Asset Managers and Climate-Related Shareholder Proposals: Report on Key Climate Votes

The 50/50 Climate Project

By Marka Peterson, Jim Baker, and Kimberly Gladman
March 2018
Asset Managers by Size and Their Support for Key Climate Proposals:

*Eight of the top ten asset managers voted less than 50% of the time for key climate proposals in 2017*

<table>
<thead>
<tr>
<th>Asset Manager</th>
<th>Rank by Size</th>
<th>% Support for 2017 Key Climate Votes</th>
<th>% Support for 2 Degree proposals 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock</td>
<td>1</td>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td>Vanguard</td>
<td>2</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>State Street</td>
<td>3</td>
<td>61%</td>
<td>57%</td>
</tr>
<tr>
<td>Fidelity</td>
<td>4</td>
<td>30%</td>
<td>14%</td>
</tr>
<tr>
<td>BNY Mellon</td>
<td>5</td>
<td>19%</td>
<td>0%</td>
</tr>
<tr>
<td>J.P. Morgan</td>
<td>6</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td>PIMCO</td>
<td>7</td>
<td>35%</td>
<td>29%</td>
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<td>American Funds/Capital Group</td>
<td>8</td>
<td>29%</td>
<td>40%</td>
</tr>
<tr>
<td>Prudential</td>
<td>9</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>10</td>
<td>58%</td>
<td>71%</td>
</tr>
<tr>
<td>Northern Trust</td>
<td>11</td>
<td>61%</td>
<td>100%</td>
</tr>
<tr>
<td>Nuveen</td>
<td>12</td>
<td>88%</td>
<td>100%</td>
</tr>
<tr>
<td>Invesco</td>
<td>13</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>T. Rowe Price</td>
<td>14</td>
<td>24%</td>
<td>36%</td>
</tr>
<tr>
<td>Deutsche Asset Management</td>
<td>15</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>Affiliated Managers Group</td>
<td>16</td>
<td>71%</td>
<td>89%</td>
</tr>
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<td>Legg Mason</td>
<td>17</td>
<td>85%</td>
<td>86%</td>
</tr>
<tr>
<td>Franklin Templeton</td>
<td>18</td>
<td>39%</td>
<td>46%</td>
</tr>
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<td>UBS</td>
<td>19</td>
<td>78%</td>
<td>73%</td>
</tr>
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<td>Wells Fargo</td>
<td>20</td>
<td>85%</td>
<td>100%</td>
</tr>
<tr>
<td>AllianceBernstein</td>
<td>21</td>
<td>81%</td>
<td>100%</td>
</tr>
<tr>
<td>Dimensional Fund Advisors</td>
<td>22</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>MFS Investment Management</td>
<td>23</td>
<td>91%</td>
<td>100%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>24</td>
<td>79%</td>
<td>100%</td>
</tr>
</tbody>
</table>

See Methodology section for sources
Asset Managers and Climate-Related Shareholder Proposals: Report on Key Climate Votes

Key Takeaways

- As investor support for proposals seeking reporting on climate risk has gained significant momentum in the last two years, top asset manager support for these proposals at key energy and utility companies has also increased overall in 2017 compared to 2016.

- In spite of growing support for climate resolutions, approximately half of top asset managers opposed more than 50% of key climate-related proposals in 2017, and several top managers – five covered in this study – voted against more than 85% of key climate proposals. Eight of the top ten asset managers failed to support key climate votes more than 50% of the time.

- A very small number of the biggest asset managers had the ability to determine the outcome of almost all key climate-reporting proposals at energy and utility companies last year. If either of the top two asset managers, BlackRock and Vanguard, had voted yes on any of ten or eight key climate proposals, respectively, those proposals would have received a majority of support.

- In terms of disclosure of their voting policies, nine asset managers fail to disclose how climate risk or general environmental issues affect voting at all, and several others do not appear to disclose enough information about their policies and procedures for voting on climate-related proposals and political spending proposals to enable investors to determine how their asset manager will vote on either type of proposal.

- Four of the biggest asset managers (BlackRock, Vanguard, J.P. Morgan and T. Rowe Price) indicate that climate or environmental issues positively influence their votes on these proposals, yet their voting records on 2-Degree Scenario proposals, at well below 50%, suggest otherwise.

Executive Summary

Momentum on climate risk reporting proposals – in particular 2-Degree Scenario proposals – has continued to grow since last year’s unprecedented support for these proposals, with notable wins at ExxonMobil and Occidental Petroleum, and with proposals at ten more energy and utility companies receiving upwards of 40% support. More than a dozen such proposals have been filed for the 2018 proxy season. In addition, as in 2017, investors have continued to file proposals seeking more disclosure on the political spending practices of energy and utility companies, as they recognize the important connection between how a company approaches climate risk and how it engages with public policy institutions in the broader political sphere.

The 50/50 Climate Project publishes an annual Key Climate Votes Survey that identifies how the 30 largest money managers (by assets under management) voted on key climate vote during the preceding annual meeting “season.” The results of the 2017 Survey are discussed below. This report builds on that Survey by providing more in-depth and individualized information on the voting
practices of 24 of these managers, which may help investors as they contemplate votes on the key climate risk issues in 2018.

So far in 2018 the 50/50 Climate Project has identified twenty-one shareholder proposals submitted at energy and utility companies for the 2018 proxy season that are key to advancing action on climate risk as an important aspect of long-term shareholder value and sustainability. They include twelve proposals filed with energy and utility companies asking them to disclose the potential impact of climate regulation including of the International Energy Agency’s 450 Scenario (“2-Degree Scenario” or “2DS”), and nine proposals seeking greater disclosure of political spending from energy and utility companies.

**Table 1: 2018 Key Climate Votes as of March 1, 2018**

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>Proposal</th>
<th>% Support 2017</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2-Degree Scenario proposals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AES Corp</td>
<td>AES</td>
<td>Report on 2-degree analysis and strategy</td>
<td>40.1%</td>
<td>Vote For</td>
</tr>
<tr>
<td>Anadarko Petroleum</td>
<td>APC</td>
<td>Report on 2-degree analysis and strategy</td>
<td>NA</td>
<td>Vote For</td>
</tr>
<tr>
<td>CMS Energy</td>
<td>CMS</td>
<td>Report on 2-degree analysis and strategy</td>
<td>NA</td>
<td>Vote For</td>
</tr>
<tr>
<td>Devon Energy</td>
<td>DVN</td>
<td>Report on 2-degree analysis and strategy</td>
<td>41.4%</td>
<td>Vote For</td>
</tr>
<tr>
<td>Dominion Energy</td>
<td>D</td>
<td>Report on 2-degree analysis and strategy</td>
<td>45.0%</td>
<td>Vote For</td>
</tr>
<tr>
<td>DTE Energy</td>
<td>DTE</td>
<td>Report on 2-degree analysis and strategy</td>
<td>47.8%</td>
<td>Vote For</td>
</tr>
<tr>
<td>FirstEnergy</td>
<td>FE</td>
<td>Report on 2-degree analysis and strategy</td>
<td>43.4%</td>
<td>Vote For</td>
</tr>
<tr>
<td>Kinder Morgan</td>
<td>KMI</td>
<td>Report on 2-degree analysis and strategy</td>
<td>38.2%</td>
<td>Vote For</td>
</tr>
<tr>
<td>MGE Energy</td>
<td>MGEE</td>
<td>Report on 2-degree analysis and strategy</td>
<td>NA</td>
<td>Vote For</td>
</tr>
<tr>
<td>Noble Energy</td>
<td>NBL</td>
<td>Report on 2-degree analysis and strategy</td>
<td>NA</td>
<td>Vote For</td>
</tr>
<tr>
<td>PNM Resources</td>
<td>PNM</td>
<td>Report on 2-degree analysis and strategy</td>
<td>49.9%</td>
<td>Vote For</td>
</tr>
<tr>
<td>SCANA Corp</td>
<td>SCG</td>
<td>Report on 2-degree analysis and strategy</td>
<td>NA</td>
<td>Vote For</td>
</tr>
<tr>
<td><strong>Political spending proposals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chevron</td>
<td>CVX</td>
<td>Report on lobbying</td>
<td>29.1%</td>
<td>Vote For</td>
</tr>
<tr>
<td>CMS Energy</td>
<td>CMS</td>
<td>Report on election spending</td>
<td>36.2%</td>
<td>Vote For</td>
</tr>
<tr>
<td>ConocoPhillips</td>
<td>COP</td>
<td>Report on lobbying</td>
<td>23.9%</td>
<td>Vote For</td>
</tr>
<tr>
<td>Devon Energy</td>
<td>DVN</td>
<td>Disclose direct and indirect lobbying</td>
<td>35.9%</td>
<td>Vote For</td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>XOM</td>
<td>Report on lobbying</td>
<td>27.6%</td>
<td>Vote For</td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>XOM</td>
<td>Report on election spending</td>
<td>NA</td>
<td>Vote For</td>
</tr>
<tr>
<td>NextEra Energy</td>
<td>NEE</td>
<td>Report on election spending</td>
<td>41.2%</td>
<td>Vote For</td>
</tr>
<tr>
<td>NRG</td>
<td>NRG</td>
<td>Report on election spending</td>
<td>30.8%</td>
<td>Vote For</td>
</tr>
<tr>
<td>Range Resources</td>
<td>RRC</td>
<td>Report on election spending</td>
<td>36.8%</td>
<td>Vote For</td>
</tr>
</tbody>
</table>

*Source: Sustainable Investments Institute*

Two-Degree Scenario proposals ask their companies to provide a “2-degree scenario analysis” – a reference to the goal of limiting the global temperature increase to 2 degrees Celsius contained in the Paris climate accord – by assessing the impact on the company of long-term climate change in terms of how business strategies take into account climate-related risks to their business model such as persistently low oil prices, regulatory changes likely to accompany the Paris climate accord, and the increasing pace of developments in clean and renewable energy technology. These concerns are the
most acute at energy and utility companies, which are the largest emitters of greenhouse gases and are central to how energy and climate policies and practices play out.

In addition, nine political spending proposals are also key votes related to climate risk, similar to the six political spending proposals identified for 2017 as key to climate-impacting issues.¹ Political spending has grown exponentially in recent years, after the *Citizens United* decision loosened restrictions on political giving. Corporations now have tremendous power to influence climate and energy policy not only through their direct actions, but also through political donations. At the same time, a significant portion of corporate political money coming from energy and utility companies is being directed against any progress addressing climate change, including at the state level.

A new report just released by the 50/50 Climate Project, *Spending Against Change*,² documents the significant corporate influence in the political process. The report reveals that energy and utility companies have spent huge amounts of money in the last several election cycles ($673 million by 21 companies in the last six years). It traces the prevalence of energy and utility company money being directed towards both federal elections and lobbying as well as state and local election campaigns, and on important ballot initiatives to quash clean energy policies, where energy company monetary interventions have been particularly successful in swaying results. The report also exposes more hidden spending by companies to influence climate change policy in ways that are largely not reported to investors, via payments to non-profits that do not have to report their donors or how this “dark money” money is used, so that several companies clearly say one thing and spend money to do the opposite.

Shareholder proposals seeking disclosure on political spending are an important mechanism for uncovering whether companies say one thing and spend money to do another, and to help sever the link between corporate spending and the massive – and often hidden – efforts to undermine progress on climate risk mitigation.

This report proceeds as follows: The section below discusses overall results of the top twenty-four asset managers’ voting and disclosure on key climate votes from 2017, focusing on 2-Degree Scenario and political spending proposals. The remainder of the report comprises individual profiles on each of twenty-four of the top thirty asset managers covered in the 2017 Key Climate Vote (“KCV”) Survey. The profiles detail the manager’s historical votes on key climate-related proposals for 2016 and 2017 to provide context to investors on how managers may vote in 2018 on parallel proposals. The profiles also cover asset managers’ disclosure of their voting policies and procedures on climate-related issues by providing all relevant sections of the manager’s proxy voting guidelines and other publicly available statements. Where possible, the report notes whether managers’ voting practices appear to conflict with their policies. The profiles also incorporate any information managers disclosed that explains specific votes on climate risk or political spending proposals.

Asset managers wield tremendous power over the outcome of shareholder proposals. As these profiles and the results below demonstrate, this is no less true for these important climate-related proposals. It is therefore essential that investors learn what actions asset managers take on these proposals, and whether asset managers themselves are reporting on how they approach climate risk

¹ 50/50 Climate Project Key Climate Vote Survey 2017 at 8.
and the closely related issue of corporate political spending. In this way investors can hold their asset managers to account for their expectations and for asset managers’ own policies and promises.

Results

Historical results

As Table 2 shows, in 2017, half of the top twenty-four asset managers covered in this report voted for all KCVS climate-related proposals more than 50% of the time, and those twelve also voted more than 50% of the time for the key 2-Degree Scenario proposals.

<table>
<thead>
<tr>
<th>Asset Manager</th>
<th>Rank by size</th>
<th>% Support for 2017 Key Climate Votes</th>
<th>% Support for 2 Degree proposals 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFS INVESTMENT MANAGEMENT</td>
<td>23</td>
<td>91%</td>
<td>100%</td>
</tr>
<tr>
<td>DEUTSCHE ASSET MANAGEMENT</td>
<td>15</td>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>NUVEEN</td>
<td>12</td>
<td>88%</td>
<td>100%</td>
</tr>
<tr>
<td>LEGG MASON</td>
<td>17</td>
<td>85%</td>
<td>86%</td>
</tr>
<tr>
<td>WELLS FARGO</td>
<td>20</td>
<td>85%</td>
<td>100%</td>
</tr>
<tr>
<td>ALLIANCEBERNSTEIN</td>
<td>21</td>
<td>81%</td>
<td>100%</td>
</tr>
<tr>
<td>MORGAN STANLEY</td>
<td>24</td>
<td>79%</td>
<td>100%</td>
</tr>
<tr>
<td>UBS</td>
<td>19</td>
<td>78%</td>
<td>73%</td>
</tr>
<tr>
<td>AFFILIATED MANAGERS GROUP</td>
<td>16</td>
<td>71%</td>
<td>89%</td>
</tr>
<tr>
<td>NORTHERN TRUST</td>
<td>11</td>
<td>61%</td>
<td>100%</td>
</tr>
<tr>
<td>STATE STREET</td>
<td>3</td>
<td>61%</td>
<td>57%</td>
</tr>
<tr>
<td>GOLDMAN SACHS</td>
<td>10</td>
<td>58%</td>
<td>71%</td>
</tr>
<tr>
<td>FRANKLIN TEMPLETON</td>
<td>18</td>
<td>39%</td>
<td>46%</td>
</tr>
<tr>
<td>PRUDENTIAL</td>
<td>9</td>
<td>38%</td>
<td>36%</td>
</tr>
<tr>
<td>PIMCO</td>
<td>7</td>
<td>35%</td>
<td>29%</td>
</tr>
<tr>
<td>FIDELITY</td>
<td>4</td>
<td>30%</td>
<td>14%</td>
</tr>
<tr>
<td>AMERICAN FUNDS/CAPITAL GROUP</td>
<td>8</td>
<td>29%</td>
<td>40%</td>
</tr>
<tr>
<td>INVEESCO</td>
<td>13</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>T ROWE</td>
<td>14</td>
<td>24%</td>
<td>36%</td>
</tr>
<tr>
<td>JP MORGAN</td>
<td>6</td>
<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>BNY MELLON</td>
<td>5</td>
<td>19%</td>
<td>0%</td>
</tr>
<tr>
<td>DIMENSIONAL</td>
<td>22</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>VANGUARD</td>
<td>2</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>BLACKROCK</td>
<td>1</td>
<td>9%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Of course this also means half of the top twenty-four asset managers failed to support key climate-related proposals in 2017 even half of the time. And five of the top managers supported key proposals only 15% of the time or less. Moreover, eight of the top ten asset managers by size are in the bottom half – that is, they failed to support key climate-related proposals in 2017 even 50% of the time.
Figure 3 shows voting results for both 2017 and 2016 by asset manager, allowing investors to determine which asset managers have increased or decreased their support for climate-related proposals in the last two proxy seasons.

