



Georgina Marshall
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Net Zero Proxy Advice

Dear Ms Marshall,

We would first like to thank you and the ISS team for your continued engagement with IIGCC and its members.

We write today in support of Mr Retelny's recognition of environmental factors as "financially material to [our] investment decisions". However, despite this recognition – and the fact environmental and climate-related factors are material to our stewardship and voting decisions as part of our fiduciary duty – we continue to be concerned about the research and recommendations from ISS on these issues.

Today, we therefore call for ISS to:

- 1. Provide clients with a specialty net zero policy,**
- 2. Further integrate climate into its proxy voting recommendations on a more robust and consistent basis.**

Specialty Net Zero Policy

IIGCC and the undersigned call on ISS to provide a specialty net zero policy for the 2024 proxy season. The creation of a specialty net zero policy, that fully incorporates net zero benchmarks into ISS' climate policy and the subsequent vote recommendations, would provide individual investors with a choice that fit their needs.

The need for this service is clear. The Chair of the IIGCC Proxy Advisor Working Group, Edward Mason, set out the importance of the specialty net zero policy in May this year. The creation of a Net Zero policy is about providing individual investors with choices that fit their needs. As Mr Retelny noted, ISS' clients have "diverse, sometimes conflicting perspectives and investment strategies that require different approaches to voting and other forms of capital stewardship". More than 300 investors have now set net zero commitments under the Net Zero Asset Managers initiative, a further 110 under the Paris Aligned Investment Initiative and 86 under the Net Zero Asset Owner Alliance. Many of these investors – ISS' clients – are pursuing alignment with the Paris Agreement to manage investment risk and use their voting rights and proxy advisors to facilitate this.



We are keen to work with ISS to develop a policy with explicit links to net zero alignment and robust voting recommendations without delay. We look forward to further collaboration on this important issue.

Further Climate Integration into Benchmark Policy

IIGCC and the undersigned call on ISS to further climate integration into its Benchmark Policy by accelerating progress in 2024 in four areas.

The ISS Benchmark Policy has steadily progressed its consideration of climate issues in recent years. However, we have considerable concerns regarding ISS' pace of change in the face of clear and rapidly building systemic climate risk. Our concerns are particularly important because the ISS Benchmark Policy is one of the most widely used voting recommendation services. It acts as a baseline for stewardship and voting decisions, forms the basis for investor ISS custom policies and creates a critical signal to companies on climate risk.

Specifically, we seek accelerated progress in 2024 in four areas:

- 1) Board accountability
- 2) Transition plans
- 3) Shareholder Resolutions
- 4) Climate Action 100+ Net Zero Company Benchmark alignment

1. Board Accountability

The extension of climate board accountability in last year's policy was welcomed. However, the soft criteria, especially in the UK, Europe and US, where leadership on the transition is required, meant that the policy was applied to no directors in these key developed markets during the year.

Voting on directors is one of the primary methods for investors to vote on a company's strategy. **We are therefore calling for ISS to provide a clear and consistent framework for assessing director accountability, one which bolsters the 2023 approach.** Specifically, ISS should consult on expanding the policy to:

- Go beyond Climate Action 100+ companies – investors are engaging on climate beyond this list, as evidenced by the establishment of IIGCC's Net Zero Engagement Initiative.



- Include robust short-term targets, which are essential to meeting long-term ambitions and are within directors' remit today.
- Include material Scope 3 emissions reduction targets.

ISS should also provide the number of directors captured worldwide by the 2023 policy and an estimate of those that would be captured in 2024 under an improved policy.

2. Transition Plans

We request that ISS outlines a clear assessment framework for transition plans in the refreshed 2024 Benchmark Policy, in particular in relation to Say on Climate proposals. This would help reduce the troubling inconsistencies currently seen in vote recommendations on transition plans. At present, the Benchmark Policy provides little indication as to the shortcomings that will lead to a recommendation to vote against a transition plan, giving inadequate guidance to ISS analysts and country teams.

We note with disappointment that the climate FAQs ISS committed to publishing in the November 2022 ISS Benchmark Policy Updates, which would also be a helpful signpost, have since been delayed. Such an assessment framework should consider:

- IIGCC Investor Expectations of Corporate Transition Plans: From A to Zero
- GFANZ Financial Institution Net-Zero Transition Plans
- GFANZ Expectations of Real Economy Transition Plans
- Transition Plan Taskforce Disclosure Framework

We warmly invite ISS analysts and their colleagues to a meeting to discuss the IIGCC *Investor Expectations of Corporate Transition Plans: From A to Zero*, which defines the key components of a credible transition plan, relevant to companies of different sizes and applicable across a range of sectors and geographies. These components are consistent with the expectations of investors implementing the Net Zero Investment Framework, the most widely used guidance by net zero committed investors today.

IIGCC has also published sector-specific standards for banks and oil and gas companies on which we would be equally happy to present.

3. Shareholder Resolutions

Vote recommendations for shareholder-proposed resolutions should also be supported by a clearer and more consistent policy. Similar to transition plans, we are concerned by inconsistencies in approach to shareholder driven asks.



Regional discrepancies have appeared, where support for a like-for-like or similar shareholder resolution has been supported in one region but not another. Comparisons between shareholder resolutions need to be made not just on a regional level but on a sector level – reflecting the company’s true peers on climate risks and many investors’ global portfolios.

Similarly, appeals to “standard market practice” need to look beyond jurisdictions to sector peers. These should rarely be used as the ultimate justification for whether to recommend in favour of a shareholder resolution or not while climate expectations continue to evolve rapidly.

We are also concerned by the emerging use of *future* regulation as a rationale for recommending against shareholder resolutions given the ever-changing policy environment.

4. Climate Action 100+ Net Zero Company Benchmark Alignment

The Benchmark Policy would also benefit from further alignment with the Climate Action 100+ Net Zero Company Benchmark, including further scrutiny of how climate is integrated into executive remuneration for Climate Action 100+ focus companies. Information on the extent to which the company’s direct and indirect climate policy engagement is subject to proper governance and aligned with the company’s stated approach to the Paris Agreement would also better inform investors.

Next Steps

We welcome confirmation that a specialty policy will be available to clients prior to the 2024 proxy season and the ISS consultation on improvements to the benchmark policy. We look forward to further engagement with your team on proposed policy changes and plans for 2024.

Please note that a copy of this letter will also be made public via the IIGCC website.

Yours sincerely

Edward Mason,
IIGCC Proxy Advisor Working Group Chair



The list of members below includes, but is not limited to, members of the IIGCC proxy advisor working group:

Aegon UK	LBPAM
AP2	Nykredit Asset Management
AP3	P+, Pension Fund for Academics
AP7	PGGM
Artemis Funds	Quilter PLC
AXA Investment Managers	Rathbones Investment Management
Canada Life Asset Management	Sarasin & Partners
Cardano	Stichting Pensioenfondsen IBM Nederland (SPIN)
Danica Pension	Storebrand Asset Management
Danske Bank Asset Management	Swedbank Robur Fonder AB
DPAM	Tabula Investment Management
Eric Sturdza Investments	The People's Pension
Federated Hermes	Tikehau Capital
Generation Investment Management	UBS Asset Management (UK) Ltd
Investec Wealth & Investment	University Pension Plan
Irish Life Investment Managers	USS
James Hambro & Partners	Velliv
KBI Global Investors	
La Française Asset Management	

NOTE: This letter was developed in collaboration with a number of IIGCC members but does not necessarily represent the views of the entire membership, either individually or collectively.

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