

SPECIALTY CLIMATE VOTING POLICY: AN OVERVIEW



ISS' Specialty Climate Voting Policy is based on principles consistent with good stewardship that incorporate specific climate change relevant information, flags, and voting recommendations, which institutional investors can use to apply their views on a portfolio company's climate performance and disclosure.

OVERVIEW

Many investors, companies, policymakers, and other stakeholders increasingly recognize that the environmental threats of climate change pose significant economic and business risks. Following the 2015 Paris Agreement, most governments are now committed to curb carbon emissions to avoid average global warming of more than 2 degrees Celsius compared to pre-industrial levels. Climate change is today among the top issues for many institutional investors who face the risk of asset loss in a low-carbon future, and who now seek to better understand how various potential scenarios could affect short-, medium-, and long-term business sustainability and investment performance.

Proxy voting is a key shareholder right and responsibility, and, in the context of climate change, is a tool that investors can use to help actively manage and mitigate exposure to climate-related risks in their portfolio companies. In response to investor demand to be able to address climate change-related concerns through voting, ISS has developed a climate-focused specialty proxy voting policy (Climate Policy).

ISS' extensive and unique climate data and proprietary research along with issue expertise is used to provide a model for assessment of a company's climate-related performance and disclosures that, in turn, is used to inform climate-based proxy voting recommendations for subscribing clients. The model also draws on widely recognized frameworks including the Task Force on Climate-related Financial Disclosures (TCFD) and balances the need for good disclosure on climate-related risks with a company's performance on key climate-related factors. It includes a view on a company's greenhouse gas (GHG) emissions, its climate strategy, and the impact of its activities on climate, putting these into context within its sector and incident-based climate risk exposure. Factors used to evaluate a company's climate-related performance fall under five primary categories: climate norms violations; disclosure indicators; current performance indicators including greenhouse gas emissions data; future performance indicators drawing from the ISS Carbon Risk Rating (CRR); and Carbon Risk Classification. The factors are used to assess a company's risks associated with the impacts of climate change, along with its preparedness to face and mitigate those risks in an increasingly carbon-restricted economy. The model's expectations used to assess performance practices are defined by industry groups, based on the specific climate risks identified in industry and multi-stakeholder initiatives and reflected in authoritative standards such as the Global Reporting Initiative, the Sustainability Accounting Standards Board

standards, and TCFD recommendations. In cases of assessed underperformance, ISS' Climate Policy will provide relevant information, flags, and voting recommendations. As such, the Climate Policy can be part of a climate-concerned investor's toolbox and can complement shareholder engagement and other initiatives.

On matters of corporate governance, executive compensation, and corporate structure, the Climate Policy approach is based on principles of best practice as typically defined by investors, and a focus on creating and preserving long-term economic value.

ISS will update the Climate Proxy Voting Guidelines on an annual basis to consider emerging trends on climate change and other related environmental, social, and governance issues, and on relevant developments in market standards and regulations as well as investor feedback.

KEY HIGHLIGHTS OF THE CLIMATE VOTING POLICY

- ✓ Climate Awareness Scorecard used in issuer climate risk profile.
- ✓ Policy provides integrated approach to climate performance assessment including five key topical pillars to drive vote recommendations.
- ✓ ISS' extensive and unique climate data and proprietary research.

TARGET AUDIENCE

- Institutional investors seeking to incorporate climate change into proxy voting, including asset managers, asset owners, hedge funds and mutual funds. Further, the Climate Policy can complement both individual and collective climate engagement initiatives.

ORIENTATION

- The Climate Policy allows investors to vote meetings based on each portfolio company's climate disclosures and performance. This approach to proxy voting recommendations includes employing the use of climate risk indicators to identify climate risk factors at over 3,700 publicly-traded companies globally (noting this is the coverage as of March 9, 2020, which will be regularly increased over time).
- The Climate Policy incorporates a detailed analysis of topics, based on ISS' Climate Awareness Scorecard, which is designed to proactively measure the depth and extent of disclosure and performance of a company related to climate change. Companies are evaluated on overall disclosure (governance, strategy, risk management, metrics & targets) and performance factors (norms, GHG emissions, performance rating). This score provides companies with an understanding of assessed risks associated with climate change along with its preparedness to face and mitigate

them. The Scorecard also evaluates the number and severity of violations of international climate-related norms.

