50/50 Climate Project

Asset Manager Climate Scorecard 2018

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Executive Summary

A review of the world's thirteen largest asset managers' US proxy voting in carbon-intensive industries reveals:

- **A positive trend of increasing support for shareholder proposals on climate change and political influence disclosure.** In the 2017-2018 season, asset managers supported, on average, 42% of climate proposals and 28% of political disclosure proposals.

- **A clear pattern of leaders and laggards, with the largest asset managers showing the least support on key climate and political disclosure votes.** For example, BlackRock and Vanguard supported only 23% and 33% of climate proposals, respectively; both **voted against 100% of resolutions calling for greater disclosure of corporate political expenditures**.

- **Lack of support from largest asset managers resulted in lost opportunities to signal strong investor concern regarding climate issues at key companies**, because asset managers with large ownership stakes voted with management despite clear issues of concern to climate-aware investors. For example:

    - **General Motors (GM)** and **Ford** both fund and support the Alliance of Automobile Manufacturers, which successfully lobbied the Trump Administration to roll back fuel economy standards. BlackRock and Vanguard each own more than 5% of each firm. **At both companies, BlackRock and Vanguard voted against resolutions asking for reporting on the company's future fleet emissions in light of weakened CAFE standards.**

    - Repeating a pattern from past years, at **Chevron**, a vote on methane emissions reduction targets that received 45% would have passed with a majority if BlackRock or Vanguard, each of which own over 6% of the company, had voted in favor. While Chevron participates in industry-led initiatives to reduce flaring of methane, a potent greenhouse gas, it has not yet set specific reduction targets.

- **The 13 largest asset managers averaged 96% support for management's director nominees and 91% support for executive compensation plans.** Asset manager influence extends beyond shareholder proposals; votes on company director elections and executive compensation are the two strongest mechanisms asset managers have for holding companies accountable on matters of governance, strategy, and leadership. Despite the urgency of the climate crisis, asset managers are not using these mechanisms to drive change. **Two exceptions to this trend: asset managers PIMCO and Legal & General**, which supported management voting recommendations only 73% and 81% of the time, respectively, and supported 75% and 85% of climate proposals.

- Certain asset managers, including BlackRock, refuse to vote in favor of shareholder proposals if the companies concerned are engaging with the asset manager. **This "either-or" approach to non-binding proposals may strike climate-aware investors as unnecessarily timid,** and they may wish to encourage their asset managers to both engage and vote in favor of such proposals to emphasize the importance of the issues. If engagement is unsuccessful, asset managers can escalate to voting against the election of board members or the pay packages of corporate leaders whom they deem responsible.

Introduction

Study Rationale and Design

The accelerating climate crisis is making the transition to a low-carbon economy urgent. Increasingly, investors and other stakeholders are asking corporate leaders to decarbonize their business models and to exercise their political influence in support of a clean economy. While some progress in these directions is being made, research from CERES, Carbon Tracker, the 50/50 Climate Project and others has shown that business model transformation is proceeding unevenly in both the oil and gas and utilities industries. High carbon-emitting industries continue to exert extensive political influence in support of the status quo, executives remain incentivized to maximize fossil fuel utilization, and boards lack the experience with and knowledge of climate science and renewables needed to achieve business model innovation.

At corporate annual meetings, shareholders have the opportunity to convey their concerns about these issues to corporate management by supporting shareholder resolutions on climate and political spending, and by voting against directors and executive pay packages ("Say-on-Pay") at companies that are harming the climate. Many votes are not cast directly by investors, but by the large asset managers they hire to invest their portfolios. This makes it important for investors to know which asset managers are exercising the most active oversight of carbon-intensive companies' management through their proxy voting.

Previous studies by the 50/50 Climate Project, released in 2016 and 2017, examined asset manager voting on a small group of especially significant climate-related votes. The current study expands this methodology to examine all votes cast on climate, political spending, directors and executive pay at all US companies in the oil and gas and utilities industries, as well as at automakers GM and Ford. Our asset manager universe includes the thirteen largest asset managers in the world with over $1 trillion in assets that report mutual fund votes, and our voting time period is the year ending August 31, 2018.

These asset managers are typically the largest shareholders of fossil-fuel dependent companies; collectively, they hold significant percentages of many of the companies in the study. For example, these asset managers collectively hold more than a fifth of Exxon (21.9%), nearly a quarter of Chevron (24.9%), and close to a fifth (17.6%) of GM. These large ownership stakes make their voting behavior particularly consequential: for example, as this study and previous 50/50 Climate Project publications demonstrate, these asset managers are often the "swing vote" on contentious shareholder resolutions.

Topline Results

Investment Managers Highly Aligned with Company Management

The results show that while most asset managers are beginning to express some critique of the way carbon-intensive companies are run, their dissent is uneven and with a few exceptions, quite limited. On the one hand, the asset managers averaged 42% support for disclosure on climate-related scenario planning, business model transformation, or related topics, and 28% support for shareholder requests for disclosure of political spending and/or lobbying. At the same time, however, they supported executive compensation programs, on average, 91% of the time, and the election of management-nominated directors an average of 96% of the time. Despite some support for increased disclosure, the overall message conveyed by the managers' voting records is one of strong support for board composition in these industries, as well as their overall leadership and strategic direction.

