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Managers Increase Support for Climate Change Risk Disclosures

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By Alana Pipe October 12, 2020

Asset managers are casting more votes in support of climate-related resolutions than in previous years, according to a recent report by **Morningstar**. But not every manager is on board.

While **Fidelity**, **State Street Global Advisors**, and **Vanguard** have increased their support for shareholder resolutions that would require companies to disclose climate risks, **American Funds** and **BlackRock** were less likely to support such measures.

Asset managers are some of the largest shareholders at the world's biggest companies and often have significant sway on the success of shareholder proposals, with their votes frequently determining which proposals pass and which fail. This year, Morningstar tracked a total of 14 resolutions proposing climate-related disclosures, down from 16 last year.

State Street and Fidelity supported a majority of this year's climate risk proposals, a level of support that has never been reached at the largest managers until now, according to Morningstar.

Vanguard also supported more requests for climate risk transparency than it had in years past. The firm voted in favor of 36% of proposals for climate risk disclosure in 2020, compared with 25% last year.

"We recognize that climate change represents a profound risk to our investors' long-term success and will continue to seek ways to provide more disclosure to the marketplace on how we’re engaging with portfolio companies on this issue,” said a Vanguard spokesperson in an emailed statement.

The issue of climate risk has been around long enough that it is now being regarded seriously, says **Bruce Freed**, president of the **Center for Political Accountability** and member of the advisory board of the Zicklin Center for Business Ethics Research at the **University of Pennsylvania**’s **Wharton School**. “There’s a recognition that these are real risks to companies,” says Freed.

For its part, Fidelity has developed a system for determining which shareholder proposals present material risks before voting on them.

“We review each shareholder proposal and perform our own analysis that evaluates both the materiality of the request and the current policies and/or disclosures that the company has in place, said **Dave King**, head of ESG stewardship at Fidelity in an email. This framework is used to ensure that the resolution we are voting on is financially material, relevant to the specific company, and provides valuable information to shareholders, King wrote.

Not all the largest managers have ramped up support for transparency on climate risks, however. Support for these shareholder proposals declined at BlackRock and American Funds. BlackRock voted to disclose climate risk just 14% of the time this year compared with 25% in 2019.

This is due to BlackRock’s focus on engagement on climate issues, according to the company.

Blackrock “focuses on advocating for the corporate governance and business practices that add to the value of our clients’ investments – that means both engagement and voting,” a spokesperson says in an emailed statement. “This year, our focus on climate was primarily focused on engagement and holding directors accountable.”.

BlackRock voted against board directors at 22% of the 244 companies it had identified as making insufficient progress integrating climate risk into their business models, while it placed the remaining 78% of companies “on watch,” according to the spokesperson. In 2021, the firm will consider voting against management at firms that “do not make significant progress.”

American Funds, along similar lines, voted in favor of just 11% of proposals to disclose climate risk this year compared with 25% last year. American Funds didn't respond to a request for comment before publication deadline.

Managers can face potential hazards from voting against requests for climate risk transparency, particularly as ESG investing is picking up steam, says Freed. Voting out of alignment with what the company has otherwise spoken about as an important issue and is a risk in itself, he adds.

"If Larry Fink is forward on climate, there needs to be alignment between what he says is important and what the company does, or there could be a whole slew of business and political repercussions," Freed says.