October XX, 2021

Dear [ISS Representatives],

We are writing as clients and prospective clients of ISS, representing XX in assets under management, to express concern with ISS's approach to climate risk in its benchmark research and recommendations, which we believe to be inadequate given the severity of the climate crisis. While we appreciated that ISS provided an opportunity for stakeholders to provide feedback through the Climate Policy Survey, it did not address the full scope of our outstanding concerns. In addition to the feedback many of us provided in our survey responses, we are writing to share a more detailed articulation of where we see gaps in and where we recommend specific changes to ISS's benchmark policy's approach to climate change.

Climate risk is a material, financial risk. Moreover, the impacts of climate change are systemic, meaning that the actions and emissions of companies that disproportionately accelerate climate change pose risks to both investors' entire portfolios and the financial system as a whole. Failing to hold such companies accountable on emissions reductions poses risks to both long-term shareholder value and portfolio performance. Consequently, the failure to meaningfully incorporate a company's alignment with a 1.5°C scenario into proxy recommendations may lead ISS to make recommendations that are not in the best interests of shareholders.

The next decade is pivotal for meeting the goals of the Paris Agreement and limiting global temperature rise to 1.5°C. Without significant changes in course from the world's largest corporate emitters, the world will be on track for a more than 3-degree rise by the end of the century,[1] which is estimated to result in $23 trillion in losses.[2]

Investors and companies each have a responsibility to act swiftly. Many investors are actively working to decrease their exposure to climate risk, which is contingent upon companies taking appropriate and timely action to address their contributions to the acceleration of climate change, including through the alignment of business strategies, capital expenditure, accounting disclosures, and direct and indirect political activity with a 1.5°C pathway.

Accordingly, more investors are joining and aligning their investment, engagement, and proxy voting activities with initiatives such as the Transition Pathway Initiative (TPI), Climate Action 100 (CA100+), The Investor Agenda, and CDP's "ACT" Initiative, all of which emphasize transition alignment, not merely disclosure.

With the growing urgency to reduce global emissions by 45% from 2010 levels by 2030, companies must meet short-, medium-, and long-term commitments; a 2050 net-zero commitment is no longer sufficient. To meet these benchmarks in the next decade, portfolio companies need to not only set long-term targets, but need to focus on aligning their business

[1] https://www.unep.org/emissions-gap-report-2020
[2] https://phys.org/news/2018-08-trillion-lost-temperatures-degrees.html

plans, capital expenditures, and direct and indirect political activity with implementing short-term emissions reductions. Accordingly, evaluating whether a company's business plans, capital allocation, and political activities are aligned with a 1.5°C pathway are fundamental components of climate risk management, and proxy voting decisions must reflect that.

We therefore encourage ISS to amend its current approach to climate-related proxy voting recommendations to better reflect this shift in the investment community and to more effectively aid investors in managing climate risk in their portfolios.

First, we are seeking more robust information to understand a company's performance on climate risk mitigation. The reports often do not provide a detailed qualitative or quantitative assessment of the company's performance and climate transition efforts, instead relying more heavily on evaluating the quality of disclosure. Specifically, the reports do not provide detailed insight on whether a company's activities align with either a science-based sector decarbonization pathway or a 1.5°C scenario, information which is pertinent to our understanding of a company's management of climate risks. Such depth of analysis should not depend on whether there are shareholder proposals or concerns raised by external stakeholders.

Second, in the sectors we examined, there does not appear to be a clear link between ISS's recommendations and its evaluation of a company's climate risk profile, which investors would find helpful. For example, in some instances, ISS does not recommend votes against company leadership even when companies were determined to both be "laggards" on climate performance and given a "high" carbon risk classification in the Climate Awareness Scorecard.

Third, the summary rationales that ISS provides to accompany vote recommendations do not fully reflect investors' interests. Many climate-related rationales provided by ISS this past year emphasized the need for either stronger board oversight or improved disclosure. However, these explanations fall short of investor expectations for company performance on climate risk management, a point which ISS acknowledged in its report on *2021 U.S. Proxy Season Climate-Related Voting Trends*.[3] Rationales should, instead, highlight that votes were warranted for failure to meet investor expectations of aligning the company's strategy and operations with a 1.5°C transition.

Finally, the choices available in the 2021 Climate Policy Survey did not accurately reflect investor perspectives on decarbonization pathways, which are increasingly aligning behind a 1.5°C standard. The available answers asked stakeholders to hold companies accountable to a "well below 2 degree" scenario, which the language of the Paris Agreement distinguishes as meaningfully different from a 1.5°C temperature increase.[4]

Climate risk management has become mainstream. Therefore, in order to meet the changing expectations of clients and the investment community more broadly, ISS's benchmark policy

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[3] ISS acknowledges that "[m]any investors are moving beyond requests for disclosure
[4] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

recommendations need to focus more on managing and *mitigating* systemic risks. We therefore urge ISS to incorporate the following changes to its benchmark proxy guidelines for the 2022 shareholder season:

- Expand and disclose the analysis on company climate performance to assess whether a company's current and future business plans, capital allocation, and political activity are aligned with a 1.5°C scenario and/or science-based sectoral decarbonization plans (e.g., IEA Net-Zero Roadmaps, Science-Based Targets Initiative).

- Incorporate company climate performance into vote recommendations, including:
  - Recommend votes against directors for failure to adequately manage or mitigate ESG risks, including failure to align business plans, capital allocation, and policy influence (political spending and direct/indirect lobbying activities) with a 1.5°C scenario. Clarify that when information is unavailable to make that determination, ISS will recommend votes against directors.
  - Recommend votes in favor of shareholder proposals that call for the reduction of greenhouse gas emissions, disclosure of lobbying and political activity, and/or reports on greenhouse gas emissions, instead of taking a case-by-case approach to proposals, unless the company has demonstrated meaningful alignment of its business activities with a 1.5°C scenario.

- When recommending votes be cast against management's recommendations for climate-related reasons, incorporate into the rationales for climate-related votes whether the company's business strategy and operations align with a 1.5°C scenario.

We welcome the opportunity to meet with you to discuss these changes further. Please contact lisa@majorityact.org to coordinate a meeting with signatories of this letter no later than XX.

Sincerely,