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EXECUTIVE SUMMARY

Climate transition plan votes are a nascent form of governance whereby companies hold votes on their plans for managing greenhouse gas emissions. Two types of proposals emerged in the 2021 proxy season:\(^1\):

1) Shareholder proposals asking companies to prepare climate transition plans and put them to a shareholder vote.
2) Management proposals seeking shareholder support for companies’ transition plans.

These votes have been popularised by the Say on Climate initiative, which, in managing the transition to net zero, calls on companies to: annually disclose emissions; produce a plan to manage their emissions; and submit the plan to shareholders for approval at an Annual General Meeting (AGM).

Each proposal type generates different considerations. For resolutions submitted by shareholders, investors must consider the potential consequences of asking companies to adopt a climate transition plan vote and the implications of using this type of vote as a stewardship mechanism. For management proposals, investors have a responsibility to assess if the transition plans’ ambition and strategy are sufficiently aligned with the steps required to transform companies to a low-carbon business model and achieve global climate goals.

For both types of proposals, this paper provides a list of recommendations for investors and reviews key considerations for those casting votes. In addition, it offers resources to help investors assess climate transition plans and guidance on how to address plans that are unclear or insufficient. This is not meant to be an exhaustive guide, but rather a high-level overview of some of the core requirements and considerations for investors voting on transition plans.

KEY RECOMMENDATIONS

Whether an investor is voting on a shareholder-submitted resolution asking a company to prepare a climate transition plan and put it to a shareholder vote, or is considering filing such a proposal, our guidance is the same:

- Encourage companies to develop and disclose their strategy/actions on how they intend to transition to net-zero greenhouse gas (GHG) emissions by 2050 or sooner.\(^2\)
- Prioritise proven stewardship mechanisms to steer company ambition and execution (e.g. corporate engagement, filing and voting on shareholder proposals, voting on board composition) over company-led transition plan votes, which may have unintended consequences (as explored in this paper).

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\(^1\) For additional detail, see Say on Climate Votes: Glass Lewis Overview.
\(^2\) The Intergovernmental Panel on Climate Change (IPCC) Special Report Global Warming of 1.5°C stipulates that a 1.5°C global warming trajectory requires a global reduction in greenhouse gas emissions of about 45% by 2030 (relative to a 2010 baseline), and net-zero emissions by 2050.
When considering management proposals seeking shareholder support for climate transition plans, investors should:

- Ensure that the transition plan has been demonstrated to be adequate, credible, and aligned with the Paris Agreement goal to keep global warming to 1.5°C.
- Ensure that frameworks used to assess transition plans are public, independent, and scientifically robust.
- Signal concerns to management by voting against the plan if it is deemed by the investor to be insufficient or inappropriate. Consider reinforcing your views using other votes, such as the (re)election of board members.
- Disclose voting rationales and consider **pre-declaring your voting intention and rationale**, especially for high profile votes, to increase transparency and collaboration across the industry. This includes disclosing rationales for abstentions.
- Use other **engagement** and targeted escalation strategies in place of or to complement climate transition plan votes (e.g. public campaigns, filing **shareholder proposals**, divestment, litigation, amongst others). These efforts can focus on the specific areas that a company should address to manage its climate risks and opportunities (e.g. set a medium-term GHG target, review climate lobbying practices, etc). A transition plan vote is not a substitute for ongoing engagement and dialogue with a company.
CONSIDERATIONS ABOUT CLIMATE TRANSITION PLAN VOTES

Climate transition plans put climate change at the centre of a company’s strategy and operations. They enable robust disclosure and allow investors to obtain a deeper understanding of actions companies intend to take. Investors can then evaluate whether these actions are credible and sufficient to meet the global temperature goals of the Paris Agreement. Therefore, investors should encourage companies to develop and disclose their strategy on how they intend to transition to net-zero emissions by 2050 or sooner. However, important considerations must be taken into account about votes on transition plans and their overall effectiveness as a stewardship mechanism to drive a company’s transition to net-zero.

