Principles for Responsible Investment

MAKING VOTING COUNT

How principle-based voting on shareholder resolutions can contribute to clear, effective and accountable stewardship

UN environment programme | finance initiative

United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

ACTIVE OWNERSHIP 2.0

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

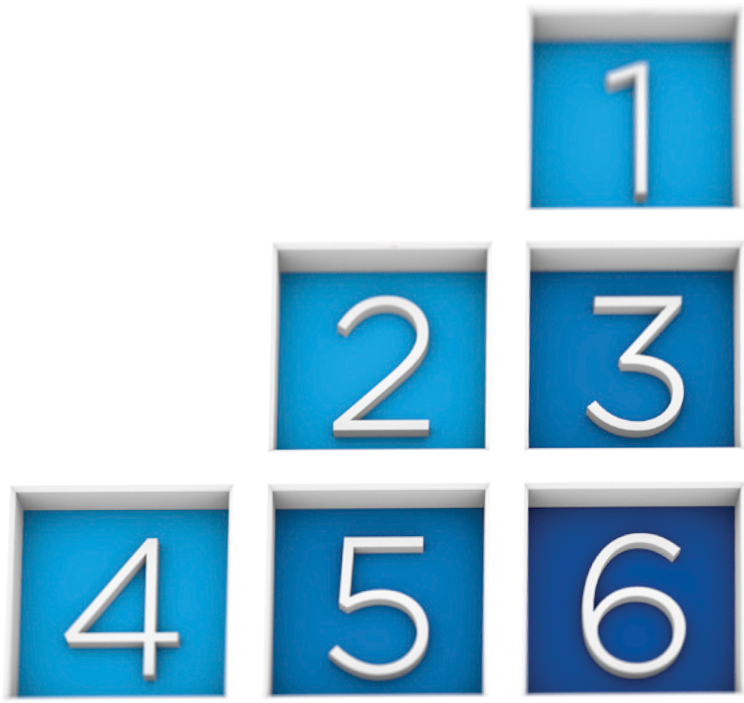
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

CONTENTS

ACKNOWLEDGEMENTS

The PRI would like to thank the following members of the Stewardship Advisory Committee for their valuable input:

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EXECUTIVE SUMMARY

THE VALUE OF VOTING

Voting on shareholder resolutions is a powerful instrument in the stewardship toolkit. It helps to communicate shareholders' views to companies, builds engagement and facilitates two-way accountability.

There has been a noticeable increase in support for environmental and social shareholder resolutions over the last few years. However, some investors are reluctant to effectively use this tool, and regard voting in support of shareholder resolutions as an escalation strategy in response to an unsuccessful engagement and/or to express general dissatisfaction with company management. Voting in support of shareholder resolutions – where in line with voting principles – should be better understood as a widely accessible complement to engagement, and not a form of escalation.

WHY USE VOTING PRINCIPLES?

Voting principles are high-level statements which explain the investor's position on ESG issues and how they vote to effect progress on those issues. Voting principles can typically be found in a voting, governance, stewardship or responsible investment policy, or a similar document. Investors should develop principles by considering the preferences of beneficiaries and risks to the portfolio overall, as well as how the portfolio contributes to risks in the real world. These principles should be made publicly available, and will be of particular interest to clients, beneficiaries and other stakeholders.

WHY ARE VOTING PRINCIPLES NEEDED?

Voting principles enable investors to consider, consult and gain buy-in for the positions they will take; they communicate clearly with companies and resolution-filers as to what kind of resolutions an investor will vote for.

Those with direct control of some or all of their voting decisions should establish voting principles, for active and passive strategies and for all holdings where they have voting rights. Voting principles can also be discussed and implemented via external investment managers.

WHAT SHOULD BE DISCLOSED?

Voting principles should be disclosed, as well as any areas or holdings where they might not apply. It is recommended that investors pre-declare their voting intentions, along with their rationale, particularly for high-profile or controversial votes.

