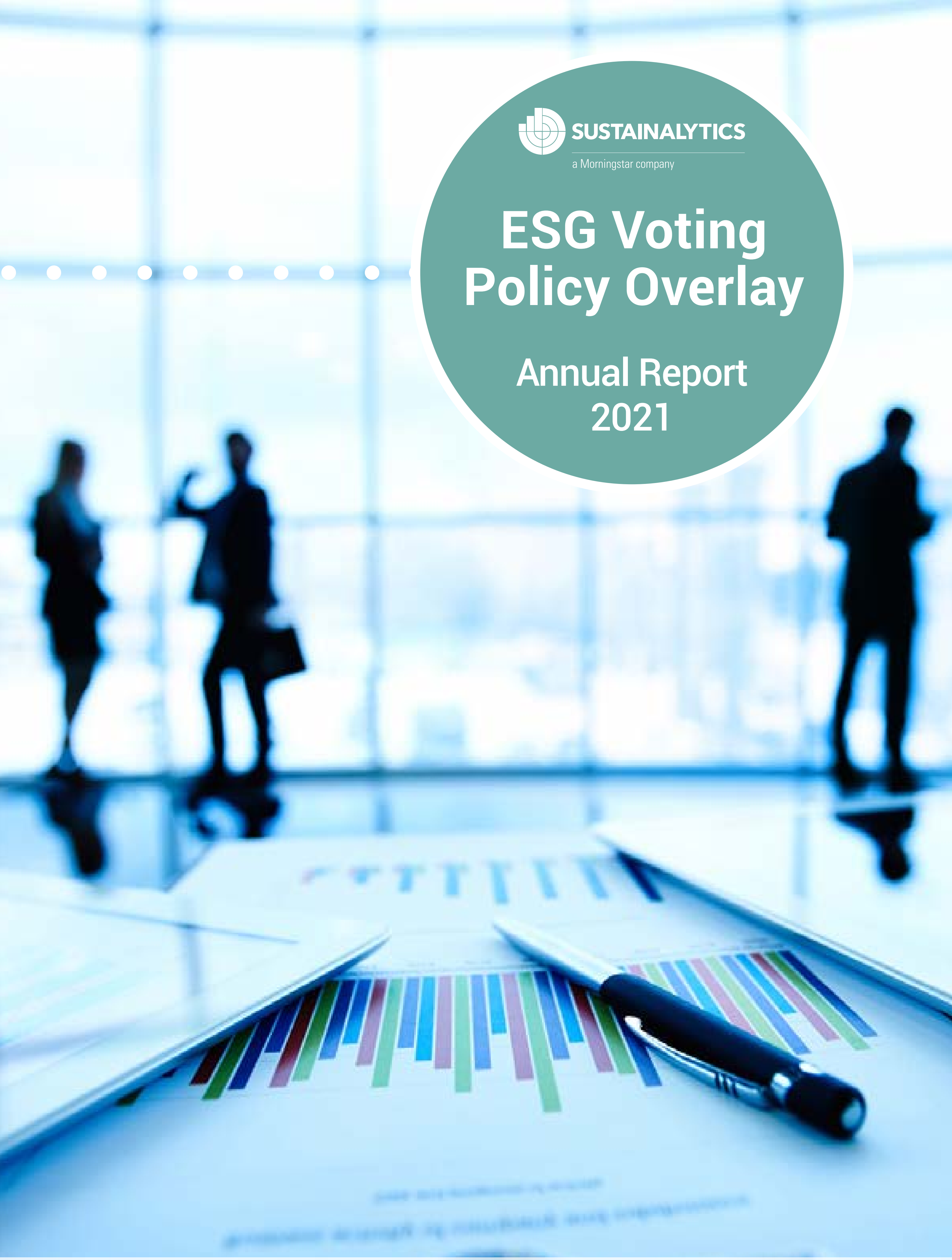


SUSTAINALYTICS
a Morningstar company

ESG Voting Policy Overlay

Annual Report 2021

The ESG Voting Policy Overlay complements investors traditional corporate governance polices to align voting activities with ESG issues most important to investors.

Contents

This report summarizes the ESG Voting Policy Overlay recommendations, and more generally, insights from the Proxy Voting season.

Executive Summary

Jackie Cook
Director, Stewardship,
Product Strategy
& Development

I am pleased to present the first annual report of Sustainalytics' ESG Voting Policy Overlay service.

This new service builds on Sustainalytics' long-standing engagement business, offering targeted voting recommendations to support a holistic approach to ESG stewardship. We help our investor clients amplify their influence at a time when investment fiduciaries are under increasing pressure to turn ESG commitments into real-world impacts.

ESG factors pose the biggest risks and opportunities facing investors today. This realization is rapidly changing how investors use their proxy votes. Just a few years ago, it was rare for shareholders to vote against company management on corporate ballots. But 2021 proved pivotal. Capping years of incremental gains, investor votes drove support for environmental and social issues to new heights, advancing stakeholder capitalism into mainstream finance.

Not only does proxy voting impact corporate governance directly, it also strengthens shareholders' influence when engaging with companies over policies and practices they are seeking to change. As an overlay to traditional compliance-driven corporate governance voting policies, we help our clients take informed ESG-focused positions on strategically relevant ballot items. This involves detailed screening of companies and ballot measures across our clients' portfolios, followed by focused analysis of issues and governance practices.

We are uniquely positioned to deliver a combination of rigor and innovation when helping our clients exercise their voting rights in an impactful and responsible way. This is because Sustainalytics' in-house ESG research and data is strategically aligned to our engagement practice with decades of experience in investor advocacy. We take a systems approach, connecting granular issuer-level ESG risk indicators to market-wide trends that underpin long-term investment performance.

This report summarizes our 2021 recommendations and examines some themes that will shape 2022. It follows our mid-year report issued in September, which covered items tabled for shareholder votes in the first two quarters of 2021. While Q3 and Q4 tend to be quieter times for proxy voting, important resolutions were tabled in key markets, giving clues about the year ahead. We will also present broad details of a new escalation strategy aimed at enhancing corporate progress on net-zero targets.

A shareholder's right to file and vote on shareholder resolutions is a central feature of shareholder democracy in the United States. With the growing influence of global investor-led initiatives and the rising urgency for transformational climate action, we're seeing a degree of convergence across several markets in the use of the proxy process. At the same time, local investors and investor advocacy groups are taking market-specific actions to address universal ESG concerns.

There has never been a more exciting time to be working in the field of proxy voting.

The Year in Review

2021 was a pivotal year for proxy voting

1 A record number of sustainability-focused shareholder resolutions passed with majority support.

2 Large asset managers shifted their voting stance, driving up support on key social and environmental issues and offering greater transparency into their voting records.

3 Regulators in the US and UK pursued proxy voting reforms aimed at empowering retail investors and institutional asset owners.

