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Most Large Asset Managers Voted to Support Directors at U.S. Companies Exacerbating the Climate Crisis in 2021

Despite pledges to become "Net-Zero Asset Managers," BlackRock, Vanguard, and others voted to shield directors from accountability for investments and policy influence that fuel higher levels of warming.

Asset manager accountability failures exacerbate risks to long-term shareholder value, compromise financial system stability, and undermine client net-zero objectives.

NEW YORK — In 2021 proxy voting by asset managers with over $1 trillion in assets under management remained wholly insufficient to the scale and urgency of the climate crisis, according to a new report by Majority Action. Despite some increased support for climate-related resolutions and public commitments to hold corporate directors accountable, most asset managers continued to overwhelmingly vote in favor of directors who failed to take up the leadership required to change course on climate change.

Laggard voters included BlackRock and Vanguard, the world's largest asset managers and among the top three shareholders in the vast majority of S&P 500 companies. This comes despite both firms joining the Net-Zero Asset Managers Initiative ahead of the 2021 proxy season, pledging to implement a stewardship strategy with a "clear escalation and voting policy" to achieve net zero emissions by 2050 or sooner across their entire assets under management.

"The world currently is on track toward unprecedented and disastrous levels of warming, driving massive harm and endangering and upending lives," said **Eli Kasargod-Staub**, Executive Director of Majority Action. "Without additional board-level accountability from the largest and most influential shareholders to transition to net-zero pathways, companies in climate-critical industries such as oil and gas, electricity production, and financial services will continue to drive warming beyond 1.5°C—placing trillions of dollars of shareholder value and financial system stability at increasing risk."

Climate in the Boardroom: How Asset Manager Voting Shaped Corporate Climate Action in 2021, is an annual analysis released by Majority Action, a nonprofit organization that empowers shareholders to hold corporations accountable to high standards of corporate governance, social responsibility, and long-term value creation. The full report analyzes the extent to which asset managers supported management recommendations on director elections at oil and gas, utility and financial services companies in the S&P 500 and asset managers' votes on chairs and lead independent directors at companies that exemplified target setting, capital expenditure, policy influence, and/or disclosure practices demonstrably out of alignment with limiting warming to 1.5°C.

The key findings include:

- Vanguard, BNY Mellon, T. Rowe Price, Wellington, and JPMorgan Asset Management all demonstrated strong support for status-quo governance of climate risks across all climate-critical S&P 500 companies in the oil and gas, electric power, and financial services industries, by voting for more than 98% of management-sponsored directors. Fidelity voted for 100% of these directors.

- BlackRock notably increased support for climate-related resolutions in 2021, yet still supported 96% of management-proposed directors at S&P 500 companies in these three climate-critical sectors.

- Legal & General Investment Management ("LGIM"), PIMCO, and Amundi Asset Management overwhelmingly opposed board leaders and directors at 19 U.S. companies with decarbonization targets, capital expenditures, and/or policy influence activities that Majority Action identified as demonstrably not aligned with net-zero pathways in the oil and gas, electric power, and banking industries.

- In contrast, Vanguard and Fidelity supported the chairs and lead independent directors at all 19 companies. BlackRock voted to re-elect the entire board at 11 of these 19 companies, and voted in favor of the chair and/or lead independent director at 15.

- No major asset manager's proxy voting policy explicitly seeks to hold companies accountable to limiting warming to 1.5°C, unlike leading asset owners and managers, including competitor Engine No. 1's ETF management firm. Policies at Vanguard, Fidelity, and State Street make no mention of voting against directors on the basis of climate performance.

- After years of pressure from investors and climate advocates, BlackRock has made significant revisions to its voting policies, clarifying that votes against directors could be taken on the basis of climate-related business practices, not just disclosures. However, BlackRock's policy implementation falls far short of peer and best-practice standards, failing to set clearly articulated expectations for corporate decarbonization efforts and the consequences for directors who fail to meet them.

