50/50 Climate Project

Proxy Voting Conflicts

Asset Manager Conflicts of Interest in the Energy and Utility Industries

5050climate.org

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Executive Summary

All investors have choices about how to invest their financial resources, and most investors share the goal of aligning their investments with their long-term goals and interests. Moreover, investors generally expect that the fund managers they select to steward their investments are proactively encouraging the companies in their portfolios to address the spectrum of risks associated with their businesses, including environmental, social, and governance risks.

However, many of the largest fund managers in the U.S. have failed to exercise their proxy voting responsibilities to address these concerns.

For years, corporate governance experts, academics, and market commentators have noted the potential conflicts of interests that fund managers can face when making proxy voting decisions. While asset managers have a duty to hold company management accountable to shareholder interests, managers also earn billions of dollars providing consulting and fund management services to corporate retirement plans. As a 2016 academic study recently noted, this may explain why many fund managers are reluctant to cast their votes against management recommendations, particularly in close proxy contests.[1]

Last year, the 50/50 Climate Project issued its 2016 ***Key Climate Vote Survey***, which highlighted shareholder-backed efforts, including climate-change related initiatives ("Key Vote Proposals"), to promote better long-term risk management and preserve company value at top oil and gas and utility companies ("Key Vote Companies"). The report analyzed the votes of the top 30 managers by assets under management ("Key Vote Managers"). Two major themes emerged from this study: These shareholder efforts received unprecedented levels of support in 2016 and, despite their mainstream acceptance, many large fund managers failed to support the Key Vote Proposals.[2] 10 fund managers that supported 25 percent or fewer of the Key Vote Proposals are referred to as the "Low Scoring Managers."

This report analyzes the potential conflicts of interest facing the Low Scoring Managers using data provided by companies to the U.S. Department of Labor (described in the Methodology section). The main findings of this report are:

- Pension and welfare plans sponsored by the Key Vote Companies paid over $116 million in fees to the 30 Key Vote Managers in 2015. 10 Low Scoring Managers captured most of these fees, receiving over $70 million. Low Scoring Managers also managed at least $17 billion in assets for these plans, more than all the other Key Vote Managers combined. **Fidelity**, **BlackRock**, and **Vanguard** alone managed $13 billion in assets for these plans and earned over $23 million in fees in 2015.

- When the Low Scoring Managers had business ties with Key Vote Companies, they failed to support Key Vote Proposals 88 percent of the time. This voting record is even poorer than the Low Scoring Managers' overall voting record on the Key Vote Survey.

- The voting actions of potentially conflicted asset managers directly affected the outcome of close shareholder votes:

  - **BNY Mellon** was both a service provider and a fund manager for **Occidental Petroleum's** retirement plans, and held 2 percent of the company's stock. In 2016, an unprecedented 49 percent of Occidental Petroleum shares cast were voted in favor of a resolution calling on the company to disclose the portfolio impact of global action to limit global warming to 2 degrees Celsius. BNY Mellon voted against the resolution, which would otherwise have received majority support if BNY Mellon had voted its stake in favor of it.

— **BlackRock** managed nearly $3 billion for **BP's** retirement plans in 2015, and received over $2 million in fees. BP posted a $6.5 billion loss for its FY 2015, including a $10 billion charge for its liabilities from the Deepwater Horizon disaster. However, BP's proposed executive compensation plan for 2016 would have awarded the CEO a 20 percent pay increase, which one major shareholder called "unreasonable and insensitive." While a majority (59 percent) of BP's shares cast were voted against this plan, BlackRock voted in favor of it.

— **Vanguard** was paid $3.8 million in fees by **Chevron** in 2015, and managed at least $863 million for the oil giant as well. Vanguard was also Chevron's largest shareholder during the 2016 proxy season, controlling 6.2 percent of shares outstanding. While 46 percent of Chevron shares cast were voted against the company's compensation plan, Vanguard voted to approve it, ensuring it received majority support. Vanguard voted against a resolution calling on Chevron to annually disclose the portfolio impact of scenarios in which global warming is restricted to a 2° C increase. 41 percent of shares voted supported the proposal.

— **Wells Fargo** funds showed a pattern of voting in favor of climate-change proposals in support of 2 o C scenario planning in 2016, but this pattern reversed at **Chevron**, where former Wells Fargo CEO John Stumpf sat on the board until he was ousted later in the year. Wells Fargo funds also voted in favor of approving Chevron's "Say on Pay" program, even though 46 percent of Chevron's voting shareholders opposed it. Mr. Stumpf sat on Chevron's compensation committee.

This report recommends that asset managers take the following steps to address potential conflicts of interest when making proxy voting decisions:

1. Disclose any existing business and contractual relationships when casting votes at portfolio companies
2. Delegate votes that may involve conflicting interests to a neutral third party
3. Describe all voting policies in sufficient detail and make them clearly transparent to investors.
4. Discuss existing policies with and solicit input from underlying clients when formulating or updating proxy voting policies

Introduction

In October 2016, the 50/50 Climate Project released its Key Climate Vote Survey, which reviewed the most important 2016 proxy votes (the "Key Vote Proposals") across top companies in the oil and gas and utilities sectors, which are referred to as the "Key Vote Companies." The objective of the survey was to identify alignment between asset owners interested in addressing climate risk at the companies they own, and the firms that manage their assets and vote proxies on their behalf (the "Key Vote Managers"). The Key Vote Companies and Key Vote Managers are both listed in Appendix A to this report.

