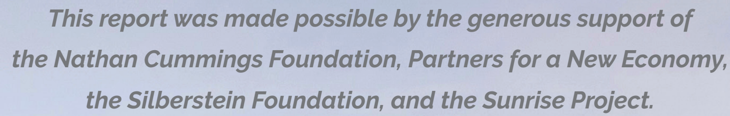
CLIMATE IN THE BOARDROOM: HOW ASSET MANAGER VOTING SHAPED CORPORATE CLIMATE ACTION IN 2019

majorityaction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I. Executive Summary

In October of 2018, the United Nations Intergovernmental Panel on Climate Change (IPCC) established that the global economy must nearly halve carbon emissions over the next decade and reach net-zero emissions by 2050 to have just a 50 percent chance of limiting warming to 1.5°C. Failure to do so would exacerbate our global climate crisis, decimating ecosystems, undermining social and political systems, and creating large, negative, and undiversifiable risks to investor portfolios worldwide. Unfortunately, the largest companies in the fossil fuel intensive U.S. energy and utility sectors remain far behind in transforming their businesses to our net-zero carbon future.

The shareholders that own these companies are in a position to ensure that corporate directors are setting clear emissions targets aligned with the goals of the Paris Agreement and disclosing their plans to achieve them, that executive compensation plans are aligned to those targets, and that company management does not use shareholder resources to undermine responsible climate policy in service of their short-term interests. Given both the urgency of the transformation required and the influence provided by their holdings in these companies, leading investors worldwide are mobilizing to hold the largest emitters accountable to the urgent need to decarbonize. Despite this, ***BlackRock and Vanguard, the world's largest asset managers, continue to undermine global investor efforts to promote responsible climate action at these critical companies.***

This report reviews the contributions, or lack thereof, of the world's 25 largest asset managers to hold large U.S. energy and utility companies accountable to combat climate change and the risks it poses to long-term shareholders and other stakeholders. With increasing concentration in the investment industry, these 25 firms collectively manage over $38 trillion and account for over 51% of the assets managed by the 400 largest asset managers worldwide. As managers of investments and retirement savings for millions of people in the U.S. and abroad, they are responsible for serving as stewards for the interests of long-term investors of all sizes. This report measures how these asset managers voted on director elections and advisory votes on top executive compensation (also known as "say on pay" votes) at large-capitalization U.S. energy and utility companies, as well as their performance on critical climate-related shareholder proposals at these and other companies in the S&P 500.

The key findings of this review include:

- BlackRock and Vanguard voted for 99% of U.S. energy and utility company-proposed directors and 100% of their say on pay proposals. ***BlackRock and Vanguard not only voted with management more often than most of their asset manager peers; they were also more likely to support management at these fossil fuel intensive companies than they did across U.S. equities overall.***
- BlackRock and Vanguard voted overwhelmingly against the climate-critical resolutions reviewed in this report, with BlackRock supporting just five of the 41, and Vanguard only four. ***At least 16 of these critical climate votes would have received majority support of voting shareholders if these two largest asset managers had voted in favor of them.*** These included proposals that would have held ***ExxonMobil's*** board accountable for failure to engage responsibly on climate change, and brought much-needed transparency to the lobbying efforts of ***Duke Energy***, the largest, highest emitting, and highest coal-using electric utility in the United States.
- ***BlackRock and Vanguard both voted against all of the U.S. shareholder proposals backed by the $34 trillion Climate Action 100+ investor coalition,*** undermining the largest global investor efforts for

accountability and transparency in the energy and automotive sectors.

- In contrast, other large asset managers are choosing to set and enforce policies to hold corporate boards accountable if climate-related concerns are not adequately addressed. ***Legal & General Investment Management, BNP Paribas Asset Management, PIMCO,*** and ***Standard Life Aberdeen*** had the highest rate of voting against management proposed director candidates and say on pay proposals in the oil and gas and utility industries. Legal & General, BNP Paribas, and PIMCO also supported over 95% of the shareholder proposals analyzed in this study, as did ***DWS Group***, voting in favor of improved emissions disclosures and reduction plans, transparency regarding corporate political influence activity, and governance reforms to improve accountability to long-term shareholders.

In response to growing criticism of their voting behavior, BlackRock and Vanguard have recently emphasized the increasing number of engagements they are having with portfolio companies. While dialogues with companies are important for communicating concerns and resolving issues, voting on directors, executive compensation, and shareholder resolutions is a far stronger tool for long-term shareholders to communicate the strength and urgency of their position when companies are not yet aligning their strategies to ambitious decarbonization goals. Falling support for these directors and compensation arrangements – along with passage of these critical climate-related shareholder resolutions – would have sent an unmistakable signal to fossil fuel intensive companies that leading investors would no longer tolerate business-as-usual on climate change. Instead, ***market leaders BlackRock and Vanguard chose to shield management from accountability, serving as a blockade for global investor action on climate.***

This report recommends that asset owners closely examine the engagement and proxy voting activities of the asset managers they engage, call the asset managers they hire to account for inadequate voting policies and practices, and consider those activities when evaluating and selecting asset managers. In addition, this report recommends that policymakers consider reforms to ensure transparency, regulate conflicts of interest, and address the rapidly increasing market share of the largest asset managers.

II. Introduction

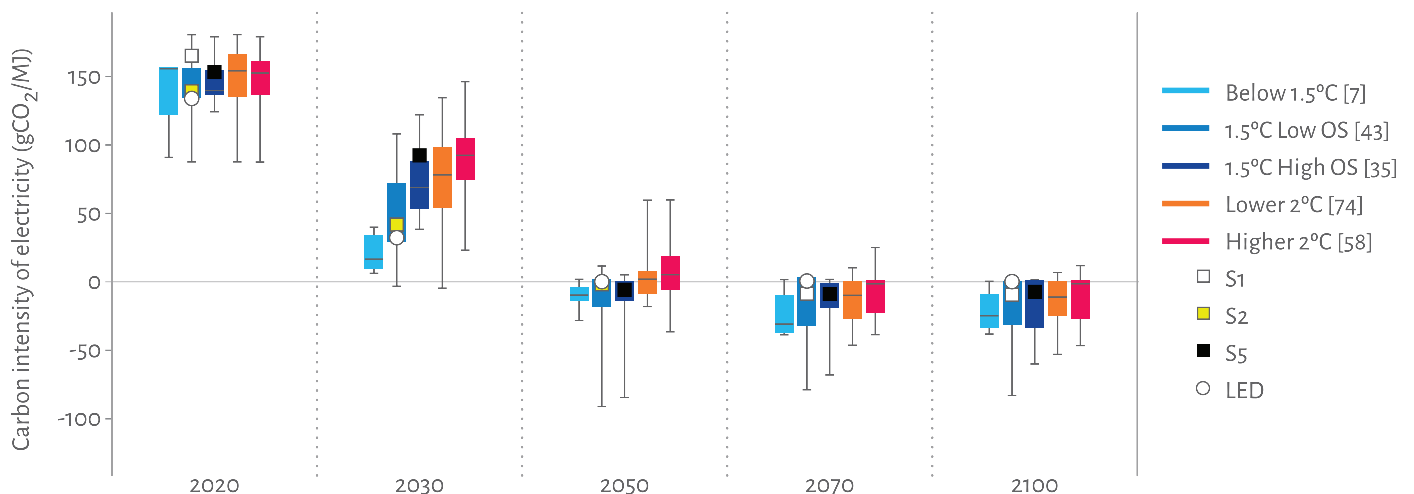
Energy and Utility Companies are Not On Track to Achieve the Goals of the 2015 Paris Climate Agreement

The October 2018 report of the Intergovernmental Panel on Climate Change (IPCC) could not be clearer: the planet is on track to climate disaster, and policymakers, corporations, and civil society have just a decade to avert the worst of it.[1] Climate change will impose immense costs on all parts of society and poses specific risks to long-term investors worldwide. These risks are large, quantifiable, and undiversifiable. The economic cost of only limiting warming to 3˚C has been estimated as high as 15-25% of per capita output.[2] Some estimates of the potential stranded assets as a result of climate change reach $20 trillion if the world fails to act now.[3] According to the IPCC, to have just a 50% chance of limiting warming to 1.5˚C and averting the worst impacts of climate change requires cutting carbon emissions nearly in half across the entire global economy by 2030, and then reaching net-zero emissions worldwide by 2050.[4]

Averting climate disaster requires cutting carbon emissions nearly in half across the entire global economy by 2030 and achieving net-zero emissions by 2050

The oil and gas and electric utility sectors in the U.S. are both directly implicated in the causes of climate change and the rapid decarbonization required to combat the crisis. Despite this, many of these companies have not yet made the necessary strategic shift toward business transformation to avoid and mitigate climate-related risks.

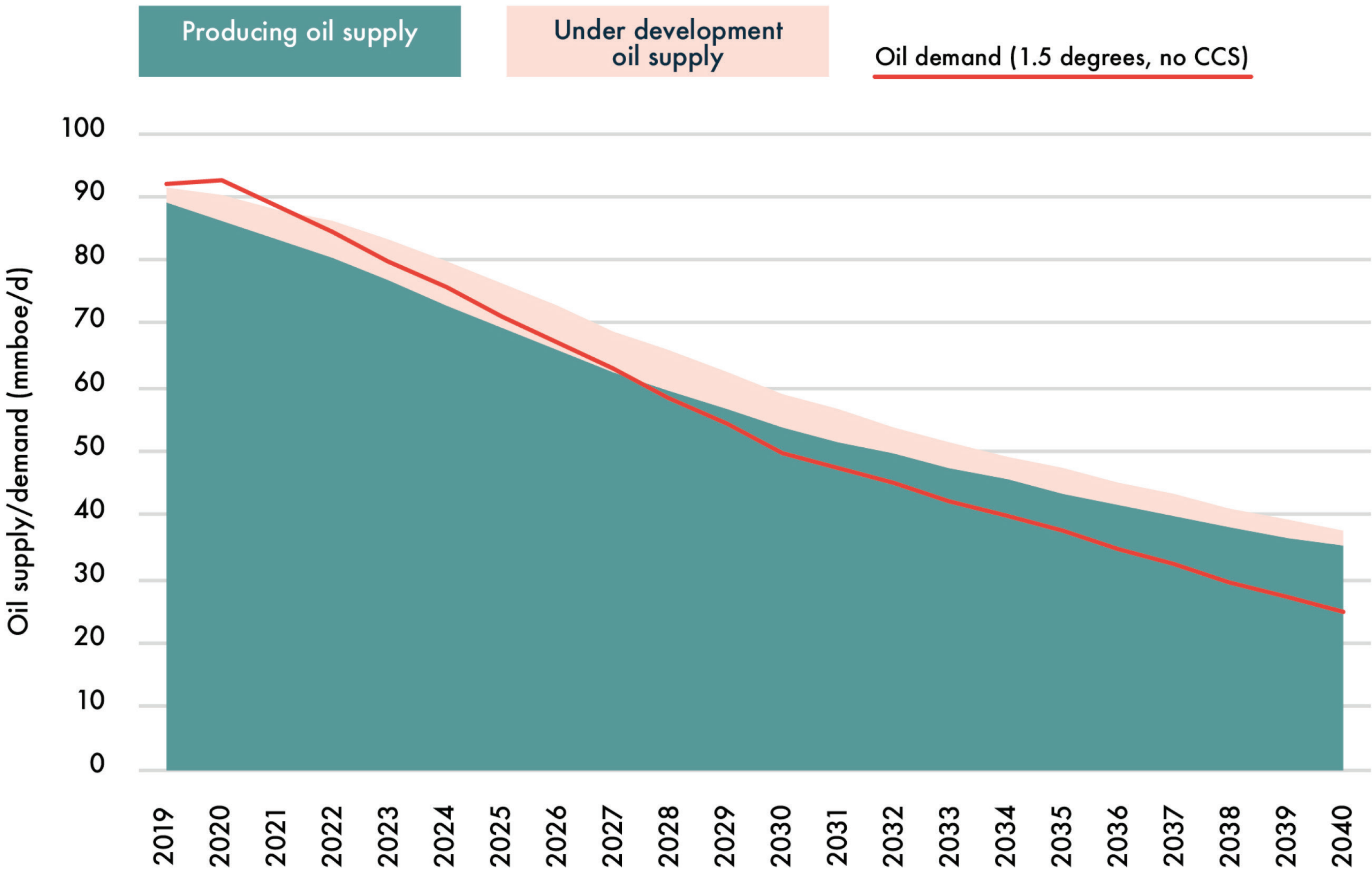
Figure 1: *Carbon intensity of electricity required by 1.5˚C and 2˚C pathways. Interquartile range for carbon intensity of electricity for all 1.5˚C and 2˚C scenario sets centers on 0 gCO2/MJ by 2050.*



Source: *IPCC Special Report on Global Warming of 1.5°C, Chapter 2, Figure 2.14(b) p. 130.* ***Note:*** *The IPCC modeled pathways for a range of temperature targets, as indicated by color in the legend. Those marked "OS" indicate pathways that temporarily overshoot the target, and values following the temperature targets show the number of available pathways in each category. Four specific pathways are also tracked: S1, a sustainable development pathway; S5, a pathway representing fossil-fuel driven development; S2, a pathway that takes a middle ground between the preceding two; and LED, a low-energy-demand scenario. The box plots show the median, interquartile range and full range of pathways that could be followed to reach a given temperature target. This chart is adapted from Figure 2.14 of the IPCC October 2018 report only to fit the layout of this report. In case of any unintended discrepancy between this chart and IPCC Figure 2.14, IPCC Figure 2.14 should be taken as authoritative.*