Figure 3: Support for 2-Degree Scenario Proposals, 2016-2017

Most improved:
- Legg Mason (+69%)
- Franklin Templeton (+46%)
- Capital Group (+40%)
- Wells Fargo (+33%)

Biggest decline:
- PIMCO (-71%)
- State Street (-26%)
- T. Rowe Price (-14%)
- Affiliated (-11%)

2017 Votes: AEE, DVN, D, DTE, DUKE, XOM, FE, KMI, MPC, OXY, PNM, PPL, SO, AES
2016 Votes: CVX, DVN, XOM, OXY, AES, SO
Looking to 2018

To consider the prospects for 2018 proposals, Tables 4a and 4b show prior results for the key 2017 2-Degree Scenario and political spending proposals. In Table 4a, the companies where 2-Degree proposals have been re-filed for this year are highlighted, including at PNM where the proposal received 49.9% approval last year. Table 4b similarly indicates the 2017 companies where political spending disclosure proposals are again on the ballot for 2018.

Table 4a. 2017 2-Degree Scenario votes at energy and utility cos.³

<table>
<thead>
<tr>
<th>Company</th>
<th>% Support 2017</th>
<th>Times submitted including 2017</th>
<th>Re-filed 2018?</th>
</tr>
</thead>
<tbody>
<tr>
<td>AES Corp</td>
<td>40.1</td>
<td>2</td>
<td>YES</td>
</tr>
<tr>
<td>Ameren</td>
<td>47.5</td>
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<td>YES</td>
</tr>
<tr>
<td>Devon</td>
<td>41.4</td>
<td>2</td>
<td>YES</td>
</tr>
<tr>
<td>Dominion</td>
<td>47.8</td>
<td>1</td>
<td>YES</td>
</tr>
<tr>
<td>DTE Energy</td>
<td>45.0</td>
<td>1</td>
<td>YES</td>
</tr>
<tr>
<td>Duke Energy</td>
<td>46.4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>62.1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>FirstEnergy</td>
<td>43.4</td>
<td>1</td>
<td>YES</td>
</tr>
<tr>
<td>Kinder Morgan</td>
<td>38.2</td>
<td>1</td>
<td>YES</td>
</tr>
<tr>
<td>Marathon</td>
<td>40.9</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Occidental</td>
<td>67.3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>PNM Resources</td>
<td>49.9</td>
<td>1</td>
<td>YES</td>
</tr>
<tr>
<td>PPL Corp</td>
<td>56.8</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Southern Co</td>
<td>45.7</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Table 4b: 2017 political spending disclosure proposals at energy and utility cos.

<table>
<thead>
<tr>
<th>Company</th>
<th>% Support 2017</th>
<th>Times submitted including 2017</th>
<th>Re-filed 2018?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chevron</td>
<td>29.1</td>
<td>1</td>
<td>YES</td>
</tr>
<tr>
<td>CononoPhillips</td>
<td>23.9</td>
<td>2</td>
<td>YES</td>
</tr>
<tr>
<td>Devon</td>
<td>35.9</td>
<td>2</td>
<td>YES</td>
</tr>
<tr>
<td>Duke Energy</td>
<td>33.3</td>
<td>2</td>
<td>YES</td>
</tr>
<tr>
<td>ExxonMobil*</td>
<td>26.7</td>
<td>5</td>
<td>YES</td>
</tr>
<tr>
<td>Next Era Energy</td>
<td>41.2</td>
<td>3</td>
<td>YES</td>
</tr>
<tr>
<td>NRG</td>
<td>30.8</td>
<td>2</td>
<td>YES</td>
</tr>
<tr>
<td>Range Resources</td>
<td>36.8</td>
<td>2</td>
<td>YES</td>
</tr>
</tbody>
</table>

*Two political spending proposals have been filed at XOM; this table refers to the proposal on lobbying. The proposal on election spending was not presented in 2017.

The power that comes with significant ownership stakes

The largest asset managers clearly have the power to sway the voting outcomes of many of these proposals. Managers with significant ownership stakes at energy and utility companies with key

³ In Tables 4a and 4b, percent support is calculated as the number of shares voted in favor of the proposal divided by the sum of the number of shares voted for the proposal and the number of shares voted against the proposal. The percent support thus excludes abstentions and broker non-votes.
proposals for 2018 are listed in Table 5. Indeed, several key 2-Degree Scenario proposals would have passed last year if just one of the three largest asset managers had voted in support, as indicated in Figures 5a and 5b. It is worth noting that ISS recommended a vote FOR each of the fourteen 2-Degree Scenario proposals for 2017 highlighted here, so these large asset managers went against ISS recommendations in multiple cases. As the next section and the individual profiles describe, moreover, some of the biggest asset managers state they will take seriously the need for information to assess potential business risks associated with climate change and related issues but have often failed to support shareholder proposals that reflect their statements and/or stated priorities.

<table>
<thead>
<tr>
<th>Company</th>
<th>Blackrock</th>
<th>Vanguard</th>
<th>State Street</th>
</tr>
</thead>
<tbody>
<tr>
<td>AES Corp</td>
<td>11.3%</td>
<td>11.2%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Ameren</td>
<td>6.3%</td>
<td>10.2%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Anadarko</td>
<td>7.6%</td>
<td>6.7%</td>
<td>5.1%</td>
</tr>
<tr>
<td>CMS Energy</td>
<td>10.1%</td>
<td>9.8%</td>
<td>5.3%</td>
</tr>
<tr>
<td>ConocoPhillips</td>
<td>6.5%</td>
<td>6.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Devon Energy</td>
<td>8.7%</td>
<td>8.0%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Dominion</td>
<td>7.5%</td>
<td>6.7%</td>
<td></td>
</tr>
<tr>
<td>DTE Energy</td>
<td>8.6%</td>
<td>10.2%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Duke Energy</td>
<td>6.1%</td>
<td>6.8%</td>
<td></td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>6.0%</td>
<td>7.0%</td>
<td></td>
</tr>
<tr>
<td>FirstEnergy</td>
<td>8.1%</td>
<td>7.9%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Great Plains</td>
<td>10.5%</td>
<td>8.6%</td>
<td></td>
</tr>
<tr>
<td>Kinder Morgan</td>
<td>5.2%</td>
<td>5.9%</td>
<td></td>
</tr>
<tr>
<td>Marathon</td>
<td>11.1%</td>
<td>6.9%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Noble Energy</td>
<td>6.8%</td>
<td>6.6%</td>
<td>6.5%</td>
</tr>
<tr>
<td>NRG</td>
<td>6.4%</td>
<td>10.3%</td>
<td></td>
</tr>
<tr>
<td>Occidental</td>
<td>7.8%</td>
<td>6.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>PNM Resources</td>
<td>10.2%</td>
<td>8.5%</td>
<td></td>
</tr>
<tr>
<td>PPL Corp</td>
<td>7.0%</td>
<td>7.0%</td>
<td></td>
</tr>
<tr>
<td>Scana Corp</td>
<td>8.6%</td>
<td>9.2%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Southern Co</td>
<td>6.1%</td>
<td>6.7%</td>
<td></td>
</tr>
<tr>
<td>WEC Energy</td>
<td>8.0%</td>
<td>9.8%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Table 5: Significant ownership positions in key energy and utility cos. Companies where 2DS proposals were filed in 2017 but did not pass are highlighted. Source: 2017 Proxy filings.
Table 5a. If Blackrock had voted yes, ten additional 2DS proposals would have gained majority support: PNM, Dominion, Ameren, Duke, Southern, DTE, FirstEnergy, Devon, Marathon Petroleum, and AES.

<table>
<thead>
<tr>
<th>Company</th>
<th>2017 Vote</th>
<th>Blackrock Vote</th>
</tr>
</thead>
<tbody>
<tr>
<td>OXY</td>
<td>67.3%</td>
<td>62.1%</td>
</tr>
<tr>
<td>XOM</td>
<td>63.8%</td>
<td>60.1%</td>
</tr>
<tr>
<td>PPL</td>
<td>55.3%</td>
<td>53.8%</td>
</tr>
<tr>
<td>PNM</td>
<td>52.5%</td>
<td>51.8%</td>
</tr>
<tr>
<td>D</td>
<td>53.6%</td>
<td>51.5%</td>
</tr>
<tr>
<td>AEE</td>
<td>51.0%</td>
<td>50.1%</td>
</tr>
<tr>
<td>DUK</td>
<td>52.0%</td>
<td>51.4%</td>
</tr>
<tr>
<td>SO</td>
<td>47.3%</td>
<td>47.8%</td>
</tr>
<tr>
<td>DTE</td>
<td>47.5%</td>
<td>47.0%</td>
</tr>
<tr>
<td>FE</td>
<td>45.3%</td>
<td>45.0%</td>
</tr>
<tr>
<td>DVN</td>
<td>44.0%</td>
<td>43.4%</td>
</tr>
<tr>
<td>MPC</td>
<td>40.9%</td>
<td>40.1%</td>
</tr>
<tr>
<td>AES</td>
<td>38.2%</td>
<td>38.2%</td>
</tr>
<tr>
<td>KMI</td>
<td>5.2%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Table 5b. If Vanguard had voted yes, eight more 2ds proposals would have had majority support: AEE, D, DTE, DUK, FE, PNM, SO, and AES.

<table>
<thead>
<tr>
<th>Company</th>
<th>2017 Vote</th>
<th>Vanguard Vote</th>
</tr>
</thead>
<tbody>
<tr>
<td>OXY</td>
<td>67.3%</td>
<td>62.1%</td>
</tr>
<tr>
<td>XOM</td>
<td>63.8%</td>
<td>60.1%</td>
</tr>
<tr>
<td>PPL</td>
<td>55.3%</td>
<td>53.8%</td>
</tr>
<tr>
<td>PNM</td>
<td>52.5%</td>
<td>51.8%</td>
</tr>
<tr>
<td>D</td>
<td>53.6%</td>
<td>51.5%</td>
</tr>
<tr>
<td>AEE</td>
<td>51.0%</td>
<td>50.1%</td>
</tr>
<tr>
<td>DUK</td>
<td>52.0%</td>
<td>51.4%</td>
</tr>
<tr>
<td>SO</td>
<td>47.3%</td>
<td>47.8%</td>
</tr>
<tr>
<td>DTE</td>
<td>47.5%</td>
<td>47.0%</td>
</tr>
<tr>
<td>FE</td>
<td>45.3%</td>
<td>45.0%</td>
</tr>
<tr>
<td>DVN</td>
<td>44.0%</td>
<td>43.4%</td>
</tr>
<tr>
<td>MPC</td>
<td>40.9%</td>
<td>40.1%</td>
</tr>
<tr>
<td>AES</td>
<td>38.2%</td>
<td>38.2%</td>
</tr>
<tr>
<td>KMI</td>
<td>5.2%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>
Disclosure

Just as companies ought to disclose their measures to address climate risk, asset managers should provide a clear picture to investors about how they assess climate risk and related issues such as political spending when voting their proxies, and should vote according to these policies, as well as their public statements and positions. Therefore we have also assembled each of the twenty-four asset managers’ own voting policies and statements regarding 2-Degree Scenario and political spending proposals, to the extent the asset manager discloses this information. This information is detailed in the individual profiles, and Table 6 below provides a summary comparison of levels of disclosure.

Table 6: Disclosure of proxy voting policies on climate risk and political spending

<table>
<thead>
<tr>
<th>Asset Manager (by AUM)</th>
<th>Voting policy: Climate or environmental proposals</th>
<th>Statement on climate or environment in other material</th>
<th>Voting guidelines: Political spending proposals</th>
<th>Provided details on specific votes?</th>
<th>% Support on 2017 2-Degree Scenario Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock IV</td>
<td>IV</td>
<td>A</td>
<td>Yes</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Vanguard Asset Management IV</td>
<td>IV</td>
<td>I</td>
<td>Yes</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>State Street I</td>
<td>I</td>
<td>0</td>
<td>Yes but inaccurate*</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>Fidelity D</td>
<td>mixed (D by indexed)</td>
<td></td>
<td>No</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>BNY</td>
<td>0</td>
<td>0</td>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>JP Morgan IV</td>
<td>IV</td>
<td>I</td>
<td>D</td>
<td>No</td>
<td>8</td>
</tr>
<tr>
<td>PIMCO</td>
<td>0</td>
<td>I</td>
<td>0</td>
<td>No</td>
<td>29</td>
</tr>
<tr>
<td>Capital Group 0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>No</td>
<td>40</td>
</tr>
<tr>
<td>Prudential 0</td>
<td>0</td>
<td>0</td>
<td>No</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Goldman Sachs V</td>
<td>A</td>
<td></td>
<td>No</td>
<td>71</td>
<td>71</td>
</tr>
<tr>
<td>Northern Trust V</td>
<td>A</td>
<td></td>
<td>No</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Nuveen V</td>
<td>V</td>
<td></td>
<td>No</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Invesco D</td>
<td>I</td>
<td>0</td>
<td>No</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>T. Rowe Price IV</td>
<td>IV</td>
<td>D</td>
<td>No</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Deutsche V</td>
<td>V</td>
<td></td>
<td>No</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Affiliated 0</td>
<td>0</td>
<td>0</td>
<td>No</td>
<td>89</td>
<td>89</td>
</tr>
<tr>
<td>Legg Mason 0</td>
<td>0</td>
<td>I</td>
<td>0</td>
<td>No</td>
<td>86</td>
</tr>
<tr>
<td>Franklin Templeton IV</td>
<td>IV</td>
<td>I</td>
<td>No</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>UBS 0</td>
<td>0</td>
<td>I</td>
<td>0</td>
<td>No</td>
<td>73</td>
</tr>
<tr>
<td>Wells Fargo 0</td>
<td>0</td>
<td>0</td>
<td>No</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Alliance-Bernstein V</td>
<td>V</td>
<td></td>
<td>No</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Dimensional Fund Advisors 0</td>
<td>D</td>
<td>0</td>
<td>Yes</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>MFS V</td>
<td>V</td>
<td></td>
<td>No</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Morgan Stanley IV</td>
<td>IV</td>
<td>0</td>
<td>No</td>
<td>93</td>
<td>93</td>
</tr>
</tbody>
</table>

Key:
D: Approach to issue is disclosed
I: Policy or statement indicates issue positively influences action
IV: Policy or statement indicates issue positively influences voting
V: Policy or statement indicates manager generally votes yes on shareholder proposals seeking greater disclosure on this issue
A: Policy or statement indicates manager generally votes against shareholder proposals on this issue
Mixed: Manager has mixed policies/different policies for different funds
0: No information found

*See State Street profile that follows*
The table shows that disclosure varies widely among top managers, and does not necessarily accord with how managers vote on these proposals. Nine asset managers fail to disclose how climate risk or general environmental issues affect voting at all. Four of the biggest asset managers (BlackRock, Vanguard, J.P. Morgan and T.Rowe Price) indicate that climate or environmental issues positively influence their votes on these proposals, yet their voting records on 2-Degree Scenario proposals, at well below 50%, suggest otherwise.