PIMCO, Legal & General lead the industry

Investors who have a less sanguine view of how carbon-intensive companies are being managed can turn to two asset managers who are taking a different approach.

Overall support for management recommendations regarding climate-related resolutions was lowest at PIMCO (72.6%) and Legal & General (81.1%), far lower than the asset manager average of 94%. Consistent with this critical stance, PIMCO and Legal & General expressed strong dissent to management on shareholder resolutions related to climate change reporting, supporting 75% and 85% of shareholder resolutions on that topic, respectively. Both firms supported 100% of shareholder proposals calling for political influence disclosure. Moreover, both Legal & General and PIMCO were the only firms to approve less than 90% of director nominations and were two of the three firms approving less than 90% of executive pay packages. PIMCO voted in support of only 78% of directors and Legal & General in favor of 88%, while Legal & General voted yes on Say-on-Pay resolutions indicating support of proposed executive compensation packages only 72% of the time, to PIMCO's 88%.

The third firm to support less than 90% of pay packages was BNY Mellon, which voted "no" on pay 25% of the time. Goldman Sachs was the only other firm to support at least three quarters of climate proposals, voting in favor of 80% of them.

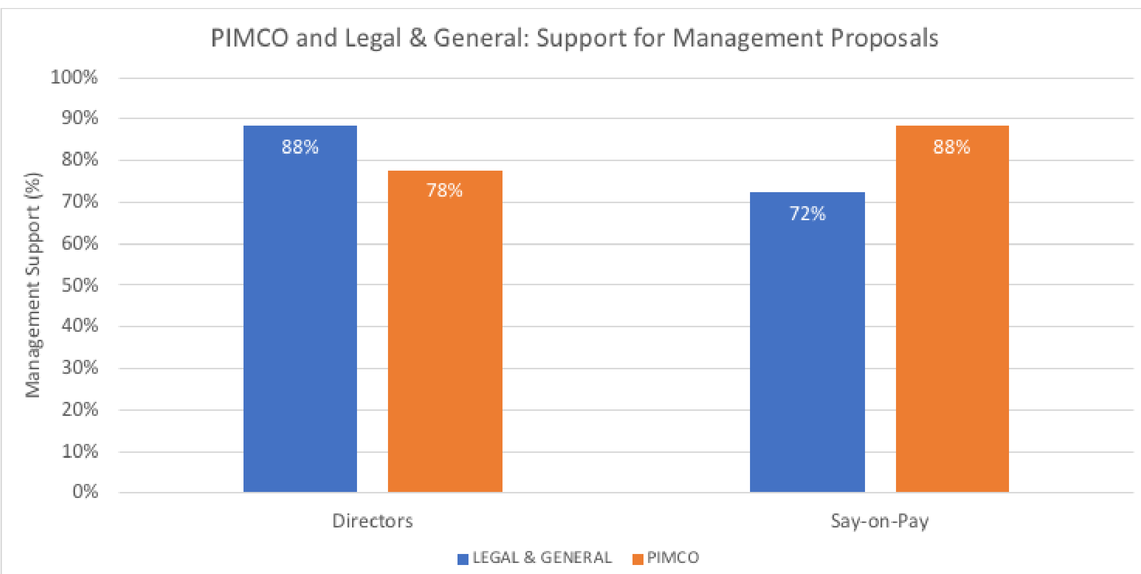

Figure1 - Levels of PIMCO and L&G support for management's director nominees and executive compensation.

