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Proxy Voting Guidelines for External Managers

Topic: Environmental Issues
Subtopic: Climate Commitments
Approved: January 28, 2022

Description:

Resolutions on this topic ask companies to address climate transition associated with net-zero or other emissions-related commitments through variety of methods. Requests may include reporting on interim targets, allowing shareholder voting on company climate action plans, or requesting third-party verification of transition plans.

Topic background:

Climate change is the most consequential threat facing humanity and as the latest IPCC report suggests, without concerted action, the dire situation is only going to worsen.¹ Given the need to decarbonize the economy, the number of companies with net zero greenhouse gas (GHG) commitments has increased in recent years.² Pledges to report on GHG emissions and meet net-zero targets span across sectors and regions. Many shareholders and other stakeholders are turning their attention toward strategies to achieve these commitments. In order to assess the adequacy of programs and hold leadership accountable for results, investors seek to understand a company's pathway to decarbonization, including interim targets, capital allocation alignment, Task Force on Climate-related Financial Disclosures (TCFD) reporting, governance, and approach to just transition.³ Companies with robust Paris-aligned transition plans will be more resilient in response to regulatory changes and environmental factors, reducing climate-related risk.

Investors are approaching companies for transparency and engagement on different aspects of their decarbonization commitments. Engagement has resulted in several types of shareholder

¹ In September 2021 Harvard University President Lawrence Bacow provided an [update on the University's approach to climate concerns](#), including investment strategy.

² A list of 201 companies that have signed on to the [Climate Pledge can be found here](#). Amazon was the first company to become a signatory to the pledge in September 2019.

³ The concept of just transition is included in the Paris Agreement. The Agreement includes "taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities".

resolutions, including those related to the “Say on Climate” initiative, science-based targets, and third-party verification of alignment with leading standards.

- “Say on Climate” – This movement targets annual disclosure of company GHG emissions, plans to manage GHG emissions, and—its defining request—allowing a shareholder vote on a company’s climate plan. These proposals may directly request shareholder approval of the company’s transition plan, or request a company develop a framework for the adoption of an annual vote on climate disclosure or strategy by shareholders. A goal of this initiative is to put climate, and engagement on climate issues between companies and investors, firmly on the company’s agenda. These proposals also seek to increase transparency on a topic material to long-term performance.
- Science-based targets (SBT) – Targets are considered “science-based” if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.⁴ Organizations such as the Science-Based Targets Initiative (SBTi) provide sector-specific guidance for developing targets. HMC supports the adoption of science-based targets by collaboratively engaging with companies through CDP’s SBT campaign.
- Investors may also seek third-party verification of a company’s targets and pathway alignment with International Energy Agency (IEA) net zero goals, the latest IPCC data, or the Paris Agreement. Third-party verification is useful to demonstrate that a company is lagging behind industry peers, or if there are concerns about the quality of its decarbonization program.

Considerations for voting:

- In considering “Say on Climate” proposals, it is important to evaluate whether the company presents a strategy sufficient for achieving its commitment. In the absence of a strong program, a request for third party verification or SBTs may be beneficial to a company and its stakeholders.
- Proposals that request companies report on transition plans or net-zero strategy, through means such as reporting on actual emissions and on goals to reduce them, provide shareholders with valuable information, not only about a potential material risk factor, but also about potential business benefits.
- Well-constructed proposals should seek to request reporting across all operations and across all geographies.
- The broader aim of measuring, managing, and reducing GHG emissions aligns with Harvard University’s institutional efforts and the Harvard endowment’s net-zero pledge.

⁴ The Paris Agreement sets a global warming limit to well-below 2°C above pre-industrial levels, while pursuing efforts to limit warming to 1.5°C.

- HMC is engaging with the world’s largest corporate GHG emitters through Climate Action 100+.⁵
- Harvard and HMC cannot achieve a net-zero portfolio in isolation. Success will require governments to follow through on their own commitments and structural change in both the economy and consumer behavior, including decarbonization of portfolio companies held by external managers.

For companies concerned about reporting standards or burdens, recognized guidance for reporting on climate strategy is available from organizations such as the TCFD whose standards for reporting material information on emissions and risk reflect substantial input from investors, NGOs, and industry experts.

Illustrative examples of votes:

1. Vote in support of shareholder resolutions that request an audited report on whether and how a significant reduction in fossil fuel demand, envisioned in the IEA Net Zero 2050 scenario, would affect its financial position and underlying assumptions.
2. Vote in support of shareholder resolutions that ask Board of Directors to oversee a third-party audit which assesses whether its current climate-related goals align with the Paris Agreement.
3. Vote in support of shareholder resolutions that ask a company to adopt short-, medium-, and long-term GHG gas reduction targets aligned with the Paris Agreement’s goal of maintaining global temperature rise at 1.5 degrees Celsius, and progress made in achieving them. Reporting should cover the company’s full range of operational and product related emissions.
4. Vote against shareholder resolutions that prescribe specific pathways to meet company climate commitments.
5. Vote against shareholder resolutions that are not science-based.

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.

⁵ Climate Action 100+ has developed a Net-Zero Company Benchmark, which assess the world’s largest corporate GHG emitters on their progress in the transition to a net zero future.