The Key Vote Proposals were a group of initiatives by long-term shareholders to advance climate risk management and promote corporate governance reforms identified as important by the 50/50 Climate Project. Key Vote Proposals included shareholder-sponsored proposals calling on companies to disclose climate risk-related matters, establish climate competency on boards and adopt corporate governance reforms like proxy access. Also included in the Key Vote Proposals were management-sponsored proposals to ratify executive compensation and to elect specific directors; votes in favor of the shareholder-sponsored proposals were considered by the 50/50 Climate Project to be aligned with long-term shareholder interests as were against or withhold votes for management-sponsored proposals. The Key Vote Proposals drew record levels of support across the Key Vote Companies, with many leading global asset managers supporting these reform-oriented and risk mitigating initiatives.

Larry Fink, CEO of BlackRock, the world's largest asset manager, has publicly expressed concern about the failure of corporate boards to focus on environmental and social risk factors, including climate change.[3] However, while BlackRock's $5.1 trillion in assets under management gives the manager substantial proxy voting power to address Fink's concerns, BlackRock voted against almost all of the Key Vote Proposals. In fact, the Survey revealed that many of the largest asset managers, including BlackRock, Fidelity Investments, JP Morgan Asset Management, Prudential Financial, and others, supported fewer than 20 percent of the Key Vote Proposals.

Corporate governance experts, commentators and academics have long noted the potential for conflicts of interest when fund managers that cast votes as shareholders at portfolio companies also manage funds for plans sponsored by those companies. If a fund manager votes its proxies in a manner that is displeasing to company management, it risks retaliation from the company, and so may align its votes with management against long-term shareholder interests.

The Securities and Exchange Commission recognized the existence of these conflicts when it adopted rules in 2003 requiring mutual funds and other registered management investment advisers to disclose their proxy votes. The adopting release for those rules stated:

> ***Moreover, in some situations the interests of a mutual fund's shareholders may conflict with those of its investment adviser with respect to proxy voting. This may occur, for example, when a fund's adviser also manages or seeks to manage the retirement plan assets of a company whose securities are held by the fund. In these situations, a fund's adviser may have an incentive to support management recommendations to further its business interests. (footnotes omitted)[4]***

Mutual fund leaders fought vigorously to prevent the Commission from imposing these disclosure requirements. The CEOs of mutual fund competitors Fidelity and Vanguard teamed up for a joint op-ed in the Wall Street Journal opposing the disclosures.[5] John Bogle, the founder and former leader of Vanguard, warned at the time that "[v]otes against management may jeopardize the retention of clients of 401(k) and pension accounts."[6] The Key Vote Survey evaluated fund managers using the proxy voting data disclosed pursuant to these rules.

Proxy voting also implicates investment adviser fiduciary duties. In a related 2003 rulemaking, the Commission required investment advisers to maintain written policies and procedures to address material conflicts of interest related to proxy voting, and to disclose them, as well as proxy votes themselves, to clients upon request. The adopting release emphasized that fiduciary duties under the Investment Advisers Act require registered investment advisers to "cast the proxy votes in a manner consistent with the best interest of its client and . . . not subrogate client interests to its own." Adviser conflicts of interest, the Commission noted, may arise when an adviser manages a plan or provides services to a company whose management is soliciting proxies.[7]

This report presents the 50/50 Climate Project's analysis of the business relationships and voting patterns of the Low Scoring Managers from its 2016 Key Vote Survey. It analyzes publicly available data from the Department of Labor on fees paid to asset managers by pension and welfare plans sponsored by major oil and gas and utility companies, as well as assets managed by those managers on behalf of those plans (see Methodology section for additional detail). It also offers recommendations for how fund managers can mitigate conflicts of interest through disclosure, delegation, and engagement with investors and stakeholders around shareholder votes that could be consequential to their long-term interests.

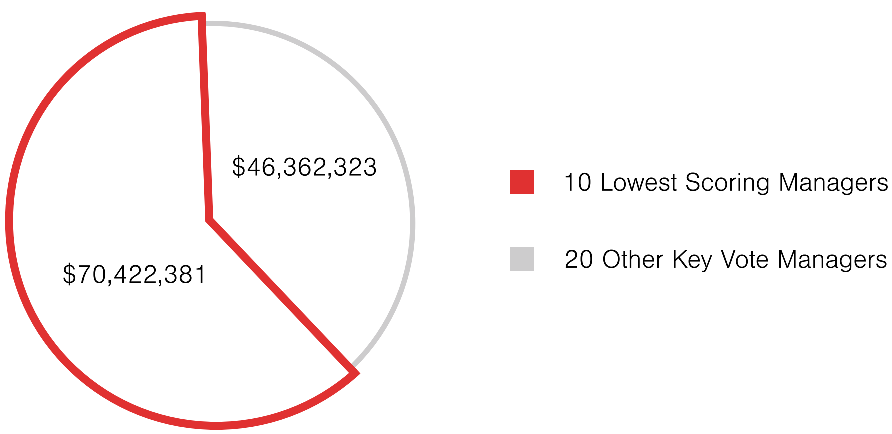
Key Finding 1

Low Scoring Managers Were Paid More Fees and Managed More Assets Than All Other Key Vote Managers

In 2015, the 30 Key Vote Managers earned over $116 million in fees from the pension and welfare plans sponsored by the energy and utility companies ("Key Vote Companies") featured in the Key Vote Survey. 10 Key Vote Managers supported 25 percent or fewer of the Key Vote Proposals ("Low Scoring Managers"). Low Scoring Managers earned the majority of these fees, taking in over $70 million that year.

