September 2021

Key Voting Takeaways in 2021: Climate Resolutions *from Managements*!?

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

25 years of ESG

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Introduction: The Shape of 2021

Having passed the mid-year point, we are able to discern some major trends emerging from the 2021 voting season.

Covid-19 impacts remain important:

- **Dividends** are recovering slightly compared to the very conservative approach in 2020, although not yet returning to pre-crisis levels. The European Central Bank is asking financial institutions to limit dividends until fall of 2021[1]. Therefore, 2022 is likely to be the year of the real resuming of dividends.
- **Remuneration** discussions with peers and proxy advisors prepared us to encounter many company proposals to change performance criteria and targets used in determining variable remuneration for executives.
- Most European governments extended their Covid dedicated legislation to allow **virtual meetings** for 2021[2], leading to a majority of meetings being held by electronic means.

Say-on-Pay is a topic for all European listed companies this year, as the Shareholder Rights Directive II requires a binding on remuneration policy, and – separately – a remuneration report.

Say-on-Climate has enriched the range of subjects submitted to the shareholders for approval by company management during 2021. Indeed, at a significant number of annual meetings, shareholders have been asked to approve their company's climate transition plan. This makes 2021 a key year in the fight against climate change, and an important milestone in the path to align corporate activities with the Paris Agreement emissions reduction objective. We welcome 'Say-on-Climate' resolutions. But details count. Responsible shareholders must carefully examine the indicators chosen for reporting, to determine whether measurements will truly be the right targets.

As for the next step, the vast majority of companies are still reluctant to link their incentives for directors to Environmental and Social metrics. The trend is gaining some traction, as many investors, including Candriam, are calling for it. A direct link to compensation is necessary to link corporates to the UN 2030 Agenda and the 17 UN Sustainable Development Goals.

1 https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr201215~4742ea7c8a.en.html, accessed 29 July 2021.
2 https://insights.issgovernance.com/posts/2021-continental-europe-proxy-season-preview/, accessed 29 July 2021.

PART I.
Voting Effects of Tighter Candriam Policy and of Covid-19

We voted at **1,691 meetings**[3], 37% in Europe, 35% in North America, 15% in Pacific, and 13% in the rest of the world. During 2020, the most noteworthy change was the pandemic-induced disruption in the ability to hold General Meetings. So far in 2021, the difference is that voting decisions must be based on information, results, and environment which have all been heavily impacted by the pandemic-based economic crisis.

Our overall approval rate for management proposals is below that of prior years, at 74% for the six months ended June 2021, compared to 86% for the full year of 2020. The main reasons are the strengthening of our voting policy[4] at end of 2020, and specific items impacted by the Covid pandemic.

Remuneration was a focus. In particular, *we voted against 57% of management's remuneration-related resolutions* during the first half of 2021[5], versus a vote against 30% of full-year 2020 remuneration proposals. As we had anticipated at the end of 2020[6], many companies tried to adapt management remuneration plans in 2021 in order to propose 'decent' remuneration. Under existing formulas, remuneration would have been reduced sharply by poor performance during the pandemic. Our approach was clearly defined in our **new voting policy** published in December 2020.

We did not accept changes in multi-year performance-based compensation policies if the sole reason was to protect performance-based compensation from a particularly unfavorable year. On a case-by-case basis, we did accept retesting of LTIP (Long-term Incentive Plan) conditions if there was evidence of management's best effort combined with a high retention risk of valued managers.

3 Referring to open funds, dedicated funds and mandates applying Candriam voting policy.

4 Available here: https://www.candriam.be/4af6b1/siteassets/medias/publications/brochure/corporate-brochures-and-reports/proxy-voting/proxy-voting-policy_2020.pdf

5 From 1 Jan 2021 through 25 June 2021.

6 Available here: https://www.candriam.be/490536/siteassets/medias/publications/brochure/corporate-brochures-and-reports/voting-report/2021_01_voting_report_2020_short_en_web.pdf

Directors are under scrutiny. The impact of our policy tightening can also be seen on director-related resolutions, where we voted against 29% in the first half of 2021, versus 10% for the full 2020 voting year. Indeed, we strengthened our diversity criteria as well as our required level of independence, especially beyond Europe.

Auditor confirmations are also tighter under our new policy. We voted against 35% so far in 2021, while voting against only 15% of auditor choices for the full year of 2020. Our 'No' votes were mostly outside of Europe. Legal criteria in Europe limit auditors to ten-year terms, while some regions have no legal limits. We now vote to limit auditors to a maximum tenure of 20 years in all regions of the world.

