Environmental Defenders Office

27 June 2023

Debby Blakey
CEO
HESTA

By email: dblakey@hesta.com.au; nroxon@hesta.com.au
responsibleinvestment@hesta.com.au; hesta@hesta.com.au; ltsitsis@hesta.com.au;
Sarah.Barker@minterellison.com

Dear Ms Blakey,

RE: HESTA's INVESTMENTS IN WOODSIDE AND SANTOS CONTINUED GREENWASHING

1. We refer to our correspondence on behalf of Rod and Sue Campbell-Ross in June and November 2022. Following those letters, HESTA agreed to meet with our clients. In March 2023, due to their family and work circumstances, they were unable to meet with HESTA and unable to continue their engagement on this issue. They have however consented to HESTA member Ms Jo Dodds continuing to raise their original concerns with HESTA.

2. As you may be aware, Jo Dodds is the President of Bushfire Survivors for Climate Action, whose home in Tathra was impacted by bushfires in March 2018. Jo is concerned that the post-bushfire regrowth is already dangerously dry across Eastern Australia, with grassfires burning in Queensland and therefore further urgent climate action is needed to protect survivors and our environment.

3. Our client is heartened by media stating that HESTA has written to Santos and Woodside asking them to demonstrate how their climate strategies align with the goal of limiting global warming to 1.5 degrees, and how their future expenditure will support a transition to a low-carbon economy.[1] Our client is also encouraged that HESTA has voted for recent shareholder resolutions in relation to Santos and Woodside, and against the re-election of one Director at Santos and all Directors at Woodside at their most recent AGMs.[2]

4. Whilst our client applauds HESTA's actions as a commendable first step, our client maintains their concerns that HESTA's representations in respect of its climate credentials and engagement strategy may amount to misleading and deceptive conduct under s 1041H of the *Corporations Act 2001* **(Corporations Act)** and ss 12DA, 12DB(2)(a) and (e) of the *Australian Securities and Investment Commission Act 2001* (Cth) (**ASIC Act**). As a HESTA member, our client Jo Dodds has been asking HESTA to divest from fossil fuel companies such as Woodside and Santos, whose emissions are contributing to catastrophic conditions, for over 18 months.

[1] See SMH article dated 6 September 2022, 'HESTA puts local energy heavyweights on climate 'watch list'. Available at: https://www.smh.com.au/money/super-and-retirement/hesta-puts-local-energy-heavyweights-on-climate-watch-list-20220905-p5bffo.html

[2] https://www.hesta.com.au/about-us/super-with-impact/investment-excellence-with-impact

She is concerned that despite HESTA's engagement efforts to date, neither Santos nor Woodside are implementing strategies to genuinely decarbonise but are in fact pursuing new oil and gas production and therefore increased emissions. Woodside has recently announced the final investment decision in the new Trion oil field in the Gulf of Mexico.[3] Trion if developed would contribute 0.2MtCO_2e of scope 1 emissions and 9.4MtCO_2e at peak production in 2030. This represents a 12% increase against Woodside's current estimated emissions and is not in line with the Paris Agreement.[4]

5. Our client is willing to meet with HESTA to further discuss their concerns and the matters outlined in this letter. They request that HESTA urgently imposes an immediate public deadline on Woodside and Santos to commit to stop developing new and expanded fossil fuel projects, failing which HESTA will divest from both companies. Our client does not believe that the engagement undertaken to date with Woodside is leading to better climate outcomes as evidenced by the decision from Woodside to sanction investment in Trion. Therefore immediate steps to divest from Woodside are required.

Findings of United Nations High Level Expert Group on Net Zero Emissions Commitments of Non-State Entities (UN HLEG Report)

6. The UN HLEG report entitled "Integrity matters" made several recommendations as to how to ensure businesses avoid greenwashing and have credible net zero plans. It made strong recommendations around phasing out fossil fuels and scaling up renewable energy. In relation to financial institutions is stated that:

> "oil and gas phase-out policies must include a commitment to end financing and investing in support of
>
> (i) exploration for new oil and gas fields,
>
> (ii) expansion of oil and gas reserves and
>
> (iii) oil and gas production.