The increasing frequency of these votes has drawn a range of responses from investors, some of who have been critical of climate transition plan votes.³ The following overview aims to help investors understand the strengths and weaknesses of this nascent form of stewardship.

Arguably, active and informed votes on climate transition plans can be an example of strong stewardship aimed at action on a critical systemic issue. When an investor concludes that a proposed transition plan is sufficiently ambitious and aligned with global climate goals, voting in favour may be consistent with shaping sustainability outcomes through stewardship⁴ and with the goals of initiatives such as Climate Action 100+.⁵ In this regard, advocates of the votes on climate transition plans argue that a successful vote provides the board with a strong mandate to implement the climate strategy and make the required capital expenditures to adapt the business model.⁶ An additional positive feature of such votes is that they help the media frame shareholder urgency around the issue and invite scrutiny from NGOs and advocacy campaigns.

Advocates for these votes also point to their ability to facilitate disclosure and institutionalize a dialogue between company and investors on climate strategy.⁷ However, this dynamic is already available and well established within the context of investor engagement campaigns with companies. Another benefit that advocates put forward is that the votes can facilitate investors holding the board accountable for the plan’s provisions⁸, but investors can achieve this by using shareholder proposals and/or by opposing the election of directors who fail to deliver a 1.5°C-aligned plan and/or to implement actions stipulated in the transition plan.

³ Responsible Investor (2021) US pension giants abstain from Vinci 'Say on Climate' vote after criticising campaign.
In its tool Notable Proxy Votes, CalPERS’s has disclosed: “For 2021, CalPERS is voting to abstain from all management proposals that request shareowner approval of their climate risk strategy. We do not believe that an up/down vote will provide additional insight at this stage”.
⁴ To learn more about shaping sustainability outcomes through stewardship, see PRI’s resource on Active Ownership 2.0.
⁵ PRI’s views presented herein are independent from other investor networks coordinating Climate Action 100+ (i.e. AIGCC, Ceres, IGCC and IIGCC). Climate Action 100+ and PRI are both independent from Say on Climate initiative and there is no formal affiliation.
⁶ SHAREHOLDERS FOR CHANGE (2021). Mixed results from the “Say on climate” resolutions.
⁷ SHAREHOLDERS FOR CHANGE (2021). Mixed results from the “Say on climate” resolutions.
⁸ The opposite argument (that board accountability for climate strategy is reduced by shareholder support of a transition plan) is used to criticise climate transition plan votes, as explored next.
Investors should carefully consider the signals and potential consequences (intended and unintended) of supporting transition plans put forward by management. Equally, they should weigh the consequences of shareholder-submitted proposals asking companies to develop and submit such plans to a shareholder vote.

A central risk of holding votes on company climate transition plans is that the plans can become an ineffective compliance mechanism if companies put forward plans that do not align with global climate goals. This is a significant risk because management proposals almost always obtain majority support from shareholders. It also points to the limits of non-binding proposals as a mechanism for enacting change, as explored below.

The experience with Say on Pay votes, which give shareholders the right to vote on executive compensation, provides useful insights into the potential limitations of this type of vote. Say on Pay votes were introduced to increase the accountability of corporate directors and help curb excessive compensation practices. Although there is evidence of positive impact in some markets, the mechanism is widely regarded to be ineffective. Executive compensation has risen dramatically since Say on Pay votes were introduced, despite the measures often receiving overwhelming shareholder support. Additionally, research has shown that when voting on Say on Pay resolutions, investors with more resources, such as large institutional investors, do not necessarily have better voting quality.

Considering that climate transition plans are technical and complex, making a voting decision on them demands expertise, capacity, and active scrutiny from investors and/or independent parties. If investors are perceived to support management and rubber stamp votes on transition plans without proper due diligence, this could lead to support for company transition plans that are unambitious or simply unfit to limit global warming to 1.5°C.