ALIGNING VOTING PRINCIPLES WITH ACTIVE OWNERSHIP 2.0

Leading stewardship practice means aligning these voting principles with Active Ownership 2.0 - our programme for more effective stewardship. Investors should commit to following these principles to deliver real-world outcomes; prioritise systemic issues and the protection of common assets over narrower interests; and vote independently of investors' private benefits such as access to company executives or board members for engagement meetings.

APPLYING VOTING PRINCIPLES

Investors should support all resolutions which, if successful, would be consistent with their voting principles; and oppose only resolutions whose effect would be contrary to these principles. Investors should vote to inform company management of their views, to affirm good behaviour or steps that companies have already agreed to take, and to advise companies on directional expectations (on non-binding proposals).

ESCALATION AND VOTING

While voting in favour of a shareholder resolution is not considered to be escalation, filing a resolution may be part of an investor or investor coalition's strategy to advance efforts that are not making sufficient progress.

Escalation can involve voting against the (re-) election of board members, proposing directors for election, voting against the annual reports and accounts of companies, and litigation.

NEXT STEPS

Signatories who establish voting principles should do so in line with their beliefs, in alignment with Active Ownership 2.0, and apply them consistently. For asset owners who outsource investment management, voting principles and decisions should form part of the selection, appointment and monitoring process of managers.

ABOUT THIS PAPER

This paper sets out how investors can develop and apply high-level principles to govern their use of voting on shareholder resolutions.

It outlines what voting principles are, why they are needed, how voting principles can align with Active Ownership 2.0 (the PRI's framework for more effective stewardship), and how they should be applied.

This paper is relevant to asset owners and investment managers with active and passive listed equity exposure, as well as to service providers who assist in the proxy voting process.

Asset owners can also use this paper as the basis for engagement and to communicate their voting expectations to external managers and/or third parties casting votes on their behalf.

THE VALUE OF VOTING

Voting on shareholder resolutions is an effective way for shareholders to communicate their views to company management. There has been a noticeable increase in support for environmental and social shareholder resolutions over the last few years. In 2020, a record number passed with majority support.[1] However, some stakeholders[2] have expressed concern that investors are reluctant to use such opportunities, regardless of the substance of the proposal. Votes are aggregated with those of other investors, therefore this reluctance to vote can weaken the signal provided to companies on the issue in question.

VOTING STRENGTHENS ENGAGEMENT

The stewardship spectrum ranges from engagement,[3] where investors communicate with companies about their priorities, to more forceful action, such as when investors ratify the appointment of directors to the board.

The power of an investor's vote depends on the shareholder resolution's ability to assert change. Binding votes on the election of directors can change a board's composition and thus drive strategic change; whereas non-binding votes on shareholder resolutions, which are more prevalent in certain markets,[4] lie closer to engagement. It is important to note that engagement and the use of binding and non-binding votes can be as impactful and effective as one another; however, binding votes are the most forceful form of driving change for listed equity holders.

ENGAGEMENT IS VALUABLE BUT...

Engaging in dialogue with companies allows for nuance and clarification and can help to build a rapport. However, this richness and flexibility can also introduce ambiguity, as private engagement is undertaken by a range of investors, individually and via collaborations, who may have different viewpoints. One potential result is that a company may exploit minor differences between the positions communicated by different shareholders to reduce scrutiny or avoid taking action.[5]

...VOTING ADDS ACCOUNTABILITY AND EFFECTIVENESS

When utilised effectively, voting on shareholder resolutions can strengthen engagement. It can:

1. focus efforts on a single, concrete call to action;
2. aggregate a wider set of shareholder views on that call to action, including views of those who lack the resources or access to conduct other types of stewardship;
3. express those views in a numerical form that resists mischaracterisation by companies, shareholders or commentators, and provides clarity to clients and beneficiaries.

This strengthening of engagement:

4. enables the company to determine its response to a successful resolution; confident about investors' views;
5. prevents companies from claiming to be unaware of investors' expectations and using this as an excuse for subsequent inaction; and
6. provides investors with a more solid basis for any further action (including escalation) in cases where a company continues to be misaligned with investor expectations.