7. We invite HESTA to revisit its Climate policies and plans, as well as its engagement strategies to align with these findings. In our view, the UN HLEG report makes it clear that continued investment in companies with oil and gas expansion plans is not consistent with net zero commitments. As set out in our original correspondence to HESTA, continuing to represent the matters set out in **Annexure A** of this letter (**Green Representations**) amounts to misleading and deceptive conduct under s 1041H of the *Corporations Act 2001* and ss 12DA, 12DB(2)(a) and (e) of the *Australian Securities and Investment Commission Act 2001* (Cth) (**ASIC Act**).

HESTA's engagement representations

8. HESTA has made numerous Green Representations in respect of its climate credentials and responsible or "green" approach to investment. These were set out in Annexure A of our initial letter dated 4 August 2022 and re-stated in **Annexure A** (updated to reflect HESTA's latest Climate Report).

[3] https://www.woodside.com/docs/default-source/asx-announcements/2023-asx/woodside-approves-investment-in-trion-development.pdf?sfvrsn=3a57fbb6_3
[4] https://www.accr.org.au/research/can-woodside-try-harder-than-trion/

9. Additionally, HESTA has made representations in respect of its active engagement and stewardship. These include that HESTA:

   a. applies an *"active ownership approach that promotes engagement to influence change prior to consideration of divestment"*;

   b. is "*genuine, robust and understands that strategic transformation is not necessarily achieved in a singular exchange or short-term approach, and our decisions are made with this in mind";*

   c. *"is strongly committed to seeking to influence its investee companies in emissions-intensive sectors to transition their operations in line with Paris Agreement goals";*

   d. uses *"a broader suite of investment management tools across all the key asset classes in the broad portfolio, under the umbrella of our Responsible Investment Policy and active ownership approach"*;

   e. *"our engagement, both direct and collective, has contributed to influencing both companies' recent significant elevation of decarbonisation ambitions"*; and

   f. "*engagement with investee companies such as Woodside and Santos is a key element of HESTA's broader program of climate risk management. This approach allows HESTA to apply a significant degree of influence on investee companies to continue to raise their decarbonisation ambitions"*

   g. *"Our engagement has been targeted at elevating Woodside and Santos' ambitions in the context of climate risk management norms prevailing at the relevant time and has contributed to broader shareholder efforts to influence both companies' elevation of decarbonisation ambitions in recent years".*

   (collectively, **Engagement Representations**).

Why HESTA's current engagement is not sufficient.

10. In summary as outlined in our November 2022 letter, our client <u>does not</u> consider that HESTA's current engagement with Woodside and Santos is sufficient to satisfy its legal requirements for the following reasons:

    a. **HESTA provides no detail as to how it applies its Stewardship Statement (February 2020) and how it feeds into its investment decision making.**

    b. **HESTA has not clearly set out and communicated what it expects of the companies in which it invests, including Woodside and Santos, in respect of climate change**. **HESTA's methods of engagement are limited and lack teeth**. This is shown by the continued development by Woodside and Santos in new fossil fuel projects, such as Woodside's recent decision to sanction the Trion oil field, in direct contradiction of the findings of UN HLEG.

    c. Where a company (such as Santos or Woodside) has failed to achieve milestones or targets, **HESTA does not have a detailed escalation policy** which sets out next steps when a company is taking steps that are inconsistent with a credible emissions reduction scenario. At most, there is a paragraph in the Responsible Investment Policy that says there are some tools for escalation, and discussion in the Climate reports about HESTA's escalation framework. HESTA's latest report states that "we maintain the view that there are prospects for oil and gas companies to transition" and discuss the engagement with Woodside and Santos. However despite the use of votes against directors and use of all other engagement tools outlined in your Climate Report, Woodside is still continuing to take final investment decisions in new oil projects. In fact, it appears that HESTA's approach of "maintaining flexibility" is at the expense of clear climate goals and actions. Woodside is ignoring HESTA's engagement and it is important in response that HESTA sets out a public escalation steps including a timeline for divestment in these circumstances due to the lack of progress on improving Woodside's net zero plans.

d. **HESTA fails to disclose in any detail engagement metrics** other than an engagement report that outlines numbers of companies with which it engaged and topics of engagement.