Other asset managers such as Wells Fargo, Affiliated, and Legg Mason, vote regularly in favor of 2DS proposals but fail to inform their investors of voting guidelines that indicate this positive outcome. Managers such as AllianceBernstein, MFS, and Deutsche Asset Management commendably indicate in their proxy voting guidelines that they generally support proposals to enhance disclosure of both environmental risks and corporate political spending and also vote accordingly, and thus supported all or almost all key 2-Degree Scenario and political spending disclosure proposals at energy and utility companies in 2017.

* * * * *

As investors prepare for the 2018 proxy season, we urge them to examine how their asset managers voted on key 2017 climate proposals and assess whether asset managers disclose sufficient information to inform them why the managers voted as they did in 2017. We also encourage investors to engage the managers on their vote decisions for key proposals in 2018. It is our hope that with this additional information, investors will be better able to evaluate their asset managers’ voting decisions on key proposals and better able to engage their managers on whether their votes are aligned with pursuing the long-term value they seek.

Methodology

The methodology used in this report is the same as that used in the Key Climate Vote Survey for 2017, as follows:

Asset management firms are listed in descending order of global assets under management (AUM) as of December 31, 2016 according to Investments & Pensions Europe. Asset managers that cast fewer than 50% of Key Votes were excluded from the survey; as a result the following asset managers do not appear in the survey: Natixis, Schroder, HSBC, Credit Suisse and RBC.

All voting results are drawn from either the 2016 or the 2017 50/50 Climate Project Key Climate Votes Survey, and to avoid citing these publications multiple times, we only cite sources other than those surveys where relevant. Data contained in those surveys on mutual fund voting were provided by Fund Votes, an independent project that tracks mutual fund proxy voting in the U.S. and Canada. Since 2004, registered management investment companies have been required by the SEC to publicly disclose how they cast their proxy votes. The mutual fund voting data are associated with the asset manager that manages the fund.

The percentage score is calculated by dividing the number of votes that match the recommendations in this report by the sum of (a) those same matching votes plus (b) the votes that were inconsistent
with the recommendations. In the case of asset managers whose funds cast varying votes on the same proxy issue, a vote of ‘for’, ‘against’ or ‘abstain’ for a particular proposal is assigned to an asset manager if at least 50% of funds within the family vote accordingly on a single resolution. If there is not a consistent voting record on a proposal of at least 50% then the vote is classified as “mixed” and is excluded from the calculation of the score. As a result, the following asset managers do not appear in the survey: AXA Investment Managers and Allianz Global Investors. Abstentions are counted as votes that are inconsistent with the voting recommendations of this survey.

The profiles that follow are in order according to size.
Climate-Related Voting and Disclosure Profiles of Top Asset Managers
During the 2017 proxy season, Blackrock, Inc. voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey just 9% of the time. This is similar to 2016, when Blackrock voted in support of 50/50 Climate Project Key Climate Votes Survey votes just 12% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Blackrock fully supported only 14%.


Blackrock’s 14% support in 2017 represents a small improvement over 2016, when Blackrock did not support any 2-Degree Scenario proposals.

Impact of Blackrock’s 2017 “NO” votes

BlackRock owns more than 5% of several energy and utility companies that received 2-Degree Scenario proposals in 2017. In fact, of the twelve additional companies where 2-Degree proposals were filed, the proposals at ten additional companies would have garnered majority support if BlackRock had voted in favor of them. 2-Degree proposals have been re-filed at several of these companies: Devon, FirstEnergy, AES Corp., Dominion, DTE Energy and PNM. See Table 5a in the Executive Summary.

Political spending disclosure proposals

Blackrock also voted against all shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.

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4 All voting results in this profile are taken from the 50/50 Climate Project Key Climate Votes Survey 2017 or the 50/50 Climate Project Key Climate Votes Survey 2016 unless otherwise stated.

5 Ameren (AEE): 53.4% with Blackrock vs. 47.5% without, Dominion (D): 55.3% vs. 47.8%, DTE Energy (DTE): 53.6% vs. 45.0%, Devon Energy (DVN): 50.1% vs. 41.4%, Duke Energy (DUK): 52.5% vs. 46.4%, FirstEnergy Corp (FE): 51.5% vs. 43.4%, Marathon Petroleum (MPC): 52.0% vs. 40.9%, PNM Resources (PNM): 60.1% vs. 49.9%, Southern Co (SO): 51.8% vs. 45.7%, AES Corp (AES): 51.4% vs. 48.1%.
Proxy voting policies

Climate or Environmental Risk

BlackRock’s proxy voting guidelines state the following with respect to environmental issues generally:

Our fiduciary duty to clients is to protect and enhance their economic interest in the companies in which we invest on their behalf. It is within this context that we undertake our corporate governance activities. We believe that well-managed companies will deal effectively with the material environmental and social (“E&S”) factors relevant to their businesses.

BlackRock expects companies to identify and report on the material, business-specific E&S risks and opportunities and to explain how these are managed. This explanation should make clear how the approach taken by the company best serves the interests of shareholders and protects and enhances the long-term economic value of the company. The key performance indicators in relation to E&S matters should also be disclosed and performance against them discussed, along with any peer group benchmarking and verification processes in place. This helps shareholders assess how well management is dealing with the material E&S factors relevant to the business. Any global standards adopted should also be disclosed and discussed in this context.

We may vote against the election of directors where we have concerns that a company might not be dealing with E&S issues appropriately. Sometimes we may reflect such concerns by supporting a shareholder proposal on the issue, where there seems to be either a significant potential threat or realized harm to shareholders’ interests caused by poor management of material E&S matters. In deciding our course of action, we will assess the nature of our engagement with the company on the issue over time, including whether:

- The company has already taken sufficient steps to address the concern
- The company is in the process of actively implementing a response
- There is a clear and material economic disadvantage to the company in the near-term if the issue is not addressed in the manner requested by the shareholder proposal

More commonly, given that these are often not voting issues, we will, or have, engage(d) directly with the board or management. We do not see it as our role to make social, ethical or political judgments on behalf of clients, but rather, to protect their long-term economic interests as shareholders. We expect investee companies to comply, at a minimum, with the laws and regulations of the jurisdictions in which they operate. They should explain how they manage situations where such laws or regulations are contradictory or ambiguous.6

Political Spending

BlackRock states the following with regard to “Corporate Political Activity” in its guidelines:

Companies may engage in certain political activities, within legal and regulatory limits, in order to influence public policy consistent with the companies’ values and strategies, and thus serve

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shareholders’ best long-term economic interests. These activities can create risks, including: the potential for allegations of corruption; the potential for reputational issues associated with a candidate, party or issue; and risks that arise from the complex legal, regulatory and compliance considerations associated with corporate political activity. We believe that companies which choose to engage in political activities should develop and maintain robust processes to guide these activities and to mitigate risks, including a level of board oversight.

When presented with shareholder proposals requesting increased disclosure on corporate political activities, we may consider the political activities of that company and its peers, the existing level of disclosure, and our view regarding the associated risks. We generally believe that it is the duty of boards and management to determine the appropriate level of disclosure of all types of corporate activity, and we are generally not supportive of proposals that are overly prescriptive in nature. We may determine to support a shareholder proposal requesting additional reporting of corporate political activities where there seems to be either a significant potential threat or actual harm to shareholders’ interests and where we believe the company has not already provided shareholders with sufficient information to assess the company’s management of the risk.

Finally, we believe that it is not the role of shareholders to suggest or approve corporate political activities; therefore we generally do not support proposals requesting a shareholder vote on political activities or expenditures.

Importantly, since the 2017 proxy season, BlackRock announced a new vision and policy regarding corporate responsibility: that companies ignore society and long-term sustainability at their peril, and that BlackRock will actively seek to hold corporations accountable to this vision through direct engagement. In a letter in January 2018 to corporate executives, BlackRock’s chief executive Lawrence Fink explained the basis of this rationale:

We also see many governments failing to prepare for the future, on issues ranging from retirement and infrastructure to automation and worker retraining. As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater. Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.

Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth. It will remain exposed to activist campaigns that articulate a clearer goal, even if that goal serves only the shortest and narrowest of objectives. And ultimately, that company will provide subpar returns to the investors who depend on it to finance their retirement, home purchases, or higher education.
Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders…

Mr. Fink further explained that he envisions a new model of shareholder engagement with corporations that emphasizes discussion regarding strategies for long-term growth that consider all of the corporation’s stakeholders:

*The time has come for a new model of shareholder engagement – one that strengthens and deepens communication between shareholders and the companies that they own. I have written before that companies have been too focused on quarterly results; similarly, shareholder engagement has been too focused on annual meetings and proxy votes. If engagement is to be meaningful and productive – if we collectively are going to focus on benefitting shareholders instead of wasting time and money in proxy fights – then engagement needs to be a year-round conversation about improving long-term value…*

In order to make engagement with shareholders as productive as possible, companies must be able to describe their strategy for long-term growth. … The statement of long-term strategy is essential to understanding a company’s actions and policies, its preparation for potential challenges, and the context of its shorter-term decisions. Your company’s strategy must articulate a path to achieve financial performance. To sustain that performance, however, you must also understand the societal impact of your business as well as the ways that broad, structural trends – from slow wage growth to rising automation to climate change – affect your potential for growth.

Mr. Fink did not explain exactly how the new approach would affect BlackRock’s proxy voting practices beyond his statements that BlackRock will seek to deepen ongoing engagement rather than focusing exclusively on annual meetings and proxy votes.

*Information on specific votes*

Blackrock issued statements explaining its votes on in favor of 2-Degree proposals at Occidental and ExxonMobil in 2017.

In its bulletin on its Occidental vote, Blackrock noted that one of its five engagement priorities is encouraging disclosure on climate risk policies and practices, in line with the Task Force on Climate-related Financial Disclosures (TCFD). It further noted that prior to the 2016 vote, it had supported management to allow the company time to address the issues raised in the proposal in a manner that made sense for its business model and, finally, that the 2016 OXY 2-Degree proposal had received nearly majority support of shareholders. Despite what it considered a positive evolution in tone and content of the OXY board’s response to the 2017 2DS proposal, Blackrock observed:

“In this instance, we would have expected the company to provide shareholders with enhanced information about its views on managing climate-related risks and opportunities, in line with

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incremental improvements made by other similarly situated oil and gas companies in the US and Europe, including those by peer companies included in Oxy’s proxy statement.

Notwithstanding the improved board response in the proxy, we remain concerned about the lack of discernable improvements to the company’s reporting practices.

On balance, following our engagement on this topic over the past two years and the lack of observed change in reporting practices, we voted in favor of the shareholder proposal at the 2017 AGM. 10

In other words, despite an evolution in the tone and content of the OXY board’s response to the proposal, the fact that that response was not matched with greater disclosure led Blackrock to vote for the proposal.

In the case of Exxon Mobil, Blackrock stated that it had voted with management in 2016 “in expectation of meaningful improvements in reporting.” 11 Blackrock went on to spell out its criteria for determining how to vote on 2DS proposals:

“In making our vote decisions on the 2-degree scenario shareholder proposals over the past two years, we have assessed the company’s existing reporting on climate risks, energy supply/demand forecasts, carbon pricing expectations, stress testing and project planning approach, and board oversight of related risks.” 12

Blackrock further stated that although Exxon issued the “2016 Energy & Carbon Summary” following the 2016 AGM, it was concerned that Exxon’s reporting did not substantially address a 2-degree scenario and thus voted for the proposal in 2017. 13

Viewed together, the key takeaways from Blackrock’s bulletins seem to be:
- It did not vote for 2DS proposals the first year they were proposed to give management a chance to improve reporting,
- Where company reporting did not include a 2-degree scenario, it supported the 2DS proposal in the second year.
- Blackrock also noted the strong shareholder support in prior year votes, though did not spell out a threshold for what was considered strong support.

Blackrock does not appear to have issued bulletins on its votes against the other twelve 2-Degree Scenario proposals.

Conclusion

In light of BlackRock’s policies and explanations of specific votes at OXY and Exxon, it is unclear why Blackrock did not support 2-Degree Scenario proposals at Devon Energy, Southern Company, and AES Corp., which also faced 2-Degree proposals in both 2016 and 2017. The proposals at all three companies received significant shareholder support in 2016 – 36% at Devon, 34% at Southern, and

42% at AES (compared to 38% at Exxon Mobil and 49% at Occidental Petroleum). Disclosure is similarly lacking: for example, while Southern Company indicates that it utilizes a scenario process for long-term resource planning, it does not disclose the impact of the IEA 450 (2-degree) scenario.\textsuperscript{14} Devon Energy and AES Corporation, similarly, do not report on the impact of the IEA 450 (2-degree) scenario.\textsuperscript{15}

More generally, BlackRock has stated its concerns regarding long-term sustainability and corporate responsiveness to this issue, but these concerns have not translated into strong support for 2-Degree Scenario proposals, even at energy and utility companies that have the weightiest carbon footprints and risk from climate change, and even where the path of 2-Degree proposals seems in line with events at companies where BlackRock voted in favor of these proposals.