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1 Data gathered from ESG-related proposals tracked on the PRI Collaboration Platform

2 See the following reports: ShareAction, 2019, Voting Matters: Are asset managers using their proxy votes for climate action?, Majority Action, 2020, Climate in the Boardroom: How Asset Manager Voting Shaped Corporate Climate Action in 2020 and ACCR, 2020, Two Steps Forward, One Step Back: How Australia's largest super funds voted on shareholder proposals 2017-2019.

3 Engagement refers to interactions between an investor (or an engagement service provider) and current or potential investees (such as companies), conducted with the purpose of improving practice on an ESG issue, impact on a sustainability outcome, or improving public disclosure. Engagement typically takes the form of meetings, calls, emails or letters between the investor and the engagement focus, during which issues are discussed and investors make clear their expectations. Engagement can also be carried out with non-issuer stakeholders, such as policy makers or standard setters

4 Details on markets where resolutions are generally non-binding are provided in the Applying Voting Principles section

5 Collaboration, in a variety of forms, is part of the solution to this problem. Voting – itself a collaborative act – is one of these forms. Learn more how signatories can work together via our PRI Collaboration Platform

WHY USE VOTING PRINCIPLES?

Voting principles are high-level statements of investors' voting philosophy and active ownership priorities. They explain investors' positions on ESG issues and how voting is used to effect progress on those issues. Voting principles typically make up part of a voting, governance, stewardship or responsible investment policy, or a similar document.

Principles communicate investors' intended impact through voting. They differ from voting guidelines, which describe the procedural aspects of voting but do not typically provide clarity on the thinking that guides such decisions (particularly when it comes to votes on environmental and social matters). For example, guidelines may simply state that shareholder resolutions will be considered on a case-by-case basis, or that advice will be sought from third-party providers.[6] Voting principles, on the other hand, may signal that an investor is inclined to vote in favour of or against shareholder resolutions depending on the topic.

WHY ARE VOTING PRINCIPLES NEEDED?

Voting principles enable investors to consider, consult, and gain buy-in for the positions they will take, without the need for a shareholder resolution to be filed and the time pressures that come with it.

The publication of voting principles allows stakeholders (such as clients and beneficiaries) to scrutinise an investor's views, and to assess whether the votes cast reflect those views.

In addition, well-constructed principles communicate clearly and proactively to companies. This reinforces investor engagement and allows time for companies to engage with an investor on their concerns and priorities independent of AGM deadlines. The existence of voting principles makes clear that if an investor votes in support of a shareholder resolution, it is because the result of that resolution, if successful, is consistent with the investor's principles, and not that the investor is expressing their dissatisfaction with company management. It therefore helps to address the misconception that voting in support of shareholder resolutions is a form of escalation following an unsuccessful engagement.

Similarly, principles communicate investors' priorities to potential resolution filers and make clear the type of resolution the investor is likely to support. As a result, filers may develop resolutions more carefully, reducing misdirected effort and resources for filers of resolutions and those who assess them.

Voting principles can be used to determine specific voting decisions on a case-by-case basis, and to inform specific voting guidelines if present.

SAMPLE PRINCIPLES

The below list illustrates how principles may be formed. These are hypothetical examples only and *not* a list of principles that we propose investors necessarily adopt.