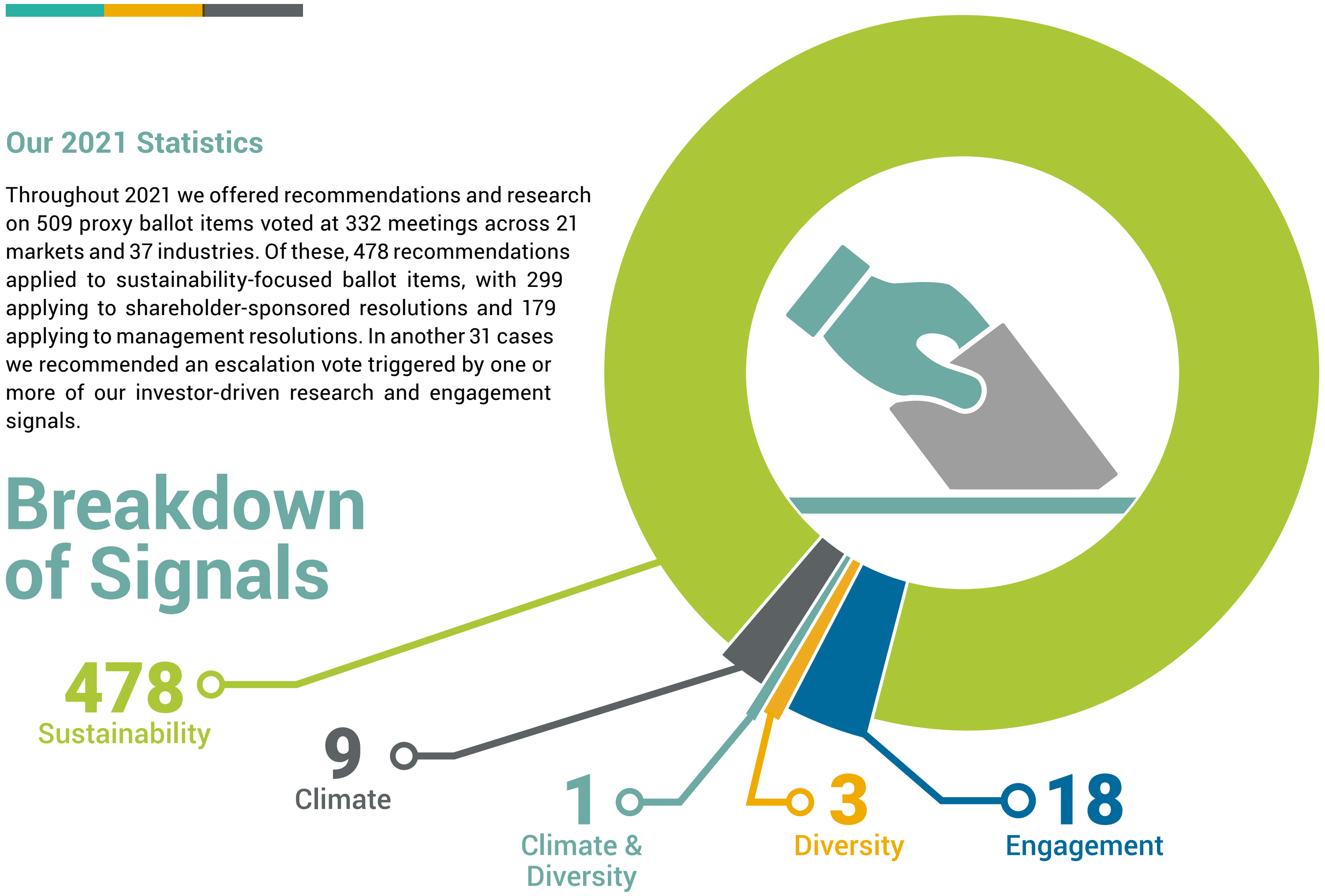
4 More ESG shareholder resolutions came to vote in markets outside the U.S. as more investors and advocacy organizations leveraged the proxy process to press heavy emitters to set climate targets.

5 A hedge fund challenge for board seats over climate governance concerns at Exxon Mobil led to the unseating of three incumbent directors thanks to support from large investment institutions.

