CLIMATE TRANSITION PLAN VOTES

INVESTOR BRIEFING

December 2022

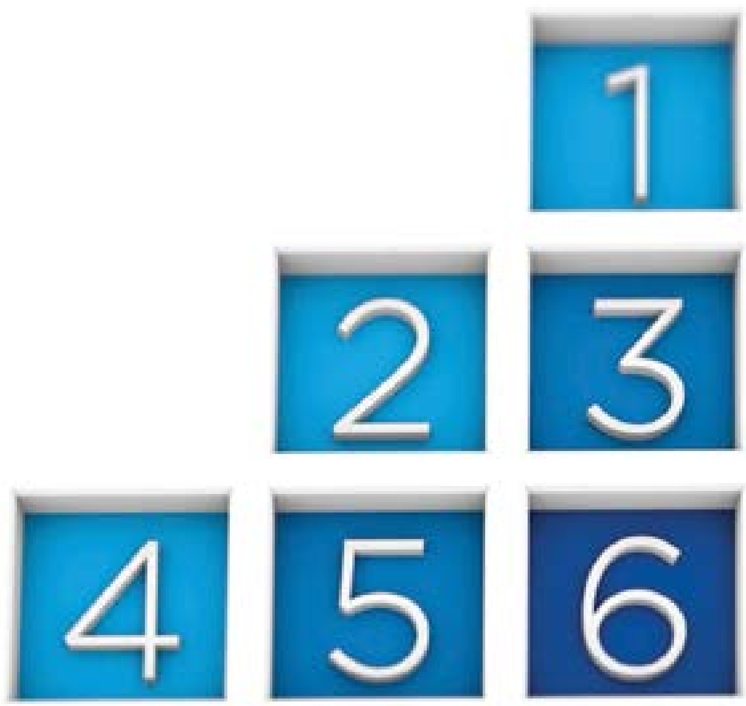
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

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.

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EXECUTIVE SUMMARY

In February 2022, the PRI issued its first briefing for investors considering climate transition plan votes. These votes are either management-led proposals seeking investor support for a company transition plan, or shareholder-submitted proposals asking a company to put a transition plan to a vote at future annual general meetings (AGM). The 2021 proxy season was the first to feature these votes, prompting both our initial briefing and this updated one, which adds:

- broad regional nuance that could apply to the considerations made herein;
- analysis of 2022 changes in approval rates and voting rationales;
- an updated list of useful resources for investors considering climate transition plans.

This briefing identifies risks and unintended consequences of using votes on climate transition plans as a stewardship mechanism. It concludes that other proven stewardship efforts should be prioritised by investors seeking the most effective engagement strategy to drive climate action. The briefing provides:

- context for the origin and content of climate transition plans;
- a review of the advantages and disadvantages of votes on such plans, with a focus on the unintended consequences of supporting them;
- recommendations on how investors should address unclear or unambitious plans when voting.

Conclusions of the briefing are provided in each section, however they are summarised below.

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 a transition plan that discloses their strategy/actions on how they intend to transition to net-zero greenhouse gas (GHG) emissions by 2050 or sooner.[1]
- 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).
- Where companies are planning to hold such votes, investors should engage management to encourage adoption of good practices when drafting their proposals. The proposal should assign accountability for implementation, provide a clear transition strategy and address engagement dynamics after the vote.

[1] 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-led 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 where this is aligned with the investor's objectives.
- 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.

A transition plan vote is not a substitute for ongoing engagement and dialogue with a company.

INTRODUCTION

The Glasgow Financial Alliance for Net Zero (GFANZ) defines[2] a net-zero transition plan as a set of goals, actions, and accountability mechanisms to align an organisation's business activities with a pathway for net-zero GHG emissions. The goals should deliver real-economy emissions reductions in line with achieving global net zero. Climate transition plans put climate change at the centre of a company's strategy and operations. They enable robust disclosure and offer investors a better 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 strategies 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.

