MUTUAL FUNDS AND CLIMATE CHANGE:

Opposition to Climate Change Resolutions Begins to Thaw

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Ceres *A Ceres Report*

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About Ceres

Ceres is a national coalition of investors, environmental groups, and other public interest organizations working with companies to address sustainability challenges such as climate change. Ceres also directs the Investor Network on Climate Risk, a group of more than 60 institutional investors from the U.S. and Europe managing over $5 trillion of assets. Launched at the Institutional Investor Summit on Climate Risk at United Nations Headquarters in 2003, INCR promotes better understanding of the risks of climate change among institutional investors. For more information, visit www.ceres.org and www.incr.com.

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FOREWORD

Global climate change is the biggest environmental, public health and economic challenge that humanity has ever faced. The scale, scope and urgency of reducing greenhouse gas emissions to slow the earth's warming is an immense undertaking. Investors and financial firms must address the far-reaching economic implications of climate change that will ripple across all companies, all industries and all investment portfolios.

A growing number of investors, many of them part of the $5 trillion Investor Network on Climate Risk, are responding to the risks and opportunities posed by climate change. Investors of all sizes are beginning to scrub their portfolios for climate risks, just as they're now scrubbing them for hidden sub-prime risks. Investors are pressing the Securities and Exchange Commission to require better disclosure of corporate climate risks, whether from more extreme weather or emerging CO_2 limits that are gaining support in Congress. They're also filing record high numbers of climate change resolutions year after year—and voting support is going higher and higher, too. These resolutions typically request that companies disclose climate-related risks that they face and actions they are taking to reduce those risks and seize new opportunities.

Mutual fund firms are important players in addressing climate change risks and opportunities. Controlling upwards of one quarter of the publicly traded equity in U.S. companies, the mutual fund industry is uniquely positioned to encourage companies to evaluate and respond to climate change. However, this industry has largely been missing in action on climate change. Despite compelling scientific evidence, growing investor pressure, and numerous Wall Street reports, many mutual fund firms have treated climate change as an environmental issue they can ignore.

But, fortunately, that may be changing.

This report, *Mutual Funds and Climate Change: Opposition to Climate Change Resolutions Begins to Thaw*, is our fourth report examining the mutual fund industry's proxy voting practices on climate change shareholder resolutions. The report shows that the mutual fund industry's persistent opposition to climate change resolutions in recent years is now beginning to decrease.

We're seeing substantially more abstentions instead of opposition votes. We're seeing more mutual funds supporting resolutions instead of abstaining or opposing them. And we're seeing a handful of Wall Street firms, including Goldman Sachs, showing leadership by aligning their new climate-related business strategies with their increasing support for climate resolutions.

Still, the mutual fund industry continues to lag compared to other investors who gave record high voting support to climate resolutions in 2007. As this report shows, many mutual fund firms are acting inconsistently on climate change by opposing most or all climate-related resolutions, while simultaneously pursuing new climate-related investment strategies. This schizophrenic behavior creates financial and reputation risks for these firms—risks easily avoided by adopting more sensible proxy voting guidelines on climate change.

Mutual fund firms need to revise their proxy voting guidelines so that climate resolutions get elevated attention and support. These guidelines should include explicit language supporting resolutions calling for better climate risk disclosure by companies. The guidelines should also be supportive of resolutions that go beyond disclosure, such as asking companies to set specific greenhouse gas reduction targets from their operations and products.

Mutual funds that are ignoring climate resolutions aimed at boosting disclosure of climate risks are failing in their fiduciary responsibilities and, as a result, are failing their customers. The broader financial community is recognizing the challenge and the threat that climate change poses to their portfolios. Mutual fund firms should be reaching the same conclusion, ensuring that climate change gets the consistent and conclusive attention it deserves.

Mindy S. Lubber
President, Ceres
Director, Investor Network on Climate Risk

EXECUTIVE SUMMARY

This report is the fourth by Ceres examining the mutual fund industry's proxy voting practices on climate change shareholder resolutions. This new analysis of the voting records of 1,285 mutual funds from 62 leading mutual fund firms indicates that the industry's previously icy attitude on climate resolutions is beginning to thaw, and that many on Wall Street are starting to realize the financial risks and opportunities from climate change.

This review, covering 2004–2007, shows that historic opposition toward such resolutions is softening, with some fund firms, such as Goldman Sachs, supporting many climate resolutions outright and others, such as Fidelity and Janus, abstaining on most or all resolutions after opposing them in the past.

Still, many mutual fund firms are acting inconsistently on climate change—offering new climate-related funds and index products while continuing to oppose virtually all climate-related resolutions. This inconsistency is especially apparent at Morgan Stanley and other Wall Street firms which are investing aggressively in new climate-related business activities, yet have opposed virtually all climate-related shareholder resolutions in recent years.