- "We recognise that a disorderly and costly transition to a net zero economy – or a failure to transition – presents a significant risk to our portfolio and to our clients' / beneficiaries' interests. Therefore, we support decarbonising the economy, limiting global warming to well below 2 degrees Celsius, and as close as possible to 1.5 degrees. We apply this stance by voting in favour of shareholder resolutions that will align investee companies with the Paris Agreement goals, to improve the companies' internal risk management and mitigate their broader impact on the rest of our portfolio. We will, for example, generally support resolutions that: limit capital expenditure that is incompatible with the Paris Agreement; require scope 1, 2 and 3 greenhouse gas carbon emissions targets in line with the Paris Agreement; and seek transparency and alignment with voting principles when it comes to political engagement and lobbying around climate change."
- "Given our commitment to the UN Guiding Principles on Business and Human Rights (UNGPs), we support proposals that will enhance a company's policy and practice to meet international human rights standards."
- "Recognising the potential for self-interested corporate political influence (through lobbying, contributions, etc.) to conflict with our interests as a universal investor, we support proposals that limit companies' political influence to that which is aligned with the interests of our portfolio and clients' / beneficiaries' interests overall."
- "We support resolutions seeking environmental or social performance disclosures if we believe that the disclosure may:
  - improve the company's attentiveness to or accountability for this performance;
  - affect our views on the company and our investment in it;
  - impact upon the election of directors to the company's board or advocacy positions."
- "We support resolutions seeking public access to information or assurances that we receive through other means (e.g. 1:1 engagement), which would help us to collaborate with other investors and drive positive change at an investee company."

6 Information gathered from internal research on a selection of the largest investment managers

WHO CAN ADOPT VOTING PRINCIPLES?

Those with direct control of some or all of their voting decisions are recommended to establish voting principles. This includes many asset owners with direct control of their votes either through internal management, segregated mandates or pooled funds that allow split voting.[7] Investors ideally would adopt the same approach and voting principles for active and passive strategies, and indeed across all holdings where they have voting rights.

For asset owners and others with external mandates that do not enable control of voting decisions, it is recommended that discussions about voting principles are incorporated into the selection, appointment and monitoring process of external investment managers. Asset owners can scrutinise external managers' voting principles to make sure they are aligned with their expectations and the Active Ownership 2.0 framework. Asset owners can also examine the voting decisions of external managers to ensure that they are following the principles and making appropriate disclosures.[8]

HOW SHOULD PRINCIPLES BE DEVELOPED?

Investors can develop their voting principles by reference to their investment beliefs, through understanding beneficiary preferences, and through analysing risks to the portfolio, as well as impacts caused by or linked to the portfolio overall.

It is recommended that investors align their voting principles with the Active Ownership 2.0 framework – see the following section for further details.

WHAT SHOULD BE DISCLOSED?

Once developed, the investor's voting principles should be available for discussion and scrutiny – e.g. to clients, beneficiaries and stakeholders – in a voting, stewardship or responsible investment policy, or a similar publicly available document. It should also be made clear if an investor's voting principles do not apply to any part of their portfolio or votes within their control.

Investors should also consider, where possible, publicly pre-declaring their voting intentions and the rationale for them, particularly for high-profile or controversial votes[9] (this can be done using the PRI's Vote Declaration System).[10]

Investors' voting records should be made publicly available as quickly as possible after each vote.[11] Investors should consider the records' readability, accessibility and ease of interpretation by clients, beneficiaries and other stakeholders.

Good practice includes disclosing the rationale for voting decisions as part of the voting record. Recognising that disclosure of voting rationale can be onerous for investors, it is recommended that investors prioritise disclosure where a vote is:

- counter to management recommendations;
- to abstain; or
- perceived by an external stakeholder to contradict the investor's principles, even if the investor believes it does not.

In addition, as part of PRI signatories' commitment to Principle 5[12] of the Principles for Responsible Investment, PRI signatories can also consider providing further transparency on the rationale for their voting decisions when they have voted against a proposal that has been filed or co-filed by a fellow PRI signatory.[13] Doing so can promote greater understanding and dialogue, and improve the quality of resolutions that are filed.

7 The UK-based Association of Member Nominated Trustees has recently published a report on split voting, offering views on this topic

8 General guidance on the selection, appointment and monitoring of external managers can be viewed on the PRI website

9 High profile or controversial refers to votes that have received significant attention amongst institutional investors (such as high levels of discussion within a collaborative engagement, or public discussion on social networks like LinkedIn), in the media (for example, in responsible investment trade press or mainstream financial media), or otherwise have had attention drawn to them (for example, by proxy agencies, investor networks or organisations such as the PRI)

