topic of climate change, investors should set company expectations that drive behavioural change in line with the goals of the Paris Agreement to limit global warming to 1.5C.

Expectation #1.2 – Vote in support of ESG-related shareholder resolutions as a default position on a 'comply or explain' basis

As highlighted in the COP26 declaration of asset owner climate expectations of asset management, investors should move towards a presumption to vote 'For' climate-related resolutions proposed by shareholders and take a 'comply or explain' approach with public disclosure of rationales for any votes 'Against'. The 'comply or explain' caveat allows asset managers to vote against ESG-related shareholder proposals that are poorly worded, poorly intended or poorly constructed. ShareAction notes it is important that when an asset manager votes against or abstains on an ESG-related shareholder proposal, a rationale is published that clearly explains the reason for the voting decision.

Expectation #1.3 – Leverage votes against standing item resolutions (such as director re-elections) where ESG-related performance is unsatisfactory

In many cases, there will be no shareholder resolution addressing company ESG shortcomings. Where this is the case, ShareAction expects asset managers to leverage votes 'Against' standing item resolutions proposed by management where ESG-related performance is unsatisfactory. Where companies fail to satisfy investors' ESG-related expectations, asset managers should publicly disclose how votes on standing resolutions have been leveraged and include rationales.

There are a range of appropriate standing items to consider voting against on ESG grounds, which include:

- **Re-election of directors or specific board/committee positions**
- **Approval of financial statements**
- **Approval of remuneration packages or policies**
- **Approval of auditor (re)appointment**

Asset managers should publicly explain how escalating voting on standing item resolutions are used as part of an engagement escalation strategy, including timelines, which standing item resolutions are in scope, triggers for voting, and clear communication of concerns in advance of and following the vote each year.

Asset managers should coordinate with like-minded investors on voting against standing item resolutions in relation to ESG-related topics to achieve the greatest possible impact (insofar as possible within regulatory constraints). As an example of this behaviour, in 2021, a coalition of investors representing US$4.5 trillion in assets under management wrote to the world's top four auditors warning that until audited accounts integrate climate risk, they would vote to prevent the firms from working for the companies they invest in.

The 2021 guardrails for asset owners published by The Shareholder Commons are a strong example of minimum expectations for companies on ESG-related topics that could be used by asset managers to trigger escalation votes against standing item resolutions.

Expectation #1.3.1 – Reinforce votes against 'Say on Climate' resolutions with votes against standing item resolutions (such as director re-elections)

ShareAction is closely watching developments around 'Say on Climate' votes which offer investors an opportunity to express their approval or disapproval of a company's climate transition plan. 'Say on Climate' resolutions are advisory and can be tabled either by shareholders or companies themselves.

When an asset manager is dissatisfied with a company's climate transition plan, they are expected to reinforce voting against a 'Say on Climate' resolution by also voting against a standing item resolution (such as Director re-elections) to reinforce board-level accountability for climate strategies

Moreover, if an asset manager faces a choice between a 'Say on Climate' vote and a more demanding climate-related proposal, we expect the manager to support the more demanding proposal (so long as the more demanding proposal meets sufficiently demanding company expectations on climate change).

Expectation #1.4 – Pre-disclose ESG-related voting intentions

Investors should pre-disclose their ESG-related voting intentions (whether supporting shareholder resolutions or voting 'Against' standing-item resolutions) to companies and the public (insofar as possible within regulatory constraints) well in advance of the AGM.

Expectation #1.5 – Vote consistently and across all holdings

ShareAction also expects that so long as an asset manager has control over voting decisions on resolutions, and are not otherwise being directed by clients, there should be no split votes. Asset managers' own in-house voting policies should ensure companies avoid receiving 'mixed signals' from internally directed votes on ESG-related topics. Voting consistently applies both to supporting shareholder resolutions and voting against standing item resolutions.

Furthermore, ShareAction expects asset managers to vote on all resolutions across holdings regardless of the size of exposure.

2 Expectation #2 – Promote these voting standards within investor ESG-related coalitions

ShareAction welcomes investor coalitions on ESG-related issues, particularly in the climate space such as Climate Action 100+ and the Net-Zero Asset Managers initiative. However, some of these key alliances that depend on asset managers currently lack any requirements that align voting behaviour with the underlying objectives of these initiatives.

ShareAction expects asset manager members involved with ESG-related investor coalitions to lead by example by practicing and promoting the expectations proposed in this standard.

Furthermore, members are expected to use their membership influence to advocate for a higher bar for all members when it comes to ESG-related voting practices.

3 Expectation #3 – Offer all clients a range of options on voting services

ShareAction supports asset managers opening up voting preferences to asset owner clients whether using pooled or segregated accounts, and regardless of size.

This is a growing yet nascent trend in the asset management industry. For example, in 2021, AMX and DWS launched a pooled funds service that will allow pension scheme clients to select a voting policy (to cover climate change and board diversity alongside other topics) aligned with their stated stewardship preferences. Moreover, in 2022, BlackRock opened client voting choice options for a selection of its index strategies and aims to widen this universe.

We commend moves by the Taskforce on Pension Scheme Voting and more recently by the Occupational Pensions Stewardship Council to clarify the terms being used, what is available to asset owners, and how the sector can move to a more coherent spectrum of different offers to clients. Further detail on this expectation will follow as conditions clarify.

Asset managers are expected to provide reporting and facilitate discussions with clients about areas of misalignment between client and in-house approaches. It is crucial asset managers don't lose focus on ensuring their own voting policies and approaches are fit for purpose.

4 Expectation #4 – Be transparent to all stakeholders on all dimensions of voting

Asset managers should be transparent to both clients and the wider public on the following dimensions of voting behaviour:

- Voting policies containing ESG-related expectations for companies (as discussed in expectation #1).
- Voting records on all resolutions updated as soon as possible after meetings and in a searchable and audience-friendly format.
- Breakdown of votes in favour of ESG-related resolutions by topic (as discussed in expectation #1.2).
- Breakdown of votes against standing items on ESG-related grounds by topic (as discussed in expectation #1.3).
- Rationales for all votes against and abstentions on shareholder resolutions and standing items (as discussed in expectations #1.2 and #1.3).
- Pre-declared ESG-related voting intentions that are published well in advance of the AGM (as discussed in expectation #1.4).

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