Another key consideration is to recognise that approving a climate transition plan may ease pressure on the company to take further action. For example, a company may point to the fact that a majority of its shareholders voted in favour of its transition plan to justify not taking additional steps to address its climate risks and opportunities. Therefore, approving a suboptimal transition plan can potentially weaken existing investor engagement efforts, anchoring a company’s ambition and undermining future investors’ asks to increase ambition. On a similar note, this kind of vote could limit board accountability, as board members may shield themselves behind investor majority support for an inadequate transition plan.

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9 This is exemplified by the report An early look at the 2021 proxy season, Georgeson (2021), which provides data that shows that from 2019 to 2021 (year to date) average support for directors was above 95% and average support for Say on Pay votes was above 91%.

10 Glass Lewis (2016).


15 In its Voting Bulletin: Aena S.M.E. SA, BlackRock noted that climate transition plan votes, when used in isolation, could shift accountability from boards to investors and that, based on the understanding that it is the board’s responsibility to oversee all risks to the company, it would continue to hold directors accountable by voting against their election where business practices or disclosures fall short of expectations.
Additionally, if climate transition plan votes become widely adopted, disproportionate attention may be directed to transition plans and away from specific key issues (e.g. emission targets, lobbying practices, biodiversity etc.) where a company may still require improvement and where targeted escalation tactics and media pressure could be beneficial in promoting progress. Companies may campaign against more-targeted shareholder resolutions in favour of their own transition plans. Votes on climate transition plans risk placing too much focus on the process of the vote rather than the content and outcomes of a company’s actions on climate.

The benefits of transition plan votes as a mechanism to drive comprehensive climate action seem to be outweighed by the risks and potential unintended consequences. In sum, these may include:

- companies putting forward unambitious transition plans;
- investors rubber stamping plans that are unfit to limit global warming to 1.5°C;
- possible limitation of companies’ climate ambition beyond what is set by the approved plan;
- reduction of investors’ influence in company engagements upon approval of a plan;
- investors diverting their focus and resources from more-targeted stewardship actions.

Given the drawbacks of transition plan votes, investors should consider more effective vehicles to encourage companies to develop and disclose their strategy/actions on how they intend to transition to net-zero GHG emissions by 2050 or sooner.

Investors should use company engagements to secure commitments and integrate expectations about a company’s transition plan. If escalation is needed, investors should undertake tailored shareholder proposals and pursue improved board oversight of climate strategy. Deploying proven stewardship mechanisms at the scale and pace that the urgency of the issue demands is likely a better combination for changing corporate practices than recurring votes on transition plans. It is critical that investors are clear on the drawbacks of transition plan votes because many companies are planning to submit their climate transition plans to a vote in upcoming proxy seasons.

In addition to reviewing the considerations above, investors facing a transition plan vote should carefully assess plans put forward by management and properly address unclear/insufficient ones. The next sections provide useful resources to undertake this work.

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16 It is possible to make a parallel to a Royal Dutch Shell case, whereby a shareholder resolution shared the spotlight with the company’s transition plan vote. The company put a plan to vote and the campaign group, Follow This, filed a shareholder proposal requesting Shell to set short-, medium-, and long-term emissions reduction targets consistent with limiting global warming to 1.5°C. Shell urged investors to vote against the shareholder resolution from Follow This. Pensions & Investment Research Consultants (PIRC) recommended investors vote against Shell’s plan and in favour of the Follow This resolution. Glass Lewis, on the other hand, recommended investors support the company’s transition plan and reject the Follow This resolution. The transition plan was approved with 88.74% of support. Although the Follow This proposal received greater support than in the previous year, it was rejected by 69.53%. Sources: Reuters (2021). Advisory firm PIRC slams Shell on climate strategy before AGM. Reuters (2021). Shareholder advisory group Glass Lewis backs Shell’s climate plan.