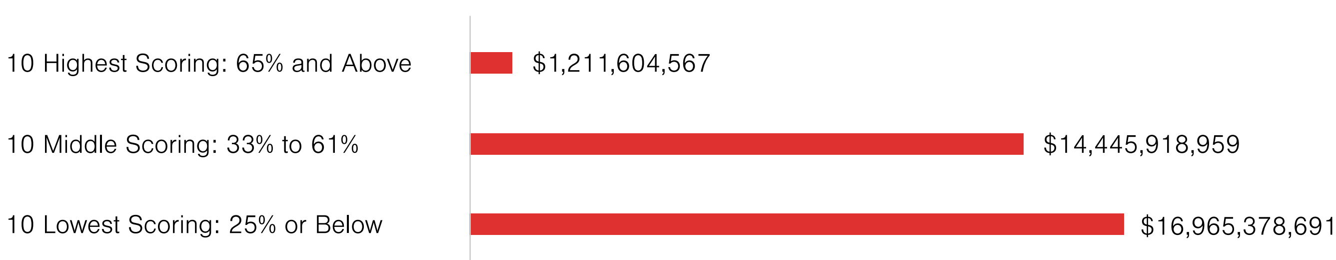
Key Vote Managers also managed at least $32 billion in assets for Key Vote Companies in 2015.[8] The Low Scoring Managers managed the majority of these assets as well, nearly $17 billion. BlackRock alone managed over $9.3 billion in assets for Key Vote Companies.

Figure 1: Low Scoring Managers Received the Most Fees from Key Vote Companies in 2015



In contrast, the 10 highest scoring Key Vote Managers received the least amount in fees and managed the least amount in assets for Key Vote Company pension and welfare plans. These managers supported 65 percent or more of the Key Vote Proposals.

Figure 2: Low Scoring Managers managed the most assets for Top Energy and Utility Company-Sponsored Pension and Welfare Plans; High Scoring Managers managed the least



Key Finding 2

Low Scoring Managers Score Even Worse On Key Vote Proposals At Key Vote Companies With Which They Have Business Relationships

All 10 of the low scoring Key Vote Managers had business ties with the pension and welfare plans sponsored by the Key Vote Companies. Overall, these Low Scoring Managers had an average score of 17 percent support for the Key Vote Proposals across all the Key Vote Companies.

In contrast, however, the Low Scoring Managers supported an even lower percentage (just 12 percent) of Key Vote Proposals at the Key Vote Companies with which they had business relationships.

Table 1 reviews the voting performance for each of the Low Scoring Managers, comparing their performance on the 2016 Key Climate Vote Survey to their voting record when they had business ties with pension and welfare plans sponsored by the Key Vote Companies. Key findings include:

- 7 of the 10 Low Scoring Managers saw their voting performance drop when they earned fees or managed assets for plans sponsored by Key Vote Companies.
- 5 of the 10 Low Scoring Managers (those bolded in Table 1) failed to support any Key Vote Proposals at companies where they had these conflicts of interest, earning a score of 0 percent alignment with Key Vote Proposals.

Table 1: Voting Performance Decreased when Asset Managers had Conflicts

Asset Manager	Performance on 2016 Key Vote Survey	Performance at Companies with Business Ties	Fees Earned from Key Vote Company Plans	Assets Managed for Key Vote Company Plans
Capital Group	9%	↓ **0%**	$1,384,340	$516,198,560
Fidelity	11%	↑ 13%	$11,848,471	$936,389,016
Blackrock	12%	12%	$6,172,830	$9,313,123,290
Invesco	12%	↓ **0%**	$3,905,921	$1,536,622,044
JP Morgan	16%	↓ 13%	$17,675,558	$727,133,051
Prudential	16%	↑ 21%	$14,708,845	$38,658,791
BNY Mellon	21%	↓ 19%	$8,056,299	$1,199,560,075
Franklin Templeton	22%	↓ **0%**	$485,843	$ -
Vanguard	22%	↓ **0%**	$5,111,532	$2,697,693,864
Allianz	25%	↓ **0%**	$1,072,742	$ -
TOTAL	**17%**	↓ **12%**	**$70,422,381**	**$16,965,378,691**

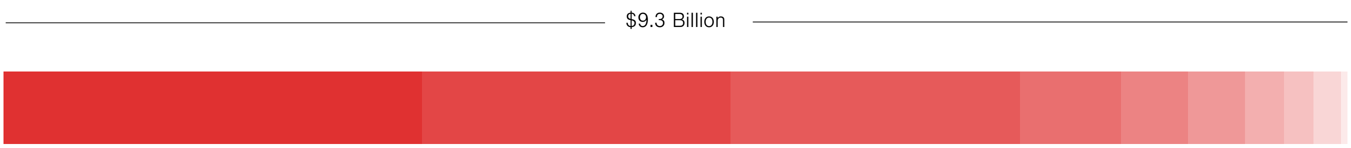
The following section of this report provides data on individual Low Scoring Managers, the fees and assets managed on behalf of Key Vote Companies, and managers' proxy voting patterns at those companies. Asset managers are presented in order of their performance on the 2016 Key Climate Vote Survey – from worst to best overall performance, within the universe of Low Scoring Managers. Within the manager specific headers, the performance of Low Scoring Managers on the Key Vote Proposals when conflicts of interest existed immediately follows the performance of the managers on all Key Vote Proposals. More comprehensive information on fees paid to, assets managed by, and the vote records of Low Scoring Managers can be found in Appendix B of this report.

BlackRock

12 Percent Overall, 12 Percent when Conflicted

BlackRock, the world's biggest asset manager by assets under management, also managed the largest amount of funds on behalf of plan sponsors that were Key Vote Companies. BlackRock managed $9.3 billion in collective trust investments, over half of the $17 billion in aggregate assets identified in this study. Key Vote Companies reported paying a total of $6.2 million in fees to BlackRock.