Ultimately, such schizophrenic behavior is creating financial and reputational risks for these firms—risks easily avoided by adopting more sensible proxy voting policies on climate change. (See recommendations on page 12.)

The report's key findings are as follows:

- ***Opposition to climate-related shareholder resolutions by mutual funds is falling.*** From 2004 to 2007, the overall level of mutual fund votes against climate resolutions dropped from more than three out of four (77.8 percent) to just under two-thirds (65.1 percent).
- ***More mutual fund companies are shifting to a fence-straddling posture.*** The biggest factor behind the drop in opposition to climate resolutions is a shift by mutual funds, which are now required to publicly disclose their voting records, from outright oppositions to abstentions. Major fund firms becoming more neutral on climate resolutions include Fidelity, Ameriprise/AXP, Janus, MassMutual and Oppenheimer. Overall abstention votes on climate resolutions have more than doubled from 11.9 percent in 2004 to 24.4 percent in 2007.
- ***Some mutual fund companies and related entities are now caught in a "schizophrenic" posture—seeking to attract climate-related business, while still voting against climate resolutions.*** For example, Morgan Stanley announced plans in October 2006 to invest $3 billion to reduce greenhouse gas emissions over five years, and launched the

Morgan Stanley Carbon Bank in August 2007 to assist clients seeking to become carbon neutral. However, Morgan Stanley mutual funds have supported none of the 215 climate resolutions they have faced in the four years of proxy voting disclosure. Similarly, State Street Global Advisors (SSgA) began integrating climate considerations into its investing as early as 2004, with the introduction of its U.S. Core Environmental Strategy. However, State Street mutual funds opposed all 54 climate resolutions they faced from 2004 through 2007. Comparable contradictory approaches to climate change are evident at such major firms as Wells Fargo and JPMorgan Chase.

- ***Among major financial firms taking action on climate change, Goldman Sachs stands out for supporting many climate resolutions.*** Goldman Sachs appears to be deliberately matching its forward-thinking actions on climate (such as conducting climate-related research, establishing a company-wide environmental policy and investing in clean technology) with its increasing support of climate resolutions. This combination positions Goldman well to take a leadership role in mutual fund proxy voting on climate resolutions.

- ***Other mainstream financial firms with no major emphasis on climate-related business opportunities are also distinguishing themselves on climate resolutions.*** A handful of mainstream mutual fund firms are showing leadership through higher levels of support for climate resolutions. Schwab registered the highest percentage of support in 2007 at 56 percent (10 for votes out of 18). Other firms supported more climate resolutions—MassMutual supported the most (42), followed by Janus (36). Nevertheless, while climate resolutions have garnered record votes in recent years (average voting support at annual meetings grew from 10.2% in 2005 to 21.6% in 2007), support from the mutual fund industry for climate resolutions has remained stagnant, as shown in Figure 1, on page 8.

- ***Socially responsible investing fund firms are setting the bar on best practices by supporting all climate change resolutions in 2007.*** Calvert, Citizens, Domini, MMA Praxis, Parnassus, Pax and Walden have consistently supported all climate change resolutions, and often file or co-file many of the resolutions as well.

The Business Case for Supporting Climate Change Shareholder Resolutions

Between 2006 and 2007, lingering skepticism about the reality and financial impacts of climate change evaporated, replaced by scientific consensus on human contributions to global warming and numerous economic studies of far-reaching financial risks and opportunities. In February 2007, the Intergovernmental Panel of Climate Change (IPCC) published the first installation of its *Fourth Assessment Report*, calling the evidence of global warming "unequivocal," and further characterizing most of the global average temperature increases since the mid-20th century "*very likely* due to the observed increase in anthropogenic [or human induced] greenhouse gas concentrations."[1]

In October 2006, former World Bank Chief Economist and Head of the United Kingdom's Government Economic Service, Sir Nicholas Stern, pronounced climate change to be "the greatest and widest-ranging market failure ever seen" in a comprehensive report that painstakingly quantified the financial risks and opportunities associated with the climate crisis.[2] Stern calculated that climate change would cut gross domestic product (GDP) by 20 percent if we continue with business-as-usual, while pursuing robust avoidance strategies would cost only about one percent of global GDP annually. "Tackling climate change is the pro-growth strategy; ignoring it will ultimately undermine economic growth," Stern concluded.[3]

Market research supports this conclusion. A December 2007 report by The Corporate Library warned that companies that are negligent in disclosing material climate risks face potential exposure to litigation and increased premiums for directors' and officers' liability insurance.[4]

Opportunities exist as well. An October 2007 "Carbon Beta" study by Innovest Strategic Value Advisors found that companies minimizing risks and seizing opportunities associated with climate change financially out-performed their same-sector peers by three percent annually from June 2004 to June 2007—with the premium likely to grow over time as carbon regulations tighten around the world.[5]