17 See PRI’s resources Making voting count: principle-based voting on shareholder resolutions and How should responsible investors secure better boards?
ASSESSING CLIMATE TRANSITION PLANS

To limit global warming to 1.5°C, the latest climate science indicates that the world's emissions need to reach net zero by 2050 or sooner. To achieve this, some sectors must decarbonise faster than others, requiring credible sector-level decarbonisation pathways. When considering plans tailored to company-specific and sectoral risks, investors should be wary of the risks of greenwashing generally, and specifically of plans that lack crucial information or cannot be verified by an independent party against a scientifically robust framework.

The PRI understands that so far there is no consensus on a comprehensive checklist to affirm that a transition plan is sufficient. However, investors can make an informed voting decision by leveraging key resources, incorporating insights generated from company engagement, and considering issues raised in this paper.

USEFUL RESOURCES

The following resources may help investors with their decision-making process:

- **Climate Action 100+ Net-Zero Company Benchmark**: defines key indicators of success for business alignment with a net-zero emissions future and the goal of the Paris Agreement to limit average global temperature rise to 1.5°C.
  - **Disclosure indicators**
    1. Net-zero GHG emissions by 2050 (or sooner) ambition
    2. Long-term (2036-2050) GHG reduction target(s)
    3. Medium-term (2026-2035) GHG reduction target(s)
    4. Short-term (up to 2025) GHG reduction target(s)
    5. Decarbonisation strategy (target delivery)
    6. Capital allocation alignment (disclosure)
    7. Climate policy engagement (disclosure)
    8. Climate governance
    9. Just transition
    10. TCFD disclosure
  - **Alignment indicators**: Capital allocation alignment and climate policy engagement alignment
  - **Climate accounting and audit (disclosure and alignment)**

The Climate Action 100+ Technical Advisory Group, comprised of Carbon Tracker Initiative, InfluenceMap, Transition Pathway Initiative and 2° Investing Initiative, has been central to the overall development of the benchmark and the indicators used to assess focus company alignment with the initiative’s goals. The framework is a good reference for some of the key components that should be addressed in a climate transition plan (e.g. short-, medium- and long-term emissions reduction targets).

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18 Benchmark indicator 9 on a just transition was not assessed in 2021 results. In the version 1.1 to be published in March 2022 it takes the form of a beta version and will continue to be developed. Data will be collected for internal analysis but will not be publicly released or assessed for March 2022.
**Essential components of a corporate climate action plan**, prepared by Say on Climate:

provides the following list of minimum requirements expected for "good" transition plans and offers investors a reference for what to look for and what may be missing:

- Short-term targets required: 5-year and 5- to 10-year plan
- Average absolute Scope 1-3 emissions reduction of 7-8% pa to 2030
- Phase out fossil fuel use and production, no financing of new supply
- Executive compensation, strategy and lobbying aligned with plan
- Necessary capex commitments
- End deforestation, credible use of offsetting only if strictly necessary
- Independent auditing of emissions
- Annual performance reporting to shareholders

The Say on Climate guide also provides helpful information from a sector perspective: it draws from different sources and provides emissions reduction expectations by sector by 2030. It also outlines sector pathways, i.e. actions needed to decarbonise, and includes relevant case studies. Finally, it provides a list of “good” and “bad” examples of transition plans from the electric utility and automotive sectors that can serve as a reference for best practices.

**Real economy transition plans, GFANZ Progress Report** (pages 54-63), by the Glasgow Financial Alliance for Net Zero (GFANZ): focuses on identifying credible net-zero pathways through two overall objectives of the GFANZ Sectoral Pathways workstream:

1. Facilitate the development of effective, credible net-zero transition plans by corporations to help raise ambitions in the real economy to reach net zero.
2. Advance the ability of financial institutions to evaluate corporate net-zero transition plans and promote the reallocation of capital to decarbonisation efforts.