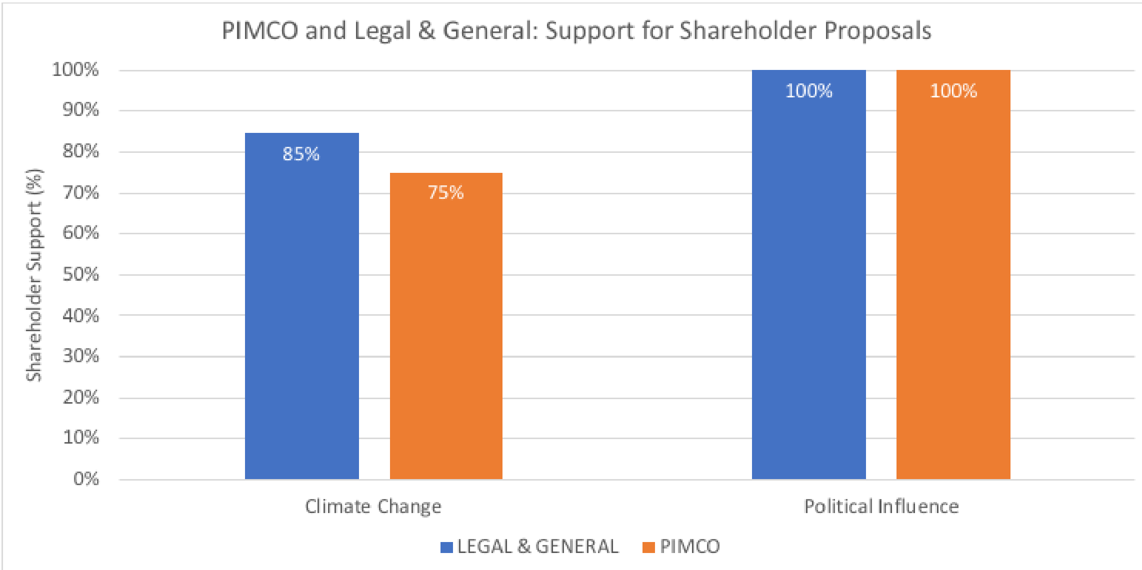

Figure 2 - Levels of PIMCO and L&G support for climate change reporting and political influence disclosure.

Household Names Show Range: Fidelity Leads Vanguard, BlackRock

Among the best-known funds, Fidelity is demonstrating leadership in supporting shareholder concerns on climate-related issues, while the voting records of Vanguard and especially, BlackRock suggest a far more lenient orientation in favor of corporate management.

Fidelity, which has recently hired its first head of sustainable investing, voted in favor of 58% of climate-related proposals in our study. At the same time, it supported over 99% of management-nominated directors and over 96% of pay packages, and it abstained on all political spending proposals. (While these abstentions may be intended to express some level of agreement with shareholder concerns on this topic, companies often count abstentions as votes against a proposal. Since the intent of an abstention is unclear, we have counted abstentions in this study as non-support of a proposal.)

Vanguard, an investment manager of choice for many retail investors as well as institutional ones, stresses its climate-related engagement activity in its Investment Stewardship report, but does not specify any of that activity's results. In its proxy voting, it supported management positions 98% of the time, including voting for 98% of Say-on-Pay proposals regarding executive compensation and 99% of management-nominated directors. It supported no political influence disclosure proposals, and only 33% of climate-related resolutions. Moreover, its Investment Stewardship report specifically notes that the firm does not seek to influence corporate strategy, but only to understand it. This position may not be sufficient for Vanguard investors who are aware of the impacts carbon-intensive companies are having and will continue to have across their portfolios.

BlackRock, the world's largest asset manager, has a long-stated disinclination to support shareholder proposals, preferring to conduct private engagement with companies and vote against management only when it believes such engagement has been ineffective. The firm voted with management at the companies in our study 98% of the time. It supported only 23% of climate-related proposals and no political influence disclosure proposals at all, while voting for 98% of Say-on-Pay proposals and 99% of management-nominated directors. While BlackRock states in its Investment Stewardship report that it engaged a number of companies in this study, it does not explain the results, if any, that these engagements produced. The firm's investors thus remain in the dark as to whether or how BlackRock's engagement strategy is actually changing corporate behavior.