Finally, while BlackRock has articulated a commendable vision of corporate responsibility in its January 2018 letter to corporations, it has not disclosed how such a robust sense of corporate purpose will be reconciled with either its uneven support for 2-Degree proposals or its more thorough rejection of political spending disclosure efforts by shareholders, which are also strongly linked to climate risk and broader societal issues important to stakeholders.

\textsuperscript{15} CDP 2017 Climate Change 2017 Information Request, Devon Energy. CDP 2017 Climate Change Information Request, AES Corporation.
During the 2017 proxy season, Vanguard voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 15% of the time. This is slightly worse than in 2016, when Vanguard voted in support of 50/50 Climate Project Key Climate Votes 22% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). In the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Vanguard voted in favor 14% of the time.


Vanguard Fund supported 2017 2-Degree Scenario votes 0% of the time in 2016, so its support of these proposals increased in 2017.

Political spending disclosure proposals

Vanguard voted against all shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.

Specifically, Vanguard voted against proposals calling for disclosure of political contributions at NRG and disclosure of lobbying spending at Chevron, ConocoPhillips, Devon Energy, and Duke Energy, and FirstEnergy.

Impact of Vanguard’s “NO” votes

Vanguard holds significant ownership positions in almost all of the key energy and utility companies where shareholders voted on 2-Degree proposals last year. Indeed, eight out of twelve additional proposals calling for greater disclosure of climate risk, including the proposals at AES Corp and Southern, would have received majority support had Vanguard voted in favor of them. See Table 5b in Executive Summary. 2-Degree Scenario proposals have been re-filed at several of these companies: Devon, FirstEnergy, AES Corp., Dominion, DTE Energy and PNM.

Proxy voting policies

*Climate or Environmental Risk*
In its 2017 Investment Stewardship Annual Report, Vanguard noted “for the first time our funds supported two climate-related shareholder resolutions in cases where we believed that companies’ disclosure practices weren’t on par with emerging expectations in the market.”\(^{16}\)

Following these votes, Vanguard took several steps to explain its policies going forward. Glenn Booraem, Vanguard’s investment stewardship officer, said, “To the extent there are significant risks to a company’s long-term value proposition, we want to make sure there is long-term disclosure of those risks to the market.”\(^{17}\)

Vanguard also provided guidance for companies on what to expect for future votes:

First, companies should expect that we’re going to focus on their public disclosures, both about the risk itself and about their board’s and management’s oversight of that risk. Thorough disclosure is the foundation for the market’s understanding of the issue.

Second, companies should expect that we’ll evaluate their disclosures in the context of both their leading peers and evolving market standards, such as those articulated by the Sustainability Accounting Standards Board (SASB).

Third, they should expect that we’ll listen to their perspective on these and other matters.

And finally, they should see our funds’ proxy voting as an extension of our engagement. When we consider a shareholder resolution on climate risk, we give companies a fair hearing on the merits of the proposal and consider their past commitments and the strength of their governance structure.\(^{18}\)

Information on specific climate votes

Vanguard also discussed its specific rationales for voting in favor of 2-Degree proposals at Exxon Mobil and Occidental (while it did not specifically name the companies it is relatively easy to figure out which is which):

Exxon Mobil:

“For years we engaged with a U.S. energy company that lagged its peers on climate risk disclosure and board accessibility. This year, a shareholder proposal requesting that the company produce a climate risk assessment report demonstrated a compelling link between the requested disclosures and long-term shareholder value. Because the board serves on behalf of shareholders and plays a critical role in risk oversight, we believed it was appropriate to seek a direct dialogue with independent directors about climate risk. Management resisted connecting the independent directors with shareholders, making the company a significant industry outlier in good governance practice. Without the confidence that the board understood or represented our view that climate risk poses a material risk in the energy sector, our team viewed the climate risk

\(^{17}\) “Vanguard seeks corporate disclosure on risks from climate change,” Reuters, Aug 14, 2017.
and governance issues as intertwined. Ultimately, our funds voted for the shareholder proposal and withheld votes on relevant independent directors for failing to engage with shareholders.\textsuperscript{19}

Occidental:

“A shareholder proposal at a U.S. energy company asked for an annual report with climate risk disclosure, including scenario planning. Through extensive research and engagements with the company’s management, its independent directors, and other industry stakeholders, our team identified governance shortfalls and a clear connection to long-term shareholder value. The company lagged its peers in disclosure, risk planning, and board oversight and responsiveness to shareholder concerns. Crucially, although the company’s public filings identified climate risk as a material issue, it failed to articulate plans for mitigation or adaptation. A similar proposal last year garnered significant support, but the company made no meaningful changes in response. Engagement had limited effect, so our funds voted for the shareholder proposal.\textsuperscript{20}

Thus it appears that Vanguard supported the 2-Degree proposal at ExxonMobil in large part because management refused to provide access to independent directors.

At Occidental, lack of material change following significant support on a similar proposal in 2016 led Vanguard to support the 2DS proposal there.

Vanguard also described the rationale for a few of its votes against 2DS proposals, again without providing names of companies:

“Our team led similar engagements with two U.S. energy companies facing shareholder resolutions on climate risk. One resolution requested that the first company publish an annual report on climate risk impacts and strategy. At the second company, a resolution requested disclosure of the company’s strategy and targets for transitioning to a low carbon economy. In both cases, when we engaged with the companies, their management teams committed to improving their climate risk disclosure. Given the companies’ demonstrated responsiveness to shareholder feedback and commitment to improving, our funds did not support either shareholder proposal. Our team will continue to track and evaluate the companies’ progress toward their commitments as we consider our votes in future years.\textsuperscript{21}

Thus, Vanguard seems to be articulating a policy of giving company management a year of leeway to implement disclosure.

In terms of disclosure standards, Vanguard cites the Sustainability Accounting Standards Board (SASB) standard rather than the Task Force on Climate-related Financial Disclosures. SASB has recently supported the TCFD recommended disclosures including a description of the resilience of the company’s strategy taking into consideration different climate-related scenarios, including a 2°C scenario.\textsuperscript{22}


\textsuperscript{22} Vanguard 2017 Investment Stewardship Annual Report, Aug 2017.
Political spending

Vanguard has not commented on its proxy voting policy regarding political spending or lobbying proposals.

Conclusion

Although it is laudable that Vanguard voted in favor of proposals at ExxonMobil and Occidental, its policies and rationale for those votes indicate it also should have supported 2DS proposals at Devon Energy, Southern Company, and AES Corp. All three companies faced 2DS proposals in both 2016 and 2017, and all three received significant shareholder support in 2017: 36% at Devon, 34% at Southern, and 42% at AES (compared to 38% at Exxon Mobil and 49% at Occidental Petroleum).

And none of the companies discloses information that would make these proposals moot: For example, while Southern Company indicates that it utilizes a scenario process for long-term resource planning, it does not disclose the impact of the IEA 450 (2-degree) scenario. Devon Energy and AES Corporation, similarly, do not report on the impact of the IEA 450 (2-degree) scenario. Thus Vanguard should attempt to bring its voting practices in better line with the rationales it articulated.

Further, investors would benefit from Vanguard articulating or disclosing its policy on political spending proposals.
During the 2017 proxy season, State Street Global Advisors voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 61% of the time. This was the same as 2016, when State Street also voted in support of 50/50 Climate Project Key Climate Votes Survey votes 61% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, State Street voted in support 57% of the time.

State Street voted for 2-Degree Scenario proposals in 2017 at eight companies – Devon Energy, Dominion Energy, ExxonMobil, Kinder Morgan, Marathon Petroleum, Occidental Petroleum, PNM Resources, and Southern Company. State Street voted against 2-Degree Scenario votes at five companies – Ameren, DTE Energy, Duke Energy, First Energy, and PPL Corp – and had a mixed vote at one company – AES Corp.

State Street’s 57% support for 2-Degree Scenario proposals in 2017 represents a significant decline compared to 2016, when State Street supported 2-Degree Scenario votes 83% of the time.

Impact of State Street’s “NO” votes

State Street is the third largest asset manager, and as such holds significant positions in key energy and utility companies. And although State Street voted in favor of several more 2-Degree Scenario proposals than its two biggest competitors, BlackRock and Vanguard, nevertheless three additional 2-Degree Scenario proposals – at Ameren, DTE Energy, and FirstEnergy – would have passed in 2017 if State Street had voted for them.23 Proposals at DTE and FirstEnergy have been re-filed for 2018.

Political spending disclosure proposals

State Street also has a mixed record on shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.

State Street supported disclosure of political contributions at NRG and disclosure of lobbying spending at Devon Energy and FirstEnergy. However, State Street voted against disclosure of lobbying spending at Chevron, ConocoPhillips, and Duke Energy.

23 Based on votes of 47.5%, 45%, 43.4% for 2DS proposals at AEE, DTE, and FE, State Street proxy ownership of 5%, 5.2%, 10.08%.
Proxy voting policies

Climate or Environmental Risk

State Street publishes proxy voting guidelines for its different funds. On the issue of climate change, State Street notes:

As a fiduciary, we consider the financial and economic implications of environmental and social issues first and foremost. Environmental and social factors not only can have an impact on the reputation of companies; they may also represent significant operational risks and costs to business.

SSGA encourages companies to be transparent about the environmental and social risks and opportunities they face and adopt robust policies and processes to manage such issues. In our view, companies that manage all risks and consider opportunities related to environmental and social issues are able to adapt faster to changes and appear to be better placed to achieve sustainable competitive advantage in the long-term. Similarly, companies with good risk management systems, which include environmental and social policies, have a stronger position relative to their peers to manage risk and change, which could result in anything from regulation and litigation, physical threats (severe weather, climate change), economic trends as well as shifts in consumer behavior.

In their public reporting, we expect companies to disclose information on relevant management tools and material environmental and social performance metrics. We support efforts by companies to try to demonstrate how sustainability fits into overall strategy, operations and business activities. SSGA’s team of analysts evaluates these risks on an issuer-by-issuer basis; understanding that environmental and social risks can vary widely depending on company industry, its operations, and geographic footprint.\(^{24}\)

Information on specific climate votes

In addition, State Street provided some background on its 2017 climate proposal votes in its Q2 2017 Stewardship Activity Report:

Overall in 2017, SSGA voted against management 80% of the time compared to 88% in the previous year. We supported shareholder proposals at all seven companies that received the proposal in both years. In one instance we changed our vote from supporting management to voting for the proposal due to non-responsiveness of the company to our engagement efforts in the prior year.

Of the eight first-time proposals, SSGA supported 62% of these proposals, voting against proposals at Duke Energy, DTE Energy and Hess Corporation. Figure 7 highlights SSGA’s voting record on significant environmental related shareholder proposals during the proxy season.\(^{25}\)

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\(^{25}\) State Street Stewardship Activity Report, Q2 2017.
A closer look, however, suggests that State Street actually abstained on a number of 2-Degree scenario proposals rather than voting in support of them.26

In its 2016 Year End Annual Stewardship Report, State Street noted:

We aim to understand company emissions management programs, the potential impact of carbon price on budgets and capital programs, the long-term strategy to position the company within a lower-carbon economy, and the resilience of company strategy to the effects of climate change.

We will also evaluate board responsiveness to past years’ shareholder proposals, particularly at companies that received high levels of shareholder support and evaluate board oversight mechanisms and quality of company disclosure on climate-related issues.

Climate change will continue to be a thematic priority for SSGA in the coming year. We anticipate that there will be a record number of climate-related proposals at US companies in the 2017 proxy season. In addition to reviewing publicly disclosed information on company practices, we will continue to engage with companies to inform our voting decisions. At companies where we supported climate resolutions in 2016, we will monitor company responsiveness to our prior vote and will continue to support these resolutions unless the company has made, or is committed to making, meaningful progress. In addition, we will enhance our outreach to engage with independent board members on this issue to better understand their view and oversight of climate-related risks facing the company.27

And:

Most companies struggle to provide investors with quality information on their stress testing and scenario planning exercises. In addition to more transparency into the stress testing process, many investors including SSGA would also like more disclosure on how a board oversees the climate-related risks facing a company.

The differences in approaches to disclosure and attitudes to shareholder proposals informed our voting decisions on climate and environmental-related issues in 2016 (see diagram below). In addition, we also considered feedback received during engagement. SSGA supported resolutions if company disclosure, practice and board governance structure were found to be inadequate or did not meet market practice. SSGA abstained on resolutions if companies were receptive to our feedback and we voted against resolutions if company disclosure and

26 State Street Stewardship Activity Report, Q2 2017.
practices were found to be adequate and/or if the company had committed to incorporating our feedback into their practices.28

Political spending

State Street’s proxy voting guidelines do not provide any specific guidance beyond the general statements regarding risk and sustainability quoted above regarding environmental and social issues.

Conclusion

State Street’s voting record is significantly better than some of the other largest asset managers on both 2-Degree Scenario proposals and political spending disclosure proposals at key energy and utility companies. Nevertheless, State Street does not adequately explain why it voted for only slightly more than half of the 2-Degree proposals, or why the voting results it reported are not in line with its representations of those overall results. Further, State Street does not provide any information that explains its mixed voting on political spending disclosure proposals.

28 State Street Annual Stewardship Report 2016 Year End.
During the 2017 proxy season, Fidelity Investments voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 30% of the time. This is a small improvement over 2016, when Fidelity voted in support of 50/50 2016 Climate Project Key Votes Survey proposals 11% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). In the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Fidelity voted fully in favor 14% of the time.

Fidelity voted for two proposals, at Devon Energy and ExxonMobil. It voted against three proposals, at AES, Ameren, and Occidental Petroleum. It had a high number of mixed votes, on nine 2-Degree proposals at Dominion Energy, DTE Energy, Duke Energy, FirstEnergy, Kinder Morgan, Marathon Petroleum, PNM, PPL Corp., and Southern.

Fidelity voted against every key 2-Degree Scenario proposal in 2016, so its support of these proposals increased in 2017.

Political spending disclosure proposals

Fidelity voted against five proposals calling for disclosure of lobbying or political spending and had a mixed vote for one such proposal.

Specifically Fidelity voted against proposals calling for disclosure of lobbying or political spending at Chevron, ConocoPhillips, Duke Energy, FirstEnergy, and NRG. Its funds had mixed votes on the lobbying disclosure proposal at Devon Energy.