10 As always, investors should ensure they are aware of any regulatory considerations that may affect their pre-declaration. For example, for companies listed in the US, investors should consider SEC Rule 14a-1(l)(2), which clarifies the conditions under which a pre-declaration is exempt from the definition of solicitation of a proxy, as well as Section 13(d) and Section 16 requirements under the Exchange Act, should they meet those filing thresholds. The PRI has published guidance for signatories on acting-in-concert and anti-trust related matters on the PRI Collaboration Platform

11 The prompt disclosure of voting records is one of many topics related to this paper that is also covered by the PRI Reporting Framework. Full details of the updated reporting framework are available on the PRI website

12 Principle 5: We will work together to enhance our effectiveness in implementing the Principles

13 Investors can monitor the PRI Collaboration Platform (or its weekly email alerts) to track resolutions which are backed by PRI signatories

ALIGNING VOTING PRINCIPLES WITH ACTIVE OWNERSHIP 2.0

While voting principles can be used by all investors casting votes on shareholder resolutions, leading stewardship practice means aligning these principles with [Active Ownership 2.0.](#)

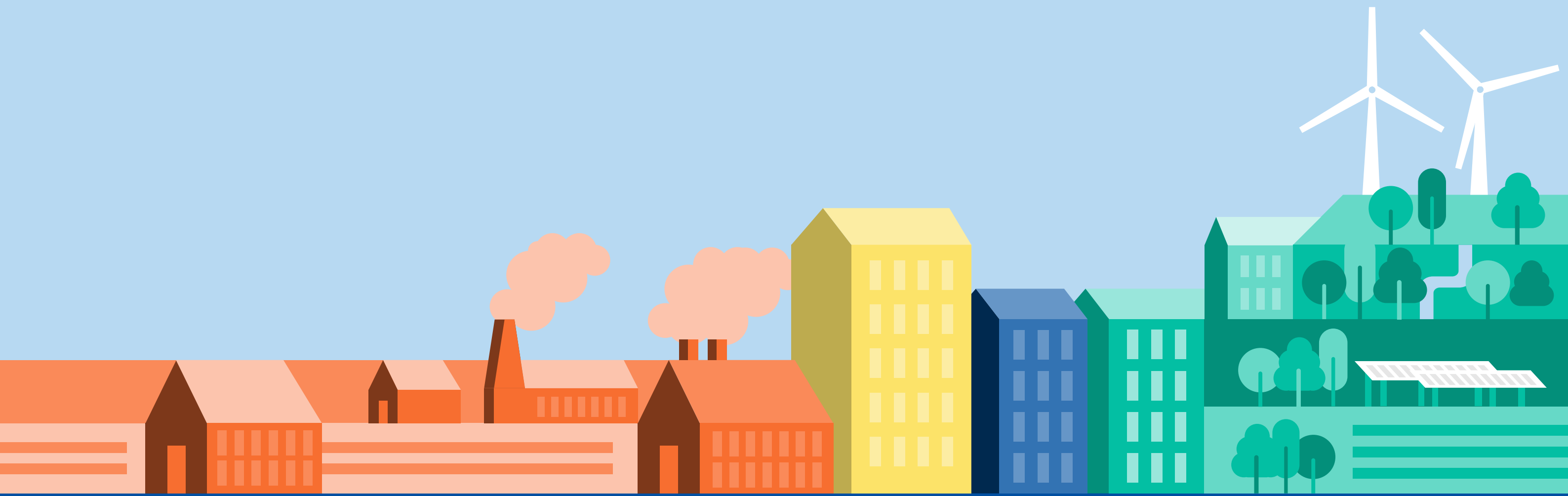
There are three central elements to an Active Ownership 2.0 approach: outcomes; common goals; and collaborative action.

OUTCOMES

Aligning with Active Ownership 2.0 requires investors to pursue real-world outcomes through a range of levers in the stewardship toolbox – including casting votes at annual and extraordinary general meetings.