These votes have been popularised by the Say on Climate initiative, which calls on companies to: annually disclose emissions; produce a plan to manage their emissions; and submit the plan to shareholders for approval at an AGM. After the launch of the initiative in 2020, two types of proposals emerged in the 2021 proxy season[3]:

1. Shareholder proposals asking companies to prepare climate transition plans and put them to a shareholder vote at a future AGM.
2. Management proposals seeking shareholder support for companies' climate transition plans, strategies and/or progress of their climate strategy.

This briefing focuses on the second category and aims to help investors understand the strengths and weaknesses of this nascent form of stewardship. When voting on management-led proposals, which are usually advisory and nonbinding, 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.

However, the considerations explored herein should also be noted by investors voting on, or considering filing, shareholder-submitted proposals for the reasons explored below.

The increasing frequency of these votes has drawn a range of responses from investors and proxy advisors. Best practices in voting trends and investor behaviour are still taking shape. This is not meant to be an exhaustive guide, but rather a high-level overview of some of the core considerations for investors voting on transition plans.

[2] GFANZ (no date). GFANZ Releases Guidance on Credible Net-zero Transition Plans and Seeks Public Input to Accelerate Action.
[3] Glass Lewis (2021). Say on Climate Votes: Glass Lewis Overview.

CONSIDERATIONS WHEN VOTING

Arguably, active and informed votes on climate transition plans put forward by a company's management 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 stewardship and with the goals of initiatives such as Climate Action 100+.[4] In this regard, advocates of management-led 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.[5] An additional positive feature of such votes is that they reflect a shift from focusing on isolated climate commitments to broader low-carbon transition strategies - a shift that was driven by the Say on Climate initiative. The initiative also helped the media frame shareholder urgency around the issue and invite scrutiny from NGOs and advocacy campaigns.

Investors should carefully consider the signals and potential consequences (intended and unintended) of using climate transition plan votes as a mechanism to drive climate action.

Advocates of these votes also point to their ability to facilitate disclosure and institutionalise a dialogue between the company and investors on climate strategy.[6] Another benefit that advocates put forward is that the votes can facilitate investors holding the board accountable for the plan's provisions. However, investors already have well-established mechanisms to engage companies. They have ongoing dialogues about climate strategy and they can file shareholder proposals and/or oppose the election of directors who fail to address climate risk appropriately. That said, filing targeted climate-related resolutions is more challenging in some jurisdictions, such as France, Germany and Austria.[7] In France, for example, companies have rejected climate-related shareholder resolutions, asserting that the resolutions encroach on the competence of the board of directors to define the company's strategy. Investors do not have a formal process to appeal or challenge these decisions. In this context, legal and policy reforms could help ensure effective stewardship practices and effective investor-company dialogue on climate transition plans.[8]

Regardless of jurisdiction, investors should carefully consider the signals and potential consequences (intended and unintended) of using climate transition plan votes as a mechanism to drive climate action, and especially of supporting transition plans put forward by management. A central risk of such votes 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.

[4] The 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 the PRI are both independent from the Say on Climate initiative and there is no formal affiliation.
[5] SHAREHOLDERS FOR CHANGE (2021). Mixed results from the "Say on climate" resolutions.
[6] SHAREHOLDERS FOR CHANGE (2021). Mixed results from the "Say on climate" resolutions.
[7] ClientEarth (2021). Know your rights: a guide for institutional investors to the law on climate-related resolutions.
[8] PRI (2022). Sustainable finance policy roadmap: France.

VOTING TREND ANALYSIS

In 2021, management proposals seeking support for a climate transition plan vote had an average of 96% shareholder support.[9] It has been suggested that investors rewarded companies' direction of travel, rather than the strength of their climate plans.[10] This practice continues in 2022, as investors commonly justified their votes for transition plans by expressing that the company "appear[s] to be making progress" and the company is "making positive steps." In addition, the average level of approval of management-sponsored climate transition plan votes in 2022 remains high, around 90% year to date, although 2022 has also seen the highest rejection rate for a climate plan so far, 49% against Woodside Petroleum's Climate Report.[11] (See the Appendix for a list of the climate transition plan votes in 2022.)

