IIGCC

Net Zero Voting Guidance

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Net Zero Voting Guidance Overview

Asset owners and asset managers that have made individual commitments to net zero through the Net Zero Asset Managers (NZAM) and Paris Aligned Asset Owner (PAAO) initiatives are expected to develop stewardship strategies with a clear voting policy that is consistent with the objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner. Likewise, under the Net Zero Investment Framework (NZIF), investors are expected to publish a voting policy that aligns with the net zero objectives of the framework. This guidance is designed to support asset owners and asset managers in their own development of net zero voting policies and practices, providing implementation guidance for those using stewardship to fulfil targets for listed equities under the NZIF.

IIGCC recognises that all organisations have their own strategies, agendas, starting points and legal and regulatory considerations from which, and in accordance with which, they make their own unilateral decisions regarding the ways and means with which they will set and reach net zero targets. As independent fiduciaries responsible for their own investment and voting decisions, asset owners and asset managers must always act completely independently to set their own strategies, policies and practices based on their own best interests and in compliance with any applicable legal and regulatory requirements. The use of particular tools and guidance is at the discretion of individual organisations. Any decision to take action with respect to the development of stewardship strategies and net zero voting policies and practices, as well as the acquiring, holding, disposing and/or voting of securities, is at that organisation's sole discretion, made in its individual capacity and subject always to the legal and regulatory framework to which it is subject.

The information contained in this guidance is general in nature. It does not comprise, constitute or provide personal, specific or individual recommendations or advice, of any kind. In particular, it does not comprise, constitute or provide, nor should it be relied upon as, legal, investment or financial advice, an invitation, a solicitation, an inducement or a recommendation, to buy or sell any security or other financial, credit or lending product, to engage in any investment strategy or activity, nor an offer of any financial service. The guidance is made available with the understanding and expectation that each user will, with due care and diligence, conduct its own investigations and evaluations, and seek its own professional advice.

Executive Summary

Three Principles for Net Zero Voting

1 Aligns with each investor's individual net zero objectives and targets to decarbonise real world emissions

2 Communicates net zero expectations to companies and clients

3 Supports stewardship, engagement and investment activities

Key Considerations

1 Aligns	2 Communicates	3 Supports
State how the voting policy aligns with the investor's net zero objectives and targets, including how voting links to relevant initiatives (e.g. Climate Action 100+)	Publicly publish a net zero voting policy with accessible links	State how voting policy aligns and supports the investor's stewardship, engagement and investment approaches
Set a clear scope for priority companies subject to additional net zero voting expectations	Share net zero voting policy with companies and clients/managers	Where possible, state potential voting escalation staircase
	Communicate voting decisions to companies, clients and other stakeholders before and after AGMs.	Consider alternative approaches to utilise votes most effectively, including full use of routine votes

Introduction – Why Voting Matters

Voting in shareholder meetings is one of the fundamental rights and responsibilities of shareholders. The right to vote allows investors to protect the interests of their clients and beneficiaries and the value of their investments. Votes are both a routine annual event and a valuable escalation tool.

Votes can be used to signal satisfaction or dissatisfaction with company management, strategy decisions or performance. Votes can be used to punctuate, support or initiate company engagements. They are an invaluable instrument in the stewardship toolkit.

Meanwhile, the physical and transition risks of climate change, once distant, are ever clearer and closer, and in many cases already here. As those risks manifest, permanent and significant reductions to portfolio value are possible[1]. Investors are seeking to manage and reduce those risks by decarbonising investment portfolios in a way that is consistent with achieving global net zero greenhouse gas emissions (GHG) emissions by 2050, in line with global efforts to limit warming to 1.5°C. Achieving this requires more than simply decarbonising portfolios. It will require prioritising real economy emissions reductions – engaging with companies to protect long-term value through an accelerated and orderly transition.

In order for investors to maximise their contribution to the decarbonisation of the real economy, the Paris Aligned Investor Initiative (PAII) recommends that an investment strategy should prioritise engagement and stewardship, particularly for existing assets, as the primary mechanism to drive alignment. This is especially true in listed equities, where evidence suggests stewardship and voting provide the most additionality[2].

Within this context, voting represents a critical lever for investors. It provides shareholders with the means to hold companies to account for poor climate performance or demonstrate support for those on the path to transition, to publicly voice concern or approval, and to demonstrate the importance of the transition to creating long-term value.

This is reflected in the Net Zero Investment Framework's (NZIF) recommendation for a voting policy consistent with assets in the portfolio achieving net zero emissions by 2050 or sooner, and step four of the IIGCC Net Zero Stewardship Toolkit, which calls for investors to consider and set out their approach to linking company level objectives with voting actions for all companies.

This guidance builds on both the Framework and the Toolkit to explore how investors can develop a voting approach that augments engagements, signals shareholder interests, and supports companies to deliver the rapid acceleration in decarbonisation required to halve emissions by 2030 and put the world on course for net zero by 2050 or sooner.

1 The Case for Forceful Stewardship (Part 2), Howard Covington and Raj Tahmotheram
2 Universal Ownership and the Polycrisis, Dr Ellen Quigley

This guidance does not provide a one-size-fits-all approach to net zero voting. Voting approaches should be consistent with both the individual investor's net zero objectives and targets and its investment approach. It provides illustrative examples of investor practice, including those which can be adapted to support net zero voting. These will not be suitable for every investor but are instead presented as ideas for developing a voting approach commensurate with the investor's individual objectives and targets, their fiduciary duty to clients, and the urgency of the net zero transition.

Net Zero Voting Principles

The concept of net zero voting can be underpinned by three core principles:

1 Aligns

with the Investor's Net Zero Objectives and Targets to Decarbonise Real World Emissions

2 Communicates

Net Zero Expectations to Companies, Clients and Managers

3 Supports

Net Zero Stewardship, Engagement and Investment Activities

1. Aligns with the Investors' Net Zero Objectives and Targets

Considerations:

- State how the voting policy aligns with each investor's individual net zero objectives and targets, including how voting links to relevant net zero commitments and initiatives (e.g. Net Zero Asset Managers, Paris Aligned Asset Owners, Climate Action 100+)
- Establish priority companies with additional net zero voting expectations.

First and foremost, an NZIF-aligned net zero voting strategy is one that actively supports an investor's net zero objectives, strategies and targets, in particular those aimed at decarbonising portfolios consistent with achieving global net zero greenhouse gas emissions by 2050, consistent with a 1.5°C temperature pathway.

Relevant NZIF Targets

1. A 5-year target for increasing the percentage of Assets Under Management (AUM) in material sectors that are at least 'aligned to a net zero pathway'; increasing to 100% by 2040.
2. A target ensuring at least 70% of financed emissions in material sectors are assessed as net zero, aligned with a net zero pathway, or are subject to direct or collective engagement and stewardship actions; increasing to at least 90% by 2030".

Investors may integrate their climate expectations into existing voting policies or choose to publish a separate net zero voting policy. IIGCC recommends that where net zero voting considerations are integrated into the existing policy, this should be supported by a separate section on the investors' approach to net zero and an index of where net zero voting actions are proposed across the policy.