According to the IPCC, electricity generation must be fully decarbonized by 2050 in both 1.5˚C and 2˚C scenarios, with rapid reductions in carbon emissions required in coming years to meet that goal (see Figure 1 above).5 Yet of the major utilities involved directly in electricity generation, only one has set an unambiguous goal of reaching net-zero emissions by 2050 while many continue to invest heavily in natural gas infrastructure.6 At the same time, oil and gas companies need to align their development and capital expenditure expectations to a carbon budget that is compatible with limiting global warming to well-below 2 ˚C. The risk of stranded assets in this sector is particularly acute, with the value of potentially stranded assets in the energy sector alone estimated at between $1-4 trillion.7 In the oil and gas sector, according to the Carbon Disclosure Project, U.S. oil majors lag behind their European peers in setting climate targets and investing in low-carbon technologies.8 Moreover, despite billions in planned capital expenditures to support new exploration and production, analysis from Carbon Tracker shows that oil supplies currently in production already exceed the carbon budget for limiting warming to 1.5˚C without carbon capture and sequestration technology to eliminate their emissions (See Figure 2 below).[9]

Figure 2: *Currently producing and under development, in 1.5˚C warming compatible scenarios. Oil supplies currently in production already exceed the carbon budget for limiting warming to 1.5˚C without carbon capture and sequestration technologies.* ***Source:*** *Carbon Tracker*



Shareholder Voting is the Key to Achieving Climate-Competent Boards of Directors and Aligning Executive Incentives to Climate Targets

To achieve rapid decarbonization, energy and utility companies' boards must urgently become climate competent, ensuring that their business models, investment plans, executive incentives, and policy influence are aligned directly to this target. Directors bear responsibility for aligning corporate strategy with long-term investor interests, and ensuring adequate long-term risk management. Particularly in times of business model transformation, regular refreshment of the board can be important to ensure that the current balance of director experiences and abilities matches the company's needs. ***In the face of the repeated failure of boards and managements to respond adequately to climate change, shareholders have the power and responsibility to demand that companies replace incumbent directors with those willing and able to address the climate crisis and the myriad risks it poses to long-term shareholder value.***

Indeed, votes on director elections are one of the strongest tools shareholders have to push for change at companies that are on the wrong path. Similarly, advisory votes on top executive compensation (sometimes called "say on pay" votes) are an important mechanism for shifting corporate priorities and management incentives. In recent years, major investors have voted against nominating committee chairs to express their dissatisfaction with lack of progress by boards in increasing the representation of women.[10] Hedge funds and activist investors frequently call on other shareholders to vote against directors when they are unsatisfied with corporate performance, or even support alternative directors, as Carl Icahn did recently at Occidental Petroleum.[11]

In 2017, a group of institutional investors called for shareholders to vote against the say on pay proposal and against the election of two board members at The Southern Company in the wake of scandals and cost overruns of two electrical generation projects.[12] While those directors were ultimately elected to the board,

the expression of significant shareholder dissatisfaction led to ongoing investor engagement that changed the board's approach to executive compensation.[13] This shareholder action, along with well-supported resolutions calling for the company to report on its strategic alignment with 2˚C warming scenarios, helped encourage Southern executives to change the company's stance on climate change and to release in 2018 Southern's "Planning for a Low-Carbon Future."[14]

Votes on board members and executive compensation at climate-critical companies have become even more important in the face of action by the SEC Staff to allow companies to exclude many critical climate-related shareholder resolutions from their proxy statements. Nearly two-thirds of climate-related resolutions were contested at the SEC by companies seeking to avoid votes on these matters. As of May 2019, the SEC Staff had sustained 45% of these objections, the highest rate in the last five years (see Figure 3 below).[15] For example, shareholders led by the New York State Comptroller filed a resolution at ExxonMobil on the adoption of greenhouse gas emissions targets. The SEC Staff agreed that ExxonMobil could exclude the resolution from its proxy, reasoning that it, "would micromanage the company."[16] Similar resolutions were excluded at Devon Energy and Chevron. The staff adopted this interpretive approach despite climate change resolutions demonstrating steadily increasing shareholder support.[17]

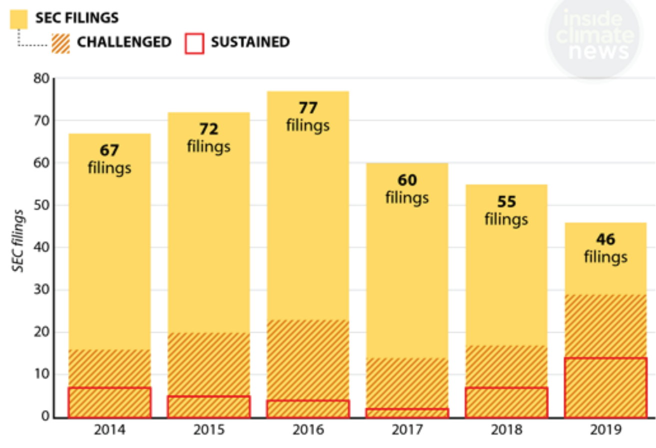


Figure 3: *Number of shareholder resolutions at energy and utility companies, number of proposals challenged by companies with the SEC, and number of challenges sustained by the SEC Staff, 2014-2019*
Source: Inside Climate News[18]

Largest Shareholders Bear Greatest Responsibility to Push for Corporate Climate Action

Given the leverage provided by significant voting power, large investors bear particular responsibility for ensuring that boards are appropriately overseeing and planning for our net-zero carbon future, mitigating risks to shareholders, and taking full advantage of the opportunities economy-wide decarbonization presents.

Increasingly, the largest investors with the most voting power are asset managers such as BlackRock and Vanguard. BlackRock and Vanguard, which have benefited from the shift from active to passive investing, hold positions of more than 5% in nearly all the constituent companies of the S&P 500, including the U.S. companies with the most ability to impact the climate crisis. In 2017, BlackRock held positions of more than 5% in 488 S&P 500 companies, while Vanguard held similar positions in all 500.[19] ***These same asset managers control an outsized portion of the world's financial assets and are poised to control even more.***[20] Given that large asset managers are more likely to vote at company annual meetings, they make up an even larger proportion of shareholders voting on directors, governance, and resolutions. In 2017, the three largest asset managers—BlackRock, Vanguard, and State Street—owned on average 20.5% of the outstanding shares of S&P 500 companies, while casting 25.4% of votes at those companies.[21] This often gives these large asset managers the deciding vote when resolutions are close.

Large managers like BlackRock and Vanguard have a responsibility to the ordinary Americans who entrust the firms with their retirement and college savings as a result of what Delaware Chief Justice Leo Strine calls "forced capitalism," triggered by the shift from defined benefit to defined contribution plans and the rise of 529 college savings programs. Chief Justice Strine recently argued that the largest managers should better align their voting behavior with the interests of these savers: "[C]ompanies that externalize costs to society and other companies do not benefit Worker Investors who pay for those externalities as investors holding the entire market, and as human beings who breathe air, consume products, and pay taxes."[22]

For several years BlackRock and Vanguard have, with few exceptions, consistently voted in favor of companies' existing leadership and strategic direction and against resolutions to address climate risks and reform corporate governance in ways that advance long-term investor interests. These managers routinely point to the number of their engagements with companies as a sign of their leadership on climate, particularly with respect to climate-related disclosures. In reality, however, the limited scope and lack of transparency surrounding these engagements, combined with these asset managers' voting bias in favor of management, undermine the efforts of long-term investors and asset owners to hold corporate directors accountable and ensure that companies are adequately planning for a net-zero carbon future.

As the data from this year's voting disclosures demonstrates, ***if not for BlackRock and Vanguard, several climate-related shareholder proposals that received broad support would have obtained a majority vote***

in 2019. This is not an isolated occurrence, but rather perpetuates a multi-year pattern of top asset managers blocking critical climate votes from passage.[23] Achieving majority support on these resolutions would have been an unmistakable signal to corporate boards that they must change how they are operating, given the optics of a majority vote and the attention such votes attract. It also would have given shareholders an opening to demand change, backed by the likelihood that proxy advisors would recommend that their clients withhold support or vote against directors at the next annual meeting if the proposals were not implemented.

Note on Data and Methods

This report analyzes the votes of the top 25 global asset managers by assets under management as of December 31, 2018, according to Investments and Pensions Europe.[24] Insight Investments and PGIM Fixed Income were consolidated with their parent companies. The list of top 25 asset managers can be found in Appendix A.

This report analyzes two dimensions of asset manager voting behavior. First, it assesses the extent to which each asset manager supported management of the large capitalization companies in the U.S. energy and utility sectors, evaluating how often the asset manager voted in favor of company-nominated directors and say on pay proposals. These votes were analyzed at 49 major oil, gas, and electric utility companies in the United States, defined as 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 full list of companies included in this sectoral universe is listed in Appendix B.

Second, this report looks at asset manager voting records on critical climate-related shareholder resolutions at S&P 500 companies in 2019. Only resolutions that received at least 20% shareholder support were included to ensure that asset managers' voting records were only judged against resolutions with a substantial baseline of support among shareholders generally. A full list of these resolutions can be found in Appendix C.

These votes included:

1. All resolutions across the S&P 500 that directly relate to a company's greenhouse gas targets, scenario planning for climate change, and climate change transition planning, as reported in CERES' Engagement Tracker of resolutions that went to a vote in 2019.[25] These resolutions span multiple industries and include Amazon, Fluor, Flowserve, and others. Resolutions that addressed sustainability issues more generally were excluded.
2. An additional set of shareholder proposals for the 49 oil, gas and utility companies included in the description above. These companies operate in fossil fuel intensive and climate-critical industries, and as a result their governance structures and practices, corporate strategies, capital expenditures, and political influence behavior have direct impacts on climate outcomes. In particular, this report analyzes two additional classes of resolutions at these 49 companies:
   - Election spending and lobbying disclosures, including resolutions calling on companies to disclose both spending in elections or lobbying, including through trade associations and in the states, to ensure these activities are consistent with the goals of the Paris Agreement on climate change;
   - Proposals to improve governance and oversight, including resolutions recommending independent board chairs and strengthening shareholder rights to ensure that the long-term interests of shareholders in protecting value against the material risks posed by climate change are taken into account in corporate governance and decision making.
3. Finally, this report included resolutions concerning climate-related political and lobbying expenditures at Ford and General Motors, as a set of those were explicitly backed by the $34 trillion Climate Action 100+ global investor coalition. The Ford resolutions were included even though they came in under the 20% minimum threshold applied throughout the paper due to the dual class stock structure at the company. It also included a resolution at BlackRock itself, as the

largest asset manager in the world and a publicly-traded company whose behavior has significant impacts on the climate strategies at companies whose shares it holds.

Voting data was provided by Morningstar on September 6, 2019, based on 2019 N-PX filings for those asset managers that file N-PX reports with the SEC. For asset managers that do not file N-PX reports, vote data was requested directly from the asset managers themselves. Legal & General Investment Management and BNP Paribas Asset Management provided proxy voting records directly, while Sumitomo Mitsui Trust Asset Managers and Wellington Management declined to provide data. We thank LGIM and BNP Paribas for sharing their data for this analysis.

Proposal votes are counted as "for" if 75% or more of funds within a fund family voted for it and "against" if at least 75% of funds within a fund family opposed it. Director votes may be "against" or "withhold," depending on a company's voting standard for director elections. Both are treated as "against" votes. 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. The support percentage is calculated by: votes in support / (votes in support + votes against + votes abstained).

Finally, this report assesses resolutions that that did not obtain majority support, but could have done so with the support of one or more of the largest asset managers. To determine this, the percent of common stock outstanding (%CSO) held by the asset manager, as disclosed in the company's definitive proxy statement, was added to the percent support obtained by the resolution. This approach does not precisely match the voting impact an asset manager may have had, as asset managers do not disclose precisely how many shares were voted on any given resolution. An asset manager may have beneficial ownership over shares for which it does not have voting rights. However, large asset managers tend to vote their shares at a higher rate than other shareholders, which amplifies their voting power beyond what is represented by %CSO. That amplification is greatest at companies with lower shareholder turnout, where the number of shares voted at the meeting can be significantly lower than the number of shares outstanding. Therefore, the %CSO method represents a conservative approach, often significantly undercounting the potential of top managers to swing close votes. Additionally, one proposal that would have received an estimated 50.01% vote by this method was excluded. (See Appendix D for example calculations.)