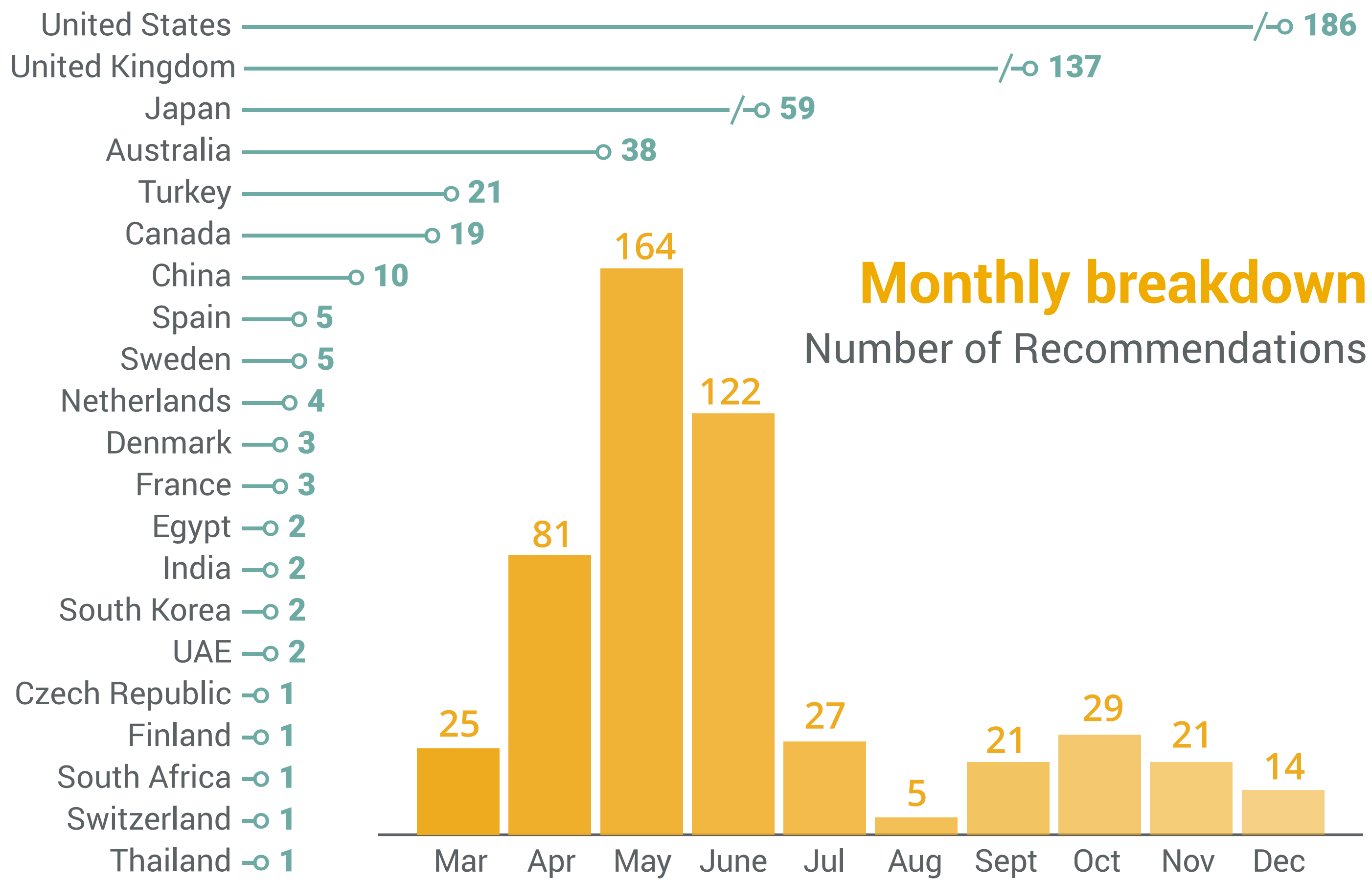
Our 2021 Statistics

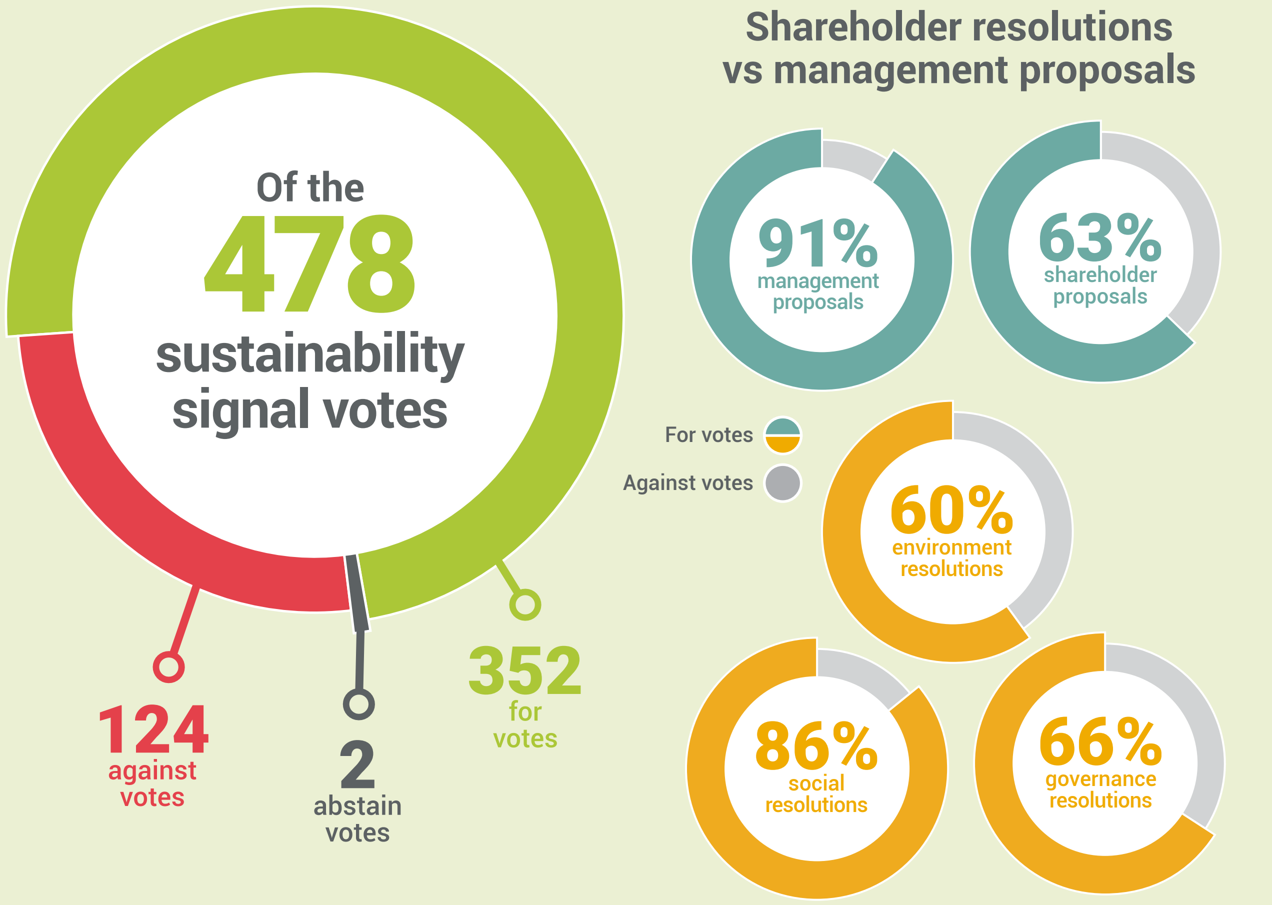
Throughout 2021 we offered recommendations and research on 509 proxy ballot items voted at 332 meetings across 21 markets and 37 industries. Of these, 478 recommendations applied to sustainability-focused ballot items, with 299 applying to shareholder-sponsored resolutions and 179 applying to management resolutions. In another 31 cases we recommended an escalation vote triggered by one or more of our investor-driven research and engagement signals.