This workstream drew from existing guidance and frameworks (see figure 11 on page 61 of the report) to identify best practices (see the table below).
Best practice in designing net-zero corporate transition plans relies on the following information categories (content from table 5 of the GFANZ Progress Report):

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Categories of information</th>
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| 1 Governance         | ■ Describe the board’s and management’s oversight and approval of the net-zero transition plan  
                          ■ Describe the reporting to be done in support of the net-zero transition plan and the process for its review and update  
                          ■ Describe the incentives and impacts on remuneration tied to the execution of the net-zero transition plan  |
| 2 Decarbonisation strategy | ■ Describe the planned roadmap and the phasing of the specific actions required to reach net zero (e.g. technologies deployed, energy efficiency measures taken)  
                          ■ Describe the usage of carbon credits and offsets with reference to emerging industry guidance (e.g. type of credits used, price applied, verification). Credits and offsets should be disclosed separately from gross emissions figures  
                          ■ Describe the size and nature of current and future low-carbon capital investments (capital allocation alignment)  
                          ■ Describe current and future engagement with customers, clients, and suppliers  
                          ■ Describe current and future engagement with policy and advocacy efforts  
                          ■ Describe how the transition plan supports a just transition  
                          ■ Explore the impacts of different transition scenarios on the firm’s decarbonisation strategy  
                          ■ Describe the responsible retirement plans for high-emitting corporate assets (capital allocation alignment)  |
| 3 Risk management    | ■ Describe the operational challenges likely to be encountered in transitioning to a net-zero business  
                          ■ Describe the ways in which the firm will overcome these challenges  
                          ■ Describe the size and nature of the transition and physical risks facing the firm in the short, medium, and long term  
                          ■ Describe the climate impacts that result from firm activities (e.g. risks posed by the firm to the climate)  |
| 4 Metrics and targets | ■ Explicitly state the ambition of the transition plan in terms of net-zero date, interim targets, and the pathway used to develop the net-zero transition plan  
                          ■ Describe short-, medium-, and long-term decarbonisation targets for the firm and individual business lines (if relevant)  
                          ■ Disclose Scope 1, 2, and 3 baseline emissions  
                          ■ Disclose progress made against emissions reduction targets  
                          ■ Disclose other relevant metrics for assessing transition progress (e.g. emissions intensity metrics, energy use, production plans)  |

According to the GFANZ Progress Report, this overview is deliberately high level and descriptive; more prescriptive elements of the guidance are to be published later. In 2022, GFANZ will also deliver recommendations for how financial institutions across different subsectors can coordinate their work in assessing corporate transition plans.
Guidance on Metrics, Targets, and Transition Plans, prepared by the Task Force on Climate-related Financial Disclosures (TCFD): draws from an array of sources to identify the key characteristics of effective transition plans:

1. aligned with strategy;
2. anchored to quantitative methods (including climate-related metrics and targets);
3. subject to effective governance processes;
4. actionable;
5. specific initiatives;
6. credible;
7. periodically reviewed and updated;
8. reported annually to stakeholders.

TCFD’s guide builds on those characteristics and provides a table with general elements that organisations should consider as part of their transition planning, covering 21 topics that fall under governance, strategy, risk management, and metrics and targets.

Climate Action 100+ Global Sector Strategies, prepared by the investor networks coordinating Climate Action 100+: identifies key sector-specific actions for companies, investors and industries to transition in line with 1.5°C of global warming.

Transition finance for transforming companies: Avoiding greenwashing when financing company decarbonisation, prepared by the Climate Bonds Initiative (CBI): provides five hallmarks of a credibly transitioning company, i.e. a company whose transition is aligned with the global goal to nearly halve emissions by 2030 and reach net zero by 2050. It moves away from relative measures such as best in class, sector benchmarking or improvements compared to a historic baseline, to the more absolute measures tied to transition pathways that are common to all participants in the relevant sectors. Appendix 2 of CBI’s paper provides a useful table that identifies requirements and metrics that are common to CBI’s framework and other relevant frameworks.