Proxy voting policies

Climate or Environmental Risk

Fidelity states the following with regard to voting proxies generally:

*Fidelity’s approach to proxy voting decisions is consistent with our approach to investment decisions: we generally evaluate proposals on economic merit and support those that are reasonably likely to enhance shareholder returns. To the extent that a company's management is*
committed and incentivized to maximize shareholder value, we generally vote in favor of management proposals.29

Fidelity has two sets of voting guidelines. Neither addresses climate change specifically. Its voting guidelines for Fidelity funds advised by FMRCo and SelectCo state the following with regard to environmental and social issues generally:

Fidelity generally will vote in a manner consistent with management’s recommendation on shareholder proposals concerning environmental or social issues, as it generally believes that management and the board are in the best position to determine how to address these matters. In certain cases, however, Fidelity may support shareholder proposals that request additional disclosures from companies regarding environmental or social issues, where it believes that the proposed disclosures could provide meaningful information to the investment management process without unduly burdening the company.

For example, Fidelity may support shareholder proposals calling for reports on sustainability, renewable energy, and environmental impact issues. Fidelity also may support proposals on issues such as equal employment, and board and workforce diversity.30

For Fidelity’s indexed funds, managed by Geode Capital Management, proxy voting guidelines are similarly deferential to management to most, but not all, proposals involving environmental or social issues:

[Geode will] evaluate each proposal related to environmental and social issues. Generally, Geode expects to vote with management’s recommendation on shareholder proposals concerning environmental or social issues, as Geode believes management and the board are ordinarily in the best position to address these matters. Geode may support certain shareholder environmental and social proposals that request additional disclosures from companies which may provide material information to the investment management process, or where Geode otherwise believes support will help maximize shareholder value. Geode may take action against the re-election of board members if there are serious concerns over ESG practices or the board failed to act on related shareholder proposals that received approval by Geode and a majority of the votes cast in the previous year.31

Political spending

FMRCo/SelectCo’s guidelines do not address political spending proposals. Geode’s guidelines state that it will:

ABSTAIN with respect to shareholder proposals addressing Political Contributions, which Geode believes generally address ordinary business matters that are primarily the responsibility of a company’s management and board, except where a proposal has substantial economic implications for the company’s securities held in client accounts.

29 See https://www.fidelity.com/about-fidelity/fidelity-by-numbers/asset-management.
Fidelity does not appear to disclose information about specific proxy votes.

Conclusion

Fidelity has disclosed its general policy of voting with management on most climate and political spending proposals. It has not explained why it voted for a small handful of these proposals in 2017 but against most such proposals.
During the 2017 proxy season, BNY Mellon Investment Management voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 19% of the time. This is slightly worse than in 2016, when BNY Mellon voted in support of 50/50 2016 Climate Project Key Votes Survey proposals 21% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). In the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, BNY Mellon voted in favor 0% of the time.


BNY Mellon also voted against every key 2-Degree Scenario proposal in 2016, so it has supported 0% of these proposals in the last two years.

Political spending disclosure proposals

BNY Mellon voted against five proposals calling for disclosure of lobbying or political spending, and for one such proposal.

Specifically BNY Mellon voted against proposals calling for disclosure of lobbying spending at Chevron, ConocoPhillips, Duke Energy and FirstEnergy, and for the lobbying disclosure proposal at Devon Energy. It voted against a proposal calling for disclosure of political spending at NRG.

Proxy voting policies

Climate or Environmental Risk

BNY Mellon does not specifically address climate change in its voting guidelines, nor does it explain specific votes.

BNY Mellon appears to incorporate ESG considerations only in response to client investor request. A webpage in its “Insights” section on ESG/Responsible Investing states in part:

When investors choose to invest in responsible investment (RI) strategies, we believe they are trying to accomplish one or more of the following objectives. First, they may be seeking alignment between their invested capital and a personally held principle or ethic; we’ll refer to
this objective as Values Expression. Second, investors may be using their capital to affect outcomes in a broad range of interests; we’ll label this objective or motivation as Influence Change. Finally, there are those investors who believe that integrating environmental, social and governance (ESG) information with traditional investment processes can positively impact risk-adjusted returns; we’ll refer to this objective as Return Enhancement. It is important to note that these objectives are not mutually exclusive; on the contrary, RI strategies often emphasize several objectives simultaneously.

Investors who look to [Responsible Investing] for Return Enhancement believe that environmental, social, and governance issues may affect the performance of a company and ultimately the price of its publicly traded securities; in essence, ESG risks and opportunities represent an additional data source that may enhance the investment decisions of a research analyst or portfolio manager. This position, which is held by many RI investors and is the basis of a growing body of academic research, contends that ESG factors represent material risks and opportunities to business that should be integrated with traditional fundamental research in support of portfolio risk-adjusted performance.32

BNY Mellon does not appear to have any policy statements concerning political spending.

It also does not appear to disclose information about specific proxy votes.

Conclusion

Based on its voting record, BNY Mellon appears to have a policy of voting against all climate-related proposals and all or almost all political spending disclosure proposals. It is not possible to verify this, as BNY Mellon does not disclose how it approaches these issues in its proxy voting guidelines, nor does it explain specific votes.

During the 2017 proxy season, J.P. Morgan Asset Management voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey just 22% of the time. This represents a small improvement over 2016, when J.P. Morgan voted in support of 50/50 Climate Project Key Climate Votes Survey votes just 16% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). In Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, J.P. Morgan voted in support only 14% of the time.


J.P. Morgan’s 14% support for 2-Degree Scenario votes in 2017 is a small improvement over 2016, when J.P. Morgan did not support any 2-Degree Scenario votes.

Political spending and lobbying proposals

J.P. Morgan also voted against all shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.


Proxy voting policies

Climate or Environmental Risk

J.P. Morgan’s proxy voting guidelines for its North American funds states the following generally with respect to environmental and social issues:

We believe that a company’s environmental policies may have a long-term impact on the company’s financial performance. We believe that good corporate governance policies should consider the impact of company operations on the environment and the cost of compliance with
laws and regulations relating to environmental matters, physical damage to the environment (including the costs of clean-ups and repairs), consumer preferences and capital investments related to climate change. Furthermore, we believe that corporate shareholders have a legitimate need for information to enable them to evaluate the potential risks and opportunities that climate change and other environmental matters pose to the company’s operations, sales and capital investments. We acknowledge that many companies disclose their practices relating to social and environmental issues and that disclosure is improving over time. We generally encourage a level of reporting that is not unduly costly or burdensome and which does not place the company at a competitive disadvantage, but which provides meaningful information to enable shareholders to evaluate the impact of the company’s environmental policies and practices on its financial performance. In evaluating how to vote proposals, we will consider how environmental and social issues affect the risks to which companies are exposed and how they impact the performance of those companies. In addition, we consider various factors including: the company’s current level of disclosure and the consistency of disclosure across its industry; existing and proposed mandated regulatory requirements or formal guidance at the local, state, or national level; if the proposed disclosure would result in unintended consequences such as creating a competitive disadvantage; and whether the company incorporates environmental or social issues in a risk assessment or risk reporting framework.

In general, we support management disclosure practices that are overall consistent with the goals and objective expressed above. Proposals with respect to companies that have been involved in controversies, fines or litigation are expected to be subject to heightened review and consideration.\(^{33}\)

**Political spending**

J.P. Morgan’s proxy voting guidelines also note its policy of voting against proposals calling for disclosure of political contributions in most circumstances.

Vote against proposals to publish the company’s political contributions taking into consideration recent, significant controversies, fines or litigation regarding the company’s political contributions or trade association spending.\(^{34}\)

**Conclusions**

In light of J.P. Morgan’s statements in its proxy voting guidelines that it recognizes that environmental risk can negatively affect shareholder value, and that shareholders have a legitimate need for information from management to evaluate these risks, it is unclear why J.P. Morgan voted for just two of fourteen 2-Degree Scenario in 2017.

The guidelines appear to be silent on lobbying and so fail to explain the J.P. Morgan’s votes against disclosure of lobbying spending at Chevron, ConocoPhillips, Devon Energy, and FirstEnergy.


During the 2017 proxy season, PIMCO voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Votes Survey 35% of the time. This represents a decline from 2016, when PIMCO voted in support of 50/50 Climate Project Key Climate Votes Survey votes 48% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, PIMCO voted in support 29% of the time.


PIMCO’S 29% support for 2-Degree Scenario votes in 2017 represents a dramatic decline from 2016, when PIMCO supported 100% of the 2-Degree Scenario proposals.

Political spending disclosure proposals

PIMCO supported shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies across the board in 2017.

Specifically, PIMCO supported disclosure of political contributions at NRG and disclosure of lobbying spending at Chevron, ConocoPhillips, Devon Energy, Duke Energy, and FirstEnergy.

Proxy voting policies

Climate or Environmental Risk

PIMCO’s proxy voting policies are extremely vague and provide no mention of climate change, noting simply:

As a general matter, when PIMCO has proxy voting authority, PIMCO has a fiduciary obligation to monitor corporate events and to take appropriate action on client proxies that come to its attention. Each proxy is voted on a case-by-case basis, taking into account relevant facts and circumstances. When considering client proxies, PIMCO may determine not to vote a proxy in limited circumstances.
Equity Securities. PIMCO has retained an Industry Service Provider (“ISP”) to provide research and voting recommendations for proxies relating to equity securities in accordance with the ISP’s guidelines. By following the guidelines of an independent third party, PIMCO seeks to mitigate potential conflicts of interest PIMCO may have with respect to proxies covered by the ISP. PIMCO will follow the recommendations of the ISP unless: (i) the ISP does not provide a voting recommendation; or (ii) a PM decides to override the ISP’s voting recommendation. In either such case as described above, the Legal and Compliance department will review the proxy to determine whether a material conflict of interest, or the appearance of one, exists.  

In 2016 and thereafter, in relation to its Environmental, Social and Governance (ESG) Initiative, PIMCO noted:

PIMCO has incorporated sustainability factors in the investment process for decades. The process emphasizes rigorous analysis of broad secular trends, which are at the core of both global sustainability and long-term asset returns. In recent years, PIMCO has developed a platform that will support ESG-focused investment solutions.

And:

For example, the effects of climate change are now collectively acknowledged by governments, regulators, global corporations, asset owners, asset managers and the broader investment community. More investors recognize the urgency of understanding, stress-testing and hedging climate risks.

Sustainable investing is no longer only a topic of a heated debate – we’re seeing new policy initiatives and regulatory changes underway. For example, 177 countries (including the U.S.) have adopted the climate agreement from last year’s COP21 conference in Paris. Under this agreement, governments and corporations will set targets that will trigger changes likely to affect the longevity of many different business models. It is imperative that we start early with identifying winners and diversifying away from losers. We believe companies that position themselves for the transition should be able to deliver steady performance, while for those inflexible or unwilling to change, the costs may prove severe. In this sphere, we at PIMCO are determined to protect our clients’ interests and unlock potential value through active engagement with issuers.

Political spending

PIMCO also provides no specific policy regarding political spending disclosure proposals in its voting guidelines.

PIMCO also provides no information explaining specific votes.

Conclusion

PIMCO provides virtually no information in its proxy voting guidelines regarding how it votes on climate or political spending issues. Even so, its statements that the potential for climate risk to

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affect shareholder value is “no longer debatable” is stronger in favor of disclosure of climate risk, and thus is clearly at odds with PIMCO’s 2017 votes against ten important 2-Degree Scenario proposals. Similarly, although PIMCO supported all key political spending proposals at energy and utility companies last year, it also failed to provide any guidelines or explanation why it did so.
During the 2017 proxy season, Capital Group/American Funds voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 29% of the time. This is slightly better than in 2016, when Capital Group voted in support of 50/50 Climate Project Key Climate Votes Survey votes only 9% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Capital Group voted in favor 40% of the time.

Capital Group voted in favor of four key 2-Degree Scenario proposals in 2017, at Dominion Energy, DTE Energy, Duke Energy, and PPL Corp. It voted against four such proposals in 2017, at Devon, ExxonMobil, Kinder Morgan, and Occidental Petroleum. Its vote on the 2-Degree proposal at Southern was mixed.

Capital Group voted against every key 2-Degree Scenario proposal 2016, so its level of support for these proposals has increased in 2017.

Political spending disclosure proposals

Capital Group/American Funds voted against five proposals calling for disclosure of lobbying or political spending at key energy and utility companies.

Specifically, Capital Group voted against proposals calling for disclosure of lobbying spending at Chevron, ConocoPhillips, Devon Energy, and Duke Energy. It voted against the proposal calling for increased disclosure of political spending at NRG.

Proxy voting policies

Capital Group/American Funds do not appear to disclose proxy voting guidelines or any other statements regarding its voting policies and practices on climate change-related or political spending proposals.
During the 2017 proxy season, Prudential voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 38% of the time. This is an improvement from 2016, when Prudential voted in support of 50/50 Climate Project Key Climate Votes Survey votes 16% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Prudential voted in fully in favor 36% of the time.

Prudential voted for 2-Degree Scenario proposals at five key energy and utility companies identified by 50/50 in 2017 – Ameren Corp., DTE Energy, Marathon Petroleum, PPL Corp., and AES Corp. Prudential voted against five such resolutions at Devon Energy, Duke Energy, ExxonMobil, FirstEnergy, and Southern, and its funds cast mixed votes at four companies, Dominion Energy, Kinder Morgan, Occidental Petroleum, and PNM Resources.

Prudential’s record in 2016 was similarly varied. It supported a 2-Degree Scenario proposal at Southern Company, opposed one at Occidental, and cast mixed votes at the other companies at which such proposals appeared. It thus voted fully in support of only 17% of proposals in 2016.

Political spending and lobbying proposals

Prudential voted for two of the shareholder proposals calling for greater disclosure of political contributions or lobbying spending by energy and utility companies in the survey in 2017, and against four such proposals.

Specifically, Prudential voted for proposals calling for disclosure of political contributions at NRG and disclosure of lobbying spending at FirstEnergy. It opposed resolutions to disclose lobbying spending at Chevron, ConocoPhillips, Devon Energy, and Duke Energy.

Proxy voting policies

Prudential does not appear to publish a firm-wide proxy voting policy. Its website states that “PGIM believes that Environmental, Social, and Governance factors (ESG) can be material when evaluating investment opportunities and risks. Considering these factors is consistent with our ultimate fiduciary duty—searching for the highest risk-adjusted returns for our clients.”

Prudential does not disclose information about specific votes.
Conclusion

Prudential does not disclose any information about its proxy voting policies or specific votes, so investors are not able to understand or predict how Prudential votes on climate-related issues.
During the 2017 proxy season, Goldman Sachs Asset Management (GSAM) voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 58% of the time. This is better than in 2016, when GSAM voted in support of 50/50 Climate Project 2016 Key Votes Survey votes 40% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, GSAM voted in support 71% of the time.

GSAM voted in favor of proposals at ten companies: Devon Energy, Dominion Energy, DTE Energy, Duke Energy, ExxonMobil, FirstEnergy, Kinder Morgan, Occidental Petroleum, PNM Resources, and PPL Corp. GSAM cast mixed votes on such proposals at three companies: Ameren, Marathon Petroleum, and Southern Company, and opposed a 2-Degree Scenario proposal at AES.