Required action

11. In our view, to ensure that HESTA is not at risk of being found to be misleading or deceptive in respect of its Green Representations, HESTA needs to take the following steps:

a. Review its investments in Santos and Woodside urgently considering the findings of the UN HLEG Report

b. If HESTA is to continue to invest in Santos and Woodside to make clear that this is for the purposes of engagement rather than climate alignment and ensure there are disclaimers in relation to its climate representations accordingly.

c. **Publish an Engagement Policy,** which sets out how it undertakes the activities set out in paragraph 9 above;

d. **Provide details of the climate criteria against which external managers are measured**;

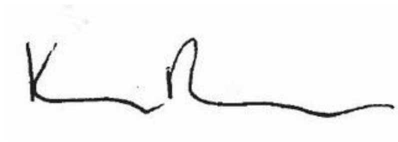
e. Develop a detailed, public engagement strategy with key milestones and escalation steps for Santos including when divestment will occur if the company continues to sanction new or expanded fossil fuel projects.

f. Develop and publish a public timeline for divestment from Woodside in light of the company's recent decision to sanction Trion, given Woodside is ignoring HESTA's engagement to date.

12. Our client is willing to meet with HESTA to further discuss their concerns and the matters outlined in this letter. We reiterate our concern that HESTA immediately review whether it complies with the UN HLEG report and imposes an immediate deadline on Woodside or Santos to take action, failing which it will divest from both companies. Our client is in Sydney on 19 and 20 July 2023 and would welcome the opportunity to meet to discuss this matter further.

Yours faithfully,

Environmental Defenders Office



Kirsty Ruddock
Managing Lawyer
Safe Climate (Corporate & Commercial)

Annexure A: HESTA Green Representations

HESTA website

- "At HESTA, we consider climate change risks in our investment decision making, as failing to do so will likely have negative impact on the retirement outcomes of our members."[5]
- "HESTA has an important role to play in the transition to a low-carbon economy aligned with the goals of the Paris Agreement. And we believe this creates important investment opportunities that will help deliver long-term value for HESTA members."[6]
- "From solar energy and wind farms to recycled water, if it's good for the planet, we're invested in it"[7]
- "Investing for long-term performance requires a long-term perspective on how investments improve the planet and society. Superannuation is a lifetime strategy. HESTA invests for the whole journey."[8]
- "From solar energy and wind farms to recycled water. We've established ourselves as an industry leader in climate action"[9]

Annual Report 2020-2021

- "At HESTA, we recognise the importance of investing responsibly and supporting a fairer and more sustainable world. This approach is crucial to our success as we realise the global impacts of climate change and COVID-19. These issues have sparked a profound transition in how we live and work"
- "This is why we have developed the HESTA Climate Change Transition Plan, which outlines our strategy to achieve net-zero carbon emissions in our portfolio by 2050. This plan is about so much more than avoiding climate risk: it will help us pursue the substantial investment opportunities arising from the transition to a low carbon future."
- "At HESTA, we support this call for accelerated action, which is critical to manage the long-term systemic financial risks of climate change. At the same time, we believe there will be investment opportunities for those who adapt first. At HESTA, our climate change transition plan is guiding our commitment to adapt and achieve a carbon neutral portfolio by 2050."
- "…this pathway [HESTA's Climate Change Transition Plan] seeks to align our actions and investments with the goals of the Paris Agreement…This is an exciting piece of work that reaffirms our ongoing commitment to leadership in responsible investment and can help

[5] https://www.hesta.com.au/about-us/hesta-impact/un-sustainable-development-goals/climate-action
[6] https://www.hesta.com.au/about-us/hesta-impact/un-sustainable-development-goals/climate-action
[7] https://www.hesta.com.au/campaigns/change-your-super-change-the-future
[8] https://www.hesta.com.au/about-us/hesta-impact/invest-with-purpose
[9] https://www.hesta.com.au/members/your-superannuation/why-join hesta?gclid=Cj0KCQjwhqaVBhCxARIsAHK1tiOpZRMbiu4-hvo7Msq4X1fxO7xqD5xwiuRuVCIUOrOS9iNxVTa8VaAaAmsyEALw_wcB&ef_id=Cj0KCQjwhqaVBhCxARIsAHK1tiOpZRMbiu4-hvo7Msq4X1fxO7xqD5xwiuRuVCIUOrOS9iNxVTa8VaAaAmsyEALw_wcB:G:s&s_kwcid=AL!6613!3!514700352718!b!!g!!%252Bhesta&ecid=S~P~DirectAcquisition~Google~2019~94911284549:%252Bhesta

protect and enhance the long-term performance of our members' investments, while driving meaningful change and contributing to a healthier planet and society"