Developing a net zero voting policy that aligns with the investor's net zero objectives and targets involves first setting out the:

1. Overarching principles and expectations on climate change, including the nature of the investors' commitment to helping to keep global warming below 1.5°C.
2. Voting actions used to implement the principles and expectations.

Principles and Expectations

A net zero voting policy outlines the investor's climate principles[3], setting out the key features of the investor's approach to climate change, underlining how climate is considered part of the investor's fiduciary duty to clients, and the overarching expectations for companies. These should form the basis of the investor's voting decisions during the year and provide the foundation for voting rationales.

PRI Illustrative Net Zero Principle

"We recognise that a disorderly and costly transition to a net zero economy – or a failure to transition – presents a significant risk to our portfolio and to our clients' / beneficiaries' interests. Therefore, we support decarbonising the economy, limiting global warming to well below 2 degrees Celsius, and as close as possible to 1.5 degrees. We apply this stance by voting in favour of shareholder resolutions that will align investee companies with the Paris Agreement goals, to improve the companies' internal risk management and mitigate their broader impact on the rest of our portfolio. We will, for example, generally support resolutions that: limit capital expenditure that is incompatible with the Paris Agreement; require scope 1, 2 and 3 greenhouse gas carbon emissions targets in line with the Paris Agreement; and seek transparency and alignment with voting principles when it comes to political engagement and lobbying around climate change."

Source:

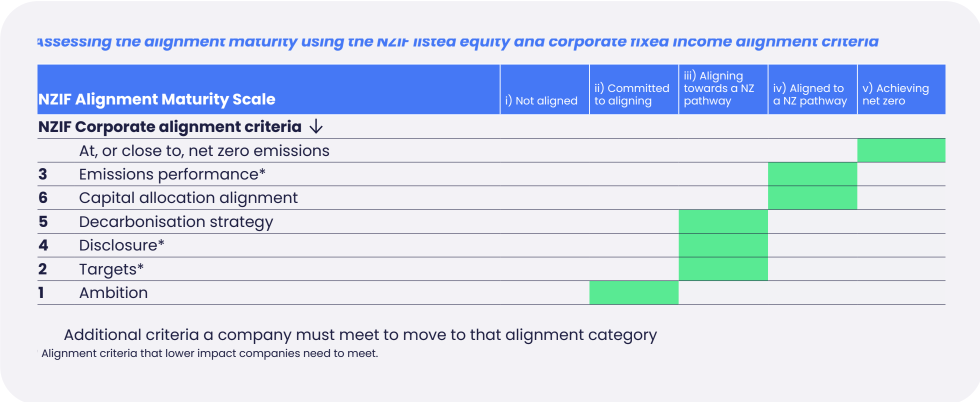
Voting Actions

High-level principles can be complemented by clearly setting out how principles are translated into voting actions, specifying what would typically trigger votes for or against each type of resolution. This second layer provides greater clarity to companies and clients. Clear voting triggers, underpinned by robust criteria and linked to time-bound engagement objectives, can support more focused engagement with companies, simplify the decision-making process for the investor, highlight to other investors where voting actions are likely to occur, and result in a consistent and efficient voting approach across the proxy season.

3 For more on principles based voting policies, please see PRI – Making Voting Count report.

Voting Expectations for Priority Companies

A net zero voting policy and approach can be designed to support and encourage companies to move along the alignment maturity scale in line with the investor's portfolio coverage target (see Illustration 1).



Investors can start with a baseline voting policy, as recommended by the Net Zero Stewardship Toolkit to ensure all companies deliver on basic features of a climate strategy and, at the very least, meet the 'committed to aligning criteria'.

Beyond this baseline, a net zero voting policy identifies heightened voting actions for priority companies[4] to encourage movement along the alignment maturity scale, increasing the percentage of AUM in material sectors that are at least 'aligned to a net zero pathway'. These may include:

- Companies in scope of engagement target.
- Companies in high impact sectors[5], sectors with SBTi targets or companies assessed by TPI.
- Companies under collaborative engagement, including Climate Action 100+ and the Net Zero Engagement Initiative.
- Companies that are least aligned with net zero pathways according to their Cumulative Benchmark Divergence metric score[6].

The voting approach may also differ across priority companies. For instance, Climate Action 100+ companies, 171 of the highest emitting companies and subject to engagement for the past 5 years, may be subject to voting actions that support the company moving to 'aligned to a net zero pathway', including a quantified decarbonisation plan, capital allocation alignment and elements of NZIF additional criteria. Companies in the Net Zero Engagement Initiative, who have not been subject to the same extended engagement to date, may instead be subject to the voting actions that support them moving to 'committed to aligning', concentrated on provision of a long-term net zero ambition and corresponding short and medium-term targets.

4 For more on establishing priority companies, please see the IIGCC Net Zero Stewardship Toolkit.

5 Material sectors is defined as those in NACE code categories A-H and J-L. The EU TEG provides a mapping of NACE to GICS and BICS.

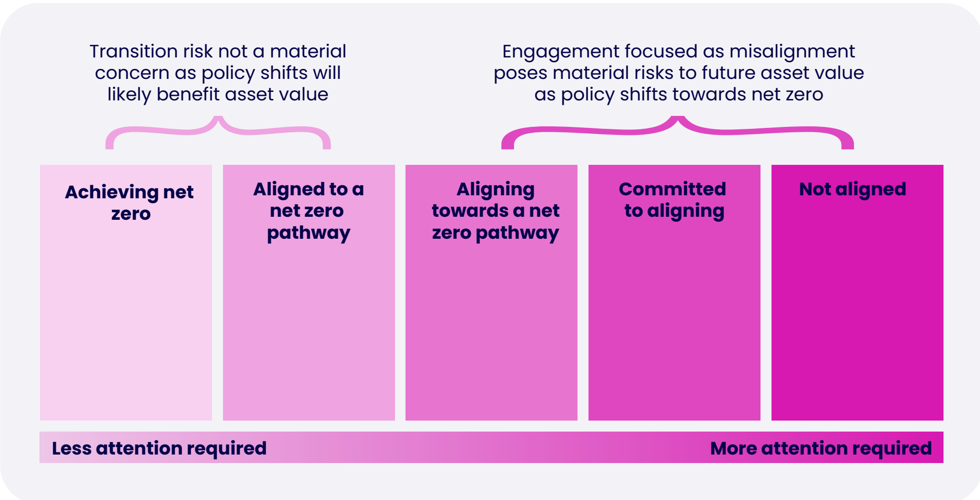
6 For more on CBD and its uses, please see the IIGCC CBD paper.

Investor Example: Evenlode Investment Management and Aligning Engagement and Voting with NZIF

Evenlode explicitly aligns its Net Zero Engagement & Voting Policy with the Net Zero Investment Framework.

Companies are separated into four tiers in line with the NZIF alignment maturity scale. Engagement objectives for each tier are provided in the policy, representing "changes required to move companies up one alignment category".

Generally, Evenlode expects "companies in material sectors to move up one alignment category within 12 months of engagement. If they do not achieve the engagement objectives set within this time frame, [Evenlode] will escalate via voting and collective action on a case-by-case basis".



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NZIF Additional Criteria

To further support an investor's NZIF commitments, a net zero voting policy would set out the investor's approach to the NZIF additional alignment criteria and identify which companies these would apply to (ideally CA100+ and Net Zero Engagement Initiative companies at a minimum).