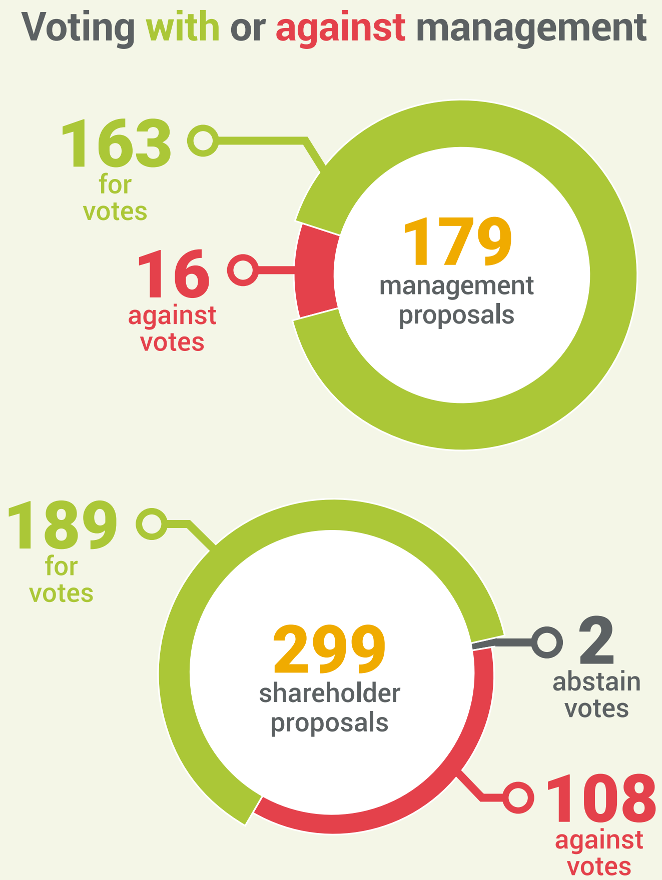
Breakdown of Signals

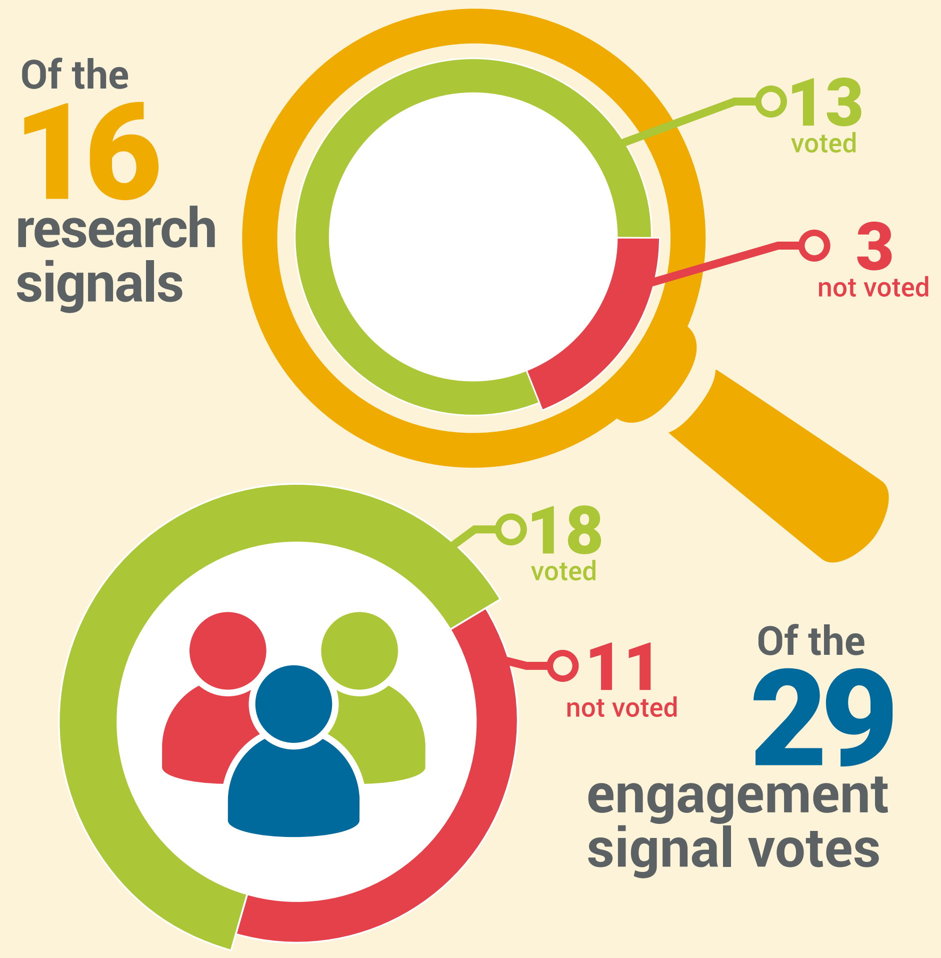


Regional breakdown









Across global markets, most votes take place in the first half of the calendar year. However, the second half of 2021 delivered some important proxy results on sustainability-focused resolutions, giving an early indication of what to expect in 2022.

Table 1: Majority-Supported Sustainability Ballot Initiatives Voted in Q3 and Q4, 2021

Name	Country	Proposal Title	Board Recommendation	Support	Adjusted support*	Sustainalytics' Vote Recommendation
AGL Energy Ltd	AU	Paris-Aligned Climate Transition Plan	Against	52.6%	52.6%	For
AutoZone Inc	US	Climate Transition Plan Reporting	Against	70.4%	70.4%	For
BHP Group Ltd.	AU	Paris-Aligned Lobbying Report	For	98.9%	98.9%	For
Fox Corp	US	Lobbying Expenditures Report	Against	43.0%	79.0%	For
Microsoft Corp	US	Workplace Sexual Harassment Poliicies	Against	78.0%	78.0%	For
Nike Inc	US	Political Spending Report	Against	30.5%	51.8%	For
Nike Inc	US	Diversity and Inclusion Efforts	Against	35.6%	60.7%	For
Oracle Corp	US	Racial Equity Audit	Against	31.8%	65.4%	For
Sysco Corp	US	Climate Transition Plan Reporting	None	92.1%	92.1%	For
Tesla Inc	US	Diversity and Inclusion Efforts	Against	56.9%	81.3%	For
Tesla Inc	US	Employee Arbitration Report	Against	46.4%	66.0%	For
Worthington Industries Inc	US	Report on Climate Indicators	Against	40.9%	72.8%	For

Source: Morningstar's Proxy Voting Database: 31 January 2022
Note: Resolution adjusted based on external minority shareholder votes

Spotlight on the Australian Proxy Season

A total of 23 sustainability-focused resolutions were voted at Australia's largest banks, mining companies, oil and gas businesses and electric utilities in 2021. Nineteen were focused on climate change and four called on companies to take measures to obtain consent from traditional owners of the lands on which companies operate. Two of these specifically referenced Rio Tinto's destruction of 46,000-year-old sacred indigenous rock shelters and cave art at Juukan Gorge in May 2020.

Five resolutions earned majority support, of which four were endorsed by corporate boards. At AGL Energy, where the board recommended voting 'Against', 53% of shareholders supported a motion calling on the company to prepare a climate transition plan. Similar resolutions at Origin and Incitec earned 44% support. The boards of Rio Tinto, BHP, and South32 recommended shareholders support resolutions filed by the Australasian Centre for Corporate Responsibility, or ACCR, asking that each company:

"… enhance its annual review of industry associations to ensure that the review identifies areas of inconsistency with the Paris Agreement. Where an industry association's record of advocacy is, on balance, inconsistent with the Paris Agreement's goals, shareholders recommend that our company suspend membership, for a period deemed suitable by the Board."