Figure 3: BlackRock Managed $9.3 billion for Key Vote Company-Sponsored Plans in 2015



BP	$2,905,586,979	ConocoPhilips	$386,978,225
ExxonMobil	$2,136,397,000	Duke	$281,758,997
FirstEnergy	$2,010,988,049	NRG Energy	$201,921,862
Southern Company	$719,004,406	Chevron	$192,784,044
Devon Energy	$454,525,002	Nabors	$23,178,726

BlackRock managed nearly $3 billion for BP retirement plans in 2015, and received over $2 million in fees. BP posted a $6.5 billion loss for its FY 2015, including a $10 billion charge for its liabilities from the Deepwater Horizon disaster. However, BP's proposed executive compensation plan for 2016 would have awarded the CEO a 20 percent pay increase, which one major shareholder called "unreasonable and insensitive."[9] While a majority (59 percent) of BP shares cast were voted against this plan, BlackRock voted in favor of it.

BlackRock also managed over $2.1 billion in assets for ExxonMobil plans, receiving $1.2 million in fees. BlackRock owned 5.9 percent of ExxonMobil shares outstanding in 2016.[10] BlackRock voted against a shareholder resolution calling on ExxonMobil, the largest potential carbon emitter of any U.S. oil and gas company, to disclose the portfolio impact of scenarios consistent with limiting global warming to 2° C.[11] That resolution received strong support in 2016, with 38 percent of shares cast voting in favor.

JP Morgan Asset Management

16 Percent Overall, 13 Percent when Conflicted

JP Morgan received over $17 million in aggregate fee income from the Key Vote Companies, the largest amount of all the Low Scoring Managers. JP Morgan also managed over $725 million of assets in collective trust vehicles for the Key Vote Companies.

Southern Company-sponsored plans made the largest fee payments ($5.2 million) to JP Morgan in 2015. A 2016 Investor Responsibility Research Center Institute ("IRRCi") report analyzed the climate orientation of the 25 largest investor-owned U.S. utilities and their boards of directors. The report described Southern as "most committed to a status quo, business-as-usual approach" to climate change.[12] JP Morgan voted against a shareholder resolution calling for a report on how Southern would align business operations with the goal of limiting global temperature increases to 2° C. That resolution ultimately received 34 percent support of shares voted. JP Morgan funds also voted to ratify the company's named executive officers' compensation, in spite of Southern's compensation committee's decision to exclude from incentive compensation metric calculations the results of the firm's Kemper Plant development, for which the company incurred over $2.5 billion in earnings charges amidst rising project costs and an SEC investigation.[13]

Vanguard

22 Percent Overall, 0 Percent When Conflicted

In 2015, Vanguard serviced plans sponsored by four Key Vote Companies. Vanguard received over $5.1 million in fee payments from the Key Vote Company-sponsored plans and managed nearly $2.7 billion through collective trusts for those plans in 2015.

Vanguard's voting patterns at Key Vote Companies where it had business ties are striking: two key votes that received very strong shareholder support would have received majority votes if Vanguard had voted in favor of them.

Table 2: Vanguard Swings Multiple Key Climate Governance Measures at Companies where it Had a Conflict of Interest
*Ownership data from Company 2016 Proxy Filings

Company Name	Vanguard Ownership*	Key Vote and % Support	Vanguard Vote
Chevron	6.2%	Say on Pay (46%)	No
		2 Degree Scenario (41%)	No
Dominion	5.9%	Director Withhold (15%)	No
NRG Energy	8.3%	Lobbying Disclosure (49%)	No
ConocoPhillips	6.1%	Climate Change Lobbying Disclosure (21%)	No

For example, of all the Key Vote Companies, the Chevron Corporation paid the largest amount in fees ($3.8 million) to Vanguard. Vanguard also managed $863 million through collective trusts for Chevron-sponsored plans. Chevron is second only to ExxonMobil in terms of the magnitude of potential carbon emissions at U.S. oil and gas companies.[14] Vanguard voted against a resolution calling on Chevron to annually disclose the portfolio impact of scenarios in which global warming is restricted to a 2° C increase. 41 percent of shares cast supported the proposal.

Also at Chevron, a record 46 percent of shares voted at the meeting opposed ratifying named executive officers' compensation. Institutional Shareholder Services (ISS) had recommended that shareholders vote against Chevron's "Say on Pay" proposal, citing pay and performance misalignment concerns.[15] However, Vanguard voted in favor of ratifying Chevron's executive pay program.

Vanguard was Chevron's largest shareholder during the 2016 proxy season, holding 6.2 percent of the shares outstanding. Vanguard's decision to vote for the Say on Pay proposal tipped the balance in favor of management.

Vanguard also managed over $550 million for an NRG Energy-sponsored plan in 2015, and held 8.29 percent of NRG's common stock outstanding in 2016. NRG ranked last among 25 U.S. utilities in IRRCi's 2016 study on climate change and corporate governance.[16] NRG spends significant resources on politics (1.5 percent of its net revenues in 2014) but has resisted calls to more fully disclose its lobbying and political activity. A 2016 shareholder resolution calling for increased disclosure of political expenditures received 49 percent shareholder votes cast. **Vanguard, however, voted against the disclosure measure, effectively precluding majority support for the proposal.**

BNY Mellon

21 Percent Overall, 19 Percent when Conflicted

BNY Mellon provided services to the largest number of plans sponsored by Key Vote Companies. Across 13 Key Vote Survey Companies, BNY Mellon earned over $8 million in fees and managed nearly $1.2 billion in assets through collective trusts.

