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Support for Climate-Related Shareholder Resolutions Declines During 2023 Proxy Season

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In August 2023, following this year's proxy voting season, two of the world's largest asset managers published their voting records, which revealed that their support for environmental and social shareholder resolutions had declined. The asset managers attributed this decrease to the poor quality or unduly restrictive nature of resolutions put forward.

In a **summary report**, BlackRock reported supporting 7% of a total of 399 environmental and social resolutions, compared with 22% in the previous proxy period. The asset manager also reported that while such proposals addressed relevant issues, they often "sought simplistic outcomes that overlooked the competing priorities companies were balancing and the complexity and interconnected nature of the issues." Blackrock described the shareholder proposals as overly prescriptive, thereby unduly constraining on management decision-making.

Similarly, in its **U.S. Regional Brief**, Vanguard reported that it saw a higher proportion of environmental and social proposals put forward – 359 compared to 290 in 2022 – and that votes in support amounted to just 2%, compared to 12% in 2022. Vanguard attributed the contrast in figures in part due to the nature and volume of proposals and in part to changes in SEC guidance. Rule 14a-8 of the Securities Exchange Act of 1934 previously allowed a company to exclude a stockholder proposal that "deals with a matter relating to the company's ordinary business operations." Previously under this exception, companies could exclude proposals concerning social policy issues if the proposal was not material to the company's business. However, recent SEC guidance instructed issuers that proposals regarding significant social issues should be included in company proxy materials even absent a nexus between the social policy issue and the company's business. Now, the SEC will "consider whether the proposal raises issues with a broad societal impact, such that they transcend the ordinary business of the company."

Earlier in the year, State Street Global Advisers published its voting record, having supported **32% of environmental and social proposals in Q1 2023** compared to **44% in the same period in 2022**.

Taking the Temperature: While the SEC's amendments to Rule 14a-8 allowed for an increase in the volume of environmental and social shareholder proposals, according to Vanguard and Blackrock, it also contributed to a decline in quality. For example, Vanguard described that at the end of April 2023, at the annual meeting of Starbucks Corporation, Vanguard-advised funds evaluated but elected not to support a shareholder proposal requesting a third-party assessment of the company's unionization policies. Although Vanguard considers workers' rights to be a material risk for Starbucks, Vanguard did not vote to support it because, in Vanguard's view, the company had already been taking effective action through, for example, its commitment to engage third parties to undertake a human rights impact assessment, which covered workers' rights. Vanguard also expressed its view that the board was taking appropriate action on the issue proposed.

When assessing the decline in these asset managers' support for ESG-related shareholder proposals, it is difficult to ignore the political backdrop in the U.S., a topic we frequently discuss. In 2022, a number of U.S. states threatened to withdraw funds from BlackRock in response to what one state treasurer referred to as "globalist, leftist ideas." In January this year, Kentucky's Treasurer included BlackRock on a list of eleven financial institutions that she claimed were engaged in "energy company boycotts" as a result of their investment policies related to sustainability. Ultimately, BlackRock's CEO said that he had stopped using the acronym "ESG" as it had been weaponized by political figures on both sides of the ESG discussion. We also discussed that, at the end of last year, Vanguard withdrew from the Net Zero Asset Managers initiative following a report by the Minority Staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs regarding the influence of the "liberal views" toward ESG of the "Big Three" asset managers, Blackrock, State Street and Vanguard. On the other hand, more than 1,400 individual investors signed a letter asserting that Vanguard is violating its fiduciary duty to mitigate climate-related investment risks by, among other things, not being more active in casting proxies consistent with its climate expectations and due to Vanguard's withdrawal from the NZAM. Perhaps in part to avoid this "tails-I-lose-heads-you-win" dynamic, Blackrock, Vanguard and other large asset managers are piloting programs allowing investors to have greater say in how their shares are voted on ESG and other proposals.