Meetings are going virtual. A new type of management resolution arose: asking shareholders to amend the articles of association so that general meetings are held exclusively in virtual format. We adopted a case by case approach, our main concern being the safeguarding of comprehensive exchanges between the management and the shareholders of the company. But the major 2021 trend is that companies have improved their ability to protect shareholder rights during virtual meetings, which in the end, depends on the local market regulation. For instance, regulation in Spain is clear, with solid guarantees and controls and a strict definition of the exceptional circumstances in which the company can hold virtual meetings. If the board of directors abuses this authorization, Spanish law provides levers for shareholders to sanction directors. We supported all virtual meeting-related resolutions in Spain. In markets where regulation was less strong, or absent, our voting was more conservative.

Dividend distribution was another area of attention. We recommended caution when cash preservation appeared important to the protection of businesses and workforces. Furthermore, if the company received loans or subsidies from government assistance programs, we often opposed dividend distribution. Once again, we adopted a case-by-case approach, and voted for reasonable dividends.

PART II.
2021 New Voting Trends for All Shareholders

Say-on-Climate Resolutions: Attention to Detail

Shareholder resolutions continue, and are gaining in support from investors. Yet the major change this year was not from* shareholder *resolutions. Indeed Say-On-Climate resolutions from* managements *made a more-than-remarkable entrance on the voting agenda of investors.

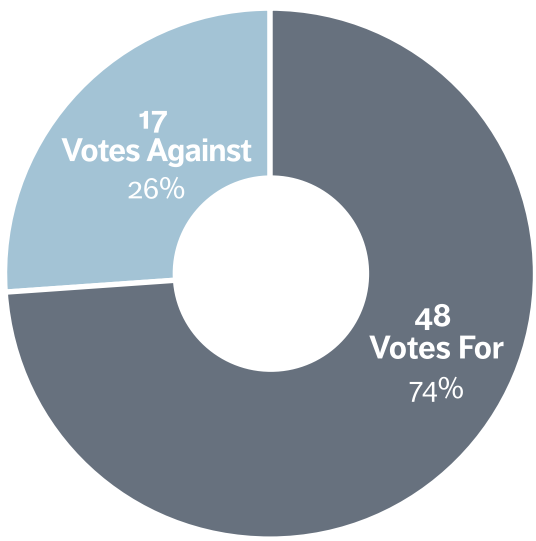
Times change. Climate resolutions have long been the preserve of *shareholder* resolutions, not *management* resolutions. The year 2020 marked only the first management-sponsored 'Say-on-Climate' resolution. That is, after setting ambitious emission reduction targets, a company committs to submit its climate action plan to an annual vote. This arose after pressure on Aena, the Spanish airport operator, from The Children's Investment Fund. Aena management responded with its own resolution. A mere year later, the number of management-sponsored Say-on-Climate resolutions is growing exponentially.

Why Vote *Against* a Climate Resolution?

Climate related resolutions H1 2021

	Management resolutions		Shareholder resolutions	
Votes For	12	80%	36	72%
Votes Against	3	20%	14	28%
Total	**15**		**50**	

Notes: Management resolutions were only 'Say on Climate'; Shareholder resolutions were both 'Say on Climate' and other Climate Resolutions.



65 Climate Resolutions Voted

This trend naturally results from increased pressure by investors and other stakeholders who have targeted dozens of big carbon emitters over the past five years, asking them to adopt a climate action plan, to align lobbying activities with the Paris Agreement, and/or to adopt an annual advisory vote to allow shareholders to judge whether the company's climate action plan is sufficiently ambitious.

Introducing Say-on-Climate to the agenda has been an objective for numerous investors, including Candriam, through CA100+/Climate Action 100+, and through dedicated investor working groups within Institutional Investors Group on Climate Change.

The first step of this campaign was to engage with targeted companies prior to their 2021 annual meetings, to convince them to submit these management resolutions. Not all of the companies agreed, but a majority of the Boards at least made positive recommendations.

We are delighted to see Climate Action become a subject on which shareholders are invited to express their opinions. Some proxy statements now provide investors with structured data concerning climate strategy and performance. Companies are dedicated a greater share of their General Meetings to explain these to shareholders, putting climate on an equal footing with other important strategic issues.

Voting on these climate proposals requires in-depth analysis of management commitments.

It also requires analysing whether the resources and targets are consistent with the stated goals. Results must be monitored, and changing circumstances must be considered. And are the goals themselves truly of benefit to the climate? Managements and investors must be realistic and avoid wishful thinking. As the phrase goes, it is no use to hit the target but miss the point.