The slightly lower average approval rates relative to 2021 could be a reflection of the quality of the climate transition plans put to vote. Say-on-climate votes in 2021 were mostly at companies with emission trajectories aligned with the Paris Agreement, whereas 2022 has seen companies with less-aligned paths hold votes.[12] The decline could also reflect that investors were scrutinising progress against plans approved in 2021. For example, support for Glencore's climate strategy fell in 2022 (76%) in comparison to the previous year (94%), as the ballot item shifted to progress against the plan rather than the plan itself.[13] In 2022, stakeholders were also more familiar with this nascent mechanism and its implications, given that many proxy advisors published updated voting guidelines expressly addressing climate transition plan votes. Amundi, for example, encouraged and voted mainly in favour of say-on-climate proposals in 2021, but has shifted to a more demanding approach in the 2022 season. It asks companies that have submitted a climate strategy at their AGM to "present comprehensive targets (in terms of figures, scope and baseline scenarios), a precise agenda (short, medium and long term objectives) as well as clear resources to achieve their climate goals."[14]

The drop in approval rates could be a sign that investors are becoming more cautious when voting, but it is still too soon to identify a trend. When voting on transition plans in 2022, some investors cited the following reasons: unalignment with a 1.5°C pathway or a lack of ambition; lack of transparency/granularity of the proposed transition plan; and lack of third-party validation of the plans' targets. They also justify voting against a plan when the company failed to commit to annual votes or when there is no clarity regarding the recurrence of votes on the transition plan.[15]

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[9] Data sourced from Insightia (August 2022). According to ISS Governance (2022), Climate & Voting: 2021 Review and Global Trends, the average support for 26 management-presented 'Say on Climate' proposals was 93%.
[10] Australasian Centre for Corporate Responsibility – ACCR (2022). Investor briefing: Say on Climate Voting in 2021.
[11] Data sourced from Insightia (August 2022); Woodside Petroleum Ltd. (2022). Woodside Petroleum Ltd 2022 Annual General Meeting – Voting Results.
[12] MSCI (2022). Say on Climate: Investor Distraction or Climate Action?
[13] The PRI's Collaboration Platform and Glencore's Results of 2022 AGM.
[14] Amundi, in "Say on Climate": 2022 approach.
[15] Five votes on transition plans in 2022 (at Woodside, Carrefour, Barclays, Rio Tinto and BP) were selected for analysis. These votes were selected to consider voting rationales at companies across a range of sectors and regions. Common themes identified were seen across investor rationales for all five votes. Data sourced from Insightia (September 2022).

In addition to the risk of approving unambitious plans, investors should also consider the limitations of this type of vote as a mechanism for enacting change. The experience with say-on-pay votes, which give shareholders the right to vote on executive compensation, provides useful insights. These votes were introduced to increase the accountability of corporate directors, enhance disclosure to better assess the alignment between pay and performance, and help curb excessive compensation practices. Although there is evidence of some positive impacts in certain markets[16], the mechanism is widely regarded to be ineffective. Executive compensation has risen dramatically since the votes were introduced, despite the measures often receiving overwhelming shareholder support.[17] Additionally, research has shown that when voting on say-on-pay resolutions, investors with more resources, such as large institutional investors, do not necessarily cast better-informed votes.[18] 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.

Credible initiatives have recently published, and will further develop, frameworks to help investors assess climate transition plans, as reviewed below. However, concerns persist that climate transition plan votes encourage greenwashing. Votes on climate transition plans risk placing too much focus on the process of the vote, and the fact that the company is holding a vote, rather than the content and outcomes of a company's actions on climate. In addition, as highlighted by MSCI, "most say-on-climate votes in 2021 (58%) were one-time events," prompting concerns that those votes "could be a distraction or facilitate greenwashing."[19] As companies have been adopting different voting frequencies (one-time, annually, or triennially), investors must carefully consider that context when voting. Companies opting for one-off votes deny investors a structured opportunity to reassess the company's progress over time.