2021 Climate Change report

- "HESTA has an important role to play in the transition to a low-carbon economy in line with the goals of the Paris Agreement. We believe there are sustainable investment opportunities we can make that will create long-term value for you."
- "Direct engagement and collaboration with other asset owners to amplify our voice is a strong focus for us. We use ongoing dialogue with high emitters and other industries dependent on fossil fuels to encourage them to transition their business models to be viable in a low carbon economy"
- "We use our influence to drive companies to better understand, manage and reduce their carbon emissions"
- "We will….align our target with the aim of the Paris Agreement to limit global warming to well below 2°C"
- "We seek to invest in and advocate on opportunities that have a positive impact on the environment and society"
- "Our approach of active ownership enables us to use our shareholder voice to influence high emissions companies that we are invested in to transition over time."
- "Seven of these companies have already committed to net zero by 2050 and have set targets to reduce emissions over time."
- [HESTA's actions in response to climate change including] "aligning our carbon emission reduction targets with the Paris Agreement ambitions of 'net zero by 2050'"
- "Our portfolio emissions reduction targets seek to reduce carbon exposure in the portfolio with[in] the next decade. This aligns with the ambition of 'net zero by 2050' and also mitigates the key near-term risks identified in the event of a disorderly transition"
- "Our approach of active ownership mitigates against the risk of a carbon target constraining our investment universe."
- "We also note that many major emitters are already moving to set their own 'net zero' commitments and reduce emissions. Taking advantage of this natural decarbonization of the economy will reduce the impact of constraint and improve our ability to find opportunities in those companies leading the transition."
- "Through active ownership, or corporate stewardship, we can influence companies in which we invest to help ensure they are well positioned for a low carbon future. We seek to use collaborative approaches through engagement, voting and advocacy, working in unison with other asset owners and managers to strengthen our voice."
- "HESTA has become a climate champion as part of the Better Futures Australia initiative."

2022 Climate Report

- "HESTA has an important role to play in the transition to a low-carbon economy in line with the goals of the Paris Agreement, and we think there are investment opportunities that will help deliver long-term value for HESTA members while helping to facilitate the transition”

- We measure progress toward our 2030 and 2050 carbon reduction targets through monthly measurement of emissions for listed equities and annual measurement for all other asset classes. Our progress, which will not necessarily follow a linear reduction trajectory, is reported through this Climate Change Report. We expect to meet our 2030 interim emission reduction target primarily through active ownership which encourages companies to set and achieve carbon reduction targets that move towards alignment with a 1.5°C transition pathway.
- Where we consider that there are significant residual climate-related risks and or companies' actions are clearly misaligned with a 1.5°C transition pathway, we may use our escalation framework. You can read more about our escalation framework on page 41.
- The Climate report relies on various assumptions:
    - That HESTA remains a diversified investor with exposures to emissions-intensive companies;
    - Emissions-intensive companies will successfully deliver their current climate targets;
    - That our engagement, in collaboration with other investors, will be successful in encouraging emissions-intensive companies to set and deliver more ambitious targets;
- HESTA's fossil fuel exposure includes oil and gas, refucing overall fossil fuel exposure by 0.10%:
    - Refining 0.61%
    - Extraction 1.41%
    - Pipelines -1.99%
- Through the active ownership tools available to asset owners – which include engagement, voting and advocacy – we seek to influence improved performance at the company level, which we also believe has the potential to influence change at the system level.
- Our approach to active ownership is not inflexible and does not remain static. In an area as dynamic as climate change, we believe that it is important to retain our discretion to allow us to select the appropriate combination of levers at any given time, in the best financial interests of our members. Accordingly, our approach does not progress in a linear fashion through bright-line triggers, timelines and thresholds. Rather, we prioritise retaining flexibility in responding to the unique circumstances of each engagement, and in the broader context in which each investment is held.
- We may undertake steps such as the use of a 'watchlist', votes against 'Say on Climate' or equivalent resolutions, Director elections, support or filing of shareholder resolutions and/or consideration of divestment where (a) we consider there is inadequate evidence of progress to address climate-related risks, (b) where we have formed the view that further engagement is unlikely to achieve alignment with our objectives, and (c) where we determine this to be in members' best financial interests.
- HESTA has been engaging with Woodside and Santos through both direct and collaborative programs for a number of years on how they plan to transition their businesses to fit in a low carbon future. Consistent with the nature of evolving expectations on climate change and our broader approach to risk management, our