- **Climate Policy Engagement** - The company has a Paris Agreement-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities.
- **Climate Governance** - Clear oversight of net zero transition planning and executive remuneration (see appendix 1) linked to delivering targets and transition.
- **Just Transition** – The company considers the impacts from transitioning to a lower-carbon business model on its workers and communities.
- **Climate Risk and Accounts** – The company provides disclosures on risks associated with the transition through TCFD reporting and incorporates such risks into its financial accounts.

Scope - Beyond Net Zero Portfolio Commitments

For active investors, a net zero voting policy is most effective when voted consistently across all holdings. The *Stewardship Toolkit* recommends that where an investor holds 1% of Company A in a NZ portfolio and 2% in other portfolios, they should align the voting of the aggregated 3% holding overall where feasible.

2. Communicates Net Zero Expectations

Key Considerations:

- Publicly publish a net zero voting policy with accessible links
- Share net zero voting policy with companies and clients/ managers.
- Communicate voting decisions to companies, clients and other stakeholders before and after AGMs.
- Explore additional methods for communicating net zero policy

Voting policies and practices fulfil an important signalling function. A strong and clear net zero voting policy helps communicate an investor's climate expectations to clients and companies alike and aids the consistent implementation of voting decisions. Voting practices and outcomes at one company will be observed by other companies, in particular sector peers. Investors may therefore also want to consider how voting decisions at one AGM will have an ancillary impact on other companies.

Publicly publishing a net zero voting policy helps investors meet their regulatory requirements. For instance, under the EU's Shareholder Rights Directive II and the UK's FCA PS19/13, investors are expected to publicly disclose their engagement policy, including information on voting. Likewise, signatories of the UK FRC's Stewardship Code are expected to disclose their voting policy, including any house policies and the extent to which funds set their own policies.

Communicating Net Zero Expectations – Voting Policies

To Companies

A publicly disclosed voting policy is a tool for communicating climate expectations to all companies. It can act as a valuable pre-engagement tool which can communicate net zero alignment expectations to companies and ensure these are integrated into the companies' thinking prior to its Annual General Meeting (AGM).

IIGCC recommends that investors publicly publish their net zero voting policy ahead of proxy season and share it with priority companies. Investors may also wish to highlight major changes, specific focus areas, or campaigns for the year ahead where they believe progress is essential.

Investor Example: Aviva Investors and Communicating Voting Policies and Expectations

Aviva Investors sends an annual letter to company chairpersons, including a link to the voting policy. In 2023, the letter set out Aviva's stewardship priorities, including the importance of transitioning to a low-carbon economy and reversing nature loss.

To Clients and Managers

Asset owners have their own net zero commitments to meet, with stewardship playing a pivotal role in both the Paris Aligned Asset Owner (PAAO) initiative and Net-Zero Asset Owner Alliance (NZAOA)[7]. Many enlist external managers to implement engagement and voting strategies.

IIGCC encourages asset owners to integrate net zero stewardship into their assessment of external managers throughout the selection, appointment and monitoring process. Part of this process is identifying how the managers' voting policy and activities align with the asset owner's stewardship objectives. A manager's well developed and publicly available voting policy, with clear lines on the investor's approach to climate, facilitates alignment between an asset owner's net zero priorities and the asset manager's voting approach.

It is helpful for asset managers and internally managed asset owners to further disclose:

- Their approach to voting all shares (i.e. no abstentions).
- How asset owner clients' and beneficiaries' views are solicited and taken into account in the voting process.
- How voting is linked to or additive to engagements.
- The extent to which the investor uses the default recommendations of proxy advisors[8] or reviews customised voting recommendations by proxy advisors.

For more on asset owners using their voting policies and expectations to communicate with managers, please see the final chapter.

7 NZAOA – Elevating Climate Diligence on Proxy Voting Approaches
8 As included in the FRC's UK Stewardship Code.

To Proxy Advisors

Voting policies and expectations can also help to showcase investor practices to proxy advisors, who can be hugely influential in voting outcomes through their recommendations. Outlining the investors' approach to climate in the voting policy shows demand for similar policies from proxy advisors[9] and can help set custom policies.

Communicating Net Zero Expectations – Voting Actions

In addition to sharing voting policies with relevant stakeholders, investors are also encouraged to communicate the actions being taken as a result of these policies – both before and after the vote.

Before Voting

Voting intentions and approaches to significant climate votes can be communicated to the company before the vote itself, where resources allow, to make clear the need for change in line with investor expectations and potentially achieve change prior to the vote. This can be done privately, between investor and company, or publicly, through the pre-declaration process.

Investor Examples: Communicating Voting Decisions

Legal and General Investment Management – LGIM publicly pre-declares its voting intentions on certain select votes, to draw the attention of the market, clients and other companies to a particular issue, resolution or outcome. The decision to do so can be undertaken as part of LGIM's escalation strategy, where it deems the vote to be particularly contentious, or as part of an engagement programme. LGIM's pre-declaration blog can be found here: LGIM's voting intentions for 2023.

Schroders – Schroders' Engagement Blueprint sets out their guiding principles around active ownership, including the approach to shareholder resolutions. Throughout the year, Schroders updates its Active Ownership Blog with examples of how Schroders is voting on shareholder resolutions. In anticipation of an upcoming resolution, the blog considers whether:

- The resolution is aligned to their Blueprint.
- The resolution is the best way to address the issue.
- The resolution adds value to what the company is already doing.
- The resolution has any potential to cause unintended, damaging consequences.

9 NZAM signatories make a commitment to "engage with actors key to the investment system [including proxy advisors] to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner".

Pre-declaring votes can be a powerful tool for investors looking to draw the attention of the market to particular issues, bolster engagement, and provide transparency on key considerations that drove a vote decision. Publicly pre-declaring votes can also mitigate the risk of diluting the impact of votes when different investors who all share the same climate concerns take voting actions on different resolutions, instead highlighting to other investors ahead of the vote which resolutions an investor intends to target.

Investors can also flag votes through Climate Action 100+ ahead of time to highlight key upcoming votes to shareholders. The PRI and ShareAction have also both encouraged investors to make further use of this stewardship approach, and the PRI Resolution Database includes a vote declaration tool.

Having a clear and robust voting policy can increase the power and efficiency of pre-declaring. As noted above, publicly announcing the policy prior to the proxy season broadcasts a clear message to companies ahead of the AGM, acting as a form of pre-declaration in its own right. It may also help ensure that voting intentions are aligned with the investor's voting guidelines.

After Voting

Climate Action 100+ Voting Disclosures

Under the Phase 2 strategy, lead investors are expected to:

"Report after company AGMs on all votes flagged by Climate Action 100+ and rationale, where allowable by jurisdiction, if practical, and in line with signatories' own internal policies"

NZIF recommends investors "Publish voting records, and rationale for deviating from policy and be clear how assets have been managed in alignment with clients' stewardship and investment policies." As outlined by the UK's Vote Reporting Group, "the provision of rationales for vote decisions can aid efficiencies in industry and would serve to address potential information asymmetry between asset owners and asset managers as their intermediaries."