III. Asset Managers

Voting with Corporate Management on Director and Say-on-Pay Votes

PERCENTAGE OF VOTES IN FAVOR OF MANAGEMENT-PROPOSED DIRECTORS

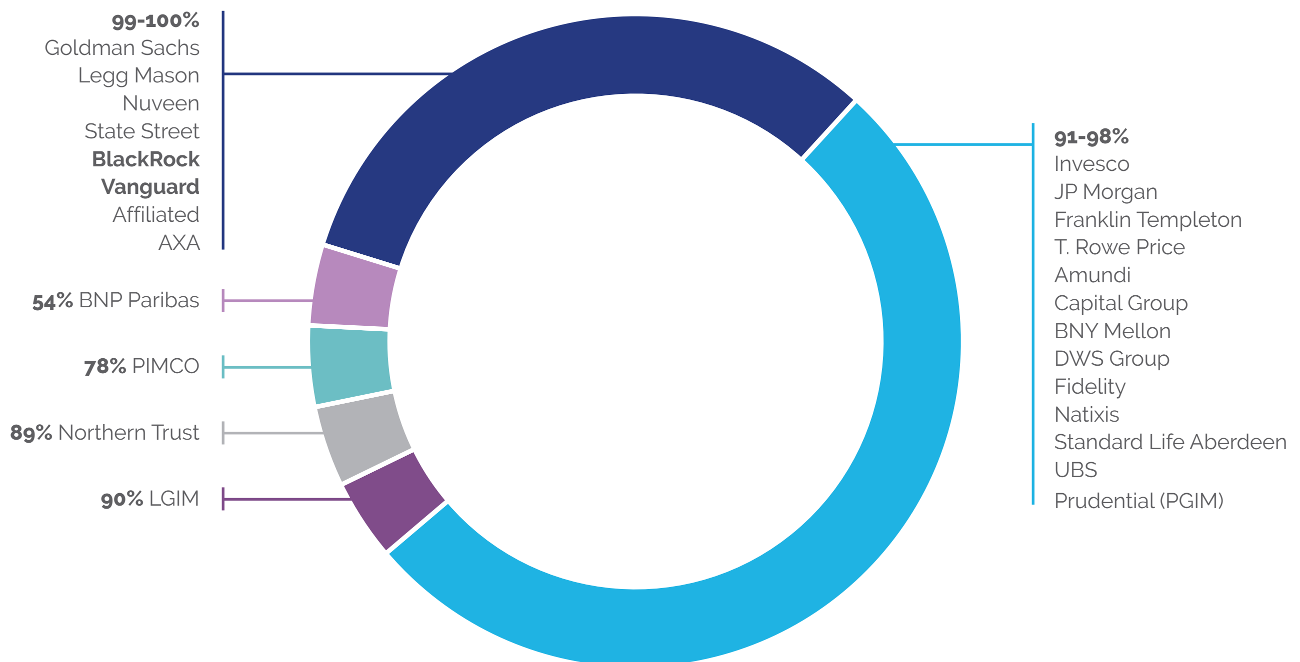


Figure 4: *21 of the top asset managers voted for energy and utility company sponsored directors >90% of the time*

Despite the portfolio-wide and company-specific risks created by climate change, our analysis shows that BlackRock, Vanguard, AXA Investment Managers, and Affiliated Managers Group remain highly aligned with management of energy and utility companies, voting for 99% of company-proposed directors and 100% of say on pay votes (see Figure 4 above and Figure 5 below). This replicates findings from the 2018 shareholder season, when BlackRock and Vanguard each voted with energy and utility company management on say-on-pay resolutions 98% of the time, and for company-sponsored directors 99% of the time.[26] State Street, Goldman Sachs, Legg Mason, and Nuveen voted for a similarly high number of directors in 2019, though all demonstrated a lower level of support for say on pay proposals.

PERCENTAGE OF VOTES FOR COMPANY PROPOSED EXECUTIVE COMPENSATION

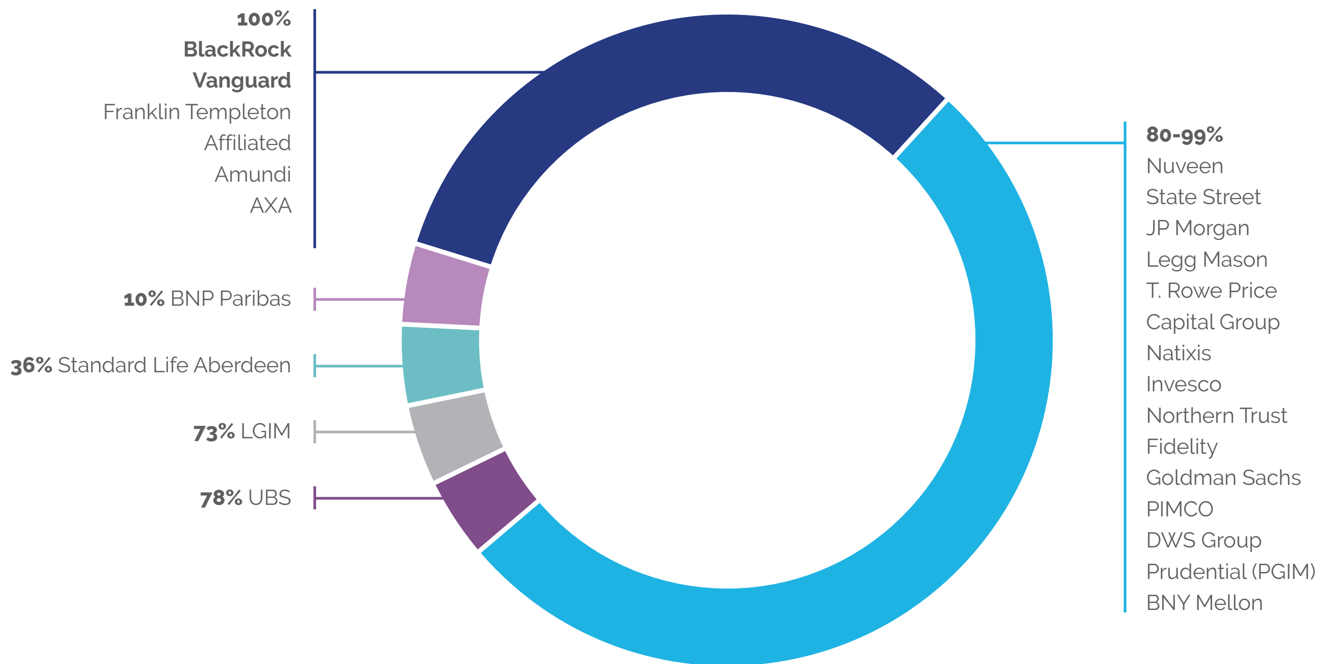


Figure 5: *21 of the top asset managers voted in favor of energy and utility say on pay proposals >80% of the time*

In 2019, Legal & General Investment Management, BNP Paribas Asset Management, PIMCO, and Standard Life Aberdeen were least likely to vote for management recommendations on both directors and executive compensation. This ranking echoes findings from 2018, when Legal & General voted in favor of company recommendations on directors only 88% of the time, and supported say-on-pay resolutions 72% of the time, while PIMCO voted with management on directors 78% of the time, supported 88% of say on pay proposals.[27]

BlackRock and Vanguard Voted in Favor of the Management-Backed Directors in Climate-Critical Industries More Often Than They Did Overall

As noted above, BlackRock and Vanguard each voted with management on directors of climate-critical industries 99% of the time and supported say-on-pay votes 100% of the time. In their 2019 engagement reports however, these asset managers indicate that

when it comes to voting at U.S. equities overall, their alignment with management is lower. BlackRock reports that across the 3,896 corporate meetings in the U.S. at which the asset manager voted its shares, it voted against management only 8% of the time on director elections and related management proposals.[28] Similarly Vanguard indicates that for U.S. companies in 2019, it voted against management-proposed directors 7% of the time, and executive compensation proposals 6% of the time.[29]

This demonstrates that ***BlackRock and Vanguard not only voted with management at U.S. energy and utility companies more often than most of their asset manager peers: they were also more likely to support management at these companies than they did across U.S. equities overall.***

Progress in 2019: Asset Managers Taking Action on Director and Management Accountability

Importantly, there have also been several critical positive developments among asset managers and their approach to ensuring director accountability for climate change. Recognizing the significant risks posed by climate change, some asset owners and asset managers have also adopted or strengthened policies in recent years to vote against boards or board leadership where companies fail to demonstrate sufficient action in the face of the climate crisis, or to sufficiently engage with shareholders on climate strategy. Asset managers that now consider voting against board members who fall short in this way include Legal & General Investment Management, Sarasin & Partners, and BNP Paribas Asset Management.[30]

"[T]o underscore our seriousness, we divest within our Future World funds from those companies that fail to demonstrate sufficient action and vote against the re-election of their board chairs across all funds where we hold voting rights."

Legal & General Investment Management, Climate Impact Pledge 2019

"BNP Paribas will vote against or abstain on director elections where, "[t]he company does not report properly on their carbon footprint (scope 1 and 2), and does not communicate nor does it want to engage in relation to its business strategy to mitigate and adapt to climate change."

BNP Paribas Asset Management, Governance and Voting Policy, 2019

"With regard to climate change-related risks, we will consider on a case-by-case basis whether to vote AGAINST the Report and Accounts, the reappointment of the auditor and/or the re-election of Audit Committee Chair at companies where the risks are likely to be material, but the company fails to disclose their exposure, or where we believe their stated strategy for managing the risks to be inadequate. We would expect, in the first instance, fossil fuel extractives and related businesses (e.g. refineries, oil and gas pipeline providers, LNG transport), and businesses that are highly dependent on the consumption of fossil fuels (e.g. coal or gas fired power companies, auto-manufacturers, airlines) to make such disclosures"

Sarasin & Partners, Corporate Governance and Voting Guidelines, 2018

Case Study: Vote against Board Members at ExxonMobil

The Church of England and New York State Comptroller Thomas DiNapoli called on shareholders to vote against the entirety of the ExxonMobil board of directors for its failure to engage responsibly on climate change. They also called on shareholders to support resolutions demanding that the company fully disclose its political and lobbying activity and move to an independent board chair.[31] As the New York State Common Retirement Fund and the Church of England summarized in a filing with the SEC:

"In spite of the clearly demonstrated shareholder concern regarding the impact of climate change on the company, ExxonMobil:

- *has no business-wide targets for GHG emissions reductions at its own operations;*

- *does not disclose the GHG emissions associated with the use of its products;*
- *has no targets for the reduction of GHG emissions associated with the use of its products;*
- *offers no guidance on the extent of its ambition to reduce over time the GHG emissions associated with the use of its products."*

When it comes to climate responsibility, ExxonMobil lags far behind both investor expectations and its international peers like Shell and BP, where either emissions reduction targets have already been set, or the company is engaging with shareholders to do so.[32] Without changes to governance, shareholders have no way to ensure that the board will responsibly manage the significant climate risks to the company.

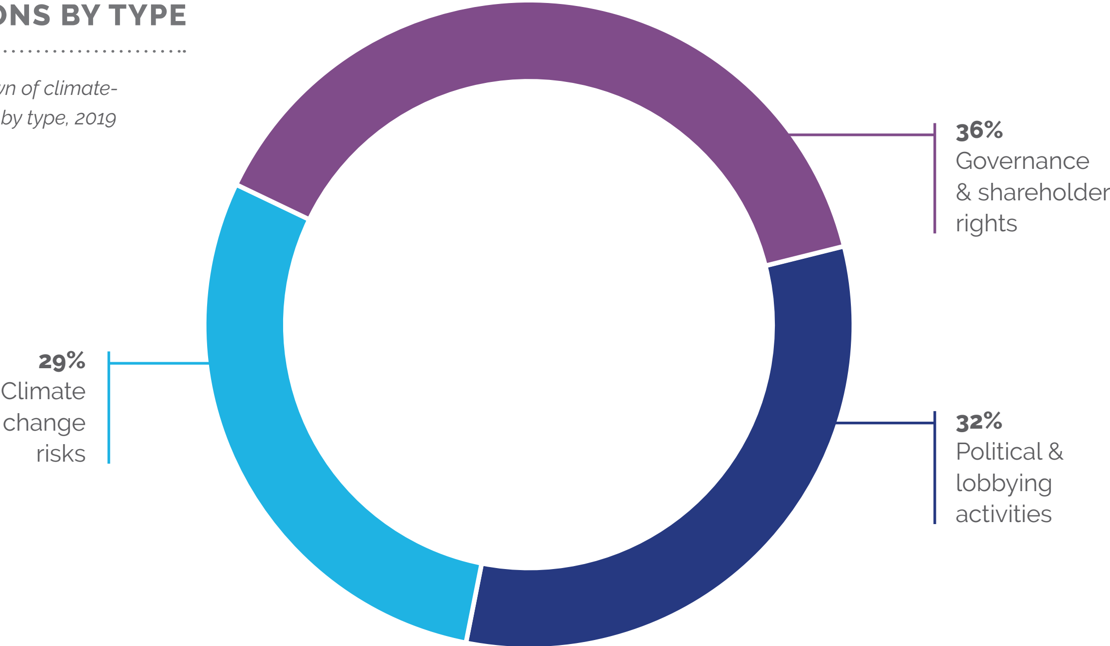
In response to the continuing issues at ExxonMobil, BNP Paribas and DWS Group voted against the entire board, while Legal & General voted against six board members, and PIMCO did not support five of the ten. In spite of the overwhelming need for reform at ExxonMobil, major asset managers Fidelity, Capital Group, Invesco, and Vanguard voted for the entire board of directors.

BlackRock voted against Steven Reinemund, the Presiding Director, although the asset manager did not explain why in either its 2019 Investment Stewardship Annual Report or its second quarter Investment Stewardship Report for the Americas – and as discussed in greater detail below, BlackRock voted against the set of resolutions backed by New York State and the Church of England at ExxonMobil.[33] Without additional transparency regarding BlackRock's decision on this matter, shareholders cannot know what message the asset manager intended to send the company.