Table 2: Sustainability-Focused Resolutions Voted at Australian Companies in 2022

Name	Proposal Title	Board Recommendation	Percent Support	Sustainalytics' Vote Recommendation
Aust. & New Zealand Banking Group	Fossil Fuel exposure	Against	14.9%	For
Commonwealth Bank of Australia	Fossil Fuel exposure	Against	15.1%	For
National Australia Bank Ltd.	Fossil Fuel exposure	Against	10.6%	For
Westpac Banking Corporation	Fossil Fuel exposure	Against	12.9%	For
Incitec Pivot Ltd	Cap. Ex. Alignment with the Paris Agreement	Against	43.7%	For
Whitehaven Coal Ltd.	Cap. Ex. Alignment with the Paris Agreement	Against	9.5%	For
New Hope Corporation	Cap. Ex. Alignment with the Paris Agreement	Against	9.0%	n/a
QBE Insurance Group Limited	Fossil Fuel exposure	Against	21.4%	Against
BHP Group Ltd	Cap. Ex. Alignment with the Paris Agreement	Against	14.2%	For
Fortescue Metals Group Ltd.	Cultural Heritage Review	Against	15.7%	For
RIO Tinto Ltd.	GHG Emissions Reduction Targets	For	99.0%	For
RIO Tinto Ltd.	Industry Association Paris-Alignment	For	99.0%	For
BHP Group Ltd	Industry Association Paris-Alignment	For	98.9%	For
South32 Ltd	Industry Association Paris-Alignment	For	98.7%	For
Santos Ltd	Cap. Ex. Alignment with the Paris Agreement	Against	13.3%	For
Woodside Petroleum	Cap. Ex. Alignment with the Paris Agreement	Against	20.1%	For
Oil Search Limited	Cap. Ex. Alignment with the Paris Agreement	Against	10.0%	For
AGL Energy Ltd	Cap. Ex. Alignment with the Paris Agreement	Against	52.6%	For
Origin Energy Ltd.	Cap. Ex. Alignment with the Paris Agreement	Against	44.1%	For
Origin Energy Ltd.	Cultural Heritage Review	Against	6.2%	For
Origin Energy Ltd.	Consent from Traditional Owners	Against	11.1%	For
Origin Energy Ltd.	Industry Association Paris-Alignment	Against	36.9%	For
Origin Energy Ltd.	Consult Traditional Owners on Water Quality	Against	8.5%	For

Source: Morningstar's Proxy Voting Database: 31 January 20221
Note: Resolution support based on vote results as reported

The Australian AGM season – the months when most annual shareholder meetings take place –falls in the final quarter of the year. It offers an early signal of what to expect in North America and Europe in the first half of 2022. Yet, proxy voting in Australia has some interesting differences, making more difficult than in many other markets for shareholders to table resolutions.

One large hurdle is that, to be eligible, a shareholder resolution should be filed by at least 100 shareholders or holders of at least 5% of the vote. Two investor advocacy organizations have emerged to coordinate most of the shareholder resolution filing in Australia by gathering together the necessary number of shareholders and navigating the filing process: the ACCR and Market Forces, which is an affiliate of Friends of the Earth. GetUp, a civic advocacy group, filed three additional resolutions in 2021.

At Rio Tinto, shareholders voted down the board's remuneration report following payouts to the CEO and senior executives responsible for the Juukan Gorge caves destruction.

In 2022, shareholders will get to vote on climate transition plans - also called 'say-on-climate' resolutions - at four additional Australian companies – Santos, Woodside, Oil Search, and Rio Tinto, with BHP being the first to extend this voting right in 2021.

COP26 and the Role of Proxy Voting in Investor Net Zero Commitments

Climate concerns dominated proxy voting in 2021 and look set to do so again in 2022. In total, in 2021 we issued vote recommendations on:

- 10 climate-linked escalation votes triggered by Sustainalytics climate indicators (7 against the chairperson and 3 against adoption of annual accounts),
- 3 climate-linked escalation votes triggered by Sustainalytics engagements (3 against the adoption of annual accounts),
- 65 climate-linked shareholder resolutions across 13 markets, and
- 17 climate-linked management resolutions ('say-on-climate' transition plans).

While investor awareness of the financial risks of climate change has evolved over the past two decades, financial sector mobilization to address these risks has been accelerating since the signing of the Paris Climate Agreement in 2015.

Figure 1: A Recent Timeline of Developments Contributing to the Net Zero Investment Movement

December 2015
Paris Climate Agreement adopted by 196 Parties at COP 21
Article 2.1(c) "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"

December 2015
Task Force on Climate-Related Financial Disclosures launched by G20 Financial Stability Board
"Without reliable climate-related financial information, financial markets cannot price climate-related risks and opportunities correctly and may potentially face a rocky transition to a low-carbon economy, with sudden value shifts and destabilizing costs..."

June 2017
TCFD Recommendations published

December 2017
Climate Action 100+ Initiative launched

October 2018
Paris Climate Agreement adopted by 196 Parties at COP 21
Article 2.1(c) "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"

May 2019
UN-Convened Net Zero Asset Owner Alliance (NZAO) launched

February 2020
COP 26 Private Finance Agenda launched by the Bank of England

June 2020
UNFCCC Race To Zero Campaign Launched
"The objective is to build momentum around the shift to a decarbonized economy ahead of COP26...business, cities, regions and investors are united in meeting the Paris goals and creating a more inclusive and resilient economy."

December 2020
Net Zero Asset Managers Initiative (NZAM) launched
Signatories commit to reach net zero emissions by 2050 or sooner and set 2030 interim targets.

March 2021
Net Zero Investment Framework 1.5°C Implementation Guide Published

April 2021
Glasgow Financial Alliance for Net Zero (GFANZ) launched
Building a private finance system for net zero to "...ensure that every professional financial decision takes climate change into account"

May 2021
Net Zero by 2050: A Roadmap for the Global Energy Sector published by the International Energy Agency (IEA)
"Pathway to critical and formidable goal of net-zero emissions by 2050 is narrow but brings huge benefits"

July 2021
NZAM grows to 128 members with $43 trillion in assets

August 2021
IPCC Climate Change 2021: The Physical Science Basis published
"Climate change widespread, rapid, and intensifying"-IPCC
"Code Red for Humanity"-António Guterres, UN Secretary General

September 2021
Net Zero Financial Service Providers Alliance (NZFSPA) launched

October 2021
Climate Action 100+ Initiative reaches over US$60tn in managed assets

October 2021
NZAO members' targets exceed Allianz minimum commitments under GFANZ
"Major investors to reduce portfolio emissions 25-30% by 2025, inaugural Net-Zero Asset Owner Alliance Progress Report finds"

November 2021
COP 26 Glasgow
Uniting the world to tackle climate change

Initially, investors viewed climate risk predominantly in terms of portfolio or investment risk. Now climate change is broadly recognized as a systemic financial risk requiring coordinated action across all financial market actors. At the policy level, there is broad consensus that private-sector finance plays a critical role in tackling the climate crisis and investors see substantial investment opportunities in the transition to a net-zero global economy.

As the movement gains momentum, proxy voting is increasingly recognized as a valuable tool for shaping market-wide governance practices and helping investors turn their commitments into real-world decarbonization impacts.

In the lead-up to COP26 in November 2021, considerable organizing was undertaken to connect actors across the financial sector value chain to the UN-led Race to Zero campaign under the umbrella Glasgow Financial Alliance for Net Zero, or GFANZ. These efforts led to the formation of financial sector sub-groups to coordinate net zero commitments.

Under the Net Zero Asset Managers Initiative (NZAM) and the UN-Convened Net Zero Asset Owners Alliance (NZAOA), institutions responsible for more than half of all managed assets globally have pledged to steer investments in line with net zero targets and to prioritize the achievement of real economy emissions reduction. Strategies for doing so go beyond making portfolio-level decisions, to working with industry stakeholders and clients and engaging with investee companies.