approach to investment in companies such as Woodside and Santos is not static. Our engagement has been targeted at elevating Woodside and Santos' ambitions in the context of climate risk management norms prevailing at the relevant time and has contributed to broader shareholder efforts to influence both companies' elevation of decarbonisation ambitions in recent years

Climate Change Statement

- "HESTA has an important role to play in the transition to a low-carbon economy in line with the Paris Agreement goals, and we think there are important investment opportunities for us that will help deliver long-term value for HESTA members."
- "To manage climate-related financial risks and align our actions with the goals of the Paris Agreement we have introduced carbon reduction targets for the HESTA investment portfolio, to reduce emissions by 33% by 2030, and to align the portfolio with the aim of 'net zero' by 2050."
- "We engage with companies to ensure they are considering how climate change will impact their operations, to ensure their business models align with a transition to a low-carbon economy, achieve 'net zero' emissions and more broadly to encourage them to contribute to climate stability. We exercise our voting rights as part of our stewardship activities and hold companies accountable when they fail to consider climate change risks and how they might impact shareholders"

Responsible Investment Policy

- "HESTA acknowledges that as a 'universal owner' we are exposed to the externalities associated with individual portfolio companies. Therefore, to deliver strong financial returns for our members' financial futures, we must address financial and non-financial considerations and advocate for necessary changes to the financial system"
- "Active ownership or stewardship is the means by which investors most directly influence companies, markets, and economies and in turn society and the environment as a whole. We do this as part of our responsibility to protect and enhance long-term investment value for members by promoting sustainable value creation in the organisations we invest in."
- "As a large superannuation fund, we recognise our influential position in the market and our responsibility to use our voice responsibly to address systemic issues that are at odds with maintaining and building sustainable financial markets and generating long-term performance. That's why we promise our members that we will be gutsy advocates driving meaningful change for generations to come."
- "We believe companies must consider climate change risks alongside traditional financial and business risk factors. We see this as fundamental for protecting value for shareholders"
- "We expect companies to act in a sustainable and responsible way considering how their business contributes to system-wide issues and their implications in the health of the economy, environment and society where they operate now and in the future. This includes considering and managing in the present risks that might emerge in the long term."

Stewardship Statement

- "HESTA believes environmental, social and governance (ESG) issues can impact investment risks and returns. Our active ownership approach, which considers these issues alongside traditional financial and business risks, can improve long-term investment returns for members."

HESTA's advertising

- "Change your super, change the future" ad - https://bigdatr.com/au/ad/ac2341386930

HESTA Director representations

- "I would be devastated to think that there's anything I would leave off the table for the next generation. If we know that these things are issues right now, let's be the generation that solves them, let's not kick them down the road."[10]

[10] https://www.afr.com/life-and-luxury/arts-and-culture/this-super-fund-boss-says-it-s-time-baby-boomers-pulled-their-weight-20211112-p598gv

Annexure B: Guidance by various initiatives as to what "good engagement" looks like

UNPRI - A Practical Guide to Active Ownership in Listed Equity (2018)[11]

Step no.	Description	Sub-steps
ENGAGEMENT		
1.	Outline the key issues on which the investor wants to engage e.g., climate change	This should align with the Responsible Investment Policy and with the investment strategy.
2.	Create a due diligence and monitoring criteria and process to monitor the ESG practices and performance of investee companies to identify cases for engagement	Due diligence can be based on internal desk research, information and scoring provided by specialised ESG research service providers, or by asking the company to fill out a survey and/or arranging interviews with key personnel.
3.	Create criteria used to prioritise and select cases for engagement	Criteria may include: • the largest holdings as they would pose the biggest risk to portfolio performance; • specific markets considered, particularly those that are exposed to ESG-related risks and opportunities, or local markets the investor might be more familiar with and more exposed to; • specific sectors considered that are particularly exposed to ESG-related risks and opportunities; • companies in the lowest ranks of several ESG benchmarks to best mitigate risks; • companies in the highest ranks of several ESG benchmarks to raise the bar of industry performance; • companies in breach of international norms (i.e., conventions or the UNGC principles); • companies exposed to controversies on specific ESG issues over a long to medium period of time using external sources of information;