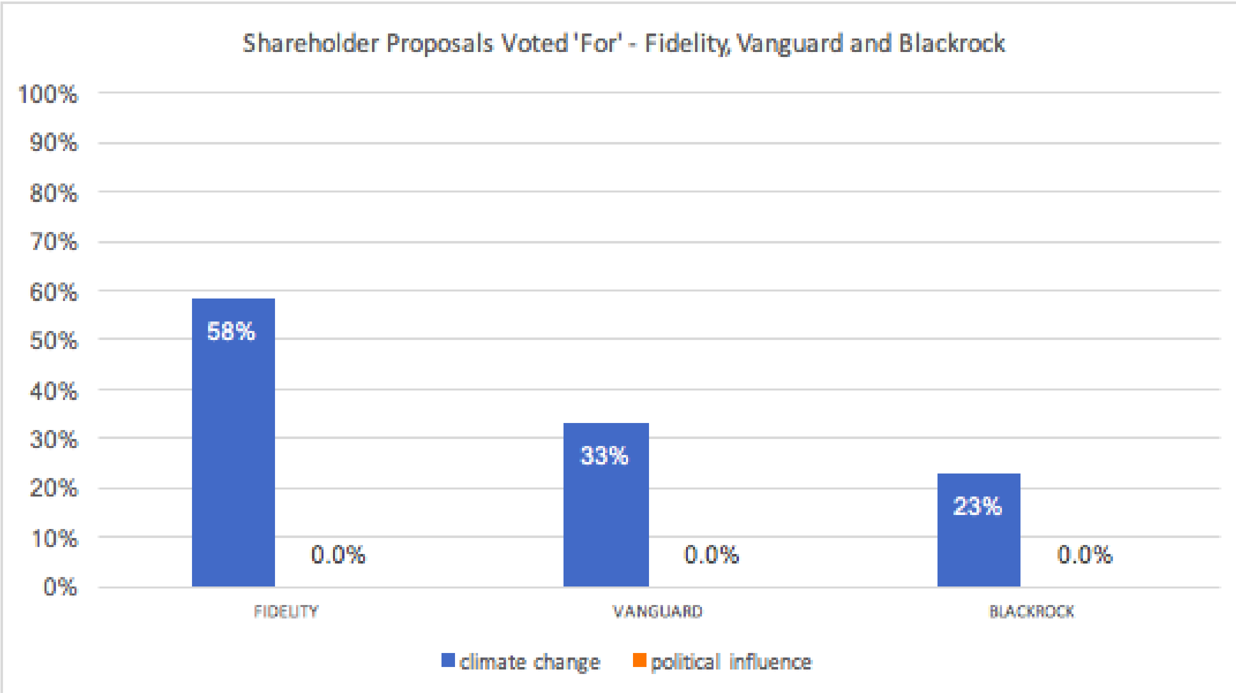

Figure 3 - Levels of Fidelity, Vanguard and BlackRock support for climate change reporting and political influence disclosure.

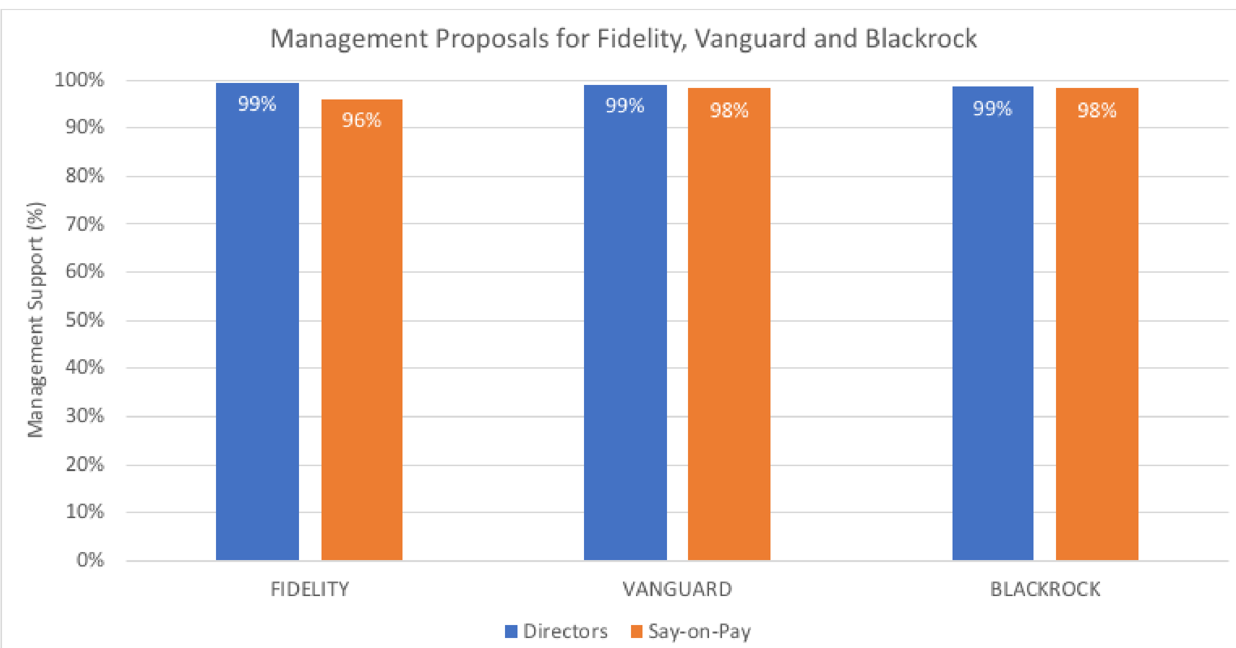

Figure 4 - Levels of Fidelity, Vanguard and BlackRock support for management's director nominees and executive compensation.

Selected Votes

In a number of cases, asset managers in our study held such large stakes in firms receiving votes on resolutions that their support could have resulted in a resolution receiving a majority vote.

Chevron: A resolution asking the global oil major to set methane emissions reduction targets received 45% support. With the exception of BlackRock, BNY Mellon, Vanguard, and JP Morgan, all of the asset managers in this study supported the resolution either fully or in part (in some cases, only some funds in the fund family voted in favor). Because BlackRock owns 6.4% and Vanguard 6.9%, either firm's support could have made the difference in passage. BlackRock's most recent Investment Stewardship report lists Chevron as one of the companies it engaged with in the most recent season, but does not specify the outcome of that engagement. Clients of BlackRock who are concerned with climate may wish to ask the fund manager for more detailed disclosure.