Financial firms are moving quickly to seize these opportunities. Between November 2007 and January 2008, five mainstream asset managers—HSBC, Virgin Money, Schroders, F&C, and Deutsche Bank—launched climate change mutual funds, validating climate as a material investment issue.[6] "In a little more than two years, we estimate retail investors all over the world have pumped around $66 [billion] into more than 200 newly launched mutual funds and exchange traded funds investing in companies that help to mitigate or adapt to climate change," wrote Kevin Parker, head of Deutsche Asset Management, in a March 2008 *Financial Times* commentary.[7]

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Given that mutual fund firms are already acting on the links between climate and finance, one would expect them to additionally vote with their proxies in support of shareholder resolutions asking companies to address the financial risks and opportunities of climate change. While some well-known firms are beginning to vote in favor of these resolutions, the majority are not.

Fund Firms with Consistent Opposition to Climate Resolutions

American Funds, the nation's third largest mutual fund company in terms of assets, has maintained almost perfect consistency on climate resolutions, *opposing* all but one of the 56 it faced from 2004 through 2007. **ING** *opposed* the most climate resolutions, voting *against* the 538 it faced during that period (it neglected to vote on four in 2004.) ING *opposed* 283 climate resolutions in 2007 alone, more than any other fund firm that year (See Table 1).

Other firms with near-perfect records of *opposing* climate resolutions from 2004 to 2007 include **Barclays Global Investors** (60 *against*, 10 *no-vote*); **Federated** (109 *against*, 1 *for*), **MFS** (97 *against*, 4 *for*), **Pioneer** (31 *against*, 17 *abstain*), **Putnam** (57 *against*, 1 *for*), **Scudder** (52 *against*, 2 *no-votes*), **Van Kampen** (78 *against*).

Table 1
Fund Firms Most Opposed to Climate Change Resolutions, 2004–2007

	2004			2005			2006			2007		
	Abstain	*Against*	*For*	*Abstain*	*Against*	*For*	*Abstain*	*Against*	*For*	*Abstain*	*Against*	*For*
AMERICAN		19	1		20			1			35	
BARCLAYS		34			6			4			16	
FEDERATED		31			21			7			50	1
ING		104			106			41			283	
MFS		23			16			3			55	4
PIONEER	11			1	9			2		5	20	
PUTNAM		13			19			7			18	1
SCUDDER		11			7			2			32	
VAN KAMPEN		9			18			7			44	

A Few Firms Begin to Show Leadership by Increasing Support for Climate Resolutions

A handful of mainstream mutual fund firms, however, are showing increasing support for climate resolutions. **Schwab** registered the highest percentage of support in 2007 at 55.56 percent (10 *for* votes out of 18), up from Schwab's low of 16.67 percent (one of six) in 2005 (see Table 2). From a numerical perspective, other firms supported more climate resolutions—**MassMutual** *supported* the most (42),

followed by **Janus** (36)—but factoring in their *opposition* and *abstention* dilutes their percentage support to 27.45 and 30.51 percent, respectively.

Goldman Sachs—which started integrating environmental, social, and governance (ESG) factors into its investment analyst research in 2004, introduced a company-wide environmental policy in 2005, and invested $1.5 billion in clean energy in 2006—provided significant support for climate resolutions.[8] The company *supported* 48.94 percent of climate resolutions (23 of 47) it faced in 2007. This followed an upward trend during the three previous years from 20 percent (five of 25) in 2004 to 36.36 percent (eight of 22) in 2005 to 60 percent (three of five) in 2006.

Table 2
Leading Supporters of Climate Resolutions in 2007

	Support	# For / # Voted
SCHWAB	56%	10 / 18
GOLDMAN SACHS	49%	23 / 47
BRIDGEWAY	46%	12 / 26
TIAA-CREF	42%	32 / 77
LAZARD	39%	7 / 18

With only one firm supporting a majority of climate resolutions it faced in 2007, leadership among mainstream funds on climate proxy voting is still needed. Just as climate change poses risks and opportunities, so too does climate proxy voting. Funds that increase their support for climate resolutions not only encourage their portfolio companies to improve climate risk management and seize opportunities, but also insulate themselves from reputational risks of being seen as environmentally or financially irresponsible. The well-documented downside of climate risk and upside of climate opportunity make it difficult to fathom a business case for opposing most or all climate resolutions.

Climate Leaders Lag on Supporting Climate Resolutions

Among financial firms taking action on climate change, Goldman Sachs stands out for "walking the talk," matching its forward-thinking actions on climate (such as conducting climate-related research, establishing a company-wide environmental policy and investing in cleantech) with its increasing support of climate resolutions.