[11] https://www.unpri.org/download?ac=4151

<table>
<tr><td></td><td></td><td>specific ESG themes representing the highest value at risk or the highest potential of impact; and
specific issues considered a priority for the investor based on input from clients and beneficiaries.
the severity/opportunities of the cases;
the potential to effect change with available resources and expertise;
past interactions;
time constraints;
the impact on long-term shareholder value; and existing efforts by other investors.
Members of the Net Zero Asset Owner Alliance (NZAOA) are required to set engagement targets which focus on 20 companies with either the highest owned emissions, or those responsible for combined 65% owned emissions in their portfolio.</td></tr>
<tr><td>4.</td><td colspan="2">Apply the prioritisation criteria to create an “engagement focus list” of companies with whom engagement will take place. Within this “engagement focus list”” there are two sub-categories:<ol type="a">
Proactive engagements: When investors seek dialogue with priority companies based on their preventive analysis of material ESG issues and megatrends.
Reactive engagements: When investors initiate dialogue with companies in reaction to a controversy or scandal which is presenting a financial and reputational risk.</td></tr>
<tr><td>5.</td><td>Set out expectations for investee companies, including defining targets, milestones and timeframes at the start of engagement with each of the companies in the Proactive engagement pool</td><td>Consider which target-setting frameworks will be used. Existing frameworks include:
Climate Action 100
UN Net Zero Asset Owners Alliance (NZAOA)
Science Based Targets Initiative (SbTi)
Transition Pathways Initiative (TPI)
Institutional Investors Group on Climate Change (IIGCC)</td></tr>
<tr><td>6.</td><td colspan="2">Track performance against targets, milestones and timeframes</td></tr>
<tr><td>7.</td><td colspan="2">If there is a failure to meet a target/milestone, undertake engagement activities. Engagement activities (which should be specified in the Engagement/Stewardship Policy) may include:
letter-writing to the company – private or public
individual and collective dialogue
the use of the formal rights granted to investors (e.g., proxy voting rights, formal AGM statements
the rights to nominate new board members
media and communications
public advocacy
investment decision-making
requesting disclosure of data by the company
holding meetings with companies
conducting investor/company roundtables
asking a question at a company earnings call or AGM</td></tr>
</table>

	• making a statement at an AGM • supporting shareholder resolutions on climate change risks and opportunities • voting for the removal of directors who have failed in their accountability of climate change risk • voting against reports, accounts and company led resolutions – "investors may also use their views on a company's climate change performance to inform their votes on, for example, a company's report and accounts or a company's directors" • making joint statements with the company • submitting resolutions at a shareholder meeting	
8.	Escalate, if there is limited progress after a certain amount of time, by following an Escalation Protocol/Policy.	PRI suggests the following possible next steps after an unsuccessful engagement: • communicating with the board: expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholders' meeting; • collaborating with other investors to increase pressure on the company; • issuing a public statement and organising a media campaign; • submitting shareholder resolutions in relation to the ESG issues of concern; • voting against the re-election directors who are responsible for the topic of engagement (i.e., risk and audit committee members); • voting against the board of directors or the annual financial report; • submitting one or more nominations for election to the board; • seeking legal remedies or arbitration; and • threatening to reduce exposure or divest.
9.	Take part in collaborative engagement	This can occur through organisations such as Climate Action 100+, UN Net Zero Asset Owners Alliance (NZAOA) or the Investor Group on Climate (IGCC)
10.	Disclose engagement	The PRI states that best practice disclosure on engagement activities include: • a presentation of the overall engagement strategy, due diligence and monitoring approach; • detail on the selection of engagement cases and a definition of objectives; • number of engagements undertaken; • breakdown of engagements by type/topic; • breakdown of engagements by region; • an assessment of progress and outcomes achieved against defined objectives; • examples of engagement cases with specific companies (when the information is not considered sensitive and confidential); • detail on eventual escalation strategies taken after the initial dialogue has been