Voting records should be published at least annually and full records should be easily accessible online. Best practice is to publish voting records on a monthly rolling basis to ensure the timeliness of records.

Investors can use the IIGCC Asset Owner Stewardship Questionnaire to help streamline their vote reporting. The Questionnaire provides asset owners who choose to use it with qualitative questions for due diligence when selecting an asset manager, and quantitative reporting when monitoring asset managers. One of the questions asks asset managers to "explain how your voting activity supports your climate-related engagements, including your approach to climate shareholder resolutions, Say on Climate votes and other climate-related voting, relating to the proxy voting policy used. Include approach to communicating voting intentions and/or decisions." Asset managers are also asked to disclose the number of companies, percentage of financed emissions and percentage of portfolio they:

- Voted for/against management and shareholder climate related resolutions where they support/counter climate objectives.
- Voted against (re-)election of one or more board directors on climate grounds.
- Voted against the annual financial report on climate grounds.
- Voted against the (re-)election of the auditor on climate grounds.
- Voted against Say on Climate.

Following significant votes, it is also best practice to write to Boards to communicate how the asset manager has voted and the reasons why.

3. Supports Net Zero Stewardship, Engagement and Investment Approaches

Key Considerations:

- State how voting policy supports the investor's net zero stewardship, engagement and investment approaches.
- Where possible, state potential voting escalation staircase
- Consider how equities voting decisions can support stewardship in other asset classes.
- Consider alternative approaches to utilise votes most effectively.

Voting should align with each investor's individual overall approach to net zero stewardship, engagement and investment. This ensures voting is linked to and additive to engagement, giving discussions with companies the teeth of accountability, and helps meet investment objectives.

Investor Example: LGPS Central and Where Does Voting Fit into Engagement?

An investor's voting approach can help contribute to an investor's NZIF (or other) engagement target. Each investor will decide how they define whether a company is under 'engagement', and the extent to which voting contributes to this.

In LGPS Central's Net Zero Strategy for Financed Emissions, for a company to qualify as engaged, LGPS Central must:

- Exercise their voting rights in line with its net zero ambition;
- Engage directly or indirectly through our external managers, engagement service providers and collaborative engagement vehicles such as Climate Action 100+; and
- Conduct two meaningful engagement interactions a year with the company's senior representatives by either LGPS Central, an external manager, engagement service provider or a collaborative engagement vehicle.

Investors may also want to consider how their theory of change on net zero as well as their investment and stewardship approaches require different approaches to voting.

Supporting Engagement Approaches

Investors take a number of different approaches to engagement. Investors may engage with the company for information or for impact.

If an investor is primarily focused on engaging for enhanced climate-related information, they may wish to take a stronger stance on disclosures, with voting decisions dictated by failure to improve disclosures. On the other hand, if engagement is primarily focused on engagement for impact (i.e. where a company faces significant and near-term climate risks) voting may take a stronger stance on the decision-makers where changes are not forthcoming.

Time-Bound Voting Escalation

The Net Zero Stewardship Toolkit recommends that investors' engagements with portfolio companies are complemented by time-bound objectives based on the criteria the company has yet to meet on the NZIF alignment maturity scale.

To support engagement, these time-bound objectives can be incorporated into the voting policy and approach. IIGCC recommends that investors' policies explicitly set out, where possible, how they expect voting to be incorporated into their escalation process, as well as how voting actions are expected to escalate in line with time-bound objectives where progress is not forthcoming.

Investor Example: Sarasin & Partners and Voting Escalation

Sarasin & Partners' voting policy explicitly sets out a voting escalation process on narrative reporting for companies materially exposed to climate-related risks where the company fails to disclose their risk exposure; the materiality of these risks for the business outlook, including the key results of any stress testing/ scenario analysis that has been undertaken; or how these risks are being managed to underpin long-term resilience and alignment with a 1.5°C-pathway.

Year 1

- Vote AGAINST the report and accounts.
- ABSTAIN on re-election of audit committee chair

Year 2

- Following engagement, where no improvement is made:
- Vote AGAINST the audit committee chair (and potentially other audit committee members)

These forward-looking voting actions demonstrate to portfolio companies the path for escalation.

Supporting Investment Approaches

Investors should also be aware of how their investment strategy impacts their stewardship and engagement approach, and ultimately whether this impacts their voting approach. For instance, passive investors are unable to sell out of positions due to climate concerns, whereas active managers can divest where material climate risks persist after engagement.

Tailoring voting policies to investment approaches may also mean that differences appear between firm-level and product-level stewardship. Where this is necessary, investors may also disclose their product-level voting policies[10], set out how they are different from the general policy and explain the rationale.

Other Asset Classes

Achieving net zero targets, securing real world emissions reductions and protecting the financial value of investments, requires increasing alignment with net zero goals across all asset classes. Investors may want to consider how their net zero voting policy can support engagement in other asset classes.

For instance, as explored in the IIGCC Net Zero Bondholder Stewardship Guidance, bondholders may wish to communicate concerns and instances of misalignment identified in the course of their engagement with their shareholder colleagues to help inform equity voting policies and decisions. Many of the climate stewardship concerns for bondholders will be the same as those of equity holders – many multi-asset investors are now integrating their equities and fixed income research and engagement teams to support bondholder stewardship.

Investors may want to clearly state how or whether other asset classes are considered in the exercise of their voting responsibilities.

10 In the UK, for instance, the FCA has identified the importance of voting and other stewardship strategies to sustainability objectives, and has consulted on requiring firms to outline “details as to any differences or conflicts between its firm-level and product-level stewardship strategy, in relation to the product, including any specific targets or constraints applied at the product-level (eg product specific engagement or voting strategy)”

Voting on Routine and Other Resolutions

Key Considerations:

- State how the net zero voting policy utilises routine votes to support climate engagement.
- State approach to climate-related shareholder resolutions and consider alternative voting methods.
- Develop clear criteria for transition plans.

A net zero voting policy should clearly state how climate impacts voting actions for different resolutions, in particular how the investor utilises routine resolutions to support its climate objectives. Setting out which resolutions are targeted in which situations can also help to mitigate the risk of votes being diluted as they are spread across resolutions.

In order to implement a stewardship strategy that is consistent with the objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner, IIGCC encourages investors to think originally about how and when they exercise their voting rights.

It may be helpful to utilise voting actions throughout the course of an engagement, as a "normal means of representing ownership interests to the company"[11], rather than purely escalation. This requires the use of all voting options, from routine resolutions to shareholder resolutions. PRI recommends that shareholder resolutions, for instance, can be seen as a "normal means of communicating expectations as opposed to a form of escalation".

But voting is also a helpful escalation tactic where other engagement has been resisted. Investors may want to consider how their votes can be made additive to engagement, linking, escalating and de-escalating in line with time-bound objectives.

Investor Example: Sarasin & Partners and Approaches to Voting

Sarasin & Partners provides another novel approach to voting. The organisation also votes against certain resolutions until the company provides evidence it has changed: not just at the end of the engagement but from the outset. This reconceptualises voting as a "de-escalation" technique, rewarding the company for responding to the investor's climate concerns.