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While Goldman Sachs is aligning its business and proxy voting practices on climate change, a number of other financial institutions are not. **Morgan Stanley**, for instance, announced plans in October 2006 to invest $3 billion to reduce greenhouse gas emissions over five years, and launched the Morgan Stanley Carbon Bank in August 2007 to assist clients seeking to become carbon neutral.[9] However,

Morgan Stanley mutual funds have supported exactly *zero* of the 215 climate resolutions they have faced in the four years of proxy voting disclosure (see Table 3).

Table 3
Climate Action Leaders' Proxy Voting on Climate Resolutions

	2004		2005		2006		2007	
	# For / # Voted	Support	# For / # Voted	Support	# For / # Voted	Support	# For / # Voted	Support
MORGAN STANLEY	0 / 47	0.00%	0 / 38	0.00%	0 / 24	0.00%	0 / 106	0.00%
STATE STREET	0 / 25	0.00%	0 / 9	0.00%	0 / 4	0.00%	0 / 16	0.00%
WELLS FARGO	0 / 53	0.00%	0 / 77	0.00%	2 / 19	10.53%	1 / 61	1.64%
JPMORGAN	0 / 4	0.00%	1 / 3	33.33%	1 / 2	50.00%	2 / 5	40.00%
GOLDMAN SACHS	5 / 25	20.00%	8 / 22	36.36%	3 / 5	60.00%	23 / 47	48.94%

Similarly, **State Street Global Advisors** (SSgA) began integrating climate considerations into its investing as early as 2004, with the introduction of its U.S. Core Environmental Strategy. A study of this strategy, which overlays Innovest environmental ratings onto SSgA's own proprietary investment algorithms, found 1.81 basis points of annual out-performance by the fund since 1998.[10] In November 2007, SSgA launched the Global Environmental Opportunities Strategy (GEOS), which invests in companies that are capitalizing on opportunities to mitigate and adapt to climate change and avoids those that are not well-positioned for the outcome of legislation address global warming.[11] However, State Street mutual funds have opposed all 54 climate resolutions they have faced from 2004 through 2007.

In 2006, **Wells Fargo** joined the bandwagon by issuing a report on alternative energy investment,[12] and that year it also became the largest corporate purchaser of renewable energy credits (RECs) by supporting the generation of 550 million kilowatt-hours of wind energy over three years.[13] At its 2007 annual meeting, it committed to completing GHG assessments of key lending portfolios, including agriculture, primary energy production, and power generation, prompting a group of unions, SRI firms, and faith-based investors to withdraw a resolution seeking this measure.[14] However, Wells Fargo mutual funds *supported* only one of the 61 (1.64 percent) climate resolutions it faced in 2007, and it *supported* two of the 149 (1.34 percent) such resolutions it faced from 2004 to 2006.

February 2007 saw the launch of the JPMorgan Environmental Index-Carbon Beta (JENI-Carbon Beta), a high-grade corporate bond index designed in collaboration with Innovest to address the risks of global warming. Three months later, **JPMorgan** launched a website to freely distribute its climate-related investment research, and took the opportunity to point out that it raised $1.5 billion of equity for the wind power market in 2006 and has its own portfolio of investments in renewable energy totaling $1 billion.[15] Yet JPMorgan mutual funds *supported* only two of the five (40 percent)

climate resolutions they faced in 2007, and only *supported* two of nine (22.22 percent) such resolutions from 2004 through 2006.

These firms' opposition to climate resolutions contradicts their forward-looking climate products. Such broad misalignment in corporate actions suggests weak corporate governance to investors and consumers. Achieving such alignment costs relatively little, while failing to do so can have consequences in missed opportunities and damaged reputations.

One straightforward way to improve this alignment is to codify support for climate resolutions in funds' proxy voting guidelines. A survey of these firms' proxy voting guidelines helps explain their scant support for climate resolutions.

Morgan Stanley at least acknowledges social and environmental resolutions, noting that it votes on a case-by-case basis to determine impact on shareholder value, but its funds "generally vote against proposals requesting reports that are duplicative, related to matters not material to the business, or that would impose unnecessary or excessive costs."[16] Goldman Sachs, which leads the pack on climate proxy voting, likewise addresses social and environmental issues, specifically noting that it supports sexual orientation non-discrimination resolutions but opposes proposals seeking voluntary labeling of ingredients in products.[17] However, the firm does not address climate in its proxy voting guidelines.

SSgA and Wells Fargo do not mention social or environmental issues in their proxy voting guidelines,[18] and proxy voting guidelines from JPMorgan are not readily accessible on their website through basic keyword searches.

Inconsistent Voting

Most fund firms vote consistently across their constituent funds. However, some firms have surprisingly high levels of inconsistency. For example, the **AIM** S&P 500 Index Fund supported eight climate resolutions in 2007. However, most other funds in the AIM group *opposed* exactly the same resolutions that the S&P 500 Index Fund supported.