IV. Performance of Asset Managers on Key Climate Shareholder Resolutions in 2019

BREAKDOWN OF CLIMATE-CRITICAL RESOLUTIONS BY TYPE

Figure 6: *Breakdown of climate-critical resolutions, by type, 2019*



In addition to the election of directors and say on pay proposals, every year shareholders vote on hundreds of proposals related to governance and risk management at company annual meetings. The categories of these issues are broadly referred to as environmental, social, and governance (or "ESG"). Support for environmental and social shareholder proposals has increased substantially over time, receiving on average 30% support from shareholders in 2019.[34] At the same time, the number of proposals going to a vote declined, in part because the SEC Staff has permitted companies to exclude more proposals from their proxy statements.[35]

PERCENTAGE OF VOTES IN FAVOR OF CLIMATE-CRITICAL RESOLUTIONS OVERALL

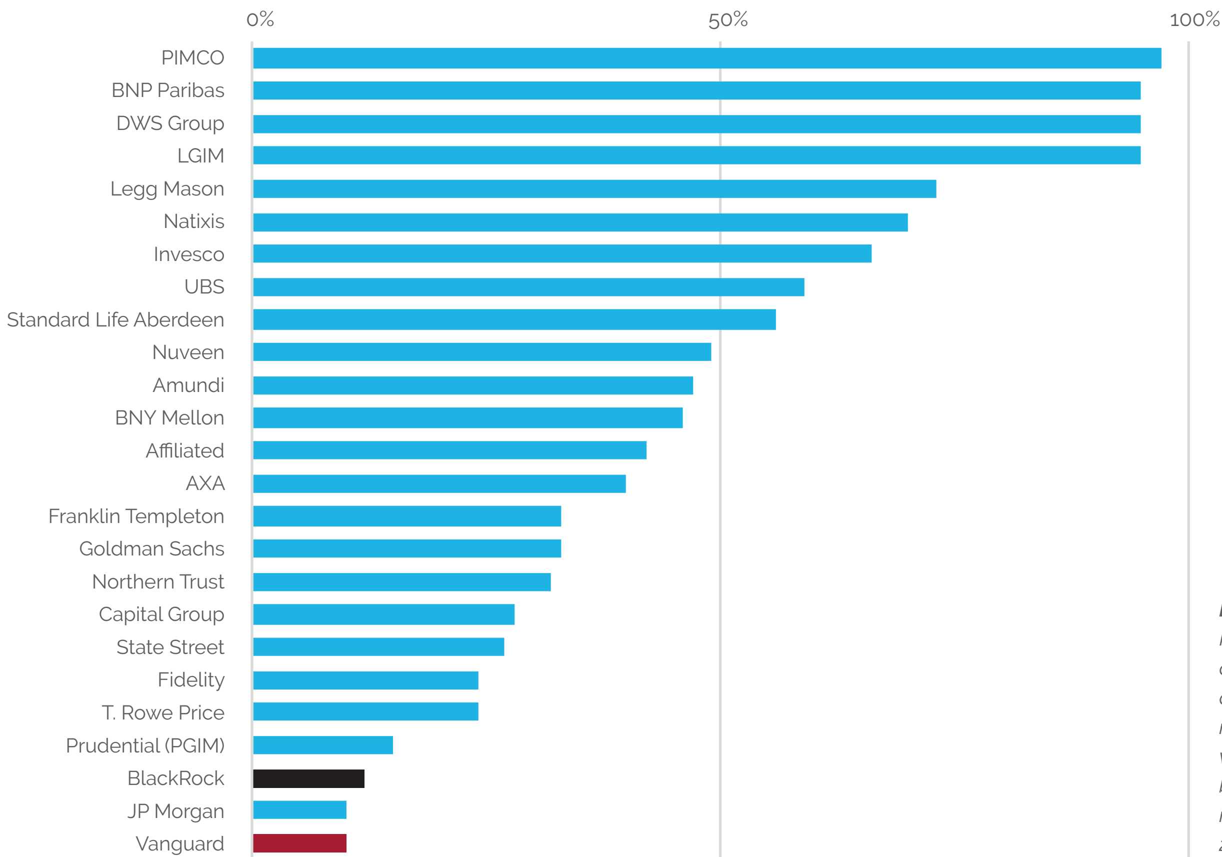


Figure 7: *Percent of climate-critical resolutions voted in favor, by asset manager, 2019*

Many of the companies with climate-critical resolutions assessed in this report have backed efforts to exclude these resolutions, with some, such as ExxonMobil and Chevron, succeeding in their attempts to prevent shareholder votes on these critical issues.[36]

In 2019, there were 41 climate-critical resolutions against which asset managers' voting records were assessed. Of these, 12 were directly related to the business and physical risks of climate change, 16 were regarding governance issues and shareholder rights at fossil fuel intensive and climate critical companies, and a further 13 related to the political and lobbying activities of fossil fuel intensive and climate critical companies (see Figure 6 previous page).[37] Across all 41 resolutions, PIMCO, BNP Paribas, DWS Group, and Legal & General most consistently voted in favor of these resolutions, voting in support more than 95% of the time. By contrast, Vanguard, BlackRock, J.P. Morgan and Prudential demonstrated the lowest level of support for these resolutions, voting for them less than 15% of the time (see Figure 7 above).

PERCENTAGE OF VOTES IN FAVOR OF RESOLUTIONS ON CLIMATE RISKS

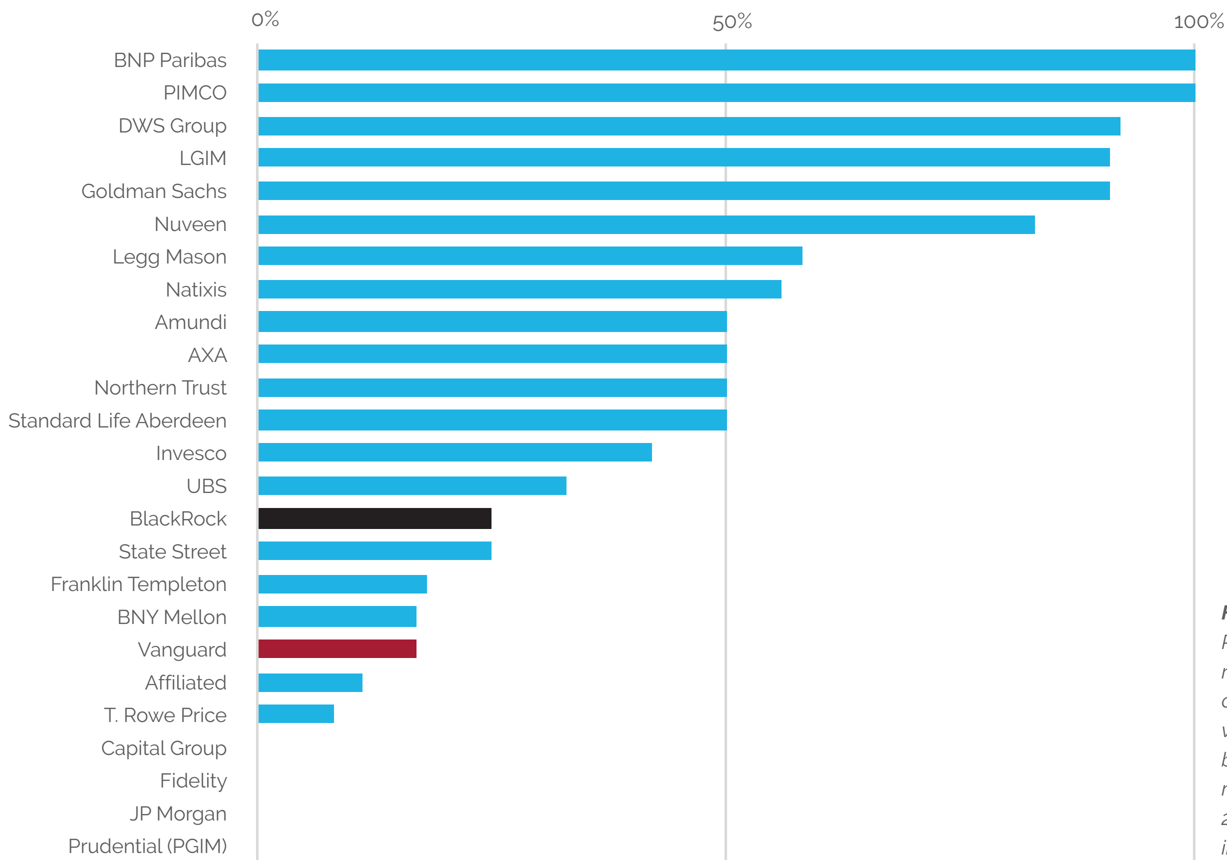


Figure 8: *Percent of resolutions on climate risks voted in favor, by asset manager, 2019. No bar indicates 0%.*

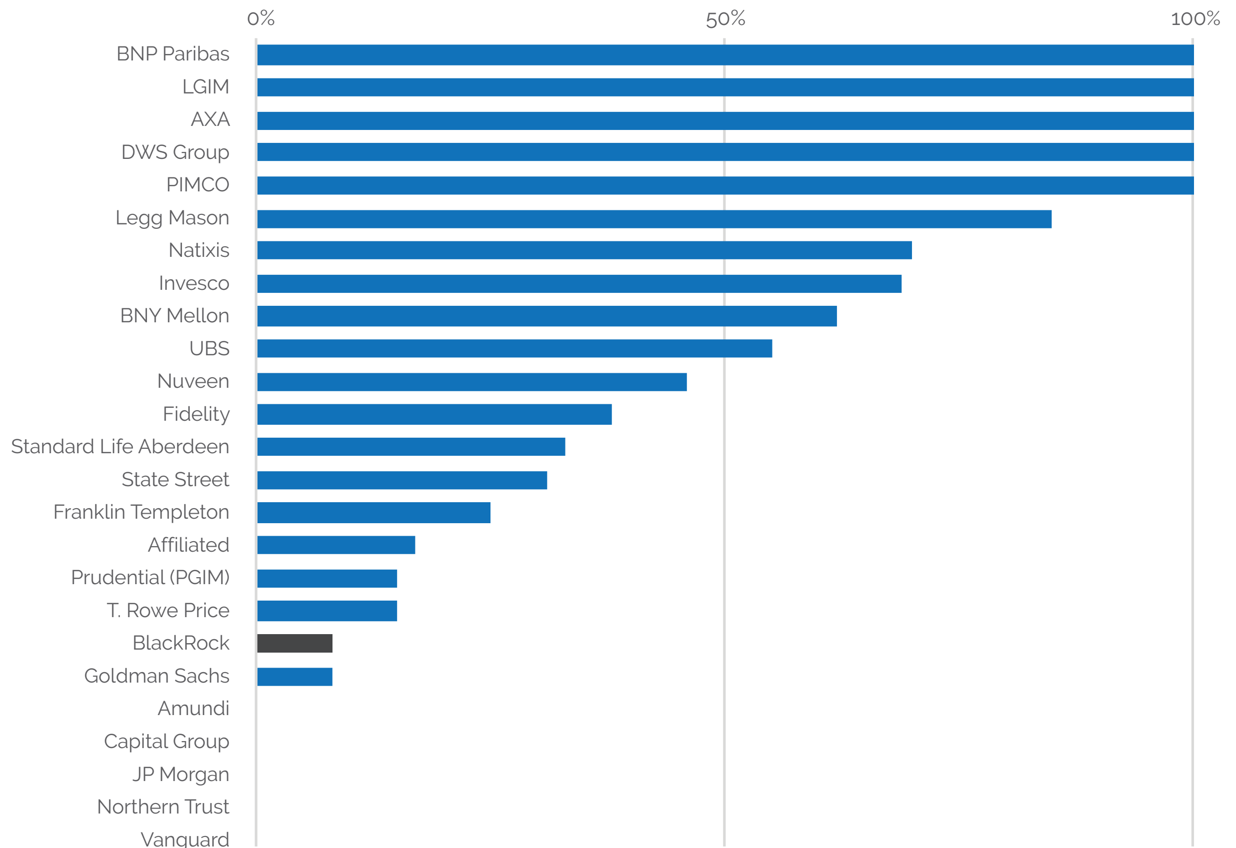
Resolutions Directly Related to Climate Risks

The 12 resolutions in this category relate to a range of issues with a direct climate impact at S&P 500 companies. Among them are resolutions across a range of industries on the adoption of greenhouse gas emissions reduction targets, as well as resolutions calling for reports on issues such as methane emissions, deforestation, and the physical and financial risks to assets as a result of climate change.

The asset managers showing the strongest level of support for these resolutions were BNP Paribas and PIMCO, which supported every resolution directly related to climate risks at companies they hold. Capital Group, Fidelity, J.P. Morgan, and Prudential (PGIM) supported none of them (see Figure 8 above).

PERCENTAGE OF VOTES IN FAVOR OF POLITICAL AND LOBBYING RESOLUTIONS

Figure 9: Percent of political and lobbying resolutions at climate-critical companies voted in favor, by asset manager, 2019. No bar indicates 0%.



Resolutions on Policy Influence at Fossil Fuel intensive and Climate-Critical Companies

In addition to resolutions pertaining directly to climate risks, proposals calling for companies in the fossil fuel intensive energy, utility, and automotive industries to more fully disclose their political and lobbying activity were analyzed. These resolutions typically call on companies to enhance disclosures concerning either their political expenditures on elections or their lobbying activities, such as payments to lobbyists at the state and federal levels, payments to trade associations used for lobbying, and payments for grassroots activities aimed at influencing policymakers. While companies are required to disclose their direct federal lobbying expenditures, state disclosure policies vary widely and companies often use trade associations to influence public policy indirectly. Membership in and payments to these trade associations can be a significant source of misalignment between a company's behavior and its professed climate goals, which can give rise to reputational risk.

In 2019, the asset managers most likely to support lobbying and political disclosure resolutions in the energy, utility, and automotive industries – as well as at BlackRock itself – were BNP Paribas, Legal & General, AXA Investment Managers, DWS Group, and PIMCO, which all voted in favor of every policy influence resolution on the ballot at companies they hold. Five asset managers voted for none of these resolutions, Vanguard among them. BlackRock voted for only one (see Figure 9 above).