11 NZAOA: Elevating Climate Diligence on Proxy Voting Approaches

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As explored in this chapter, understanding how routine votes are linked to climate concerns and using them to their fullest extent can help investors to retain a wider range of net zero voting levers, providing opportunities to both vote as a normal means of representing ownership interests and to escalate where concerns arise more forcefully.

Routine Votes

Routine votes occur at every AGM and are a critical element of net zero voting. Effectively utilising routine votes can be a difference maker in encouraging companies to align with net zero pathways, recognising the integral role addressing climate risks has to the functioning and future success of companies.

Routine Votes

While routine votes differ by jurisdiction, these typically include:

- Election of board directors
- Approval of report and financial statements
- Appointment of auditors
- Say on Pay
- Dividend payments

Climate-Specific Resolutions

- Transition Plans for Shareholder Approval
- Shareholder Resolutions

Election of Board Directors

"The Board is ultimately accountable to shareholders for the long-term stewardship of the company. Accordingly, the Board should be accountable for the company's long-term resilience with respect to potential shifts in the business landscape that may result from climate change, and therefore should be accountable for the climate strategy"

~ Amundi

Directors ultimately answer to shareholders and are responsible for the strategy and performance of the company. This includes the company's approach to mitigating and adapting to the transition and physical risks that could impact on the long-term value of the company. As part of their fiduciary duty to clients, and subject always to the relevant laws and regulations to which they are subject, investors can hold boards accountable for failure to address climate risks by voting for or against directors.

A robust approach to director accountability for climate concerns may be the single most important voting lever investors can pull. It is the clearest indication that climate is considered a critical component of the board's duties to shareholders. Even modest decreases in investor support for directors have been found to return stronger results than other methods[12], including shareholder resolutions with the same objectives.

Directors may be held accountable for failure to identify board oversight of climate risks, lack of progress on climate targets or a host of other reasons, including lobbying and other elements of NZIF additional criteria. IIGCC recommends that the policy should set out which directors (i.e. Chair of the Sustainability Committee, Chair of the Board, Senior Independent Director) would typically be held responsible for climate concerns, as well as alternatives, if necessary. These may differ according to the concern or jurisdiction. For instance, investors may wish to vote against the Chair of the Audit Committee where concerns are raised with the climate accounting.

In some jurisdictions, not all directors are submitted for election on an annual basis – in such cases, investors may want to set out how voting actions will be implemented in years where certain directors are not up for election.

Investor Examples: Amundi and Voting on Directors

Amundi:

"In terms of voting, our policy will consist of voting against the discharge of the Board or the Management, or the re- election of the Chairman and certain Directors:

- On a selection of companies which have an insufficient climate or environmental strategy while operating in sectors for which the transition is essential for alignment with the Paris Agreement."

This led to votes against more than 500 directors at 84 firms in the energy and utilities sectors this year.

12 Universal Ownership in Practice, Dr Ellen Quigley

Investor Example: PGGM and Communicating Votes on Directors

When voting against directors, it is recommended that investors communicate the process and rationale for reaching a decision to the company directly, preferably before the vote.

PGGM, on behalf of PFZW, expects the boards of companies in carbon-intensive industries to consider climate action a strategic priority. Therefore, PGGM votes against the re-election of board members when they deem a company a climate transition laggard. For most carbon-intensive industries in 2023, this entailed voting against the boards of companies without an emissions reduction target. Given the earlier start date for their oil and gas engagement program, in 2023 they voted against the boards of oil and gas companies when emission reduction targets significantly lagged peers.

Since there can be multiple reasons to vote against the re-election of a director, PGGM sends a letter to each laggard explaining why they voted against its directors. The letter explains PFZW's climate plan and the resulting expectations for portfolio companies. They invite each company to accelerate its climate ambitions by adopting science-based decarbonization targets supported by a credible energy transition strategy.

Investor Example: AXA Investment Managers and Climate Expertise

In addition to holding directors accountable for the company's transition to net zero, investors are increasingly expecting evidence of climate expertise on the board.

AXA Investment Managers expects directors to have "experience and proven track-record in managing environmental and social issues, to enable long-term sustainable value creation.

AXA IM will "engage with companies to understand the nomination committee's approach to Board appointments, and, following a specific analysis, will vote against the renewal of directors, the nomination committee chair, or any relevant member if the Board has not managed its environmental & social responsibilities properly".

Voto di Lista Case Study

Routine votes on directors take different shapes in different jurisdictions and can provide different opportunities for encouraging the transition through voting.

In Italy, for instance, boards of listed companies are elected through the 'voto di lista', a slate voting mechanism that crucially allows minority shareholders to nominate at least one member and up to a third of the board of directors.

Selection of candidates is determined Minority candidates are selected and presented by the Italian Investment Managers' Committee, a body comprising Italian and foreign institutional investors, in accordance with strict requirements of independence, integrity and professionalism, to ensure independence, and investors can input on the criteria for selection, including climate expertise. Assogestioni, the Italian Investment Management Association, provides the secretariat.

Slate voting in this manner provides investors a way to propose and elect independent minority candidates with climate expertise to the boards of the companies in which they invest, without having to oppose management or the controlling shareholder. This also creates an avenue for further non-confrontational engagement in the future.

Approval of Report and Financial Statements/Appointment of Auditors

"When a company declares that it wants to reduce its emissions in a way that is compatible with a warming of 1.5°C, the assumptions used in the preparation of the financial statements must take into account the costs of achieving such an objective". ~ Ethos Foundation

As the physical and transition risks faced by companies continue to grow and companies respond with further narrative reporting, investors expect this to be reflected in the financial statements and auditor assessments.

In November 2020, IIGCC published *Investor Expectations for Paris-aligned Accounts*, authored by Sarasin & Partners and sent to 36 of Europe's largest companies along with a letter signed by 38 investors who collectively represented $9.3 trillion in assets under management or advice. Since then, investors have continued to underline the importance of climate-related factors for their decision-making and climate accounting has since become a key thematic in CA100+ engagements.[13]

Companies are at risk of material misstatement where their financial statements leave out real economic impacts associated with climate change and decarbonisation. In 2023, IFRS republished its Educational Material[14] on the importance of ensuring material climate considerations are considered in accounting and audit under existing standards.

It is expected that investors will increasingly seek to treat this as a voting issue. As this occurs, a net zero voting policy would set out how a failure to meet expectations on Paris-aligned accounting and auditing could lead to:

- Votes against the financial statements
- Votes against the reappointment of the auditor
- Votes against chair/members of the audit committee

13 In 2020 a public statement calling for financial statements to reflect these considerations was released, and in 2021 the investor-led Climate Action 100+ Initiative added accounting and audit criteria to its assessment framework. IASB guidance (2020) underlines that materiality depends on what impacts investor decision-making: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company…For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgements and estimates that management has made."*

14 Effects of climate related matters on financial statements – IFRS Accounting

IIGCC Expectations for Auditors

In December 2022, IIGCC members wrote to the heads of audit at the UK's four largest audit firms to set out investors' expectations for auditors to provide greater and more quantitative disclosures relating to how material climate considerations have been taken into account in the audit process:

- Detailed commentary on how it has addressed foreseeable climate risks in its determination that the accounts provide a true and fair view of the company's financial position; that dividends are payable in accordance with capital maintenance rules; and the going concern statement remains valid.
- Alert shareholders to any inconsistency between the narrative disclosures around climate risks, the company's strategy and the financial statements – this becomes ever more important as companies produce more detailed TCFD-aligned reporting.
- Quantitative information of accounting adjustments made and the implications for the entity's financial position, or reasons why assumptions were not changed.
- An assessment of whether the entity has provided a reliable view of its exposure to a 1.5°C-aligned pathway through robust sensitivity analysis.