GSAM’s 71% rate of support in 2017 is an improvement over 2016, when GSAM fully supported 2-Degree Scenario proposals 50% of the time.

Political spending disclosure proposals

Overall, Goldman voted against four proposals requesting disclosure of key political spending or lobbying expenditures in 2017, and had mixed votes on two of these proposals.


Proxy voting policies

Climate or Environmental Risk

The section of Goldman Sachs Asset Management’s Proxy Voting Guidelines entitled “Environmental Sustainability, climate change reporting” states that the firm will:

> Generally vote FOR proposals requesting the company to report on its policies, initiatives and oversight mechanisms related to environmental sustainability, or how the company may be impacted by climate change. The following factors will be considered:
● The company’s current level of publicly available disclosure including if the company already discloses similar information through existing reports or policies;

● If the company has formally committed to the implementation of a reporting program based on Global Reporting Initiative (GRI) guidelines or a similar standard within a specified time frame;

● If the company’s current level of disclosure is comparable to that of its industry peers; and

● If there are significant controversies, fines, penalties, or litigation associated with the company’s environmental performance.

Goldman did not explain its specific votes for 2017 or 2016.

**Political spending**

GSAM’s proxy voting guidelines state the following regarding “Political Contributions and Trade Association Spending/Lobbying Expenditures and Initiatives”:

_GSAM generally believes that it is the role of boards and management to determine the appropriate level of disclosure of all types of corporate political activity. When evaluating these proposals, GSAM considers the prescriptive nature of the proposal and the overall benefit to shareholders along with a company’s current disclosure of policies, practices and oversight._

*Generally vote AGAINST proposals asking the company to affirm political nonpartisanship in the workplace so long as:*

- There are no recent, significant controversies, fines or litigation regarding the company’s political contributions or trade association spending; and
- The company has procedures in place to ensure that employee contributions to company-sponsored political action committees (PACs) are strictly voluntary and prohibits coercion.

*Vote AGAINST proposals requesting increased disclosure of a company’s policies with respect to political contributions, lobbying and trade association spending as long as:*

- There is no significant potential threat or actual harm to shareholders’ interests;
- There are no recent significant controversies or litigation related to the company’s political contributions or governmental affairs; and
- There is publicly available information to assess the company’s oversight related to such expenditures of corporate assets.

_GSAM generally will vote AGAINST proposals asking for detailed disclosure of political contributions or trade association or lobbying expenditures._

*Vote AGAINST proposals barring the company from making political contributions. Businesses are affected by legislation at the federal, state, and local level and barring political contributions can put the company at a competitive disadvantage._
Conclusion

Goldman very clearly discloses its voting policies with respect to climate risk disclosure – usually voting for, and with respect to increased disclosure on political spending – generally voting against. Because Goldman voted for all relevant 2-Degree Scenario proposals and did not fully support any climate-related political spending proposals, Goldman followed its voting guidelines in 2017. Nevertheless Goldman should be urged to recognize the link between energy and utility companies’ political spending and climate policies.
During the 2017 proxy season, Northern Trust Corporation voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 61% of the time. This was an improvement on 2016, when Northern Trust support of key climate votes 48% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Northern Trust voted in favor 100% of the time.


In 2016, Northern Trust also supported every 2-Degree Scenario proposal identified in the 2016 Key Climate Vote Survey.

Political spending disclosure proposals

Northern Trust voted against four shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies and utilities in 2017, and cast mixed votes on two such proposals in 2017.

Specifically, Northern Trust voted against proposals to increase disclosure of lobbying expenditures at Chevron, Duke Energy, and FirstEnergy and against a proposal to increase disclosure on political spending at NRG. Northern Trust also cast mixed votes on lobbying expenditure proposals at ConocoPhillips and Devon Energy.

Proxy voting policies

Climate or Environmental Risk

Northern Trust maintains proxy voting guidelines that address voting on proposals that raise environmental issues:

Northern Trust upholds environmental stewardship and recognizes that we all are stakeholders in the future of our global environment. Environmental factors increasingly represent significant operational risks and costs to business. At Northern Trust, our primary objective as an asset manager is to create long-term value for our clients. As a major global investor, Northern Trust
has interest in how shareholder value is affected by a company’s management and impact on the natural and social environment, and recognizes that a well-developed environmental and social management system can enhance shareholder value in the long-term. We generally encourage reporting that is not unduly costly or burdensome and which does not place the company at a competitive disadvantage, but which provides meaningful information to enable shareholders to evaluate the impact of the company’s environmental policies and practices on its financial performance.

Northern Trust generally votes for proposals requesting increased disclosure regarding the environmental impact of a company’s operations and products and initiatives to curtail these risks, unless sufficient information has been disclosed to shareholders or is otherwise publicly available.

Northern Trust generally votes for proposals requesting the issuance of corporate sustainability reports, as well as disclosure, where relevant, concerning the emission of greenhouse gasses and the use of fracturing in connection with the extraction of natural gasses.

Northern Trust votes case by case for proposals requesting the adoption of GHG reduction goals from products and operations.

Northern Trust generally votes for proposals requesting the issuance of reports by a company detailing its energy efficiency plans.

Political spending

Northern Trust’s guidelines also cover political spending as follows:

Northern Trust will generally vote against proposals to publish a company’s political contributions, taking into consideration recent, significant controversies, fines or litigation regarding the company’s political contributions or trade association spending.

Northern Trust generally votes against shareholder proposals to eliminate, direct, or otherwise restrict charitable contributions.  

Northern Trust did not provide information on specific votes, except to report that it voted in line with management recommendations 94% of the time in the 2017 proxy season.

Conclusion

Northern Trust’s voting guidelines state that it will generally support shareholder proposals that call for reporting on environmental risk, and will generally vote against proposals that seek disclosure regarding political spending. Because Northern voted for all key 2-Degree Scenario proposals and did not fully support any climate-related political spending proposals, Northern Trust followed its voting guidelines in 2017. Nevertheless Northern Trust should be urged to recognize the link between energy and utility companies’ political spending and climate policies.

39 See https://www.northerntrust.com/asset-management/europe/proxy-voting#.
During the 2017 proxy season, Nuveen Investments voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 88% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Nuveen voted for 100% of them.


In 2016, when Nuveen also supported every 2-Degree Scenario proposal identified in the 2016 Key Climate Vote Survey.

Political spending disclosure proposals

Nuveen also voted for all shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies and utilities in 2017.

Specifically, Nuveen supported disclosure of political contributions at NRG and disclosure of lobbying spending at Chevron, ConocoPhillips, Devon Energy, Duke Energy, and FirstEnergy.

Proxy voting policies

Nuveen appears to follow proxy voting guidelines issued by its parent, Teachers Insurance and Annuity Association of America (TIAA-CREF). TIAA-CREF’s proxy voting guidelines state:

As a matter of good corporate governance, boards should carefully consider the strategic impact of environmental and social responsibility on long-term shareholder value. Over the last several years, numerous innovative best practices have emerged within corporations that promote risk management (including reputational risk) and sustainable competitiveness. TIAA-CREF believes that companies and boards should exercise diligence in their consideration of environmental and social issues, analyze the strategic and economic questions they raise, and disclose their environmental and social policies and practices. To ensure companies have the best possible information about their relationship with their stakeholders, directors should encourage dialogue.
between the company and its investors, employees, customers, suppliers and the larger community.

We believe that investors should encourage a long-term perspective regarding sustainability and social responsibility, which may impact the long-term performance of both individual companies and the market as a whole. We communicate directly with companies to encourage careful consideration of sustainable practices and disclosure. TIAA-CREF may support reasonable shareholder resolutions on social and environmental topics that raise relevant economic issues for companies. In casting our votes, we consider whether the resolution respects the proper role of shareholders and boards in overseeing company policy, as well as any steps that the company may have taken to address concerns.

While our policies are not intended to be prescriptive, we believe that the following issues merit board and investor attention:

**Climate or Environmental Risk**

We believe that changes in the natural environment, associated human health concerns, and growing national and international efforts to mitigate these concerns will pose risks and opportunities for companies. In particular:

- A company's greenhouse gas emissions and its vulnerability to climate change may represent both short-term and long-term potential risks;

- Hazards related to safety or toxic emissions at business facilities may expose companies to such risks as regulatory penalties, legal liability, diminished reputation, increased cost and loss of market share;

- Expectations of growing resource scarcity, especially with regard to energy, biodiversity, water and forest resources present long-term challenges and uncertainties for businesses; and

- Significant public health impacts may result from company operations and products, and global health pandemics may disrupt company operations and long-term growth.

Conversely, strategic management of health and environmental challenges may provide opportunities for enhanced efficiency, reputation, product innovation and competitive advantage.

We believe that boards and managers should integrate health and environmental considerations into strategic deliberations. Consistent with long-term business strategic goals, companies should develop and implement policies designed both to mitigate and adapt to these challenges, and to make reasonable disclosures about efforts to manage these concerns.

**Political spending**

**Philanthropy and Corporate Political Influence**

Without effective oversight, excessive or poorly managed corporate political spending may pose risks to shareholders, including the risk that corporate political spending may benefit political
insiders at the expense of shareholder interests. Given increased public scrutiny of corporate political activities, we believe it is the responsibility of company boards to review and disclose the use of corporate assets to influence the outcomes of elections. Companies involved in political activities should disclose information about contributions as well as the board and management oversight procedures designed to ensure that political expenditures are made in compliance with all laws and in the best interests of shareholders.

Boards should also oversee charitable contributions to ensure that these are consistent with the values and strategy of the corporation. Companies should disclose their corporate charitable contributions, and boards should adopt policies that prohibit corporate contributions that would pose any actual or perceived risk to director independence.  

Conclusion

Nuveen’s voting guidelines suggest it will support efforts to encourage reasonable disclosure of climate risk, and support disclosure of corporate political activity. Nuveen voted in support of 100% of key climate-related 2-Degree Scenario and political spending proposals in 2017, so it voted in accordance with its guidelines on these proposals.

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During the 2017 proxy season, Invesco voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 28% of the time. This represents an improvement over 2016, when Invesco voted in support of 50/50 Climate Project Key Climate Votes Survey votes just 12% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). In the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sectors in 2017, Invesco voted in support 23% of the time.


Invesco’s 23% level of support for 2-Degree proposals in 2017 represents a small improvement over 2016, when Invesco did not support any 2-Degree Scenario votes.

Political spending disclosure proposals

Invesco voted for one shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017 and against five such proposals.

Specifically, Invesco supported disclosure of lobbying spending at ConocoPhillips. However, Invesco voted against disclosure of lobbying spending at Chevron, Devon Energy, Duke Energy, and FirstEnergy, and against disclosure of political contributions at NRG.

Proxy voting policies

Climate or Environmental Risk

While Invesco’s Policy Statement on Global Corporate Governance and Proxy Voting does not make reference to climate change, the “Environmental, Social and Corporate Responsibility Issues” section of the statement says:

Invesco believes that a company’s long-term response to environmental, social and corporate responsibility issues can significantly affect its long-term shareholder value. We recognize that to manage a corporation effectively, directors and management may consider not only the interests of shareholders, but also the interests of employees, customers, suppliers, creditors and the local
community, among others. While Invesco generally affords management discretion with respect to the operation of a company’s business, Invesco will evaluate such proposals on a case by case basis and will vote proposals relating to these issues in a manner intended to maximize long-term shareholder value.41

In its 2016 Investment Stewardship and Proxy Voting Annual Report, Invesco went into greater detail, noting:

We believe that incorporating sound environmental, social and corporate responsibilities into activities across our firm can positively impact the value we provide to clients as well as our long-term shareholder value.

For years, we’ve demonstrated our commitment to responsible investment by actively working to incorporate environmental, social and governance (ESG) practices across all areas of our firm. Our ESG approach is rooted in our investment strategies, products, proxy voting, active ownership, engagement and other oversight practices to ensure we are meeting the highest levels of fiduciary and corporate responsibility. We also support the Principles for Responsible Investment, and recognize the importance of considering ESG issues as part of a robust investment process.

ESG activities and practices are not new for Invesco – we’ve been actively integrating ESG into our investment strategies for more than 15 years. Our holistic approach to integrating ESG considerations into the investment process and our support for the PRI comprises:

– ESG evaluation, screening and integration
– Research, resources and training
– Engagement with our portfolio companies
– Proxy voting

At the same time, we believe strongly that integrating ESG into our investment decisions shouldn’t compromise the results we deliver to clients. We view our commitment to integrating ESG as an additional layer of due diligence that reinforces our high conviction and long-term horizon approach to investing.42

It is worth noting that despite Invesco’s statements, the company did not support a single 2-Degree Scenario proposal in 2016. Invesco has not yet published its 2017 Investment Stewardship and Proxy Voting Annual Report.

Political spending

Invesco’s proxy voting guidelines do not specifically cover political spending proposals. To the extent they fall under general environmental, social and corporate responsibility, it would be covered by Invesco’s statement above recognizing the importance of such issues to long-term shareholder value, but stating that it generally affords management discretion and will evaluate proposals on a case-by-case basis for effect on long-term value.

Conclusion

Invesco does not appear to vote in line with the general statements in its proxy voting guidelines and elsewhere that it believes corporate response to environmental issues can impact long-term shareholder value, because it voted against more than three-fourths of key 2-Degree proposals and five of six key political spending disclosure proposals in 2017.
During the 2017 proxy season, T. Rowe Price voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 24% of the time. This is worse than in 2016, when T. Rowe Price voted in support of 50/50 Climate Project Key Climate Votes Survey votes 37% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, T. Rowe voted in favor only 36% of the time.


T. Rowe Price Fund Advisors supported 2017 2-Degree Scenario votes 50% of the time in 2016, so its support of these proposals in 2017 to 36% declined significantly.

Political spending disclosure proposals

T. Rowe Price also voted for none of the shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in the survey in 2017.

Specifically, T. Rowe Price opposed proposals calling for disclosure of political contributions or lobbying spending at NRG, Chevron, ConocoPhillips, Devon Energy, Duke Energy, and FirstEnergy.

Proxy voting policies

*Climate or Environmental Risk*

T. Rowe Price does not specifically address climate change in its voting guidelines, nor does it explain specific votes.

T. Rowe Price’s 2017 Proxy Voting Guidelines state that regarding shareholder proposals on social or environmental issues, it will “support well-targeted proposals addressing concerns that are particularly relevant for a company’s business that have not yet been adequately addressed by management.” A summary of its voting for 2017 also notes that it supports resolutions “addressing potentially material investment risks that have not, in our opinion, been adequately addressed by
management,” and that it believes “companies should tailor their reporting toward the most significant drivers or risk factors in their businesses.”