To illustrate such inconsistency, Fund Votes founder Jackie Cook devised an "inconsistency index" reflecting the degree of conflicting votes on the same resolutions made across firms' funds (see Table 4). For example, MassMutual funds voted three different ways on a resolution asking ExxonMobil to adopt a policy to increase renewable energy investment levels—with the Premier Enhanced Index Growth Fund voting for, the Premier Main Street Fund abstaining, and the Select Strategic Balanced Fund voting against. The index sets the most inconsistent firm—MassMutual, which voted 2.13 different ways on average on the same resolution across all its funds—at "1" and indexes all other firm voting as a ratio compared to this benchmark. At .76 on the index, AIM ranks as the next most inconsistent fund firm on climate voting.

Table 4
Inconsistent Voting Patterns on Climate Resolutions, 2007

	Number of Unique Resolutions Voted on	Average Number of Alternative Votes per Resolution	Index of Inconsistency
AEGON	11	1.36	0.64
AIM	16	1.63	0.76
COLUMBIA	17	1.12	0.53
COVENTRY	6	1.50	0.71
JANUS	14	1.36	0.64
JOHN HANCOCK/MIT	17	1.53	0.72
LEGG MASON	16	1.19	0.56
MASSMUTUAL	16	2.13	1.00

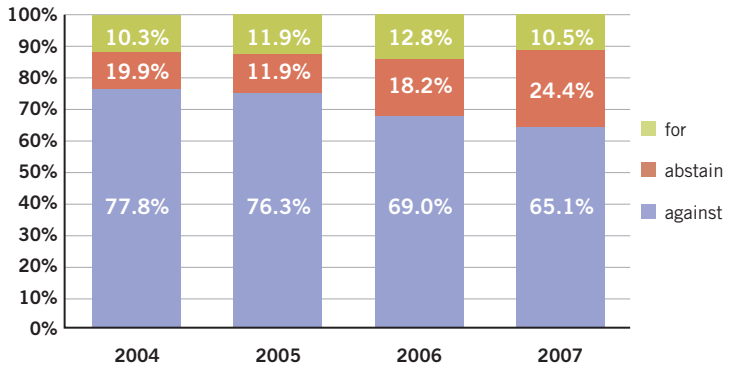
MassMutual funds voted three different ways on a resolution asking ExxonMobil to adopt a policy to increase renewable energy investment levels

While such inconsistent voting suggests a fractured attitude toward climate risk and opportunity and decentralized voting procedures among funds at these firms, it could also indicate a lack of coherence in proxy voting guidelines. Clearly, where there are high inconsistencies, firms are presented with a very good opportunity to review their proxy voting guidelines to provide greater clarity. Furthermore, the existing support for climate resolutions presents the prospect of increased climate-friendly voting by these firms in coming proxy seasons.

Climate Resolution Support *and* Opposition Falling—Due to Doubling Abstentions

The most troubling trend is that mainstream mutual fund support for climate change resolutions has fallen from 12.8 percent in 2006 to 10.5 percent in the 2007 proxy season—essentially sinking back to the 10.3 percent showing of 2004, the first year SEC regulations required mutual funds to disclose their proxy voting records and policies. On an encouraging note, mainstream fund firm opposition to climate change resolutions has fallen to 65.1 percent in 2007, down from 77.8 percent in 2004 (see Figure 1).

Figure 1
Mainstream Mutual Fund Vote Results, Climate Change Resolutions



While it may seem paradoxical for both support and opposition to fall, the explanation resides in the rising percentage of abstentions, which more than doubled from 11.9 percent in 2004 and 2005 to 24.4 percent in 2007. Removing abstentions from calculations increases *both* support *and* opposition percentages.

It is particularly concerning that the abstention trend coincides with the almost complete disappearance of credible doubt that climate change is real, and will have real financial impacts. One possible explanation for this trend is that abstaining represents a first step away from opposition and toward support. A less optimistic interpretation: funds abstain as a means of punting, trying to absolve themselves of their fiduciary responsibility to take a substantive stance one way or the other on climate change. Time will tell if these, or other, interpretations prove true.

TIAA-CREF: High Abstention Rate Erodes High Support

TIAA-CREF illustrates how increased abstentions on climate resolutions can impact the resulting statistical comparisons. The academic retirement fund giant has exhibited strong support for climate resolutions—a high of 90.48 percent in 2005 dropping down to 77.78 percent in 2006. Furthermore, in March 2007, it released new proxy voting guidelines trumpeting its increasing support for environmental, social, and governance (ESG) resolutions.

Fidelity, the nation's largest mutual fund firm, similarly shifted abruptly to abstention as a primary strategy in 2007.

"TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure of greenhouse gas emissions and the impact of climate change on a company's business activities," the guidelines stated.[19]

While it seems logical to expect this policy codification to increase support for climate resolutions in 2007, TIAA-CREF instead instituted a new strategy last proxy season by abstaining on 29 climate resolutions that specifically asked for greenhouse gas emission reduction goals. This shift brought the firm's support for climate resolutions down to 42 percent.