Table 3: BNY Mellon Votes against Key Climate Governance Measures

Company Name	BNY Mellon % of Shares Outstanding (as of 6/30/16)	Shareholder Support for 2 Degree Scenario Resolutions	BNY Mellon Vote on 2 Degree Scenario Resolutions
Occidental	2.1%	49%	No
Exxon Mobile	1.4%	38%	No
Chevron	1.3%	41%	No
Devon	1.0%	36%	No
Southern	1.0%	34%	No

One Key Vote Company with business ties to BNY Mellon is Occidental Petroleum, which maintains a heavily concentrated position in carbon-intensive assets. In 2016, Occidental was the largest player in the largest oil producing region in the United States, the Permian Basin.[17] The company can produce 255,000 barrels of oil per day from its Permian assets alone, an amount larger than the total annual national production of OPEC Member Gabon.[18]

BNY Mellon managed over $46 million in assets for plans sponsored by Occidental Petroleum. In 2016, 49 percent of Occidental voting shareholders voted in favor of a resolution calling on the company to disclose the impact to its portfolio of scenarios in which the world acts to limit global warming to 2°C. BNY Mellon, however, voted against this resolution.

BNY Mellon held over 2 percent of Occidental's stock in 2016. If BNY Mellon had voted for the 2 degree scenario resolution, it would have garnered majority shareholder support.

Key Finding 3

Managers With Better Voting Performance Should Still Be Vigilant About Managing Potential Conflicts

State Street Global Advisors

61 Percent Alignment

State Street is an example of an asset manager that had a mixed record in navigating potential conflicts of interest identified in our research. In 2015, State Street received $6.6 million in fee payments from plans sponsored by Key Vote Companies, and managed over $7.1 billion in assets through collective trusts. $3.4 billion of those assets were managed for Chevron-sponsored pension plans and State Street earned over $3 million in fees from those plans as well. State Street voted in line with the Key Vote Survey recommendations at Chevron on both the executive compensation and 2° C scenario planning proposals.

However, the same was not true for State Street's voting pattern at DTE Energy. State Street earned over $1 million in fees from DTE Energy-sponsored plans in 2015. State Street voted against a resolution calling for disclosure of political expenditures at DTE and against another resolution calling on DTE Energy to report on and assess plans to adopt a low-carbon, distributed generation business model.

Wells Fargo

81 Percent Alignment

At first glance, Wells Fargo does not appear to follow the same pattern as other asset managers. Wells Fargo funds voted in line with Key Vote Survey recommendations for long-term shareholders at Dominion and Duke Energy, even though Wells Fargo received over $2 million in fees from Dominion-sponsored plans and managed $575 million through collective trusts for Duke Energy plans.

However, Wells Fargo provides a cautionary tale about potential conflicts of interest between fund managers and portfolio companies. Wells Fargo funds typically were a leader in supporting 2° C scenario planning shareholder proposals, voting in favor of these resolutions at ExxonMobil, AES, Devon Energy, and the Southern Company. **However, this vote pattern shifted at Chevron, where former Wells Fargo CEO John Stumpf sat on Chevron's board.** Wells Fargo funds voted against the 2° C resolution at Chevron, which otherwise received strong support (41 percent of votes cast). Wells Fargo also voted in favor of approving Chevron's executive compensation plan, even though 46 percent of Chevron's voting shareholders opposed it. At the time, Mr. Stumpf sat on Chevron's compensation committee.

Recommendations

The most recent academic study of proxy voting conflicts of interest analyzed whether proxy voting at mutual funds was influenced by transactions with the issuers in their portfolios.[19] Using a dataset that ranged from 2003-2011, the authors concluded in 2016 that:

> *"We find that business ties significantly influence pro-management voting at the level of individual pairs of fund families and firms after controlling for ISS recommendations and holdings. The association is significant only for shareholder-sponsored proposals and stronger for those that pass or fail by relatively narrow margins."*

The fund voting patterns analyzed in this report are consistent with the academic study's findings. The SEC requires registered investment advisers to have policies and practices for managing these conflicts of interest, but does not specify what those should be.

The following best practice recommendations should help guide asset managers as they reexamine and recalibrate their approaches to addressing conflicts of interest when casting proxy votes on behalf of underlying investor clients.

1 **All asset managers should disclose any existing business and contractual relationships with companies at which their funds cast proxy votes, as well as their conflict resolution mechanisms**

The disclosure of conflicts (actual, potential, or perceived) has long been a best practice in both the private and public sector and one that has been adopted by a multitude of capital market participants across several industries, including the financial services industry.

Institutions in the financial services industry are already under significant scrutiny and pressure from investors, regulators, the media and the public at large. As such, transparency around business relationships that could reasonably be construed as representing conflicts of interest, as part of broader ethics and compliance functions and programs, serves to instill investor and public trust and confidence in the governance of financial institutions that are often systemically important.

Asset managers should also publicly disclose specific and detailed processes for managing conflicts of interest in a manner that allows investors to understand precisely how an asset manager determines how to vote proxies at issuers who are also clients. These policies should be made publicly available and readily accessible.

2 **Proxy votes which may pose a conflict of interest should be delegated to an unconflicted independent third party**

Several leading financial institutions have already established conflict-of-interest management procedures that effectively call for a "recusal" on proxy votes at entities where significant pecuniary interests exist by delegating the decision-making for such votes to an unconflicted independent third party.

In developing recusal policies as part of their governance, ethics, risk management or compliance programs, these financial institutions have recognized the need to institute strong and credible procedures that proactively manage and appropriately mitigate actual, apparent or potential conflicts of interest.

Delegating the voting of proxies to independent third parties as a conflict mitigation mechanism helps avoid the appearance of partiality or impropriety. Such procedures build investor confidence that competing and potentially conflicting interests are actively identified and effectively managed, serve to protect an organization's brand and reputation and may help to insulate it from negative consequences, including from penalties and litigation.

3 All proxy voting policies should be sufficiently detailed and clearly transparent to investors

Financial institutions that retain the authority or responsibility to vote proxies for their clients' securities are required to disclose their proxy voting policies or guidelines. However, these guidelines are often not sufficiently detailed enough for investors to assess whether a manager's proxy voting outcomes comport to or deviate from stated policy positions. Moreover, these guidelines often contain little to no substantive detail on how the manager arrives at proxy voting decisions on issues related to environmental and social risks.