At Candriam, we want our approach to be as **unbiased** and as consistent as possible. We believe that for a Responsible Investor, systematic support of a Climate Action is not an option. The stated goals must be achievable. Well-meaning but unachievable intentions could even delay constructive action.

Therefore, we built a **detailed framework** to be applied to every Say-on-Climate resolution, which assesses the stringency and the alignment of company transition strategy with a 2050 net zero emissions pathway. We set the criteria based on the company and its sector. Our criteria for a Yes vote are stricter for sectors which are key to the energy transition.

- Effective 2050 net zero commitment -- 2050 at the latest, but sooner for power producers for instance.
- Alignment of targets with International Energy Agency scenario -- a minimum Sustainable Development Scenario but stricter scenarios preferred, Science-based Targets also preferred. Scope 3 emissions should be included in the plan when relevant; the plan should be credible and in line with relevant sector decarbonization pathways.
- CAPEX plans and accounting practices should align with the commitments.
- Lobbying practices to be considered.
- Linkage between transition targets and executive remuneration.
- Just Transition aspects should be included in the company strategy.
- Frequency of the Say-on-Climate vote -- the vote on strategy should be followed by periodic votes on implementation and results.

Say-on-Climate Management Resolutions

First Half of 2021

Company	AGM Date	Country	CANDRIAM Vote*	Final outcome
VINCI SA	08-Apr	France	AGAINST [Scope 3 reduction target, 2050 net zero objective]	98,1% FOR
Ferrovial SA	09-Apr	Spain	FOR	97% FOR
Nestle SA	15-Apr	Switzerland	FOR	95,0% FOR
Moody's Corporation	20-Apr	USA	FOR	93,3% FOR
Aena S.M.E. SA	27-Apr	Spain	FOR	95,7% FOR
Canadian National Railway Company	27-Apr	Canada	FOR	92,1% FOR
S&P Global Inc.	05-May	USA	FOR	99,5% FOR
Unilever Plc	05-May	United Kingdom	FOR	99,6% FOR
Aviva Plc	06-May	United Kingdom	FOR	99.95% FOR
ATOS SE	12-May	France	FOR	97,1% FOR
Royal Dutch Shell Plc	18-May	United Kingdom	AGAINST [Alignment with Paris Goal, CAPEX plan]	88,7% FOR
HSBC Holdings Plc	28-May	United Kingdom	FOR	99,7% FOR
Total SE	28-May	France	AGAINST [Alignment with Paris Goal, CAPEX plan]	91,9% FOR
Iberdrola SA	17-Jun	Spain	FOR	97,3% FOR

* In the case of a vote Against a resolution, the principal items which justified our position shown are in brackets. For rationale and details, please refer to Candriam's **Voting dedicated webpage**.

Source: Candriam, ISS, Company Reports

However, after voting, our feelings are mixed.

Some voting outcomes, and especially the level of support, may raise questions:

- Did the premium on transparency and novelty encourage the decision to support these resolutions?
- Might some investors find it easier today to support a shareholder climate resolution against management, rather than voting against a management climate resolution?
- Are we sure that the market was ready for a sufficiently-informed vote? Did investors and proxy advisors have the time, information, and skills to evaluate this new type of resolution?
- How can we explain that votes differ amongst participants in the same collaborative initiative (e.g. CA100+), when their objectives are supposedly the same?

As investors, we really must consider the lessons of these votes before the next voting season, because time is running out for adopting the right pathway to limit global warming. *Say-on-Climate* votes will not appear annually on General Meeting agendas, at least not at the climate strategy-setting level, so investors must structure and define minimum criteria for support and votes 'For' a resolution.

Indeed the record level of support could be used by companies as an argument to counter any future demand for improvement in their energy transition strategies.

Other New Trends for Shareholder Resolutions.

The two types of resolutions we have chosen to highlight both originate from the United States.

- First, resolutions asking the company to amend its Certificate of Incorporation to become a Public Benefit Corporation (close to "société à mission" status in France and differing from B-corp[7]). We used a case-by-case approach, analysing the social outreach of the company targeted by the resolution, the activity, and current purpose. That is, whether the company is already operating with the purpose of not only generating long-term value for shareholders, but also of providing a benefit to all stakeholders; in that case, we supported the resolution. Conversely, where it appeared that the company management was clearly not ready yet to take such a step given the current state of their sustainability strategy, we decided not to support a change in the Articles for now.

We plan to strengthen our approach to this new kind of resolution, including a deeper analysis of the pros and cons of a Social benefit Corporation status, depending the maturity of the company's sustainability strategy.

