2022 climate-related shareholder proposals more prescriptive than 2021

BlackRock

Investment Stewardship

- **BlackRock Investment Stewardship (BIS) takes a case-by-case approach to shareholder proposals and, without exception, takes voting decisions on proposals as a fiduciary acting in clients' long-term economic interests.**
- **BIS continues to see voting on shareholder proposals playing an important role in stewardship.**
- **Having supported 47% of environmental and social shareholder proposals in 2021, BIS notes that many of the climate-related shareholder proposals coming to a vote in 2022 are more prescriptive or constraining on companies and may not promote long-term shareholder value.**

BlackRock Investment Stewardship

The assets we manage are owned by other people — our clients — who depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and, ultimately, individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies in which we invest for our clients in their efforts to create long-term durable financial performance.

BIS serves as an important link between our clients and the companies in which they invest, and the trust our clients place in us gives us a great responsibility to work on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being. In all our stewardship work on behalf of our clients, the asset owners, we therefore focus on engagement and voting outcomes that support companies' long-term ability to maximize durable financial returns.

This paper frames our approach to shareholder proposals generally and, more specifically, our initial assessment of some of the climate-related themes that are emerging in the 2022 proxy season. We set out some preliminary considerations in relation to these proposals in the context of our fiduciary duty to act in the best interests of clients who have authorized us to vote their holdings on their behalf.

BIS approach to shareholder proposals

BIS takes a case-by-case approach to voting on shareholder proposals. Without exception, our decisions are guided by our role as a fiduciary to act in our clients' long-term economic interests. We continue to see voting on shareholder proposals playing an important role in our stewardship efforts around material risks and opportunities.

In 2021, we observed a shift in climate-related shareholder proposals with requests that addressed material business risks or that were anchored in reports providing information, which would be useful to investors in assessing a company's ability to generate durable long-term value. In 2021 BIS supported 47% of environmental and social shareholder proposals (81 of 172), as we determined these proposals to be consistent with long-term value creation and not unduly constraining on management in pursuing their strategies to create shareholder value.

BIS is more likely to support shareholder proposals that are consistent with our request to companies to deliver information that helps us to understand the material risks and opportunities they face, especially where this information is additive given the company's existing disclosures. As noted below, as relates to climate risk, this is principally climate action plans with clear explanations of how the energy transition will affect a company's long-term business model and financial performance, supported by quantitative information such as scope 1 and 2 greenhouse gas (GHG) emissions and short-, medium-, and long-term targets for emissions reductions. Similarly, we may support climate-related proposals that encourage companies to provide investors with comprehensive and accessible information on how their corporate political activities support their long-term strategy.

Conversely, we are not likely to support those that, in our assessment, implicitly are intended to micromanage companies. This includes those that are unduly prescriptive and constraining on the decision-making of the board or management, call for changes to a company's strategy or business model, or address matters that are not material to how a company delivers long-term shareholder value.[1]

BIS dialogue with companies regarding the energy transition

As BIS stated in our 2022 Global Principles and commentary on Climate Risk and the Global Energy Transition, we find it useful to our understanding of the long-term climate-related risks and opportunities companies face when they disclose to investors how climate risks and opportunities might impact their business, and how these factors are addressed in the context of a company's business model and sector. Specifically, investors have greater clarity — and ability to assess risk — when companies detail how their business model aligns to scenarios for the global economy that limit temperature rises to well below 2°C, moving toward net zero emissions by 2050.

We look to companies to help their investors understand how climate risks and opportunities are integrated into their governance, strategy, and risk management, to provide scope 1 and 2 GHG emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector.

We also welcome disclosures on how companies are considering scope 3 GHG emissions, the impacts of the energy transition on their stakeholders and operations, and how they will contribute to a reliable and affordable energy system over time. Many companies are already providing robust disclosures on scope 3 GHG emissions, which we recognize are provided on a good-faith basis as reporting methods develop. Over time, the development of a widely accepted approach to consistently measure and disclose scope 3 GHG emissions would both reduce the reporting burden on companies and improve the quality of information available to investors.

At BlackRock, we believe that climate risk is investment risk, and we see growing recognition that climate risk and the energy transition are already transforming both the real economy and how people invest in it. We have been encouraged by the progress many companies in key sectors have made in their energy transition planning and actions, as detailed in their enhanced disclosures. Market-level initiatives, such as the Net Zero Banking Alliance and Oil & Gas Methane Partnership 2.0, have helped companies take steps relevant to their business models and sectors. We have also seen enhanced disclosure by many companies on how they are engaging on policy matters, through their own corporate political activities and those of the trade associations of which they are active members. This has enabled us to be more supportive of management in our voting on these issues at the shareholder meetings held to date this year.

As we outlined in our commentary Climate Risk and the Global Energy Transition, BIS will, as in prior years, be unlikely to support the re-election of directors considered responsible for climate risk oversight when corporate disclosures do not sufficiently enable investors to assess risk through the TCFD framework — including in relation to governance, strategy, and risk management — or when companies have not provided scope 1 and 2 GHG emissions disclosures and meaningful short-medium-, and long-term targets.