Overall Mutual Fund Abstentions On the Rise

Abstentions are also on the rise across mutual funds in general, though it is unclear why. Typically, funds abstain on issues where the impact on shareholder value is likely to be indiscernible or immaterial—neither of which is the case when it comes to climate change.

Fidelity, the nation's largest mutual fund firm, similarly shifted abruptly to abstention as a primary strategy in 2007. After *opposing* all 169 climate resolutions it faced from 2004 through 2006, Fidelity *abstained* on 92 climate proposals in 2007 (and opposed ten others.) Other fund firms adding *abstentions* to their strategic palette in 2007 included **Ameriprise/AXP**, Janus, MassMutual, and **Oppenheimer** (see Table 5). AIM traditionally employed *abstentions*, and upped the ante in 2007.

Table 5
Fund Firms Significantly Increasing Abstentions in 2007

	2004			2005			2006			2007		
	Abstain	*Against*	*For*	*Abstain*	*Against*	*For*	*Abstain*	*Against*	*For*	*Abstain*	*Against*	*For*
AIM	15	5	5	22	10	1	2	5	1	32	11	10
AMERIPRISE/AXP		42			37			17		93	8	
FIDELITY		59			58			52		92	10	
JANUS		25	6	15	24	3	11	3	2	64	18	36
MASSMUTUAL		43	13	2	48	9	1	20	2	22	89	42
OPPENHEIMER	5	2		3	3		2	1		33		
TIAA-CREF	1	6	35		4	38		6	21	29	16	32

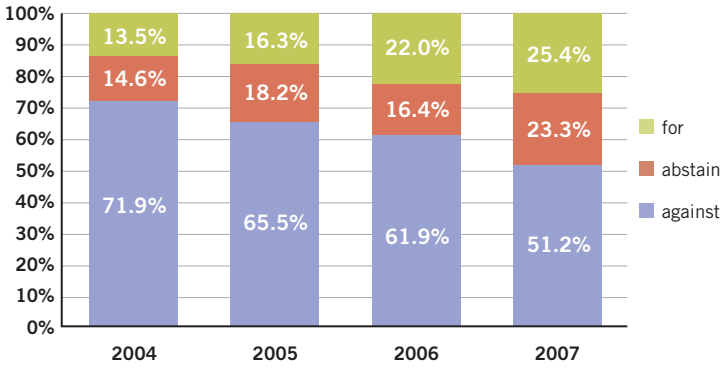
Vanguard, the nation's second-largest fund firm, is the biggest user of *abstentions*, doing so on *all* 410 climate resolutions it faced since the SEC required mutual funds to disclose their proxy voting records and policies in 2004—including 195 climate resolutions in 2007.[20] In its *Proxy Voting Guidelines*, Vanguard explains that it practices *abstention* on "social policy issues" unless it sees "a compelling economic impact on shareholder value."[21]

Vanguard, the nation's second-largest fund firm, is the biggest user of abstentions, doing so on all 410 climate resolutions it faced since the SEC required mutual funds to disclose their proxy voting records and policies in 2004

Given the comprehensive analysis presented in the *Stern Report* and other Wall Street analyses detailing the relationship between climate and risk, it makes one wonder exactly what additional evidence it would take to compel Vanguard to vote *for* climate change resolutions. Indeed, the timing of this general trend toward *abstention* is confounding, given that it coincides with increasing evidence of both the undeniable reality of climate change *and* the economic impacts.

Abstentions have also risen on other resolutions—for example, those asking companies to prepare sustainability reports, on which *abstentions* increased from 14.6 percent in 2004 to 23.3 percent in 2007 (see Figure 2). Unlike climate resolutions, however, sustainability reporting resolutions have been gaining support, almost doubling from 13.5 percent in 2004 to 25.4 percent in 2007. Here again, it is unclear why support for sustainability resolutions would increase so dramatically while support for climate resolutions showed no such gains, given the growing empirical evidence of climate change and its economic impacts.

Figure 2
Mutual Fund Votes, Sustainability Reporting



Abstentions have likewise grown across all shareholder resolutions—from 4.9 percent in 2004 to 8.4 percent in 2007. Contrary to what would be expected after four years of having to report proxy votes, funds are generally less decisive on shareholder resolutions.

One potential explanation is that *abstaining* represents a baby step toward support. It remains to be seen how these fund firms will vote on climate resolutions in the 2008 proxy season—whether they will shift toward *support* or remain in the ambiguous realm of *abstention*.

RECOMMENDATIONS

1. Codify Support for Climate Resolutions in Proxy Voting Guidelines

Mutual funds should take an affirmative stance on supporting climate change resolutions in their proxy voting guidelines,[22] and then adhere to the guidelines by voting in favor of climate resolutions. TIAA-CREF's recently-revised proxy voting guidelines (described earlier) provide good model language on climate risk disclosure. However, we recommend that investors also include language in their guidelines that allows for support of resolutions that go beyond disclosure by, for example, asking companies to set specific greenhouse gas reduction goals.