Majority Action recommends that asset managers and owners enact their fiduciary responsibility for mitigating climate risks to their clients' and beneficiaries' portfolios by adopting or updating proxy voting policies to target limiting warming to 1.5°C, setting expectations that portfolio companies will take action to reduce their emissions consistent with that goal, and enabling voting against directors at companies that fail to do so. They should also establish and communicate clear, industry-specific standards for assessing corporate decarbonization plans aligned with limiting warming to 1.5°C, in particular in the climate-critical industries of oil and gas, electric power, and financial services, and disclosing company assessments against those standards. Asset owners are urged to revise asset manager search criteria, requests for proposals and assessments to include criteria for proxy voting on systemic climate risk at climate-critical companies.

"The fiduciary duty we as asset managers have to protect client investments and create value gives us a clear mandate to hold boards of directors in climate critical sectors, such as oil and gas, electric power, automotive and finance, to account for their lack of leadership on climate change and their focus on short-term gains over long-term value creation," said John Hoeppner,

Head of U.S. Stewardship and Sustainable Investing of Legal & General Investment Management America. “With overwhelming evidence pointing to climate change happening even quicker than expected, mainstream investors no longer consider environmental considerations a non-essential bonus, but instead as a fundamental component in determining the health and viability of the corporations in which we invest.”

“Climate change presents serious risks, as well as opportunities, to companies and investors,” said Illinois State Treasurer Michael Frerichs. “For companies to thrive in the face of such a transformative, systemic threat as climate change they must set goals, build plans and marshal the resources necessary to ensure long-term sustainability. When companies fail to demonstrate an adequate response to material risk exposures, shareholders have a fiduciary duty to hold board directors accountable and advocate for better governance. We expect the same level of diligence from our asset managers.”

According to the Intergovernmental Panel on Climate Change, global warming of 1.5°C will be exceeded sooner than previously estimated—within the next five to 21 years—unless immediate, rapid and large-scale reductions in carbon dioxide and other greenhouse gas emissions occur, with an ultimate goal of reaching net-zero emissions globally by no later than 2050. However, corporate leaders in the energy system industries most responsible for driving this crisis have failed to take up the leadership required to change course. According to the International Energy Agency, in order to achieve net-zero emissions in the global energy system by 2050, there can be no investment in new fossil fuel production from today, and the electricity sector in OECD countries must reach net-zero emissions no later than 2035.

Despite this, benchmarking of the world’s largest greenhouse gas emitters by the investor initiative Climate Action 100+ demonstrates that the companies primarily responsible for the production and consumption of fossil fuels causing climate change are not on track to decarbonize their operations by 2050. Only one in four companies assessed by Climate Action 100+ in March 2021 ahead of most shareholder meetings, had set an ambition to achieve net-zero emissions by 2050 across the full scope of their most material emissions, and none of the 159 companies had fully aligned their capital allocation strategy with reducing emissions on the scale required to limit warming to 1.5°C.

Following years of accountability efforts from clients, fellow shareholders, and climate advocates, substantial progress has been made in asset manager support for climate-related shareholder proposals. According to Morningstar, 26 climate-related resolutions saw average support rise to 51%, with 14 earning majority support in 2021. However, these resolutions are non-binding, in most cases do not specify clear 1.5°C targets to which companies must align, and are only as strong as shareholders’ willingness to enforce them through voting against directors. For example, despite 61% of Chevron shareholders voting to ask the company to substantially reduce the Scope 3 emissions of the fossil fuels its sells, the company has thus far declined to set a target for reducing its Scope 3 emissions, let alone a net-zero by 2050 target; instead, Chevron plans to continue to grow its production of fossil fuels.

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Majority Action *is a nonprofit organization dedicated to empowering shareholders of all sizes to hold corporations and their leadership accountable to high standards of long-term value creation, corporate governance, and social responsibility.* *www.majorityaction.us*