Prior to COP26, the NZAOA produced a framework for how institutional asset owners can work with their asset managers to shape net-zero-aligned proxy voting. The Climate Action 100+ collaborative investor initiative has been flagging key shareholder votes since 2020 and will likely expand this focus in 2022. Regulators in the US and UK have taken measures to support proxy voting as an investor tool in the fight against climate change.

Strategies for leveraging the proxy process are being applied across a broader range of markets and adapted for local regulatory contexts. For instance, climate-related shareholder resolutions voted in 2021 spanned at least 13 major markets and were predominantly led by investor advocacy organizations like As You Sow, Majority Action and SumOfUs (U.S.), Follow This (The Netherlands), ShareAction (U.K.), the ACCR and Market Forces (Australia) and the Kiko Network (Japan).

Furthermore, investor urgency for climate action is compelling a re-think of some of the principles of investor-centric corporate governance. More investors are incorporating into their voting policies guidelines for how they intend to escalate climate concerns on ballot measures that shape governance practices.

Looking Ahead to 2022

The stage is set for another interesting proxy season. Many of 2021's trending topics will continue to steer the proxy voting agenda in 2022, and likely with even stronger support from shareholders.

Key Themes Shaping Proxy Voting in 2022

Ahead of the season, engagements can be expected to take on a new level of intensity. Sensing stronger voting support, management teams and boards may be more motivated to meet shareholders' requests in order to secure withdrawal of the resolutions. On the other hand, where investors are more confident of a strong vote outcome, they will likely be expecting a higher degree of commitment from corporate management.

1. Shareholders Expect Decisive Climate Action on Scope 3 Emissions

In the lead-up to COP26, asset owners and asset managers joined 'net zero' investing alliances that place active ownership at the center of investing strategies committed to portfolio and real-world decarbonization. As in 2021, climate concerns will dominate proxy voting in 2022. However, shareholders' requests will be noticeably more specific, asking companies to adopt and report on emission reduction targets and transition plans that reference the latest forward-looking guidance, such as the IEA's Net Zero by 2050 Roadmap and the Climate Action 100+ Benchmark Indicators. There will be a strong focus on scope 3 emissions – the emissions generated across a company's entire value chain – particularly at the heaviest emitters.

2. Boards will be Held to Higher Standards in Director Elections

Investors recognize that addressing climate change requires a new way of doing business and new approaches to corporate governance. With most boards lacking the skills and experience to effectively navigate the net zero transition according to survey evidence[1], investors must take action to improve climate governance. The World Economic Forum's Climate Governance Initiative has set out a set of principles and guidance for how to incorporate climate considerations into corporate governance and climate reporting frameworks. In the final section, we note that asset owners want asset managers to incorporate climate governance assessments into voting on board elections, pay resolutions and other ballot measures that underpin corporate accountability (see final section). Investors will therefore be looking more closely at boards, corporate leadership, and incentive structures as they cast their proxy votes in 2022 and beyond. Below we articulate our voting approach to better align senior executive incentives and performance measurement at the heaviest emitters with climate targets.

3. Linking Net-Zero to Nature-Positive: Biodiversity will be a key theme in 2022

Investor focus on nature and biodiversity has shot up in the past two years, along with a growing awareness of the intersections with climate risk and human rights. The COP26 Deforestation Pledge recognizes natural solutions as the most effective climate mitigation strategy and signatories affirm support for Indigenous Peoples and local communities. In April and May, Part 2 of the COP 15 UN Biodiversity Conference will take place, aiming to finalize and adopt a new global biodiversity framework. The Framework will set out targets and milestones for reversing biodiversity loss, with implications for businesses and their supply chains, as well as for investors. The investor-led Natural Capital Finance Alliance is examining how to align capital flows with the framework, and investor commitment is being mobilized via the Finance for Biodiversity Pledge. Following the CA100+ model for channeling global investor influence, plans are being laid for a Nature Action 100+ investor action framework. Ballot measures on themes such as plastic waste, pesticide use, water stewardship, and deforestation will resonate with investors in 2022, attracting more attention to certain sectors, such as food, beverage, and agriculture. Biodiversity will likely have an even stronger presence on corporate ballots beyond 2022 with investor support for disclosure and risk management standards modelled after the TCFD framework – called the Taskforce on Nature-Related Financial Disclosures, or TNFD.

1. Whelan, T., (2021), U.S. Corporate Boards Suffer from Inadequate Expertise in Financially Material ESG Matters. NYU Stern School of Business, 1 January 2021. Forthcoming, Available at SSRN: https://ssrn.com/abstract=3758584 or http://dx.doi.org/10.2139/ssrn.3758584

4. Supply Chain Resilience Will Drive Votes Across Sustainability Themes

Supply chains are a hot topic for investors going into 2022. In the past, investors have frequently filed shareholder resolutions to raise concerns about how well companies are managing human rights, environmental, and other supply chain risks, and to request stronger supply chain due diligence. Building supply chain resilience entails prioritizing sustainability and transparency and is therefore an important way for investors to achieve their own human rights, biodiversity, and climate commitments. By influencing supply chain sustainability, investors can extend their real-world impact at a systems-level. For instance, tackling large manufacturers' supply chain greenhouse gas emissions, or scope 3 emissions, extends influence to parts of the economy that investors may not otherwise influence directly via traditional stewardship strategies. Investor support for proxy ballot items addressing supply chain deforestation and forced labor gained strong support in 2021 and supply chains will feature on proxy ballots in 2022.

5. Investors Want a Workplace Culture Reset

The COVID pandemic has changed the balance of power between companies and workers and increased societal awareness around the importance of employee protections, such as paid sick leave, and workplace cultures that advance diversity, equity, and inclusion. Measures to empower employees and create more supportive workplaces help companies retain valuable talent. In 2022, with many companies now committed to providing workforce diversity data, traditional requests for gender and racial diversity breakdowns will to some extent be replaced with calls for companies to report on diversity and inclusion efforts within the workplace and on broader societal racial justice impacts, which are discussed further in the next section.

From Workplace Diversity to Racial Equity Audits

The outpouring of public support for the Black Lives Matter movement in 2020 led many companies and investors to take pledges to address workplace racial biases and discrimination. Many have since rolled out workplace diversity, equity, and inclusion programs.

Social justice advocates were quick to realize that corporates needed to show that anti-racism pledges and efforts have a real-world impact. A new request appeared on nine corporate proxy ballots in 2021 asking boards to commission audits of companies' impacts on non-white stakeholders and communities of color. These resolutions, which achieved an average of 38% support from outside shareholders, direct investors' attention to societal racial impacts, recognizing that racial inequality is caused by systemic biases and that business practices, products and relationships with stakeholder groups can perpetuate inequalities.