Proxy voting guidelines should provide substantive detail about how the manager approaches the broad range of environmental, social, and governance matters on which they vote, and include detailed rationales that support their voting policy positions. These guidelines should allow investors to trace through and determine whether managers are voting in accordance with their guidelines, which is of particular importance when evaluating how well managers are mitigating potential conflicts of interest.

4 Fund managers should proactively seek input from their investors to inform and evolve proxy voting policies

Financial institutions that manage investments entrusted to them by clients have both a duty and responsibility, fiduciary or otherwise, to ensure that they are faithful to the interests of their underlying clients. A critical and necessary component of reflecting the viewpoints and expectations of the investors whose financial interests fund managers represent is to actually seek and obtain input from their clients with respect to how proxies ought to be voted.

In the same way some proxy advisory firms poll their institutional investor clients and solicit guidance, feedback and commentary when formulating proxy voting policy positions, financial institutions should devise ways to solicit input from their investor constituents in order to obtain insights around whether the voting policies adopted on behalf of their underlying clients are appropriately attuned to and actually represent those clients' perspectives, as varied and evolutionary as they may happen to be. Fund managers could also be well served by developing off-the-shelf differentiated proxy voting policy positions that reflect the perspectives of particular classes of investors.

Common convention holds that investments ought to be managed in the best long-term economic interests of the client. Without a practice of proactive client outreach, it would be difficult for financial institutions to ascertain or claim that the interests of their clients, the asset owners, are veritably represented in the voting decisions made on their behalf. This is particularly true at companies where reasonably crafted and well-targeted proposals focused on long-term financial risks to the bottom line have been submitted and supported by similarly situated fund managers.

Methodology

This report analyzes the fee and asset management relationships between the 30 fund managers in the 50/50 Climate Project's 2016 Key Climate Vote Survey (the "Key Vote Managers") and the U.S. oil and gas and utility companies at which those votes took place, (the "Key Vote Companies"). Like other studies addressing investment manager voting conflicts of interest, this report analyzes data submitted to the U.S. Department of Labor's (DOL) Employee Benefits Security Administration by company sponsors of employee benefit plans such as pension plans, 401(k) plans and medical benefit plans. Companies file a Form 5500 with the DOL annually for every plan they sponsor. The most recent complete annual dataset available at the time of this analysis was for 2015 filings.

The relevant Form 5500 filings were identified by matching the names of the Key Vote Companies with the plan sponsors listed in the Form 5500s. Schedules C and D to the Form 5500 set forth fees paid to plan service providers and assets managed on behalf of those plans. Both direct and indirect fees paid to service providers are reported on Schedule C. Direct fees include those that are made directly out of the plan's accounts, whereas indirect fees are supposed to include payments that are deducted at another point in the transaction (e.g. fund management fees paid by a mutual fund to its investment advisor). Schedule D lists assets managed through Common/Collective Trusts (CCTs) and Pooled Separate Accounts (PSAs), which are investment vehicles like mutual funds but with fewer reporting and regulatory requirements. Both plan sponsor and asset manager parent companies were hand-coded and verified for the Schedule C and Schedule D data, and were used to determine company and fund manager business relationships.

The funds invested through CCTs listed on Schedule D often do not capture the full amount of investments held by the plan sponsors; however, Schedule D is the only form that captures any assets invested through asset managers and their specific investment vehicles in a standardized way that can be analyzed quantitatively. Likewise, there may be fees charged by fund managers that are not reported on Schedule C, or service providers with trade names that did not reflect their parent company. Thus, this analysis is quite conservative, as it likely underestimates the total amount of service and fund management business relationships that the asset managers examined have with Key Vote Companies.

The proxy votes used for this analysis were reported in the 50/50 Climate Project's **Key Climate Vote Survey: 2016**, which relied on proxy voting data provided by Fund Votes. Fund Votes is an independent project that tracks mutual fund proxy voting in the U.S. and Canada. The percentage voting score for each manager was calculated by dividing the number of votes that match the recommendations in the Key Climate Vote Survey by the sum of (a) those same matching votes plus (b) the votes that were inconsistent with the Survey's recommendations.

In the case of asset managers whose funds cast varying votes on the same proxy issue, a vote of 'for', 'against' or 'abstain' for a particular proposal was assigned to an asset manager if at least 75 percent of funds within the family voted that way on a Key Vote Proposal. If at least 75 percent of funds did not cast the same vote, then the vote was classified as "mixed" and was excluded from both the numerator and denominator when calculating the asset manager's score. Abstentions were counted as votes that were inconsistent with the voting recommendations of the survey.

Appendix A

2016 Key Vote Companies and Asset Managers

These tables list the Asset Managers and Issuers that were the focus of the 50/50 Climate Project's "Key Climate Vote Survey: 2016." The Asset Managers table also lists the percentage voting score for each manager, as described in the Methodology section of this report.