**Political spending**

A section of T. Rowe’s proxy voting guidelines on proposals regarding political spending and lobbying states that generally, the firm will vote:

> AGAINST, unless we believe the decision to engage in political activities poses a unique risk for a particular company and it is unclear whether the board oversees and monitors such risk adequately. A company’s level of disclosure on this issue relative to its peers is a secondary consideration.

**Conclusion**

T. Rowe Price suggests it will vote in favor of resolutions targeting risks that have not been adequately addressed by management, and did vote in favor of these proposals at ExxonMobil and Devon Energy, but nevertheless failed to vote in favor of 2-Degree proposals at Occidental, Southern Company, and AES Corp., which also faced 2-Degree proposals in both 2016 and 2017. The proposals at all three companies received significant shareholder support in 2016 – 49% at Occidental, 34% at Southern, and 42% at AES, and all three similarly lag on disclosure. For example, while Southern Company indicates that it utilizes a scenario process for long-term resource planning, it does not disclose the impact of the IEA 450 (2-degree) scenario. AES Corporation similarly does not report on the impact of the IEA 450 (2-degree) scenario. These votes appear to be inconsistent, so investors would benefit from more information regarding the reasons for these votes.

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44 CDP 2017 Climate Change Information Request, AES Corporation.
During the 2017 proxy season, Deutsche Asset Management voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 90% of the time. This represents a small improvement over 2016, when Deutsche Asset Management voted in support of 50/50 Climate Project 2017 Key Climate Votes Survey votes 83% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Deutsche Asset Management voted in favor 100% of the time.


Deutsche Asset Management also voted in favor of 100% of energy and utility 2-Degree Scenario proposals in 2016.

Political spending disclosure proposals

Deutsche Asset Management also voted for all shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.

Specifically, Deutsche Asset Management supported disclosure of political contributions at NRG and disclosure of lobbying spending at Chevron, ConocoPhillips, Devon Energy, Duke Energy, and FirstEnergy.

Proxy voting policies

Deutsche Asset Management provides clear voting policies in its proxy voting guidelines, although without distinguishing climate and/or political spending issue specifically. The guidelines state:

> Environmental, social, and governance issues (“ESG”) are becoming increasingly important to corporate success. We incorporate ESG considerations into both our investment decisions and our proxy voting decisions – particularly if the financial performance of the company could be impacted. Companies or states that seriously contravene internationally accepted ethical principles will be subject to heightened scrutiny.

> A. Principles for Responsible Investment
AM policy is to actively engage with companies on ESG issues and participate in ESG initiatives. In this context, AM: (a) votes “for” increased disclosure on ESG issues; (b) is willing to participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights); (c) could support shareholder initiatives and also file shareholder resolutions with long term ESG considerations and improved ESG disclosure, when applicable; (d) could support standardized ESG reporting and issues to be integrated within annual financial reports; and (e) on a case-by-case basis, will generally follow Management's recommended vote on other matters related to ESG issues.

Rationale: ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes, and through time).

B. ESG Issues

AM policy is to vote in line with the Coalition for Environmentally Responsible Economies ("CERES") recommendation on Environmental matters contained in the CERES Principles and the recommendations on social and sustainability issues not specifically addressed elsewhere in these Guidelines. AM will rely on ISS to identify shareholder proposals addressing CERES Principles and proxies will be voted in accordance with ISS’s predetermined voting guidelines on CERES Principles.

Any matter that is to be voted on, consented to or approved by the voting members, may take place in person, telephonically, or via other electronic means. In addition, voting members may act in writing, including without limitation, via e-mail.

Rationale: AM supports the CERES Principles and as such generally votes proxies in line with the CERES recommendation.45

Conclusion

Because Deutsche Asset Management voted in favor of all KCVS 2-Degree Scenario proposals in 2017 as well as key political spending proposals, as called for by its voting guidelines, Deutsche voted in accordance with its voting guidelines in 2017 with respect to these climate-related proposals.

Affiliated Managers Group Investments

During the 2017 proxy season, Affiliated Managers Group voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 71% of the time. This represents an improvement over 2016, when Affiliated Managers Group voted in support of 50/50 Climate Project Key Climate Votes Survey votes just 65% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). In the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Affiliated Managers Group voted fully in support 89% of the time.

Affiliated voted for 2-Degree proposals at eight key companies in 2017 – Ameren, Devon Energy, Duke Energy, Kinder Morgan, Marathon Petroleum, Occidental Petroleum, PPL Corp, and AES Corp. Affiliated Managers Group had a mixed votes at one company, ExxonMobil.

Affiliated’s 89% level of support for 2-Degree proposals in 2017 represents a decline from 2016, when Affiliated Managers Group supported 100% of 2-Degree Scenario votes.

Political spending disclosure proposals

Affiliated Managers Group also has a mixed record on shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.

Affiliated Managers Group voted for the proposal on disclosure of political contributions at NRG. However, it voted against disclosure of lobbying spending at Duke Energy and ConocoPhillips, and its vote on lobbying spending was mixed at Chevron and Devon Energy.

Proxy voting policies

Affiliated Managers Group, which includes several asset and mutual fund managers, does not appear to have company-wide proxy voting guidelines. Investors would benefit from increased disclosure of Affiliated’s policies.

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46 50/50 Climate Project Key Climate Votes Survey 2017, relying on SEC Form N-PX data.
During the 2017 proxy season, Legg Mason voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 85% of the time. This is very similar to 2016, when Legg Mason voted in support of 50/50 Climate Project Key Climate Votes Survey votes 88% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Legg Mason voted in favor 86% of the time.


Legg Mason Fund supported key 2-Degree Scenario votes 17% of the time in 2016, with its funds casting mixed votes the rest of the time, so its support of these proposals increased significantly in 2017.

Political spending disclosure proposals

Legg Mason voted for three proposals on lobbying and political spending disclosure, and had a mixed vote on three such proposals.

Specifically Legg Mason voted in favor of lobbying disclosure proposals at Duke Energy and FirstEnergy, and in favor of a proposal calling for disclosure of political spending at NRG. Legg Mason had mixed votes on lobbying disclosure proposals at Chevron, ConocoPhillips and Devon Energy.

Proxy voting policies

*Climate or Environmental Risk*

Legg Mason does not appear to have firm-wide proxy voting guidelines.

It does maintain a webpage under a “Perspectives” heading entitled “Strong Standards. Unique Strategies” that describes Legg Mason’s approach to ESG issues and provides a link to Legg

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47 50/50 Climate Project Key Climate Votes Survey 2017, relying on SEC Form N-PX data.
In that webpage, Legg Mason states that it provides clients with the choice to craft specific ESG-responsive investment strategies, including: “dedicated and custom ESG products via managed accounts, custom portfolios or a traditional mutual fund structure.” Legg Mason does not comment further on how any specific environmental or climate risks are incorporated into proxy voting.

Legg Mason’s 2017 Corporate Social Responsibility report purports that the company’s ESG approach:

- Aligns with the Global Reporting Initiative (GRI) G4 framework that emphasizes materiality
- Takes a metrics-driven approach that displays baselines, goals and progress to date
- Focuses on metrics most relevant to key stakeholders — in this case, community investments, diversity and inclusion, energy efficiency and governance — while, also reporting on financial results, water use and discharge, waste and recycling, and local suppliers.  

In the report Legg Mason states that it considers the “materiality” of ESG issues, and lists climate change as an issue the company considered material in 2017. With respect to climate change, the report states:

> Despite a likely pull back of funds and policies to combat climate change by regulators and policy-makers in Washington, we believe the private sector, cities and states will continue to lead on these efforts. Through our investment affiliates, we are afforded the opportunity to educate investors on the ways in which their choices can impact the world.

**Political spending**

Legg Mason does not appear to have a published policy regarding political spending or lobbying expenditures at public companies, although its CSR report for 2017 lists “political contributions” as an issue that is material to shareholders.

Legg Mason also has not commented on individual votes.

**Conclusion**

Although Legg Mason has made suggestive statements that climate risk will be incorporated into its investment model and other practices, it does not provide information in its proxy voting guidelines or elsewhere that would allow investors to understand the rationales for Legg Mason’s votes. This is disappointing, especially in light of Legg Mason’s dramatically higher level of support for climate-related proposals in 2017. Investors would benefit from additional information on Legg Mason’s voting policies and practices on these issues.

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Franklin Templeton Investments

During the 2017 proxy season, Franklin Templeton Investments voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 39% of the time. This represents an improvement over 2016, when Franklin Templeton voted in support of 50/50 Climate Project Key Climate Votes Survey votes just 22% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). In the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Franklin Templeton voted fully in support 46% of the time.

Franklin Templeton voted in support of key 2-Degree Scenario proposals in 2017 at six companies – Devon Energy, DTE Energy, Duke Energy, PNM Resources, PPL Corp, and Southern Company. It voted against key 2-Degree Scenario proposals at four companies – Ameren, Dominion Energy, Kinder Morgan, and Occidental Petroleum, and had mixed votes at three others – ExxonMobil, FirstEnergy, and Marathon Petroleum.

Franklin Templeton’s 46% support for 2-Degree Scenario proposals in 2017 represents a substantial improvement over 2016, when Franklin Templeton did not support any 2-Degree Scenario votes.

Political spending disclosure proposals

Franklin Templeton also has a mixed record on shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies and utilities in 2017.

Franklin Templeton supported disclosure of political contributions at NRG and disclosure of lobbying spending at Devon Energy. However, Franklin Templeton voted against disclosure of lobbying spending at Chevron and Duke Energy. Franklin Templeton’s votes on lobbying spending were mixed at ConocoPhillips and FirstEnergy.

Proxy voting policies

*Climate or Environmental Risk*

Franklin Templeton publishes proxy voting policies and procedures for its different funds. These policies and procedures do not make reference to climate risk specifically. The documents instead provide a broad description of how Franklin Templeton handles “environmental and social issues”:
The Investment Manager considers environmental and social issues alongside traditional financial measures to provide a more comprehensive view of the value, risk and return potential of an investment. Companies may face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight of environmental or social issues. Franklin Templeton’s “Responsible Investment Principles and Policies” describes the Investment Manager’s approach to consideration of environmental, social and governance issues within the Investment Manager’s processes and ownership practices.

In the Investment Manager’s experience, those companies that are managed well are often effective in dealing with the relevant environmental and social issues that pertain to their business. As such, the Investment Manager will generally give management discretion with regard to environmental and social issues. However, in cases where management and the board have not demonstrated adequate efforts to mitigate material environmental or social risks, have engaged in inappropriate or illegal conduct, or have failed to adequately address current or emergent risks that threaten shareholder value, the Investment Manager may choose to support well-crafted shareholder proposals that serve to promote or protect shareholder value. This may include seeking appropriate disclosure regarding material environmental and social issues. The Investment Manager will review shareholder proposals on a case-by-case basis and may support those that serve to enhance value or mitigate risk, are drafted appropriately, and do not disrupt the course of business or require a disproportionate or inappropriate use of company resources.

In its “Responsible Investment Principles and Policies” document Franklin Templeton further states the following with regard to how ESG issues influence its approach to investment, research, portfolio management and proxy voting:

ESG factors can have a material impact on the value of companies and securities. Examples of such factors include natural resource use and scarcity, governance controls, product safety, employee health and safety practices, and shareholder rights issues. At FTI, we believe that these issues should be considered alongside traditional financial measures to provide a more comprehensive view of the value, risk and return potential of an investment. With this understanding, we are committed to the integration of ESG consideration into our investment management processes and ownership practices.

FTI will generally consider supporting ESG related shareholder resolutions that promote the long-term economic interest of clients and do not seek to interfere in routine management matters.50

Franklin Templeton’s voting policies, which default to management discretion except based on case-by-case consideration, and Franklin Templeton’s Responsible Investment statement, that it will “generally consider supporting” reasonable ESG resolutions, do not appear entirely consistent.

Political spending

On political contributions and lobbying spending Franklin Templeton’s policy notes:

The Investment Manager will consider supporting a shareholder proposal seeking disclosure and greater board oversight of lobbying and corporate political contributions if the Investment

Manager believes that there is evidence of inadequate oversight by the company’s board, if the company’s current disclosure is significantly deficient, or if the disclosure is notably lacking in comparison to the company’s peers.\textsuperscript{51}

**Information on specific votes**

Franklin Templeton and its affiliates do not appear to have commented specifically on the asset manager’s votes on proposals regarding climate risk or those calling for disclosure of political and lobbying spending at oil and gas companies or utilities.

**Conclusion**

Franklin Templeton’s level of support for climate-related proposals has taken a commendable leap since 2016; however, the inconsistencies between its proxy voting guidelines and other statements should be clarified to provide investors with better information on how Franklin Templeton makes voting decisions on these issues.

\textsuperscript{51} Franklin Templeton Institutional, LLC proxy voting guidelines, January 2017.
During the 2017 proxy season, UBS Asset Management voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 78% of the time.\footnote{Asset managers that cast fewer than 50% of Key Votes were excluded from the 2016 Key Climate Votes Survey; as a result UBS did not appear in the survey.}

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, UBS fully supported proposals 73% of the time.

UBS voted in support of 2017 2-Degree Scenario proposals at eight companies – Ameren, Devon Energy, Dominion Energy, Duke Energy, FirstEnergy, Kinder Morgan, Occidental Petroleum, and Southern Company. UBS had mixed votes at three other companies – ExxonMobil, Marathon Petroleum, and AES Corp.

Political spending disclosure proposals

UBS also has a mixed record on shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.

UBS supported disclosure of political contributions at NRG and disclosure of lobbying spending at Devon Energy, Duke Energy, and FirstEnergy. However, UBS voted against disclosure of lobbying spending at ConocoPhillips. UBS’s vote on lobbying spending was mixed at Chevron.

Proxy voting policies

Climate or Environmental Risk

UBS publishes proxy voting policies and procedures for its different funds. UBS’ most recent Global Corporate Governance Principles and Proxy Voting Policy (published September 2015) is quite vague:

Where we have been given the discretion to vote on behalf of our clients, we will exercise our delegated fiduciary responsibility by voting in a manner we believe will most favourably impact the economic value of their investments.
Underlying our voting and corporate governance principles we have two fundamental objectives:

- We seek to act in the best financial interests of our clients to enhance the long-term value of their investments.
- As an investment advisor, we have a strong commercial interest that companies in which we invest on behalf of our clients are successful. We promote best practice in the boardroom.\(^{53}\)

In statements outside its proxy voting guidelines, UBS has stressed its monitoring of climate risk. For example, in a July 2016 document entitled “Our climate change commitment,” UBS notes:

At portfolio level, we regularly review sensitive sectors and activities prone to bearing climate change risks. We assess client exposure and revenue in such sectors and attempt to benchmark the portfolio quality against regional and/or sector averages. Such portfolio reviews give us an accurate aggregated exposure profile and an enhanced insight into our transaction and client onboarding processes. Based on the outcome of these reviews, we can explore ways to improve the future portfolio profile along a range of risk parameters.