Six of these resolutions were voted at large financial institutions. Labor fund, CtW Investment Group, filed three of the six that came to vote, namely, at Bank of America, Citigroup, and JPMorgan - the latter earning 41% support. The Service Employees International Union (SEIU) filed the other three – which were voted at Wells Fargo, Goldman Sachs, and State Street. Prior to the vote, Citigroup and JP Morgan had unsuccessfully appealed to the SEC to leave the resolutions off their 2021 ballots.

The movement is achieving results: BlackRock agreed to conduct its own racial equity audit leading to a resolution withdrawal in 2021, and Citigroup followed suit after the 2021 shareholder vote. Both will be reported in 2022. More recently, Tysons also committed to the measure, prompting withdrawal of a resolution that would have been voted at the company's January 2022 meeting.

Meanwhile, shareholders have stepped up their resolution filing ahead of the 2022 proxy season, indicating that racial equity and civil rights audits will feature prominently on corporate proxy ballots in the months ahead - and are likely to attract even stronger support. Among the issues shareholders will be considering in deciding their votes will be the congruence between companies' public statements and impacts on internal and external stakeholders.

Proposed environmental justice legislation that would have mandated the collection of community-level health data for discerning the differential effects of pollution and chemical exposure stalled in both the U.S. and Canada in 2021. However, companies are likely to face heightened reputational as well as regulatory risk from environmental justice considerations, as one of the key factors that companies will be encouraged to consider in such audits.

Spotlight on the SEC and Proxy Voting

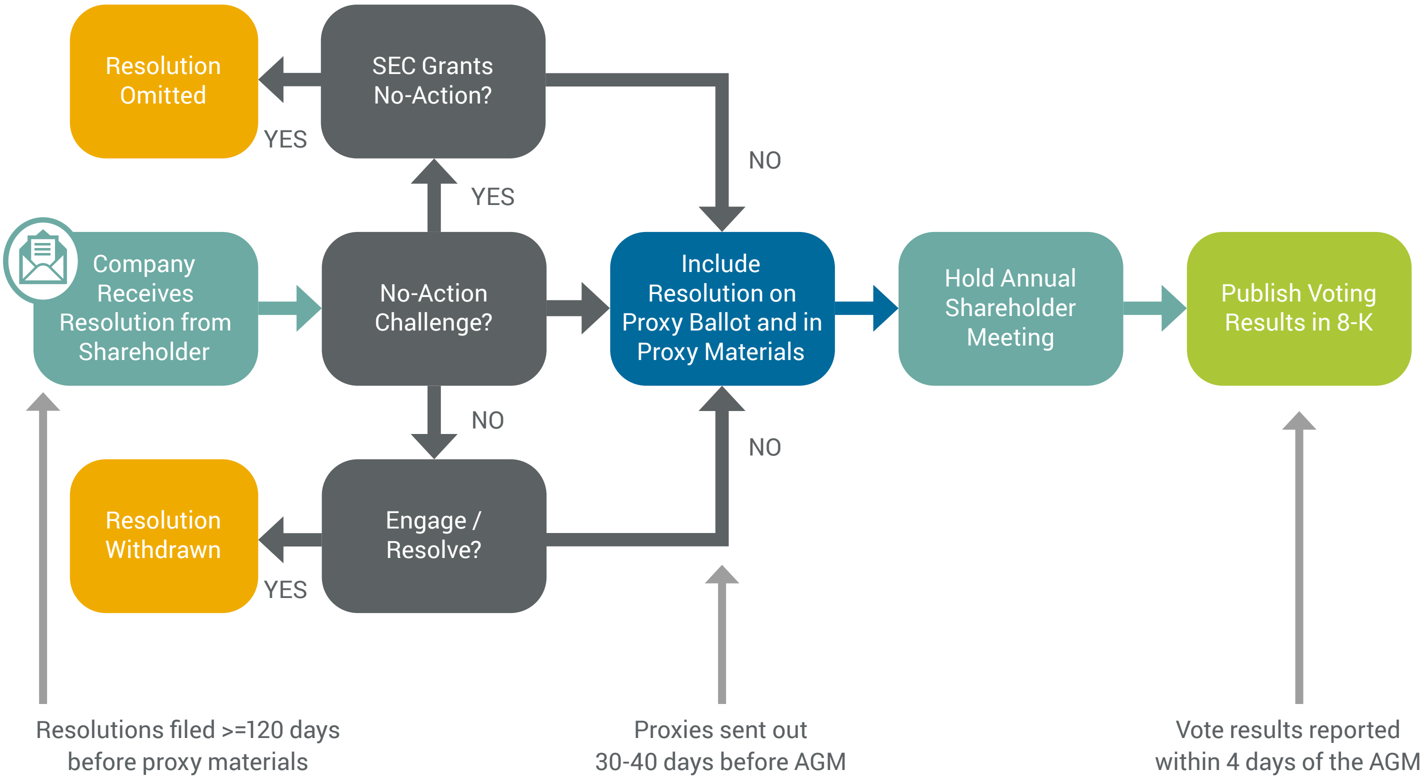
A shareholder's right to file and vote on shareholder resolutions is a cornerstone of shareholder democracy in the United States. Two recent SEC initiatives will impact which shareholder resolutions appear on proxy ballots in the US proxy season in 2022.

New Guidance Opens the Door to Climate Targets in 2022

In November 2021, the SEC reversed important Trump-era restrictions on shareholder resolutions that limited the types of issues shareholders could address via corporate proxy ballots. The so-called "ordinary business rule" allows companies to omit resolutions that appear to impact their day-to-day business management and operations unless the issue has a social policy relevance.

Starting with EOG Resources (EOG) in 2018, several companies took advantage of the restriction, successfully petitioning the SEC to exclude requests for setting climate targets and timelines against Paris-aligned benchmarks.
Figure 2 below describes the SEC-regulated shareholder resolution submission process.

Figure 2: No-Action Appeals Within the US Proxy Process



Unsurprisingly, the likelihood of excludability dampened shareholders' appetite for filing such resolutions and substantially fewer climate-target-setting requests were filed beginning in 2018.

The reversal of filing restrictions under Biden-appointed SEC Chair Gary Gensler was signaled early in 2021 when the SEC denied Chevron and ConocoPhillips (COP) no-action relief for leaving climate target setting requests off their respective ballots. Both resolutions subsequently passed with clear majority shareholder support.

Without the safe-haven that previous guidance afforded companies, investors have more leverage in engagements and many already-filed resolutions may be withdrawn ahead of a 2022 vote if companies agree to the proposed measures. On the other hand, shareholders are less likely to settle for anything that might amount to greenwashing and will likely push for strong agreements – or let the matter go to a vote.

New Resolution Resubmission Thresholds May Keep Some Measures off the Ballot

For all the excitement generated by proxy victories in 2021, some important issues may fall off ballots in 2022.

Late in 2020, the Clayton-led SEC rushed through changes that raised the bar for filing and re-submitting shareholder resolutions, among other restrictions on shareholder proposals. The amendments became effective on 1 January 2022.

One amendment substantially raises required support thresholds for subsequent resolution submissions where an issue has been voted at a company in the previous five years.