BIS’ observations on climate-related shareholder proposals in 2022

Ahead of the peak 2022 shareholder meeting season, BIS has had an opportunity to observe and assess some of the themes in focus in the climate-related shareholder proposals on which we will vote over the coming weeks and months.

At the same time, there are some unique dynamics playing out for the first time this shareholder meeting season.

- In the U.S., the Securities and Exchange Commission revised guidance[2] on shareholder proposals, and broadened the scope of permissible proposals that address “significant social policy issues”. This has resulted in a marked increase[3] in environmental and social shareholder proposals of varying quality coming to a vote. Our early assessment is that many of the proposals coming to a vote are more prescriptive and constraining on management than those on which we voted in the past year.
- Importantly, in the context of voting on shareholder proposals regarding climate-related risk, companies face particular challenges in the near term, given under-investment in both traditional and renewable energy, exacerbated by current geo-political tensions. In recent research, BlackRock noted that reducing reliance on Russian energy in the wake of the invasion of Ukraine will impact the net zero transition that is already underway. Net exporters of energy are likely to be required to increase production, while net importers are expected to accelerate efforts to increase the proportion of renewables in their energy mix. This set of dynamics will — at least in the short- and medium-term — drive a need for companies that invest in both traditional and renewable sources of energy and we believe the companies that do that effectively will produce attractive returns for our clients.
- Companies, particularly in Europe, are increasingly choosing to introduce management proposals to approve a company’s climate action plan or progress in realizing its objectives. These proposals are a tool for companies seeking investor feedback on climate risk and the energy transition. In those cases where both a climate-related management proposal and a similar shareholder proposal are on the ballot, we have observed that investors, including BlackRock, are increasingly inclined to support the management proposal, as the company is demonstrating commitment to act by setting out their business plan for how they intend to deliver long-term financial performance through the energy transition. BIS continues to monitor the development of proposals on climate action plans and progress in this context.

Consistent with BIS’ approach to shareholder proposals as set out above, and mindful of the current geo-political context, energy market pressures, and the implications of both for inflation, we have observed several themes of shareholder proposals that warrant special attention. These themes include:

- Ceasing providing finance to traditional energy companies
- Decommissioning the assets of traditional energy companies
- Requiring alignment of bank and energy company business models solely to a specific 1.5ºC scenario
- Changing articles of association or corporate charters to mandate climate risk reporting or voting
- Setting absolute scope 3 GHG emissions reduction targets[4]
- Directing climate lobbying activities, policy positions or political spending

Although it is still early in the shareholder meeting season, we note that many of these more prescriptive climate-related proposals are attracting lower levels of investor support.[5] In such cases, we also note that global proxy advisors ISS and Glass Lewis have been recommending that shareholders not support overly prescriptive or constraining proposals.

In conclusion, BIS is focused on supporting companies as they address the material business challenges they face, including the decades-long transition to a low carbon economy. In our voting determinations it is crucial that we take into consideration the context in which companies are operating their businesses. As we engage companies in an active dialogue about the climate-related risks and opportunities in their business models, we advocate for steps aligned with our clients’ interests as long-term shareholders. Our voting on our clients’ behalf, where so authorized by them, signals our support for — or concerns about — a company’s approach and will always be undertaken with the appropriate consideration of our clients’ long-term economic interests as their fiduciary. The nature of certain shareholder proposals coming to a vote in 2022 means we are likely to support proportionately fewer this proxy season than in 2021, as we do not consider them to be consistent with our clients’ long-term financial interests.

Endnotes

1. We recognize that some of our clients may take a different view, and more of our clients are interested in having a say in how their index holdings are voted. Beginning in 2022, BlackRock is taking the first in a series of steps to expand the opportunity for clients to participate in proxy voting decisions where legally and operationally viable. To do this, BlackRock developed new technology and worked to enable a significant expansion in proxy voting choices for more clients. For more information see: https://www.blackrock.com/corporate/about-us/investment-stewardship/proxy-voting-choice
2. Pensions & Investments: SEC guidance opens the door for more ESG proxy proposals, 29 November 2021: https://www.pionline.com/regulation/sec-guidance-opens-door-more-esg-proxy-proposals
3. Politico: SEC shift fuels surge in climate-linked proxy proposals, 4 April 2022: https://www.politico.com/news/2022/04/19/sec-investor-sustainability-agenda-00026200
4. This is not to minimize value chain, or scope 3, GHG emissions. They are a major global societal issue and, for companies where they are material, the prospect of future policy change could affect the economic viability of their business models. To effect change in scope 3 GHG emissions in a fair and balanced way, policy action by governments will be necessary. Companies cannot solve scope 3 on their own. As national and regional policy expectations around scope 3 evolve and crystallize, we will look to companies to align their disclosures and commitments accordingly.
5. Financial Times: Investors at top US banks refuse to back climate proposals, 26 April 2022: https://www.ft.com/content/740b55f8-fa2e-4b66-9398-9f84aedbe8d8

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