The utility industry's political spending has been a significant force hindering clean energy policy, as firms have worked through lobbying and political contributions to ensure a pro-corporate regulatory environment that protects existing carbon-reliant energy systems. At two firms in the industry, resolutions on election spending would have passed with a majority if either Blackrock or Vanguard had supported them; JP Morgan could also have tipped the balance in one case. At **CMS Energy**, where an election spending resolution received 45.2% support, BlackRock, Vanguard and JP Morgan all supported management and voted against the proposal. With 9.8%, 10.7%, and 7.8% ownership, respectively, support from any of them would have led to its approval by a majority of shareholders. At **NextEra Energy**, an election spending resolution received 43.2%. In this case, BlackRock and Vanguard both supported management, with 8.1% and 7.5% ownership respectively.

In addition, two resolutions at auto companies this year provided investors with an opportunity to weigh in simultaneously on political activity and climate. These resolutions asked Ford and GM to report on the projected GHG emissions of their fleets going forward, in light of the proposed weakening of CAFE standards for which their industry has lobbied, on the one hand, and the global need to decarbonize transportation, on the other. These resolutions gained support from many asset managers, but unfortunately were not supported by a number of others, including BlackRock and Vanguard, which have large stakes in both companies. Given the potentially severe climate change effects of the weakening of fuel economy standards, clients of those asset managers may wish to inquire why they missed this major opportunity to hold the management of the automakers to account.

At **Ford**, where the resolution received 12.8% of votes, it was supported by American Funds, Goldman, Natixis, and Legal & General, with PIMCO casting mixed votes and Amundi abstaining. It was opposed by BlackRock, the holder of 9% of shares, State Street, which holds 9%, Vanguard, which holds 7.2%, as well as BNY Mellon, Fidelity, JP Morgan, and Prudential.

At **GM**, where the resolution received 26.9%, it was supported by Goldman Sachs and Legal & General, with Fidelity and PIMCO casting mixed votes and Amundi abstaining. All other funds in the study opposed the resolution, including Vanguard, which holds 6.2% of shares, and BlackRock, which holds 5.5%.

Industry Overviews

The charts below show average levels of fund manager support for shareholder and management proposals, respectively, among the 13 asset managers.

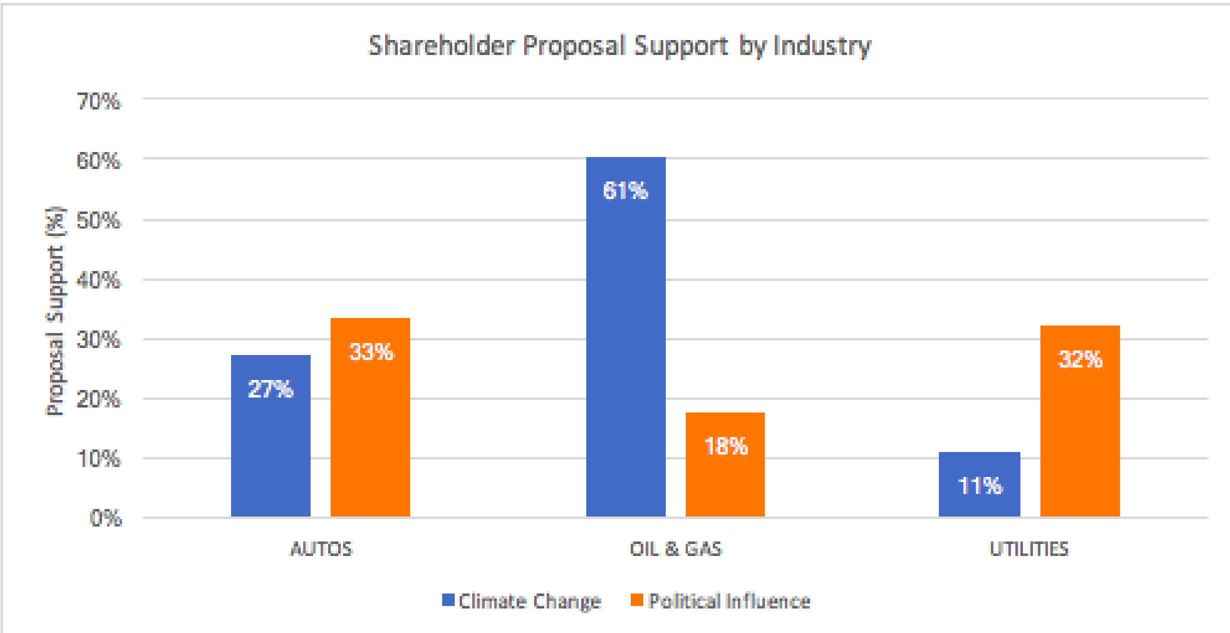

Figure 5 - Average levels of support for climate change reporting and political influence disclosure among the 13 asset managers in the three industries.