Sector	Key Vote Companies
Oil & Gas	ExxonMobil
	BP
	Chevron
	ConocoPhilips
	Devon Energy
	Occidental Petroleum
	EOG Resources
	Anadarko
	Nabors
	Consol Energy
Utilities	Duke Energy
	Southern
	FirstEnergy
	AES Corp.
	NRG Energy
	Dominion Resources
	DTE
	PPL Corporation

Asset Manager	2016 Key Vote Survey Results
Capital Group	9%
Fidelity Investments	11%
BlackRock	12%
Invesco	12%
JP Morgan Asset Management	16%
Prudential Financial	16%
BNY Mellon Investment Management	21%
Vanguard Asset Management	22%
Franklin Templeton Investments	22%
Allianz Global Investors	25%
Dimensional Fund Advisors	33%
T Rowe Price	37%
Goldman Sachs Asset Management	40%
TIAA Global Asset Management	42%
PIMCO	48%
Northern Trust Asset Management	48%
Columbia Threadneedle Investments	52%
Eaton Vance Management	58%
Federated Investors	59%
State Street Global Advisors	61%
Affiliated Managers Group	65%
SEI	67%
MFS Investment Management	71%
Morgan Stanley Investment Management	75%
Neuberger Berman	75%
Wells Capital Management	81%
Deutche Asset Management	83%
AllianceBernstein	83%
Legg Mason	88%
Principal Global Investors	92%

Appendix B

Low Scoring Asset Manager and Company Data

This table summarizes the Low Scoring Managers analyzed in this report, the fees paid to them, and assets managed by them through Common Collective Trusts and Pooled Separate Accounts for Key Vote Company plan sponsors, as reported in the latest 2015 DOL Form 5500 filings submitted by the sponsors. It also indicates the extent to which each Low Scoring Manager voted as recommended in the 50/50 Climate Project's 2016 Key Climate Vote Survey.

Asset Managers and Plan Sponsors	Total Fees Paid (Direct and Indirect)	Assets Managed through Common Collective Trusts	Votes Supporting Key Vote Proposals	Total Votes (Excl. Mixed Results)	Voting %
ALLIANZ GLOBAL INVESTORS	$1,072,742	$ -	0	2	0%
DOMINION RESOURCES, INC.	$498,942		0	1	0%
SOUTHERN COMPANY	$573,800		0	1	0%
BLACKROCK	$6,172,830	$9,313,123,290	2	17	12%
BP	$2,054,547	$2,905,586,979	0	1	0%
CHEVRON CORPORATION	$50,639	$192,784,044	0	2	0%
CONOCOPHILLIPS COMPANY	$1,022,121	$386,978,225	0	1	0%
DEVON ENERGY CORPORATION	$562,841	$454,525,002	0	2	0%
DOMINION RESOURCES, INC.	$326,044		0	1	0%
DUKE ENERGY CORPORATION	$993,238	$281,758,997	0	1	0%
EXXON MOBIL CORPORATION	$1,163,400	$2,136,397,000	1	2	50%
FIRSTENERGY CORPORATION		$2,010,988,049	1	4	25%
NABORS INDUSTRIES, INC.		$23,178,726	0	0	did not vote
NRG ENERGY, INC.		$201,921,862	0	1	0%
SOUTHERN COMPANY		$719,004,406	0	2	0%
BNY MELLON	$8,056,299	$1,199,560,075	4	21	19%
ANADARKO PETROLEUM CORPORATION	$434,711	$69,964,864	0	1	0%
BP	$629,554		1	1	100%
CHEVRON CORPORATION	$55,670		0	2	0%
CONOCOPHILLIPS COMPANY	$1,093,010		0	0	did not vote
DEVON ENERGY CORPORATION	$148,984	$148,984	0	2	0%
DOMINION RESOURCES, INC.	$760,759	$760,759	0	1	0%
DTE ENERGY COMPANY	$1,048,533	$1,048,533	0	2	0%

Asset Managers and Plan Sponsors	Total Fees Paid (Direct and Indirect)	Assets Managed through Common Collective Trusts	Votes Supporting Key Vote Proposals	Total Votes (Excl. Mixed Results)	Voting %
DUKE ENERGY CORPORATION	$98,788	$98,788	0	1	0%
EXXON MOBIL CORPORATION	$364,900	$364,900	1	2	50%
FIRSTENERGY CORP.	$1,201,966	$1,201,966	2	4	50%
NRG ENERGY, INC.	$469,474	$469,474	0	1	0%
OCCIDENTAL PETROLEUM CORP.	$133,580	$133,580	0	1	0%
PPL SERVICES CORPORATION	$147,404	$237,554,443	0	1	0%
SOUTHERN COMPANY	$1,468,966		0	2	0%
CAPITAL GROUP	$1,384,340	$516,198,560	0	3	0%
DOMINION RESOURCES, INC.	$1,384,340		0	1	0%
SOUTHERN COMPANY		$516,198,560	0	2	0%
FIDELITY	$11,848,471	$936,389,016	2	16	13%
ANADARKO PETROLEUM CORPORATION	$750,640	$375,421,543	0	1	0%
BP	$5,979,166		1	1	100%
CHEVRON CORPORATION	$1,201,550	$248,298,716	1	2	50%
DEVON ENERGY CORPORATION	$627,735		0	2	0%
DOMINION RESOURCES, INC.	$63,004		0	1	0%
DTE ENERGY COMPANY		$51,291,193	0	2	0%
DUKE ENERGY CORPORATION	$2,382,447		0	1	0%
FIRSTENERGY CORP.	$271,079		0	4	0%
NRG ENERGY, INC.	$130,885	$261,377,564	0	1	0%
PPL SERVICES CORPORATION	$441,965		0	1	0%
FRANKLIN TEMPLETON	$485,843		0	2	0%
DTE ENERGY COMPANY	$485,843		0	2	0%
INVESCO	$3,905,921	$1,536,622,044	0	10	0%
ANADARKO PETROLEUM CORPORATION	$59,796		0	1	0%
CHEVRON CORPORATION		$99,216,182	0	2	0%
CONOCOPHILLIPS COMPANY		$1,431,915,364	0	1	0%
DEVON ENERGY CORPORATION		$5,490,498	0	2	0%
DOMINION RESOURCES, INC.	$2,607,221		0	1	0%
OCCIDENTAL PETROLEUM CORP.	$485,744		0	1	0%
SOUTHERN COMPANY	$753,160		0	2	0%
JP MORGAN	$17,675,558	$727,133,051	2	15	13%