It is also important to note 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, and undermine future investor asks to increase ambition. On a similar note, such votes could limit board accountability, as board members may shield themselves behind investor majority support for an inadequate transition plan.[20]

Additionally, if climate transition plan votes become widely adopted, attention may be diverted to transition plans and away from specific key issues (e.g. emission targets, lobbying practices, biodiversity etc.), 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. An example of this was seen in 2021, when Royal Dutch Shell put a plan to vote and the campaign group Follow This filed a shareholder proposal requesting Shell to

[16] Fabrizio Ferri and David A. Maber (2013). Say on pay votes and CEO compensation: Evidence from the UK; Matthew Grosse, Stephen Kean, and Tom Scott (2017). Shareholder say on pay and CEO compensation: three strikes and the board is out.
[17] David F. Larcker, et al. (2012). Ten myths of 'say on pay'.
[18] Stephen F. O'Byrne (2018). Say on Pay: Is It Needed? Does It Work?
[19] MSCI (2022). Say on Climate: Investor Distraction or Climate Action?
[20] Forbes (2021). Here Is My Say On "Say On Climate".

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. While Pensions & Investment Research Consultants recommended investors vote against Shell's plan and in favour of the Follow This resolution, Glass Lewis recommended the opposite. Shell's transition plan was approved with 88.74% of support while the Follow This proposal was rejected by 69.53%.[21]

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;
- a perceived shift in accountability for company's climate strategy from boards to investors;
- 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 management-led 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 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 climate transition plans to a vote in upcoming proxy seasons. Investors engaging companies that are determined to adopt such votes should encourage them to adopt good practices when drafting their proposals to proactively address concerns about accountability, clear strategies and engagement dynamics after the vote.[22]
When facing a transition plan vote, investors should carefully assess plans put forward by management and properly address unclear/insufficient ones, in view of the risks and potential negative unintended consequences of approving a transition plan that is unclear, unambitious or simply unfit to limit global warming to 1.5°C. The sections below provide useful resources to undertake this work.

It is critical that investors are clear on the drawbacks of transition plan votes because many companies are planning to submit climate transition plans to a vote in upcoming proxy seasons.

[21] Reuters (2021). Advisory firm PIRC slams Shell on climate strategy before AGM; Reuters (2021). Shareholder advisory group Glass Lewis backs Shell's climate plan.
[22] Glass Lewis (2021). Say on Climate Votes: Glass Lewis Overview.

Where companies are determined to hold such votes, investors should, in addition to asking for clear and credible plans, ask that company proposals:

- expressly lay out board and executive management committee responsibilities, and state that shareholders are not being asked to take responsibility for the climate strategy;
- clearly outline the climate strategy (if shareholders are asked to approve a company's overall business strategy in a single vote);
- indicate how the company intends to respond should the management-led proposal fail, and how shareholders will be engaged;
- set recurring votes on the transition plan or its progress report as a way to ensure an ongoing framework to assess the company's climate strategy.

Ultimately, risks could be mitigated by investors by properly assessing transition plans and combining their votes with other existing accountability mechanisms, such as votes against directors.

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 climate transition 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. These indicators fall into two categories:

- 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 Assessments:
  - Capital allocation
  - Climate policy engagement
  - Climate accounting and audit

The Climate Action 100+ Technical Advisory Group (comprised of Carbon Tracker Initiative, InfluenceMap, Transition Pathway Initiative and the Rocky Mountain Institute) 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).

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 plans
- 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.

Expectations for Real-economy Transition Plans, by the Glasgow Financial Alliance for Net Zero (GFANZ): outlines the components of transition plans that financial institutions will be looking for from companies in the real economy to inform their allocation of capital and services, and how they engage. GFANZ has identified five transition plan themes with ten underlying components that financial institutions find relevant when evaluating disclosures surrounding a company's transition plan (see Figure 1).