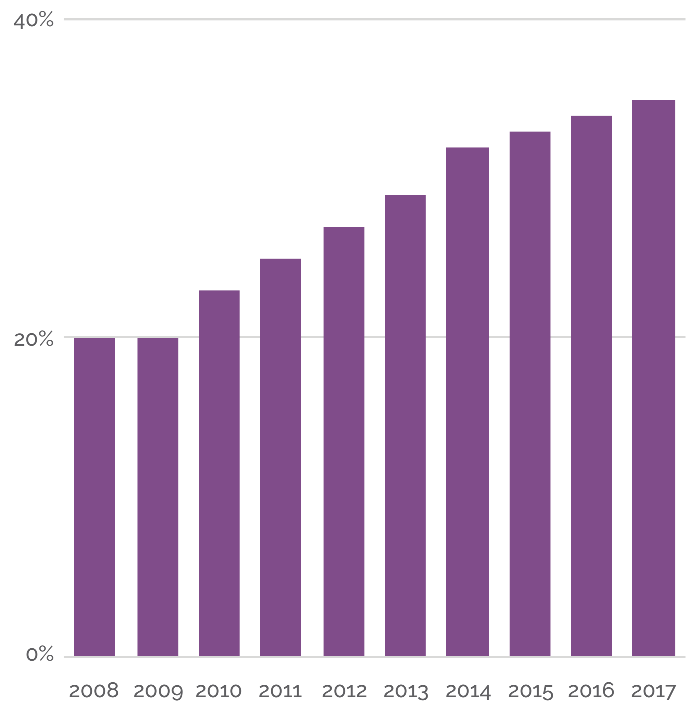
Resolutions on Governance Reforms at Fossil Fuel Intensive and Climate-Critical Companies

The final set of climate-critical resolutions sought to improve the governance, independent oversight, and shareholder rights at companies in the energy, utility, and automotive industries. These resolutions aimed to ensure that shareholders' long-term interests are taken into account in corporate governance and decision making, particularly when it comes to protecting value against the material risks posed by climate change.

Seven of the 16 resolutions in this category proposed the adoption of a policy that the board's chair should be an independent director. Independent board chairs can strengthen board oversight of management and improve corporate accountability. This structure is increasingly common, with the proportion of independent chairs at S&P 1500 companies growing from 20 percent in 2008 to 35 percent in 2017 (see Figure 10).[38] In these fossil fuel intensive industries, the risks, challenges, and opportunities presented by climate change will necessitate unprecedented business transformation. Robust oversight facilitated by an independent chair will be necessary throughout this transformation.

A further five resolutions called for reducing the ownership threshold required to call a special shareholder meeting to 10%. Special meetings allow shareholders to vote on important matters that can arise between annual meetings. The remaining resolutions addressed other shareholder rights such as proxy access, the right to act by written consent, equal voting rights, and supermajority vote thresholds. Many of these are shareholder rights generally considered to be general good corporate governance practices. However, given the substantial risks and challenges faced by these particular companies as a result of climate change, ***enhanced shareholder rights give shareholders greater power to intervene at companies that are not pursuing strategies aligned to the Paris Agreement.***

Figure 10: *Percentage of S&P 1500 companies with an independent chair, 2008-2017*
Source: Institutional Shareholder Services[39]



PERCENTAGE OF S&P 1500 COMPANIES WITH AN INDEPENDENT CHAIR

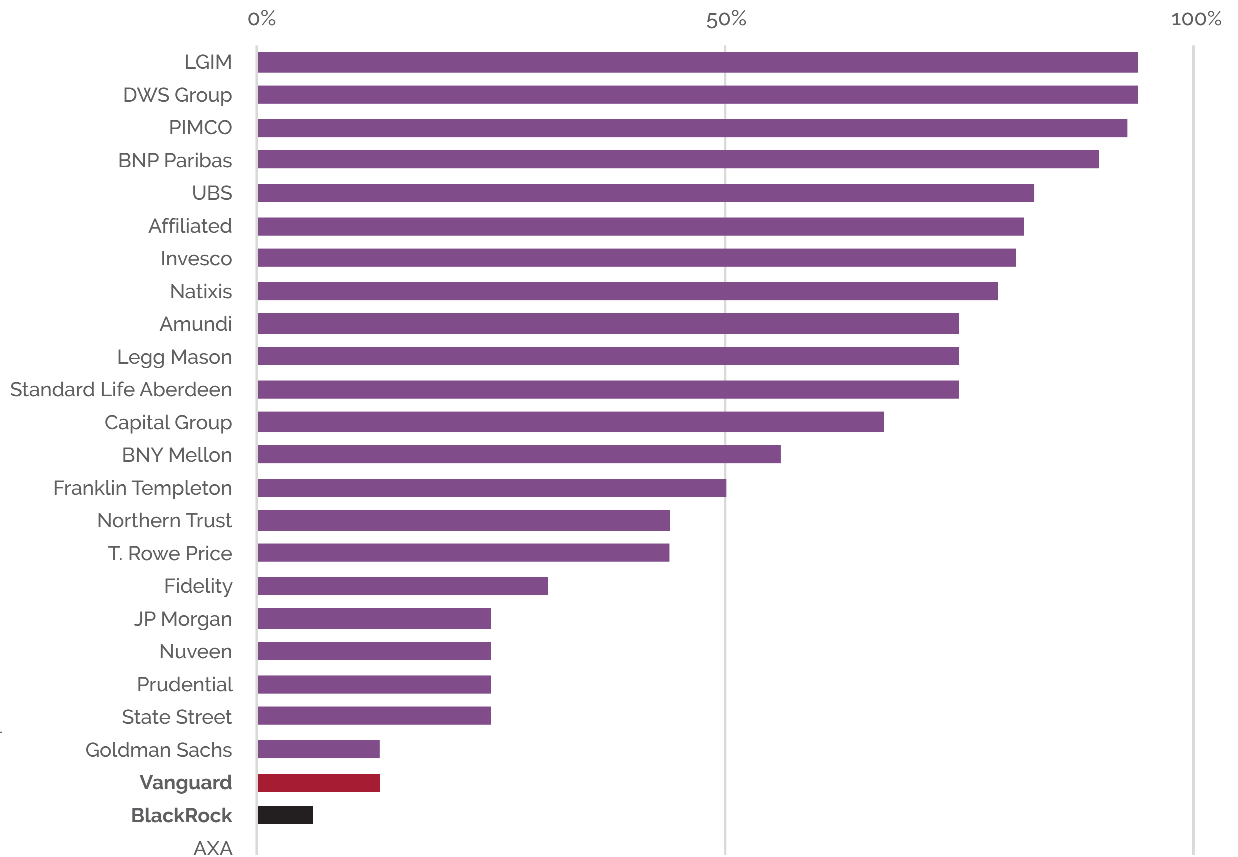


Figure 11: *Percent of governance and shareholder rights resolutions at climate-critical companies voted in favor, by asset manager, 2019. No bar indicates 0%.*

The asset managers most likely to support these governance reform resolutions were Legal & General, DWS Group, PIMCO, and BNP Paribas. The asset managers least likely to support them were BlackRock, Vanguard, Goldman Sachs, and AXA (see Figure 11 above).

Asset Manager Votes on U.S. Resolutions Backed by the Climate Action 100+

The Climate Action 100+ is the largest global investor coalition calling for corporate action on climate change. Backed by $34 trillion in assets under management, the coalition aims for the largest and most systemically important carbon-emitting companies to align themselves to the Paris Agreement goals of limiting warming to well below 2˚C and aiming for 1.5˚C. Investor engagements call on these large emitters to "curb emissions, improve governance and strengthen climate-related financial disclosures" in pursuit of that goal.[40] The coalition's efforts demonstrate that global investor leadership on climate has moved well beyond the need for enhanced disclosures toward actual strategic and business model transformation.

To further these efforts, Climate Action 100+ supported three shareholder resolutions at U.S. companies. These included:

1 The resolution to create an independent chair of the board at ***ExxonMobil***, given the company's failures to

engage responsibly with investors on climate change risks and transition plans.[41]

2 Resolutions at automakers ***GM*** and ***Ford*** calling for enhanced disclosure and governance into their climate-related lobbying activity, filed in the wake of the news that the Auto Alliance, a leading trade association backed by those automakers, lobbied Trump Administration to weaken national fuel economy standards.[42]

The following table indicates how the top 25 asset managers in this study voted on those three critical climate votes explicitly backed by the Climate Action 100+. BlackRock, Vanguard, JP Morgan, Goldman Sachs, and Northern Trust all voted against all three resolutions, while Legal & General, PIMCO, Invesco, UBS, and DWS Group supported all three (see Figure 12 below).

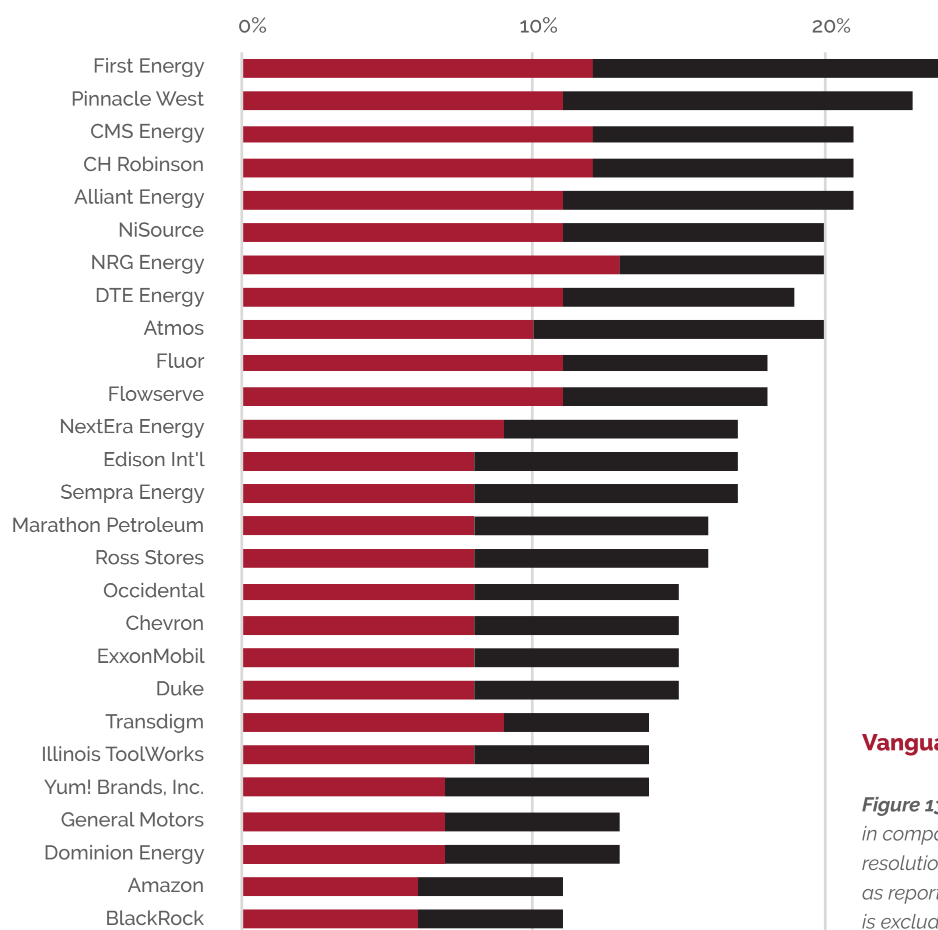
Figure 12: *Asset manager voting record in Climate Action 100+ resolutions*

	Company	ExxonMobil: Independent Board Chair	Ford: Report on lobbying activities	General Motors: Report on lobbying activities
1	BlackRock	X	X	X
2	Vanguard	X	X	X
3	State Street	✓	X	X
4	Fidelity	X	✓	~
5	BNY Mellon	✓	✓	X
6	JP Morgan	X	X	X
7	Capital Group	✓	NVR	X
8	PIMCO	✓	✓	✓
9	Amundi	✓	NVR	X
10	Prudential (PGIM)	✓	~	✓
11	Goldman Sachs	X	X	X
12	LGIM	✓	✓	✓
13	T. Rowe Price	✓	X	X
14	Nuveen	✓	X	~
15	Natixis	✓	NVR	~
16	Invesco	✓	✓	✓
17	Northern Trust	X	X	X
18	AXA	NVR	NVR	NVR
19	UBS	✓	✓	✓
20	DWS Group	✓	✓	✓
21	Affiliated	✓	X	NVR
22	Legg Mason	✓	✓	~
23	Franklin Templeton	✓	~	~
24	Standard Life Aberdeen	NVR	NVR	NVR
25	BNP Paribas	✓	NVR	✓

LEGEND : ✓: Voted for X : Voted against ~ : Mixed voting record NVR : No Vote Recorded on the resolution in N-PX filings or supplemental data