Aligning voting practices with Active Ownership 2.0 thus requires a strong commitment to voting in pursuit of outcomes. This means supporting resolutions whose results would be consistent with the investor's principles, even if, for example, the investor has successfully engaged with the investee company already or is aware that the company is making progress with an issue that is covered in the shareholder resolution. It also means voting on shareholder resolutions in combination with other stewardship tools, from voting in board elections to engaging on public policy matters, to drive progress on underlying issues.

> *"Active Ownership 2.0 is a vision for an evolved standard in stewardship that is underpinned by an increase in investors' ambition and assertiveness."*



COMMON GOALS

Investors' voting principles should prioritise addressing systemic sustainability issues,[14] protecting common assets,[15] and maximising portfolio-level returns and overall value for beneficiaries wherever possible. Best practice means focusing on these broader interests over the narrower, often short-term, interests of any individual company, noting that in most cases these interests tend to align over time.

> *"Investors' interest in achieving returns while minimising risks typically results in sharp focus by the industry on companies and other assets in which they invest. However, [this can] undermine broader investment, economic and social goals."*
>
> **– ACTIVE OWNERSHIP 2.0**

Additionally, voting principles aligned with Active Ownership 2.0 should cover all significant systemic sustainability issues,[16] and be robust, so that each principle is commensurate with the severity, scale, and urgency of the issue it seeks to address.

COLLABORATIVE ACTION

Achievement of common goals and positive real-world outcomes will require enhanced collaboration among investors, service providers and other stakeholders. In the context of voting (and consistent with the PRI's fifth Principle), this means conveying unambiguous and transparent feedback when the opportunity arises – including through votes on shareholder resolutions.

Voting is usually accessible to all institutional shareholders (or their agents), and when used effectively i.e. in line with voting principles and not used as a tool of escalation or to avoid dissent, it records the aggregate shareholder position on a given resolution. In contrast, engagement requires resources, access and expertise that are beyond reach for many. Therefore, in addition to transparency and accountability benefits, shareholder resolutions offer a unique vehicle for conveying a collective investor voice – a voice that can strengthen the effectiveness of engagement.

Clear and well-constructed voting principles help ensure the effectiveness of voting on shareholder resolutions *for all.*

14 The PRI defines systemic sustainability issues as those that have effects across multiple companies, sectors, markets and/or economies. Impacts caused by one market participant can lead to consequences across the system, including to the common economic, environmental and social assets on which returns and beneficiary interests depend. Universal owners and long-term investors in general are highly exposed to systemic sustainability issues and have a limited ability to diversify away from them. They can (and should), however, influence such issues through responsible investment activities

15 That is, the public goods such as economic, environmental and societal assets on which economic performance, returns and client and beneficiary interests depend. For example, a physically liveable climate or respect for human rights

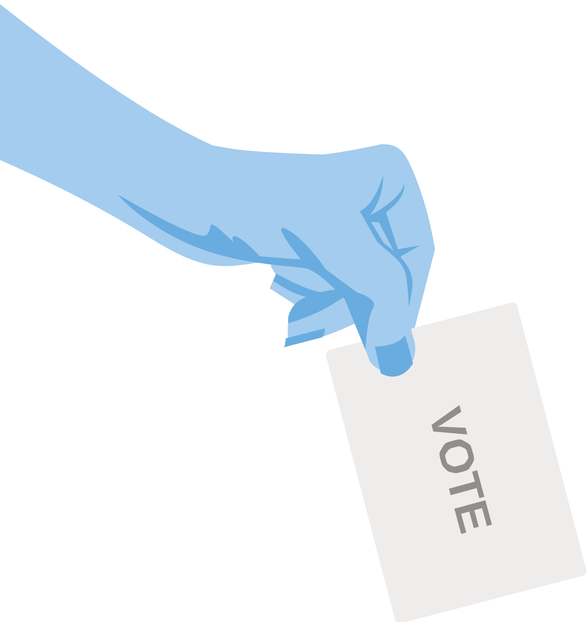
16 The PRI has published guidance to investors on how they can use the SDGs, the Paris Agreement and the UN Guiding Principles on Business and Human Rights to identify relevant issues

APPLYING VOTING PRINCIPLES

Once investors have determined their voting principles, they should apply them consistently. Investors should support all resolutions which, if successful, would be consistent with their voting principles, and oppose only those resolutions whose effect would be contrary to these principles. Where proposals are neither wholly consistent with nor contrary to their principles, investors should examine them on a case-by-case basis, weighing up other considerations outlined in this report. In addition, such circumstances should be reviewed on a periodic basis (i.e. annually) to decide whether the principles would benefit from amendment to improve clarity or coverage.