IIGCC Expectations for Accounts

1. An affirmation that climate change and the goals of the Paris Agreement (including associated transition and physical risks) have been considered in drawing up the accounts.
2. An explanation of how climate change and the transition to net zero by 2050 has informed critical accounting judgments.
3. Sensitivity analysis to Paris-aligned (i.e. a 1.5-degree Celsius) pathways and higher warming scenarios provided in the Notes to the Financial Statements.
4. A statement of the implications of climate change and Paris-alignment for dividend paying capacity.
5. Confirmation that accounting assumptions are consistent with narrative reporting on climate risks and climate commitments.

Investor Examples: Voting on Accounts and Auditors

Candriam: "We believe the Audit Committee role includes raising issues of material climate risks with auditors, and presenting corporate reporting which is transparent regarding these risks. The Audit Committee should ensure that the financial impact of climate risks is reflected in the financial reporting. Therefore, members of the Audit committee, and in last resort, the board Chair, shall be held responsible where climate risks represent a material headwind to a business and the reporting of these risks is deemed inadequate or financial statements are viewed to be misleading."

Sarasin & Partners: "For entities materially exposed to climate risks, we will vote 'against' the reappointment of the auditor (and their remuneration where relevant) where they fail to detail how they have considered climate risks as part of the audit process; ensured consistency between narrative and financial statements; gained comfort that the assumptions used were appropriate; or alerted shareholders to potential mis-representation.

We will additionally 'abstain' on or vote 'against' (escalating in the second year of voting) where the auditor fails to provide commentary on how a 1.5°C-pathway has been considered and any material implications for the financial statements to this pathway. This should alert shareholders to any implications for dividend payments."

Remuneration – Policy and Report

Incorporating climate metrics into executive remuneration helps ensure that a company's climate strategy and transition plan are adequately incentivised in the short-term. This is increasingly being embedded into transition plan guidance and regulations. Both IIGCC's own *Investor Expectations of Corporate Transition Plans* as well as the UK Transition Plan Taskforce call for companies to ensure executives are incentivised to deliver on the transition plan through explicit climate performance KPIs in the remuneration schemes.

Investors can use votes on remuneration policies and their implementation, as well as on members of the remuneration committee, to encourage companies to integrate climate into their remuneration arrangements. To inform investors' voting on remuneration, IIGCC recommends that climate remuneration arrangements be:

1. **Net Zero Strategy Aligned:** Incentives should be linked directly to the delivery of the company's net zero strategy, commitments and transition plan.
2. **Measurable and Stretching:** Incentives should be measurable, quantitative, discrete and science-based, focused on achieving ambitious GHG emissions reductions and/or climate solutions.
3. **Material:** Climate-related incentives should comprise a material portion of the executive pay package (i.e. at least 10% of total variable opportunity (bonus and/or LTIP) and should not be contradicted by other targets.

Investor Example: Evenlode Investment Management and Voting on Remuneration

Evenlode's Net Zero Engagement & Voting Policy sets out expectations for companies incorporating climate into their remuneration arrangements and clear escalation triggers linked to time-bound objectives.

"For those companies in material sectors, if we see an absence of relevant performance metrics aligned to the portfolio companies' climate strategy, we will vote against their remuneration policy. To give an example, for high emitters in the upper quartile of funds in terms of emission intensity, we would expect a performance metric looking at reducing absolute emissions, weighing at least 10-15% of total variable pay.

After 12 months from the start of the initial engagement, an escalation approach will be taken to voting if we haven't seen any incremental change in the policy after initiating engagement, by also voting against the re-election of the chair of the remuneration committee."

IIGCC Remuneration Recommendations

Metrics

- GHG emission metrics used in remuneration should be comprehensive, aligned to the company's decarbonisation strategy and support or exceed delivery of the company's net zero targets. Where SBTi methodology is available, targets should be SBTi-aligned.
- Targets should cover all material GHGs, emission scopes, regions and covering the whole organisation. Where the company seeks to target particular emissions/scopes/regions/segments of the organisation, the Remuneration Committee should clearly explain how this supports achievement of the company's overarching climate targets.
- Offsets should not be included in the calculation of remuneration metrics.
- Input metrics (i.e. capital allocation and investments) are typically suited to short-term schemes. These can be implemented annually and form the basis of a credible strategy to deliver targets.
- Output metrics (i.e. GHG emissions) are best suited to long-term incentive schemes. Emissions are best measured over a longer period to avoid short term fixes that do not lead to long term emissions reductions.

Remuneration Committee Considerations

- Explicitly retain discretion to adjust formulaic outcomes for climate performance, irrespective of whether the awards in question have climate-related targets.
- Committees consider applying a net zero underpin, as recommended by Sarasin & Partners, as a minimum net zero alignment requirement before bonuses or long-term incentives vest, disclosed on a prospective basis.
- Committees consider and disclose how remuneration cascades to the company's workforce. This may include the company's executive committee; heads of functions and departments; and any other employees who have a material impact on the company's climate risk profile and climate performance (i.e., climate-significant employees).

Shareholder Proposals

Shareholder resolutions allow investors to pinpoint specific areas of concern and invite other shareholders to join a call for the company to improve their climate commitments, actions and disclosures.

In recent years, shareholder climate resolutions have proliferated as investors push companies to respond to the risks posed by climate change. Support for shareholder climate resolutions also grew, from 35% in 2019 to 61% in 2021[15].

However, support for shareholder climate resolutions in 2022 fell to 50%[16]. Findings by InfluenceMap suggest that the drop in support is due to concerns with 'overly prescriptive' resolutions (resolutions focused on climate reporting generally continued to receive higher support)[17] and an influx of anti-ESG resolutions. The former is not an unexpected development. As expectations on climate evolve from disclosure to action, crafting resolutions that do not infringe on the Board's oversight of company strategy becomes more challenging.

Rather than filing prescriptive shareholder resolutions, or viewing shareholder resolutions as a final escalation measure, it can be helpful to view shareholder resolutions more holistically, as part of a wider conversation with the company. PRI, for instance, recommends that shareholder resolutions should be seen as a "normal means of communicating expectations as opposed to a form of escalation".

This approach means shareholder proposals can be used to encourage the company to reduce climate risk while creating the "freedom for directors to act in the long-term interests of diversified investors" by clearly elaborating how the requests are in the long-term interests of the investor's fiduciaries.[18]

Some investors have outlined in their policy that support for a shareholder resolution does not equate to full support for the wording of the resolution. For instance, Aviva explicitly states that they are "likely to support resolutions that press companies to take action on critical sustainability issues such as climate change and human rights, even if our views are not 100% aligned with the wording of the resolution."