V. Key Climate-Related Shareholder Resolutions Would Have Passed with BlackRock and Vanguard Support

BLACKROCK AND VANGUARD'S HOLDINGS IN COMPANIES WITH CLIMATE-CRITICAL SHAREHOLDER RESOLUTIONS

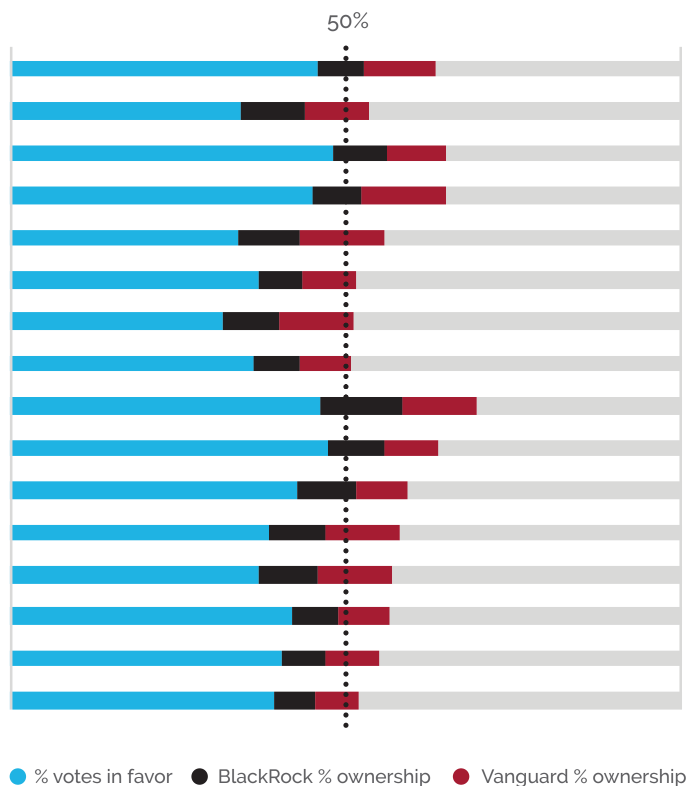


Vanguard | **BlackRock**

Figure 13: *BlackRock and Vanguard's holdings in companies with climate-critical shareholder resolutions, 2019 Note: Ownership data current and as reported in company proxy statements, 2019. Ford is excluded as it has a dual class capital structure.*

16 CLIMATE-CRITICAL RESOLUTIONS WOULD HAVE RECEIVED MAJORITY VOTES IF BLACKROCK AND VANGUARD SUPPORTED THEM

Figure 14: *Percent of votes cast for climate-critical resolutions where BlackRock and/or Vanguard support would have led to majority votes in favor*



Fluor: Adoption of greenhouse gas emissions reduction targets

Atmos: Report on methane leaks and management actions

NextEra: Disclose expenditure on political activities

NRG Energy: Disclose expenditure on political activities

CMS Energy: Disclose expenditure on political activities

Exxon Mobil: Report on lobbying activities

DTE Energy: Disclose expenditure on political activities

Duke Energy: Report on lobbying activities

Pinnacle West: Reduce special meeting threshold to 10%

Marathon Petroleum: Right to act by written consent

Sempra: Independent Board Chair

DTE Energy: Independent Board Chair

NiSource: Reduce special meeting threshold to 10%

ExxonMobil: Reduce special meeting threshold to 10%

ExxonMobil: Independent Board Chair

Dominion: Independent Board Chair

The world's largest asset managers BlackRock and Vanguard control the largest blocks of shares in nearly every publicly traded firm in the U.S. The pattern of ownership is seen in the energy and utility industries, and across the companies at which there were critical climate votes in 2019 (see Figure 13). The two asset managers were both in the top five common stock shareholders at all 28 companies with critical climate resolutions.[43]

BlackRock and Vanguard were the two largest shareholders at 18 of these 28 companies.

Yet BlackRock and Vanguard were among the asset managers least likely to support these critical climate-related resolutions. ***BlackRock and Vanguard's holdings are so significant that at least 16 of these critical climate votes would have received majority support if both of these asset managers had voted in favor of them.*** In several cases, support from just one manager would have been enough to swing the vote to majority support. Instead, BlackRock and Vanguard voted against them, and they failed to pass. (see Figure 14).

Key Climate Risk Votes

At two of the companies with resolutions relating directly to climate risks and planning, BlackRock and Vanguard's votes could have swung the proposals to majority vote in favor.

At gas utility ***Atmos Energy***, shareholders requested the company provide a report regarding the company's actions to reduce its methane emissions.[44] Methane is a potent greenhouse gas, and as the proponents demonstrated, Atmos had not implemented key management practices to mitigate the climate risks associated with it, including failing to commit to Paris Agreement-aligned methane targets and having long or undisclosed timelines for identifying and repairing leaks. The proponents argued that Atmos' prior reports on this topic were insufficient.[45] This proposal received significant shareholder support, with 34.4% of shareholder votes cast in favor.[46] But both BlackRock and Vanguard voted against, with holdings of 9.5% and 9.6%, respectively,[47] and the measure failed to achieve majority support.

Shareholders at ***Fluor Corporation***, an engineering and construction firm, proposed the company adopt targets to reduce its greenhouse gas emissions and issue a report on its plans to do so.[48] The proposal noted that while Fluor had long disclosed its global carbon footprint, it lacks goals or targets for measuring its progress. A significant number of Fluor shareholders agreed, with 45.9% of votes cast in favor of this proposal.[49] Despite this substantial support by other shareholders, neither BlackRock nor Vanguard supported this resolution. Given that BlackRock holds a position of 6.9% in the company, and Vanguard 10.6%, votes in favor by either asset manager would have delivered majority support for the proposal.[50]

Key Lobbying and Political Spending Disclosure Votes

Of the 13 resolutions related to lobbying and political activities, six had sufficient shareholder backing that had BlackRock and Vanguard voted in favor, they would have received majority support.

At ***Duke Energy***, investors called on the company to provide additional disclosures regarding its lobbying activities, particularly those related to climate change. Duke Energy is the largest U.S. electric utility by market capitalization, and has the highest level of CO_2 emissions of any U.S. electric utility because of its size and its reliance on coal and natural gas.[51] In 2017, the most recent year for which comprehensive data exists, Duke Energy generated more electricity from coal than any other U.S. utility.[52]

While the company's disclosed lobbying and political expenditures in 2018 totaled less than $5 million, a study by advocates found that the company had spent over $80 million a year to influence policy in its home state of North Carolina.[53] The proponents argued that Duke's current disclosures are inadequate and do not allow shareholders to assess whether its lobbying expenditures are aligned with the company's stated commitment to a lower-carbon future.[54]

For example, Duke was one of the largest funders of efforts by the Utility Air Regulatory Group (UARG) to lobby against regulations addressing climate change.[55] UARG is now under investigation by the U.S. House Energy and Commerce Committee for improper connections to EPA leadership. Following the opening of the investigation and public reporting on the matter, Duke ceased its membership in the organization in recent months.[56] Similarly, Duke does not disclose its membership in the American Legislative Exchange Council (ALEC), the controversial group whose model legislation regularly works against climate regulation and energy transition."[57]

The lobbying disclosure proposal at Duke received support of 36.2% support[58]– but both BlackRock and Vanguard, with 6.8% and 7.9% of shares, respectively, voted against the measure.[59] If they had supported the proposal, it would have received majority support.

Shareholders at ***NextEra Energy*** submitted a proposal calling for the company to report on its political expenditures and related policies.[60] NextEra brands itself as a leading clean energy company and the world's largest producer of wind and solar energy.[61] However, in recent years, its subsidiary Florida Power and Light, along with other Florida energy companies, spent millions in support of a misleading constitutional amendment that would have the effect of limiting rooftop solar expansion.[62] A near-majority of voting shareholders supported the proposal, with 48.2% voting in support.[63] This is an

increase from 2018, when a similar proposal received 42.4% support.[64] Both BlackRock and Vanguard voted against this proposal, as they did in 2018. BlackRock holds 7.9% of NextEra's shares, and Vanguard 8.9%.[65] Had either one of them voted for this proposal, it would have received majority support.

Resolutions calling for further disclosure of policies regarding use of corporate funds to influence election outcomes, as well as specific expenditures, came to a vote at ***CMS Energy*** and ***DTE Energy***. CMS and DTE are two Michigan-based electric utilities and the top donors to the "Clean Affordable Renewable Energy for Michigan Coalition" created to oppose a 2012 ballot measure that would have required utilities to obtain at least 25 percent of their electricity from renewable energy sources by 2025.[66] Given the misalignment between this spending on political activities and the long-term shareholder interest in rapid decarbonization at these firms, further disclosure in this area would be useful to shareholders. These resolutions received support of 34.1%[67] and 31.7%[68] respectively. BlackRock and Vanguard hold a combined position of 21.5% at CMS[69] and 19.6% at DTE;[70] and had they chosen to support these resolutions, each would have received majority support.

Similarly, at ***NRG Energy***, shareholders proposed greater disclosure of political expenditures. As noted by the New York City Comptroller in proposing this resolution, NRG only provides disclosures of political expenditures where required, leaving out a range of significant political activity, including trade association involvement.[71] While NRG currently has set a long-term emissions reduction target of reducing its emissions by 90% by 2050, former CEO David Crane was forced out at the urging of hedge fund Elliott Management, and the subsequent restructuring plan involved significant sell-offs of renewable energy assets.[72] These actions call into question NRG's commitment to its emissions targets, and given the level of uncertainty about NRG's strategy in this regard, greater transparency about the company's political activities, particularly with respect to climate change, is warranted. This resolution received significant support, with 45.2% of votes cast in favor[73] – but again, neither BlackRock nor Vanguard voted for the resolution. With holdings of 7.1% and 12.5% respectively,[74] the support of either asset manager would have given the resolution majority support.

Twenty-one institutional investors filed a proposal at ***ExxonMobil*** asking the company for greater disclosure regarding payments for lobbying. The proponents cited their concern that the company's undisclosed lobbying is misaligned with its publicly stated positions on climate, among other risks to shareholder value[75] They noted that while ExxonMobil claims that the company supports the Paris Climate Agreement, analysis by InfluenceMap found that ExxonMobil was among the three global corporations spending the most to oppose the goals of the Paris Agreement. ExxonMobil was also listed in a report by the Center for Public Integrity on the hypocrisy of companies that claimed to support the Paris Agreement but funded efforts to block its policies.[76] As recently as the 2018 U.S. midterm elections, ExxonMobil led an effort that spent $2 million in ads on Facebook and Instagram opposing pro-climate ballot initiatives.[77]

The proponents argued that ExxonMobil is out of step with its peers in ensuring that its public positions match its private lobbying and trade association activity, with Royal Dutch Shell committed to ensuring that its industry association memberships do not undermine its support for the Paris Agreement goals.[78] ***This resolution received support of 36.9% from shareholders.***[79] ***If BlackRock and Vanguard had voted in favor, with holdings of 6.7% and 8.0% respectively,***[80] ***this resolution would have achieved majority support.***

Key Governance Votes

Sixteen proposals relating to improving governance, independent oversight and shareholder rights were put to a vote at major companies in the energy, utility, and automotive sectors. Of these, eight would have received majority support if BlackRock and Vanguard had voted for them. Vanguard has indicated that in general it supports independent board leadership and may vote to separate the the Chair and CEO roles in cases where independent oversight or shareholder responsiveness is lacking.[81] BlackRock has stated that in the absence of

significant governance concerns, it defers to boards to determine whether to separate the roles.[82]

BlackRock and Vanguard's consistent opposition to the proposals outlined below implies that they believe there are no significant governance issues at the companies or that independent oversight and shareholder responsiveness is sufficient – despite these proposals offering strong evidence to the contrary.

At the same time they were calling for shareholders to vote against the ***ExxonMobil*** board, some shareholders also spearheaded a resolution to require an independent chair of the board. In support of that resolution, the proponents asserted that ExxonMobil's inadequate response to climate change was in part driven by lack of independent board oversight and that an independent chair would improve communication with investors and provide crucial checks and balances on the company's decision-making with regard to climate change.83 Shareholders also proposed reducing the ownership threshold for calling a special meeting at ExxonMobil down to 10%.

The independent chair resolution received substantial support from shareholders, with 40.4% voting in favor. The special meeting resolution obtained similar support, with 42.0% of votes cast in favor.[84] Together, BlackRock and Vanguard would have had the ability to ensure these proposals received majority support – Black Rock holding 6.7% of the company, and Vanguard 8.0%[85] – but they voted against both of them.

At ***Dominion Energy***, shareholders proposed an independent chair policy to provide additional oversight. As a major electric utility, Dominion's long-term success depends on its ability to undertake the rapid transformation necessary to meet the challenges and risks posed by climate change. Dominion's current decarbonization targets fall short of what is required, largely because it continues to invest heavily in gas generation assets, many of which risk early closure and costly writedowns. In pursuing these investments in gas, the company has also generated significant public backlash, in particular to decisions related to its Atlantic Coast Pipeline (ACP).[86]

The delays and legal challenges faced by the project mean that it now faces substantially different economic conditions than when it was approved, calling into question whether it will ever be completed, and if so, whether regulators will agree to allow the utility to recoup the costs of the investment from consumers.[87] At the same time, Dominion's lead independent director has longstanding ties to the pipeline project, raising questions as to whether he can act as an effective representative of shareholders as lead independent director.[88] The resolution received substantial shareholder support, with 39.4% voting in favor.[89] Combined, BlackRock and Vanguard hold 12.4% of Dominion's stock,[90] and had they supported the resolution, it would have achieved majority support.

At ***DTE Energy***, shareholders also filed a resolution calling for the creation of an independent chair, citing climate change-related and other environmental challenges, including concerns regarding its new gas pipelines.[91] As with Dominion, DTE's long-term success depends on its ability to undertake the rapid transformation of its business to meet the challenges and risks posed by climate change, including full decarbonization of its electricity generation by 2050. Its current decarbonization commitments fall short of this goal.[92] In response to new laws and regulatory and consumer pressure in Michigan, DTE submitted long-range capital plans that would phase out coal, but retain plans to build new gas infrastructure.[93] DTE's continued long-term commitment to gas infrastructure, in the face of pressure from lawmakers, regulators, and consumers, significantly increases the risks that such assets will be stranded through early closure.

Given these risks and challenges, the proponent argued that greater independent oversight in the form of an independent chair was warranted. This resolution received 38.5% support overall.[94] Both BlackRock and Vanguard voted against the proposal, and their stakes of 8.4% and 11.2% respectively[95] could have jointly swung the vote to majority support.