Figure 1: Disclosures relevant for financial institutions[23]

THEME	COMPONENT	SUB-COMPONENT
Foundations	Objectives and priorities	Objectives and overarching strategy
		Governing principles (just transition and nature-positive economy)
Implementation strategy	Activities and decision-making	Business planning and operations
		Financial planning
		Sensitivity analysis
	Policies and conditions	Transition-related policies
		Nature-based impact
	Products and services	Products and services
Engagement strategy	Value chain	Clients/customers and suppliers
	Industry	Industry peers
	Government and public sector	Government and public sector
Metrics and targets	Metrics and targets	GHG emission metrics
		Sectoral pathways
		Carbon credits

[23] GFANZ (2022). Expectations for Real-economy Transition Plans, pp. 24.

		Business and operational metrics
		Financial metrics
		Nature-based metrics
		Government metrics
Governance	Roles, responsibilities, and remuneration	Board oversight and reporting
		Roles and responsibilities
		Incentives and remuneration
	Skills and culture	Skills and training
		Change management and culture

Guidance on Metrics, Targets, and Transition Plans (p. 40-46), 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 an organisation's broader strategy;
2. Anchored to quantitative methods, including climate-related metrics and targets consistent with broader economy- or sector-wide science-based pathways to a low-carbon economy;
3. Subject to effective governance processes, including role of the board and senior management oversight;
4. Include actionable, specific initiatives the organisation will undertake to effectively execute the transition plan;
5. Reflect credible inputs, including the organisation's capabilities, technologies, transition pathways, and financial plan, as well as significant limitations, constraints, and uncertainties in the transition plan;
6. Reviewed periodically and updated at least every five years;
7. Reported annually to stakeholders, including a comparison of completed actions to planned actions in the prior reporting period.

TCFD's guide builds on those characteristics and provides a table (p. 44) with general elements that organisations should consider as part of their transition planning. The table covers 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.

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 sector-specific guidance and the criteria that companies' targets must meet in order to be approved as science-based by the SBTi. 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.

EU Taxonomy Compass, prepared by the European Commission: 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 took effect on 1 January 2022. 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.

Upcoming guidance by the UK Transition Plan Taskforce (TPT): the initiative was launched by HM Treasury to develop a gold standard for climate transition plans. The TPT is working with international frameworks which are preparing guidance on transition plan disclosures, including GFANZ and the International Sustainability Standards Board (ISSB). The taskforce will take forward the foundational work from these bodies to develop granular transition planning templates that would be suitable for incorporation into regulatory frameworks in the UK.

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. Investors are encouraged to use the PRI's Collaboration Platform to pre-declare their voting intentions and/or publicly disclose that information on their own platforms. Exempt solicitations may also be used by investors 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 US-based public pension funds CalPERS and Office of the New York State Comptroller did in 2021 due to concerns about the shortcomings of this type of vote.[24]

In all cases, communication with the company is key. 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. Stewardship tactics may include the use of shareholder proposals to increase ambition, voting against the auditor, and voting against directors.

[24] Responsible Investor (2021). US pension giants abstain from Vinci 'Say on Climate' vote after criticising campaign.

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FURTHER READING LIST

- PRI (2019). Active Ownership 2.0
- PRI (2021). Making voting count: principle-based voting on shareholder resolutions
- PRI (2021). How should responsible investors secure better boards?
- Glass Lewis (2021). Say on Climate Votes: Glass Lewis Overview.
- MSCI (2022). Say on Climate: Investor Distraction or Climate Action?
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APPENDIX

