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Proxy Voting Guidelines for External Managers

Topic: **Environmental Issues**
Subtopic: **Climate Financing Activity**
Approved: ***May 3, 2024***

Description:

Resolutions on this topic call on banks to adopt lending policies to better align their practices with their expressed commitments to achieving net zero emissions.

Topic background:

According to a large consensus across multiple modelled climate and energy pathways, developing any new oil and gas fields is incompatible with limiting warming to 1.5°C. Global oil and gas production and consumption must decrease by at least 65% by 2050.[1]

Large banks play a pivotal role in financing greenhouse gas (GHG) emissions. Their influence on the transition to a low-carbon economy depends on the alignment of their lending and investment practices with stated climate goals. Shareholder proposals in this area call on banks to adopt "climate-forward" lending and investment policies to better align their practices with their expressed commitments to achieving net zero emissions.

Forty percent of global banking assets have committed to the Net Zero Banking Alliance (NZBA), which seeks to align banks' lending and investment portfolios with the goal of net zero by 2050. These banks have made long-term commitments to reduce their Scope 1 and Scope 2 emissions, as well as the intensity of their financed emissions in sectors such as oil and gas, electric power, and transportation. However, many of these same banks have failed to set interim targets and continue to be the largest funders of fossil fuel exploration and development projects. Credible climate transition plans describe the policies, indicators, milestones, metrics, and timelines to deliver on the commitment targets and ensure investors that they are fully accountable for the risks associated with the financing of high-carbon activities.

Climate change also poses a significant risk that can affect the banks' performance by giving rise to credit, reputational, and legal risk. Failing to align their financing activities with their long-term goals could expose the banks to the risk of loss due to stranded assets, declining credit quality, and loss of goodwill.

Considerations for voting:

- We generally recommend support for well-constructed proposals requesting timely disclosure of company plans for, and measurable progress toward, achieving GHG

[1] https://www.iisd.org/system/files/2022-10/navigating-energy-transitions-mapping-road-to-1.5.pdf

emissions reduction goals, including long-term and interim goals related to reducing financed emissions. We favor encouraging goal setting and limits on emissions, while leaving companies to determine for themselves how best to meet them, rather than specifying specific targets.

- We generally recommend caution regarding shareholder proposals that prescribe specific goals for the company. Such proposals might be seen as intruding upon management's prerogative to conduct the company's business.
- For companies that have voluntarily set medium- or long-term GHG financing goals, we recommend support for proposals requesting annual reporting on the company's current efforts and progress towards the announced goals.
- Recognizing the critical importance of confronting climate change, Harvard has committed to emissions-related goals in its Climate Action Plan[1] and directed Harvard Management Company to set the endowment on a path to achieve net zero greenhouse gas emissions by 2050.[2]

Illustrative examples of votes:

1. Vote in support of shareholder resolutions that ask companies to adopt or report on their climate transition plans and strategies for aligning their financing activities with long-term and interim GHG reduction targets.
2. Vote in support of shareholder resolutions that ask companies to issue or report on near- and long-term financed emissions reduction targets aligned with the Paris Agreement taking into consideration supporting targets for reducing lending to the fossil fuel sector.
3. Vote in support of shareholder resolutions that ask companies to adopt a time-bound phase-out of their lending and underwriting for projects and companies engaged in new fossil fuel exploration and development.

Harvard offers broader general guidance on its recommended approach to considering shareholder resolutions in "Overview of Harvard University's Proxy Voting Guidelines for External Managers" (follow link to download full text). When determining votes on resolutions, we consider each resolution in light of this general guidance as well as in light of a resolution's specific request and contextual information about the relevant company and its approach to the issue. Any reporting should be issued at reasonable cost and omit proprietary information.

[1] As part of Harvard's Climate Action Plan, the University has committed to be fossil fuel-neutral by 2026, and fossil fuel-free by 2050. For more information please see https://green.harvard.edu/campaign/harvards-climate-action-plan. The Harvard endowment is also a signatory to the Climate Action 100+ and supports the goals of the initiative, including that companies take action to reduce GHG emissions across the value chain. Harvard joined as a supporter in September 2019 and will be engaging with companies on the goals of CA100+ through Harvard Management Company, for more information see Harvard joins Climate Action 100+, *The Harvard Gazette*, September 17, 2019.

[2] More information the Net-Zero Pledge can be found on HMC's website: https://www.hmc.harvard.edu/net-zero/