		unsuccessful (i.e., filing resolutions, issuing a statement, voting against, divestment etc.); and • whether the information provided has been assured externally.
VOTING		
1.	Set out the scope for the voting policy	Include circumstances where the organisation chooses not to vote
2.	Outline the key factors that will be taken into account when making voting decisions, or draft a statement on how the organisation generally votes on specific issues such as climate change	Can include a statement as to whether the organisation follows any corporate governance guidelines which informs how it votes
3.	Set out the process of voting	• whether the organisation votes by proxy or whether it attends AGMs itself • how the organisation engages with proxy advisers and what informs those votes • how the organisation monitors that votes are cast in line with the voting policy
4.	Set out the approach to filing or co-filing resolutions	This includes ESG resolutions
5.	Engagement with companies' pre-vote	Organisation's approach to undertaking dialogue with companies before the vote is cast
6.	Engagement with companies' post vote	Organisation's approach to undertaking dialogue with companies after the vote is cast
7.	Disclose voting	The PRI suggests disclosure should include: • disclosure of all voting decisions, including on ESG resolutions; • disclosure of the number of votes cast and corresponding AGMs covered across markets and percentage of total available votes; • disclosure of the topics covered during the voting season; • disclosure of the percentage of votes cast for, against or abstained; • explanation of the rationale for voting against management or abstentions; and • disclosure of whether the information provided has been assured externally.

Paris-Aligned Investment Initiative(PAII) – Net Zero Investment Framework

The Paris-aligned Investment Initiative (PAII) requires members undertake the following engagement activities to meet its 'Net Zero Investment Framework.' The Net Zero Investment Framework requires companies to:[12]

1. set 5-year goals, progressively reaching 100% of assets classified as aligned or net zero by 2040;
2. achieve a coverage of assets aligned or under active engagement of 70% of financed emissions from material sectors; and
3. select 2 or more of the 4 forms of engagement and set outcome-based engagement KPIs. In relation to investments in listed equity, the engagement requirements for companies include:
    a. **set an engagement strategy with clear milestones and an escalation process** with a feedback loop to investment, weighting, and divestment decisions;
    b. **prioritise engagement efforts** based on relative exposure (weighted carbon intensity);
    c. publish a **voting policy**;
    d. **inform companies in which it invests of its expectations for Paris-alignment**. This should include informing companies of voting intentions in advance of votes being taken, and reasons for the vote after it has taken place;
    e. **set and implement an escalation approach where there is no progress**. Where a company is not on track to achieve its transition plan or targets set for two years or more, vote against the board, remuneration policy, annual report and accounts; and
    f. **so-file and/or support shareholder resolutions** in line with the criteria.

The Institutional Investors Group on Climate Change's 'Net Zero Stewardship Toolkit'[13] also sets out 6 steps to align with the PAII's Net Zero Investment Framework. These steps include:

1. undertake portfolio analysis and use the stewardship framework for prioritisation of key engagement;
2. set **net zero alignment criteria**, time bound-company level objectives and portfolio goals;

[12] Paris-Aligned Investment Initiative, 2021, 'Net Zero Investment Framework (1.5 degree) - Implementation Guide.' Available at: https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf

[13] https://www.iigcc.org/resource/iigcc-net-zero-stewardship-toolkit/

3. **develop an engagement strategy** for priority companies, including the establishment and implementation of strategies to increase alignment of priority companies, with **clear escalation actions** to be used where time bound objectives are not met;
4. develop a **baseline engagement (minimum level)** and **voting policy** approach for all companies;
5. ensure **alignment of engagement policies with asset managers**; and
6. **disclose engagement strategy** with adequate transparency.