FEATURES & BENEFITS

- The Climate Policy provides an integrated approach to voting based on climate performance assessment including five key topical pillars to drive vote recommendations.
- If the direct topic of a potential adverse vote recommendation does not appear on the ballot, the Climate Policy will move to the next most appropriate ballot item.
- Vote recommendations are sensitive to a company's exposure to climate-related risks and realization of climate-related opportunities. For example, companies assessed as having lower risk exposures may not receive an adverse vote recommendation in their first year of underperformance.
- The Climate Policy recognizes companies that contribute positively to solving climate -related challenges by virtue of their business model and/or operations, e.g. recycling companies, solar energy providers.
- The service is supported by subject-matter experts across both ISS' ESG and governance research teams.
- The service uses publicly disclosed data collected by ISS together with analysis and reporting on the company's climate -related disclosures and performance.

FIVE KEY TOPICAL PILLARS: CLIMATE VOTING POLICY

SECTOR-SPECIFIC MATERIALITY

Based on ISS' Carbon Risk Classification.

DISCLOSURE SIGNALS

Featuring indicators aligned with TCFD disclosure requirements.

NORMS VIOLATIONS

Based on violations of globally recognized climate norms.

CURRENT CLIMATE PERFORMANCE SIGNALS

Such as greenhouse gas emission intensity, following the Greenhouse Gas Protocol's carbon accounting methodology for Scope 1-3 greenhouse gas emissions.

FUTURE CLIMATE PERFORMANCE SIGNALS

Drawing from ISS' Carbon Risk Ratings (CRR).

KEY VOTING ISSUES

PROXY VOTING ITEM	VOTING FOCUS
Director Elections/ Board Discharge	Under the Climate Awareness Scorecard framework, the Climate Policy may recommend voting against the re-election and/or discharge (in applicable markets) of board members responsible for climate-related risk oversight for failure to sufficiently oversee, manage, or guard against material climate-related risks.
Sustainability Reporting	In cases where the company is requesting shareholder approval of its sustainability reporting and the company is identified as a climate underperformer, the Climate Policy may recommend voting against this proposal.
Financial Statements	In cases where the company is requesting shareholder approval of its financial statements and the company is identified as a climate underperformer, the Climate Policy may recommend voting against this proposal.
International Norms Violations	The Climate Policy will recommend voting against director election and discharge items where the company is implicated in severe violations of international norms.
International Norms Violations and Lack of Sustainability Reporting	The Climate Policy will recommend against director election and discharge items where the company is implicated in moderate to severe violations of international norms and lacks sustainability reporting.
E&S Shareholder Proposals – Climate Change and Environmental Stewardship	The Climate Policy will generally recommend in favor of proposals that promote greater disclosure of corporate environmental policies and practices. Examples include proposals related to the adoption of emission reduction targets aligned with the Paris agreement, 2-degree scenario analysis reporting, and sustainability reporting.
E&S Shareholder Proposals – Socially Responsible Practices	The Climate Policy will generally recommend in favor of proposals that promote greater transparency regarding social responsibility policies such as those concerning workplace discrimination and corporate board diversification efforts, human rights, and compliance with human/labor rights norms/codes of conduct.
Auditor Ratification	The Climate Policy will recommend voting against the auditor ratification when non-audit fees exceed audit-related fees.

COVERAGE

Initially starting with over 3,700 companies, across more than 20 major markets, including:

- › ASX200
- › CAC40
- › DAX30
- › FTSE100
- › MDAX 50
- › OMX Copenhagen 20
- › OMX Helsinki 20
- › OMX Stockholm 30
- › Russell1000
- › S&P 400
- › S&P500
- › S&P/TSX Composite
- › STOXX600

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