PRESIDENT AND FELLOWS OF HARVARD COLLEGE
CORPORATION COMMITTEE ON SHAREHOLDER RESPONSIBILITY

OFFICE OF THE GOVERNING BOARDS
(617) 495-1534

LOEB HOUSE, 17 QUINCY STREET
CAMBRIDGE, MA 02138

Proxy Voting Guidelines for External Managers

Topic: Corporate Political Spending
Subtopic: Climate Lobbying and Political Spending
Approved: June 21, 2023

Description:

Resolutions on this topic may ask a company to (1) report on climate lobbying in line with the Paris Agreement, (2) report climate lobbying in line with a net zero goal, or (3) report on climate lobbying in line with the Paris Agreement when the company has released insufficient reporting.

Topic background:

Investors have seen a significant number of companies across the globe make net zero commitments and other climate-related statements. However, some company lobbying on climate change, whether directly or indirectly through interest groups, is not aligned. Companies across industries have supported lobbying to block or retrench federal and state regulations that support the transition to renewable energy or other methods of addressing the climate crisis. This misalignment can slow or undermine a company's stated goals or climate risk strategy. This may lead to missed targets, increasing transition risk, or reputational damage. Effective climate policy can help companies achieve their climate goals and incentivize the innovation and transition needed at an industry level.

Both companies and governments recognize the need to address the systemic risk presented by climate change. Countries have set Nationally Determined Contributions (NDCs) through the Paris Agreement to reduce emissions and adapt to climate change. Shareholders may be concerned when a company challenges regulation directly or indirectly through trade associations or is found to spread disinformation about climate science or the impacts of federal and state climate action. Some examples of incongruency between company statements and interference on climate action include automotive companies lobbying for the rollback of vehicle emissions standards and utility and energy companies lobbying for the retrenchment of state-level renewable energy portfolio standards, while publicly supporting decarbonization. These circumstances have resulted in reputational damage, legal action by stakeholders, delayed climate action at the industry level, and the potential amplification of climate change as a systemic risk.

Considerations for voting:

- In alignment with the general guideline on *Lobbying and Political Spending* we recommend support of well-constructed proposals requesting timely disclosure of corporate political spending. Such disclosures can have value to shareholders, helping them assess whether a corporation's use of assets is in shareholders' best interests and whether a company's political spending poses business risks.

  - In many cases, we believe a company's climate lobbying can be material to its stated climate strategy. Therefore, a congruency assessment is a key component to understanding the company's approach to climate risk.

- We generally do not recommend support of proposals that reach beyond requests for greater transparency about amounts and recipients of expenditures into areas such as cost/benefit analyses of such spending. Such proposals may pose an undue reporting burden for companies while offering little additional insight to shareholders.
- We acknowledge that it may be in a company's best interest to support industry trade associations that represent the views of many members, and it is unrealistic to expect perfect alignment between all of a company's approaches to climate change and all parts of a lobbying organization's agenda.

Illustrative examples of votes:

1. Vote <u>in support</u> of shareholder resolutions that request a company conduct an evaluation and issue a report, describing if, and how, a company's lobbying, directly and indirectly through the activities of its trade associations and other organizations, aligns with the company's publicly stated commitment to achieving net zero emissions.
2. Vote <u>in support</u> of shareholder resolutions that request a company conduct an evaluation and issue a report describing if, and how its lobbying, directly and through the activities of its trade associations and other organizations, aligns with the Paris Climate Agreement's goal to hold the increase in the global average temperature to "well below" 2 degrees Celsius above preindustrial levels, and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius.
3. Vote <u>in support</u> of shareholder resolutions that request a company report to shareholders on misalignments between the company's lobbying activities and positions, both directly and indirectly through trade associations and other organizations, and its publicly stated climate commitments.
4. Vote <u>against</u> shareholder resolutions that request a company to report a cost/benefit analysis of election spending to shareholders, examining effectiveness, benefits, and risks to shareholders' value associated with the contribution.

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.