We participate in international efforts that seek to provide guidance on how to integrate climate change and natural capital in risk management. In 2015 we contributed to the development of the Carbon Asset Risk Framework led by the UN Environment Programme Finance Initiative, and the World Resources Institute, and the Natural Capital Declaration’s Corporate Bonds Water Credit Risk Tool and Report.\(^{54}\)

UBS does not indicate how these commitments affect its proxy voting.

**Political spending**

UBS provides only the vague statement above regarding how it votes proxies, with nothing specific on political spending proposals or issues.

**Conclusion**

UBS voted for a significant portion of climate-related proposals for 2017. However, UBS should provide investors with more information in its proxy voting guidelines to inform them how it makes voting and other decisions on these issues, and to explain why it did not fully support proposals at key companies such as ExxonMobil and AES.

\(^{53}\) UBS Global Corporate Governance Principles and Proxy Voting Policy, September 2015.

\(^{54}\) UBS: Our climate change commitment, July 2016
Wells Fargo Asset Management

During the 2017 proxy season, Wells Fargo voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 85% of the time. This is similar to 2016, when Wells Fargo voted in support of 50/50 Climate Project Key Climate Votes Survey votes 81% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Wells Fargo voted in favor 100% of the time.


Wells Fargo voted in favor of key 2-Degree Scenario proposals in 2017 just 66% of the time in 2016, so its level of support for these proposals increased significantly in 2017.

Political spending disclosure proposals

Wells Fargo voted for five proposals calling for increased disclosure of political spending or lobbying spending and against one such proposal.

Specifically Wells Fargo voted in favor of proposals calling for disclosure of lobbying spending at Chevron, Devon Energy, Duke Energy and FirstEnergy, and against the lobbying disclosure proposal at ConocoPhillips. It voted in favor of a proposal calling for disclosure of political spending at NRG.

Proxy voting policies

Wells Fargo Asset Management does not specifically address climate change in its voting guidelines, nor does it explain specific votes.

Its primary affiliate that provides asset management in equities for institutional investors, Wells Capital Management (WellsCap), provides a general statement on sustainable investing as follows:

*WellsCap is proud to include ESG analysis as part of our investment process—which has led to a more thorough understanding of company-specific risk and is helping to pave the way to investing for a better world. We are committed to examining ESG issues as risk factors and,*

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through integration into our investment process, we believe our investment teams are better positioned to manage risk more holistically and generate sustainable, long-term returns.\textsuperscript{55}

Neither Wells Fargo Asset Management nor WellsCap provide any information on political spending voting policies or procedures.

Conclusion

Wells Fargo had a commendable voting record on climate-related proposals in 2017, and several of its affiliates make positive public commentary on these issues. However, it would benefit investors for Wells Fargo to clarify its consideration and voting practices on climate-related issues in its proxy voting guidelines.

\textsuperscript{55} See https://www.wellscap.com/about-us/sustainable-investing.jsp.
During the 2017 proxy season, AllianceBernstein voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 81% of the time. This is substantially similar to 2016, when AllianceBernstein voted in support of 50/50 Climate Project Key Climate Votes Survey votes 83% of the time.

2-Degree Scenario Proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, AllianceBernstein voted in favor 100% of the time.


Alliance Bernstein’s record in 2016 was the same, when it also voted for all of the key 2-Degree Scenario proposals at energy and utility companies.

Political spending disclosure proposals

AllianceBernstein voted for five shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in the survey in 2017, and cast a mixed vote for one such proposal.

Specifically, AllianceBernstein voted for proposals calling for disclosure of political contributions at NRG and disclosure of lobbying spending at Chevron, Devon Energy, Duke Energy, and FirstEnergy. Its funds cast mixed votes on a proposal about lobbying disclosure at ConocoPhillips.

Proxy voting policies

Climate or Environmental Risk

In a section of its proxy voting guidelines addressing climate change, AllianceBernstein states:

Proposals addressing climate change concerns are plentiful and their scope varies. Climate change increasingly receives investor attention as a potentially critical and material risk to the sustainability of a wide range of business-specific activities. These proposals may include emissions standards or reduction targets, quantitative goals, and impact assessments. We
generally support these proposals, while taking into account the materiality of the issue and whether the proposed information is of added benefit to shareholders.

For proposals requesting companies to adopt a policy, we will carefully consider existing policies and the company’s incorporation of national standards and best practices. In addition, we will evaluate the potential enactment of new regulations, as well as any investment risk related to the specific issue.

We generally support shareholder proposals calling for reports and disclosure while taking into account existing policies and procedures of the company and whether the proposed information is of added benefit to shareholders.\textsuperscript{56}

Political spending

Another section of AllianceBernstein’s proxy voting guidelines states:

\textit{We generally vote in favor of proposals requesting increased disclosure of political contributions and lobbying expenses, including those paid to trade organizations and political action committees, whether at the federal, state, or local level. These proposals may increase transparency.}\textsuperscript{57}

AllianceBernstein does not provide information on specific votes.

Conclusion

AllianceBernstein voted in favor of every key 2-Degree Scenario proposal and all but one key political spending disclosure proposal at energy and utility companies in 2017, and its proxy voting guidelines state that it will generally vote in favor of proposals on these issues. Thus its voting is in line with its guidelines.

\textsuperscript{56} AllianceBernstein, Proxy Voting and Governance Policies, Feb. 2017, available at https://www.alliancebernstein.com/abcom/Our_Firm/Content/CGDocs/AB_Proxy_Voting_Policy.pdf?uuid=2e05e5f8-ccea-11e4-98e2-1c10539321b1

\textsuperscript{57} Id.
During the 2017 proxy season, Dimensional Fund Advisors voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 15% of the time. This is substantially worse than in 2016, when Dimensional voted in support of 50/50 Climate Project Key Climate Votes Survey votes 33% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario ("2-Degree Scenario"). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Dimensional voted in favor 0% of the time.


Dimensional’s record in 2016 was the same, when it also voted for none of the 2-Degree Scenario proposals at energy and utility companies.

Political spending disclosure proposals

Dimensional Fund Advisors also voted against all shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in 2017.

Specifically, Dimensional voted against proposals calling for disclosure of lobbying spending at Chevron, ConocoPhillips, Devon Energy, and Duke Energy, and FirstEnergy, and against a proposal for increased disclosure of political contributions at NRG.

Proxy voting policies

*Climate or Environmental Risk*

Dimensional Fund Advisors does not appear to publish proxy voting guidelines. It does maintain a webpage on “Corporate Governance” that describes policies and practices and reports on the company’s specific votes and its Sustainability Funds’ approach. The “Responsible Investment Policy” section on that web page does not discuss climate risk specifically, but discusses environmental issues as follows:
Dimensional’s sustainability strategies place greater emphasis on companies considered to be acting in more environmentally responsible ways while also emphasizing higher expected return securities. This approach enables investors to pursue their environmental goals within a highly diversified and efficient investment strategy.

Dimensional’s sustainability strategies systematically evaluate companies across industries on key sustainability issues, including the primary sustainability impact considerations of high greenhouse gas emissions or potential emissions from reserves of fossil fuels such as coal, oil, and natural gas that may produce those emissions.58

Dimensional also provides a “sustainability report,” which evaluates the exposure of Dimensional’s portfolio based on sustainability rating by industry, but not ratings or actions of or regarding specific companies.59 Dimensional is also a signatory to the UN Principles for Responsible Investing and thus has committed to “incorporate[ing] ESG issues into investment analysis and decision-making processes” (Principle 1); “incorporate[ing] ESG issues into relevant policies and practices,” (Principle 2); and “seek[ing] appropriate disclosure on ESG issues from relevant portfolio companies,” (Principle 3).60

Dimensional also publishes a voting report regarding its Sustainability Funds. In its approach to “Responsible Investing” for its Sustainability Funds, Dimensional emphasizes market price, stating “[O]ur belief in markets means that Dimensional expects any value or long-term profitability attributable to a company’s current environmental, social, and governance practices to be reflected in a company’s price.”61

Dimensional did not provide any detailed voting information for the 2017 proxy season. However, it provided some detailed voting information just for its Sustainability Funds for 2016. In each case where the funds voted against a proposal related to sustainability in 2016 (including at Marathon Petroleum, where a proposal asked the company to adopt quantitative goals for GHG emissions for its products and operations), Dimensional said it voted against because the company’s disclosure was already sufficient. It did not explain any of its “yes” votes.62

Political spending

Dimensional Fund Advisors does not appear to publish any information regarding policies or practices of voting on proposals related to political spending or lobbying.

Conclusion

Dimensional does not publish proxy voting guidelines that could inform investors how it considers and votes on climate-related shareholder proposals. Its other statements that suggest it takes ESG

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60 Id.
issues into account in some respects are not consistent with how Dimensional voted on key climate-related proposals in 2017, which was to vote against virtually all such proposals.
During the 2017 proxy season, MFS Investment Management voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 91% of the time. This is an improvement from 2016, when MFS voted in support of 50/50 Climate Project 2016 Key Votes Survey votes 71% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, MFS voted in favor of 100% of proposals where it cast a vote.

MFS voted in favor of eleven proposals at Ameren Corp., Dominion, DTE, Duke, ExxonMobil, FirstEnergy, Kinder Morgan, Occidental Petroleum, PNM, PPL Corp., and AES Corp. MFS did not cast any votes on the proposals at Devon, Marathon Petroleum, or Southern Company.

MFS also supported 100% 2016 2-Degree Scenario proposals, excluding companies where no votes were cast.

Political spending disclosure proposals

MFS voted in support of four out of six shareholder proposals calling for greater disclosure of political contributions and lobbying spending by energy and utility companies in the 2017 survey.

Specifically, MFS supported proposals calling for disclosure of political contributions at NRG and disclosure of lobbying spending at Chevron, Duke Energy, and FirstEnergy. Its funds did not cast votes at ConocoPhillips or Devon Energy.

Proxy voting policy

Climate or Environmental Risk

MFS’s 2017 Proxy Voting Guidelines state:

*MFS generally supports proposals that request disclosure on the impact of environmental issues on the company’s operations, sales, and capital investments. However, MFS may not support such proposals based on the facts and circumstances surrounding a specific proposal, including, but not limited to, whether (i) the proposal is unduly costly, restrictive, or burdensome, (ii) the company already provides publicly-available information that is sufficient to enable shareholders to evaluate the potential opportunities and risks that environmental matters pose to the*
company’s operations, sales and capital investments, or (iii) the proposal seeks a level of disclosure that exceeds that provided by the company’s industry peers.

Political spending

MFS guidelines state with respect to political spending and lobbying proposals:

Generally, MFS will support shareholder proposals that (i) seek to amend a company’s equal employment opportunity policy to prohibit discrimination based on sexual orientation and gender identity; and (ii) request additional disclosure regarding a company’s political contributions (including trade organizations and lobbying activity) (unless the company already provides publicly-available information that is sufficient to enable shareholders to evaluate the potential opportunities and risks that such contributions pose to the company’s operations, sales and capital investments).

Conclusion

Thus MFS indicates it will generally vote for both environmental disclosure proposals and political spending disclosure proposals. Given that MFS voted in support of all 2-Degree Scenario proposals and all political spending disclosure proposals in which it cast votes, MFS appears to vote in line with its proxy voting policies on these issues.
During the 2017 proxy season, Morgan Stanley Investment Management voted in support of key climate votes identified in the 50/50 Climate Project 2017 Key Climate Votes Survey 79% of the time. This is substantially similar to 2016, when Morgan Stanley voted in support of 50/50 Climate Project Key Climate Votes Survey votes 75% of the time.

2-Degree Scenario proposals

2-Degree Scenario proposals ask companies to disclose the potential impact of climate regulation including to the International Energy Agency’s 450 Scenario (“2-Degree Scenario”). Of the 2-Degree Scenario proposals that 50/50 Climate Project identified as key votes in the energy and utility sector in 2017, Morgan Stanley voted in favor of 100% of the proposals on which it voted. Thus Morgan Stanley voted for 2-Degree Scenario proposals at thirteen key energy and utility companies identified by 50/50 in 2017 – Ameren Corp., Devon Energy, Dominion Energy, DTE Energy, Duke Energy, ExxonMobil, FirstEnergy, Kinder Morgan, Marathon Petroleum, Occidental Petroleum, PNM Resources, PPL Corp., Southern, and AES Corp. Morgan Stanley did not cast a vote on the 2-degree proposal at PNM.

Morgan Stanley’s record in 2016 was similar, when it also voted for all of the 2-Degree Scenario proposals at energy and utility companies.

Political spending disclosure proposals

Morgan Stanley Investment Management also voted for four shareholder proposals calling for greater disclosure of lobbying or political spending by energy and utility companies in the 2017 survey and one proposal calling for greater disclosure of political spending. Specifically, Morgan Stanley voted for proposals calling for disclosure of lobbying spending at Devon Energy, Duke Energy, and FirstEnergy, and for a proposal for disclosure of political contributions at NRG. It voted against disclosure of lobbying spending at Chevron and ConocoPhillips.

Proxy voting policies

In a section of its proxy voting policies entitled “Social, Political and Environmental Issues,” Morgan Stanley Investment Management states:

We consider how to vote on the proposals on a case-by-case basis to determine likely impacts on shareholder value. We seek to balance concerns on reputational and other risks that lie behind a proposal against costs of implementation, while considering appropriate shareholder and management prerogatives. We may abstain from voting on proposals that do not have a readily
determinable financial impact on shareholder value. We support proposals that if implemented would enhance useful disclosure, but we generally vote against proposals requesting reports that we believe are duplicative, related to matters not material to the business, or that would impose unnecessary or excessive costs. We believe that certain social and environmental shareholder proposals may intrude excessively on management prerogatives, which can lead us to oppose them.\textsuperscript{63}

Morgan Stanley also publishes a report on its proxy voting for the prior year, the most recent of which is available for 2016. In it Morgan Stanley reports that it voted in favor of 73\% of proposals related to climate change and 88\% related to political spending. It did not report on specific votes.\textsuperscript{64}

Conclusion

Morgan Stanley does not provide specifics in its voting guidelines regarding how it votes on climate and political spending issues, except the equivocal statements that the consideration is case-by-case, in support of useful disclosure, and against proposals that may intrude on management prerogatives. Its application of this policy resulted in 100\% votes in line with key votes on 2-Degree proposals and most key political spending disclosure proposals in 2017, but it would be useful for investors to learn more about how Morgan Stanley applies these principles.