Science-Based Targets Initiative (SBTi) resources: lists the companies that have committed to set an SBTi-approved target or that have had their targets approved, and offers a tool that allows investors to quantitatively assess and evaluate company targets. It also provides the criteria that companies’ targets must meet in order to be approved as science-based by the SBTi and sector-specific guidance. The initiative publishes a Net-Zero Standard, which gives companies a clear blueprint for how to bring their net-zero plans in line with the science.
The EU's Taxonomy Regulation, which entered into force on 12 July 2020, will help create the world's first-ever “green list” – a classification system for environmentally sustainable economic activities. It will create a common language that investors can use when investing in projects and economic activities that have a substantial positive impact on the climate and the environment.

EU Taxonomy Compass, prepared by the European Commission: enables users to check with economic activities are included in the EU Taxonomy\(^{19}\) (taxonomy-eligible activities), to which climate objectives and other environmental objectives of the Taxonomy Regulation they substantially contribute and what criteria they have to meet. The EU Taxonomy Compass provides a visual representation of the contents of the EU Taxonomy, starting with the Delegated Act, which defines the criteria for economic activities that can make a substantial contribution to climate change mitigation and climate change adaptation. The Delegated Act will apply from 1 January 2022.

\(^{19}\) The EU's Taxonomy Regulation, which entered into force on 12 July 2020, will help create the world's first-ever “green list” – a classification system for environmentally sustainable economic activities. It will create a common language that investors can use when investing in projects and economic activities that have a substantial positive impact on the climate and the environment.
ADDRESSING UNCLEAR OR INSUFFICIENT PLANS

The PRI urges investors to critically assess the content of climate transition plans and companies’ ability to drive a credible transition to a net-zero emissions business model. Voting for a management proposal without proper appraisal of the transition plan could be detrimental to delivering sufficient climate action. Investors are also encouraged to be vocal in emphasising their position on a transition plan to their peers (e.g. through exempt solicitations for US companies).

When voting on a company’s transition plan, investors should make use of the opportunity to send a signal to management by voting against plans that are not clearly aligned with credibly achieving net-zero emissions by 2050 (or sooner). Investors may also opt to abstain should they want to signal their position against companies holding a vote on a climate transition plan, as some investors have done in the past due to concerns about the shortcomings of this type of vote.

In all cases, when voting, investors should explain their voting rationales, and consider pre-declaring their voting intentions and rationales, especially for high profile votes. Shortcomings of the relevant plan and expectations for increased ambition should be explicitly acknowledged, and then incorporated by investors in their ongoing engagements with the company.

Importantly, voting for a transition plan does not preclude investors from taking further actions. The PRI encourages investors to hold management accountable for plans that are insufficient (and/or unclear) and thus place shareholder capital at risk. This should be stated explicitly in voting rationales. Stewardship tactics may include the use of shareholder proposals to increase ambition, voting against the auditor, and voting against directors.

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20 As an example, in May 2021 the California Public Employees Retirement System (CalPERS) underlined its support for changes to the board of directors at ExxonMobil by filing a letter with the SEC that allowed it to share its views with shareholders ahead of the company’s AGM.

21 Responsible Investor (2021) US pension giants abstain from Vinci ‘Say on Climate’ vote after criticising campaign.

In its tool Notable Proxy Votes, CalPERS’s has disclosed: “For 2021, CalPERS is voting to abstain from all management proposals that request shareowner approval of their climate risk strategy. We do not believe that an up/down vote will provide additional insight at this stage”.

22 Investors are encouraged to use the PRI’s Collaboration Platform to pre-declare their voting intentions and/or publicly disclose that information in their own platforms (e.g. Neuberger Berman’s NB Votes).

23 See Carbon Tracker Initiative’s work on climate risks in financial reporting.
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