2. Move from Abstention to Support

Funds that have moved from *opposing* resolutions to *abstaining* on resolutions are encouraged to continue this momentum by taking the final step of *supporting* climate resolutions. Funds that have shifted away from *support* to *abstention* are encouraged to return to *supporting* resolutions on climate change in light of the extensive evidence on the significant financial implications of climate risk and opportunity.

3. Match Climate Voting with Climate Action

Financial firms that are taking proactive steps to address climate change elsewhere in their business operations and products are encouraged to align their climate proxy voting with these efforts.

4. Seize Leadership on Climate Proxy Voting

Significant leadership opportunities exist for mainstream mutual fund firms that broadly commit to *supporting* climate resolutions and consistently act on that commitment as part of their fiduciary responsibility.

5. Shareholders Should Direct Mutual Funds to Support Climate Resolutions

Mutual fund shareholders should take action by encouraging their fund managers to vote in *support* of climate resolutions in order to protect and enhance shareholder value as well as promote environmental and social sustainability.

Appendix 1: Methodology

Fifty-five large mainstream and seven prominent socially responsible investing (SRI) mutual fund firms' votes on climate change shareholder resolutions were analyzed for the period of 2004 through 2007. The analysis covered 1,285 individual funds from 244 N-PX filings. While not every fund in each firm was included, the largest and most prominent funds are represented in this selection.

Unlike previous Ceres reports on climate proxy voting that examined the 100 largest mutual funds in the U.S., this report's methodology significantly broadened the scope of inquiry to paint a much clearer picture of firm-level proxy voting on climate resolutions. In other words, this report takes the climate-voting pulse of entire mutual fund firms, not just big funds.

All socially responsible investing (SRI) funds surveyed (Calvert, Citizens, Domini, MMA Praxis, Parnassus, Pax and Walden) supported all climate resolutions each year, and have therefore been omitted from the results of the analysis.

Throughout most of the report, mutual fund firm support for climate resolutions is calculated by dividing the number of resolutions a fund firm voted *for* by the total number of resolutions upon which the firm voted, as reported in N-PX filings. For example, if a fund firm voted on 50 climate resolutions in one year across its constituent funds, and it voted in favor of 25 of them, then it supported 50 percent of the resolutions. Actual voting results at corporate annual meetings are calculated by dividing the total number of shares voted in favor of the resolution (by all investors in the stock) by the sum of all shares voted *for* and all shares voted *against*.

The survey aggregates votes at the level of fund firms, incorporating the votes of a number of constituent funds into the total voting levels in order to get as complete a picture as possible of a fund firm's position on climate change resolutions. Individual funds within fund firms may only face one or two of the climate change resolutions. However, a number of the largest funds within a fund firm would generally cover enough of the resolutions to get a clearer reading on a fund firm's position on climate change.

The analysis does not include a number of resolutions that advocate against addressing climate change, for example those filed by the Free Action Enterprise Fund. While reasonable people can disagree over the relative merits (or lack thereof) of these resolutions, it seems safe to assume that all can agree these resolutions run contrary to the goals of the resolutions tracked by this report, and so including them in the analysis would create methodological anomalies and inconsistency.

Appendix 2: 2007 Climate Resolution Texts

Autos

GM *(Support: 29.1%)*

RESOLVED: shareholders request that the Board of Directors publicly adopt quantitative goals, based on current and emerging technologies, for reducing total greenhouse gas emissions from the company's products and operations; and that the company report to shareholders by September 30, 2007, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.

Ford *(Support: 14.1%)*

RESOLVED: Same as GM above.

Home Builders/ Real Estate Investment Trusts/ Retail

Bed, Bath & Beyond *(Support: 24.8%)*

RESOLVED: The shareholders request that the Board assess how the company is responding to rising regulatory, competitive, and public pressure to address climate change and report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2007.

Boston Properties *(Support: 32.6%)*

RESOLVED: Shareholders request that the Company assess its response to rising regulatory, competitive, and public pressure to increase energy efficiency and report to shareholders (at reasonable cost and omitting proprietary information) by July 1, 2007.

Kroger *(Support: 37.4%)*

RESOLVED: Same as Bed, Bath & Beyond above.

Whole Foods *(Support: 10.8%)*

RESOLVED: Same as Boston Properties above.

Coal

CONSOL *(Support: 6.8% – a filing error reduced the vote on this resolution)*

RESOLVED: Shareholders request a report [reviewed by a board committee of independent directors] on how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide and other emissions from the company's current and proposed power plant operations. The report should be provided by September 1, 2007 at a reasonable cost and omit proprietary information.