However, there may be instances where although the underlying request is in the long-term interests of the company and shareholders, the quality of the resolution, including overly prescriptive wording, means that the investor is unable to support it. In these instances, to support their fiduciary duty to clients, investors may also consider:

- Committing to file their own resolution at the next AGM[19].
- Utilising other resolutions to encourage the desired action, such as routine votes on directors.
- If neither of these approaches are possible investors may also consider actively abstaining.

15 Asset Managers and Climate Change, Influence Map
16 Asset Managers and Climate Change, Influence Map
17 Asset Managers and Climate Change, Influence Map
18 The Case for Forceful Stewardship (Part 2), Howard Covington and Raj Tahmotheram
19 For further insight into filing resolutions, please see PRI's Guide to Filing Impactful Shareholder Resolutions.

Investor Example: Royal London Asset Management and Active Abstaining

Investors may at times not feel comfortable providing support or voting against a shareholder resolution or transition plan, and therefore may want to use their ability to “abstain” in certain limited circumstances.

Royal London Asset Management believes the decision to abstain can be an active one: enabling RLAM to “communicate concerns or views to management without either supporting the status quo, or wholly disregarding any progress that has been made”. RLAM has found that “often companies are more receptive to engaging with us after we abstain, recognising our concern and offering a dialogue on how the company can improve”.

Actively abstaining needs to be supported by communication with the company and clients to outline the rationale for the decision, and a clear escalation process if the identified improvements are not made within a specified time.

Investor Example: BNP Paribas and Shareholder Resolutions

In 2022, BNP Paribas voted in support of 100% of climate-related shareholder resolutions. While proposals are considered on a case-by-case basis, the policy sets out the conditions under which different voting actions are considered for shareholder proposals, including:

For

- Resolutions that help to improve social and environmental performance while contributing to the protection of stakeholders’ long-term interests.
- Resolutions that align with our climate change expectations (e.g. Say on Climate expectations, carbon disclosure, business strategy in alignment with a 1.5°C world

Abstain

- If the proposal is in line with stakeholders’ long-term interests but not in its application and/or if it has already been implemented by the company.

Against

- Shareholder proposal is not in line with stakeholders’ long-term interests

Votes on Transition Plans

Votes on transition plans, including 'Say on Climate' votes, have gained popularity since 2021. They represent an opportunity for shareholders to provide direct feedback to the board on a company's transition plan. They can be used as a platform for initial voting actions, as a complement to other voting actions and engagements, or prior to escalating to director voting or shareholder proposals.

A net zero voting policy should set out the core criteria that the investor considers when determining whether to support a company's Say on Climate. Using the IIGCC's *Investor Expectations for Corporate Transition Plans,* these may include comprehensive aligned emissions targets, a credible strategy to deliver the targets, demonstrable engagement commitments to support the achievement of targets, the contribution to climate solutions, supporting emissions and accounting disclosure.

Investor Example: Ethos Foundation and Voting on Transition Plans

VOTE FOR the board of directors'proposal, however: OPPOSE if one of the following conditions applies:

a) The company's report has not been drawn up in accordance with a recognised standard covering the main issues of climate change (governance, strategy, risks, indicators, and targets).

b) The company does not publish its CO2e emissions in accordance with the GHG Protocol or its report does not cover at least 90% of indirect emissions linked to the life cycle of products (supply chain, transport, travel, use of products corresponding to scope 3 of the GHG Protocol).

c) The company has not set targets for reducing its CO2 emissions which are compatible with a maximum of 1.5° warming, and which cover all its direct and indirect emissions (scope 1, 2, and at least 80% of scope 3).

d) The company does not publish intermediary reduction targets.

e) The company does not communicate on the progress that were made with regard to its climate targets.

f) The company is not taking adequate measures to reduce its CO2e emissions.

g) The company does not consistently meet its targets or there is a deterioration in key indicators over a 3-year period.

As outlined above, expectations in voting policies may differ for different priority companies. Those with the most material risks may be expected to submit a transition plan that meets all 5 components of the *IIGCC Expectations*. Those with less material risks or those that have been subject to less intense engagement may receive support for meeting the first two components.

Investors may want to set out more specific criteria for certain high impact sectors. These may be informed by the IIGCC's sector-specific net zero standards.

Other Resolutions

In addition to the routine and climate-specific resolutions outlined above, shareholders are also given the opportunity to vote on other matters of importance, including mergers, acquisitions and disposals. These can have a significant impact on real world emission reductions. Investors may want to consider the impact of listed companies acquiring new operations or selling 'brown' assets, on the company's emissions, real world emissions more generally, and the just transition. The IIGCC Net Zero Bank Standard suggests that banks advising on M&A consider developing policies which set out safeguards on transfers of high-carbon assets away from public capital markets. These might include standards requiring that purchasers are committed to 1.5°C-aligned production curves, have financial means to cover decommissioning and rehabilitation, and are committed to a just transition. In this light, institutional investors may consider integrating similar standards around mergers and acquisitions into their own voting policies.

Investor Example: Candriam and Voting on Mergers and Acquisitions

"Strategic Transactions are important corporate events that have a long-term impact on shareholder value. When voting for such an operation, Candriam assesses whether the transaction creates value for the company and shareholders in the medium and long term and whether the proposed form of the transaction upholds the principle of equal treatment of shareholders.

More specifically and regarding potential carbon intensive assets involved in the proposed operation, additional analysis will be performed to assess its impact with regards to achievement of a temperature increase of maximum 1.5 degrees."

Asset Owners

Key Considerations:

- State investors approach to net zero, including, if appropriate, position as universal owner
- Consider what combination of control over voting decisions is appropriate:
    - Segregated mandates vs pooled funds
    - Delegated to manager/proxy advisor
    - Expression of Wish (with or without limited overrides on material company votes)
    - Directed Voting
- Review alignment between asset owner voting expectations and the external managers' voting policies and decisions in the selection, appointment and monitoring process.

This section explores key considerations for asset owners in developing voting expectations and achieving desired outcomes on voting.

Alignment Reviews – IIGCC believes that the alignment between asset owner and manager on climate stewardship and how this is integrated into investment decision making is critical to achieving net zero targets. Embedding net zero expectations throughout the selection, appointment and monitoring phase is integral to the *IIGCC Net Zero Stewardship Toolkit* and supported by the *IIGCC Asset Owner Stewardship Questionnaire.*

While asset owners can and do engage directly with portfolio companies, many enlist external managers to implement engagement strategies, including the execution of voting decisions. Voting should be incorporated into a fixed part of the selection, appointment and monitoring of external managers, encompassing both the managers' voting policy and voting behaviour during the year.

For asset owners, a voting policy, such as the one provided by NEST, can be a powerful tool that can be used to conduct a gap analysis between the asset owners' potential voting decisions and those made by the manager during the year.

Following the AGM season, asset owners are encouraged to conduct a review of their managers' stewardship activities, including how voting activities mapped onto the asset owners' expectations and the managers' policy. It may be helpful for asset owners to establish an annual call with their managers to discuss voting behaviour and conduct a deep dive on how the managers' commitments (e.g. Climate Action 100+) align with their voting actions.

Investor Example: Phoenix Group and Engaging with Managers on Voting

In 2023, Phoenix published its first Global Voting Principles outlining expectations of asset managers to conduct voting activities, including the assessment of climate shareholder resolutions and say on climate votes in alignment with its public portfolio decarbonization goals. The principles can be used as a framework against which to evaluate the voting outcomes of its asset managers.