A proposal at ***Pinnacle West Capital*** called for a reduction in the ownership level required to call a special meeting to 10%. Pinnacle West and its main subsidiary,

At Marathon Petroleum, the proponents cited a number of troubling climate-related issues at the company, including numerous lawsuits related to the company's contribution to climate change, proposed class action suits resulting from pollution and health impacts, and substantial penalties related to Clean Air Act violations in recent years.

the utility Arizona Public Service, have been mired in scandal in recent years for improper connections to the state regulator,[96] federal investigations related to financing of elections,[97] and allegations of millions spent in 'dark money' for elections to the state regulator.[98] In addition, Pinnacle West and APS spent $11 million in a failed attempt to keep a referendum to increase Arizona's renewable energy mandate from appearing on the ballot.[99] The company then spent an additional $30 million to defeat the initiative at the polls.[100] Given this severe misallocation of company resources in opposition to pro-climate initiatives, shareholders demanded greater rights to intervene at the company. This resolution received high levels of support, with 46.1% of votes cast in favor[101] – but again, neither BlackRock nor Vanguard voted for the resolution. With holdings of 12.3% and 11.2% respectively,[102] the support of either asset manager would have put support at greater than 50%.

At ***Sempra Energy***, an electric and gas utility serving Southern California, investors proposed the creation of an independent board chair. The proponent of this resolution cited a number of challenges facing the company that require additional independent oversight, including costs reaching $1 billion related to the explosion at a gas well owned by the company, and many hundreds of millions of dollars in writedowns and impairments in gas and other assets.[103] Holders of 42.6% of shares supported this proposal.[104] BlackRock and Vanguard, which voted against the resolution, held 8.8% and 7.7% respectively.[105] As such, either asset manager could have delivered majority support for this proposal.

At the oil and gas company ***Marathon Petroleum***, a proposal sought to give shareholders the right to act by written consent. The proponents cited a number of troubling climate-related issues at the company, including numerous lawsuits related to the company's contribution to climate change, proposed class action suits resulting from pollution and health impacts, and substantial penalties related to Clean Air Act violations in recent years.[106] While Marathon has acknowledged that it explicitly recognizes climate change as a relevant risk and opportunity for the company, it has yet to set any targets in relation to its carbon emissions, and according to the Transition Pathway Initiative, has not integrated climate change planning into its operational decision making.[107] This resolution was very close to achieving majority support without BlackRock and Vanguard, with 47.5% of votes cast in favor.[108] Given that BlackRock and Vanguard each held 8.1% of the company,[109] either one would have been sufficient to reach majority support for this proposal.

Finally, at the electric and gas utility ***NiSource***, shareholders proposed reducing the ownership level required to call a special meeting to 10%. NiSource is facing significant costs and risks related to safety failures at its gas infrastructure assets, having recently settled a series of class action lawsuits for $143 million. The settlement is only a small part of the $1 billion the company must dedicate to customers and communities affected by a series of gas explosions in Massachusetts last year.[110] Moreover, NiSource has come under criticism for its ties to ALEC, which as noted above has proposed model legislation that works against climate regulation and the energy transition.[111] The proponents also cited concerns regarding the long tenure of several current board members in support of the case for greater shareholder rights at the company.[112] Shareholders voted 37.0% in favor of this proposal.[113] BlackRock and Vanguard combined hold 19.9% of the company,[114] and could together have delivered majority support for the proposal.

VI. What Is Driving The Largest Asset Managers To Vote with Management?

A number of forces influence the largest asset managers to vote with company management and not support accountability on climate change. These factors include a lack of accountability to individual investors on whose behalf asset managers invest and conflicts of interest stemming from the fact that asset managers seek business, such as advising 401(k) plans, from the very companies in which they invest. At the same time, major asset managers such as BlackRock and Vanguard claim to undertake extensive engagement with companies, instead of taking strong stances via proxy voting. However, this engagement is opaque and lacks demonstrable results in changing company behavior.

Structural Conflicts of Interest

BlackRock, Vanguard, and other fund managers do not make their investment stewardship decisions in a vacuum; indeed, asset managers may be voting in line with their own short-term institutional interest instead of the long-term interests of the beneficiaries of the funds they manage. As corporate governance experts have long noted, BlackRock, Vanguard and other fund managers face powerful and structural conflicts of interest that arise from both providing services to corporate issuers and casting proxy votes at those same corporations.[115]

Academic research has shown that the ***"volume of business that investment managers receive from corporate pension funds is associated with their voting more frequently in support of corporate managers on shareholder proposals, as well as on executive compensation matters."***[116] Beyond these specific conflicts, experts with the Harvard Law School's Program on Corporate Governance believe that the general practice of earning revenue from companies while voting at those very same companies likely leads index fund managers to "set [their] general principles, policies, and practices so as to enhance the likelihood of supporting management in votes across all portfolio companies."[117]

BlackRock faces its own climate-specific conflicts, which may be hindering the company's ability or willingness to assume the mantle of climate leadership that is so urgently needed. As reported by the Institute for Energy Economics and Financial Analysis, six out of BlackRock's 18 board members have backgrounds in the fossil fuel sector, including BlackRock's lead independent director. BlackRock has not even separated the positions of Chair and Chief Executive Officer, ignoring a widely recognized best practice of corporate governance and further concentrating power in the hands of CEO Larry Fink.[118]

Greenwashing "Engagement"

BlackRock claims it fulfills its investment stewardship responsibilities through the shareholder engagement it conducts bilaterally with its portfolio companies. ***While BlackRock has long promoted this bilateral activity as a superior alternative to supporting shareholder res-***

BlackRock's disclosures contain no information about what bright lines it draws with companies on climate change or other issues, and does not indicate how company responses to engagements would lead BlackRock to support or reject company nominees for a corporation's board. Unfortunately, all that is clear is that BlackRock systematically fails to back up its "engagement" efforts with action.

olutions, there is no evidence that their engagements have actually led to widespread positive behavioral change among companies on climate change. As noted above, many major energy companies have yet to make the commitments and plans necessary to meet the challenges posed by climate change. Moreover, these private engagements are notorious for their lack of transparency, leaving BlackRock's clients and the broader investor community with no means of assessing their efficacy. BlackRock's disclosures contain no information about what bright lines it draws with companies on climate change or other issues, and does not indicate how company responses to engagements would lead BlackRock to support or reject company nominees for a corporation's board. Unfortunately, all that is clear is that BlackRock systematically fails to back up its "engagement" efforts with action.

In their 2019 reports, both BlackRock and Vanguard highlight the importance of disclosure in relation to climate risks.[119] However, ***neither BlackRock nor Vanguard emphasize ensuring that those risks are not only disclosed, but managed and mitigated through strategy and planning that aligns to global decarbonization targets and protects long-term shareholder value.*** In its 2019 engagement report, Vanguard goes so far as to disavow direct intervention at companies in relation to the material risks caused by climate change. Vanguard asserts that instead of engaging directly on specific climate strategy and outcomes, it seeks to promote "robust board oversight and meaningful company disclosure."[120] This approach is belied by Vanguard's voting record in 2019, when it voted against governance reforms at the full range of oil and gas and utility companies surveyed in this report.

The 2019 engagement reports from both asset managers provide little in the way of additional guidance to asset owners and other shareholders regarding their voting decisions on particular issues, beyond anonymized anecdotes at certain companies. For example, Vanguard describes its engagement with a company that appears to be now bankrupt, PG&E, saying, "after incidents involving a U.S. utilities company resulted in deaths and considerable property and environmental damage, we held numerous engagements with the company to understand its board's role in overseeing the remediation of the crisis."[121] However, this leaves open the question of what role Vanguard's engagement or more forward-looking accountability efforts could play in advancing responsible climate action to mitigate the risk of further crises like this.

For its part, BlackRock seeks to minimize the perception of its influence at major companies in the U.S. by pointing to its average ownership in the global equities market,[122] while failing to acknowledge the significant stakes the asset manager holds in the largest U.S. companies and the fact that it is often one of the largest shareholders at companies where ownership is highly dispersed. Similarly, BlackRock claims it does not have the power to 'swing' votes at companies where it has substantial holdings, pointing to the fact that the vast majority of votes are uncontroversial and not subject to close votes. This may be true, given the very high votes cast in favor of directors in uncontested elections, which make up the lion's share of ballot items, but it does not negate the fact that the asset manager is choosing to vote against shareholder efforts on key issues and at key companies that would help promote long-term shareholder value in the face of climate change.

VII. Recommendations

Asset Owners

Asset owners can do more to hold asset managers accountable for managing their proxy voting strategies to ensure companies are adequately prepared to face the unprecedented risks posed by climate change. Asset owners have an obligation to their beneficiaries to carry out oversight of corporate boards through monitoring, engagement, and proxy voting.[123] This includes ensuring that companies and boards are adequately planning for and managing the risks of climate change, reflecting the reality that risks to investors from climate change are material, and both portfolio-wide and company-specific. Asset owners therefore can act to ensure that their asset managers are wielding their power and influence to ensure that the companies they hold are planning adequately for a net-zero carbon future and mitigating the risks to investors of catastrophic climate change.

Specifically, asset owners should:

1 Reassess relationships with existing asset managers: Asset owners can meet with current asset managers to discuss the findings of this report and request further information about their asset managers' engagement and proxy voting activities in relation to climate change. This information should include:

- Full explanation for their failure to vote for many of these resolutions, despite demonstrated significant support from other shareholders;
- The percentage of fees paid that are devoted to engagement resources and how this has evolved over time;
- Disclosures of fee relationships or prospective business the asset manager has or seeks from climate-critical companies; and
- The asset managers' plan for engagement and proxy voting in 2020.

2 Ensure that their own proxy voting policies are designed to fully address climate risk. Leading asset owners such as the New York State Common Retirement Fund have adopted new proxy voting guidelines to ensure that they are able to hold companies and their directors accountable on climate-related matters. Asset managers such as Legal & General, BNP Paribas, and Sarasin & Partners have done the same. Asset owners should review their own policies and update them ahead of the 2020 shareholder season, to allow them to take into account the climate competence of individual directors and boards as a whole, as well as the climate alignment of executive compensation plans and sufficiency of corporate disclosures.

3 Seek alternative asset managers: When their asset manager contracts are up for renewal, asset owners should seek managers that meet risk/return requirements while improving the climate voting of their investments. Asset owners should consider incorporating criteria regarding proxy voting on climate issues and at climate-critical companies into their search criteria, requests for proposal, and assessments.

Policymakers

Experts from the Harvard Law School's Program on Corporate Governance have conducted deep analysis of the dynamics influencing proxy voting by the largest asset managers, developing a corresponding policy agenda to enact critical reforms.[124] Large asset managers and their index funds make up an increasingly large share of the public equities market, with passive investing strategies likely to overtake active management in 2019.[125]

BlackRock itself has argued that while active managers have the option of using either exit or engagement to influence corporate governance and decision making at the companies they hold, passive managers rely on engagement to influence corporate governance and decision-making for companies they hold in order to track preset indices, such as the S&P 500.[126] Thus, ***corporate stewardship decisions expressed through voting behavior and direct engagement with directors and management will have profound impacts on corporate performance, the stock market, the retirement savings of millions, and the economy as a whole.***

Given the growing power and influence of asset managers, policymakers should consider holding hearings or sponsoring legislation regarding the following:

1 ***Preventing conflicts of interest:*** Top asset managers earn profits from providing services to companies, plus vote on critical corporate governance topics as shareholders of those same companies. These conflicts of interest are endemic in the asset management industry. Policymakers can address this by prohibiting investment managers from voting at company meetings where they receive income from administering 401(k) plans and other such vehicles, and instead outsource the management of proxy voting on these firms to outside advisors. At minimum, they could require clear and proactive disclosure of these relationships.

2 ***Enhancing disclosure on private engagements:*** Asset managers' claims to "engage" with their portfolio companies on climate and other issues instead of holding corporate boards accountable through voting are without value, precisely because they are not required to disclose meaningful information about these engagements to other investors and the public. As noted by the Harvard Law School researchers, "[if] either BlackRock or Vanguard receive information that it deems material for its voting decisions [from these private engagements,] such information is also likely to be material to the voting decisions of other investors."[127] Policymakers can and should require disclosures that bring the subjects and outcomes of these engagements into the light and help all investors and the general public understand exactly how large asset managers such as BlackRock and Vanguard are using their power.

3 ***Evaluating the costs and externalities of market concentration:*** BlackRock and Vanguard wield substantial concentrated voting power at nearly every large publicly traded company in the U.S. because they are the top providers of index fund products. These products have continued to surge in popularity, leading to the possibility that these fund managers could control even larger voting blocks than they do now in the future. Harvard experts propose that "policymakers should consider measures to prevent or deter investment fund managers from managing investment funds that cross certain thresholds in the aggregate, whether through fiat, tax penalties, or otherwise."[128] Breaking up the concentrated power of these index fund giants could catalyze meaningful shifts in their voting behavior, leading them to vote in ways that are not excessively deferential to the fossil fuel sector and corporate issuers more generally.