VOTE TO INFORM

Votes communicate investor views to company directors and personnel, other investors, and clients and beneficiaries, enabling all parties' subsequent decisions to be better informed. While votes cannot convey the range and diversity of feedback that can occur through engagement, their transparency makes them uniquely suited to holding companies accountable. Accordingly, a vote in favour of a shareholder resolution should not be seen as a criticism of the company overall. It is an avenue to provide feedback on a particular issue in line with an investor's voting principles.



VOTE TO AFFIRM

Voting results are increasingly interpreted as evidence of investor interest in an issue, rather than a criticism of the company overall, and this interest can shape a company's internal priorities and resourcing.

Good stewardship practice dictates voting in favour of resolutions that are consistent with an investor's principles even when the company appears to have made commitments to progress on the issue that the resolution is seeking to address.[17]

Company executives often recognise the value of such votes as investor affirmation in maintaining a course of action. Some company boards have even recommended shareholders vote in favour of proposals that are consistent with the actions that a company intends to take.[18]

Best practice also entails, where possible, publicly communicating the voting decision and rationale so that the company, fellow investors and other stakeholders are clear on why a decision is being taken. If an investor is affirming the company's existing good practice or commitments this can be made clear in the publicly disclosed rationale.

If engagement is already underway or planned with the company, this can also be used to communicate the decision and rationale to company management and the board – again strengthening the power of both stewardship tools.

EXAMPLE

Consider a small emerging markets-based pension fund whose returns (and beneficiaries) face high exposure to climate risks. If this pension fund were to propose an otherwise supportable climate-related resolution, it would be inconsistent with a commitment to collaboration if a large developed markets-based investor were to vote to defeat the proposal merely because they are already engaging with the company on its climate risks and impacts. Better practice would see the larger investor publishing clear voting principles that adequately address the scale and urgency of climate change and applying those principles to vote in favour of the resolution, affirming the company's existing good practice and supporting the actions of a peer.

17 We note, however, that the concept of voting to affirm existing company commitments or to encourage continued action does not necessarily extend to situations where the company has already fully met the specific requests within a resolution. For example, a resolution requesting that the company prepare and implement a human rights due diligence policy when one already exists

18 For instance, BP Plc in 2019 recommended that shareholders vote in favour of a resolution proposed by investors as part of the Climate Action 100+ coalition. Additionally, the company recently pledged to work with another filer, Follow This, to agree text for a resolution to be put to shareholders in 2021

VOTE TO ADVISE

Where resolutions are non-binding or advisory, the board can respond with discretion and more flexibility, such as the timeframe within which a change should be made. Non-binding proposals provide investors greater scope to consider the substance and directionality of the resolution, rather than spend time focusing on the intricate details.

Markets where resolutions are generally non-binding (this is not an exhaustive list):

- Australia[19]
- Canada[20]
- New Zealand[21]
- The United States[22]

EXAMPLE

A vote asking a company to establish a climate target which would allow a maximum rise in temperature of 2 degrees Celsius is directionally consistent with a request to apply a net zero 2050 emissions target, even if the latter is a stronger request that may be more in line with the investor's voting principles and climate commitments.

FORM AND SUBSTANCE OF PROPOSALS

The PRI recognises that not all shareholder resolutions are thoughtfully drafted. They should be written with the aim of maximising overall long-term value, clearly indicating how, if successful, they would achieve that.[23]

There may be a limit to investors' ability to overlook, for instance, particularly poorly worded resolutions.