Phoenix is currently not involved in voting decisions directly*, either by casting votes or sending voting instructions to its asset managers. However, it has recently invested in stewardship resources in house and partnerships to monitor delegated voting activities.

Phoenix has begun to test how its voting principles would apply to the agenda items at the shareholder meetings of a focus list of 100 companies it engages with directly and/or where there is high financial exposure. This process allowed Phoenix to build a synthetic voting record against which to compare and assess the votes of asset managers on an ex-post basis and understand specific areas of divergence.

The review revealed differences between Phoenix's expectations and the voting decisions taken by their asset managers at a vote-by-vote level. This was especially the case on director elections, executive pay and shareholder/company proposals on climate issues.

The review helped to foster alignment between Phoenix and its asset managers. Informed and tailored deep dive sessions with asset managers allowed Phoenix to understand the manager's vote decision-making process as well as providing an opportunity to share targeted and constructive feedback in advance of the manager's voting policy review.

*With the only exception of a small number of execution-only funds

In addition to the above, asset owners have a number of ways to influence the voting practices of their external managers.

IIGCC Questionnaire Voting Questions

IIGCC's Asset Owner Stewardship Questionnaire supports a consistent approach to reporting on climate stewardship, including on voting. Reporting through the questionnaire can be used to inform discussions between asset owners and managers, in particular to highlight gaps in alignment. Examples of relevant questions and KPIs from the questionnaire include:

Qualitative

"Explain how your voting activity supports your climate-related engagements, including your approach to climate shareholder resolutions, Say on Climate votes and other climate-related voting, relating to the proxy voting policy used. Include approach to communicating voting intentions and/or decisions."

Quantitative

- Voting for/against management and shareholder climate related resolutions where they support/counter climate objectives
- Voting against (re-)election of one or more board directors on climate grounds
- Voting against the annual financial report on climate grounds
- Voting against the (re-)election of the auditor on climate grounds
- Voting against Say on Climate

Directed Voting and Overrides – Some asset managers now provide client-directed voting, allowing asset owners to vote their shares, even in pooled funds. If used correctly, this can be beneficial to reaching asset owners' net zero objectives.

Client-directed voting not supported by aligned engagement activities could risk splitting the vote between asset managers and asset owners, diluting the voting decisions and divorcing voting from engagement, rather than reinforcing objectives set during the engagement process. As noted above, net zero voting is most effective when voted consistently across all holdings.

However, while it is considered best practice to vote in a consistent manner wherever possible, client-directed voting can be a cost-effective tool for asset owners who are seeking to align voting with their climate commitments. It can also highlight disagreements and misalignment between asset owners and asset managers, providing an evidence-based engagement tool for asset owners to highlight discrepancies to managers through the selection, appointment and monitoring process.

When selecting client-directed voting, asset owners will want to consider:

- Whether they have adequate resources to make informed voting decisions backed by in-house engagement activities;

- The implications of divorcing their manager's engagement activities from the vote;
- Whether alternatives for fostering further alignment between asset owner and manager through the selection, appointment and monitoring process would lead to more consistent voting outcomes.

Investor Example: Nest and Asset Owner Overrides

Whilst Nest's fund managers generally vote on its behalf, Nest has its own voting and engagement policy that sets out its viewpoints and expectations of companies. Nest has the ability to override its fund managers' votes for a number of companies in its developed and emerging markets equity funds when their voting decisions do not align. Due to the high number of companies held in the default fund and the short time period during which multiple AGMs occur, it is not possible to analyse the variance between Nest's fund managers' voting intentions and its own policy for every vote. For this reason, Nest focuses and prioritises efforts on what it determines to be its significant holdings called the "voting subset" and asks its fund managers to pre-disclose voting intentions for these holdings. Nest uses Minerva Analytics to help monitor the voting intentions of its fund managers for voting subset companies. Before deciding to override votes, Nest engages with its fund managers on the voting decisions they make to understand their rationale for voting differently and what research and engagement they've undertaken to inform their voting decisions.

During the 2022 voting season, Nest overrode its fund managers' voting decisions 119 times to better align with its voting policy and beliefs. Typically, this involved voting against a resolution that the fund manager would have voted for, or supporting a shareholder resolution that the fund manager would have voted against.

Expression of Wish – Asset owners, particularly those that are externally managed, may also utilise an 'expression of wish' to foster greater alignment between their net zero ambitions and the voting approach of their manager. An expression of wish conveys directly to the manager how the client thinks they should vote on certain issues or even specific resolutions, and escalating where needed.

Investor Example: Aegon UK and Expression of Wish

For a universal owner with passively managed index funds, such as Aegon UK, voting provides an important tool to support and challenge investee companies. Many of Aegon UK's investments are in pooled funds using external managers whom voting rights are delegated to. Accordingly, Aegon UK focuses on the overall alignment of their managers to their responsible investment approach, including voting.

To support this, Aegon UK introduced a new expression of wishes ("EOW") approach as part of its manager oversight of voting activity. During the 2023 proxy season, Aegon UK called on its principal asset managers to support select ESG shareholder proposals, relevant for their most material company holdings and priority engagement themes. Aegon UK developed voting preferences ('wishes') which were shared with managers for their consideration, in advance of the AGM, based on consideration of a number of factors, including their Stewardship Framework ("Framework"), own research, and engagement with asset managers. The managers are subsequently assessed on their voting alignment, which becomes an input for Aegon UK's overall assessment of manager alignment and performance on responsible investment. Aegon UK seeks to engage with managers whose voting is inconsistent with their EOW and persistent misalignment by a manager is ground for further escalation as set out in the Framework.

Example of shareholder resolutions Aegon UK supported in 2023 proxy season:

<table>
<tr><th>Company</th><th>Resolution</th><th>AGM date</th><th>AUK EOW for principal managers</th></tr>
<tr><td>Glencore</td><td>Disclose how thermal coal production aligns with emissions reduction commitments</td><td>May 2023</td><td rowspan="2">FOR (disclosed publicly, including rationale, before the AGMs - see here)</td></tr>
<tr><td>Shell</td><td>Align 2030 scope 3 reduction target with the goal of the Paris Climate Agreement</td><td>May 2023</td></tr>
</table>

In addition to sending a clear signal to asset managers prior to the AGM season, an expression of wish also acts as a good test of value alignment. This can help inform discussions with managers following the AGM season as part of the selection, appointment and monitoring process.

Conclusion

Investors are seeking to manage and reduce climate risks by decarbonising investment portfolios consistent with achieving global net zero greenhouse gas emissions (GHG) emissions by 2050, in line with global efforts to limit warming to 1.5°C.

Voting, if used effectively, can play a critical role supporting investors' stewardship activities and contribute to decarbonising the real economy. This paper set out three key principles for net zero voting:

1. Aligns with each Investor's individual Net Zero Objectives and Targets to Decarbonise Real World Emissions
2. Communicates Net Zero Expectations to Companies and Clients
3. Supports Stewardship, Engagement and Investment Activities

Developing a net zero voting approach from these principles and utilising routine votes, such as the election of directors to the board, to meet the investors' climate objectives and targets, is a critical part of net zero stewardship.

IIGCC