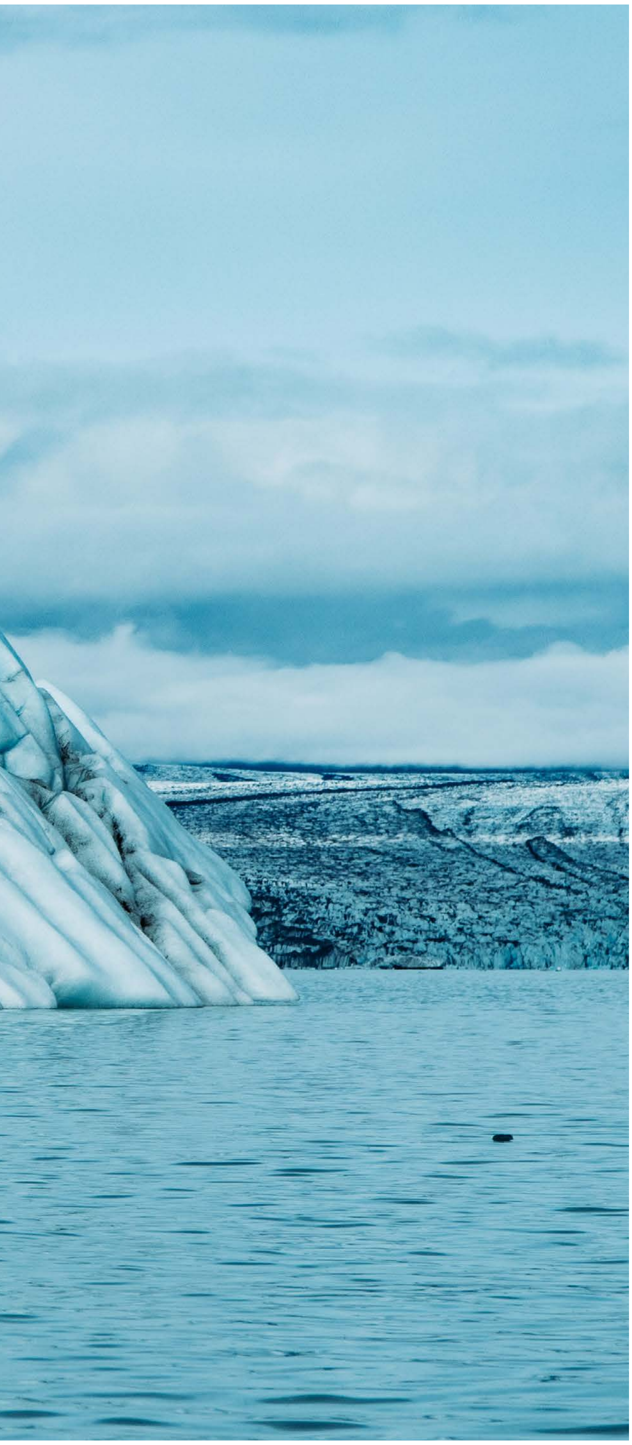
- A second theme, echoing some resolutions already filled in 2020, was shareholder resolutions asking for a report on pay disparity between executives and other employees. Candriam is convinced that excessive pay disparities could pose risks to long-term shareholder value and impact employee engagement as well as company standing in the communities in which it operates. In a market such as the US where tremendous pay disparities are the standard, we consistently supported these proposals.

Similarly, we supported resolutions demanding gender- or ethnicity-based pay gap reports, in line with our ongoing engagement to improve diversity at all levels of companies, and consistent with fair associated practices. We are in the process of engaging with several companies based in countries where ethnic reporting is not legally authorized, but where we regret the apparent lack of geographic/ethnic diversity at Board level. Our goal is to inform these managements we expect them to improve Board diversity in the near term.

7 https://socialenterprise.us/resources/news/b-corps-public-benefit-corporations/, accessed 29 July 2021.

"This year has already shown us that incorporating Environmental, Social, and Governance factors into voting decisions can help bring these spheres closer together."

Conclusion: Careful Consideration



The last 18 months have seen multiple shocks to companies, the economy, and society – the climate emergency, the Covid-19 pandemic, and the diversity issues brought to the fore by Black Lives Matter. Shareholder decisions made today may be in place for years, so as Responsible Investors it is crucial to consider the details. Will the details of the proposals cause unanticipated consequences?

Society often complains of the disconnect between financial markets and the real world. This year has already shown us that incorporating Environmental, Social, and Governance factors into voting decisions can help bring these spheres closer together.

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