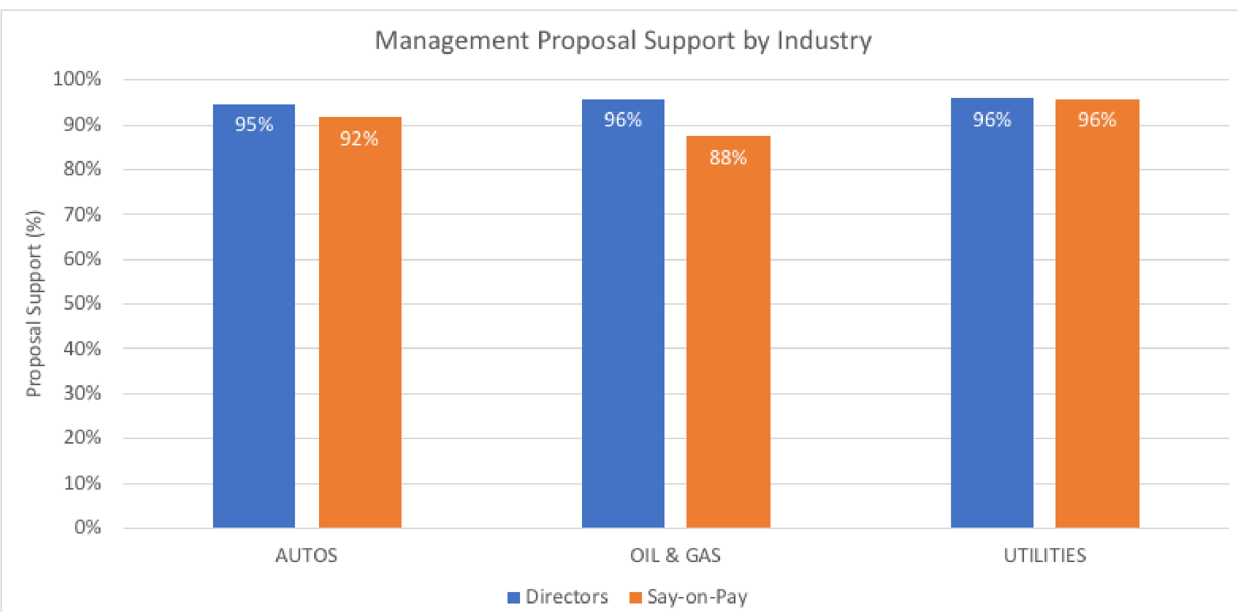

Figure 6 - Average levels of support for management's director nominees and executive compensation among the 13 asset managers in the three industries.

Asset Manager	Support for Management Proposals		Support for Shareholder Proposals	
	Director Nominees	Executive Compensation "Say-on-Pay"	Climate Change Reporting	Political Influence Disclosure
LEGAL & GENERAL	*88.4%*	*72.2%*	*84.6%*	*100.0%*
GOLDMAN SACHS	*99.6%*	*96.1%*	*80.0%*	*0.0%*
PIMCO	*78.1%*	*88.4%*	*75.0%*	*100.0%*
FIDELITY	*99.5%*	*96.2%*	*58.3%*	*0.0%*
NATIXIS	*96.6%*	*90.2%*	*50.0%*	*85.7%*
BNY MELLON	*99.1%*	*75.0%*	*38.5%*	*45.5%*
STATE STREET	*99.1%*	*94.6%*	*38.5%*	*36.4%*
VANGUARD	*99.1%*	*98.2%*	*33.3%*	*0.0%*
PRUDENTIAL	*99.4%*	*98.2%*	*27.3%*	*0.0%*
BLACKROCK	*98.6%*	*98.2%*	*23.1%*	*0.0%*
JP MORGAN	*96.7%*	*91.1%*	*21.4%*	*0.0%*
AMERICAN FUNDS/CAPITAL GROUP	*100.0%*	*91.2%*	*12.5%*	*0.0%*
AMUNDI PIONEER	*98.4%*	*95.0%*	*0%*	*0%*

Table 1 - This table presents the level of support for different categories of proposals by each asset manager. It is ordered by decreasing level of support for shareholder resolutions on climate. Here, as throughout this report, abstentions on shareholder proposals are considered to be votes of non-support.