The new resubmission thresholds effectively insulate some proxy ballots from repeat resolutions where insiders or parent companies control a sizeable portion of the vote – often via dual class share structures that afford super-charged voting rights.

Consider Tysons, where the founding family controls more than 70% of votes. Year-over-year, a majority of the food company's outside shareholders have supported human rights and water resolutions. However, insider votes prevented the top-line result from reaching the required threshold for resubmission in 2022.

Table 3: Majority Supported Sustainability Ballot

		Support for Re-submission within 5 years		
		1st	2nd	3rd
14a-8(i)(12): Revised level of shareholder support a proposal must receive to be eligible for resubmission	Before	3%	6%	10%
	After	5%	15%	25%
Effective Date: **January 1, 2022**				

In a no-action petition filed on January 12, ExxonMobil appears to be one of the first to invoke the new thresholds. It requests permission to exclude a resolution filed by Vermont State Pensions calling for an independent board chair because a similar resolution earned 22% support in 2021. This year's resolution adds climate transition concerns to its supporting arguments. Previously, the resolution received 33% in 2020 and 41% in 2019. The SEC's decision on this appeal will help investors understand how it judges the similarity of a resolution's subject matter to previously-filed resolutions.

Corporate Governance for the Net Zero Transition: Extending our Research-Triggered Vote Recommendations

To better help our clients leverage their proxy voting rights to advance corporate accountability for climate goals, in March 2022 we will add a new layer to the ESG Voting Policy Overlay.

The new voting strategy will urge alignment between investors' climate goals and senior executive incentive structures, focusing on corporate net zero transition planning at the heaviest emitting fossil fuel companies. The strategy supports investor net-zero commitments to advance real-world decarbonization.

Building on the successes of 2021, investors are focused on climate governance and board-level climate transition competence.

Investors Prioritize Net Zero

Investors have a shared interest in decarbonizing the global economy to achieve net zero greenhouse gas emissions by 2050. More than half of managed assets globally are committed to prioritizing the achievement of real economy emissions reduction and using active ownership to steer portfolio companies towards lower carbon business models.

Corporate Governance Matters

Corporate governance is fundamental to setting and achieving corporate objectives. Climate governance includes board and senior executive oversight and accountability for climate change performance. It entails building climate competence at the board and senior management level and setting performance metrics and incentives that focus the CEO and senior executives on decarbonization goals.

Under investor pressure, a growing number of companies are tracking sustainability metrics, setting decarbonization goals and incorporating ESG considerations into incentive compensation. At the same time, public and investor pressure for mandatory climate reporting aims to make consistent and comparable climate information available across capital markets.

No more business-as-usual

It is at the biggest emitters where bringing leadership incentives in line with decarbonization targets promises the biggest real-world impact for investors. Burning fossil fuels accounts for approximately three quarters of greenhouse gas emissions in the U.S.[1] A significant proportion of fossil fuel reserves must remain unburned to achieve net zero global emissions by 2050.[2] This has major implications for fossil fuel company valuations, and therefore should be incorporated into senior executive performance metrics.

Say on Pay belongs in a Net Zero Voting Strategy

Ahead of COP26, UK Asset Owners who use external Asset Managers signed a declaration that, among other measures, asset managers should vote to ensure that:

"[investee companies'] transition plans should include corporate lobbying, capital expenditure, and remuneration strategies."[3]

The Net-Zero Asset Owners Alliance guidance for how asset owners can engage asset managers to elevate climate diligence in proxy voting defines "Climate Voting" as extending beyond shareholder resolutions to include:

"… votes on issues where the asset manager explicitly specifies that climate considerations have an influence (which might include board director elections, approval of the report and accounts, auditor reappointment, remuneration votes, or others)."[4]

Pay practices are core to good governance. The say-on-pay vote, now a required ballot measure in many jurisdictions, asks shareholders to approve a company's approach to the remuneration of top executive officers, including the CEO.

This vote has therefore come to be viewed as a measure of shareholders' confidence in board oversight across a growing number of markets. In Australia, where the vote is advisory, repeated failure to secure shareholder support can force the board to stand for re-election. While this condition does not apply to U.S. companies, shareholders often vote on compensation committee members according to similar considerations as those driving say on pay voting. In Canada, say on pay has not been mandatory up to now. However, the measure has been adopted by more than 70% of large public listed companies and mandatory votes are likely in the near future.

We view the say on pay vote as an underutilized source of influence that investors can activate to better align corporate strategy at the highest emitters with investors' net zero ambitions.

Our Net Zero Vote Escalation Strategy

In 2022, we will scrutinize transition plans and pay practices at large oil and gas companies for a credible link between executive performance metrics incentive pay and climate targets.

In markets where the say on pay vote is available to shareholders, we will recommend that investors vote down 'say on pay' management resolutions where incentive structures fail to reference a credible net zero emissions reduction pathway, such as the IEA's 2050 Net Zero Roadmap or fails to link executive performance evaluations to emission reduction targets, or where company disclosures provide insufficient detail. In markets and instances where the say on pay vote is not offered to shareholders, we will consider the eligible vote to be the election of the chair of the committee responsible for senior executive pay setting.

Our evaluations will draw on guidance and frameworks produced by collaborative investor-led initiatives, including the Paris-Aligned Investment Initiative's Net Zero Investment Framework Implementation Guide to help asset owners to develop net zero investment strategies and the Executive Compensation Guidebook for Climate Transition, an investor guide to implementing Principle 6 of the World Economic Forum's Principles for Effective Climate Governance.

1. International Energy Agency (2021). Energy and the environment explained. Where greenhouse gases come from https://www.eia.gov/energyexplained/energy-and-the-environment/where-greenhouse-gases-come-from.php. **2.** Welsby, D., Price, J., Pye, S. et al. Unextractable fossil fuels in a 1.5 °C world. Nature 597, 230–234 (2021). https://doi.org/10.1038/s41586-021-03821-8. **3.** COP26 Declaration. Asset Owner Climate Expectations of Asset Management. https://www.cop26declaration.uk/. **4.** UN-convened Net-Zero Asset Owner Alliance. Elevating Climate Diligence on Proxy Voting Approaches: A Foundation for Asset Owner Engagement of Asset Managers. April 16, 2021. https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/16-Elevating-Climate-Diligence-2.pdf

Do you have any questions regarding our Stewardship Services?

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overlay.support@sustainalytics.com
engagement.support@sustainalytics.com

Europe: Amsterdam (+31) 20 205 00 00 | Copenhagen (+45) 32 72 52 81 | London (+44) 20 3514 3123
Frankfurt (+49) 69 3329 6555 | Paris (+33) 1 184880642 | Stockholm (+46) 8 505 323 33

Americas: Boston (+1) 617 603 3321 | New York (+1) 212 500 6468 | Toronto (+1) 416 861 0403

Asia Pacific: Sydney (+61) 2 8320 9436 | Tokyo (+81) 3 4510 7979

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