Asset Managers and Plan Sponsors	Total Fees Paid (Direct and Indirect)	Assets Managed through Common Collective Trusts	Votes Supporting Key Vote Proposals	Total Votes (Excl. Mixed Results)	Voting %
ANADARKO PETROLEUM CORPORATION	$307,688	$127,077,375	0	1	0%
BP	$1,751,848		1	1	100%
CHEVRON CORPORATION	$4,605,744		1	2	50%
CONOCOPHILLIPS COMPANY	$583,549	$124,123,759	0	1	0%
DOMINION RESOURCES, INC.	$4,242,807	$315,828,643	0	1	0%
DTE ENERGY COMPANY	$156,817	$31,462,774	0	2	0%
DUKE ENERGY CORPORATION	$777,167	$118,038,660	0	1	0%
FIRSTENERGY CORP.		$10,601,840	0	4	0%
SOUTHERN COMPANY	$5,249,938		0	2	0%
PRUDENTIAL	$14,708,845	$38,658,791	3	14	21%
CHEVRON CORPORATION	$5,079,703		1	1	100%
BP	$1,602,855	$24,660,827	0	0	mixed votes
CONOCOPHILLIPS COMPANY	$307,231		0	1	0%
CONSOL ENERGY INC.	$429,778		0	1	0%
DEVON ENERGY CORPORATION	$891,874		0	1	0%
DOMINION RESOURCES, INC.	$2,010,288		0	1	0%
DTE ENERGY COMPANY	$377,210	$13,997,964	0	2	0%
DUKE ENERGY CORPORATION	$40,620		0	1	0%
EXXON MOBIL CORPORATION	$49,700		0	0	mixed votes
FIRSTENERGY CORP.	$1,242,356		1	4	25%
SOUTHERN COMPANY	$2,677,230		1	2	50%
VANGUARD	$5,111,532	$2,697,693,864	0	5	0%
CHEVRON CORPORATION	$3,812,072	$863,951,244	0	2	0%
CONOCOPHILLIPS COMPANY	$911,307	$695,425,287	0	1	0%
DOMINION RESOURCES, INC.	$388,153	$585,422,279	0	1	0%
NRG ENERGY, INC.		$552,895,054	0	1	0%
GRAND TOTAL	**$70,422,381**	**$16,965,378,691**	**13**	**105**	**12.4%**

[1] Cvijanovic et al. "Ties that Bind: How Business Connections Affect Mutual Fund Activism." Journal of Finance, Forthcoming. March 22, 2016.

[2] The Key Vote Proposals included both management-sponsored proposals, such as ratification of executive compensation ("management say on pay") and election of directors, and shareholder-sponsored proposals addressing a variety of climate-related issues and governance reforms. For simplicity, in this report, "support" of Key Vote Proposals means voting FOR shareholder proposals and voting AGAINST or WITHHOLD on management proposals and director nominees.

[3] Larry Fink's 2016 Corporate Governance Letter to CEOs, https://www.blackrock.com/corporate/en-gb/literature/press-release/ldf-corp-gov-2016.pdf

[4] Securities Act Rel. No. 8188, "Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies" (Jan. 31, 2003) (available at https://www.sec.gov/rules/final/33-8188.htm).

[5] "Top Two Fund Firms' CEOs are Bashing Disclosure Push," Wall Street Journal, 1/15/2003. http://www.wsj.com/articles/SB1042572955454071224

[6] Comments of John Bogle to the SEC, December 4th, 2002. https://www.sec.gov/rules/proposed/s73602/jcbogle1.htm

[7] Release No. IA-2106, "Proxy Voting by Investment Advisers" (Jan. 31, 2003) (available at https://www.sec.gov/rules/final/ia-2106.htm).

[8] $26 billion includes assets disclosed by plans sponsored by the Key Vote Companies on Schedule D of their 2015 Form 5500 filings with the U.S. Department of Labor, which are categorized as "Collective Trusts" or "Pooled Separate Accounts." This does not necessarily represent the entirety of assets held by those plans, but the Schedule D data is the only data available in a format that can be compared across providers. For more detail, see the "Methodology" section below.

[9] Katakay, Rakteem, "BP Investors Reject CEO's Pay Increase Amid Oil Industry Slump," Bloomberg, April 14, 2016. https://www.bloomberg.com/news/articles/2016-04-14/bp-investors-stage-protest-vote-over-ceo-s-20-percent-pay-raise

[10] Data provided through SEC form 13F filings.

[11] The Carbon Underground 200, Fossil Free Indexes LLC, 2016. http://fossilfreeindexes.com/research/the-carbon-underground/

[12] The Top 25 U.S. Electric Utilities: Climate Change, Corporate Governance and Politics, IRRCi, 4/2016.

[13] Southern Company 10-Q (filed with SEC on 8/8/2016), Proxy Statement (filed with the SEC on 4/8/2016).

[14] The Carbon Underground 200, Fossil Free Indexes LLC, 2016.

[15] Chevron, ISS Research Report, 2016.

[16] The Top 25 U.S. Electric Utilities: Climate Change, Corporate Governance and Politics, IRRCi, 4/2016.

[17] "The 5 Companies Dominating the Permian Basin," Motley Fool, July 7, 2016. http://www.fool.com/investing/2016/07/16/the-5-companies-dominating-the-permian-basin.aspx

[18] "Gabon Aims To Boost Production After Joining OPEC," Oilprice.com, September 30, 2016. http://oilprice.com/Energy/Energy-General/Gabon-Aims-To-Boost-Production-After-Joining-OPEC.html

[19] Cvijanovic et al. "Ties that Bind: How Business Connections Affect Mutual Fund Activism." Journal of Finance, Forthcoming. March 22, 2016.