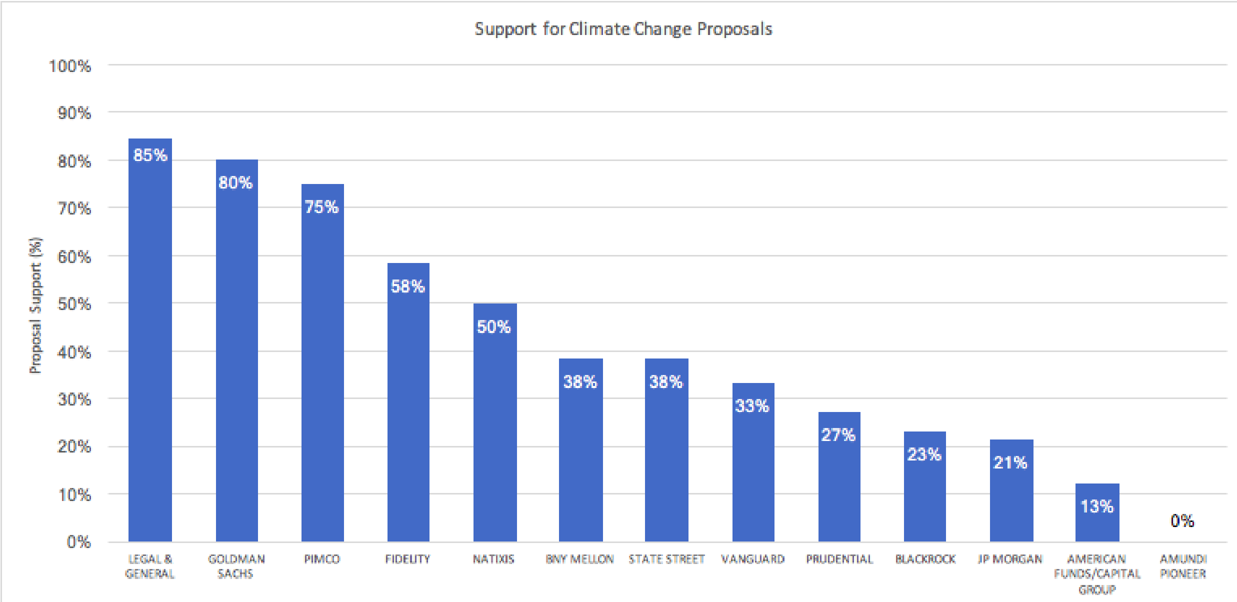

Figure 7 - Level of support for climate change reporting by each asset manager. Here, as throughout this report, abstentions on shareholder proposals are considered to be votes of non-support.

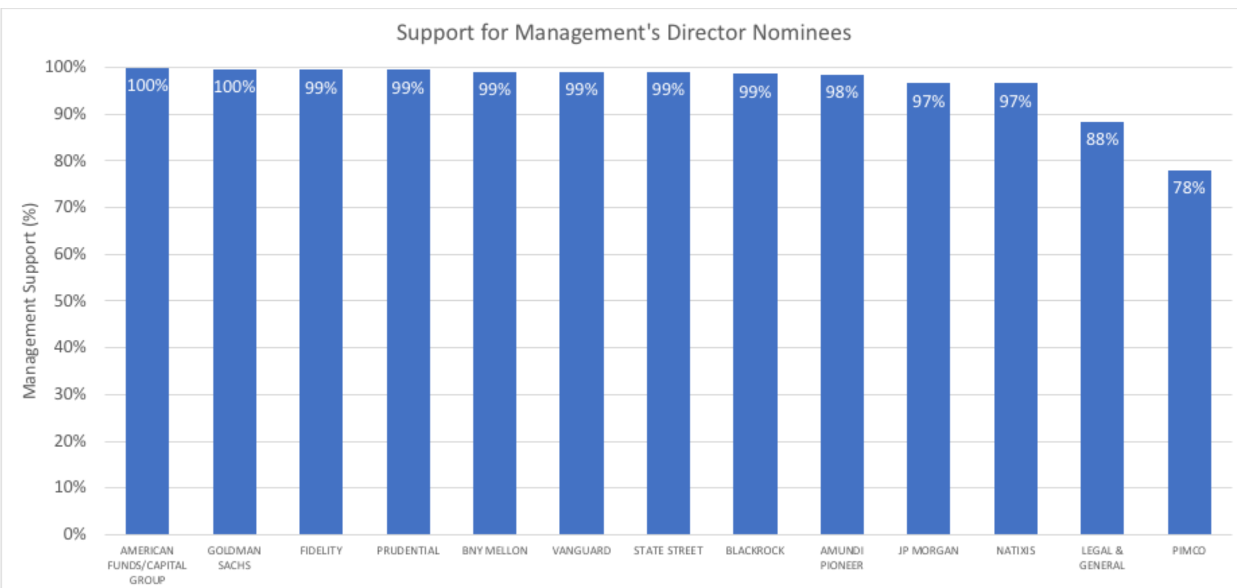

Figure 8 - Level of support for management's director nominees by each asset manager.