The UN-Net Zero Asset Owners Alliance (NZOA)

In respect of engagement, the NZAOA requires that members of the alliance engage with a **minimum of 20 companies**, focusing on either (1) those with highest owned emissions; or (2) those responsible for combined 65% owned emissions in portfolio (either directly, collectively, or via asset manager). When engaging with these 20 companies, the NZAOA[14] requires that the fund make the following requests of their investee companies:

1. to immediately put into place policies and transition plans that commit the company to net-zero GHG emissions across their value chains by no later than 2050 and to be supportive of the transition to a net-zero GHG emissions world by 2050;
2. to accelerate progress towards full 'green' on the CA100+ Net Zero Company Benchmark indicators, or, if not a CA100+ target company, to still meet all of its expectations;
3. to set science-based near-term GHG reduction targets that are in line with reaching net-zero emissions by 2050, and consistent with maximum 1.5°C of warming;
4. to develop and implement plans for their businesses to remain viable in a carbon neutral economy, with meaningful consideration of associated social impacts;
5. to support the adoption and implementation of governmental policies that facilitate the transition to net-zero emissions;
6. to support, prepare for and not disrupt pricing mechanisms on GHG emissions;
7. to take action and make progress on efforts to lower GHG emission intensity of their operations and products,
8. to disclose their efforts and progress on decarbonisation in line with the four core elements of TCFD recommendations; and
9. to enter direct time-bound engagement dialogue with Alliance members and/or other investor initiatives to discuss efforts to decarbonise their business by 2050.

The Investor Agenda

In May 2021, the Investor Agenda has published a self-assessment "ladder tool" (known as Investor Climate Action Plans Expectations Ladder)[15] which sets out from Tier 4 (most basic) to Tier 1 (gold standard) the level that organisations can attain in respect of their Climate Transition Plans.

---

[14] UN-Net Zero Asset Owners Alliance, January 2022, 'Target Setting Protocol, 2nd edition'. Available at: https://www.unepfi.org/net-zero-alliance/resources/target-setting-protocol-second-edition/

[15] https://theinvestoragenda.org/wp-content/uploads/2021/05/expectations-ladder.pdf

Climate Transition Plans are comprised of (1) investment; (2) **corporate engagement**; (3) policy advocacy; and (4) investor disclosure.

The Investor Agenda published Guidance on the Ladder in July 2022.[16] According to the guidance, to achieve Tiers 1 and 2 in respect of bilateral engagement:[17]

> *"most of the companies in the portfolio need to have or be committed to 1.5°C-aligned business strategies. To achieve this, Tier 1 and 2 investors need to engage actively with a significant number of companies in their portfolio. For example, the Net Zero Investment Framework suggests that a minimum level of at least 70% of portfolio emissions should either already meet net-zero alignment criteria or be targeted as part of engagement strategy in high impact sectors."*

Tier 2 (second most advanced) for Corporate Engagement requires the investor to:

1. lead collective/collaborative engagement initiatives that encourage companies to establish 1.5°C-aligned business strategies and publish target companies;
2. support climate resolutions that call on companies to address material and systemic climate risks and opportunities (in situations where the company has shown little commitment to aligning its business strategies with 1.5°C pathways);
3. ensure that most of the companies in the portfolio have 1.5°C-aligned business strategies or have committed to establishing such strategies;
4. support and/or file climate resolutions at companies whose public policy engagement is not aligned with the goals of the Paris Agreement; and
5. support, file or co-file climate resolutions at companies who have not responded appropriately to engagement and vote against directors on climate grounds.

Tier 1 (most advanced/gold standard) for Corporate Engagement requires the investor to:

1. lead collective/collaborative engagement initiatives that encourage companies to establish 1.5°C-aligned business strategies and publish target companies;
2. support climate resolutions that call on companies to address material and systemic climate risks and opportunities (in situations where the company has shown little commitment to aligning its business strategies with 1.5°C pathways);
3. ensure that most of the companies in the portfolio meet 1.5°C-aligned (external) sectors specific benchmarks, taxonomies, or thresholds;
4. publish detailed voting policy on ESG (focusing on director votes and shareholder resolutions);
5. publish criteria that need to be met for the investor to vote for a company's climate plan and/or resolution; and
6. pre-declare voting intentions on ESG defining resolutions and at company laggards.

[16] https://theinvestoragenda.org/wp-content/uploads/2021/05/guidance.pdf

[17] The Investor Agenda, July 2022, 'Investor Climate Action Plans (ICAPs) – Guidance on using the expectations ladder' at page 30.