2022 MANAGEMENT-LED CLIMATE TRANSITION PLAN VOTES[25]

Company	Meeting date	Proposal	Country	Vote result for (%)	Vote result against (%)
Aena SME S.A.	31 March 2022	Advisory Vote on Company's Climate Action Plan	Spain	97	3
Ferrovial S.A.	06 April 2022	Advisory Vote on Company's Greenhouse Gas Emissions Reduction Plan	Spain	94.6	5.4
Grupo Ferrovial S.A.	06 April 2022	Advisory Vote on Company's Greenhouse Gas Emissions Reduction Plan	Spain	94.6	5.4
UBS Group AG	06 April 2022	Approve Climate Action Plan	Switzerland	84	16
Rio Tinto PLC	09 April 2022	Approve Climate Change Report	UK	84.3	15.7
Anglo American PLC	19 April 2022	Approve Climate Change Report	UK	94.2	5.8
ENGIE S.A.	21 April 2022	Approve Company's Climate Transition Plan	France	96.7	3.3
Icade S.A.	22 April 2022	Approve Company's Climate Transition Plan	France	99.3	0.7
Canadian Pacific Railway Limited	27 April 2022	Management Advisory Vote on Climate Change	Canada	86.9	13.1
Getlink SE	27 April 2022	Approve Company's Climate Transition Plan (Advisory)	France	97.3	2.7
London Stock Exchange Group PLC	27 April 2022	Approve Climate Transition Plan	UK	98.6	1.4
Mercialys S.A.	28 April 2022	Approve Company's Climate Transition Plan	France	81.1	18.9
NatWest Group plc	28 April 2022	Approve Climate Strategy	UK	92.6	7.4
Atlantia SpA	29 April 2022	Approve Climate Transition Plan	Italy	99.1	0.9
Santos Ltd.	03 May 2022	Approval of 2022 Climate Change Report	Australia	63.1	36.9
Barclays PLC	04 May 2022	Approve Barclays' Climate Strategy, Targets and Progress 2022	UK	80.8	19.2
Holcim Ltd (pre-merger)	04 May 2022	Approve Climate Report	Switzerland	95	5
Rio Tinto Ltd.	05 May 2022	Approve Climate Action Plan	Australia	84.3	15.7

[25] Data sourced from Insightia (October 2022).

BP PLC	12 May 2022	Approve Net Zero - From Ambition to Action Report	UK	88.5	11.5
Carmila S.A.	12 May 2022	Approval of Climate Change Ambitions and Targets	France	98	2
Electricite de France S.A.	12 May 2022	Approve Company's Climate Transition Plan (Advisory)	France	99.9	0.1
Amundi S.A.	18 May 2022	Approve Company's Climate Transition Plan	France	97.7	2.3
Nexity S.A.	18 May 2022	Advisory Vote on the Company's Ambition in Terms of Climate and Biodiversity	France	87.9	12.1
Elis S.A.	19 May 2022	Approve the Company's Commitment to define its Climate Transition Plan	France	Not available	Not available
Woodside Energy Group Ltd.	19 May 2022	Approve Climate Report	Australia	51	49
M&G PLC	25 May 2022	Approve Climate Transition Plan and Climate-Related Financial Disclosure	UK	79.6	20.4
Carrefour S.A.	03 June 2022	Approve Company's Climate Transition Plan	France	87.4	12.6
Pennon Group PLC	21 July 2022	Approval of the Company's Climate-related Financial Disclosures	UK	94.6	5.4
SSE PLC	21 July 2022	Approve Net Zero Transition Report	UK	98.9	1.1
United Utilities Group PLC	22 July 2022	Approval of the Company's Climate-related Financial Disclosures	UK	80.6	19.4
Ninety One plc	26 July 2022	Approval of Climate Strategy	UK	97.6	2.4
Ninety One Limited	26 July 222	Approve Climate Strategy	South Africa	97.6	2.4

2022 SHAREHOLDER RESOLUTIONS ON CLIMATE TRANSITION PLANS[26]

Company	**Meeting date**	**Proposal**	**Country**	**Vote result for (%)**	**Vote result against (%)**
National Bank of Canada	22 April 2022	SP 2: Adopt a Policy of Holding an Advisory Vote on the Bank's Environmental and Climate Action Plan and Objectives	Canada	46.5	53.5

[26] Data sourced from Insightia (October 2022).

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

United Nations Global Compact