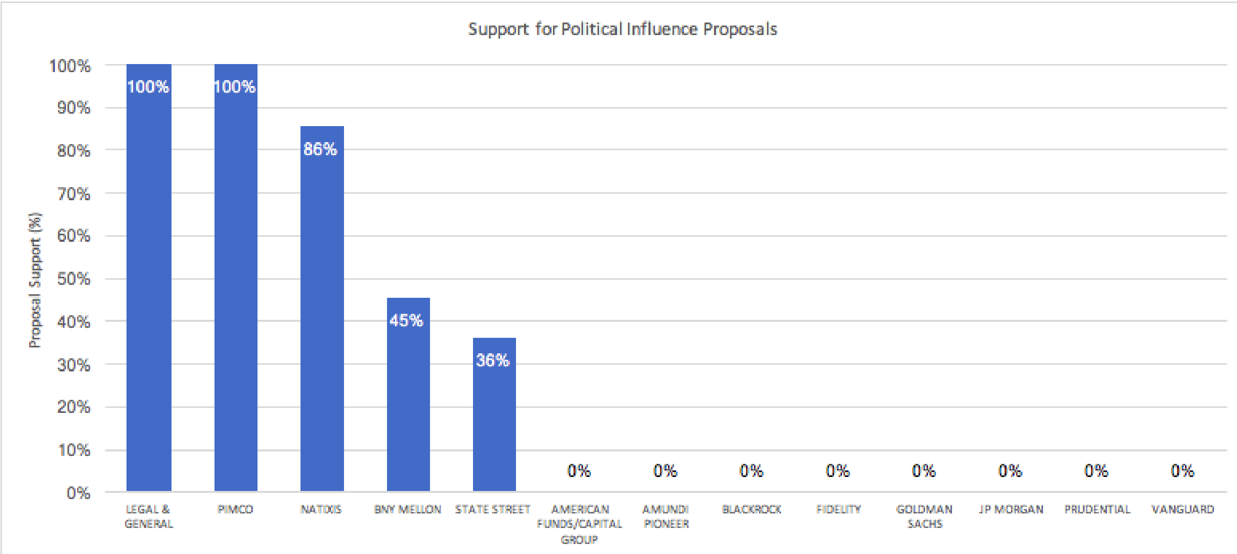

Figure 9 - Level of support for political influence disclosure by each asset manager. Here, as throughout this report, abstentions on shareholder proposals are considered to be votes of non-support.

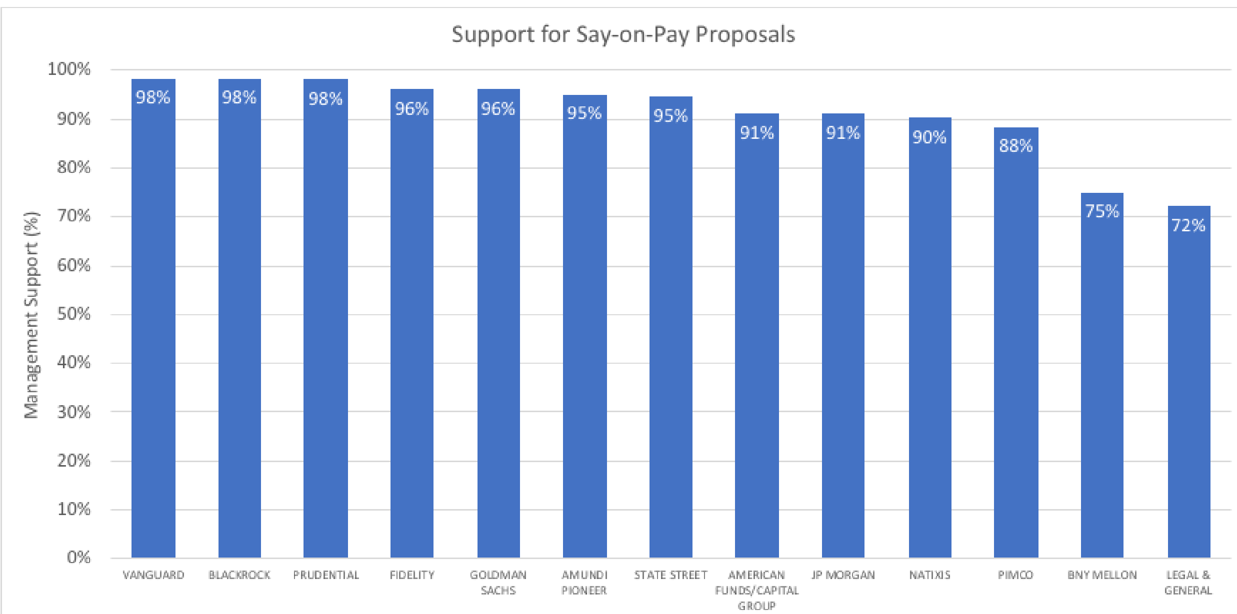

Figure 10 - Level of support for executive compensation by each asset manager.

Data Note

Data was provided by Jackie Cook of FundVotes. The company universe includes the S&P 500 companies that are in the GICS sector '"Energy" or "Utilities," not including the following sub-sectors: "Oil & Gas Equipment & Services," "Water Utilities," and "Oil & Gas Drilling." The asset manager universe is the thirteen global asset managers that report mutual fund votes and had over $1 trillion in assets under management as of calendar year-end 2017, according to the Investment and Pensions Europe Top 400 Asset Manager Survey 2018. Votes for proposals are counted as "For" if 75% of more of funds within a fund family voted for it and "Against" if at least 75% of funds within a fund family opposed it. Votes where there was less agreement within funds in the same fund family are recorded as "mixed." Only actual votes for a shareholder resolution are considered votes in support of it, with abstentions being counted as votes of non-support. Numbers in charts are truncated to the nearest whole integers following the conventions of Excel formulae.