Massey *(Support: 19.0%)*

RESOLVED: Shareholders request a report [reviewed by a board committee of independent directors] on how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide and other emissions from the company's products and operations. The report should be provided by September 1, 2007 at a reasonable cost and omit proprietary information.

Electric Power

Allegheny Energy, Inc. *(Support: 39.5%)*

RESOLVED: Shareholders request a report [reviewed by a board committee of independent directors] on how the company is responding to rising regulatory, competitive, public pressure to significantly reduce carbon dioxide and other emissions from the company's current and proposed power plant operations. The report should be provided by September 1, 2007 at a reasonable cost and omitting proprietary information.

Dominion *(Support: 21.7%)*

RESOLVED: Same as Allegheny Energy above.

Southern Company *(Support: 10.9%)*

RESOLVED: Shareholders request that the Board of Directors report to shareholders actions the company would need to take to reduce total CO_2 emissions, including quantitative goals for existing and proposed plants based on current and emerging technologies, by September 30, 2007. Such report shall omit proprietary information and be prepared at reasonable cost.

Oil & Gas

Chevron *(Support: 8.5%)*

RESOLVED: shareholders request that the Board of Directors publicly adopt quantitative goals, based on current and emerging technologies, for reducing total greenhouse gas emissions from the company's products and operations below 1990 levels; and that the company report to shareholders by September 30, 2007, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.

ExxonMobil *(Support: 31.1% – Full text of the resolution is provided below.)*

RESOLVED: shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report to shareholders by September 30, 2007, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.

ExxonMobil *(Support: 7.3%)*

RESOLVED: the shareholders request that ExxonMobil's Board adopt a policy of significantly increasing renewable energy sourcing globally, with recommended goals in the range of between 15%-25% of its energy sourcing by between 2015-2025.

Ultra *(Support: 31.0%)*

RESOLVED: the shareholders request that a committee of independent directors of the Board assess how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide and other greenhouse gas emissions and report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2007.

Sample Resolution

2007 – Exxon Mobil Corporation – Greenhouse Gas Reduction Goals

WHEREAS: ExxonMobil Corp. "is the world's largest petroleum and petrochemical enterprise," and "largest net producer of hydrocarbons in Europe";

"ExxonMobil recognizes that the impact of greenhouse gas emissions [GHG] on society and ecosystems may prove to be significant";

ExxonMobil faces potential strategic challenges from "the competitiveness of alternative hydrocarbon or other energy sources" (2006 10K);

Leaders of 25 corporations, including KLM, Statoil, GE International, and Shell UK, wrote European Commission President Barroso (11/27/06) urging "policy inconsistencies and perverse incentives that undermine the effectiveness of climate policy should be eliminated…" and "that scientific opinion across the world is virtually unanimous in agreeing on the urgent need to stabilize the concentration of atmospheric greenhouse gases at a sustainable level";

Claude Mandil, Executive Director of the International Energy Agency, noted that "…the benefits of strong, early action on climate change outweigh the costs. That conclusion is one that the IEA fully endorses—notably in its World Energy Outlook 2006." "The world's energy economy is on a pathway that is plainly not sustainable" (FT Energy Special 10/20/06);

ExxonMobil operates in about 200 countries, many having ratified the Kyoto Protocol that obliges Annex I signatories (industrialized countries) to reduce national GHG emissions below 1990 levels by 2012;

According to ExxonMobil's 2006 Carbon Disclosure Project response, from 2003 to 2005, the Company's global carbon dioxide (CO_2) equivalent emissions increased;

ExxonMobil reported that operational emissions were a fraction of those caused by use of its product: 15 tons of CO_2 for every 100 tons emitted by product users (CDP4);

A 2003 Climate Mitigation Services study by Richard Heede estimated ExxonMobil's emissions of CO_2 and methane from the founding of precursor Standard Oil Trust in 1882, to 2002. During that period, the combustion of ExxonMobil-produced fuels resulted in approximately 20.3 billion tons of carbon emissions, estimated to be 4.7% -5.3% of global CO_2 emissions;

While ExxonMobil has made incremental improvements in energy efficiency and emissions reductions (through cogeneration, advanced lubricants, flaring reductions, and carbon capture), it has underinvested in low-GHG emissions businesses and technologies. As of Fall 2005, ExxonMobil had contributed a mere $8.9 million to the Stanford Global Climate and Energy Project, its most touted climate investment. This represents .003% of the 2006 commitment made by Virgin's Richard Branson ($3 billion) and .0008% of ExxonMobil's 3rd Q 2006 earnings. The Company's oil and gas investments averaged $50 million per day in 2005 alone;

ExxonMobil has set an initial goal to improve energy efficiency by 10% by 2012 across its U.S. refining operations, but this goal does not address GHG emissions, nor does it cover overall operations or products.

RESOLVED: shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report to shareholders by September 30, 2007, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost

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