Appendices

Appendix A: List of Asset Managers from Investments and Pensions Europe

Rank	Company	Assets under management (USD millions) Dec 31, 2018	Percent votes in favor of management-proposed directors	Percent votes in favor of say on pay votes	Percent votes in favor of climate-critical resolutions
1	BlackRock	$6,015,521	99%	100%	12%
2	Vanguard Asset Management	$4,876,840	99%	100%	10%
3	State Street Global Advisors	$2,516,565	99%	96%	27%
4	Fidelity Investments (FMR)	$2,401,699	97%	90%	24%
5	Bank of New York Mellon Investment Management	$1,716,269	97%	82%	46%
6	J.P. Morgan Asset Management	$1,702,282	98%	94%	10%
7	Capital Group	$1,680,883	97%	94%	28%
8	PIMCO	$1,662,974	78%	88%	97%
9	Amundi	$1,632,479	98%	100%	47%
10	PGIM (Prudential)	$1,380,159	94%	84%	15%
11	Goldman Sachs Asset Management Int.	$1,335,055	100%	90%	33%
12	Legal & General Investment Management	$1,296,007	90%	73%	95%
13	T. Rowe Price	$964,323	98%	94%	24%
14	Nuveen	$931,341	100%	96%	49%
15	Natixis Investment Managers	$925,972	96%	93%	70%
16	Invesco	$890,145	98%	92%	66%
17	Northern Trust Asset Management	$887,131	89%	92%	32%
18	AXA Investment Managers	$836,038	99%	100%	40%
19	UBS Asset Management	$781,006	95%	78%	59%
20	DWS Group	$758,548	97%	86%	95%
21	Affiliated Managers Group	$736,175	99%	100%	42%
22	Legg Mason	$731,506	100%	94%	73%
23	Franklin Templeton	$649,714	98%	100%	33%
24	Standard Life Aberdeen	$644,590	96%	36%	56%
25	BNP Paribas Asset Management	$615,623	54%	10%	95%

Note: Assets under management were translated from euros at the exchange rate of 1.145548, as of December 31, 2018[129]

Appendix B: S&P 500 Utilities and Oil and Gas Companies

Name	Ticker	Industry
Chevron Corp.	CVX	Energy
Hess Corporation	HES	Energy
Exxon Mobil Corp.	XOM	Energy
Apache Corporation	APA	Energy
Cabot Oil & Gas	COG	Energy
ConocoPhillips	COP	Energy
Concho Resources	CXO	Energy
Devon Energy	DVN	Energy
EOG Resources	EOG	Energy
Diamondback Energy	FANG	Energy
Marathon Oil Corp.	MRO	Energy
Noble Energy Inc	NBL	Energy
Occidental Petroleum	OXY	Energy
Pioneer Natural Resources	PXD	Energy
Cimarex Energy	XEC	Energy
HollyFrontier Corp	HFC	Energy
Marathon Petroleum	MPC	Energy
Phillips 66	PSX	Energy
Valero Energy	VLO	Energy
Kinder Morgan	KMI	Energy
ONEOK, Inc.	OKE	Energy
Williams Cos.	WMB	Energy
American Electric Power	AEP	Utilities
Dominion Energy	D	Utilities
Duke Energy	DUK	Utilities
Consolidated Edison	ED	Utilities
Edison International	EIX	Utilities
Entergy Corp.	ETR	Utilities
Evergy	EVRG	Utilities
FirstEnergy Corp	FE	Utilities
Alliant Energy Corp	LNT	Utilities
Public Serv. Enterprise Group Inc.	PEG	Utilities

(Appendix B chart continued on page 35)

PPL Corp.	PPL	Utilities
Southern Co.	SO	Utilities
WEC Energy Group Inc	WEC	Utilities
Atmos Energy Corp	ATO	Utilities
AES Corp	AES	Utilities
NRG Energy	NRG	Utilities
Ameren Corp	AEE	Utilities
CMS Energy	CMS	Utilities
CenterPoint Energy	CNP	Utilities
DTE Energy Co.	DTE	Utilities
Eversource Energy	ES	Utilities
Exelon Corp.	EXC	Utilities
NextEra Energy	NEE	Utilities
NiSource Inc.	NI	Utilities
Pinnacle West Capital	PNW	Utilities
Sempra Energy	SRE	Utilities
Xcel Energy Inc	XEL	Utilities

(Appendix B chart continued from page 34)

Appendix C: List of Climate-Critical Resolutions, 2019

Company	Type	Resolution	Support
CH Robinson	Climate risks	Adoption of greenhouse gas emissions reduction targets	26.4%
Flowserve	Climate risks	Adoption of greenhouse gas emissions reduction targets	25.6%
Fluor	Climate risks	Adoption of greenhouse gas emissions reduction targets	45.9%
Illinois ToolWorks	Climate risks	Adoption of greenhouse gas emissions reduction targets	21.1%
Ross stores	Climate risks	Adoption of greenhouse gas emissions reduction targets	40.6%
Transdigm	Climate risks	Adoption of greenhouse gas emissions reduction targets	34.3%
Amazon	Climate risks	Report on climate change planning	29.8%
Yum! Brands, Inc.	Climate risks	Report on efforts to reduce deforestation in supply chain	31.3%
Atmos	Climate risks	Report on methane leaks and management actions	34.4%
Duke	Climate risks	Report on mitigating health and climate impact of coal	40.9%
Chevron	Climate risks	Report on reducing carbon footprint	30.7%
ExxonMobil	Climate risks	Report on risks of Gulf Coast petrochemical investments	23.3%
Edison International	Governance	Enhance shareholder proxy access	29.2%
Ford	Governance	Equal voting rights	34.1%
Chevron	Governance	Independent Board Chair	25.7%
Dominion Energy	Governance	Independent Board Chair	39.4%
DTE Energy	Governance	Independent Board Chair	38.5%
ExxonMobil	Governance	Independent Board Chair	40.4%
General Motors	Governance	Independent Board Chair	37.0%
Marathon Petroleum	Governance	Independent Board Chair	25.6%
Sempra Energy	Governance	Independent Board Chair	42.6%
Chevron	Governance	Reduce special meeting threshold to 10%	34.9%
ExxonMobil	Governance	Reduce special meeting threshold to 10%	42.0%
NiSource	Governance	Reduce special meeting threshold to 10%	37.0%
Occidental	Governance	Reduce special meeting threshold to 10%	59.8%
Pinnacle West Capital	Governance	Reduce special meeting threshold to 10%	46.1%
Marathon Petroleum	Governance	Right to act by written consent	47.5%
First Energy	Governance	Simple majority for all share votes	59.5%
Alliant Energy	Money in politics	Disclose expenditure on political activities	53.3%
NextEra Energy	Money in politics	Disclose expenditure on political activities	48.2%
DTE Energy	Money in politics	Disclose expenditure on political activities	31.7%
Duke	Money in politics	Disclose expenditure on political activities	35.3%
NRG Energy	Money in politics	Disclose expenditure on political activities	45.2%
BlackRock	Money in politics	Report on lobbying activities	21.7%
ExxonMobil	Money in politics	Report on lobbying activities	36.9%
Ford	Money in politics	Report on lobbying activities	16.4%
General Motors	Money in politics	Report on lobbying activities	29.3%
Duke	Money in politics	Report on lobbying activities	36.2%
CMS Energy	Money in politics	Disclose expenditure on political activities	34.1%
ExxonMobil	Money in politics	Disclose expenditure on political activities	25.8%
Ford	Money in politics	Disclose expenditure on political activities	18.7%

Appendix D: Note on Estimating Voting Power of Asset Managers

Each year, mutual funds and certain other registered management investment companies must disclose how they voted proxies for securities they hold on the SEC Form N-PX.[130] However, neither mutual funds nor the asset managers that run them are required to disclose exactly how many shares were voted at any given company, or on any given resolution. Nor do the funds required to file N-PX forms each year make up the entire assets under management of any given asset manager. The remaining assets for which N-PX forms are not filed may include:

- Investments managed on behalf of institutional investors for which the asset manager votes in the same manner as its mutual funds, according to its own proxy voting guidelines;
- Investments managed on behalf of institutional investors who retain proxy voting power over their own shares and may vote differently to the asset manager; and
- Shares which are considered broker non-votes and do not vote on non-routine matters.

These additional funds, for which voting data is not available, are likely a minority of assets under management. For example, BlackRock had total long-term assets under management of $5,525 billion as at December 31, 2018. Of this total, retail investors, ETFs, and defined contribution plans for institutional clients represent 58% of the total.[131] These investments are all highly likely to be voted according to BlackRock's proxy voting guidelines. The proportion of institutional clients that retain proxy voting rights over their investments managed by BlackRock is likely to be minimal. However, even if it represents as much as 50% of remaining institutional clients' assets, combined with the retail, ETF, and defined contribution assets, this implies that 79% of BlackRock's assets under management is voted according to BlackRock's proxy voting guidelines.

Given the uncertainty, this report attempts to make an estimation of the voting power of the largest asset managers on key resolutions. In order to do so, this report assumes that the percent of common stock outstanding (%CSO) for which an asset manager has

Client and investment type	AUM USD billions[131]	Estimated percent voted by BlackRock	Estimated value voted by BlackRock
Retail	610.9	100%	610.9
iShares ETF	1,731.4	100%	1,731.4
Institutional: defined contribution	835.5	100%	835.5
Institutional: remaining active and index	2,347.7	50%	1,173.9
Total long-term assets	5,525.5	79%	4,351.6

beneficial ownership is equivalent to the percent of shares voted by that asset manager at any given company. That is, if an asset manager owns 10% of CSO, it is assumed that that asset manager also controls 10% of the shares voted at a company meeting.

To determine whether a resolution which did not obtain majority support but could have with the support of an asset manager, the percent of common stock outstanding (%CSO) held by the asset manager, as disclosed in the company's definitive proxy statement, was added to the percent support obtained by the resolution. Additionally, one proposal that would have received an estimated 50.01% vote by this method was excluded.

This method is likely a conservative one, that underestimates the voting impact of major asset managers. According to Bebchuk and Hirst, large asset managers tend to vote their shares at a higher rate than other shareholders, which amplifies their voting power beyond what is represented by %CSO.[132] That amplification is greatest at companies with lower shareholder turnout, where the number of shares voted at the meeting can be significantly lower than the number of shares outstanding.

For example, at Duke Energy, two proposals were submitted by shareholders, one that proposed additional disclosures of political spending and another that proposed disclosure of the company's lobbying activities. These resolutions received 35.3% and 36.2% support respectively.[133] According to the Duke Energy Proxy Statement, BlackRock held 6.80% of CSO, or 48,270,073 shares, while Vanguard held 7.92% of CSO, or 56,503,147 shares.[134] The table below lays out the voting results on these two resolutions as reported, as estimated under the %CSO method, as estimated if all BlackRock and Vanguard shares were voted in favor, and as estimated if only 70% of BlackRock and Vanguard shares were voted in favor.

As can be seen in the table below, the %CSO method produces the most conservative estimate of the methods presented.

ESTIMATED VOTING IMPACT OF BLACKROCK AND VANGUARD ON RESOLUTIONS AT DUKE ENERGY UNDER DIFFERENT METHODS

Political Expenditures	FOR	AGAINST	ABSTAIN	TOTAL
As Reported	162,448,846	291,577,790	6,265,960	35.3%
BlackRock and Vanguard voting FOR	267,222,066	186,804,570	6,265,960	58.1%
70% of BlackRock and Vanguard voting FOR	235,790,100	218,236,536	6,265,960	51.2%
%CSO method	50.01%	48.63%	1.35%	50.0%
Lobbying	**FOR**	**AGAINST**	**ABSTAIN**	**TOTAL**
As Reported	166,680,628	288,370,875	5,241,093	36.2%
BlackRock and Vanguard voting FOR	271,453,848	183,597,655	5,241,093	59.0%
70% of BlackRock and Vanguard voting FOR	240,021,882	215,029,621	5,241,093	52.1%
%CSO method	50.93%	57.93%	1.14%	50.9%

Similarly, at ExxonMobil, shareholders proposed three resolutions that would have obtained majority support with BlackRock and Vanguard's support.[135] According to ExxonMobil's Proxy Statement, BlackRock held 6.7% of CSO (285,575,768 shares), and Vanguard held 8.0% of CSO (340,023,050 shares).[136] As at Duke Energy, the %CSO method produces the most conservative estimate.

ESTIMATED VOTING IMPACT OF BLACKROCK AND VANGUARD ON RESOLUTIONS AT EXXONMOBIL UNDER DIFFERENT METHODS

Lobbying	FOR	AGAINST	ABSTAIN	TOTAL
As Reported	1,027,361,781	1,724,299,805	31,066,065	36.9%
BlackRock and Vanguard voting FOR	1,652,960,599	1,098,700,987	31,066,065	59.4%
70% of BlackRock and Vanguard voting FOR	1,465,280,954	1,286,380,632	31,066,065	52.7%
%CSO method	51.62%	47.26%	1.12%	51.6%
Independent chair	**FOR**	**AGAINST**	**ABSTAIN**	**TOTAL**
As Reported	1,124,470,926	1,635,150,846	23,102,008	40.4%
BlackRock and Vanguard voting FOR	1,750,069,744	1,009,552,028	23,102,008	62.9%
70% of BlackRock and Vanguard voting FOR	1,562,390,099	1,197,231,673	23,102,008	56.1%
%CSO method	55.11%	44.06%	0.83%	55.1%
Reduce special meeting threshold to 10%	**FOR**	**AGAINST**	**ABSTAIN**	**TOTAL**
As Reported	1,168,396,459	1,587,747,530	26,603,685	42.0%
BlackRock and Vanguard voting FOR	1,793,995,277	962,148,712	26,603,685	64.5%
70% of BlackRock and Vanguard voting FOR	1,606,315,632	1,149,828,357	26,603,685	57.7%
%CSO method	56.69%	42.36%	0.96%	56.7%

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Majority Action is a non-profit, non-partisan organization that empowers shareholders to hold corporations accountable to high standards of corporate governance, social responsibility, and long-term value creation. Majority Action merged in 2018 with the 50/50 Climate Project. Together we launched the Climate Majority Project to continue the 50/50 Climate Project's pioneering work of educating and engaging investors on the critical role of corporate governance in addressing climate change.

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