To remedy this, investors' voting principles should include any matters of form or substance that they see as essential to support the resolution. For example, an investor could state that they would vote against resolutions that do not clearly articulate the link to the company's business or the impact of the company's business on their portfolio overall.[24]

Transparent voting principles explaining what investors will and will not support can help to:

- support the development of well-constructed proposals by others;
- reduce company and investor resources required to respond to poorly-constructed proposals; and as a result,
- improve the signal and reduce the noise of resolutions as a feedback channel, thus increasing the effectiveness of voting as a stewardship tool.

19 In Australia, shareholder resolutions are regarded as a formal decision of the company. Therefore, if a shareholder resolution is successful, that resolution is binding. In the past, shareholders have sought amendments to a company's constitution, to allow non-binding resolutions to be considered at a general meeting. If the first proposal requesting a constitutional amendment passes, a shareholder can then propose an advisory resolution. See Australian Council of Superannuation Investors, 2017, Shareholder resolutions in Australia

20 Canada Business Corporations Act

21 New Zealand Legislation, Companies Act 1993

22 Securities Exchange Act Of 1934

23 The PRI plans further follow-up work to provide guidance to proponents of shareholder resolutions on factors that typically make a resolution more supportable. See the Next Steps section below

24 This is an example only, not a recommendation by the PRI

ESCALATION AND VOTING

Escalation refers to investor use of additional stewardship tools and activities to progress unsuccessful earlier efforts, or to address issues that are especially urgent. Escalation can involve voting against the (re-) election of board members, proposing directors for election, voting against the annual reports and accounts of companies, and litigation.[25]

Importantly, voting in favour of shareholder resolutions should not be reserved for escalation following unsuccessful engagement, and should not be seen as a criticism of the board or management's overall approach. Rather, voting should be part of an investor's responsibility to provide clear and transparent feedback to the company, complementing and reinforcing messages that may have been shared through private engagement.

While voting in favour of a shareholder resolution is not considered to be escalation, *filing* a resolution may be part of an investor or investor coalition's strategy to advance efforts that are not making sufficient progress.

Separately, shareholder resolutions can offer a valuable way for investors to determine whether and what type of escalation may be necessary. For instance, an advisory vote that receives majority support but is ignored or poorly implemented by the company's board may provide investors with the conviction to pursue escalation through other means.

25 There is an opinion that some of these tools should still not be considered as escalatory. For example, investors could use their rights to nominate candidates for the board (where available) and vote to elect, or not elect, directors based on an assessment of who best represents their overall interests, rather than delaying such action in the hope that the current board becomes more aligned with their interests

NEXT STEPS

Signatories with voting rights should consider establishing public voting principles (or if necessary, update existing principles), making clear how they will exercise their right to vote.

In addition, investors striving for best practice in stewardship should seek to align their voting principles with Active Ownership 2.0 – ensuring that they prioritise systemic sustainability issues and the maximisation of overall portfolio value, as well as client and beneficiary interests.

Investors should apply their voting principles consistently. Investors should vote to communicate views to company personnel; to affirm good behaviour or steps that companies have already agreed to take; and to advise companies on directional expectations (particularly for non-binding proposals). Investors should see voting on shareholder resolutions as a normal means of communicating expectations as opposed to a form of escalation.

For asset owners and others who outsource voting to third-party investment managers, voting principles (along with voting decisions) can and should form part of the selection, appointment and monitoring process to ensure that voting is used effectively to maximise overall value for the ultimate beneficiaries of the investment system.

FURTHER PRI WORK ON VOTING

This paper contributes to the PRI's work on stewardship, including the Active Ownership 2.0 programme.

We plan to produce further guidance on what factors make shareholder resolutions supportable. We recognise that while investors can develop and apply well-constructed voting principles to inform, affirm and advise, not all resolutions are as thoughtfully drafted as they could be. Beyond shareholder resolutions, the PRI plans to explore other types of votes and escalation strategies. Full details will be published on the PRI website.

For questions on our stewardship work, please reach out to your signatory relationship manager, or email stewardship@unpri.org.

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UN environment programme | finance initiative

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

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